WHY INTERNATIONAL STRATEGY AND CROSS-CULTURAL MANAGEMENT MATTERS IN BUSINESS RESEARCH AND EDUCATION

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Editorial: Why International Strategy and Cross-Cultural Management Matters in Business Research and Education

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The articles of this special issue are based on papers presented at the *8th EIASM (European Institute for Advanced Studies in Management) Workshop on International Strategy and Cross-Cultural Management* at Tübingen University from 08 to 09 October 2010. As organisers of this workshop series and guest editors of this special issue we are grateful to *Schmalenbach Business Review (sbr)* for granting us the opportunity to publish the following papers from this workshop, and this for two reasons in particular: first, *sbr* publishes special issues only rarely, in fact, since 2002 only two were edited; secondly, our topic does not fall into one of the areas in which *sbr* prefers to publish, i.e., accounting, finance, marketing or organization. It is the second reason which we like to explore in some more detail.

By covering areas as wide as the ones mentioned above, both *Schmalenbachs Zeitschrift für betriebswirtschaftliche Forschung (zfbf)*, as the oldest and most prestigious German journal of business studies, and its international edition *sbr* clearly stand in the tradition of German

business research journals. This fact is also specifically highlighted in the aims & scopes section of *sbr*. In contrast, if we look at some US-based general management journals, for example those published by the *Academy of Management* – i.e., *Academy of Management Review (AMR)*, *Academy of Management Journal (AMJ)*, *Academy of Management Perspectives (AMP)* and *Academy of Management Learning and Education (AMLE)* – areas such as accounting, finance and marketing are specifically excluded from their range. In fact, the *Academy of Management*, the oldest and largest scholarly management association in the world, encompasses as much as 24 divisions, but its definition of management is still significantly narrower, in comparison to what the *Verband der Hochschullehrer für Betriebswirtschaft* (German Academic Association for Business Research) is covering. It is therefore according to German scholarly traditions that *sbr*, its parent journal *zfbf* and other leading German business journals, such as *Zeitschrift für Betriebswirtschaft (zfb)* and *Die Betriebswirtschaft (DBW)*, are all more broadly defined in their approach to management than their US (or in a broader perspective: Anglo-Saxon) competition. The advantage of such a model could be seen in integrating the various areas of business studies to a higher degree, thus increasing inter-area knowledge flow and circumventing silo thinking.

Another characteristic of traditional German business research and its leading journals is a comparatively stronger focus on more theoretical and system- or model-building contributions, which contrasts to a certain degree with the more empirical research traditions of Anglo-Saxon origin. *Sbr* provides an excellent case in point here as well.

A final distinction one could make is that German business studies and their leading journals tend to be centred on functional areas such the already cited ones *sbr* is covering: accounting, finance, marketing or organization studies. What features less prominently in German business studies are cross-functional, overarching or integrative subject areas, such as strategy, international business, cross-cultural management, change management or business ethics, to cite just a few. In particular the less prominent role of strategy would probably be regarded as particularly remarkable by foreign observers. In Anglo-Saxon management studies, strategy is not just seen as one out of several sub-disciplines of management, it is the most central one. While finance is covering all matters for which the CFO is ultimately responsible, marketing everything the CMO is responsible for etc., strategy brings all these areas together and studies everything which lies within the responsibility of the CEO. To illustrate this point, the world's most famous Business School, Harvard, is teaching its entire

MBA programme from a strategic point of view, i.e. finance or marketing is taught from the strategic perspective of the CEO, not from the more functional perspective of the CFO or CMO.

At least from an outside perspective one might therefore argue that traditional German business studies generally encompass a wider field than Anglo-Saxon management studies; yet, at their very heart lies a surprising gap – and that is strategy. What might potentially be considered as the best of both worlds could be a combination of the wider, more integrative perspective of German business studies and the incorporation of cross-functional areas, such as strategy, characterising Anglo-Saxon management studies. By focusing on strategy, this special issue covers, in an exemplary fashion, some aspects of what would be considered part of the most central sub-discipline of management research in the Anglo-Saxon academic tradition, but tends to be less valued in the German academic tradition.

If we were to take a look at key developments the sub-discipline of strategy underwent in the last three decades, we might highlight the following three: First, with the advent of globalisation, the focus of strategy has clearly become more global. Courses in Anglo-Saxon business schools that were previously called *Strategy* have often been relabelled as *Global Strategy* and text books entitled, for example, *Global Strategic Management* (e.g., Peng, 2009) have become some of the most frequently used text books in business schools. This development was accompanied by the development of international business as a further sub-discipline of management studies.

The second key development of strategy is its emancipation from economics and its stronger focus on aspects previously only covered by more behavioural disciplines. This leads us to probably the most significant fault-line dividing management studies. One camp is following the paradigm of economics with mathematics as a reference point and the other camp is more adhering to the paradigm of behavioural studies. Hedlund (1986), Doz and Prahalad (1987) and particularly Bartlett and Ghoshal (1989) and later Ghemawat (2007) are all examples of strategy authors who were by pedigree more economics-oriented, but subsequently came to believe that the human factor plays the single most critical factor for the models they developed and became famous for.

The third development of strategy we wish to highlight here is, to some degree, resulting from the previous two: the growing understanding that context matters. Management is not taking place in a vacuum, only determined by economical logic, but in a specific institutional and cultural environment that differs across national boundaries. Recognizing the importance of the cultural environment has led to the emergence of cross-cultural management as a further sub-discipline of management studies. Over the last decade, cross-cultural management has firmly established itself in Anglo-Saxon management studies with only few business schools left not offering a corresponding course to their students.

While we support the emergence of cross-cultural management as a new and highly relevant subject area, we deplore that the dialogue between international strategy and cross-cultural management is not as productive as it might be. As we have discussed in the preface of our last special issue in the *Scandinavian Journal of Management* (Piekkari et al., 2010), the development of new subject areas with own journals (e.g. *Strategic Management Journal* on one side and *International Journal of Cross Cultural Management* on the other) frequently leads to silo thinking and a lack of communication even across closely related sub-disciplines. We continued to argue that international strategy researchers would gain from the context-specific knowledge cross-cultural management scholars have, preventing them from over-generalisation. Cross-cultural researchers, in contrast, would benefit from considering more the organizational implications of their findings. As we have explored elsewhere (Pudelko et al., 2006a, b), an integration of both research streams would also help in overcoming the divide between the convergence tendencies of international strategy research and the predisposition towards divergence that characterises much of the cross-cultural management literature.

It is the purpose of our *EIASM workshop series in International Strategy and Cross-Cultural Management* to bring scholars from these two fields together, encourage a fruitful dialogue, make efforts to integrate the debates of both disciplines and publish selected contributions in special issues such as this one. We are grateful to our many contributors over the last eight years, among them eminent scholars such as Julian Birkinshaw, Mary Yoko Brannen, Paula Caligiuri, Mark Mendenhall, Alan Rugman, Rosalie Tung and, in this special issue, Pervez Ghauri who all served as keynote speakers and authors to our publications.

While our last year's special issue was more focused on cross-cultural management, the current one brings together more papers from international strategy. In addition to our ongoing objective of contributing to the integration of both subject areas, we hope that this special issue in particular makes a modest contribution to the further embedding of both, international strategy and cross-cultural management, in the German academic context.

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Our first two contributions, the ones by Ghauri et al. and by Ates & Prange, share more than one similarity. Both are more conceptual in nature. Both can be positioned at the cross-roads between international marketing and international strategy. Both start out with arguably the most central debate of international strategy of MNCs: how to overcome the contradiction between global integration and local responsiveness. The authors we already cited above – Hedlund (1986), Doz and Prahalad (1987), Bartlett and Ghoshal (1989) and Ghemawat (2007) – all owe their fame to their respective contributions to this key debate. And ultimately, both Ghauri et al. and Ates & Prange refer to concepts from the marketing literature in order to address the integration-responsiveness debate in international strategy. We argued earlier that international strategists tend to focus on the integration argument, while scholars in cross-cultural management put the spotlight more on local responsiveness. While Ghauri et al. and Ates & Prange do not come from the cross-cultural management angle (with the focus on employees), their marketing perspective (with the focus on customers) takes a similar position: highlighting the relevance of human behaviour and the impact the national context can have on human behaviour, both providing challenges to global integration efforts.

In their contribution, Ghauri et al. focus on the market driving strategy which suggests that successful MNCs should base their operations on influencing and changing the market conditions and the minds of the customers rather than on adapting their own strategic approach and market activities. This strategy appears to be well aligned with the resource based view, a perspective particularly close to strategists striving for global integration around core competencies. The important and highly relevant contributions Ghauri et al. are making in their paper are twofold: first, to tease out certain organisational skills and capabilities required for the highly demanding market driving strategy (specifically, learning, branding, configuration and networking capabilities); and second, to develop a framework linking these

capabilities to market driving activities intended to create changes in the target market which, in turn, can lead to competitive advantage.

Ates & Prange's starting point is the "AAA-triangle" developed by Ghemawat (2007), AAA standing for adaptation (or local responsiveness), aggregation (or global integration) and arbitrage (exploiting differences). Similar to the market driving strategy discussed above, Ghemawat's framework can be interpreted as an attempt to address the difficulties that have been linked to the still leading paradigm of the transnational corporation, as developed by Bartlett and Ghoshal (1989). While Ates & Prange agree with Ghemawat's conceptualisation, they argue that Ghemawat, as many other authors, has rather neglected the role of individual-level drivers. Consequently, they seek to contribute to the strengthening of the micro-foundations of strategy (see, e.g., Felin and Foss, 2005), i.e. the links between the macro-level of the firm and the individual level. These efforts very much mirror the objective of our workshop series in integrating the different levels of analysis (Piekkari et al., 2010; Reiche et al., 2010). In order to highlight the influence of the individual level on international strategy formulation, Ates & Prange focus particularly on the role of the individual customer. In doing so, they complement Ghemawat's AAA-triangle with three levels of customer participation, customization, co-creation and co-formation, arriving at a conceptually highly interesting combined framework of AAA-CCC-strategies.

The third contribution by Fisch & Zschoche addresses a core issue in the international strategy literature, namely the relationship between a firm's level of multinationality, measured as the spread of a firm's foreign direct investment, and the performance of its international business. It has been increasingly common to view the relationship between multinationality and performance as S-shaped (e.g., Lu and Beamish, 2004). This literature usually builds on transaction cost arguments to conceptualize liabilities of foreignness and economies of scale as the main determinants of the S-shaped relationship. In their empirical study, the authors develop and test a refined theoretical basis to explain the shape of the relationship. Drawing from information cost theory (Casson, 1999) Fisch & Zschoche build a model that substantiates the S-shaped relationship based on the total costs of international market intermediation external to the firm, and its internal costs of communication and coordination. They argue that these costs, rather than liabilities of foreignness and economies of scale, are specific to the level of multinationality and would therefore serve as a better predictor. In line with this argument, Fisch & Zschoche also conceptualize liabilities of

foreignness and economies of scale as having direct effects on a firm's performance of its international business that are independent from the S-shaped effect of multinationality. Drawing on a panel data set of 3122 German firms over the course of four years, the authors find support for their hypotheses.

The paper by Krühler & Pidun relates to the previous study by also examining strategic investment decisions in multinationals. However, rather than looking at the geographical allocation of foreign direct investment, Krühler & Pidun address the question of which business units should reasonably be owned by the focal multinational, an issue discussed under the label of 'parenting advantage' in the literature (Campbell et al., 1995). As the authors note, the concept has received only scant attention in research thus far, making it difficult to draw meaningful conclusions concerning its application in corporate practice. To address this gap in the literature, Krühler & Pidun conducted an exploratory study among a global sample of 151 multi-business firms. Specifically, the authors aimed to assess the concept's practical relevance for corporate strategy, identify different types of parenting approaches, explore the concept's relevance for and operationalization in portfolio analysis, and particularly study the role of portfolio structure and cultural differences for the choice of parenting approaches. Although their sample was limited to Continental European, UK and US firms, Krühler & Pidun found relevant cultural differences in the preferred choice among the five distinct parenting approaches the study derived. This result provides a case in point for how the international strategy and cross-cultural management domains may be further integrated to benefit from each other.

The contribution by Hajro and Mandal stands at the cross-roads of international strategy and cross-cultural management. It interlinks the macro and micro levels of analysis by studying individual-level outcomes in a research context that has received more attention by macro-level scholars: cross-border mergers and acquisitions (M&As). Drawing from a longitudinal case study that outlines the unsuccessful integrative efforts between a German multinational and an Austrian service provider, the authors develop a narrative of the integrative process over time. Hajro and Mandal first identify the key constructs inherent in the integration process, derived from 46 interviews with staff from both organizations and participant observation. The authors then develop cause-and-effect relationships between these constructs in order to trace the integration dynamics and highlight how specific managerial actions and the resulting reactions among staff can become self-reinforcing. For example, the pressure

that managers exert on employees from the acquired firm to conform to the norms of the acquirer creates negative emotional reactions among the employees, which in turn lead managers to increase their pressure. Hajro and Manda also show how perceptions of an organizational culture can change over time, for example as employees from the acquired firm translate their resistance into a renewed awareness and appreciation of their former organizational identity, which may further complicate integration. Using this process narrative, the authors are able to study the dynamic interrelations among relevant variables rather than using them as independent variables as previous research has mostly done (Teerikangas & Very, 2006). The study also provides a fruitful example for how micro and macro research, and by extension cross-cultural management and international strategy research, can be combined.

The contribution by Pudelko & Tenzer is more part of the cross-cultural management stream than of international strategy. By investigating if more cultural or institutional factors are at the origin of conflicts occurring in foreign subsidiaries of MNCs, the paper seeks to bring together two related research camps: cross-cultural management and institutional research. Both streams highlight the importance of contextual differences, sharing their sceptical stance towards the applicability of globally integrated management strategies. However, while cross-cultural management scholars mostly hold values and norms between home and host country accountable for the increased level of conflict in foreign subsidiaries, institutionalists emphasise the conflict potential of differences on the regulatory level, such as political, legal and educational systems, capital markets, industrial relations, and corporate governance systems. The empirical study by Pudelko & Tenzer, which is based on data from 617 foreign subsidiaries, clearly suggests that both kinds of contextual factors, cultural as well as institutional, have to be considered and none should be neglected in favour of the other. Furthermore, it suggests that culture might be a more encompassing concept than institutions.

We hope that readers of this special issue find the selected contributions of interest. We would be particularly delighted if they were to take this special issue as an impetus to contribute with their research to future EIASM Workshops in International Strategy and Cross-Cultural Management.

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