

**International, Market-Driven Expansion Strategies in General
and in Private Banking Specifically
- Achieving Sustainable Growth in Times of Uncertainty**

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The President:

Prof. Ernst Mohr, Ph.D.

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St.Gallen, January 2011

René Spirig

'One thing I have learned in a long life: All our science, measured against reality, is primitive and childlike - and yet it is the most precious thing we have.' (Albert Einstein, 1879-1955)

Deciding in times of significant uncertainty about future states of the world which long term paths to commit to and when to change paths is the central strategic problem confronting the firm (Teece, Pisano, & Shuen, 1997: 515).

'Managers are like pilots. Navigating today's enterprises through complex competitive environments is at least as complicated as flying an airplane.' (Kaplan & Norton, 1996: 55)

From the Design or Formulation of Market-Driven, International Expansion Strategies (Organic Growth, Strategic Alliances, Strategic Networks, M&As) to Their Implementation or Execution



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"We made a miscalculation, but it's consistent with our over-all strategy."

'Many brilliant strategies fail due to poor execution. As difficult as strategy formulation is, the successful implementation or execution of strategy is more difficult. Implementation is an overlooked key to competitive advantage.'

(Prof. Dr. Lawrence Hrebiniak, academic director of Wharton's *Implementing Strategy Programme*)



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Index of Abbreviations

CA	competitive advantage
DCB	dynamic capability-based
DC	dynamic capability
DCV	dynamic capability-based view (of the firm)
e.g.	exempli gratia, 'for example'
esp.	especially
ET	evolutionary theory
EMC	(foreign market) entry mode choice
et al.	et alii, 'and others'
etc.	et cetera
FDI	foreign direct investment
FE	foreign entry
FS	financial services
FSI	financial services industry
GPB	global private banking
IA	industry attractiveness
i.e.	id est, 'that is'
KBV	knowledge-based view (of the firm)
M&A	mergers and acquisitions
MNC	multinational corporation
OG	organic growth
OGS	organic growth strategy
PB	private banking
PMI	post-merger integration
RB	resource-based
RBV	resource-based view (of the firm)
ROT	real options theory
SAN	strategic alliances and strategic networks
SCA	sustainable/sustained competitive advantage
SCP	(industry) structure, conduct, performance (paradigm)
SE	strategy execution
SI	strategy implementation
SI-R	strategy implementation research
SWOT	strengths, weaknesses, opportunities, & threats

Chapter 1

Abstract

1 Abstract

Effective strategies commence with a strategic vision (Sirower, 1998). Deciding in times of significant uncertainty about future states of the world which long term paths to commit to and when to change paths is the central strategic problem confronting the firm (Teece, Pisano, & Shuen, 1997: 515). Strategic decisions are very complex, interdependent, and wrought with uncertainty (Mintzberg, Raisinghani, & Theoret, 1976). Strategic uncertainties refer to contingencies that could provide threats or opportunities as circumstances change (Daft, Sormunen, & Parks, 1988). Accelerated technical change and global competition create an uncertain, hazardous environment in which strategic flexibility and reversibility are critical success factors (Dussauge & Garrette, 1999: 40). Since strategic alliances offer much greater flexibility than mergers and acquisitions (M&As), they are increasingly favoured by firms (Dussauge & Garrette, 1999: 40). In addition, new forms of competition in which networks of firms compete with each other, have emerged (Gomes-Casseres, 1994). Asia increasingly gains in importance. According to the World Bank, by 2020 seven out of the ten largest economies on the planet will be in Asia, compared to only three out of ten in 1997 (Tahir & Larimo, 2005: 293-294).

In brief, this doctoral dissertation sets out to explore the various international, market-driven expansion pathways companies in general and private banking businesses in particular might pursue so as to achieve sustainable growth in times of uncertainty. The four generic growth strategy types of the firm are organic growth, mergers and acquisitions, as well as strategic alliances and strategic networks (Campbell, Stonehouse, & Houston, 2004: 210-230). They represent the firm's strategic arsenal to not only cope with but possibly even thrive on change and uncertainty. Most importantly, the coherent set of theoretical contributions this doctoral dissertation consists of illuminates the inner mechanics and value drivers of the four growth strategy types mentioned above by presenting rather comprehensive theoretical models relevant to both academia and practice. This Ph.D. thesis builds on renowned and well established research, especially resource- and dynamic capability-based 'theories' of the firm as well as seminal competitive strategy, strategy process, international management, and strategic marketing journal articles and books. In short, this dissertation aims to primarily add value by facilitating the fundamental choice, detailed formulation, and subsequent execution of sustainable growth strategies so companies can optimise their sets of (sustained) competitive advantages and create a maximum amount of value-added in the medium to long term.

German Translation of Abstract - Zusammenfassung

Wirksame Strategien setzen eine strategische Vision voraus (Sirower, 1998). Das zentrale strategische Problem heutiger Unternehmen besteht darin, in Zeiten grosser Unsicherheit über zukünftige Zustände der Welt zu entscheiden, sich zu langfristigen Strategien zu bekennen, und festzulegen, wann diese geändert werden müssen (Teece, Pisano, & Shuen, 1997: 515). Strategische Entscheidungen sind sehr komplex, interdependent und mit grosser Unsicherheit verbunden (Mintzberg, Raisinghani, & Theoret, 1976). Strategische Unsicherheiten beziehen sich auf Abhängigkeiten, welche bei sich ändernden Verhältnissen sowohl Bedrohungen als auch Chancen mit sich bringen könnten (Daft, Sormunen, & Parks, 1988). Beschleunigter technischer Wandel und globaler Wettbewerb führen zu einer unsicheren, gefährlichen Umwelt, in welcher strategische Flexibilität und Reversibilität kritische Erfolgsfaktoren darstellen. Da strategische Allianzen eine viel grössere Flexibilität als Fusionen und Übernahmen (M&As) bieten, werden sie von Unternehmen zunehmend bevorzugt (Dussauge & Garrette, 1999: 40). Zudem sind neue Wettbewerbsformen entstanden, bei welchen Unternehmensnetzwerke untereinander im Wettbewerb stehen (Gomes-Casseres, 1994). Ferner gewinnt Asien im globalen Markt zunehmend an Bedeutung (Tahir & Larimo, 2005: 293-294).

Kurz gesagt ist das Ziel dieser Dissertation die Erforschung verschiedener, markt-orientierter, internationaler Expansionsstrategien, welche Unternehmen allgemein und Banken im Private Banking-Geschäft im Speziellen verfolgen können, um auch in unsicheren Zeiten nachhaltiges Wachstum zu generieren. Die vier generischen Wachstumsstrategietypen sind organisches Wachstum, Fusionen und Übernahmen (M&As) sowie strategische Allianzen und strategische Netzwerke (Campbell, Stonehouse, & Houston, 2004: 210-230). Sie bilden das strategische Arsenal der Unternehmung, um Wandel und Unsicherheit nicht nur zu überstehen, sondern eventuell gar davon zu profitieren. Zentral ist, dass das kohärente Set an theoretischen Beiträgen dieser Doktorarbeit die innere Mechanik und die Werttreiber der obigen vier Wachstumsstrategien beleuchtet, indem es recht umfassende theoretische Modelle vorstellt, welche sowohl für die Wissenschaft als auch für die Praxis relevant sind. Diese Dissertation basiert auf bekannter, gut etablierter Forschung, insbesondere ressourcen- und dynamische Fähigkeiten-basierten 'Unternehmenstheorien' sowie bedeutenden Journalartikeln und Büchern aus den Bereichen Wettbewerbsstrategie, Strategieprozesse, internationales Management und strategisches Marketing. Zusammenfassend ist das Ziel dieser Dissertation, Wert zu schaffen, indem sie die grundsätzliche Wahl, genaue Formulierung und nachfolgende Ausführung nachhaltiger Wachstumsstrategien erleichtert, sodass Unternehmen ihre Sets an Wettbewerbsvorteilen langfristig optimieren und Mehrwert schaffen können.

Chapter 2

Introduction

2 Introduction

2.1 Setting the Scene, Overview, & Research Motivation

2.1.1 Preface

Strategising in an apparently relentlessly changing, highly interconnected, and distinctly dynamic international business environment that is characterised by progressing globalisation, a knowledge explosion, and increasingly fierce international competition represents a highly delicate task. Nowadays, corporations must respond to the problems and challenges of an increasingly interdependent and complex environment in which new markets appear overnight, and old ones shift with little warning. Today's globally intertwined world calls for co-operation across borders, cultures, and legal systems. Ambitious, energetic companies have to be capable of flexibly adapting to permanently changing environmental conditions, thereby ensuring they may actively thrive on change and uncertainty rather than reluctantly and arduously struggling and grappling with them all the time. Effectively addressing and sorting out the global financial crisis that severely rocked the entire world in 2008 represents a major challenge for financial institutions in general and investment banks in particular throughout our globe. However, indirectly, this crisis also adversely impacts on many other industries. Palpably, the financial sector is neatly and tightly intertwined with the real economy, for instance, through the credit business, and governmental rescue packages are not free. Undeniably, there is no such thing as 'a free lunch' (Friedman, 1975).

Despite undoubtedly progressing globalisation, the world has not at all become one uniform marketplace. International firms have to be able to simultaneously cope with a great variety of environmental conditions, such as significantly differing cultures, legal and economic systems, competitive landscapes, and asynchronous business cycles. While the USA might be experiencing a severe economic downturn, Asian and/or European countries might simultaneously be enjoying an economic upswing or *vice versa*. Globally operating corporations need to be able to adapt to the dynamically evolving environments they are encountering on all five continents of our globe.

An entire economy may be viewed as an evolving system with Schumpeterian innovations serving as one of its mutational mechanisms (Schumpeter, 1934). A system is a

group of elements or objects, the relationships among them, their attributes, and some boundary that allows one to distinguish whether an element is inside or outside the system. Both the number of elements and their relationships to each other are very important in determining system behaviour. Systems can evolve in time, and they can change size and space. (Bennet & Bennet, 2004: 277) A steep learning curve is a major advantage in a constantly evolving, highly interrelated, and complex world. Economies as wholes evolve since private knowledge and shared understanding evolve as well (Metcalf in Dopfer, 2001: 424-425). One estimate says that the knowledge explosion, the key driver of economic evolution (Metcalf in Dopfer, 2001: 424-425), is currently doubling every four years, and there is no reason to expect that rate to diminish through the next 20 years (Stoll, 2004). Evolution is the continuous interplay between emergence and constraint, between variation, selection, and development at multiple levels of an economy. Diversity is the progenitor of change and *vice versa*. (Metcalf in Dopfer, 2001: 424-425).

Clearly, multinational corporations are at the epicentre of this Ph.D. thesis. Consequently, Subchapter 2.1.2 addresses the topic of their nature, features, and mechanics from an international management and strategy perspective.

2.1.2 Multinational Corporations in Highly Dynamic Business Environments

a) Definition

Multinational corporations (MNCs) are firms that control operations or income-generating assets in more than one country (Jones, 1996: 4). Figure 2.1 visualises some aspects of MNCs.

b) Preface

Nowadays, MNCs are confronted with unprecedented levels of uncertainty. In the face of the increasingly rapid pace of economic globalisation, the knowledge explosion accompanied by steep learning curves in science and technology, shifting world-views, substantial risks of terrorism, global warming, and so forth, research areas such as strategising in times of uncertainty, evolutionary economics, and international management are becoming more and more important.

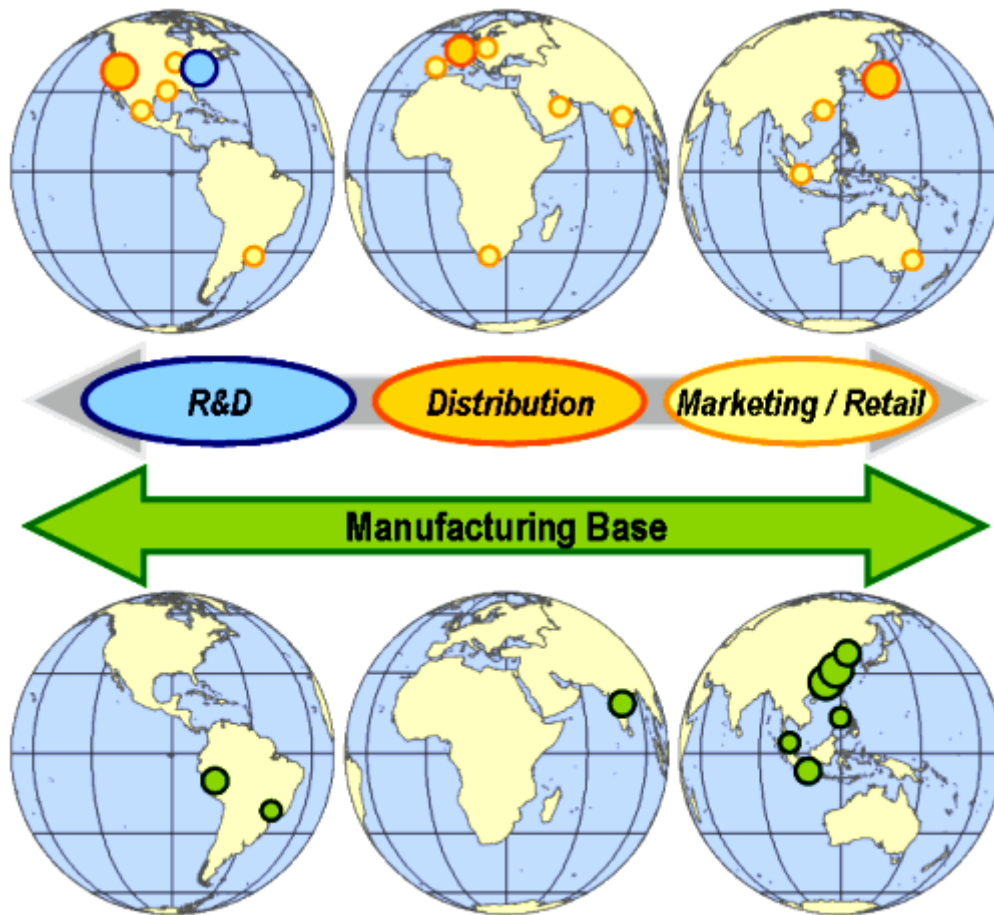


Fig. 2.1: Visualisation of Possible Aspects of Multinational Corporations

c) MNCs & Globalisation

In general terms, industries characterised by greater degrees of knowledge intensities, that is, industries with higher R&D-to-sales-ratios and/or higher advertising-to-sales ratios, tend to be more global than other industries (e.g., Goedde, 1978; Gruber, Mehta, & Vernon, 1967). MNCs, complex adaptive systems that are embedded in highly dynamic and endlessly evolving environments, represent the key drivers of globalisation. They foster an increased interdependence among national markets. Globalisation may be defined as the increasing integration of national and regional economies and the domination of the world by MNCs. Globalisation is also associated with the political domination of a small number of industrialised states, the integration of capital markets, a worldwide, increasing ubiquity of communication and information around the world, and the spread of technology to the farthest reaches of our globe. (Tallman, 2001: 464) Globalisation in terms of increased economic interdependence among nations is a poorly understood phenomenon. Whether a specific MNC may be called global depends on its actual level of penetration of markets across the globe, especially in the broad 'triad' of markets of NAFTA, the EU and Asia. However, globalisation in terms of a balanced

geographic distribution of sales across the 'triad' is rather rare. If globalisation does occur, it is restricted to the upstream end of the value chain. Some of the world's largest MNCs master the art of connecting globally dispersed inputs. (Rugman & Verbeke, 2004: 3-16)

Global MNCs also need to adapt to the differential pace of globalisation across the many differing markets throughout the world. Along with increasingly sophisticated decision-making processes, location and ownership strategies of MNCs are changing. Generally speaking, they revolve around the ability of MNCs to subdivide their activities more precisely and to place them in the optimal location. Simultaneously, increasingly complex, more sophisticated, and wider ownership and control strategies ranging from full ownership to market relationships are used to co-ordinate global activities. Thus, the respective control matrix ranges from wholly owned units via foreign direct investments (FDI) through market relationships, such as subcontracting including joint ventures, as options in subsequent decisions in a dynamic pattern. Furthermore, MNCs adapt their products to local markets to meet their local customers' needs. MNCs' strategic behaviour itself affects the course of globalisation. Markets are globalised by the strategic actions of MNCs. The drivers of this process are the location and ownership strategies of MNCs mentioned above. In general terms, where an activity is placed it interacts with its immediate hinterland. Clearly, this has profound consequences for changing economic power and development. (Buckley & Ghauri, 2004: 81-98)

In general terms, from a co-evolutionary perspective, regional strategies of MNCs are embedded in and co-evolve with the broader competitive, organisational, and institutional contexts at the regional levels. Thus, MNCs' regional strategy choices evolve interdependently to changes in prevailing industry practices, legitimate organisational forms, government regulations, and so forth. Even regions themselves may change over time, and therefore provide new opportunities for MNC growth. Thus, regionalisation is open-ended over time. (Rugman & Verbeke, 2004: 16)

d) MNCs & International or Even Global Strategy

i) General Introduction

According to Porter (1996), strategy means, on the one hand, choice (i.e., having a bundle of options of how to lead a company into the future) and, on the other hand, uniqueness (i.e., deliberately choosing a different set of activities to deliver a unique mix of value) (Porter, 1996: 62-78). Strategy represents the determination of the basic long

term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of the resources necessary for achieving those goals (Chandler, 1962). In this context, Barney (1991) argues that a firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors. If, in addition, these other firms are unable to duplicate the benefits of this strategy the firm enjoys a sustained competitive advantage. (Barney, 1991: 102) Subchapter 2.4 will elaborate on this in much more detail.

Strategising in a global, dynamic setting implies that firms adopt strategies which allow them to evolve along with the environment they are embedded in. In a nutshell, firms will establish foreign affiliates if they can expect strong ownership advantages, location advantages, and internationalisation advantages (Dunning, 1981). The model of foreign expansion (Buckley & Casson, 1976; Rugman, 1981) assumes that MNCs systematically engage in cost-benefit calculations of all possible entry modes (i.e., exports, licensing, foreign direct investment (FDI), and hybrid modes).

A mix of ownership and location strategies in different spatial and temporal circumstances may be suggested. Large markets exercise a locational pull on inputs, and key input sources encourage local marketing. Thus, MNCs seek optimal locations for raw materials, intermediate goods, services 'brain arbitrage' and assembly plants. In addition, they seek entry and exit strategies for markets as they evolve over time. (Buckley & Ghauri, 2004: 86)

Strategy emerges from mind-sets which are changing over time, and global and local issues are capable of synthesis (Murtha, Lenway, & Bagazzi, 1998). Global management of knowledge enables the separation of key activities that can therefore be managed in different ways. Thus, strategies of outsourcing, mass customisation, and deduplication have emerged which can be spatially separated, bundled, differentiated and consolidated, respectively. (Buckley & Ghauri, 2004: 86)

ii) Strategies Driven by MNCs in the 20th & 21st Centuries

The traditional MNC was a vertically as well as horizontally integrated firm. Thus, each division of the firm was locked into linkages with other divisions of the same firm, which led to a diminished flexibility of the corporation. As global competition intensified, the desire for flexibility discouraged vertical integration regardless of whether it was backward integration into production or forward integration into distribution. Firms

found that it was better to subcontract production and franchise sales instead. (Buckley & Ghauri, 2004: 84) In this context, challenges with regard to the global organisation of MNCs are frequently presented as oppositions such as global versus local, centralise versus decentralise, and standardisation versus adaptation (Buckley & Carter, 2002: 46).

There has always been a tension between the pressures to globalise and the requirement to stay local and to serve individual customers in the strategic decisions of multinational firms (Ghauri, 1992). The advantages of global operations are cost-based, maximising economies of scale, and reducing duplication. Thus, global operations achieve efficiency. Conversely, the advantages of localisation are revenue-based, allowing differentiation to reach all customers' niches and achieving responsiveness. Thus, companies need to balance the cost advantages of standardisation against the revenue advantages of adaptation. The 'transnational' type of organisation balances these pressures. However, pressures in different industries push firms towards a strategic imperative (i.e., for instance, scale in electronics and local demand differences in consumer goods). In addition, different functions require different balances of global versus local. Additionally, cultural differences are paramount when it comes to determining the extent of this balance. (Buckley & Ghauri, 2004: 86-87)

While national responsiveness and localised adaptation are almost universally advocated at the downstream end of the value chain, most MNCs attempt to add value primarily by capitalising on similarities across markets. This aggregation strategy is often successfully adopted in the home region. Conversely, at the upstream end of the value chain opportunities for scale and scope are usually considered abundant. However, MNCs actually add value primarily through arbitrage (i.e., by exploiting differences across nations and regions). (Rugman & Verbeke, 2004: 3-16)

iii) International to Global Strategies MNCs Pursue

A major theme in international business is the increasing use of global strategies (Love-lock & Yip, 1996: 64). Global strategies may be defined as strategies of globally integrated MNCs. In contrast to a multinational or multidomestic strategy, which permits national subsidiaries to adapt completely to local conditions, a global strategy was traditionally aimed at maximising global efficiency by integrating national markets and providing the same low cost goods around the world. Global strategies involve the worldwide integration of strategy formulation and implementation. (Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987)

The new global strategy, which is similar to the term 'transnational strategy', means a global strategy through which an MNC integrates a worldwide network of differentiated affiliates/subsidiaries to exploit the best location for each value-adding activity. The successful implementation of this new global strategy leads to the delivery of superior, world-class value for money. Additionally, it fosters highly flexible customer responsiveness. (Tallman, 2001: 465)

Generally speaking, when MNCs enter and operate in new markets, capability building takes place. New market-specific capabilities plus the experience of competition in the host market will force changes over time in the strategy and structure chosen at entry. Firms will try to generate relative improvements in net returns on investment while reducing uncertainty about future outcomes. Strategic success will be judged in comparison to competitors since the actual potential maximum returns are unknowable. The strategy and the combination of capabilities and location factors determine the revenue potential for the product/market choice over any period of time. The governance structure decision determines how the unique firm resources will interact with environmental factors. In addition, the level of uncertainty that the firm must accept can be controlled. Success and failure respectively indicate whether the combination of strategy and structure has generated a competitive advantage for the firm in a specific host market. (Tallman, 2001: 483)

iv) Resources Particularly Important for Strategy Formulation & Execution

Worldwide markets emphasise scale efficiency-focused capabilities while multi-domestic markets emphasise skills in flexible design, smaller scale production, as well as sales and marketing capabilities (Tallman, 2001: 475).

Global MNCs require world-class organisational capabilities that can extend core competencies into multiple markets, co-ordinate the worldwide operations of highly differentiated networks of affiliates and subsidiaries, manage financial activities globally, and create political leverage in many countries and regions. Successful MNCs develop or evolve resources and capabilities for transferring such firm-specific knowledge and for seamlessly combining it with location-specific knowledge in a subsidiary or affiliate (see Chapter 3). MNCs are constantly combining and recombining, and subsidiary roles are changing. The profit generating resources and capabilities may well be derived from a foreign subsidiary rather than the parent company. The application and development of capabilities represents a complex affair which rests on knowledge type, organisational

capabilities, and local conditions. Nowadays, the global firm may rather be seen as a multinational network than a transnational hierarchy. Global strategising implies understanding the character of many different locations and many very different parts of the company in making determinations where, how, and what to develop, to produce, to sell, and to service. However, the entire analytical process will need to be reconsidered as soon as it is in place. (Tallman, 2001: 465-487)

In this context, differentiating between domestic and international strategy is paramount.

v) Delimiting Domestic from International Strategy

Many management scholars believe that global strategic management equals the application of strategic management in a larger business arena. Other scholars believe the strategic concerns of MNCs to be intrinsically different from their domestic cousins. They point to the historical legacy of international economics and trade theory, to the powerful effects of cultural differences, to the role of exchange rate risks, and to the very different institutional conditions in different countries. Both perspectives have some merit. Many theories of strategic management may be applied to the global strategies of MNCs. However, in contrast to domestic strategising, global strategies need to consider greater variation in background, capabilities, intentions, objectives, and organisations of firms from different countries acting in even more different markets. In addition, interactions of companies, markets, competition, alliances, and other factors of importance to business may occur in the context of global business. These factors do not come into play in smaller, more uniform domestic markets. (Tallman, 2001: 464-465)

Cross-border transactions represent the basic units of multinational strategies. When engaging in such international transactions, tariffs and other trade barriers, extremes in economic development and other location-tied characteristics of markets and production sites, cultural differences, currency exchange risks as well as political and legal differences have to be considered. In addition, subsidiaries' roles in global strategy are of utmost importance. (Tallman, 2001: 465) Chapter 3 also focuses on headquarter-subsidiary relations. Also, due to the above reasons, global strategies differ significantly from national strategies.

As we have seen, international business clearly implies more uncertainty in many respects. Thus, the last section of Subchapter 2.1.2 examines the relationships between uncertainty reduction, organisational structures, and governance costs.

e) Uncertainty Reduction, Organisational Structures, & Governance Costs

Organisational structure should be designed to fit the organisational strategy (Donaldson, 2000: 293-295). As MNCs become more and more familiar with host markets, uncertainty reducing goals affect strategy less. Since transaction costs are only measurable after an activity has taken place, they can cause unforeseeable reductions in returns. Thus, they are important in defining the stochastic nature of the strategic feedback loop and to changes in structure and form. Performance may serve as feedback in an evolutionary model. Especially due to the uncertainty about the actual interactions of the firm with its environment, transaction costs are no more predictable than the expected returns on a set of resources and capabilities. In addition, the uncertainty about the sources of competitive advantage, along with the limited rationality of decision-makers, also prevents the firm from instantaneously adopting an optimal structure. A balance between uncertainty reduction and related governance costs of the possible organisational structures has to be struck. (Tallman, 2001: 481-482) In this context, Cadbury defines corporate governance as systems that determine how companies are directed and controlled (Cadbury, 2002: 1).

Next, Subchapter 2.1.3 examines the essential role of superior knowledge in strategy implementation.

2.1.3 Strategic Factor Markets & Superior Knowledge in Strategy Execution/SI

All strategies that require the acquisition of resources for implementation have strategic factor markets associated with them. A strategic factor market represents a market on which the resources necessary to implement a strategy are acquired. (Barney, 1986a: 1231-1232) For instance, for a strategy of low volume, high margin sales (Porter, 1980), a relevant resource may be a quality reputation, and a relevant strategic factor market may be the market for corporate reputations (Klein, Crawford, Alchian, 1978). Firms wishing to implement a strategy of product diversification may decide to do so by acquiring other firms in markets for companies (Barney, 1986a: 1232). In addition, a strategy of being a low-cost producer may include, among other resources, the resource of a 'large market share' (Henderson, 1979), and a relevant strategic factor market may be the market for market share (Rumelt & Wensley, 1981). In general terms, the costs of resources depend on the competitive characteristics of the relevant strategic factor market. On the one hand, in perfect strategic factor markets, the costs of acquiring strategic resources will approximately equal the economic value of those resources when used to

implement product-market strategies. On the other hand, imperfect strategic factor markets exist when different firms have different expectations about the future value of a strategic resource. In these settings, firms may obtain above-normal economic performance from acquiring strategic resources and implementing strategies. If the costs of strategy implementation outweigh returns obtained from creating an imperfectly competitive product market, firms will not obtain above-normal economic performance from their strategising efforts. Furthermore, in the absence of imperfections in strategic factor markets, buyers will not be able to extract superior economic performance from any factor. (Barney, 1986a: 1231)

A strategic factor market may be important in that its offerings may stimulate the emergence of superior information on strategy implementation. However, Barney's strategic factor markets model may also be applied to non-tradable resources that cannot be purchased on strategic factor markets. (Barney, 1989: 1511-1512) Superior information on strategy implementation may lead to competitive advantages (Barney, 1986a). However, firms cannot expect to simply 'purchase' sustained competitive advantages on open markets (Barney, 1986a, 1991).

All sources of advantage in strategy implementation ultimately boil down to either having special insights into the future value of (product market) strategies or a manifestation of a firm's good fortune or luck (Barney, 1986a: 1231-1232). Consistently possessing superior information on strategy implementation is paramount if the firm aspires to obtain (sustained) competitive advantages by implementing unique strategies (Barney, 1986a: 1239; Barney, 1991). Firms may obtain special insights into the future value of strategies in two distinct ways: Firstly, they may do so by analysing their competitive environments; and, secondly, they may analyse their unique skills and capabilities. However, environmental analysis by itself cannot create the required unique insights, whereas in some circumstances, the analysis of a firm's unique skills and capabilities can. It may lead to superior information on strategy implementation. (Barney, 1986a: 1231-1240)

Figure 2.2 summarises the organising framework that, according to Barney (1991), had been used to structure research on sources of sustained competitive advantage since the 1960s (e.g., Andrews, 1971; Ansoff, 1965). It suggests that firms obtain sustained competitive advantages by implementing strategies that exploit their internal strengths by responding to environmental opportunities while neutralising external threats and avoiding internal weaknesses. (Barney, 1991: 99)

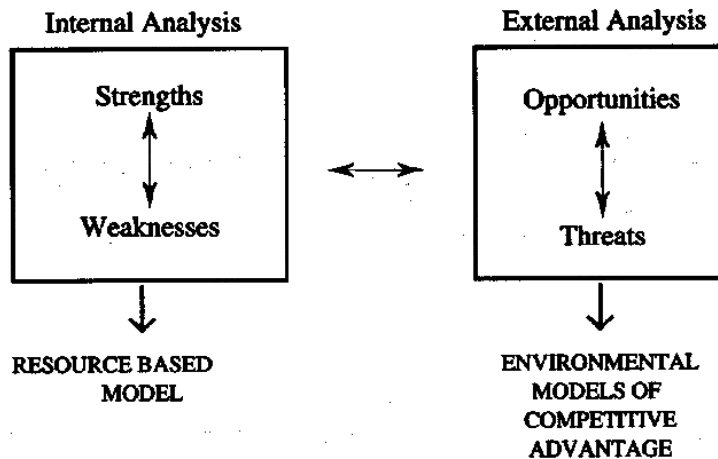


Fig. 2.2: Traditional 'Strengths-Weaknesses-Opportunities-Threats'-Analysis, The RB Model & Models of Industry Attractiveness (Barney, 1991: 100)

In addition, strategy ideally should always be well aligned with both the firm's structure (Donaldson, 2000: 293-295) and its idiosyncratic resource position (e.g., Barney, 1986a; Wernerfelt, 1984) if the firm is to thrive. Naturally, this resource position may also include superior information. Firms that do not look inwards to exploit resources they already control in choosing strategies can only expect to obtain normal returns from their strategising efforts (Barney, 1986a: 1239). Obviously, the ultimate objective in strategising is to choose and implement those value-creating strategies that add the most value to the firm (Barney, 1986a). Figure 2.3 provides a comprehensive overview.

Sources of advantage in strategy implementation:

- a) **Having consistently superior information**
(special insights into the future value of strategies)
- b) **Good fortune or luck**



Above-normal economic performance may not always signal strategising and managerial excellence (Peters & Waterman, 1982).

Two options for becoming better informed about the future value of strategies being implemented (sources of informational advantages):

- a) **Analysis of a firm's competitive environment**
- b) **Analysis of a firm's unique skills and capabilities**
(While environmental analysis, by itself, cannot create the required unique insights, the analysis of a firm's unique skills and capabilities sometimes can.)

Fig. 2.3: Sources of Advantage in SI (adapted from Barney, 1986a)

Building on the previous subchapters, Subchapter 2.1.4 deals with designing optimal growth strategies and global strategising.

2.1.4 Designing Optimal Growth Strategies & Global Strategising

Generally speaking, effective strategies begin with a strategic vision (Sirower, 1998). Growth and expansion options are usually grouped into three main categories: international expansion, vertical integration and diversification. These three strategic moves are traditionally carried out through either external or internal growth. Strategic alliances represent a third option (see Chapter 5). International expansion is a strategic move whereby a company extends its activities into new geographic markets. Vertical integration corresponds to a strategy by which a company extends its activities upstream or downstream, in order to become its own supplier or customer. Diversification corresponds to a company's expansion into new businesses outside its industry of origin. Diversification is subdivided into conglomerate diversification, that is, expansion into businesses unrelated to its initial business, and related diversification through technology or through the market, that is, technology- or market-related diversification. (Dussauge & Garrette, 1999: 48-51) In general terms, an optimal growth strategy involves striking a balance between the exploitation of existing resources and the development of new ones (Wernerfelt, 1984: 173-180). Additionally, strategic resources may also be acquired on strategic factor markets (Barney, 1986a). Importantly, different firms often have different expectations about the future value of strategic resources. Better expectations require superior information on strategy implementation. Firms seeking to obtain above-normal returns from implementing product market strategies must have consistently more accurate expectations about the future value of those strategies when acquiring the resources necessary to implement them. However, as mentioned above, firms may also be lucky. The term 'better' refers to the comparison with other firms acting in the same strategic factor markets. (Barney, 1986a: 1231-1239)

Every opportunity brings a host of new competitors and the requirement for new and shifting sets of relationships. Successfully orchestrating the various forms of cooperation is critical for corporate success and survival. By capitalising on different, looser, and/or tighter forms of collaboration, such as strategic alliances, partnerships, and mergers and acquisitions, international corporations strive to position themselves favourably in the global market arena. As their environment evolves, they must evolve as well. Chapters 5 and 6 will focus on the different forms of collaborations companies may choose.

Global strategy along with the observable increasing internationalisation of firms is becoming ever more important as economic and political globalisation progresses. Large,

complex, global MNCs must be able to adapt systematically to unpredictable and rapid changes. Strategy should become adaptive in the face of unpredictable change. Adaptation requires appropriate organisational responses to change. (Haeckel, 1999) Generally speaking and as mentioned earlier, strategy and structure must always be aligned with each other (Donaldson, 2000: 293-295).

Clearly, in practice, theories may prove to be highly valuable in designing growth strategies.

2.1.5 Theory Development in Strategic Management & this Ph.D. Thesis

‘Without theory, experience has no meaning. Without theory, one has no question to ask. Thus, without theory, there is no learning.’ (Deming, 1994)

Management is defined broadly to encompass all processes, structures, and behaviours that are related to the work of organisations as well as the dynamics of industries, economies, cultures, and other environmental forces that affect organisations and their employees (Academy of Management, 2005). Management research is interested in understanding such phenomena. Theoretical perspectives include industrial organisation economics, transaction cost theory, agency theory, game theory, new institutional economics, institutional theory, resource-, capability- and knowledge-based views of the firm, evolutionary theory, behavioural theory, network theory and resource-dependence theory, organisational ecology, micropolitical theory, resource dependence and social psychology, and so forth. (Wolf, 2003) This thesis rests mainly on the resource- and the dynamic capability-based view of the firm. A theory of the firm must address two central questions: firstly, why firms exist (i.e., their central purpose); and, secondly, what determines their scale and scope (Holmstrom & Tirole, 1989: 65).

a) Theory Development in the Management Sciences in General

McCloskey (1985) persuasively argues that good science is good conversation. The scientific community differentiates between theory generation research, which generates theory from data, and theory verification research (i.e., testing theory against data) (Punch, 2005: 293). Basic research means the description, explanation, and prediction of phenomena. Applied research is about the application of basic research to a particular problem/phenomenon (i.e., resolution of problems). (Black, 1999: 11-14) In general terms, scientists distinguish between an inductive (from the specific to the general) and a

deductive (from the general to the specific) approach to doing research (Punch, 2005: 290-292). Researchers may either develop a new theory and contribute to the development of an existing theory by extending it, or they may apply theories to explain observable phenomena (Black, 1999: 1-26). This thesis represents applied research insofar as it applies 'resource- and dynamic capability-based theories' respectively to particular management phenomena. With regard to the topic of theory building we may refer to seminal articles such as Di Maggio (1995), Sutton & Staw (1995) and Weick (1995a). With regard to theories, researchers have to cope with trade-offs between generality and simplicity, and simplicity and accuracy (Scandura & Williams, 2000: 1250-1252) as well as rigour and relevance (Mitchell, 1985: 192-205). McGrath (1982) categorises research strategies into eight strategy types: formal theory, sample surveys, laboratory experiments, experimental simulations, field studies drawing on primary and secondary data respectively, field experiments, judgment tasks, and computer simulations (McGrath, 1982).

Obviously, our world is too complex, interconnected, and intertwined to allow us to truly consider all factors impacting on the question of which strategy is likely to generate the highest long term value-added. Generally speaking, theories are always 'only' proxies of reality and cannot accurately mirror the same. They are models of the world but do not constitute reality. In addition, theories are explanations that elaborate on why events have occurred. They are devised to describe causal relationships between actions and/or events. These may involve a number of relationships among variables that appear to influence events. The value of a theory is in its ability to allow us to explain and predict outcomes. Theories must be able to withstand scrutiny and continual testing. Modelling the world on the basis of theories provides a foundation from which to extrapolate to different situations. Research methods provide the tools with which we can decide upon the validity of the application to specific situations. (Black, 1999: 7-11) Research techniques enhance one's ability to make systematic observations and use these as part of the process of testing hypotheses about how events can be described. Such an approach is scientific because it is systematic, and pursues the goal of producing replicable studies. (Black, 1999: 4) Clearly, this dissertation involves deductive mid-range theory building which needs to be well grounded in existing literature. In this context, the test of good theory includes parsimony, testability, and logical coherence. Furthermore, theory has to be well grounded in convincing evidence. (Eisenhardt, 1989a: 549)

To summarise, Figures 2.4 and 2.5 (Black, 1999: 2-28) illustrate graphically how the often evolutionary theory building process unfolds. Figure 2.6 depicts the planning and

execution stage. It provides guidance on the design of research projects. It points to the necessity of iterations for modifications and improvements during planning. Ultimately, these figures aim to provide concise, visualised overviews to ensure that the big picture remains omnipresent.

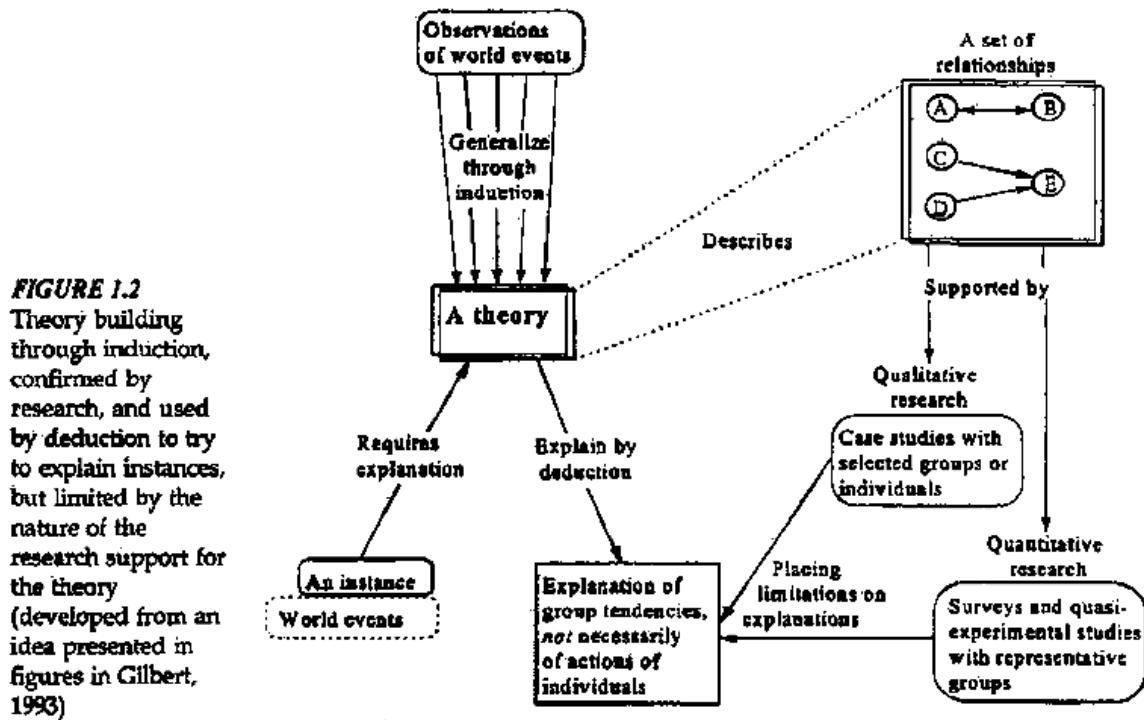


Fig. 2.4: Theory Building (Black, 1999: 9)

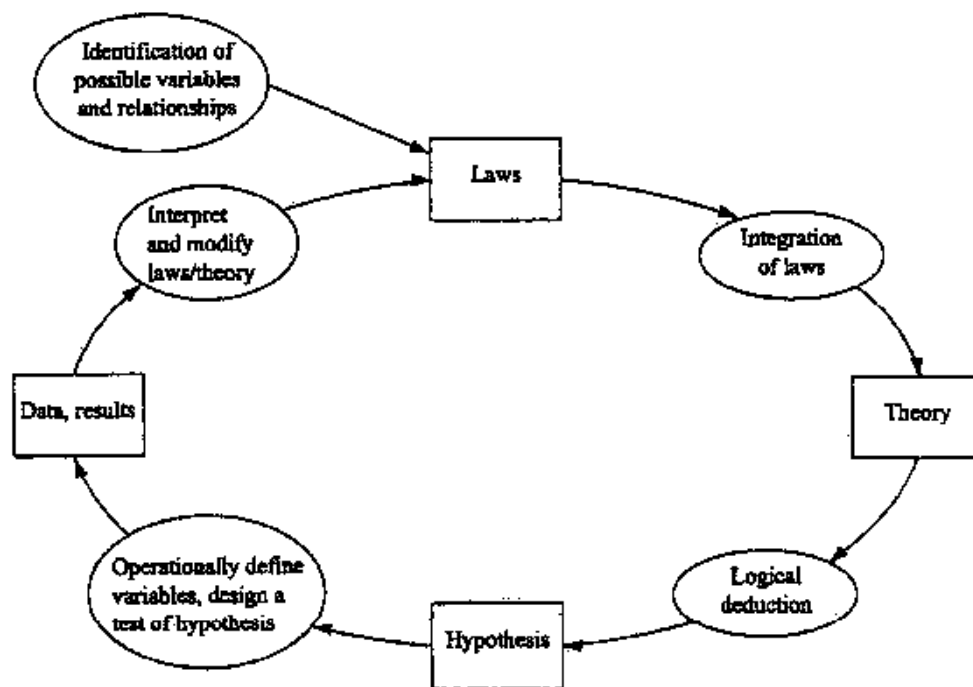


Fig. 2.5: Cyclical Life & Evolution of a Theory (Black, 1999: 23)

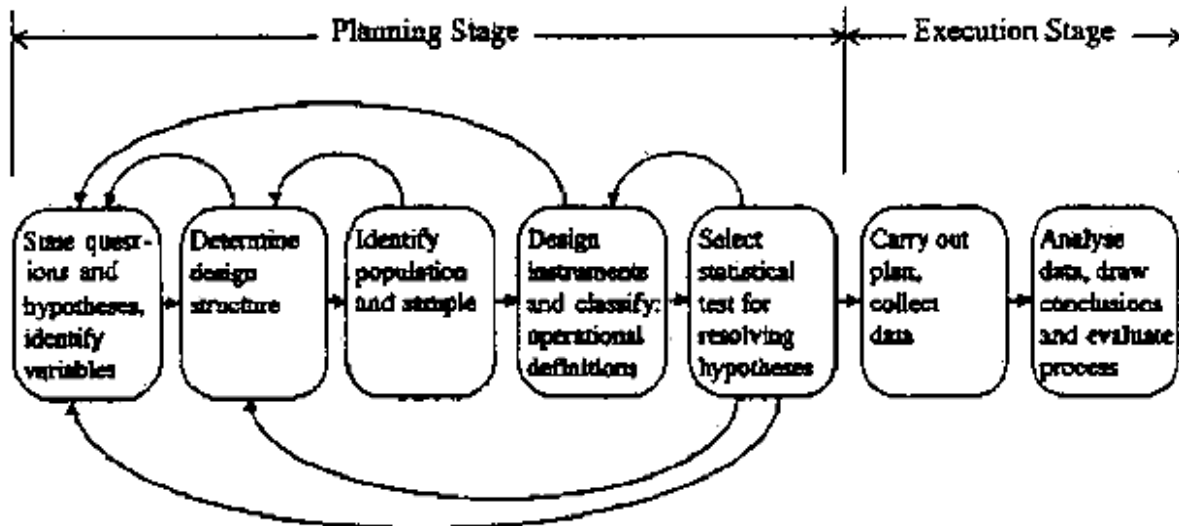


Fig. 2.6: Stages of Designing & Carrying Out a Study (Black, 1999: 27)

b) Theory Development:

Mapping the Field - Theoretical & Empirical Roots of this Thesis

i) Fundamental Theoretical & Empirical Roots Underlying this Thesis

Basically there are three paradigms in strategy research (Teece, Pisano, & Shuen, 1997: 510). Firstly, Porter's competitive forces approach (Porter, 1980), which is rooted in the industry structure – conduct (firm behaviour) – performance paradigm of industrial organisation (e.g., Bain, 1959), emphasises the actions a firm can take to create defensible positions against competitive forces (see Figure 2.7).

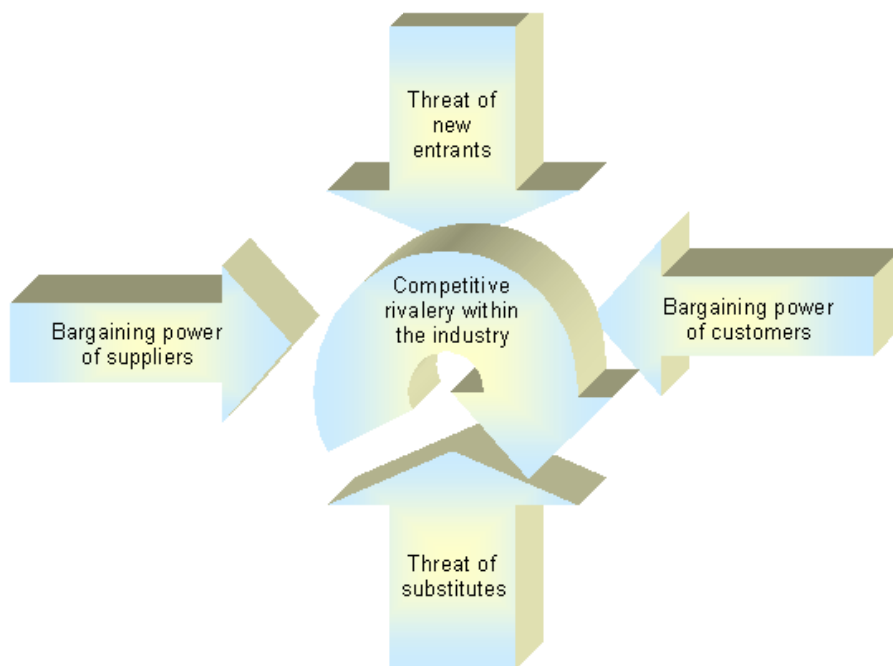


Fig. 2.7: Porter's Five Forces Framework (Porter, 1980)

Secondly, there is the strategic conflict approach (e.g., Shapiro, 1989), which is closely related to the first in its focus on product market imperfections, entry deterrence and strategic interaction, and uses the tools of game theory; thus, it implicitly views competitive outcomes as a function of the effectiveness with which firms keep their rivals off balance through strategic investments, pricing strategies, signalling, and the control of information. (Teece, Pisano, & Shuen, 1997: 510)

The competitive forces and strategic conflict approaches appear to share the view that rents flow from privileged product-market positions. Both see profits as stemming from strategising (i.e., from limitations on competition which firms achieve through raising rivals' costs and exclusionary behaviour). (Teece, 1984)

Thirdly, there is the efficiency-based approach, which is about building competitive advantage through capturing entrepreneurial rents stemming from fundamental firm-level efficiency-advantages. Evidence suggests that firms build enduring advantages only through efficiency and effectiveness. Thus, companies have markedly lower costs or offer markedly higher quality or product performance (i.e., companies may drive a low cost or a differentiation strategy) and rents accrue to the owners of scarce firm-specific resources. The efficiency-based approach is actually rooted in discussions of corporate strengths and weaknesses. (Teece, Pisano, & Shuen, 1997: 510) In this context, on the one hand, measures of efficiency include productivity improvements or quality, and they are concerned with extracting greater value out of an existing economic system rather than adapting that system to changing demands. On the other hand, effectiveness enhancement is about adapting a company's competitive position towards the changing demands of the marketplace. Possible indicators of effectiveness include market share, customer satisfaction, and new product development. Effectiveness is associated with the measurement of performance of an entrepreneurial business. (Birkinshaw, Hood, & Young, 2005: 235) One strand of the efficiency-based literature is the resource-based perspective, which emphasises firm-specific capabilities and assets and the existence of isolating mechanisms as the fundamental determinants of firm performance (Penrose, 1959; Rumelt, 1984; Teece, 1984; Wernerfelt, 1984). Isolating mechanisms enable entrepreneurial rents and competitive advantage to be sustained (Teece, Pisano, & Shuen, 1997: 510). Another strand of the efficiency-based literature is the dynamic capability-based perspective, which explains how combinations of competencies and resources can be developed, deployed and protected (Conner, 1991).

ii) Literature Review of this Ph.D. Thesis

The following brief literature review does not claim comprehensiveness, but attempts to pinpoint important theoretical and empirical cornerstones of the overall research topic at hand in terms of major literature this doctoral dissertation is grounded in.

a) Theoretical Perspectives Adopted by this Thesis: RBV, DCV

1) The Resource-Based View of the Firm (RBV)

When it comes to international strategy, the highly fruitful theoretical lens of the resource-based view of the firm (RBV) is paramount. The resource-based view of the firm (RBV) is one of the most prominent theoretical perspectives in strategic management research (Acedo, Barroso, & Galan, 2006; Hoopes, Madsen, & Walker, 2003: 889). The RBV provides an illuminating generalisable theory of the growth of the firm (Mahoney & Pandian, 1992). In contrast to the market-based view (MBV), the resource-based view of the firm (RBV) looks inwardly towards the resources available to the firm (Makhija, 2003: 439). Conner (1991) posits that the RBV is seeking to become a fully-fledged theory of the firm Conner (1991: 121).

Major 'theories' of (sustained) competitive advantage are rooted in the resource-based view of the firm (e.g., Barney, 1991; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984). The RBV on the origins of competitive advantage became one of the standard theories in strategy from 1988 to 2003. It constitutes the dominant explanation of systematic interfirm performance differences over time, and thus sits at the epicentre of strategy research (Hoopes, Madsen, & Walker, 2003: 889). Additional seminal RBV-articles include Barney (1986a, 2001a, 2001b) Conner (1991), and Dierickx & Cool (1989). The RBV explains long-lived differences in firm profitability which cannot be attributed to industry conditions (Peteraf, 1993).

2) The Dynamic Capability-Based View of the Firm (DCV)

Additionally, the theoretical perspective of the dynamic capability-based view of the firm (DCV) plays a major role in this thesis. The DCV was introduced by Teece, Pisano, & Shuen's seminal 1997 SMJ-article 'Dynamic Capabilities and Strategic Management'. The DCV explains how combinations of competencies and resources can be developed, deployed and protected. (Teece, Pisano, & Shuen, 1997) The DCV emphasises the development of managerial capabilities and difficult-to-imitate combinations of organisational, functional and technological skills (Teece, Pisano, & Shuen, 1997: 510). Dynamic capabilities involve adaptation and change since they build, integrate or reconfig-

ure other resources and capabilities (Helfat & Peteraf, 2003: 997). Teece, Pisano, & Shuen (1997) define dynamic capabilities as the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments, that is, unique and idiosyncratic processes that emerge from the path-dependence of firms. Path dependence means that (strategic) choices about domains of competence are influenced by past choices. Firms must always pursue a certain trajectory or path of competence development. This path defines options open to the firm today, and it puts bounds around the firm's probable future internal repertoire. Thus, firms make long term, quasi-irreversible commitments to certain domains of competence. (Teece, Pisano, & Shuen, 1997: 515)

The DCV builds upon the theoretical foundation provided by Barney (1986a), Nelson & Winter (1982), Penrose (1959), Schumpeter (1934), Teece (1988), Teece & Pisano (1994), and Williamson (1975, 1985). (Teece, Pisano, & Shuen, 1997: 515) Eisenhardt & Martin (2000) further develop the DCV stating that dynamic capabilities are specific strategic and organisational processes such as product development, alliancing and post-merger integration that create value for firms within dynamic markets by manipulating resources into new value-creating strategies. Dynamic capabilities are the firm's processes that use resources, that is, processes to integrate, reconfigure, gain and release resources, to match and even create market change. (Eisenhardt & Martin, 2000:1105-1121)

Cockburn, Henderson, & Stern (2000) study the origins of competitive advantage. Zollo & Winter (2002) address the topic of the genesis, evolution of dynamic capabilities and deliberate learning. Helfat & Peteraf (2003) introduce the concept of capability life-cycles. Winter (2003) further discusses and clarified the nature of dynamic capabilities.

For a more in-depth introduction to both the RBV and the DCV please refer to Subchapter 2.8. For a more in-depth introduction to the RBV, the DCV, as well as their limitations, boundaries, and avenues for future research, and so forth, please refer to Chapters 7 and 8.

b) Evolutionary Economics/Evolutionary Theory

This thesis also draws on the highly promising but still rather young academic discipline of evolutionary economics (see Subchapter 2.4), which has already yielded a substantial amount of highly fruitful insights. Pioneering works in evolutionary economics include both Nelson & Winter's (1982) analysis of Schumpeterian competition and John May-

nard Smith's (1982) analysis of the evolutionary games of biological life. New evolutionary theorising has deepened and widened our theoretical understanding of the mechanisms of economic evolution (e.g., Dopfer, 2001; Foster & Metcalfe, 2001; Nelson, 1995). In addition, literature on the evolution of Asia's competitive landscape as well as respective strategies to succeed in the new Asian competitive game (e.g., Williamson, 2005) fits neatly the subject matter this thesis deals with.

c) Real Options Theory

Undoubtedly, real options theory (see Subchapter 2.4) adds additional value to this thesis (e.g., Brouthers, Brouthers, & Werner, 2008a; Buckley, Casson, & Gulamhussen, 2002; Cottrell & Sick, 2002; Dixit & Pindyck, 1994; Folta, 1998; Kogut, 1991a; Leiblein & Miller, 2003; McGrath, 1997; McGrath & Nerkar, 2004).

d) Additional Strategic Management Literature

Furthermore, this dissertation rests on additional renowned strategic management literature elucidating the nature of strategy in detail (e.g., Andrews, 1971; Ansoff, 1965; Chandler, 1962; Porter, 1980; Porter, 1996). With regard to (global) strategic management for instance Bartlett & Ghoshal (1989), Ghoshal (1987), Lovas & Ghoshal (2000), Lovelock & Yip (1996), and Tallman (2001) are drawn on.

e) Market-Driven Strategy & Strategic Marketing

According to Varadarajan (1992), academics outside of marketing pay little attention to marketing literature or theory. This dissertation aims to counteract this tendency. Market-driven strategy and the subfield of strategic marketing (see Subchapter 2.4) play an important role in this thesis (e.g., Corey, 1991; Cravens, 1999; Day, 1990; Day, 1992; Hunt & Morgan, 1995; Kotler, 1994). More specific literature investigating marketing's contribution to and association with strategy (Hunt & Lambe, 2000; Varadarajan, 1992) is utilised as well.

f) Strategy Process Research: The Substream of Strategy Implementation

Strategy implementation represents a substream of strategy process research. While the substream of strategy implementation research draws on a great variety of theoretical perspectives in strategy - examples include the resource based view of the firm (e.g., Barney (1986a) on the sources of advantage in strategy implementation), evolutionary theory (e.g., Quinn (1990)), the dynamic capability based view of the firm (e.g., Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997) - this Ph.D. thesis adopts - depending on the subchapter - either a resource- or a dynamic capability-based perspective.

In early studies, strategy implementation was viewed as a function of organisational design. Structures and systems have to be aligned with strategic goals. (e.g., Hoskisson, 1987) In the course of time, the introduction of constructs such as involvement, commitment, consensus, leverage and resistance have significantly enriched strategy implementation research (e.g., Dooley, Fryxell, & Judge, 2000; Nutt, 1998; Rapert, Velliquette, & Garretson, 2002). Dooley, Fryxell, & Judge (2000) analyse the interlinkages between consensus, commitment, implementation speed, and implementation success. Rapert, Velliquette, & Garretson (2002) study the interrelations among communication, strategic consensus, marketing performance and organisational performance. Simons (1991) discusses the topic of 'diagnostic/interactive management control systems and strategy implementation'. Skivington & Daft (1991) deal with the mechanics of strategy implementation in terms of organisational 'framework' and 'process' as two modalities for implementing deliberate business-level strategic decisions. Up to now, a range of different approaches to strategy implementation have been empirically tested as regards their impact on performance (Nutt, 1998). Examples include the 'experience- and readiness-based approaches' (Hickson, Miller, & Wilson, 2003), intervention, (cooptative) participation, persuasion and edict, bonding, informational, control and contingency approaches (Beyer & Trice, 1982; Nutt, 1998). Dobni & Luffman (2003) analyse the scope and impact of market orientation profiles on strategy implementation and performance. They found that there are ideal market orientations and strategy profiles that correspond to distinctive competitive contexts, that is, a firm that aligns its behaviours and actions to its environment will perform better!

Moreover, scholars have conducted research on the performance implications of a match between business strategy and functional strategies such as marketing strategy (e.g., Powell, 1992; Slater & Olson, 2001).

g) Strategic Entrepreneurship

The highly important area of strategic entrepreneurship (see Subchapter 2.4) further adds value to the theoretical chapters (e.g., Hitt & Ireland, 2000; Hitt, Ireland, Camp, & Sexton, 2001; Hitt, Ireland, & Hoskisson, 2001; Ireland, Hitt, Camp, & Sexton, 2001; Ireland & Kuratko, 2001; Venkataraman & Sarasvathy, 2001).

h) International Management

As regards the international management literature in general and, more specifically, the (global) multinational enterprise (e.g., Buckley & Casson, 2003; Prahalad & Doz, 1987),

international strategy (e.g., Buckley & Ghauri, 2004; Lasserre, 2002; Ricard, Enright, Ghemawat, Hart, & Khanna, 2004; Rugman & Verbeke, 2004), internationalisation (e.g., Jones, 1996; Makhija, Kim, & Williamson, 1997), entry mode choices (e.g., Anand & Delios, 1997; Buckley & Casson, 1998a; Buckley & Casson, 1998b; Busiia, O'Neill, & Zeithamel, 1997; Chi & McGuire, 1996; Davis, Desai, & Francis, 2000; Hennart & Reddy, 1997; Mata & Portugal, 2000; Pan, Li, & Tse, 1999, Pan & Tse, 2000), headquarter-subsidiary relations (e.g., Birkinshaw, 1996; Birkinshaw, 1997; Birkinshaw & Hood, 1998; Birkinshaw & Hood 2000; Gupta & Govindarajan, 2000; Gupta, Govindarajan, & Malhotra, 1999; Kim & Mauborgne, 1996; Nobel & Birkinshaw, 1998; O'Donnell, 2000; Roth & O'Donnell, 1996) are paramount.

i) Literature on the Financial Services & Private Banking Industry

Clearly, this dissertation will also be well grounded in the literature on the characteristics, structure, evolution of and competition in the financial services industry in general and the private banking business more specifically (e.g., Amel, Barnes, Panetta, & Salleo, 2004; Berger, Demsetz, & Strahan, 1999; Black & Strahan, 2002; Dietz; Reibestein, & Walter, 2008; Einzig, 1931; Francis, Hasan, & Wang, 2008; Geiger & Hürzeler, 2003; Gonzalez & Mintzberg, 1992; Jagersma, 2006; Rhoades, 2000; Shaffer, 2004; van der Zande, 2001). In addition, transformation processes in the private banking sector are paramount (e.g., Fisher, 1999; Jacobides & Winter, 2004; Price, 1995).

Subchapters 2.2 and 2.3 cover the objectives, the theoretical research approach, and the overarching formal structure and logic of this dissertation.

2.2 General Objectives & Theoretical Research Approach

i) Overview

In brief, this dissertation is about formulating and executing or implementing sustainable, international, market-driven expansion strategies in general and in the private banking business specifically. In line with the rather comprehensive nature of this Ph.D. thesis, the technical term 'expansion strategies' points to strategies at both the corporate and business levels. This thesis predominantly adopts a resource- and a dynamic capability-based perspective respectively depending on the concrete subchapter topic analysed. Coherent chapters featuring deductive mid-range theories on all four generic growth strategy types of the firm (i.e., organic growth, mergers and acquisitions, strategic alliances and strategic networks) (Campbell, Stonehouse, & Houston, 2004: 210-

230), will be presented. These four expansion options represent the firm's strategic arsenal, and may allow a company not only to cope with but to thrive on change and uncertainty.

Clearly, due to its international focus, this thesis especially concerns MNCs, that is, companies that control operations or income-generating assets in more than one country (Jones, 1996: 4). Additionally, while the chapters on expansion strategies mentioned above form the core of this thesis, Chapter 3 furnishes valuable supplementary research insights and deductive mid-range theories on headquarter-subsidiary relations and optimal entry mode choices from a resource-based perspective. Most importantly, the cohesive unit of theoretical contributions of which this doctoral dissertation consists aims to illuminate the inner mechanics and value drivers of the aforementioned four growth strategy types. For this purpose, comprehensive theoretical models relevant to both academia and practice, are presented. These general theoretical models developed in Chapters 3 to 6 are applied to the private banking industry in due consideration of the subtleties of this industry. To accomplish its admittedly ambitious objectives, this dissertation draws on renowned and well-established contemporary research (i.e., especially on 'resource-based theories of the firm', 'dynamic capability-based theories of the firm' as well as seminal strategy process, competitive strategy, banking and finance, international management, and (strategic) marketing top-tier journal articles and books).

ii) Research Gaps Tackled by this Dissertation

Due to its rather comprehensive nature, this thesis mainly contributes to filling general research gaps. Chapter-specific research questions (if any) will be pinpointed directly in Subchapter 2 of Chapters 3-6. The general research questions are: Firstly, Wolf (2008) argues that resource-based approaches lack a sufficient client- and needs-orientation respectively (Wolf, 2008). This thesis also takes a marketing perspective in its reasoning insofar as it is about market-driven expansion strategies. Secondly, Teece, Pisano, & Shuen (1997) suggest conducting empirical research to understand why firms get to be good, how they sometimes stay good, why and how they improve or decline. The theoretical models presented in Chapters 3 to 6 lay the foundation for some of the empirical testing called for by Teece, Pisano, & Shuen (1997). Thirdly, up to now, the resource-based view of the firm (RBV) has mainly focused on the deployment of already existing resources and only provides partial guidance as to how heterogeneous resource positions emerge (Ahuja & Katila, 2004: 887; Conner, 1991: 133-134). Chapters 3 to 6 aim to contribute to a better understanding of the situation at hand. Fourthly, according to

Makhija (2003) the effects of internal resources on firm value should be assessed. Fifthly, generally speaking, Brouthers, Brouthers, & Werner (2008a) argue that future research can enhance the explanatory power of other existing theoretical perspectives by adding insights from real option theory. Considering strategic options from a resource-based view may help improve our understanding of how firms can establish and maintain a resource-based advantage. (Brouthers, Brouthers, & Werner, 2008a: 955-956) Importantly, the level of value created or destroyed must be determined by models of the competitive environment within which a firm competes. Thus, it is exogenous to the Barney (1991) argument. (Barney, 2001a: 42).

ii) Implications for Practice

From a practice-oriented viewpoint, on the one hand, this dissertation aims to add value by facilitating the fundamental choice of the most appropriate, generic growth strategies. On the other hand, it aims to add value by facilitating the detailed formulation and subsequent execution/implementation of customised, sustainable, and value-boosting expansion strategies. These expansion strategies have to be geared towards enhancing companies' sets of (sustained) competitive advantages in the medium to long term. In this context, the primary objective of managers of profit-seeking organisations is to maximise the performance of the firm over time (e.g., Bowman & Helfat, 2001). This dissertation is about expansion strategies of MNCs that sustainably add (financial) value to the firm. However, unquestionably, no recipe for how to achieve (sustained) competitive advantages will emerge since such a recipe could not possibly be a source of (sustained) competitive advantage because many people would possess it, and, thus, it would not be rare (Barney, 1991: 99-120). Lastly, while the level of value created or destroyed would need to be determined by models of the competitive environment within which a firm competes (Barney, 2001a: 42) developing this argument further lies beyond the scope of this thesis.

2.3 Overarching Formal Structure & Logic of this Doctoral Dissertation

Overall, this dissertation consists of theoretical chapters framed by an abstract, an introductory as well as a concluding chapter. Together, all parts of this dissertation form a coherent unit presenting the overarching topic in a concerted way. Firstly, the abstract represents a concise synoptic view of the dissertation. Secondly, introductory Chapter 2 furnishes essential background information leading the reader systematically to the main topic. It serves as a facilitator in that it fosters a broad and in-depth understanding of the

subsequent theoretical chapters. Thirdly, theoretical Chapters 3 to 6, each introduced by a subchapter featuring the preliminaries, an overview, and a research motivation, provide the mid-range theories and comprehensive theoretical models mentioned above. Fourthly, Chapter 7 pinpoints assumptions, limitations, and boundaries of the RBV, the DCV, ROT, ET, and SI-R. Fifthly, Chapter 8 traces a future research agenda. Lastly, concluding Chapter 9 aims to synthesise key messages and to trace a future research agenda. Thus, it closes the circle of the scrutiny of the overall dissertation topic.

Next, the basic foundations and vocabulary of this thesis are established to further prepare for the perusal of the theoretical chapters mentioned above.

2.4 Establishing the Basic Underpinnings & Vocabulary of this Thesis

While the range of essential definitions included in Subchapter 2.4 does not set out to be comprehensive, its purpose is to clarify major constructs applied in this dissertation. Additional technical terms will be defined in the theoretical chapters themselves.

a) Strategic Uncertainties & Theories of the Firm, Resources

Deciding in conditions of significant uncertainty about future states of the world which long term paths to commit to and when to change paths is the central strategic problem confronting the firm (Teece, Pisano, & Shuen, 1997: 515). Collaborations have become downright uncertain in a fast-changing world (Dyer, Kale, & Singh, 2004: 113). Strategic uncertainties refer to contingencies that could provide threats or opportunities as circumstances change (Daft, Sormunen, & Parks, 1988). On the one hand, risk exists when companies can assess the probability distribution of future payoffs. The wider the distribution, the higher the risk. On the other hand, uncertainty exists when it is not possible to assess future payoffs! (Dyer, Kale, & Singh, 2004: 113)

Top managers focus on those uncertainties that could derail their vision for the future, and use selected management systems interactively to focus the attention of the entire firm on these uncertainties (Simons, 1991: 49-62; see Subchapter 2.10). In this context, adaptability is about the potential to adjust to changing circumstances in an appropriate way, the capacity to respond to changes in the environment, and to maintain good design (Toulmin, 1981).

From a resource-based view, a firm may be conceptualised as a bundle of productive resources. Different firms possess different bundles of resources (Penrose, 1959). This

definition clearly points to resource heterogeneity, which is a central assumption of the RBV. Thus, a diversified firm may also be viewed as a portfolio of resources rather than a portfolio of business units/product groups. Resources are fundamentally important elements both with regard to the RBV and the DCV. From a resource-based perspective, resources are viewed as the tangible and intangible assets a firm uses to choose and implement its strategies (Barney, 2001a: 54). This dissertation adopts this rather straightforward but clear resource definition. Furthermore, the terms 'resources' and 'capabilities' are used interchangeably, that is, resources may take the form of capabilities. In addition, critical resources are accumulated rather than acquired in strategic factor markets (Dierickx & Cool, 1989: 1504). Resources may be versatile or specialised (Barney, 1991). Amit & Schoemaker argue that resources are stocks of available factors owned or controlled by the firm (Amit & Schoemaker, 1993: 35). Daft (1983) provides a more elaborate resource definition. According to him, firm resources include all assets, capabilities, organisational processes, firm attributes, information, knowledge, and so forth controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Daft, 1983). Concrete examples of resources include machinery, brands, patents, processes, production knowledge, capital, and so forth (Wernerfelt, 1984: 172). One important intangible resource is a firm's reputation (Deepphouse, 2000). Reputation can be an important strategic resource for many reasons, such as access to resources (e.g., financial capital) and to help a firm take advantage of information asymmetries (Hitt, Bierman, Shimizu, & Kochhar, 2001). Knowledge is another critical firm-specific intangible resource. Grant (1996) suggests that knowledge is a firm's most critical competitive asset (Grant, 1996b). Knowledge is generated through organisational learning (e.g., Hitt & Ireland, 2000). Learning new capabilities helps firms to compete effectively, survive and grow (Autio, Sapienza, & Almeida, 2000).

b) Capability Constructs:

Core Capability, Distinctive Competence, & Dynamic Capabilities

Firms also feature capabilities, a sort of resource. A core capability may be defined as a set of differentiated skills, complementary assets and routines that provide the basis for a firm's competitive capacities and sustainable advantages in a particular business (Teece, Pisano, & Shuen, 1990: 28). Core capabilities may be called distinctive competences (e.g., Hitt & Ireland, 1985). Distinctive competences refer to what an organisation can do particularly well (Andrews, 1987: 47). It is a difficult-to-replicate or difficult-to-imitate competence. Distinctive competences/capabilities generally cannot be acquired but must be built due to the non-tradability of soft assets such as value, culture and experience. (Teece, Pisano, & Shuen, 1997: 518)

In this context, the founders of the DCV (e.g., Teece, Pisano, & Shuen, 1997) coined the technical term 'dynamic capability' (DC). There are quite a few complementary and partly overlapping definitions in this respect. Firstly, dynamic capabilities may be defined as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (i.e., unique and idiosyncratic processes may emerge from path-dependences of firms). A dynamic capability is the ability to achieve new forms of competitive advantage (Teece, Pisano, & Shuen, 1997: 515-516). In this context, path dependence means that (strategic) choices about domains of competence are influenced by past choices. Firms must always pursue a certain trajectory or path of competence development. This path both defines options open to the firm today, and puts bounds around the firm's probable future internal repertoire. Thus, firms make long term, quasi-irreversible commitments to certain domains of competence. (Teece, Pisano, & Shuen, 1997: 515)

Secondly, DCs are the drivers behind the creation, evolution, and recombination of other resources into new sources of competitive advantage (Henderson & Cockburn, 1994; Teece Pisano, & Shuen, 1997). They represent an organisation's ability to achieve new and innovative forms of competitive advantage, given path dependencies and market positions (Leonard-Barton, 1992).

Thirdly, Eisenhardt & Martin (2000) provide a more concrete definition. DCs represent specific strategic and organisational processes, such as product development and alliancing that create value for firms within dynamic markets by manipulating resources into new value-creating strategies. DCs are best conceptualised as tools that manipulate resource configurations. They represent concrete processes that use resources to integrate, reconfigure, gain, and release resources, to match and even create market change. Effective patterns of dynamic capabilities vary with market dynamism. (Eisenhardt & Martin, 2000: 1105-1121) Thus, it is crucial to differentiate between firms operating in relatively stable environments and others that have to cope with rapidly changing high-velocity environments. In this context, configurations may be defined as 'constellations of mutually supportive elements' (Miller, 1986: 236). While Teece, Pisano, & Shuen (1997) argue that DCs may constitute sources of long term and thus sustained competitive advantage (SCA) as they are unique and path-dependent, Eisenhardt & Martin (2000) underscore that DCs *per se* are not likely to be sources of SCAs since DCs exhibit common key features associated with effective processes across firms or so-called 'best practices'. DCs may 'only' be sources of competitive advantage but not SCA. SCA

lies in the resource configurations that managers build by capitalising on dynamic capabilities. The key is to use dynamic capabilities sooner, more astutely, more fortuitously than the competition to create resource configurations representing possible sources of SCA. DCs aim to match and even create market change by capitalising on concrete processes. Markets emerge, collide, split, evolve and die. (Eisenhardt & Martin, 2000: 1105-1121) This dissertation adopts Eisenhardt & Martin's (2000) view on the nature of DCs and their relationship with (sustained) competitive advantage. However, the other definitions mentioned furnish additional, complementary insights that will facilitate the attaining of an in-depth understanding of the theoretical chapters that form the core of this dissertation.

Fourthly, Grand (1996b) and Pisano (1994) refer to DCs as the antecedent organisational and strategic routines by which managers alter their resource base (acquisition/redemption), integrate them together, and recombine them to generate new value-creating strategies (Grant, 1996b; Pisano, 1994).

Lastly, Zollo & Winter (2002) provide an additional insightful definition. DCs may also be viewed as routinised activities directed to the development and adaptation of operating routines. Routines are stable patterns of behaviour that characterise organisational reactions to variegated, internal or external stimuli. (Zollo & Winter, 2002: 339-340) Routines may also be defined as experiential wisdom in that they are the outcome of trial and error learning as well as the selection and retention of past behaviours (Gavetti & Levinthal, 2000). Routines are patterns of interactions which represent successful solutions to a particular problem (Teece, Pisano, & Shuen, 1997: 520).

Feasible strategies are contingent on the tangible and intangible resources and capabilities available or potentially available to the firm. In general terms, the ultimate objective in strategising is to choose and implement those value-creating strategies that add the most value to the firm. (Barney, 1986a) Next, fundamental strategy definitions will be presented.

c) Strategy in General, Marketing Strategy, Looser/Tighter Forms of Collaboration

i) Corporate- & Business-Level Strategy

According to Porter (1980), the entrepreneurial problem may be viewed as the product of how the firm creates value (→ differentiation versus low cost) and how the firm defines its scope of market coverage (→ focused versus market-wide) (Porter, 1980). In

general terms, according to Michael Porter, strategy means, on the one hand, choice (i.e., having a bundle of options of how to lead a company into the future) and, on the other hand, uniqueness (i.e., deliberately choosing a different set of activities to deliver a unique mix of value) (Porter, 1996: 62-78). The strategy expert Alfred D. Chandler defines the term 'strategy' as the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of the resources necessary for achieving those goals (Chandler, 1962). Obviously, the strategy definitions mentioned above refer to strategising on both the corporate level and business levels.

As alluded to above, Porter (1980) advocates choosing one of three generic strategies (i.e., cost leadership, differentiation or focus). Thus, superior performance may result from a competitive advantage brought about by a firm relative to others in its industry (i.e., such a company may either exhibit a lower cost position, its offering may be perceived industry-wide as being unique, or it may exhibit a focus on one particular market segment, and may develop a market offering specifically tailored to it). Although it is possible to successfully pursue more than one strategy at a time, a firm must usually make a choice among them or it will become stuck in the middle. (Porter, 1985: 17) According to Porter (1985), internal factors come into play only after a firm has chosen one of the three generic strategies (Porter, 1985). Palpably, these three strategies are still important elements in strategic marketing today. Strategic marketing combines the sub-fields of marketing and strategy (see Subchapter 2.5).

ii) Marketing Strategy

Marketing strategy, one of the firm's functional strategies, is a set of integrated decisions and actions (Day, 1990) by which a business expects to achieve its marketing objectives and meet the value requirements of its customers (Cravens, 1999; Varadarajan & Clark, 1994). Marketing strategy is concerned with decisions relating to market segmentation and targeting, and the development of a positioning strategy based on product, price, distribution, and promotion decisions (Corey, 1991; Hunt & Morgan, 1995; Kotler, 1994). Market targeting implies major commitments to satisfying the needs of particular customer groups through the development of specific capabilities and investment in dedicated resources (Corey, 1991; Kotler, 1994). These capabilities enable the organisation to create a value proposition specific to the targeted segment utilising the elements of the marketing mix (Slater & Olson, 2001: 1056).

In addition, Gronroos (1985) points to the importance of internal marketing: in order for a firm to be successful, it must educate its own employees before turning to the customer.

iii) Strategic Decision, Strategic Posture, & Strategic Context

With regard to strategy in general terms, the technical terms 'strategic decision', 'strategic posture', 'strategic context', and 'champions of a strategy' are essential: Firstly, a decision is strategic when the magnitude of its resource demands and its possible consequences make the choice important to the organisation's continued success (Hickson, Butler, Cray, Mallory, & Wilson, 1986; Mintzberg, Raisinghani, & Theoret, 1976). Secondly, strategic posture refers to product-market variation or the degree of breadth and change in a firm's products and markets (e.g., Hambrick, 1983; Snow & Hrebiniak, 1980). Thirdly, strategic context may be defined as product-market variation, work flow integration, and firm size (Snell, 1992). Fourthly, champions for a strategy refers to senior managers who work to bring about changes in shared meaning and to build consensus concerning the new strategy. They take on responsibility to promote changes they believe in. (Skivington & Daft, 1991) For instance, champions may advocate joining certain alliances and/or networks. The next section introduces forms of collaboration.

iv) Looser & Tighter Forms of Collaboration

Nowadays, the growth strategies mergers and acquisitions (M&As), strategic alliances, and strategic networks (SAN) quite often hit the headlines. There is a great range of motives companies may have for collaborating. Their nature and mechanics will be thoroughly explained in the subsequent chapters of this thesis. In Subchapter 2.8, the fundamental terms 'strategic alliance', 'strategic network', and 'mergers and acquisitions' will be elucidated. In what follows, strategic entrepreneurship will be thoroughly discussed.

d) Strategic/Corporate Entrepreneurship - Entrepreneurial Strategies for Wealth Creation

i) Strategic Entrepreneurship - An Overview

Fundamentally, entrepreneurship involves identifying and exploiting entrepreneurial opportunities in the external environment (Ireland & Kuratko, 2001). Entrepreneurship may be viewed as a form of risk-taking in uncertain circumstances (Brouthers, Brouthers, & Werner, 2008a: 956) or as alertness to market opportunity (e.g., Kirzner, 1973; Stevenson & Jarillo, 1990) that stimulates the entrepreneur to act. Entrepreneurship suggests a predisposition towards proactive and risk-taking behaviour (Covin & Slevin, 1991; Miller, 1983); the use of resources beyond the individual's (e.g., Stevenson & Jarillo, 1990) and the subsidiary's (direct) control respectively, including the acquisition and use of power and influence (e.g., Birkinshaw 1997, 2000); or a 'clear departure from existing practices' (Damanpour, 1991: 561). In brief, scholars distinguish

between, firstly, internal entrepreneurship (internal and hybrid initiatives) in which initiatives are subject to corporate selection mechanisms such as legitimacy and approval; and, secondly, external entrepreneurship (local and global initiatives) in which initiatives are subject to environmental selection mechanisms such as customer acceptance and survival. (Birkinshaw, 1997: 206) Radical breakthrough inventions are at the core of entrepreneurial activity. However, searching for or experimenting with novel/pioneering technologies requires slack resources. (Ahuja & Lampert, 2001)

To maximise value/wealth, entrepreneurial firms also need to act strategically, that is, entrepreneurial and strategic thinking have to be integrated. This approach may be labelled strategic entrepreneurship, entrepreneurial action with a strategic perspective. In short, strategic entrepreneurship is the integration of entrepreneurial (i.e., opportunity-seeking behaviour) and strategic (i.e., advantage-seeking) perspectives in developing and taking actions designed to create wealth. (Hitt, Ireland, Camp, & Sexton, 2001: 479-481) Strategic entrepreneurship suggests that new ventures and established firms need to be simultaneously entrepreneurial and strategic. Research suggests that these firms require certain types of critical resources and capabilities to achieve this integration and to create wealth. (Hitt, Ireland, Camp, & Sexton, 2001: 488) Entrepreneurial actions entail creating new resources or combining existing resources in new ways to develop and commercialise new products, move into new markets, and/or service new customers (e.g., Ireland, Hitt, Camp, & Sexton, 2001; Ireland & Kuratko, 2001; Sexton & Smilor, 1997; Smith & DeGregorio, 2001). Both strategic management and entrepreneurship are focused on how firms adapt to environmental change and exploit opportunities created by uncertainties and discontinuities in the creation of wealth (Hitt & Ireland, 2000; Venkataraman & Sarasvathy, 2001). Importantly, strategic management entails the set of commitments, decisions, and actions designed and executed to produce (sustainable) competitive advantages and earn above-average returns (Hitt, Ireland, & Hoskisson, 2001). In short, while entrepreneurship is about creation, strategic management is about how advantage is established and maintained from what is created (Venkataraman & Sarasvathy, 2001). Wealth creation is at the heart of both entrepreneurship and strategic management (Hitt, Ireland, Camp, & Sexton, 2001: 480). People with an entrepreneurial mindset passionately seek new opportunities (entrepreneurship). However, they also pursue only the best opportunities and then pursue those with discipline (strategic management). (McGrath & MacMillan (2000)

Strategists must embrace an entrepreneurial mindset to sense opportunities, mobilise resources, and act to exploit opportunities, especially under highly uncertain conditions.

An entrepreneurial mindset is useful in capturing the benefits of uncertainty. (McGrath & MacMillan, 2000) For instance, the digital revolution is altering the fundamental ways companies conduct business to create wealth (Stopford, 2001). Such significant changes challenge the essence of the business model firms use to achieve various goals and as such, they are curvilinear and complex (Hitt, 2000). This change, largely driven by new technology and globalisation, has created a competitive landscape with substantial uncertainty (Bettis & Hitt, 1995; Ireland & Hitt, 1999).

ii) Corporate Entrepreneurship, Corporate Venturing, & Entrepreneurial Initiatives

Basically, three forms of corporate entrepreneurship can be identified: firstly, the creation of new business activities within the existing organisation; secondly, the transformation or renewal of the existing organisation; and, thirdly, the enterprise changing the rules of competition in its industry (Stopford & Baden-Fuller, 1994).

Furthermore, corporate entrepreneurship may be subdivided into focused corporate entrepreneurship, that is, corporate venturing, and dispersed corporate entrepreneurship (Birkinshaw, 1997: 209). Focused corporate entrepreneurship is typified by the so-called New Venture Division whose mandate is to identify and nurture new business opportunities for the corporation (e.g., Burgelman, 1983a). It represents 'incubative' entrepreneurship whereas an R&D group is 'administered' entrepreneurship (Schollhammer, 1982). Dispersed corporate entrepreneurship, that is, intrapreneurship, rests on the premise that every individual in the company has the capacity for both managerial and entrepreneurial behaviour more or less simultaneously. In this context, the development of an entrepreneurial culture or posture is considered as the key antecedent to initiative (e.g., Covin & Slevin, 1991; Ghoshal & Bartlett, 1994). Importantly, focused and dispersed approaches are complementary. While the entrepreneurial challenge is to move from an idea to a commitment of resources, the managerial challenge is to make the resultant business activity profitable. (Birkinshaw, 1997: 209) Undoubtedly, the ability of the large MNC to leverage the innovative and entrepreneurial potential of its dispersed assets is a fundamental strategic imperative (Bartlett & Ghoshal, 1989).

Internal corporate venturing (Burgelman, 1983a) involves both the initiative and the ongoing management of the resultant business activity. An (entrepreneurial) initiative is a discrete, proactive undertaking that advances a new way for the corporation to use or expand its resources (Kanter, 1982; Miller, 1983). An initiative is essentially an entrepreneurial process, beginning with the identification of an opportunity and culminating

in the commitment of resources to that opportunity. The most common form of subsidiary initiative is probably the identification and pursuit of a new product opportunity in the local market. (Birkinshaw, 1997: 207; see also Subchapter 3.3.3).

Lastly, subsidiaries may engage in entrepreneurial activities to overcome the limitations of their resources, to make their resources valuable, or to leverage resources in unique ways previously unknown in their firm or industry (Birkinshaw, Hood, & Young, 2005: 233). In addition, autonomy, motivation, entrepreneurial culture, and the constructiveness of parent-subsidiary relationships are important when it comes to subsidiary entrepreneurship (Birkinshaw, Hood, & Young, 2005: 246).

iii) Wealth Creating Entrepreneurial Strategies

The concepts of efficiency, complementarities, lock-in, and novelty are important for value creation in all business operations (Hitt, Ireland, Camp, & Sexton, 2001: 484). For instance, e-business firms have strategies that create value when: Firstly, they make the purchase more efficient for the customer; secondly, their services are complementary to other important services so that customers can purchase a bundle of services; thirdly, strong incentives are used to obtain repeat business; and, fourthly, the service they provide is unique (Amit & Zott, 2001).

iv) The Nature of Services Firms versus the Nature of Manufacturing Firms

Service firms differ from manufacturing firms in that they have several advantages in achieving (at least) shorter-term performance goals: Firstly, service firms can be set up more quickly and cheaply than can manufacturing operations; and, secondly, in general the economies of scale for services are much lower than for manufacturing operations (Campbell & Verbeke, 1994; Erramilli & Rao, 1993). Manufacturers require, firstly, a minimum efficient size to establish; secondly, much longer to set up; and, thirdly, some level of capacity utilisation to reach an equal level of performance satisfaction. (Brouthers, Brouthers, & Werner, 2000: 187)

e) Real Options Theory

i) Overview

Real option theory emphasises both cost minimisation and long term value creation by focusing on the opportunity costs or the uncertainties associated with not making an investment. Through past investments, firms may create firm-specific resources in terms of strategic options that allow them to redeploy assets as uncertainties change.

(Brouthers, Brouthers, & Werner, 2008a: 937) Real option theory suggests that options provide strategic flexibility that allows firms to adjust to changing levels of uncertainty (Buckley & Tse, 1996; McGrath, 1997; Reuer & Leiblein, 2000; Sanchez, 1993). Typically, investment uncertainties stem from differences in market environments, particularly political and legal uncertainties (e.g., Delios & Beamish, 1999, Gatignon & Anderson, 1988).

To be more concrete, when uncertainty creates a situation in which the value of an investment opportunity cannot be accurately predicted, firms defer a part of the investment until uncertainty is reduced while simultaneously obtaining an option for future investment (Buckley, Casson, & Gulamhussen, 2002; Buckley & Tse, 1996; Dixit & Pindyck, 1994; Kogut, 1991a). For instance, joint ventures provide both a deferral and a growth option to the firm. (Brouthers, Brouthers, & Werner, 2008a: 937-941)

Thus, (real) options are desirable because of uncertainty (Chi & McGuire, 1996; Dixit & Pindyck, 1994; Folta, 1998; Reuer & Leiblein, 2000). A real option involves staging strategic investments. It minimises downside risks, the exposure to control and investment uncertainties, while providing access to potential upside benefits if they materialise, allowing firms to consider opportunity costs in decision-making (Bowman & Hurry, 1993; Dixit & Pindyck, 1994; Folta, 1998; Li, 2007; McGrath, 1997; Reuer, 2002; Sanchez, 1993). Additionally, real options provide proprietary access to knowledge about investment opportunities and related uncertainties, and may restrict competitors' options (e.g., by closing distribution channels or eliminating potential partners) (Brouthers, Brouthers, & Werner, 2008a: 940). Importantly, real options may also provide learning curve advantages that can be leveraged into a competitive advantage if the investment opportunity subsequently proves beneficial (e.g., Bowman & Hurry, 1993; Buckley & Tse, 1996; Li, 2007). Real options provide value to the firm by allowing investment decisions to consider both the costs of investing and the potential loss of investment opportunities (Cottrell & Sick, 2002; Kulatilaka & Perotti, 1998).

ii) Strategic Flexibility - The Firm as a Bundle of Strategic Options

Real option theory conceptualises the firm as a bundle of strategic options that are accumulated over time (Bowman & Hurry, 1993; McGrath, Ferrier, & Mendelow, 2004). These strategic options or 'portfolio of investments' may increase the value of current option-based decisions because they provide flexibility (Leiblein & Miller, 2003; McGrath & Nerkar, 2004). Conversely, transaction cost economics does not take into

account past firm actions that may create resources providing flexibility in current decisions (Leiblein & Miller, 2003).

iii) Real Options, Performance, & Reversibility of Investments

Real option theory recognises that investment decisions are often not or only partly reversible (Brouthers, Brouthers, & Werner, 2008a: 944). However, through the process of delaying or staging, investing firms can gather additional information that may decrease uncertainties surrounding investments (Dixit & Pindyck, 1994).

Importantly, McGrath (1999: 16) states: 'Real option reasoning suggests that the key issue is not avoiding failure but managing the cost of failure by limiting exposure to the downside while preserving access to attractive opportunities and maximising gains.' A real option approach to decision-making focuses on value creation, taking into account the uncertainty, irreversibility, and delayability of investments (Dixit & Pindyck, 1994).

Next, the field of strategy implementation/execution will be sketched briefly. However, it is important to bear in mind that the distinction made between decision formulation and decision implementation is more of a theoretical convenience than actual practice (Bower, 1982). In reality, it is often difficult to determine exactly when formulation ends and implementation commences (for more details please see Subchapter 2.10 and Chapter 4).

f) Strategy Implementation/Execution

i) Preface

The key reason why so many strategic decisions fail to attain their initial objectives occurs predominantly during implementation rather than during decision-making (Nutt, 1999: 75). In decision implementation, the human element is always crucial for success (Hickson, Miller, & Wilson, 2003: 1824). According to Nutt (1999), a study of decisions in the USA and Canada, 50% of decisions in organisations result in failure (Nutt, 1999). Failure generally stemmed from elements under management control rather than exogenous factors. The way implementation is managed appears to be vital for decision success. (Hickson, Miller, & Wilson, 2003: 1803)

ii) The Nature of Strategy Implementation/Execution

Strategy implementation or execution may be defined as a series of interventions designed to align organisational action with strategic intent. In essence, it is about rede-

ploying organisational capabilities. It is associated with large-scale formal change. Rather than being a mechanical, almost bureaucratic process, it is more closely akin to a so-called 'learn as you go process'. Middle managers in the implementing role inject new strategic priorities into the organisation that emanate from the top. (Floyd & Wooldridge, 1996: 96-107) A lack of the capabilities necessary to sustainably implement strategies may hamper the realisation of competitive advantages.

Illustrative examples implying strategy implementation include phenomena such as post-merger integration (PMI), strategic shifts (e.g., from a low cost strategy to a differentiation strategy), technological discontinuities requiring major strategic reorientations, corporate restructuring/transformation (e.g., accompanied by outsourcing, refocusing on core capabilities, or diversification), and so forth.

iii) Organisational Learning & Organisational Knowledge Creation

Implementation success clearly is related to organisational learning. Wernerfelt (2005) and others have maintained that through experience firms advance along learning curves (e.g., Argyres, 1996; Wernerfelt, 2005). Changes that occur in a firm's context can reduce the value of its current resources and knowledge. Thus, learning new knowledge may be necessary to help a firm adapt to its environment. (Hitt, Ireland, Camp, & Sexton, 2001: 483). Learning can help organisations to change (Newman, 2000). Obviously, no firm can remain static. As such, established firms and new ventures alike must continuously learn to build dynamic capabilities and competencies (Lei, Hitt, & Bettis, 1996; Teece, Pisano, & Shuen, 1997). As theories of the learning organisation emphasise, there may be multiple centres of knowledge or 'brains' within a company, which develop their own knowledge-based competencies (Hedlund, 1993; 1994). In addition, firms exhibiting greater breadth, depth, and speed of technological learning appear to have higher levels of performance (Zahra, Ireland, & Hitt., 2000).

On the one hand, single-loop learning occurs when organisations make modest changes to operating techniques within the extant framework of norms, values, and member beliefs. On the other hand, double-loop learning cuts deeper into the organisation as it involves restructuring of organisational norms, assumptions, and meanings to be congruent with the organisation's strategy. Double-loop learning is the questioning and reconstruction of existing perspectives, interpretation frameworks, or decision premises. (Argyris & Schön, 1978; see Figure 2.8)

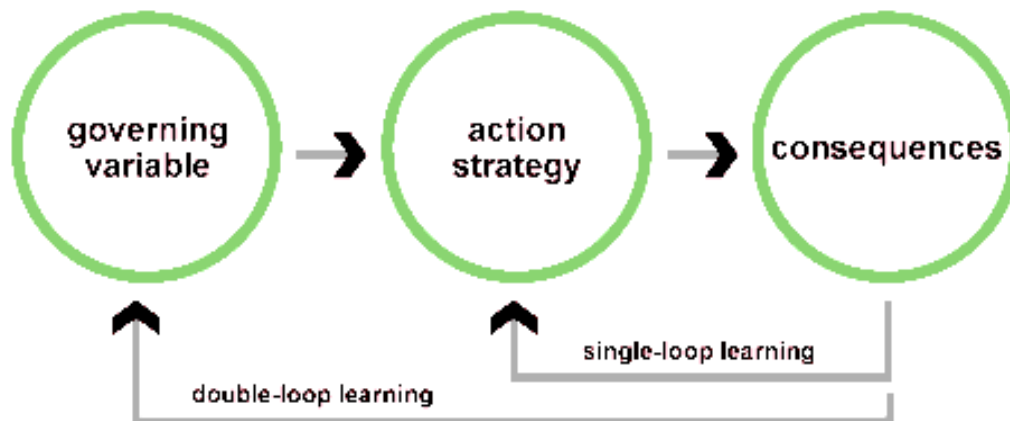


Fig. 2.8: Single- & Double-Loop Learning (adapted from Argyris & Schön, 1978)

From an organisational knowledge creation perspective, double-loop learning is not a special, difficult task but a daily activity for the organisation (Nonaka, 1994: 19). Organisations continuously create new knowledge by reconstructing existing perspectives, frameworks, or premises on a day-to-day basis (Nonaka, 1994: 19). In this context, absorptive capacity may be defined as the ability to recognise the value of new, external information, assimilate it, and apply it to commercial ends (Cohen & Levinthal, 1990: 128). It tends to develop cumulatively, be path-dependent, and build on prior experience (Cohen & Levinthal, 1990). In addition, it may differ across organisations depending on, firstly, the extent of prior related knowledge/familiarity with the incoming knowledge; and, secondly, the extent of inter-unit homophily of the receiving unit vis-à-vis the sending unit. (Gupta & Govindarajan, 2000: 476)

Lastly, strategy process research has yielded a wide range of implementation approaches. Major approaches will be presented in Subchapter 2.10. Next, the probably most important terms closely linked with strategy, competitive advantage, and sustained competitive advantage will be defined and discussed.

g) Competitive Advantage (CA) & Sustained Competitive Advantage (SCA)

To summarise, a firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors. If, in addition, these other firms are unable to duplicate the benefits of this strategy, the firm enjoys a sustained competitive advantage. (Barney, 1991: 102) Resources which are valuable and rare may be sources of competitive advantages. Resources which are valuable, rare, inimitable and non-substitutable may be sources of sustained competitive advantage. (Barney, 1991: 99-120)

Figure 2.9 presents graphically the attributes resources need to exhibit simultaneously in order to qualify for being possible sources of CA or even SCA (see also Figure 2.10). Figure 2.11 sheds light on the levels of competitive advantage. A competitive advantage is sustained only if it continues to exist after efforts to duplicate that advantage have ceased (Lippman & Rumelt, 1982; Rumelt, 1984). Thus, this definition of SCA is an equilibrium definition (Barney, 1991; Hirshleifer, 1982).

In addition, the fact that a competitive advantage is sustained does not imply that it will last forever! It only suggests that it will not be competed away through the duplication efforts of other firms. Unanticipated changes in the economic structure of an industry may make what was, at one time, a source of SCA, no longer valuable for a firm, and thus not a source of any competitive advantage! (Barney, 1991: 103)

Barney (1991): Criteria for Possible Sources of CA or SCA

Resource characteristics (must apply simultaneously):

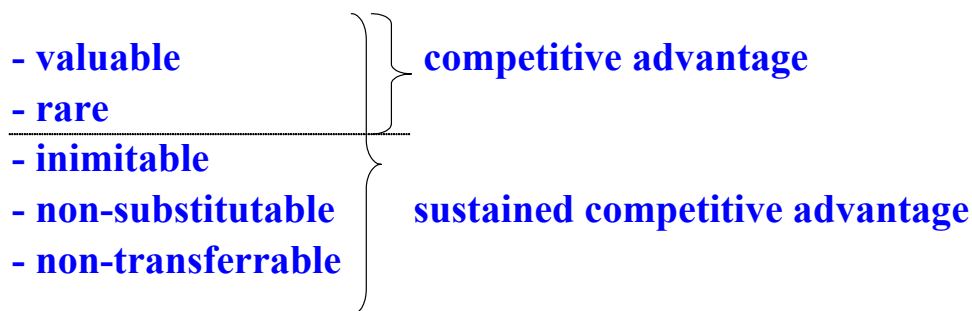


Fig. 2.9: Criteria for Possible Sources of CA or SCA (derived from Barney, 1991)

Furthermore, competitive advantage and disadvantage occur over a period of time, and they may also shift over time (Helfat & Peteraf, 2003: 998). Schumpeterian shocks in terms of structural revolutions in an industry redefine which firm attributes are resources. Thus, Schumpeterian shocks lead to shifts in the structure of competition. (Barney, 1986b: 795-796)

In general terms, superior resources may become a basis of competitive advantage if matched appropriately to environmental opportunities (e.g., Andrews, 1971). The following paragraphs elaborate core resource characteristics, namely resource value, rareness and inimitability (please see Figure 2.10 and Figure 2.12 for more details on the above resource attributes).

Firstly, a resource is valuable in the sense that it exploits opportunities or neutralises threats in a firm's environment. Resources are valuable when they enable a firm to conceive of or implement strategies that improve its efficiency and effectiveness. It may be rare among a firm's current and potential competition. (Barney, 1991: 106-107) In general, as long as the number of firms that possess a particular valuable resource or a bundle of valuable resources is less than the number of firms required to generate perfect competition dynamics in an industry (Hirshleifer, 1980), that resource has the potential to generate a competitive advantage (Barney, 1991: 107). While valuable but common firm resources cannot be sources of either a competitive advantage or a sustained competitive advantage, they may help ensure a firm's survival when they are exploited to create competitive parity in an industry (Barney, 1989).

Secondly, sources of imperfect imitability include unique historical positions, causal ambiguity, and social complexity. Causal ambiguity may be defined as the degree of clarity in action-performance linkages. (Lippman & Rumelt, 1982) The availability of substitute resources will diminish the returns to the owner/holder of a given resource (Barney, 1991: 111-112).

To be more concrete, firm resources may be imperfectly imitable/inimitable for one or a combination of three reasons (Barney, 1991: 107):

- i) The ability of a firm to obtain a resource is dependent upon unique historical conditions.
- ii) The link between the resources possessed by a firm and a firm's sustained competitive advantage is causally ambiguous.
- iii) The resource generating a firm's advantage is socially complex (Dierickx & Cool, 1989).

Because they are socially complex and more difficult to understand and imitate, intangible resources are more likely to lead to a competitive advantage than are tangible resources (Barney, 1991; Hitt, Bierman, Shimizu, & Kochhar, 2001). Causal ambiguity exists when the link between the resources controlled by a firm and a firm's sustained competitive advantage is not understood or understood only very imperfectly. In order for causal ambiguity to be a source of sustained competitive advantage, all competing firms must have an imperfect understanding of the link between the resources controlled by a firm and a firm's competitive advantages. Furthermore, a firm's resources may be imperfectly imitable in that they may be very complex social phenomena, beyond the

ability of firms to systematically manage and influence. To the extent that socially complex firm resources such as a firm's corporate culture or the interpersonal relations among managers in a firm are not subject to direct management, these resources are imperfectly imitable. Furthermore, the RBV of CA asserts that not only are firms intrinsically historical and social entities, but that their ability to acquire and exploit some resources depends upon their place in time and space. (Barney, 1991: 107-110)

Non-substitutability implies that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable. Two valuable firm resources or two bundles of firm resources are strategically equivalent when they each can be exploited separately to implement the same strategies. Substitutability can take at least two forms, that is, similar resources or very different resources may be strategic substitutes. However, strategic substitutability of firm resources is always a matter of degree. (Barney, 1991: 105-112) The availability of substitute resources will tend to depress returns to the holders of a given resource (Wernerfelt, 1984: 174).

Critical Characteristics of Firm Resources

<i>Value</i>	The extent to which a resource enables a firm to conceive of or implement strategies that improve its efficiency and effectiveness.
<i>Rarity</i>	The extent to which a resource is unique to the firm.
<i>Imitability</i>	The extent to which the resource can be imitated by competitors.
<i>Potential for substitution</i>	The extent to which the resource can be substituted by other, not rare and/or imitable, resources.

Fig. 2.10: Critical Characteristics of Firm Resources (adapted from Barney, 1991)

Four Levels of Competitive Advantage

<i>Competitive disadvantage</i>	The firm is implementing a value-destroying strategy leading to cost-disadvantage or a product that does not satisfy customer needs.
<i>Competitive parity</i>	The firm and its competitors are implementing the same value-creating strategies leading to cost-advantages and/or differentiation advantages.
<i>Temporary advantage</i>	The firm is alone in implementing a value creating strategy leading to cost-advantages and/or differentiation advantages. Competitors might prepare for imitation.
<i>Sustainable competitive advantage</i>	A firm is alone in implementing a value-creating strategy leading to cost and/or differentiation advantages. Competitors are unable to duplicate the benefits of this strategy.

Fig. 2.11: Four Levels of Competitive Advantage (adapted from Barney, 1991)

Lastly, Figure 2.12 provides a comprehensive overview on the topic of CA.

Strategically Relevant Resources SRR (adapted from Barney, 1991):

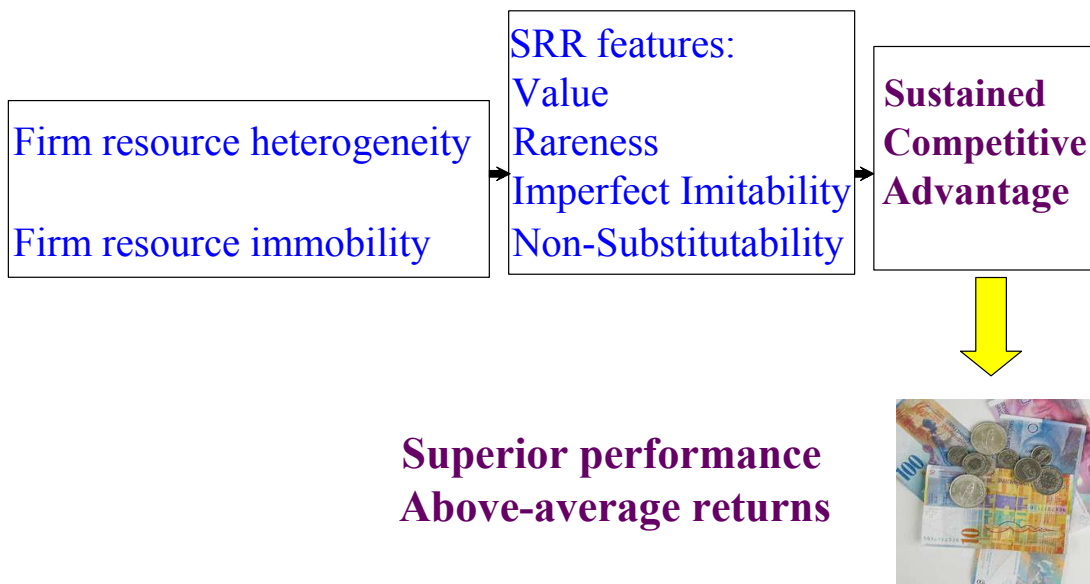


Fig. 2.12: Strategically Relevant Resources SRR (adapted from Barney, 1991)

As mentioned earlier, our world is constantly evolving, and companies must be able to adapt to these changes if they are to survive. Thus, to conclude Subchapter 2.4, I will briefly explain the concept of (economic) evolution.

h) Evolutionary Economics & the Concept of (Economic) Evolution

i) Preface

In economic evolutionary theory, firms represent units of selection as animals do in Darwinian biological evolution theory.

The creation of new activities, the demise of established ones, and the constant shifts in the economic importance of surviving activities are ever-present symbols of the changes taking place in many different locations at different rates. They produce remarkable structural and qualitative transformations in our economic world. (Metcalf in Dopfer, 2001: 391-393)

ii) Defining Evolutionary Economics & (Economic) Evolution

From an evolutionary economics perspective, firms may be defined as repositories of routines which endow them with the capacity to search (Nelson & Winter, 1982). In analogy to the Darwinian evolutionary metaphor, evolutionary economics analyses the development and changes that take place over time in economic systems, or in components of economic systems such as MNCs and industries (Metcalf in Dopfer, 2001). An entire economy may be viewed as an evolving system, with Schumpeterian innovations serving as one of its mutational mechanisms (Schumpeter, 1934). The competition among firms in an industry may be described in terms of mechanisms for 'the survival of the most profitable' - the respective analogy in the Darwinian biological theory would be 'the survival of the fittest being' - and their implications and consequences (Nelson & Winter, 1982).

Evolution may be referred to either as the internal unfolding of entities or the post-Darwinian idea of evolution as the adaptation of populations of entities under a guiding process of competitive selection. Together, these two definitions provide us with a comprehensive understanding of local to global economic change. Evolution takes place at firm, industry, regional, national, and global levels. Major evolutionary concepts include development, selection, variation, fitness and adaptation. Economic evolution is analysed in a variation-selection-development mode of reasoning. Evolution depends on the interaction between and co-ordination of rival behaviours, and thus upon the specifics of the institutions of a market economy. If the economic framework changes, the way economic life evolves changes as well. Patterns and rates of economic evolution are deeply conditioned by market institutions and the wider contexts in which these market institutions are embedded. Thus, guided variation rather than independent variation is taking

place. Without variation, there would be no evolution taking place. (Metcalf in Dopfer, 2001: 391-393)

In general terms, evolution provides a non-equilibrium account of why the world changes. (Metcalf, 2001). As evolution emphasises the structural dimensions of change, it provides the natural framework in which to analyse the ever-changing importance of firms, industries, regions and nations. Economies grow as a consequence of their structural changing. Sectors and activities do not expand at the same proportionate rate. Growth is inseparable from transformation. (Metcalf in Dopfer, 2001: 392-393)

The fundamental reason why economies evolve is rooted in the fact that private knowledge and shared understanding evolve as well. Variation, selection, and development apply to both knowledge and the economy, and the evolution of the one is inseparable from the evolution of the other. The way they evolve is deeply embedded in the instituted structure of co-ordination processes. Evolution is the continuous interplay between emergence and constraint, between variation, selection and development at multiple levels of an economy. Diversity is the progenitor of change and *vice versa*. (Metcalf in Dopfer, 2001: 424-425).

Nowadays, knowledge and its management are critical success factors for firms. To maintain and further enhance their knowledge base, firms must create, selectively adopt, learn, adapt, and retain knowledge for repeated use in economic operations. Thus, it is the knowledge of the firm which evolves here. (Dopfer, 2005: 36-37)

iii) Fisher's Principle & Price's Equation in a Nutshell

With regard to (economic) evolution, Fisher's principle and Price's equation are paramount. While a detailed discussion of them lies beyond the scope of this thesis, I will briefly outline their fundamental content. Basically, evolution may be ascribed to two main forces: firstly, selection due to variance with respect to particular firm characteristics (Allen in Dopfer, 2001: 431); and, secondly, innovation in terms of the factors innovation, imitation, and random drift (Andersen, 2004). On the one hand, Fisher's principle states that, firstly, the speed of evolutionary change is determined by the behavioural variance within a population, and, secondly, units with above-average fitness will increase their weight in the population, while units with below-average fitness have decreasing weight. Thus, the change in mean fitness is determined by the variance of unit-level fitness. On the other hand, Price's equation is about the partitioning of evolution

into a selection effect and an innovation effect (selection within the units) and a more narrowly defined innovation effect. Units of selection can be either national economies, regional industries, corporations, plants, work groups, or individual employees. (Andersen, 2004: 127-148)

iv) Short Term versus Long Term Evolutionary Change

Importantly, short term and long term evolutionary change may be distinguished from one another. While in short term evolutionary change, selection pressures are kept constant, in long term evolutionary change, selection pressures change due to the changing size of the population, and the fact that the environment is to a large extent composed of other populations. The term 'short term' indicates a period in which the population variables change significantly faster than the environmental variables and the related selection pressures. As long as the population is small compared to the carrying capacity of its environment, selection favours units that are quick in exploiting the possibilities. As the population grows, units that are finely tuned to survive in a crowded environment are favoured. In the long term there is a co-evolution between the different populations which changes selection pressures. For instance, an industry may be competing and collaborating with other industries, and this interaction may be changing over time. A web of inter-population links and many assumptions underlying such long run dynamics need to be considered. (Andersen, 2004: 127-148)

v) (Economic) Evolution in Practice

In the long run, the sustainability of an organisation is dependent on its ability to participate successfully in the evolutionary game. A consequence of selection is adaptation. Being fit also means being adapted to the resulting environment. In general terms, good entities are well designed, have attributes that fit the environment, and satisfy the test of fitness for purpose. Business units making negative profits are maladapted to their economic environment. Ultimately, good business designs are likely to survive and bad ones to be eliminated as a consequence of competitive selection. In addition, while business units live in the same world, they see different worlds. They perceive differential pressures, and theories of business do not lead them to interpret the evidence in the same way. In general terms, the ability to adapt, for instance, by means of appropriate adaptive innovations, learning, responding, and 'making sense' of what is happening, is an indispensable strategy for survival. (Allen in Dopfer, 2001: 431-433)

Firms seek competitive advantage by attempting to be different and by protecting the sources of differential advantage from rivals. Sustainable superior profitability requires firms to continually outperform their competitors. Thus, the link between competition and the stimulus towards improvements in transformation processes becomes evident. (Metcalf in Dopfer, 2001: 413-415)

Subchapter 2.5 is closely intertwined with economic evolution and adaptation to changing environmental conditions.

2.5 Strategic Marketing & Market-Driven Strategy

a) Preface

As technology unfolds and globalisation progresses, firms are facing ever-increasing complexities and the enlargement of their competitive field. Given such an ever-changing environment, a firm's ability to quickly change directions and reconfigure strategically - in particular with regard to products and markets - becomes crucial if its purpose is to succeed and achieve sustainable competitive advantage. This notion may be referred to as market-focused strategic flexibility. (Johnson, Lee, Saini, & Grohmann, 2003: 74) Strategic flexibility itself may be defined as the ability to reallocate resources quickly and smoothly in response to change (Buckley & Casson, 1998b: 23) or the capability of the firm to proact or respond quickly to changing competitive conditions and thereby develop and/or maintain competitive advantage (Hitt, Keats, & DeMarie, 1998: 27).

A good strategy makes the company different, giving it a unique position involving the delivery of a particular mix of value to some array of customers (Porter, 1997: 18). Business strategy has entered a new market and competitive environment referred to as the market-driven era due to its central focus on the market as the basis for strategy design and implementation (Cravens, Greenley, Piercy, & Slater, 1998; Day, 1994). Markets provide the focus of strategic thought and practice (Cravens, 1998: 237).

b) Strategic Marketing

Strategic marketing is situated at the interface between the subfields of strategy and marketing. To summarise, on the one hand, marketing strategy is concerned with decisions relating to market segmentation and targeting, and the development of a positioning strategy based on product, price, distribution, and promotion decisions (Corey, 1991; Hunt & Morgan, 1995; Kotler, 1994). On the other hand, business strategy is concerned with how businesses achieve competitive advantage (Slater & Olson, 2001: 1055).

c) Market Orientation, the Market-Driven Organisation, & Market-Driven Strategy

i) General Overview

Complacency is a forerunner of disaster in the turbulent marketplace. The constantly changing market environment, coupled with actions by competing firms to gain market advantage, requires that companies understand their customers. (Cravens & Shipp, 1991: 53-55)

According to Day (1994), companies are adopting market-driven strategies guided by the logic that all business strategy decisions should start with a clear understanding of markets, customers, and competitors (Day, 1994: 37-50). Market-driven strategy plays a pivotal role in designing and implementing business and marketing strategies.

Importantly, market-driven strategy provides a company-wide perspective which mandates more effective integration of all activities that impact on customer value. (Cravens & Piercy, 2008: 4). Doyle (2000) argues that, increasingly, it is clear that enhancements in customer value provide a primary route to achieving superior shareholder value (Doyle, 2000). Customer value is the outcome of a process that commences with a business strategy anchored in a deep understanding of customer needs (Troy, 1996: 5). Customer value is the trade-off of the benefits against the costs involved in acquiring a product (Cravens & Piercy, 2008: 8). Superior value occurs when there are positive net benefits (Cravens & Piercy, 2008: 14). Kotler (1997) argues that customers form value expectations and decide to purchase goods and services on the basis of their perceptions of products' benefits less the total costs incurred. Customer satisfaction indicates how well the product use experience compares to the buyer's value expectations. Superior customer value results from a very favourable use experience compared to expectations and the value offerings of competitors. (Cravens & Piercy, 2008: 15) So-called market-driven organisations exhibit a clear focus on customer value. They build a culture and processes for being market-oriented. (Cravens & Piercy, 2008: 3-5)

ii) The Nature of Market-Driven Organisations

Companies that are better equipped to respond to market requirements and anticipate changing conditions are expected to enjoy long run competitive advantage and superior profitability. There is substantial evidence that creating and maintaining close relationships with customers is important in market-driven strategies. Successful market-driven strategy design and implementation should lead to superior performance. Developing a market-driven strategy is not a short term endeavour since building a market-driven organisational culture and processes requires a considerable effort. (Cravens & Piercy,

2008: 4-5) In addition, implementation capabilities or the ability of an organisation to execute and sustain market-driven strategy and to do so on a global basis are paramount (Piercy, 1999: 113-131).

Market-driven companies have effective processes for learning about their markets (Cravens & Piercy, 2008: 17). The most distinctive features of market-driven organisations are their mastery of market sensing and customer linking capabilities (Day, 1994: 37). Market sensing, a distinctive capability, may be defined as the ability of the firm to learn about customers, competitors, and channel members in order to continuously sense and act on events and trends in present and prospective markets. In market-driven firms the processes for gathering, interpreting, and using market information are more systematic, thoughtful, and anticipatory than in other firms. Market-driven firms are distinguished by an ability to sense events and trends in their markets ahead of their competitors. Furthermore, a customer-linking capability refers to creating and managing close customer relationships. (Day, 1994: 43-44)

In addition, the firm develops sense-making skills to anticipate developments in the market (Dickson 1992). Market sensing involves the heuristic mental model for visualising latent market potential (Amit & Schoemaker, 1993) and enables a broad-based panoramic surveillance of the market to identify emerging technologies and best practices (Teece, Pisano, & Shuen, 1997).

iii) Market Orientation as a Distinctive Feature of Market-Driven Firms

A perceptive understanding of customers and their value requirements lies at the core of market-driven strategies. Becoming market-oriented requires the involvement and support of the entire workforce. The organisation must monitor rapidly changing customer needs and desires, determine the impact of those changes on customer satisfaction, increase the rate of product innovation, and implement strategies that build the organisation's competitive advantage. (Cravens & Piercy, 2008: 6) Market orientation may be defined as being the collective of employee behaviours that affects strategy implementation, how an organisation interacts with its environment and adjusts to changes within that context (Dobni & Luffman, 2003: 577). Day (1990) refers to market orientation as a behavioural culture, the principal features of which are enforceable, that dictates how an organisation's employees think and act. It represents the behaviours required for implementing the marketing concept. (Day, 1990)

A behavioural definition of a market orientation as 'the organisation-wide generation of market intelligence, dissemination of its intelligence across departments, and organisation-wide responsiveness to it' (Kohli & Jaworski, 1990: 6) captures the essence of a market sensing capability (Day, 1994: 43). For over 40 years, managers have been exhorted to 'stay close to the customer', 'put the customer at the top of the organisational chart', and 'define the purpose of a business as the creation and retention of satisfied customers' (e.g., Drucker, 1954; Kotler, 1977).

A market orientation is a business perspective that makes the customer the focal point of a company's total operations (Cravens & Piercy, 2008: 6). According to this emerging literature, market orientation represents superior skills in understanding and satisfying customers (Day, 1990). Its principal features are the following: firstly, a set of beliefs that puts the customer's interest first (Deshpandé, Farley, & Webster, 1993); secondly, the ability of the organisation to generate, disseminate, and use superior information about customers and competitors (Kohli & Jaworski, 1990); and, thirdly, the coordinated application of interfunctional resources to the creation of superior customer value (Narver & Slater, 1990; Shapiro, 1988).

A company can be market-oriented only if it completely understands its markets and the people who decide whether to buy its products or services (Shapiro, 1988: 120). A business is market-oriented when its culture is systematically and entirely committed to the continuous creation of superior customer value (Slater & Narver, 1994: 22). Essentially, achieving a market orientation involves the use of superior organisational skills in understanding and satisfying customers (Day, 1990).

Figure 2.13 illustrates graphically that, firstly, a market-oriented organisation continuously gathers information about customers, competitors and markets; secondly, it views that information from a total business perspective; thirdly, it decides how to deliver superior customer value; and, fourthly, it takes actions to provide value to customers. (Cravens & Piercy, 2008: 6) Market orientation and process capabilities require customer focus, competitor intelligence, and cross-functional co-operation and involvement. Several interrelated actions are required, including information acquisition, sharing information within the organisation, interfunctional assessment, shared diagnosis, and decision-making. An effective cross-functional team approach to decision-making facilitates diagnosis and co-ordinated action. The objective of market orientation is to provide superior customer value. The creation of superior customer value is a continuing

competitive challenge in sustaining successful market-driven strategies. The avenues to value may be product differentiation, lower prices than competing brands, or a combination of lower cost and differentiation. (Cravens & Piercy, 2008: 18)

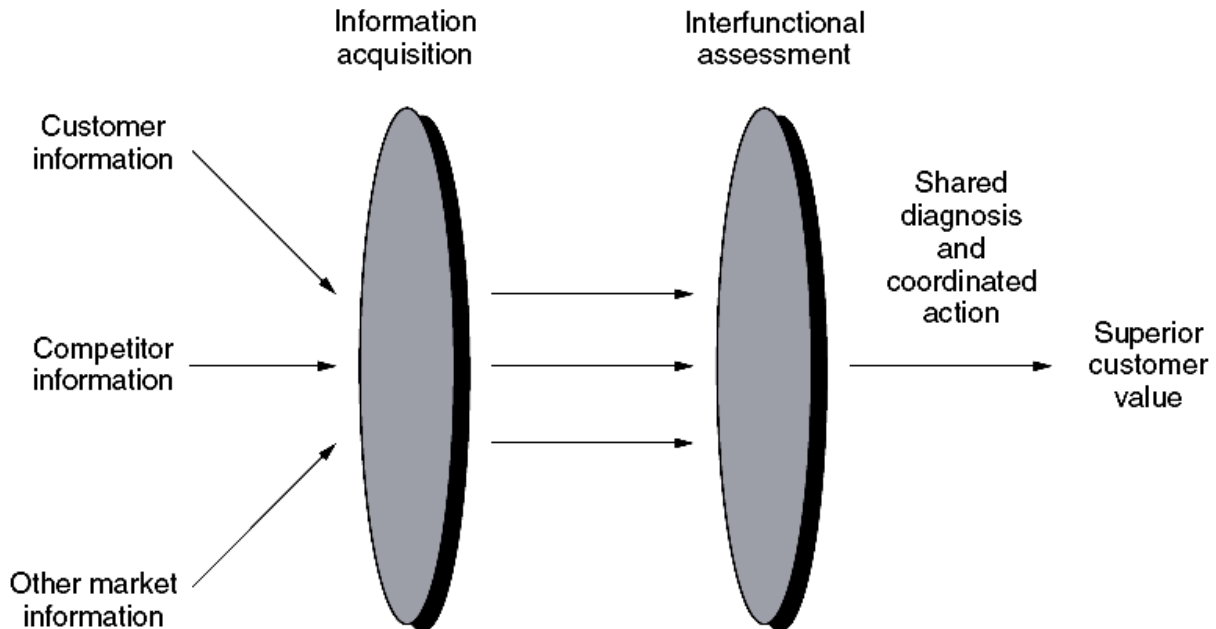


Fig. 2.13: Components of Market Orientation (Cravens & Piercy, 2008: 7)

An organisation that is market-oriented has both a culture committed to customer value and a process of creating superior value for buyers. This initiative extends beyond the marketing function in an organisation. Market orientation is more than a philosophy since it consists of a process for delivering customer value. The market-oriented organisation understands customers' preferences and requirements and effectively deploys the skills and resources of the entire organisation to satisfy customers. (Cravens & Piercy, 2008: 6-10)

Companies that are market-oriented commence strategic analysis with a penetrating view of the market and the competition (Cravens & Piercy, 2008: 8). Mounting evidence, including several U.S. and European studies, suggests a strong relationship between market orientation and superior performance (e.g., Day, 1994). However, becoming market-oriented often requires making major changes in the culture, processes, and structure of the traditional pyramid-type organisation that typically is structured into functional units (Cravens & Piercy, 2008: 10). Indeed, becoming market-driven may require changing the design of the organisation (Cravens & Piercy, 2008: 18).

iv) The Nature of Market-Driven Strategy

In short, market-driven strategies exhibit the following characteristics: firstly, developing a shared vision about the market, and how it is expected to change in the future; secondly, selecting avenues for delivering superior value to customers; thirdly, positioning the organisation and its brands in the marketplace using distinctive competencies; fourthly, recognising the potential value of collaborative relationships with customers, suppliers, distribution channel members, internal functions, and even competitors; and, fifthly, reinventing organisational designs to implement and manage future strategies. (Cravens, Greenley, Piercy, & Slater, 1997: 493-506) The next paragraphs analyse market-driven strategy in more detail.

Designing market-driven strategies implies developing a vision about the market. A vision about the market requires, firstly, obtaining information about customers, competitors and markets; secondly, viewing the information from a total business perspective; thirdly, deciding how to deliver superior customer value; and, fourthly, taking action to provide value to customers. (Slater & Narver, 1994: 22-27) Research findings indicate that market-driven strategies do indeed enhance business performance (Cravens & Piercy, 2008: 4). Figure 2.14 shows the major characteristics of market-driven strategies according to Cravens & Piercy (2008).

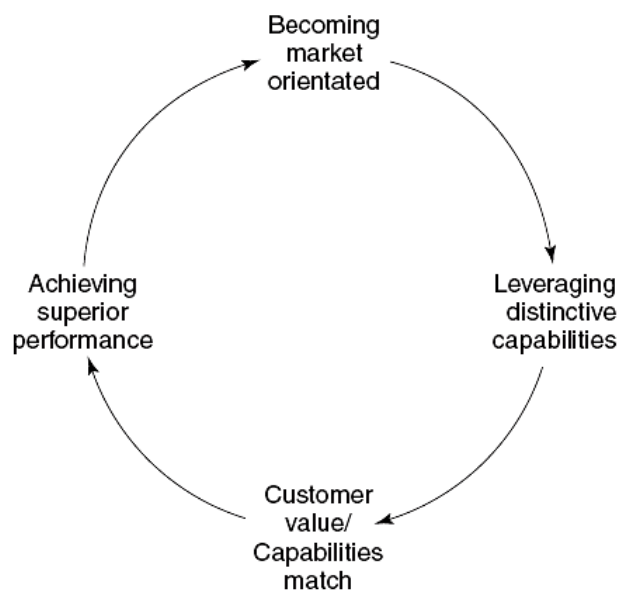


Fig. 2.14: Characteristics of Market-Driven Strategies (Cravens & Piercy, 2008: 5)

Essentially, Figure 2.14 offers guidelines for strategy development rather than advocating a particular strategy. Market-driven strategy has to be linked to the organisation's unique competitive strategy. The organisation's market orientation helps management to

identify customers whose value requirements provide the best match with the organisation's distinctive capabilities. (Cravens & Piercy, 2008: 4-5) Leveraging the organisation's distinctive capabilities (competencies) is a vital part of market-driven strategy (Cravens & Piercy, 2008: 11). The organisation's distinctive capabilities are used to deliver value by differentiating the product offer, offering lower prices relative to competing brands, or providing a combination of lower cost and differentiation (Day & Wensley, 1998: 1-20). A company needs to identify value opportunities that match its distinctive capabilities (Cravens & Piercy, 2008: 14). The most defensible test of the distinctiveness of a capability is whether it makes a disproportionate contribution to the provision of superior customer value - as defined from the customer's perspective - or permits the business to deliver value to customers in an appreciably more cost-effective way (Day, 1994: 38). Building on the first part of Subchapter 2.5, in what follows, a task-oriented approach to strategic marketing is presented.

d) A Task-Oriented Approach to Strategic Marketing

i) Preliminaries

In general terms, inside-out views (e.g., RBV) and outside-in views (e.g., Porter's competitive forces model (1980)) may be used in combination to foster the development of strategic management and marketing theory (Tomczak, Reinecke, & Mühlmeier, 2004: 10).

Lurie (2004) argues that successful growth models must be rooted in customer behaviours that can be pinpointed, addressed, and, ultimately, modified (Lurie, 2004: 254). The rather comprehensive task-oriented approach advanced by Tomczak, Reinecke, & Mühlmeier (2004) illuminates growth and profit options from a strategic marketing perspective (please see Figure 2.15 for an overview). Market potential, a central construct of the task-oriented approach, may be defined as the maximum take-up capacity of a market, that is, the total number of sellable units of a product or service in a specific market (e.g., Meffert, 1998: 165). If not explicitly stated otherwise, in what follows in this Section, the term 'product' refers to both (tangible) products and (intangible) services. Two forms of market potential, namely customer and product potential, may be distinguished: Firstly, the higher the number of customers sharing a need, the more subjectively relevant that need is, and the more purchasing power the respective customers have, the larger the customer potential; and, secondly, the more variable the needs to be satisfied by a product and the higher the significance of the needs to be satisfied relative to other needs, the higher the product potential. (Tomczak, Reinecke, & Mühlmeier, 2004: 11-12)

ii) Overview

The task-oriented approach rests upon the knowledge-based view of the firm (KBV) (Tomczak, Reinecke, & Mühlmeier, 2004: 5-12) which defines companies as a body of knowledge (Spender, 1989: 189). The KBV views knowledge as vital to the achievement of sustained competitive advantages (e.g., Grant, 1996b; Nonaka, Toyama, & Konno, 2000). A company which is able to replicate and link knowledge and task systems possesses the fundamental capability to utilise specific market potential (von Krogh & Roos 1992; 1995).

In essence, the task-oriented approach is about the specific competencies firms require to tap into/utilise market potential more effectively than their competitors do: firstly, customer acquisition competence (i.e., the ability to tap into customer potential); secondly, customer retention competence (i.e., the ability to exploit customer potential); thirdly, product potential competence (i.e., the ability to tap into product potential); and, fourthly, product maintenance (i.e., the ability to exploit product potential). In general terms, tapping into potential is labelled 'innovation' and exploiting potential already tapped into is called 'persistence' in Figure 2.15. Importantly, the task-oriented approach also implies market-oriented bundling and integration of existing competences so as to ensure an optimal deployment of firm resources for accomplishing the four core tasks, that is, customer acquisition, customer retention, product innovation, and product maintenance. (Tomczak, Reinecke, & Mühlmeier, 2004: 5-12) In this context, von Krogh & Roos (1992) argue that the competence concept represents the synthesis of a company's particular task and knowledge systems (von Krogh & Roos, 1992: 424).

iii) The Four Core Tasks in Brief

1) Customer Acquisition

New customers may be acquired by setting up new distribution channels, internationalising, or expanding field sales for instance (Tomczak, Reinecke, & Mühlmeier, 2004: 13). Two customer acquisition strategies may be distinguished: firstly, wooing customers away from rivals; and, secondly, addressing non-users or non-consumers to date (e.g., Tomczak & Karg, 1999).

2) Customer Retention

There are two fundamental approaches to customer retention. Firstly, retention refers to ensuring continuous repeat sales, preventing customers from changing over to competitors, and winning customers back. (Tomczak, Reinecke, & Mühlmeier, 2004: 14) This is

achieved by means of both proactive measures, such as increasing customer satisfaction (Dittrich, 2002), and reactive measures, such as establishing a professional management of complaints (Stauss & Seidel, 1998). Secondly, penetration refers to enhancing the willingness to pay price premiums, increasing purchasing frequency and intensity, and fostering co-operative purchases, that is, subsequent sales and cross selling. (Tomczak, Reinecke, & Mühlmeier, 2004: 15).

3) Product Innovation

Product innovation is about developing product potential and requires the integration of service- and innovation-orientation. It encompasses all measures taken to, firstly, identify solutions to problems; and, secondly, to successfully commercialise them. These efforts lead to solutions characterised by two dimensions: firstly, the degree of novelty to the market; and, secondly, the degree of novelty to the company respectively. Product innovations lie within a continuum ranging from real market novelties, that is, 'new to the world'-offers, to pure imitations. (Tomczak, Reinecke, & Mühlmeier, 2004: 15-16)

4) Product Maintenance

Product maintenance refers to exploiting product potential and requires the integration of persistence- and integration-orientation (Tomczak, Reinecke, & Kaetzke, 2000; Tomczak, Reinecke, & Mühlmeier, 2004: 16). In order to generate sustainable value, the product life cycle must be extended and optimised by means of two approaches: firstly, the preservation of product potential by modifying products (marginal adaptations) and revitalising them (new 'life' is breathed into existing values (e.g., new Beetle of VW)); and, secondly, expansion of product potential by variation (i.e., generating or increasing sales by launching similar products), upselling (i.e., increasing added value by selling more sophisticated and expensive versions of the basic product version), bundling (i.e., generating or increasing sales by combining the introduced product with complementary products and/or additional services), and/or multiplication/scaling (i.e., service concepts are repeated and systematically applied to new markets). (Kaetzke & Tomczak, 2000: 19-22)

iv) Conclusions

In short, companies have to cope with two major challenges: firstly, developing all the competences required to optimally carry out the four core tasks; and, secondly, integrating the four core tasks in such a way that an optimal core task profile is attained. Market potential and competences have to be reconciled and co-ordinated so as to achieve an

optimal deployment of resources/competencies and, ultimately, a maximum of amount of value-added. Activities need to be geared towards the four core tasks in an integrated manner. Importantly, both market potentials and competences available should be analysed so the company may decide in which of the four core tasks to aim to develop competence advantages in order to achieve competitive advantages in the market. (Tomczak, Reinecke, & Mühlmeier, 2004: 18-20) In short, core tasks have to be orchestrated in a concerted way to maximise sustainable value creation. For an overview of growth/profit options deferred from the task-oriented approach please see Figure 2.15.

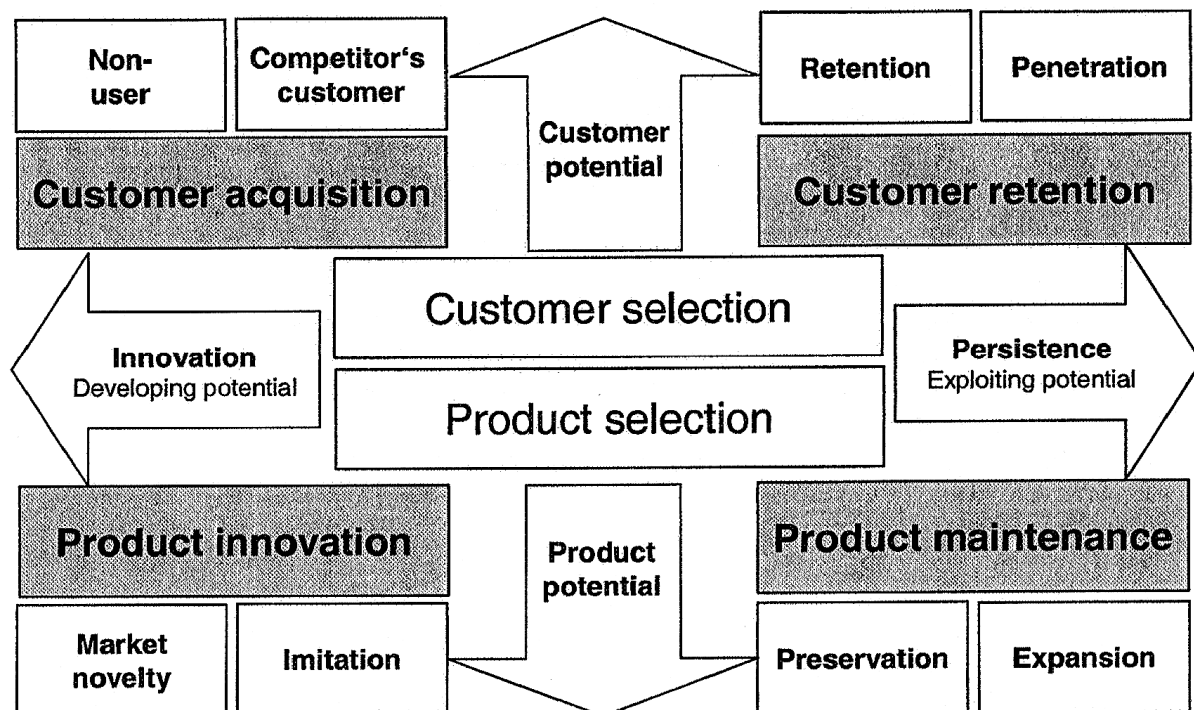


Fig. 2.15: Task-Oriented Approach – Growth & Profit Options
(Tomczak, Reinecke, & Mühlmeier, 2004: 20)

In general terms, empirical evidence shows that competence advantages in the four core tasks and corporate success positively correlate. The more core tasks a company masters relative to rivals, the more likely it is to be successful in the marketplace. Additionally, a company should reach a performance in all four core tasks that is considered average in its sector at least. Competences and core task profiles have to be reconciled with the potential of those markets or sectors companies in question operate in. (Tomczak, Reinecke, & Mühlmeier, 2004: 36-37) Importantly, partially to completely different competences are required to succeed in the various life-cycle phases (Moore, 1995: 174). Particularly in turbulent markets, product life-cycle phases and product life-cycles

as a whole have become shorter. Thus, speedily and efficiently changing between the various competences that are key to success and marketing strategy is becoming paramount to achieving sustainable marketing success. (Tomczak, Reinecke, & Mühlmeier, 2004: 36-37) Lastly, market-oriented companies need to continuously enhance their knowledge and competence base to be able to implement a promising, value-adding long term expansion strategy (von Krogh & Cusumano, 2001).

Well equipped with key constructs this thesis deals with, we will now explore the cultural aspects of strategising on a global scale.

2.6 Multicultural Aspects of Internat. Strategising (Special Focus: Asia)

A market-driven culture supports the value of thorough market intelligence and the necessity of functionally co-ordinated actions directed at gaining a competitive advantage (Day, 1994: 43). Deshpandé & Webster (1989: 3), following Davis (1984), define culture as the pattern of shared values and beliefs that gives the members of an organisation meaning, and provides them with rules for behaviour.

2.6.1 General Introduction to Multicultural Business & Strategising

Internationally operating corporations may be confronted with a great diversity of different cultures. Intercultural competence is paramount as cultures not only vary with regard to the languages they speak or their appearance and stature but also in their cognitive styles of thinking and reasoning (e.g., Hofstede, 2001), their concepts of time (Trompenaars & Hampden-Turner, 1997: 120-140), and their understanding of ethics and moral behaviour (e.g., Hofstede, 2001).

The smooth functioning of multinational business organisations hinges on intercultural communication and co-operation. The basic values of a multinational business organisation are determined by the nationality and personality of its founder(s), and later significant leaders. MNCs with dominant home cultures have clearer sets of basic values. Thus, they are easier to run than are international organisations that lack such common frames of reference. In MNCs, the values and beliefs of the home culture are supposed to be taken for granted and serve as a frame of reference even for employees from other cultures. Thus, primarily for those non-home-culture members of MNCs who interact

with the home office decision makers or their representatives abroad, there is a need for biculturality. (Hofstede, 2001: 440-444)

However, foreign subsidiaries of MNCs function internally more according to the value systems and beliefs of the host culture, even if they formally adopt home-country ideas and policies. Managing a MNC demands that one achieve a balance between culture, strategy, structure and control. Strategy may be deliberate or emergent, but at the corporation level, it is reflected in the choice of product-market combinations and the choice of countries. Structure and control systems determine how this strategy is elaborated. The structure of a multinational, multibusiness corporation rests on choices between coordination along type-of-business lines or along geographic lines. In this context, the key question is whether business know-how or know-how about local conditions is most crucial for the success of the operation. Unquestionably, the control systems that a MNC applies to its subsidiaries are influenced by the culture of the parent company. (Hofstede, 2001: 440 - 444) For more detailed information and analyses with regard to headquarter-subsidiary relations, please refer to Subchapter 3.2.

For instance, firms with different national backgrounds have different preferences in ownership (Erramilli, 1996; Pan, 1996). Moreover, North American companies, more than others in the world, take a narrow, opportunistic view of relationships, evaluating them strictly in financial terms or seeing them as barely tolerable alternatives to outright acquisition. Preoccupied with the economics of the deal, North American companies frequently neglect political, cultural, organisational, and human aspects of the partnership. Conversely, Asian companies are the most comfortable with relationships. Thus, they are the most adept at using and exploiting them. European companies fall somewhere in the middle. Signs of the leader's interest, commitment, and respect are especially important in certain countries. In China and Chinese-dominated businesses throughout Asia, company suitors should give 'face' (i.e., honour and respect) to a potential partner's decision makers by investing the personal time of their own leaders. Sometimes, particularly in Asia, partners are selected more for their potential to open future doors than for immediate benefits. (Kanter, 1994: 97-102).

Undeniably, using stereotypes to explain people's behaviour denigrates individuals, and therefore diminishes their incentive to bridge troubling differences. Stereotyping polarises the partners by setting up us-versus-them dynamics that undermine the desire to collaborate. (Kanter, 1994: 105)

a) The Cultural Iceberg

Culture is like an iceberg (Ting-Toomey, 1999). Individual behaviour, the so-called tip of the cultural iceberg (see Figure 2.16), is the perceivable manifestation of culture's effects. The determinants of the behaviour we see, the more fundamental attitudes, beliefs, and world-views are located below the waterline. Still further below the surface and occupying the greatest volume of this cultural iceberg are the basic values that determine the attitudes, beliefs and world-views. For instance, when negotiating about a new alliance agreement, deep value differences can determine behaviour that is immediately and integrally part of the negotiating process. Since values in a particular culture do not operate independently of each other, they combine in ways unique to the culture to produce behaviour and sets of behaviour that play themselves out right at the negotiating table. Thus, to communicate more effectively with people from other cultures, looking below the surface at the base of the iceberg is essential. (Ting-Toomey, 1999)



Fig. 2.16: Illustration of the Cultural Iceberg

b) Hofstede's Five Dimensions of Culture

The Dutch scientist Hofstede investigated cultures around the globe and identified five cultural dimensions. Nowadays, his findings are still among the most valued. As an example, Figure 2.17 shows a comparison between Switzerland and Qatar (data source: House, Hanges, Javidan, Dorfman, & Gupta, 2005).

The Globe Study (House et al., 2005)

Cultural Dimension	Swiss French	Swiss German	Qatar	World Top Score	World Min. Score
Performance Orientation	4.25	4.94	3.45	4.94	3.20
Future Orientation	4.27	4.73	3.78	5.07	2.88
Gender Egalitarianism	3.42	2.97	3.63	4.08	2.50
Assertiveness	3.47	4.51	4.11	4.89	3.38
Societal Institutional Collectivism	4.22	4.06	4.50	5.22	3.25
Power Distance	4.86	4.90	4.73	5.80	3.89
Human Orientation	3.93	3.60	4.42	5.23	3.18
Uncertainty Avoidance	4.98	5.37	3.99	5.37	2.88

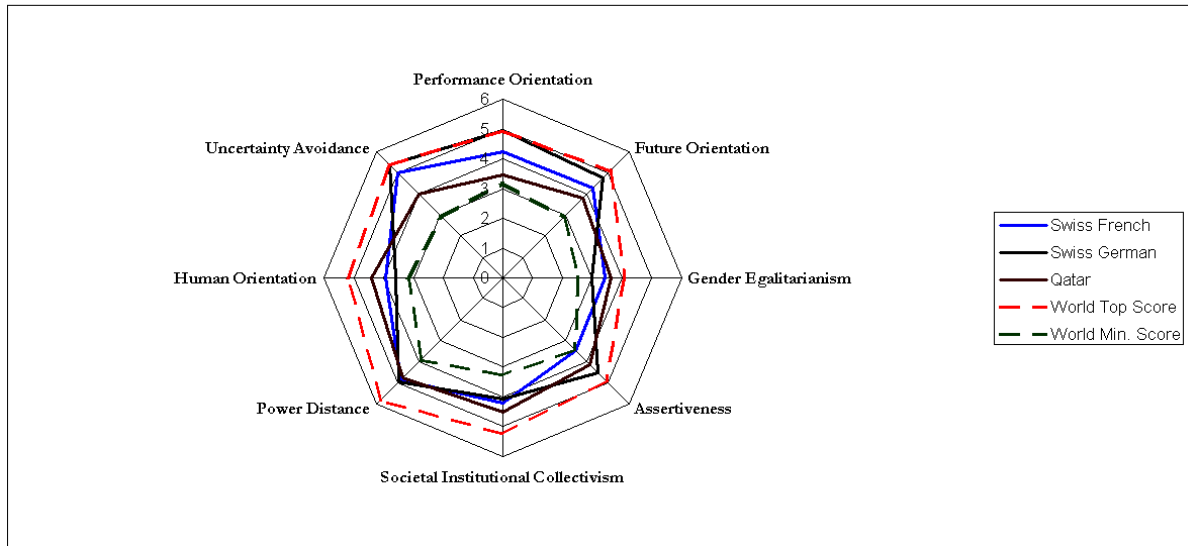


Fig. 2.17: The Cultural Dimensions of Switzerland & Qatar (House et al., 2005)

i) Power-Distance

In brief, power-distance is the extent to which the less powerful members of organisations and institutions accept and expect that power is distributed unequally (Hofstede, 2001). This dimension measures the way individuals relate to authority at work in different cultures. Hofstede discovered that in some cultures, the power holders and those affected by power at work are significantly far apart (high power-distance) in many ways, while in other cultures, the power holders and those affected by the power holders are significantly closer (low power-distance). On the one hand, high power-distance usually mandates respect for age and seniority. The style of management by the power holder may be paternalistic. Status is often ascribed and the outward forms of status, such as protocol, formality, and rigid hierarchy are regarded as important. Decisions regarding appraisal, reward, and redress of grievance are usually based on personal judgments made by power holders or by those connected to them. On the other hand, low power-distance cultures value competence over seniority, and the style of management is more consultative. Status is more or less achievable and communication less formal. Furthermore, the importance of symbols of status, rank, and hierarchy is at least questioned if not overtly disregarded. Finally, systems of redress, appraisal, and reward

would be based on professional criteria rather than personal judgment or connections. While the USA, New Zealand, Australia, Nordic as well as Germanic cultures exhibit a fairly low power-distance rating, Latin America, South Asia, and certain Arab cultures represent very high power-distance cultures. (ITIM International, 2008)

ii) Individualism versus Collectivism

In short, individualism on the one side versus its opposite, collectivism, is the degree to which individuals are supposed to look after themselves or remain integrated into groups, usually around the family (Hofstede, 2001).

These cultural terms refer to the orientation that people in different cultures have toward their work. Do humans work for their individual benefit or rather for the benefit of the greater group, the family, the clan, the company, or even the country? Those cultures that are more individualistic subscribe to self-interest-oriented theories of work and economics. Individuals are self-actualised, self-motivated, task-oriented, seek individual reward, and appraisal, and their relationships with colleagues are based on self-interest. In contrast, more collectivist cultures subscribe to group-oriented theories of work and economics. Members of such societies are motivated by the desire to advance the interests of the group. Their relationships with colleagues are based on mutual self-interest; they are emotionally dependent on the success of the group, and seek reward for the group. While individualistic responsibility for making decisions is easy in individualistic cultures, in group-oriented cultures, such as the Japanese, this may be difficult. The United States comes out as the most individualistic culture surveyed, with the United Kingdom, the Netherlands, France, and the Nordic countries not far behind. Examples of more collectivistic cultures include Asian and Latin American countries. (ITIM International, 2008)

iii) Uncertainty Avoidance

In brief, uncertainty avoidance is the extent to which a culture programmes its members to feel either uncomfortable or comfortable in unstructured situations. Unstructured situations are novel, unknown, surprising, and different from usual. The basic problem involved is the degree to which a society attempts to control the uncontrollable. (Hofstede, 2001) In other words, this dimension measures the comfort or discomfort people in different cultures feel in the presence of uncertainty. In cultures exhibiting high levels of uncertainty avoidance, people commonly seek to avoid ambiguous, uncertain, unpredictable, or risky situations, while in cultures exhibiting low levels of uncertainty avoidance, people can be generally more comfortable with ambiguous, unpredict-

able, uncertain situations, and seek out risk. On the one hand, in alliance or M&A negotiations for instance, a high degree of uncertainty avoidance may manifest itself in slow and careful decision-making processes which take into account all possible details and often involve many people. On the other hand, low avoidance of uncertainty means that there is much more shooting from the hip, much more 'gut-level' decision-making, with fewer people involved and less information required. While low risk-avoidance moves fast, takes risks and bounces back, high risk-avoidance cultures require lots of formal bureaucratic rules in order to feel comfortable, and they rely on rituals, standards and formulas. High risk-avoidance cultures trust only those closest and most reliable (i.e., often family and inner circles). In addition, there is a sense that planning is very essential since fate is unpredictable, and the world is forever a dangerous place. Rules are meant to be followed, and thoughts, feelings, and emotions are only unveiled carefully if at all. (ITIM International, 2008)

Conversely, people in low uncertainty-avoidance cultures may dislike hierarchy as they find it inefficient and destructive. They rely on principles that guarantee safe actions, and view planning as a way to control the future. Things move fast for members of such cultures, and there is tolerance, even acceptance, of ambiguity and differences. Additionally, thoughts and feelings in the form of information and emotion are usually more freely expressed. In comparison to other countries, the United States has a fairly low need for certainty. Countries with even less need for certainty are, for instance, Jamaica, Sweden, Hong Kong and Singapore. However, low-risk avoidance does not necessarily mean high risk-taking. Many of these cultures have to learn to survive in the face of great uncertainty. Conversely, for example, Greece, Portugal, and Uruguay host distinctly high uncertainty-avoidance cultures. (ITIM International, 2008)

Differences in attitudes towards risk are closely allied with time-value differences. On the one hand, there are highly risk-avoidant cultures (i.e., ones that are slow to make decisions, apparently always in need of more information, dependent on rules and regulations, heavily bureaucratic and hierarchical). On the other hand, there are little risk-avoidant cultures (i.e., they may be characterised as entrepreneurial, making quick decisions based on little information, and tending to disregard or find ways to work through or around hierarchy and bureaucracy). When negotiating, more conservative cultures will probably have an intricate decision-making system. Certainly, many people will be required to approve a deal. More risk-taking cultures are more likely to empower individuals to take decisions. (Foster, 1992)

iv) Masculinity versus Femininity

In short, masculinity versus its opposite, femininity, refers to the distribution of emotional roles between the genders. It opposes 'tough' masculine to 'tender' feminine societies. (Hofstede, 2001)

This choice of terminology rests on the extent to which cultures value certain gender-associated qualities and ascribe these qualities to men and women in that culture. Self-assertion and task-orientation have traditionally been thought of as male traits, while nurturing, quality-of-life, and relationship orientation have traditionally been denominated as female traits. More masculine cultures tend to favour a sharp division of sex roles, tend to value self-assertion and task orientation and usually ascribe those traits quite specifically to men, subscribe to live-to-work theories, and are more advancement-oriented. Women in such societies are associated with nurturing and quality-of-life aspects of society, and they are also ascribed the corresponding responsibilities. Conversely, more feminine cultures tend to value the relationship and quality-of-life values. These values are usually shared by both men and women. Such feminine cultures subscribe to work-to-live theories, and they are more accepting of the given situation, especially if it fulfils quality-of-life concerns. Not surprisingly, the division of sex roles is not as sharp as in masculine cultures since these societies are less clearly based on the traditional male/female traits described above. While in masculine cultures, the style of work can be more competitive, in feminine cultures, the work style may be more collaborative. Japan ranks as the most masculine country surveyed. The more masculine countries also include Mexico as well as certain other Latin American cultures, Spain, Switzerland and Italy. On the other hand, the most feminine cultures include most of the Nordic countries. (Foster, 1992; ITIM International, 2008)

v) Long Term versus Short Term Orientation

In brief, long term versus short term orientation refers to the extent to which a culture programmes its members to accept delayed gratification of their material, social, and emotional needs (Hofstede, 2001).

Long term orientation or so-called Confucian dynamism, focuses on the degree to which the society embraces or does not embrace long term devotion to traditional, forward-thinking values. Cultures exhibiting a high level of long term orientation subscribe to the values of long term commitments and respect for tradition. Long term rewards are expected as a result of today's hard work, which means that a strong work ethic is supported. Regrettably, business may take longer to develop in such cultures. Conversely, cultures exhibiting a low long term orientation do not reinforce the concept of long term,

traditional orientation. Thus, change can occur more rapidly as long term traditions and commitments do not hamper change. While China, Hong Kong, Japan, and Taiwan are populated by distinctly long term oriented cultures, the opposite is true for Pakistan, the Czech Republic, and West Africa. (ITIM International, 2008)

The following section examines additional aspects of multicultural diversity that are relevant with regard to this dissertation.

c) The Importance of Protocol

The United States is probably one of the world's most informal cultures. Americans are notoriously casual about their use of first names, physical contact, dress, disregard for titles, invitations, conduct at social events, etc. However, US citizens are not casual when it comes to other aspects of negotiation, such as time, decision-making, the format of the final agreement, etc. Most other cultures conduct the negotiation process within a set of formal constraints, often significantly more complicated than what Americans are used to. While Americans often refer to each other by first name, last names, and titles being disdained, in France and much of Europe, the use of last names along with Mr. and Mrs. is critical, irrespective of the length of the business relationship, until the senior indicates that he wishes to be referred to less formally. (Foster, 1992)

Americans do not take business cards all that seriously either while in many other cultures, the business card is a key form of identification. When doing business in Japan just as important as bowing deeply and long enough and the extent of formality, one must take careful note of the information contained on business cards. Bowing is a ritual for showing respect for status and age. Usually the younger, less senior person bows lower and longer as a way of establishing the proper relationship between two individuals. In Japan, cards are received with two hands, lovingly examined, and carefully arranged in front of oneself on the table in an order representing the seating of one's opposite numbers. In Europe, business cards will indicate all titles, educational degrees, and corporate rank of the individual, and titles should be scrupulously used and respected. While in the US, many doctors do not use their titles unless they are medical doctors, in Europe, a Ph.D. is always heralded and announced on the business card and in conversation. Business cards are so key that they should always have the English version on one side and the local language translation on the other. (Foster, 1992)

Socialising is often serious business. In Japan, being able to sustain nightly rounds of carousing through restaurants and bars is part of doing business. The evening entertain-

ment is as critical to the negotiation as the sessions during the day. In addition, gift giving practices differ from culture to culture. Negotiators may give small gifts in Japan but never in China. If invited home for dinner in France, always bring flowers but never roses. In addition, there are often different protocol rules for men and women in business. Men may shake hands with women, but not in Arab lands. Women may kiss women, but not men in Latin America. The area of protocol is filled with many do's and don'ts and, while ignorance of local customs is often a forgivable offence and not a serious deal-killer on its own, combined with other cultural miscommunication, a mistake in protocol may seriously jeopardise a negotiation. Respect for the local customs is an important part of a successful international negotiation. (Foster, 1992)

d) Communication Channels Used by Different Cultures

About 70% of all communication occurs non-verbally. While the United States is extremely explicit and verbal, and Americans believe that understanding can occur with the true, direct, and proper use of words, many other cultures, for instance, the Chinese one, are not nearly as explicit, and rely quite comfortably on non-verbal as well as verbal communication. (Foster, 1992)

e) Time Conceptions – Monochronic versus Polychronic Time & the Value of Time

Culturally speaking, one can define time either as 'monochronic' or 'polychronic'. On the one hand, monochronic time is linear. Things are done separately, one after another. Time is compartmentalised, organised and controlled. It is a commodity that has value because of its scarcity and its usefulness in defining the context in which activity occurs. On the other hand, polychronic time is abundant, more circular, has neither a commencement nor a finish, and exists beyond humanity, being external to the control of humans. Thus, polychronic time is useless as a means for exchange. It defines the context in which things occur in its broadest sense. Rather than setting limits, it simply sets the background for a set of events. Most importantly, since it is non-linear, many things can happen at once. There is a simultaneous use of time as a backdrop for all sorts of events in life. If one were to cut out a slice of time in a polychronic culture, all sorts of events would be going on horizontally and simultaneously. Cut a slice of time out of a monochronic world, and we usually see one event occurring after another. However, these are generalisations in the extreme. No one culture is either all monochronic or all polychronic, but some are more or less polychronic and monochronic compared to others. In general terms, time is more polychronic in Latin cultures, while Western, Anglo-Saxon cultures tend to view time as monochronic. (Foster, 1992)

These tendencies appear in many aspects of negotiation, for instance. Illustration: When Americans and Mexicans negotiate, literally all aspects of negotiation may be touched. Americans prefer discussing points in an orderly fashion, though what is orderly for Latin Americans is disorderly for North Americans. For Mexicans, it is acceptable to discuss more than one point simultaneously, and the style of the discussion tends to be more vertical than horizontal. It is acceptable for Mexicans to speak simultaneously, not being willing to await turns. For Americans, such a process appears terribly confusing and inefficient. This example also shows how conceptions of time also play a role in how different cultures communicate ideas. (Foster, 1992)

In polychronic cultures, not only may ideas be discussed simultaneously, but also other types of activity may be occurring at the same time that business is being conducted. In such a polychronic culture as Mexico, for instance, the future is part of the present (i.e., part of the larger backdrop of time). Thus, tomorrow is as good a time as today, and today should be lived for its own sake rather than tomorrow's! In general terms, polychronic cultures may be comfortable with the idea of many things happening at once, while monochronic cultures often have difficulty, at least in business, in dealing with several simultaneous developments. Furthermore, emotional expression differs from culture to culture. (Foster, 1992)

In addition, if some cultures tend to be future-suspicious as opposed to future-embracing, then they are also present-embracing as opposed to present-denying. Americans are action- and future-oriented with an inherent belief in progress, and time moves swiftly for them as they are always hurtling towards a better tomorrow. Conversely, cultures that are not interested in rushing toward tomorrow are usually more interested in today. (Foster, 1992)

f) Group versus Individual Orientation

Actions and work may be conducted for and by individuals or for and by groups as Hofstede's individualism versus collectivism dimension demonstrates. For instance, group and individual orientation respectively affects the negotiation process in a number of ways. In group-oriented societies, the other side will probably be a team as opposed to an individual or a few individuals. Decisions will probably not be made at the table but rather be discussed among the group members after the meeting is over. Group orientation means that individual initiatives or individual attempts to take on an extra responsibility or to do a super job for the sake of obtaining the credit will not occur. Merit

is bestowed on the entire group whatever the individual efforts responsible for success may be. Decisions will probably take longer, and deals will have to be designed so that the group is the beneficiary as opposed to the individuals that make it up. Individual will and the expression of individual desires are generally not appreciated in group-oriented cultures. Thus, highlighting the benefits inherent in the deal for the individuals on the other team will not be beneficial in a group-oriented culture. (Foster, 1992)

However, this kind of behaviour will be positively received in individual-oriented cultures. In such cultures, one expects decisions to be made more quickly, with positive reactions to the personal benefits to be reaped from deal success. Personal benefits have to be considered as possible negotiation chips. Personal initiative is highly valued in individual-oriented cultures, and one may depend on one's opposite numbers to take whatever action they deem necessary to overcome obstacles or press their case. Not only is the business group important in group-oriented cultures, but other groups play a key role as individual stakeholders at the negotiation table. Group-orientation is particularly strong in South Asian, South European, and African cultures and is somewhat like this in Latin American cultures. In contrast, for Americans, pragmatism and individualism are keys to success. (Foster, 1992)

g) Decision-Making Systems

Closely aligned with group or individual orientation in negotiations is how cultures differ with regard to how decisions are reached. In Japan, decisions are almost always made by consensus. They take comparatively long since the information exchanged at the table must be taken back to all parties concerned and decided upon in many mini-meetings among themselves. The American decision-making process takes rather the form of a matrix with a significant degree of consultation at all levels than that of a one-dimensionally centralised and individual process. However, the process is consultative only to the degree that those that have to make the decision obtain the information they deem necessary. Conversely, France is more highly centralised in business decision-making than many Latin cultures. In China the whole purpose of the bureaucracy is to diffuse decision-making so that responsibility is difficult to locate. Ultimately, this is done to shield powerful figures from accountability. The result may be interminable delays in taking decisions. (Foster, 1992)

As mentioned above, Asia is becoming ever more important in the global business arena. Thus, this dissertation devotes a special subchapter to the world's largest continent.

2.6.2 Thriving in the Asian Business Environment - A Strategic Analysis

Asia is the central and eastern part of Eurasia. It represents the world's largest continent (see Figure 2.18).



Fig. 2.18: Asia Photo by NASA

i) Introduction

After a brief historical introduction, this Subchapter examines four major shifts in the Asian competitive environments. Thereafter, it elaborates how to adapt to the described fundamental changes in the competitive landscape. Lastly, a better understanding of the rules when competing in Asia Pacific will be established.

Since 1965, foreign direct investment (FDI) has significantly increased in Asia. Obviously, resource flows triggered by FDIs are highly beneficial to economic development in the region. Japan's transformation from post-war ruin into economic superpower was followed by South Korea's and Taiwan's awakening, which further accelerated the growth of the entire region. In the 1970s and early 1980s, rising foreign investment and deregulation in Indonesia, Malaysia, and Thailand spurred this momentum. In addition, simultaneously, the city states of Singapore and Hong Kong acted as the growth poles of the region. In 1979, China tentatively opened itself to the West. In the late 1980s, China carried out its bold free market reforms, which led to unprecedented economic growth rates in the 1990s. (Tahir & Larimo, 2005: 293-294) If not otherwise indicated, the rest of this Subchapter is based on Williamson (2005).

ii) The Current & Potential Future Competitive Situation

Today, Asian companies and Western multinationals operating in Asia alike require a fundamental strategic renewal as Asia's competitive environment is undergoing a sea change. Change is being driven by the rapid development of China, the cumulative impact of gradual but sustained deregulation, and trade liberalisation across Asia. Moreover, change is being driven by the implications of a new generation of economic, demographic, and social forces that is commencing to reshape Asia's future.

While these are all long term trends, until 1998, their impact on the competition in Asia had been arrested due to the after-effects of the 1997 financial crisis. At the back of the financial crisis was an opportunistic approach to business as opposed to a planned approach leading to speculation, corruption, high government interference, and imitative behaviour. (Lasserre & Probert, 1998) Only recently has debt restructuring been completed, and loans finally been repaid. Faced with this new economic environment in Asia and re-invigorated Asian competitors, Western multinationals will need to chart new strategies if they are to win a share of the new round of Asian growth that is now underway. Successful Western MNCs will adopt innovative strategies in the Asian market that allow them to more accurately pinpoint and then to fully exploit their unique strengths.

Today, four particularly important shifts are reshuffling the Asian competitive environment: firstly, the demise of asset speculators; secondly, China's scattering of the pattern of orderly Asian 'flying geese'; thirdly, the breakdown of national 'economic baronies'; and, lastly, the decay of 'me-too'-strategies. In what follows, each of these developments is analysed in turn.

iii) Four Major Drivers of Change in the Asian Competitive Landscape

While profitable strategies are supposed to create value for customers by satisfying their needs better or more efficiently than competitors do, many companies in Asia grew rich through asset speculation. They bought assets ranging from real estate to rival firms, or built large manufacturing facilities. Both many Asian companies and MNCs operating in Asia were more inclined to attribute their success to brilliant strategy formulation and execution. They basked in the illusion that they were creating new value through world-beating competitiveness and thriving in a dynamic, open market. The Asian crisis of 1997 shattered those illusions by removing the windfall of rising asset prices almost at a stroke. A sustained period of asset price inflation followed. Now, as the Asian balance

sheets have been reconstructed, the upper hand is shifting to those who can add the most value to the assets and resources they use. To conclude, the drive for sheer volume is being replaced with a drive for value-added.

The second major force of change in Asia's next round of competition is the so-called China factor. The traditional model of economic development in Asia used to be circumscribed by the metaphor of national geese flying in formation. It underlay many government policies and corporate strategies, and also shaped where multinationals located their activities in Asia. Generally speaking, it was about where to locate low- and high-end operations. Each 'goose' (i.e., Asian nation) began by manufacturing and exporting simple, labour-intensive products such as garments and assembly of low-end products. As it accumulated more capital and know-how, it moved through products of intermediate complexity to finally arrive at high value-added products and services. As one Asian country moved on to the next level of value-added, another developing country would take its place at the lower value end. Japan led the flow, followed by Hong Kong, Singapore, South Korea and Taiwan. However, then came China, and it was not flying in the above formation of national Asian geese but rather was engaged in activities that ranged from manufacturing low-end products to producing high technology components such as semiconductors and specialised machinery. China is doing this on a scale large enough to redraw the competitive map. Thus, also global MNCs operating in Asian nations have to re-evaluate the roles of each subsidiary across Asia. A promising strategy will be to make sure each subsidiary in Asia supplies specialised components or focuses on particular activities within the overall supply chain. Existing subsidiaries are often too vertically integrated in the context of a more integrated Asian supply chain, and thus have to be reorganised. These pressures have huge implications for the supposedly successful future strategies of MNCs operating in Asia.

The third major shift concerns the breakdown of economic baronies. Asia's division into highly segregated national markets, separated from each other by a mix of tariff and non-tariff barriers, cultural and language differences, divergent choices about local standards as well as regulatory differences between countries is legendary. Governments gave preference to their local companies through the allocation of licenses, preferential access to finance as well as other kinds of direct and indirect support. Thus, MNCs historically approached Asia as a collection of separate national markets. This led country managers in charge of highly autonomous subsidiaries within the Asian network often to become local barons. Each baron fought for investment and against sharing functions by

pointing to the peculiarities of the local market. Nowadays, each of these country subsidiaries is threatened by the rapid growth of cross-border competition in Asia. Falling trade barriers, deregulation of national markets, and falling costs of transport and communication lead to new sources of competitive advantage based on cross-border economies of scale and co-ordination.

The fourth force concerns the decay of 'me-too'-strategies. In accordance with Maslow's hierarchy of needs, as Asian consumers become richer, they demand better, more sophisticated, and more customised products and services rather than more of the same. However, neither are Asian consumers likely to abandon their traditional values, nor will Asian business buyers forget their historic emphasis on costs. The new competitive environment will require companies to differentiate themselves from their competitors.

iv) Mapping out Strategies for Succeeding in Asia

The above fundamental changes in Asia's competitive game together demand new strategies. Most importantly, firms need to stake out their territory on the basis of improved productivity, local brand and service, innovation, and internationalisation that are designed to reshape the Asian playing field, and exploit cross-border synergies (see Figure 2.19). Each of these measures will be analysed in turn.

Given the increasingly intense competition from local companies in China as well as cross-border rivalry within Asia, a key element in future Asian strategy must be to enhance the efficiency of Asian operations through productivity gains. Especially the neglected overhead areas such as administration, sales, and distribution are likely to hold the potential for substantial efficiency gains. In many MNCs, overhead burdens rose during the 1990s, when expansion at almost any cost was the name of the game.

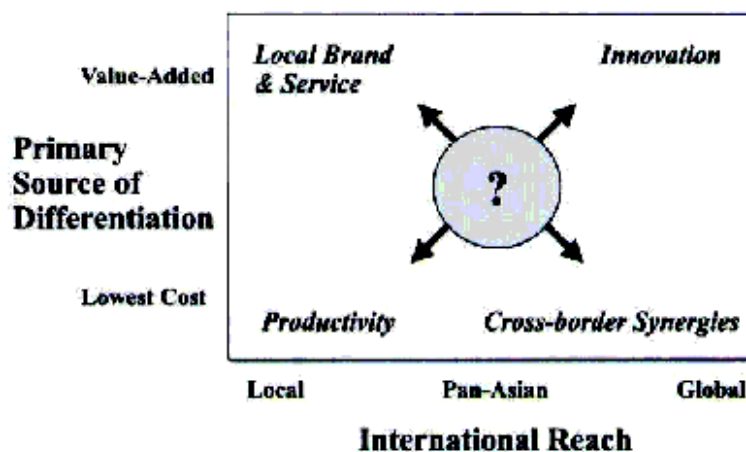


Fig. 2.19: Strategic Choices for Winning in Asia's Next Round of Competition
(Williamson, 2005: 41)

Additionally, as 'me-too'-strategies decay, and Asian consumers demand more variety, customisation as well as a renewed focus on brand building and service quality will be required. Strategies to strengthen brand differentiation are even more important since Asian companies are starting to build or acquire their own brands. MNCs will not be able to take their brand premium for granted. To exploit this potential advantage, MNCs will have to increase their investments in brands in Asia. Furthermore, better localisation of branding, marketing, and service will be required as well.

In addition, to be able to cope with the relentless competition on the formerly protected baronies, cross-border synergies between different subsidiaries in Asia need to be better exploited, and consolidation has to be driven. This will mean accelerating pan-Asian and global integration. Each subsidiary will need to be refocused on more specialised sets of activities within a new Asian network that leverages the specific advantages and knowledge within each location. The intensified competition will force companies to dispose of businesses in which they lack the scale and sufficient capabilities to successfully compete. Thus, there will be a window of opportunity opening up, and strategies to quickly identify, assess, and execute overseas acquisitions, and then to reshape these into fully integrated businesses will become critical.

However, this will not suffice. The decay of the 'me-too'-strategies leads to an increased emphasis on innovation amongst MNCs' Asian rivals. Thus, MNCs will not only need to exploit and transfer innovative technologies and products into Asia more rapidly, but they will also have to establish their own innovation activities in Asia. MNCs have to restructure their innovation processes to benefit from the availability of high quality researchers and engineers at lower cost as well as to learn more from their Asian operations. (Doz, Santos, & Williamson, 2001)

Innovations from their Asian operations should be leveraged across other markets. Over the last few years, more than 100 global R&D centres have been established in China by leading MNCs such as Hewlett-Packard, Microsoft and Motorola.

To sum up the first part of this Subchapter, multinationals will need to be determined to raise their game in the four key areas of strategy discussed above (i.e., a new productivity drive, renewed focus on brand building and service quality, exploiting cross-border synergies, and driving consolidation and innovation in Asia). However, the mix of these strategies will vary by industry and individual company.

v) Towards a More Refined Understanding of How to Do Business in Asia

Next, a better understanding of the rules of the competitive game described above will be established. By knowing more about the business context and practices, managers will be better equipped to deal with the challenges they are likely to encounter in the Asia Pacific region. If not explicitly stated otherwise, the rest of this Section is based on Lasserre & Probert (1998).

There is general agreement that European and American rules of business cannot simply be transposed to the Asia Pacific region. However, there appears to be a better chance that Western approaches to business will work in Hong Kong, India, and the Philippines. MNCs' managers' ability to interpret business practices in the respective Asian country along with the ability of the head office subsequently to absorb the signals given by country managers determine the extent to which western business methods are adapted to meet local requirements and expectations.

While the meaning of the word 'government' varies with countries, in this context, the word is generally understood to include the bureaucratic establishment which administers the rules of the game. Throughout Asia, the requirement to maintain smooth and regular contacts with government is an important factor in business. In China, managers particularly emphasise the need for smooth contacts.

The issue of relationships and relationship building is crucial for business in Asia. While business relationships based on trust are essential, throughout the region they are difficult and time-consuming to build. In this context, it is paramount to know who one is dealing with. In general terms, relationships in Asia tend to be built on softer criteria than those one finds in Western business circles, and personal relationships in the working environment (i.e., with employees, suppliers, partners, and so forth) take priority over rationally-based argument. However, the more western-influenced countries of Asia, including Singapore, Hong Kong and India, are less prone to ignore the rational approach.

Western executives frequently complain about the apparently unreliable legal environment in Asia. However, societies in several Asian countries, such as China and Vietnam, have evolved from non-legalistic foundations, and lack experience of the western legal or capital system. In Indonesia or Thailand, a contract signifies to the local partner the commencement of a relationship rather than the conclusion of a business deal. Thus, all points may be subject to renegotiation if the original basis for agreement changes.

Throughout the region, the idea that a contract simply represents the commencement of a relationship prevails.

Furthermore, firms need to demonstrate to partners in terms of employees or suppliers, for instance, a long term interest in a business venture. Without such a commitment, the venture is unlikely to turn out to be successful. Undeniably, the unspoken part of a business relationship is always the most difficult to grasp. While in western societies and particularly in America managers are used to frank, open, and often hard-hitting discussion with partners, this approach can be destructive in Asia. A manager risks serious problems if he fails to interpret the silence or smiles of counterparts. Managers should be alert to implicit meanings of words and actions at all times. Social behaviour also includes handling disputes. In Asia, the most effective way to seek resolution is by indirect communication with the opposite party through a trusted intermediary. This gives both sides the opportunity to reach a mutually accepted compromise without causing loss of face. Legal discourse is generally not recommended as a means of dispute resolution since, among other reasons, it brings details of the dispute into the public domain and public opinion is most likely to side with the local party.

Global MNCs operating in the Asia Pacific region should be aware of the salient features of the complex and varied business environments of the region. The concrete implications for companies are manifold, but three aspects deserve special attention. Firstly, when elaborating and evaluating strategies, global business managers and strategists should be flexible and adaptive in exercising their judgements on the business conditions and assumptions in the region. Strategic logic which works in the West may not apply in the same way in certain parts of Asia. Secondly, expatriate managers sent to Asia should meet the demands of the Asian business environments and exhibit social and political skills. The ability to build, develop, and maintain a network of personal contacts is important given the importance of relationship-based transactions in Asia. Western managers should refrain from adopting a legalistic and technical approach to their business dealings. Given the widespread government interventions, managers should be able to understand the logic, constraints, and the language of government officials in order to align their business strategies with the industrial policies of the individual countries. Finally, cultural sensitivity is a critical trait for managers supposed to lead, communicate, and negotiate with customers, partners and employees. Subtle social codes cannot be decrypted without humility and respect for cultural heritage. With regard to organisational systems and processes put in place to implement Asian strategies,

some companies resort to regional headquarters in order to lead and co-ordinate their development in the region (Lasserre, 1996). Regional headquarters may play a critical role in collecting, analysing, and consolidating competitive information across the region as well as fostering the visibility of local operations vis-à-vis the central corporate headquarters. A strong internal regional culture supported by intense networking among local subsidiaries is required in order to take advantage of Asian business opportunities as well as to overcome the risks involved.

To conclude, while there are substantial challenges to be mastered and obstacles to be overcome, such action may be highly rewarding. Growth opportunities in Asia are among the biggest and potentially most lucrative anywhere. However, the interplay between the seeds of gain and the weeds of pain means that, while possible profits may be huge, uncertainty is high. As there are so many drivers of change in motion at the same time, Asia remains a 'high-beta', and thus volatile, environment. A very different approach from the one mode of competition in more mature, stable markets, such as the US or Europe, needs to be taken. Deep insight into the underlying drivers of market growth is essential. (Bowers *et al.*, 2003)

Clearly, also financial institutions strive to capitalise on the substantial economic growth Asia is experiencing. Subchapter 2.7 concentrates on the financial services industry and private banking.

2.7 The FSI & PB – Nature, Structure, Evolution & Competition

a) Preface

Also with regard to the financial services industry (FSI), the pace of change and the growing complexity around are breathtaking. The information technology revolution, globalisation, increasing buyer sophistication, and significant demographic changes are driving forces behind these changes. Not astonishingly, implications are far-reaching. They include an exponential growth in information availability and use, new parts of the globe opening up, a rapidly fragmenting demand, a proliferation of sales channels, shortened product, project, and process life cycles, and intensified, often price-based competition. After a prolonged period of internal focus – many banks are emerging from a period dominated by cost-cutting, downsizing or delayering – banks must again concentrate on external issues, and put strategic marketing at the top of their agenda. (Jagersma, 2006: 50)

2008 was one of the most tumultuous times on record in global financial markets. The financial landscape was going through a period of upheaval, with some major firms folding, other operations merging, and a limited number of companies in both Europe and the US being rescued by governments. (BBC News, 2008) Figure 2.20 furnishes some impressive data in this respect.

BANKS AFFECTED BY THE GLOBAL CRISIS - 2008

Giants of the business world, such as Lehman Brothers and Merrill Lynch, have crumbled or been bought out.

Bank	Date	Status	Website
Fannie Mae	07 Sep	Nationalised	Fannie Mae
Freddie Mac	07 Sep	Nationalised	Freddie Mac
Lehman Bros	15 Sep	Collapsed	Lehman Bros
Merrill Lynch	15 Sep	Taken over	Merrill Lynch
AIG	16 Sep	Part-nationalised	AIG
HBOS	17 Sep	Taken over	HBOS
WaMu	25 Sep	Collapsed and sold	WaMu
Fortis	28 Sep	Nationalised	Fortis
Bradford & Bingley	29 Sep	Nationalised	Bradford & Bingley
Wachovia	29 Sep	Taken over	Wachovia
Glitnir	29 Sep	Nationalised	Glitnir
Hypo Real Estate	06 Oct	Rescue package	Hypo Real Estate
RBS	13 Oct	Part-nationalised	RBS
Lloyds TSB	13 Oct	Part-nationalised	Lloyds TSB

Fig. 2.20: Banks Affected by the Global Crisis – 2008 (BBC News, 2008)

According to Nicholson (2008), the UK's biggest banks were to be part-nationalised through a £50 billion rescue package in a bid to restore order to the struggling banking sector (Nicholson, 2008). Also due to globalisation and today's highly interconnected world, this financial crisis did not remain restricted to the USA, but spread over the entire globe. Please note that this Paragraph serves illustrative purposes only. Already in January 2009, an additional huge rescue package was necessary, and there may even be additional ones to come.

However, McKinsey research indicates that, during the next ten years, the growth rate of the global banking industry will exceed that of GDP. Driven by powerful basic trends, such as demographics and the mathematics of wealth accumulation, the industry is

likely to more than double its revenues and profits over the period. The banking industry's patterns of growth will be diverse and uneven. McKinsey research suggests that the growth in banking revenues and profits expected during the next ten years should create USD 12 trillion of new market capitalisation and thus a huge opportunity for players around the world. (Dietz; Reibestein, & Walter, 2008: 19-23)

b) FSI - Overview, Form, Motives, Efficiency, & Systemic Risk

The vital role of banks in the economy encompasses their participation in the payment system, the transmission of monetary policy, and the provision of credit (Spong, 2000). Banking depends entirely on public confidence in the system's soundness; no bank could pay all its depositors should they simultaneously demand cash, as may happen in a panic. (Encyclopaedia Britannica Online (Encyclopaedia Britannica), 2008) Banks are the most important but, obviously, not the only players in the financial services industry. Non-banks include a wide range of institutional investors such as brokerage firms, mutual funds, insurance companies, and hedge funds. (Board of Governors of the Federal Reserve System, 2006)

i) Banks in General & Classes of Banks - Definitions

A bank may be defined as an institution that deals in money and its substitutes, and provides other money-related/financial services. In its role as a financial intermediary, a bank accepts deposits and makes loans. It derives a profit from the difference between the costs (including interest payments to lenders (depositors)) of attracting and servicing deposits and the income it receives through interest charged to borrowers or earned through securities. Many banks provide related services such as financial management and products such as mutual funds and credit cards. Some bank liabilities also serve as money, that is, as generally accepted means of payment and exchange. Obviously, banks also profit from fees charged for services. (Encyclopaedia Britannica Online (Encyclopaedia Britannica), 2008)

The three major classes of banks are commercial banks, investment banks, and central banks. In addition, there are savings banks. These four bank categories may be defined as follows: Firstly, a commercial bank is a bank that makes loans to businesses, consumers, and non-business institutions. Secondly, an investment bank is a firm that originates, underwrites, and distributes new security issues of corporations and government agencies. Thirdly, a central bank is an institution, such as the U.S. Federal Reserve System, charged with regulating the size of a nation's money supply, the availability and

cost of credit, and the foreign exchange value of its currency. In this context, money may be defined as a commodity accepted by general consent as a medium of economic exchange. Lastly, a savings bank is a financial institution that gathers savings and pays interest or dividends to savers. (Encyclopaedia Britannica Online (Britannica Concise Encyclopaedia), 2008)

ii) General Overview

The financial services industry is consolidating around the globe (Berger, Demsetz, & Strahan, 1999: 136). Rapid consolidation among banks in the US and Europe has greatly reduced the number of banks in recent years, and this trend is continuing (Shaffer, 2004: 288). Moreover, the trend of bank consolidation activities continues to grow in the USA and globally. Although consolidation of the US banking industry started during the latter half of the 1970s, it was not until deregulatory measures were instituted in the mid-1990s that we experienced an unprecedented increase in the consolidation of the banking industry within and across state borders. (Francis, Hasan, & Wang, 2008: 1598) Consolidation in the financial services sector has been one of the most important developments during the last couple of years, with important deals such as the acquisitions of JP Morgan, CCF, and Woolwich by Chase Manhattan, HSBC and Barclays. (van der Zande, 2001: 259)

The pace of consolidation will primarily be determined by changes in economic environments that alter the constraints faced by financial services firms. Five such changes may be partially responsible for the recent rapid pace of consolidation - technological progress, improvements in financial condition, excess capacity or financial distress in the industry or market, international consolidation of markets, and deregulation of geographical or product restrictions. The consequences of consolidation also include increased market power or improved firm efficiency. The potential systemic consequences of consolidation include changes in the efficiency of the payments system and changes in the safety and soundness of the financial system. (Berger, Demsetz, & Strahan, 1999: 136)

iii) Consolidation Form & Motives

The financial services industry is undergoing an unprecedented wave of consolidation. The last 15 years have witnessed an unprecedented number of mergers and acquisitions (M&As) in most countries, in mature and innovative sectors alike, from retailing to telecommunications. The main motivations for this unprecedented wave of consolidation in

the financial services sector are common to most countries. Generally speaking, in response to fundamental changes in regulation and technology, financial institutions have attempted both to improve their efficiency and to attract new customers by increasing their geographical reach as well as the range of products they offer. The desire to preserve falling margins by increasing market share and attracting new customers is often fulfilled by way of M&As. They allow financial institutions both to increase their size rapidly and to improve their knowledge of new products and markets. (Amel, Barnes, Panetta, & Salleo, 2004: 2493-2494) In this context, M&As involving investment banks as well as joint ventures and strategic alliances are increasingly common, especially between British and American investment banks and continental European commercial banks that are striving to establish a global presence (Amel, Barnes, Panetta, & Salleo, 2004: 2508). There is a general consensus that consolidation in the financial services sector is beneficial to a certain (relatively small) extent in order to reap economies of scale (Amel, Barnes, Panetta, & Salleo, 2004: 2513).

While bank consolidation may take different forms (Francis, Hasan, & Wang, 2008: 1598), Rhoades (2000) points out that most of the consolidation following deregulation is due to M&As between banks. As banks were no longer protected from competitive pressure, they started to become involved in M&As. On the one hand, consolidated banks may improve their efficiency. Consequently, they may lower their costs of providing credit because of economies of scale or scope gained from synergy effects or optimisation of loan portfolios and risk diversification. On the other hand, acquiring banks may increase their monopoly power in local markets. (Francis, Hasan, & Wang, 2008: 1598-1600) From 1980 to 1998, there were almost 8000 M&As in the US banking industry (Rhoades, 2000). Additionally, the tremendous growth in consolidation of the banking industry has also led to a significant reduction in the importance of small banks in the credit market (Black & Strahan, 2002).

While the main motivation behind consolidation is to maximise shareholder value, nonetheless, motives of other stakeholders, such as governments, are important as well (Berger, Demsetz, & Strahan, 1999: 136). As mentioned above, financial service firms can maximise value in one of two main ways: through consolidation (i.e., by increasing their market power in setting prices) or by increasing their efficiency. Stakeholders other than shareholders may have a direct effect on consolidation decisions. For instance, governments play a direct role in consolidation decisions through restricting the types of M&As permitted and through approving or disapproving decisions with respect to indi-

vidual M&As. Some institutions may attempt to increase the value of their access to the government's financial safety net - including deposit insurance, discount window access and payments system guarantees - through consolidation. (Berger, Demsetz, & Strahan, 1999: 144-147) In this context, international comparisons over a century show how changes in the structure and strength of safety net guarantees may affect financial institution risk-taking, and by extension, the motive to consolidate to increase the value of access to the safety net (Saunders & Wilson, 1999).

Regulators may also act to spur consolidation in periods of financial crisis. In the USA, restrictions on banks' ability to expand geographically were relaxed in the 1980s and early 1990s. The US evidence suggests that consolidation accelerated as a result of deregulation. Despite the geographic and limited bank powers deregulation, the remaining regulations will likely continue to restrain consolidation activity. Europe has been undergoing deregulation as well. (Berger, Demsetz, & Strahan, 1999: 150-151) Indeed, the important role of banking in the economy, combined with the growing presence of concentrated banking markets, renders competition among banks a crucial and timely policy issue (Shaffer, S., 2004: 308).

Technological progress may have increased scale economies in producing financial services, creating opportunities to improve efficiency and increase value through consolidation. New tools of financial engineering, such as derivative contracts, off-balance-sheet guarantees, and risk management, may be more efficiently produced by larger institutions. (Berger, Demsetz, & Strahan, 1999: 148) As the above-mentioned financial crisis demonstrates, highly complex, sophisticated financial engineering tools may carry substantial risks associated with their diminished transparency and a possible lack of the required very advanced asset valuation and risk evaluation tools.

There are additional facts motivating consolidation activities. Consolidation may also be an efficient way to eliminate excess capacity that has arisen in the consolidating firms' industry or local market. Consolidation may similarly be an efficient way of resolving problems of financial distress. Institutions that are troubled because of excess capacity in their industry or markets, their own inefficiency, or underperforming investments are often taken over as an efficient alternative to bankruptcy or other means of exit. The consolidation of financial services firms across national borders may also derive in part from the international consolidation of markets. (Berger, Demsetz, & Strahan, 1999: 149-150)

iv) Consolidation & the Efficiency of Firms

Consolidation may increase or decrease efficiency in a number of different ways. M&As may allow institutions to achieve a scale, scope, or mix of output that is more profitable. Consolidation also may be a means to change organisational focus or managerial behaviour to improve X-efficiency, which is defined as the distance from the optimal point on the best-practice efficient frontier. In general terms, there are scale, scope, and product mix efficiencies as well as X-efficiencies. A broad definition of efficiency gains may also include improvements in the institutions' risk-expected return trade-offs. Such gains may be particularly important in financial institution M&As, which often offer the possibility of diversification gains through investing across regions, industries, etc. and/or through entering other industries. Notably, efficiency gains are made by changing input or output quantities in ways that reduce costs, increase revenues, and/or reduce risks to increase value for a given set of prices. Conversely, in market power gains, value is created by institutions changing prices to their advantage. (Berger, Demsetz, & Strahan, 1999: 157)

Consolidation appears to increase profit efficiency, and to assist in diversifying the portfolio risks of the participants on average. Furthermore, it may have improved the local real economies in which these consolidations occurred. There may also be systemic consequences of consolidation. Consolidation may improve the efficiency of the payments system by reducing the amount of payment information and instruments that require to be processed and transferred between financial institutions and by allowing faster adoption of electronic payments technologies. Consolidation may also impose costs on the financial system by increasing systemic risk or by expanding the financial safety net, although these costs may be offset to some extent by diversification of risks by individual institutions and by economies in monitoring and controlling the risks of a smaller number of institutions. Some of these concerns may also be partially alleviated by new approaches to the operating and supervisory structures of financial institutions. (Berger, Demsetz, & Strahan, 1999: 179)

v) Systemic Risk in Financial Systems

A prime example of systemic risk would be the collapse of the bank giant UBS for the Swiss economy. Systemic risk is defined here as the risk that credit or liquidity problems of one or more financial market participants creates substantial credit or liquidity problems for participants elsewhere in the financial system. The contagion effects can be transferred through the financial system in a number of ways, including failures to

settle in the payments system, panic runs following revelation of an institution's problems because of a lack of transparency, or falling prices, liquidity problems, or markets failing to clear when large volumes of securities are offered for sale simultaneously. Consolidation may also affect systemic risk in part because it increases the sizes of the institutions. The systemic consequences of the failures of larger players may be more severe, spreading problems to more counterparties. Consolidation may also impose costs on the financial system by expanding the financial safety net. The safety net may provide additional protection to institutions considered 'too big to fail' which may be created by consolidation. (Berger, Demsetz, & Strahan, 1999: 174-175)

c) Private Banking

i) Introduction

Private banking (PB) has traditionally been a sweet spot in financial services (i.e., a fast-growth, high-return, and relatively low-risk business) (de Oliveira & D'Silva, 2005: 11). Universal banks that have ridden out the financial crisis into a position of new strength, such as BNP Paribas and Royal Bank of Canada, see private banking as a key driver of future growth (Avery, 2010). The global private banking industry is highly lucrative, judging by the sheer size of the pool of funds, which Hartung (2008) estimates to be US\$5 trillion (Hartung, 2008: 28). In this context, undoubtedly, Asia is a highly attractive region for private banking because of its rapid growth (Ang, 2010: 68). Private banking may be defined as a business area in which high net worth and/or high-income private individuals are offered tailor-made financial advisory, investment, and management services on a comprehensive, long term basis (Foehn & Bamert, 2002). In this context, private banking has been a Swiss competence for over 300 years (Geiger & Hürzeler, 2003: 94). In its '2002 Financial System Stability Assessment', the International Monetary Fund, IMF, noted the following additional factors as comparative advantages of Switzerland for private banking: professionalism, reliability, and client confidentiality.

Furthermore, Einzig (1931) determines seven factors as prerequisites for a financial centre: (1) ample capital available for investment abroad, (2) an adequate banking organisation, (3) freedom of financial markets, (4) customers willing to invest in foreign securities, (5) a stable currency, (6) a good money market, and (7) a good foreign exchange market. Switzerland has fulfilled these requirements for many decades. (Einzig, 1931)

Figure 2.21 shows the six underlying forces that influence the Swiss banking sector. Fig. 2.22 points to the value chain in private banking.

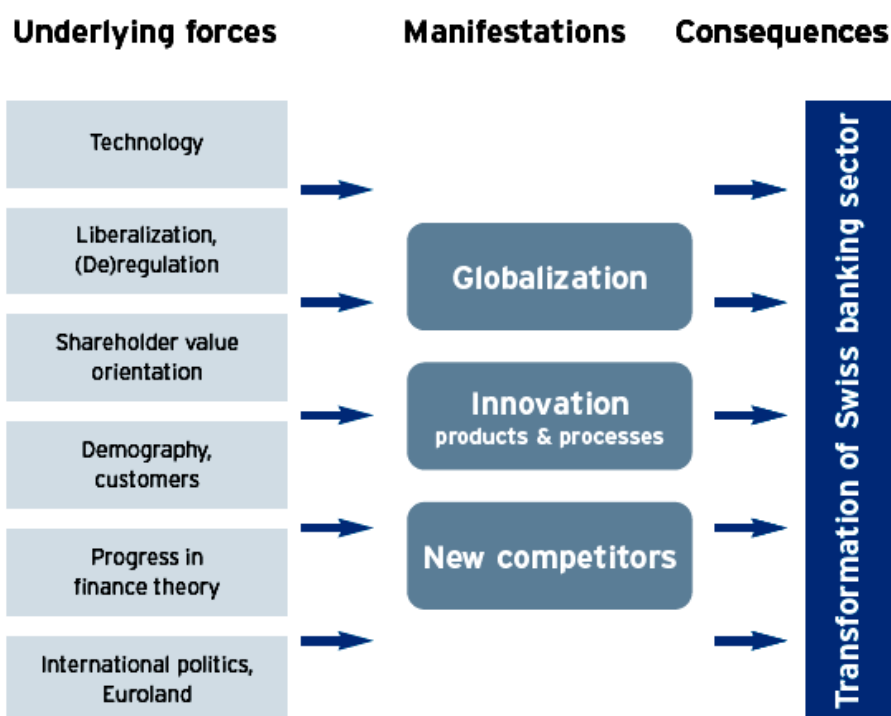


Fig. 2.21: The Forces of Change in Swiss PB (Geiger & Hürzeler, 2003: 96)

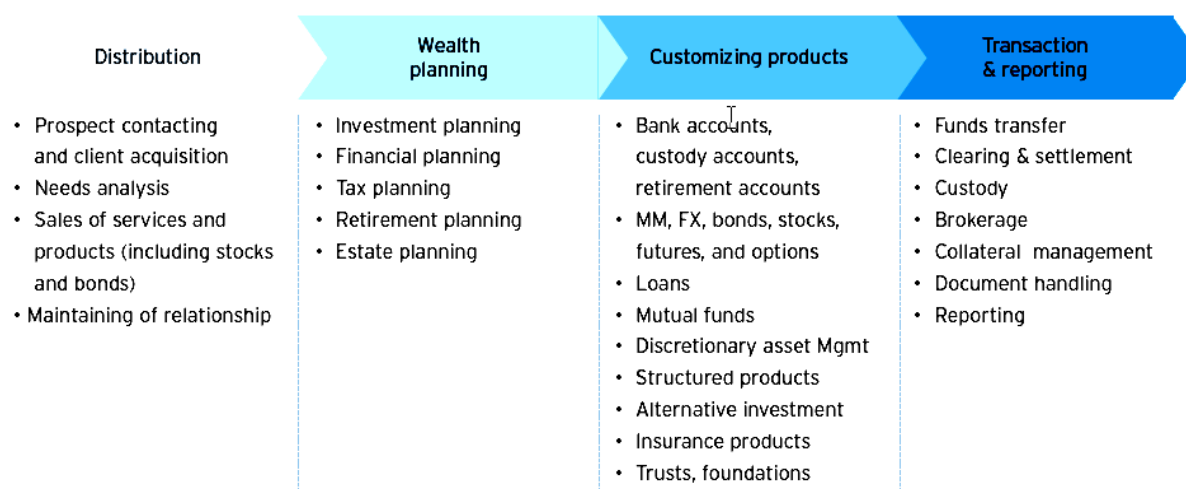


Fig. 2.22: The Value Chain in Private Banking (Geiger & Hürzeler, 2003: 98)

ii) Major General Subtleties of the Private Banking Industry

This Section is particularly important to the application of the theoretical models developed in Chapters 3 to 6 to the private banking business. It provides empirical examples of major constructs such as resources, (dynamic) capabilities, and (S)CA applied in these models.

Critically, private banking clients' choices of banks are highly influenced by trust, service quality, and timeliness of service (Abratt & Russell, 1999). Private Banking is a

highly personalised industry, and clients expect services and solutions that are tailored to their needs (Ang, 2010: 74-75). Thus, human capital in general and optimally nurturing and cultivating client relationships specifically is paramount in the private banking business. In this context, trust is the biggest asset that a financial centre for private banking has to offer. Trust must be earned by the setting-up of reputation time and time again with a great deal of patience. For instance, Switzerland has enjoyed a very high degree of trust among its private clients. It will need to do its utmost to excel at this discipline in today's radically transformed new world of banking as well. (Geiger & Hürzeler, 2003: 95) Furthermore, intellectual capital, an important 'component' of human capital, represents a stock of knowledge that exists in an organisation or the wealth of ideas and ability to innovate that will determine the future of the organisation (Bontis, 2002a). Managing this stock of knowledge in the firm is the domain of knowledge management (Choo & Bontis, 2002).

In addition, while delivering a first-class, personalised service, the hallmark of private banking, will continue to be paramount to this market, it is no longer enough for banks eager to maintain a competitive edge or (S)CA(s). Importantly, advanced technology does not undermine the importance of relationships but helps private bankers to better serve their existing private banking clients and target new ones. New technologies need to be embraced, brand names established and cultivated, and client needs require creative responses. (Bank Investment Consultant, 2000: 72-73)

Lastly, on May 18, 2004, the author conducted an interview with Dr. Jäger, corporate development director at Wegelin & Co., St.Gallen, Switzerland, founded in 1741. According to him, major ingredients of success in private banking include, firstly, establishing a sound level of trust also implying integrity, continuity, and a professional and systematic risk management; secondly, professional, client-oriented, sustainable advisory services, established, sound methods of investing, and individually tailored, innovative first-class investment solutions; and, thirdly, client confidentiality.

d) Overview: The Financial Services Cylinder & Visualising Strategies for FS

The overall financial services industry may be depicted as a cylinder, as shown in Figure 2.23. The cylinder's cross-section or perimeter-circle can be divided into basic services: investing, as in mutual funds, and savings accounts; lending, as in mortgages, bonds, and commercial loans; protecting, as in insurance, reinsurance, and safety deposit boxes; transacting, as in checking, stock brokerage, and underwriting; and, informing, as in tax

planning and advising on mergers and acquisitions. The radius of the circle represents the size of the customer. It ranges from the smallest retail consumers at the outer edge, through the wealthy retail and smaller wholesale customers near the middle to the major corporate customers with the largest volume of transactions in the centre. Finally, the cylinder's lateral dimension shows the geographical scope of relevant markets (i.e., from local to regional, national, multinational and global). (Gonzalez & Mintzberg, 1992: 125)

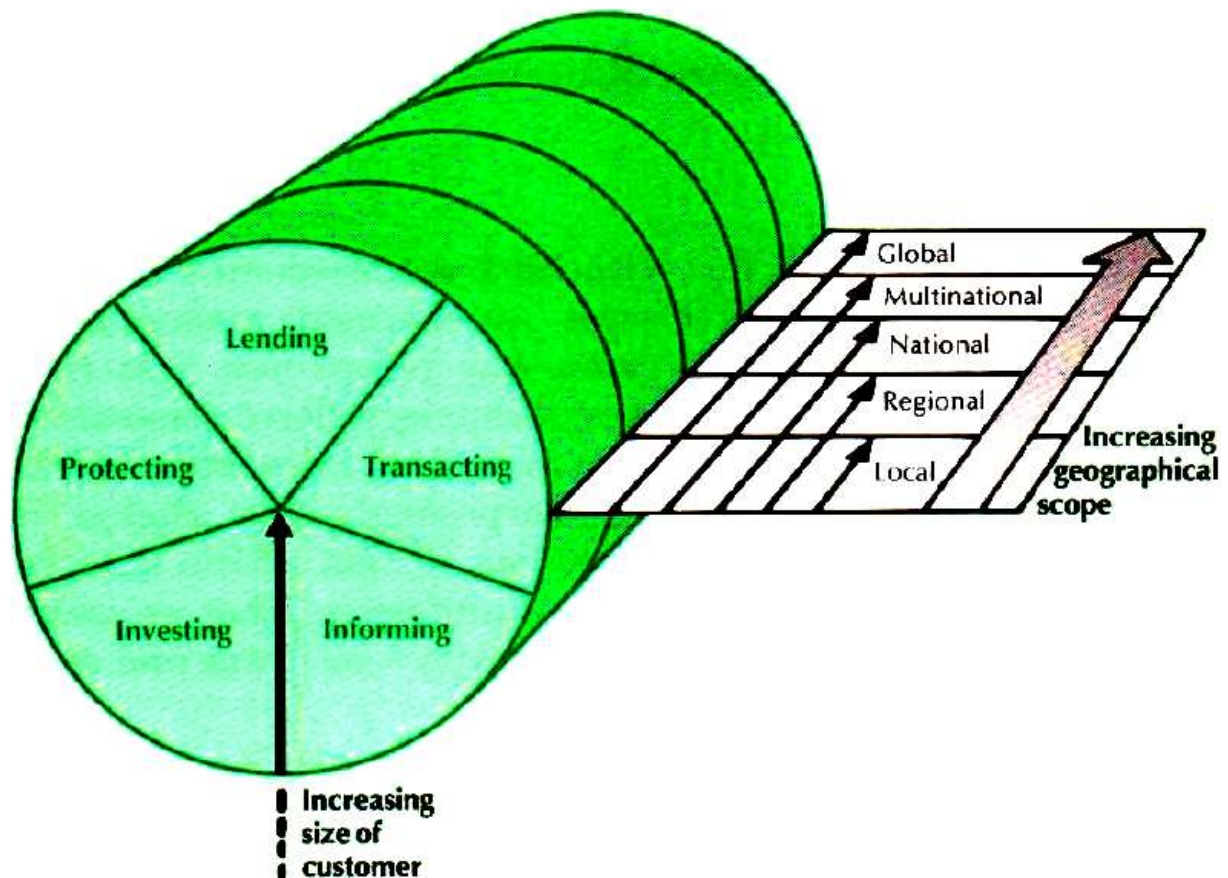


Fig. 2.23: The Financial Services Cylinder (Gonzalez & Mintzberg, 1992: 125)

Next, a general survey of global strategic expansion options also applying to PB is presented.

2.8 Survey of Global Strategic Expansion Options in General & in GPB

To recapitulate, there are four generic growth strategy types for firms (see Figure 2.24) (i.e., organic growth, mergers and acquisitions (M&As), strategic alliances and networks) (Campbell, Stonehouse, & Houston, 2004: 210-230). Next, I will briefly sketch the basics of these four growth options. Thus, the following chapters will furnish much more in-depth information on these options within the firm's growth strategy arsenal.

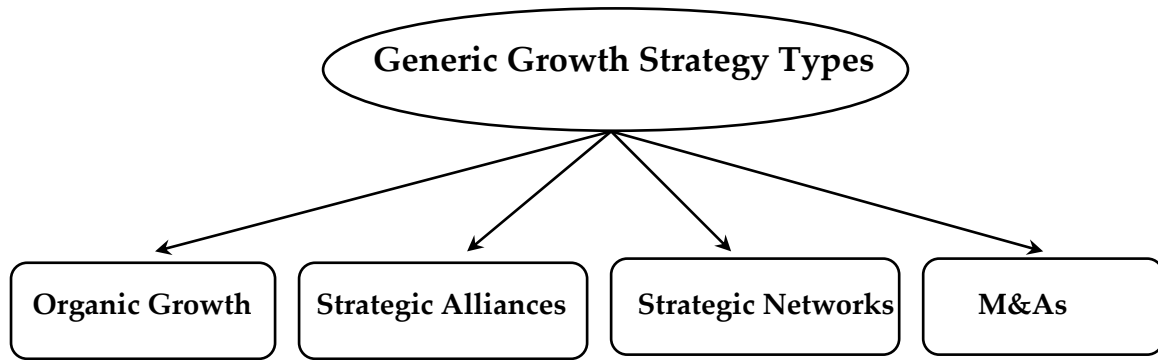


Fig. 2.24: The Four Generic Growth Strategy Types (Campbell *et al.*, 2004: 210-230)

a) Organic Growth

There is consensus that financial markets reward corporate growth. However, while financial markets receive organic growth with great favour, non-organic is far less favoured, if at all. (Dalton & Dalton, 2006: 5)

Internal growth (organic growth) represents the means by which a business can grow using its own resources (Butler & Butler, 1997). A company's organic, internal or core growth refers to growing out from the core of the business in ways that build on established strengths (Jackson, 2007: 40). Examples also include client acquisition and retention, including client penetration (see 'task-oriented approach' in Subchapter 2.5). (Dalton & Dalton, 2006: 5)

b) Strategic Alliances

Generally speaking, companies co-operate to profit from the synergies they can generate by combining resources and capabilities (Dyer, Kale, & Singh, 2004: 111-112). Strategic alliances are collaborative organisational arrangements that use resources and governance structures from more than one existing organisation. They feature three important characteristics: Firstly, the two or more firms partnering remain independent. (Inkpen, 2001: 409) Secondly, alliances are characterised by ongoing mutual interdependence in which one party is vulnerable to the other (Parkhe, 1993). Mutual interdependence leads to shared control, risks, returns and management, which often contributes to the complexity of alliance management, and often creates significant administrative and co-ordination costs (Inkpen, 2001: 409). Additionally, alliance partners may risk a loss of proprietary information. (Barringer & Harrison, 2000: 369). In general terms, companies may constantly feel tempted to seize short term advantages at the partner's expense. Yet, difficulties inherent in alliances are by no means insurmountable if appropriate

management methods are adopted. (Dussauge & Garrette, 1999: 206) Thirdly, because the partners remain independent, there is uncertainty as to what one party expects the other party to do (Powell, 1996). Specific features of alliances include multiple decision-making centres, constant bargaining and clash of interests and objectives. However, the instability of alliances is not a drawback in itself as alliances allow for a certain degree of reversibility in strategic choices. (Dussauge & Garrette, 1999: 2-10) On the basis of the previous definition, a broad range of organisational forms may be classified as alliances, including equity joint ventures, licensing arrangements, shared product development projects, minority equity relationships, and shared purchasing and manufacturing. Excluded from the alliance definition are market-based transactions as well as M&As. (Inkpen, 2001: 409-410) This thesis adopts this comprehensive definition of strategic alliances.

However, next, there are further, well-known, concise definitions that are consistent with the more elaborate one presented above and supplement well the first definition. Alliances are inter-firm co-operative arrangements aimed at achieving the strategic objectives of the partners (Das & Teng, 1998). In alliances, the partner companies collaborate in pursuit of concurrent strategic collaborative objectives without losing their strategic autonomy and without abandoning their own specific interests (Child & Faulkner, 1998).

However, partner firms may have very different reasons to collaborate and pursue radically different strategic goals through the alliance (Dussauge & Garrette, 1999: 206). Strategic alliances offer compelling strategic benefits: They are an expedient way to gain access to new markets, to gain skills, technology or products, and to share fixed costs and resources (Bleeke & Ernst, 1991: 127). Alliances involve two or more independent partners exchanging or sharing knowledge or other resources and co-ordinating their activities. Activity co-ordination requires differences among the participating firms in terms of structure, culture, and planning be bridged. This demands specific skills and knowledge absorption on the part of the partner firms involved in the alliance. (Draulans, deMan, & Volberda, 2003: 153) Importantly, in this dissertation, alliances are defined as involving two partnering companies whereas strategic networks consist of three or more partners.

Figure 2.25 shows a graphic representation of a strategic alliance.

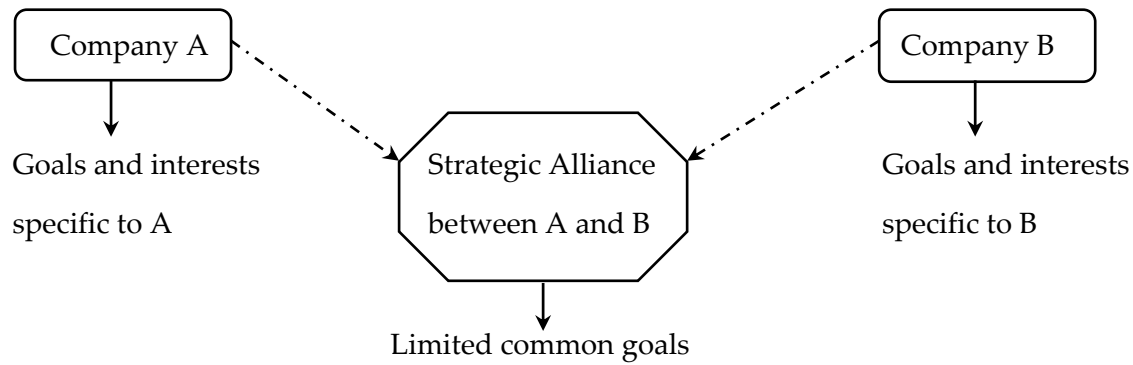


Fig. 2.25: Representation of a Strategic Alliance (Dussauge & Garrette, 1999: 3)

c) Strategic Networks

Networks are closely related to alliances. Such networks of firms could include both horizontally and vertically connected firms. (Gulati, 1998: 305) Networks are hub and wheel configurations with a focal organisation at the 'hub' organising the interdependencies of a complex array of firms (e.g., Dunning, 1988a; Jarillo, 1988). Networks are constellations of firms that each focus on their distinctive competency in an integrated effort to produce a product, service, or new technology (Barringer & Harrison, 2000: 388). The hub firm typically relies on some type of core skill such as manufacturing (e.g., Toyota), design (e.g., Nike), or design/assembly (e.g., Dell Computer) (Snow, Miles, & Coleman, 1992). While strategic alliances and networks represent looser forms of collaboration, mergers and acquisitions (M&As) clearly belong to the much tighter and more costly forms of partnership. Lastly, Figure 2.26 shows a graphic representation of a strategic network.

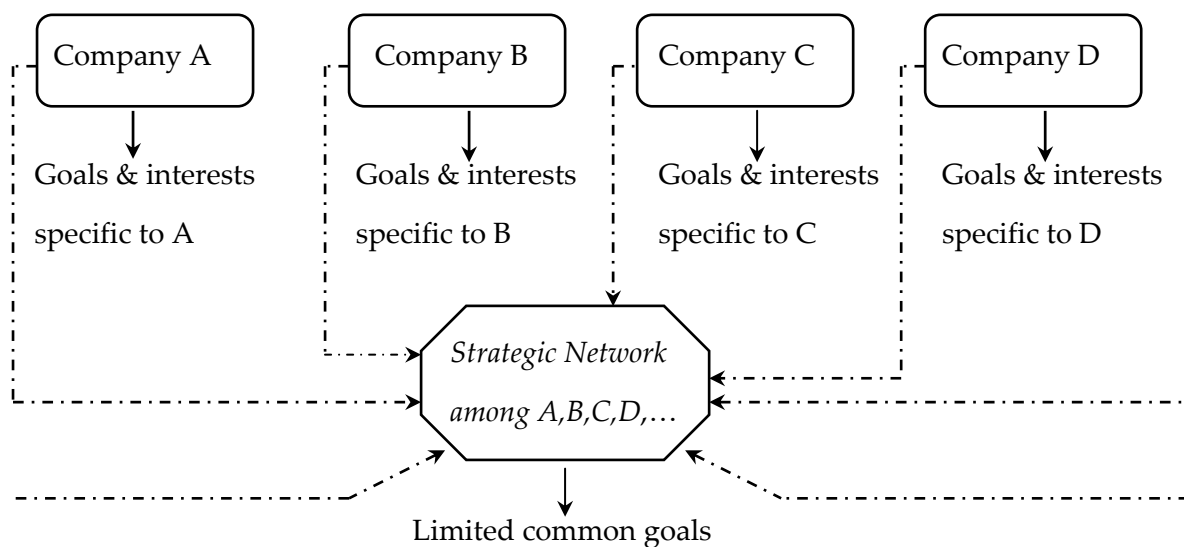


Fig. 2.26: Representation of a Strategic Network (based on Dussauge & Garrette, 1999: 3)

d) Mergers & Acquisitions (M&As)

M&As remain a high-risk strategy (Hitt, Ireland, & Harrison, 2001: 385). Regardless of the potential pitfalls, though, they represent a popular and commonly used strategy (Barfield, 1998: 24-25). One obvious management problem concerns integrating two large, complex firms that often have diverse cultures, structures, and operating systems (Haspeslagh & Jemison, 1991).

Merging or acquired companies relinquish their independence and give birth to a new entity pursuing a single, coherent set of goals (see Figure 2.27). Technically, a merger occurs any time companies combine to form one legal entity. However, the term 'merger' has come to be understood as a transaction between two firms that agree to integrate their operations on a relatively coequal basis. The resulting firm has a new identity and name that is different from either of the pre-merger firms. However, this transaction type is rare. Acquisitions represent a form of merger in which one firm buys a controlling interest (up to 100 percent) in another firm, thereby making the acquired businesses a part of its own portfolio. (Hitt, Ireland, & Hoskisson, 2001)

Notably, M&As are also undertaken so the combined firm produces synergy and (sustained) competitive advantage. Competitive benefits through the use of complementary resources are gained when synergy has been created. (Hitt, Ireland, & Harrison, 2001: 391-394) Synergy exists when the combined firm creates more value than the summed value created by the companies when they acted as independent entities (Goold & Campbell, 1998). The term 'synergy' may also be defined as the net benefit accruing to firms through acquisition (Finkelstein, 1986). Typically, synergy yields gains to the acquiring firm through two sources: firstly, improved operating efficiency, based on economies of scale or scope; and, secondly, the sharing of one or more skills (Harrison, Hitt, Hoskisson, & Ireland, 1991: 173-190). In this context, effective integration of the acquiring firm with its target is one of the keys to creating intended levels of synergy (Hitt, Ireland, & Harrison, 2001: 394). Figure 2.27 shows a graphic representation of a merger.

The last subchapter of Chapter 2 concentrates on the two main theoretical perspectives this dissertation takes (i.e., the resource- and the dynamic capability-based perspective). They provide essential additional insights into the RBV and the DCV.

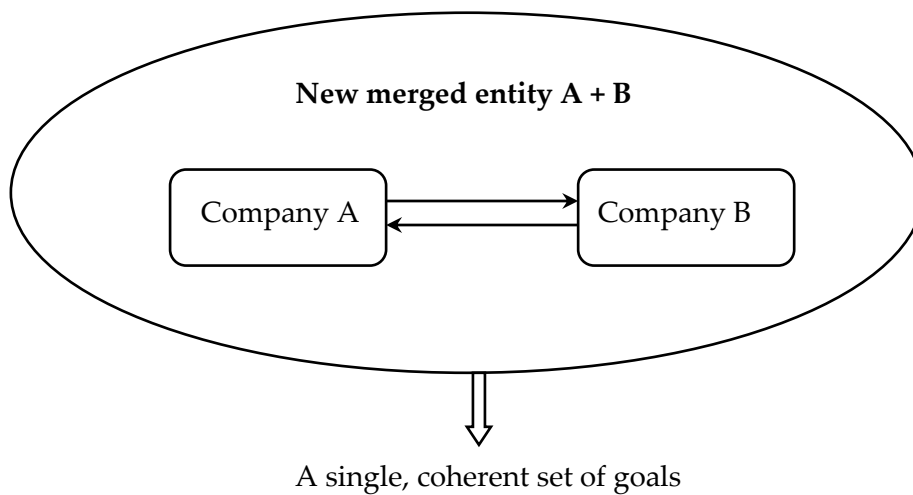


Fig. 2.27: Representation of a Merger (Dussauge & Garrette, 1999: 3)

2.9 Resource- & Dynamic Capability-Based Literature Synthesis

A theory of the firm must address two central questions: firstly, why firms exist (i.e., their central purpose); and, secondly, what determines their scale and scope (Holmstrom & Tirole, 1989: 65).

a) Resource-Based Literature Synthesis

i) Preliminaries

The resource-based view of the firm (RBV) unites prominent research in organisational, management, and leadership science such as Ansoff (1965), Andrews (1971), Penrose (1959), and Selznick (1957) (Wolf, 2008: 594). Major 'theories' of (sustained) competitive advantage ((S)CA) are rooted in the resource-based view of the firm (e.g., Barney, 1991; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984). Fundamentally, from a RBV, a firm equals a bundle of productive resources (Penrose, 1959), that is, the tangible and intangible assets a firm uses to choose and implement its strategies (Barney, 2001a: 54).

According to the RBV, a firm's ability to attain and keep profitable market positions depends on its ability to gain and defend advantageous positions in underlying resources important to production and distribution (Conner, 1991: 121-122). Resources and products are two sides of the same coin. By specifying a resource profile for a firm, it is possible to find the optimal product-market activities. (Wernerfelt, 1984: 171)

The RBV may be applied to strategic management questions such as, firstly, resource-based 'theories' of the firm; secondly, resource-based 'theories' of interfirm co-operation; thirdly, resource-based 'theories' of innovation; and, fourthly, knowledge-based theories of competitive advantage (Barney, 2001a). At least portions of Barney's 1991 argument have been applied in non-strategic management disciplines such as marketing, human resources management, and management information systems (Barney, 2001a).

ii) Overview

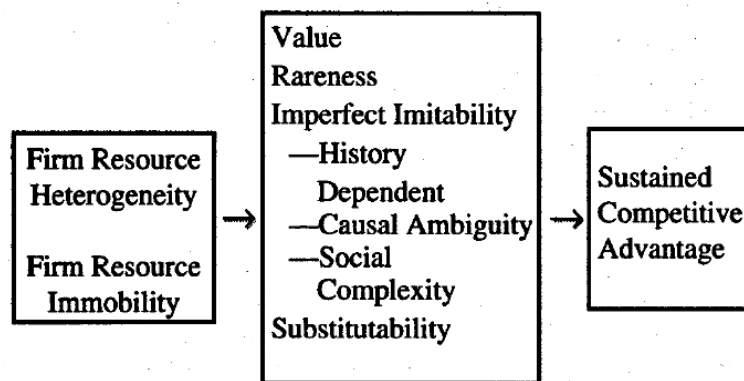


Fig. 2.28: Resources as Sources of SCA (Barney, 1991: 112)

Clearly, a study of (S)CA depends on the resource endowments controlled by a firm. The framework depicted in Figure 2.28 suggests the kinds of empirical questions that need to be addressed in order to understand whether or not a particular firm resource is a possible source of sustained competitive advantage: Is a resource valuable, rare, inimitable/imperfectly imitable and non-substitutable? (Barney, 1991; see also Subchapter 2.4)

In addition, Peteraf (1993) elucidates the underlying economics of the RBV of sustained competitive advantage. Existing perspectives may be integrated into a parsimonious model of resources and firm performance. Superior resources may become a basis for competitive advantage if they are appropriately matched to environmental opportunities. (Peteraf, 1993: 179) Figure 2.29, a general model of resources and firm performance, integrates at once the various strands of research and provides a common ground from which further work may proceed. Four conditions underlie sustained competitive advantage all of which must be met simultaneously: firstly, superior resources (heterogeneity within an industry); secondly, ex ante limits to competition; thirdly, ex post limits to competition; and, fourthly, imperfect resource mobility. These four factors or conditions are related to each other. Heterogeneity, which underlies imperfect mobility, represents

the *sine qua non* condition of competition. Additionally, for most part, ex post limits to competition imply heterogeneity. As regards ex ante limits to competition, profits come from ex ante uncertainty. Quasi-rents are not offset by opportunity costs of assets in terms of the value of the resource to its second-highest valuing potential user. Without imperfections in strategic factor markets, only normal returns are achievable. Ex post limits to competition lead to sustained rents, that is, rents are prevented from being competed away. Imperfect resource mobility ensures both that rents are sustained within the firm and that rents are shared. (Peteraf, 1993: 179-191)

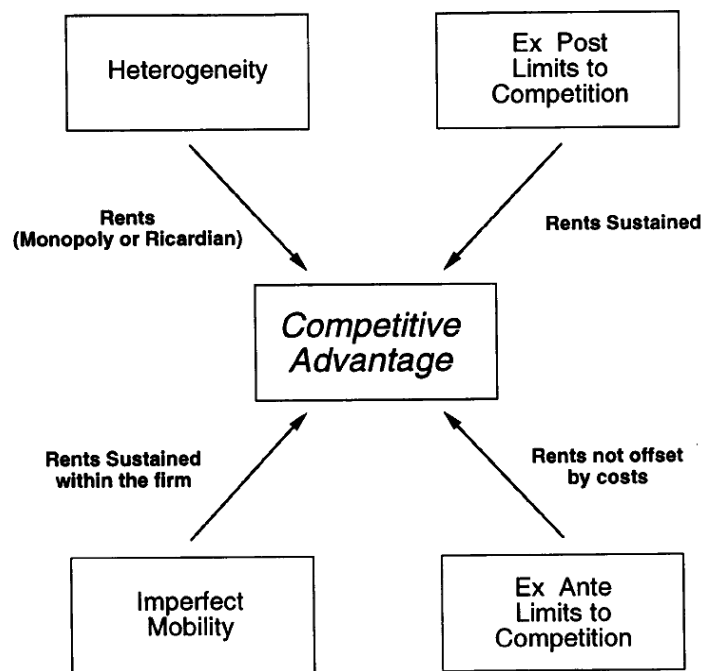


Fig. 2.29: Cornerstones of Competitive Advantage (Peteraf, 1993: 186)

iii) Crafting & Executing Strategies Leading to (Sustained) Competitive Advantages

Superior information on strategy implementation may lead to competitive advantages. Companies differ in their expectations with regard to the future value of strategies. (Barney, 1986a, 1991). Importantly, all sources of advantage in strategy implementation ultimately boil down to either having special insights into the future value of strategies or a manifestation of a firm's good fortune or luck (Barney, 1986a: 1231-1232). Firms may obtain special insights into the future value of strategies by screening their competitive environment(s) for threats and opportunities and by analysing their unique skills/capabilities. However, while environmental analysis alone cannot create the required unique insights, in some circumstances the analysis of a firm's unique skills and capabilities can (Barney, 1986a: 1231-1240).

iv) Strategising & the Significance of Entrepreneurial Ability & Creativity

Moreover, choosing a strategy consistent with the resources a firm controls may require entrepreneurial ability and creativity (Barney, 2001a: 53). Schumpeter (1936) states that the entrepreneur's function is to combine productive factors, to bring them together. Mises (1949) defines entrepreneurship as an action that successfully directs the flow of resources towards the fulfilment of customer needs (Mises, 1949). Entrepreneurial ability may be defined as the capacity to identify, instantiate, and bring to market new combinations of existing asset bundles or to develop new asset configurations (Godfrey, 1997: 22). Creativity is the ability to identify and instantiate new combinations among existing assets (Hayek, 1945; Schumpeter, 1936). Creativity entails both seeing new combinations and bringing them into existence; both are necessary if creativity is to have business and economic impact (Schumpeter, 1936). Thus, both creativity and entrepreneurial ability may play a role in the generation of superior knowledge in strategy implementation. In a resource-based view, discerning appropriate inputs is ultimately a matter of entrepreneurial vision and intuition; the creative act underlying such vision is a subject that so far has not been a central focus of resource-based theory development (Conner, 1991: 133-134).

v) Competitive Advantage, Asset Stocks, & Asset Flows

According to Dierickx & Cool (1989), which complements Barney (1991) well, competitive advantages must be found in the rare, imperfectly imitable, and non-substitutable resources already controlled by the firm. Strategic assets are the cumulative result of adhering to a set of consistent policies over a period of time. Thus, strategic asset stocks are accumulated by choosing appropriate time paths of flows over a period of time rather than acquired in strategic factor markets. While flows may be adjusted instantaneously, stocks cannot. It takes a consistent pattern of resource flows to accumulate a desired change in asset stocks. Critical strategic asset stocks are non-tradable, non-imitable and non-substitutable. Importantly, a firm's current strategy involves choosing optimal time paths of flows, whereas its competitive position and hence its potential profitability is determined by the level of its stocks. In this context, the imitability of an asset stock is related to the characteristics of the process by which it was or might be accumulated. The following general characteristics may be identified: firstly, time compression diseconomies and the law of diminishing returns, that is, the longer a factor is applied, the greater the benefits (e.g., accumulation of knowledge in a one-year study and a four-year study respectively); secondly, asset mass efficiencies, that is, adding increments to an existing asset stock is easier if a company already possesses high levels

of the stock in question; thirdly, interconnectedness of asset stocks; fourthly, causal ambiguity; and, fifthly, asset erosion, that is, all asset stocks decay if they are not adequately maintained (e.g., by means of R&D). (Dierickx & Cool, 1989: 1504-1510)

b) Dynamic Capability-Based Literature Synthesis

i) Introduction

The dynamic capability-based view of the firm (DCV) may be seen as an extension of the RBV (e.g., Amit & Zott, 2001). This approach emphasises the exploitation of existing internal and external firm-specific competencies to address changing environments (Conner, 1991). In short, dynamic capabilities (DCs) are best conceptualised as tools that manipulate resource configurations. They represent concrete processes to integrate, reconfigure, gain, and release resources. (Eisenhardt & Martin, 2000: 1107)

ii) Dynamic Capabilities & (Sustained) Competitive Advantage

Effective patterns of dynamic capabilities vary with market dynamism (see Figure 2.30). However, of course, the depicted relationships may not be linear:

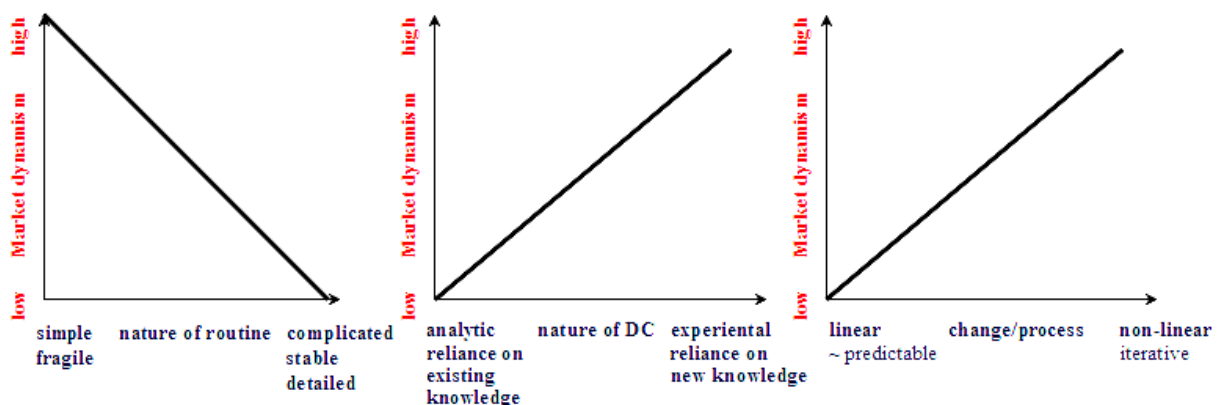


Fig. 2.30: DCs & Market Dynamism (Eisenhardt & Martin, 2000: 1105-1121)

iii) The Genesis & Evolution of Dynamic Capabilities

Deliberate investments in organisational learning may facilitate the creation and modification of dynamic capabilities for the management of acquisitions or alliances for instance. In this context, Zollo & Winter's (2002) theoretical model (see Figure 2.31) suggests the following: Firstly, learning mechanisms shape operating routines both directly and via dynamic capabilities. If they are systematic, they may be termed 'second-order' dynamic capabilities. At any point in time, firms adopt a mix of learning mechanisms. Secondly, operating routines refer to organisational activity geared towards the operational functioning of the firm. Operating routines are stable patterns of behaviour that

characterise organisational reactions to variegated, internal and external stimuli. Thirdly, dynamic capabilities represent learned and stable patterns of collective activity through which the organisation systematically generates and modifies its operating routines in pursuit of improved effectiveness. Dynamic capabilities co-evolve with three learning mechanisms. For instance, the ability to plan and effectively execute PMI-processes is a dynamic capability. (Zollo & Winter, 2002: 339 -351)

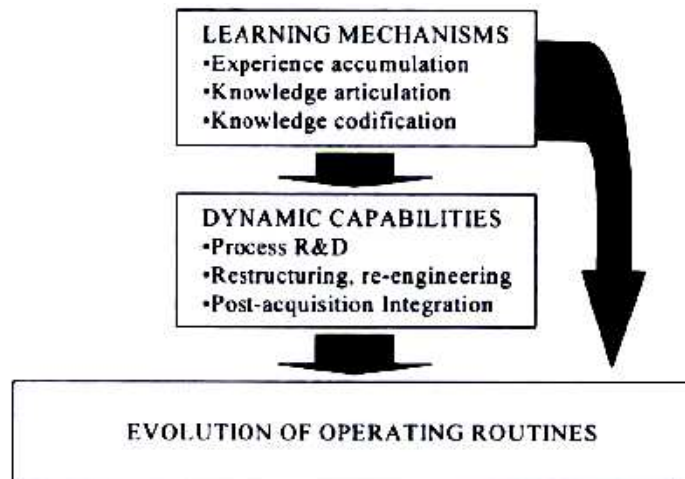


Fig. 2.31: Learning, DCs, & Operating Routines (Zollo & Winter, 2002: 340)

iv) Organisational Learning Mechanisms, Market Dynamism, & DCs

Pure experience accumulation often appears to be insufficient. Knowledge articulation may produce an enhanced understanding of the new and changing action-performance links and thus facilitate adaptive adjustments or fundamental change of existing routines. Knowledge codification, which may take the form of drawing up manuals or guidelines for instance, enhances understanding and facilitates the diffusion of existing knowledge (e.g., Nonaka, 1994) and the coordination and implementation of complex activities. Knowledge codification is essential as a supporting mechanism for the entire knowledge evolution phase rather than just the transfer phase! The downsides of knowledge codification include an increase of organisational inertia in terms of formalisation/structuring of task execution. DCs are supposed to emerge from the co-evolution of the three learning mechanisms. Lastly, successful maintenance of a skill or routine typically requires frequent exercise. (Winter, 2003)

In this context, four guiding principles may be suggested from a learning perspective: Firstly, codification should aim to develop and transfer know-how and know-why; secondly, the timing of codification efforts is important (risk of too early generalisations);

thirdly, codification guidance - codification as an instrument of continuing learning - has to be tested by adherence; and, fourthly, supporting structures should be established, that is, departures from the guidance have to be assessed in light of the longer-term interest in capability building. (Zollo & Winter, 2002: 349)

Importantly, learning mechanisms depend on market dynamism. In a relatively static environment, a single learning episode may suffice to endow a firm with adequate operating routines which may even manifest themselves as a source of competitive advantage! Incremental improvements may be accomplished via tacit accumulation of experience and sporadic acts of creativity. In such situations, communities of practice are more effective and cheaper than cognitive alternatives. However, in high-velocity environments characterised by technological, regulatory, and competitive conditions that are subject to rapid change, there is a need for systematic change efforts to track environmental change, and, thus, DCs are called for. (Zollo & Winter, 2002: 341) Moreover, in distinct high-velocity environments, change is rapid, unpredictable, and variable in direction. Dynamic capabilities and even the high-order learning approaches need repeated updating to prevent core capabilities from turning into core rigidities (Leonard-Barton, 1992, Zollo & Winter, 2002: 341)! Knowledge codification is advantageous in high-velocity environments (Brown & Eisenhardt, 1997).

v) The Knowledge Evolution Cycle

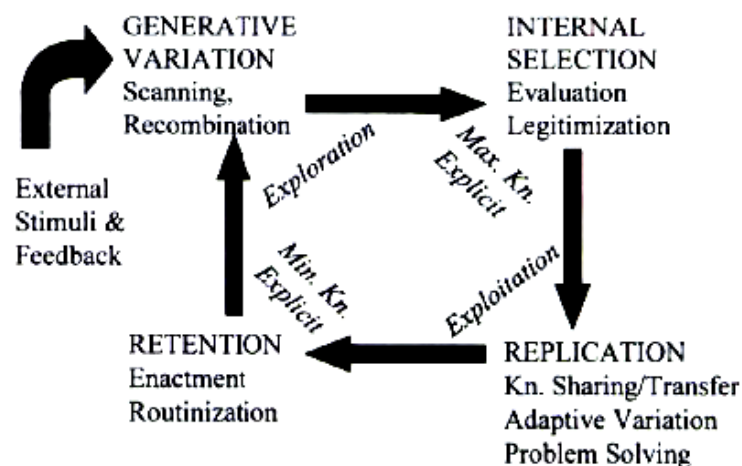


Fig. 2.32: Knowledge Evolution Cycle (Zollo & Winter, 2002: 343)

In Zollo & Winter's (2002) knowledge evolution cycle (see Figure 2.32), organisational knowledge is described as evolving through a series of stages chained in a recursive cycle. There is a trade-off and possibly a recursive and co-evolutionary relationship be-

tween exploration and exploitation activities. Exploration activities are about generative variation, that is, generating the necessary range of new intuitions and ideas. Experience gathered in closely related but different situations is particularly effective in sharpening dynamic capabilities. However, exploitation may prime exploration. Firms learn systematic ways to shape their routines by adopting an opportune mix of behavioural and cognitive processes, that is, by learning how to articulate and codify knowledge (cognitive processes) while simultaneously facilitating the accumulation and absorption of experiential wisdom. Selection mechanisms to decide on which experience should be generalised from the extensive situation-specific knowledge that occurs (Eisenhardt & Martin, 2000) provide the feedback on the value and viability of the organisation's current behaviour. Most appropriate ideas are selected by means of thorough evaluation and legitimisation processes, replicated and retained. Zollo & Winter (2002) also propose that the three learning mechanisms co-evolve, that is, they interact and mutually adjust one another. (Zollo & Winter, 2002: 343-351)

vi) The Capability Life-Cycle (CLC)

If not explicitly stated otherwise this Section rests on Helfat & Peteraf (2003: 997-1010). Both resources and capabilities may evolve and change over time in important ways. The concept of the capability life-cycle articulates general patterns and paths in the evolution of organisational capabilities over time, that is, the emergence, development, and progression of capabilities such as operational and dynamic capabilities. How well a capability is maintained depends on how frequently and how consistently it is exercised.

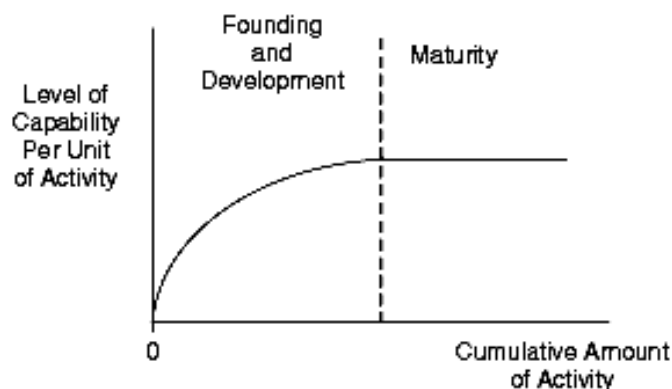


Fig. 2.33: Capability Life-Cycle (Helfat & Peteraf, 2003: 1003)

The CLC (see Figure 2.33) describes recognisable stages such as growth, maturity, and decline and thus helps to explain the sources of heterogeneity in organisational capabili-

ties. This concept provides insights into the evolutionary trajectories of dynamic capabilities (Helfat, 1994). The founding stage lays the basis for the subsequent development of the capability. Next, the development stage is marked by gradual building of the capability. Eventually, capability building ceases and the capability reaches the maturity stage. Capability evolution represents a strongly path-dependent process.

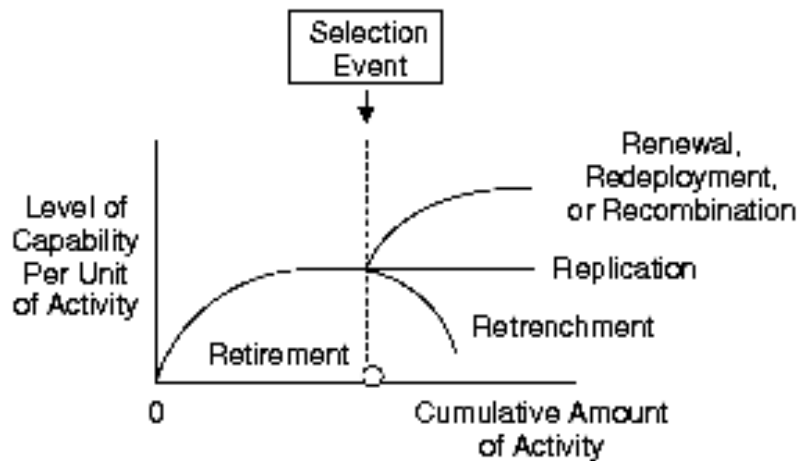


Figure 2.34: Branching of Original Capabilities (Helfat & Peteraf, 2003: 1005)

Importantly, selection events may affect the evolutionary path of capabilities. Some of them lead to branching. Figure 2.34 schematically depicts an original capability that branches into several altered forms after or before reaching the maturity stage. These at least six additional stages of the capability life-cycle include retirement (death), retrenchment, renewal, redeployment and recombination. Over time, these six branching stages may follow one another in a variety of possible patterns, and some of them may take place simultaneously. In each branch of the CLC, historical antecedents in the form of capability evolution prior to branching influence the subsequent evolution of the capability.

Importantly, branches of the CLC reflect the impact of two sorts of selection effects, that is, those that threaten to make a capability obsolete and those that provide new opportunities for capability growth or change. PMI may aid capability branching. Replication may proceed by acquisition, in which the acquirer replicates its capability within the acquired company. Acquiring companies frequently redeploy and recombine their capabilities with those of the target firms as well (Capron & Mitchell, 1998). A well developed PMI capability may smooth the replication, redeployment, and recombination processes (Zollo, 1998).

2.10 Strategy-Implementation Literature Synthesis

i) General Introduction

The key reasons why so many firms fail to attain their initial objectives occur predominantly during implementation rather than decision-making (Nutt, 1999). Strategy implementation may be defined as a series of interventions designed to align organisational action with strategic intent. It is associated with large-scale formal change. Implementing deliberate strategy involves, firstly, controlling with respect to top management goals; secondly, intervening in the organisation's existing operations; and, thirdly, continuously realigning key operating activities with strategy, creating new systems and structures. In essence, it is about redeploying organisational capabilities. (Floyd & Wooldridge, 1996: 96-107) Strategy implementation is much more concerned with targeting, controlling, and prioritising than deliberating, information gathering, meetings and negotiations which, while they more prominently occur during decision-making, they also do so during implementation (Hickson, Miller, & Wilson, 2003). Strategy often evolves incrementally in response to internal and external pressures (Quinn, 1981). These evolutionary, incremental processes must be actively managed to create underlying bases for consensus (Rapert, Velliquette, & Garretson, 2002: 303).

Strategy process research has yielded a wide range of implementation approaches. In general terms, successful implementation management requires: firstly, having experienced planning staff; secondly, giving the implementation priority; thirdly, ensuring that those affected are aware of what is being done; fourthly, clarity of direction; fifthly, resourcing; sixthly, specifying action; and, seventhly communicating. (Bryson & Bromiley, 1993; Pinto & Slevin, 1987)

ii) Measuring Implementation Success & Promising Implementation Approaches

Hickson, Miller, & Wilson (2003) define achievement/implementation success as the extent to which the performance over time of what was done was as intended or better. According to Nutt (1998), implementation success means the extent to which a strategic decision is adopted, its value, and installation time. As regards timing, implementation activities can occur at any point in a strategic decision (Nutt, 1998: 220). For managers, success is bound up with use (Beyer & Trice, 1982).

Value is ideally defined in terms of objective returns of a decision (Nutt, 1998). However, it is rarely possible to isolate the specific financial impact of a decision. It is not

possible to trace the precise pay-off from a decision to reorganise or to merge with another organisation for instance. (Hickson, Miller, & Wilson, 2003: 1811) Alternatively, managers' subjective estimates of value, which strongly correlate with objective measures according to Alexander (1986), may serve for assessing value. For instance, PMI is a multifaceted process that requires simultaneous efforts in numerous areas. When assessing merger success, it is paramount to verify whether strategy and vision were well-conceived, respective goals have been achieved, and the merger's conception has proven to be superior to alternative options. Additionally, the economic context has to be disaggregated from the results of the merger to determine which changes are in fact attributable to the merger. (Epstein, 2004: 186-187)

Hickson, Miller, & Wilson (2003) found that there is a parsimonious set of eight independent variables determining implementation success: firstly, familiarity, the extent to which relevant experience is available, appears to facilitate assessing, specifying and resourcing; secondly, assessability, the extent to which the targets can be clearly and operationally assessed or identified; thirdly, specificity, the extent to which steps and tasks can be specified beforehand; fourthly, resourcing, the extent to which resourcing with appropriate personnel, finance, and time is guaranteed; fifthly, acceptability, the extent to which acceptance of the envisioned implementation amongst those involved is warranted; sixthly, receptivity, the extent to which a receptive context for implementation exists at the outset or a facilitative climate in which proposed action aligns with or, at least, does not run counter to the prevailing dominant logic (Bettis & Prahalad, 1995); seventhly, structural facilitation, the extent to which the allocation of responsibilities and roles is appropriate to accomplish set targets; and, eighthly, priority, the extent to which this strategy implementation is put ahead of other commitments. Additionally, both familiarity and receptivity can arise from conditions either inside or external to the organisation. Conducive conditions enable action. (Hickson, Miller, & Wilson, 2003: 1809- 1810)

The next paragraph is dedicated to some major strategy implementation approaches.

iii) Major Strategy Implementation Approaches

Capitalising on regression and correlation analysis, Hickson, Miller, & Wilson (2003) found that there are basically three promising implementation approaches: firstly, a readiness-based approach or prioritised option (climate receptive, experience relatively lacking); secondly, an experience-based approach or planned option which is especially grounded in the firm's past experience or familiarity; and, thirdly, a dual approach com-

prising both the experience- and readiness-based approach. Management may be disposed to one, the other or both, by the pertinent experience it has or can buy in or by organisational readiness for action. Regression analysis suggests that using both approaches, that is, both keeping control by assessing, specifying and resourcing (experience-based approach) and being prepared for action by appropriate structure and prioritising (readiness-based approach), is virtually certain to succeed. Implementations neglecting both approaches are much less likely to pay off. (Hickson, Miller, & Wilson, 2003: 1803-1834)

Contingency approaches assume that some implementation approaches may prove more effective than others depending on the situation at hand. Situational/contextual parameters include resistance by stakeholders, decision scale and disruptiveness, and the position power of the manager in charge of implementing. However, the relative importance of contextual factors compared to implementation approaches in determining success still remains to be explored. Possibly, implementation approach and situational factors act together ('method-situation' interaction effect). Some pairings lead to success, others to failure. (Beyer & Trice, 1982; Nutt, 1998). Furthermore, researchers recommend applying contingency thinking in which the needs of the situation are used to identify the amount of power required for success (Nutt, 1998: 216). The consequences of unnecessarily using power include a resulting overkill that squanders social credit, relationships may unravel, and the capacity to implement changes in the future may be undermined. However, urgency and opportunity may call for rapid and forceful action. (Nutt, 1989, 1998)

According to Nutt's (1998) study, intervention appears to be the generally preferred approach regardless of whether a decision brings few or many new practices and whether stakeholders are supportive or wary. The mechanics of intervention, the most successful and least frequently used approach, is to create a need for change in the minds of key people by renorming the system(s) that need(s) to be changed. Renorming (e.g., applying a new norm to market share or profit performance) demonstrates that current performance levels are inadequate. Plausible causes of the performance deficiencies are identified and suggestions for practice improvements advanced. The second most promising and very rarely applied approach is (cooptative) participation. It relies on the insight that people tend to react more favourably and to be more committed if they participate in respective decision-making processes. The implementing manager stipulates needs (e.g., consolidating operations after a merger) and delegates action taking to a task force whose members he had carefully selected beforehand, making sure people with

important points of view, vested interests, and knowledge would be represented. With regard to this approach, involvement has proven to be more important than role. Combining participation and intervention may be possible and even lead to superior results. Nutt (1998) also found that the approach to implementation is far more important in producing success than wary stakeholders or a high number of new practices applied. Resistance may be engendered by the show of power (edict) or extensive justification (persuasion). Generally speaking, high power approaches (e.g., edicts) are risky but necessary if short-fuse decisions with high stakes in which the decision maker has clear jurisdiction are to be taken. Low power cooptative approaches (e.g., participation) may be mandated if decision makers lack jurisdiction and information and when stakeholders exhibit resistance to the changes envisioned. (Nutt, 1998: 213-240)

iv) Communication, Strategic Decision Consensus & Commitment

It is often assumed that a firm's corporate strategy is clearly mandated, accurately understood, and immediately accepted by organisational members (e.g., Mintzberg & Waters, 1985). However, strategies consist of ongoing, ephemeral decisions that may be interpreted in a diverse set of ways (Rapert, Velliquette, & Garretson, 2002: 301). Strategic decisions are often formulated in the upper echelons of the firm and then administratively imposed on organisational members with little consideration of the resulting functional level perceptions (e.g., Nutt, 1987). Ultimately, a lack of shared understanding creates barriers to successful strategy implementation (e.g., Nobel, 1999). Research suggests that frequent interaction/communication linkages lead to shared intraorganisational perceptions, values, beliefs, as well as higher levels of performance (e.g., Johnson, 1992).

The key task of top management is to consistently and accurately communicate the strategic priority of the organisation to functional-level members for implementation (Rapert, Velliquette, & Garretson, 2002: 301). In practice, the communication process often breaks down resulting in a lack of alignment between the top executive's view of the strategy and the views of other organisational members (Hambrick, 1981). Vertical communication impacts positively on strategic consensus, which in turn enhances both functional performance (e.g., marketing performance) and organisational performance. There is a positive flow of benefits beginning with the influence of vertical communication on the awareness of strategic priorities and both an enhanced functional performance (e.g., marketing performance) and organisational performance. (Rapert, Velliquette, & Garretson, 2002: 301-310)

In addition, strategic decision consensus and commitment are paramount in strategy implementation. The concept 'strategic consensus' specifically refers to the shared understanding among members of an organisation about strategic priorities (Bowman & Ambrosini, 1997). Consensus is critical in resolving differences, promoting a unified direction for the firm, increasing strategic commitment, and enhancing successful implementation of a given strategy (Dess & Priem, 1995). Some researchers propose that consensus is directly related to higher performance (e.g., Woolridge & Floyd, 1989, 1990). Consensus has been designated as a critical variable in understanding effective strategic management and firm performance (e.g., Noble, 1999). Researchers distinguish between the process of building agreement and the effects of consensus as an outcome (Dess & Origer, 1987). Furthermore, according to Dooley, Fryxell, & Judge (2000) strategic consensus positively impacts on strategic decision commitment which in turn enhances strategic decision implementation success. However issues related to consensus, commitment, and implementation success may play out differently in different contexts. Findings may not be generalisable to a more typical business context. (Rapert, Velliquette, & Garretson, 2002: 301-310)

v) Organisational Energy

Unleashing organisational energy is critical to mastering change processes well. It constitutes the force, vitality, and stamina with which a company works. It is the extent to which a company has mobilised its emotional, cognitive, and behavioural potentials in the pursuit of its objectives. It manifests itself as the proportion of temperament, intensity, pace, and the endurance with which a company works, changes and innovates. (Bruch & Ghoshal, 2004)

vi) Management & HR Information Systems

via) Introduction

If not explicitly stated otherwise, this Section is based on Simons (1991: 49-62). Management control systems represent devices viewed typically as tools of strategy implementation. They may also be used as catalysts for new strategic initiatives (see Subchapters 3.3.3 and 4.3.2). Formal control systems inform top managers if actions or outcomes are (not) in accordance with intended plans. In addition, they are usually described as information feedback systems (e.g., Green & Welsh, 1988). These systems include formalised information-based processes for planning, budgeting, cost control, environmental scanning, competitor analysis, performance evaluation, resource allocation, and employee rewards.

Firstly, diagnostic management control systems are primarily used as tools for management by exception. In addition, traditional diagnostic control systems are used to implement past and present strategies as well as to gather information on whether actions are in accordance with plans. Secondly, interactive management control systems are used by top managers in different strategic settings to personally and regularly involve themselves in subordinates' decisions. Interactive control systems guide the informal strategy-making process by forcing personal involvement, intimacy with the issues and commitment (Mintzberg, 1987a). However, these are two extremes of a continuum of top management attention.

vib) Focusing Organisational Attention

Top managers focus on systems that produce and monitor information on the strategic uncertainties that are associated with their visions of the future. Importantly, by using selected control systems interactively and others diagnostically, top managers can signal where organisational attention and learning should be focused. This systematic focusing allows top managers to guide the emergence of action plans and new strategic initiatives. Thus, by using control systems interactively, top managers can guide organisational learning and thereby unobtrusively influence the process of strategy-making throughout the organisation (see Figure 2.35). If a business finds itself in transition or undergoes revolutionary change, multiple control systems are used interactively. Interactive control systems are a powerful tool in guiding and energising the competitive evolution of the firm.

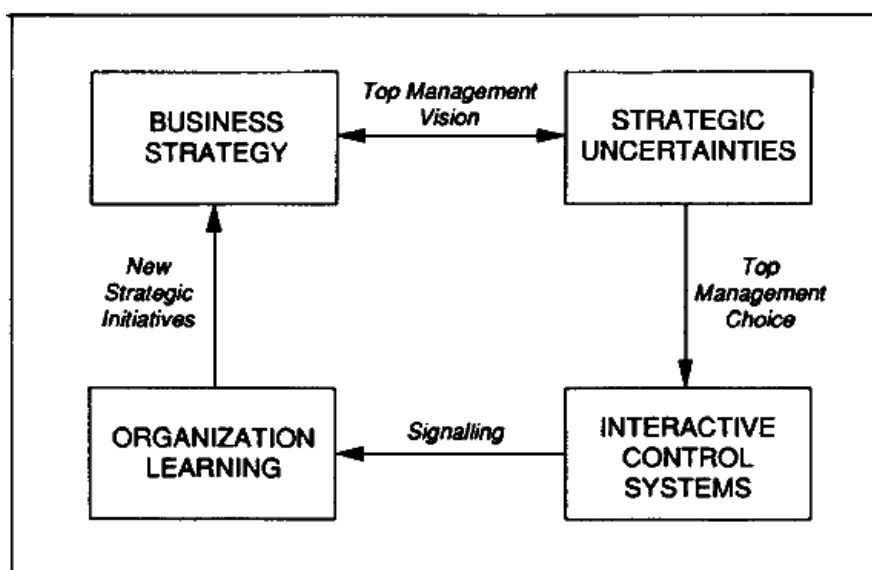


Fig. 2.35: Process Model: Business Strategy & Management Control Systems (Simons, 1991)

As regards HR information systems, advocates of the behavioural perspective posit that different strategies require different behaviours and, therefore, different human resource management practices to elicit and reinforce those behaviours (Snell, 1992: 292). This statement reinforces the delicacy of strategy implementation.

vii) Market Orientation & Strategy Implementation

There are ideal market orientations and strategy profiles that correspond to distinctive competitive contexts, that is, a firm that aligns its behaviours and actions to its environment will perform better! A change in market orientation most likely facilitates a change in strategy deployments. Changes in market orientation are correlated with changes in strategy. The choice of which capabilities/behaviours to nurture and which investment commitments to make must be guided by a shared understanding of the environmental context, the competitive positioning thought, and the firm's ability to support and sustain change. Market orientation represents a core competence for context enactment. (Dobni & Luffman, 2003: 577-585)

In what follows, the theoretical chapters mentioned above will be presented. While Chapter 3 is about optimal headquarter-subsidary relations and entry mode choices from a resource-based perspective, Chapters 4 to 6 are dedicated to expansion pathways from both a resource- and a dynamic capability-based viewpoint. While Chapter 7 discusses assumptions, limitations, and boundaries of the RBV, the DCV, ROT, ET, and the strategy process substream of strategy implementation research, Chapter 8 traces a future research agenda. Lastly, conclusions will be drawn and an outlook given.

Chapter 3

From Market-Driven Internationalisation to Globalisation

3 From Market-Driven Internationalisation to Globalisation

3.1 Abstract

International markets represent opportunities to further leverage assets and capabilities which have exhausted the home market (Tallman, 2001: 475). Internationalisation tends to positively affect performance and to create value for company owners (Geringer, Tallman, & Olsen, 2000; Hitt, Hoskisson, & Kim, 1997). Furthermore, it is positively related to a firm's innovative capacity (Hitt, Hoskisson, & Kim, 1997). Undoubtedly, optimal headquarter-subsidiary relations and entry mode choices contribute to the creation of long term value (e.g., Barney, 1997; Bartlett & Ghoshal, 1998; Birkinshaw & Morrison, 1995; Combs & Ketchen, 1999; O'Donnell, 2000) by a company, that is, a heterogeneous, unique resource bundle (Penrose, 1959).

Possessing resources is not enough to create an advantage; firms also need to be organised to take full advantage of their resources in order to attain (sustained) competitive advantages. Foreign market entry mode choice represents the organisational structure through which resource-based advantages are exploited in an international context. (Barney, 1997) Importantly, however, strategies are not equally successful across environmental contexts (Kent, 1991). Entry types include market-seeking (exploitation) as well as technology- or asset-seeking (exploration) entries (Brouthers, Brouthers, & Werner, 2008a: 956). According to Barney (1997) and others, firms choose organisational structures in terms of modes of entry that align with their resource-based advantages so as to achieve superior subsidiary performance (e.g., Barney, 1997; Combs & Ketchen, 1999). International entry strategies include independent, shared, and integrated modes of entry (Buckley & Casson, 1998a: 547). The four major modes of entry may be classified as wholly owned subsidiaries, equity joint ventures, contractual agreements and export (Pan & Tse, 2000: 536). With respect to international markets, a firm is expected to choose the entry mode that offers the highest risk-adjusted return on investment (Agarwal & Ramaswami, 1992: 3). Companies trade various levels of control for reduction of resource commitment in the hope of reducing some forms of risk while increasing their returns (Anderson & Gatignon, 1986). However, exclusive reliance on a single mode such as internal development, strategic alliances and networks, or acquisitions may restrict performance (Busija, O'Neill, & Zeithaml, 1997).

With regard to headquarter-subsidiary relations, international management research has witnessed a shift away from a dyadic, hierarchical view of the MNC headquarters

and its subsidiaries toward a perspective in which the MNC is viewed as a web of diverse, differentiated inter- and intra-firm relationships (O'Donnell, 2000: 526). However, both the heterarchy model (Hedlund, 1986) and the Chandler-Williamson hierarchy model (Chandler, 1962; Williamson, 1975) have their merits and may thus contribute to a thorough understanding of headquarter-subsidiary relations. Furthermore, in general terms, the existence of mutually supportive elements of environment, strategy, and structure should lead, ceteris paribus, to a superior subsidiary performance (Birkinshaw & Morrison, 1995: 747). Clearly, the multinational organisation as a whole can benefit handsomely from transferring within the firm resources and competencies that were originally developed at different international locations (O'Donnell, 2000: 526). Effectively managing subsidiaries so their capabilities and resources are utilised to the benefit of the MNC as a whole is paramount if long term value is to be created.

Most importantly, on the one hand, Subchapter 3.4 provides a resource-based theoretical model illuminating analytical pathways geared towards facilitating the identification of optimal entry mode choices. On the other hand, the theoretical model depicted in Subchapter 3.5 analyses major drivers of optimal headquarter-subsidiary relations from a resource-based perspective. This rather comprehensive model aims to assist managers in forging optimal headquarter-subsidiary relations that add the most value to their firms. Both generally valid models are applied to the private banking business.

3.2 General Introduction, Overview, & Research Motivation

Firstly, Subchapter 3.2 presents a general introduction and overview; secondly, it identifies and motivates research questions to be tackled in Subchapters 3.4 and 3.5; and, thirdly, it shows how this Chapter as a whole aims to ameliorate the understanding of management of the issues at hand. Subchapter 3.3 provides a sound literature review and synthesis of research on market-driven internationalisation/globalisation in general and foreign market entry mode choice as well as headquarter-subsidiary-relations more specifically. Chapter 2 is paramount for grasping the mechanics of the rather comprehensive, compounded theoretical models depicted in Subchapters 3.4 and 3.5.

a) Preliminaries

Internationalisation has become a primary driver of the competitive landscape in the twenty-first century (Hitt & Ireland, 2000), and the rate of globalisation continues to increase (O'Donnell, 2000). Internationalisation tends to positively impact on firm per-

formance and value creation (Geringer, Tallman, & Olsen, 2000; Hitt, Hoskisson, & Kim, 1997). Entry into new international markets allows the firm to learn, and the development and diffusion of this knowledge creates dynamic capabilities and competencies (Lei, Hitt, & Bettis, 1996; Luo, 2000; Teece, Pisano, & Shuen, 1997).

The past decade has been characterised by dramatic shifts in the way businesses are organised and how they compete (O'Donnell, 2000: 525). MNCs are becoming increasingly global in the configuration and co-ordination of their value-adding activities (Porter, 1986), and subsidiaries are likewise recognising the interdependence of their activities with those of the global network (Birkinshaw, 1997: 211). Nowadays, most MNC subsidiaries have a multitude of linkages with other corporate entities in the home country and worldwide (Ghoshal & Bartlett, 1990). Furthermore, there is a shift in MNCs towards a geographical concentration of value activities (Porter, 1986). Please refer to Subchapter 2.1.2 with regard to MNCs in general and, more specifically, the fundamental dimensions of organisational design such as centralisation/decentralisation (Egelhoff, 1988:129) and challenges/pressures MNCs see themselves confronted with.

However, it is becoming nearly axiomatic that 'going global' can have serious repercussions on corporate accomplishments (e.g., Geringer, Beamish, & da Costa, 1988; Hitt, Hoskisson, & Ireland, 1991; Morrison & Roth, 1992a; 1992b). Doing business in foreign countries is deemed to be substantially more risky than remaining in the domestic market (Ghoshal, 1987; Vernon, 1985). In this context, each country's specific institutional environment is composed of a formal regulatory dimension, which includes governmental or political actions often referred to as country risk, legal regulations as well as an informal dimension, its social norms (Scott, 1995; North, 1990). Countries differ in their asset endowments and advantages for two sets of related reasons: firstly, externalities shared by all firms that emerge from variation in factor prices such as labour costs and differences in institutional environments as well as linkages between various societal and economic institutions (Freeman, 1987); and, secondly, the historical accumulation of capabilities at the firm level (Nelson & Winter, 1982), which, in turn, may not be independent of location (Kogut, 1991b).

While the increasing globalisation of markets heightens the complexity of doing business, it also enhances entrepreneurial opportunities (Ireland, Hitt, Camp, & Sexton, 2001). Nowadays, entrepreneurial activity is being promoted throughout the world, a trend which is also due to the liberalisation of markets (Hitt, Ireland, Camp, & Sexton,

2001). Enhanced entrepreneurship leads to greater national prosperity and competitiveness (Zahra, 1999). International entrepreneurship may be defined as innovative, proactive, and risk-seeking behaviour that crosses national borders and is intended to create value in organisations (McDougall & Oviatt, 2000). Additionally, managers from multiple countries largely perceive entrepreneurial activity in similar ways (Song, Benedetto, & Yuzhen, 1999). Next, three schools of thought in internationalisation will be discussed.

b) Internationalisation - Three Schools of Thought

i) Introductory Remarks

The extent of interaction between host and home countries reflects the level of learning firms have acquired (Johanson & Vahlne, 1977; 1990). Generally speaking, the closer and more similar host and home countries are, the easier it is for firms from the home country to go through the acculturation process and learn how to compete effectively in the host country (Barkema, Bell, & Pennings, 1996; Kogut & Singh, 1988).

ii) Three Schools of Thought in Internationalisation

The first school of thought, that is, process views of international expansion, such as the Scandinavian School (e.g., Johanson & Vahlne (1977)) and the product cycle approach (Vernon, 1979), relate the level of international experience to foreign market entry behaviour (Anand & Delios, 1997: 581). Firstly, Scandinavian stages-models of entry suggest a sequential pattern of entry into successive foreign markets, coupled with a progressive deepening of commitment to each market, that is, a gradually increased involvement in foreign markets (Buckley & Casson, 1998a: 541). Firms move sequentially from no international involvement to exporting, to an overseas sales subsidiary and, ultimately, to overseas production. A firm's initial foreign involvement encompasses markets that are culturally and geographically proximate. (Anand & Delios, 1997: 581) Essentially, firms learn new capabilities from each of the new markets they enter and diffuse this knowledge throughout the organisation so that it can be successfully used in other markets (Barkema & Vermeulen, 1998). Secondly, Vernon's product cycle hypothesis (Vernon, 1966) suggests that firms go through an exporting phase before switching, firstly, to market-seeking FDI; and, secondly, to cost-orientated FDI (Buckley & Casson, 1998a: 541). In short, the first school of thought is the conceptual basis for modelling entry modes as a continuum of increasing levels of resource commitment, risk exposure, control, and profit potential from export to wholly owned subsidiaries (Chu & Anderson, 1992).

The second school of thought takes a transaction cost perspective (Anderson & Gatignon, 1986; Beamish & Banks, 1987; Caves, 1982; Erramilli & Rao, 1993; Williamson, 1986). Companies will internalise those activities that they can perform at a lower cost, but will subcontract those activities externally if other providers have a cost advantage. Obviously, subcontracting a part of a company's operations to another company incurs transaction costs such as costs of concluding contracts, monitoring, controlling and inspecting both performance and product quality, establishing networks of suppliers, managing industrial relations, and so forth. (Pan & Tse, 2000: 537)

The third school of thought underscores the importance of location-specific factors (Hill, Hwang, & Kim, 1990). Dunning's (1988b) eclectic paradigm of international production rests on ownership-specific, location-specific, and internalisation factors and integrates various strands of international business theories. Dunning (1988b) emphasises that location-specific factors are becoming more significant in their effects on a firm's international operations. Dunning (1988b) argues that these factors have an increasing impact on the non-production related costs, that is, the transaction costs, which are rising faster than production costs in today's global competition. (Pan & Tse, 2000: 537)

All three aforementioned schools of thought contribute to a comprehensive picture of internationalisation. The following section discusses international business and global companies.

c) International Business & Globally Operating Companies

International business is the study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organisations (Rugman & Collinson, 2009). In the international management literature, a globally operating company has been conceptualised as one in which competitive actions in one country location affect those taken in another (Porter, 1980; 1986). Thus, the global organisation links its competitive position across its various country locations (O'Donnell, 2000: 530). Sources of competitive advantage for the multinational may include international scale and scope economies (Kogut, 1985) as well as advantages that result from operating in a specific country location (Porter, 1990). In general terms, multinationals exist because of their ability to transfer and exploit knowledge more efficiently within and throughout the corporation than can be accomplished through external market mechanisms (e.g., Hymer, 1960). Efficient resource flows between organisational units are an important element in the integration necessary to develop and sustain international competitive

advantage (Kobrin, 1991; Prahalad & Doz, 1987). Research suggests that foreign subsidiaries are critical to sustaining the MNC's international competitiveness in that they represent important sources of strategic resources (Birkinshaw, 1996; Gupta & Govindarajan, 1991; Hedlund, 1986; Roth & Morrison, 1992). These resources need to be tapped into and transferred across the firm. In this context it is important to bear in mind that subsidiaries are exposed to different cultural, political, technological, societal, and legal environments in which they encounter different markets, competitors, and management practices. (O'Donnell, 2000: 530)

d) International Interdependence, Co-ordination, & Leveraging Competencies

International interdependence has become an increasingly important tool with which MNCs can exploit their multinationality to achieve and maintain a competitive advantage in the global marketplace. International interdependence, that is, headquarters-subsidiary interdependence and inter-subsidiary interdependence, refers to the condition in which one subsidiary or subunit of the MNC relies on another subunit's activities or inputs in order to perform its role effectively. In addition to flows of products and components, there are many different types of resources, such as human, financial, intangible, and knowledge-based resources that may form the basis for interdependence. Importantly, the effective transfer of resources and competencies to other international locations requires a network of intra-firm linkages. MNCs as a whole may benefit greatly from such international knowledge transfers which also represent a prerequisite for leveraging competencies across multiple units of the MNC. (O'Donnell, 2000: 526-543)

A great deal of co-ordination is required to ensure a system of highly interdependent international subsidiaries functions effectively. The co-operative behaviours needed in conditions of high international interdependence are best facilitated through social control methods. (O'Donnell, 2000: 531) The desired result of social control is for individuals to identify with the MNC organisation and for this organisational identification to be converted over time into internalisation of shared values, beliefs, and goals of the organisation as a whole (Nohria & Ghoshal, 1994; Ouchi, 1979: 842).

In what follows, research gaps are pinpointed and an overview of the objectives of Chapter 3 is presented.

e) Research Motivation & Objectives of Chapter 3

i) Research Motivation I: Research Gaps Tackled in Chapter 3

Firstly, Chapter 3 aims to contribute to filling the general research gaps identified in Subchapter 2.2. Secondly, the mid-range theory on (foreign) market entry developed in Subchapter 3.4 also considers real options theory. Thus, it may help to answer the research questions advanced by Brouthers, Brouthers, & Werner (2008a): Could there be a theoretical link between entrepreneurial business expansion and real options? (Brouthers, Brouthers, & Werner, 2008a: 955-956)

ii) Research Motivation II: Overview of the Objectives of Chapter 3

This Chapter aims to contribute to closing the above-mentioned general and chapter-specific research gaps by crafting rather comprehensive, generally applicable, predominantly resource-based mid-range theories and models. Firstly, the theoretical model depicted in Subchapter 3.4 illuminates analytical pathways geared towards facilitating the identification of optimal entry mode choices. Secondly, Subchapter 3.5 presents a theoretical model illuminating the drivers of optimal headquarter-subsidary relations. Both models represent tools for enhancing the likelihood that companies will generate a maximum amount of value in the long term. Clearly, if the optimal market entry mode turns out not to add any value in the long run or even worse, no market entry should be undertaken. Both theoretical models are applied to the private banking business.

Generally speaking, Chapter 3 draws on both a rather wide range of well-acknowledged resource-based 'theories' of the firm (RBV), seminal works in strategy implementation research, real options theory, strategic marketing, as well as international management research in general and headquarter-subsidary relations and entry mode choice research specifically. The theoretical models are enhanced by further theories shedding light on the subject matter under investigation.

3.3 Positioning of Research Questions & Literature Synthesis

Subchapter 3.3 is devoted to the positioning of the research questions tackled in Subchapters 3.4 and 3.5, the definition of key constructs, and a literature synthesis. With regard to the RBV, DCV, ROT, as well as strategic management/strategy implementation and strategic marketing research please refer to Subchapters 2.9, 2.10, and 2.1.5 respectively.

3.3.1 Literature Review

A) Foreign Market Entry Mode Choice

As with much of the early literature on foreign market entry (e.g., Buckley & Ghauri, 1993), the main focus of Vernon's product cycle theory (Vernon, 1966; 1979) was exporting versus foreign direct investment (FDI). In the 1970s, the internalisation approach (e.g., Buckley & Casson, 1976, 1998a) identified licensing, franchising, and subcontracting as other strategic options. In the 1980s, the resurgence of M&As highlighted the choice between greenfield ventures and acquisitions. The role of co-operative arrangements gained more attention as US firms increasingly engaged in international joint ventures (IJVs). (Buckley & Casson, 1998a: 539-541) Buckley & Casson (1998a) analyse a wide range of foreign market entry strategies. Pan, Li, & Tse (1999) examine the impact of order and mode of market entry on profitability. Pan & Tse (2000) propose and test a hierarchical model of market entry modes. While Brouthers, Brouthers, & Werner (2000) analyse the relationships among perceived environmental uncertainty, entry mode choice and performance, Brouthers, Brouthers, & Werner (2008a) examine (foreign) entry mode choice from a real options theory perspective.

B) Headquarter – Subsidiary Relations

Many studies (e.g., Bartlett & Ghoshal, 1993; Birkinshaw, 1995) have suggested that the parent-subsidiary relationship is multifaceted in that it varies across business units and operates at multiple levels of management. Typically, the early literature on MNC subsidiaries focused on the variables that were key to the dyadic parent-subsidiary relationship, such as centralisation (e.g., Schollhammer, 1971) and integration (e.g., Cray, 1984), and their relationship to external variables such as parent ownership and local environmental uncertainty. In this context, subsidiary roles are important. Subsidiary strategy *per se* arose through the global strategy literature (Bartlett 1979; Pralahad & Doz 1981), which focused on the conflicting demands for national sensitivity and global integration. (Birkinshaw & Morrison, 1995: 732) Bartlett & Ghoshal (1986, 1998) model subsidiary strategy as a function of the strategic importance of the subsidiary's local environment and its level of resources and capabilities. MNCs may be conceived of as a differentiated network (Bartlett & Ghoshal, 1986, 1998). Birkinshaw & Morrison (1995) examine configurations of strategy and structure in subsidiaries of MNCs. While O'Donnell (2000) analyses the management of foreign subsidiaries, Anand & Delios (1997) shed light on the topic of location specificity and the transferability of downstream assets to foreign subsidiaries. As far as subsidiary management is concerned,

Gupta & Govindarajan (2000) analyse knowledge flows within international corporations. In this context, Nonaka (1994) advances a theory of organisational knowledge creation which is highly renowned today. Closely linked to Anand & Delios' (1997) study, Brouthers, Brouthers, & Werner (2008b) discuss resource-based advantages in an international context. Lastly, various empirical studies (e.g., Chung, 2001; Zahra, Ireland, & Hitt, 2000; Gupta & Govindarajan, 2000) examine asset-seeking investments as MNCs seek to enhance existing capabilities. Capability-seeking behaviour is associated with the geographical 'pull' of regions (countries) as an attraction for foreign investment (Anand & Kogut, 1997).

Obviously, companies exploit their competencies to create value for the firm. In this context, Hitt, Ireland, Camp, & Sexton (2001) discuss 'strategic entrepreneurship and entrepreneurial strategies for wealth creation'. Birkinshaw (1997) explores entrepreneurship in MNCs and the characteristics of subsidiary initiatives. Lastly, Birkinshaw, Hood, & Young (2005) explore subsidiary entrepreneurship, internal and external competitive forces, and subsidiary performance.

3.3.2 Definition of Key Constructs

Subsidiaries

i) Delimiting and Defining the Technical Term '(Multinational) Subsidiary'

A (multinational) subsidiary may be conceptualised as a semi-autonomous entity with entrepreneurial potential that is situated within a differentiated system (Bartlett & Ghoshal, 1989; Birkinshaw, Hood, & Young, 2005). It is a legally distinct national entity which is controlled by the MNC, located outside the home country, and likely to have multiple subordinate roles (Birkinshaw, 1997: 207; Birkinshaw & Morrison, 1995: 750). Subsidiaries may not only be wholly or dominantly owned but may also take the form of strategic alliances (Birkinshaw & Hood, 1998: 774; see Chapter 5). Foreign subsidiaries often vary in the scope of value chain activities included within their operations (Porter, 1986). They may perform a single activity (e.g., manufacturing) or an entire value chain of activities. Changes to the subsidiary's stock of capabilities and its charter are closely tied to the subsidiary's ability to add value. In addition, sometimes, there may be several mutually independent subsidiaries of the same parent in a given host country. (Birkinshaw & Hood, 1998: 774)

ii) Subsidiary Charter

A subsidiary's charter refers to the business or elements of the business in which the subsidiary participates and for which it is recognised as having responsibility within the

MNC (Galunic & Eisenhardt, 1996). A subsidiary's charter, the visible manifestation of its role, may be defined in terms of markets served, products manufactured, technologies owned, functional areas covered, or any combination thereof (Birkinshaw & Hood, 1998: 782).

iii) Subsidiary Value-Added Scope & Market Scope/Subsidiary Mandate

Value-added scope and market scope are important indicators of subsidiary role. Value-added scope refers to particular value adding activities, especially R&D, purchasing, and marketing, while market scope refers to the market(s) served by the subsidiary. Value-added scope, market scope, and subsidiary autonomy are all related to subsidiary initiative and, therefore, to entrepreneurship. (Birkinshaw, Hood, & Young, 2005: 234) In this context, a subsidiary mandate is a business, or an element thereof, in which the subsidiary participates and for which it has responsibilities beyond its national market (Birkinshaw, 1996: 467).

iv) Subsidiary Autonomy

Autonomy is related to the division of the decision-making authority between a local unit and an outside organisation that controls it (Garnier, 1982: 893–894). Subsidiary autonomy is defined as the degree to which the foreign subsidiary of the MNC has strategic and operational decision-making authority (O'Donnell, 2000: 527-528). It refers to the freedom or independence of a subsidiary, which enables it to take certain decisions on its own behalf (Young & Tavares, 2004). Research shows that subsidiary autonomy significantly impacts on subsidiary initiative - particularly local and global ones - (Birkinshaw, 1996, 1997) and innovative creation within the subsidiary (Ghoshal & Bartlett, 1988).

3.3.3 Literature Synthesis

A) Foreign Market Entry Mode Choice

This Section synthesises major literature on foreign market entry mode choice. Firstly, a general introduction is given. Secondly, the relationships among entry mode choice, location-specificity, and resource-based advantages will be explored. Thirdly, specific market entry modes will be discussed. Fourthly, real options theory comes into play. Fifthly, the delicate relationship between downstream resources and capabilities and entry mode choice is examined. Lastly, the importance of perceived environmental uncertainty in defining optimal foreign market entry mode strategies is analysed.

a) General Introduction to Foreign Market Entry Mode Choice

i) Preliminaries

Possessing resources is not enough to create an advantage; firms also need to be organised to take full advantage of their resources to attain a competitive advantage (Barney, 1997). Thus, the choice of an optimal entry mode - entry mode choice represents the organisational structure through which resource-based advantages are exploited in an international context (Barney, 1997) - is paramount. Successful firms are those that learn to exploit current resource-based advantages and develop (explore) new resource-based opportunities (e.g., Gupta, Smith, & Shalley 2006; Madhok, 1997; March, 1991). Furthermore, a balance between uncertainty reduction and related governance costs of the possible organisational structures has to be struck (Tallman, 2001: 481-482).

When internal development is difficult, a firm may meet demands for new capabilities by entering factor markets or, alternatively, it may enter the market for corporate control and purchase required capabilities bundled in a firm (Wernerfelt, 1984). However, information asymmetry and opportunism may inhibit market-mediated resource transactions (Williamson, 1975), and the cost of using the market increases as resources become more firm-specific and complex (Chi, 1994).

Foreign entry involves two interdependent decisions on location and mode of control respectively. Exporting is domestically located and administratively controlled, foreign licensing is foreign located and contractually controlled, and foreign direct investment (FDI) is foreign located and administratively controlled. (Buckley & Casson, 1981; 1998a: 541)

ii) Overview of Foreign Market Entry Options - A Multi-Level Hierarchy

There is a wide array of strategic options as to how to enter a foreign market. International entry strategies include independent, shared, and integrated modes of entry (Buckley & Casson, 1998a: 547). The four major modes of entry may be classified as wholly-owned subsidiaries, equity joint ventures, contractual agreements and export (Pan & Tse, 2000: 536).

According to Kumar & Subramaniam (1997), a natural multi-level hierarchy may be discerned among the various modes of foreign market entry (see Figure 3.1a). The hierarchical process is suitable for entry mode choice decision due to the substantial differences among the various entry modes and among the selection criteria at each level (Gatignon & Anderson, 1988). At the highest level of multi-level hierarchy, modes of entry can be classified as equity-based and non-equity-based. At the next level, equity modes

are further split into wholly owned operations/subsidiaries and equity joint ventures (EJVs), whereas non-equity modes are divided into contractual agreements and export. (Pan & Tse, 2000: 535-537)

Equity modes require a major resource commitment in the overseas location (Anderson & Gatignon, 1986; Vanhonacker, 1997), an on-going direct management of the establishment, and a constant interaction with various local parties (Contractor, 1984; Hennart, 1988; Hill, Hwang, & Kim, 1990). In short, equity modes differ significantly from non-equity modes in resource commitment, risk, return, control, and other characteristics (Pan & Tse, 2000: 539).

Generally speaking, in practice, managers often decompose a complex decision into a hierarchical process and adopt a small set of critical variables to monitor at each level (Steinbruner, 1974) so the decision process becomes more manageable (Pan & Tse, 2000: 538).

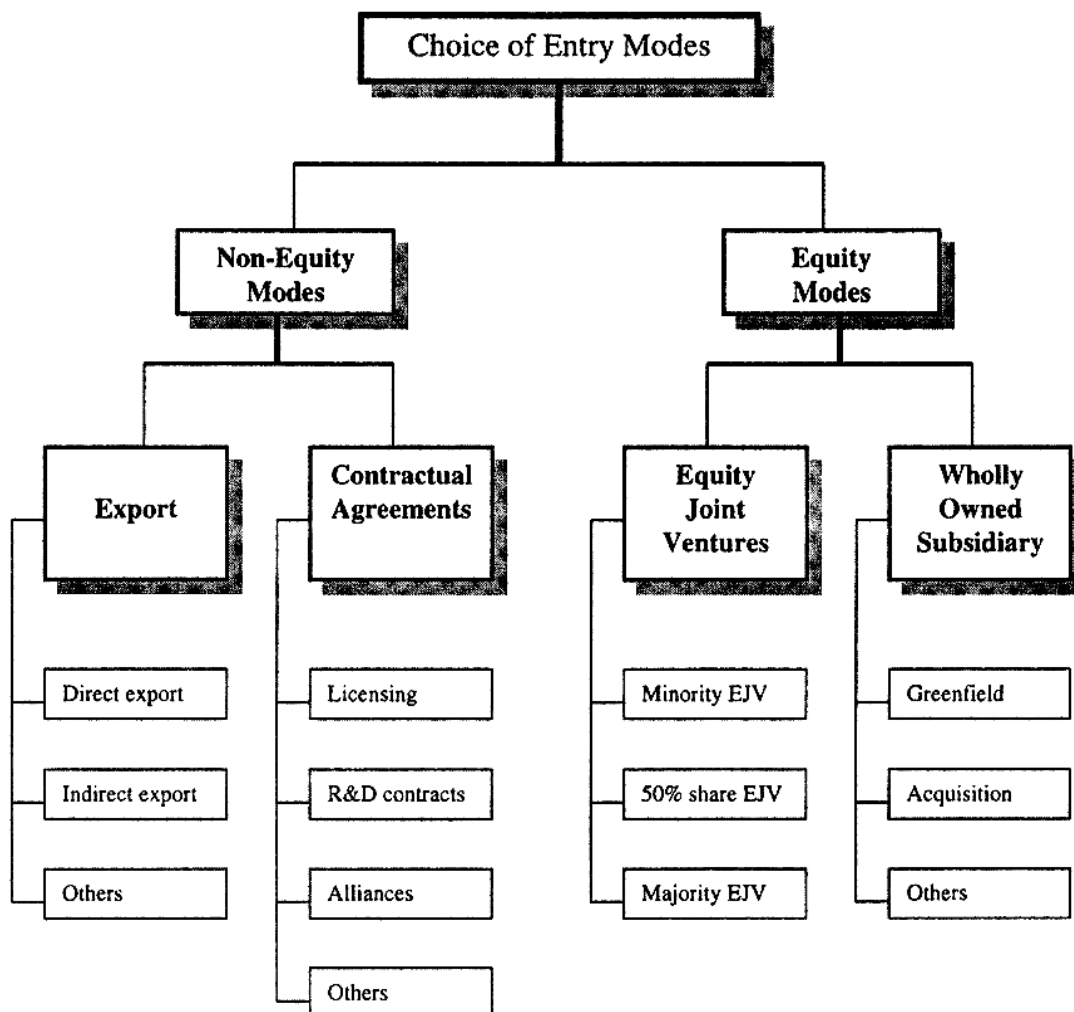


Fig. 3.1a: A Hierarchical Model of Entry Mode Choice (Pan & Tse, 2000: 538)

iii) Integration Continuum & (Sustained) Competitive Advantage - A Brief Overview

The Penrose-Teece view of diversification posits that a firm's entry into new product markets results from excess capacity in valuable resources (Penrose, 1959; Teece, 1982). The RBV offers boundary choice predictions based not only on the focal firm's resources but also on those of the target (Villalonga & McGahan, 2005: 1190). The focal firm diversifies/expands in search of opportunities to exploit its existing resources and capabilities (Penrose, 1959), but also in search of new resources that may complement its existing base (Chatterjee, 1990).

Generally speaking, the integration continuum of governance modes ranges from acquisitions to strategic alliances and finally divestitures (Villalonga & McGahan, 2005: 1184; Williamson, 1975, 1991). While divestitures and strategic alliances are alternative ways to contract boundaries, acquisitions and strategic alliances are alternative ways to expand them. For dyads, divestitures are a way of allocating control of resources between the parties. Strategic alliances should be considered an alternative boundary-contracting mode to spin-offs, carve-outs, and asset sales. (Villalonga & McGahan, 2005: 1184)

The ultimate objective for a company engaging in an alliance is to emerge from it more competitive than it used to be so it might be able to outpace its rivals in building new sources of competitive advantage. As substantial resource commitments are necessary to develop new products and to penetrate new markets only few companies can go it alone in every situation. (Hamel, Doz, & Prahalad, 1989: 133-137) In addition, strategic alliances typically confer upon firms the option of a subsequent acquisition or divestiture (e.g., Kogut, 1991a).

Furthermore, while expanding at home in core businesses is often the most appealing growth strategy, in many mature industries it is not an option. Additionally, expanding through cross-border alliances or acquisitions is often a much more attractive option than diversifying by acquiring domestically. Most cross-border acquirers focus on core businesses. In cross-border alliances, partners combine their strengths to target core or related businesses. (Bleeke & Ernst, 1991: 135) The determinants of the choice among acquisitions, strategic alliances, and divestitures are depicted in Figure 3.1b.

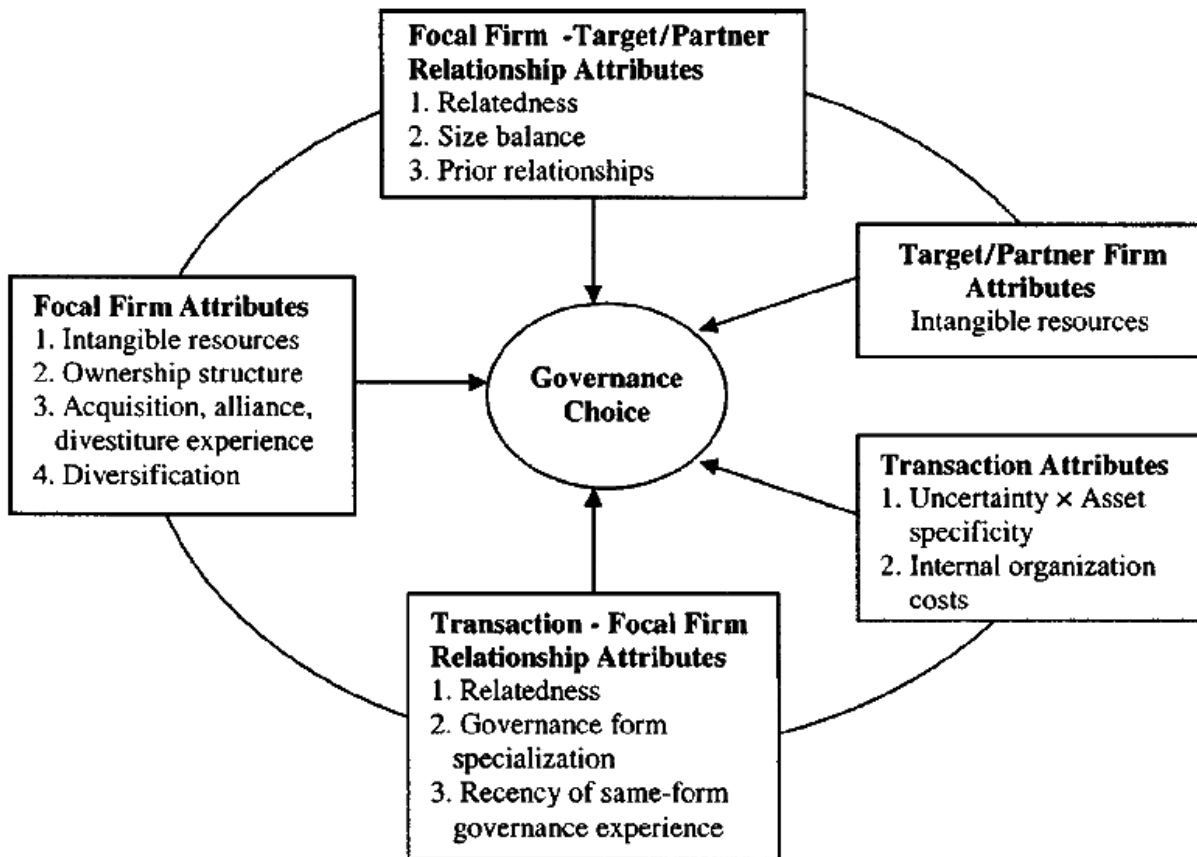


Fig. 3.1b: Determinants of Choice among Alliances, Acquisitions & Divestitures
(Villalonga & McGahan, 2005: 1186)

iv) Competitive Strategy, (S)CA, & Strategic Alliances/Networks

The traditional school of thought in business strategy holds that long term survival and above-average performance are produced by competitive advantage. Competitive strategy rests on the idea that, in order to survive in the face of competition, a company must create and sustain durable and defensible competitive advantages. (Dussauge & Garrette, 1999: 39-41) In this context, Barney (2001a) argues that firms need to organise themselves in ways that allow them to exploit their competitive advantage (Barney, 2001a).

Resources may lead to sustained competitive advantage only if they are rare, valuable in the market, imperfectly imitable and non-substitutable (Barney, 1991). There are at least two ways that interorganisational relationships are unique in their ability to produce resources such as products and services that fit these rigid criteria (Barringer & Harrison, 2000: 373). Firstly, interorganisational relationships such as multi-firm alliances often bring together a larger brain trust than any one firm could muster (Dyer & Singh, 1998). Secondly, interorganisational relationships may be unique through combining the efforts

of firms that possess unusual market power and prestige. However, while interorganisational relationships may be able to create unique resources, they may also undermine a firm's ability to create sustainable competitive advantage since the unique resource is not rare and imperfectly imitable from the firm's perspective. Participation in interorganisational relationships diverts a firm's attention away from sustainable value creation activities undertaken by the firm alone to temporary and/or idiosyncratic value creation activities created through interorganisational relationships. (Barringer & Harrison, 2000: 373-374) Lavie (2006) argues that the capacity of allies to gain and sustain competitive advantage depends less on traditional RBV conditions and more on their relational capability, that is, their capacity to form and maintain valuable interactive relationships with alliance partners (Lavie, 2006). Relational capabilities are essential for managing complex alliance networks (e.g., Dyer, Kale, & Singh, 2001: 37-43).

v) General Performance Implications of Foreign Market Entry Strategies

Smaller and mid-sized firms expand into international markets to pursue new opportunities by leveraging their current resources, capabilities and competencies (Lu & Beamish, 2001). Companies expanding abroad initially experience a reduction in returns, that is, they face a so-called liability of foreignness. After firms gain some experience with operations in foreign markets, further FDI leads to increased profits. (e.g., Lu & Beamish, 2001)

In general terms, firstly, entry mode strategy may significantly impact on performance (e.g., Anand & Delios, 1997; Barney, 1997; Combs & Ketchen, 1999). Secondly, exclusive reliance on a single entry mode may restrict performance (Busija, O'Neill, & Zeithaml, 1997). Thirdly, early entrants tend to have significantly higher market shares and profitabilities than late followers (Pan, Li, & Tse, 1999: 81). Lastly, the relative performance of the three entry modes greenfield, acquisition, and local partner joint ventures hinges on both the need to source local resources and the ability to exploit existing capabilities (Anand & Delios, 1997: 586).

vi) Factors Impacting on Foreign Market Entry Mode Choice

International business research shows that entry modes are closely associated with varying degrees of resource commitment, risk exposure, control, and profit return (Pan & Tse, 2000: 535). Entry mode choice depends on different types of factors including firm-specific factors (Erramilli & Rao, 1993; Kim & Hwang, 1992; Kumar & Subramaniam, 1997; Madhok, 1997), industry-specific factors, and country-specific factors (Anderson & Gatignon, 1986; Kogut & Singh, 1988; Tse, Pan, & Au, 1997). Examples

include location costs, internalisation factors, financial variables, cultural factors, such as trust and psychic distance, market structure and competitive strategy, costs of doing business abroad/adapting to the local environment (Buckley & Casson, 1981; 1998a: 543). Furthermore, the value generated by an acquisition or an alliance depends on a firm's acquisition or alliance capability, which firms develop through repeated experience with these governance forms (e.g., Kale, Dyer, & Singh, 2002).

Additionally, there are other factors that may impact on the firm's choice of entry mode. For instance, the country of origin has a major impact on the propensities of MNCs vis-à-vis the choice of global strategies, organisational structures and control systems, as well as internal corporate cultures (e.g., Bartlett & Ghoshal, 1989; Egelhoff, 1984; Porter, 1994). In addition, host governments may offer tax incentives in return for commitments on local value-added or 'job creation' which may affect entry mode choice. Possibilities for the firm to minimise global tax liabilities through transfer pricing may also impact on a company's ultimate decision. (Buckley & Casson, 1998a: 556) Furthermore, the strength of competition from indigenous rivals represents a determinant of entry strategy into both production and distribution (Buckley & Casson, 1998: 539). Lastly, at times firms even have to adopt the entry mode dictated by the host country government (Pan & Tse, 2000: 536). The next section explores the impact of the factor 'location specificity' on entry mode choice and resource-based-CA.

b) Foreign Market Entry Mode Choice, Location Specificity,& Resource-Based-CA

i) Introduction

Theories of foreign direct investment (FDI) focus on the importance of firm-specific or intangible asset advantages as factors that determine which firms invest abroad and levels of international activity (e.g., Buckley & Casson, 1976; Caves, 1971). However, location-specific disadvantages may arise when expanding abroad (Anand & Delios, 1997: 580). They may, for instance, be attributed to a lack of knowledge of host country political, economic, and social conditions (Hymer, 1976). Countries exhibit unique formal constraints (e.g., laws and rules) and informal constraints (e.g., values and norms) on human and organisational behaviour (Scott, 1995) that may represent an exogenous influence on resource-based value (Brouthers, Brouthers, & Werner, 2008b: 190).

Resource-based advantages and institutional differences have a direct influence on international entry mode choice (e.g., Brouthers & Hennart, 2007; Erramilli, Agarwal, & Dev, 2002). At least in an international setting, resource-based advantages appear to be

context-specific (Brouthers, Brouthers, & Werner, 2008b: 189). While globally specific skills such as technology are fungible across borders, locally specific skills have a restricted geographical scope because of intrinsic differences in host country markets (Buckley & Casson, 1996). Foreign companies must ameliorate/overcome their disadvantage in locally specific skills (i.e., their location-specific disadvantage) if they are to effect successful entry. International experience ameliorates location-specific disadvantages (e.g., Beamish, 1988; Hymer, 1976) and thereby affects entry mode decisions. (Anand & Delios, 1997: 580-581)

ii) Closing Location-Specific Resource Gaps on Foreign Entry

If the institutional context differs greatly from the home market, resource-based advantages may not be applicable or may need to be supplemented with target market-based resources (e.g., Chang & Rosenzweig, 2001; Madhok, 2002; Oliver, 1997). Institutional, context-specific knowledge may be required to achieve an optimal exploitation of existing resources in new institutional settings (Dyer & Singh, 1998).

In this context, companies face obstacles in internally developing or purchasing new resources (Anand & Delios, 1997: 582). Firstly, internal development is constrained by a firm's history of past investments and its limited range of available routines which form a repertoire of fixed responses (Nelson & Winter, 1982). A foreign entrant often does not have the time to internally develop downstream capabilities (Dierickx & Cool, 1989) because the resources from which location-specific capabilities are derived depend on the skills and routines of the firm's employees (Nelson & Winter 1982: Chapter 5) and represent organisationally embedded know-how shared by the firm's employees (Caves 1996). The tacit and embedded nature of resources hampers the duplication of the processes of competing firms (Dierickx & Cool, 1989). Secondly, market-based transfers of knowledge are often associated with negative externalities such as involuntary expropriation and the risk of creating new competitors (Gupta & Govindarajan, 2000: 474).

The accumulation of local knowledge generally requires the participation of a local firm. Typically, joint ventures (JVs) with local firms represent the bridge between no equity involvement and equity involvement in a host country. Alternatively, a company may also choose to acquire a domestic incumbent which represents the purchase of a ready stock of location-specific resources and capabilities that are bundled with the other resources that comprise the local firm. (Anand & Delios, 1997: 581-582) Acquisitions can be an efficient means of acquiring new resources that are indivisible from the firm

(Mitchell 1994). Difficulties associated with M&As (e.g., achieving enough synergies) have led to the view that acquisitions may constitute a less-efficient entry mode compared to greenfields and joint ventures (Woodcock, Beamish, & Makino, 1994).

iii) Location-Specificity & the Simultaneity Factor S

Clearly, when a firm undertakes FDI, it expects firm-specific advantages to outweigh the disadvantages of being foreign (Hymer, 1976). The proportion of a company's production that must occur at the time of consumption affects the magnitude of location-specific disadvantages and the optimal entry mode strategy (Anand & Delios, 1997: 581). The fraction of the total economic value associated with the service component, that is, production at the time of consumption, equals the simultaneity or S-factor. The greater the S-factor, the greater the amount of production that occurs at the site of consumption. (Hirsch, 1988; 1993) Thus, service businesses incur a greater simultaneity of production and consumption and thus a higher S-factor than firms in the manufacturing sector. Furthermore, the S-factor varies across service industries. (Anand & Delios, 1997: 583-584)

iv) Foreign Market EMC & Determination of New Resources Required upon FE

The magnitude of a firm's existing firm-specific advantages and location-specific disadvantages determine whether the firm requires new resources upon foreign entry (FE). In discerning the extent of location-specific disadvantages, the transferability of the firm's existing resources should be assessed. The foreign firm may need to develop a new skill base on foreign market entry. Transferability may be restricted by the physical boundedness or country-specificity of firm-specific advantages. (Anand & Delios, 1997: 583-596).

Generally speaking, according to the process view of internationalisation the most effective way to acquire location-specific resources is to form partnerships with local firms. In situations in which required capabilities must be developed through local experience and in which location-specific resources are subject to market failure, acquisition and joint venture strategies appear to be the preferred modes of foreign market entry. Conversely, greenfield entries appear to be successful in industries that permit the offsetting of location-specific disadvantages with firm-specific advantages. (Anand & Delios, 1997: 579)

v) Strategising in an International Context & Learning Curve Advantages

Resources are selected and deployed based on both internal and external institutional factors (Oliver, 1997). A resource that qualifies as a possible source of CA in one external

institutional context may not do so in another. Companies need to balance the benefits of resource-based advantage exploitation with the costs of not being isomorphic with the host market institutional environment. (Brouthers, Brouthers, & Werner, 2008b: 190-192)

Some research indicates that companies' success is rooted in strategies conforming to the specific demands of their external institutional environment in which they operate (e.g., Dacin, Oliver, & Roy, 2007; DiMaggio & Powell, 1983). Institutional theory suggests that strategies that do not conform to the institutional norms of the host market may not be viewed as legitimate (Kostova & Zaheer, 1999; Scott, 1987). Legitimacy is important because it leads to access to vital resources and strengthens performance (Deephouse, 1996; Zimmerman & Zeitz, 2002). Establishing legitimacy in new institutional contexts may require firms to change or supplement existing firm-specific advantages (Dacin, Oliver, & Roy, 2007).

Furthermore, learning curve experiences (e.g., Argyres, 1996; Wernerfelt, 2005) can provide a broader mind-set and a greater ability to respond to changes in institutional factors, thereby providing institutional capital to the firm. Such learning curve advantages have been termed 'dynamic learning capabilities', that is, resource-based advantages that also facilitate the adoption of new capabilities and adaptation of existing resources to changes in institutional environments. (Brouthers, Brouthers, & Werner, 2008b: 211)

vi) Conclusions Section b

Summing up: to achieve superior international performance, firms need to consider, firstly, the resource-based advantages that they possess, and, secondly, the differences and/or similarities in the specific dimensions of the institutional environments between home and target countries when making international strategic decisions. (Brouthers, Brouthers, & Werner, 2008b: 213) In what follows, specific modes of foreign market entry will be briefly discussed.

c) Specific Foreign Market Entry Options

i) Subsidiaries in General

Subsidiaries are established for a variety of motives (e.g., resource-seeking, capability-seeking, market-seeking, or efficiency-seeking) and through a variety of modes (e.g., greenfield, acquisition, or joint venture). The relationship of the subsidiary to the parent company can be anything from legal holding company to fully integrated. (Birkinshaw & Hood, 1998: 773)

ii) Wholly-Owned Modes

Firstly, wholly-owned modes, that is, greenfield or M&A, provide firms with greater control over foreign operations (Madhok, 2002). Such control may help to reduce value erosion of firm-specific resource advantages. Resource-based value erosion occurs when resource-based advantages are disseminated to competitors or when advantages are inappropriately transferred and applied in a particular context. (Brouthers, Brouthers, & Werner, 2008b: 191) Partner organisations may not have the absorptive capacity needed to assure full value transfer (Jensen & Szulanski, 2004). Secondly, wholly owned modes may allow for increased efficiencies associated with internalised routines, possession of a common language, and/or the exploitation of firm-specific resource endowments (Madhok, 1997; Steensma & Corley, 2001). Wholly owned modes facilitate efficient transfers of knowledge between parent firm and foreign subsidiary (Brouthers, Brouthers, & Werner, 2008b: 191). International expansion through wholly owned structures enables firms to create and maintain resource-based value through developed routines (Henisz, 2003).

Furthermore, according to the literature on FDI, the smaller the overlap between existing corporate know-how and the know-how required to succeed in a host market, the greater the probability of acquisition as the mode of entry (Hennart & Park, 1993). On the one hand, acquisitions enable firms to tap into existing external local networks (Jaffee, Trachtenberg, & Henderson, 1993) as well as to capture internal routines (Nelson & Winter, 1982) and local 'organising principles' (Kogut, 1991b). On the other hand, greenfield investments offer investors greater flexibility in the location of plants, decisions about capital outlays, and the design of management systems (Yoshida, 1987).

iii) (International) Joint Ventures

Joint ventures entail the creation of a new entity with shared equity between partners (Gulati, 1998: 298). Joint ventures, a common form of strategic alliances, are an important alternative to acquisitions, contracting, and internal development. Major motivations for joint venture formation are the avoidance of small numbers bargaining resulting when switching costs are high due to asset specificity, the enhancement of the firm's competitive positioning or market power, and mechanisms to transfer organisational knowledge. Narrowly defined, a joint venture occurs when two or more firms pool a portion of their resources within a common legal organisation. Figuratively speaking, joint ventures straddle the border of two firms. Thus, two mutually interdependent firms claim ownership to the residual value and control rights over the use of the assets. Joint

ventures create a superior monitoring mechanism and alignment of incentives to reveal information, share technologies, and guarantee performance. Non-equity contracts may also be written to provide similar incentives by stipulating complex contingencies and bonding. In mutually horizontal joint ventures, the initial complementarity between the parents' assets both motivates co-operation and poses the risk of the erosion or imitation of such assets as technology or reputation. For instance, the agent might underinvest in complementary assets and free-ride the brand label or technological advantage. (Kogut, 2006: 48-51) The average life span of a joint venture is just five to seven years (Ernst&Bamford, 2005: 133).

Buckley & Casson (1988; 1996) summarise the conditions conducive to international joint ventures as: firstly, the possession of complementary assets; secondly, opportunities for collusion; and, thirdly, economic, financial, legal, or political barriers to full integration (Buckley & Casson 1988; 1996). With regard to international ventures, both the intensity and diversity of international experience endow a firm with resource-based advantages that can be used to exploit (or explore for) other resources in new markets (Luo & Peng, 1999). Combs & Ketchen (1999) suggest that joint ventures allow resource-constrained firms to more quickly enter new markets (Combs & Ketchen, 1999). Joint ventures may assist companies in obtaining new firm-specific resources (Eisenhardt & Schoonhoven, 1996; Luo, 2002; Tsang, 2000). Joint ventures reduce learning costs associated with the acquisition of new capabilities (Dyer & Singh, 1998; Hagedoorn, 1993) and speed up the development of new capabilities (Das & Teng, 2000; Hagedoorn, 1993) (please see also Chapter 5 on strategic alliances and networks).

As differences in institutional contexts increase, firms with lower levels of international experience-based dynamic learning capabilities increasingly choose joint venture entry modes over wholly owned modes since joint ventures offer such firms the ability to tap into location-specific resources and gain legitimacy in institutionally distant markets (Dacin, Oliver, & Roy, 2007). Local partner joint ventures may provide a firm with proprietary access to (local) market knowledge (Brouthers, Brouthers, & Werner, 2008a: 954). Buckley & Casson (1998) argue joint ventures in production do not make much sense as a means of market entry unless they form a part of an integrated joint venture that handles distribution as well (Buckley & Casson, 1998a: 556).

iv) Subcontracting

Buckley & Casson (1998) argue that subcontracting is generally not a very attractive mode of foreign market entry since it does not give access to the domestic rival's mar-

keting expertise. In addition, subcontracting leaves the domestic rival in a strong competitive position since the contractual commitment to the entrant is likely to be of a short term nature and the rival's distribution facility is not committed at all. Nonetheless, subcontracting is often used since it enables companies to access local resources, notably cheap labour, for offshore processing. (Buckley & Casson, 1998a: 555-556) Next, entry mode choice will be illuminated from a real options theory perspective (for more details please see Subchapter 2.4).

v) Strategic Alliances versus M&As (please refer to the very end of Subchapter 6.3)

d) Real Options Theory & Foreign Market Entry Mode Choice

Based on their study, Brouthers, Brouthers, & Werner (2008a) argue companies should develop a 'portfolio of options' in order to improve their strategic flexibility. A 'portfolio of options' appears to provide a firm-specific resource that facilitates coping with irreversibility problems. However, firms exhibiting higher or lower levels of risk aversion may benefit more or less from an options approach. (Brouthers, Brouthers, & Werner, 2008a: 936-960)

Real option theory suggests that firms with greater strategic flexibility perceive lower 'risk of loss' and therefore prefer non-option (wholly owned or independent exporting) modes over joint venture modes for at least two reasons: When demand develops at a slower than forecast rate, firms with wholly-owned or independent subsidiaries are able to send output to their other markets; the venture continues to operate efficiently avoiding the costs of underutilisation. (Leiblein & Miller, 2003; McGrath & Nerkar, 2004). Conversely, firms exhibiting lower levels of strategic flexibility tend to rely more heavily on option-based modes (e.g., joint ventures) because their flexibility to shift operations is not as high (Brouthers, Brouthers, & Werner, 2008a: 953-956).

Williamson (1991) suggests wholly owned modes provide control through fiat which means that decisions such as shifting output can be taken quickly (Williamson, 1991). Conversely, in joint ventures contractual restrictions and managerial control systems restrict the ability of the venture to make quick changes (Hennart, 1989; Williamson, 1991). In shared ventures, there is less incentive to keep production efficient because costs and benefits do not accrue to a single firm. Conversely, they are shared by all partners. For this reason joint ventures typically reduce rather than reallocate output. (Brouthers, Brouthers, & Werner, 2008a: 943)

Modification of product/service output is easier with non-option wholly owned or independent exporting modes (Brouthers, Brouthers, & Werner, 2008a: 943). Changes in a product/service may require new knowledge; Hennart (1988) suggests that knowledge transfer is easier in wholly owned subsidiaries. In joint venture modes, existing partners may be unwilling to share knowledge, afraid that doing so may expose firm-specific expertise to another organisation. (Brouthers, Brouthers, & Werner, 2008a: 943)

Joint venture modes are often preferred since, firstly, they minimise downside risk exposure by limiting resource commitments; secondly, they allow to stage entry into new markets by providing a means to delay part of the investment until uncertainty is reduced; thirdly, they maintain an option for future growth; and, fourthly, they may provide value benefits such as proprietary access to market knowledge. (Brouthers, Brouthers, & Werner, 2008a: 954-955) Joint ventures may provide either a specific right for future investments (Reuer, 2002) or one inherent in the agreement (Buckley, Casson & Gulamhussen, 2002; Chi, 2000; Kogut, 1991a).

e) Foreign Market EMC - Upstream versus Downstream Assets/Capabilities

i) Introduction

While FDI may serve as a means to exploit a firm's existing capabilities (Morck & Yeung, 1991), firms sometimes expand abroad to augment their upstream capabilities (e.g., R&D, manufacturing) and/or downstream capabilities (e.g., marketing, sales) (e.g., Caves, 1996).

ii) The Complex Nature of Downstream Assets/Capabilities

Existing marketing relationships are a valuable firm-specific resource and perceived to be essential to gaining firm-specific competitive advantage (Dwyer, Schurr, & Oh, 1987; Webster, 1992). Salesforce systems are time-consuming to create and sustain since they are enmeshed in intricate social networks that require tailoring to the product and consumer (Anand & Delios, 2002: 123). Furthermore, brands are well recognised as crucial firm-specific capital resources (Wernerfelt, 1984; Dierickx & Cool, 1989; Amit & Schoemaker, 1993). Intangible marketing-based assets like brands can be leveraged to reduce costs or increase margins (Srivastava, Shervani, & Fahey, 1998). The process of building a brand requires cumulative investments in advertising and marketing (Rossiter & Percy, 1997). Effective brand management requires complex interactions within the organisation and with consumers (Anand & Delios, 2002; 123). In asset-seeking FDI, brands are sought as a complementary asset on foreign entry (Teece, 1986).

iii) Upstream versus Downstream Assets/Capabilities

Upstream and downstream capabilities differ along such dimensions as geographic fungibility and localisation or location specificity. While downstream capabilities tend not to be geographically fungible, upstream capabilities tend to be so. (Anand & Delios, 2002: 119-120) While technology, an upstream capability, is being sourced locally but exploited globally, downstream capabilities are sourced and exploited locally (Anand & Delios, 2002: 131).

Downstream assets are frequently required to complement a company's intangible technological advantages (Teece, 1986). Distribution systems and advertising are pernicious barriers to entry (Bain, 1956; Porter, 1980). Existing brands have a limited cross-border transferability (Hennart & Park, 1993) and distribution systems, by their complexity and physical nature, are not internationally mobile (Horst, 1974).

As R&D and manufacturing have complex links to branding and distribution (Chi, 1994), a firm must control marketing-related activities to stem opportunistic behaviour that can occur when these functions are contracted to domestic firms (Williamson, 1985). MNCs lacking local marketing capabilities have several options for market entry: Firstly, a company may enter using marketing arrangements with local firms (Chen & Hennart, 1995). However, these arrangements risk breeding future competition with local firms. Thus, an entering firm would generally prefer to have tighter control over marketing operations. While internally developing marketing capabilities represents a second option, this approach is risky and the returns may be visible only after an extended period. (Anand & Delios, 2002: 122-124) The third option, acquiring capabilities by purchasing local firms, remains a dominant choice given the inseparability of capabilities from owners (Chen and Zeng, 1996).

Additionally, assessing environmental uncertainty may ameliorate entry mode choice.

f) Foreign Market Entry Mode Choice & Perceived Environmental Uncertainty

i) Introduction

With respect to international markets, companies are expected to choose the entry mode that offers the highest risk-adjusted return on investment (Agarwal & Ramaswami, 1992). Brouthers, Brouthers, & Werner's empirical study (2000) provides strong initial support for Miller's (1992) concept of optimising risk-adjusted returns through entry mode selection (Brouthers, Brouthers, & Werner, 2000: 194). Companies choosing a

strategy which incorporates international risk appear to perform better than companies that do not take risk into consideration (Miller & Bromiley, 1990; Miller & Reuer, 1998). Companies trade various levels of (subsidiary) control for reduction of resource commitment in the hope of improving performance, that is, reducing some forms of risk while increasing their returns. Two general categories of risk may be distinguished: internal risk, that is, lack of international experience, and external risk. (Anderson & Gaignon, 1986)

ii) Perceived Environmental Uncertainty (PEU) & Satisfaction with Performance

Brouthers, Brouthers, & Werner's empirical study (2000) draws on Werner, Brouthers & Brouthers' (1996) multidimensional measure of perceived environmental uncertainty (PEU) to assess perceptions of five dimensions of environmental risk when doing business in different countries: firstly, government/political policies such as tax and monetary policies and the enforcement of existing laws; secondly, macroeconomic factors such as inflation and interest rates; thirdly, materials and infrastructure (e.g., availability and quality of inputs, raw materials and components); fourthly, product, market and demand (e.g., customer preferences, product demand, availability of substitute and complementary products); and, fifthly, competition (e.g., changes in competitors' prices and strategies; domestic and foreign competitors). (Brouthers, Brouthers, & Werner, 2000: 194-195)

The model depicted in Figure 3.2 suggests that PEU affects performance satisfaction in three ways: firstly, by influencing entry mode selection directly; secondly, by interacting with industry type to influence entry mode selection; and, thirdly, by interacting with entry mode type to produce a strategic fit which in turn affects performance satisfaction. Risk-adjusted fit is related to superior performance satisfaction (Brouthers, Brouthers, & Werner, 2000: 186).

Brouthers, Brouthers, & Werner's (2000) finds that satisfaction with both quantitative and qualitative performance is increased when firms consider industry sector and multiple measures of environmental uncertainty in their entry mode decisions. Research shows each type of entry mode may have unique features which assist firms in dealing with particular risk problems in foreign target markets. (Brouthers, Brouthers, & Werner, 2000: 191-194)

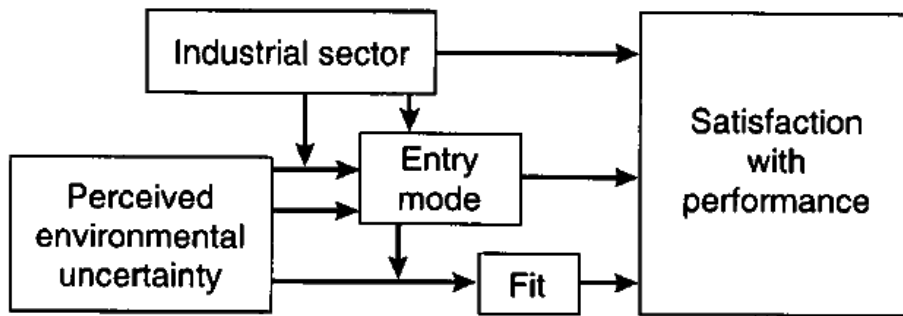


Fig. 3.2: PEU - Entry Mode Choice - Performance Satisfaction (Brouthers, Brouthers, & Werner, 2000: 186)

Lastly, the following subsections discuss two important external risk types in more detail.

iii) External Risks – Host Country Risk & Industry Risk

Firstly, the level of host country risk or risk in the host country affects the choice of entry modes (Contractor, 1990; Brouthers, 1995; Tse, Pan & Au, 1997). It consists of contextual risks, that is, external uncertainties and risks embodied in the market environment (Pan & Tse, 2000: 540), and transactional risks (Beamish & Banks, 1987; Pan, 1996). On the one hand, contextual risks include political risks (e.g., instability of political system), ownership/control risk (e.g., expropriation, intervention), operations risks (e.g., price control, local content requirements), and transfer risk (e.g., currency inconvertibility, remittance control) (Brewer, 1993; Root, 1987). On the other hand, transactional risks arise internally from the opportunistic behaviour of firms such as defaults on their obligations (Beamish & Banks, 1987).

Secondly, with regard to industry risk two industry-specific variables, that is, advertising intensity and capital intensity (Agarwal & Ramaswami, 1992; Erramilli & Rao, 1993; Gatignon & Anderson, 1988; Harrigan, 1985a; Kogut & Singh, 1988) are prominent. On the one hand, research shows that foreign firms are more likely to internalise their operations in the overseas markets in industries with high advertising intensity since firms need to protect their brands, which are the outcome of their investment in brand building through advertising (Gatignon & Anderson, 1988; Gomes-Casseres, 1990; Pan, 1996). On the other hand, asset turnover measures the ability of firms in an industry to use the asset to generate sales. In industries exhibiting high asset turnovers, a given amount of the asset could generate larger sales. (Pan & Tse, 2000: 543) In such industries, firms are more likely to internalise their operations overseas (Erramilli & Rao, 1993; Gatignon & Anderson, 1988) since they require fewer assets to reach a targeted sales level (Pan & Tse, 2000: 543).

After this analysis of the multifaceted phenomenon of foreign market entry mode choice, Section B explores headquarter-subsidary relations.

B) Headquarter-Subsidiary Relations

Undoubtedly, sustainable, fruitful headquarter-subsidary relations are paramount if MNCs are to thrive. Firstly, Section B gives an overview of headquarter- subsidiary relations. Secondly, functions subsidiaries and headquarters perform are discussed. Thirdly, subsidiary entrepreneurship and initiatives as well as subsidiaries' competitive arenas are examined.

a) Hierarchy versus Heterarchy & Intracorporate Knowledge Flows

i) The Chandler-Williamson Hierarchy Model

With regard to the Chandler-Williamson hierarchy model three basic assumptions can be discerned: Firstly, co-ordination costs are economised by grouping tasks according to the geographic or product markets on which they are focused; secondly, critical resources including management expertise are held at the centre to ensure scarce resources are being deployed in the most efficient and effective way; and, thirdly, the development of an appropriate bureaucratic system to monitor and control divisional managers in order to minimise opportunistic behaviour on their part. (Chandler, 1962: 309-13; Williamson, 1975: 137) Control may be defined as regulating the activities within an organisation so that they are in accord with the expectations established in policies, plans and targets (Child, 1973: 1-17). Lastly, the hierarchy model attempts to minimise lateral linkages between divisions or subsidiaries primarily to keep complexity and co-ordination costs low (Birkinshaw & Morrison, 1995: 737-739).

ii) Hedlund's (1986) Heterarchy Model

MNCs are indeed becoming heterarchies with each parent corporation continuing to serve as the most active creator and diffuser of knowledge within the corporation (Gupta & Govindarajan, 2000: 490). Hedlund's (1986) heterarchy model views MNCs as actively seeking advantages originating in the global spread of the firm. Key features of this model include many centres with a mix of 'organising principles' and different attributes, a loose coupling between units, and normative control systems. (Hedlund, 1986) These centres may be imposed by the parent company, or, alternatively, they may grow up organically through the resource accumulation of subsidiaries (Prahalad & Doz 1981).

Three aspects of heterarchy distinguish it from the hierarchical model of organisation: Firstly, resources, managerial capabilities, and decision-making are dispersed throughout the organisation rather than concentrated at the top (Birkinshaw & Morrison, 1995: 737). In contrast to the hierarchy model, the heterarchy model proposes a system of primarily normative or cultural control, whereby managers are imbued with the values and goals of the MNC and thus act in accordance with them (Hedlund, 1986; White & Poynter, 1990a). Nonetheless, a heterarchical MNC may include hierarchically-controlled subsidiaries. Furthermore, bureaucratic control is still necessary but less important. Secondly, lateral relationships between subsidiaries in terms of product, people, and knowledge flows are promoted. Thirdly, activities are co-ordinated along multiple dimensions, typically geography, product and function. Heterarchy is distinguished by asymmetry in reporting relationships and multiple types of roles. (Birkinshaw & Morrison, 1995: 737-749)

iii) Intracorporate Knowledge Flows

The almost axiomatic notion that every firm constitutes a bundle of knowledge represents a corollary of the RBV (e.g., Grant, 1996b; Kogut & Zander, 1992; Nelson & Winter, 1982; Nonaka, 1994). Of all possible resources that a firm might possess, its knowledge base has perhaps the greatest ability to serve as a source of sustainable differentiation and hence competitive advantage (Dierickx & Cool, 1989; Lippman & Rumelt, 1982).

Knowledge transfers within the MNC take place within the context of an interorganisational network of differentiated units (e.g., Ghoshal & Bartlett, 1990). The tacitness or causal ambiguity of knowledge is one of the most widely recognised barriers to its transfer and replication (e.g., Lippman & Rumelt, 1982). As knowledge flows across units are not cost-free (Teece, 1981) they may not always be worthwhile: Firstly, resources vary in value (Barney, 1991); and, secondly, the knowledge stock of any subsidiary is composed of both duplicative and non-duplicative knowledge. Only non-duplicative knowledge relevant to the rest of the global MNC network is of value to other units. (Gupta & Govindarajan, 2000: 475-477)

Intra-MNC knowledge flows may occur laterally among peer subsidiaries and/or hierarchically between a subsidiary and the parent corporation (Gupta & Govindarajan, 2000: 489). Direct intersubsidiary interactions are becoming increasingly important (e.g., Bartlett & Ghoshal, 1989). Knowledge transfers along different stages in the company's

value chain occur in complementary knowledge transfer contexts in which the source and the target units possess complementary knowledge stocks. Conversely, substitutive knowledge transfer contexts exist when the source and the target units engage in identical or similar activities and the transfer involves the imposition of the source unit's superior know-how over that of the target's allegedly inferior know-how. (Gupta & Govindarajan, 2000: 491-492)

b) Company Performance & Its Measurement

In general terms, the existence of mutually supportive elements of environment, strategy, and structure should lead, *ceteris paribus*, to a superior performance (Birkinshaw & Morrison, 1995: 747). Firm performance tends to exclusively rely upon financial performance measures and ignore other measures of firm performance (e.g., Pan & Chi, 1999; Pan, Li, & Tse, 1999; Simmonds, 1990; Woodcock, Beamish, & Makino, 1994). However, companies often have objectives in addition to financial ones (e.g., Anderson, 1990).

Generally speaking, firstly, perceived quantitative performance measures such as sales, profits, and market share; and, secondly, also qualitative perceptual measures of managerial satisfaction with the firm's performance such as host country market access, marketing effort, distribution in the new foreign market, and the company's reputation in the host country market may be considered (Brouthers, Brouthers, & Werner, 2000: 184-192). Importantly, several previous studies have found that objective performance measures correlate well with subjective performance measures (Dess & Robinson, 1984; Geringer & Hebert, 1991).

Subsidiary performance is complex since it depends on parent company objectives. While new market entry is typically associated with negative returns in the first few years, the subsidiary would be expected to deliver on market share growth. Conversely, a well-established subsidiary might be evaluated on income contribution or return on investment (ROI). (Birkinshaw & Morrison, 1995: 740)

c) Subsidiary Role, Structural Context, & Subsidiary Performance

Firstly, the process school (Bower, 1970; Prahalad, 1976) indicates that corporate top management defines a structural context, that is, an appropriate set of co-ordination and control mechanisms (Birkinshaw, 1997: 210), for the subsidiary consistent with its strategic objectives. In turn, the determined structural context shapes a role or strategy for

the subsidiary. (Birkinshaw & Morrison, 1995: 730-731) Secondly, subsidiaries' autonomous actions may also shape their structural contexts (Burgelman, 1983b). Thirdly, strategy and structure are defined in relation to the nature of the threats and opportunities in the environment (Chandler, 1962).

Each national subsidiary has both a relevant external and an internal environment, the corporate network (Ghoshal & Bartlett, 1990). The parent defines each subsidiary's structural context in relation to this environment and also considers a host of other factors including the corporate strategy and the subsidiary's strengths and weaknesses (Bartlett & Ghoshal, 1986). Thus, the relevant facets of the corporate strategy and the environment are largely to be built into each subsidiary's structural contexts (Birkinshaw & Morrison, 1995: 731).

In Figure 3.3, Birkinshaw & Morrison (1995) use the aforementioned idealised hierarchy and heterarchy models to define three dimensions of structural context at the subsidiary level: Firstly, in terms of subsidiary-parent relationships, the world mandate is most heterarchy-like due to its higher level of strategic autonomy; secondly, in terms of lateral relationships, the specialised contributor is most heterarchy-like whereas the other two types both display significantly greater independence, either in product flows or value-chain configuration; and, thirdly, in terms of subsidiary specialisation, all of the subsidiary types are hierarchy-like to the extent that they exhibit similar levels of capabilities. (Birkinshaw & Morrison, 1995: 748-749) Each of the above subsidiary roles will be discussed later in this Chapter.

A perspective consistent with the dispersed approach to corporate entrepreneurship (see Subchapter 2.4), envisions subsidiaries' strategies as being constrained rather than defined by the structural context, and subsidiary managers have considerable latitude within the imposed constraints to shape a strategy as they see fit (e.g., White & Pointer, 1984, 1990b). Creativity and innovation should represent drivers of subsidiary strategy (White & Pointer, 1984). In what follows, subsidiary management and the agency problem will be discussed.

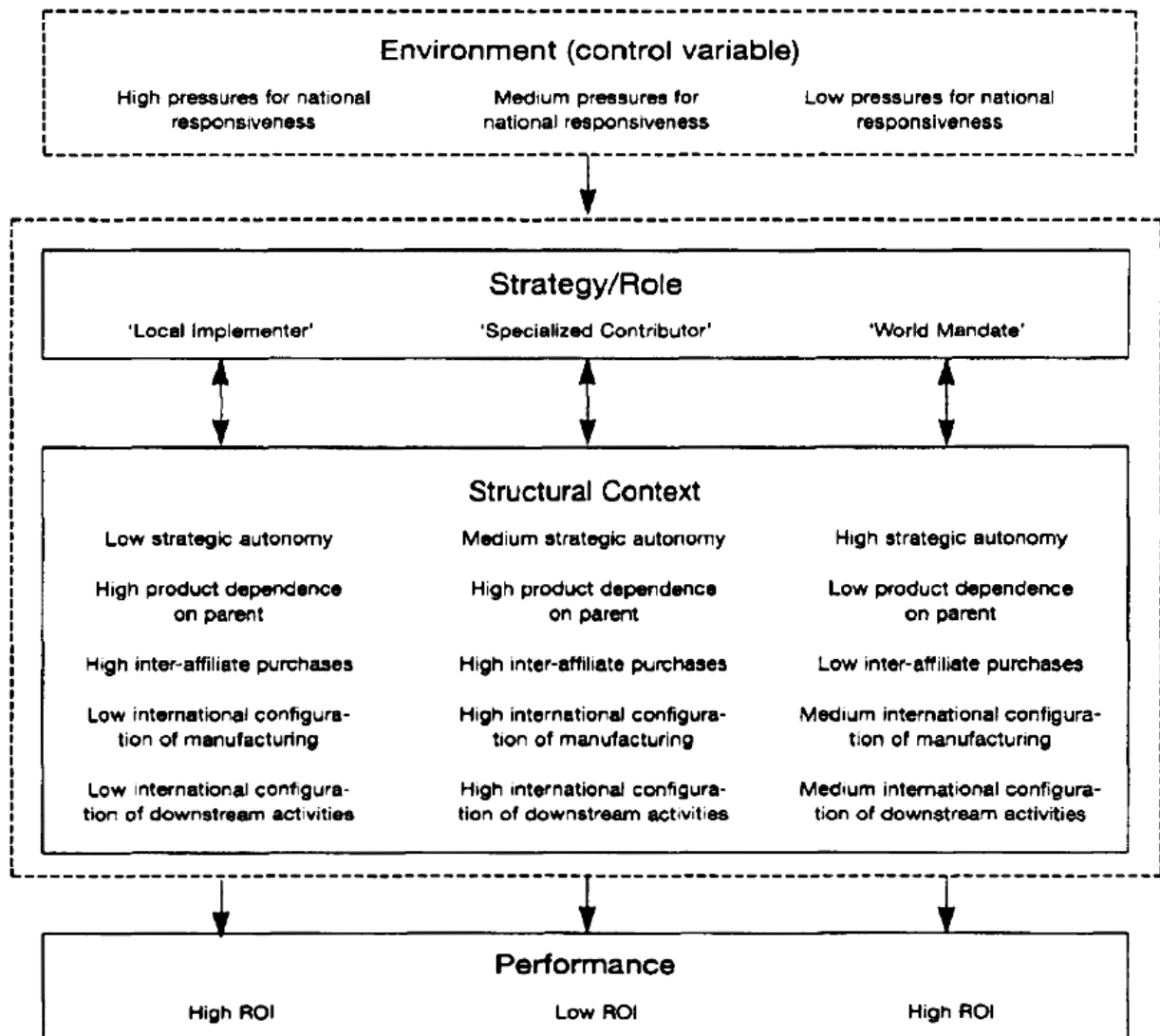


Fig. 3.3: Environment - Strategy/Role - Structural Context - Performance Linkages (Birkinshaw & Morrison, 1995: 748)

d) Managing Foreign Subsidiaries in the 21st Century & the Agency Problem

From an agency theory perspective, MNC headquarters, that is, the principal, delegates responsibilities and decision-making authority to the management of a foreign subsidiary. An agency problem arises if a subsidiary takes decisions that are incongruent with those of the parent. Clearly, the parent does not desire such decisions which may be due to self-interested, opportunistic behaviour on the part of the subsidiary. (O'Donnell, 2000: 526)

Agency theory suggests monitoring and incentives designed to align the goals of the principal and the agent as suitable means to resolve the agency problem (Jensen & Meckling, 1976). Monitoring and incentives are viewed as substitutive mechanisms for

controlling the agency problem, with the balance between them being determined by a trade-off in their respective costs or difficulties (Eisenhardt, 1989b). However, Tosi, Katz, & Gomez-Mejia (1997) argue that since monitoring and incentives have different effects they should be used in combination rather than simply as substitutes for one another (Tosi, Katz, & Gomez-Mejia, 1997). The parent may also choose to monitor subsidiary management behaviour through the use of bureaucratic mechanisms, including rules, programmes and procedures (Galbraith, 1973).

While agency theory assumes a hierarchical relationship between headquarters/the parent and its subsidiaries, a foreign subsidiary may also be viewed as being a member of a set of interdependent organisational subunits as opposed to merely acting as an agent of headquarters (O'Donnell, 2000: 529-530). As global competitive conditions have changed in the past decade, international management research has witnessed a shift towards a perspective in which the MNC is viewed as a web of diverse, differentiated inter- and intra-firm relationships (O'Donnell, 2000: 526). In a global company, these relationships play just as important a role as headquarter's control in implementing strategies (e.g., Bartlett & Ghoshal, 1989).

e) Headquarter-Subsidiary Relations & Subsidiary Roles

Many of the elements of strategic positioning, including choice of customers, product, relative market positioning, and so on, are controlled either exclusively by the parent company or decided on jointly by subsidiary and parent. The more tightly integrated the subsidiary, the more strategic decisions are taken at the corporate rather than at the subsidiary level. (Birkinshaw, Hood, & Young, 2005: 234-235)

Headquarter-subsidiary terminology implies a clear superior-subordinate relationship. This determination of roles may imply that headquarters take responsibility for coordinating and controlling the key decisions and global resources whereas the national organisations have to implement and adapt the global strategy in their local environments. If so, management risks grossly underutilising national subsidiaries' resources and capabilities. Additionally, if subsidiary roles shrink, subsidiaries' ability to sense and respond to the changing environment may atrophy. Clearly, there are also motivational implications. (Bartlett & Ghoshal, 1998: 115-117) According to Vernon (1966; 1979), the traditional role of the subsidiary was, firstly, to adapt the MNC's technology to local tastes; and, secondly, to act as a 'global scanner' sending signals about changing demands back to head office (Vernon, 1966; 1979). However, MNCs may also exhibit more differentiated roles and dispersed responsibilities:

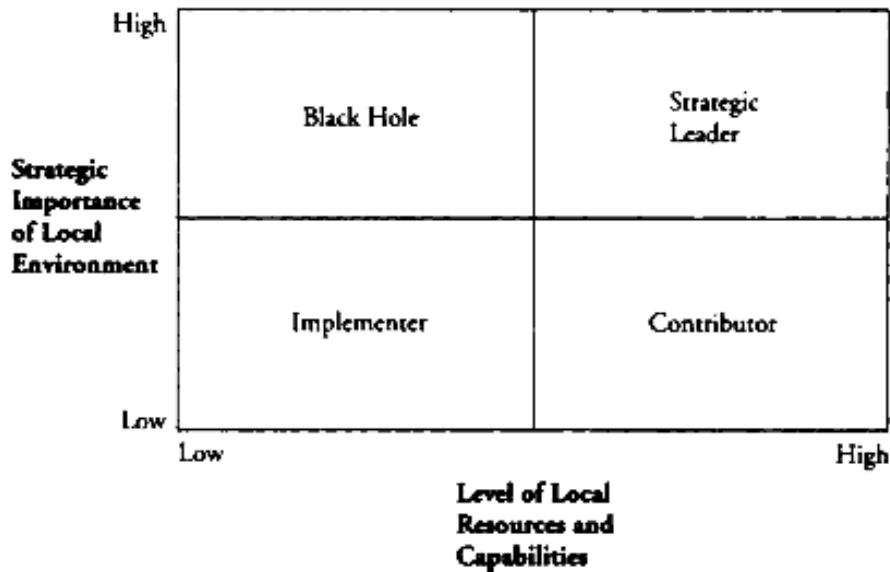


Fig. 3.4: Generic Roles of National Subsidiaries (Bartlett & Ghoshal, 1998: 122)

Figure 3.4 depicts a somewhat oversimplified pattern of subsidiary roles in fulfilling the global objectives of the transnational organisation/MNC. On the one hand, the principal strategic consideration is the overall importance of national environments to the firm's global strategy. On the other hand, the major organisational consideration is the national subsidiary's competence in technology, production, marketing, and/or other areas of expertise. Depending on its positions along these dimensions, a national subsidiary may function as a strategic leader, contributor, black hole, or an implementer. (Bartlett & Ghoshal, 1998: 120-122) In this model, subsidiary roles are determined by the parent and essentially assigned to the subsidiary. Subsidiaries are modelled in terms of the level of their capabilities relative to their sister subsidiaries. (Birkinshaw, 1997: 210) Each subsidiary's role is enacted through the definition of an appropriate set of coordination and control mechanisms, its structural context (Bower, 1970). Next, each of the aforementioned (aggregate) subsidiary roles as well as similar roles described by different authors will be explained.

i) World Mandate/Strategic Leader

The subsidiary type world mandate collaborates with headquarters to develop and implement strategy (Roth & Morrison 1992: 716). Subsidiaries in this role each have worldwide or regional responsibility for a product line or entire business and, typically, unconstrained product scope and broad value-added scope (White & Poynter, 1984). In this way, the MNC achieves decentralised centralisation, that is, activities are integrated worldwide but managed by subsidiaries rather than head office (Birkinshaw & Morri-

son, 1995: 734). Headquarters should be encouraging subsidiaries with a global mandate to be innovative and entrepreneurial to capture the full benefits of their unique knowledge and competencies (O'Donnell, 2000: 542). World mandate subsidiaries appear to be highly autonomous in terms of product flows but configured internationally (Birkinshaw & Morrison, 1995: 747).

Bartlett & Ghoshal's (1986) comparable form is the strategic leader which operates in a strategically important market and features high levels of resources and expertise (see Figure 3.4). Such national subsidiaries need to be legitimate partners of headquarters in developing and implementing broad strategic thrusts. In addition to detecting early warning signals of change, they must participate fully in analysing the resulting threats and opportunities and developing appropriate organisational responses. For instance, Philips' UK subsidiary played a key role in developing the company's strong leadership position in the Teletext TV business. (Bartlett & Ghoshal, 1998: 121-122)

ii) (Specialised) Contributor

Both specialised contributor and world mandate types may be labelled 'geocentric' (Birkinshaw & Morrison, 1995: 735). Specialised contributors are integrated in terms of both product flows and configuration of value-adding activities whereas local implementers are integrated in terms of product flows but configured domestically (Birkinshaw & Morrison, 1995: 747).

Specialised contributors are characterised by considerable expertise in certain specific functions or activities, a narrow set of value activities, high levels of interdependence with affiliated subsidiaries, and a tight co-ordination of their activities with those of other subsidiaries. (Roth & Morrison 1992).

Bartlett & Ghoshal's (1986) contributor is not entirely consistent with the specialised contributor discussed above, because it is found only in non-critical markets. Importantly, especially contributors aim to capture the benefits of certain local facilities or capabilities and apply them to the broader worldwide operations. Thus, MNCs may capture and leverage the capabilities of a remote R&D group for instance. In general terms, harnessing excess resources in a particular subsidiary to address the corporation's global tasks may prove to be a highly valuable undertaking. (Bartlett & Ghoshal, 1998: 123-125)

iii) Implementer

Local implementers have limited geographic scope, typically a single country, severely constrained product or value-added scope, and often limited functional scope. Their role is to adapt global products to the needs of the local market. They typically specialise in downstream activities such as sales and marketing. (Birkinshaw & Morrison, 1995: 733-739)

Similarly, Bartlett & Ghoshal (1998) define the implementer role as follows: Some national subsidiaries have just enough competence to maintain their local operations in a non-strategic market. Fundamentally, they are implementers, that is, deliverers of the company's value-added. They often maintain the commercial viability of the company and generate the resources that support strategic and innovative processes. Their efficiency is as important as the creativity of the strategic leaders or contributors. Implementers enable MNCs to capture economies of scale and scope that are critical to most global strategies. In most MNCs, the majority of national units are implementers. Examples include many subsidiaries in developing countries of Latin America, Africa and Asia. Such subsidiaries neither control scarce resources nor do they have access to critical information. (Bartlett & Ghoshal, 1998: 125-126)

iv) The Black Hole

There may be strategically important markets in which a global company has minimal capabilities. In essence, a national subsidiary in a black hole situation should be playing the role of a strategic leader but lacks the competence to do so. However, developing a significant local presence in a large, sophisticated, and competitive national environment is exceedingly difficult, expensive, and time-consuming. Promising approaches to the black hole problem appear to be niche strategies and strategic alliances. (Bartlett & Ghoshal, 1998: 127-128)

v) Important Concluding Considerations

In units destined to implement strategies developed elsewhere, skills and entrepreneurship may atrophy and any innovative spark may sputter. Most importantly, headquarters should allocate roles so as to raise the company's organisational effectiveness and strategic efficiency. Smaller or less developed national subsidiaries may be incentivised and substantially motivated by entrusting them with lead or contributing roles in the MNC's global strategy. In addition, such action enables national organisations in major markets to concentrate on their leadership roles in the truly critical products. Furthermore, unlike

headquarters, home country operation should be treated no differently from the other national organisations, that is, it should be assigned the role it is best suited for. (Bartlett & Ghoshal, 1998: 129) Subsidiary roles can be differentiated through contextual mechanisms (Bartlett & Ghoshal, 1986).

Importantly, both the subsidiary role perspective and the subsidiary strategy perspective have their merits and are complementary with regard to entrepreneurial capability (Birkinshaw, 1997: 210). In particular, complete control of the national subsidiary through contextual mechanisms is neither possible nor desirable (e.g., Prahalad & Doz, 1981). Clearly, there is an interesting trade-off between control and autonomy in the parent-subsidiary relationship (Birkinshaw, 1997: 210). In this context, both MNCs as interorganisational networks and subsidiary initiatives will be discussed in the following section.

f) MNCs as Interorganisational Networks & Subsidiary Initiatives

MNCs may be modelled as interorganisational networks (Ghoshal & Bartlett, 1990) of loosely coupled entities rather than hierarchical monoliths. This loose coupling gives the subsidiary the necessary freedom to develop its own unique resource profile. (Birkinshaw & Hood, 1998: 778) Within these interorganisational networks, subsidiaries have multiple linkages to other entities both inside and outside the formal boundaries of the MNC (e.g., Ghoshal & Bartlett, 1991). Thus, each national subsidiary sits at the interface of three markets, that is, the local market, the internal market consisting of head office operations and all corporate-controlled affiliates worldwide, and the global market (see Figure 3.5). (Birkinshaw, 1997: 211)

In brief, subsidiary initiatives can be focused on local market opportunities ('local for local innovations') or on global market opportunities ('local for global' or 'global for global innovations') (Ghoshal, 1986). The concepts of local and global initiatives apply to foreign subsidiaries rather than domestic entities. In addition, initiatives may be internally focused. Furthermore, there may also be hybrid forms of the three generic initiative types. (Birkinshaw, 1997: 224-226) For all three initiative types subsidiaries may choose from, the initiative process consists of a protracted selling process by subsidiary management to parent management (Etemad & Dulude, 1986; Science Council of Canada, 1980).

Lastly, facilitating conditions are those elements of the subsidiary's structural context that foster an environment in which initiatives can occur (Birkinshaw, 1997: 211).

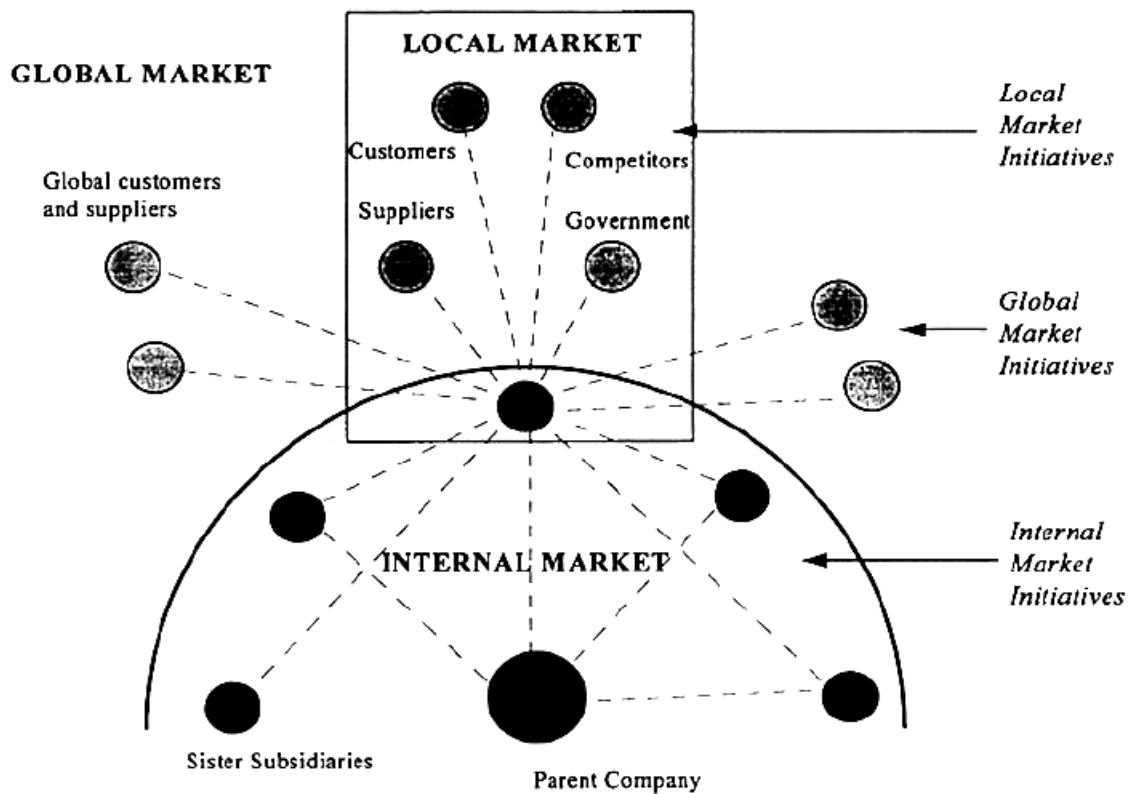


Fig. 3.5: The National Subsidiary & Three Types of Initiatives (Birkinshaw, 1997: 212)

i) Local Market Initiatives

In terms of facilitating conditions, Ghoshal (1986) identifies local resources, local autonomy, normative integration, subsidiary-headquarter communication, and intrasub-sidiary communication as factors that are positively associated with the 'creation' process (Ghoshal, 1986). The intended outcome is to enhance worldwide learning, that is, opportunities identified in one market may be addressed and applied to other countries (Ghoshal, 1986), and maximise global innovation (Harrigan, 1983). Examples include enhancing customer service for local customers and identifying new opportunities for the entire MNC (Birkinshaw, 1997: 223).

ii) Global Market Initiatives

Global market initiatives are driven by unmet product and market needs among non-local suppliers and customers (Birkinshaw, 1997: 213). The Science Council of Canada advanced two tentative propositions: Firstly, facilitating conditions include local autonomy, local resources, and existing international responsibilities. Secondly, the intended outcome is to leverage the subsidiary's existing capabilities into related areas (Science Council of Canada, 1980).

iii) Internal Market Initiatives

In an internal market, divisions or subsidiaries of a single company pursue competitive exchange relationships with one another (e.g., Galunic & Eisenhardt, 1994; Halal, 1993). An internal market initiative arises through market opportunities identified in the corporate system. It may be directed towards revenue enhancement or cost reduction (Birkinshaw, 1997: 213). The characteristics of internal market initiatives include: firstly, local resources, some decentralisation of decision-making (Galunic & Eisenhardt, 1994), good relationships with the parent company (Science Council of Canada, 1980), horizontal network and shared decision premises (White & Poynter, 1990b) as facilitators of initiative; and, secondly, efficiency in global operations and desire for local value-added as the intended outcomes (Science Council of Canada, 1980; White & Poynter, 1990b).

iv) Conclusions

Subsidiaries have the potential to enhance the local responsiveness, global integration, and worldwide learning capabilities of the MNC. MNCs that are able to effectively harness the full entrepreneurial capacity of their subsidiaries stand to gain competitive advantages. This also requires creating an appropriate structural context facilitating entrepreneurship. However, as a single structural context cannot facilitate all four types of initiative, context has to be differentiated at the sub-subsidiary level (i.e., typically the division, business unit, or plant level) if the full scope of initiative types is to be facilitated. (Birkinshaw, 1997: 225-226)

g) Taking a Subsidiary Perspective: External & Corporate Competitive Arena

Furthermore, Birkinshaw, Hood, & Young (2005) argue that subsidiaries face the challenge of having to simultaneously respond to and cope with their internal (corporate) and external competitive environments/pressures whose relative strengths ultimately shape their strategic options. However, both competitive arenas are broadly similar. They are both competitive arenas in which players fight - through their own proactive entrepreneurial initiatives - to establish and defend advantageous positions and ultimately secure competitive advantage. In both competitive arenas, relationships between suppliers, customers, and competitors may be a blend of competition and collaboration. (Birkinshaw, Hood, & Young, 2005: 227-229) For instance, while subsidiaries and their sister plants in other countries rely on one another for transferring ideas and ways of working, they are in competition for new investment or even for survival (Birkinshaw, Hood, & Young, 2005: 246).

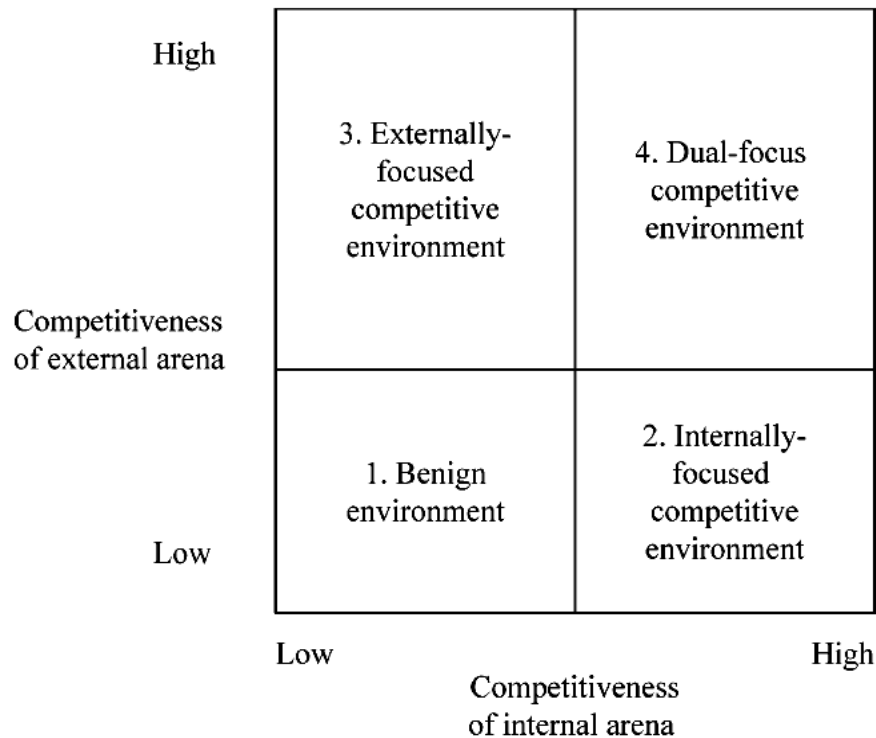


Fig. 3.6: Subsidiaries' Internal & External Competitive Arenas (Birkinshaw, Hood, & Young, 2005: 231)

Figure 3.6 shows competitive arenas subsidiaries may face. An example of a benign environment may be a niche business. Furthermore, both internally- and externally-focused competitive environments are relatively common. A weak internal competitive arena coupled with a strong external competitive arena creates an externally-focused competitive environment. The subsidiary company finds itself relatively disconnected from the corporate system either because of the way the MNC is organised or because it is operating in its own unique field of expertise. The mirror image of this scenario is the internally-focused competitive environment. Lastly, a dual-focused competitive environment is one in which there are strong internal and external competitive environments. This dual focus may potentially lead to internal tensions as executives struggle to reconcile conflicting or competing demands from their environments. (Birkinshaw, Hood, & Young, 2005: 231-233) While exposure to both internal and external competitive arenas has benefits, managing complexity and reconciling awkward tradeoffs causes costs (Birkinshaw, Hood, & Young, 2005: 247).

Parent companies have to explicitly choose which level of competition they want to expose their subsidiaries to. These choices significantly impact on the types of activities the subsidiaries are likely to get involved in. (Birkinshaw, Hood, & Young, 2005: 247)

Importantly, each scenario allows subsidiaries to improve their competitive position: Firstly, they can position themselves within their internal environment either by becoming more efficient or by seeking to manufacture a unique product; and, secondly, they can position themselves within their external environment through the classic strategic positions of low cost, differentiation, or focus (Porter, 1980).

Birkinshaw, Hood, & Young's exploratory empirical study (2005) shows that most of the dual-focused and many of the externally-focused groups start out as internally-focused subsidiaries. Through a gradual process of self-improvement, credibility-building, and initiative they are able to change their entire orientation. However, the dual-focused position offers a greater potential for competitive advantage than the externally-focused position since it combines a strong external focus with internal integration. Additionally, visible manifestations of a competitive internal arena include internal benchmarking, bidding processes and rationalisation. (Birkinshaw, Hood, & Young, 2005: 245-247)

While an internally-focused competitive environment is likely to be associated with a narrower technology or product charter, a subsidiary that is focused more on its external competitive environment is likely to exhibit a much greater capacity for entrepreneurial behaviour in choosing what customers or suppliers to work with and how it positions itself vis-à-vis local competitors. Correspondingly, its charter is likely to be defined more broadly. (Birkinshaw, Hood, & Young, 2005: 234).

3.4 Optimal (Foreign) Market Entry Mode Choices from a RBV

Firstly, models of entry mode choice should be concerned with choosing the entry mode offering the highest risk-adjusted return on investment (Ekeledo & Sivakumar, 1998: 279). Basically, entry mode choice (EMC) is about determining the set of all possible market entry strategies; secondly, to assess/estimate the potential profitability of each; and, thirdly, to identify the strategy that is likely to be the most profitable in the long run (Buckley & Casson, 1998a: 547).

This Subchapter is dedicated to a resource-based mid-range theory of optimal (foreign) market entry mode selection. It aims to assist managers in identifying the entry mode that is likely to turn out to be most profitable in the long term. Importantly, the theory predominantly confines itself to the four generic growth strategy types available to the

firm, that is, organic growth/internal development, mergers and acquisitions (M&As) as well as strategic alliances/networks (SAN) (Campbell, Stonehouse, & Houston, 2004). Each of these generic growth strategy types will be examined in much more detail in Chapters 4 to 6.

3.4.1 Theoretical Model & Propositions

While Subchapters 3.1 to 3.3 are essential to getting to grips with the rather comprehensive, general theoretical model, Subchapter 2.7 provides the basis for its application to the private banking business. Next, the model will be explained starting from the upper left corner, moving downward and then to the right to ultimately arrive at the upper right corner.

a) Explanation of the Mechanics of the Compounded Theoretical Model

Firstly, this model suggests analysing the motives (i.e., market-, resource-, and/or capability-seeking) for firm E to expand into market A (Brouthers, Brouthers, & Werner, 2008a). For instance, in the 1990ies, two of the world's largest universal banks also running a private banking business, Banco Santander and Banco Bilbao Vizcaya, expanded into Latin America. Firstly, Banco Santander aimed at multiplying its banking model when pursuing an acquisition strategy (partial to full acquisitions) for internationalisation in Latin America. Before, it had already successfully applied its business model to other markets such as Spain. Secondly, Banco Bilbao Vizcaya undertook partial to full acquisitions, selecting leading entities in target countries to tap local market knowledge. From 1998, Banco Bilbao Vizcaya converted the group into a franchise so as to create a multidomestic global group combining local advantage with global advantage (e.g., overall view of risks and opportunities and highly developed technology) held by the acquirer. (Álavarez-Gil, Cardone-Riportella, Lado-Cousté, & Samartín-Sáenz, 2003: 112-113)

Secondly, a thorough analysis of the resource position of expanding firm E should be carried out (Wernerfelt, 1984). In this context, it is paramount to assess the applicability of resource-based advantages of firm E in market A (Brouthers, Brouthers, & Werner, 2008b; Madhok, 2002; Oliver, 1997). For example, in certain countries, the USA and the UK for instance, consumerism is a social norm, whereas in other countries such as Japan thrift and savings are the norm (Brouthers, Brouthers, & Werner, 2008b: 213). Thus, resource-based advantages based on consumerism are likely to be much more valuable in the USA or UK than in Japan. Furthermore, companies should determine

whether a resource gap needs to be filled to reach preset objectives in market A (e.g., Anand & Delios, 1997; see the above example of Banco Bilbao Vizcaya) and, if yes, the options to do so. For example, Western firms entering China need to learn to deal with Chinese *guanxi* networks, customs, values, and the Chinese government (Xin & Pearce, 1996). Lacking location-specific and other resources may be accessed and/or acquired via M&A (e.g., Hitt, Ireland, & Harrison, 2001) and strategic alliances/networks (e.g., Barringer & Harrison, 2000; Granovetter, 1992). In addition, strategic resources may be acquired on strategic factor markets (Barney, 1986a) or, in the medium to long term, they may be accumulated via a consistent pattern of resource flows so as to attain the desired strategic asset position via organic growth (Dierickx & Cool, 1989). For instance, trust, which is paramount in the personalised private banking business, must be earned by the setting-up of reputation time and time again with a great deal of patience (Geiger & Hürzeler, 2003: 95). Clearly, also a combination of the above methods to obtain and/or gain access to strategic resources might constitute options depending on the concrete situation at hand.

Thirdly, given its motives for entering market A, expanding firm E may assess the potential company-wide long term value-added of all four generic expansion options/growth strategy types (Campbell, Stonehouse, & Houston, 2004). In doing so, the company may capitalise on Pan & Tse's (2000) hierarchical model of entry modes, the determinants of entry mode choice (Villalonga & McGahan, 2005) and the option to access and/or acquire location specific and other resources via M&A's (Hitt, Ireland, & Harrison, 2001) and/or strategic alliances and strategic networks (e.g., Barringer & Harrison, 2000; Granovetter, 1992). EMC may also impact on the combined set of CAs and SCAs available to the firm after market entry since EMC may entail access to or possession of additional resources (e.g., Barney, 1991; Peteraf, 1993). Furthermore, the chosen expansion option itself is bound to affect the evolution of firm E's portfolio of strategic options (Leiblein & Miller, 2003; McGrath & Nerkar, 2004). Please see also the above two examples of Banco Santander and Banco Bilbao Vizcaya.

Fourthly, a host of general and specific factors needs to be considered when it comes to assessing company-wide the likely potential value-added of strategic expansion options. On the one hand, general factors include resource commitment, risk exposure, control and return (e.g., Pan & Tse, 2000). They may vary with the strategic expansion strategy opted for (see Chapters 4 to 6). In addition, firm-, industry-, and country-specific factors need to be considered (e.g., Madhok, 1997; Tse, Pan, & Au, 1997). On the other hand,

specific factors include the alignment of entry mode with resource-based advantages (e.g., Barney, 1997), the balance between location-specific disadvantages and resource-based advantages (Anand & Delios, 2007; Hymer, 1976), the risk of resource-based value erosion (Brouthers, Brouthers, & Werner, 2008b), foreign market structure and competitive strategy (Buckley & Casson, 1998a), firm E's strategic flexibility, portfolio of options (e.g., Leiblein & Miller, 2003), and perceived environmental uncertainty (Brouthers, Brouthers, & Werner, 2000), both firm E's internationalisation experience (e.g., Barkema & Vermeulen, 1998; Lu & Beamish, 2001), and entry mode experience (SAN/M&A capability) (Kale, Dyer, & Singh, 2002), entry order and timing of foreign market entry (Pan, Li, & Tse, 1999), as well as other specific factors such as tax optimisation, tax incentives (Buckley & Casson, 1998a).

Ultimately, based on the above analysis, the (foreign) market entry mode featuring the highest risk-adjusted amount of value added needs to be identified and selected.

b) Propositions

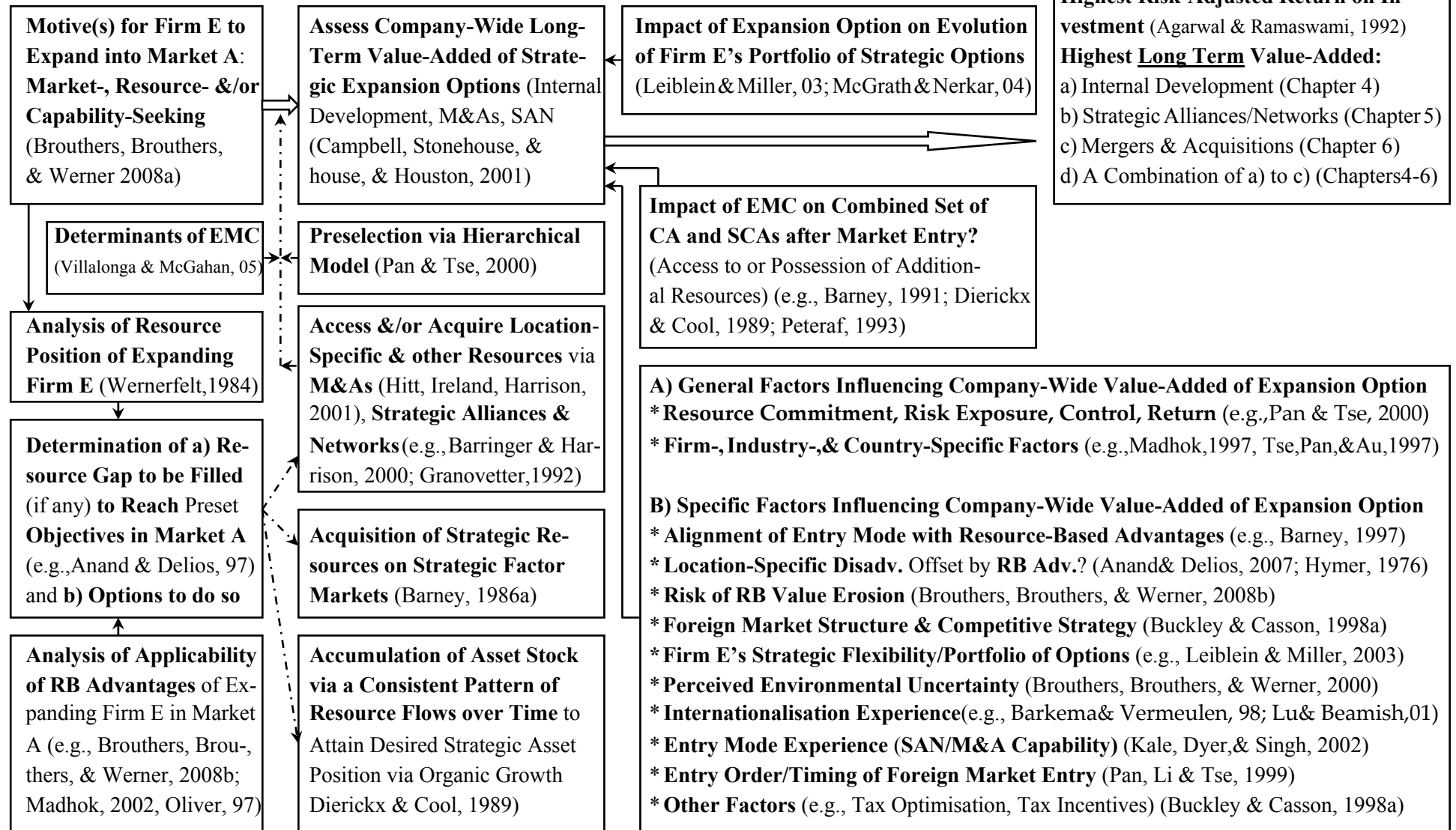
Next, we will turn to the propositions the author draws from the compounded theoretical model described and explained above.

Proposition 1: Firms applying the entire compounded, multifaceted theoretical model depicted at the end of Subchapter 3.4.1 will in general terms be more likely to take well-informed, forward-looking, sustainable decisions as regards foreign market entry mode choice (EMC). Their choices will be more likely to lead to a maximum amount of long term value-added.

The author argues that empirical tests of the above proposition are likely to provide evidence that it holds true. If major renowned models that fit well together are combined in a meaningful way, a greater portion of reality may be grasped. Thus, as more aspects are taken into account when deciding on how to go about (foreign) market entry, the probability of a better-informed strategic decision being implemented in superior ways is enhanced.

Proposition 2: This theoretical model holds true across all industry contexts. Much empirical testing will be needed to provide evidence for this proposition.

Theoretical RB Model: Optimal (Foreign Market) Entry Mode Choice (EMC)



3.4.2 Assumptions, Limitations, Boundaries, & Future Research

a) Assumptions Underlying this Mid-Range Theory, Limitations & Boundaries

The compounded theoretical model depicted in Subchapter 3.4.1 predominantly combines and confines itself to different well-acknowledged resource-based 'theories' of the firm, real options theory, general strategic management literature, research literature on international management in general and foreign market entry mode choice specifically. Thus, while it capitalises on the distinct advantages of these literatures, it is simultaneously subject to their assumptions and limitations. The model assumes that all resource-based 'theories' and other theories drawn on may be combined to form a more comprehensive, multifaceted theoretical model despite their grounding in different fields of inquiry. In addition, the benefits of applying this model are assumed to offset the opportunity costs associated with it. Lastly, this model presumes that firms have the resources/capabilities necessary to carry out all steps necessary to figure out which market entry mode is likely to add the most value to the firm.

b) Tracing a Future Research Agenda

Please see Subchapters 7.1 (RBV) and 7.3 (ROT) as regards avenues for future research. Furthermore, the compounded theoretical model depicted in Subchapter 3.4.1 should be extensively empirically tested and possibly complemented with new/enhanced, supplemented resource-based 'theories', real option theories, and/or international management/(foreign) market entry mode choice research.

3.4.3 Conclusions Subchapter 3.4

Internationalisation tends to positively impact on company performance (Hitt, Hoskisson, & Kim, 1997; Geringer, Tallman, & Olsen, 2000). Companies have a great variety of motives for expanding abroad (e.g., resource-seeking, capability-seeking, market-seeking, or efficiency-seeking) (Birkinshaw & Hood, 1998). More specifically, companies aim to augment their upstream and/or downstream capabilities (e.g., Caves, 1996) for instance.

International entry strategies include independent, shared, and integrated modes of entry (Buckley & Casson, 1998a: 547). Entry modes are closely associated with varying degrees of resource commitment, risk exposure, control, and profit return (Pan & Tse, 2000: 535). In this context, firms need to organise themselves in ways that allow them to

exploit their competitive advantage (Barney, 2001a). Entry mode strategy may significantly impact on company performance (e.g., Anand & Delios, 1997; Barney, 1997; Combs & Ketchen, 1999). Strategies are not equally successful across environmental contexts (Kent, 1991). The governance structure decision determines how the unique firm resources will interact with environmental factors (Tallman, 2001: 483). In this context, while globally specific skills such as technology are fungible across borders, locally specific skills have a restricted geographical scope because of intrinsic differences in host country markets (Buckley & Casson 1996).

Furthermore, the relative performance of the three entry modes greenfield, acquisition, and local partner joint venture hinges on both the need to source local resources and the ability to exploit existing capabilities (Anand & Delios, 1997: 586). At least in an international setting, resource-based advantages appear to be context-specific (Brouthers, Brouthers, & Werner, 2008b: 189). In addition, as the theoretical model depicted in Subchapter 3.4.1 impressively illustrates, there is a host of additional factors affecting entry mode performance. For instance, the value generated by an acquisition or an alliance also depends on a firm's acquisition and alliance capability respectively (e.g., Kale, Dyer, & Singh, 2002). Furthermore, a balance between uncertainty reduction and related governance costs of the possible organisational structures has to be struck (Tallman, 2001: 481-482). Choosing the market entry mode which is likely to generate the most value-added and ensuring that resource gaps (if any) are filled represents a delicate affair. The above model provides a synoptic view in this respect.

3.5 Drivers of Optimal Headquarter - Subsidiary Relations from a RBV

Optimal relations between organisational units significantly facilitate MNCs' efforts in adding value through arbitrage (Rugman & Verbeke, 2004: 3-16) and in exploiting the best location for each value-adding activity (Tallman, 2001). The rather comprehensive, general theoretical model presented in Subchapter 3.5.1 aims to facilitate the establishment of most promising, sustainable headquarter-subsidiary relations and, indirectly, subsidiary- subsidiary-relations. While Subchapters 3.1 to 3.3 are essential to well understanding this model, Subchapter 2.7 provides the basis for its application to the private banking business. Please also refer to the empirical examples provided in Subchapter 3.4.1.

3.5.1 Theoretical Model & Propositions

MNCs (see schematic model of the MNC depicted below) may be conceived of as networks of multifaceted inter- and intra-firm relationships (O'Donnell, 2000: 526) or interorganisational networks (Ghoshal & Bartlett, 1990) of loosely coupled entities (Birkinshaw & Hood, 1998: 778). MNC subsidiaries feature many linkages with other corporate entities in the home country and worldwide (Ghoshal & Bartlett, 1990) and their activities are interdependent with those of the global network (Birkinshaw, 1997: 211). The global organisation links its competitive position across its various country locations (O'Donnell, 2000: 530). Forging optimal headquarter–subsidiary relations is paramount if MNCs are to leverage resources and capabilities and to create a maximum amount of long term value. Subsidiary resources/capabilities need to be tapped into and efficiently transferred between organisational units. Examples include those of Banco Santander, Banco Bilbao Vizcaya (see Subchapter 3.4), and Credit Suisse (see Subchapters 4.4.1 and 4.5.1).

a) Explanation of the Mechanics of the Compounded Theoretical Model

Subchapters 3.1 to 3.3 are paramount to getting to grips with the rather comprehensive theoretical model on optimal headquarter-subsubsidiary relations that is depicted at the very end of this Subchapter. In what follows, it will be described starting from the lower left-hand corner and moving to the right and ultimately to the upper right-hand corner.

To begin with, the resource positions of the MNC parent and all its subsidiaries worldwide need to be thoroughly analysed (Wernerfelt, 1984). Analysing the MNC's entire resource position is paramount if its internationally dispersed resources and capabilities are to be optimally harnessed and leveraged. Such analyses may also unveil synergy potentials. For instance, in 2004, the Société Générale Group created a new division, Global Investment Management and Services (GIMS), to seek out synergies between the internal divisions asset management, private banking, and securities services and improve the group's efficiency and cross-selling activities. However, being international also means taking a local approach in each market. (Shahnaz, 2006: 16-21) In addition, the environments the MNC faces should be screened for opportunities and threats (e.g., Ansoff, 1965). In this context, Asia is a highly attractive region for private banking because of its rapid growth (Ang, 2010: 68). The resulting information from probing into the MNC's total resource bundle and the environmental screening/analysis may lead to superior information on strategy implementation (Barney, 1986a). Ultimately, superior

information on strategy implementation enables managers to assess which strategic options are most likely to produce the most promising set of (sustained) competitive advantages (i.e., CAs and SCAs). This superior set of CAs and SCAs will/should feature the highest expected risk-adjusted long term value-added potential. Taken together, all information gathered so far may serve as a basis for assessing the strategic options the MNC has, given its total resource bundle and the environments it faces both in the home and host countries. Importantly, the analysis of strategic options for the MNC should not exclude options demanding the closure of strategic resource gaps. If the required strategic assets cannot be bought on strategic factor markets (Barney, 1986a), lacking strategic asset stocks (e.g., a good reputation or a brand) might be accumulated by adhering to a set of consistent policies over a period of time (Dierickx & Cool, 1989). With regard to private banking in Asia, Ang (2010) argues that building a highly successful private banking presence in Asia requires management to well understand private clients' needs and address the key issues that are unique to the region (e.g., the shortage of good private bankers in Asia, the need for private banks to pay attention to the issues of trans-generational wealth transfers). Given the fragmentation of the private banking market, especially in Asia, the provision of personalised services and solutions requires management to adopt a highly focused strategy with respect to the segment a private bank wishes to target. (Ang, 2010: 68-75)

Importantly, firms also need to be organised to take full advantage of their resources in order to attain (sustained) competitive advantages (Barney, 1997). The MNC must be in a position to optimally harness and leverage its internationally dispersed resources and capabilities (Bartlett & Ghoshal, 1989). In MNCs, that is, interorganisational networks (Ghoshal & Bartlett, 1990), smooth intracorporate flows of non-duplicative knowledge (Gupta & Govindarajan, 2000) as well as the promotion of knowledge creation (Nonaka, 1994), innovation and creativity (White & Pointer, 1984) as drivers of subsidiary, business, and corporate strategy is paramount. Clearly, this may also mean diffusing best practices developed by subsidiaries in other countries and/or strategic alliance partners throughout the MNC network. For instance, China Construction Bank's private banking operation absorbed internationally recognised best practices of its strategic partner, Bank of America, by co-operating closely with its ally right from the outset (Euro-money; 2009: 18-19). In addition, outsourcing may create additional value. For example, Rothschild Private Management outsourced its Great Britain-based private banking back-office operations to State Street Wealth Management Services. Expansion of its private banking services is a core part of the Rothschild Group's overall strategy, and

they want to focus their efforts on building a private banking business rather than getting tied down with day-to-day operational matters. (Operations Management, 2004: 2) Outsourcing may lead to substantial cost savings. In the United States, companies save 58 cents for every dollar of spending on back-office service functions and IT jobs they move to India. Resources saved may be invested in activities associated with a higher value-added potential. In addition, outsourcing may also entail repatriated earnings: Indian firms wholly or partly owned by US companies generate 30 percent of the revenues of the Indian IT-outsourcing and business process-outsourcing industries. (Farrell, 2004: 114-123)

Furthermore, fostering strategic entrepreneurship not only at the corporate but also at the business and subsidiary level may well contribute to optimally harnessing and leveraging resources and capabilities (e.g., Hitt, Ireland, Camp, & Sexton, 2001). According to the dispersed approach to corporate entrepreneurship, subsidiaries' three-dimensional structural context should constrain rather than define subsidiary strategy (Birkinshaw & Morrison, 1995; White & Pointer, 1984; 1990b). In this context, the relevant facets of corporate strategy and subsidiaries' internal and external environments should largely be built into subsidiaries' structural contexts (Birkinshaw & Morrison, 1995). In addition, intellectual capital, the wealth of ideas and ability to innovate that will determine the future of the organisation (Bontis, 2002), comes into play. Strategists must exploit an entrepreneurial mindset and, thus, have no choice but to embrace it to sense opportunities, mobilise resources, and act to exploit opportunities, especially under highly uncertain conditions (McGrath & McMillan, 2000). For instance, a group of Thai Chinese traders and courtiers headed by Chin Sophonpanich, one of Thailand's most prominent entrepreneurs and former Chinese rice trader, started a small financial cooperative and built a regional client network lending only to other ethnic Chinese residing in Thailand. In 1944, Chin founded Bangkok Bank, which has grown to be one of the largest banks in South-East Asia. (Volery & Schaper, 2004: 18)

MNC performance may be further enhanced by aligning strategies with idiosyncratic resource positions (Barney, 1986a; Wernerfelt, 1984), corporate with subsidiary strategies, strategy with structure and systems (Donaldson, 2000; Hoskisson, 1987), as well as strategies with environments (Hitt & Ireland, 2000; Venkataraman, & Sarasvathy, 2001). Unquestionably, this also applies to the international private banking industry.

Furthermore, capitalising on and optimally exploiting the MNC's total resource bundle also implies ensuring adequate appropriate subsidiary control, which also involves a sound combination of monitoring and both monetary and non-monetary incentives (Tosi, Katz, & Gomez-Mejia, 1997). In brief, control forms to choose from/combine are social (O'Donnell, 2000), normative (Hedlund, 1986) and bureaucratic (Galbraith, 1973).

Ultimately, the achieved financial and/or strategic performance will provide an indication of whether or not headquarter-subsidiary and subsidiary-subsidiary relations proved to be beneficial to the MNC and whether a reassessment and tracking of improvement potential might be worthwhile. Given today's fast changing world, a thorough reassessment is certainly required from time to time depending on industry clockspeed.

b) Propositions

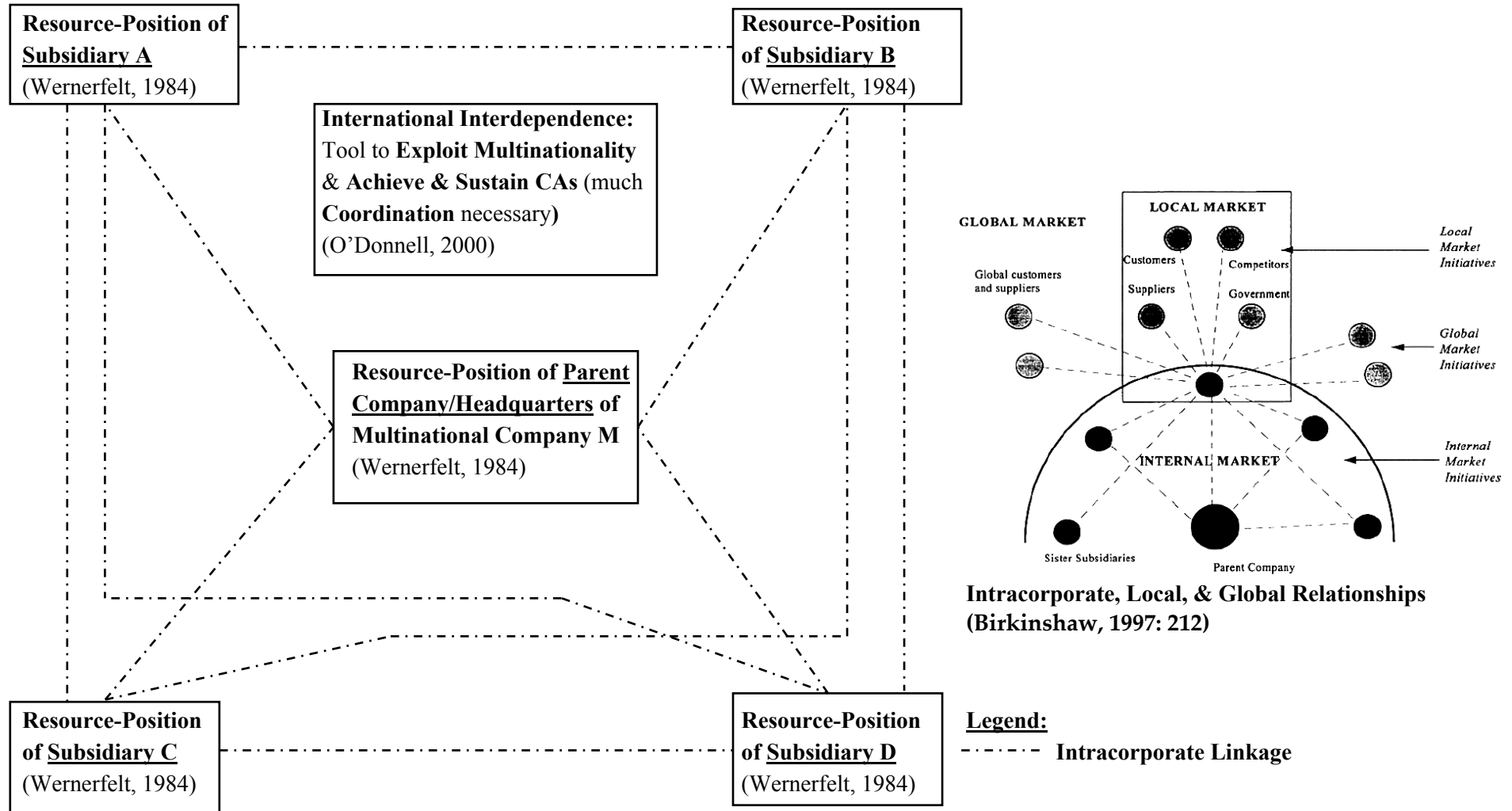
Next, we will turn to the propositions the author draws from the compounded theoretical model described and explained above.

Proposition 1: Firms applying the entire compounded, multifaceted, theoretical model depicted at the end of this Subchapter will in general terms be more likely to take well-informed, forward-looking, sustainable decisions as regards the establishment of optimal headquarter-subsidiary relations. Their choices in this respect will be more likely to create a maximum amount of long term value-added.

The author argues that empirical tests of the above proposition are likely to provide evidence that it holds true. If major renowned models that fit well together are combined in a meaningful way, a greater portion of reality may be grasped. Thus, as more aspects are taken into account when deciding on how to go about establishing optimal headquarter-subsidiary relations the probability of better-informed strategic decisions being implemented in superior ways is enhanced.

Proposition 2: This theoretical model holds true across all industry contexts. Much empirical testing will be needed to provide evidence for this proposition. Firstly, the individual components will need to be subjected to extensive empirical tests.

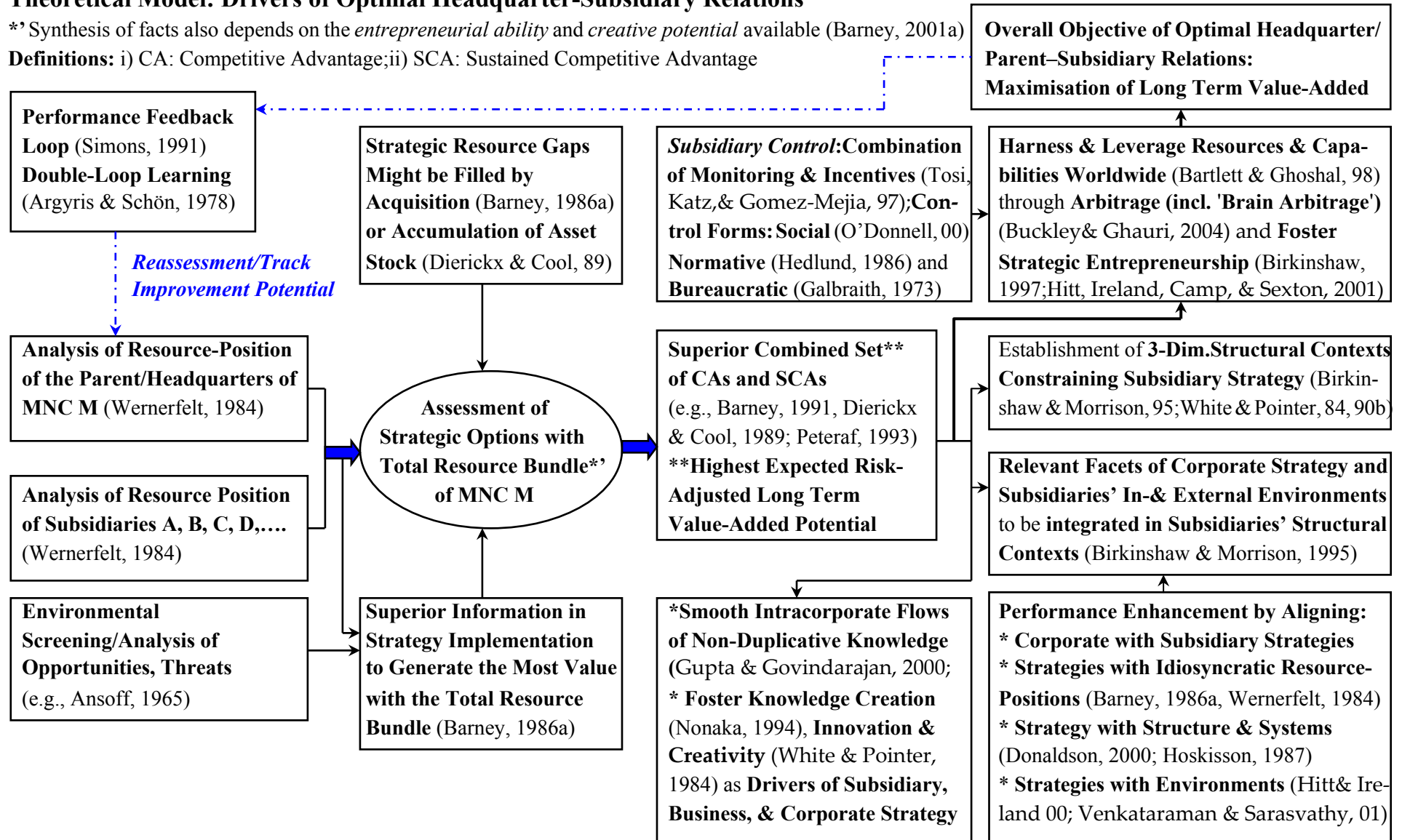
1. Overview: Schematic RB Model of the MNC as a Network of Resources & Capabilities (incl. Inter- & Intra-Firm Relationships)



Theoretical Model: Drivers of Optimal Headquarter-Subsidiary Relations

*' Synthesis of facts also depends on the *entrepreneurial ability* and *creative potential* available (Barney, 2001a)

Definitions: i) CA: Competitive Advantage; ii) SCA: Sustained Competitive Advantage



3.5.2 Assumptions, Limitations, Boundaries, & Future Research

a) Assumptions Underlying this Mid-Range Theory, Limitations & Boundaries

The compounded theoretical model depicted in Subchapter 3.5.1 predominantly combines and confines itself to different well-acknowledged resource-based 'theories' of the firm, general strategic management literature, research literature on international management in general and headquarter-subsidiary relations specifically. Thus, while it capitalises on the distinct advantages of these literatures, it is simultaneously subject to their assumptions and limitations. It assumes that all resource-based 'theories' and other theories drawn on may be combined to form a more comprehensive, multifaceted theoretical model despite their grounding in different fields of inquiry. In addition, the benefits of applying this model are assumed to offset the opportunity costs associated with it. Lastly, this model presumes that firms have the resources/capabilities necessary to capitalise on the insights of this model.

b) Tracing a Future Research Agenda

Please see Subchapters 7.1 (RBV) and 7.5 (SI research) as regards avenues for future research. Furthermore, the compounded theoretical model depicted in Subchapter 3.5.1 should be extensively empirically tested and possibly complemented with new/enhanced, supplemented resource-based 'theories', strategy implementation, and/or international management/headquarter-subsidiary-relations research.

3.5.3 Conclusions Subchapter 3.5

Smoothly functioning, fruitful headquarter-subsidiary relations are vital to internationally operating companies. The parent-subsidiary relationship is multifaceted in that it varies across business units and operates at multiple levels of management (e.g., Bartlett & Ghoshal, 1993; Birkinshaw, 1995). In this context, both Hedlund's heterarchy model (Hedlund, 1986) and the Chandler-Williamson hierarchy model (Chandler, 1962; Williamson, 1975) have their merits. Most importantly, for each company, the overarching objective is to maximise long term value creation given its corporate entities' resources and capabilities.

Undoubtedly, foreign subsidiaries possess strategic resources that are critical to sustaining the MNC's international competitiveness (Birkinshaw, 1996; Gupta & Govindarajan, 1991; Hedlund, 1986; Roth & Morrison, 1992). They need to be harnessed by trans-

ferring them throughout the interorganisational network of the MNC (O'Donnell, 2000: 530). Furthermore, MNCs need to balance the cost advantages of product and/or service standardisation against the revenue advantages of adaptation/localisation (Buckley & Ghauri, 2004:86-87).

The theoretical model presented in Subchapter 3.5.1 may facilitate the achievement of along with optimal headquarter-subsidary relations - an optimal configuration and strategic positioning of MNCs. The existence of mutually supportive elements of environment, strategy, and structure should lead, *ceteris paribus*, to a superior subsidiary performance (Birkinshaw & Morrison, 1995: 747). Ultimately, success and failure respectively indicate whether the combination of strategy and structure has generated a competitive advantage for the firm in a specific host market (Tallman, 2001: 483).

3.6 Conclusions Chapter 3

The challenge for transnational firms is to identify and exploit cross-border synergies, and balance local demands with the global vision for the organisation (Campbell & Verbeke, 1994: 95-102). Multinationals may be conceived of as differentiated networks (Bartlett & Ghoshal, 1986, 1998). In general terms, companies expand into international markets to pursue new opportunities by leveraging their current resources, capabilities and competencies (Lu & Beamish, 2001). In order to be enabled to do so in optimal ways, choosing the most promising entry modes when expanding into new markets as well as forging, fruitful, value-adding headquarter-subsidary relations is paramount.

In the international/global business arena, creating value by exploiting differences across nations and regions, that is, arbitrage, is paramount (Rugman & Verbeke, 2004: 3-16). In short, to achieve superior, above-normal international performance, firms need to consider, firstly, the resource-based advantages they possess; and, secondly, the differences and/or similarities in the specific dimensions of the institutional environments between home and target countries when making international strategic decisions. (Brouthers, Brouthers, & Werner, 2008b: 213)

The next chapter will examine organic growth, a vital form of corporate development.

Chapter 4
Market-Driven, Corporate Growth
through
Internal Resource Development

4 Market-Driven, Corporate Growth through Internal Resource Development

4.1. Abstract

Executing an integrated, organic growth strategy, that is, pursuing a strategy from the inside out, may be more rewarding than driving outside-in strategies like M&As (Dalton & Dalton, 2006: 5). Profitable strategic growth leverages a corporation's resources and capabilities. Creating so-called growth platforms may be a way to trigger significant organic growth. (Laurie, Doz, & Sheer, 2006: 82) Clearly, fostering organic growth also implies managing subsidiary evolution (Birkinshaw & Hood, 1998), strategic entrepreneurship (Hitt, Ireland, Camp, & Sexton, 2001), as well as intra-MNC knowledge flows in optimal ways (Nonaka, 1994). Furthermore, having an appropriate strategy-making process in place and regarding unrealised strategies as sources of learning is essential (Mintzberg & Waters, 1985).

Organic growth has put transformative change, that is, changing and transforming the organisation, on the corporate agenda (Karp, 2006: 3). In times of uncertainty, keeping options open, that is, strategic flexibility (Bowman & Hurry, 1993), is particularly paramount. In addition, it is important to distinguish between fast- and slow-paced industries (e.g., Eisenhardt & Martin, 2000). Strategic initiatives, co-ordinated efforts within an organisation to affect the renewal of core competencies and/or the organisation's product/market domain (Floyd, Ortiz-Walters, & Wooldridge, 2004: 4), are essential when it comes to transforming a corporation. In general terms, managing the development, maintenance, and renewal/replacement of core capabilities, which may simultaneously enhance/enable and inhibit/hamper development and innovation, is paramount. (Leonard-Barton, 1992: 111-123)

How and why do firms get to be good, how do they sometimes stay good, why and how do they improve/decline as regards organic or internal growth? In brief, Chapter 4 explores how companies may add the most value if they opt for internal resource development as their preferred growth strategy in a given situation. Thus, Subchapter 4.4 presents a resource-based theoretical model on market-driven, value-boosting, organic growth strategies. This model aims to especially facilitate the design of superior organic growth strategies. Subchapter 4.5 presents a dynamic capability-based theoretical model of superior routines in organic growth strategy implementation/execution. Both general models are applied to the subtleties of the private banking business.

4.2 General Introduction, Overview, & Research Motivation

Firstly, Subchapter 4.2 presents a general introduction and overview. Secondly, it identifies and motivates research questions to be tackled in Subchapters 4.4 and 4.5 and shows how Chapter 4 as a whole aims to ameliorate the understanding of management of the issues at hand. Next, Subchapter 4.3 is devoted to the positioning of the above research questions, the definition of key constructs, and a sound literature review and synthesis of research on market-driven, value-boosting organic growth strategies. In addition, Chapters 2 and 3 are key to grasping the mechanics of the rather comprehensive, compounded theoretical models shown in Subchapters 4.4 and 4.5.

a) Preliminaries

Although acquisition (see Chapter 6) often plays an important role in growth strategies, it cannot substitute for profitable, internal strategic growth that leverages a corporation's capabilities and know-how (Laurie, Doz, & Sheer, 2006: 82). Penrose relates the issue of organic growth versus acquisition to the issue about (ir)regularity of growth over time, suggesting that firms that grow organically will show a smoother growth pattern over time compared to firms that grow mainly through acquisitions (Penrose, 1959).

b) Introduction & Overview

Internal or organic growth is triggered by strategic entrepreneurship and strategic initiatives (see Subchapters 3.3.3 and 4.3.2). It may involve finding synergies between formerly disparate parts of an enterprise (Irvin, Pedro, & Gennaro, 2003: 10). In general terms, organic growth deals with leveraging a company's resources and capabilities (Butler & Butler, 1997). Thus, organic growth also encompasses client acquisition/retention as well as product innovation/maintenance (for more details please refer to the so-called task-oriented approach to strategic marketing (Tomczak, Reinecke, & Mühlmeier, 2004) discussed in Subchapter 2.5).

Rather than buying new business opportunities and market channels - essentially, bringing the outside in - companies aiming to grow organically must develop the means to foster new opportunities from the inside out. That may mean transforming a loosely-knit collection of businesses into a synergistic enterprise in which each business shows the same face to the customer. (Irvin, Pedro, & Gennaro, 2003: 10) Formerly disparate businesses need to be integrated and synergy must occur at the intersections of strategy, culture and leadership. In any transformation of a large, disparate organisation, both fo-

cussing on a limited number of highly lucrative initiatives (e.g., three to five initiatives) and demonstrating results in many areas quickly is paramount. Otherwise, the momentum for change may dissipate. Furthermore, the capability to create strategy from the inside out should be institutionalised so enterprise initiatives will not turn out to have been one-time phenomena only. Strategic capability must be embedded in the natural cycle of business, providing an environment and a set of standards that increase the likelihood of success. (Irvin, Pedro, & Gennaro, 2003: 11-13)

c) Research Motivation & Objectives of Chapter 4

i) Research Motivation I: Research Gaps Tackled in Chapter 4

Firstly, Chapter 4 aims to contribute to filling the general research gaps identified in Subchapter 2.2. In addition, the mid-range theories on the design and execution of organic growth strategies also consider real options theory and thus may help to answer the research question advanced by Brouthers, Brouthers, & Werner (2008a): Could there be a theoretical linkage between entrepreneurial business expansion and real options? (Brouthers, Brouthers, & Werner, 2008a: 955-956)

ii) Research Motivation II: Overview of the Objectives of Chapter 4

This Chapter aims to contribute to closing the above-mentioned research gaps by crafting generally applicable, rather comprehensive, predominantly resource- and dynamic capability-based mid-range theories and models. Generally speaking, Chapter 4 explores how companies may add the most value when designing and executing organic growth strategies. Subchapter 4.4 presents a resource-based theoretical model on value-boosting organic growth strategies that may facilitate the design of superior strategies of this type. Subchapter 4.5 presents a dynamic capability-based theoretical model on superior routines in organic growth strategy implementation. Both general models are applied to the private banking business.

Generally speaking, Chapter 4 draws on a rather wide range of well-acknowledged resource-based 'theories' of the firm (RBV), dynamic capability-based 'theories' of the firm (DCV), seminal works in strategic management research and the substream of strategy implementation in particular, real options theory, and strategic marketing. The theoretical models are enhanced by further theories shedding light on the subject matter under investigation.

4.3 Positioning of Research Questions & Literature Synthesis

As regards the RBV, DCV, ROT, as well as strategic management/strategy implementation and strategic marketing research please refer to Subchapters 2.9, 2.10, and 2.1.5 respectively.

4.3.1 Literature Review

Burgelman (1983c) discusses corporate entrepreneurship and strategic management. Mintzberg & Waters (1985) take a strategy process perspective and analyse the continuum of strategy types ranging from perfectly deliberate to perfectly emergent strategies. Leonard-Barton (1992) examines the dual nature of core capabilities and their interaction with new product and process development projects. Birkinshaw (1997) analyses entrepreneurship in MNCs and subsidiary initiatives. Birkinshaw & Hood (1998) examine multinational subsidiary evolution. Irvin, Pedro, & Gennaro (2003) present lessons in creating organic growth. Laurie, Doz, & Sheer (2006) shed light on the creation of new growth platforms. Johnson, Lee, Saini, & Grohmann (2003) analyse market-focused strategic flexibility. Nadkarni & Narayanan (2007) examine the moderating effect of industry clockspeed on the relationship between strategic schemas, strategic flexibility, and firm performance.

4.3.2 Definition of Key Constructs

As regards definitions of organic growth please refer to Subchapter 2.8.

a) Firm Growth & Firm Performance

If only one indicator is to be chosen as a measure of firm growth, the most preferred measure appears to be sales (e.g., Hoy, McDougall, & Dsouza, 1992). The nature of the growth process itself points to sales as a natural choice (e.g., Flamholtz, 1986). However, clearly, sales is not a perfect indicator for all purposes. Sales is sensitive to inflation and currency exchange rates for instance. If firms are viewed as bundles of resources, a growth analysis ought to focus on the accumulation of resources. (Delmar, Davidsson, & Gartner, 2003)

Clearly, growth for its own sake does not make sense. Performance measures include sales growth, return on investment, and net income growth (Venkataraman & Ramanujam, 1987). If a company aims to sustainably create value, it has to be able to cope with industry clockspeed.

b) Industry Clockspeed

The technical term 'industry clockspeed' refers to the rate of industry change driven by endogenous technological and competitive factors. This phenomenon exhibits three facets: firstly, product clockspeed, that is, new product introduction and product obsolescence rates; secondly, process clockspeed, that is, the rates at which process technologies are replaced in an industry; and, thirdly, organisational clockspeed reflects the rate of change in the strategic actions (e.g., M&As, SAN, organic growth) and structures (e.g., restructuring) of incumbent firms in an industry. (Fines, 1998) Particularly if companies are to be capable of coping with high levels of change, they need to exhibit strategic flexibility.

c) (Market-Focused) Strategic Flexibility & Options

In brief, strategic flexibility may be defined as the abilities to induce intentional rearrangements and to adapt to environmental shifts through continuous alterations in current strategic actions, asset deployments, and investment strategies (e.g., Harrigan, 1985a; Hitt, Keats, & DeMarie, 1998; Sanchez, 1995).

Strategic flexibility means keeping options open. It is the ability to exercise flexible options, that is, choices to switch investment streams. It also reflects the ability to exercise incremental options: firstly, striking successive calls to continue strategies; and, secondly, striking/abandoning calls to reverse strategies. (Bowman & Hurry, 1993: 760-763) Strategic flexibility represents the ability to reallocate resources quickly and smoothly in response to change (Buckley & Casson, 1998b: 23). It is the capability of the firm to proact or respond quickly to changing competitive conditions and thereby develop and/or maintain competitive advantage (Hitt, Keats, & DeMarie, 1998: 27). Flexible firms exhibit both diversity in strategic responses and rapid shifts from one strategy to another (Sanchez, 1995; Slack, 1983).

Market-focused strategic flexibility refers to the firm's intent and capabilities to generate firm-specific real options for the configuration and reconfiguration of appreciably superior customer value propositions (Johnson, Lee, Saini, & Grohmann, 2003: 77).

In this context, options may be defined as preferential access to future opportunities (e.g., opportunities for growth) arising from the interplay of the organisation's existing investments, its knowledge and capacities, and its environmental opportunities (Bowman & Hurry 1993:762). The creation of a range of strategic options requires capabilities to be developed and resources to be held which may, in turn, increase costs in the

short term (Bowman & Hurry 1993; Buckley & Casson, 1998b; Day 1994). Additionally, the firm forgoes its short term earning potential, introducing an additional burden of opportunity costs (e.g., Dierickx & Cool, 1989).

d) Strategic Schema or Dominant Logic

A strategic schema (also called dominant logic, strategy frame, cognitive map, or belief structure) refers to the knowledge structures that top managers use in making strategic decisions (e.g., Huff, 1982; Prahalad & Bettis, 1986). Two key characteristics of strategic schemas are most relevant to strategic flexibility: complexity (Baum & Wally, 2003; Wally & Baum, 1994) and focus (Eden, Ackermann, & Cropper, 1992). Complexity reflects the differentiation and integration in a strategic schema (Walsh, 1995). Differentiation reflects the breadth or variety of environmental, strategy, and organisational concepts embedded in the schema, whereas integration reflects the degree of connectedness among these concepts. Complex strategic schemas accommodate a diverse set of alternative strategy solutions in strategic decision-making (Nadkarni & Narayanan, 2007: 246). Greater complexity allows firms to notice and respond to more stimuli, which in turn increases their adaptability (Ashby, 1956; Stabell, 1978; Weick, 1995b). Focus reflects the degree to which a strategic schema is centralised around a few core concepts (e.g., Eden, Ackermann, & Cropper, 1992). Furthermore, undoubtedly, strategic initiatives are paramount when it comes to strategising.

e) Strategic Initiatives

While in the short run, the quality and performance of a company's products determine its competitiveness, over the longer term, the ability to build and enhance core competences, distinctive skills that spawn new generations of products, is most important (Hamel, Doz, & Prahalad, 1989: 137). Strategic initiatives are co-ordinated efforts within an organisation to affect the renewal of core competencies and/or the organisation's product/market domain (Floyd, Ortiz-Walters, & Wooldridge, 2004: 4) In this context, an evolutionary perspective on strategy process conceptualises an organisation as a portfolio or ecology of strategic initiatives (see Figure 4.1), in which the performance of a strategic initiative can be defined in terms of their survival in the organisational ecology (Marx & Lechner, 2005: 135-136). Obviously, strategic initiatives may also be associated with subsidiary evolution.

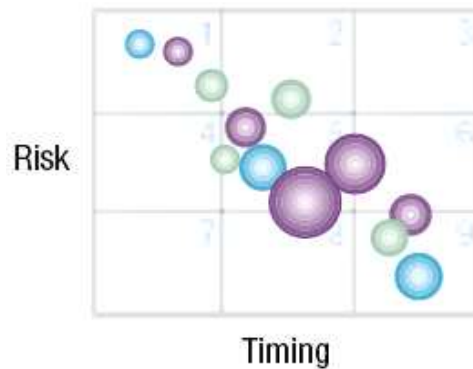


Fig. 4.1: Visual Illustration of a Portfolio of Strategic Initiatives (Bryan, 2002: 26)

f) Subsidiary Evolution

Subsidiaries' roles might shift over time (e.g., White & Poynter, 1984). Subsidiary evolution refers to the enhancement or atrophy of subsidiary capabilities over time and the establishment or loss of the commensurate charter (Galunic & Eisenhardt, 1996). It encompasses both subsidiary development and subsidiary decline (Birkinshaw & Hood, 1998: 774) and refers to the process of accumulation or depletion of resources/capabilities in the subsidiary over time (e.g., Prahalad & Doz, 1981). A capability-accumulating subsidiary puts together new combinations of resources and creatively deploys them (Birkinshaw & Hood, 1998: 781). To some extent, capabilities are accumulated and stored as organisational routines (Nelson & Winter, 1982) that have emerged over time. However, various subsidiary, corporate, and local environment factors may also strongly impact on the process. (Birkinshaw & Hood, 1998: 781)

4.3.3 Literature Synthesis

There is a wide range of strategy process pathways that may lead to the crafting and implementing of superior expansion strategies in general and internal growth strategies in particular.

a) Deliberate & Emergent Strategies

Strategy formation may be defined as an analytic process for establishing long-range goals and action plans for an organisation, which is followed by strategy implementation. However, strategies may take shape in a variety of alternative ways as well. Strategy may be conceived of as 'a pattern in a stream of decisions' (Mintzberg, 1978) or, alternatively, as 'a pattern in a stream of actions'. While the former definition includes both realised and intended strategies, the latter one includes realised strategies only. Deliberate and emergent strategies may be conceived of as two ends of a continuum along

which real-world strategies lie. In brief, while deliberate strategies are strategies realised as originally intended, emergent strategies represent patterns or consistencies realised despite, or in the absence of, intentions. (Mintzberg & Waters, 1985: 257, see Figure 4.2)

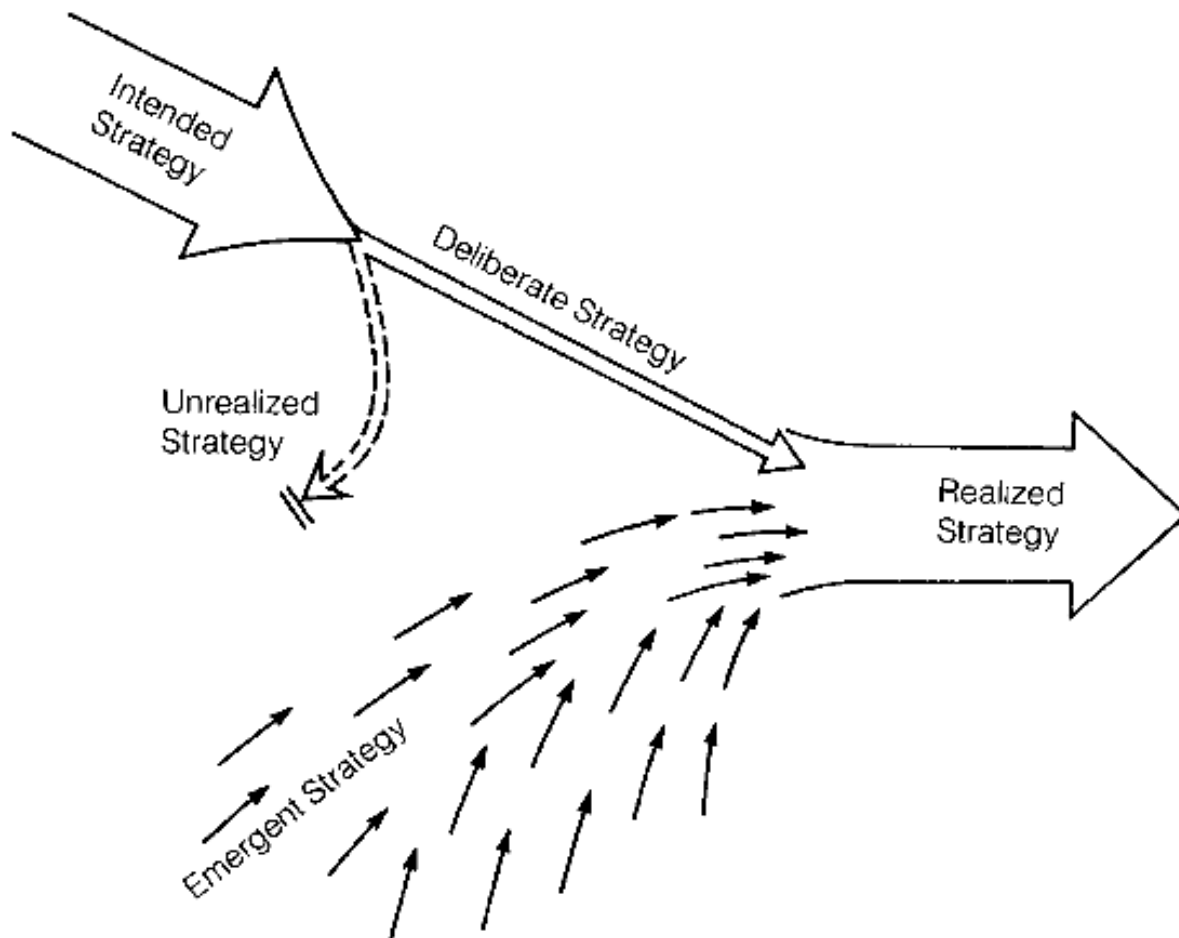


Fig. 4.2: Strategy Types (Mintzberg, 1987: 14)

i) Sketching the Continuum of Strategies

Which conditions must apply to label strategies as being of either a perfectly deliberate or a perfectly emergent nature? Firstly, perfectly deliberate strategies exist only if precise, relatively detailedly/concretely articulated, organisational (collective) intentions that were realised exactly as intended while no external force (e.g., market, technological, political, etc. forces) interfered with them. While such strategies are rare, some patterns come rather close in some dimensions if not all. Secondly, perfectly emergent strategies require order, that is, consistency in action over time in the absence of intentions about it. No consistency points to either no strategy or, at least, unrealised strategy. While perfectly emergent strategies are likely to be as rare as the perfectly deliberate ones, some patterns come rather close, as when an environment directly imposes a pattern of action on an organisation. Additionally, the degree of deliberateness is not a

measure of the potential success of a strategy. Both rather emergent and rather deliberate strategies may turn out to be highly successful or, conversely, dramatic failures. Lastly, unrealised strategy (i.e., intentions not successfully realised) and realised but unsuccessful strategy may be distinguished. (Mintzberg & Waters, 1985: 258-260)

ii) Strategic Vision, Strategy Formulation, & Strategy Implementation

Effective strategies commence with a strategic vision (Sirower, 1998). A vision may be viewed as the concept of the organisation's place in its world. It may be collective as well as individual and provides a general sense of direction only. (Mintzberg & Waters, 1985: 260-262)

Furthermore, strategy implementation refers to the translation of a planned strategy into collective action. However, the classic distinction between strategy formulation and implementation only holds up if there is a clearly and precisely articulated, planned strategy that is backed up by formal controls to ensure its pursuit in an acquiescent environment. Additionally, the separation of implementation from formulation gives rise to a whole system of commitments and procedures, in the form of plans, programmes, and controls elaborated down a hierarchy (Mintzberg & Waters, 1985: 259-261). The following sections briefly elaborate on major strategy types from a strategy process perspective.

iii) Major Strategy Types from a Strategy Process Perspective

iiia) Umbrella Strategy

An umbrella strategy represents a certain vision emanating from the central leadership. As process strategies (see iiib), umbrella strategies are pursued in complex and possibly also uncontrollable and unpredictable environments in which other actors need considerable discretion to determine outcomes. Umbrella strategies (see Figure 4.3) refer to general guidelines for behaviour as well as boundaries within which to manoeuvre. Figuratively speaking, leaders establish kinds of umbrellas under which organisational actions are expected to fall. While patterns in organisational actions are constrained, strategies are allowed to emerge within the aforementioned boundaries at least. Thus, strategy content is controlled at a general level through boundaries or targets. Furthermore, umbrella strategies are not only deliberate and emergent, that is, intended at the centre in its broad outlines but not in its specific details, but also deliberately emergent in the sense that the central leadership intentionally creates the conditions under which strategies can emerge. In some sense, virtually all real-world strategies have umbrella

characteristics. In no company can the central leadership totally pre-empt the discretion of others as assumed in planned strategies for instance. To some degree at least, almost all strategy-making behaviour involves a central leadership with some sort of intentions trying to direct or guide others. Additionally, leadership may exercise its option of altering its own vision in response to the behaviours/initiatives of others so it will not forgo important opportunities. Umbrella strategies thus require maintaining a subtle balance between proaction and reaction. (Mintzberg & Waters, 1985: 263-264)

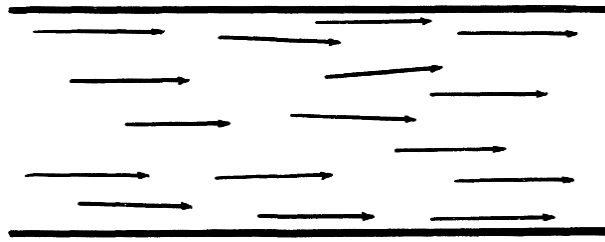


Fig. 4.3: The Umbrella Strategy (Mintzberg & Waters, 1985: 262)

iiib) Process Strategy

Process strategies are similar to umbrella strategies (see Figure 4.4). Actors must have considerable discretion to determine outcomes. However, the central leadership controls the process of strategy-making while leaving the content of strategy to other actors. For instance, leadership may control the staffing of the organisation or determine the working context of strategists. (Mintzberg & Waters, 1985: 263-264)

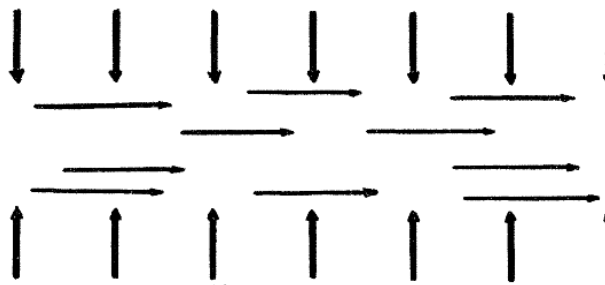


Fig. 4.4: The Process Strategy (Mintzberg & Waters, 1985: 265)

iiic) Consensus Strategy

A consensus strategy (see Figure 4.5) may be defined as a pattern or theme that evolves naturally through the results of a host of individual actions. Consensus strategies grow out of the mutual adjustment among different actors who converge on that pattern without the need for any central direction or control. Actors mutually adjust since they learn from each other and from their various responses to the environment. Importantly, con-

sensus strategies derive more from collective action than from collective intention. Consensus may crystallise quickly as soon as the right idea emerges, much as does a supersaturated solution the moment it is disturbed. Spontaneous strategy might be a good example of 'organisational intuition'. However, when the convergence is on a general theme rather than a specific activity the consensus is likely to develop more gradually. (Mintzberg & Waters, 1985: 267)

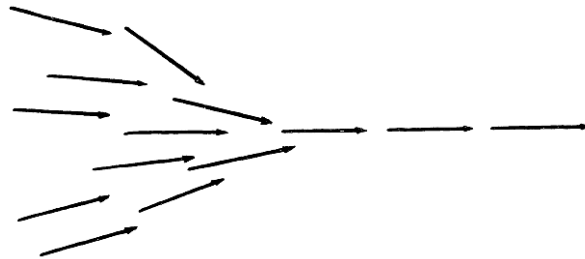


Fig. 4.5: The Consensus Strategy (Mintzberg & Waters, 1985: 267)

iiid) Imposed Strategy

Environments may impose strategies, that is, patterns in their stream of actions, (see Figure 4.6) on companies by severely restricting the options open to them. Thus, a strategic imperative is internalised. Virtually all companies have environmental boundaries. In fact, many planned strategies seem to have this determined quality. However, just as they seldom offer unlimited choice, environments seldom pre-empt all choice. For instance, the environment may constrain what part of the (strategic) umbrella the organisation can feasibly operate. (Mintzberg & Waters, 1985: 268-269) Please also refer to Subchapter 3.3.3 for an in-depth discussion of the impact of internal and external environments on strategy-making.

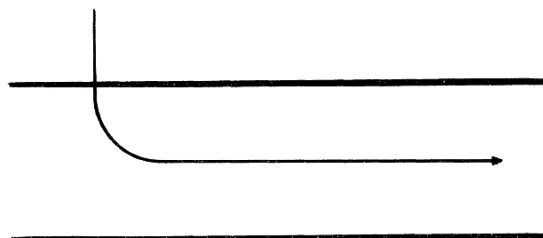


Fig. 4.6: The Imposed Strategy (Mintzberg & Waters, 1985: 269)

iv) Concluding Remarks & Burgelman's Argumentation

Emergent strategy itself implies learning what works, that is, taking one action at a time in search for that viable pattern or consistency (see Figure 4.7). Importantly, emergent strategy does not mean chaos, but, in essence, unintended order. Frequently, emergent

strategy is the means by which deliberate strategies change. Additionally, undoubtedly, unrealised strategies represent sources of learning as well. (Mintzberg & Waters, 1985: 271)

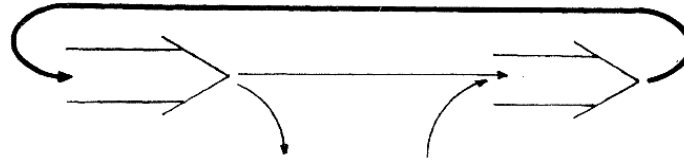


Fig. 4.7: Strategic Learning (Mintzberg & Waters, 1985: 271)

In general terms, the more deliberate strategies tend to emphasise central direction and hierarchy, whereas the more emergent ones open the way for collective action and convergent behaviour. However, sometimes managers need to partially (e.g., umbrella strategy) or rather comprehensively (e.g., planned strategy) impose intentions on their companies so as to provide a sense of direction. Figuratively speaking, strategy formation walks on a deliberate and an emergent foot. Managing requires directing to realise intentions while simultaneously responding to an unfolding pattern of action. The relative emphasis may shift from time to time but not the requirement to attend to both sides of this phenomenon. Pattern recognition is likely to be a crucial ability of companies. (Mintzberg & Waters, 1985: 271-272)

In addition, Burgelman (1983c) argues that firms need both diversity and order in their strategic activities to maintain their viability. Firstly, while diversity results primarily from autonomous strategic initiatives of participants at the operational level, order results from imposing a concept of strategy on the organisation. Secondly, managing diversity requires an experimentation-and-selection approach. Middle level managers play a crucial role in this through their support for autonomous strategic initiatives early on, by combining these with various capabilities dispersed in the firm's operating system, and by conceptualising strategies for new areas of business. (Burgelman, 1983c: 1349) With regard to MNC subsidiaries, Burgelman's (1983b) concept of autonomous behaviour suggests a process of internal growth that is only loosely controlled by head-office directives (Birkinshaw & Hood, 1998: 778).

Clearly, far from representing a one-off effort, strategising is a continuous challenge, especially in times of uncertainty. In what follows, differences between slow- and fast-past industries are illuminated and (market-driven) strategic flexibility analysed.

b) Fast- & Slow-Clockspeed Industries & (Market-Focused) Strategic Flexibility

In rapidly changing environments, the ability to sense the need to reconfigure the firm's asset structure and to accomplish the necessary internal and external transformation is paramount (Amit & Schoemaker, 1993). The capacity to reconfigure and transform is in itself a learned organisational skill (Teece, Pisano, & Shuen, 1997).

i) Fast- & Slow-Paced Industries

The literature suggests that firms in fast- and slow-clockspeed industries need to have different capabilities (Eisenhardt & Martin, 2000), processes of scanning (Garg, Walters, & Priem, 2003), speeds of decision-making (e.g., Brown & Eisenhardt, 1997), strategic responses, and organisation structures (D'Aveni, 1994; Fines, 1998; Williams, 1994). Prime examples include the slow-paced painting industry and the fast-paced high-tech industry.

In fast-clockspeed industries, sustaining competitive advantage is difficult since firms cannot protect existing products and processes for a long period of time (D'Aveni, 1994; Eisenhardt & Martin, 2000; Williams, 1994). Typically, product and process technologies as well as competitors' strategic actions change rapidly (Fines, 1998; Williams, 1994). In addition, learning from past actions or feedback-based learning is severely limited (Bogner & Barr, 2000; Eisenhardt & Martin, 2000). To survive in such industries, firms must introduce new products and process technologies faster (Nerkar & Roberts, 2004; Cottrell & Nault, 2004), carry out frequent strategic and organisational changes (Eisenhardt & Martin, 2000; Fines, 1998), and embed flexibility in their strategic actions (Eisenhardt, 1989c).

Conversely, in slow-clockspeed industries, strategic persistence is required (Garg, Walters, & Priem, 2003; Kessler & Chakrabarti, 1996), rates of technological and competitive change are slow, and past strategic actions are durable (Nadkarni & Narayanan, 2007: 248). Performance of past actions may be used as a feedback mechanism, and past experience is often helpful in making current decisions (Nadkarni & Narayanan, 2007: 248). Companies in slow-paced industries may gradually build, protect, and enhance their core competencies and build isolating mechanisms that retard imitation in order to achieve sustainable competitive advantage (Fines, 1998; Garg, Walters, & Priem, 2003; Williams, 1994).

In this context, managerial schemas drive strategic decision-making and thus competitive actions (Fiol & O'Connor, 2003). Firstly, complexity of strategic schemas appears

to promote strategic flexibility and enhance performance in fast-paced industries. Secondly, focus of strategic schemas seems to foster strategic persistence/strategic stability, which is effective in slow-paced industries. (Nadkarni & Narayanan, 2007: 243)

ii) Strategic Flexibility

Overall, the literature consistently implies that strategic flexibility pivots around the availability and deployment of resources in the firm, and the existence of the appropriate accompanying capabilities (e.g., Kogut & Kulatilaka, 2001). It involves the accumulation and maintenance of an appropriate, unique resource portfolio and its coupling with option identification and recognition (Johnson, Lee, Saini, & Grohmann, 2003: 78-79).

ii) Market-Focused Strategic Flexibility

Market-focused strategic flexibility enhances firm performance (e.g., Evans 1991). It is conceptually rooted in capabilities theory, resource-based views of the firm, and options and may be defined as a firm's ability to quickly change direction and reconfigure strategically, particularly with regard to products and markets. This ability is crucial if a firm is to thrive in times of uncertainty and to achieve SCA. (Johnson, Lee, Saini, & Grohmann, 2003: 74) In the long run, market-focused strategic flexibility enhances both financial performance (e.g., return on assets) and strategic performance (e.g., advantageous market positions, market shares and growth). In the short run, financial performance outcomes (e.g., cash flows) may be adversely affected due to additional costs incurred. (Johnson, Lee, Saini, & Grohmann, 2003: 83-84)

The firm skills itself to develop market-focused strategic flexibility by developing dynamic capabilities in (a) the identification of resources to build a portfolio of marketing resources with competitive advantage generation potential, (b) the acquisition of resources, (c) the deployment of resources, and (d) the identification of options such as those involving market entry and product launch, and it also implies the ability to spot hidden options. These dynamic capabilities are composed of socially complex routines deeply embedded in the firm (Johnson, Lee, Saini, & Grohmann, 2003: 78-79) and involve the configuration, adjustment, and reconfiguration of resource portfolios over time (Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen 1997). Lastly, striking a real option alters the configuration of resources, which in turn leads to new options for the future. (Johnson, Lee, Saini, & Grohmann, 2003: 79)

Clearly, a strategically highly flexible company well may be the first to introduce a new technology or product/service.

iii) First Movers/Early Movers

Early and fast movers achieve the highest returns (Lee, Smith, Grimm, & Schomburg, 2000). First movers are the first to introduce new goods or services (Grimm & Smith, 1997). In doing so, first movers earn 'monopoly profits' until a competitor imitates their new product or finds a substitute (Hitt, Ireland, Camp, & Sexton, 2001: 484).

As we have seen, strategic flexibility is especially important in highly dynamic, fast-clockspeed industries in which environmental change takes place at a faster pace.

c) Transformational Change & Growth Platforms

Organic growth has put transformative change, that is, changing and transforming the organisation on the corporate agenda (Karp, 2006: 3).

Laurie, Doz, & Sheer (2006) find that companies exhibiting significant organic growth may grow by creating so-called new growth platforms (NGPs; see Figure 4.8) on which they can build families of products, services, and businesses and extend their capabilities into multiple new domains. Identifying NGP-opportunities calls for challenging conventional wisdom since NGP innovation significantly differs from traditional product or service innovation. (Laurie, Doz, & Sheer, 2006: 82)

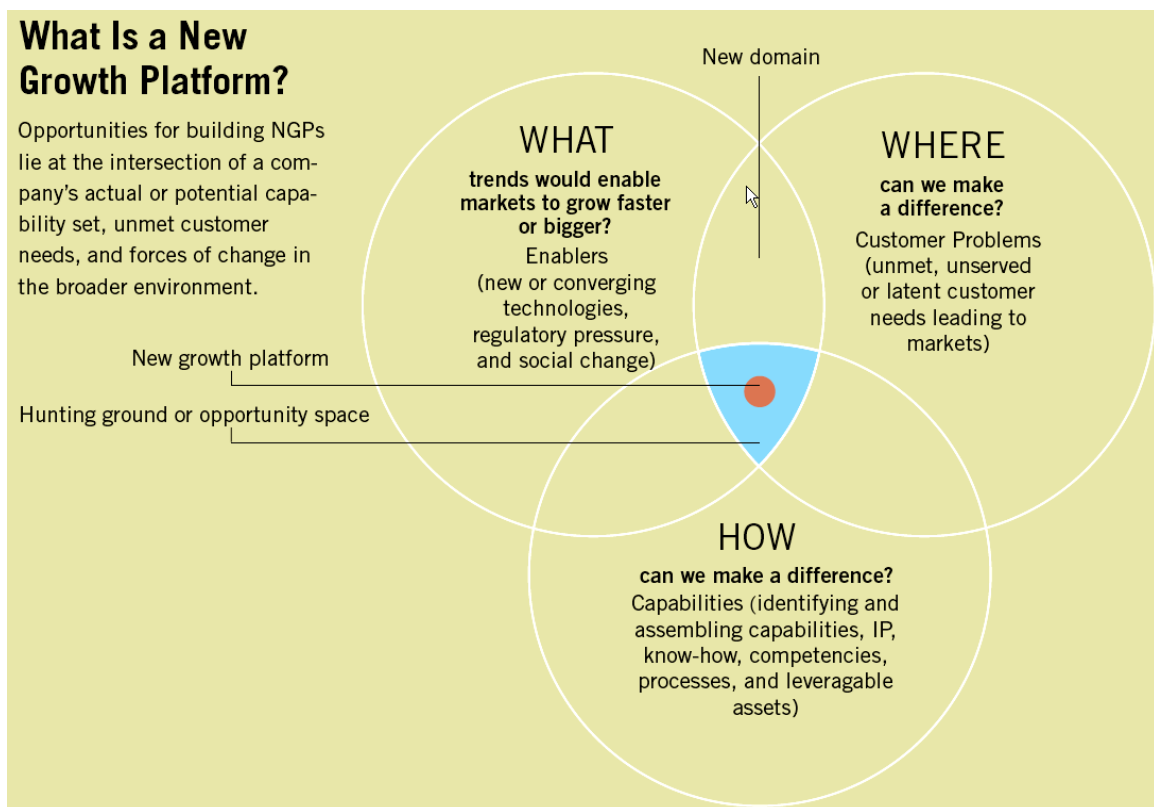


Fig. 4.8: What is a New Growth Platform (NGP)? (Laurie, Doz, & Sheer, 2006: 84)

When forces of change, such as new or converging technologies, changing regulatory environments, or social pressures, create the opportunity to satisfy some unmet or latent customer needs, possibilities for forming new NGPs arise (see Figure 4.8). Once a potential NGP is identified, a company may choose to assemble the portfolio of capabilities, business processes, systems, and assets required to deliver products/services that satisfy these customer needs. (Laurie, Doz, & Sheer, 2006: 82) While a company may not readily control/possess all required resources, it may opt for tapping lacking ones through either strategic alliances and/or strategic networks (e.g., Barringer & Harrison, 2000; Granovetter, 1992; see Chapter 5) and/or M&As (e.g., Hitt, Ireland, & Harrison, 2001; see Chapter 6) or building them internally (e.g., Dierickx & Cool, 1989; see Chapter 4). Furthermore, many new NGPs start as product or service ideas (Laurie, Doz, & Sheer, 2006: 83). For instance, parcel delivery giant UPS or the branded consumer goods manufacturer Proctor & Gamble, explicitly look for platforms rather than products (Laurie, Doz, & Sheer, 2006: 85).

On the one hand, NGPs are highly dependent on the corporation's existing businesses, bureaucracy, way of working, and related norms and rules. On the other hand, NGPs should be independent since seeking NGP opportunities requires a longer-term performance horizon than a typical business unit has as well as an ability to step out of an existing business model and culture. NGPs should also be financially independent to avoid their financing being crowded out by core business unit demands. Credible NGP heads may bring insight to frame and reframe the opportunities and mobilise their own personal networks to help the NGP team do the same. (Laurie, Doz, & Sheer, 2006: 87-90)

Closely related to NGPs and strategic initiatives, maintaining, renewing, replacing, and developing core capabilities is paramount when it comes to internal development.

d) Core Capabilities & Core Rigidities - The Dual Nature of Core Capabilities

When expanding abroad, the rigidity of organisational routines constrains a firm in developing new capabilities in business activities that vary substantially from existing ones (Nelson & Winter, 1982; Teece, 1987).

i) Core Capabilities in Brief

In short, core capabilities (see Figures 4.9 and 4.10) may be defined as clusters of distinct technical and managerial systems and skills that differentiate a company strategically. Each core capability draws upon only some of a company's skill and knowledge

base, systems and values. From a knowledge-based view (KBV), core capabilities represent interconnected sets of knowledge collections - tightly coupled systems. They are interrelated, interdependent knowledge systems that distinguish and provide a competitive advantage. Core capabilities exhibit four interrelated dimensions (see Figure 4.10) each of which may be represented in very different proportions in various capabilities. (Leonard-Barton, 1992: 110-123)

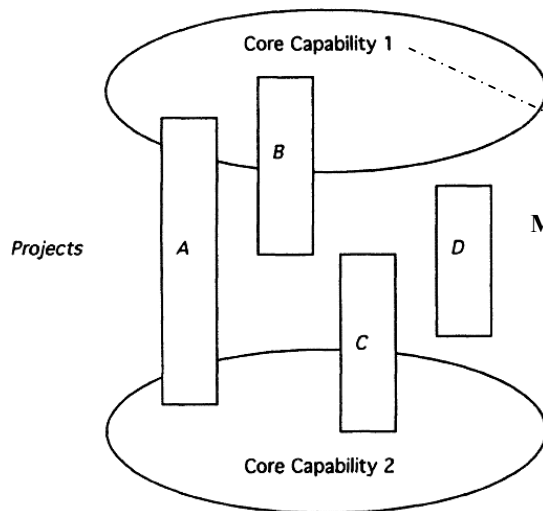


Fig. 4.9: Alignments of Development Projects with Core Capabilities (Leonard-Barton, 1992: 115)

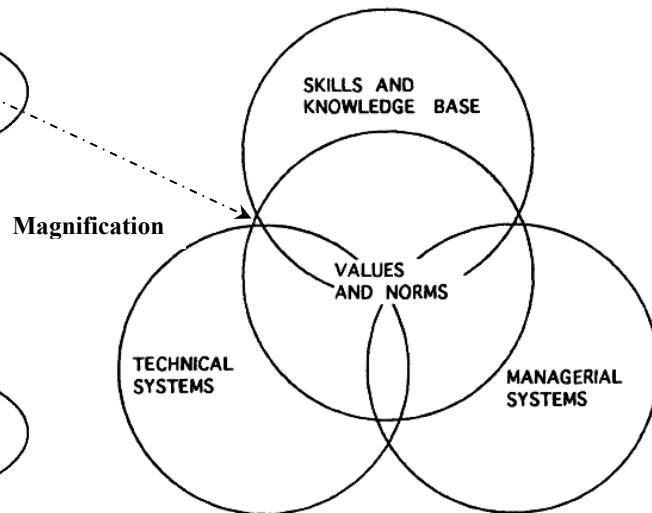


Fig. 4.10: Dimensions of Core Capabilities (Leonard-Barton, 1992: 114)

ii) The Four Dimensions of Core Capabilities

Changes may be precipitated by introducing new capabilities along four dimensions. For a capability to become core, all four dimensions must be addressed. Each dimension is supported by the other three and especially values permeate the other dimensions of a core capability. The content of a core capability is embodied in (1) employee knowledge and skills and embedded in (2) technical systems (e.g., IT systems). However, if not accompanied by new skills, new technical systems provide no inimitable advantage. (3) Managerial systems guide the processes of knowledge creation (e.g., through networks with partners, apprenticeship programmes and so forth) and control (e.g., through incentive systems and reporting structures). However, managerial systems only represent a part of a core competence if they incorporate unusual blends of skills and/or foster beneficial behaviours not observed in competitive firms. Examples include unusual educational systems as well as incentive systems encouraging innovative activities. Lastly, (4) the values (i.e., the values assigned to knowledge creation, content, and structure of knowledge (e.g., marketing versus chemical engineering expertise) and norms (i.e.,

means of collecting/controlling knowledge)) associated with employee knowledge and skills as well as managerial and technical systems represent the fourth dimension of core capabilities. Understanding values and norms is crucial to managing new product/ process development and core capabilities. The very same values, norms, and attitudes that support a core capability may both enable and constrain development. Two subdimensions of values are especially critical: firstly, the degree to which project members are empowered; and, secondly, the status assigned to various disciplines on project teams. Typically, companies assign a high status to the dominant discipline and lower statuses to other disciplines. (Leonard-Barton, 1992: 111-123) Pervasive but subtle negative reinforcing vicious circles of norms, attitudes, and skill sets appear to constrain non-dominant disciplines' contribution to new product development and hence the cross-functional integration (Leonard-Baron, 1992: 120) so necessary to innovation (Pavitt, 1991)! Additionally, self-fulfilling prophecies may come into play (Weick, 1979). In this context, culture is hard to alter in the short term (Zucker, 1977), if it can be changed at all (Barney, 1986c).

Lastly, the four interrelated dimensions depicted in Figure 4.10 vary in ease of change, that is, from technical to managerial systems, to skills and then values, the dimensions are increasingly less tangible, visible, and explicitly codified (Leonard-Barton, 1992: 121).

iii) Core Capabilities, Core Rigidities, & Development Projects

Notwithstanding the obvious upsides of core capabilities, it is essential to bear in mind that institutionalised capabilities may lead to incumbent inertia (Lieberman & Montgomery, 1988) in the face of environmental changes (Leonard-Barton, 1992: 112). Not only can technological discontinuities enhance or destroy existing competencies within an industry (Tushman & Anderson, 1986) but all innovation, be it radical, incremental or something lying in-between, necessitates some degree of creative destruction (Schumpeter, 1942). Even seemingly minor innovations may undermine the usefulness of deeply embedded knowledge (Henderson & Clark, 1990). Thus, there is a tension between innovation and retaining important capabilities. At any point in history, core capabilities are evolving and corporate survival depends upon successfully managing that evolution. (Leonard-Barton, 1992: 112)

On the one hand, projects derive immense support from core capabilities. The closer projects and core knowledge sets are aligned with each other (see Figure 4.9), the stronger the enabling impact. On the other hand, core rigidities represent the dysfunc-

tional flip side of core capabilities. Core rigidities, inappropriate sets of knowledge that inhibit development and innovation, are problematic for projects deliberately designed to create new, non-traditional capabilities. One reason for this paradox is that companies tend to display a cultural bias towards the technical base in which they are rooted historically. Since history has conferred higher expectation and credibility upon the dominant function, other disciplines start at a disadvantage in the development process. However, over time, a gap between current environmental requirements and a company's core capabilities may open up and some core capabilities may need to be replaced since their dysfunctional side has begun to inhibit too many projects. The severity of the paradox depends upon the number and the types of dimensions comprising a core rigidity. In brief, while there is a symbiotic relationship between core capabilities and development projects, core capabilities simultaneously enhance/enable & inhibit/hamper/hinder development and innovation (e.g., product and process development projects). (Leonard-Barton, 1992: 111-123)

Development projects pave the way for organisational change by highlighting core rigidities and introducing new capabilities (Leonard-Barton, 1992: 122). They provide the requisite variety for innovation (e.g., Van de Ven, 1986). Development projects and capabilities interact depending on the degree to which the values, skills, managerial and technical systems necessary to carry out the projects are well aligned with those currently prevalent in the firm. Importantly, project misalignment is a matter of degree and kind, that is, the type and number of capability dimensions challenged determines the intensity of the interaction and the potential of the project to stimulate change. Figure 4.9 shows possible alignments of new product and process development projects with current core capabilities at a specific point in time. (Leonard-Barton, 1992: 114-116)

With regard to the dual nature of core capabilities, recognising and managing paradox is a powerful lever for change. Having multiple frameworks available is probably the single most powerful attribute of self-renewing organisations (Quinn & Cameron, 1988: 302). Importantly, constructively discrediting (Weick, 1979) the systems, skills, and/or values companies traditionally revered may lead to complete redefinitions of core capabilities or initiate new ones. Projects may be managed for continuous organisational renewal. (Leonard-Barton, 1992: 123) Critically, the time to search out and develop a new core resource is when the current core is working well (Itami & Roehl, 1987: 54).

iv) Organisational Knowledge Creation - A Key Core Competence (Nonaka, 1994)

The true core competence (Prahalad & Hamel 1990) of the organisation, which produces sustainable competitive advantage, lies in its management capability to create relevant organisational knowledge (Nonaka 1989, 1991). The key to synergetic expansion of knowledge is joint creation of knowledge by individuals and companies (Nonaka, 1994: 34). While new knowledge is developed by individuals, companies play a critical role in articulating and amplifying that knowledge. Organisational knowledge is created through a continuous dialogue between tacit and explicit knowledge which drives the creation of new ideas and concepts. In this context, innovation may be defined as a process in which companies create and define problems and then actively develop new knowledge to solve them. (Nonaka, 1994: 14) Innovation is critical for firms to compete effectively in domestic and global markets (Hitt, Ricart i Costa, & Nixon, 1998; Ireland & Hitt, 1999). Hamel (2000) argues that innovation is the most important component of a firm's strategy (Hamel, 2000).

Creative chaos, redundancy of information, and requisite variety positively impact on organisational knowledge creation. Redundancy refers to the conscious overlapping of company information, business activities, and management responsibilities. Creative chaos may be triggered by environmental fluctuations such as changes in technologies or market needs. (Nonaka, 1994: 27-28) According to the principle of requisite variety, a company can maximise efficiency by creating within itself the same degree of diversity as the diversity it must process (Ashby, 1956). Time, space, and resources need to be coordinated to attain the requisite levels of variety (Nonaka, 1994: 33). Furthermore, intention, autonomy, and environmental fluctuation induce individual commitment (Nonaka, 1994: 17).

Clearly, subsidiary development, the accumulation of resources and specialised capabilities (Birkinshaw & Hood, 1998: 774), is paramount when it comes to organic growth of MNCs. Nonetheless, subsidiary development is not always desirable from the MNC's perspective (Birkinshaw & Hood, 1998: 774).

e) Subsidiary Evolution**i) Introduction**

Many subsidiaries play a critical role in their corporations' competitiveness. Subsidiaries contract or die out, as well as become larger or more specialised, and there are many different factors that may influence the processes. (Birkinshaw & Hood, 1998: 773-774)

Subsidiaries start out with market-seeking responsibilities, that is, with the objective of selling the MNC's products in the local market. As the parent company grows, and as subsidiaries develop resources and capabilities of their own, they take on additional responsibilities tapping into new ideas and opportunities in the local market, interacting with other actors in the local environment, and building unique capabilities on which the rest of the MNC can draw. (Bartlett & Ghoshal, 1989; Birkinshaw, Hood, & Jonsson, 1998; Hedlund, 1986; Prahalad & Doz, 1981)

ii) Subsidiary Evolution from an MNC Network Model Perspective

From an MNC network model perspective, subsidiary evolution is an organic process, built around the growth and decline of valuable and distinctive resources of the subsidiary (Birkinshaw & Hood, 1998: 778). Subsidiary growth is especially constrained by the natural rate of growth of resources (Penrose, 1959) and also by the actions of other entities - notably the parent company (Birkinshaw & Hood, 1998: 778). However, as the subsidiary increases its stock of distinctive resources, it lessens its dependence on other entities and takes more complete control of its own destiny (Pfeffer & Salancik, 1978; Prahalad & Doz, 1981). Additionally, subsidiary evolution is driven by the dynamism of the local business environment (Porter, 1990), and by subsidiaries' ability to access resources of the MNC (Birkinshaw & Hood, 1998: 780).

iii) Drivers of Subsidiary Evolution

Basically, there are three underlying mechanisms driving subsidiary evolution: Firstly, head-office assignment of roles is a critical determinant of subsidiary evolution. The product life cycle (PLC) model (Vernon, 1966) and the internationalisation process (Johanson & Vahlne, 1977) shed light on it (see Chapter 3). The PLC model helps to understand the development process as subsidiaries' roles shift towards high value-added activities. Research by Chang (1995, 1996) and Rosenzweig & Chang (1995a; 1995b) explicitly models subsidiary growth as a sequential process of resource commitment and capability building. Head-office assignment may be the driver of subsidiary evolution in the early stages of the process, when the level of resources and capabilities in the subsidiary is not too advanced. To a large degree, subsidiary evolution may also be driven by the track record of the subsidiary companies in question. Secondly, subsidiary choice reflects the decisions taken by subsidiary management to define for themselves the role of their subsidiary. The network model of the MNC (see Chapter 3) illuminates this view of subsidiary evolution. Thirdly, local environment determinism impacts on subsidiary evolution. Thus, the role of the subsidiary may be understood as a function of the

constraints and opportunities in the local market. (Birkinshaw & Hood, 1998: 775-776) In general terms, organisational action may be viewed as constrained or even determined by the environment in which it occurs (e.g., Pfeffer & Salancik, 1978). Each subsidiary operates under a unique set of conditions to which it has to adapt in order to be effective (Birkinshaw & Hood, 1998: 779).

The above three mechanisms interact to determine subsidiaries' roles at any given point in time. Subsequently, subsidiaries' roles impacts on head-office managers' decisions, subsidiary managers' decisions, and the positioning of the subsidiaries in the local environment. This creates a cyclical process (see Figure 4.11) through which the subsidiary's role changes over time. (Birkinshaw & Hood, 1998: 775)

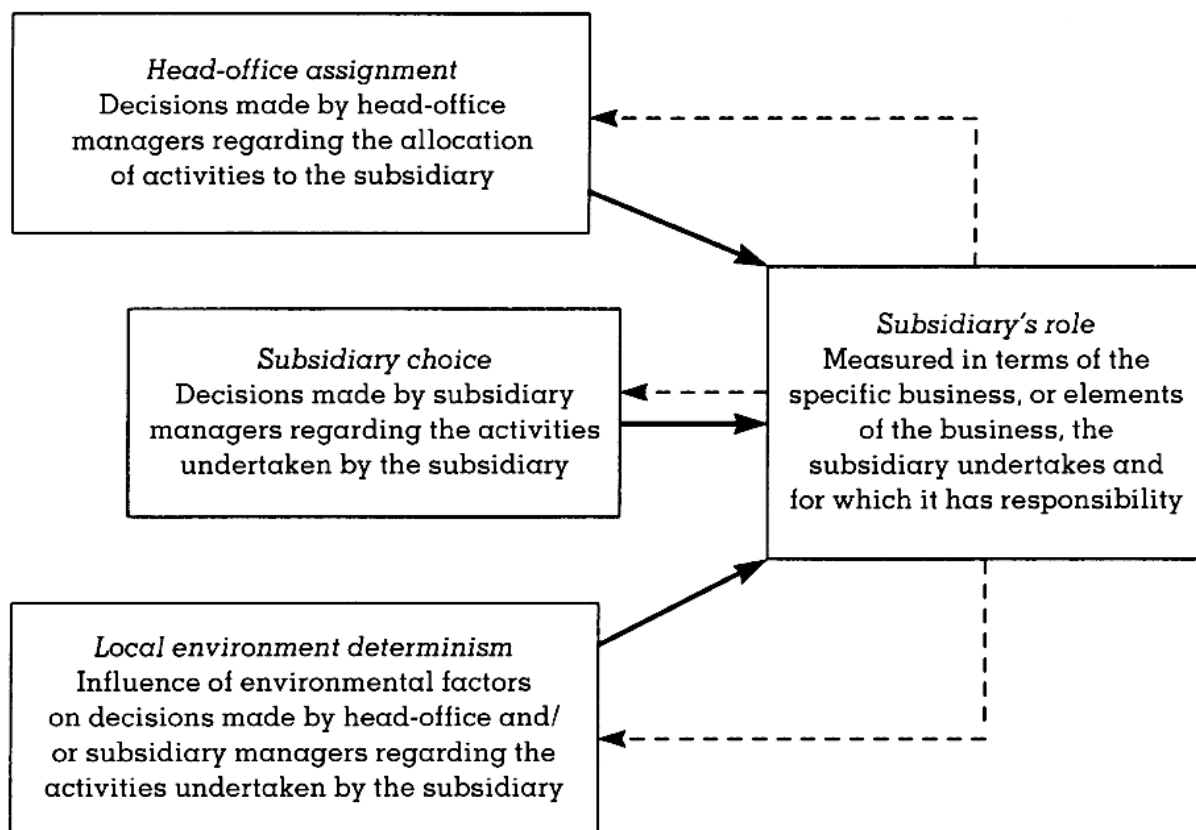


Fig. 4.11: Organising Framework for Subsidiary Evolution
(Birkinshaw & Hood, 1998: 757)

iv) Subsidiary Evolution - The Interaction of Capability & Charter Change

While, in brief, subsidiary evolution (see Figure 4.12) refers to, firstly, the enhancement/atrophy of capabilities in the subsidiary (Birkinshaw & Hood, 1998: 782); and, secondly, the establishment/loss of the commensurate charter (Galunic & Eisenhardt,

1996), capability and charter change do not necessarily have to move together. Firstly, there is internal competition for both existing and new charters (see also Subchapter 3.3.3). The latent mobility of charters and the competition among subsidiary units for charters appears to be one of the fundamental drivers behind the subsidiary evolution process. (Birkinshaw & Hood, 1998: 782) The dynamics of internal competition among subsidiaries are a critical determinant of which subsidiaries survive (Almor & Hirsch, 1995; Sachdev, 1976; Young, McDermott, & Dunlop, 1991). Additionally, exposure to demanding customers, leading-edge competitors, and high-quality suppliers pressures firms to upgrade their capabilities (Porter, 1980; 1990). Internal competitive forces are as critical to the capability enhancement process as external competitive forces (Birkinshaw & Hood, 1998: 782-783). In this context, the transferability of capabilities is a function of the codifiability of the capability in question (Zander, 1994), the motivations of the receiving units, and a host of contextual variables (Szulanski, 1996). Additionally, new opportunities need to be proactively sought out. Importantly, a certain level of decision-making autonomy seems to be necessary to enable subsidiaries to pursue charter-enhancing and -reinforcement initiatives. (Birkinshaw & Hood, 1998: 792) With regard to subsidiary decline Boddewyn (1979; 1983) finds that poor financial performance is the primary cause of foreign divestment, followed by lack of strategic fit and various organisational problems, such as poor relationships between parent and subsidiary (Boddewyn, 1979; 1983).

Importantly, numbers in Figure 4.12 pinpoint the five generic processes of subsidiary evolution and the possible combinations of capability and charter change in the subsidiary. Usually, capability change will either lead or lag charter change. However, the charter must eventually reflect the underlying capabilities of the subsidiary. Each of the five processes represents a discrete phase that may take a few weeks to a few years to complete: PDI (parent-driven investment), SDE (subsidiary-driven charter extension), PDD (parent-driven divestment), ASN (atrophy through subsidiary neglect) and SDR (subsidiary-driven charter reinforcement). Eventually, the charter will/should reflect the underlying capabilities of the subsidiary. (Birkinshaw & Hood, 1998: 783-786)

In brief, in PDIs the charter extension leads, subsequently, to an enhancement of the subsidiary's capability profile. In SDEs, subsidiaries seek for a charter extension once they have built the required capabilities. PDIs are the mirror image of PDDs. Typically, the parent company aims to rationalise its international operations and/or to exit certain businesses. The focal subsidiary is bound to lose its charter. ASNs represent the reverse

of SDEs. Subsidiary capabilities gradually atrophy in an absolute sense or relative to other subsidiaries, while the charter is still retained. Lastly, SDR ensures that the subsidiary has leading-edge capabilities vis-à-vis both internal and external competitors. Effective SDRs lead to lower costs and/or quality and service improvements and, thus, reinforcement of the subsidiary's existing charter. (Birkinshaw & Hood, 1998: 783-786)

Joint ventures go through parent-driven and subsidiary-driven phases of development that are typically part of an overall process of evolution toward higher-value-added activities (Doz, 1996; Ring & Van de Ven, 1994)

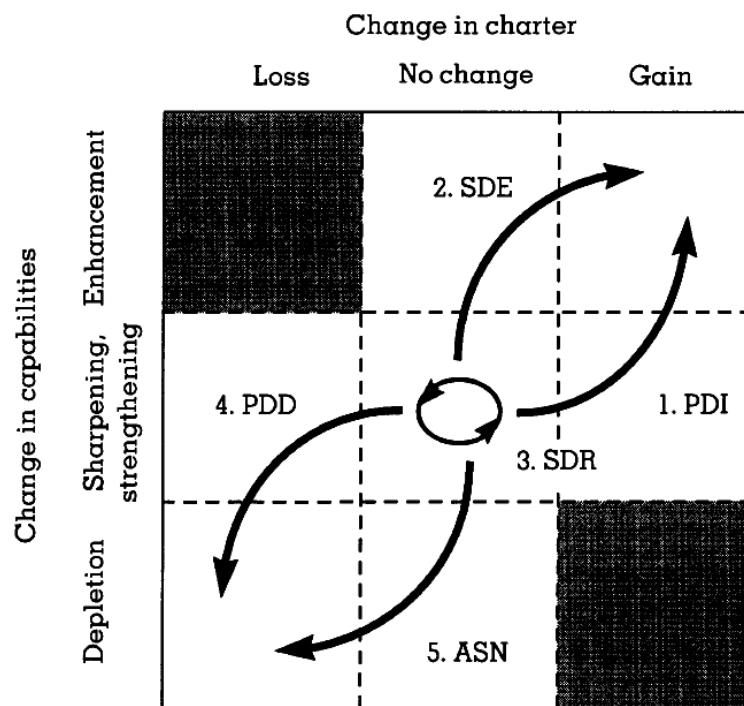


Fig. 4.12: Subsidiary Evolution as a Function of Capability & Charter Change (Birkinshaw & Hood, 1998: 783)

v) Contextual Factors Impacting the Generic Processes

Subsidiary evolution may be influenced by contexts such as the corporate, subsidiary, and host country context as well as the parent's industry environment and other subsidiaries. Firstly, important corporate-level factors include competitive internal resource allocation and the level of decentralisation of decision-making, that is, the autonomy granted to subsidiaries. In addition, the parent's attitude towards FDI is essential. (Birkinshaw & Hood, 1998: 787-788) In this context, parent management ethnocentrism (Perlmutter, 1969) refers to the parent's preoccupation with its own national identity and a belief in its superiority over others (Avis, Drysdale, Gregg, Neufeldt, & Scargill,

1983). Secondly, the most critical subsidiary-level factor affecting subsidiary evolution is subsidiary performance. Additionally, the quality of parent-subsidiary relationships is important as well. Thirdly, host country-level factors, that is, characteristics of the host country market also impact on subsidiary evolution. Obviously, subsidiaries react to competitive moves by other companies and sharpen their capabilities in line with the expectations of local customers and suppliers. (Birkinshaw & Hood, 1998: 788-789) In this context, the dynamism of the local business environment may be defined in terms of demand conditions, the existence of related and supporting industries, strong factor endowments and competition (Porter, 1990). Additionally, host government support such as direct and indirect incentives for investment as well as the strategic importance of the host country to the MNC, and the relative cost of factor inputs represent important host country-level factors. Strategic importance refers to the extent to which a competitive position in that country affects the MNC's worldwide competitive position. (Birkinshaw & Hood, 1998: 790) With regard to strategic entrepreneurship/subsidiary initiatives please refer to Subchapter 3.3.3.

4.4 Towards a RB Theory of Value-Boosting Organic Growth Strategies

This Subchapter is dedicated to a resource-based theory of value-boosting organic growth strategies (OG-strategies).

4.4.1 Theoretical Model & Propositions

While Subchapters 4.1 to 4.3 are essential to getting to grips with the rather comprehensive, general theoretical model, which is especially to facilitate the design of superior, market-driven organic growth strategies, Subchapter 2.7 provides the basis for its application to the private banking business. Please also refer to the quite detailed empirical example in Section b of this Subchapter. Next, the theoretical model will be explained starting from the lower left-hand corner and moving to the right to ultimately arrive at the upper right-hand corner.

a) Explanation of the Mechanics of the Compounded Theoretical Model

Firstly, this model suggests the carrying out of an analysis of the resource position of the MNC (Wernerfelt, 1984) that aims to achieve sustainable organic growth (OG). The outcomes of this analysis along with environmental screening/analysis (e.g., Ansoff, 1965) may enable managers to obtain superior information on strategy implementation

(SI) (Barney, 1986a) as regards strategic OG-options. Ultimately, superior information in SI enables managers to take informed decisions on which strategic options are most likely to create the most promising (sustained) competitive advantages (Barney, 1986a). With regard to OG, Hagaman (1991: 14) highlights the attractive profit opportunity from cross-selling between private and corporate banking. However, while there are significant opportunities from cross-selling, largely from a reduced cost of marketing (Arend, 1992: 56-58), there is also a danger that dissatisfaction with performance in another part of the bank could undermine the relationship (Adamson, Chan, & Handford, 2003). This is especially so in Asia (Ang, 2010: 69).

Secondly, a variety of strategic growth options needs to be generated and analysed for their likely value-added potential as the ultimate goal of all strategising efforts is long term value-added maximisation (Barney, 1986a). In this context, it is important not to exclude/abandon options that require resource gaps to be filled. Whether closing specific resource gaps so as to be enabled to implement a specific OG-option might be worthwhile will only be determined at a later stage. For instance, UBS chose to close resource gaps via M&A: Its acquisition of the PaineWebber Group brought to UBS a footprint and name recognition that rivalled any in the United States. According to a Credit Suisse First Boston analyst, PaineWebber has the know-how to deliver product and UBS has the product. With the PaineWebber deal, UBS got the delivery and marketing savvy they used to lack. In addition, UBS gained a valuable customer base populated by wealthy clients who were natural candidates for investment and private banking cross-selling opportunities. (Moyer, Anderson, & Stock, 2000: 1-2) Furthermore, unquestionably, having an appropriate strategy-making process in place (Mintzberg & Waters, 1985), which allows for generating superior OG-options, is paramount in this context. Additionally, a wide range of factors affecting OG-strategy outcomes have to be taken into account: Basically, all of these factors are related to the overarching OG-factor, that is, the extent to which the MNC's worldwidely dispersed resources and capabilities are being harnessed and leveraged in optimal ways (Bartlett & Ghoshal, 1998; see also empirical examples outlined in Subchapter 3.5.1). This also implies a sound orchestration of the four key tasks to strategic marketing (Tomczak, Reinecke, & Mühlmeier, 2004) as well as both an optimal resource deployment and subsidiary evolution management (Birkinshaw & Hood, 1998). In this model, subsidiary evolution is defined as the process of accumulation or depletion of resources/capabilities in the subsidiary over time (e.g., Prahalad & Doz, 1981). Additionally, perfectly leveraging resources and capabilities also calls for the fostering of strategic entrepreneurship on corporate, business, and

subsidiary levels (e.g., Hitt, Ireland, Camp, & Sexton, 2001) and sustainably managing the development, maintenance, and renewal of core capabilities (Leonard-Barton, 1992). In this context, strategic initiatives, that is, co-ordinated efforts within an organisation to affect the renewal of core competencies and/or the organisation's product/market domain (Floyd, Ortiz-Walters, & Woolridge, 2004) as well as the establishment of growth platforms (Laurie, Doz, & Sheer, 2006) come into play.

Bank of China (BOC) provides a prime example of a strategic initiative as well as a sound orchestration of the four core tasks to strategic marketing in the private banking sector. BOC was the first major bank in China to realise the opportunity in private banking and managed to build its private banking capability to meet that opportunity. In March 2007, BOC Private Banking opened its Beijing and Shanghai branches, the first of their kind in mainland China. BOC established its own client-centered service model combining a number of key elements: firstly, a comprehensive business network and social resources, both at home and abroad, to provide its clients with comprehensive high-quality services; and, secondly, individualised asset management plans, professional product design, and many other value-adding services. This has attracted a large, loyal, and satisfied base of private banking clients. Clearly, BOC Private Banking is keen to making sure it provides its high net worth clients with customer-tailored, first-class services so as to meet their needs in optimal ways. In addition, BOC has built a comprehensive network for client marketing. BOC Private Banking aims to devote more resources and energy into its service channel development. It plans to speed up the promotion of online banking and telephone banking for VIP clients. BOC will speed up the development and promotion of financial products exclusively for private banking clients after further strengthening its product research capability, diversifying the product pool, and developing an independent product research capability. Additionally, it will stick to its brand positioning to provide exclusive and international products and services and make full use of its overseas channels and platforms to offer the most internationalised products and services among all Chinese banks. (Euromoney, 2009a: 12-13)

Furthermore, especially in times of uncertainty, the MNC's ability to fully harness its resources and capabilities also hinges on its (market-focused) strategic flexibility (e.g., Buckley & Casson, 1998b; Johnson, Lee, Saini, & Grohmann, 2003) and the extent to which the company is able to exploit its synergy potential (Irvin, Pedro, & Gennaro, 2003; see the below empirical example of Credit Suisse (Section b)) as well as differences across nations and regions, that is, arbitrage including 'brain arbitrage' (Rugman &

Verbeke, 2004). Lastly, firm-, industry-, and country-specific factors (Madhok, 1997; Tse, Pan, & Au, 1997) as well as the extent to which corporate strategy is well aligned and consistent with business and subsidiary strategies. In addition, the extent to which all of the aforementioned strategies are well aligned with the idiosyncratic resource positions of the MNC (Barney, 1986a,; Wernerfelt, 1984) as well as the alignment of strategy with structure and systems (Donaldson, 2000) and the environments the MNC operates in (Hitt & Ireland, 2000) will determine how well the MNC will be able to leverage its resource and capability base.

Thirdly, this model suggests examining what (sustained) competitive advantages might be achieved if one of the OG-options generated above were pursued. The resulting information might contribute to the attainment of superior information on strategy implementation as well. Possibly, choosing the most promising option will require the MNC to acquire additional strategic assets on strategic factor markets (Barney, 1986a), to accumulate lacking resources by adhering to a set of consistent policies over a period of time (Dierickx & Cool's, 1989), and/or to access lacking strategic assets via strategic alliances/networks (e.g., Barringer & Harrison, 2000; Granovetter, 1992; see Chapter 5).

Lastly, a final choice on which organic growth option is most likely to maximise (risk-adjusted) long term value-added should be taken.

b) Empirical Example of OG-Strategy Design

In 2004, Credit Suisse decided to pursue a so-called 'one-bank'-philosophy, that is, private banking, investment banking, and asset management have to co-operate with one another and to create synergies. Credit Suisse's strategy of complete integration also implies that private and investment banks collaborate to serve private clients. In 2010, driven by the integrated approach, Credit Suisse's revenues are soaring. The importance of being fully integrated is clear: Firstly, clients of the investment bank that have a liquidity event are prime private banking 'client material'. Secondly, high net worth private clients are likely to require an investment bank at some point, and they will be better off using the one attached to their private bank, if it is as high calibre as Credit Suisse. In Asia, Credit Suisse Private Bank retains its position as fourth-best private banking services provider. In addition, it has successfully established new operations in Australia and Japan. (Avery, 2010)

c) Propositions

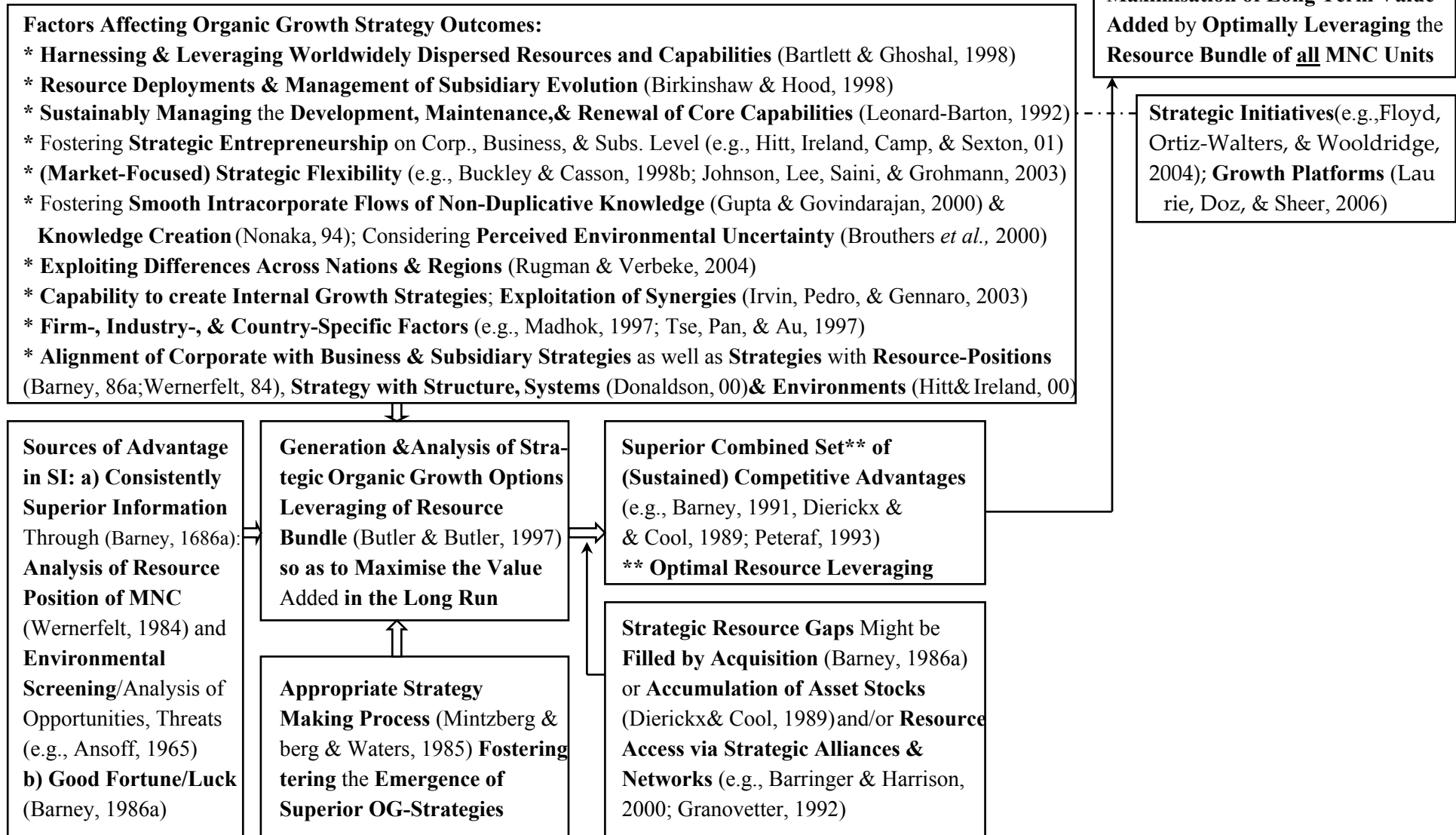
Next, we will turn to the propositions the author draws from the compounded theoretical model described and explained above.

Proposition 1: In general terms, firms applying the entire compounded, multifaceted model depicted at the end of Subchapter 4.4.1 will be more likely to take well-informed, forward-looking decisions as regards potential OG-strategies to be driven by the MNC. They will find themselves in a better position to choose the very organic growth option that is likely to produce a superior combined set of CAs and SCAs and, ultimately, lead to a maximum amount of long term value-added.

The author argues that empirical tests of the above proposition are likely to provide evidence that it holds true. If major renowned models that fit well together are combined in a meaningful way, a greater portion of reality may be grasped. Thus, as more aspects are taken into consideration when deciding on a potential OG-strategy option, the probability of a better-informed decision is enhanced.

Proposition 2: This theoretical model holds true across all industry contexts. Much empirical testing will be needed to provide evidence for this proposition.

RB Theoretical Model: Designing Value-Boosting Organic Growth Strategies



4.4.2 Assumptions, Limitations, Boundaries, & Future Research

a) Assumptions Underlying this Mid-Range Theory, Limitations & Boundaries

The compounded theoretical model depicted in Subchapter 4.4.1 predominantly combines and confines itself to different well-acknowledged resource-based 'theories' of the firm, general strategic and international management literature, and research literature on organic/internal growth (strategies). Thus, while it capitalises on the distinct advantages of these literatures, it is simultaneously subject to their assumptions and limitations. It assumes that all resource-based 'theories' and other theories drawn on may be combined to form a more comprehensive, multifaceted theoretical model despite their grounding in different fields of inquiry. In addition, the benefits of applying this model are assumed to offset the opportunity costs associated with it. Lastly, this model presumes that firms have the resources/capabilities necessary to apply the same.

b) Tracing a Future Research Agenda

Please see Subchapter 7.1 (RBV) as regards avenues for future research. Furthermore, the compounded theoretical model depicted in Subchapter 4.4.1 should be extensively empirically tested and possibly complemented with new/enhanced, supplemented resource-based 'theories', general strategic management research, organic growth literature, and/or international management research.

4.4.3 Conclusions Subchapter 4.4

Crafting market-driven, value-boosting organic/internal growth strategies maximising the (risk-adjusted) long term value-added potential by optimally leveraging/harnessing the company's resources and capabilities (Butler & Butler, 1997) represents a fascinating but also challenging assignment. Sustainable organic growth strategies also include a sound orchestration of the four key tasks to strategic marketing (Tomczak, Reinecke, & Mühlmeier, 2004). Major additional ingredients of sustainable internal growth include having an appropriate, promising strategy-making process in place (Mintzberg & Waters, 1985), a sustainable, purposeful, and target-oriented management of subsidiary evolution (Birkinshaw & Hood, 1998), strategic entrepreneurship and strategic initiatives (Hitt, Ireland, Camp, & Sexton, 2001; see Subchapters 3.3.3 and 4.3.2), as well as smooth intra-MNC knowledge flows (Nonaka, 1994). Additionally, strategic flexibility (Bowman & Hurry, 1993), the capability of the firm to proact or respond quickly to changing competitive conditions and thereby develop and/or maintain competitive ad-

vantage (Hitt, Keats, & DeMarie, 1998: 27) is particularly important in times of uncertainty. In the long run, market-focused strategic flexibility enhances firm performance (e.g., Evans, 1991) in terms of both financial performance and strategic performance (Johnson, Lee, Saini, & Grohmann, 2003: 78-79). Incumbents of fast- and slow-clock-speed industries need to have different capabilities (Eisenhardt & Martin, 2000) if they are to succeed in their environments. In this context, core capabilities differentiating a company strategically play a key role in corporate renewal and innovation (Leonard-Barton, 1992: 110-123). Innovation may be viewed as the most important element of a firm's strategy (Hamel, 2000). However, whether the envisaged value-adding potential of a newly crafted organic growth strategy may be realised also significantly depends on its execution (Nutt, 1999).

4.5 Towards a DCB Theory of Superior Routines in OGS-Execution

Once a promising organic growth strategy has been crafted, it has to be implemented in optimal ways. This Subchapter is dedicated to a dynamic capability-based theory of superior routines in organic growth strategy (OGS)-execution ensuring the realisation of a maximum amount of long term value-added.

4.5.1 Theoretical Model & Propositions

While Subchapters 4.1 to 4.3 are essential to a full understanding of the rather comprehensive, generally applicable theoretical model, Subchapter 2.7 provides the basis for its application to the private banking business. Please also refer to the empirical examples provided in Subchapters 4.4.1 and 4.5.1. Next, the theoretical model will be explained starting from the upper left-hand side, moving downwards, then to the right-hand side to ultimately arrive at the upper right-hand corner, and lastly, moving back to the left-hand side to close the cycle.

a) Explanation of the Mechanics of the Compounded Theoretical Model

For the sake of completeness, this model starts with a thorough (re)analysis of the resource position of the company pursuing an organic growth strategy (Barney 1991; Wernerfelt, 1984) as well as a renewed environmental screening for threats and opportunities (e.g., Ansoff, 1965). Since, especially in times of uncertainty, environmental conditions may change comparatively rapidly, these internal and external re-analyses may be worthwhile and allow the firm to obtain superior information on strategy im-

plementation. They may not 'only' enable the company to conceive of a superior implementation strategy, but may also allow the firm to refine and possibly adjust its formerly crafted OG-strategy. (Barney, 1986a)

Secondly, a resource gap might need to be filled in order to attain the strategic resource position required to execute the OG-strategy exhibiting the highest risk-adjusted long term value-added potential in superior ways (see example of Western firms entering China in Subchapter 4.4.1) The lacking strategic assets may be purchased on strategic factor markets (Barney, 1986a), or, alternatively, the required asset stocks may be accumulated via a consistent pattern of resource flows over time (Dierickx & Cool, 1989). Importantly, however, frequent changes in resource deployments and competitive actions may usurp a firm's established (S)CAs (e.g., Ferrier, 2001). For example, frequent shifts in advertising strategies may destroy the cumulative benefits realised in the past (Nadkarni & Narayanan, 2007: 247). In addition, strategy has to be well aligned with both the targeted firm structure (Donaldson, 2000) and the firm's idiosyncratic resource position (Barney, 1986a; Wernerfelt, 1984).

Thirdly, the knowledge evolution cycle the firm capitalises on ensures that industry-specific organic growth strategy implementation (OG-SI)-knowledge is continuously accumulated, assessed, and refined through generative variation, internal selection and retention (Zollo & Winter, 2002). In this context, generative variation is associated with a company's creativity potential and innovative capacity (Hayek, 1945; Schumpeter, 1936) and internal selection with entrepreneurial ability and innovation (Schumpeter, 1936). Additionally, the OG-SI-routine life-cycle diagrams (Helfat & Peteraf, 2003) show the positive correlation between the level of capability per unit of activity and the cumulative amount of activity.

Fourthly, the continually generated knowledge contributes to an ever improving central OG-SI-knowledge management system. The body of up to date, industry-specific OG-SI-knowledge consisting of both tacit and explicit knowledge (Nonaka, 1994) is used to modify/renew the firm's OG-SI-core capability (Leonard-Barton, 1992). In this context, when it comes to optimising the OG-SI-process, the firm may also capitalise on its absorptive capacity and accumulated experience gained when executing prior OG-strategies. Thus, single- and double-loop learning described in Subchapter 2.4 comes into play. In addition, unleashing organisational energy (please see Subchapter 2.10) is pivotal for a successful mastery of the critical OG-SI-process. In brief, organisational

energy constitutes the force, vitality, and stamina with which a company works (Bruch & Ghoshal, 2004). To foster and harness organisational energy, strategy implementation research offers valuable approaches. In this context, Nutt (1998) found that intervention is the generally preferred approach to strategy implementation and thus also to OG-SI. A combination of persuasion and intervention may even prove superior to intervention only. (Nutt, 1998) Furthermore, with regard to the maximisation of OG-SI-success, Hickson, Miller, & Wilson (2003) have identified a parsimonious set of eight variables (i.e., familiarity, assessability, specificity, acceptability, receptivity, structural facilitation and priority) which determine strategy implementation success. In addition, according to Dooley, Fryxell, & Judge (2000), strategic consensus is paramount since it positively impacts on strategic commitment, which in turn enhances strategy implementation success. Furthermore, consistent vertical communication positively affects strategic consensus (Rapert, Velliquette, & Garretson, 2002: 301-310). Generally speaking, communication is paramount when it comes to OG-SI. Adequate communication also enhances the likelihood that key employees may be retained, so highly valuable human capital in general and the precious OG-SI-know-how more specifically may be kept in-house.

Fifthly, ultimately and as depicted in the top right-hand corner of the theoretical model, OG-SI-success is threefold: firstly, the degree of adoption of strategic OG-SI-decisions; secondly, the value of those strategic decisions; and, thirdly, the installation time needed (Nutt, 1998: 213-237). In this context, Quinn (1990) suggests systematic waiting and intentional incrementalism in the SI-process (Quinn, 1990). Ultimately, the optimal OG-SI-speed needs to be found. Such a capability may well enhance OG-SI-success. This model thus suggests that, depending on the situation at hand, a very swiftly executed OG-SI may not always be the best solution. Systematic waiting and intentional incrementalism may well pay off if they contribute to a sustainable OG-SI-process that is likely to create the most value in the longer term.

Sixthly, management control systems (please see Subchapter 2.10) are important tools for monitoring and managing the whole OG-SI-process (Simons, 1991: 49-62). In the course of OG-SI, the company may want to adjust its OG-SI-planning and -execution since the competitive landscape and possibly its resource position have changed. Eventually, actions taken in conjunction with contextual factors result in a certain degree of implementation success, which is monitored and measured by means of management control systems. That way the firm receives a 'performance feedback' (Simons, 1991). Next, the firm evaluates its most current OG-SI-experience and feeds the resulting in-

formation into the above central OG-SI-knowledge management system. In addition, this 'performance feedback' on the last OG-SI-process carried out also affects the knowledge evolution cycle. Especially inadequate performance levels indicate that a reassessment of the entire process may be recommendable to track improvement potentials and identify possible shortcomings of the OG-SI-routine.

Lastly, in the course of time, the firm continuously learns from prior implementations of OG- strategies. In this context, double-loop learning (Argyris & Schön, 1978) comes into play. Learning mechanisms shape operating routines both directly and via dynamic capabilities (Zollo & Winter, 2002). The firm's OG-SI-routine goes through various stages during its life-cycle and may eventually be renewed, redeployed, recombined, replicated, retrenched, or even abandoned (Helfat & Peteraf, 2003). For more details and explanations with regard to the figures labelled 'DCs and Learning Mechanisms', 'Knowledge Evolution Cycle', and 'SI-Routine Life-Cycle' please refer to Subchapter 2.9.

b) Empirical Example of OG-Strategy Execution

Implementing Credit Suisse's integrated strategy (see also Section b of Subchapter 4.4.1) requires long term investment and commitment to achieve a fundamental cultural change. The culture of sharing revenues and encouraging all parts of the bank to share business is hard to establish. The 'one bank'-philosophy needs to be constantly reiterated. Credit Suisse's approach to OG-strategy execution may be sketched as follows: Firstly, every board (i.e., from local boards such as Berne to the country boards, the regional boards, and the highest echelons of the Credit Suisse Group) needs to have an investment banker, a private banker, and an asset manager present. Secondly, with regard to compensation, referrals from one side to the other create a 'global currency', that is, the revenues generated are considered as belonging to the entire firm rather than one division only, and revenues are split accordingly. On the one hand, private bankers that refer clients to the investment bank receive a certain percentage of the deal fees. On the other hand, investment bankers referring clients to the private bank get a part of the revenue stream generated over three years. In addition, so-called solution partners, a group sitting between the investment bank and the private bank, generates ideas for the private bankers and screens potential investment banking opportunities derived from private client requests. While Credit Suisse Private Bank does have a brokerage model in the US, it has been slowly metamorphosing into a full-service wealth manager. (Avery, 2010: 56-60)

c) Propositions

The author draws the following propositions from the compounded theoretical model described and explained above.

Proposition 1: Firms applying the entire compounded theoretical model depicted at the end of Subchapter 4.5.1 will in general terms be more likely to take well-informed, forward-looking, sustainable decisions with regard to OG and OG-SI in particular. They will be more likely to implement the crafted OG-strategy in superior ways thus creating the most value in the long term.

The author argues that empirical tests of the above proposition are likely to provide evidence that it holds true. If major renowned models that fit well together are combined in a meaningful way, a greater portion of reality may be grasped.

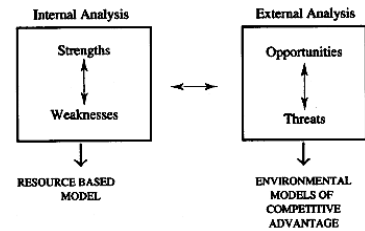
Proposition 2: This theoretical model holds true across all industry contexts. Much empirical testing will be needed to provide evidence for this proposition. Firstly, the individual components will need to be subjected to extensive empirical tests. Especially the strategy implementation literature based components require much further empirical testing (see Subchapter 7.5).

DCB Theoretical Model of Superior OG-SI Routines

Definition: OG-SI: Organic Growth Strategy Implementation

Framework:

Internal & External Analysis (e.g., Andrews, 1971; Ansoff, 1965)



Sources of Advantage in SI
 a) Consistently Superior Information
 b) Good Fortune or Luck (Barney, 1986a)

Superior Information Through Assessment of Resource Position of Firm pursuing an OG-Strategy (Barney, 1991) Wernerfelt, 1984)

and **Environmental Screening** for Threats/Opportunities (e.g., Ansoff, 1965) (Barney, 1986a)

Conceive of Superior OG-Implementation Strategy

Closure of Possible Resource Gap to Attain Desired Strategic Resource Position:
 * Acquisition of Strategic Assets (Barney, 1986a)
 * Accumulation of Asset Stocks (Dierickx & Cool, 1989)

Overarching Objective in OG-SI:
 * Leveraging of the Company's Resource Bundle (Butler & Butler, 97) so as to Generate the Most Value-Added in the Long Run

↓

Maximise Firm's Value Potential by **Optimising its Set of (S)CA**

↓

Assessment of Resources: Potential source(s) of (S)CA?

Value	} CA	} SCA
Rareness		
Non-Imitability		
Non-Substitutability		
Non-Transferability	} SCA	
(VRIN-attributes, Barney, 1991)		

(Dynamic OG-SI Capability to build Promising Resource Configurations) (Eisenhardt & Martin, 2000)

Strategy Has to Be Aligned with Structure (Donaldson 2000) and the **Firm's Idiosyncratic Resource Position** (Barney, 1986a, Wernerfelt, 1984)

Management Control Systems (Simons, 1991)

Performance Feedback Loop (Simons, 1991)

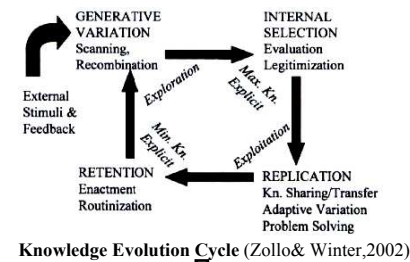
Performance Feedback Loop (Simons, 1991)
 Incremental, evolutionary improvements (Quinn, 1990)
 Evolutionary Trajectory of OG-SI Capability (Helfat, 1994) (*see OG-SI-Life-Cycle)

Measuring Strategy Implementation Success:
 a) **Degree of Adoption** of Strategic Decisions
 b) **Value** of Strategic Decisions: Value-Added through Organic Growth
 c) **Installation Time** (Quinn, 1990) Systematic Waiting, Intentional Incrementalism (Nutt, 1998)

Superior OG-SI-Routine? (Nature of OG-SI-Routine Depends on the Level of Market Dynamism (Eisenhardt & Martin, 2000))

Gathering & Analysis of OG-SI Experience

Evolution of Industry-Specific OG-Strategy Execution Knowledge:



Generative Variation:
 * Creativity Potential
 * Innovative Capacity (Hayek, 1945; Schumpeter, 1936)

Internal Selection:
 * Entrepreneurial Ability and Innovation (Schumpeter, 1936)

Retention:
 * Learning Mechanisms (Zollo & Winter, 2002)

OG-SI-Routine Life-Cycle:
 * Stages, Branching (Helfat & Peteraf, 2003)

Central OG-SI-Knowledge Management and Integration

Integrate Updated Body of Tacit & Explicit OG-SI-Knowledge (Nonaka, 94) (including recent research)

↓

Modify/Renew current OG-SI Core Capability (Leonard-Barton, 1992)

↓

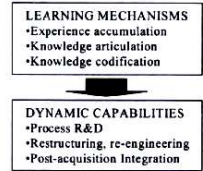
Unleash Organisational Energy (Bruch & Ghoshal, 2004) by
 Intervention- (possibly plus Persuasion Approach to SI (Nutt, 1998)
 Consistent Vertical Communication (Rapert et al., 2002)

↓ +

Strategic Decision Consensus
 Strategic Decision Commitment (Dooley et al., 2000)

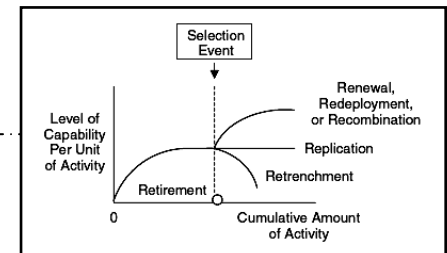
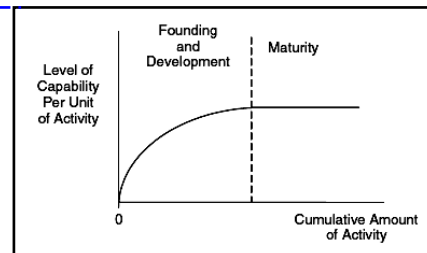
Double-Loop Learning (Argyris & Schön, 1978)

Modification/renewal OG-SI-Routine & Core Capability:
 Learning Mechanisms Branching (see bottom)



EVOLUTION OF OPERATING ROUTINES

DCs & Learning Mechanisms (Zollo & Winter 2002)



4.5.2 Assumptions, Limitations, Boundaries, & Future Research

a) Assumptions Underlying this Mid-Range Theory, Limitations & Boundaries

The compounded theoretical model depicted in Subchapter 4.5.1 predominantly combines different dynamic capability-based 'theories of the firm', research literature on strategy implementation, and organic/internal growth (strategies). Thus, while it capitalises on the distinct advantages of these literatures, it is also subject to their limitations. It assumes that all the different dynamic capability-based 'theories' and other theories may be combined to form a more comprehensive theoretical model despite their grounding in different fields of inquiry. In addition, the crafted theoretical model assumes that the opportunity costs incurred by the application of this model in strategising will not offset the benefits associated with it. Lastly, this model presumes that firms have the resources/capabilities necessary to apply it.

b) Tracing a Future Research Agenda

Please see Subchapters 7.2 (DCV) and 7.5 (SI research) as regards avenues for future research. Furthermore, the compounded theoretical model depicted in Subchapter 4.5.1 should be extensively empirically tested and possibly complemented with new/ enhanced, supplemented dynamic capability-based 'theories', general strategic management literature, organic growth research, and/or international management research.

4.5.3 Conclusions Subchapter 4.5

Successfully mastering organic growth strategy execution (OG-SI) is a delicate task as a great variety of factors need to be adequately considered. In general terms, failures predominantly occur during strategy execution rather than strategy formulation (Nutt, 1999: 75).

Organisational learning (e.g., Argyris & Schön, 1978) plays a key role in developing OG-SI-routines and -core capabilities. Firms may learn to manage the OG-SI-process by tacitly accumulating respective experience and explicitly codifying it in manuals, systems, and other OG-specific tools. (Zollo & Singh, 2004: 1233) Organisational knowledge creation, which is effected through a continuous dialogue between tacit and explicit knowledge, is paramount. Individuals and companies expand companies' knowledge bases in a synergetic fashion (Nonaka, 1994: 14-34). Creative chaos, redundancy of information, and requisite variety positively impact on organisational knowledge creation (Nonaka, 1994: 27-28).

4.6 Conclusions Chapter 4

In general terms, strategy may be conceived of as a 'pattern in a stream of decisions/actions' (Mintzberg, 1978). Strategies may be subdivided into deliberate and emergent strategies (Mintzberg & Waters, 1985: 257-271). Additionally, Burgelman (1983c) argues that firms need both diversity and order in their strategic activities to maintain their viability (Burgelman, 1983c: 1349). Having an appropriate strategy-making process in place (Mintzberg & Waters, 1985) obviously constitutes a major prerequisite of successful strategising. Importantly, especially in times of uncertainty reconfiguring the firm's asset structure and arranging for the necessary internal and external transformation on time is paramount (Amit & Schoemaker, 1993).

Organic or internal growth (OG), which is also termed 'core growth' (Jackson, 2007: 40), represents a sound, natural form of growth that may enable the capturing of attractive environmental opportunities without having to bear too high risks. Importantly, institutionalising the capability to create OG-strategies (Irvin, Pedro, & Gennaro, 2003: 13) as well as OG-SI-core capabilities (Zollo & Singh, 2004: 1233) is paramount if a maximum amount of value-added is to be created through organic growth. One option in the quest for internal growth is to create so-called new growth platforms (NGP) on which to build families of products, services and businesses (Laurie, Doz, & Sheer, 2006: 82).

In what follows, corporate growth through strategic alliances and strategic networks (SAN) will be scrutinised.

Chapter 5
Market-Driven, Corporate Growth
through
Strategic Alliances & Networks

5 Market-Driven, Corporate Growth through Strategic Alliances & Networks

5.1 Abstract

As companies find it increasingly tougher to achieve and sustain growth, they have placed their faith in acquisitions and strategic alliances to boost sales, profits, and stock prices (Dyer, Kale, & Singh, 2004: 109). Nowadays, strategic alliances play a major role in almost every industry - from airlines to oil exploration and from pharmaceuticals to semiconductors. The typical corporation relies on alliances for 15 to 20 percent of its total revenues, assets, or income. (Ernst & Bamford, 2005: 133) Although alliances are fraught with risk - 40% to 55% of them break down prematurely and inflict financial damage on both partners - (Dyer, Kale, & Singh, 2004: 109), strategic alliances are now a ubiquitous phenomenon (Gulati, 1998: 293). Strategic alliances have become well established as a viable organisational form and an important means of strategy implementation (Inkpen, 2001: 409). Many companies have become embedded in a dense network of relationships as a result of intensive alliance activities. Additionally, companies often cannot rely on single high-profile alliances to implement business strategies successfully. (Gomes-Casseres, 1996)

In general terms, an optimal organisational, strategic, cultural, and personal fit between alliance partners is believed to raise alliance success (Draulans, deMan, & Volberda, 2003: 151). Importantly, some companies show themselves capable of systematically generating more alliance value than others. Strategic alliances represent an important tool for achieving sustainable competitive advantage. (Dyer, Kale, & Singh, 2001: 37) Alliance partners play a significant role in shaping resource-based competitive advantages of firms (Lavie, 2006: 638). Additionally, the ability to form and manage strategic alliances more effectively than competitors may become an important source of competitive advantage (Dyer, Kale, & Singh, 2001: 37). Overall, in any alliance, there is a need for co-ordination and co-operation between the parties if it is to function properly to achieve shared objectives and joint pay-offs (Kanter, 1994; Doz, 1996).

Closely linked to dyadic alliances, strategic networks play an important role in today's business arena. New forms of competition in which networks of firms compete with each

other have emerged (Gomes-Casseres, 1994). Companies increasingly co-operate in strategic networks to create joint value (Hoffmann, 2005: 141). Network resources play a role not only in the evolution of alliance networks (Gulati, 1999) but also in shaping the competitive advantage of interconnected firms (Lavie, 2006: 648).

In brief, this Chapter sets out to explore market-driven, corporate growth through strategic alliances and networks. As in traditional strategy research (Wright & Lockett, 2003), the firm as a whole rather than single alliances/networks per se represent the unit of analysis in Chapter 5. Most importantly, on the one hand, the theoretical model depicted in Subchapter 5.4 illuminates critical drivers of value-adding strategic alliances and networks from a resource-based perspective. This rather exhaustive model may serve strategists as a multifaceted, analytical forecasting instrument designed to assess the value added or destroyed an envisaged entry into a strategic alliance/network is likely to produce for the focal firm. On the other hand, the rather comprehensive theoretical model depicted in Subchapter 5.5 explores superior SAN-execution routines from a dynamic capability-based perspective. This model may add value by pinpointing pathways that might lead to superior SAN-execution routines. Both general models are applied to the private banking business.

5.2 General Introduction, Overview, & Research Motivation

Firstly, subchapter 5.2 presents a general introduction and overview. Secondly, it identifies and motivates research questions to be tackled in Subchapters 5.4 and 5.5 and shows how Chapter 5 as a whole aims to ameliorate the understanding of management of the issues at hand. Subchapter 5.3 provides a sound literature review and synthesis of research on strategic alliances and networks (SAN) in general and their value drivers more specifically. Chapters 2 and 3 are paramount for grasping the mechanics of the rather comprehensive, theoretical models depicted in Subchapters 5.4 and 5.5.

a) Preliminaries

i) Modes of Organising & the Role of Interorganisational Forms

Firstly, Williamson (1975, 1985) identifies two modes of organising, that is, markets and hierarchies. Secondly, he acknowledges the additional role of interorganisational forms (Williamson, 1991). Increasingly, new organisational forms are being scrutinised that have arisen to cope with new environmental conditions (Child & McGrath, 2001; Miles & Snow, 1986). With strategic alliances, the border between the enterprise and its

environment is blurred (Dussauge & Garrette, 1999: 34). While alliances are tough to pull off, they are often necessary. Greenfield strategies take a long time, acquisition targets are not always available, and simpler approaches like licensing may not be responsive enough. (Bleeke & Ernst, 1991: 135)

The proliferation of strategic alliances is one of the most striking changes that have occurred in the business environment over the past 10 to 15 years (Dussauge & Garrette, 1999: 1). Strategic alliances are a ubiquitous phenomenon (Gulati, 1998: 293). Nowadays, they play a major role in almost every industry - from airlines to oil exploration and from pharmaceuticals to semiconductors (Ernst & Bamford, 2005: 133). Additionally, the diversity of alliances in terms of the nationalities, motives/goals of partners as well as formal contractual structures/governance structures is increasing (Gulati, 1998: 302). The typical corporation relies on alliances for 15 to 20% of its total revenues, assets, or income (Ernst & Bamford, 2005: 133).

Nonetheless, such partnerships are still considered risky (e.g., Hamel, Doz, & Prahalad, 1989; Kogut, 1989). In this context, when faced with uncertainty about a (potential) partner, actors adopt a more social orientation and resort to existing networks to discover information that lowers search costs and alleviates the risks of opportunism (Gulati, 1998: 300).

ii) Coping with a Complex, Uncertain Environment

In many industries, complexity and uncertainty have increased to the point that competing autonomously is no longer an option (Inkpen, 2001: 409). Inter-firm alliances have emerged as a response to changes in the competitive environment (e.g., Das & Teng, 1996). One dimension of the global competitive battle is the race for brand dominance. This is the battle for control of distribution channels and global 'share of mind'. Another dimension is the global battle for control over key technology-based competences that fuel new business development. (Hamel, Doz, & Prahalad, 1989: 137)

Organisational scholars have long viewed structure as a mechanism to manage uncertainty (Gulati, 1998: 302). More embedded tie relationships perform better than alternative sourcing arrangements and are particularly effective in situations of high uncertainty (Gulati & Lawrence, 1997). Underlying the embeddedness of firms in a social context (i.e., strategic alliances/networks) is the quest for information to reduce uncertainty, a quest that has been identified as one of the main drivers of organisational action

(Granovetter, 1985). For instance, many strategic alliances, namely many joint ventures, occur as options to expand in the future and are interim mechanisms by which firms both buffer and explore uncertainty (Kogut, 1991a). In uncertain circumstances, companies tend to use alliances to enter an unfamiliar market or to develop a disruptive technology. As these ventures operate in the midst of change, they must continually evolve to succeed. (Ernst & Bamford, 2005: 133)

iii) Strategic Alliances & Corporate Transformation

The degree to which alliances transform companies varies with the type of alliance. Many alliances are deliberate attempts to change direction. An increasing number of alliances are about managerial areas, particularly about defining where firms begin and end. Typically, a firm will focus on one or two core competences and outsource other things to its allies. (O.V., 1999: 73-74)

b) Introduction, Overview, & Research Motivation

i) The Typical Sequence of Events in Strategic Alliances

The typical sequence of events in alliances, which is not necessarily followed by firms (Gulati, 1993), includes the decision to enter an alliance, the choice of an appropriate partner, the choice of an appropriate contract and governance structure for the alliance, and the dynamic evolution of the alliance as the relationship develops over time (Gulati, 1998: 293-294).

ii) Fruitful Collaboration & Collaborative Advantage

Intercompany relationships are a key business asset and knowing how to nurture them is an essential managerial skill. Collaborative arrangements between companies range along a continuum from weak and distant to strong and close. The value of business relationships includes the potential for a stream of opportunities. In the global economy, a well developed ability to create and sustain fruitful collaborations represents a collaborative advantage and a key corporate asset. The effective management of relationships to build collaborative advantage requires sensitivity to political, cultural, organisational, and human issues. Successful alliances build and improve a collaborative advantage by, firstly, acknowledging; and, secondly, effectively managing the human aspects of their alliances. (Kanter, 1994: 96-108)

iii) Contractual Arrangements & Legal/Non-Legal Sanctions

Due to the bounded rationality of economic agents, it is impossible to write a complete contract (Hart, 1995). Nonetheless, contractual arrangements typically serve as a back-

drop to relationships. Sanctions are the use of power to provide support to new meanings and actions (Skivington & Daft, 1991) Non-legal sanctions - especially reputation effects – are important in mitigating opportunistic behaviour by dominant equity holders. (Wright & Lockett, 2003: 2073) The maintenance of a reputation for fair dealing and trustworthiness may contribute to the dynamic stability of alliance arrangements (Yan, 1998) since otherwise partner firms are likely to be reluctant to re-contract (Wright & Lockett, 2003: 2097). Transactions in alliances are not necessarily discrete events (Gulati, Nohria, & Zaheer, 2000) and where transactions are not separable, but are bundled and interact, there may be a strong role for trust in the functioning of a co-operative relationship (Zucker, 1986). Generally speaking, mutual trust is critical for the success of alliances (Beamish & Banks, 1987). In this context, investees are more willing to accept decisions, irrespective of whether they agree with them or not, if they perceive that the procedures with which decisions are made are just (i.e., procedural justice) (Sapienza & Korsgaard, 1996). Next, the research gaps tackled in this Chapter will be outlined.

iv) Research Motivation I: Research Gaps Tackled in Chapter 5

Firstly, Chapter 5 aims to contribute to filling the general research gaps identified in Subchapter 2.2. Furthermore, while there are quite some insights into the success of individual alliances, an explanation for alliance success at the company level is absent (Draulans, deMan, & Volberda, 2003: 154). This Chapter examines the success of strategic alliances/networks (SAN) at the company level. The unit of analysis equals the company under investigation. Additionally, while previous studies have provided ample support for the contribution of alliance partners to firm performance, they have not focused on a comprehensive investigation of the RBV (Lavie, 2006: 651). In this context, the indigenous qualities of the interorganisational relationships that meet Barney (1991)'s rigid criteria for resources qualifying as possible sources of sustained competitive advantage (rarity, value, imperfect imitability, non-substitutability) have not been fully identified. Research in this area would be very valuable. (Barringer & Harrison, 2000: 397). Especially Subchapters 5.4 and 5.5 shed light on SAN from a RBV and a DCV, which may be viewed as an extension of the RBV (e.g., Amit & Zott, 2001), respectively. Furthermore, understanding the differences between the qualities of highly effective versus moderately effective or failed alliances is essential (Barringer & Harrison, 2000: 397). This Chapter also attempts to contribute to the closure of this research gap as it is about value drivers and superior SAN-execution routines. Lastly, to date there are no comprehensive, compounded resource-based and/or dynamic capability-based models probing into the ultimate reasons why some strategic alliances/networks

create more value than others. Subchapters 5.4 and 5.5 precisely aim to craft such multifaceted theoretical models. To conclude, the focal point of this Chapter is investigating the value potential of possible SAN. Whether, under what circumstances, and how may engaging in strategic alliances and/or strategic networks be promising, and how may their benefits be maximised and their potential risks minimised?

v) Research Motivation II: Overview of the Objectives of Chapter 5

This Chapter aims to contribute to closing the above-mentioned research gaps by crafting generally applicable, rather comprehensive predominantly resource- and dynamic capability-based mid-range theories and models. Most importantly, on the one hand, the theoretical model depicted in Subchapter 5.4 illuminates critical drivers of advantageous, value-adding strategic alliances and networks from a resource-based perspective. This rather exhaustive theoretical model may serve strategists as an analytical, multifaceted forecasting instrument designed to assess the value added or destroyed an envisaged strategic alliance/strategic network is likely to produce. On the other hand, the theoretical model depicted in Subchapter 5.5 explores superior SAN-execution routines from a dynamic capability-based perspective. This rather comprehensive model may add value to firms by pinpointing pathways that might lead to superior SAN-routines. Models developed in Subchapters 5.4 and 5.5 are applied to the private banking business.

Generally speaking, Chapter 5 especially draws on both a rather wide range of well-acknowledged resource-based 'theories' of the firm (RBV), dynamic capability-based 'theories' of the firm (DCV), seminal works in strategic management and strategy implementation research and literature on SAN. The theoretical models are enhanced by further theories shedding light on the subject matter under investigation. Subchapter 5.3 is devoted to the positioning of the research questions tackled in Subchapters 5.4 and 5.5, the definition of key constructs, and a literature synthesis.

5.3 Positioning of Research Questions & Literature Synthesis

With regard to the RBV, DCV, strategy implementation research, real options theory, and strategic marketing please refer to Subchapters 2.9, 2.10, and 2.1.5 respectively.

5.3.1 Literature Review

Kogut (1988) sheds light on joint ventures from theoretical and empirical perspectives. Hamel, Doz, & Prahalad (1989) analyse how to collaborate successfully with competi-

tors. Bleeke & Ernst (1991) discuss the way to win in cross-border alliances. Gulati (1998) introduces a social network perspective to the study of strategic alliances. Dus-sauge & Garrette's book 'Cooperative Strategy – Competing Successfully Through Strategic Alliances' (1999) rather comprehensively examines the phenomenon of strategic alliances. Barringer & Harrison (2000) analyse value creation through interorganisa-tional relationships. In this context, Kanter (2004) discusses 'collaborative advantage'. Inkpen (2001) broadly discusses the phenomenon of strategic alliances and especially scrutinises central issues such as collaborative objectives, alliance performance, organ-isation learning, alliance control, trust in alliances, as well as alliance evolution. Drau-lans, deMan, & Volberda (2003) analyse the essential topic of building alliance capabil-ity. In this context, Dyer, Kale, & Singh (2001) explain why a dedicated alliance func-tion is key to building the expertise needed for competitive advantage. Wright & Lockett (2003) examine the structure and management of alliances. Ernst & Bamford (2005) discuss alliance stability, flexibility and rigidity. Hoffmann (2005) scrutinises the man-agement of alliance portfolios. Villalonga & McGahan (2005) investigate the choice among acquisitions, alliances, and divestitures when companies decide to expand or contract their boundaries. Similarly, Dyer, Kale, & Singh (2004) discuss when to ally and when to acquire. Lastly, Lavie (2006) analyses the competitive advantage of inter-connected firms from a resource-based view.

5.3.2 Definition of Key Constructs

As regards definitions of strategic alliances please refer to Subchapter 2.8. Next, some key constructs related to strategic alliances/networks (SAN) will be defined.

Firstly, for each firm, an alliance's relative scope is the ratio of the scope of the alliance to the total set of markets in which the firm operates. The extent of market overlap in activities between the partners and within the alliance, also known as relative scope, may be an important determinant of the likely behaviour of partners. The relative scope may influence the likelihood of competitive dynamics between the partners. (Khanna, Gulati, & Nohria, 1998)

Secondly, alliance control, a key structural element, refers to the process by which part-ner firms influence an alliance entity, the alliance partners, and the alliance managers to behave in a manner that achieves partner objectives (Inkpen, 2001: 419). Control may be divided into ownership control and management control (Yan, 1998). Ownership

confers residual rights to make decisions (e.g., Hart, 1995). Management control refers to the observable pattern of decision-making and may involve specific contractual arrangements (Wright & Lockett, 2003: 2078). Makhija & Ganesh (1997) identify formal and informal alliance controls (Makhija & Ganesh, 1997).

Thirdly, alliance capability may be defined as the mechanisms and routines that are purpose-fully designed to accumulate, store, integrate, and diffuse relevant organisational knowledge about alliance management (Kale, Dyer, & Singh, 2002). Alliance capability/skill is the ability to create successful alliances, based on learning about alliance management and leveraging alliance knowledge inside the company (Draulans, deMan, & Volberda, 2003: 152).

In this context, companies vary in their absorptive capacity (Bleeke & Ernst, 1991: 135). In addition, multi-alliance management capability refers to the organisational ability to manage a comprehensive alliance portfolio (Hoffmann, 2005: 123).

5.3.3 Literature Synthesis

a) Basic Nature of Strategic Alliances

As regards basic definitions related to strategic alliances please refer to Subchapters 2.8 and 5.3.2. Importantly, alliances are a means of combining complementary skills and resources held by different firms in order to exploit new business opportunities (e.g., Teece, 1986; Grant, 1996a; Singh & Mitchell, 1996) Competitive renewal depends on building new process capabilities and winning new product and technology battles. Collaboration can be a low-cost strategy for doing both. (Hamel, Doz, & Prahalad, 1989: 133-139)

b) Alliance Forms

i) General Introduction

Strategic alliances, a specific form of multi-company strategy, involve all kinds of companies and take very diverse forms (Dussauge & Garrette, 1999: 1-2). The dynamics of creating value may differ significantly across alliance forms. In addition, also the nature and type of resource allocations, the competitive dynamics, and performance measurement vary with alliance forms. (Inkpen, 2001: 410-411)

Inter-firm alliances may be classified according to whether or not their governance structure involves equity (e.g., Das & Teng, 1996; Hennart, 1988; Teece, 1992). Non-equity-based alliances involve no form of equity transfer and include a wide variety of

contractual-based arrangements. Conversely, equity-based arrangements involve the transfer or creation of equity ownership. Two forms may be distinguished: direct equity investment (minority equity alliance) and equity joint ventures. (Wright & Lockett, 2003: 2076-2077) As regards equity joint ventures, two or more sponsors bring assets to an independent legal entity. They are paid for some or all of their contribution from the profit earned by the entity or when a firm acquires partial ownership of another firm (Hennart, 1988).

In addition, different degrees of convergence may exist between the resources of the focal firm and the resources of its partner. In pooling alliances, the intersection of shared resource sets is substantial and the partners pool their resources to achieve a greater scale and enhanced competitive position in their industry. Conversely, as far as complementary alliances are concerned, this intersection is diminutive and the partners seek to achieve synergies by employing distinct resources that are difficult to accumulate in combination by any given firm. While intrafirm resource complementarities create internal rents, that is, private benefits enjoyed exclusively by the focal firm, interfirm resource complementarities create relational rents, that is, common benefits to alliance partners. (Lavie, 2006: 644-645) Furthermore, alliance partners may develop partner-specific, business-specific, geography-specific, and topic-specific knowledge (Dyer, Kale, & Singh, 2001: 42).

ii) Typology of Alliances

Firstly, partnerships forged between companies belonging to different industries, that is, non-competing firms, may be distinguished from strategic alliances between rival firms. Secondly, partnerships between non-competing firms may be subdivided into international expansion joint ventures, vertical partnerships, and cross-industry agreements. Thirdly, strategic alliances uniting rival firms may be subdivided into shared-supply alliances, quasi-concentration alliances, and complementary alliances. (Dussauge & Garrette, 1999: 47-48) In what follows, firstly, partnerships between non-competing firms; and, secondly, partnerships between rivals will be analysed.

1. Partnerships Between Non-Competing Firms

This type of strategic alliances enables partners to expand into areas new to them, areas in which partners can make valuable contributions. These alliances represent alternatives to more traditional forms of expansion, that is, greenfield investments and acquisitions. Figure 5.1 depicts the traditional growth and expansion options international expansion, vertical integration, and diversification through internal and/or external growth, as well as partnerships between non-competing firms. (Dussauge & Garrette, 1999: 48-51)

Next, I will briefly explain all three types of partnerships between non-competing firms (Dussauge & Garrette, 1999: 49-51). Firstly, international expansion joint ventures are formed by companies that originate in different countries. They are almost always created by partner companies that have unequal skills and resources, one coming from a developed and the other from a developing country. This form of co-operation remains common practice for developing business internationally. (Dussauge & Garrette, 1999: 51-53) Secondly, vertical partnerships, a form of partial integration, bring together companies that operate at two successive stages within the same production process (Dussauge & Garrette, 1999: 53-54). Thirdly, cross-industry agreements are co-operations formed by companies from totally different industries which seek to diversify their activities by leveraging their complementary capabilities. (Dussauge & Garrette, 1999: 55-56)

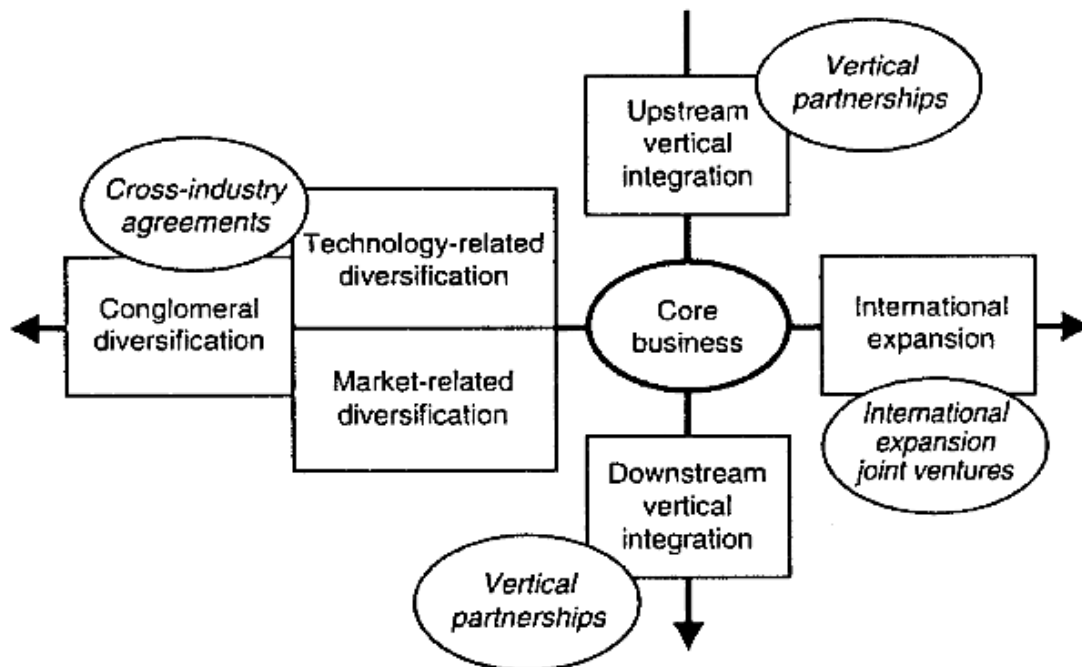


Fig. 5.1: Expansion Options & Types of Partnerships (Dussauge & Garrette, 1999: 51)

2. Partnerships between Competing Firms

Partnerships between competitors account for about 70% of all co-operation agreements (Morris & Hergert, 1987). An intrinsic feature of these alliances is the ambiguity of the relationship forged between competing partner companies. While too little collaboration may compromise the achievement of common objectives, too much openness could undermine the competitive position of one or the other partner-cum-rival firm. Critical knowledge needs to be concealed in order to protect vital interests. (Dussauge & Garrette, 1999: 57-58)

Alliances between competitors fall into three main categories (see Figure 5.2). Alliances in each of the three types share an extensive, coherent set of economic, strategic, and organisational features such as industry, scope of the agreement, allocation of tasks among the partners, and so forth. In addition, each category corresponds to a particular rationale and degree of collusiveness and competitiveness. (Dussauge & Garrette, 1999: 58-60)

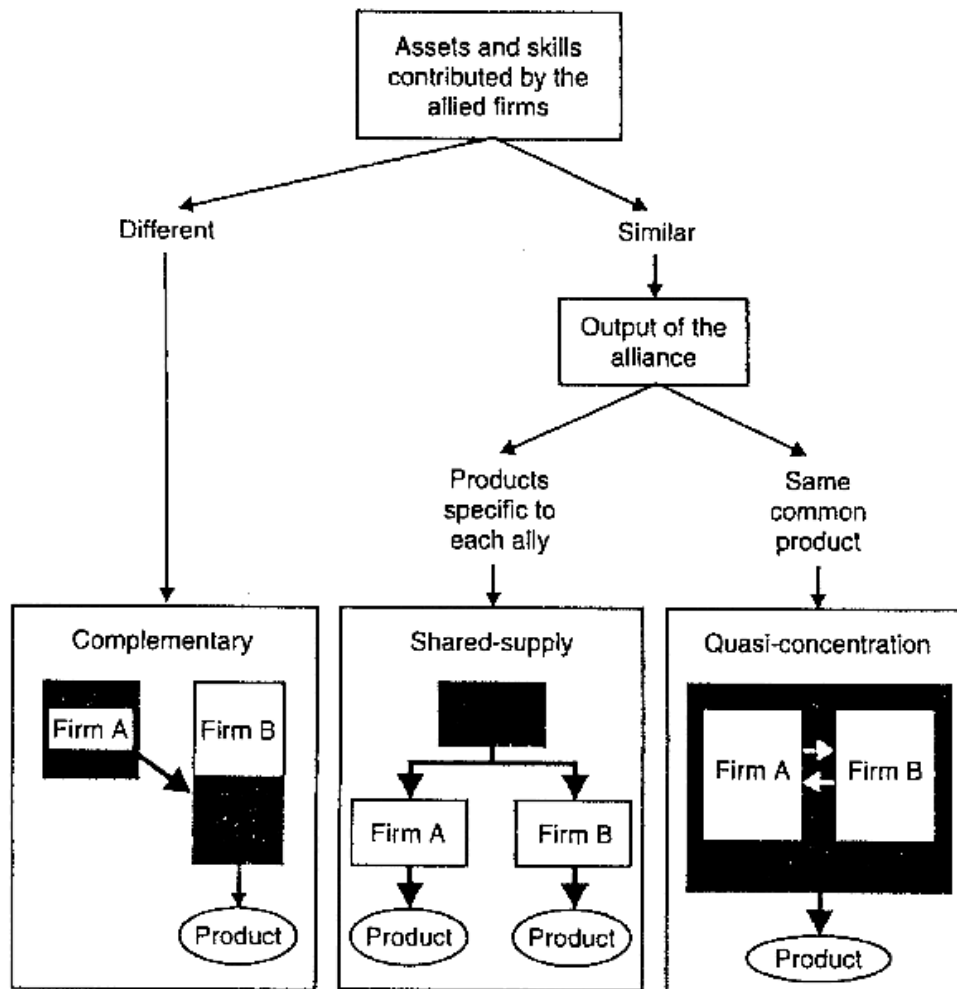


Fig. 5.2: The Three Types of Alliances between Competitors
(Dussauge & Garrette, 1999: 58)

This classification is based on two criteria, namely the assets and skills contributed to the alliance by each partner and the 'output' of the alliance. While partners make different contributions to complementary alliances, they make similar ones to shared-supply and quasi-concentration alliances. (Dussauge & Garrette, 1999: 58-59)

Firstly, shared-supply alliances, which remain pre-competitive (i.e., they practically have no impact on the intensity of competition), are particularly frequent in the automo-

bile, electronics, and data-processing industries, often formed by firms operating in the same zone (e.g., intra-North American or intra-European) and primarily involve R&D and manufacturing activities. They are primarily formed to enhance efficiency in production and have no impact on the marketing and sale of the final products. Companies, usually partner firms of comparable size, collaborate to achieve economies of scale on a given component or on an individual stage in the production process. Although the final products incorporate jointly produced inputs, they are nonetheless specific to each partner and compete directly in the market. The IBM-Toshiba joint venture set up to develop and produce flat panel displays for laptops is a good example of a shared-supply alliance. (Dussauge & Garrette, 1999: 58-65)

Secondly, in quasi-concentration alliances, companies co-operate to develop, produce, and market a common final product. They are mainly found in the aerospace and defense sectors, often intra-European, represent alternatives to M&As, and cover the entire production process. Partners contribute similar assets and skills and aim to benefit from increased economies of scale on a complete product. Prominent examples of quasi-concentration alliances are Airbus, Eurocopter and Concorde. (Dussauge & Garrette, 1999: 58-67)

Thirdly, complementary alliances, which are common in the automobile and telecommunications industry, are either formed by companies whose products are highly differentiated or by partners operating in different markets. Often, Japanese companies co-operate with European or American firms. The allies may also be of very different sizes. In such alliances, allies contribute assets and skills of different natures to the collaborative project. The scope of complementary alliances is generally limited to marketing and sales or, more rarely, also includes manufacturing. Most frequently, one partner has developed a product that is then marketed via the other's distribution network. Clearly, this product must not compete directly with the products of the other partner. To proceed from one stage to another in the production and marketing process, the product is transferred back and forth from one partner to the other so that each partner may perform those operations for which it possesses the relevant assets and capabilities. Transactions are central to complementary alliances and enable the alliance to benefit from the complementarity in the partners' assets and expertise. While shared-supply alliances or quasi-concentration alliances more frequently unite multiple partners, complementary alliances are usually formed by only two partner companies. A good example is the Chrysler - Mitsubishi alliance. (Dussauge & Garrette, 1999: 58-69)

Figure 5.3 summarises all the characteristics of alliances between competing firms. Additionally, it positions close together characteristics that are frequently present simultaneously in the same alliance and positions far apart those characteristics that are rarely associated in the same partnership. (Dussauge & Garrette, 1999: 60)

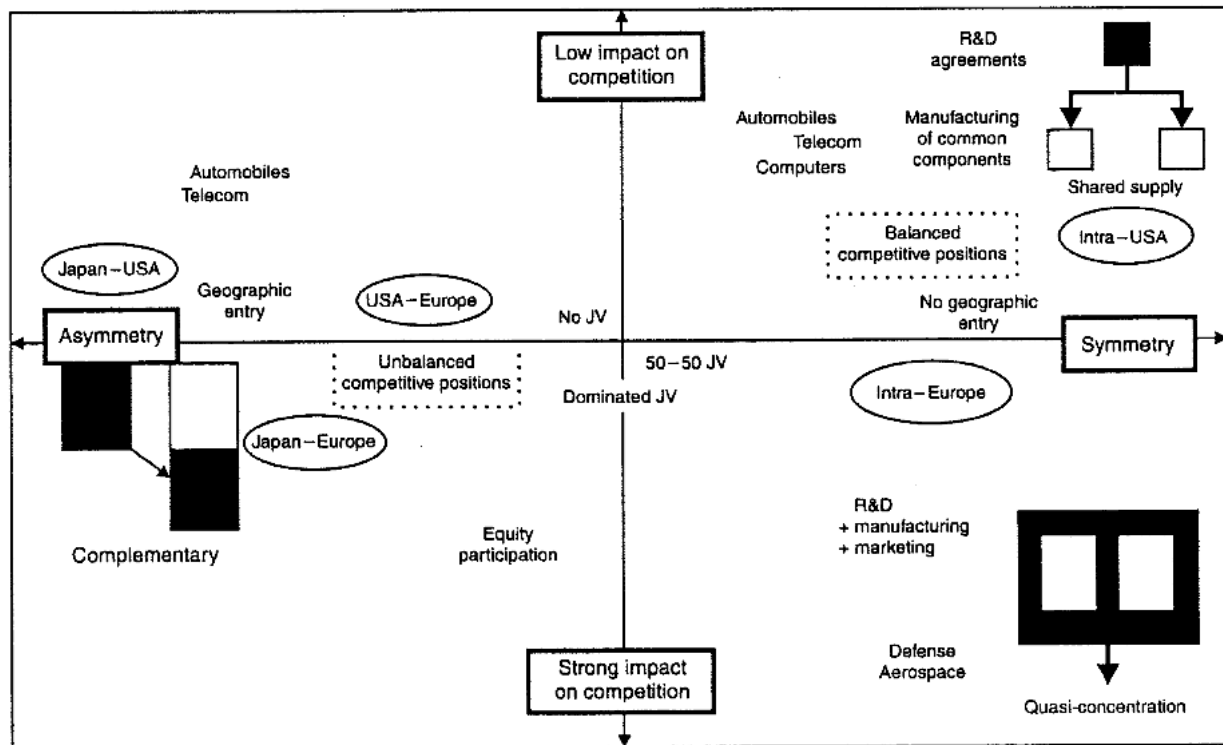


Fig. 5.3: A Mapping of Strategic Alliances between Rivals
(Dussauge & Garrette, 1999: 61)

In Figure 5.3, the horizontal axis measures the alliance symmetry. The further an alliance is positioned to the right of the diagram, the more it possesses characteristics signalling symmetry and balance. In addition, allied companies to the right of the diagram come from the same region (i.e., intra-European or intra-USA alliances), are comparable in size, have similar competitive positions, and contribute to the alliance by bringing assets of the same nature (shared-supply and quasi-concentration alliances). Conversely, the further an alliance is positioned to the left of the map, the more it is characterised by asymmetry and dissimilarity between the allies. Partner firms come from different areas of the world (Japanese-European, Japanese-US or European-US alliances), differ significantly in size, competitive position, and the nature of their contributions (complementary alliances) and one of the partners may use the alliance to expand the sale of its products in its ally's domestic market (shared-supply alliances). The vertical axis measures the competitive impact of the alliance. Those alliances substantially altering compe-

tion between allies cover all functions (R&D, manufacturing and marketing) and a single product is produced and marketed by all partners (quasi-concentration alliances). Conversely, alliances positioned further towards the top of the map alter competition less, are limited to R&D or to the production of common components (shared supply alliances) and never involve joint marketing. Legal aspects such as the legal structure of alliances and ownership/control of joint ventures appear to be only weakly discriminatory in alliances between rival firms. (Dussauge & Garrette, 1999: 60-63)

c) Collaborative Objectives in Alliance Formation

i) General Introduction

Strategic alliances are entered into for a variety of reasons/collaborative objectives, take a variety of forms, and occur across vertical and horizontal boundaries (Gulati, 1998: 293). The objectives and styles of parents differ (Bleeke & Ernst, 1991: 135). Powell (1990) captured the breadth of the various rationales for alliance formation by stating that firms pursue co-operative agreements in order to gain fast access to critical resources and capabilities (e.g., new technologies) or new markets and speed up strategy implementation, to benefit from economies of scale in joint R&D, and/or production, to tap into sources of know-how located outside the boundaries of the firm, and to share the risks of activities that are beyond the scope of the capabilities of a single organisation (Powell, 1990: 315). In addition, allies may aim to enhance efficiency by pooling economic activities such as marketing, distribution and other functions (Inkpen, 2001: 411-412). Generally speaking, companies tend to have a portfolio of reasons for alliance formation, such as adapting to a changing business environment (Hoffmann, 2005) cost minimisation, capitalising on opportunities for organisational learning (e.g., Hamel, 1991), exploiting (e.g., co-branding, co-marketing) and leveraging their resources and capabilities, balancing the trade-offs between exploration and exploitation (Hoffmann, 2005), and enhancing their competitive position through superior knowledge (Simonin, 1997). However, often there would be organisational forms other than strategic alliances/networks to achieve the same objectives (e.g., Buckley & Casson, 1996).

ii) Specific Collaborative Objectives when Entering into Strategic Alliances

Alliances may serve as a means of learning about a partner to identify potential synergies that could be reaped if the partner firm were acquired (Inkpen, 2001: 412). Conversely, if a company aims to exit a business, a joint venture allows the eventual buyer to learn the business before taking it over (Bleeke & Ernst, 1991: 133).

Another objective is legitimacy (Oliver, 1990). Firms may seek established partners to capitalise on their reputation, which, in turn, may entail legitimacy facilitating the establishment of additional, valuable relationships (Barringer & Harrison, 2000: 380). Additionally, legitimacy may serve to conform as a means of acceptance and survival (Oliver, 1991).

Additional motives for entering into partnerships include increasing speed to market, mimicking promising strategies of competitors, neutralising or blocking the moves of rival firms, increasing market-power through the erection of entry barriers or the creation of monopoly-type influence, increasing political power, or to simply plug a skill or resource gap. On the one hand, large companies are eager to partner with small firms as a way of tapping into their cutting-edge research and entrepreneurial energy. (Barringer & Harrison, 2000: 369-381) On the other hand, small firms also aim to partner with large companies to gain access to their financial resources and distribution channels (Fisher, 1996). Additionally, alliances may lead to skill transfers and capability appropriation between the partners (e.g., Doz & Hamel, 1998).

Furthermore, companies can restrict their competitors' innovative capacity by cooperating with them (Contractor & Lorange, 1988) since the partnership with the focal firm may prevent competitors from developing or maintaining their own resources. Likewise, forming an alliance with an innovator may prevent it from teaming up with another powerful competitor. (Dussauge & Garrette, 1999: 43-44) In addition, strategic alliances may also be formed in response to industry or geopolitical shifts (Kanter, 1994: 96-99). Additionally, a further alliance objective could include overcoming government mandated investment guidelines that prevent wholly-owned subsidiaries (Contractor & Lorange 1988).

In the international arena, alliances may provide firms with enormous reach and opportunities to partner anywhere in the world (Inkpen, 2001: 426). Social networks of prior ties such as networks of prior alliances affect the creation and design of new ties, their evolutionary path, and their ultimate success (Gulati, 1998: 293-294).

To conclude, a corporate executive may justify participation in almost any interorganisational relationship in the name of strategy and long term profit maximisation. However, engaging in strategic alliances may yield both advantages and disadvantages. Potential advantages include cost sharing, product and/or service development, (strategic) flexi-

bility (e.g., due to fewer regulatory concerns), and collective lobbying for instance. Conversely, the potential disadvantages include a possible loss of proprietary information, financial and organisational risks such as potential opportunistic behaviour on the part of the alliance partner, the risk of becoming dependent on a partner, management complexities, as well as partial loss of decision autonomy and organisational flexibility. A loss of organisational flexibility may be due to joint planning and decision-making. Additionally, partners' cultures may clash, and there may be antitrust implications of strategic alliances. (Barringer & Harrison, 2000: 385-392)

d) Alliance Structure, Alliance Governance, & Knowledge Exchange

i) Preliminaries

Alliance structure and design is critical to alliance strategy execution (Das & Teng, 1998).

ii) Alliance Structure & Alliance Governance

Alliance structures may be distinguished in terms of the degree of hierarchical elements they embody and the extent to which they replicate the control and co-ordination features associated with hierarchical organisations (e.g., Harrigan, 1987; Teece, 1992). At one end are equity alliances which most closely replicate the hierarchical control features of organisations. At the other end are non-equity alliances that have few hierarchical controls built into them. The greater the appropriation concerns, the more hierarchical the governance structures for organising the alliance are likely to be. By means of hierarchical controls, also alliances may assert control by fiat, enable monitoring, and align incentives. (Gulati, 1998: 302-303)

Good alliance governance, the process by which managerial decisions are made once the alliance is operational, represents an essential element of alliance success! It is particularly important in non-equity alliances, the most common form of alliance. Governance structures aim to promote fast and efficient decision-making and to support the overall goals of the alliance. Three criteria point to more formal governance structures: Firstly, the alliance is highly valuable to the parent firms. Secondly, the relationship between the partners is complex, such as when the venture involves multiple functions or operating units. Thirdly, the partnership offers a potential for expansion in the future. Designing an optimal alliance governance structure requires a clear view of the overall organisation and in particular of the lines that separate governance (i.e., strategic decision-making and overall performance monitoring) from management (i.e., tactical decision-making

and resource management) and functional operations (i.e., executing work within the various components of the alliance). Alliance governance structures are generally fluid, needing to change as the alliance grows in scope or comes to depend on a corporate parent in new ways for instance. Successful alliances are dynamic and manage the evolution of the governance system over time. (Bamford, Gomes-Casseres, & Robinson, 2003: 134-147)

iii) Alliance Governance, Knowledge Exchange, & Trust in Strategic Alliances

iiia) Introduction

Alliance partners exchanging knowledge may protect themselves by means of contracts and/or they may resort to trust. Invariably, not every contingency can be anticipated at the outset of an alliance. Thus, trust will play a key role in alliance management. (Inkpen, 2001: 410) Mutual trust is paramount for alliance success (e.g., Das & Teng, 1998; Inkpen & Beamish, 1997). However, trust is particularly fragile in international alliances since the risk and uncertainty involved are heightened compared to domestic alliances. This is due to cross-national differences between partner firms with respect to culture, law, politics, and trade policy. (Child & Faulkner, 1998)

iiib) Enhancing Levels of Confidence in Partner Co-operation

Higher levels of confidence in partner co-operation may be achieved through control and trust mechanisms, which supplement each other and may be used simultaneously and in a parallel fashion (Das & Teng, 1998). Generally speaking, not only controlling but also nurturing relationships is important. According to Kanter (1994) business alliances cannot be 'controlled' by formal systems but require a dense web of interpersonal connections and internal infrastructures that enhance learning. (Kanter, 1994: 96)

iiic) Alliance Governance & Interfirm Trust

Generally speaking, the fitness of the venture's governance structure including decision speed, efficiency, transparency, and level of trust need to be evaluated (Ernst & Bamford, 2005: 136). Importantly, interfirm trust is a determinant of the governance structures and control mechanisms that evolve in an alliance (Faulkner, 2000). On the one hand, informal and non-contractual safeguards are more likely when there is a high level of trust between the partners. On the other hand, governance costs under conditions of distrust will be greater and procedures will be more formal. Partner firms should balance the inevitable trade-off between trust and control. (Inkpen, 2001: 421-423) Partners may implement a number of activities to facilitate co-operation, such as close communication

(Das & Teng, 1998). Repeated interaction permits the evolution from calculus-based trust to knowledge-based trust and eventually to identification-based trust (Lewicki & Bunker, 1996).

Trust enhances alliance performance (e.g., Harrigan, 1986; Saxton, 1997). Trust may exist at multiple organisational levels (Currall & Inkpen, 2000). Trust not only enables greater exchange of information, but it also promotes ease of interaction and a flexible orientation on the part of each partner. All of these may create enabling conditions under which the success of an alliance is much more likely. (Gulati, 1998: 308)

e) Alliance Value Creation & Partner Firm's Impact on (S)CAs of the Focal Firm

i) Introduction

Alliances may be strategic in nature, aimed at enhancing a firm's competitive advantage. Thus, alliances are not only economic devices. Conversely, they are also strategic moves aimed at outcompeting rival firms. Alliances may be a means through which to expand and diversify the firm's resource endowments. (Dussauge & Garrette, 1999: 38-39) Additionally, alliance partners play a significant role in shaping the resource-based competitive advantage of firms (Lavie, 2006: 638). Additionally, strategic alliances may enable partners to better assess the value of the businesses envisaged for acquisition (Dussauge & Garrette, 1999:9). Overall, participation in alliances may benefit or impair a firm's quest for rents (Lavie, 2006: 649).

Penrose (1959) suggests that it is the services that resources provide rather than the resources themselves that generate value for the firm (Penrose, 1959). The dynamics of creating value may differ significantly across alliance forms. By pooling resources, the alliance partners can create value in a way that could not be achieved by acting alone. Value creation refers to the process of combining the capabilities and resources of the partners to perform a joint task that has the potential to create monetary or other benefits for the partners. (Inkpen, 2001: 410- 411) Additionally, there may be a clear upstream-downstream division of effort to ensure neither side invades the other's market (Hamel, Doz, & Prahalad, 1989: 135).

Importantly, according to an in-depth study of Dyer, Kale, & Singh (2001) scrutinising 200 corporations and their 1'572 alliances, some companies such as Hewlett-Packard and Eli Lilly show themselves capable of systematically generating more alliance value than others (Dyer, Kale, & Singh, 2001: 37). Airbus represents a prime example of a

highly successful alliance (Ernst & Bamford, 2005: 133). In this context, in the cost-benefit framework, the costs and benefits from alliances are primarily strategic and technological and alliances materialise when the benefits exceed the costs (Harrigan, 1985b; Contractor & Lorange, 1988).

ii) Alliance Value Creation I: Resource Sharing, Combination of Resources/Skills

To be concrete as regards resource sharing and combining complementary resources and skills, partners may contribute basic research, product development skills, manufacturing capacity and/or access to distribution for instance. The challenge is to share enough skills to create advantage vis-à-vis companies outside the alliance while preventing a wholesale transfer of core skills to the partner. Thus, companies have to carefully select what skills and technologies they pass to their partners and develop safeguards against unintended, informal transfers of information. One approach is to limit the scope of the formal agreement. The potential for transfer is greatest when a partner's contribution is easily transported, easily interpreted, and easily absorbed. However, many of the skills that migrate between companies are not covered in the formal terms of collaboration. What actually gets traded may be determined by day-to-day interactions of engineers, marketers, and product developers. Limiting unintended transfers at the operating level requires careful attention to the role of gatekeepers, the people who control what information flows to a partner. Importantly, a gatekeeper can be effective only if there is a limited number of gateways through which a partner may access people and facilities. Restricting access to facilities as well as people may be necessary. Additionally, expatriate personnel need frequent visits from headquarters as well as regular furloughs home. Moreover, alliances should establish and enforce specific performance requirements such as 'no performance, no technology transfer to the alliance partner' for instance. (Hamel, Doz, & Prahalad, 1989: 135-139)

iii) Alliance Value Creation II: Realising Different Types of Synergies

Each firm possesses a subset of shared resources and a subset of non-shared resources that together form its complete set of resources (Lavie, 2006: 643-644). Companies create three kinds of synergies by combining and customising resources differently. Those resource combinations or interdependencies require different levels of co-ordination between firms and result in different forms of collaboration. Firstly, allies create modular synergies, that is, synergies generated by modularly independent resources, when they manage resources independently and pool only the results for greater profits. Example: Clubbing the customer's choice of airline and hotel. Non-equity alliances are usually

best suited to generate modular synergies. Secondly, allies possessing sequentially interdependent resources derive sequential synergies when one company completes its tasks and passes on the results to a partner to do its bit. For instance, a biotech firm specialises in discovering new drugs and a pharma giant gets all necessary approvals for them and ultimately markets these drugs through its worldwide distribution channels. Thirdly, companies create reciprocal synergies by collaborating closely and executing tasks through an interactive knowledge-sharing process. For this purpose, acquisitions are preferred over alliances. (Dyer, Kale, & Singh, 2004: 111-112)

f) Organisational Learning Through Strategic Alliances

i) Introduction

Exploiting alliance learning opportunities is paramount if a company is to thrive. Organisational learning through alliances is an evolutionary process. Importantly, companies that are able to learn quickly are able to acquire partner skills/knowledge, reducing dependence and increasing bargaining power. Knowledge learned from partners may be internalised by the parent and applied to new geographic markets, products and businesses. (Inkpen, 2001: 413-414) Learning from allies requires commitment and absorptive capacity (Hamel, Doz, & Prahalad, 1989: 134). Companies learn from their partners through the shared execution of the alliance task, mutual interdependence and problem solving, as well as the observation of alliance activities and outcomes (Inkpen, 1996). Four critical processes make up the locus of knowledge creation: technology sharing, alliance-parent interaction, personnel transfers, and strategic integration (Inkpen & Dinur, 1998).

ii) Protection of Non-Shared Resources through Isolating Mechanisms

However, firms protect their non-shared resources by using isolating mechanisms such as causal ambiguity, social complexity, firm-specific specialised assets, patents, trademarks, and other forms of legal and technological mechanisms designed to protect proprietary resources (Rumelt, 1984; Wernerfelt, 1984). Specifically, these isolating mechanisms prevent the outbound diffusion of rents by limiting the imitability, substitutability, and transferability of strategic resources (Barney, 1991). While factors such as contractual safeguards, absorptive capacity, and opportunistic behaviour will determine the degree of imitation, interconnected firms will generally experience greater erosion of rents owing to imitation (Lavie, 2006: 649). In this context, Barney (2001a) argues that companies need to organise themselves in ways that allow them to exploit their competitive advantage (Barney, 2001a).

iii) Acquisition of New Capabilities through Strategic Alliances

Importantly, new capability acquisition is strongly facilitated if the learning company possesses a competence base that is closely related to the new knowledge being sought (Argyris & Schön, 1978; Fiol & Lyles, 1985). A new skill can only be grafted successfully onto a closely related competence base (Moingeon & Edmondson, 1996). Thus, alliances between rivals are likely to create a context that is very favourable to interpartner learning (Hamel, 1991).

iv) Learning at Different Levels of Alliance Management

Learning at the level of managing individual alliances takes place with regard to environment, task, process, skills and goals (Doz, 1996: 55-83). At the level of portfolio management, tasks and processes of multi-alliance management and the required skills to perform them successfully are focused. Learning by implementing portfolio strategy means to gather and apply knowledge on how to manage alliance portfolios in alignment with overall strategic goals and the environmental conditions, that is, building multi-alliance capability. (Hoffmann, 2005: 139)

g) Building Up an Alliance Capability

i) Introduction

The value an alliance generates depends on a company's alliance capability developed through repeated experience with this governance form (e.g., Kale, Dyer, & Singh, 2002). Optimally managing alliances represents a skill that can be built up and may even become a significant source of competitive advantage. Investing in alliance training, alliance specialists, and alliance evaluation tends to raise alliance success rates. While inexperienced companies may significantly increase their alliance success when evaluating individual alliances on a number of criteria, experienced companies do not benefit from applying this method. When companies enter into more and more alliances, they will have to gradually switch to more complex alliance evaluation methods. Experienced companies benefit especially from cross-alliance evaluation, the structured comparison of various alliances of the company with one another. As the number of alliances becomes large, a network effect comes into play, that is, firms will have new opportunities for finding synergies among the various partners. However, this may be an evolutionary pattern. (Draulans, deMan, & Volberda, 2003: 152-161)

ii) Curvilinear Relationship: Number of Alliances Entered-the Company's Success

Furthermore, research indicates that there is a curvilinear relationship between the number of alliances a company enters and its overall alliance success (see Figure 5.4). The

turning point appears to be at around six alliances and may serve for dividing companies into alliance-inexperienced and alliance-experienced companies. At that level of experience, little improvement in alliance success is gained from entering into further alliances. However, specialised experience such as experience in alliances with a particular goal matters. Particularly as far as knowledge-intensive alliances are concerned, earlier experience plays a major role in the success of alliances. (Draulans, deMan, & Volberda, 2003: 155-159)

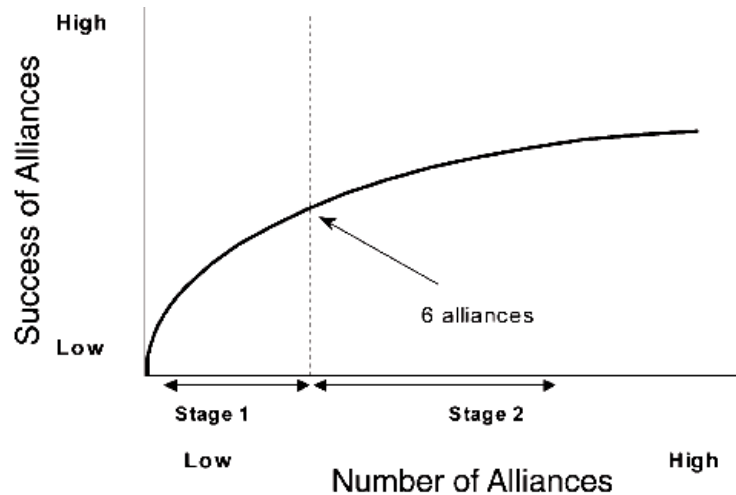


Fig. 5.4: Curvilinear Relationship: Number of Alliances Entered - Alliance Success (Draulans, deMan, & Volberda, 2003: 153-154)

iii) Establishing a Dedicated Alliance Management Function

A dedicated alliance management function co-ordinates all alliance-related activity within the organisation and acts as a focal point for learning and for leveraging lessons and feedback from prior and ongoing alliances. It systematically establishes a series of routine processes and systems to articulate, document, codify, and share alliance know-how about the five key phases of the alliance life cycle. (Dyer, Kale, & Singh, 2001: 37-40) For illustration purposes, Figure 5.5 shows tools to use across the alliance life cycle.



Fig. 5.5: Tools to Use Across the Alliance Life Cycle (Dyer, Kale, & Singh, 2001: 40)

Overall, dedicated alliance management functions offer internal legitimacy to alliances, assist in setting strategic priorities, and draw on resources across the company. Alliance functions may be organised around key partners, industries, business units, geographic areas, or a combination of all four. Organising around key strategic parameters enhances the probability of alliance success. Over time, investment in an alliance management capability enhances the reputation of a company as a preferred partner. (Dyer, Kale, & Singh, 2001: 40-43)

iv) Levels of Alliance Capability

Companies go through different stages of development of their alliance capability (Draulans, deMan, & Volberda, 2003: 159-160). Learning takes place faster when similar types of alliances are entered into since different types of alliances have different requirements in terms of partner selection, management, and upgrading of the alliance (Anand & Khanna, 2000: 295-315; Draulans, deMan, & Volberda, 2003: 161).

Moreover, deliberate learning mechanisms, that is, articulating and critically reflecting learning experiences and codifying alliance management knowledge, provide a particularly important way to support organisational learning processes (e.g., Zollo & Winter, 2002).

h) Alliance Success

i) Introduction

Many partnerships fail to deliver value. They are costly to implement and require extra communication and risk sharing (Lambert & Knemeyer, 2004: 116). The overall success rate of alliances hovers near 50% (Ernst & Bamford, 2005: 133). Both cross-border alliances and cross-border acquisitions exhibit failure rates of about 50%. Nonetheless, they are viable vehicles for international strategy (Bleeke & Ernst, 1991: 127). Considering the potential of interorganisational relationships to create value, simple cost/benefit analysis is insufficient. Outcomes such as an enhanced reputation and visibility can hardly be measured in US\$. (Barringer & Harrison, 2000: 396)

ii) Alliance Performance in General

In general terms, an optimal organisational, strategic, cultural, and personal fit between alliance partners is believed to raise alliance success (Draulans, deMan, & Volberda, 2003: 151). However, alliance performance is a complex and multidimensional phenomenon. Importantly, there are different perspectives on how to measure alliance per-

formance. (Inkpen, 2001: 416-417) Firstly, alliance performance may be viewed in terms of value creation by individual partners, that is, the individual monetary and competitive gains of each partner. Clearly, each partner will have different co-operative objectives and abilities to appropriate alliance benefits. (Hamel, 1991) In other words, alliance performance may be defined as the extent to which the financial and strategic expectations of the parents are met (Ernst, Glover, & Bamford, 2003: 89). This is the perspective adopted by this Ph.D. thesis. Secondly, alliance performance may be regarded as a mutual outcome taking into account the perspectives of the multiple partners (Beamish, 1988). Thirdly, alliances may be evaluated as stand-alone entities seeking to maximise their own performance, not the partners' (Anderson, 1990; Woodcock, Beamish, & Makino, 1994). Fourthly, alliance longevity and survival has been viewed as a performance indicator (e.g., Kogut, 1989). A fifth approach is to examine the effects of the alliances on parent firm survival (Singh & Mitchell, 1996).

iii) Alliance Performance Measurement

Companies should develop alliance metrics in order to evaluate the performance of their alliances systematically (Dyer, Kale, & Singh, 2001: 41). Overall, alliances should be evaluated on the performance dimensions strategy, financials, operations, governance, organisation and talent. Thus, also strategic fit with the parents' businesses should be assessed. The venture's financial performance relative to competitors, comparable internal business units, industry benchmarks, and parents' own corporate financial hurdle rates needs to be evaluated. (Ernst & Bamford, 2005: 136-137) In some instances, transformation of a venture may actually indicate successful adaptation to environmental shifts (Gomes-Casseres, 1987).

iv) Alliance Ownership Structure & Performance

When neither parent's investment outweighs the other's, the autonomy and flexibility most alliances need are easiest to achieve (Bleeke & Ernst, 1991:132-133). Typically, strategic alliances exhibiting an even split of financial ownership are more likely to succeed than those in which one partner holds a majority interest. However, if there is a large disparity in partners' strengths or contributions, one partner may assume a majority position and management control. (Ernst, Glover, & Bamford, 2003: 88-90) Clear management control and protecting the interests of a minority partner are paramount. Strategic alliances should be win-win situations rather than zero-sum games implying that one partner is bound to lose what the other gains. (Bleeke & Ernst, 1991: 133)

On average, shared control tends to reveal better performance than dominance control (Beamish (1984, 1985). Shared equity ownership in alliances may lead to higher levels of trust and knowledge acquisition (Beamish & Banks, 1987; Geringer & Woodcock, 1989) and may also provide mutual forbearance and stability (Mjoen & Tallman, 1997; Yan, 1998). However, several studies have suggested that companies with different national backgrounds have different preferences in ownership (Erramilli, 1996; Pan, 1996) which might affect how they view alliance performance (Inkpen, 2001: 421).

v) Restructuring Strategic Alliances to Enhance Performance

Restructuring strategic alliances is far more complicated than restructuring a wholly owned subsidiary. This is also due to their complicated decision-making structures and partners' divergent corporate interests. Restructuring strategic alliances often involves renegotiating and redrafting legal agreements between the partners. Regrettably, corporate parents often fail to intervene to correct alliance performance problems or address their exposure to risk. However, too much stability may be detrimental and evolution is necessary for success. Parents may agree on threshold levels of performance that would trigger a reassessment (e.g., lacking baseline financial performance targets for two consecutive years). In general terms, they may build in contingencies for restructuring. Joint venture boards may establish performance-review and challenge processes equal to those of similar-sized business units. Finally, alliance restructuring should be institutionalised (e.g., assessing three to 15 crucial alliances in the corporate portfolio against strategic fit and financial performance every year). Barriers to change have to be overcome and value from underperforming alliances unlocked! (Ernst & Bamford, 2005: 133-141)

j) Crafting Value-Boosting Alliance Agreements

If not explicitly stated otherwise, this Section is based on (Ernst, Glover, & Bamford, 2003: 92-106). Crafting creative alliance agreements that fit with the business strategy and protect parent interests is paramount. Both partners may derive substantial benefits from combining the best of legal and business best practice. Firstly, clear decision-making lies at the heart of successful alliances. In this context, separating economic control from decision-making control is important. Secondly, it is recommendable to seek the casting vote or veto power on certain decisions. It is often possible to protect parent interests by having real influence on one or two decisions such as capital expenditures, changes in the basic venture goals, quality control, or regulatory and fiduciary responsibilities. Thirdly, allies should agree in advance on ten to fifteen key decisions such as

capital expenditures, transfer pricing, venture staffing, and dividend policies. In scripting certain decisions, partners will uncover potential areas of conflict and speed decision-making once the alliance is operational. Fourthly, developing a decision-making map fosters smooth decision-making as it depends on a clear understanding of the roles in different decisions. Partners should consider drawing up a decision-making protocol, that is, a road map of the twenty to fifty most important decisions that the alliance is likely to face. This protocol will also include which decision makers (e.g., joint venture CEO, joint venture board, etc.) will be involved in which alliance decisions (e.g., annual budget) and the nature of involvement (propose, consult, decide, and so on) in those decisions. Fifthly, partners should include conflict resolution mechanisms such as opt-out or wild-card provisions in the alliance agreement to avoid or resolve conflict after it arises. Creative decision-making strategies may prevent termination.

An optimal alliance structure must address the strategic and managerial concerns while simultaneously satisfying the tax, liability, and regulatory issues. Firstly, the basic sort of legal structure (i.e., non-equity (contractual) alliance or equity alliance/joint venture) has to be determined. As discussed above, below these basic options lie more choices. As a general rule, joint ventures are favoured when the partners seek to make deep combinations of tangible assets such as technology, equipment, plants, and so forth. They are preferred when the alliance is stable in direction and expected to last for at least several years. Conversely, non-equity alliances are generally favoured when planned integration is less deep or centres around intangible assets such as brands and ideas. Furthermore, non-equity alliances are also favoured in short term or fluid situations.

In choosing an alliance structure, lawyers tend to focus on four dimensions: liability, governance, tax and regulation. Through appropriate structuring, partners may achieve limited liability even if they opt for the general partnership or contractual joint venture forms. In addition, defining the scope of the alliance is paramount. Defining scope requires the partners to establish boundaries of geography, product categories, customer segments, brands, technologies, and fixed assets between the alliance and the parents. Activities in which the alliance may engage and those reserved for the parents, how the alliance may use the parents' technology and other assets, has to be determined. Additionally, while a narrow scope may reduce risks, it may also interfere with the ongoing venture development since it limits the alliance's ability to respond to change and to adapt to new market conditions. Thus, a narrow scope may reduce the likelihood that the alliance will succeed in the long run. Alliances should build in room for growth, estab-

lish exclusive agreements only when necessary, anticipate the probability of changes in scope and negotiate them in advance, and define how each of the parents will use the technology/assets developed by the alliance.

Lastly, as most alliances - even successful ones - terminate (Bleeke & Ernst, 1991: 133), alliance partners should also specify exit provisions (e.g., events/circumstances triggering a right to exit or less dramatic changes) to protect their interests. These triggers might include a breach of contract, a change in control of one of the parents, the inability to agree on a key issue, the failure to achieve an important business milestone, or a sunset date after which either partner may terminate the alliance upon notice to the other. Furthermore, exit provisions are important in determining the terminal value of the alliance.

k) Dynamic Evolution of Strategic Alliances & Networks

i) Introduction to the Evolution of Strategic Alliances & Networks

Business alliances are living systems that evolve progressively in their possibilities (Kanter, 1994: 97). Both stable and unstable alliances are likely to go through a series of transitions over the course of their lives. They must evolve if they are to survive. (Inkpen, 2001: 424). Over time, alliances may be transformed significantly beyond their original design and mandate (Gulati, 1998: 304). Doz (1996) proposed that successful alliances go through an evolutionary process involving sequential interactive cycles of learning, re-evaluation and readjustment. Conversely, failing projects were highly inertial and characterised by little learning or divergent learning. (Inkpen, 2001: 424) Alliances benefit from establishing multiple, independent centres of competence and innovation. Many benefits derive from flexibility and openness to new possibilities, particularly in rapidly changing or new markets/technology fields. (Kanter, 1994: 108)

However, initial conditions such as the objectives of partners, their adeptness at learning, the nature of the environment, and interorganisational context impact on alliance evolution (Hamel, 1991). Additionally, the varying evolutionary paths alliances follow may have significant consequences for their performance (Harrigan, 1985b, 1986).

ii) Flexibility

Most alliances are too stable for their own good (Ernst & Bamford, 2005: 133). Flexibility strongly impacts on alliance success. As the venture grows, tensions may arise between the parents and between each parent and the venture. Strategic alliances should

not only be structured to minimise these possible tensions but also be prepared to rebalance or exit the alliance smoothly. Successful alliances are characterised by their ability and flexibility to evolve beyond initial expectations and objectives. Frequently, alliances gradually broaden the scope of their initial charter, which requires autonomy for the alliance and flexibility on the part of the parents. Ways to build in flexibility include giving the alliance strong leadership, a full business system of its own (R&D, manufacturing, marketing, sales, and distribution), complete decision-making power on operating issues, a powerful board, and a sense of identity. Parent companies typically retain responsibility for decisions about equity financing and overall governance structure. This hands-off approach requires that the parent companies structure and perceive the alliance as an entity in and of itself. However, there are exceptions to the rule of managerial autonomy: For instance, when joint ventures are formed to share R&D costs, R&D parents often need to stay closely involved to ensure that the R&D programme fits with their customer needs and manufacturing capabilities. (Bleeke & Ernst, 1991: 127-135)

iii) Anticipating the Evolutions & Outcomes of Strategic Alliances

iiia) The Outcomes of Alliances Between Non-Competing Firms

The three main types of alliance between non-rival firms follow different developmental patterns. International expansion joint ventures appear to enjoy high success rates, provided that the selected local ally can make valuable contributions to the joint venture's development and that it is given enough latitude in the management of the joint subsidiary. Typically, the relative positions of the partners do not change significantly as a result of co-operation. These alliances exhibit high termination rates in their first years followed by stability. (Dussauge & Garrette, 1999: 207-209)

Both on the customer and the supplier side, vertical partnerships tend to benefit the partners who created them in the first place. Additionally, they typically enhance the efficiency of the industry as a whole by improving product quality, cutting costs, and promoting innovation. In addition, they often lead to increased outsourcing by buyer firms who specialise in overall system design and final assembly. These partnerships also induce a process of concentration in the upstream industries, that is, supplier industries. (Dussauge & Garrette, 1999: 208)

Due to the uncertainty inherent in cross-industry co-operation, they seem to enjoy a substantially lower success rate than other types of co-operation. Results are frequently disappointing. If the business takes off, the alliance either acquires independent status in

relation to the partners and becomes a fully-fledged company or one of the partners uses the alliance to diversify into the other partner's business. (Dussauge & Garrette, 1999: 208-209)

iiib) The Outcomes of Alliances Between Competing Firms

Although in alliances associating competitors, partners have conflicting objectives and interests, these alliances often turn out to be successful. (Dussauge & Garrette, 1999: 209-210)

In general terms, a strategic alliance between rivals may strengthen both companies against outsiders even as it simultaneously may lead to shifts in competitive strength on each side. Guarding against transferring competitive advantages to ambitious partners is paramount. (Hamel, Doz, & Prahalad, 1989: 133-134) The strategic consequences of alliances may be evaluated on the basis of how each partner's scope of activities has changed over the time the alliance lasted. From this perspective, strategic alliances between competitors may have the following strategic consequences: firstly, new capability acquisition by all partners, that is, all partners have expanded the scope of their activities by developing new product lines and/or entering new markets on their own; secondly, mutual specialisation, that is, all partner firms have reduced the scope of their activities; thirdly, one-way skill appropriation, that is, one partner has captured new skills and capabilities and has expanded its scope of activities while the other partner has not derived the same benefits from the alliance; and, fourthly, no consequence, that is, when the alliance is terminated, the capabilities possessed by each partner remain unchanged, and none of the firms has either expanded or reduced the scope of its business. Furthermore, alliances between rival firms may have a strong anticompetitive impact, or, conversely, they may also increase competition by favouring the introduction of new products to the market. (Dussauge & Garrette, 1999: 211-216)

Next, the outcomes for each type of alliance between rivals will be briefly discussed. Firstly, Shared-supply alliances appear generally to produce similar results for all partners and very rarely have any significant strategic consequences. In addition, they seem not to affect the long term strategy of the firms participating in them. (Dussauge & Garrette, 1999: 216-217) Secondly, quasi-concentration alliances are very rarely terminated prematurely. Conversely, they even tend to be fairly frequently extended. This stability is produced by a set of converging factors, one of which is the high investment required, which represents an exit barrier. Furthermore, in the long run, reiterated collaborations

in terms of alliance extensions tend to produce increasing mutual specialisation and thus a loss of capabilities and reduced scope of activities for both partners. Partners tend to become increasingly interdependent. Mutual specialisation is often the price to pay for survival and renewed competitiveness in the industry. (Dussauge & Garrette, 1999: 217-218) Thirdly, complementary alliances, which are quite frequently extended beyond what was stipulated in the original agreement, often end with one partner taking over the joint business. Often, one of the partners captures new skills from its ally so that it can expand the scope of its business while its ally's position remains unchanged. (Dussauge & Garrette, 1999: 218-219)

To conclude, correctly anticipating what to expect from a given alliance may enable managers to minimise its undesired effects while taking best advantage of its positive consequences (Dussauge & Garrette, 1999: 220).

I) The Management of Alliance Portfolios

i) Introduction

Many companies have become embedded in a dense network of co-operative interorganisational relationships as a result of intensive alliance activities (Gomes-Casseres, 1996). A company's alliance portfolio impacts on its competitiveness and financial performance. Most importantly, the alliance portfolio aims to contribute to attaining the company's strategic goals. The four tasks of (alliance) portfolio management are strategy, monitoring, co-ordination, and the establishment of an alliance management system (see Figure 5.5). A dedicated alliance function, company-wide standards as well as customised tools for multi-alliance management are required for task implementation. (Hoffmann, 2005: 121) Importantly, alliance strategies have to be well aligned with the company's corporate strategy and business strategies (Hoffmann, 2005:134-141).

ii) The Tasks of Managing Individual Alliances & Alliance Portfolios

iiia) The Tasks of Managing Individual Alliances

The tasks of managing individual alliances include partner identification and selection, alliance negotiation and configuration, alliance implementation, everyday alliance management, monitoring alliance performance, and alliance termination (e.g., Doz & Hamel, 1998).

iiib) The Tasks of Managing Alliance Portfolios (APs) - An Overview

Companies may develop a vision of how alliances will contribute to prosperity (Hoffmann, 2005: 127). Basically, multiple alliances need to be strategically aligned for a

primary joint goal (e.g., Gomes-Casseres, 1996). Avoiding an unbalanced growth of alliances is paramount as it may negatively affect the performance of individual alliances (Hoffmann, 2005: 122).

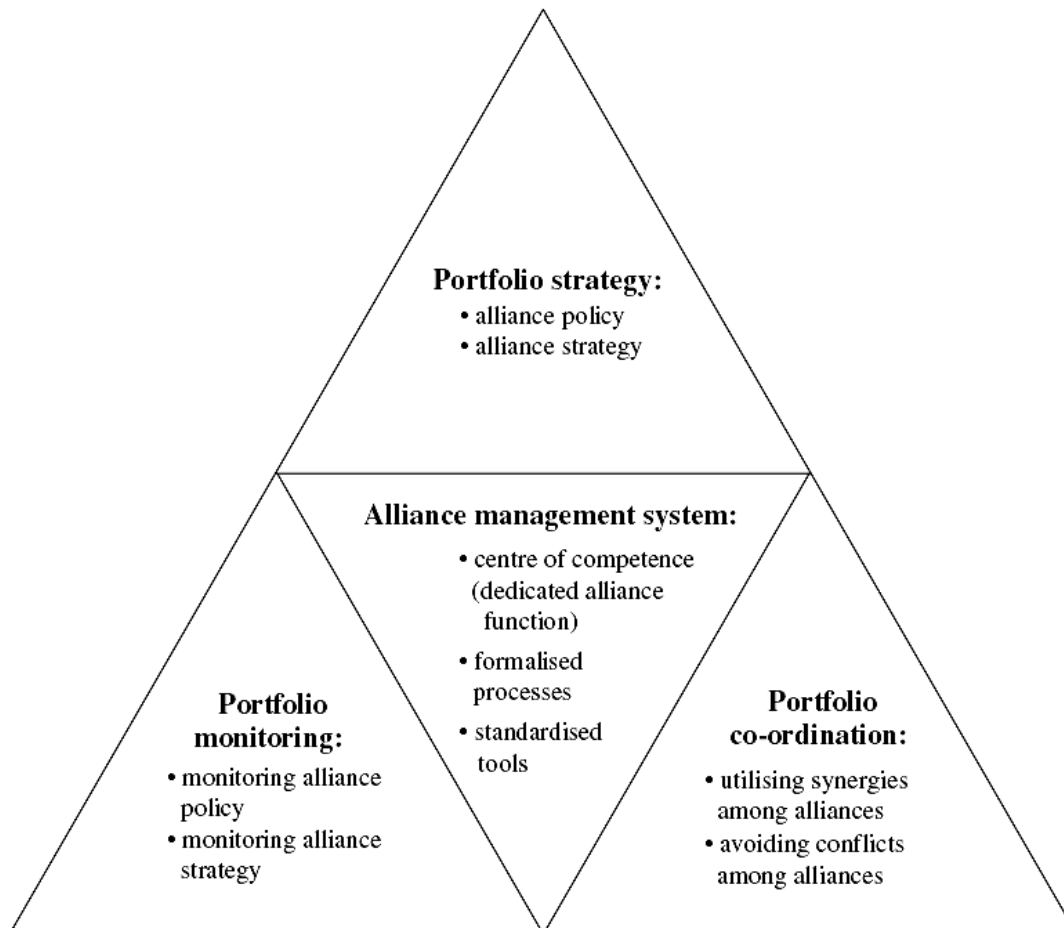


Fig. 5.6: The Four Core Tasks of AP-Management (Hoffmann, 2005: 125)

In brief, professional alliance portfolio management involves four core tasks (see Figure 5.6): firstly, developing and implementing an alliance portfolio strategy at the corporate (i.e., alliance policy) and business levels (i.e., alliance strategy). At the business level, an alliance strategy determining the strategic orientation and goals of all alliances of the business unit as well as the configuration of the business alliance portfolio is required. At the corporate level, an alliance policy in terms of general rules/principles/guidelines for managing all the alliances of the entire company, that is, when, how, and with whom to co-operate; secondly, portfolio monitoring, that is, systematic monitoring and controlling of the contribution of individual alliances and the whole alliance portfolio to the implementation of business strategies (monitoring the alliance strategy) and the corporate strategy (monitoring the alliance policy); thirdly, especially when the size and complexity of a company's alliance portfolio increases, portfolio co-ordination to capitalise

on synergies and avoid conflicts among alliances is paramount; and, fourthly, institutionalising multi-alliance management, that is, establishing an alliance management system providing an infrastructure to support the tasks of managing individual alliances as well as multi-alliance management. The system also supports organisational learning processes and improves the company's (multi-)alliance management capability. (Hoffmann, 2005: 124-135) In this context, it appears to be particularly important to integrate the four core tasks of multi-alliance management into the strategic management processes at the business and corporate levels. Monitoring how alliance strategies are implemented also requires continuous financial and strategic controlling. (Hoffmann, 2005: 137) If there are performance deficits, control measures such as reconfiguring the alliance portfolio may need to be initiated (e.g., Bamford & Ernst, 2002). Additionally, companies need to co-ordinate all the collaborative projects with the same partner (Gulati, 1998).

Portfolio strategies shape the focal company's position in the interorganisational field and aim to enhance the company's resource endowment and competitiveness. The three levels of portfolio strategy formulation and implementation are: the strategic alignment of individual alliances, all alliances of a business unit/division in terms of the business strategy, and all of the company's alliances in terms of the corporate strategy and corporate values. (Hoffmann, 2005: 127-129)

To be more concrete, on the one hand, alliance policy includes, firstly, general principles of managing, controlling, and overseeing alliances; secondly, general requirements for partners (i.e., strategic, operative and cultural fit, reliability and trustworthiness); thirdly, rules on areas (i.e., businesses, value steps) and environmental conditions in which to co-operate (or not to); and, fourthly, rules on the how to co-operate in terms of the configuration of single alliances and the whole portfolio. Importantly, alliance policies aim to acquire an attractive position in business-overlapping networks, earning a favourable reputation as a professional, trustworthy partner, and continuously improving alliance management capability. On the other hand, the selected alliance strategy determines the number, spread, redundancy, and linkage strength (intensity) of the focal company's interorganisational relationships so that the alliances optimally contribute to implementing its business strategy. While a typical exploration strategy requires many alliances with varied partners exhibiting linkage intensities ranging from low (probing alliance) to high (core alliance), an exploitation strategy needs only a few alliances with similar partners and high linkage intensity. (Hoffmann, 2005: 127-129) Next, each task of alliance portfolio management is explained.

ii) Alliance Co-ordination - Realising Synergies

Synergies among alliances may be capitalised on by, firstly, transferring information and resources from one alliance to another to generate economies of scope; secondly, mutual specialisation between alliances so all activities and resources of the company in the alliance's field of activity are bundled and economies of scale are generated; and, thirdly, pooling activities and resources to form one unified co-operation unit between dyadic relationships may create synergies leading to economies of scale. (Hoffmann, 2005: 130)

ii) Portfolio Monitoring

Evaluation processes and criteria are paramount in triggering the development of the alliance portfolio. Primarily output factors in terms of financial performance (i.e., particularly profit and cash flow, but also turnover) and the attainment of strategic goals (e.g., market share) are considered when evaluating alliances. However, input factors (i.e., the quality and quantity of the resources contributed by the allies) may be evaluated when it is difficult to assess output factors as in the early stages of R&D alliances for instance. In addition to these hard criteria, soft evaluation criteria such as the quality of the relationship (e.g., level of trust, speed and clarity of decision-making) are important as well. At the corporate level, important evaluation criteria for alliance portfolios are trust and reputation, the position of the focal company in industry-overlapping networks, and the general alliance management capability of the company. (Hoffmann, 2005: 131-135)

ii) Establishing an Alliance Management System

Building a (multi-)alliance management capability involves continually collecting and reviewing alliance management experiences, deriving best practices from them, and replicating them company-wide. In large companies, specialised positions need to be created so as to professionalise and standardise (multi-)alliance management practices. The most important tasks of a dedicated alliance function include, firstly, monitoring alliances and portfolio strategies; secondly, participating in the strategic alignment and configuration of important individual alliances and the entire alliance portfolio; thirdly, systematically developing alliance management expertise, that is, formalising core processes of individual and multi-alliance management as well as developing standardised methods and tools for alliance management; and, fourthly, co-ordinating among alliances. As alliance experience accumulates, the centre of competence may concentrate on overseeing the alliance management system and portfolio management. Instruments

or tools of (multi-)alliance management support the creation, storage, transfer, and application of (multi-)alliance management knowledge. Particularly important tools include reviews, internal seminars, workshops, benchmarking, manuals, checklists, data warehouses and intranet. (Hoffmann, 2005:135-140)

iif) Interdependencies of the Tasks of Multi-Alliance Management

The tasks of multi-alliance management must be observed in interaction rather than isolation. Devising and implementing a portfolio strategy, portfolio co-ordination, and portfolio monitoring together form a closed management loop (see Figure 5.7). There are three different but interrelated feedback loops according to the three levels of decision-making (i.e., individual alliance, alliance strategy at the business level and alliance policy at the corporate level). These management loops allow for adaptations of collaboration practice, building on learning insights and evaluation results at each of the three levels. (Hoffmann, 2005: 138)

While monitoring and adapting individual alliances is most formal, the feedback loop for the alliance policy at the corporate level is the least formal. The degree of formalisation of management loops at the business level depends on how important the business unit is as an independent decision-making level. (Hoffmann, 2005: 138-139)

Importantly, learning at the level of managing individual alliances takes place with regard to environment, task, process, skills and goals (Doz, 1996: 55-83). The articulation and reflection of collaboration experiences and the codification of the resultant (multi-)alliance management knowledge should be supported by appropriate tools to enable effective deliberate learning (Hoffmann, 2005: 139). Deliberate learning mechanisms are important driving factors for developing dynamic capabilities in general and (multi-)alliance management capability in particular (Zollo & Winter, 2002: 339-351).

The continuous evaluation of individual alliances and the whole portfolio allows for the identification of performance patterns, which can aid adjustments of alliance management practices. Strategically important aspects of alliance portfolio management need to be integrated in the regular strategy planning and strategy review process. (Hoffmann, 2005: 139-141) In what follows, social/strategic networks will be scrutinised.

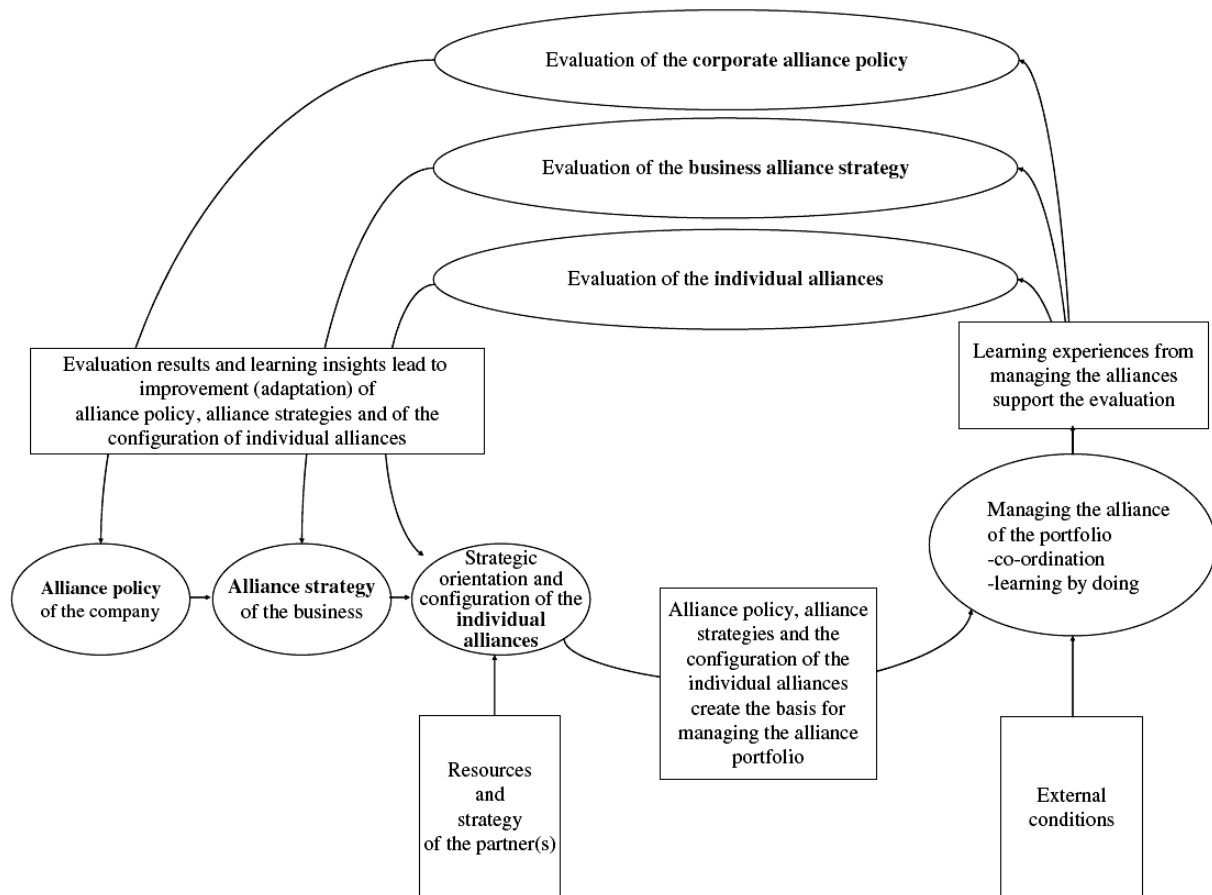


Fig. 5.7: Management Loops for Alliance Activities (Hoffmann, 2005: 139)

m) Strategic/Social Networks

i) Introduction

New forms of competition in which networks of firms compete with each other have emerged (Gomes-Casseres, 1994). Companies increasingly co-operate in strategic networks or multi-partner alliances to create joint value (Hoffmann, 2005: 141). From an alliance and collaborative perspective, strategic networks can be defined as a set of organisations linked by a set of social and business relationships that create strategic inter-firm opportunities for the organisations (Inkpen, 2001: 426). Please refer to Subchapter 2.8 for essential complementary definitions of strategic networks. Furthermore, strategic networks may be conceived of as a type of valuable resources in and of themselves (Kogut, 2000). Network resources are external resources embedded in the firm's strategic (alliance) network. They provide strategic opportunities and affect firm behaviour and value. (Lavie, 2006: 638-641) Network resources play a role not only in the evolution of alliance networks (Gulati, 1999) but also in shaping the competitive advantage of interconnected firms (Lavie, 2006: 648).

ii) Embeddedness of Companies in Social Networks

Social network theories emphasise the value of external ties (Lavie, 2006: 650). The social context companies are embedded in includes a whole array of elements that may be classified broadly as structural, cognitive, institutional and cultural (Zukin & DiMaggio, 1990) and affects firm behaviour and performance (Gulati, 1998: 295).

Firms are embedded in a multiplicity of social networks (Gulati, 1998: 302). A social network may be defined as a set of nodes such as persons and organisations linked by a set of social relationships of a specified type (Laumann, Galaskiewicz, & Marsden, 1978: 458). Social networks are valuable conduits or channels of information that simultaneously provide sets of alliance opportunities and constraints for companies. A company's network position in an industry may strongly impact on overall firm performance. (Gulati, 1998: 310-312) In network analysis, the position an actor currently occupies in a network structure is a function of the actor's relational pattern in this network (Gulati, 1998: 296). Classic examples are social networks from prior alliances. Key precursors, processes, and outcomes associated with alliances may be defined and shaped in important ways by the social networks within which most firms are embedded. (Gulati, 1998: 293-299)

Differentiation through social networks enables companies to discriminate among partners in terms of their particular direct and indirect relational profiles and structural positions they occupy in an emerging network. Over time, companies seeking to build alliances may become less reliant on exogenous factors and instead may be more influenced by the network in which they are embedded. (Gulati, 1998: 306)

In addition, firstly, social networks may bestow differential informational advantages/benefits upon companies. Secondly, actors may generate control benefits by being advantageously positioned within a social network, that is, by being the *tertius gaudens*, or one who is situated between two other actors. In this context, social capital accrues to firms both from the access to information interorganisational networks provide and the potential for control benefits. (Gulati, 1998: 296-299) Burt (1997) argues that social networks endow firms with social capital which may become an important basis for competitive advantage (Burt, 1997).

Furthermore, actors occupying similar positions reflect distinct status groups (Podolny, 1993, 1994). Status groupings resulting from network position may provide valuable insights with regard to the likely behaviour of others in the network (Gulati, 1998: 296-297).

iii) Motives for Forming Strategic Networks

Exogenous factors such as the nature of competition and critical industry events may impact on the shaping of dynamic interorganisational networks (Madhavan, Koka, & Prescott, 1998). In addition, high demand uncertainty with stable supply as well as pressure to complete complex tasks speedily may lead firms to collaborate and build networks. Demand uncertainty tends to cause firms to downsize and maximise flexibility in the event they will have to switch to other markets. Thus, large projects may no longer be within the grasp of individual companies. (Jones, Hesterly, & Borgatti, 1997)

iv) Advantages & Disadvantages of Participation in Strategic Networks

Advantages of network structures include flexibility (Powell, 1990); speed to market (Jones, Hesterly, & Borgatti, 1997), product development (Snow, Miles, & Coleman, 1992), learning (Child & Faulkner, 1998) and the ability to neutralise or block the competition (Harrigan, 1986). However, networks are difficult to organise and manage, particularly as the number of firms involved increases (e.g., Doz & Hamel, 1998). Learning and knowledge transfers may actually be slowed down in networks and other multiform alliances (Barringer & Harrison, 2000: 389).

v) The Evolution of Strategic Networks

The production of interorganisational (alliance) networks is driven by a dynamic process involving both exogenous resource dependencies prompting companies to seek cooperation (see also Subchapter 3.3.3) and an endogenous embeddedness dynamic, in which the emerging network progressively orients the choice of partners (Gulati & Gargiulo, 1997). Furthermore, (alliance) networks exhibit a path-dependent nature (Gulati, 1999). Undeniably, the resource sets of current partners may impose constraints on the future development of the focal firm's (alliance) network. Thus, the focal firm will extend its (alliance) network only to the extent that new partners offer added value or synergies. Furthermore, there are interdependencies across alliances in which a firm participates. (Lavie, 2006: 650-651) However, once firms understand the dynamics of alliance networks, they may choose path-creation strategies rather than becoming path-dependent (Garud & Rappa, 1994). Companies might visualise the desired future (alliance) network structure and work backwards to define their current alliance strategy (Galati, 1998: 297). In other words, companies may attempt to proactively manage their alliance networks (Lavie, 2006: 650). Additionally, the impact of networks on companies may also change over time if the content of information flowing through those networks changes. After all, networks have influence primarily through their channelling of information. (Gulati, 1998: 306)

Importantly, each alliance network defines a set of opportunities and constraints on the focal firm's rent accumulation behaviour (Wasserman & Faust, 1994). Several studies have shown that firms that had more prior alliances were more centrally situated in the alliance network or had more focused networks, were more likely to enter into new alliances and did so with greater frequency (e.g., Gulati, 1993, 1997).

5.4 Towards a RB Theory of Value-Driving SAN

This Subchapter is dedicated to a resource-based theory of value-driving strategic alliances and networks (SAN). For instance, in 1997, Banco Central Hispano and the Rothschild Group signed a global strategic alliance agreement for the joint development of personal banking services (Garcia-Casarejos, Alcalde-Fradejas, & Espitia-Escuer, 2009: 200). The theoretical model developed illuminates critical drivers of value-adding SAN and may serve strategists as an analytical, multifaceted forecasting instrument designed to assess the value added or destroyed an envisaged entry into a strategic alliance/strategic network is likely to produce for the focal firm.

5.4.1 Theoretical Model & Propositions

While Subchapters 5.1 to 5.3 are essential to a proper understanding of the rather comprehensive, general theoretical model, Subchapter 2.7 provides the basis for its application to the private banking business. Please also refer to the empirical example provided in Section b of this Subchapter. Next, the theoretical model will be explained starting from the left-hand side and moving to the right to ultimately arrive at the upper right-hand corner.

a) Explanation of the Mechanics of the Compounded Theoretical Model

Firstly, this model suggests analysing the resource position of the focal firm *F* and the resource position(s) of the potential alliance partner *AP*/potential network partners *NP* so as to enable a pre-assessment of the envisaged strategic alliance (*SA*) or strategic network (*NP*). This pre-assessment may cover the following points: Are SAN-motive(s) well aligned with the type of *SA* or *SN* envisioned (Dussauge & Garrette, 1999)? Is there a strategic, organisational, cultural, and personal fit between the *AP*s and among the *NP*s respectively? How advanced is the SAN capability of focal firm *F*? (Draulans, de Man, & Volberda, 2003) Is the governance structure of the envisioned *SA*/*SN* appropriate (Das & Teng, 1998)? Do potential benefits of entering into the *SA* or *SN* out-

weight the risks involved in doing so (Barringer & Harrison, 2000)? What is the extent of market overlap between the SA-/SN-partners? Market overlap may be an important determinant of the likely behaviour of partners. (Khanna, Gulati, & Nohria, 1998) What is the synergy potential that might be realised if the SA or SN was entered by focal firm F (e.g., Dyer, Kale, & Singh, 2004)? Is the envisioned SA-/SN-agreement likely to be sustainable (e.g., Ernst, Glover, & Bamford, 2003)? What is the value creation dynamics of the envisioned SA/SN (Inkpen, 2001)? Do trust relationships prevail between/among SA-/SN-partners (e.g., Beamish & Banks, 1987; Das & Teng, 1998)? What would be the long term effect on the focal firm F's stock of social capital if the SA/SN was entered into (Burt, 1997)? Lastly, might there be a more promising growth option than SAN (Hitt, Ireland, & Harrison, 2001)? The following examples aim to illustrate these points.

Sarasin formed a partnership with Rabobank and exchanged a 28%-stake for Rabobank's international private banking business, including operations in Singapore, Guernsey, Luxembourg and Switzerland. Julius Baer provides another example of alliances that can lead to a foothold in the European domestic market. To enter into the Italian market, it formed a joint venture with Credito Valtellinese, and, in Spain, it teamed up with Atlas Capital. (Avery, 2004) Another SAN-example provides Ahli United Bank (AUB), which is a leading player in the Middle East's private banking sector. AUB's private banking success is built on its strong consumer banking franchises in key markets such as Bahrain, Kuwait and Qatar, and on its alliances with the internationally operating Mellon Financial and Henderson Global Investors. AUB also has a joint venture with Iran's Bank Melli Iran and Bank Saderat Iran. (Koh, 2006: 122)

Secondly, the analysis of the potentially enhanced resource bundle of focal firm F (due to its participation in a SA/SN) along with environmental screening/analysis (e.g., Ansoff, 1965) as well as the results of the aforementioned pre-assessment of the envisioned SA/SN, may enable managers to carry out a pre-evaluation of firm F's potential strategic options after its entry into the envisioned SA/SN.

Thirdly, the aforementioned analysis of the potentially enhanced resource bundle of focal firm F along with environmental screening/analysis (e.g., Ansoff, 1965) may also enable managers to obtain superior information on strategy implementation (Barney, 1986a) with regard to the potentially enhanced resource bundle of focal firm F. Such superior information enables firms to take informed decisions on which strategic options are most likely to create the most promising set of (sustained) competitive advantages (S)CAs (Barney, 1986a).

Fourthly, strategic options may be inferred and analysed that might allow focal firm F to ultimately attain a superior set of (S)CAs, which, in turn enables focal firm F to generate a maximum amount of long term value. Possibly, the realisation of some strategic options inferred requires that a resource gap be filled. Depending on the nature of the lacking resources, those may either be acquired on strategic factor markets (Barney, 1986a) or be built-up in-house by accumulating asset stocks via consistent patterns of resource flows over time. However, since scarce resources have to be deployed to achieve or protect privileged product market positions, it is crucial to account for the opportunity costs of those assets. (Dierickx & Cool, 1989: 1504) Furthermore, Barney's (1991) four resource attributes of possible sources of sustained competitive advantage allow one to analyse resources and/or resource combinations which might lead to (S)CAs and thus above-normal returns. Peteraf's (1993) model of the cornerstones of competitive advantage draws managers' attention to additional points to consider when striving for sustained competitive advantages such as ex ante/ex post limits to competition (see Subchapter 2.9). To conclude, the inference and analysis of strategic options including the conduct of a resource gap analysis will enable the focal firm to capitalise on more opportunities and to neutralise more threats, that is, this theoretical model is likely to enhance managers' ability to figure out promising pathways to achieving above-normal returns.

Lastly, the tentatively selected SAN-opportunity should be re-assessed given the additional insights that have emerged in the analytic process. Both internal and external analyses contribute to an informed decision on which strategies are likely to create the most value for the firm. Obviously, this compounded theoretical model can only add value to the firm, if both the capabilities and knowledge necessary to capitalise on the model are available to the firm.

b) Empirical Example of Growth via SAN

Firstly, Bank of China (BOC) and La Compagnie Financière Edmond de Rothschild (LCFR) have formed a strategic partnership, covering their private banking and asset management businesses. On the private banking side, the plan is to use the service expertise of the European bank within the emerging Chinese market. BOC acquired a 20% stake in LCFR. Importantly, BOC also aims to leverage LCFR's capability to manage high net worth individuals' assets, as well as its knowledge of investment strategy and advisory services for family-controlled small- and medium-sized enterprises and family offices. The two parties may also jointly develop private banking business initiatives in

selected markets. To conclude, on the one hand, as regards LCFR the deal entails a good use of core competencies, and provides it with the opportunity to get into new, fast growing markets. For BOC, on the other hand, there is a wealth of knowledge and expertise to tap into, and the possibility of a quantum leap in its domestic service offering. (Datamonitor, 2008: 127)

Secondly, Credit Suisse First Boston, a joint venture formed in 1978 to expand both companies' positions in the Eurobond market, shows the benefits of using alliances to leverage complementary geographic strengths. First Boston provided access to US corporate issuers of bonds and possessed the skills for structuring new financial vehicles like convertible Eurobonds. Credit Suisse provided the capability to place issues with investors in Europe. This combination allowed the joint venture to assume a leading role in the rapidly growing Eurobond markets in the early 1980s. After First Boston began to experience financial problems, Credit Suisse bought out the joint venture in 1988. The Credit Suisse-First Boston alliance worked because each partner had a market presence. (Bleeke & Ernst, 1991: 128-129)

c) Propositions

Next, we will turn to the propositions the author draws from the compounded theoretical model described and explained above.

Proposition 1: In general terms, firms applying the entire compounded, multifaceted model depicted at the end of Subchapter 5.4.1 will be more likely to take well-informed, forward-looking decisions as regards a potential participation in strategic alliances and/or strategic networks. They will be better able to judge whether their firms are likely to create more value in the long run as members of specific SAN than they would as standalone entities.

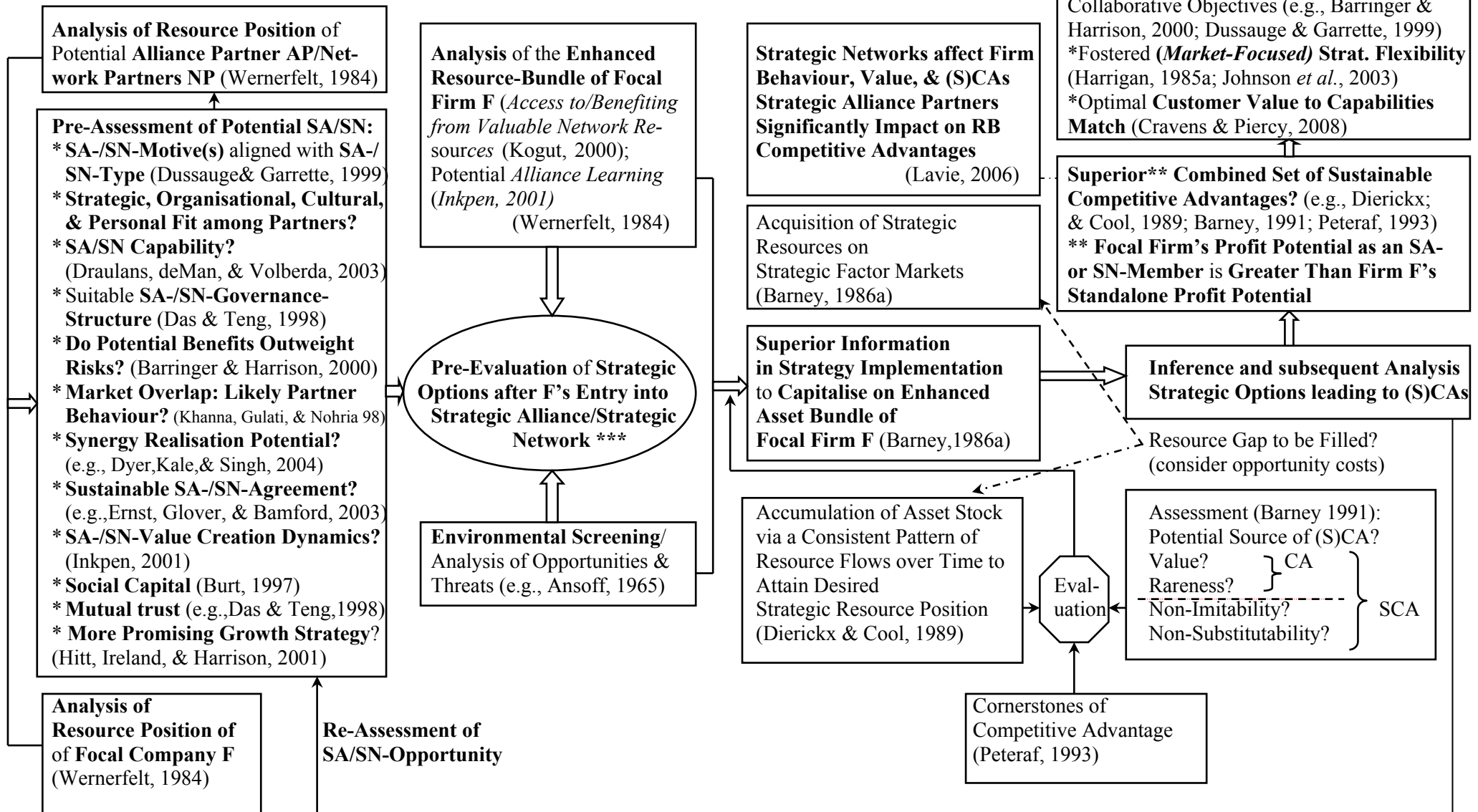
The author argues that empirical tests of the above proposition are likely to provide evidence that it holds true. If major renowned models that fit well together are combined in a meaningful way, a greater portion of reality may be grasped. Thus, as more aspects are taken into consideration when deciding on a potential participation in a strategic alliance/network, the probability of a better-informed decision is enhanced.

Proposition 2: This theoretical model holds true across all industry contexts. Much empirical testing will be needed to provide evidence for this proposition.

RB Theoretical Model of Value-Driving Strategic Alliances & Networks

*** Synthesis of facts also depends on the *entrepreneurial ability* and *creative potential* available (Barney, 2001a)

Definitions: i) SA: Strategic Alliance; ii) SN: Strategic Network



5.4.2 Assumptions, Limitations, Boundaries, & Future Research

a) Assumptions Underlying this Mid-Range Theory, Limitations, & Boundaries

The compounded theoretical model depicted in Subchapter 5.4.1 predominantly combines and confines itself to different well-acknowledged resource-based 'theories' of the firm, general strategic management literature as well as research literature on strategic alliances and strategic networks. Thus, while it capitalises on the distinct advantages of these literatures, it is simultaneously subject to their assumptions and limitations. It assumes that all resource-based 'theories' and other theories drawn on may be combined to form a more comprehensive, multifaceted theoretical model despite their grounding in different fields of inquiry. In addition, the benefits of applying this model are assumed to offset the opportunity costs associated with it. Lastly, this model presumes that firms have the resources and capabilities necessary to capitalise on the insights of this model.

b) Tracing a Future Research Agenda

Please see Subchapter 7.1 (RBV) as regards avenues for future research. Furthermore, the compounded theoretical model depicted in Subchapter 5.4.1 should be extensively empirically tested and possibly complemented with new/enhanced, supplemented resource-based 'theories', general strategic management, and/or SAN research.

5.4.3 Conclusions Subchapter 5.4

Choosing the potentially most attractive strategic SAN-option represents a challenging but exciting assignment. In general terms, a wide array of factors needs to be considered, and various different analyses have to be conducted when it comes to growing sustainably through SAN. Firstly, an optimal organisational, strategic, cultural, and personal fit between SAN-partners is believed to raise SAN-success (Draulans, deMan, & Volberda, 2003: 151). Secondly, critically, SAN-strategies have to be well aligned with the company's corporate strategy and business strategies (e.g., Hoffmann, 2005: 134-141). Thirdly, crafting creative SAN-agreements that fit with the business strategy, protect parent interests, and ensure clear decision-making is pivotal (e.g., Ernst, Glover, & Bamford, 2003: 92-106). In this context, contractual arrangements typically serve as a backdrop to relationships (Wright & Lockett, 2003: 2073). However, procedural justice is important to SAN-partners (Sapienza & Korsgaard, 1996) and mutual trust is paramount for SAN-success (e.g., Inkpen & Beamish, 1997). Lastly, the extent of market overlap in activities between the partners and within the strategic alliance or network

may be an important determinant of the likely behaviour of partners (Khanna, Gulati, & Nohria, 1998).

Ultimately, the strategic SAN-option with the greatest risk-adjusted value-added potential should be chosen. Long term value-added is associated with the accomplishment of both monetary and non-monetary strategic collaborative objectives (e.g., Barringer & Harrison, 2000; Dussauge & Garrette, 1999). In addition, fostering (market-focused) strategic flexibility (Harrigan, 1985a, Johnson, Lee, Saini, & Grohmann, 2003) as well as an optimal customer value to capabilities match (Carvens & Piercy, 2008) positively correlates with value-added achieved through SAN.

5.5 Towards a DCB Theory of Superior SAN-Execution Routines

This Subchapter is dedicated to a thorough explanation of the mechanics and evolution of superior SAN-execution routines from a dynamic capability-based perspective.

5.5.1 Theoretical Model & Propositions

While Subchapters 5.1 to 5.3 are essential to a good understanding of the rather comprehensive, general theoretical model, Subchapter 2.7 provides the basis for its application to the private banking business. Please also refer to the empirical examples provided in Subchapter 5.4.1 and Section b of this Subchapter. Next, the theoretical model will be explained starting from the upper left-hand side, moving downwards, then to the right-hand side to ultimately arrive at the upper right-hand corner, and lastly, moving back to the left-hand side.

a) Explanation of the Mechanics of the Compounded Theoretical Model

Once a strategic SAN-option has been selected, it needs to be implemented by means of superior SAN-execution routines. For the sake of completeness, this model starts with a thorough (re)analysis of the resource position of the company expanding by means of SAN (Barney 1991; Wernerfelt, 1984) as well as a renewed environmental screening (e.g., Ansoff, 1965). Since, especially in times of uncertainty, environmental conditions may change rapidly, these internal and external re-analyses may be worthwhile and allow the firm to, firstly, obtain superior information regarding strategy implementation; and, secondly, to conceive of superior SAN-execution routines (Barney, 1986a). For instance, China Construction Bank (CCB) formed a strategic alliance with Bank of

America (BOA). To ensure that CCB's private banking operation would be able to absorb internationally recognised best practices comparatively speedily, it was important that CCB co-operated closely with BOA right from the start. (Euromoney, 2009b: 18-19)

Secondly, a resource gap might need to be filled in order to attain the strategic resource position required to implement the SAN-option exhibiting the highest long term value-added potential in superior ways. The lacking strategic assets may be purchased on strategic factor markets (Barney, 1986a), or, alternatively, the required asset stocks may be accumulated via a consistent pattern of resource flows in the medium to long term (Dierickx & Cool, 1989). In addition, strategy has to be well aligned with both the targeted firm structure (Donaldson, 2000) and the firm's idiosyncratic resource position (Barney, 1986a; Wernerfelt, 1984).

Thirdly, the firm capitalises on a knowledge evolution cycle ensuring that industry-specific SAN-execution knowledge is continuously accumulated, assessed, and refined through generative variation, internal selection and retention (Zollo & Winter, 2002). In this context, generative variation is associated with a company's creativity potential and innovative capacity (Hayek, 1945; Schumpeter, 1936) and internal selection with entrepreneurial ability and innovation (Schumpeter, 1936). Additionally, the SAN-execution routine life-cycle diagrams (Helfat & Peteraf, 2003) show the positive correlation between the level of capability per unit of activity and the cumulative amount of activity.

Fourthly, the continuously generated knowledge contributes to an ever improving central SAN-knowledge management system. The body of up to date, industry-specific SAN-execution knowledge consisting of both tacit and explicit knowledge (Nonaka, 1994) is used to modify/renew the firm's SAN-execution core capability (Leonard-Barton, 1992). In this context, the firm may also take advantage of its absorptive capacity and accumulated experience gained when implementing prior strategic SAN-options when it comes to optimising the SAN-execution process. Thus, single- and double-loop learning described in Subchapter 2.4 comes into play. In addition, unleashing organisational energy (please see Subchapter 2.10) is pivotal for a successful mastery of the critical SAN-execution process. In brief, organisational energy constitutes the force, vitality, and stamina with which a company works (Bruch & Ghoshal, 2004). To foster and harness organisational energy, strategy implementation research offers valuable approaches. In this context, Nutt (1998) found that intervention is the generally preferred approach to strategy implementation and thus also to SAN-execution. A combination of

persuasion and intervention may even prove superior to intervention only. (Nutt, 1998) Furthermore, with regard to SAN-execution, Hickson, Miller, & Wilson (2003) have identified a parsimonious set of eight variables (i.e., familiarity, assessability, specificity, acceptability, receptivity, structural facilitation and priority) which determine strategy implementation success. In addition, according to Dooley, Fryxell, & Judge (2000), strategic consensus is paramount since it positively impacts on strategic commitment, which in turn enhances strategy implementation success. Furthermore, consistent vertical communication positively affects strategic consensus (Rapert, Velliquette, & Garretson, 2002: 301-310). Generally speaking, communication is paramount when it comes to SAN-execution. Adequate communication also enhances the likelihood that key employees may be retained, so highly valuable human capital in general and the precious SAN-execution know-how more specifically may be kept in-house.

Fifthly, ultimately and as depicted in the top right-hand corner of the theoretical model, strategy implementation success is threefold: firstly, the degree of adoption of the strategic decisions taken in SAN-execution; secondly, the value of those strategic decisions; and, thirdly, the installation time needed (Nutt, 1998: 213-237). In this context, Quinn (1990) suggests systematic waiting and intentional incrementalism in the strategy implementation process (Quinn, 1990). Ultimately, the optimal SAN-execution speed needs to be found. Such a capability may well enhance SAN-execution success. This model thus suggests that, depending on the situation at hand, a very swiftly executed SAN-execution process is not always the best solution. Systematic waiting and intentional incrementalism may well pay off in terms of a sustainable SAN-execution process that is likely to create the most value in the long term.

Sixthly, management control systems (please see Subchapter 2.10) are important tools for monitoring and managing the whole SAN-execution process (Simons, 1991: 49-62). In the course of SAN-execution, the company may want to adjust its SAN-execution plan since the competitive landscape and possibly its resource position have changed. Eventually, actions taken in conjunction with contextual factors result in a certain degree of implementation success, which is monitored and measured by means of management control systems. That way, the firm receives a 'performance feedback' (Simons, 1991). Next, the firm evaluates its most current SAN-execution experience and feeds the resulting information into the above central SAN-knowledge management system. In addition, this 'performance feedback' on the last SAN-execution process carried out also affects the knowledge evolution cycle. Especially inadequate performance levels indi-

cate that a reassessment of the entire process may be recommendable to track improvement potentials and identify possible shortcomings of the SAN-execution routine.

Lastly, in the course of time, the firm continuously learns from prior implementations of strategic SAN-options. In this context, double-loop learning (Argyris & Schön, 1978) comes into play. Learning mechanisms shape operating routines both directly and via dynamic capabilities (Zollo & Winter, 2002). The firm's SAN-execution routine goes through various stages during its life-cycle and may eventually be renewed, redeployed, recombined, replicated, retrenched, or even abandoned (Helfat & Peteraf, 2003). For more details and explanations with regard to the figures labelled 'DCs and Learning Mechanisms', 'Knowledge Evolution Cycle', and 'SAN-Execution Routine Life-Cycle' please refer to Subchapter 2.9.

b) Propositions

The author draws the following propositions from the compounded theoretical model described and explained above.

Proposition 1: Firms applying the entire compounded theoretical model depicted at the end of Subchapter 5.5.1 will in general terms be more likely to take well-informed, sustainable decisions as regards SAN and SAN-execution in particular. They will be more likely to implement the chosen strategic SAN-option in superior ways thus maximising long term value creation.

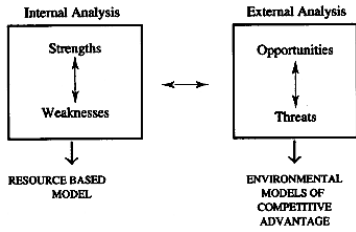
The author argues that empirical tests of the above proposition are likely to provide evidence that it holds true. If major renowned models that fit well together are combined in a meaningful way, a greater portion of reality may be grasped.

Proposition 2: This theoretical model holds true across all industry contexts. Much empirical testing will be needed to provide evidence for this proposition.

DCB Model of Superior SAN-Execution Routines

Definitions: SI: strategy implementation

Framework:
Internal & External Analysis(e.g., Andrews, 1971; Ansoff, 1965)



Sources of Advantage in SI
 a) Consistently Superior Information
 b) Good Fortune or Luck (Barney, 1986a)

Superior Information Through Assessment Resource Position of Firm pursuing Growth through SAN (Barney, 1991; Wernerfelt, 1984)

and **Environmental Screening** for Threats/ Opportunities (e.g., Ansoff, 1965) (Barney, 1986a)

Conceive of Superior Portfolio Strategy & SAN-Mgmt-Strategy

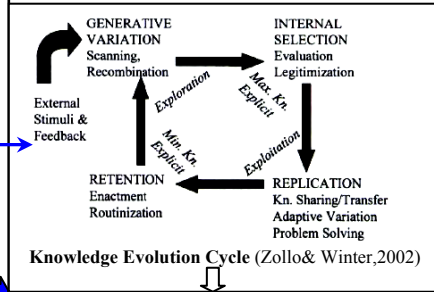
Closure of Possible Resource Gap to Attain Desired Strategic Resource Position:
 * Acquisition of Strategic Assets (Barney, 1986a)
 * Accumulation of Asset Stocks (Dierickx & Cool, 1989)

Strategy Has to Be Aligned with Structure (Donaldson 2000, and the Firm's Idiosyncratic Resource Position (Barney, 1986a, Wernerfelt, 1984)

Overall Objective in SAN-Mgmt:
 * Leveraging of the Company's Resource Bundle (Butler & Butler, 97) so as to Generate the Most Value in the Long Run
 Maximize Company's Value Potential by **Optimising its Set of (S)CA and Capitalising on its Access to Partner Resources & Capabilities**
 Assessment of **Partner Resources:**
Potential source(s) of (S)CA?
 Value } CA
 Rareness }
 Non-Imitability } SCA
 Non-Substitutability }
 Non-Transferability }
 (VRIN-attributes, Barney, 1991)
(Dynamic SAN-Execution Capability to Build Promising Resource Configurations) (Eisenhardt & Martin, 2000)

Performance Feedback Loop (Simons, 1991)
 Incremental, Evolutionary Improvements (Quinn, 1990)
 Evolutionary Trajectory of SAN-Mgmt-Capability (Helfat, 1994) (*see SAN-Mgmt-Routine Life-Cycle below)

Evolution of Industry-Specific SAN-Execution Knowledge:



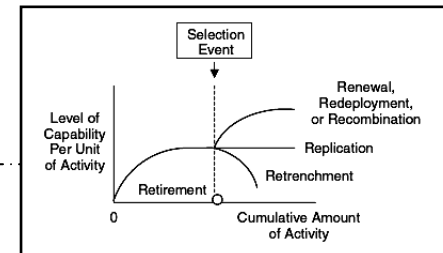
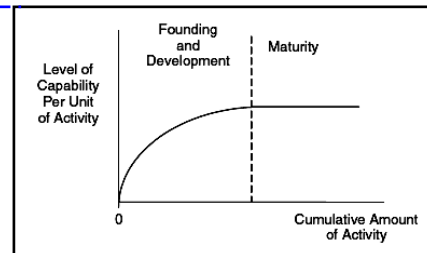
Generative Variation:
 * Creativity Potential
 * Innovative Capacity (Hayek, 1945; Schumpeter, 1936)
Internal Selection:
 * Entrepreneurial Ability and Innovation (Schumpeter, 1936)
Retention:
 * Learning Mechanisms (Zollo & Winter, 2002)

SAN-Execution Routine Life-Cycle:
 * Stages, Branching (Helfat & Peteraf, 2003)

Measuring SI-Success (Nutt, 1998):
 a) Degree of Adoption of Strategic Decisions
 b) Value of Strategic Decisions: Sustainable Value-Added through Successful Entry into SA or SN (Achievement of Collaborative Objectives (Dussauge & Garrette, 99))
 c) Installation Time (Quinn, 1990)
 Systematic Waiting, Intentional Incrementalism

Central SAN-Execution Knowledge Management and Integration

Integrate Updated Body of Tacit & Explicit SAN-Mgmt-Knowledge (Nonaka, 1994) (including recent research)
 Modify/Renew current SAN Mgmt-Core Capability (Leonard-Barton, 92)
 Unleash Organisational Energy (Bruch & Ghoshal, 2004) by
 Intervention- (possibly+Persuasion)- Approach to SI (Nutt, 1998)
 Consistent Vertical Communication + (Rapert et al., 2002)
 Strategic Decision Consensus } (Dooley et al., 2000)
 + Strategic Decision Commitment



Performance Feedback Loop (Simons, 1991)

Superior SAN-Mgmt-Routine? (Nature of SAN-Mgmt-Routine Depends on the Level of Market Dynamism (Eisenhardt & Martin, 2000))

Gathering & Analysis of SAN-Mgmt-Experience

Double-Loop Learning (Argyris & Schön, 1978)

Modification/renewal SAN-Mgmt-Routine & Core Capability:
 Learning Mechanisms Branching (see bottom)

LEARNING MECHANISMS
 * Experience accumulation
 * Knowledge articulation
 * Knowledge codification

DYNAMIC CAPABILITIES
 * Process R&D
 * Restructuring, re-engineering
 * Post-acquisition Integration

EVOLUTION OF OPERATING ROUTINES

DCs & Learning Mechanisms (Zollo & Winter 2002)

5.5.2 Assumptions, Limitations, Boundaries, & Future Research

a) Assumptions Underlying this Mid-Range Theory, Limitations & Boundaries

The compounded theoretical model depicted in Subchapter 5.5.1 predominantly combines different dynamic capability-based 'theories of the firm', general strategic management literature in general and strategy implementation specifically as well as research literature on strategic alliances and networks. Thus, it both capitalises on the distinct advantages of this literature and is also subject to its limitations. It assumes that all the different dynamic capability-based 'theories' and other theories may be combined to form a more comprehensive, multifaceted theoretical model despite their grounding in different fields of inquiry. In addition, the crafted compounded theoretical model assumes that the opportunity costs incurred by the application of this model in strategising will not offset the benefits associated with it.

b) Tracing a Future Research Agenda

Please see Subchapters 7.2 (DCV) and 7.5 (SI research) as regards avenues for future research. Moreover, the theoretical model depicted in Subchapter 5.5.1 should be extensively empirically tested and possibly complemented with new resource-based 'theories' and/or strategy implementation, and/or SAN research.

5.5.3 Conclusions Subchapter 5.5

SAN are living systems that evolve progressively in their possibilities (Kanter, 1994: 97). Over time, SAN may be transformed significantly beyond their original design and mandate (Gulati, 1998: 304). The ability to form and manage SAN more effectively than competitors may become an important source of competitive advantage (Dyer, Kale, & Singh, 2001: 37).

While strategy design is important, failures predominantly occur during strategy execution (Nutt, 1999: 75). SAN capability/skill is the ability to create successful SAN based on learning about SAN-management and leveraging SAN-knowledge inside the company. Companies go through different stages of development of their SAN capability. (Draulans, deMan, & Volberda, 2003: 152-160) In this context, with regard to alliance restructuring, parents may agree on threshold levels of performance that would trigger an alliance reassessment (Ernst & Bamford, 2005: 133-136). Furthermore, multialliance management capability refers to the organisational ability to manage a comprehensive alliance portfolio (Hoffmann, 2005: 123).

Organisational learning (e.g., Argyris & Schön, 1978) plays a key role in developing a SAN-execution core capability, that is, an ability to implement strategic SAN-options in superior ways. Firms may learn to manage the SAN-execution process by tacitly accumulating SAN-execution experience and explicitly codifying it in manuals, systems, and other SAN-specific tools. (Zollo & Singh, 2004: 1233) Ultimately, superior SAN-execution routines realising the full value-added potential of envisioned SAN have to be developed.

5.6 Conclusions Chapter 5

Increasingly, new organisational forms are being scrutinised that have arisen to cope with new environmental conditions (Child & McGrath, 2001; Miles & Snow, 1986).

Notwithstanding strategic alliances are fraught with risk (Dyer, Kale, & Singh, 2004: 109), they play a major role in almost every industry (Ernst& Bamford, 2005: 133). Nowadays, many companies are embedded in a dense network of alliance relationships (Gomes-Casseres, 1996), and SAN generally represent important devices for achieving SCAs (Dyer, Kale, & Singh, 2001: 37). In general terms, in today's international business arena, a highly developed ability to create and sustain fruitful business relationships represents a collaborative advantage and key corporate asset (Kanter, 1994: 96-108).

Fundamentally, strategic alliances may be subdivided into equity- and non-equity alliances (e.g., Das & Teng, 1996) and partnerships forged between rivals and non-competing firms respectively (Dussauge & Garrette, 1999: 47-48). Strategic alliances are entered into for a variety of collaborative objectives (e.g., gaining fast access to critical resources and capabilities or new markets, learning, risk sharing, capturing economies of scale (Powell, 1990)), take diverse forms (Gulati, 1998: 293), and vary significantly in their value generation dynamics (Inkpen, 2001: 410-411). Additionally, many strategic alliances represent interim mechanisms by which firms both buffer and explore uncertainty (Kogut, 1991a). Disadvantages involved include management complexities, potential losses of proprietary information, opportunistic behaviour on the part of alliance partners (Barringer & Harrison, 2000: 385-392), as well as possible skill transfers and capability appropriation between the partners (e.g., Doz & Hamel, 1998). Indeed, guarding against transferring (S)CAs to ambitious partners is paramount (Hamel, Doz, & Prahalad, 1989: 133-134).

Furthermore, companies increasingly co-operate in strategic networks or multi-partner alliances to create joint value (Hoffmann, 2005: 141). Importantly, strategic networks have influence primarily through their channelling of information (Gulati, 1998: 306). Network resources also play a role in shaping the competitive advantage of interconnected firms (Lavie, 2006: 648). Differentiation through social networks enables companies to discriminate among partners. Importantly, a company's network position in an industry may strongly impact on overall firm performance. (Gulati, 1998: 306-312) Social networks endow firms with social capital which may become an important basis for competitive advantage (Burt, 1997). Social capital accrues to firms both from the access to information that interorganisational networks provide and the potential for control benefits (Gulati, 1998: 296-299).

Major advantages of strategic network structures include flexibility (Powell, 1990), speed to market (Jones, Hesterly, & Borgatti, 1997), product development (Snow, Miles, & Coleman, 1992), learning (Child & Faulkner, 1998), and the ability to neutralise or block the competition (Harrigan, 1986). However, strategic networks are difficult to organise and manage, particularly as the number of firms involved increases (e.g., Doz & Hamel, 1998). Learning and knowledge transfers may actually be slowed down in strategic networks and other multiform alliances (Barringer & Harrison, 2000: 389).

To conclude, although a risky strategy, expanding through SAN may be advantageous. Expected long term costs and benefits need to be carefully weighted against each other considering a wide array of factors. If this growth form is opted for, the theoretical models presented in Subchapter 5.4.1 may facilitate the identification of the SAN-option with the highest risk-adjusted value-added potential and, at least as important, the model depicted at the very end of Subchapter 5.5.1 may assist companies in developing leading-edge SAN-execution routines. Next, the fourth generic growth option, M&As, will be scrutinised.

Chapter 6
Market-Driven, Corporate Growth
through
Mergers & Acquisitions (M&As)

6 Market-Driven, Corporate Growth through M&As

6.1 Abstract

Mergers and acquisitions (M&As) continue to be a highly popular form of corporate development. In 2004, 30'000 acquisitions equalling a total value of US\$ 1'900 billion were completed globally. (Cartwright & Schoenberg, 2006: 1). Especially for MNCs, cross-border M&As have become a major strategic tool for corporate growth (Morosini, Shane, & Singh, 1998). They may increase the efficiency and effectiveness of whole industries since they help consolidate industries on a global level. Furthermore, cross-border M&As may affect individual companies' competitive ability. (Hitt, Ireland, & Harrison, 2001: 401) In a study of high- and low-performing outlier acquisitions, scholars found that while there were many more low- than high-performing acquisitions, some of the positive acquisitions produced very high returns for the acquiring firms (Hitt, Harrison, Ireland, & Best, 1998). In this context, scholars have often noted the importance of post-acquisition integration (PMI) in M&A performance (e.g., Birkinshaw, Bresman, & Hakanson, 2000; Jemison & Sitkin, 1986; Vaara, 2003). PMI is composed of a set of routines that integrate the resources and capabilities of the merged firms (Capron & Mitchell, 1998; Zollo, 1998). PMI certainly is an area in which companies may benefit from learning (Hitt, Ireland, & Harrison, 2001: 392). In general terms, knowledge creation can be a source of organisational renewal and sustainable competitive advantage (Quinn, 1992).

How and why do firms get to be good, how do they sometimes stay good and why and how do they improve/decline as regards growth through M&As? Chapter 6 is especially grounded in well established research on M&A in general and PMI more specifically, renowned resource- and dynamic capabilities-based 'theories of the firm', seminal strategy process articles pertaining to the substream of strategy implementation (SI) research as well as strategic marketing. Moreover, this theoretical chapter identifies and motivates research questions and shows how this Chapter aims to ameliorate the understanding of management of the issues at hand. More specifically, Subchapters 6.4 to 6.6 feature rather comprehensive theoretical models on the design and execution of market-driven, value-boosting M&A strategies. These models are relevant to both academia and practice. Firstly, the theoretical model depicted in Subchapter 6.4 aims to elucidate major drivers of successful, value-creating M&As from a resource-based perspective. This rather comprehensive theoretical framework may serve managers as a forecasting

tool designed to assess the value added/value destroyed or the corporate surplus/corporate discount an envisaged M&A transaction is likely to produce. Secondly, Subchapter 6.5 sets out to explore the mechanics and value drivers of the complex, multifaceted phenomenon of PMI from a resource-based perspective. Thirdly, Subchapter 6.6 presents a dynamic capability-based theoretical model on superior PMI-routines. The models of Subchapters 6.5 and 6.6 aim to facilitate the maximisation of the envisaged corporate surplus the merger is supposed to produce by elucidating possible pathways to superior post-merger performance. Furthermore, both generally valid models are applied to the private banking business. Chapters 2 and 3 are paramount to getting to grips with the aforementioned three models.

6.2 General Introduction, Overview, & Research Motivation

Firstly, Subchapter 6.2 presents a general introduction and overview. Secondly, it identifies and motivates research questions to be tackled in Subchapters 6.4 to 6.6 and shows how Chapter 6 as a whole aims to contribute to a better understanding of the situation at hand. Subchapter 6.3 provides a sound literature review and synthesis of research on long term value-generating M&As and PMIs in general and their value drivers more specifically. Chapters 2 and 3 are paramount to grasping the mechanics of the rather comprehensive, compounded theoretical models presented in Subchapters 6.4 to 6.6.

a) Preliminaries

Both from a resource-based and an evolutionary perspective, acquisitions may be viewed as a mechanism used to exchange capabilities that it is otherwise not possible to redeploy efficiently (e.g., Capron, Dussauge, & Mitchell, 1998; Seth, 1990). The exchange concerns both efficient deployment of existing capabilities in the host country, as in FDI, and the internalisation of new capabilities, bundled as a firm (Penrose, 1959; Wernerfelt, 1984).

b) Introduction, Overview, & Research Motivation

i) (Cross-Border) M&As - A Widespread but Risky Growth Strategy

The volume and magnitude of M&As, a highly popular form of corporate development (Cartwright & Schoenberg, 2006: S1), continue to grow on a global scale (Hitt, Ireland, & Harrison, 2001: 384). Especially for MNCs, cross-border M&As have become a major strategic tool for corporate growth (Morosini, Shane, & Singh, 1998). They may increase the efficiency and effectiveness of whole industries since they help consolidate

industries on a global level. Furthermore, cross-border M&As may affect individual companies' competitive ability. Evidence indicates that M&A-related actions are common in many regions of the world (e.g., Asia, Europe, and North America). Increasingly, M&As are a strategy being used in emerging economies as well (Hitt, Ireland, & Harrison, 2001: 384-401).

However, despite their widespread popularity, many acquisitions do not produce the financial benefits expected or desired by acquiring firms (e.g., Carper, 1990; Glassman, 1998; Porter, 1987). Evidence even suggests that as much as 70 percent of M&A-activities fail to improve a firm's performance as measured by the value of its stock (Barfield, 1998: 24-25). Epstein (2004) argues that mergers may not succeed due to design failures and/or poorly designed and implemented PMI-processes (Epstein, 2004).

ii) Resource Complementarity & Synergy Creation in M&As

The nature of resources to be combined through M&A is important. Complementary resources exist when the resources of the acquiring and target firms differ, yet are mutually supportive. Conversely, resource similarity points to significant overlap between the resources of the acquiring and the acquired firm. (Hitt, Ireland, & Harrison, 2001: 393) Firms featuring highly similar resources also have highly similar strategic capabilities and vulnerabilities in the marketplace (Chen, 1996: 100-134). Thus, it is economically rational for firms pursuing competitive advantages in the business arena to seek complementarities in potential target firms so the pattern of environmental opportunities and threats that the firms face as independent entities would change after M&A-execution. (Oliver, 1997: 697-713) In other words, when considering an acquisition, firms should focus on resource complementarities rather than relatedness among the product offerings of the acquiring and the target firm (Hitt, Ireland, & Harrison, 2001: 394).

Complementary resources can be especially valuable when they result in private synergy. In essence, private synergy exists when the acquiring firm has knowledge about the complementarities of its resources with those of the target firm that is unknown to others. The most valuable of all types of synergy, private synergy, exists when it is possible for two firms to combine their complementary resources in a way that creates more value than would any other combination of their resources. (Harrison, Hitt, Hoskisson, & Ireland, 1991: 173-190) Additionally, integration of complementary resources between an acquiring and a target company may be difficult/impossible for competitors to imitate (Teece, Pisano & Shuen, 1997).

iii) The Post-Merger Integration (PMI) Process

Basically, the post-M&A-integration period requires integration managers to shepherd the two firms through often turbulent and uncharted territory as the combined firm attempts to function as a single entity (Ashkensas & Francis, 2000). In general terms, the management of organisations is a highly complex affair, that is, many factors have a potential bearing on performance, with different lead-times and potential interaction effects (Child, Pitkethly, & Faulkner, 1999: 197). In this context, industry observers have identified PMI as critical to long term merger success. Neglecting the PMI-process may undermine the performance of a strategically sound acquisition. (De Noble, Gustafson & Hergert, 1988: 82; Epstein, 2004: 175)

Given that so many factors have to be considered, perhaps the only effective way to manage integration is incrementally (Quinn, 1980). Importantly, integration is a process, not an event. PMI involves mutual and continuous adjustment for both the parent firm and its acquisition. The goal of this process is typically the realisation of synergies. In the quest for this goal, the combined firm goes through a series of interconnected stages. PMI involves two distinct sub-processes, the progressive socialisation of managers and operations personnel and a process analogous to Selznick's (1957) process of institutionalisation with the acquired firm ultimately gaining legitimacy within the corporate parent. (Finkelstein, 1986: 13-14)

iv) Research Motivation & Objectives of Chapter 6

This Chapter aims to contribute to closing the general research gaps identified in Subchapter 2.2 as well as those (if any) outlined below by crafting generally applicable, rather comprehensive resource- and dynamic capability-based mid-range theories and models.

Generally speaking, Chapter 6 draws on a rather wide range of well-acknowledged resource-based 'theories' of the firm (RBV), dynamic capability-based 'theories' of the firm (DCV), seminal works in strategic management research and the substream of strategy implementation in particular, and strategic marketing. The theoretical models are enhanced by further theories shedding light on the subject matter under investigation.

iva) Research Motivation I: Research Gaps/Objectives Esp. Tackled in Subchapter 6.4

According to Makhija (2003) the effects of internal resources on firm value should be assessed (Makhija, 2003). In addition, to date there is no comprehensive, compounded

resource-based model probing into the ultimate reasons why some M&As create much value while others even destroy value. Subchapter 6.4 precisely aims to craft such a multifaceted theoretical model. The model developed is unique in that it especially combines a rather wide range of well-acknowledged 'resource-based theories' of the firm (RBV) to provide a mainly resource-based tool for assessing whether an envisaged M&A is likely to payoff handsomely. The theoretical model is enhanced by further theories shedding light on the subject matter under investigation. Thus, this model unveils both those factors impacting positively on M&A performance and those factors negatively affecting predicted M&A-outcomes. To conclude, the focal point of Subchapter 6.4 is investigating the value potential of possible M&As. Whether, how, and under what circumstances may engaging in an M&A-transaction be promising, and how may its positive benefits be maximised and its potential risks minimised from a resource-based perspective? The level of value created or destroyed must be determined by models of the competitive environment within which a firm competes. Thus, it is exogenous to the Barney (1991) argument. (Barney, 2001a: 42).

ivb) Research Motivation II: Research Gaps/Objectives Especially Treated in Sub-chapters 6.5, 6.6

Improving the acquisition integration process may be one of the most urgent and compelling challenges facing business today (Ashkenas, DeMonaco & Francis, 2000: 166). Epstein (2004) argues that it is the actual execution of the merger strategy through the pre-merger planning and PMI-process that appears to have the least understanding. Zollo & Singh (2004) underscores that the explanation of the variance around the mean of value created by the M&A-counterparts is still very much in need of both theoretical and empirical research (Zollo & Singh, 2004). Lastly, Teece, Pisano, & Shuen's (1997) argue that empirical research to understand why firms get to be good, how they sometimes stay good, why and how they improve/decline would be highly valuable (Teece, Pisano, & Shuen, 1997).

Firstly, Subchapter 6.5 aims to contribute to closing this gap in research on M&A/PMI by crafting a comprehensive resource-based model especially elucidating the mechanics and value drivers in PMI. Also with regard to PMI, the level of value created or destroyed must be determined by models of the competitive environment within which a firm competes. Thus, it is exogenous to the Barney (1991) argument. (Barney, 2001a:42)

Secondly, Subchapter 6.6 also aims to contribute to closing the above gap in research on M&A/PMI by crafting a comprehensive dynamic capability-based theoretical model on how companies may be able to build up superior PMI-routines. This theoretical model lays the foundation for some of the empirical testing called for by Teece, Pisano, & Shuen, 1997. The next section will be devoted to the definition of key constructs, a literature review, a literature synthesis, and the positioning of research questions.

6.3 Positioning of Research Questions & Literature Synthesis

With regard to the RBV, DCV, strategy implementation research, real options theory, and strategic marketing please refer to Subchapters 2.9, 2.10, and 2.1.5 respectively.

6.3.1 Literature Review

The complex phenomenon of M&As has attracted the interest and research attention of a broad range of management disciplines encompassing the financial, strategic, behavioural, operational, and cross-cultural aspects of this challenging high-risk activity (Cartwright & Schoenberg, 2006: S1). Finkelstein (1986) covers the acquisition integration process by discussing the profitability of acquisitions, the role of synergy, and the problems of integrating acquisitions. De Noble, Gustafson, & Hergert (1988) discuss the planning for PMI. Child, Pitkethly, & Faulkner (1999) analyse changes in management practice and post-acquisition performance achieved by direct investors in the UK. Ashkenas, DeMonaco, & Francis (2000) examine how GE Capital integrates acquisitions. Marks & Mervis (2000) discuss how to create an effective transition structure when managing M&As and alliances. Hitt, Ireland, & Harrison (2001) provide a rather comprehensive overview of the major aspects of M&As (e.g., complementary resources, synergy, organisational fit, strategic fit, co-operation, governance, financing of acquisitions, learning from acquisitions, ethical implications, cross-border acquisitions). Buono (2003) discusses seamless PMI-strategies. Epstein (2004) analyses the drivers of success in PMI. Zollo & Singh (2004) examine deliberate learning in corporate acquisitions, post-acquisition strategies, as well as integration capability in US bank mergers. Yu, Engleman, & Van de Ven (2005) present an attention-based view of the merger and acquisition integration process. Lastly, Cartwright & Schoenberg (2006) provide an excellent retrospective view on 30 years of M&A research.

6.3.2 Definition of Key Constructs

a) Mergers & Acquisitions in General (please see Subchapter 2.8)

b) Strategic Fit & Organisational Fit

Integration success is also a function of strategic and organisational fit (Hitt, Ireland, & Harrison, 2001: 394). 'Strategic fit' refers to the effective matching of strategic organisational capabilities (Harrison & St. John, 1998: 180). 'Strategic fit' can lead to the creation of synergy through integration of value-enhancing activities between two or more units or businesses. Examples include operations synergies as well as marketing and management synergies. Organisational operations synergy results from economies of scale and/or scope or shared R&D/technology programmes that lead to advantages that are not generally available to competitors. 'Organisational fit' occurs when two organisations or business units have similar management processes, cultures, systems and structures. As a foundation to synergy creation, 'organisational fit' suggests that firms have a reasonably high degree of compatibility. Organisational compatibility facilitates resource sharing, enhances the effectiveness of communication patterns, and improves the company's capability to transfer knowledge and skills. From an operational perspective, the existence of compatibility facilitates the integration processes used to meld the firms' or business units' operations and helps to produce desired results quickly, effectively and efficiently. The absence of organisational fit stifles or prevents the integration of an acquired unit. (Hitt, Ireland, & Harrison, 2001: 394-396) Multidivisional structure may retard attempts at integrating new acquisitions. Highly differentiated businesses lessen the chance for effective integration. (Finkelstein, 1986: 13)

c) Synergy (please see Subchapter 2.8)

6.3.3 Literature Synthesis

a) Introduction

Barney (1988) argues that an acquirer has to create a uniquely valuable and inimitable combination of its assets with those of the acquired firm to earn positive abnormal returns on its investment (Barney, 1988). Furthermore, particular attributes may need to be present for others to be effective. For instance, merging firms in a hostile takeover may exhibit resource complementarity. However, synergy creation requires co-operation, which is unlikely in a hostile acquisition. (Hitt, Ireland, & Harrison, 2001: 403). Fur-

thermore, Hitt, Harrison, Ireland, & Best (1998) found an emphasis on innovation in many successful M&As. Importantly, integrating the cultures, processes, and people is critical. Exceedingly complex transactions could be assimilated more successfully by planning for integration well before the closing. Creeping changes, uncertainty and anxiety that last for months are debilitating and immediately start to drain value from an acquisition. To cascade the integration process in terms of moving from few informed people to many is paramount to PMI-success. (Ashkenas, DeMonaco, & Francis, 2000: 165-178).

b) M&A Motives

The overarching reason for M&A is the belief that the combination will allow the new entity to attain its strategic goals more quickly and less expensively than if the firm attempted to do so on its own (Haspeslagh & Jemison, 1991). M&As are often based on hopes for synergies and cost reductions due to improved efficiency of combined operations (De Noble, Gustafson, & Hergert, 1988: 83). The more specific issues that drive acquisitions deal with the resources of the two firms and how they will be integrated to produce synergy and competitive advantage (Hitt, Ireland, & Harrison, 2001: 393). In some instances, firms engage in M&As to prepare for dramatic changes in their industries. Such economic upheavals are often due to technological developments. Many recent acquisitions have been undertaken to achieve economies of scale/scope and to enhance market power with the purpose of increasing competitiveness in global markets. Moreover, global companies want to be perceived as 'fast-growth' and to lead or dominate the markets in which they operate. (Hitt, Ireland, & Harrison, 2001: 384). An active M&A-strategy facilitates efforts to achieve these growth-oriented objectives (Lucenko, 2000: 63).

Also the number of cross-border M&As is growing quickly. They may enable firms to increase their market power, overcome market entry barriers, reduce the cost and length of time to develop new products, increase their speed to market, and become more diversified (Hitt, Hoskisson, & Ireland, 1994; Hitt, Hoskisson, Johnson, & Moesel, 1996; Hitt, Hoskisson & Kim, 1997; McCradle & Viswanathan, 1994). Evidence suggests that most cross-border acquisitions are motivated by a combination of several of these reasons. Organisations that are particularly effective in completing cross-border transactions use a set of valuable, firm-specific resources and capabilities that cannot be imitated easily or substituted (Rouse & Daellenbach, 1999: 487-494). Developed across time and through repeated use, these resources and capabilities are the foundation for

successful cross-border acquisitions. For instance, a global mind-set affects the success of cross-border M&As. (Hitt, Ireland, & Harrison, 2001: 401-402).

c) Synergy Creation (please also see Subchapter 2.8)

Clearly, a major objective of companies engaging in M&As is the creation of synergies. Historically, stock price premiums have generally exceeded 30 percent (Hitt, Ireland, & Harrison, 2001: 391). While stock price premiums are supposed to estimate the value added from the synergy of integrating the two firms, research findings do not support this perspective (e.g., Datta, Pinches, & Narayanan, 1992). The role of synergy in merger profitability is central, particularly for related diversifiers (Finkelstein, 1986: 12). Effective integration of the acquiring firm with its target is one of the keys to creating intended levels of synergy (Hitt, Ireland, & Harrison, 2001: 394). Examples include operations synergies as well as marketing and management synergies. Organisational operations synergy results from economies of scale and/or scope or shared R&D/technology programmes that lead to advantages that are not generally available to competitors. (Hitt, Ireland, & Harrison, 2001: 395)

However, the costs firms incur to achieve synergies may exceed the resulting synergistic gains due to the inherent difficulties of integrating an acquired firm into the operations of the parent (Finkelstein, 1986: 12). Strategic and organisational fit do not suffice if synergies are to be realised. Managerial actions must be initiated to effectively match strategic capabilities to gain the competitive benefits that are permitted by the complementary managerial processes, cultures, systems and structures. (Hitt, Ireland, & Harrison, 2001: 394-395) The following managerial actions appear to positively impact on the probability of synergy creation and acquisition success: firstly, dedication of time and energy to helping others in the firm create targeted synergies; secondly, forming a leadership team that is supposed to facilitate actions linked with synergy creation; thirdly, creating and stating a sense of purpose and direction for the firm with each acquisition so everyone knows how he/she may contribute to synergy creation and performance enhancement; and, fourthly, modelling the behaviours that are expected of others in order to create synergy (Marks & Mirvis, 1998).

Finally, success requires co-operation. Some of the best combinations require enormous amounts of goodwill, co-operation and planning. Acquiring firm executives should be sensitive to the culture of the target and the strength of that culture (Nahavandi & Malekzadeh, 1988). Otherwise, managerial diseconomies, that is, the loss of qualified

executives from the acquired firm or an ineffective transfer of managerial skills across divisions, may dominate the post-acquisition environment. The parent loses the expertise to manage their acquisition if managers of the acquired firm leave the combined firm. (Finkelstein, 1986: 13) Managers should counteract resistance and impaired motivation by taking the human side of M&A into account. Successful PMI ascertains the impact on customers and employees for nearly every decision. (Epstein, 2004: 176) Next, the topic of M&A success will be scrutinised.

d) Success in M&As

i) General Introduction

Generally speaking, although acquired firm shareholders often earn above-average returns, shareholders of acquiring firms on average earn returns which are close to zero (Jensen, 1988). Nonetheless, in a study of high- and low-performing outlier acquisitions, researchers found that while there were many more low-performing than high-performing acquisitions, some of the positive acquisitions produced very high returns for the acquiring firms (Hitt, Harrison, Ireland, & Best, 1998). Many studies have demonstrated that M&As are complex, challenging strategies for top executives to implement and manage. Overall, based on previous research we may conclude that M&As have the potential to produce positive outcomes, but they remain a high-risk strategy. (Hitt, Ireland, & Harrison, 2001: 385)

Regrettably, a host of factors such as illusory synergies, managerial hubris, and sluggish integration of the acquiring and the acquired firms contributes to M&A-failure (Barfield, 1998: 24-25). One obvious management problem concerns integrating two large, complex firms that often have diverse cultures, structures, and operating systems (Haspelslagh & Jemison, 1991). Importantly, whenever a merger occurs, there is a psychological hurdle to surmount to establish a new corporate identity (De Noble, Gustafson, & Hergert, 1988: 83)

Also ethical issues such as managers' self-interest, lies, deception, coercion, maximisation of value without consideration of the other party's needs may surface and impede PMI. Unethical practices may concern the target, the acquirer or both. Ethical issues may stem from managerial conflicts of interest, that is, agency problems, which exist any time managers pursue their own interests at the expense of shareholders. (Hitt, Ireland, & Harrison, 2001: 399-400) In addition, hostility in takeovers adversely affects PMI (Jemison & Sitkin, 1986).

ii) Factors Impacting on M&A-Success

Barney (1988) argues that without the rare presence of a unique synergistic opportunity between the buyer and the seller that is unavailable to other potential buyers, the acquiring firm will bid up the price to a value equal to or greater than the value of the target firm (Barney, 1988). Factors that seem to greatly influence M&A-outcomes include due diligence, type of financing, the ability to learn from experience through acquisitions, the existence or absence of complementary resources, and the degree of integration and synergy created and the level of co-operation between the acquiring and the target firm managers. Acquisitions may be financed through cash purchase, an exchange of stock, or a combination of cash and stock. The stock market responds more positively to cash transactions. (Hitt, Ireland, & Harrison, 2001: 386-392) Low to moderate debt levels may lead to more strategic flexibility, which is necessary to succeed in a dynamic, hypercompetitive environment (D'Aveni, 1994).

Furthermore, a due diligence process includes careful examination of multiple areas in the target firm such as balance of equity and debt capital, sale of assets, transfer of shares, environmental issues, financial resources and performance, customer and marketing-related issues, tax issues, operations, and many other business aspects (Hitt, Harrison, & Ireland, 2001). Going further into details with regard to the above quoted factors lies beyond the scope of this Chapter.

iii) Root Causes of Failure

In general terms, failure may be rooted either in inadequate strategy design and/or poor strategy execution (e.g., PMI). Also in PMI, task integration is closely intertwined with human integration, that is, actions to integrate the actual work can be achieved only when built on the success of human integration. (Birkinshaw, Bresman, & Hakanson, 2000) Importantly, the value to be derived from an acquisition depends largely upon the skills with which the administrative problems of integration are handled (Mace & Montgomery, 1962). Organisational integration is the single most important factor explaining post-acquisition synergy realisation (Larsson & Finkelstein, 1999). Furthermore, the opportunity to create synergy that produces a competitive advantage and enhances shareholder wealth is reduced when an acquisition combines firms or business units that are both strong and/or weak in the same business activities. In such instances, the newly created firm exhibits the same capabilities (or lack of capabilities) although the magnitude of either a strength or weakness is greater. (Hitt, Ireland, & Harrison, 2001: 395)

iv) Concluding Remarks on Success in M&As

There are no simple formulas for success in M&As. Especially with regard to M&As, success is difficult to obtain and even more difficult to sustain. In general terms, the research literature on M&As seems to suggest that financial success requires a careful combination of complementary or otherwise related resources, coupled with appropriate financing, a friendly negotiation climate, organisational fit, and managerial actions that help the combined firm realise potential synergies. However, opportunism and other ethical problems such as high debt and target firm resistance may erase potential financial gains. If these latter attributes exist, a merger or acquisition is often unwarranted. However, many of these conclusions are tentative and require further testing. (Hitt, Ireland, & Harrison, 2001: 402) PMI is critical to M&A success. PMI-success drivers will be discussed in the next section.

e) Post-Merger Integration (PMI) Process

i) Introduction

Obviously, PMI is a form of strategy implementation, that is, a series of interventions designed to align organisational action with strategic intent (Floyd & Wooldridge, 1996: 96). One critical outcome of effective due diligence is the assessment of the viability of the PMI of the two firms (Hitt, Ireland, & Harrison, 2001: 385-387). In general terms, PMI may be described as a socially constructed process. Managers continuously enact their reality based on their previous backgrounds, experiences, roles, and the relationships between the merged companies. (Vaara, 2003) In the process of this enactment, organisational cultures and identities are (re)built (Vaara, Tienari, & Santti, 2003), and success and failure of the integration are (re)framed (Vaara, 2002). Individuals often have great difficulty coping with change and changes occurring due to a merger may be almost traumatic in their impact (Finkelstein, 1986: 13). The PMI-process is paramount when it comes to surmounting the hurdles of cultural clashes, communication barriers, and 'we-they' orientations (Yu, Engleman, & Van de Ven, 2005: 1501-1503). In this context, acculturation has been identified as a critical success factor in PMI (Larsson & Lubatkin, 2001). The pre-combination cultures of the partnering companies play a major role in M&A outcomes (Cartwright & Cooper, 1993). With regard to PMI, thinking globally means 'taking the best that other cultures have to offer and blending that into a third culture' (Dutton, 1999).

ii) Mastering PMI – Developing a Core Capability

As regards learning from prior acquisitions knowledge creation can be a source of organisational renewal and sustainable competitive advantage (Quinn, 1992). The value

generated by an acquisition hinges on a firm's acquisition capability developed through repeated experience with this governance form (e.g., Kale, Dyer, & Singh, 2002). Mastering integration may lead to the creation of a core competency (Hitt, Ireland, & Harrison, 2001: 392) in terms of collective learning in the company, especially how to coordinate diverse production skills and integrate multiple teams of technologies (Prahalad & Hamel, 1990: 85). Cisco Systems appears to have a core competence when it comes to integrating acquisitions. In this context, much of the knowledge found in companies is based on the discovery of patterns over time. (Hitt, Ireland, & Harrison, 2001: 392) Learning is facilitated if companies make the same type of acquisition repeatedly because they can learn from patterns of what does or does not work (Amburgey & Miner, 1992). Industry familiarity appears to facilitate learning from acquisitions. Firms may also learn from the experiences of competitors. (Hitt, Ireland, & Harrison, 2001: 392) Often, a challenge associated with learning from acquisitions is that knowledge is divided into pieces and spread throughout the firm (Huber, 1991). The learning process also involves discovering where relevant information is, combining it, and then making sense out of it. Thus, many companies create acquisition units ensuring that the firm learns from prior acquisitions. (Hitt, Ireland, & Harrison, 2001: 393)

iii) Success Drivers in PMI

According to Epstein (2004), there are five success drivers in PMI. Failure on any one of the five drivers may impede the achievement of merger goals: firstly, a coherent integration strategy to implement the merger strategy and to execute on the strategic vision and strategic fit that led to the merger; secondly, a strong integration team committed to manage the PMI-process; thirdly, adequate, constant, and consistent communication, especially to employees and customers, to build confidence in the merger and the PMI-process and reinforce the purpose of the merger with a tangible set of goals; fourthly, speed in implementation; and, fifthly, aligned measurements, that is, financial and non-financial process and results measures that are well-aligned with the merger strategy, so performance may be adequately monitored. (Epstein, 2004: 174-187) Furthermore, striking the right balance between achieving the necessary level of organisational integration and minimising disruptions to the acquired firm's resources and competencies is a fundamental challenge that affects the success of both the integration process and the entire acquisition (Zollo & Singh, 2004: 1235). The level of integration equals the extent to which the functions of the acquired unit are linked to, aligned with, or centralised in the equivalent functions of the acquiring organisation (Thompson, 1967). Lastly, strategic alliances and M&As will be juxtaposed and contrasted.

f) Strategic Alliances versus Acquisitions

According to social embeddedness theory and empirical evidence firms are more likely to engage in an alliance when they have a history of prior alliances between them (Gulati, 1998; Podolny & Page, 1998; Powell, 1990). The embeddedness of firms in social networks enhances trust (Villalonga & McGahan, 2005:1188).

Alliances and acquisitions are alternative, usually mutually exclusive strategies that differ in many ways (see also Chapters 5 and 6). Importantly, acquisition deals are riskier and based on market price. Companies habitually deploy acquisitions to increase scale or cut costs and use partnerships to enter new markets, customer segments and regions. When it comes to whether to ally with or acquire potential partners three sets of factors are important: the desired resources and synergies, the marketplace companies compete in, and their competencies at collaborating. (Dyer, Kale, & Singh, 2004: 109-114)

An alliance may be more economically feasible and involve a less irreversible commitment than an acquisition, that is, the relationship may be rescinded/reversed at a relatively low cost (Inkpen, 2001: 413). An alliance will limit the firm's resource commitment and exposure since less money and time is required (Dyer, Kale, & Singh, 2004: 113)

Strategic alliances may represent an initial step towards full entry or exit and, simultaneously, an option of deferring complete acquisition or divestment. It may even be possible to reverse the initial decision. Alliances usually have a short lifespan and frequently end up with the activity in question being taken over by one of the allies. (Dussauge & Garrette, 1999: 8-10)

Furthermore, if reciprocal synergies are desired and/or large quantities of redundant hard resources (e.g., plants) or soft resources (e.g., people) available, companies should opt for M&As rather than strategic alliances. Redundant resources, that is, surplus resources, may be used either to generate economies of scale or to cut costs by eliminating those resources. Conversely, if sequential synergies are desired and mostly soft assets combined, equity alliances may be the best option. Equity alliances may be a better option than acquisitions in collaborations that involve people. An equity stake allows companies to control the actions of their partners, monitor performance better, and align the interests of the two firms more closely. Companies aiming to generate modular or sequential synergies with mostly hard assets may opt for contractual alliances. However, companies should consider exogenous factors like market uncertainty and competition

before opting for a strategy. If a company estimates a collaboration's outcome to be highly or moderately uncertain, it should enter into a non-equity or equity alliance rather than favouring an acquisition. However, initial experiences often turn into blinders. Firms may insist on entering into alliances even when circumstances demand acquisitions. Companies capitalising on M&As and alliances grow faster than rivals thanks to their dual growth strategy. (Dyer, Kale, & Singh, 2004: 110-115)

Generally speaking, acquisitions work well for core businesses and existing geographic areas, whereas alliances are more effective for edging into related businesses or new geographic markets. However, alliances between strong and weak companies rarely work. When unbalanced partnerships do succeed, usually the strong partner pulls the weaker partner along for a while before acquiring it or finding another partner. To build the position of core businesses in existing geographic markets, acquisitions are preferable to alliances. However, for expanding existing businesses into new geographic regions or for edging out into new or related businesses, cross-border alliances work better. Importantly, when moving into new geographic markets, companies should attempt to structure alliances so as to capitalise on the distinctive geographic positions of the partners. The strongest alliances exist when each partner brings both products and an established market presence in different geographic markets. These alliances seem to have a more stable balance of power because neither partner relies solely on the other for technical expertise, products, or market entry. While geographic overlap hinders alliances, it helps mergers and acquisitions. (Bleeke & Ernst, 1991: 127-130)

Lastly, intangible capital such as a firm's technological and marketing resources is particularly vulnerable to appropriation by partnering firms in alliances or market exchanges. Consequently, firms may choose more integrative forms of governance such as acquisitions when their technological knowledge is highly valuable. Additionally, corporate growth depends not only on firm resources but also on the applicability of resources across industries and on the potential for economies of scope offered by different resource combinations. (Villalonga & McGahan, 2005: 1185-1187)

6.4 Towards a RB Theory of Successful, Value-Creating M&As

The desire to preserve falling margins by increasing market share and attracting new customers is often fulfilled by way of M&As. They allow financial institutions to increase their size and geographical reach rapidly and to improve their knowledge of new products and markets. (Amel, Barnes, Panetta, & Salleo, 2004: 2493-2494) This Subchapter is dedicated to a resource-based theory of successful, value-creating M&As. While Subchapters 6.1 to 6.3 are essential to a full understanding of the rather comprehensive, general theoretical model presented in Subchapter 6.4.1, Subchapter 2.7 provides the basis for its application to the private banking business. Please also refer to the quite detailed example in Section b of Subchapter 6.4.1.

6.4.1 Theoretical Model & Propositions

The compounded theoretical model depicted at the very end of Subchapter 6.4.1 is grounded in and unites Ansoff (1965), Andrews (1971), Barney (1986a, 1991, 2001a), Dierickx & Cool (1989), Peteraf (1993), Wernerfelt (1984), major M&A literature, and additional well-acknowledged strategic management literature. The model probes into the ultimate reasons why some M&As add value while others do not or even lead to a value drain. Importantly, this model may serve as a resource-based tool for assessing whether an envisaged M&A is likely to generate expected amounts of value indeed. Possibly, there are other M&A-options available to the firm that would add substantially more long term value. Which conditions must be met so an M&A is likely to turn out to be rewarding? This model aims to unveil both factors impacting positively on M&A performance and factors negatively affecting predicted M&A-outcomes. In brief, the focal point of Subchapter 6.4 is assessing the value-added potential of M&A-options. Next, the crafted theoretical model will be explained starting from the left and moving to the right to ultimately arrive at the upper right-hand corner.

a) Explanation of the Mechanics of the Compounded Theoretical Model

Firstly, this model suggests analysing both the acquiring firm's and the target firm's resource position to enable a pre-assessment of the envisaged M&A. Major questions to be addressed in this pre-assessment include: Firstly, do the acquiring firm A and the target firm T fit together strategically, culturally and organisationally, and do they possess complementary resources? (Harrison, Ireland, & Harrison, 2001) In this context, in the private banking sector, a cultural fit also means finding a seller whose client base com-

plements your own in terms of net worth and geography (Avery, 2004). Secondly, what is the expected amount of synergy that might result when combining the two entities? Thirdly, is the envisioned type of financing the most appropriate one in the specific M&A-situation? Fourthly, has a thorough due diligence process been carried out and what are the detailed results of the same? Fifthly, how well developed is the acquirer's ability to integrate the two firms? Sixthly, which is the potential degree of integration of the two firms? Seventhly, might there possibly be a better alternative growth option (e.g., firstly, forming a strategic alliance and, possibly, acquiring firm T at a later stage when uncertainty will be reduced)? (Harrison, Ireland, & Harrison, 2001) Eighthly, what are the opportunity costs associated with the envisioned M&A-transaction (Barney, 1986a)? The following example will serve as an illustration. The merger of UBS and Paine Webber (PW) aimed to combine the world's largest private bank with one of the top US private client firms to create a premier global institution serving clients worldwide. The strengths of PW and UBS were highly complementary and mutually enhancing. The access to UBS Warburg's product range enhanced PW's client offering. While PW should become an integral part of UBS Warburg, the PW brand would continue to be used as the private client brand for UBS in the USA (Müller-Stewens & Shivacheva, 2004: 18-19)

Secondly, the analysis of the resource position of the potential combined firm along with environmental screening/analysis (e.g., Ansoff, 1965) may enable managers to obtain superior information on strategy implementation (Barney, 1986a) with regard to the potential combined firm. Ultimately, superior information on strategy implementation enables managers to take informed decisions on which strategic options are most likely to create the most promising (sustained) competitive advantages (Barney, 1986a).

Thirdly, this model suggests working out what (sustained) competitive advantages might be achieved given the enhanced resource bundle of the combined firm. The resulting information might contribute to the attainment of superior information on strategy implementation as well. Dierickx & Cool's (1989) model of asset stock accumulation and sustainability of competitive advantage shows how asset stocks such as a good reputation or a brand may be built up. Generally speaking, strategic assets are the cumulative result of adhering to a set of consistent policies over a period of time. The sustainability of a firm's privileged asset position hinges on how easily it can be replicated. Dierickx & Cool's (1989) model provides highly valuable insights on how to obtain (sustained) competitive advantages. Barney's (1991) four resource attributes of possible sources of sustained competitive advantage allow one to analyse resources and/or resource combi-

nations which might lead to sustained competitive advantages and thus above-normal returns. Peteraf's (1993) model of the cornerstones of competitive advantage draws managers' attention to additional points to consider when aiming to achieve sustained competitive advantages, such as ex ante/ex post limits to competition (see Subchapter 2.9).

Fourthly, strategic options may be inferred that may ultimately allow for attaining a desired resource position along with a superior set of (sustained) competitive advantages, which, in turn, would enable the combined firm to create a maximum amount of long term value. Possibly, a resource gap needs to be filled to enable the combined firm to realise the most promising of the inferred strategic options. Depending on the nature of the lacking resources, those may either be acquired on strategic factor markets (Barney, 1986a) or be built-up in-house by accumulating asset stocks via consistent patterns of resource flows over time. However, since scarce resources need to be deployed to achieve or protect privileged product market positions, it is crucial to account for the opportunity costs of those assets. (Dierickx & Cool, 1989: 1504)

A systematic, multifaceted analysis of strategic options and, subsequently, the conduct of a resource gap analysis will enable the firm to capitalise on more opportunities and to neutralise more threats, that is, this theoretical model is likely to enhance managers' ability to figure out promising pathways to achieving above-normal returns.

Lastly, the M&A-opportunity should be re-assessed given the additional insights that the company has gained in the process. Both internal and external analyses contribute to an informed decision on which strategies are likely to create the most value for the firm. Nonetheless, not only rational aspects play a role when deciding on which strategic option(s) to implement. In this context, Barney (2001a) states that sometimes, entrepreneurial ability and creative potential are necessary to arrive at a final strategic choice (Barney, 2001a).

b) Empirical M&A-Example

Standard Chartered Private Bank (SCPB) operates in more than 70 countries across Asia Pacific, North and South Asia, the Middle East, Africa, Europe, and the Americas. It offers a full service open architecture client proposition that gives access to a myriad of markets and products. Overall, the bank derives over 90% of its profits from the trade corridors of Asia, Africa, and the Middle East, positioning it perfectly to grow a significant private banking operation. Its acquisition of American Express Private Bank

(AEPB) in 2007 significantly raised the bank's profile and expanded its reach and capabilities. This M&A-transaction tripled SCPB's distribution strength to 30 offices in 17 markets, gave it a staff of 1'100, and raised assets under management to over 35 billion US dollars. The two firms complemented each other well in that AEPB's operation was long on infrastructure and short on distribution channels whereas SCBPB had the opposite position. (Euromoney, 2007: 14-17)

c) Propositions

Next, we will turn to the propositions the author draws from the multifaceted, compounded theoretical model described and explained above.

Proposition 1: In general terms, firms applying the entire theoretical model depicted at the very end of Subchapter 6.4.1 will be more likely to take well-informed, sustainable decisions as regards potential M&A-transactions. They will be better able to judge whether the potential combined firm is likely to create more long term value than the acquiring and the target firm would together as standalone entities.

The author argues that empirical tests of the above proposition are likely to provide evidence that it holds true. If major renowned models that fit well together are combined in a meaningful way, a greater portion of reality may be grasped. Thus, as more aspects are taken into consideration when deciding on a potential M&A-transaction, the probability of a better-informed decision is enhanced.

Proposition 2: Not only rational aspects influence the likelihood of a firm to succeed in making the right choice as regards M&As but also managers' entrepreneurial ability and creative potential and good fortune/luck respectively may – at least in some instances - play a major role.

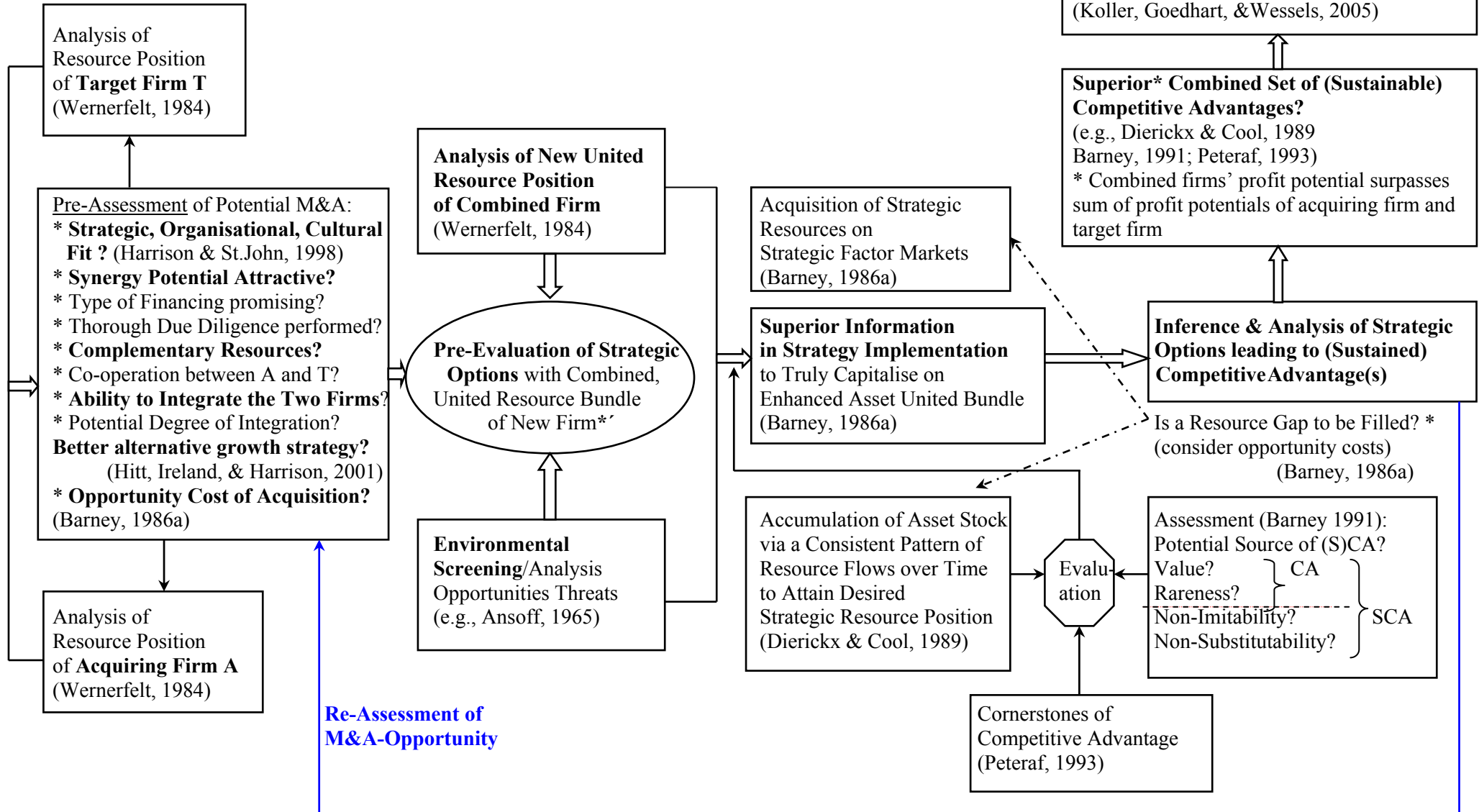
Choosing a strategy consistent with the resources a firm controls may require entrepreneurial ability and creativity (Barney, 2001a: 53). Please see Subchapter 2.1.3 for definitions of the entrepreneur's function, entrepreneurship, as well as entrepreneurial ability and creativity. To conclude, the author posits that empirical tests are likely to prove the correctness of proposition 2 as well.

Proposition 3: This theoretical model holds true across all industry contexts. Much empirical testing will be needed to provide evidence for this proposition.

RB Theoretical Model of Value-Creating Mergers & Acquisitions (M&As)

*' Synthesis of facts also depends on the *entrepreneurial ability* and *creative potential* available (Barney, 2001a)

Definitions: i) CA: Competitive Advantage; ii) SCA: Sustained Competitive Advantage



6.4.2 Assumptions, Limitations, Boundaries, & Future Research

a) Assumptions Underlying this Mid-Range Theory, Limitations & Boundaries

The compounded theoretical model depicted in Subchapter 6.4.1 combines and confines itself to different well-acknowledged resource-based 'theories' of the firm, research literature on strategic management and M&A. Thus, on the one hand it capitalises on their distinct advantages and, on the other hand, it is also subject to the assumptions these theories make as well as the limitations they are subject to. It assumes that all resource-based 'theories' and other theories drawn on may be combined to form a more comprehensive, multifaceted theoretical model despite their grounding in different fields of inquiry. In addition, the crafted model assumes that the opportunity costs incurred by the application of this model in strategising do not offset the benefits associated with it. Lastly, it also presumes that firms have the resources and capabilities necessary to carry out all required steps before deciding which strategic option (e.g., an acquisition) is likely to add the most value to the firm.

b) Tracing a Future Research Agenda

Please see Subchapter 7.1 (RBV) as regards avenues for future research. Furthermore, the compounded theoretical model depicted in Subchapter 6.4.1 should be extensively empirically tested and possibly complemented with new/enhanced, supplemented resource-based 'theories' and/or M&A research.

6.4.3 Conclusions Subchapter 6.4

The overarching goal in M&As is to speed up the achievement of strategic goals and to enhance efficiency (Haspeslagh & Jemison, 1991). For instance, a major reason for Bank of America's acquisition of FleetBoston aimed to expand its geographical penetration (Avery, 2004) and JP Morgan Chase has more capabilities to bring to its clients thanks to its merger with Bank One (Money Management Executive, 2004: 6-7). However, M&As remain a high-risk strategy (Barfield, 1998). One obvious management problem concerns integrating two large, complex firms that often have diverse cultures, structures, and operating systems (Haspeslagh & Jemison, 1991). The presented compounded theoretical model attempts to unite the explanatory power of a great variety of different theoretical frameworks to ultimately arrive at a useful and rather comprehensive tool for judging the value-adding potential of M&A-opportunities. While choosing the 'right' value-creating strategy not only depends on rational aspects but also on a

firm's entrepreneurial ability and creative potential (Barney, 2001a), many failures may be avoided if 'only' a thorough rational analysis is carried out before a potential target is definitely acquired.

In evaluating merger success, all determinants of the same must be considered. These determinants include strategic vision, strategic fit, deal structure, due diligence, the environment, as well as pre-merger planning and post-merger integration (PMI) (Epstein, 2004: 187). In Subchapters 6.5 and 6.6, the critical PMI-phase will be thoroughly analysed from a resource- and a dynamic capability-based view respectively.

6.5 Towards a RB Theory of the Mechanics & Value Drivers of PMI

Maintaining clients after a merger or acquisition is a difficult task, and if private banks are not careful they could lose as many clients as they gain (Avery, 2004).

6.5.1 Theoretical Model & Propositions

The multifaceted, compounded theoretical model depicted at the very end of Subchapter 6.5.1 attempts to elucidate the mechanics and value drivers of the post-merger integration (PMI)-process. While Subchapters 6.1 to 6.3 are essential to getting to grips with the rather comprehensive, general theoretical model, Subchapter 2.7 provides the basis for its application to the private banking business. Please also refer to the empirical examples provided in Subchapter 6.4.1 as well as Section b of this Subchapter. Next, I will explain this model starting from the left and moving on to the right so as to finally arrive at the box labelled 'Post-Merger Integration Success'.

a) Explanation of the Mechanics of the Compounded Theoretical Model

Firstly, the model points to the stand-alone resource positions of both the target firm T and the acquiring firm A. In the course of the PMI-phase, these two firms (i.e., asset bundles (Penrose, 1959)) have to be united/integrated in such a way that a maximum amount of long term value will be created. This ultimate objective of PMI-planning will be achieved by integrating asset bundles and managing the PMI-process in superior ways. This also implies that, firstly, the previously designed merger strategy has to be reassessed so it might be adapted if necessary; and, secondly, a superior PMI-strategy needs to be conceived of. Importantly, strategy has to be well aligned with both the targeted firm structure (Donaldson, 2000) and the combined firm's idiosyncratic resource

position (Barney, 1986a, Wernerfelt, 1984). The following example will serve as an illustration. In 2009, the private banking group Julius Baer agreed to buy ING Bank (Switzerland). In this context, Julius Baer's chairman, Mr. Raymond J. Baer, pointed to the cultural fit of ING's Swiss operation: 'The client base is similar to the one of Julius Baer, and ING Bank's employees share the same client-centric passion, making it a true cultural fit.' Julius Baer expects ING (Switzerland) to add significant scale to their domestic and European platforms, while strengthening their business in Central and Eastern Europe, Russia, and other growth markets. (Powell, 2009: 19)

Secondly, the model sketches PMI-planning, which ideally should start before the M&A-deal has been struck. In the first place, carrying out a thorough re-analysis of the resource position of the potential combined firm (Barney 1991; Wernerfelt, 1984) along with environmental screening/analysis (e.g., Ansoff, 1965) may be worthwhile since, firstly, merger negotiations may be long-lasting; secondly, especially in times of uncertainty, business environments may change rapidly; and, thirdly, after agreement has been reached, the acquiring firm is in possession of much more information. This re-analysis of the united resource position of the combined firm along with environmental screening may enable managers to obtain superior information on strategy implementation (Barney, 1986a). Such superior information puts companies in a position to select those strategic options that are likely to create the most value-added in the long term.

Thirdly, this model suggests moving on to the first phase of the PMI-process, that is, the detailed design of a superior PMI-strategy. The preferred strategic PMI-option might require a resource gap to be filled so the most promising and value-adding strategy may indeed be executed. Perhaps, the lacking strategic assets may be purchased on strategic factor markets (Barney, 1986a). Alternatively, the required asset stocks may be accumulated in the medium or long term by adhering to a consistent pattern of resource flows over time (Dierickx & Cool, 1989). Furthermore, the actual PMI-process calls for task integration to be built on the success of human integration (Birkinshaw, Bresman, & Hakanson, 2000). In addition, resource complementarities between target firm T and the acquiring firm A should be capitalised on (Hitt, Ireland, & Harrison, 2001) when implementing the post-merger strategy. Most importantly, the (long term) value potential and number of potential sources of (sustained) competitive advantages has to be maximised by working out what (sustained) competitive advantages might be achieved given the enhanced resource bundle of the combined firm. The resulting insights might contribute to the attainment of superior information on strategy implementation as well. Ul-

timately and in line with Epstein (2004), a coherent integration strategy to implement the merger strategy and to execute on the strategic vision and strategic fit that initially led to the merger needs to be crafted.

Fourthly, the second phase of the PMI-process, PMI-strategy execution may start. With regard to the maximisation of PMI-success, Hickson, Miller, & Wilson (2003) have identified a parsimonious set of eight independent variables, that is, familiarity, assessability, specificity, acceptability, receptivity, structural facilitation and priority. These eight variables determine the implementation success/value-adding potential of the chosen strategy. (Hickson, Miller, & Wilson, 2003) In addition, Nutt (1998) found that intervention is the generally preferred approach to strategy implementation and thus also to PMI. A combination of persuasion and intervention may even prove superior to intervention only. (Nutt, 1998)

Importantly, the firm may capitalise on its absorptive capacity, that is, its accumulated experience from prior acquisitions when it comes to optimising the PMI-process. Thus, single- and double-loop learning described in Subchapter 2.4 comes into play.

In addition, strategic consensus is paramount since it positively impacts on strategic commitment, which in turn enhances organisational integration success (Dooley, Fryxell, & Judge, 2000). In this context, consistent vertical communication positively affects strategic consensus (Rapert, Velliquette, & Garretson, 2002: 301-310). Generally speaking, communication is paramount when it comes to PMI. Adequate communication also enhances the likelihood that key people of both acquiring firm A and target firm T may be retained, so highly valuable human capital in general and the precious integration know-how of firm T more specifically may be harnessed and capitalised on (Finkelstein, 1986).

Additionally, this theoretical model suggests, that an optimal alignment of market orientation (behaviour), strategy profile (action), and the environmental context enhances PMI-success (Dobni & Luffman, 2003: 577-585). To achieve this objective, the combined firm may take advantage of its human resources information systems (Snell, 1992) as well as its management control systems (please see Subchapter 2.10), which constitute valuable tools for monitoring and managing the PMI-process (Simons, 1991: 49-62). In the course of the PMI-process, the firm may want to adjust its PMI-planning and execution as the competitive landscape and possibly its resource position have changed in the meantime.

Ultimately, and as depicted in the top right-hand corner of the theoretical model, PMI-success is threefold: firstly, the degree of adoption of the strategic decisions associated with the combination of acquiring firm A and target firm T; secondly, the value of those strategic decisions, that is, the actually realised value-added (corporate surplus) or value drain (destroyed value); and, thirdly, the installation time needed (Nutt, 1998: 213-237). With regard to installation time in PMI, Quinn (1990) suggests systematic waiting and intentional incrementalism (Quinn, 1990). Ultimately, the optimal integration speed level has to be found. A respective capability may well enhance PMI-success. This model thus suggests that, depending on the situation at hand, a very swiftly executed integration is not always the best solution. Systematic waiting and intentional incrementalism may well pay off in terms of a sound, sustainable PMI-process that is likely to create the most value in the longer term.

b) Empirical PMI-Example

The PMI of the former First Union Corp. with the old Wachovia brought together private banking, asset management, and insurance brokerage operations. In this context, post-merger rebranding aimed at creating a stronger brand identity so as to make current and potential future clients aware of the combined firm's size, strength, and capabilities in the wealth management business. Thus, they developed media plans for each region in which the unit operates, taking into account market presence, brand awareness, and local business opportunities. The post-merger branding campaign communicated that there is someone in finance who understands the needs and desires of the very wealthy. (Gjertsen, 2003: 8-9)

c) Propositions

Next, we will turn to the propositions the author draws from the compounded theoretical model described and explained above.

Proposition 1: Firms applying the entire compounded, multifaceted, theoretical model depicted at the end of Subchapter 6.5.1 will be more likely to take well-informed, forward-looking, sustainable decisions as regards potential M&A-transactions and PMI in particular. They will be more likely to integrate the two firms in superior ways thus maximising long term value creation.

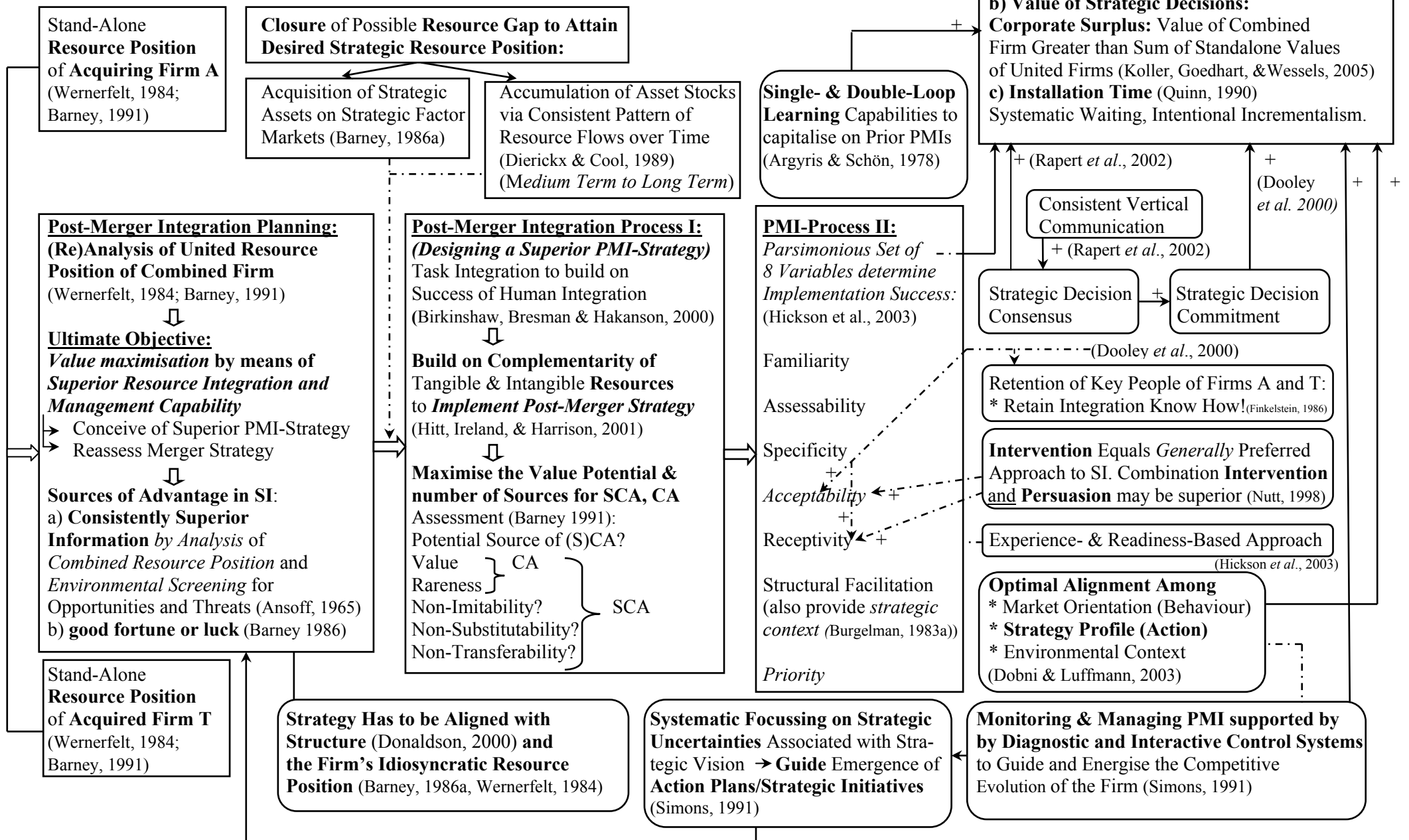
The author argues that empirical tests of the above proposition are likely to provide evidence that it holds true. If major renowned models that fit well together are combined in

a meaningful way, a greater portion of reality may be grasped. Thus, as more aspects are taken into consideration when deciding on how handle an M&A-transaction and the PMI-process, the probability of a better-informed strategic decision being implemented in superior ways is enhanced.

Proposition 2: This theoretical model holds true across all industry contexts. Much empirical testing will be needed to provide evidence for this proposition.

RB Theoretical Model: The Mechanics of/Value Drivers in Post-Merger Integration

Definitions: SI: Strategy Implementation, SCA: Sustained Competitive Advantage, CA: Competitive Advantage



6.5.2 Assumptions, Limitations, Boundaries, & Future Research

a) Assumptions Underlying this Mid-Range Theory, Limitations & Boundaries

The compounded theoretical model depicted in Subchapter 6.5.1 combines and confines itself to different well-acknowledged resource-based 'theories' of the firm, research literature on strategic management/its substream strategy implementation, M&A, and especially PMI. Thus, while it capitalises on the distinct advantages of these literatures, it is simultaneously subject to their assumptions and limitations. It assumes that all resource-based 'theories' and other theories drawn on may be combined to form a more comprehensive, multifaceted theoretical model despite their grounding in different fields of inquiry. In addition, the benefits of applying this model are assumed to offset the opportunity costs associated with it. Lastly, it also presumes that firms have the resources and capabilities necessary in order to be able to take advantage of the theoretical model presented.

b) Tracing a Future Research Agenda

Please see Subchapters 7.1 (RBV) and 7.5 (SI research) as regards avenues for future research. Furthermore, the compounded theoretical model depicted in Subchapter 6.5.1 should be extensively empirically tested and possibly complemented with new/ enhanced, supplemented resource-based 'theories', strategy implementation, and/or M&A/ PMI research.

6.5.3 Conclusions Subchapter 6.5

Successfully mastering the PMI-process is critical to M&A-success (e.g., Birkinshaw, Bresman, & Hakanson, 2000; Jemison & Sitkin, 1986; Nutt, 1999; Vaara, 2003). Clearly, the realisation of potential synergies is not automatic (Finkelstein, 1986: 15). There have been numerous reports of culture clashes, confusion, and internal disruptions when two companies are combined. Such issues may lead to exceedingly high declines in employee and customer satisfaction and, ultimately, significant declines in profitability (Epstein, 2004: 174).

The theoretical model depicted at the end of Subchapter 6.5.1 shows that maximising long term value in PMI is complex and hinges on a great variety of factors. Importantly, building up a M&A-core capability through organisational single- and double-loop learning (Argyris & Schön, 1978) may pay off handsomely in the longer term (see also Subchapter 6.6).

6.6 Towards a DCB Theory of Superior PMI-Routines

i) Preliminaries

Most importantly, ultimately, the long term value generated by means of the united resource bundle at hand should be maximised (Barney, 1986a). To achieve this goal, PMI is paramount. A merger or acquisition programme with a perfectly sound underlying strategy may miscarry if the merger process is neglected (De Noble, Gustafson, & Hergert, 1988: 82; Epstein, 2004: 175). PMI is composed of a set of routines that integrate the resources and capabilities of the merged firms (Capron & Mitchell, 1998; Zollo, 1998).

ii) Outlining this Subchapter's Objectives

This Subchapter is dedicated to a thorough explanation of the mechanics and evolution of superior post-merger integration (PMI)-routines. While Subchapters 6.1 to 6.3 are essential to getting to grips with the rather comprehensive, general theoretical model presented at the very end of Subchapter 6.6.1, Subchapter 2.7 provides the basis for its application to the private banking business. In addition, please also refer to the empirical examples provided in Subchapters 6.4.1 and 6.5.1. Next, the theoretical model will be explained starting from the upper left-hand side, moving downwards, then to the right-hand side to ultimately arrive at the upper right-hand corner, and lastly, moving back to the left-hand side to close the cycle.

6.6.1 Theoretical Model & Propositions

a) Explanation of the Mechanics of the Compounded Theoretical Model

Firstly and ideally before an agreement has been reached, the planning of the forthcoming PMI starts with a thorough (re-)assessment of the united asset position of the combined firm (Barney, 1991; Wernerfelt, 1984). Along with environmental screening for threats and opportunities (e.g., Ansoff, 1965), this (re-)assessment is paramount when it comes to designing superior M&A- and PMI-strategies. These two fundamental analyses may enable managers to obtain superior information on strategy implementation which in turn facilitates taking an informed decision on which strategic option is likely to hold the greatest long term value potential (Barney, 1986a). Ultimately, and in line with Epstein (2004), a coherent integration strategy to implement the merger strategy and to execute on the strategic vision and strategic fit that initially led to the merger needs to be crafted. However, beforehand, the merger strategy should be re-assessed so

it might be adapted if necessary. Furthermore, possibly, a resource gap needs to be filled in order to attain a specific, desired strategic resource position enabling the firm to execute the most promising value-adding strategy indeed. Depending on the situation at hand, required strategic resources may either be purchased on strategic factor markets (Barney, 1986a) or, in the medium to long term, strategic asset stocks may be accumulated via a consistent pattern of resource flows (Dierickx & Cool, 1989). In addition, strategy has to be well aligned with both the targeted firm structure (Donaldson, 2000) and the (combined) firm's idiosyncratic resource position (Barney, 1986a; Wernerfelt, 1984).

Secondly, this model suggests working out what (sustained) competitive advantages might be achieved given the united resource bundle of the combined firm. It may enable managers to obtain superior information on strategy implementation as well. Ultimately, through PMI, the resources of the acquiring and the target firm should be optimally integrated so a maximum amount of synergies may be realised and, above all, the corporate surplus from uniting the formerly stand-alone entities may be maximised. Fostering implementation success also means both that task integration has to build on the success of human integration (Birkinshaw, Bresman, & Hakanson, 2000) and that resource complementarities between the acquirer and the target are harnessed and capitalised on (Harrison, Hitt, Hoskisson, & Ireland, 1991). That way, the chances are that the value potential of the combined firm will be maximised due to an optimised, united set of (sustained) competitive advantages resulting from the optimal integration of the two companies. In this context, choosing a strategy consistent with the resources a firm controls may require entrepreneurial ability and creativity (Barney, 2001a: 53). Please see Subchapter 2.1.3 for definitions of the entrepreneur's function, entrepreneurship, entrepreneurial ability and creativity.

Thirdly, the knowledge evolution cycle the united firm capitalises on ensures that industry-specific PMI-knowledge is continuously accumulated, assessed, and refined through generative variation, internal selection, and retention (Zollo & Winter, 2002). In this context, generative variation is associated with a company's creativity potential and innovative capacity (Hayek, 1945; Schumpeter, 1936) and internal selection with entrepreneurial ability and innovation (Schumpeter, 1936). In addition, the PMI-routine life-cycle diagrams (Helfat & Peteraf, 2003) show the positive correlation between the level of capability per unit of activity and the cumulative amount of activity.

Fourthly, the continually generated knowledge contributes to an ever improving central PMI-knowledge management system. The body of up to date, industry-specific PMI-knowledge consisting of both tacit and explicit knowledge (Nonaka, 1994) is used to modify/renew the firm's PMI-core capability (Leonard-Barton, 1992). In this context, the firm may also take advantage of its absorptive capacity and experience accumulated in prior acquisitions when it comes to optimising the PMI-process. Thus, single- and double- loop learning described in Subchapter 2.4 comes into play. In addition, unleashing organisational energy (please see Subchapter 2.10) is pivotal for a successful mastery of the critical PMI-process. In brief, organisational energy constitutes the force, vitality, and stamina with which a company works (Bruch & Ghoshal, 2004). To foster and harness the organisational energy, strategy implementation research offers valuable approaches. Nutt (1998) found that intervention is the generally preferred approach to strategy implementation and thus also to PMI. A combination of persuasion and intervention may even prove superior to intervention only. (Nutt, 1998) Furthermore, with regard to the maximisation of PMI-success, Hickson, Miller, & Wilson (2003) have identified a parsimonious set of eight variables (i.e., familiarity, assessability, specificity, acceptability, receptivity, structural facilitation and priority) which determine strategy implementation success. In addition, according to Dooley, Fryxell, & Judge (2000), strategic consensus is paramount since it positively impacts on strategic commitment, which in turn enhances organisational integration success. Furthermore, consistent vertical communication positively affects strategic consensus (Rapert, Velliquette, & Garretson, 2002: 301-310). Generally speaking, communication is paramount when it comes to PMI. Adequate communication also enhances the likelihood that key people of the merging firms may be retained, so highly valuable human capital in general and the precious integration know-how of target firm T more specifically may capitalised on (Finkelstein, 1986).

Fifthly, ultimately and as depicted in the top right-hand corner of the theoretical model, PMI-success is threefold: firstly, the degree of adoption of strategic PMI-decisions; secondly, the value of the strategic decisions associated with the combination of firms A and T, that is, the realised corporate surplus; and, thirdly, the installation time needed (Nutt, 1998: 213-237). In this context, with regard to PMI, Quinn (1990) suggests systematic waiting and intentional incrementalism (Quinn, 1990). Ultimately, the optimal integration speed needs to be found. Such a capability may well enhance PMI-success. This model thus suggests that, depending on the situation at hand, a very swiftly executed PMI is not always the best solution. Systematic waiting and intentional incremen-

talism may well pay off in terms of a sustainable PMI-process that is likely to create the most value in the longer term.

Sixthly, management control systems (please see Subchapter 2.10) are important tools for monitoring and managing the whole PMI-process (Simons, 1991: 49-62). In the course of PMI, the company may want to adjust its PMI-planning and -execution since the competitive landscape and possibly its resource position have changed. Eventually, actions taken in conjunction with contextual factors result in a certain degree of implementation success, which is monitored and measured by means of management control systems. That way, the firm receives a 'performance feedback' (Simons, 1991). Next, the firm evaluates its most current PMI-experience and feeds the resulting information into the above central PMI-knowledge management system. In addition, the 'performance feedback' on the last PMI-process carried out also affects the knowledge evolution cycle. Especially inadequate performance levels indicate that a reassessment of the entire process may be recommendable to track improvement potentials and identify possible shortcomings of the PMI-routine.

Lastly, in the course of time, the firm continuously learns from prior M&As and PMIs in particular. In this context, double-loop learning (Argyris & Schön, 1978) comes into play. Learning mechanisms shape operating routines both directly and via dynamic capabilities (Zollo & Winter, 2002). The firm's PMI-routine goes through various stages during its life-cycle and may eventually be renewed, redeployed, recombined, replicated, retrenched, or even abandoned (Helfat & Peteraf, 2003). For more details and explanations with regard to the figures labelled 'DCs and Learning Mechanisms', 'Knowledge Evolution Cycle', and 'PMI-Routine Life-Cycle' please refer to Subchapter 2.9.

b) Empirical PMI-Example

GE Capital has been working for several years to make acquisition integration a core capability and a competitive advantage. It has managed to learn from its extensive acquisition experience so as to create a more replicable process. In brief, its so-called 'pathfinder model' divides the acquisition integration process into four stages, starting with the work going on before the acquisition is completed and continuing all the way through assimilation. Each action stage consists of two to three subprocesses (e.g., due diligence, strategy formulation). Finally, best practices are assigned to each action, that is, specific and practical steps managers can take to support the process. (Ashkenas, DeMonaco, & Francis, 2000: 166-167)

c) Propositions

The author draws the following propositions from the compounded theoretical model described and explained above.

Proposition 1: In general terms, firms applying the entire compounded theoretical model depicted at the end of Subchapter 6.6.1 will be more likely to take well-informed, sustainable decisions as regards potential M&A-transactions in general and the PMI-process in particular. They will be more likely to integrate the two firms in superior ways thus maximising long term value creation.

The author argues that empirical tests of the above proposition are likely to provide evidence that it holds true. If major renowned models that fit well together are combined in a meaningful way, a greater portion of reality may be grasped. Thus, as more aspects are taken into consideration when deciding on how to go about an M&A transaction and the PMI-process more specifically, the probability of a better-informed strategic decision being implemented in superior ways is enhanced.

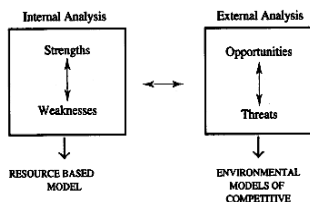
Proposition 2: This theoretical model holds true across all industry contexts. Much empirical testing will be needed to provide evidence for this proposition.

Theoretical Model of Superior PMI-Routines

Definitions: SI: Strategy Implementation; DC: Dynamic Capability.

Framework:

Internal and External Analysis (e.g., Andrews, 1971; Ansoff, 1965)



Sources of Advantage in SI:
 a) Consistently Superior Information
 b) Good Fortune or Luck (Barney, 1986a)

Superior Information:
 Through Assessment of United Resource Position of Combined Firm (Barney 1991, Wernerfelt, 1984)

Environmental Screening for Threats/Opportunities (e.g., Ansoff, 1965) (Barney, 1986a)

Design of Superior Merger Strategy and PMI-Strategy

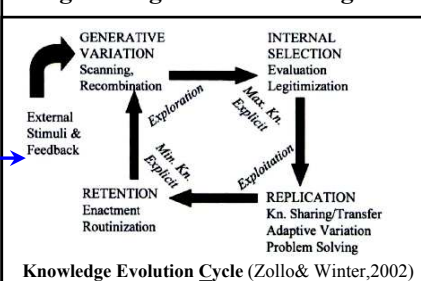
Closure of Possible Resource Gap to Attain Desired Strategic Resource Position:
 * Acquisition of Strategic Assets (Barney, 1986a)
 * Accumulation of Asset Stocks (Dierickx & Cool, 1989)

Strategy Has to Be Aligned with Structure (Donaldson 2000) and the **Firm's Idiosyncratic Resource Position** (Barney, 1986a, Wernerfelt, 1984)

Reassessment/ Track Improvement Potential

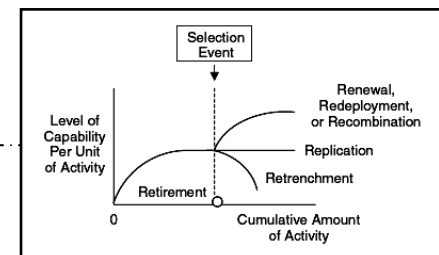
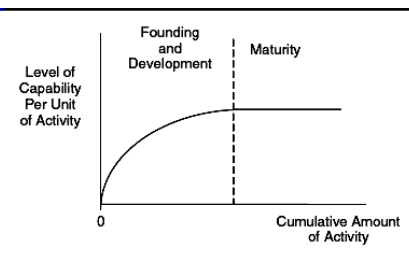
Overarching Objectives in PMI:
 * **Optimally Integrate Resources** of Acquiring Firm & Target Firm T in Unique Ways
 * **Co-evolving to Realise Synergies: Maximisation of Corporate Surplus**
 * Task Integration to Build on Success of Human Integration (Birkinshaw, Bresman, & Hakanson, 2000)
 * Build on Resource Complementarities (Harrison et al., 1991)
 Maximise United Firm's Value Potential by **Optimising the United Set of (S)CA** Resulting from the Integration of Acquiring Firm & Target Firm
Assessment of Resources: Potential source(s) of (S)CA?
 Value } CA
 Rareness }
 Non-Imitability } SCA
 Non-Substitutability }
 Non-Transferability }
 (VRIN-attributes, Barney, 1991)
(Dynamic PMI Capability to build Promising Resource Configurations) (Eisenhardt & Martin, 2000)

Evolution of Industry-Specific Post-Merger Integration Knowledge:



Generative Variation:
 * Creativity Potential
 * Innovative Capacity (Hayek, 1945; Schumpeter, 1936)
Internal Selection:
 * Entrepreneurial Ability and Innovation (Schumpeter, 1936)
Retention:
 * Learning Mechanisms (Zollo & Winter, 2002)

PMI-Routine Life-Cycle:
 * Stages, Branching (Helfat & Peteraf, 2003)



Management Control Systems (Simons, 1991) ... Performance Feedback Loop (Simons, 1991)

Performance Feedback Loop (Simons, 1991)
 Incremental, evolutionary improvements (Quinn, 1990)
 Evolutionary Trajectory of PMI Capability (Helfat, 1994) (*see PMI-CLC below)

Measuring SI-Success (Nutt, 1998):
 a) Degree of Adoption of Strategic Decisions
 b) Value of Strategic Decisions: **Corporate Surplus:** Value of Combined Firm Greater than Sum of Standalone Values of United Firms (Koller, Goedhart, & Wessels, 2005)
 c) Installation Time (Quinn, 1990) Systematic Waiting, Intentional Incrementalism

Superior PMI-Routine? (Nature of PMI-Routine Depends on the Level of Market Dynamism (Eisenhardt & Martin, 2000))

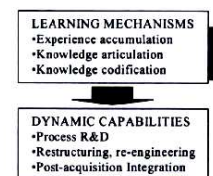
Central PMI-Knowledge Management and Integration

Integrate Updated Body of Tacit & Explicit PMI Knowledge (Nonaka, 94) (incl. recent research(e.g., Hickson et al., 2003))
 Modify/Renew current PMI-Core Capability (Leonard-Barton, 1992)
 Unleash Organisational Energy (Bruch & Ghoshal, 2004) by Intervention- (possibly plus Persuasion-) Approach to SI (Nutt, 1998) + (Rapert et al., 2002)
 Strategic Decision Consensus } (Dooley et al., 2000)
 + Strategic Decision Commitment

Gathering & Analysis of PMI-Experience

Double-Loop Learning (Argyris & Schön, 1978)

Modification/renewal PMI-Routine & Core Capability:
 Learning Mechanisms Branching(see bottom)



EVOLUTION OF OPERATING ROUTINES

DCs & Learning Mechanisms (Zollo & Winter 2002)

6.6.2 Assumptions, Limitations, Boundaries, Future Research

a) Assumptions Underlying this Mid-Range Theory, Limitations & Boundaries

The compounded theoretical model depicted in Subchapter 6.6.1 predominantly combines different renowned dynamic capability-based 'theories of the firm', well-established general strategic management literature, research literature on the substream of strategy implementation, M&A and especially PMI. Thus, while it capitalises on the distinct advantages of these literatures, it is simultaneously subject to their assumptions and limitations. It assumes that all dynamic capability-based 'theories' and other theories drawn on may be combined to form a more comprehensive, multifaceted theoretical model despite their grounding in different fields of inquiry. In addition, the crafted compounded theoretical model assumes that the opportunity costs incurred by the application of this model in strategising will not offset the benefits associated with it. It also presumes that firms have the resources and capabilities necessary to capitalise on the theoretical model presented.

b) Tracing a Future Research Agenda

Please see Subchapters 7.2 (DCV) and 7.5 (SI research) as regards avenues for future research. Furthermore, the compounded theoretical model depicted in Subchapter 6.6.1 should be extensively empirically tested and possibly complemented with new/supplemented with enhanced dynamic capability-based 'theories', strategy implementation, and/or M&A/PMI research.

6.6.3 Conclusions Subchapter 6.6

PMI is a process that must be guided by the strategy and vision of the merger (Epstein, 2004: 187). Neglecting it may undermine the performance of a strategically sound transaction (De Noble, Gustafson, & Hergert, 1988: 82). Mastering PMI successfully is a delicate task as a great variety of factors have to be adequately taken into consideration (see theoretical models presented in Subchapters 6.5.1 and 6.6.1). In general terms, failures predominantly occur during strategy execution (here: PMI) rather than strategy formulation (Nutt, 1999: 75).

Organisational learning (Argyris & Schön, 1978) plays a key role in developing a PMI-routine & -core capability. Firms may learn to manage the post-acquisition integration process by tacitly accumulating acquisition experience and explicitly codifying it in manuals, systems, and other acquisition-specific tools. (Zollo & Singh, 2004: 1233)

The theoretical model depicted in Subchapter 6.6.1 attempts to unite the explanatory power of a great variety of different theoretical frameworks so as to rather comprehensively capture the complex, multifaceted process of developing superior PMI-routines from a DCV.

6.7 Conclusions Chapter 6

A corporate strategy of acquisition is a common means for firms to achieve growth (Finkelstein, 1986: 12). M&As by their very nature create significant upheaval in the lives of organisational members. The disruption is caused by combination-related stress and anxiety, culture shocks and tensions, relocation, and/or realignment among a host of other difficulties entailing a number of dysfunctions. (Buono, 2003: 96) Both the pre-merger and the PMI-phase are paramount if a company aims to achieve profitable growth and above-normal returns.

Child, Pitkethly, & Faulkner (1999) found that acquirers of different nationalities tend to pursue somewhat different paths toward the improvement of subsidiary performance. This variation persists almost regardless of context. It appears that assets and competencies can be harnessed through the stimulus of acquisition, and that there are different paths to the achievement of good performance. (Child, Pitkethly, & Faulkner, 1999: 197)

Much research still lies ahead of the scientific community if M&As are to become less risky undertakings (Cartwright & Schoenberg, 2006: S4). The unexplained variance in the performance of M&As is greater than what scholars have been able to explain to date (Hitt, Ireland, & Harrison, 2001: 403). Chapter 6 has attempted to contribute to an amelioration of the situation at hand by sketching rather comprehensive theoretical models of both the pre-merger- and the post-merger phase that rest on well-acknowledged research.

In what follows, assumptions, limitations, and boundaries of the RBV, DCV, ROT, & SI research (SI-R) will be discussed.

Chapter 7
RBV, DCV, ET, ROT, & SI-R -
Assumptions, Limitations &
Boundaries

7 RBV, DCV, ET, ROT, & SI-R - Assumptions, Limitations & Boundaries

7.1 The Resource-Based View of the Firm (RBV)

a) Assumptions

The resource-based view of competitive advantage examines the link between a firm's internal characteristics and performance (Barney, 1991:100-105). It looks inwardly towards the resources available to the firm. A firm's relative performance is determined by its relative resource endowments. (Makhija, 2003)

According to Barney (2001b) there is a common set of assumptions all research streams of the RBV share: Firstly, resources and capabilities may be heterogeneously distributed across competing firms; secondly, differences/heterogeneity may be long-lasting due to an imperfect mobility of resources across firms (Barney, 1991); and, thirdly, differences may help explain why some firms consistently outperform others.

In addition, three distinct positionings of the RBV may be distinguished: firstly, relative to SCP (structure-conduct-performance-paradigm)-based theories of industry determinants of firm performance (Porter, 1980); secondly, relative to neo-classical microeconomics (Ricardo, 1817); and, thirdly, relative to evolutionary economics (Nelson & Winter, 1982). Thus, there are three differing resource-based 'theories' of the firm (Barney, 2001b: 643-650).

Barney (1991), Conner (1991), Peteraf (1993) examine the relationship between the RBV and the SCP-logic. Important theoretical developments in the area of the RBV positioned relative to neoclassical microeconomics include Dierickx & Cool (1989) and Peteraf (1993). They focus their efforts on describing and measuring the attributes of resources and capabilities that lead them to be inelastic in supply. Overall, this research stream of the RBV shows that firms that build their strategies on path dependent, causally ambiguous, socially complex, and intangible assets outperform firms that build their strategies only on tangible assets. Finally, evolutionary versions of the resource-based logic have been developed by those scholars who are most interested in how capabilities of firms change over time, and the competitive implications of those changes. Teece,

Pisano, & Shuen (1997) belongs to the most important theoretical works in this area. (Barney, 2001b)

b) Limitations & Boundary Conditions

As regards resource-based 'theories of the firm', Priem & Butler (2001) correctly observe that many of the attributes of resources that make them likely to be sources of sustainable strategic advantage - especially path dependence and social complexity - are not amenable to managerial manipulation. Nonetheless, the RBV has managerial implications. For instance, firms may move from a state of competitive disadvantage to a state of competitive parity by either imitating or substituting resources. The RBV may also be used to identify the most critical resources controlled by a firm, to fully realise the potential of available resources and capabilities, and possibly even gain SCAs. (Barney, 2001a: 49)

Furthermore, weaknesses also include a lacking parameterisation of the term 'value' and the vaguely defined central constructs 'resources', 'core competencies' and 'capabilities' (Wolf, 2008). There is often only a rough subdivision into physical capital assets, human capital resources, and organisational capital (Barney, 1991) or, instead, in input-, transformation-, output-, and management-based resources (Lado, Boyd, & Wright, 1992). Success is 'only' interpreted in terms of economic success. Importantly, how rent generating resources are developed still remains to be further investigated. The methodology for identifying and handling rent-generating assets is still in its infancy. Additionally, along with the concept of idiosyncrasy, path dependence of corporate development is postulated and remains to be proven. Furthermore, different variants of the RBV only partially agree with each other, resource-based approaches lack a sufficient client- and needs-orientation respectively, and the RBV insufficiently differentiates among different industries. (Wolf, 2008: 594-598) Lastly, the RBV and the MBV (market-based view) need to be integrated since the inside-out view of the RBV and the outside-in view of IO (industrial economics), the basis of the MBV (Makhija, 2003), meaningfully complement each other (Führing, 2006; Kutschker, 1999; Wolf, 2008).

7.2 The Dynamic Capability-Based View of the Firm (DCV)

a) Assumptions

According to Barney (2001b) the DCV underlies the following set of assumptions: Firstly, resources and capabilities may be heterogeneously distributed across competing

firms; secondly, differences/heterogeneity may be long-lasting due to an imperfect mobility of resources across firms (Barney, 1991); and, thirdly, differences may help explain why some firms consistently outperform others.

b) Limitations & Boundary Conditions

As an extension of the RBV (e.g., Amit & Zott, 2001), the DCV shares many of its limitations. Examples include a lacking parameterisation of the term 'value' (Barney, 2001a), the vaguely defined central constructs 'resources', 'core competencies', and 'capabilities' as well as an insufficient differentiation among different industries. Along with the concept of idiosyncrasy, path dependence of corporate development is postulated and remains to be proven. Furthermore, success is 'only' interpreted in terms of economic success. (Wolf, 2008: 594-598)

7.3 Evolutionary Theory (ET)

a) Assumptions

Firstly, ET, which is interdisciplinary, assumes that not only biological but also economic evolution is shaped by variation - selection - retention processes. Secondly, it postulates that decision makers may possibly to some extent actively control and shape the organisations they lead. Thirdly, organisations are determined by the situations they find themselves in. ET delivers good arguments for this assumption. Fourthly, organisations exhibit a high degree of inertia and are strongly shaped by history. Fifthly, coincidence and non-planability play an important role in ET. Sixthly, organisations do not act in isolation but carry out group-specific manoeuvres. In this context, the majority of evolutionary theoreticians opt for an organisational populations perspective. Seventhly, different organisational populations are sharply closed off from each other by boundaries that may hardly or not be overcome. (Wolf, 2008: 410-414)

b) Limitations & Boundary Conditions

ET appears to be too deterministic, that is, coincidence appears to play a too prominent role. Models of planned organisational change are too outrightly rejected despite the fact that organisational action is situated somewhere between foreign control and self-determination. Furthermore, it will need to be proven that biologically structured evolutionary processes hold true in social contexts as well. ET too much separates the different evolutionary stages from one another. In practice, selection and variation are

strongly interdependent. Especially the population ecology stream of ET appears to overemphasise the formation and elimination of companies as causes or forms of organisational change. While ET is a typical descriptive theory that is capable of explaining various phenomena, it hardly helps managers to determine future actions. Its descriptive capacity is limited as ET represents a universal, abstract theory that may explain concrete phenomena in a very general way only. The above seventh assumption of ET will have to be proven first. (Wolf, 2008: 411-414)

7.4 Real Options Theory (ROT)

Assumptions, Limitations, & Boundary Conditions

ROT contains at least two implicit assumptions that could be considered limitations when applied to strategic decisions (Leiblein, 2003; McGrath & Nerkar, 2004; Rivoli & Salorio, 1996): Firstly, it assumes that an investment, no matter what its size is, grants the firm certain choices rather than restricting choices. This assumption may be viewed as a limitation of ROT since, firstly, not all investments provide future choices, and, secondly, firms have limited resources to invest. Secondly, ROT assumes that the information generated from the investment is actually assimilated by the firm and used to make subsequent decisions. Clearly, a firm's ability to do this is limited by its capacity to learn/absorptive capacity and the rationality of its decision-makers. Past research has found that firms vary in abilities to learn and cognitive biases influencing decision-makers' choices. (Brouthers, Brouthers, & Werner, 2008a: 957)

7.5 The Substream of Strategy Implementation Research (SI-R)

Limitations & Boundary Conditions

With regard to the substream of SI research, the distinction made between decision formulation and decision implementation is more of a theoretical convenience than actual practice (Bower, 1982). In addition, there is still quite some exploratory research. Often more research is required to reach higher levels of generalisability/external validity (e.g., Snell, 1992; Dobni & Luffman, 2003; Rapert, Velliquette, & Garretson, 2002; Dooley, Fryxell, & Judge, 2000) Furthermore, construct operationalisation/parametrisation (e.g., success construct) may be enhanced (e.g., Nutt, 1998). Appropriate performance measures may vary with industry context (e.g., Dobni & Luffman, 2003). Thus, these issues need to be subjected to extensive empirical testing.

Chapter 8

Tracing a Future Research Agenda

8 Tracing a Future Research Agenda

While each theoretical chapter includes a specific subchapter dedicated to avenues for future research, this Chapter aims to complement them by tracing a future research agenda for the main theoretical perspectives theoretical chapters adopt - namely the RBV and the DCV - as well as strategy implementation research. In addition, from an overall perspective onto this Ph.D. thesis, future research opportunities will be pinpointed.

a) Theoretical Chapters Drawing on Strategy Implementation Research

Avenues for future research include assessing a wide range of strategies based on ideational content and the organisational gestalts used for implementation (Skivington & Daft, 1991), sorting out the relationship between consensus and financial performance (Dooley, Fryxell, & Judge, 2000), and carrying out a comprehensive examination of numerous informants within firms in order to obtain insightful information with regard to factors enhancing consensus (Rapert, Velliquette, & Garretson, 2002).

b) Resource-Based Theoretical Subchapters

This Section is dedicated to the resource-based 'theories' theoretical chapters draw on and the RBV in general. As Barney (2001a) indicates, there is currently no highly developed theory exploring the creative and entrepreneurial act which is sometimes required to choose a promising strategy consistent with the resources the firm controls or potentially will control (Barney, 2001a: 53). Importantly, the implementability of strategies suggested by the RBV should be tested (Wernerfelt, 1984). In addition, key constructs such as 'value' (Barney, 2001a), 'resources', 'core competencies', and 'capabilities' should be parameterised (Wolf, 2008) and temporal empirical tests conducted (Barney, 2001a). Furthermore, scholars may want to explore growth strategies for different types of resources (Wernerfelt, 1984) and to assess the effects of internal resources on firm value (Makhija, 2003). Since, up to now, the RBV has mainly focused on the deployment of already existing resources and only provides partial guidance on how heterogeneous resource positions emerge (Ahuja & Katila, 2004: 887; Conner, 1991: 133-134), a promising avenue for future research might be to verify how rent generating resources are developed (Wolf, 2008). Additionally, the still poorly developed methodology for identifying and handling rent-generating assets calls for a significant enhancement. Furthermore, the insufficient differentiation among different industries should be overcome.

Lastly, an integration of the RBV and the market-based view (MBV) might be promising, and, ultimately, the RBV should seek to become a fully-fledged resource-based theory of the firm! (Wolf, 2008: 594-598)

c) Dynamic Capability-Based Theoretical Subchapters

This Section is dedicated to the dynamic capability-based 'theories' theoretical chapters draw on and the DCV in general. Firstly, empirical research to understand why firms get to be good, how they sometimes stay good, and why and how they improve/decline would be highly valuable (Teece, Pisano, & Shuen, 1997). Secondly, the interaction of knowledge accumulation, articulation, and codification processes with key task features may be examined (Zollo & Winter, 2002). Thirdly, key constructs such as 'value' (Barney, 2001a), 'resources', 'core competencies' and 'capabilities' should be parameterised (Wolf, 2008). Fourthly, scholars may want to prove path dependence and to clearly differentiate among different industries (Wolf, 2008). The DCV should ultimately seek to become a fully-fledged theory of the firm as well.

Clearly, all theoretical models depicted in Chapters 3 to 6 should be subjected to thorough empirical testing for purpose in order to verify whether the advanced propositions hold true.

Chapter 9

Overall Conclusions & Outlook

9 Overall Conclusions & Outlook

9.1 Overview

Strategies may be conceived of as 'patterns in streams of decisions/actions' (Mintzberg, 1978). Deciding in times of significant uncertainty about future states of the world which long term paths to commit to and when to change paths is the central strategic problem confronting the firm (Teece *et al.*, 1997: 515). Accelerated technical change and global competition create an uncertain and hazardous environment in which strategic flexibility and reversibility are critical success factors (Dussauge & Garrette, 1999: 40).

Indeed, international strategising in times of uncertainty represents a particularly delicate assignment. This dissertation aimed to facilitate it somewhat by analysing foreign market entry mode choice and illuminating headquarter-subsidary relations, and, most importantly, by exploring the nitty-gritty of the strategic arsenal companies have at their disposition when aspiring for sustainable, profitable growth and a favourable international strategic positioning in times of uncertainty. Ideally, companies should thrive on change and uncertainty rather than 'only' grapple or struggle with it. Thus, in a rather comprehensive fashion, this thesis has scrutinised the four generic growth strategy types available to the firm, that is, organic growth, mergers and acquisitions (M&As), strategic alliances, and strategic networks (Campbell, Stonehouse, & Houston, 2004: 210-230; see Figure 9.1).

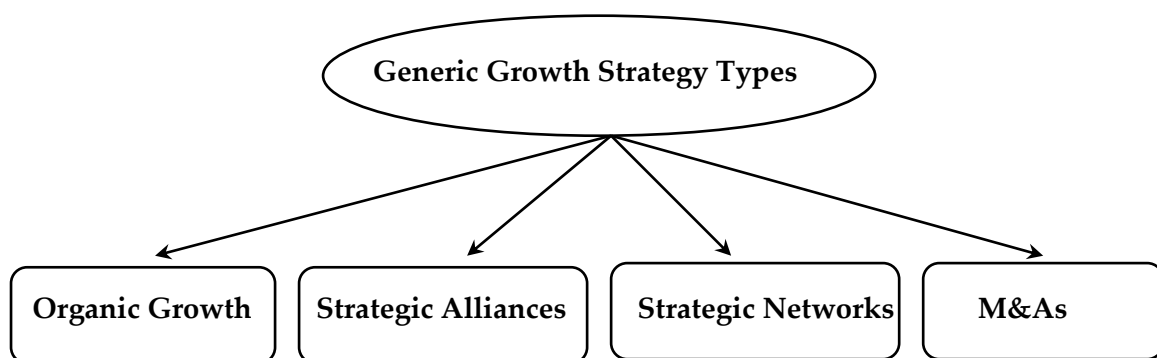


Fig. 9.1: The Four Generic Growth Strategy Types (Campbell *et al.*, 2004: 210-230)

Most importantly, the core of this dissertation, theoretical Chapters 3 to 6, has illuminated the inner mechanics and value drivers of the four generic growth strategy types in an international context. The thesis did so with regard to both sides of strategies, namely strategy design/formulation and strategy execution/implementation. The predominantly

resource- and dynamic capability-based, general theoretical models depicted in Chapters 3 to 6 may assist managers in their efforts to successfully steer 'their' companies through turbulent times so as to create a maximum amount of long term value-added. In addition, all models were applied to the private banking business by means of empirical examples. Next, the essence of Chapters 3 to 6 will be outlined. While all of the rather comprehensive theoretical models presented in these chapters may enhance the likelihood of sustainable, long term success in market-driven, international expansion, they obviously cannot constitute recipes for building and maintaining (sustained) competitive advantages (Barney, 1991: 99-120).

9.2 Synthesis of this Doctoral Dissertation

a) Internationalisation, Foreign Market EMC, & Headquarter-Subsidiary Relations

Companies may be conceived of as heterogeneous, unique resource bundles (Penrose, 1959). International markets represent opportunities to further leverage assets and capabilities which have exhausted the home market (Tallman, 2001: 475). Expanding abroad tends to raise firm performance (Hitt, Hoskisson, & Kim, 1997; Geringer, Tallman, & Olsen, 2000), and it is also positively related to a firm's innovative capacity (Hitt, Hoskisson, & Kim, 1997). In general terms, companies going international may have resource-seeking, capability-seeking, market-seeking, and/or efficiency-seeking objectives (Birkinshaw & Hood, 1998).

Multinationals may be conceived of as differentiated networks (Bartlett & Ghoshal, 1986, 1998). Importantly, companies need to organise themselves in ways that allow them to optimally exploit their (sustained) competitive advantages (Barney, 2001a).

Firstly, this implies opting for the most appropriate independent, shared, or integrated foreign market entry mode (Buckley & Casson, 1998a: 547), that is, the most promising organisational structure through which to exploit resource-based advantages in a specific international context (Barney, 1997). Basically, entry modes differ in the degrees of resource commitment, risk exposure, control, and profit return associated with them (Pan & Tse, 2000: 535). In an international setting, firstly, resource-based advantages appear to be context-specific (Brouthers, Brouthers, & Werner, 2008b: 189); secondly, globally specific skills (e.g., technology) that are fungible across national borders need to be distinguished from locally specific skills exhibiting a restricted geographical scope (Buckley & Casson 1996); and, thirdly, a firm is expected to choose the foreign market entry

mode that offers the highest risk-adjusted return on investment (Agarwal & Ramaswami, 1992: 3). The theoretical model depicted in Subchapter 3.4.1 provides a synoptic view of factors affecting entry mode performance.

Secondly, Barney's (2001a) statement mentioned above also refers to optimal, smoothly functioning headquarter-subsidary relations that allow the company to maximise long term value creation given its corporate entities' resources and capabilities. In this context, both Hedlund's (1986) heterarchy model and the Chandler-Williamson hierarchy model (Chandler, 1962; Williamson, 1975) of headquarter-subsidary relations have their merits. Hybrid forms may constitute options as well (Birkinshaw & Morrison, 1995). Furthermore, undoubtedly, foreign subsidiaries' strategic resources are critical to sustaining the MNC's international competitiveness (Birkinshaw, 1996; Gupta & Govindarajan, 1991; Hedlund, 1986; Roth & Morrison, 1992). They need to be capitalised on by the entire interorganisational network of the MNC (O'Donnell, 2000: 530). In addition, mutually supportive elements of environment, strategy, and structure should lead, *ceteris paribus*, to a superior subsidiary performance (Birkinshaw & Morrison, 1995: 747). When planning for optimal headquarter-subsidary relations that contribute to long term value maximisation, the theoretical model depicted in Subchapter 3.5.1 may prove to be highly valuable.

Critically, exploiting differences across nations and regions or arbitrage is paramount if MNCs are to create more long term value than competitors do (Rugman & Verbeke, 2004: 3-16). In short, to achieve superior international performance, firms need to consider, firstly, the resource-based advantages they possess, and, secondly, the differences and/or similarities in the specific dimensions of the institutional environments between home and target countries when making international strategic decisions. (Brouthers, Brouthers, & Werner, 2008b: 213)

Undoubtedly, far from representing a one-off effort, strategising is a continuous challenge, especially in times of uncertainty. Chapters 3 to 6 deal with, firstly, selecting the generic growth strategy type likely to generate the most long term value-added in a given situation; secondly, crafting customised, value-maximising market-driven expansion strategies; and, thirdly, executing them in optimal ways. Next, the essence of Chapters 4 to 6 will be synthesised.

b) The Four Generic International Expansion Options OG, SA, SN, & M&As

i) Strategy Formulation or Design

Firstly, organic growth (OG) represents a sound, natural form of growth that may allow the capturing of attractive environmental opportunities without having to bear too high risks. While financial markets receive organic growth with great favour, non-organic growth is far less favoured, if at all (Dalton & Dalton, 2006: 5). A company's organic, internal, or core growth refers to growing out from the core of the business in ways that build on established strengths (Jackson, 2007: 40). Optimally leveraging/harnessing company resources and capabilities (Bartlett & Ghoshal, 1998; Butler & Butler, 1997) so as to maximise long term value-added lies at the heart of organic or internal growth. Along with scrutinising value-boosting organic growth strategies, the theoretical model depicted in Subchapter 4.4.1 pinpoints major factors affecting performance outcomes of organic growth strategies. Examples include a purposeful, target-oriented management of subsidiary evolution (Birkinshaw & Hood, 1998), strategic entrepreneurship and strategic initiatives (Hitt, Ireland, Camp, & Sexton, 2001), as well as smooth intra-MNC knowledge flows (Nonaka, 1994). In this context, knowledge creation can be a source of organisational renewal and sustainable competitive advantage (Quinn, 1992). Furthermore, undeniably, strategic flexibility (Bowman & Hurry, 1993) as well as core capabilities that are paramount to corporate renewal and innovation (Leonard-Barton, 1992: 110-123) are particularly important OG-factors in times of uncertainty. Good management of the development, maintenance, and renewal/replacement of core capabilities is of utmost importance to firms (Leonard-Barton, 1992: 110-123). Innovation may be labelled as the single most important component of a firm's strategy (Hamel, 2000). In this context, strategic initiatives, co-ordinated efforts within an organisation to affect the renewal of core competencies and/or the organisation's product/market domain (Floyd, Ortiz-Walters, & Wooldridge, 2004: 4), are essential when it comes to sustainably transforming a corporation.

Secondly, although they are risky undertakings (Dyer, Kale, & Singh, 2004: 109), nowadays, strategic alliances and strategic networks (SAN) (see Figures 9.2 and 9.3) are ubiquitous phenomena (e.g., Gulati, 1998: 293). SAN have become well established as a viable organisational form and an important means of strategy implementation (Inkpen, 2001: 409). Many companies are embedded in a dense network of alliance relationships (Gomes-Casseres, 1996) and SAN generally represent important devices for achieving (sustainable) competitive advantages (Dyer, Kale, & Singh, 2001: 37). Importantly SAN-partners play a significant role in shaping resource-based competitive advantages of firms (Lavie, 2006: 638).

In brief, on the one hand, strategic alliances (SAs) are collaborative organisational arrangements (Inkpen, 2001: 409) aimed at achieving the strategic objectives of the partners (Das & Teng, 1998) by combining resources and capabilities of both allies (Dyer, Kale, & Singh, 2004: 111-112). SAs are entered into for a variety of collaborative objectives such as gaining fast access to new markets and critical strategic assets, learning, risk sharing, capturing economies of scale (Powell, 1990), as well as buffering and exploring uncertainty (Kogut, 1991a). They take diverse forms (Gulati, 1998: 293), vary significantly in their value generation dynamics (Inkpen, 2001: 410-411), may be forged between rivals and non-competing firms (Dussauge & Garrette, 1999: 47-48), and may include equity or not (e.g., Das & Teng, 1996). SAs entail management complexities, and allies may risk losses of proprietary information and opportunistic partner behaviour (Barringer & Harrison, 2000: 385-392).

On the other hand, networks may be defined as constellations of firms that each focus on their distinctive competency in an integrated effort to produce a product, service, or new technology (Barringer & Harrison, 2000: 388). Importantly, a major function of strategic networks is to channel information (Gulati, 1998: 306). In addition, network resources also play a role in shaping the competitive advantage of interconnected firms (Lavie, 2006: 648). Major advantages of strategic networks are strategic flexibility (Powell, 1990); speed to market (Jones, Hesterly, & Borgatti, 1997), product development (Snow, Miles, & Coleman, 1992), learning (Child & Faulkner, 1998), and the ability to neutralise the competition (Harrigan, 1986). However, networks also involve management complexities (e.g., Doz & Hamel, 1998).

Importantly, SAN represent living systems that evolve progressively in their possibilities (Kanter, 1994: 97). If a company opts for participation in a strategic alliance or network as the most appropriate growth option in its current situation, a wide array of factors has to be considered, and various different analyses have to be carried out (see theoretical model shown in Subchapter 5.4.1). In general terms, an optimal organisational, strategic, cultural, and personal fit between SAN-partners is believed to raise SAN-success (Draulans, deMan, & Volberda, 2003: 151). While creative contractual arrangements clearly stipulating decision-making rights are important (e.g., Ernst, Glover, & Bamford, 2003: 92-106) and typically serve as a backdrop to SAN-relationships (Wright & Lockett, 2003: 2073), they cannot substitute for a sound level of (mutual) trust which is paramount to SAN-success (e.g., Inkpen & Beamish, 1997). Over time, strategic alliances are likely to require restructuring. In this context, parents may agree

on threshold levels of performance triggering a reassessment (Ernst & Bamford, 2005: 133-136).

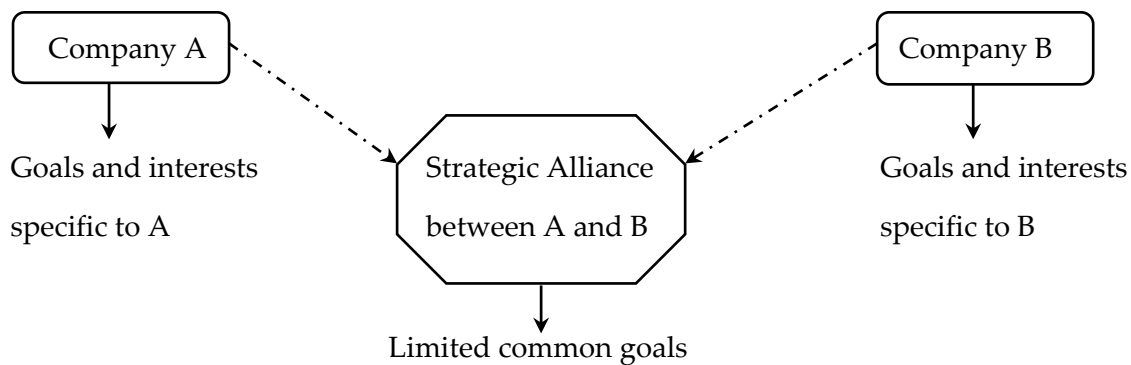
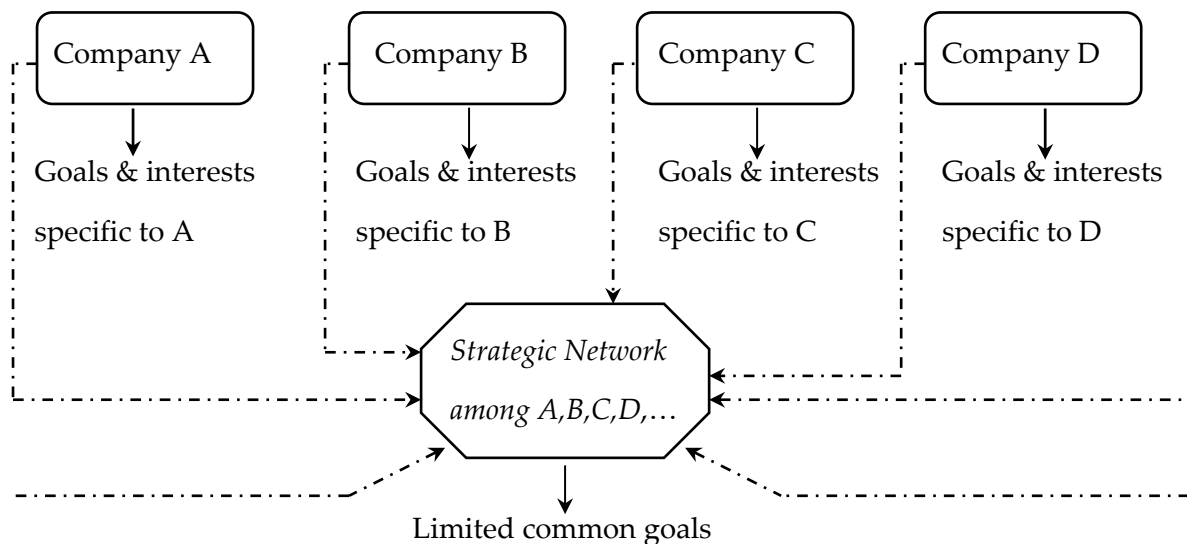


Fig. 9.2: Representation of a Strategic Alliance (Dussauge & Garrette, 1999: 3)



**Fig. 9.3: Representation of a Strategic Network
(adapted from Dussauge & Garrette, 1999: 3)**

Thirdly, M&As represent companies' fourth generic expansion option. While they continue to be a highly popular form of corporate development (Cartwright & Schoenberg, 2006: 1), going for M&As remains a high-risk strategy (Barfield, 1998) often involving the integration of two large complex firms that often exhibit diverse cultures, structures, and operating systems (Haspeslagh & Jemison, 1991). Technically, a merger occurs any time companies combine to form one legal entity. However, while the term 'merger' has come to be understood as a transaction between two firms that agree to integrate their operations on a relatively coequal basis, this transaction type is rare. Acquisitions represent a form of merger in which one firm buys a controlling interest of up to 100 percent in another firm, thereby making the acquired business(es) a part of its own portfolio.

(Hitt, Ireland, & Hoskisson, 2001) The overarching goal in M&As is to speed up the achievement of strategic goals and to enhance efficiency (Haspeslagh & Jemison, 1991). Notably, M&As also aim to produce synergies and (sustained) competitive advantage (Hitt, Ireland, & Harrison, 2001: 391). As with the other three generic growth strategies, the ultimate goal in M&A is to maximise long term value-added. Determinants of merger success include strategic vision, strategic fit, deal structure, due diligence, the environment, pre-merger planning, and PMI (Epstein, 2004: 187).

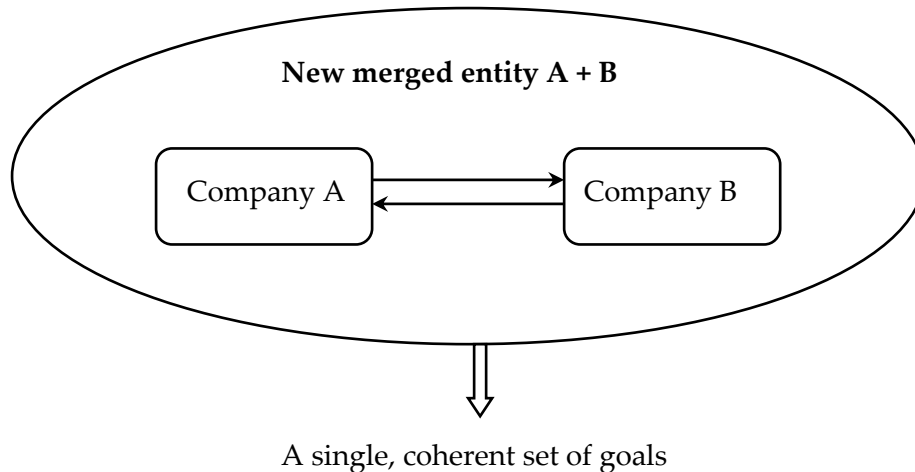


Fig. 9.4: Representation of a Merger (Dussauge & Garrette, 1999: 3)

ii) Strategy Implementation or Execution

Regardless of the generic growth strategy type selected, significantly more mistakes are made in strategy execution, that is, OG-SI, SAN-execution or PMI, than strategy design (Nutt, 1999: 75). Building up an OG-SI, SAN-execution, and/or PMI-core capability through organisational single- and double-loop learning may pay off handsomely in the longer term. The ultimate objective in strategy execution is to contribute to the creation of a maximum amount of long term value-added by means of superior strategy execution routines. A wide array of different factors needs to be paid adequate attention to when attempting to execute a vision and strategy in superior ways. With regard to synoptic overviews please refer to the theoretical models presented in Subchapters 4.5.1 (OG-execution), 5.5.1 (SAN-execution), as well as 6.5.1 and 6.6.1 (PMI). Generally speaking, organisational learning is paramount in developing superior strategy execution routines in general and dynamic OG-SI, SAN, and PMI capabilities in particular. For instance, PMI is composed of a set of routines that integrate the resources and capabilities of the merged firms (Capron & Mitchell, 1998; Zollo, 1998). Generally speaking, companies learn how to manage strategy implementation or execution processes by tacitly accumulating respective experience and explicitly codifying it in manuals, systems,

and other tools (Zollo & Singh, 2004: 1233). For instance, a (dynamic) SAN capability is the ability to create successful SAN based on learning about SAN-management and leveraging SAN-knowledge inside the company (Draulans, deMan, & Volberda, 2003: 152). Particularly in today's increasingly globalised world, a (dynamic) SAN capability represents a collaborative advantage and precious corporate asset (Kanter, 1994: 96-108). In this context, multi-alliance management capability refers to the organisational ability to manage a comprehensive alliance portfolio (Hoffmann, 2005: 123).

Organisational knowledge is created by means of a continuous dialogue between tacit and explicit knowledge. Individuals and companies expand companies' knowledge bases in a synergetic fashion. (Nonaka, 1994: 14-34) Creative chaos, redundancy of information, and requisite variety positively impact on organisational knowledge creation (Nonaka, 1994: 27-28).

9.3 Outlook

Unquestionably, all mid-range theories and theoretical models developed in this dissertation, firstly, underlie certain assumptions; and, secondly, they are all subject to respective limitations and boundaries (see Chapters 3 to 6 as well as Chapter 7). In general terms, theories, by their very nature, can only constitute proxies of reality rather than precise images of the same (Black, 1999: 7-11). Furthermore, theoretical models need to be subjected to extensive empirical testing to examine whether they in fact withstand scrutiny and continual testing. Additionally, as mankind's body of theoretical and empirical knowledge continuously evolves, also the mid-range theories and theoretical models developed in Chapters 2 to 6 might be complemented and enhanced with new research insights.

Much research still lies ahead of the scientific community if especially M&As (Cartwright & Schoenberg, 2006: S4) and SAN (Dyer, Kale, & Singh, 2001: 37-43) are to become less risky and more fruitful undertakings. Furthermore, globalisation has put additional issues such as the 'too big to fail issue' on the world's political agenda. In general terms, the future research agendas outlined in Chapters 3 to 6 and Chapter 8 hold much potential for gaining valuable new insights contributing to a fruitful evolution of strategy research.

Above all, companies need to keep the big, multifaceted pictures (see theoretical models presented in Chapters 3 to 6) in mind, so they will enhance their chances to opt for the most promising strategies and to develop superior strategy execution routines (Barney, 1986a)!

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Appendix

Appendix

Curriculum Vitae

René Spirig,

born on December 27, 1971, in Altstätten SG, Switzerland

Education

- | | |
|-------------------|---|
| 10/2006 – 02/2011 | University of St.Gallen (HSG)
Doctor Oeconomiae |
| 10/2004 - 05/2006 | University of St.Gallen (HSG)
Master of Arts in Strategy & Internat. Management (M.A. HSG) |
| 10/2001 - 10/2004 | University of St.Gallen (HSG)
Bachelor of Arts in Business Administration (B.A. HSG) |
| 10/1994 - 10/1996 | University of Zurich
Studies in Medicine |
| 10/1993 - 10/1994 | Université de Fribourg
Studies in Medicine |
| 04/1988 - 01/1993 | Grammar School, Heerbrugg
General Certificate of Education (GCE/A-Levels): A |

Practical Experience

- | | |
|-------------------|--|
| 11/2007 - 03/2008 | RBS Coutts Bank Ltd., Zurich
International Enterprise Risk Manager, Member of Management |
| 04/2006 - 04/2007 | Hewlett-Packard International, Zurich-Duebendorf
and
Project Manager - Strategic Central Sales Reporting for Europe
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| 01/2005 – 10/2005 | |
| 02/2000 - 05/2003 | UBS AG, Zurich
Generalist B2B & B2C Area (Business Development, Reports)
Worldwide Distribution of Investment Funds |