

A Dynamic View of Global Integration and Local Responsiveness Framework

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Abstract—

Global-Integration and Local-Responsiveness (IR) framework with four pairs of external environment and appropriate international strategy types has contributed significantly to international business management. Nevertheless, the framework is still incomplete and lacks dynamic features. To deal with such limitations and enhance the theory, this paper, therefore, brings dynamic features regarding both environment and strategy into the IR grid. Under a dynamic capability angle with three steps of sensing, seizing and transforming [30], the dynamic global integration and local responsiveness framework – a new concept building for international business – would be explicated.

Keywords— Dynamics, Global integration and local responsiveness framework, international business, environment forces

I. INTRODUCTION

In the booming era of globalization, international management, a part of international business (IB) field, appeared as a stream of strategic management. Unlike strategic management, international management mainly focuses on managing business operations in many countries. Differences regarding culture, policy, customer preferences, etc. among different markets are highly considered. The global-integration and local-responsiveness (IR) grid [6] – [8],[10],[11] is deemed as a most successful and well-known framework in international management. The framework introduces international strategy types that are relevant to possible types of external environment. There are four strategies including international strategy, multinational (or multi-domestic) strategy, global strategy, and transnational strategy. These strategic implementations perform well as being embedded in their most appropriate business environments.

Notwithstanding the significant contribution to strategic management in general and international business in particular, IR theory is still criticized as a static view. Time process, in which environment could change and lead to inappropriacy of the current strategy, is not mentioned in the framework. Moreover, IR framework with its outside-in approach is unable to explain clearly and completely core questions of strategic management, how and why (international) firms' performances are different. It is not always the case that the firm changes due to changes of external environment. Internal factors such as the firm's resources [2] – [4], and capabilities [17],[28],[31] are important considerations in building strategy. The new strategy must be congruent with both outside and inside conditions. Prosperity just comes as a firm's capabilities, structure and external environment are, simultaneously, fit. IR grid, therefore, limits its application in reality. In pursuit of enhancing the original IR framework, we introduce a new concept of dynamic global integration and local responsiveness framework.

II. GLOBAL INTEGRATION AND LOCAL RESPONSIVENESS FRAMEWORK WITH ITS DRAWBACKS

A. IR Framework

According to Global-Integration and Local-Responsiveness theory, the external environment are generalized into two determinant factors: global integration (a standardized process made with a combination of distinguished parts) and local responsiveness (the reverse process of global integration in which differentiated parts are made from disaggregation process of a standardized whole) [10].

Pressure of global integration (GI) is strongly affected by degree of “the globalization of market” and “efficiency gains of standardization” [10]. Along with globalization trend, globalizing market becomes more popular. There are countless standardized products in worldwide such as Apple smartphones and tablets, Coca Cola beverages, Zara fashions, to name but a few. That consumer behavior crosses over a specific country boundary and quickly disperses over the world. It benefits customers as they could receive high standard quality products at a low price. Standardization also brings competitive advantages to firms. Firms could attain efficiency from mass production, reduce cost, and control products' quality. It, therefore, seems to be the case that the higher pressure of global integration is, the more benefit both suppliers and buyers could get.

However, there is no an extreme in our real world. In many situations, when pressures for local responsiveness (LR) are high such as in Japanese market [21], an MNE is required to adapt for such demands. Each country has its own culture, customs, economics, legal systems, etc., which force firms to adjust their business operation in order to meet local needs. In a specific market, “consumer divergence” and “host-government policies” could hamper companies'

efficiency [10]. A high pressure market regarding local responsiveness pushes MNEs into local chain activities, consequently impedes standardization process and increases operation cost.

Basing on these two drivers (GI and LR) with their magnitude (degree of pressure), a strategy framework (or grid) for MNEs has been created [6] – [8],[10],[11]. There are four specific environments in which degree of pressure regarding these factors are various: low pressure in both factors; high pressure in LR but low in the other; low pressure in LR but high in GI; high pressure in both factors. Differences among these four markets demand different strategies which fit into particular situations. Four congruent strategies could be listed as international strategy, multinational (multi-domestic) strategy, global strategy, and transnational strategy, respectively (as shown in Fig. 1).

Fig. 1 is about here

1) *International Strategy:*

The development of local competitors leads to an intensively competitive market at home country. Internationalization emerges as a direction for these firms to expand their traditional market and attain more profit. International strategy is the first coming strategy which domestic firms think of when they determine to internationalize. In such strategy, the firm merely wants to leverage its competencies or ship its competitive advantages abroad. International market is viewed as a secondary one. Technologies, human resources, even products, are transferred from the parent company in home country to subsidiaries. The firm could obtain benefits by using its competitive advantages into new and low-competitive markets.

Consequently, control is not delegated to subsidiaries. Power, decision making, is centralized in headquarters. It causes inflexibility, even inefficiency, in the firm's international operation. This strategy, therefore, is appropriate and good at in only an industry, or a market, such as machinery, metals, paper, textiles, printing and publishing [15] which requires low degree of both global integration and local responsiveness.

2) *Multinational Strategy:*

When managers consider and pay more attention to foreign markets, they realize differences, degrees could vary, between home and host countries. What are successful factors in home market could not be ones in new markets. In a high demand of local responsiveness environment, firms should do more than only transferring know-how abroad. Headquarters have an essential role in filling countries' gap. In terms of products or services, exception or special adjustment could be made in order to meet unique needs in each local market. Power and authority are distributed to subsidiaries. They are autonomous and highly independent in decision making. Such decentralized structure minimizes pressures on headquarters' operation, and creates high flexibility in responding to local preference. It, however, leads to independence relationships and hampers learning and sharing knowledge between headquarters and subsidiaries as well as among subsidiaries [16].

Customers in each local market require dissimilar features for their products or services. It could be extremely costly when a firm endeavors to satisfy every consumer. Such adjustment could lead to success as being put into a remarkably different preference market which does not need a global standard product or service, especially in food, beverage or household appliances industry [15]. It means multinational or multi-domestic strategy is congruent in a market which is low in pressure of global integration, but high in pressure of local responsiveness.

3) *Global Strategy:*

Expensiveness in doing international business with multinational strategy hinders MNEs expanding their markets to over the world. Such disadvantage of multi-domestic direction, which is along with globalization trend, stimulates an appearance of global strategy in which firms consider whole the world is a marketplace. There is only one standardized product or service (taking an example of Apple smartphones and tablets) for every country. Adjustment could occur in different countries, but it is just tiny. Cost is optimal due to an efficiency of mass production.

The parent company manages over the whole operation. It distributes tasks, minimizes overlaps, integrates and shares know-how in order to utilize comparative advantages in each subsidiary and obtain efficiency [10]. Dependence is the nature of relationship between the headquarters and sub-companies which are most likely receptive [16]. Developments of technology and infrastructure are important factors facilitating global strategy in which R&D could be done in a country, manufactures are located in other ones and products could be shipped to over the world.

Global strategy aim, nevertheless, is not to meet local customers by adapting unique requirements in individual countries. It is a certainly fatal mistake if this strategy is implemented in an environment which highly requires adaptation. In other words, global strategy could perform successfully as being put in markets with low demand of local responsiveness and high demand of global integration. Construction and mining machinery, industrial chemicals, engines or smartphone and tables fields are obvious examples for industries in which customers require a high standard of products or services [15].

4) *Transnational Strategy:*

Nowadays, with the development of society, consumers' perceive is continuously enhancing. What they pay for has to satisfy their demand. Customers need high standardized products which are also suitable for their specific local conditions. In those cases, neither multinational nor global strategy is an appropriate one. MNEs' managers realize that pressure of local responsiveness and global integration should be dealt with concomitantly instead of separately. It requires a new strategy which could integrate advantages of both multinational and global ones, responsiveness to local demand and global production efficiency. Consequently, transnational strategy has occurred as a final alternative for firms which are doing business abroad.

Companies following such strategy neither have centralized nor decentralized structure. There are a collection of interdependent nexuses in which workers are spurred to communicate, share know-how and collaborate each other regardless of in subsidiaries, headquarters or among them. Subsidiaries are doing their role actively [16]. MNEs, therefore, attain a harmonization between flexibility in adopting local conditions such as culture, institution and economics and efficient operation like production, research and development. With a complex value chain, learning objective, and knowledge diffused trend, transnational strategy is the most congruent one in high pressure environment regarding both local responsiveness and global integration.

B. IR framework limitations

1) Outside-in approach – An incomplete model:

The framework is an outside-in approach in which market decides a firm's structure. Is that accurate if external environment is a unique determinant of firms' strategy? How is about internal factors' role? Is that true to ignore the role of a firm's competences, more specific is a firm's dynamic capabilities, in a process of strategy building?

Regarding a specific organization, the best strategy has to be created basing on its "existing position", "capabilities", "behavior of rivals", and "a sophisticated understanding of industry structure" [26]. According to IR theory, a firm will determine an appropriate strategy based upon its particular market which is defined by those factors. However, "what is best for one firm is not necessarily good for another firm" [22]. Reference [15] also proved that "horses for courses". Different organizations, in pursuit of above average performances, require different operational structures, strategies in different environments and circumstances. A firm would possess superior performance vis-à-vis competitors as it has an appropriate, regardless of complexity, structure to its surrounding environment.

It is the case that external environment could change an entity, but how it changes is depending on the entity itself. Basing upon IR framework, a firm's development direction is fully determined by external environment. Firms in same industries and circumstances should have similar operational strategies. The IR theory focuses upon two external dimensions but forgets another critical factor, internal capabilities that are important in strategy building. The reality in international business is showing countless companies have different global strategies even though they are in the same degree of pressure in terms of global integration and local responsiveness. It convinces us that GI and LR are not unique determinants of a firm's strategy – "the act of aligning a company and its environment" [26].

Based upon resources and competences related theories, a diversity in terms of strategy when organizations are embedded in similar environments is explained. References [2] – [4] emphasized an essential role of resources (valuable, rare, imperfectly inimitable or non-substitutable, and organized to capture value) in management via resource-based view in which current strategies are to leverage such resources, could be tangible or intangible, in order to achieve sustainable competitive advantages. Each company has its own idiosyncrasies: path, position, competencies and capabilities (competitive advantages) was pointed out in [31]. Dynamic capability view (DCV) also stresses the importance of dynamic capabilities in dynamic environment (compared to static one in RBV). Dynamic capability is "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" [31]. It represents firms' ability to obtain a new and better strategy with an appropriately organizational structure. Despite exploring different resources' perspectives (static and dynamic), both RBV and DCV share the same thought about inside-firm determinants. IR framework, therefore, just answers the question how firms behave but not why they differ [26].

2) Static Model:

Static view is a popular critique often heard of IR framework. Notwithstanding contributing significantly to international business knowledge, the model is criticized for lacking a dynamic view. By matching four international strategy types into four relevant kinds of external environment, IR grid provides usable understanding for managers who are working in global companies. This model, however, uses a specific time instead of a time process to explore those external conditions and their suitable strategies. The framework, therefore, does not provide a dynamic depiction of multinational companies in making changes regarding strategy in response to effects of GI and IR pressures [27].

References [24] advocated an importance of dynamic capability in maintaining firms' competitive advantages as providing evidence that when a current relationship does not bring any more profit and becomes a burden, the firm would end up and start a new and promising one. Nowadays, the global market has become more and more uncertain due to technology development, especially in medical equipment, computer, and computer software [12]. There are many well-known international companies used to flourish five or ten years ago, but are struggling to survive today. Taking Yahoo, Nokia, or Blackberry for example. Such is a vivid evidence for the fact that time passing could change environmental characteristics. In other words, a new business environment would appear. Consequently, current strategy would become irrelevant. If firms do not realize and change their strategy according to environmental dynamics, low performance would be inevitable.

IR framework, therefore, does not touch core issues that MNEs are facing in the real world. And a requirement of enhancing the model with a dynamic view is necessary.

III. DYNAMIC IR FRAMEWORK, A NEW CONCEPT BUILDING FOR INTERNATIONAL BUSINESS

External environment and suitable strategies are clearly explicated in IR grid. Certainly, along with time, environment would change and lead to irrelevance of the current strategy. Some firms would, sooner or later, fail if they maintain strategic processes, while others could sustain their competitive advantages when they modify or change strategically according to external conditions. Those strategic transformations pursuing profit growth are illustrated obviously in the

dynamic IR framework. To be specific, a firm is operating well with international strategy could implement global strategy when it sees changes in external environment in which the new strategy is more suitable. Other form of strategy could be applied when the environment differently changes. In short, there is no limitation of direction as well as times of strategic movements. It completely depends on how and how frequent the ecosystem changes.

There are totally 12 strategic movements of MNEs from one quadrant (strategy) to another in the dynamic framework. All of these movements would be described as follow.

A. Strategic movements from International Strategy

When doing business in markets that require low degree in both global integration and local responsiveness, international strategy is the most suitable strategy for an MNE. When either of determinants, even both, changes to high pressure, such strategy is no longer fit to the external environment. It requires a new strategy which is a result of a strategic transformation from the original one as in Fig. 2.

Fig. 2 is about here

1) To Multinational Strategy:

As customer preferences become significantly different among countries that could be obviously observed in a global market expansion into new and heterogeneous markets [10],[19],[23], different markets would require locally appropriate value chains. Such customer divergence could be caused from diversities regarding culture, custom, demographics, etc. Differences in terms of regulations and policies among current and new markets could be another factor. To obtain local responsive value chains and meet local needs, the MNE must transform itself and follow multi-domestic strategy. An expansion of Haier, a Chinese electronics company, to U.S market is an example of this case [9],[14]. Beginning with product export into U.S in 1990s, Haier created a manufacturing base and design center in 2000s and changed U.S customer's perception about an American brand instead of the Chinese one.

2) To Global Strategy:

Only exporting core innovation in home country to foreign market could not sustain high performance for a long time. Globalization with development of technology may lead to congruence in different markets' needs [1],[18]. Worldwide customers expect to find global goods that have global quality in many countries. Such kind of demand creates high pressure of global integration. As a result MNEs would tend to move toward the global strategy.

3) To Transnational Strategy:

In the case of both determinants change to high degree, transnational strategy is a goal of MNEs. It is the combination of both multinational and global strategies. This movement, however, is not an easy task because at the same time, the firm must obtain both local responsiveness value chain and standardization processes. Zara is considered as a typical example [10]. The fashion company started its international business with international strategy that is suitable for the first step of global expansion. This approach, however, was inefficient and inefficacious. Zara, therefore, determined an innovative strategy, transnational one, that helps in achieving global efficiency, satisfying local preferences simultaneously, and sustaining successes.

B. Strategic movements from Multinational Strategy

Basing upon IR framework, multinational strategy is suitable in markets that highly require in only local responsiveness. A requirement of a new strategy happens when the external ecosystem changes along with time. There are theoretically three strategic movements according to three ways of movements in terms of environment as in Fig. 3.

Fig. 3 is about here

1) To International Strategy:

In an era of internet, information could be shared quickly and prevalently. Divergence could be displaced by convergence regarding customers' preferences. It shifts local responsiveness dimension back to low degree. In this situation, maintaining multinational strategy structure would cause high cost in operation due to overlap in functions and products of subsidiaries. Competitive advantage would be erased. Consequently, low, even negative, profit is inevitable. To deal with such problem, moving backward to international strategy is a smart choice for multinational companies (MNCs). Carrefour [10] exemplifies for this movement. High cost of multinational approach to cope with U.S.A local preference led to its withdrawal from US market and coming back to the international one.

2) To Global Strategy:

Sensing trends in host-country governments such as less regulation, more freedom in trade, etc. that could make local adapting strategy become a disadvantage, a firm would actively give up the multinational strategy operation. At the same time, efficiencies from standardization processes, which reduce cost and improve products' quality, are a motivation to implement global strategy one. IBM, after flowing multinational approach and facing operation cost of redundancy, decided to globally integrated [10]. Efficiency and high quality became its first priority.

3) To Transnational Strategy:

When local competition additionally requires an MNE to provide low-cost but high-quality products to compete rivals, it must standardize processes to obtain efficiency and effectiveness while maintain locally responsive value chains. That

means a matrix and complicated operation structure, transnational strategy, is a unique choice for the integrated goal. Before a long time implementing multinational strategy, in late of 1980s, P&G followed a matrix operation structure that combines complete functions of 26 product categories and individual location managements [5]. This transformation was stimulated by profit limitation and inefficient processes of new product launch that eroded its competitive advantages.

C. Strategic movements from Global Strategy

Global strategy is used in markets with low degree in local responsiveness, but high in global integration. Because of uncertainty, business environment changes lead to inappropriacy of the strategy. To survive and thrive, sooner or later, a new strategy, which adapts environmental movement, is applied as in the Fig. 4 below.

Fig. 4 is about here

1) To International Strategy:

Basing on the theory of IR framework, a strategic movement from global strategy to international strategy exists when high pressure of global integration becomes low one. It might be a result of a significant decrease of supply-push condition of globalization. A contraction of global market is an exemplification. Economics of scale could not be obtained. Mass production and mass distribution is no longer advantages. In such situation, to reduce operation cost and recover performance, the firm must turn to international strategy.

2) To Multinational Strategy:

MNEs are likely to ignore consumer divergence when benefits from standardization is still higher than ones from customization. However, when expanding to new markets or countries whose cultural predisposition and/or nationalism are relatively strong, firms need to sacrifice their efficiency in operation to maximize local customers' needs. Redesigning local value chains and tailoring products could be implemented. Such transformation is a manifestation of strategic movement to multinational strategy.

3) To Transnational Strategy:

As customers' preferences change to products that satisfy their distinctive, even expensive, while the firm still wants to maintain its standardization, a compromise between two determinants must be made. Transnational strategy structure appears as a unique solution to solve such difficulty. Consequently, a transformation in structure is inevitable. Coca Cola is a global brand with standardized processes and global quality. It is, however, is not the company's unique objective. Meeting specifically local preferences is also its target. As a result Coca Cola has become a giant that implements transnational strategy [29].

D. Strategic movements from Transnational Strategy

Transnational strategy is considered as the highest level in terms of complexity in IR grid. It allows the firm to achieve advantages of both global and multinational strategies. In addition, knowledge among subsidiaries and headquarters is facilitated and encouraged to be shared. A transnational enterprise has power as well as high adaptation to markets. In real world, such firm would rarely change its form to a lower-level structure unless it is forced by host governments or because of some macro reasons. However, there are theoretically 3 strategic movements of transnational firms when external environment changes (see in Fig. 5).

Fig. 5 is about here

1) To International Strategy:

Imagining that because of some reasons such as wars or economic downturns, an MNE's surroundings become simple – low pressure in both global integration and local responsiveness. It would not be necessary to maintain a costly and complex control system in such environment. To obtain defined targets and save operation cost, international strategy structure becomes more appropriate.

2) To Multinational Strategy:

Host-governments policies could be a reason for this change of MNEs. In crisis, for example, those governments often monitor tightly international enterprises. More rules and requirements are announced. To adapt such business regulations, firms have to give up their efficiency and put more efforts into local responsiveness in order to overcome the financial difficulty period.

3) To Global Strategy:

In contradistinction to local policies, free market principles eliminate political differences among countries. It is becoming a trend in many areas. Such condition discourages dispersing activities. Local responsiveness configuration becomes excess and should be cut off, while standardization and central control become more essential. As a result, the transnational strategy structure is displaced by a global one.

IV. STRATEGIC MOVEMENTS UNDER AN EXPLANATION OF DCV

IR framework has been playing a prominent role in elucidating how critical an ecosystem, that a specific firm is embedded in, is in configuring its international strategy. Changelessness, however, is an inherent weakness that exists not only in this model, but also common in others. In a need of a theory that could deal with progressive changes, the

appearance of DCV was as a consequence. According to [30], a firm's dynamic capabilities are fully manifested via a process from sensing opportunities (threats), to seizing such opportunities (avoiding threats), and finally to transforming (managing threats) that is shown in Fig. 6. This part of the research, therefore, elucidates these strategic transformations under processes of sensing, seizing and transforming.

Fig. 6 is about here

In a market with low demand of both local responsiveness and global integration, a firm should follow international strategy (according to IR theory). When the market's features change or the firm expands its business to a new market which requires highly in the former factor, international strategy would be no longer fit. In pursuit of continuous success, the firm, must implement a new and appropriate strategy, multinational one. However, such transformation is not an immediate result. It comes from a progressive process starting with sensing opportunities or threats.

As the requirement of local responsiveness increases, while the low degree of global integration still remains, only leveraging and exporting core competencies and innovations from home market to foreign markets would not create any more competitive advantages. To achieve sensing capabilities, firms must possess analytical systems to learn, shape and measure effects of environmental uncertainty. An enterprise could be aware these latent changes in advance only by sifting through its ecosystem. Taking Honda R&D as an example. Understanding differences between China market and Honda traditional markets helps the company to actively orchestrate a new strategy, multinational strategy, in China [13]. Nevertheless, not every firm has such ability. Some of them recognize just after missing the opportunity or acknowledge when they are confronting the difficulty. STAR, or Satellite Television Asia Region, had experienced years of profit loss before having cognizance of its issue and making changes [25]. Sensing, therefore, is an important determinant of high performance sustenance.

After shaping opportunities (threats), involving to the second step of the process, grasping opportunities (or eliminating potential harms), is necessary. Through investing in relevant assets such as human, technologies, knowledge, etc., an MNE could change its resource bases. Such changes would determine success or failure in seizing opportunities (avoiding threats) [30]. Following the previous case of strategic movement, after recognizing gaps between home market and abroad ones, the headquarters may put more efforts to avoid disadvantages and create new advantages. Human resources and value-chain design must be invested with a high priority. Local managers are delegated power in decision-making. They now involve a complete process of decision-making that requires necessary management abilities. Subsidiaries become independent organizations in which the value-chain is their prerogative. To adapt and meet local customers' needs in time, the local sub-company's marketing, R&D, production, and distribution departments must effectively cooperate, collaborate, as well as share information and know-how. Such kinds of investment help MNEs to change intangible assets (resource bases) and create above average performance (avoid threats/grasp chances).

Profitable growth, a manifestation of successful change, however, usually causes conflicts between new resource bases and a path-dependent way (old resource bases that used to be deployed efficaciously in old business environment). To sustain this above average performance, arguments must be dealt with by transformation or reconfiguration. Irrelevant routines would be comprehensively displaced by congruent ones, which are critical to maintain high performance until a new opportunity or threat is sensed [30]. After successful changes from orientation to value chain configuration, the strategic movement ends with a change in management structure. The centralized structure would be totally replaced by a decentralized one. Such transformation in overall structure marks finishing of strategic movement process that is consistent with the dynamic capabilities process as in [30].

This theoretical explanation illustrates how necessary strategic movements are for an MNE in environmental uncertainty. Obviously, such strategic movement is an intended action to create a new and appropriate organizational form to the market in which it is embedded in. It implies this firm possesses and deploys its dynamic capabilities into such critical movement [17],[20]. Further, in future, when external factors change again, the firm would need to upgrade its current resource bases in order to achieve a new configuration that fits to these changes (could be another new organizational form or back to the previous one).

V. CONCLUSION

IR grid, that maps suitable international strategies for different types of market, contributes significantly to IB management. Its value, however, is bounded by its static feature. To improve this framework, we, hence, bring a new concept, dynamic IR grid, to IB field. It considers four strategies and their surroundings not only at a specific point of time, but also for a long period that is possible for changes regarding both environments and strategies. Dynamic IR framework, therefore, is a key of being successful in uncertain environments. By introducing the dynamic framework, the research provides an important managerial implication that conducting pertinent strategic movement in order to positively respond to the environment changes. This does not only contribute significantly to IB theory, but also is critical for MNEs to survive and success in the global market.

Developments of innovation and technology make rapid changes of external as well as internal factors that cause inappropriateness of many existed theories like resource-based view, five forces model, and IR grid, etc. Such integration of DCV into IR framework, therefore, introduces a new means of dynamizing static theories that is really necessary for IB field today. This paper hopefully could trigger a collaboration trend among different streams scholars that motivates the evolution of IB field. In future, by combining with DCV, an exhaustive explanation of other static theories could be provided.

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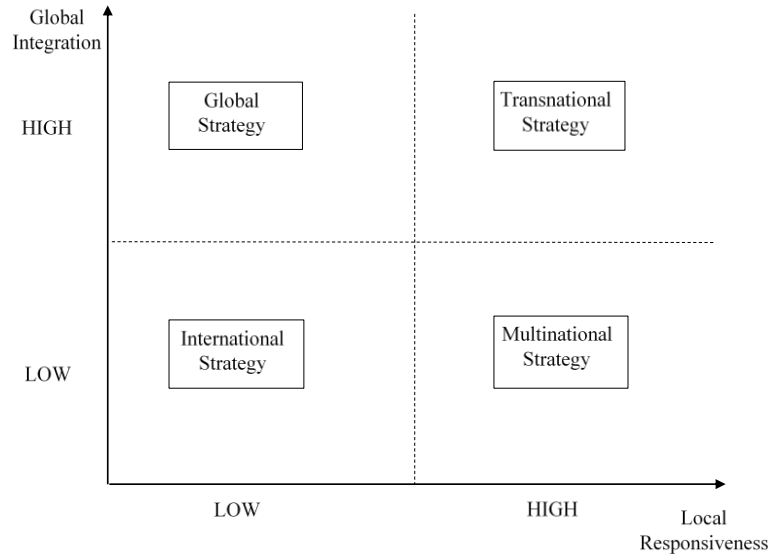


Fig. 1 The Global Integration and Local Responsiveness Framework

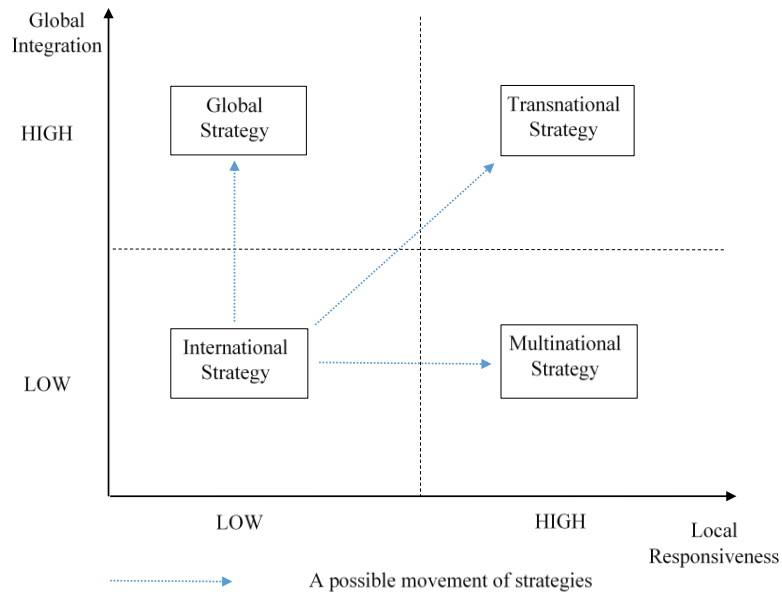


Fig. 2 Possible Movements of International Strategy

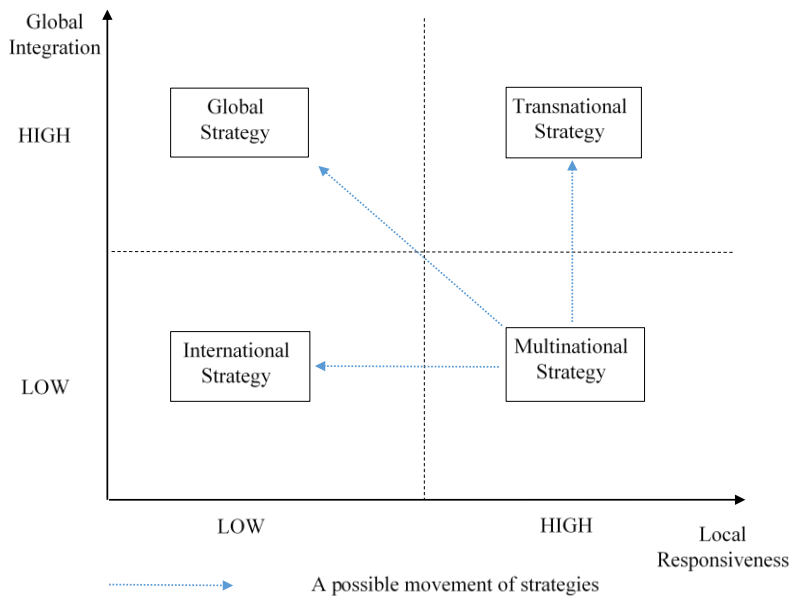


Fig. 3 Possible Movements of Multinational Strategy

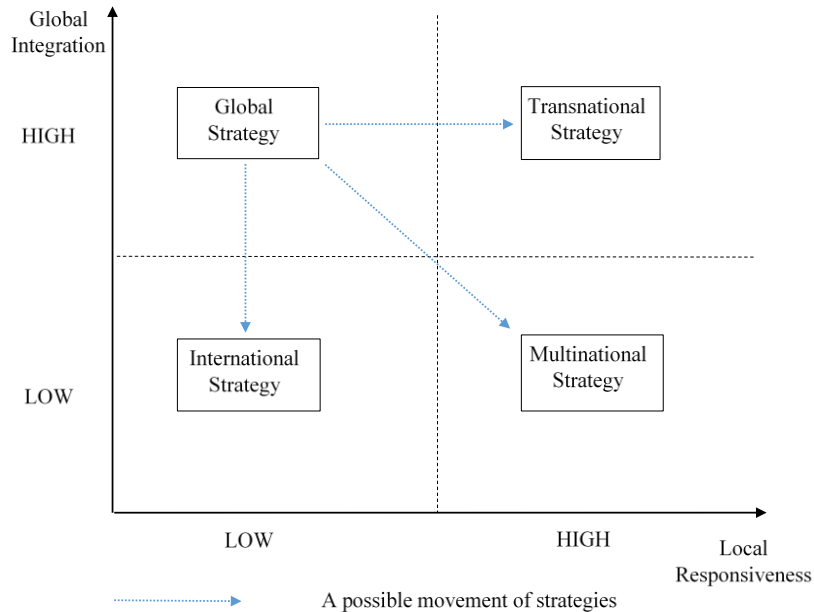


Fig. 4 Possible Movements of Global Strategy

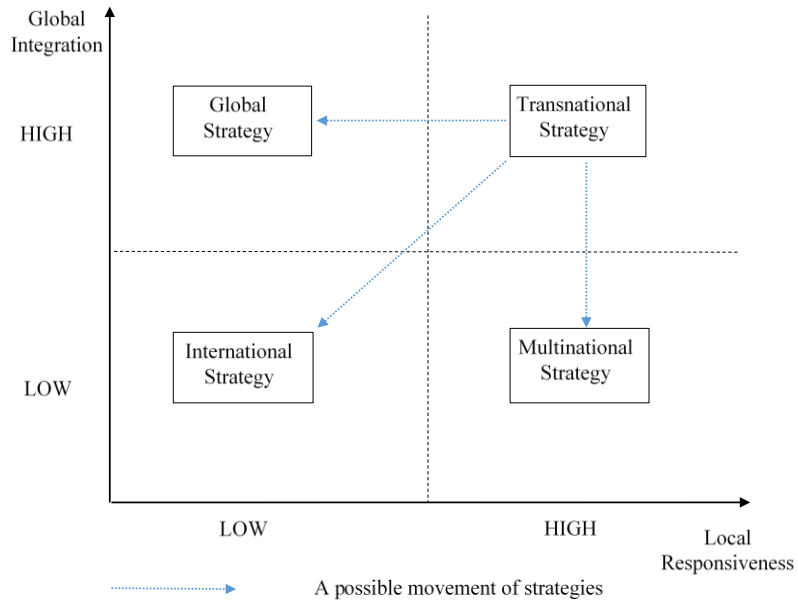


Fig. 5 Possible Movements of Transnational Strategy

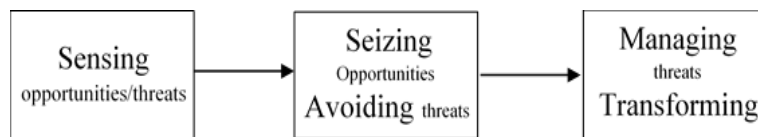


Fig. 6 Dynamic capabilities process