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## From going international to being international – strategies for international competitiveness<sup>1</sup>

**Abstract:** While the international business and international entrepreneurship literature has commonly focused on market entry mode choices, the increase of a firm's international involvement causes changes in different aspects, such as the configuration of value chain activities, the design of the organisational structure and business processes. Given the inconclusive research on the relationship between internationalisation and corporate performance, we argue that the impact of internationalisation on a firm's competitiveness is contingent on its stage of advancement. The analysis of four case studies shows that different dimensions of competitiveness are affected at rising levels of commitment to foreign markets. However, the organisational challenges related to managing international operations require strategy adaptations so that the firm can remain internationally competitive.

**Keywords:** internationalisation process, multinational companies, firm competitiveness, case study approach.

**JEL codes:** F23, M16, M21.

### Introduction

While the debate regarding the “big question” driving international business research is ongoing [Buckley 2002; Shenkar 2004], the internationalisation of firms, its motives, patterns and processes have been unanimously recognised as one of the major

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themes in this discipline [Griffith, Cavusgil & Xu 2008, p. 1224; Seno-Alday 2010, p. 21]. Wrona and Breuer [2008, p. 23] underline the role of internationalisation as a key component of corporate growth strategy. Thus, as Peng [2004, p. 105] put it, the predominant interest of international business research should lie in the explanation of “international success and failure of firms”. Meanwhile, decades of research devoted to the link between a firm’s internationalisation degree and its performance have generated inconsistent results [Li 2007, p. 123]. This is somewhat surprising given the fact that the issue of maximising performance in foreign markets lies at the heart of internationalisation theories [Glaum & Oesterle 2007, p. 308]. As it has been argued, the difficulty related to studying this complex relationship stems from the fact that the increased exposure to foreign operations increases the possibilities for enhancing firm competitiveness, yet simultaneously adds to its organisational complexity.

At the same time, the popular concept of firm internationalisation has been subject to criticism, among others for its deterministic and unidirectional character, which can obscure its complexity and the role of managerial intent. Moreover, while a lot of attention has been paid to the choice of foreign operating modes and host countries, there are other relevant dimensions of the process, which undergo substantial changes as firms become more internationalised. We argue that a more complete understanding of the link between internationalisation and firm competitiveness can be achieved by analysing different dimensions of internationalisation, whose importance can differ depending on the advancement of foreign expansions. Internationalisation can be seen as a source of new competitive advantages on the one hand, yet it requires adaptive measures to effectively manage the rising organisational complexity, on the other.

Accordingly, the purpose of this paper is to explore the “how” of the link between internationalisation and firm competitiveness. Thereby, we draw on extant literature on internationalisation dimensions (Section 1) and on competitiveness dimensions (Section 2) to propose a conceptual framework to study this complex relationship. Subsequently, by using a qualitative methodology outlined in Section 3, we explore the influence of different aspects of the internationalisation strategy on firm competitiveness, focusing both on the role of foreign expansion itself and on the adaptive actions, which companies need to undertake in order to remain competitive faced with the increasing environmental complexity. In Sections 4.1–4.4 we present the analysed cases. Finally, we summarise the findings to provide suggestions for future research.

## **1. Internationalisation as a multidimensional phenomenon**

Welch and Luostarinen [1988, p. 36] define internationalisation as “the process of increasing involvement in international operations”. Given the organisational and

environmental complexity, which increases with the extension of a firm's international activities [Verbeke, Li & Goerzen 2009, p. 152], it seems legitimate to adopt a more holistic definition of internationalisation as “the process of adapting firms' operations (strategy, structure, resources, etc.) to international environments” [Calof & Beamish 1995, p. 116]. This adaptive approach implies that internationalisation should be regarded not merely from the perspective of entering foreign markets, but more broadly – that of developing and managing international operations. The literature on international entrepreneurship extends this view by stressing the role of innovative, proactive, and risk-seeking behaviour as a source of value creation [McDougall & Oviatt 2000, p. 903]. In this vein, Andersson and Florén [2008] argue that managerial characteristics and behaviour are critical determinants of a firm's internationalisation process. The decision-making approach in international management examines the character of decision making processes, particularly in SME internationalisation, whereby decision makers are exposed to a high degree of uncertainty and goal ambiguity [Acedo & Jones 2007]. Schweizer [2012] finds that the decision-making behaviour in the internationalisation process of SMEs changes from a muddling-through approach to rational decision-making with the increase of international experience and knowledge, as well as a decrease of goal ambiguity.

Meanwhile, the choice of foreign operation modes traditionally remains the dominant object of analysis within the mainstream literature on internationalisation strategy [Calof 1993; Fletcher 2001; Wrona & Trąpczyński 2012b]. This seems understandable given that the initial mode choice is critical to establishing the basis for further foreign market penetration [Benito & Welch 1994; Welch & Luostarinen 1988; Wrona & Trąpczyński 2012a]. Since market entry modes are a determinant of resource commitment to a foreign market, they are a relevant strategy dimension in managing the international involvement. As entrants tend to combine different operation modes in a given market, a foreign involvement should not only be measured by the depth, but also diversity of entry modes [Benito, Petersen & Welch 2009, p. 1458]. However, the dimension of operating modes cannot fully reflect the internationalisation process, since a partial increase or withdrawal in terms of operating modes might not be indicative of the overall exposure to cross-border operations [Turner & Gardiner 2007]. A substitution of the changed operating mode through other modes or the transfer of resources to other countries can increase the international market share [Chetty 1999, p. 137]. Thus, the analysis of international strategy should also include decisions about the extension of the geographical scope of operations [Welch & Luostarinen 1988, p. 40]. According to the process approach, internationalisation follows an incremental pattern from geo-culturally close to more distant markets [Johanson & Vahlne 2009; Andersen 1993]. Thereby, companies can allocate their resources over a limited number of markets or follow a strategy of market diversification. However, the strategy of diversification can lead

to a decrease of the number of markets in the long run, as a result of re-concentration and exit from less profitable markets in the international portfolio [Cairns et al. 2008]. A fast rate of expansion can result in a limited managerial attention, thus exposing entrants to mistakes in the market choice and resulting in subsequent de-internationalisation [Ayal & Zif 1979, Bamberger & Upitz 2007].

International firms can offer different products, depending on the decisions about their product-market combinations [Bamberger & Delic 2010, p. 17]. However, many studies on foreign expansion do not account for the fact that distinct product divisions of a single company can in fact follow separate internationalisation paths. The conceptual differentiation between geographic market and product market diversification is relevant for several reasons. Internationalisation can namely be initiated not only at the corporate level, but also at the level of strategic business units, offering different product lines and thus constituting separate decision centres within the corporate network [Forsgren & Johanson 1992]. Previous research has emphasised synergies between product diversification and international diversification in determining firm performance, as product diversity can be a source of enhanced managerial capacities, efficient structure and better governance [Hitt, Hoskisson & Kim 1996]. On the other hand, it can be expected that decisions concerning the growth or contraction of product divisions of the parent firm can also affect the diversification of international markets in which they operate. Hence, changes in the internationalisation strategy should be regarded from the perspective of the changes in product strategy. Since there is evidence for a performance decline in line with decreasing relatedness of industries [Wernerfelt & Montgomery 1988], it can be expected that a change in the product-market combinations can impact upon the international strategy and its performance implications.

Furthermore, while the operating modes within one foreign market and for one given product unit might remain constant, the extent of value added by a foreign venture can vary. A wholly-owned subsidiary can carry out different activities along the value chain. Moreover, in a particular country, different entry modes can be used by a company to handle different parts of the value chain [Benito, Petersen & Welch 2009, p. 1457]. Changes in foreign governance of value adding activities can be seen from a global strategy perspective, depending on decisions concerning international concentration or dispersion of activities [Porter 1986, p. 25]. This can result from critical success factors of the company's industry, ranging between the need for global integration of value activities and the increase of operating efficiency, and the need for local responsiveness and adaptation to the local market environment [Bartlett 1986; Prahalad & Doz 1987].

Finally, the rising complexity of international activities requires companies to integrate differentiated parts of the entire system [Jarillo & Martinez 1991, p. 296]. The strength of integration of international involvements into the corporate network can express itself in the interdependence of resources and responsibilities be-

tween the units of a multinational corporation [Harzing 2000]. As companies internationalise and become more diverse, the flows of goods, resources and information among organisational units need to be coordinated [Bartlett & Ghoshal 1987, p. 49]. Companies can develop mechanisms to coordinate the differentiated and interdependent organizational units, along several dimensions, such as centralisation, based on formal authority and hierarchical mechanisms [Bartlett & Ghoshal 1989, p. 183], formalisation of decision-making through bureaucratic mechanisms, such as formal systems, rules and procedures, as well as normative integration, relying on shared values and objectives [Gupta & Govindarajan 1991, p. 779]. However, the analysis of international operations should be further enhanced by incorporating the network approach to embrace the external relationships of a firm [Fonfara 2011, p. 8]. According to this view, the network of customers, competitors, suppliers and other actors in international markets plays a crucial role in achieving the firm's long-term goals [Johanson & Mattson 1988]. Chetty and Blankenburg-Holm [2000] regard internationalisation as a process driven by the creation of relationships with network partners in new foreign markets, through increasing commitment to extant foreign networks and through integrating positions in networks in different foreign markets. Thus, given the relevance of both internal and external international networks in the internationalisation process, their integration and management should be regarded as an important determinant of a firm's international competitiveness.

Obviously, one should note that there are important interrelationships between the said dimensions of internationalisation, which have recently been discussed in international management and international entrepreneurship literature. The strategic-thinking approach emphasises the links between a firm's strategic orientation and its internationalisation patterns, processes and pace. Bell, Crick and Young [2004] found important differences between the internationalisation processes of knowledge-intensive and traditional manufacturing SMEs, the latter being involved in foreign markets from the very beginning of their operations, relying on foreign networks to a larger extent, entering a larger number of export markets with new «global offerings». Hagen et al. [2012] identify four broad strategic types of SMEs, namely an entrepreneurial group, a customer-oriented group, a product-oriented group and a group without strategic orientation, and indicate that a clear and proactive strategic orientation results in higher international performance.

To sum up the above discussion, the internationalisation process implies changes along several dimensions. Defining a firm's international footprint merely in terms of its international sales or the number of foreign direct investments would therefore present a simplified image. For instance, not only the number, but also the geographic-cultural distance of countries should be considered, as more distant markets are argued to increase the firm's internationalisation degree [Kutschker & Baurle 1997, p. 105]. Moreover, the presence in a given foreign market will differ in terms of the

realised value chain modules, such as purchasing, R&D, manufacturing, logistics and sales. It has been suggested that the extent and diversity of foreign added value activities also determine the internationalisation degree [Kutschker 1994, p. 135]. It was further underlined that – since an increased internationalisation requires an enhanced integration of the whole company – a higher mutual interdependence and intensity of resource flows between subsidiaries, as well as a higher unification of shared values, norms and beliefs imply a higher degree of firm internationalisation [Kutschker 2002, pp. 51–52].

One can argue that depending on the development stage of a company, emphasis will shift between the above discussed dimensions. Therefore, following the classification of Ringlstetter and Skrobarczyk [1994, p. 341], three successive maturity stages of firm internationalisation can be distinguished, starting from the internationalisation of the product-market strategy, through the internationalisation of value activities, to the most advanced stage of internationalisation of the organisation, in which more or less autonomous parts of the international network need to be integrated into the corporation.

## **2. Internationalisation and competitiveness – a conceptual framework**

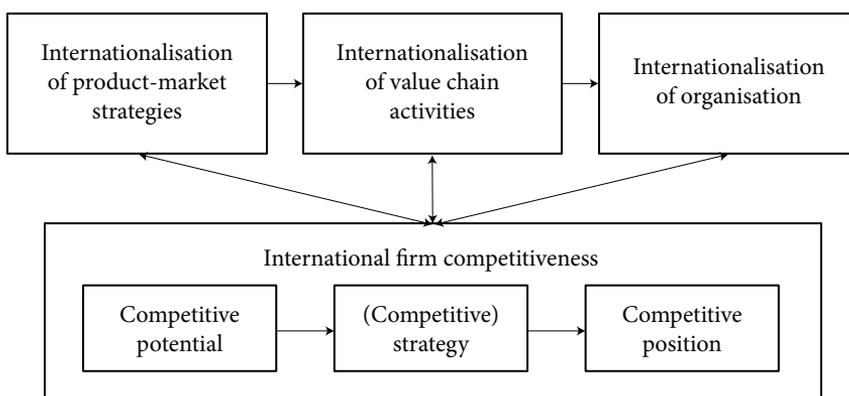
Despite the large number of empirical studies devoted to the internationalisation-performance link, their statistical findings have been inconsistent, ranging from a positive to an insignificant, or even negative, relationship [Matysiak & Bausch 2012, p. 198]. In a call to better explain the performance effects of internationalisation, it has been argued that research should “unbundle the substance of the multinationality” [Verbeke, Li & Goerzen 2009, p. 150]. The mere use of simple measures, such as the ratio of foreign sales to total sales or the number of foreign subsidiaries blinds out the complexity related to internationalisation, discussed in the previous section, which results in both benefits and costs for the parent firm. In order to enhance performance, the internationalisation process requires the firm to both exploit and develop firm-specific advantages [Śliwiński 2012, p. 21], as well as profit from the host country-specific advantages [Verbeke & Brugman 2009, p. 273]. This argument leads to the other side of the equation, performance, which has been predominantly operationalised with accounting-based or market-based financial indicators [Li 2007, p. 130]. While corporate results are indeed a focal variable studied in strategic and international management, such a narrow focus obscures other important gains from firm internationalisation, which have been discussed in extant literature. As it was argued by Dunning and Lundan [1998, p. 118]:

“[...] as firms become more multinational and globally integrated in their value added activities, they are likely to derive an increasing proportion of their core assets from outside their national boundaries and, indeed, may deliberately seek out foreign assets which they perceive will help augment or complement their home based competencies”.

Empirical results indicated that a rising internationalisation degree increases the role of foreign sources of firm competitiveness [see e.g. Dunning 1996; Dunning & McKaig-Berliner 2002]. In an attempt to classify the sources of competitive advantages of international companies, Ghoshal [1987, p. 428] distinguished between the benefits from national differences, scale economies and scope economies. The realisation of specific advantages of each of these types is related to the firm's strategic objectives, which include achieving efficiency in current operations, managing risks, as well as innovation learning and adaptation.

Given that internationalisation can affect the competitiveness of firms in a broader sense, performance being only one of its aspects, it seems useful to define competitiveness more precisely. According to the concept of Gorynia [2002, 2004, 2005], firm competitiveness can be subdivided into competitive potential, competitive strategy and competitive position. The competitive potential embraces the resources used by or available to a company, as well as its corporate culture, organisational structure, strategic vision or strategy formulation process [Gorynia 2004, p. 2]. The competitive strategy is a set of instruments aimed at generating a competitive advantage necessary to reach a favourable competitive position. The competitive position, in turn, can be defined as the result of market evaluation of a firm's offering, which expresses itself, *inter alia*, in relative profitability, market share or product features as compared to competitors [Gorynia 2002, p. 95]. Linking the three dimensions, it can be argued that the competitive strategy is an analytical category allowing to move from the competitive potential to the competitive position. A similar conceptualisation can be found in the German stream of strategic management, whereby Bamberger and Wrona [2012, p. 20] see the foundation of competitiveness in the success potential, comprised of resources necessary to reach strategic objectives. Success potential may result from both the characteristics of markets and industries in which a company is engaged, and from a firm's position in a certain industry. Therefore, success potential can be achieved by a choice of markets maximising the value of possessed resources and the used strategies.

The discussion of internationalisation stages on the one hand, and of competitiveness dimensions on the other, presented in Sections 1 and 2, can be summarised in the form of an analytical framework for studying the influence of internationalisation on firm competitiveness (see Figure 1). Based on the analytical framework, we tentatively formulate a proposition that:



**Figure 1. An analytical framework of the internationalisation impact on competitiveness**

P: The influence of internationalisation on firm competitiveness is contingent on its stage of advancement.

This relationship is two-way, since the internationalisation strategy can play a role in enhancing a firm's competitiveness, while the latter can simultaneously be seen as a condition for a successful internationalisation.

### 3. Data collection and analysis

The main objective of the paper is not to test the impact of the internationalisation degree on firm competitiveness, which may seem relatively intuitive, but to explore the substance of this relationship. Thus, emphasis is placed on the influence of and strategies for enhancing different firm competitiveness dimensions, as firms' progress along the stages of their internationalisation process and both face pressures towards managing additional complexity on the one hand, and gain new possibilities to improve their performance on the other. Given the present objectives, we adopt a qualitative approach, which can be useful in providing fresh insights building on prior theory and may help to unfreeze thinking [Eisenhardt 1989; Bluhm et al. 2011]. On the other hand, it would be naïve to assume that a researcher could approach the data without theory [Wrona & Gunnesch 2012]. Therefore, it is relevant to bare prior knowledge and to use it as a point of departure to develop a theoretical framework, which can enrich extant knowledge in the field (see Figure 1). The use of the analytical framework enabled to structure the interview guide and support the analytical process.

## Summary of data collection

Case study	Respondent position	Respondent location
Schering	ex-marketing and sales director, commonwealth of independent states	Berlin, Germany
Jungheinrich	head of group controlling	Hamburg, Germany
CWS-boco International	chief financial officer	Duisburg, Germany
Bombardier Transportation	head of talent management	Berlin, Germany

The case selection followed the principle of theoretical sampling [Corbin & Strauss 2008]. Accordingly, the sampling process was aimed at identifying cases relevant to the research objectives. Thus, in order to be eligible for inclusion in the study, the chosen cases had to refer to different stages of the internationalisation process. Thereby, according to the principle of maximal contrast [Corbin & Strauss 2008], we could ensure the variation of internationalisation phases and complexity levels, ranging from market entry, over an international configuration of the value chain, to the integration of international operations. The study comprised four in-depth, semi-structured interviews, with durations ranging between 70 and 180 minutes (see Table). We implemented an interview guide of open-ended questions, with introductory questions designed to gather information on the internationalisation stage (e.g. entry mode, organisational arrangement, strategy aspects involved in managing international operations), the role of international operations in increasing firm competitiveness or, on the other hand, requiring the firm to undertake adaptive actions to increase performance. By interviewing respondents directly responsible for strategy implementation, we were able to reconstruct cases in detail and better place them in their original context [Evans 2010]. The analysis took place on the basis of this verbal data. As the recipients sometimes refer to additional firm-specific documents or charts, we integrated these kinds of written data, as well, and complemented our findings using a data triangulation approach [Flick 2004; Yin 2009].

## 4. Case studies

### *4.1. Internationalisation of markets – the case of Schering in Russia*

With its innovative products, Schering AG belonged to the worldwide leaders in specialist pharmaceuticals already at the beginning of the 1990s, operating through a network of 130 subsidiaries in the world. Its activities embraced four business areas: gynecology, oncology, special therapies and diagnostic imaging. Schering had

revolutionised the contraceptives market with the introduction of the “pill” back in 1961, which gained a global market share of 50% already in 1971. The acquisition of Schering by Bayer AG in 2006 was primarily motivated by the integration of the pharmaceutical businesses of the two firms and the realisation of synergies in terms of product offering. Bayer HealthCare Pharmaceuticals (formerly Bayer Schering Pharma), headquartered in Berlin, now belongs to the ten top pharmaceutical specialists in the world. The company generated revenues of almost € 10 billion in 2011, whereby Schering brands accounted for 2/3 of the sold drugs.

Despite a growing demand for medicines related to the increased life expectancy and a simultaneous surge of chronic diseases, allowing for a stable growth even in times of global recession, the dramatic rise of research & development costs in the industry leads to a pressure on cost reduction. Moreover, a successful development and a possibly wide market introduction of blockbuster<sup>2</sup> drugs can be regarded as a condition for survival. In this context, a rapid expansion into foreign markets occupied a particular position in the growth strategy of Schering.

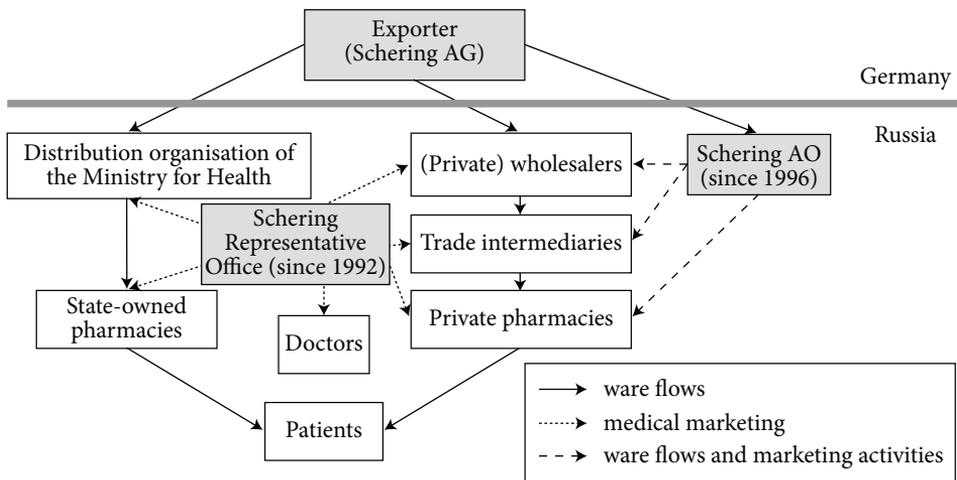
A natural course of expansion at the beginning of the 1990s was Central and Eastern Europe (CEE), whose political transformation opened significant markets for Western firms. The Russian market alone, with its population of ca. 140 million and positive GDP growth forecasts, showed an enormous potential despite its still limited income per capita. From the perspective of Schering, the primary issue related to the uncertainty of entering an unknown market, on which no reliable market reports existed, as it was usual in the case of developed markets. This lack of knowledge significantly hindered identification of the market structure, particularly in terms of the state-owned distribution channels and credibility of local business partners. Moreover, drug manufacturers were subject to bureaucratised and highly arbitrary registration procedures, necessary to introduce drugs to the Russian market, which immensely prolonged the time-to-market. However, these delays differed between firms, depending on their informal relationships with authorities and hence the ability to influence the formal procedures. On the demand side, the high inflation rate afflicted the purchasing power of Russian patients, while the drug reimbursement by the state was limited due to budgetary constraints and subjected to highly arbitrary procedures. The low political stability and legal security posed a direct threat to the operations of foreign entrants, as the bureaucratic rules for business activity and the complex fiscal laws deteriorated the business planning process due to their constant and unforeseeable changes. While the patent law was in place, its violations and the diffusion of copy or fake products were commonplace, eroding the profits of original drug manufacturers.

In spite of these risk factors, Schering seized the opportunity to enter the Russian market immediately after the political change in CEE and opened the first repre-

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<sup>2</sup> A drug which generates annual sales of at least \$1 billion.

sentative office in Moscow in 1992. The geo-cultural proximity, existing traditional trade contacts with the regional markets and the perspectives for economic transformation in the region facilitated this decision. Schering could also benefit from the experience of entering other CEE countries in 1991, as well as prior expansion to China. The entry mode choice had a concrete rationale, resulting from the evaluation of the outlined risks and market potential and – in this sense – constituted a strategic compromise between minimising the risk exposure and enabling a rapid market penetration. For this “first landing” stage, the management decided to support the exports from Germany with several branches of the Moscow representative office, thus establishing a minimal footprint in financial and administrative terms. The office employed local medical consultants responsible for the development of contacts with practitioners, medical institutions and pharmacies. While it did not possess legal autonomy and could not engage in trade and marketing activities itself, it nevertheless fulfilled several relevant objectives. Firstly, the demand for products in certain market niches, such as contraceptives or menopause treatment, was constrained due to cultural barriers and ignorance and hence required an active development in intensive cooperation with individual doctors and health authorities. Secondly, a critical success factor for the strategy implementation was the reliance on formal and informal contacts with local authorities, allowing to evade the arbitrary procedures for drug registration and reimbursement. Thirdly, the representative office enabled to develop a more complete knowledge base on the local market and the further evolution of the unstable political framework, without committing substantial resources to the Russian market (see Figure 2).



**Figure 2. Schering's market entry model in Russia**

Source: Schering AG

Since Schering's management perceived the Russian market as important for the firm's long-term competitive position, it gradually decided to increase the investment and extend market penetration. For this purpose, a subsidiary of local law (Schering AO) was founded in 1996, reinforcing the market presence. The new operating mode enabled Schering to shape its marketing strategy in Russia independently of local intermediaries, particularly in terms of pricing. For the contraceptives segment, the local marketing department introduced a "three-pill" competitive strategy, differentiating between low-priced pills for public tenders, middle-priced pills for wholesalers and the most innovative premium-priced pills for private pharmacies. Product differentiation and Schering's strong brand image provided an additional protection against me-too- and copy-products. Moreover, the product offering allowed Schering to capitalise on the significant demand for innovative drugs, which were lacking in an emerging economy.

Last but not least, the development of own distribution network had an operational advantage of internalising the logistic chain and making it independent of local distribution agents. On the other hand, the creation of Schering AO exposed the firm to local regulations to a larger extent than before. However, the risk of unexpected and unfavourable legal changes was deliberately accepted in the light of the long-term orientation towards increasing market sales in Central and Eastern Europe.

#### ***4.2. Internationalisation of value chain modules – the case of Jungheinrich***

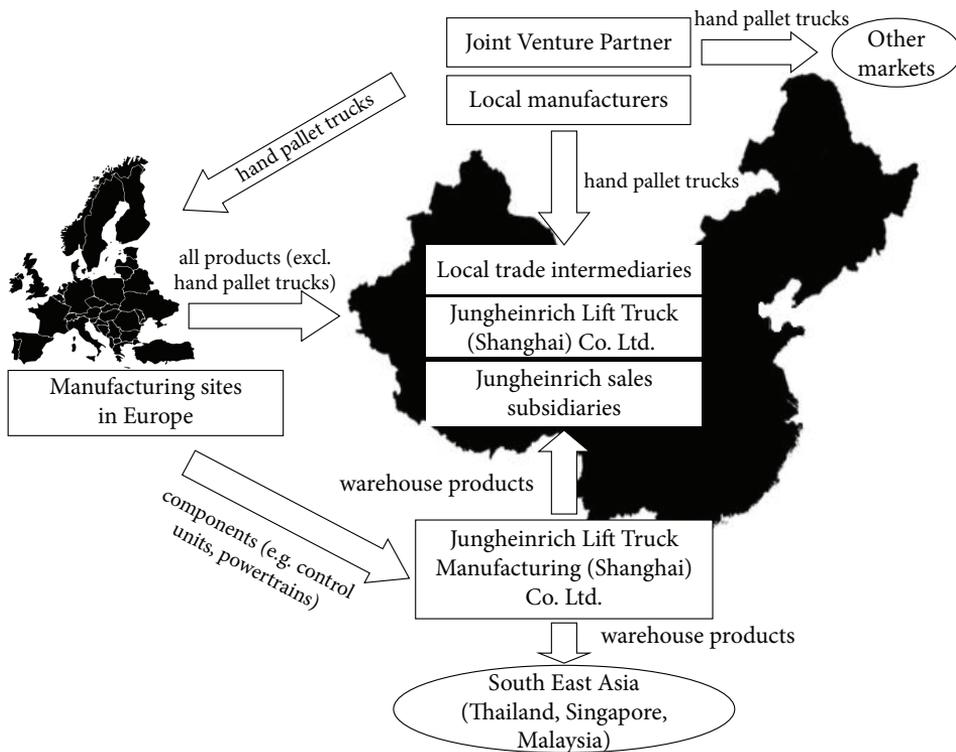
Jungheinrich is one of the world's three leading companies in the material handling equipment, warehousing and material flow engineering sectors, as well as the European leader in warehousing technology. Established in Hamburg, the company offers a broad range of products and services for the intralogistics. The business model of Jungheinrich is based on direct sales of products and services via wholly-owned subsidiaries in international markets. A primary reason for this internalisation extent is the critical role of customer service for business growth. Therefore, a focal question prior to each market entry pertains to the existence of a sufficient sales volume of new products and, consequently, a potential for service activities. This relevance of market potential for both new products and service activities remains in a close relationship with the firm's competitive strategy. The market for indoor electro-technical trucks is of top priority to Jungheinrich, although its level of development varies across countries, especially emerging markets. In the segment of outdoor combustion engine trucks, which grows dynamically in emerging markets, premium, middle and low-cost product segments can be distinguished. Jungheinrich basically follows a differentiation strategy and therefore puts emphasis on the premium segment. Thus, markets with a dominance of the low-cost segment are to a large extent inaccessible for the company.

When planning the expansion on the Chinese market, Jungheinrich's management followed several objectives. Firstly, China was regarded as pivotal in terms of the potential sales volume for staplers, which required establishing a local distribution structure. The market entry model of Jungheinrich relied on the generation of a sufficient volume of new product sales through export to local trade intermediaries, in order to implement its own, highly profitable customer service activities via wholly-owned subsidiaries. The company had indirectly entered China already in 1997 over a local trade intermediary responsible for the distribution of the Jungheinrich offering. After reaching a sufficient volume of sold warehouse products, it was decided to engage in service activities by establishing own direct sales structures in 2003. The delayed extension of the Chinese commitment was due to a recent shift in the competitive strategy, which aimed at reducing the number of brands in the portfolio, the consolidation of distribution networks and the rationalisation of international manufacturing networks. Moreover, the company had just accomplished a resource-intensive expansion campaign in Eastern Europe, which had been initiated after the fall of the "iron curtain". After the acceptance of the business plan, a foundation team launched the sales operations headquartered in Shanghai, implementing corporate business processes and hiring local workforce. In regions with a sufficient service potential for the already sold new devices, branches responsible for the customer service were established. Due to the significant area of the country, provinces with low registered sales were served by an external network of trade intermediaries. This twofold distribution model allowed for the most complete exploitation of the existing market potential with a view to a gradual extension of the direct sales channels.

Apart from the market-seeking motives, which justified the extension of distribution activities in China, a strategic objective of the top management was also to benefit from the comparative advantages of China by relocating production activities to the local market, in line with the resource-seeking logic. Jungheinrich's new single-brand competitive strategy was supported by a worldwide consolidation of manufacturing sites. Given the substantial labour cost advantages of China in terms of simple warehouse technology products, such as hand pallet trucks, the company decided to close down the existing factory in France and to search for an appropriate production partner in China. This choice followed according to such evaluation criteria as pricing, market reputation and product quality. The Chinese firm identified in this way possessed a large manufacturing site, a relatively long experience and good market access, which prompted Jungheinrich to establish a manufacturing joint venture. The new entity assumed a worldwide responsibility for the production of hand pallet trucks, whereby Jungheinrich provided the know-how in terms of development.

Apart from producing hand pallet trucks in China, Jungheinrich also opened an assembly site for more complex warehouse technology products in Qingpu in 2006.

For this purpose, the Jungheinrich Lift Truck Manufacturing (Shanghai) Co. Ltd. was established. The primary motives for this decision related to shortening and controlling delivery times and to evading high import tariffs. On the other hand, the production cost advantages in case of more advanced warehouse technology products are limited. This explained the low vertical range of manufacturing in China, limited to mere assembling. In order to increase the depth of value-added activities in China, Jungheinrich would have to invest in pre-fabrication know-how, while its actual core competence was based on the development of control units, lifting frames and on the assembly process itself. In consequence, the manufacturing site still remains dependent on European supplies of relevant components, in order to differentiate the company against competitors through unique technological knowledge. Nevertheless, Jungheinrich planned to increase the extent of localisation through two measures. Firstly, the local development competence was to be gradually enhanced, in order to better adapt the outdated, second-class products from Europe to the local market needs, the Chinese subsidiary becoming a regional competence centre. Secondly, the development of a local purchasing network aimed



**Figure 3. Jungheinrich's international value chain configuration**

Source: Jungheinrich AG

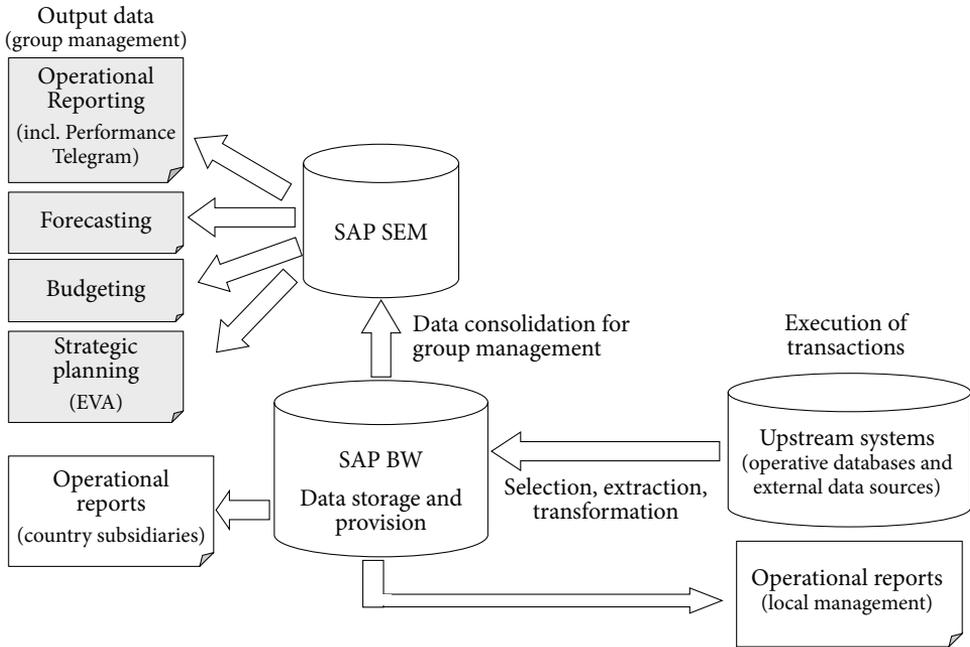
at generating sourcing advantages for the entire corporate network. The Qingpu site is currently serving the markets of South East Asia and, in Jungheinrich's plans, could supply further non-Asian markets showing similar demand characteristics. After the global economic downturn, the manufacturing activity in China was to be further developed, in order to supply regional markets. Moreover, the increasing localisation of Jungheinrich's production would allow to reach the middle-priced segment, whose dynamic growth and convergence towards the premium segment is forecasted. However, for the time being, premium products are still to be imported from Europe.

#### ***4.3. Controlling the performance of international operations – the case of CWS-boco International***

CWS-boco International, based in Germany, is one of the business areas of the Haniel group. It offers a broad portfolio of fragrances and hygiene systems for the washroom, as well as dust control mats, via its network of 18 subsidiaries in Europe and China. Apart from the geographical differentiation of the company, the operations of CWS-boco International are organised into the washroom care, textile care and floor care business units. This international complexity results in the need for a strict cross-border performance control in order to achieve the set objectives at the group level. Given that the country subsidiaries face different pressures in their own local markets and are thus faced with specific success factors, a holistic approach to performance evaluation is indispensable. Moreover, the internationalisation process was to a large extent driven by acquisitions of local firms, which had implemented heterogeneous enterprise resource planning (ERP) systems and hence applied divergent data formats. Consequently, business-relevant information, such as customer contracts, were stored in different operative information systems in different countries, posing a consolidation challenge on the level of international performance evaluation.

Therefore, to devise a unified integrative basis for performance evaluation and control, the Haniel Group introduced a holistic system, allowing to monitor the critical success factors of each business unit and compare their individual performance against benchmarks in pre-defined performance aspects. In order to implement the international performance management concept, the management board of CWS-boco International had to implement new strategic management information systems. A multidimensional analysis for company-wide data stemming from various countries was made possible thanks to the use of SAP Strategic Enterprise Management (SAP-SEM) and SAP Business Warehouse (BW). Data collected in these systems can be manipulated to produce standardised, user-defined reports according to the online analytical processing (OLAP) approach. While the local subsidiary management can generate reports and the related indicators directly

from the data warehouse (SAP-BW), the consolidation of data for the top management of CWS-boco International occurs in the SAP-SEM system. Data contained in these major information systems allow to create four main categories of reports, presented in Figure 4.

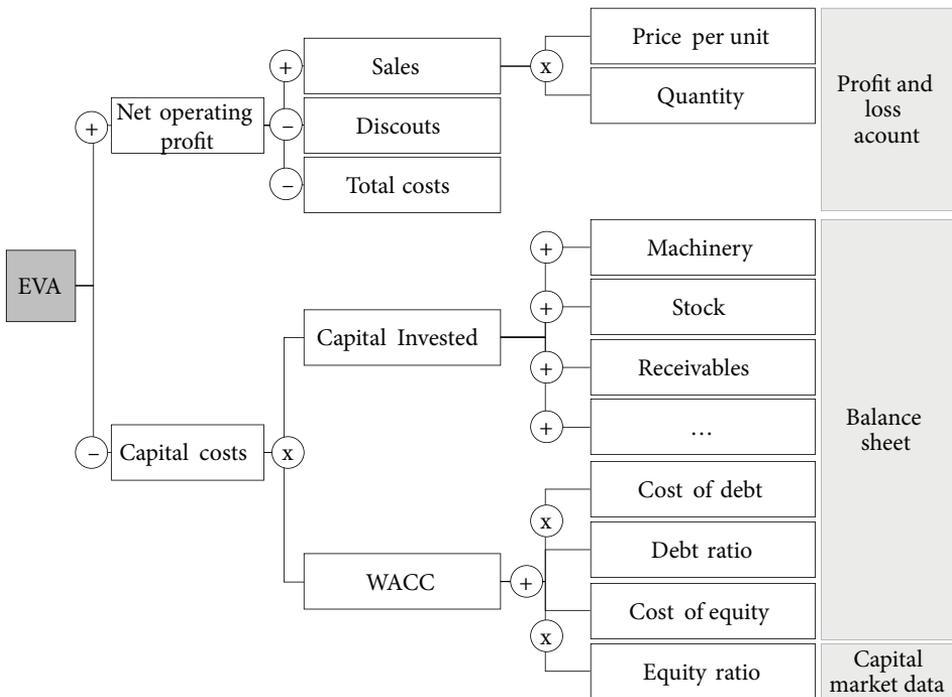


**Figure 4. Strategic and operational management information systems**  
Source: CWS-boco International

Firstly, the management information systems support the monthly operational reporting, which includes the current reporting and annual forecasting. Thereby, two different consolidation levels can be distinguished. On the one hand, the local subsidiary management can access the upstream systems to obtain detailed information on the sales evolution, particularly revenues, volume and price development, as well as cost variables from such operational areas as the distribution network, washroom, service and logistics units. On the other hand, the management of CWS-boco International obtains aggregated indicators on the sales evolution, profit and loss account and balance sheet information. These parameters are presented monthly in the form of “performance telegram”, which is of vital importance for corporate performance management. The “performance telegram” allows to filter performance data by business units in two formats: a profit and loss account for a particular country subsidiary with a classical cost hierarchy (personnel expenditure, material costs and other operating expenditure), or a profit and loss account subdivided into functional areas of every country subsidiary. Moreover, the man-

agement can view operative key performance indicators (KPI) in all product areas for comparisons. The “performance telegram” poses therefore a basis for dialogue between the top management team and local subsidiary management in order to analyse the current performance evolution and deviations from the set objectives.

Another core component of the performance management is composed of forecasting and budgeting. The annual budgets, based on local budgeting accepted by the group management, are entered into SAP-SEM. Subsequently, annual forecasts are devised and submitted for consultation in quarterly meetings of the top management with local subsidiary managers. The last, long-term performance component of the integrated system is strategic planning based on the concept of economic value added (EVA, see Figure 5).



**Figure 5. Performance components according to the EVA concept**

The performance management based on the EVA concept enables to create a direct link between the overarching objective of enhancing corporate value and increasing performance of all local subsidiaries of CWS-boco International. At the level of CWS-boco International, a 5-year EVA “corridor” is defined, with specification of annual EVA values and a cumulated total EVA value. The EVA values are based on the anticipated balance sheet, profit and loss account and investment data from all subsidiaries and – once announced – constitute a reference point for the opera-

tional planning. The achievement of the strategic performance targets expressed by the EVA corridor is verified during annual management meetings. In order to contribute to the corporate value, local subsidiaries not only need to monitor specific performance-driving variables, but also orient all business processes towards value creation, which necessitates the integration of non-financial, qualitative value drivers. Thus, the EVA-concept poses a starting point for concrete improvement measures in all subsidiaries of the international group.

#### ***4.4. Unifying performance across borders – the case of Bombardier Transportation***

Bombardier is a diversified corporation operating in the manufacturing of transportation equipment, including business and commercial aircraft, rail transportation equipment and systems, as well as related services. The aerospace unit of the company is engaged in the design and manufacturing of aviation products, such as regional jets, turboprops, business jets and amphibious aircrafts. The rail transportation segment is a leading provider of the rail equipment including rolling stock, bogies and propulsion and controls. The company operates in more than 60 countries in five continents, adding the geographical dimension to the industrial complexity of the company. Therefore, differences exist in terms of resource equipment, competences and operational efficiency between the subsidiaries in different countries.

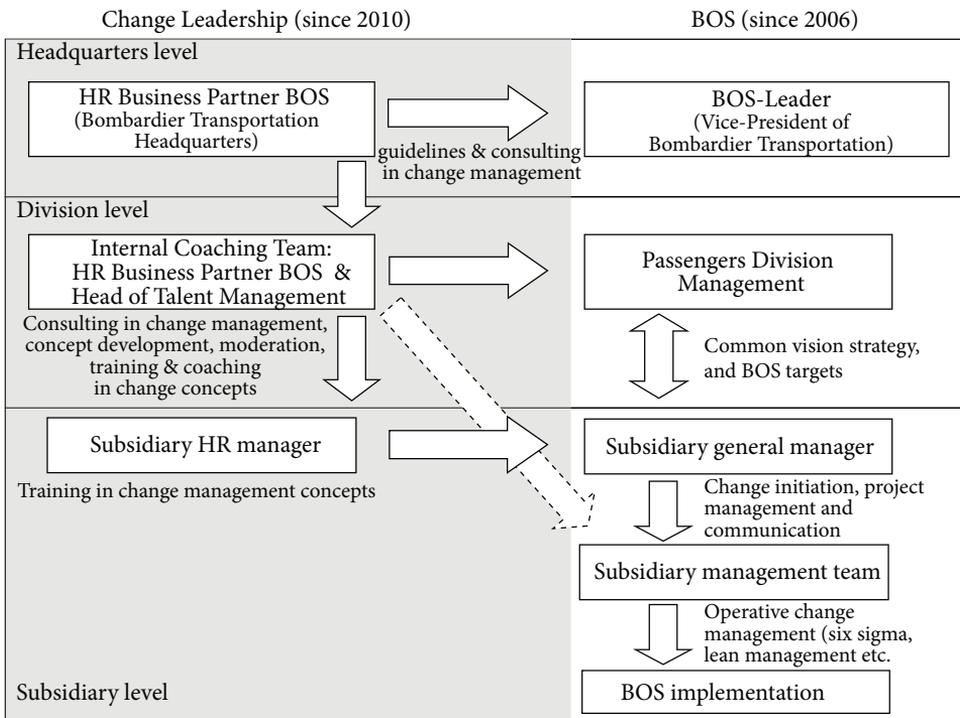
One of the company's business areas, Bombardier Transportation, headquartered in Berlin and embracing further seven manufacturing sites in Germany alone, is a worldwide market leader in rail transport industry and the related services. The largest division within Bombardier Transportation is the Passengers Division with about 12 000 employees in 20 locations worldwide. In 2006, the top management of the Division discussed the critical determinants of the global competitiveness of the company. It was stated that both the cost level and delivery times had risen, while the products did not fulfill the assumed quality in certain cases. From the perspective of intra-group competitiveness and an optimal resource allocation between divisions, a high performance variation among the same product divisions in different locations could be identified. Accordingly, a comprehensive competitiveness evaluation of organisational units was identified as a prerequisite for increasing the overall firm performance, especially in the light of an increasing pressure from Asian competitors to reduce manufacturing costs and delivery times. In this situation, differentiation by quality seemed even more important to the management. Therefore, in order to align business processes with the highest industry standards on the one hand, and to create a common basis for the exchange of best practices among the geographically dispersed units, an integrative concept of Bombardier Operations System (BOS) was introduced. It embraces five fundamental principles

of integrated quality, short delivery times, employee involvement, standardisation and continuous improvement. The formulation of common rules aimed at creating a cross-border, performance-oriented corporate culture, serving as a guideline for doing business regardless of industry and host country. The integrative character of the programme implies changes not only in relation to business processes, but also to international human resources management, communication procedures and the entire value chain management.

In order to implement the fundamental principles at the operational level, they were subdivided in further evaluation dimensions, as well as specific guidelines for processes and procedures facilitating the implementation. For instance, the principle of employee involvement was subdivided into the existence measures aiming at a higher workplace security, the extent of communication of strategic information or the integration of the teamwork component in employee incentive schemes. For each of the criteria, internal BOS-auditors visiting a given subsidiary evaluate performance along four grades, ranging from baseline to excellence. In 2007, the first BOS-audits were carried out in different divisions of Bombardier Transportation in 12 countries, in order to identify the existence or planned introduction of business process, procedures and practices related to the fundamental principles. This led to an obligation for subsidiary managers to adopt the first emerging best practices already in 2008.

The improvement in each detailed dimension of the fundamental principles means a step in the change process of the company, for which each subsidiary manager is personally responsible. In a dialogue with the division management, subsidiary managers determine priorities in terms of subsidiary weaknesses and the necessary improvement measures. The periodical BOS-assessments not only allow to measure performance and evaluate progress, but also to compare the unit against best-in-class Bombardier subsidiaries in other countries. Thereby, gradual improvements in single criteria may be sufficient or, on the other hand, fundamental changes may be necessary. The extent of change is co-determined by the historical background of a subsidiary, its strategic priorities and the available resources, therefore it can vary between small adaptations and breakthrough changes in a given year.

In order to facilitate the international change management process, the Change Leadership project was launched in 2010 within the Passengers Division. In the first pilot phase, the general managers and human resources managers of five selected subsidiaries were involved in trainings, consulting and coaching in the field of change management. These comprised both internal workshops on change management and leadership issues, led by an internal coaching team, as well as consulting by external experts in the so called "change dialogue". The focus on the human resources aspects of the improvement process reflects the critical relevance of the human factor in change management and therefore helps to minimise resistance against changes, which occurs in all organisations, particularly those of high or-



**Figure 6. Change Leadership in support of the BOS-implementation**

Source: Bombardier Transportation

organisational complexity. Figure 6 synthetically presents the organisational design of the Bombardier Operations System, alongside the role of the Change Leadership project in its company-wide implementation.

## Contribution and conclusion

The conducted case analysis aimed at exploring and illustrating the ways in which different dimensions of the internationalisation strategy allow to increase firm competitiveness. The case studies put emphasis on the complex entity of internationality and its variation. As mentioned below and discussed in extant literature, this complexity is not always covered in current international management research – instead, research is frequently focused on several “hot topics”, including entry modes, alliances and networks or subsidiary-HQ-relations [Werner 2002, p. 282]. As a result, some important “blind spots” remain under-researched. A prominent

example is the issue of the development and adaptation of management systems to the international activities of the firm, which is strongly underexposed [Wrona 2009]. This paper contributes especially to the ongoing debate on the complex interplay between international market entry strategies and the adaptation or change of management systems. By seeking complementarities [Ridder, Hoon & McCandless Baluch 2012], we analysed four cases that represented different aspects of the internationalisation strategy and its implementation via management systems, starting with entry mode choice in an emerging market, through a global configuration of value chain activities, to the integration of foreign operations by implementing value-based management and financial control on the one hand, and institutionalising knowledge flows, on the other. As the case study analysis illustrated, the advancement of the internationalisation process affects different competitiveness dimensions by providing new opportunities for companies. On the other hand, the organisational challenges related to managing international operations prompted the studied firms to adapt their strategy to remain internationally competitive and benefit from their cross-border presence.

The case of Schering (Section 4.1) illustrated that the entry into a market with initially non-existing market structures, yet showing a substantial growth potential, can positively affect the competitive potential of the entrant by providing knowledge on operating in emerging markets and hence creating a basis for further expansion into similar markets. However, the competitive strategy of the firm required an adaptation to the local demand structure in terms of the product portfolio and pricing strategy, which did not entirely fit the overall differentiation strategy. In the same vein, the formulation of the entry strategy required a consideration of operational risks and resulted in the adoption of a minimal financial commitment, which could be easily reversed. Nonetheless, the strategic objective of improving the long-term competitive position by gradually increasing the market share in the Russian market prompted the management to offset the substantial risks to the short-term competitive position and increase investments in the local operations, even if some of Schering's competitors withdrew from Russia.

Jungheinrich's relocation of manufacturing to China (Section 4.2) shows a more complex image of relationships between internationalisation strategy and competitiveness and also points to the fact that a firm's competitive strategy can vary between different strategic business areas. The internationalisation of the value chain in the low-cost product market was driven by market-seeking motives, allowing the firm to exploit comparative advantages of foreign locations, thus affecting its competitive potential in terms of the production efficiency, and its competitive position by a better adjustment to the demand in emerging economies. On the other hand, the effects of internationalisation for the premium segment are more complex, since the replication of strategy from the low-cost segment would have resulted in the deterioration of Jungheinrich's reputation. Conversely, rather than completely relocating the man-

ufacturing of premium products, the company used the opportunity of assembling products in China to develop new skills, outside of its traditional core competencies.

Managing a portfolio of international markets requires an integrative perspective on competitiveness, as the resources and strategies of local subsidiaries can be heterogeneous and therefore make different contributions to the parent firm. The management of CWS-boco International realised that the heterogeneity of subsidiary performance, inherited from a rapid internationalisation by acquisitions, requires a systematic and holistic control of subunit performance, facilitated by strategic information systems (Section 4.3). Moreover, as the overall firm performance strongly depends on the results generated by its foreign subunits, the introduction of value-based concepts allowed to motivate all subsidiaries to reach a common, overarching growth objective. The case of Bombardier Transportation (Section 4.4) goes a step further in this regard, showing that the implementation of corrective measures to reduce the competitiveness gaps within a multinational group needs to be institutionalised and supported by managerial efforts. The company, faced with crucial challenges to its international competitiveness, developed a complex evaluation and benchmarking system, allowing its subsidiaries in various countries to learn from each other and exchange best practices. Thereby, information transfers were facilitated to increase the common knowledge base of the company. At the same time, the case highlighted that the learning process can cause substantial changes, which need to be reinforced by the development of new skills in the area of human resource management.

Therefore, our paper extends the discussion on internationalisation behaviour of companies, which may be regarded as strongly focused on foreign market entry. Case-based evidence was provided on the complex interplay between strategy and management systems. It also illustrated that adaptations in further strategic and organisational dimensions accompany the increased advancement of international operations. While our qualitative approach may be criticised for its conceptual breadth, it draws attention to several important aspects of the relationship between internationalisation and firm competitiveness. A major implication for other studies is that the substance of the internationalisation strategy, in particular its scope and complexity, requires consideration in order to better unveil its competitive implications. Moreover, the connection between competitive strategy in different business areas (or business units) and the corresponding internationalisation strategy deserves more attention in future research. Finally, further studies should differentiate more clearly between the sources of firm competitiveness resulting from the mere fact of internationalising business operations, and the competitiveness outcomes of the measures undertaken to manage the arising complexity, whose creation can in itself add to a company's pool of abilities.

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