# Global Oligopolistic Competition and Foreign Direct Investment

## Revisiting and Extending the Literature

Hansen, Michael W.; Hoenen, Anne K.

*Document Version*
Accepted author manuscript

*Published in:*
Critical Perspectives on International Business

*DOI:*
10.1108/cpoib-03-2014-0017

*Publication date:*
2016

*License*
Unspecified

*Citation for published version (APA):*
Hansen, M. W., & Hoenen, A. K. (2016). Global Oligopolistic Competition and Foreign Direct Investment: Revisiting and Extending the Literature. *Critical Perspectives on International Business*, *12*(4), 369-387. https://doi.org/10.1108/cpoib-03-2014-0017

# Global Oligopolistic Competition and Foreign Direct Investment: Revisiting and Extending the Literature

**Michael W. Hansen and Anne K. Hoenen**

Journal article (Accepted version)

**CITE**: Global Oligopolistic Competition and Foreign Direct Investment : Revisiting and Extending the Literature. / Hansen, Michael W.; Hoenen, Anne K. In: *Critical Perspectives on International Business*, Vol. 12, No. 4, 2016, p. 369-387.



DOI: 10.1108/cpoib-03-2014-0017

# Global oligopolistic competition and foreign direct investment:

## Revisiting and extending the literature

By


Michael W. Hansen
Associate Professor
Copenhagen Business School
Center for Business and Development Studies
Porcelænshaven 18b
2000 Frederiksberg
Denmark
Tel: 4538153146
Email: mwh.ikl@cbs.dk

and

Anne Hoenen, M.Sc.
Research and Teaching Associate
Institute for International Business

WU
Wirtschaftsuniversität Wien
Vienna University of Economics and Business
Augasse 2-6, A-1090 Vienna, Austria
Tel: + 43 1 313 36 / 5124
Fax: + 43 1 313 36 / 776
Email: anne.hoenen@wu.ac.at
www.wu.ac.at/iib



Michael W. Hansen is an Associate Professor at Copenhagen Business School, Center for Business and Development Studies. He has worked extensively with issues related to MNC strategy and organization in emerging markets and developing countries.

Anne Hoenen is a Research and Teaching Associate at the Institute for International Business at Vienna University of Economics and Business and has recently completed her PhD on Managing Headquarters-Subsidiary Relationships in Multinational Corporations.

# Global oligopolistic competition and foreign direct investment:

## Revisiting and extending the literature

Abstract:

*The purpose of this paper is to re-visit and re-invigorate the oligopolistic industry perspective on MNC strategy.*

*Based on insights from the Industrial Organization tradition and Strategic Management, the paper brings the original insights of the oligopolistic industry perspective into a modern context by outlining a conceptual framework that may guide future International Business (IB) research on MNC strategy in oligopolistic industries.*

*This paper demonstrates how contemporary IB literature pays little attention to a key insight of the early IB literature, namely that FDI often is driven by strategic interaction among MNCs in oligopolistic industries. Instead, the contemporary IB literature focuses on FDI as a way to reduce transaction costs and/or as a way to leverage and build capabilities across borders. The paper argues that progressing global concentration in many industries warrants a rediscovery of the oligopolistic perspective on FDI.*

*The paper provides a comprehensive and unique literature review of the literature on MNC strategy in oligopolistic industries. Based on this review, the paper develops a novel conceptual framework that may inspire future IB research on MNC strategy in oligopolistic industries.*

Key words: *Strategic management; International business; Transaction costs; Cross-border takeovers; Foreign Direct Investment; Multinational companies*

## Introduction

Developments in the global business environment, such as the liberalization of national regulations, the removal of trade barriers, the Internet revolution, and the rapid emergence and flourishing of new market economies, have made competition increasingly global. In a growing number of industries, concentration has increased to such an extent that key industry players now encounter each other worldwide (Carr & Collis, 2011; Peltoniemi, 2011). As a consequence, multinational corporations (MNCs) are increasingly using foreign direct investment (FDI) as a vehicle to carve out positions against their rivals: they are acquiring assets in foreign countries in order to expand their market shares at the expense of their global rivals; they invest to gain access to critical resources abroad before their competitors; and they retaliate against competitors' aggressive moves by making 'tit-for-tat' investments elsewhere. The interaction with rivals is not always hostile: sometimes rivals, through tacit or explicit collusion, divide markets between them, fix prices and/or suspend competition.

However, these developments are scarcely reflected in contemporary International Business (IB) literature. Instead, IB researchers seem predominantly interested in understanding how MNCs access foreign markets and resources; how they reduce costs by internalizing cross border transactions; and how they improve competitiveness by leveraging and acquiring resources internationally. This pre-occupation with transaction costs and asset exploitation and augmentation is surprising, given the fact that the early IB scholars - inspired by the industrial organization (IO) tradition - already in the 1970s argued that interaction with rivals in oligopolistic industries is a key driver of MNC strategy (e.g. Graham, 1974, 1978; Flowers, 1976; Knickerbocker, 1973). This IO based insight has seemingly been - if not lost - downplayed as other theoretical perspectives on MNC strategy, such as transaction-cost economics, the resource- and knowledge-based views, and the network perspective, have won prominence within the IB field (Furrer et al., 2008).

In this article, we revisit the early insights of the IO tradition on FDI and bring those insights into the 'new' context of global oligopolistic competition. We explain why we believe it is pertinent for IB to re-discover and reformulate the industry perspective on MNC strategy, and we synthesize the received literature on MNC strategy in oligopolistic industries in a conceptual framework that may inspire future IB research.

## The need to re-visit the industry perspective on MNC strategy

Whereas the early IB literature focused on industry-level drivers of MNC strategy, the advent and increasing prominence of transaction-cost economics and, later, resource/capability-based theories in IB diverted attention away from the industry view. Attention was increasingly devoted to firm-level drivers behind MNC activity (Chittoor & Ray, 2007; Graham, 1998; Furrer et al., 2008; Grøgaard et al., 2005) and industry level drivers became viewed, at best, as secondary (Casson, 1987; Gimeno et al. 2005; Teece, 2006).

**--- Figure 1 here ---**

***The IO-inspired Hymer-Kindleberger-Caves tradition***

In early trade-economic accounts of FDI (Iversen, 1936; Mundell, 1957), perfectly competitive markets were implied. This view was fundamentally challenged in Hymer's seminal PhD thesis (1960/1976), in which he proposed a theory of FDI that was essentially an international extension of the IO 'structure – conduct - performance' (SCP) paradigm (Bain, 1956). In this view, FDI was driven by firms' quest to extend their dominant positions in home markets to dominant positions in international markets (Calvet, 1981; Dunning & Rugman, 1985).

In the wake of Hymer's work, a number of contributions attempted to link FDI to oligopolistic industry structures. It was for instance observed that MNCs operate disproportionally in oligopolistic industries (Graham, 1998; Markusen, 1995) and/or where competition is inefficient (Graham, 1974; 1978; Flowers, 1976; Hymer, 1976; Knickerbocker, 1973). Variations of Vernon's product cycle explanation for FDI (Vernon, 1966) included the 'follow-the-leader' hypothesis (Flowers, 1976; Knickerbocker, 1973) and Graham's (1974) 'exchange-of-threats' hypothesis. According to these accounts, FDI was an extension of oligopolistic rivalry into foreign locations and they all drew heavily on IO concepts such as 'pre-emptive investments', 'entry barriers', or 'competitive signaling' (Kogut, 1989).

### *The transaction-cost economics turn*

By the mid-1970s, the IO perspective on FDI became subject to empirical and theoretical critique. According to the emerging microeconomic-driven understanding of FDI, the explanation for FDI should not be found in 'structural' imperfections in product markets, but rather in 'natural' imperfections in markets for intermediate goods (Hennart, 1982). Buckley and Casson (1976) argued that IO explanations overemphasized the initial ownership specific advantages of the MNCs and downplayed the role of transaction costs. It was suggested that although the IO explanations of FDI might be theoretically valid, they had only limited empirical applicability (Teece, 1986; Lall & Siddharthan, 1982).

These critiques of the early FDI literature were part of a more general transaction-cost-economics inspired movement against the IO perspective. The transaction-cost perspective was explicitly motivated by an unease with the equation of large firms with welfare-reducing oligopolies (Williamson, 1975). In the context of IB, the milestone contributions of Buckley and Casson (1976) and Hennart (1982) introduced 'internalization theory' as an explanation for FDI. According to this theory, FDI was undertaken to reduce transaction costs in cross border transactions. MNCs' opportunities to generate monopolistic rents from international production were seen as limited, partly due to the high costs of running cross-border hierarchies (Ahsan & Musteen, 2011) and partly due to the intensifying competition at the international level (Rugman & Verbeke, 2002).

### *Resource- and capability-based perspectives*

The application of the resource-based view (RBV) to understand FDI signified an important shift in the IB literature (Lockett et al., 2009). While the understanding of FDI and MNCs had previously been dominated by academics trained within economics, the RBV was articulated by Strategic Management scholars (see e.g. Barney, 1991; Tallman, 1991, 1992; Wernerfelt, 1984). The RBV was rooted in Penrose's (1959) classic work, where the firm was seen as a bundle of tangible and intangible resources under a common administrative roof (Pitelis, 2000; Iammarino & McCann, 2013). Accordingly, firms' growth was perceived as a function of the interaction between internal firm-endogenous factors and the external environment (Pitelis, 2000). In his seminal interpretation of Penrose, Barney (1991) maintained that competitive advantage resulted from firms' ability to mobilize, sustain, and expand internal and external resources and capabilities that are rare, valuable, and difficult to imitate or substitute.

The main difference between the RBV and the IO perspectives was found in the different conception of 'rents'. In the original IO models, rents came from the ability to erect entry barriers within industries, whereas from the RBV, rents derived from temporary propriety control of resources - what Barney (1991) labeled 'Ricardian rents'. Consequently, where the IO theories found the sources of strategy at the industry level, the RBV found them at the firm level (Peteraf, 1993).

Penrose herself did not initially acknowledge the significance of national borders (Pitelis, 2004), but other authors used the RBV to understand international business strategy, in particular focusing on two aspects: (1) the MNC's ability to generate rents by leveraging existing 'free' resources internationally and/or (2) the ability of MNCs to build new capabilities through internationalization (Peteraf, 1993; Peng, 2001).

***The need to rediscover the industry perspective on MNC strategy***

Hence, as the swing of a pendulum, IB moved from industry based perspectives on FDI toward firm level perspectives focusing on costs of cross border transactions (Buckley & Casson, 1976) or gains related to coordinating and integrating resources across borders (Peteraf, 1993). We argue that the pendulum now needs to move back toward the industry based perspective, not as an alternative to the TCE and capability perspectives, but as a complement. Here we are in agreement with several IB scholars who have argued that there is a pertinent need for IB to revisit the early industry-level theories of MNC strategy and to re-evaluate their original propositions in the context of globalization (see e.g. Gimeno et al., 2005; Graham, 2003; Ito & Rose, 2002; Nielsen, 2005; Iammarino &McCann, 2013)[1].

An important reason for rediscovering the oligopolistic perspective on FDI is that a growing number of industries are evolving into global oligopolies. As a result of the waves of cross-border M&As and the intensifying greenfield FDI during the 2000s, many industries have become more concentrated at the global level (Carr & Collis, 2011)[2]. By 2010, more than 50 industries displayed high levels of global concentration, where high concentration is defined as more than 50% of the market being controlled by the top four players (Carr & Collis, 2011). Global concentration is evident in a variety of industries, including airlines (Ramón-Rodríguez et al., 2011), wind turbines (Lema et al., 2011), automobiles (Hashmi & Biesebroeck, 2007), steel (Giarrantani et al., 2012), electronics (Sturgeon & Kawakami, 2010), beer (Hoenen & Hansen, 2013), telecommunications (Nolan et al., 2008), and agricultural seeds (Howard, 2009). In the emerging Internet-based industries, global concentrations appear to be extraordinarily high, as evidenced by the market positions held by companies such as Google, Facebook, Amazon, Apple and LinkedIn. In industries with apparently lesser or declining levels of concentration, concentration may be disguised by the entrance of newcomers from emerging markets which may temporarily halt concentration (Carr & Collis, 2011).

As a consequence of concentration, MNCs are increasingly encountering their competitors worldwide and rivalry (or its sibling, collusion) is becoming more global. FDI decisions such as where, when or how to invest are partly or wholly influenced by the actual or expected actions of global competitors (Hutzschenreuter & Israel, 2009), and FDI is more frequently used as a tool to coordinate with, check, attack, or neutralize rivals. Sometimes, oligopolistic rivalry manifests itself as an incremental process, where new competitive equilibriums are attained relatively fast through competitive signaling or collusion. However, in industries characterized by rapid technological change and/or emergence of major new markets, oligopolistic rivalry sometimes degenerates into mutually destructive games, so called 'hyper-competition' (D'Aveni, 1994; 1995).

To summarize our argument thus far, Table 1 contrasts the TCE and RBV inspired perspectives with the classical industry-based perspective on FDI and MNC strategy[3]. In the following we will zoom in on the industry perspective by providing a brief review of the theoretical literature on industry drivers of MNC strategy. This review will serve as the basis for the formulation of a conceptual framework for MNC strategy in oligopolistic industries.

**--- Table 1 here ---**

## A review of the literature on MNC strategy in oligopolistic industries

The literature essentially deals with three distinct aspects of FDI in oligopolistic industries: welfare, performance and strategy. Some scholars address how FDI in oligopolistic industries may affect societal welfare, either negatively by inflating prices or reducing consumer choice, or positively by facilitating innovation or challenging less efficient oligopolies (Caves, 1996; Hymer, 1968; Ietto-Gillies, 2012). Others focus on how oligopolistic industry structures impact the efficiency and performance of the MNCs involved, for instance in connection with cross border M&As (Schenk, 2008; Clougherty & Duso, 2011). Finally, a group of scholars focus on MNC strategies under conditions of oligopolistic industry structures. It is these oligopolistic industry driven MNC strategies that are the focus of this paper.

***What characterizes the industry perspective on MNC strategy?***

The point of departure for the industry perspective on MNC strategy is that the strategic decisions of individual firms, contrary to the case of perfect competition and monopoly, directly influence and are influenced by the decisions of other firms in the industry (Carlton & Perloff, 2000; Hutzschenreuter & Israel, 2009; Ordanini et al., 2008). In the context MNCs, this implies that "*a firm's decision to engage in FDI hinges on the behavior or expected behavior of its rivals*" (Hennart & Park, 1994, p. 423). This anticipation of moves of other industry players is also referred to as 'strategic interaction'. Strategic interaction is a key characteristic of MNC strategy in oligopolistic industries, although it should be noted that strategic interaction can also take place without the presence of oligopolistic industry structures (Guillen, 2002; Ordanini et al., 2008; Cantwell, 2009)[4].

Strategic interaction can take many forms, spanning from 'competitive' (sometimes also referred to as non-collaborative or unilateral) to 'collaborative' (sometimes also referred to as coordinated or collusive). As there is a fine line between collaboration and competition, firms may engage in both simultaneously; so called 'co-opetition' (Brandenburger & Nalebuff, 1995). Collaboration can be both tacit and explicit. Tacit collaboration - such as competitive signaling - may ensure oligopolistic equilibrium without explicit collaboration and is more likely when competitors come from the same or culturally similar countries and/or where firms are engaged in repeated games (Ito & Rose, 2002; Lieberman & Asaba, 2006; Nielsen, 2005). Explicit collaboration occurs when competitors join forces to fix prices and/or close markets e.g. by forming anti-competitive strategic alliances (national or global cartels) in inputs (R&D or supplies) or outputs (sales, marketing, or distribution) (Luo, 2007). Dominant MNCs can also close markets through political strategies such as capturing regulation to raise entry barriers for competing MNCs (Ietto-Gillies, 2012; ch. 13). Even without capture, regulation plays a key role in strategic interaction as MNCs when formulating strategies against rivals will have to take into account the expected response by regulators to these strategies (Luo, 2004).

### ***Manifestations of strategic interaction in FDI***

We will in the following present and review the received literature on strategic interaction in FDI with a view of developing a conceptual framework that can assist IB scholars in revitalizing the industry-based view on MNC strategy. The review will be organized around the various manifestations of strategic-interaction in FDI that over the decades have been identified by the literature:

#### *Follow the leader and herding*

As already mentioned, the early insights of Hymer and Vernon inspired the subsequent literature on industry drivers of FDI. The classical hypothesis of IO-based FDI theory was the ‘follow-the-leader’ hypothesis (Knickerbocker, 1973), which holds that risk-averse firms follow their main competitors (‘the leader’) into a country to avoid distorting the oligopolistic equilibrium. Imitation (of the leader) is desirable because the alternative to imitation - i.e., the pursuit of a differentiation strategy - may prove costly and dangerous. Moreover, as “*divergent strategies reduce the ability of the oligopolists to coordinate their actions tacitly … reducing average industry profitability*” (Porter, 1979, p. 217), an added benefit of a follow-the-leader strategy is that it facilitates collusive behavior.

A concept related to ‘follow the leader’ is ‘herding,’ which occurs when investors in the same industry converge on a particular country at the same time and where that convergence is unrelated or only vaguely related to the economic fundamentals of the location in question. ‘Herding’ is essentially reckless behavior based on safety in numbers; As long as everyone behaves recklessly, the likelihood of serious repercussions for any one firm is low (Lung, 2000). In oligopolistic industries, rivals would rather make less-than-optimal FDI decisions jointly than individually behave differently from each other (Head et al, 2002).

In support of these hypotheses, Knickerbocker (1973) found that the internationalization of US MNCs before and during the 1970s was strongly related to oligopolistic market structures in the US and displayed follow-the leader dynamics. Numerous other studies produced similar results (Caves et al 1980; Flowers, 1976; Terpstra & Yu, 1988; Yu & Ito, 1988). More recently, Ghemewat and Thomas (2008) found that dominant players in the global cement industry locate activities in similar locations in order to support collusion in prices. Likewise, Gimeno et al. (2005) found that firms competing in the domestic market tend to follow each other to the same foreign markets, while non-competing firms try to avoid each other geographically when pursuing internationalization strategies. Guillen (2002) argued that entry modes adopted by Korean firms entering China displayed evidence of strategic interaction and imitation, while studies on strategic groups showed that firms are likely to imitate other group members in an effort to maintain competitive parity (e.g., Fiegenbaum & Thomas, 1995; Garcia-Pont & Nohria, 2002). Lung (2000) provided examples of blatant overinvestment by foreign car manufacturers in emerging-markets' car industries during the 1990s, and others argued that herding among international banks contributed to the Asian financial crises of 1997 (Corsetti et al., 1999).

Strategic interaction in FDI is evident in the major M&A waves of recent decades. For instance, UNCTAD (2000) argues that since a disproportionate share of cross-border M&As takes place in industries with a limited number of large players suggests that strategic interaction fully or partly motivates M&As. Cross border M&As may be particularly desirable in oligopolistic industries because they allow quick and decisive entry before competitors (Jacobsen, 2008). Moreover, rapid growth through acquisitions, as opposed to organic growth, may in oligopolistic industries be an effective strategy for fending off hostile takeovers by competitors, as size is a more effective barrier to takeover than profitability (UNCTAD, 2000). Be that as it may, the poor performance of M&As in industries as diverse as beer, banking, and advertising suggests, according to Schenk (2008; 350), that normal valuation criteria have not always pertained to M&As: "*The existence of strategic interdependence under uncertainty, conditioned by the availability of funds, may compel managements to undertake M&As even if these will not increase economic performance.*" Of course, there may be other reasons for low performance of M&As, e.g. that the difficulties of integrating acquisitions are inherently difficult to calculate ex ante and therefore tend to be underestimated, or that there are systematic principal-agent conflicts between managers whose reputation and remuneration may be tied to expansion through M&As, and owners who will be more focused on short and mid-term financial viability of the M&As. Moreover, it should be noted that the M&A literature not only views strategic interaction in M&As as an effect of oligopolistic industry structures but also as a cause by reducing capacity in the industry and reducing the number of competitors[5].

*First movers and preemptive strikes*

Another manifestation of strategic interaction dynamics in FDI is the 'first-mover' phenomenon. In his seminal study of oligopolistic industry structures in US FDI, Knickerbocker (1973) made a distinction between 'defensive' investments, where MNCs react to the moves of other MNCs, and 'aggressive' investments, where MNCs seek to carve out positions in a new location before competitors. Where follow-the-leader and herding-motivated FDI focus on the followers, the first-mover phenomenon focuses on the strategies of the leader (Lieberman & Montgomery, 1988; Lieberman & Asaba, 2006). While classical investment logic would dictate that investors should carefully assess the robustness of market demand before moving into a location, some firms - the so called 'Stackelberg leaders'[6] - may nevertheless invest during the early stages of market development for fear that first-moving competitors may otherwise gain an irreversible lead in the market (Aussilloux, 2000). First-movers may acquire exclusive control over geographical markets, e.g., by creating brand loyalty among new consumer groups, by gaining control over distribution and outlets, or by gaining control over key human and natural resources. Even unsuccessful first movers may benefit in the broader competitive game, as their first-mover investments may force competitors to invest prematurely in the location in question (Miller & Folta, 2002). First-mover interaction dynamics may be observed in any context, but are particularly evident in ‘winner-takes-all’ environments (Lieberman & Asaba, 2006), that is environments characterized by ’competition for markets’ rather than by ‘competition in markets’ (Jacobsen, 2008).

First-mover dynamics in FDI have been observed in many industries, including the brewing industry (Jacobsen, 2008; Hoenen & Hansen, 2013), the telecom industry (Ramamurti, 2000), and the tire industry (Ito & Rose, 2002). UNCTAD (2000) in a study of FDI in M&As found that first-mover dynamics are often associated with M&As because pre-emptive acquisitions or mergers quickly and decisively dry out the pool of suitable targets and raise entry barriers for competitors.

*Vertical foreclosure*

Notably, the previously cited literature tends to focus on horizontal interaction, i.e. on firms operating in the same industry (Head et al., 2002). However, strategic interaction may also play itself out in vertical investments - upstream or downstream - in the value chain. One such form of strategic interaction has been labeled ‘vertical foreclosure’ (Graham & Richardson, 1997). According to this view, the race to acquire strategic inputs, such as technologies, natural resources, distribution channels, or know-how, should not only be understood in terms of building new competitive advantages for the investing firms, but also as a way to strike blows against competitors (Nocke & White, 2007). Hence, upstream and downstream FDI in the value chain may restrict the entry of competitors by strangling their supply chains and/or by forcing them into prohibitively costly investments in new sales and distribution infrastructures. Moreover, by acquiring scarce/unique supplies, inputs, or distribution infrastructures, an oligopolist may effectively harm competitors, not only in their attempts to enter the country in question but also more broadly in their global operations. The latter phenomenon is sometimes referred to as ‘global encirclement’ (Nielsen, 2005) and has been witnessed in industries such as the wind-turbine industry where competitors seek to harm each other by acquiring each other’s key suppliers (Williamson et al, 2013) or the brewing industry, where control of distribution channels and outlets—rather than brewing capacity and brands—seems to be key to establishing/gaining market control (Hoenen & Hansen, 2013).

A special case of strategic interaction in supply chains occurs when FDI is instrumental in extending collusive relationships between clients and suppliers to new locations, with the aim of keeping newcomers out of the market or fixing prices (‘supplier-buyer collusion’), for instance, contracts giving Boeing exclusive rights as the sole aircraft supplier to a number of large US airliners, effectively deterred European Airbus from investing in the US market during the 1990s (Graham & Richardson, 1997). Likewise, much FDI in developing countries extends exclusive client-supplier relationships from MNC home countries into these new locations, a practice that frustrates host governments’ intent of creating local content (Lin & Saggi, 2007; Nolan et al., 2008).

*Mutual forbearance and tit-for-tat*

Some authors emphasize FDI decisions where MNCs interact in several locations simultaneously, what we here label multimarket interaction[7]. The IB literature contains little about such multimarket strategic interaction and, as stated by Buckley (1996, p. 29), “*international business theory is very successful in describing, predicting and to a limited extent prescribing foreign market entry and development strategies. However, in general, this* *works best when a single foreign market is being examined. Interaction or knock-on effects between markets are largely unexamined and inadequately modelled."* However, IO and Strategic Management have addressed this issue.

IO scholars have tried to model the situation in which the movement of one firm *"triggers a chain reaction of countermoves at both domestic and international levels by rivals anxious to protect their positions"* (Schenk, 1999, p. 26). This line of thinking echoes Graham's 'tit-for-tat' model (1974, 1978). According to this model, MNCs may establish subsidiaries in each other's markets as an 'exchange of threat' (Graham 1974, 1978). Such tit-for-tat investments deter firms in oligopolistic industries from moving into each other's geographical areas. Another expression of multimarket interaction is 'mutual forbearance' (Edwards, 1955). According to this view, dominant firms in an industry will hold assets in each other's markets, in order to keep each other from becoming too aggressive in other locations (Gimeno et al., 2005; Karnani & Wernerfelt, 1985).

Similarly, the Strategic Management literature has devoted attention to multimarket interaction in FDI. As argued by Kogut (1989, p. 385), *"the fundamental change in thinking about global competition in the 1980s has been the shift in interest over the decision to invest overseas to the strategic value of operating assets in multiple countries."* Thus, the strategic value of FDI is partly or fully related to the ability to coordinate and execute competitive games on a global scale. Following this logic, Hamel and Prahalad (1985) analyze the core strategies of firms and argue that strategy in global industries is motivated, *inter alia*, by cross subsidization and retaliation among dominant firms. Likewise, Porter (1986) argues that in a global industry, the competitive position of a company in any one market is dependent on its position in other markets, and that FDI can be seen as a way of countering competition in multiple markets.

Some of these accounts use Game theory to model multimarket strategic interaction in FDI (Graham, 2003). Cassiman and Veugelers (2002) use a game-theoretic model to highlight the conditions under which strategic considerations of competitors would dominate and counteract firms' motives for moving abroad. Similarly, Nielsen (2005) demonstrates how MNCs' internationalization processes can be analyzed in terms of extended games in which the moves of one player in one location are countered by the moves of other players in other locations (Nielsen, 2005).

There is some evidence of multimarket strategic interaction in FDI. Hence, it has been demonstrated that firms internationalize in order to increase multimarket contact with their rivals in the industry (Baum & Korn, 1999). The advantage of multimarket contact is that it increases opportunities for defensive and aggressive moves against rivals (Gimeno et al., 2005). Classical examples of multimarket strategic interaction include the global rivalries between Procter & Gamble and Unilever, Airbus and Boeing, and between Coca Cola and PepsiCo. However, nowhere is the multimarket strategic interaction in FDI more evident than in the global brewing industry where the top players over the last decade have embarked on epic M&As in every corner of the world in order to acquire global dominance (Hansen & Hoenen, 2013).

It should be noted that multimarket strategic interaction need not necessarily be competitive. Evidence from industries such as banking, airlines, cellular phones, and automobiles (Evans & Kessides 1994; Heggestad & Rhoades, 1978; Parker & Roller, 1997; Yu et al, 2009) suggests that multimarket contact reduces rivalry and increases the likelihood of collusion. In industries such as the brewing industry, we have even see a de facto carving up of the world, where dominant players have created a global division of labor, with each player focusing on specific regions (Hoenen & Hansen, 2013).

## Towards a conceptual framework for strategic interaction in FDI

As seen in the literature review above, numerous authors have examined MNC strategy in oligopolistic industries. The contributions are scattered across several literature streams (IB, IO, Strategic Management etc.) and span more than 40 years. They have different views of how oligopolistic industry structures impact MNC strategies and they discuss a variety of strategies that MNCs may adopt to address rivals' expected and actual moves.

In order to synthesize this rather heterogeneous literature and clarify the relatedness and distinctiveness of the various contributions, we propose a conceptual framework for strategic interaction in FDI. The framework places the various contributions along three key dimensions: competitive - collaborative; vertical - horizontal; and single market - multimarket. Hence, some contributions focus on competitive responses to oligopolistic industry structures, while others focus on tacit or explicit coordination. Some contributions are mainly concerned with intra-industry ('horizontal') interaction dynamics, while others are more oriented towards inter-industry ('vertical') dynamics. Finally, some contributions address mostly strategic interaction in a single market, while others are more focused on multimarket strategic interaction. Table 2 places the various manifestations of strategic interaction in FDI reviewed in this paper along these three dimensions.

**--- Table 2 here ---**

The framework may be valuable to the IB literature in several respects. First, it allows researcher to both relate and distinguish the multiple manifestations of strategic interaction in FDI. The framework demonstrates that strategic interaction in FDI has many faces and can be played out in many arenas, and that apparently similar phenomena may actually have distinct properties. In short, the framework may help researchers classify this family of related phenomena.

Second, the framework can be employed to compare strategic interaction dynamics in different industries: some industries fall more or less outside the framework, as concentration levels and entry barriers remain low (e.g. plastic products, metals forging, wholesale distribution), whereas other industries clearly fall within the purview of the framework, due to higher concentration levels (e.g. oil and gas, soft drinks, brewing, steel, telecom, electronics, car manufacturing or air craft production). Some industries are characterized by mainly local or regional strategic interaction (e.g. typical of many service industries like retail banking or health services), while others will have moved toward truly global interaction (e.g. car manufacturing, mobile phones, search engines, or appliances). And while some industries will interact strategically by using FDI to gain control of suppliers or distributors (e.g. oil and gas, brewing or wind turbines), others will interact directly with competitors e.g. through intra-industry M&As.

Finally, the framework can be applied to analyse trajectories of strategic interaction in specific industries. For instance, the brewing industry has clearly moved from national, through regional, toward truly global rivalry. As acquisition targets have become fewer in this industry, competitive focus has moved toward gaining downstream control so that lead firm increasingly focus on the control of distribution channels and outlets rather than production capacity to fence off competitors. And while lead breweries have typically interacted through aggressive moves towards competitors, we have recently seen how coordination complements competition, for instance, when the otherwise fierce competitors Carlsberg and Heineken, teamed up in 2007 to devour Scottish Newcastle (Hoenen & Hansen, 2013).

Two caveats regarding the scope of the framework should be emphasized. First, we do not argue that strategic interaction motives are replacing or even are more important than transaction cost, asset or capability motives. Rather we argue that IB needs to include strategic interaction motives alongside other motives when analysing MNC strategy. As MNC strategies probably will be typically based on agglomerations of motives, a key task for future research will be conceptually and empirically to untangle transaction cost, asset and capability based motives from strategic interaction motives (Ietto-Gillies, 2012). Second, we do not argue that strategic interaction in internationalization processes is played out only through FDI. MNCs may also use non-equity means such as outsourcing, strategic alliances, licensing, or franchising to position themselves vis-à-vis rivals (Hennart, 1982; Ietto-Gillies, 2012; Buckley, 2009). A key task for future research will thus be to conceptualize and understand the roles of various combinations of internalized and externalized internationalization forms in strategic interaction.

## Conclusion

In this paper we have argued that IB needs to re-discover and re-invigorate the industry perspective on MNC strategy. Where the industry perspective dominated early IB, the transaction cost and resource-based perspectives gained dominance from the 1970s onwards. As global industry concentration increases, there is a pertinent need to revisit the original industry-level insights of the Hymer-Kindleberger-Caves tradition and bring them into the current situation of intensifying global rivalry. We reviewed the exceedingly heterogeneous literature on industry drivers of MNC strategy and proposed a conceptual framework to organize and synthesize the various manifestations of strategic interaction in FDI. Hopefully, our argument in general, and the conceptual framework in particular, will contribute to the revitalization of the industry perspective on MNC strategy and as such, assist in infusing new dynamics into an IB literature in danger of 'running out of steam'.

## References


Ahsan, M. and Musteen, M. (2011), "Multinational enterprises' entry mode strategies and uncertainty: A review and extension", *International Journal of Management Reviews*, Vol. 13 No. 4, pp. 376–392.

Aussilloux, V. and Lemetayer, L. (2000), *Foreign Direct Investment under Uncertainty: Option Value and Preemption Value*, Citeseer, available at: http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.197.2384 (accessed February 2015).

Bain, J. (1956), *Barriers to new competition : their character and consequences in manufacturing industries*, Harvard University Press, Cambridge, MA.

Barney, J. (1991), "Firm Resources and Sustained Competitive Advantage", *Journal of Management*, Vol. 17 No. 1, pp. 99–120.

Baum, J.A.C. and Korn, H.J. (1999), "Dynamics of dyadic competitive interaction", *Strategic Management Journal*, Vol. 20 No. 3, pp. 251–278.

Biesebroeck, J. Van and Hashmi, A. (2007), "Market Structure and Innovation: A Dynamic Analysis of the Global Automobile Industry", *2007 Meeting Papers*, Society for Economic Dynamics, available at: http://ideas.repec.org/p/red/sed007/362.html (accessed February 2015).

Buckley, P.J. (1996), "The Role of Management in International Business Theory: A Meta-Analysis and Integration of the Literature on International Business and International Management", *Management International Review*, Vol. 36, pp. 7–54.

Buckley, P.J. (2009), "The impact of the global factory on economic development", *Journal of World Business*, Vol. 44 No. 2, pp. 131–143.

Buckley, P.J. and Casson, M. (1976), *The future of the multinational enterprise*, Macmillan London.

Calvet, a. L. (1981), "A Synthesis of Foreign Direct Investment Theories and Theories of the Multinational Firm", *Journal of International Business Studies*, Vol. 12, pp. 43–59.

Cantwell, J. (1989), *Technological Innovation and Multinational Corporations*, B. Blackwell Cambridge, MA.

Cantwell, J. (2009), "Location and the multinational enterprise", *Journal of International Business Studies*, Palgrave Macmillan Journals, Vol. 40 No. 1, pp. 35–41.

Carlton, D.W. and Perloff, J.M. (2000), *Modern industrial organization*, Addison-Wesley, Reading, Mass., 3rded.

Carr, C. and Collis, D. (2011), "Should You Have a Global Strategy ?", *MIT Sloan Management Review*, Vol. 53 No. 1, pp. 21–24.

Cassiman, B. and Veugelers, R. (2002), "R&D cooperation and spillovers: Some empirical evidence from Belgium", *American Economic Review*, Vol. 92, pp. 1169–1184.

Casson, M. (1987), *The firm and the market*, MIT press, Cambridge, MA.

Caves, R.E. (1971), "International corporations: The industrial economics of foreign investment", *Economica*, Vol. 38 No. 149, pp. 1–27.

Caves, R.E. (1996), *Multinational enterprise and economic analysis*, Cambridge University Press, Cambridge, UK.

Caves, R.E., Porter, M.E. and Spence, M. (1980), *Competition in the open economy: a model applied to Canada*, Cambridge University Press, Cambridge, MA.

Chittoor, R. and Ray, S. (2007), "Internationalization paths of Indian pharmaceutical firms - A strategic group analysis", *Journal of International Management*, Vol. 13 No. 3, pp. 338–355.

Clougherty, J. a. and Duso, T. (2011), "Using rival effects to identify synergies and improve merger typologies", *Strategic Organization*, Vol. 9 No. 4, pp. 310–335.

Corsetti, G., Pesenti, P. and Roubini, N. (1999), "What caused the Asian currency and financial crisis?", *Japan and the World Economy*, Elsevier, Vol. 11 No. 3, pp. 305–373.

D'Aveni, R. a. (1994), *Hypercompetition: Managing the dynamics of strategic maneuvering*, Free Press, New York.

D'Aveni, R. a. (1995), "Coping with hypercompetition: Utilizing the new 7S's framework.", *Academy of Management Perspectives*, Academy of Management, Vol. 9 No. 3, pp. 45–57.

Dunning, J.H. and Rugman, A.M. (1985), "The Influence of Hymer ' s Dissertation on the Theory of Foreign Direct Investment", *The American Economic Review*, Vol. 75, pp. 228–232.

Edwards, C.D. (1955), "Conglomerate Bigness as a Source of Power", in NBER conference report (Ed.), *Business Concentration and Price Policy*, Princeton University Press, Princeton, NJ, pp. 331–352.

Evans, W.N. and Kessides, I.N. (1994), "Living By the Golden-Rule - Multimarket Contact in the United-States Airline Industry", *Quarterly Journal of Economics*, Vol. 109, pp. 341–366.

Fiegenbaum, A. and Thomas, H. (1995), "Strategic groups as reference groups: Theory, modeling and empirical examination of industry and competitive strategy", *Strategic Management Journal*, Vol. 16 No. 6, pp. 461–476.

Flowers, E.B. (1976), "Oligopolistic reactions in European and Canadian direct investment in the United States", *Journal of International Business Studies*, Vol. 7, pp. 43–55.

Folta, T.B. and Miller, K.D. (2002), "Real options in equity partnerships", *Strategic Management Journal*, Vol. 23 No. 1, pp. 77–88.

Fosfuri, A. and Giarratana, M.S. (2009), "Masters of war: Rivals' product innovation and new advertising in mature product markets", *Management Science*, Vol. 55 No. 2, pp. 181–191.

Furrer, O., Thomas, H. and Goussevskaia, A. (2008), "The structure and evolution of the strategic management field: A content analysis of 26 years of strategic management research", *International Journal of Management Reviews*, Vol. 10 No. 1, pp. 1–23.

Garcia Pont, C. and Nohria, N. (2002), "Local versus global mimetism: The dynamics of alliance formation in the automobile industry", *Strategic Management Journal*, Vol. 23 No. 4, pp. 307–321.

Ghemawat, P. and Ghadar, F. (2006), "Global integration ≠ global concentration.", *Industrial and Corporate Change*, Vol. 15 No. 4, pp. 595–623.

Ghemawat, P. and Hout, T. (2008), "Tomorrow's Global Giants Not the Usual Suspects", *Harvard Business Review*, Vol. 86 No. 11, pp. 80–88.

Giarratani, F., Madhavan, R. and Gruver, G. (2013), “Steel industry restructuring and location”, in Giarratani, F., Hewings, G. and McCann, P. (Eds.), *Handbook of Industry Studies and Economic Geography*, Edward Elgar Publishing.

Gimeno, J., Hoskisson, R.E., Beal, B.D. and Wan, W.P. (2005), “Explaining the clustering of international expansion moves: A critical test in the US telecommunications industry”, *Academy of Management Journal*, Academy of Management, Vol. 48 No. 2, pp. 297–319.

Graham, E. (1974), *Oligopolistic imitation and European direct investment in the United States*, Harvard Business School.

Graham, E. (2003), “Market structure and the multinational enterprise: a game-theoretic approach”, in Brewer, T.L., Young, S. and Guisinger, S.E. (Eds.), *The New Economic Analysis of Multinationals: An Agenda for Management*, Edward Elgar Publishing, UK.

Graham, E.M. (1978), “Transatlantic investment by multinational firms: a rivalistic phenomenon?”, *Journal of Post Keynesian Economics*, Vol. 1 No. 1, pp. 82–99.

Graham, E.M. (1998), “Market structure and the multinational enterprise: A game-theoretic approach”, *Journal of International Business Studies*, Vol. 29, pp. 67–83.

Graham, E.M. and Richardson, J.D. (1997), *Global Competition Policy*, Peterson Institute.

Grogaard, B., Gioia, C. and Benito, G.R.G. (2005), “An Empirical Investigation of the Role of Industry Factors in the Internationalization Patterns of Firms”, *SSRN Electronic Journal*, doi:10.2139/ssrn.982085.

Guillén, M.F. (2002), “Structural inertia, imitation, and foreign expansion: South Korean firms and business groups in China, 1987-95”, *Academy of Management Journal*, Vol. 45 No. 3, pp. 509–525.

Hamel, G. and Prahalad, C.K. (1985), *Do you really have a global strategy?*, *Harvard Business Review*, Vol. 63, pp. 139–148.

Haveman, H. a. (1993), “Follow the Leader: Mimetic Isomorphism and Entry Into New Markets”, *Administrative Science Quarterly*, Vol. 38, pp. 593–627.

Head, K., Mayer, T. and Ries, J. (2002), “Revisiting Oligopolistic Reaction: Are Decisions on Foreign Direct Investment Strategic Complements?”, *Journal of Economics & Management Strategy*, Vol. 11 No. 3, pp. 452–471.

Heggestad, A.A. and Rhoades, S.S. a. (1978), “Multi-Market Interdependence and Local Market Competition in Banking”, *The Review of Economics and Statistics*, Vol. 60, pp. 523–532.

Henisz, W.J. and Delios, A. (2001), “Uncertainty, Imitation, and Plant Location: Japanese Multinational Corporations, 1990-1996”, *Administrative Science Quarterly*, Vol. 46 No. 3, p. 443.

Hennart, J. and Park, Y. (1994), “Location, governance, and strategic determinants of Japanese manufacturing investment in the united states”, *Strategic Management Journal*, Vol. 15 No. 6, pp. 419–436.

Hennart, J.-F. (1982), *A theory of the multinational corporation, Ann Arbor: University of Michigan Press*, MI.

Hoenen, A. and Hansen, M. (2013), “Carlsberg in India: entry strategy in global oligopolistic industries”, in Gammelgaard, J. and Dörrenbächer, C. (Eds.),*The global brewery industry*, Edward Elgar Publishing, Cheltenham, UK.

Howard, P.H. (2009), “Visualizing consolidation in the global seed industry: 1996-2008”, *Sustainability*, Vol. 1 No. 4, pp. 1266–1287.

Hutzschenreuter, T. and Israel, S. (2009), “A review of empirical research on dynamic competitive strategy”, *International Journal of Management Reviews*, Vol. 11 No. 4, pp. 421–461.

Hymer, S.H. (1968), “The large multinational corporation: An analysis of some motives for the international integration of business”, *Revue Economique*, Vol. 19 No. 6, pp. 949–973.

Hymer, S.H. (1976), *The international operations of national firms: A study of direct foreign investment*, MIT press Cambridge, MA, Vol. 14.

Iammarino, S. and McCann, P. (2013), *Multinationals and economic geography: location, technology and innovation*, Edward Elgar Publishing.

Ietto-Gillies, G. (2012), *Transnational Corporations and International Production: Concepts, Theories and Effects*, Edward Elgar Publishing, Cheltenham, UK.

Ito, K. and Rose, E.L. (2002), “Foreign Direct Investment Location Strategies in the Tire Industry”, *Journal of International Business Studies*, Vol. 33 No. 3, pp. 593–602.

Iversen, C. (1936), *International Capital Movements*, Oxford University Press, Oxford.

Jakobsen, K. (2008), *Foreign market entry in transition economies : Entry timing and mode choice*, Samfundslitteratur (PhD Series; Nr. 18.2008), Frederiksberg: Copenhagen Business School.

Karnani, A. and Wernerfelt, B. (1985), “Multiple point competition”, *Strategic Management Journal*, Vol. 6 No. 1, pp. 87–96.

Khanna, T. and Palepu, K. (2010), *Winning in Emerging Markets*, A Road Map for Strategy and Execution, Harvard Business Press, Boston, MA.

Knickerbocker, F.T. (1973), “Oligopolistic reaction and multinational enterprise”, *The International Executive*, Vol. 15 No. 2, pp. 7–9.

Kogut, B. (1989), “A Note on Global Strategies”, *Strategic Management Journal*, Vol. 10 No. 4, pp. 383–389.

Lall, S. and Siddharthan, N.S. (1982), “The Monopolistic Advantages of Multinationals: Lessons from Foreign Investment in the U.S.”, *Economic Journal*, Vol. 92, pp. 668–683.

Lema, R., Berger, A., Schmitz, H. and Song, H. (2011), “Competition and Cooperation between Europe and China in the Wind Power Sector”, *IDS Working Papers*, Vol. 2011 No. 377, pp. 1–45.

Lieberman, M.B. and Asaba, S. (2006), “Why do firms imitate each other?”, *Academy of Management Review*, Vol. 31 No. 2, pp. 366–385.

Lieberman, M.B. and Montgomery, D.B. (1988), “First-mover advantages”, *Strategic Management Journal*, Vol. 9 No. S1, pp. 41–58.

Lin, P. and Saggi, K. (2007), “Multinational firms, exclusivity, and backward linkages”, *Journal of International Economics*, Vol. 71 No. 1, pp. 206–220.

Lockett, a, Thompson, S. and Morgenstern, U. (2009), “The development of the resource-based view of the firm: A critical appraisal”, *International Journal of Management Reviews*, Vol. 11 No. 1, pp. 9–28.

Lung, Y. (2000), “Is the Rise of Emerging Countries as Automobile Producers an Irreversible Phenomenon?”, in Humphrey, J., Lecler, Y. and Salerno, M. (Eds.),*Global Strategies and Local Realities: The Auto Industry in Emerging Markets*, London & St Martin’s Press, New York.

Luo, Y. (2004), “A coopetition perspective of MNC host government relations”, *Journal of International Management*, Vol. 10 No. 4, pp. 431 – 451.

Luo, Y. (2007), “From foreign investors to strategic insiders: Shifting parameters, prescriptions and paradigms for MNCs in China”, *Journal of World Business*, Vol. 42, pp. 14–34.

Markusen, J.R. (1995), “The Boundaries of Multinational Enterprises and the Theory of International Trade”, *The Journal of Economic Perspectives*, Vol. 9, pp. 169–189.

Miller, K.D. and Folta, T.B. (2002), “Option value and entry timing”, *Strategic Management Journal*, Vol. 23 No. 7, pp. 655–665.

Mundell, R.A. (1957), “International trade and factor mobility”, *The American Economic Review*, Vol. 47 No. 3, pp. 321–335.

Nalebuff, B.J. and Brandenburger, A.M. (1995), “The right game: Use game theory to shape strategy”, *Long Range Planning*, Vol. 28 No. 4, p. 128.

Nielsen, C. (2005), “The global chess game . . . or is it go? Market-entry strategies for emerging markets”, *Thunderbird International Business Review*, Vol. 47 No. 4, pp. 397–427.

Nocke, V. and White, L. (2007), “Do vertical mergers facilitate upstream collusion?”, *American Economic Review*, American Economic Association, Vol. 97 No. 4, pp. 1321–1339.

Nolan, P., Zhang, J. and Liu, C. (2008), “The global business revolution, the cascade effect, and the challenge for firms from developing countries”, *Cambridge Journal of Economics*, Vol. 32 No. 1, pp. 29–47.

Ordanini, A., Rubera, G. and DeFillippi, R. (2008), “The many moods of inter-organizational imitation: A critical review”, *International Journal of Management Reviews*, Vol. 10 No. 4, pp. 375–398.

Oxley, J.E., Sampson, R.C. and Silverman, B.S. (2009), “Arms race or détente? How interfirm alliance announcements change the stock market valuation of rivals”, *Management Science*, Vol. 55 No. 8, pp. 1321–1337.

Parker, P.M. and Röller, L.-H. (1997), “Collusive conduct in duopolies: Multimarket contact and cross-ownership in the mobile telephone industry”, *RAND Journal of Economics*, Vol. 28, pp. 304–322.

Peltoniemi, M. (2011), “Reviewing industry life-cycle theory: Avenues for future research”, *International Journal of Management Reviews*, Vol. 13 No. 4, pp. 349–375.

Peng, M. (2001), “The resource-based view and international business”, *Journal of Management*, Vol. 27 No. 6, pp. 803–829.

Penrose, E. (1959), *The Theory of the Growth of the Firm*, John Wiley, New York.

Peteraf, M. a. (1993), “The cornerstones of competitive advantage: A resource-based view”, *Strategic Management Journal*, Vol. 14 No. 3, pp. 179–191.

Pitelis, C. (2000), “A theory of the (growth of the) transnational firm: a Penrosean perspective”, *Contributions to Political Economy*, Vol. 19 No. 1, pp. 71–89.

Pitelis, C.N. (2004), “Edith Penrose and the resource-based view of (international) business strategy”, *International Business Review*, Vol. 13 No. 4, pp. 523–532.

Porter, M.E. (1979), “The Structure within Industries and Companies’ Performance”, *The Review of Economics and Statistics*, Vol. 61, pp. 214–227.

Porter, M.E. (1986), *Competition in global industries*, Harvard Business Press, Boston, MA.

Porter, M.E. (1998), *Cluster and the new economics of competition*, *Harvard Business Review*, Harvard Business Review, Boston, MA, Vol. 76.

Ramamurti, R. (2000), “Risks and rewards in the globalization of telecommunications in emerging economies”, *Journal of World Business*, Vol. 35 No. 2, pp. 149–170.

Ramón-Rodríguez, A.B., Moreno-Izquierdo, L. and Perles-Ribes, J.F. (2011), “Growth and internationalisation strategies in the airline industry”, *Journal of Air Transport Management*, Vol. 17 No. 2, pp. 110–115.

Rugman, A.M. and Verbeke, A. (2002), “Edith Penrose’s contribution to the resource-based view of strategic management”, *Strategic Management Journal*, Vol. 23 No. 8, pp. 769–780.

Schenk, E. (1999), *Large mergers a matter of strategy rather than economics, Text box prepared for the UNCTAD’s World Investment Report*, available at: http://www2.econ.uu.nl/users/schenk/WIR99.html (accessed 5 February 2015).

Schenk, H. (2008), “The merger paradox”, in Wankel, C. (Ed.),*21st Century Management: A Reference Handbook*, Sage, Los Angeles, pp. 345–354.

Sturgeon, T.J. and Kawakami, M. (2010), *Global Value Chains in the Electronics Industry: Was the Crisis a Window of Opportunity for Developing Countries?*, World Bank Policy Research Working Paper Series, available at: http://ssrn.com/abstract=1676652.

Tallman, S.B. (1991), “Strategic management models and resource-based strategies among mnes in a host market”, *Strategic Management Journal*, Vol. 12 No. S1, pp. 69–82.

Tallman, S.B. (1992), “A Strategic Management Perspective on Host Country Structure of Multinational Enterprises”, *Journal of Management*, Vol. 18 No. 3, pp. 455–471.

Teece, D.J. (1986), “Transactions cost economics and the multinational enterprise An Assessment”, *Journal of Economic Behavior & Organization*, Vol. 7 No. 1, pp. 21–45.

Teece, D.J. (2006), “Reflections on the Hymer thesis and the multinational enterprise”, *International Business Review*, Vol. 15 No. 2, pp. 124–139.

Terpstra, V. and Yu, C.-M. (1988), “Determinants of Foreign Investment of U.S. Advertising Agencies”, *Journal of International Business Studies*, Vol. 19, pp. 33–46.

Tieying, Y., Subramaniam, M. and Cannella, A.A. (2009), “Rivalry deterrence in international markets: Contingencies governing the mutual forbearance hypothesis”, *Academy of Management Journal*, Vol. 52 No. 1, pp. 127–147.

UCTAD. (2000), *World Investment Report: Cross border M&As*, Geneva, Switzerland, available at: http://www2.econ.uu.nl/users/schenk/WIR99.html.

Vernon, R. (1966), “International Investment and International Trade in the Product Life Cycle”, *Quarterly Journal of Economics*, Vol. 80 No. 2, pp. 190–207.

Wernerfelt, B. (1984), “A resource based view of the firm”, *Strategic Management Journal*, Vol. 5 No. 2, pp. 171–180.

Williamson, O. (1975), *Markets and hierarchies*, Free Press, New York.

Williamson, P.J., Ramamurti, R., Fleury, A.C.C. and Fleury, M.T.L. (2013), *The competitive advantage of emerging market multinationals*, Cambridge University Press.

Yu, C.-M.J. and Ito, K. (1988), “Oligopolistic Reaction and Foreign Direct Investment: The Case of the U.S. Tire and Textiles Industries”, *Journal of International Business Studies*, Vol. 19, pp. 449–460.

**Figure 1: Swings of the pendulum in the IB literature on FDI**

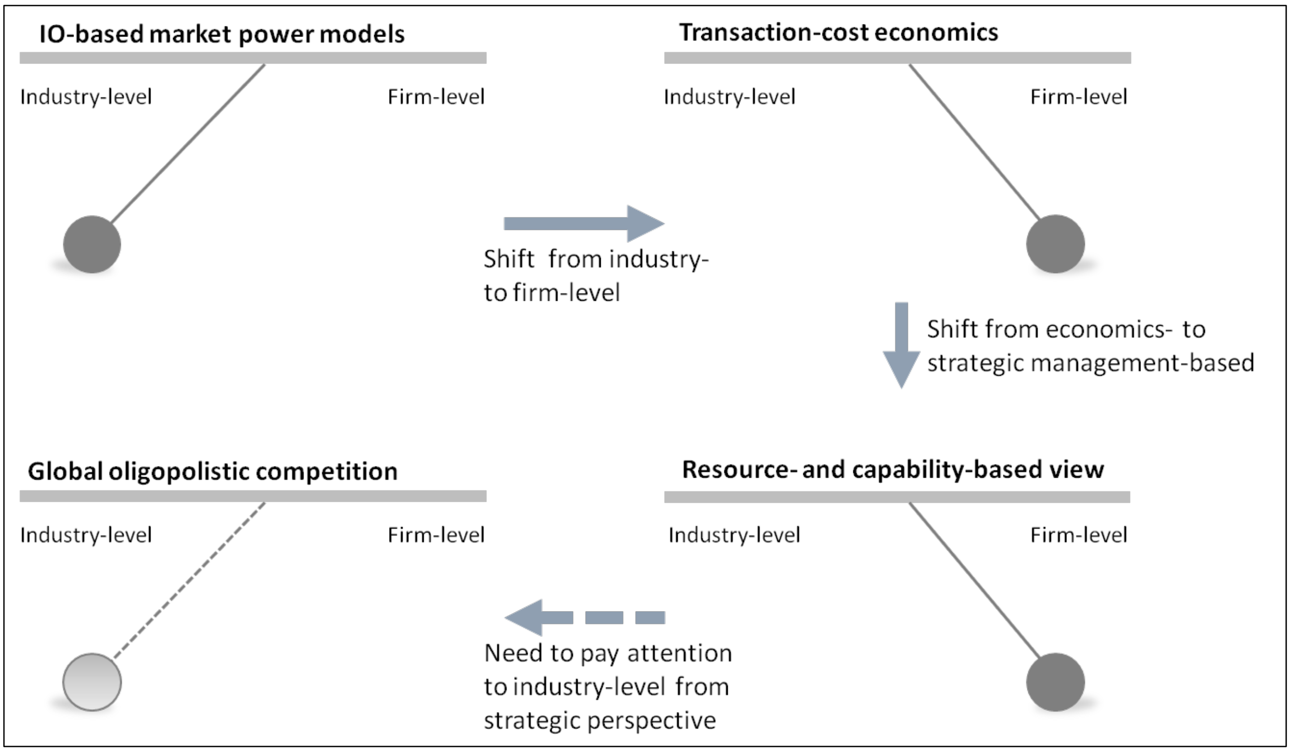


**Table 1: Classical firm-level and industrial organization perspectives on FDI**

| | **TCE and RBV perspectives** | **IO-based perspective** |
|---|---|---|
| **Market structure** | Competitive or monopolistically competitive | Oligopolistic (or monopolistic) |
| **Level of analysis** | Firm | Industry |
| **Sources of competitive advantage** | Lowering transaction costs<br>Differentiation based on ability to deploy and acquire idiosyncratic resources and capabilities | Ability to raise and maintain entry barriers in industry |
| **Main motives for FDI** | Resource, market, efficiency, and asset seeking | Improve/stabilize position relative to main competitors |
| **Key questions** | How can FDI be used to exploit, access, and augment assets, and to reduce transaction costs in cross border activities | How can FDI be used as a vehicle to maintain and expand industry position? |

## Table 2: A typology of various manifestations of strategic interaction in FDI

| | | | **Level of collaboration** | |
|---|---|---|---|---|
| | | | *Non-collaborative* | *Collaborative* |
| **Scope and direction of interaction** | *Single market interaction* | Horizontal | Follow the leader<br>Herding<br>First-movers | Carving up national markets<br>National cartels |
| | | Vertical | Vertical foreclosure | Supplier-buyer exclusivity |
| | *Multi market interaction* | Horizontal | Exchange of threats<br>Mutual forbearance<br>Global chess<br>Competition for markets | Carving up the globe<br>Global cartels |
| | | Vertical | Global encirclement | Exclusive global supplier-buyer contracts |

[1] This call for rediscovering the industry perspective is also evident in the literature on mergers and acquisitions (see e.g.Oxley et al. 2009 and Clougherty & Duso, 2011) or or in the marketing literature (see e.g. Fosfuri & Giarratana, 2009).

[2] While concentration evidently takes place, the degree of concentration remains highly debated (see e.g. Ghemawat & Ghadar (2006) for an account questioning the extent of global concentration).

[3] The table contrasts classical IO with TCE/RBV. Evidently, modern IO has loosened some of the propositions of classical Bain style IO, e.g. that efficiency and oligopolistic interaction are contrasts or that entry barriers are the sole source of competitive advantage (Clougherty & Duso, 2011).

[4] Hence there can be several reasons for strategic interaction unrelated to industry structure: First, MNCs may internationalize through what institutional organization theory has labeled “inter-organizational mimicry” (Gimeno et al., 2005). This type of strategic interaction in internationalization is fuelled by firms’ needs to conform to norms and achieve legitimacy in their organizational fields (Gimeno et al., 2005; Guillen, 2002; Haveman,1993; Henisz & Delios, 2001) and is unrelated to industry structure. Second, firms may mimic each others’ internationalization paths because they believe that other firms possess superior information (Guillen 2002; Henisz & Delios, 2001). Finally, firms may co-ordinate internationalization in order to obtain collective efficiencies, such as shared supporting and relating industries, or information and knowledge spillovers (Gimeno et al., 2005; Porter, 1998, Cantwell, 1989, 2009).

[5] We thank anonymous reviewers for making these points regarding other understandings of what shapes the performance of M&As and the dual causality between oligopolistic industry structures and M&As.

[6] The term “Stackelberg leader” describes a leader firm that moves first with follower firms then moving sequentially. The term comes from the game theoretic Stackelberg leadership model in economics.

[7] We understand multimarket interaction in a geographical sense. However, as pointed out by the literature on conglomerates/ diversified firms, multimarket interaction can also take place between between industries so that a firms’ activity in one industry provokes a response in other industries by competitors. These dynamics are especially seen in developing countries where conglomerates play a particularly important role (Khanna & Palepu, 2010).