

**EUROPEAN SHARPBENDERS:
META-REGIONAL STRATEGY
AND REGIONALISATION**

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Abstract

This paper develops a new concept of the meta-regional strategy, drawing on the contingency view of the meta-environment. The paper contributes to the regionalisation perspective and regional versus global strategy research in international business and global strategy. The study analyses European multinational enterprises (MNEs) that have markedly improved their standing in the Fortune Global 500 after a relative fall. We build on and extend the concept of the sharpbending process. Focusing on case studies of Daimler and BMW, and their growth beyond their home region (notably in Asia), we incorporate regional integration into the analysis as a trigger of the sharpbending process. This helps us to define the meta-regional strategy: a strategy that maximizes the strategic fit between an organisation's firm-specific advantages and its unique meta-environment including resource munificence, institutions and markets of its home and host countries and regions where it operates. The paper offers answers to our main research question: *When and how should MNEs adopt a global strategy?* and implications for future research on international diversification and performance, including lessons for European MNEs (such as, that they can and should consider growing aggressively in the Asia-Pacific region, if they have a good strategic fit between their firm-specific advantages and their meta-environment.)

1. Introduction

Regionalisation remains an important issue relevant to international business and multinational enterprise (MNE) strategy. The concept was initially defined by Morrison, Ricks, and Roth (1991) as a compromise between the traditional nationally responsive strategies and global strategies¹. The regionalisation perspective was then developed in an influential 2004 paper by Alan Rugman and Alain Verbeke on regional and global strategies of MNEs². That paper started a vigorous debate on whether companies should focus on their home region (such as Europe for European companies) or whether they should seek expansion in other world regions to realise a substantial share of their sales there (e.g. for European companies to sell in the Americas and/or in the Asia-Pacific regions). Some researchers have suggested that, over time, MNEs can and are becoming more global in terms of their geographic spread of sales³. Others had defended the result of an enduring substantial home-regional concentration of MNE sales and assets (a popular measure of regionalisation),⁴ and applied the regionalisation perspective of Rugman and Verbeke (2004) to topics such as knowledge

¹ Morrison, Allen J., David A. Ricks, and Kendall Roth, "Globalization versus regionalization: which way for the multinational?," *Organizational Dynamics* 19, no. 3 (1991), 17-29.

² Rugman, Alan M., and Alain Verbeke. "A perspective on regional and global strategies of multinational enterprises." *Journal of international business studies* 35, no. 1 (2004), 3-18.

³ Osegowitsch, Thomas, and Andre Sammartino. "Reassessing (home-) regionalisation." *Journal of International Business Studies* 39, no. 2 (2008), 184-196.

⁴ Rugman, Alan M., and Chang Hoon Oh. "Why the home region matters: location and regional multinationals," *British Journal of Management* 24, no. 4 (2013), 463-479.

spillovers⁵ and the impact of country-level risk on entry mode selection of European firms in the EMU⁶.

This paper contributes to the theory-building efforts in the field of international business extending the regionalisation perspective of Rugman and Verbeke⁷ and regional versus global strategy debate in strategic management⁸ (Ghobadian, Rugman, & Tung, 2014) by building on the seminal 1990 *Long Range Planning* paper by the late David Mayes and his colleagues Peter Grinyer and Peter McKiernan entitled “The sharpbenders: Achieving a sustained improvement in performance”. Grinyer et al. studied and explained what they termed “the sharpbenders”, companies that experienced a relative decline for a period of time, but then rapidly picked up to achieve a remarkable recovery⁹. We modify and apply this concept to the study of MNEs and their regional versus global strategies, and contribute to the regionalisation perspective¹⁰ and the literature on the impact of global versus regional strategies of MNEs on performance¹¹ by showing how some

⁵ Driffield, Nigel, James H. Love, and Yong Yang, “Technology sourcing and reverse productivity spillovers in the multinational enterprise: global or regional phenomenon?,” *British Journal of Management* 25 (2014), S24-S41.

⁶ Hillemann, Jenny, Alain Verbeke, and Won-Yong Oh. "Regional Integration, Multinational Enterprise Strategy and the Impact of Country-level Risk: The Case of the EMU." *British Journal of Management* 30, no. 4 (2019), 908-925.

⁷ Banalieva, Elitsa R., and Charles Dhanaraj. "Home-region orientation in international expansion strategies." *Journal of International Business Studies* 44, no. 2 (2013), 89-116.

⁸ Ghobadian, Abby, Alan M. Rugman, and Rosalie L. Tung, “Strategies for firm globalization and regionalization,” *British Journal of Management* 25 (2014), S1-S5.

⁹ Grinyer, Peter H., David Mayes, and Peter McKiernan, “The sharpbenders: Achieving a sustained improvement in performance,” *Long Range Planning* 23, no. 1 (1990), 116-125.

¹⁰ Sammartino, Andre, and Thomas Osegowitsch. "Dissecting home regionalization: how large does the region loom?." *Multinational Business Review* 21, no. 1 (2013), 45-64.

¹¹ Ruigrok, Winfried, Dimitrios Georgakakakis, and Peder Greve. "Regionalization strategy and performance." *Multinational Business Review* 21, no. 1 (2013), 6-24.

European MNEs have markedly improved their global competitiveness by strategically targeting to grow rapidly in at least one of the regions (notably Asia) other than their home region.

We demonstrate the underlying logic of growth of these companies with examples of European MNEs from the automotive industry, in particular Daimler and BMW, and show how it is possible to have a successful strategic growth trajectory as a global MNE with what we term *meta-regional strategy*. We apply and extend the theoretical logic of the “sharpbending process”, which entails identifying causes of relative decline, triggers of revival, actions and characteristics of sustained performance of the companies. We show how the concepts of sharpbending and meta-regional strategy (building on the contingency view of the meta-environment¹²) can help today’s MNEs grow in and succeed beyond their home region and move up in the global company rankings, and how regional integration (a process in which neighbouring states enter into agreements in order to upgrade cooperation through common institutions and rules) affects this process.

2. Regionalisation and Strategies of Multinational Enterprises

Rugman and Verbeke’s 2004 *Journal of International Business Studies* “regionalisation perspective” on regional and global strategies of MNEs corrected some of the exaggerated notions of ‘corporate globalisation that never was’,¹³ by revealing that few of the 500 largest corporations in the world were truly global in 2001, as about 80% of their sales were in their home

¹² de Jong, Gjalt, T. Binh Phan, and Hans van Ees. "Does the meta-environment determine firm performance? Theory and evidence from European multinational enterprises." *International Business Review* 20, no. 4 (2011), 454-465.

¹³ Verbeke, Alain, Régis Coeurderoy, and Tanja Matt. "The future of international business research on corporate globalization that never was...." *Journal of International Business Studies* 49, (2018), 1101-1112.

region (say for European firms in Europe)¹⁴. In spite of some criticism, such as the findings of Osegowitsch and Sammartino that the MNEs were in fact getting more globalised between 1991 and 2001¹⁵, subsequent research found that intra-regional sales of the world's largest MNEs remained largely stable at about 75-80% in 2000-2007¹⁶.

Analysis of dynamics of regional and global expansion of 220 of the world's largest firms in 1995-2005 showed that the wedge between regional and global sales penetration remained substantial, confirming the "home-region orientation"¹⁷ finding of Rugman and Verbeke (2004), and also that firms stop their expansion efforts sooner outside the home region than within it¹⁸. On the other hand, Berrill used a larger data set of over 1,000 MNEs from the G-7 countries, and found that 75% of them were in fact global or what she called "transregional" (if a firm conducts business in more than one region but not globally in all regions)¹⁹. Contrary to Rugman and Verbeke's recommendation that firms should think home-regionally, Berrill's analysis suggests that transregional and global dimensions are critically important to international strategy.

¹⁴ Rugman and Verbeke, 2004

¹⁵ Osegowitsch and Sammartino, 2008

¹⁶ Rugman and Oh, 2013

¹⁷ Banalieva and Dhanaraj, 2013

¹⁸ Oh, Chang Hoon, Jing Li, Christian Geisler Asmussen, Bo Bernhard Nielsen, Tom Osegowitsch, and Andre Sammartino. "The dynamics of regional and global expansion." *The Multinational Business Review* 23, no. 4 (2015), 306-327.

¹⁹ Berrill, Jenny. "Are the world's largest firms regional or global?." *Thunderbird International Business Review* 57, no. 2 (2015), 87-101.

The topic of regional versus global strategies of MNEs remains important today with various avenues for future research offered²⁰, including impact of the challenges to globalisation in terms of “de-globalisation”²¹ and its structural reshaping²². There are new research streams, such as the relationship between inter- and intra-regional diversification and expatriate utilization²³, and new criticisms, such as that the regional strategy perspective focuses too much on the downstream (sales) and equity (assets) rather than on the non-equity aspects in the global value chain²⁴. The question remains, however: *When and how should MNEs adopt a global strategy?*

3. The Sharpbending Process Revisited

The concept of “sharpbenders” can provide some surprising answers to the question of when and how MNEs should adopt a global strategy. The debate on regionalisation versus globalisation in MNE strategy dates back to the same period (1991)²⁵ as publication of *The Sharpbenders* (1990), the era when the fall of the Berlin Wall and opening up of emerging economies ushered in a more integrated world economy on both regional (the Single European Market of 1992/93) and global basis (The Uruguay Round of GATT, 1986-94). Grinyer et al. (1990) studied 25 British companies that had

²⁰ Verbeke, Coeurderoy, and Matt, 2018

²¹ Witt, Michael A, “De-globalization: Theories, predictions, and opportunities for international business research,” *Journal of International Business Studies* 50, no. 7 (2019), 1053-1077.

²² Petricevic, Olga, and David J. Teece. "The structural reshaping of globalization: Implications for strategic sectors, profiting from innovation, and the multinational enterprise." *Journal of International Business Studies* 50, no. 9 (2019), 1487-1512.

²³ Lee, Jong Min. "Intra-and inter-regional diversification, subsidiary value chain activities and expatriate utilization." *Journal of International Management* 25, no. 3 (2019), 100668.

²⁴ Mudambi, Ram, and Jonas Puck, “A global value chain analysis of the ‘regional strategy’ perspective,” *Journal of Management Studies* 53, no. 6 (2016), 1076-1093.

²⁵ Morrison, Ricks, & Roth, 1991

bounced back from sub-par to stellar performance²⁶. They identify four stages of this process:

3.1 Causes of relative decline

The most cited causes of decline in their sample were adverse changes in total market demand, high-cost structure and falling revenues due to more intense competition. These are relevant to many MNEs today.

3.2 Triggers for sharpbending

The most cited triggers included a new CEO and recognition by management of problems, while only 10% of firms cited perception by management of opportunities. We add regional integration to these triggers, both as a threat and an opportunity, as it relates to changes in market demand and competition noted earlier. Regional integration is related to but conceptually different from regionalisation. Rugman and Verbeke (2004) - from the regionalisation perspective - acknowledged regional integration (in the EU, North America and Asia) as factors that underpin their “Triad” perspective - defining the world’s regions as NAFTA, the EU and Asia). However, while regional integration is largely a political and economic phenomenon of closer relationships between nations in a region, regionalisation is more a strategic choice and part of MNE strategy that is affected by regional integration²⁷.

²⁶ Grinyer, Mayes, & McKiernan, 1990

²⁷ Hilleman et al., 2019. In other words, this paper conceptualizes regionalisation at the firm level (as a regional strategy and regional concentration of a firm’s sales, assets or value-creating activities), not at the country level (the unit of analysis this paper associates with regional integration).

3.3 Actions taken to produce sharpbends

The actions most commonly cited by UK companies to produce sharpbends (and which differentiated them from firms that were not sharpbenders) were: major changes in management, intensive efforts to reduce production costs, and improved marketing. Actions which were taken relatively less by the sharpbenders and were adopted more by the control group were: diversification, acquisitions, and reduced debt. Entering export markets vigorously was modestly relevant to producing sharpbends.

3.4 Characteristics of sustained performance

The most commonly cited characteristics of sustained performance were good management, appropriate organizational structure, and good marketing management. These factors may be driven by the British sample from 1990, but many MNEs today including Western²⁸ and Chinese²⁹ may find them relevant to sustained performance³⁰.

3.5 Performance measures

Grinyer et al. (1990) used various company performance measures including those related to shareholders (operating profit after interest), management (operating profit before interest, and sales) and other stakeholders (employees and the national economy). However, they did not use any measure that would be relative in terms of performance relative to

²⁸ Doz, Yves, and C. K. Prahalad, "Quality of management: An emerging source of global competitive advantage?," In *Strategies in Global Competition (RLE International Business): Selected Papers from the Prince Bertil Symposium at the Institute of International Business*, Routledge, pp. 345-368. 2013.

²⁹ Rugman, Alan M., and Jing Li, "Will China's multinationals succeed globally or regionally?," *European management journal* 25, no. 5 (2007), 333-343.

³⁰ Raisch, Sebastian, Julian Birkinshaw, Gilbert Probst, and Michael L. Tushman. "Organizational ambidexterity: Balancing exploitation and exploration for sustained performance," *Organization science* 20, no. 4 (2009), 685-695.

(international) competitors. In our analysis, we take into account both sales (as traditionally employed in the studies of regional and global strategies of MNEs) and global ranking (in Fortune 500 and in industry). Other measures of performance including profitability and innovation will be taken into account.

4. The “Sharpbenders” and MNE Strategy

This section will show how the sharpbending process is relevant to MNE strategy today, and particularly to European MNEs that we focus on in this study. The aim of this study is to integrate the concept of sharpbenders with the debate on regional versus global strategy of MNEs. In answering our research question (*When and how should MNEs adopt a global strategy?*), it is important to consider the distinct stages and elements of the sharpbending process. While the home-regionalisation stream of the regional versus global strategy debate continues to defend the regional strategy with implications for aspects such as regional organisational structure³¹ and international HR management³², others suggest that most large MNEs today are transregional and should at least consider adopting some form of global strategy³³.

The sharpbending concept can be employed to extend the regionalisation perspective in several ways. First, instead of measuring where an MNE stands on the regional-global continuum and how it changes over time, we suggest complementing this measure with a firm’s ranking in the Fortune Global 500 and comparing this with its Fortune 500 industry peers. This will allow us to investigate if MNEs that experience a decline and then a sharp reversal in

³¹ Rugman, Alan M., and Alain Verbeke, “A regional solution to the strategy and structure of multinationals,” *European Management Journal* 26, no. 5 (2008), 305-313.

³² Lee, 2019

³³ Berrill, 2015

their Fortune 500 ranking over time are adopting regional or global strategies and in which region(s) they grow.

Second, by incorporating the causes-triggers-actions-performance framework from the Sharpbenders paper, we can analyse the relationship between these factors and aspects of MNE strategy including management, marketing, and organisational structure. Studying European MNEs that successfully reversed their decline in Fortune 500 ranking, can uncover how the causes of their decline, triggers for sharpbending, actions taken to produce sharpbends, and characteristics of their sustained performance relate to the adoption of global versus regional strategies. It will also help us to determine whether these firms did stick to their home region in terms of their sales, investment and other value-creation activities or whether they did rapidly grow their business activities beyond their home region.

There is some preliminary evidence that successful European MNEs such as LVMH have adopted global rather than regional strategy and grew aggressively beyond Europe, particularly in Asia³⁴. Another analysis of European MNEs finds that the impact of the degree of internationalisation on performance is positive for MNEs that operate in culturally similar countries and negative for MNEs that operate in culturally diverse countries, implying a regional rather than global strategy³⁵. The next section will discuss how these two conflicting views can be reconciled.

³⁴ Liu, Yang., and Peter Záborský. *LVMH: Is China Still a New Market?*.(2018). SAGE Publications: SAGE Business Cases Originals. <http://dx.doi.org/10.4135/9781526438836>

³⁵ De Jong, Gjalt, and Jerry van Houten. "The impact of MNE cultural diversity on the internationalization-performance relationship: Theory and evidence from European multinational enterprises." *International Business Review* 23, no. 1 (2014), 313-326.

5. MNE Sharpbenders and Regional Integration

One element that might help our understating of the global versus regional strategy dilemma in the context of the sharpbending process is regional integration. This concept could be a possible trigger for sharpbending. The international business literature has recognized the implications of regional integration for MNE strategy³⁶, and applied it in the European context in relation to entry decisions³⁷ including mergers and acquisitions (M&As)³⁸. However, there are opportunities to incorporate regional integration into the study of MNE strategy as part of the sharpbending process and competitive dynamics at a global level.

Regional integration can provide a competitive shock resulting in a temporary slide in performance of some of the firms in the newly integrated economic region, as they will now be exposed to more competition from within the bloc, and possibly also from outside, as foreign companies will find it more attractive to operate in larger regions such as the EU compared with previously fragmented Europe. However, after a time it can be expected that firms from within the economic bloc will devise strategies for responding to this increased competition, for example by teaming up through M&As (creating “European champions” e.g. Airbus, Air France-KLM, Arcelor, and LafargeHolcim) and/or by being spurred by increased competition at home to enter foreign markets in other world regions.

³⁶ Kim, Jin Uk, and Ruth V. Aguilera. "The world is spiky: An internationalization framework for a semi-globalized world." *Global Strategy Journal* 5, no. 2 (2015), 113-132.

³⁷ Blevins, Dane P., Caterina Moschieri, Brian C. Pinkham, and Roberto Ragozzino, "Institutional changes within the European Union: How global cities and regional integration affect MNE entry decisions," *Journal of World Business* 51, no. 2 (2016), 319-330.

³⁸ Moschieri, Caterina, Roberto Ragozzino, and Jose Manuel Campa, "Does regional integration change the effects of country-level institutional barriers on M&A? The case of the European Union," *Management International Review* 54, no. 6 (2014), 853-877.

There are also potential financial benefits of deep integration (such as Economic and Monetary Union (EMU)) to European MNEs' competitiveness. For example, there were considerable cost savings related to operating in one currency rather than multiple currencies³⁹. Economic analyses confirmed the impact of the euro on competitiveness of European firms, particularly those from small countries with better access to foreign markets, and for firms which specialise in sectors where international competition is fiercer and barriers to entry lower⁴⁰.

David Mayes's work on economic integration can help us to understand the impact of regional integration on MNE strategy in a number of ways. Economic integration is conceptually different (although related to) regional integration as it stresses the economic aspect of integration and is not necessarily regional in nature⁴¹. In his paper on the effects of economic integration on trade, David Mayes stressed the importance of considering dynamic effects of economic integration, such as increasing business investment and efficiency, the exploitation of economies of scale, the abolition of non-tariff barriers, international standardisation and changes in

³⁹ Lees, Francis, and Laurence Mauer, "The Eurozone formation: MNC and international bank reactions," *Thunderbird International Business Review* 45, no. 1 (2003), 15-30.

⁴⁰ Ottaviano, Gianmarco I.P., Daria Taglioni, and Filippo di Mauro, "The euro and the competitiveness of European firms," *Economic Policy* 24, no. 57 (2009), 6-53.

⁴¹ Balassa, Bela. *The theory of economic integration (routledge revivals)*. Routledge, 2013. *Encyclopaedia Britannica* defines economic integration as a process in which two or more states in a broadly defined geographic area reduce a range of trade barriers to advance or protect a set of economic goals. Bela Balassa defines economic integration as a process and state of affairs: "Regarded as a process, it encompasses measures designed to abolish discrimination between economic unit belonging to different national states; viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies." (Balassa, 2013: 1)

the rate of economic growth⁴². The key events in European integration such as the creation of the EMU in 1999, may have served as external triggers of sharpbending.

It is also important to consider the external impact of closer European integration. In his 1990 paper on the topic, David Mayes concluded that “the net effect of the Internal Market on relative costs seems to be clearly negative for most third country [non-EU] companies, although some like insurers and brewers will have improved access and those whose business is transport and distribution can benefit from market growth.”⁴³ The simulated effects of EC 1992 by region seemed to suggest a net positive effect for EC (firms), minor negative impact on North America and minor positive effect on Asia-Pacific (firms)⁴⁴. Hence European integration can lead to both higher intra- and inter-regional growth of European MNEs.

6. Pacific Regionalism and European MNEs

The final concept from the regional integration literature that might be helpful in answering our question about when global strategy is appropriate for European MNEs, is regionalism in other regions. It is important to distinguish between the concepts of regionalism and regional integration, especially in the Pacific Rim context where ‘regionalism’ is perhaps a more appropriate term than ‘regional integration’ given that the region is not a contiguous landmass and the region may be (or have been) characterised by cooperation and coordination rather than integration.

⁴² Mayes, David G. “The effects of economic integration on trade,” *JCMS: Journal of Common Market Studies* 17, no. 1 (1978), 1-25.

⁴³ Mayes, David G. “The external implications of closer European integration,” *National Institute Economic Review* 134, no. 1 (1990), 73-85.

⁴⁴ *Ibid.*, p. 80

According to Söderbaum (2009), 'regionalism' represents the policy and project, whereby state and non-state actors cooperate and coordinate strategy within a particular region or as a type of world order. It is usually associated with a formal programme, and often leads to institution building⁴⁵. However, it does not necessarily entail regional integration and can be seen as a looser form of integration.

In an important 1992 paper on Regionalism in the Pacific Rim, (which in many ways boldly predicted what is today the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)), Professor Mayes and the former Reserve Bank of New Zealand Governor Alan Bollard, studied global trade flows within and between European Community, North America and Asia-Pacific, regional trade agreements in the Asia-Pacific, and the relationship between regionalism and pattern of trade⁴⁶.

They define 'regionalism' as a concept relating to the spatial concentration of economic, political and socio-cultural linkages. While Bollard and Mayes (1992) acknowledged the role of regional agreements in the Pacific regionalism, they also noted that, unlike in Europe, trade in the Pacific Rim (as a whole) had not been characterised by free trade agreements and customs unions. Bollard and Mayes (1992) continued to explain that ASEAN was only a limited trade and cooperation agreement and pointed to the fact that

⁴⁵ Söderbaum, Fredrik, "Comparative regional integration and regionalism," *The Sage handbook of comparative politics* (2009), 477-496. Söderbaum (2009) defined 'regionalization' as a process of cooperation, integration, cohesion and identity creating a regional space (issue-specific or general). This is a definition from the field of political science and not entirely consistent with the definition of regionalisation from the international business and strategy fields that I use. Söderbaum (2009) also acknowledges that regional integration, regionalism and regionalization are contested concepts that are used differently across disciplines, and frequently within disciplines.

⁴⁶ Bollard, Alan, and David Mayes, "Regionalism and the Pacific Rim," *Journal of Common Market Studies* 30 (1992), 195.

its spectacular growth and that of the Newly Industrialised Countries came not from sales to each other but from exports outside the region to Japan, the US and Europe.

In 1987, North America's GDP was US\$4.9 trillion compared to US\$4.2 trillion for the European Community and US\$3.5bn for Asia-Pacific. Intra-EC trade (US\$625 bn) was massively larger than intra-North America (US\$150bn) or intra-Asia trade (US\$125bn). Mayes and Bollard (1992) foresaw the importance and rise of Transpacific trade, already noting that trade of US\$311bn between Asia-Pacific and North America in 1988 exceeded the sum of intra-Asia Pacific trade and intra-North American trade and dominated trade between Europe and North America (US\$181bn) and between Europe and Asia-Pacific (US\$180bn)⁴⁷.

With rapid growth of Asia since the 1990s, its share in the world economy has increased from just over a third of world output in 2000 to over 50% in 2020 (measured as GDP at purchasing power parity)⁴⁸. It could be argued that European MNEs that aspired to reverse their fall in the Fortune 500 ranking had to expand beyond Europe and that the Asia-Pacific region was a natural candidate. With slower growth of the EU and North America compared to Asia, a home-regional focus could be potentially detrimental for EU MNEs in industries with rivals from and markets in Asia-Pacific and the Americas. However, it is worth noting that the EU economy was actually larger and growing faster than the US economy for most of 2000-2015 (although this

⁴⁷ Bollard & Mayes, p. 201

⁴⁸ Romei, Valentina and John Reed. The Asian Century is set to begin. March, 26, 2019. <https://www.ft.com/content/520cb6f6-2958-11e9-a5ab-ff8ef2b976c7>

was partly due to the EU enlargement in 2004), and only experienced relatively slower growth since about 2015⁴⁹.

7. The European MNE Sharpbenders since 1999

With the rise of Asia in the world economy⁵⁰, the number of MNEs from that region in the Fortune 500 list increased to about 40% in 2018⁵¹. In 2019, China, the USA and Europe each had over 100 MNEs in the list. There were 25 European MNEs in the Fortune top 100 companies in 2019.

Most of European companies are experiencing declines in their global Fortune 500 ranking. This is in spite of the fact that Europe was the only world region in which overall more than one-half - about 70% - of its Fortune 500 MNEs' affiliates were international, and having the highest proportion of both regional and global affiliates in 2013⁵². The only sharpbenders from the top 100, MNEs that improved their rank between 2009 and 2019 after worsening rank in 1999-2009, were German car-makers Daimler and BMW and French insurer AXA. Other companies that improved their rank between 1999 and 2019 were: Volkswagen and Bosch (automotive), Glencore (commodities/trading), Exor (diversified), Lukoil and Rosneft (oil & gas). The other 16 European companies in the top 100 were on a downward trajectory in 1999-2019. The following section will discuss what other

⁴⁹ MGM Research (2018). US vs EU: A GDP Comparison. December 27, 2018. <https://mgmresearch.com/us-vs-eu-a-gdp-comparison/>

⁵⁰ Verbeke, Alain, Robin E. Roberts, Deborah Delaney, Peter Záborský, Peter Enderwick, and Swati Nagar. *Contemporary international business in the Asia-Pacific Region* (Cambridge: Cambridge University Press, 2019).

⁵¹ Záborský, Peter. *Global Strategy: Thriving in a World of Uncertainty*. tophat.com, Toronto, Canada, 2018.

⁵² Ghemawat, Pankaj and Niccolo Pisani, "The Fortune Global 500 isn't all that global," *Harvard Business Review* (2014).

companies can learn from the MNE sharpbenders (e.g., Daimler and BMW) to prevent further declines and initiate a rise in the ranking. The section will focus on the European automotive MNEs, particularly Daimler and BMW that improved their ranking in the Fortune 500 list in 2009-2019 after a decline in 1999-2009.

8. Leading European automotive MNEs

Both VW and Daimler increased their share of Asian sales from about 5-10% in 2001 to about 20-25% in 2019. BMW and Bosch had Asian sales of about 30% in 2019 (see Table 1). Daimler was the only company to have sales over 25% in the Americas in 2019, with VW, BMW and Bosch having sales of 15-20% there. All European automotive firms from the Forbes list remained strong in Europe with over 40% of their sales there. Peugeot relied most (78%) on the region, and Daimler the least (41%).

The “sharpbender” Daimler has reversed its fall from #2 in 1999 to #5 in 2009 in its global automotive industry ranking (after the failed merger with Chrysler that was signed in 1998 and terminated in 2007) by growing in all three of the world’s regions. It seems with a faster growth in East Asia and the Pacific (average annual growth rate of 8%) than in the US (2.2%) and EU (1.7%) in 1999-2019 (according to World Bank data), it made sense for European companies to grow in Asia and not become focused just on the home region or North America. Hence, global strategies in this industry became more justified than home-region oriented strategies in the last 20 years, especially for EU companies. However, the overall global industry leader VW remained home-region oriented (61%), as did Bosch (#10) and Peugeot (#14). There was no bi-regional company in our automotive sample that would have over 20% of sales in one of the major world regions (other than EU) but less than 50% in Europe.

While the previous discussion focused on the rankings of European automotive MNEs within their industry, it is also useful to illustrate their performance in terms of their ranking in the Fortune Global 500. These rankings show sharp bends for both Daimler (around 2010) and BMW (around 2001) and give a more detailed picture of the MNE sharpbending process in these two firms. The following two examples demonstrate how the sharpbending concept (in a modified form) explains the sharpbends and marked improvement in Daimler's and BMW ranking in the Fortune Global 500. The next two sections will analyse what Daimler and BMW got 'right' and what the lessons learned are that could be applied by other (EU) MNEs, especially those that saw declines in their global competitiveness.

9. Daimler: An example of a European MNE Sharpbender

This section will analyse factors underlying Daimler's sharpbend around 2010, after a steady decline since 2000. It will identify influences on this sharpbend including the dissolution of the DaimlerChrysler merger (formed in 1998, and terminated in 2007).

9.1 Causes of Relative Decline

Daimler's ranking in the Fortune Global 500 was #5 in 1999 when it was freshly merged with the US Chrysler, then it declined to #30 by 2009, with a steady but slow decline in 1999-2006 and a particularly sharp fall in 2007-2009 (see Figure 1). The failed merger certainly was one of the reasons for the relative decline. Pankaj Ghemawat, a proponent of semi-globalisation and regional rather than global strategy⁵³, pointed to various factors underlying

⁵³ Ghemawat, Pankaj, "Regional strategies for global leadership," *Harvard business review* 83, no. 12 (2005), 98.

the “dubious logic of global mega-mergers” already in 2000⁵⁴. In a later interview, he pointed to the absence of plans for integrating the two operations (of Daimler and Chrysler) through parts commonality, and likened the belief that economies of scale would be achieved to thinking that strapping two leaky canoes together would somehow increase their buoyancy⁵⁵.

It appears that high-cost structure (especially losses linked to the remaining 20% stake in Chrysler that still plagued Daimler in 2008)⁵⁶ and falling revenues due to intense competition (two of the factors identified in Grinyer et al., (1990)) also played a role. Daimler’s revenues fell from \$155bn to \$140bn between 1999 and 2009, while Volkswagen’s revenues increased from \$76bn to \$166bn in the same period. Other factors such as leadership⁵⁷ and cultural frictions⁵⁸ were also relevant, in particular after DaimlerChrysler’s tie up with Mitsubishi increased cultural complexity and leadership challenges⁵⁹.

⁵⁴ Ghemawat, Pankaj, and Fariborz Ghadar, “The dubious logic of global megamergers,” *Harvard Business Review* 78, no. 4 (2000), 64-74.

⁵⁵ Ghemawat, Pankaj. Redefining global strategy. Harvard Business Ideacast. <https://hbr.org/2007/09/harvard-business-ideacast-59-r.html>

⁵⁶ Milne, Richard. Financial Times (30 April, 2008.) Daimler and BMW report fall in profits. <https://www.ft.com/content/5f67025e-1616-11dd-880a-0000779fd2ac>

⁵⁷ Gill, Carol, “The role of leadership in successful international mergers and acquisitions: Why Renault-Nissan succeeded and DaimlerChrysler-Mitsubishi failed,” *Human Resource Management* 51, no. 3 (2012), 433-456.

⁵⁸ Froese, Fabian Jintae, “Success and failure in managing foreign acquisitions in South Korea and Japan: Lessons from Renault, General Motors, and DaimlerChrysler,” *Global Business and Organizational Excellence* 30, no. 1 (2010), 50-59.

⁵⁹ Masaya, Ito. Mitsubishi Motors re-enters tie-up with Daimler after 13 years. <https://asia.nikkei.com/Business/Nissan-s-Ghosn-crisis/Mitsubishi-Motors-re-enters-tie-up-with-Daimler-after-13-years>

However, perhaps the most significant cause of Daimler's decline was its over-reliance on the US and Europe, which were particularly hard hit by the Global Financial Crisis (GFC) of 2007-09. Daimler Group's revenues have remained relatively steady between 2006 and 2007, only to fall 4% in 2008, with a 12% drop in revenues in the US and 7% drop in the EU (with the US accounting for 19% and Western Europe for 48% of Daimler's revenues in 2008)⁶⁰. This contrasted with an 8% growth in "other markets", notably in China (which for the first time delivered the biggest national contribution to the world economy in 2007 and recorded annual unit sales growth of over 20% in passenger cars and over 30% in commercial vehicles in 2007)⁶¹. Analysts observed that Daimler's rivals such as BMW were more assertive in decoupling themselves from a reliance on the US (for example, BMW said it was deliberately shifting its sales away from the US towards faster-growing countries⁶²).

Regional integration did not seem to directly trigger Daimler's sharpbending, although the creation of EMU in 1999 and the euro-crisis from 2009 affected it indirectly. The formation of DaimlerChrysler at the end of 1998 (just before the introduction of the euro) could be seen as a manifestation of the ambitions of then-CEO Jürgen Schrempp for a more global profile of Daimler⁶³, in line with the EU's ambition for EMU to

⁶⁰ Daimler. Annual Report 2008. Available at: <https://www.daimler.com/documents/investors/reports/annual-report/daimler/daimler-ir-annualreport-2008.pdf>

⁶¹ Daimler. Annual Report 2007. Available at: <https://www.daimler.com/documents/investors/reports/annual-report/daimler/daimler-ir-annualreport-2007.pdf>

⁶² Milne, 2008

⁶³ Karolyi, G. Andrew, "DaimlerChrysler AG, the first truly global share," *Journal of Corporate Finance* 9, no. 4 (2003): 409-430.

facilitate a bigger global role for the EU. Schrempp was a key member of the European Round Table of Industrialists that lobbied for the creation of the EMU and hoped to benefit from it⁶⁴.

The euro-area debt crisis starting around 2009 and the resulting anaemic growth in the EU seriously hurt the European car industry, in particular companies that had more of a European focus (Fiat and Peugeot) rather than global focus (especially Volkswagen and BMW)⁶⁵. It also arguably triggered Daimler's decision to move from a transatlantic focus to a more aggressive focus on Asia and with on China as "Daimler executives have realised there is no alternative to closer cooperation [in China] if they are to make up lost ground [to competitors such as BMW and Volkswagen/Audi who already had a stronger presence] in a market that continues to post impressive growth rates."⁶⁶

Dieter Zetsche noted that in 2012 about 30 percent of Daimler's revenues and profits were generated in Asia and emerging markets while it had been less than 10 percent a decade before⁶⁷. He suggested that the shift towards expansion in Asia was driven by demand projections, for example from 2015 to 2020 Daimler expected 95 percent of its revenue growth to come from emerging markets⁶⁸. However, Zetsche noted that even in 2020, almost half

⁶⁴ Van Apeldoorn, Bastiaan, "Transnational class agency and European governance: The case of the European Round Table of Industrialists," *New political economy* 5, no. 2 (2000), 157-181.

⁶⁵ Crossland, David. (2012, December 18). European car makers dented by euro crisis. <https://www.thenational.ae/business/european-car-makers-dented-by-euro-crisis-1.358935>

⁶⁶ Taylor, Edward. (2014, May 29). Reuters. Mercedes allows Chinese to peek under the hood in Asia growth push. <https://www.reuters.com/article/us-daimler-china-insight/mercedes-allows-chinese-to-peek-under-hood-in-asia-growth-push-idUSKBN0E900D20140529>

⁶⁷ Boston Consulting Group (2012). Dieter Zetsche on driving global growth. <https://www.bcg.com/pt-br/publications/2012/leadership-management-two-speed-economy-dieter-zetsche-ceo-diamler-on-driving-global-growth.aspx>.

⁶⁸ Ibid.

of revenues would still be within the triad markets (the EU, the US and Japan), suggesting that to maintain strength in traditional markets and even expand it at the same time, it is crucial to leverage tremendous growth opportunities in the emerging markets⁶⁹.

This point - that the economic situation and integration in the EU continued to be both a threat and an opportunity - is documented in Daimler's 2016 Annual Report's section entitled "Industry and business risks and opportunities":

*"The European market continues to be very important for Daimler across all divisions; in fact, it is still the biggest sales market for the Mercedes-Benz Cars and Mercedes-Benz Vans divisions. An opportunity that is difficult to assess can be seen in a significantly improved economic development of the euro zone. If countries such as Italy and France implement reform measures more quickly and decisively than has so far been assumed, economic growth could also accelerate. That would benefit the development of investment and demand for motor vehicles in the important European market."*⁷⁰

⁶⁹ Ibid.

⁷⁰ Daimler (2016). <https://annualreport.daimler.com/ar2016/management-report/risk-and-opportunity-report/industry-and-business-risks-and-opportunities>

Table 1: Top European Automotive Firms in the World

	VW	Daimler	BMW	Bosch	Peugeot
2019 Industry Rank	1	3	8	10	14
Revenues 2019 \$m	278,342	197,515	115,043	92,602	87,364
2019 Sales by Region* %	61-20-19 Home regional	41-29-24 Global	46-20-31 Global	53-17-30 Home regional	78-11-11 Home regional
2009 Industry Rank	2	5	9	11	NA
Revenues 2009 \$m	166,579	140,328	77,864	66,052	NA
1999 Industry Rank	5	2	11	12	10
Revenues 1999 \$m	76,307	154,615	35,887	28,610	37,540
2001 Sales by Region %	68-20-5 Home regional	30-60-10 Host regional	NA	NA	NA

Source: Fortune; 2019 sales by region calculated by author; 2001 sales from Rugman & Verbeke (2004). *The 1st percentage in the 2019 Sales by Region row is Europe, 2nd Americas, 3rd Asia-Pacific.

9.2 Actions Taken to Produce Sharpbends

Grinyer et al. (1990) highlight major changes in management, intensive effort to reduce production costs, and improved marketing as the actions most commonly producing sharpbends (as opposed to diversification and acquisitions that were relatively less successful). With a new CEO since 2006 and largely freed from Chrysler since 2007, Daimler took actions in several of these areas. For example, in 2009 it announced plans to cut \$2.64bn in labour costs⁷¹. In 2009, Daimler saw over 16,000 of the total 273,216 jobs go (over 5,000 of them at Daimler Trucks NAFTA)⁷². Production costs were particularly high in the Mercedes-Benz Cars division, as major portion of its revenue was generated in foreign currencies while most of its production costs were incurred in euros, contributing not only to production costs but also foreign exchange risk⁷³.

Daimler also created a Business Innovation Team that launched new ideas such as an urban mobility concept car2go, and marketing of used cars in the Young Classics project and in the Mercedes-Benz Rent project⁷⁴. Its Sales & Marketing Organization was the division least affected by job cuts in 2009 - it saw a 3% annual decline in jobs compared to an overall 6% cut in the Daimler Group in 2009⁷⁵. The division was driving marketing initiatives for new innovations such as telematics solutions provided by Daimler FleetBoard transport management system to boost the profitability of

⁷¹ Kathryn Schich, April 2, 2009. Daimler plans to cut \$2.64bn in 2009 labor costs, <https://www.reuters.com/article/retire-us-daimler-idUSTRE5303Q020090401>

⁷² Daimler, 2009 (page 140)

⁷³ Daimler, 2009 (page 109)

⁷⁴ Daimler (2009). Annual Report. Page 67

⁷⁵ Daimler (2009), page 140

commercial vehicle fleets⁷⁶. These and other innovations (including hydrogen-powered fuel-cell buses) and improved marketing (with more decentralised marketing through joint ventures in India and China, for example) contributed to Daimler's resurgence after 2010.

9.3 Characteristics and Measures of Sustained Performance

The Sharpbenders paper by Grinyer et al. (1990) noted good management, appropriate organisational structure and good marketing management as key factors for translating the sharpbending process into sustained performance. While these played a role in Daimler's case, perhaps more important for performance was the cooperation with Beijing Automotive Industry Holding Company that resulted in a new production facility in Beijing, which produced the E-Class and C-Class for the Asian market from 2009⁷⁷. Daimler's sales in Asia rose from 10% in 2001 to 16% in 2009 and 24% in 2019, with overall group's EBIT/revenues rising from 3.6% in 2007-9 to 7.7% in 2017-18⁷⁸. Largely as a result of its successful growth in Asia, Daimler improved its Fortune Global 500 rank from #30 in 2009 to #18 in 2019 (see Figure 1).

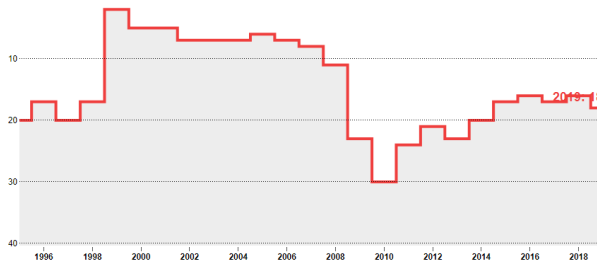
⁷⁶ Daimler (2010). Annual Report. Page 129

⁷⁷ Daimler (2019). <https://www.daimler.com/company/tradition/company-history/2008-2009.html>

⁷⁸ Daimler (2019). Annual Report.

Figure 1: Daimler's rank history in Fortune Global 500.

Daimler Rank History



Source: Fortune (2019)

10. BMW: Another European Sharpbender Growing in Asia

BMW is another example of a German carmaker that emerged from a relative decline (in 1998-2001) into a steady rise, as it became number one in the world in 2019 (see Figure 2).

10.1 The Causes of Relative Decline

BMW was around #70 in the Fortune 500 in mid-1990s only to fall out of the Top 100 in 1998-2001 and later re-emerge sharply back to around #70 and eventually get close to the top 50 firms in the world. The relative decline in its global ranking in 1998-2001 was due to slow growth in sales - from 31.8 billion euros in 1997 to 32.3 billion euros in 1998, 34.4 billion euros in 1999 and 35.4 billion euros in 2000, with revenues growing 3.3% in 2001⁷⁹. This rate of sales growth of around 3.5% per year (in 1997-2001) was relatively sub-par in that period of late economic cycle (for example, the annual cumulative revenue growth rate of S&P 500 firms in the financial year

⁷⁹ BMW (2001). Annual Report.

2020, at the end of the last cycle, was 5.4% and the ten-year average for the decade of 2010s was 3.8%, according to Factset⁸⁰.

10.2 The Triggers for Sharpbending

BMW's sharpbending triggers were related to an increase of its share of sales in Asia, which was 31% in 2018, even higher than Daimler's. BMW also had 20% of its sales in the Americas in 2018. BMW's sharpbending emergence from 2000 on was largely due to its growth in Asia, as Asia's share on the group's revenues was only 8.6 % in 2000⁸¹. By aspiring to higher growth rates associated with the Asian boom rather than the modest 3.5% growth per annum of 1997-2001, BMW kick-started its re-emergence into the top 100 firms in the world and its revenues grew by 5.6% per annum in 2003-2006.

The first plant in Asia belonging in full to the BMW Group was opened in 2000 in Thailand, and was targeted to focus initially on production of the 3-Series for the Thai market. With its annual capacity of 10,000 cars, the plant was also laid out for exports of cars to other ASEAN countries, showing some impact of the Asian regional integration and regionalism on BMW's sharpbending⁸². Dr Helmut Panke, Member of the Board of Management of BMW, said at the time that "as a second step, only if the ASEAN Free Trade Agreement will be implemented as planned, we do plan to export these cars

⁸⁰ Butters, John. 2019 (December 20). Factset. [https://insight.factset.com/sp-500-earnings-preview-cy-2020#:~:text=The%20estimated%20\(year%2Dover%2Dyear\)%20revenue%20growth%20rate,by%20the%20Communication%20Services%20sectors.](https://insight.factset.com/sp-500-earnings-preview-cy-2020#:~:text=The%20estimated%20(year%2Dover%2Dyear)%20revenue%20growth%20rate,by%20the%20Communication%20Services%20sectors.)

⁸¹ BMW (2000). Annual Report, p. 9

⁸² BMW (2000). Annual Report, p. 16

to neighbouring countries and beyond in the future”⁸³. Dr. Panke also encouraged Thailand to continue leading the process of trade liberalisation in ASEAN.

To further strengthen the position of the BMW Group in Asia, new sales subsidiaries were established in Indonesia and the Philippines in 2001⁸⁴. BMW also had assembly plants in these countries and in Malaysia and Vietnam⁸⁵. Interestingly, EMU and the introduction of the euro in 1999 were not mentioned in BMW’s 2000 or 2001 annual reports as material factors impacting strategy or performance. On the other hand, expansion in Asia was given a full page in the 2001 annual report, where they called “the fast-growing markets of Asia... a significant growth region for the BMW Group”⁸⁶. The report continued to specify that:

“The Company will step up its activities in this region in the years to come, since Asia will be the number one growth area for the automotive industry in the next 10 years, particularly after the planned establishment in 2003 of the AFTA (Asian Free Trade Area) generating additional growth and momentum. Precisely this is why the BMW Group is consistently supporting its product and market offensive through the further expansion of its sales and distribution network in the region.”

The report also mentions that China plays a special role in this context, after taking an important step in opening up its domestic market by joining the

⁸³ BMW (2000). First BMW plant opens in Asia. <https://www.press.bmwgroup.com/asia/article/detail/T0047177EN/first-bmw-plant-opens-in-asia?language=en>

⁸⁴ BMW (2000). Annual Report, p. 20

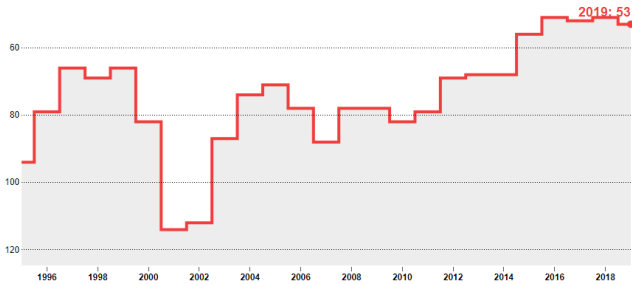
⁸⁵ BMW (2001). Annual Report, p. 37

⁸⁶ Ibid.

WTO in December 2001. BMW also noted that penetration of the Chinese market from within (combined with local production rather than sales office only) offered a far greater potential⁸⁷.

Figure 2. BMW’s rank history in Fortune Global 500.

BMW Group Rank History



Source: Fortune (2019)

10.3 Actions Taken to Produce Sharpbends

The real growth in Asia (and the spur to sharpbending) came from China, where BMW took actions to sharpbend by launching its 5-series (its second made in China car after 3-series) in 2003 through a joint venture with Brilliance China Automotive Holdings⁸⁸. BMW company chairman Panke said about China: *“The role of this market for our company is increasing. In our BMW retail figures, we see the enormous momentum that is in the Chinese mainland market. This is why we continue to increase our presence*

⁸⁷ Ibid.

⁸⁸ “BMW to launch China-made 5-series,” *China Daily*, 28 November, 2003. http://www.chinadaily.com.cn/en/doc/2003-11/28/content_285583.htm

here⁸⁹. By 2017, the BMW-Brilliance JV had a capacity of 450,000 units per year⁹⁰. Moreover, BMW announced a cooperation with the Chinese car-maker Great Wall for a plant with a capacity of 160,000 electric Mini brand cars per year⁹¹. In 2018, China accounted for 26% of BMW Group's deliveries of vehicles⁹². This contrasts to a 0.6% share in 2001⁹³.

10.4 Characteristics and measures of sustained performance

BMW's revenues doubled from 49 billion euros in 2006 to 98 billion euros in 2018 (a 6% annual growth rate), surpassing its slow revenue growth in 1998-2001 of around 3.5% before the sharpbending process and maintaining the rate over 5% in 2003-2006. Asia's share on revenues initially fell from 9.5% in 1997 to 7.8% in 2001⁹⁴ (to a large degree as a result of the Asian Financial Crisis) but since then climbed steadily to about 31% in 2018-2019 and was the main driver of BMW's sustained performance. Europe's share of the group's revenues was 44.4% in 2019, while the Americas accounted for 22.7% of revenues, compared to a 57% share of Europe and 30% share of North America in 2001.

11. Discussion: Global, Regional, or Transregional Strategy?

While both Daimler and BMW can be classified as 'global' according to Rugman and Verbeke (2004), with at least 20% of their sales in each of the

⁸⁹ Ibid.

⁹⁰ <http://www.bmw-brilliance.cn/cn/en/pr/shenyang.html>

⁹¹ Arno Schuetze, "BMW, Great Wall to open 160,000-capacity China plant," *Automotive News China*, November 29, 2019. [BMW, Great Wall to open 160,000-capacity China plant \(autonews.com\)](http://www.autonews.com)

⁹² BMW (2018). Annual Report, p. 48

⁹³ BMW (2001). Annual Report. Calculated from p. 13 and 14 data

⁹⁴ Ibid.

world's major regions and less than 50% in their home region, they followed alternative pathways to success. Volkswagen, the world's largest carmaker in 2019, stayed 'home-regional' according to the Rugman and Verbeke (2004) definition, with 20% of its sales in the Americas, 19% in Asia, and 61% in EU.

However, one could argue that without increasing its share of sales in Asia from 5% in 2001 to 19% in 2018, VW would not be the world leader in the automotive industry in 2019, as it only barely outranked Toyota in terms of revenues (and in 2018 Toyota was the world's largest company by revenues). If VW had focused on slower-growing Europe or North America in 2001-2019, it would have been outcompeted by Toyota, which remained strong in relatively faster-growing Asia (and North America)⁹⁵. The Rugman and Verbeke (2004) definition, with a 20% threshold for each region and the 50% threshold for the home region, is too stringent⁹⁶ and with different thresholds (15% for each region) VW in 2019 could in fact be considered global. Overall, in our analysis of the most successful European MNEs in the automotive industry, we showed that their success is not due to their focus on their home region, but due to their growth in Asia.

In spite of the caution needed when expanding beyond home region⁹⁷, Berrill (2015) and her argument for thinking and strategising transregionally (across a number of more granular definitions of regions and metrics) or globally instead of home-regionally has some substance. More research is needed on the performance implications of intra- and inter-regional

⁹⁵ Toyota itself could be classified as a bi-regional company with over 20% of sales in Asia and North America but less than 20% in Europe in 2019, according data in its 2019 Annual Report.

⁹⁶ Osegowitsch and Sammartino, 2008

⁹⁷ Verbeke, Coeurderou, & Matt, 2018

geographic diversification⁹⁸ and on the relationship between the meta-environment and firm performance⁹⁹.

Qian et al. (2010) noted that it is important to consider both sales and subsidiary measures of intra- and inter-regional diversification. Using both measures and a sample of 123 U.S.-based MNEs, they found a positive linear relationship between intra-regional diversification and performance (return on assets), while the relationship between inter-regional diversification and performance was an inverted u-shaped, suggesting that diversification for companies from a particular region to other regions has a positive impact on performance only when the level of such diversification is low to moderate and performance becomes negative at higher levels of inter-regional diversification. We contribute to this research by pointing to the importance of considering the relative growth rate of the home region (in our case a relatively slow-growing Europe) and a careful specification of the other target region(s) and countries for expansion (for example the key role of a fast-growing China in Asian growth).

12. Concept Development: Toward a Meta-Regional Strategy

A potentially fruitful path forward for the global versus regional strategy debate is to incorporate into it the concept of the meta-environment introduced by de Jong et al. (2011). They define the meta-environment as a symbiosis of all country environments where an MNE operates, and stress that the meta-environment is firm-specific. They acknowledge prior research

⁹⁸ Qian, Gongming, Theodore A. Khoury, Mike W. Peng, and Zhengming Qian, "The performance implications of intra-and inter-regional geographic diversification," *Strategic management journal* 31, no. 9 (2010), 1018-1030.

⁹⁹ de Jong, Gjalte, T. Binh Phan, and Hans van Ees, "Does the meta-environment determine firm performance? Theory and evidence from European multinational enterprises," *International Business Review* 20, no. 4 (2011), 454-465.

such as Rugman and Oh (2009)¹⁰⁰ who suggested leading MNEs leverage strategies that are based on spatial proximity within a region for more ready access to specific resources. De Jong et al. (2011) push the regionalisation research further, stating that cross-country empirical research pertaining to the benefits of combined national resources and institutions (in a firm-specific meta-environment) remains sparse.

Building on the concept of the meta-environment, this paper argues that every company operates across a unique set of countries and can define regions it operates in idiosyncratically based on its home country institutions and resources, markets, competitive advantages, industry, and customer preferences etc. These could be in line with the acknowledged definitions such as those offered by Rugman and Verbeke (2004) or Berrill (2015), but it is clear from consulting annual reports that companies choose their idiosyncratic definitions for their geographic spread of activities.

For example, Daimler broke down their 2018 consolidated revenues by these categories: Europe (with a specific category for Germany), NAFTA (with a specific category for US) and Asia (with a specific category for China) and noted that it had production facilities in Europe, North and South America, Asia and Africa¹⁰¹. BMW used these geographical categories for reporting their vehicle deliveries in 2018: Europe (with a specific category for Germany and the UK), Americas (with a specific category for the US), Asia (with a specific category for China), and other markets¹⁰².

¹⁰⁰ Rugman, Alan M., and Chang Hoon Oh, "Does the regional nature of multinationals affect the multinationality and performance relationship?," *International Business Review* 19, no. 5 (2010), 479-488.

¹⁰¹ Daimler Annual Report (2018), p. 84

¹⁰² BMW Annual Report (2018), p. 48

Companies from other countries and industries may choose a different company-specific meta-regional classification that suits their strategy—and this can also evolve. For example, LVMH used Europe (with a specific category for France), Asia (with a specific category for Japan), the US and other markets in 2017, but may soon report China separately if it grows to be more important than Japan¹⁰³.

To sum up, every company defines their regional and global geographic spread differently based on their firm-specific meta-environment. Consequently, companies not only have a choice between regional and global strategy (or home-region orientation, bi-regional orientation, or host-region orientation as classified by Rugman and Verbeke, 2004), but can opt for an idiosyncratic “meta-regional” strategy based on a unique (definition of) regions and countries with the best strategic fit between the company’s home and host country resource base, institutions and markets and its firm-specific advantages.

According to de Jong et al. (2011), the resource munificence of the meta-environment can be measured as technological capabilities and infrastructure quality, and these are expected to be positively associated with MNE performance. On the other hand, institutional characteristics of the meta-environment (the unique set of countries and regions where a firm operates) can be measured by the quality of international trade promotion policies, flexible labour market regulations, investment promotion policies, and the effectiveness of the law enforcement system. These factors can be expected to be positively associated with the MNE performance, according to de Jong et al. (2011). All of the above-mentioned hypotheses (with the exception of

¹⁰³ Liu and Zámbořský, 2018.

international trade promotion policies) were empirically supported in de Jong et al.'s (2011) study of over 200 largest European MNEs.

While de Jong's study was an important step in shifting attention towards a firm-specific meta-environment, it did not push this concept further towards a strategy that would explicitly acknowledge the role of resource munificence and institutions in a unique set of countries where a company operates and their *strategic fit* with firm-specific advantages. Firm performance is not only driven by the environment, but also by company strategy and the strategic fit between the environment and firm-specific advantages, according to the contingent view of institutional environment, firm capability, and performance of MNEs¹⁰⁴.

We extend this contingent view of institution theory and integrate it with the concept of the meta-environment to develop a concept of meta-regional strategy. The contingent view of institutional theory (Wu et al., 2019) considered both opportunities and constraints of the host country institutional environment (namely market maturity, intellectual property rights protection and cultural distance) as factors affecting innovation performance (the first two positively, the last one negatively) and suggested that firm-specific advantages (namely absorptive capability) will moderate the effect of the institutional variables on performance.

We extend these insights by integrating them with the model of de Jong et al. (2011) - which suggested the impact of institutional and resources munificence characteristics of *all* countries where an MNE operates - on firm performance. Thus it can be argued that the characteristics of a firm's meta-

¹⁰⁴ Wu, Jie, Zhenzhong Ma, Zhiyang Liu, and Chun Kwok Lei, "A contingent view of institutional environment, firm capability, and innovation performance of emerging multinational enterprises," *Industrial Marketing Management* 82 (2019), 148-157.

environment (including resource munificence and institutions in its home/host countries and regions where it operates, and market maturity) impact firm performance (some of them positively, other - such as cultural distance - negatively).

However, these effects also depend on the *strategic fit* between the meta-environment and firm-specific advantages (such as innovation, management, and marketing capabilities). The strategic fit has been suggested as an important element of the institutional contingency perspective in international business (with a distinction between the external environmental and internal organisational fit)¹⁰⁵ and strategic management research (in particular the dynamic strategic fit)¹⁰⁶, but has not been sufficiently integrated with the regionalisation perspective¹⁰⁷. Taken together, we define a new concept of the meta-regional strategy as:

A meta-regional strategy is a strategy that maximizes the strategic fit between an organisation's firm-specific advantages and its unique meta-environment including resource munificence, institutions and markets of its home and host countries and regions where it operates.

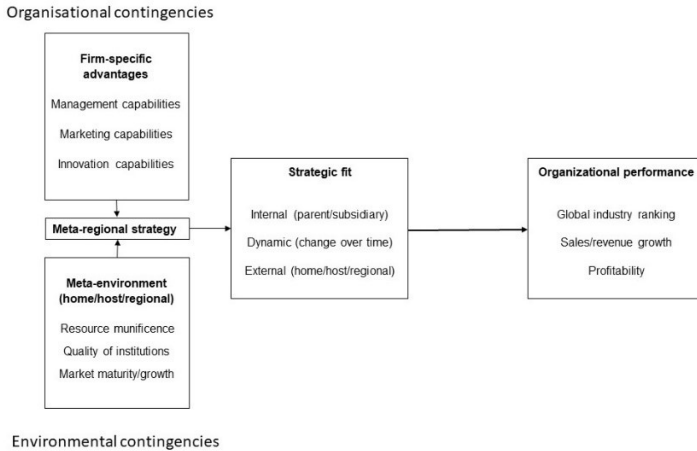
Figure 3 encapsulates the theoretical logic of meta-regional strategy.

¹⁰⁵ Gammeltoft, Peter, Igor Filatotchev, and Bersant Hobdari, "Emerging multinational companies and strategic fit: A contingency framework and future research agenda," *European Management Journal* 30, no. 3 (2012), 175-188.

¹⁰⁶ Zajac, Edward J., Matthew S. Kraatz, and Rudi KF Bresser, "Modeling the dynamics of strategic fit: A normative approach to strategic change," *Strategic management journal* 21, no. 4 (2000), 429-453.

¹⁰⁷ Proff, Heike, "Business unit strategies between regionalisation and globalisation," *International Business Review* 11, no. 2 (2002), 231-250.

Figure 3: A contingency perspective on the meta-regional strategy.



Source: developed for this study by the author

13. Conclusions

To answer the question of when and how MNEs should adopt a global strategy, depends on the definition of what a global strategy is. We argued that contrary to the recommendations of Rugman and Verbeke (2004) to think home-regionally, the successful European sharpbenders “bent the rules of regionalisation” and grew aggressively beyond their home region of Europe (when they realised that growth in that region was going to be substantially below global average). This suggests that under certain circumstances, companies with substantial firm-specific advantages (such as superior technology and brands possessed by Daimler and BMW) can successfully grow globally in a carefully considered set of countries and regions designed by the company itself as its meta-environment—if there is a good strategic fit between the meta-environment and the firm-specific advantages.

This paper's contributions to the regional versus global strategy debate (and the regionalisation perspective) acknowledge the risks of growth beyond the home region (as Daimler's experience in the US showed) but suggest that companies (from low-growth regions) can benefit from growth in fast-growth countries (such as China) and regions (such as Asia). Conceptually, we suggest that the global versus regional dichotomy is simplistic, and offer a new concept of a *meta-regional strategy* to transcend the divisions and acknowledge the potential to grow sales and value-creating activities¹⁰⁸ in a number of carefully defined and considered geographies potentially spanning the globe (not just the home region). We link the regionalisation literature from the IB field to the concept of the meta-environment and to the contingency perspective on strategy.

In terms of the lessons from Daimler, BMW and VW for other European firms, European MNEs that have markedly improved their global competitiveness have done so by strategically targeting to grow rapidly in at least one of the regions (notably Asia) other than their home region. Regional integration (in the EU and Asia) has played some role in influencing this strategy (and may play a further role with the CPTPP in effect), but we also pointed to the fact that growth of particular countries such as China played a key role. In the future, companies may include other fast-growing, large countries such as India or regions (such as Africa and Middle East) in their firm-specific meta-environment that will fit their meta-regional strategy.

This study has limitations such as a lack of generalisability due to its small sample. Caution is needed in planning and executing inter-regional

¹⁰⁸ Ingršt, Igor, and Peter Záborský, "Knowledge flows, strategic motives and innovation performance: Insights from Australian and New Zealand investment in Europe," *Journal of Management & Organization*. (Forthcoming.)

diversification¹⁰⁹. Finally, the paper shows the enduring significance of David Mayes's work on the sharpbending process and Pacific regionalism. We believe that the interplay of these two concepts will remain pivotal in global business and strategy in the 21st 'Asian-Pacific' century.

¹⁰⁹ Qian, Khoury, Peng, & Qian, 2010

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