ACROSS MARKETS AND BORDERS

Enterprise, Trade and Leadership with Purpose and Integrity

PART IV | INTERNATIONAL MARKETS AND ENTERPRISE

CHAPTER 15
MULTINATIONAL ENTERPRISE AND GLOBAL STRATEGY

Internationalization, Global Value Chains, Sovereignty and Responsible Governance

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Abstract

Multinational enterprise strategy begins where country-level international economics stops: with the firm deciding why, where and how to commit resources across jurisdictions that differ in markets, institutions, currencies, politics, cultures and legitimacy expectations. This chapter integrates the principal theories of internationalization with the practical architecture of foreign market selection, entry mode, foreign direct investment, multinational configuration, global value chains, headquarters-subsidiary relations, alliances, geopolitical risk and strategic renewal. It critically compares Uppsala, internalization, transaction-cost, eclectic/OLI, network, institutional and born-global perspectives, showing that each explains a different part of the internationalization problem. African evidence is analytically central through Shoprite and research on African multinationals, while TSMC provides a global comparative case on geographic diversification, industrial policy and sovereignty. Current evidence on foreign direct investment and value-chain reconfiguration is interpreted cautiously. Christian moral reasoning treats cross-border corporate power as accountable stewardship, requiring truthful dealing, labour dignity, local value creation, anti-corruption, tax responsibility, respect for sovereignty and cultural integrity, and disciplined responsibility for foreseeable consequences.

Keywords: multinational enterprise; internationalization; foreign direct investment; entry modes; global strategy; global value chains; headquarters-subsidiary relations; geopolitical risk; African multinationals; responsible governance

Learning Outcomes

No.	Learning outcome
1	Define a multinational enterprise and distinguish foreign direct investment from exporting, portfolio investment, contractual internationalization and ordinary cross-border sales.
2	Compare Hymerian market-power reasoning, transaction-cost and internalization theory, the OLI/eclectic paradigm, Uppsala process theory, network theory, institutional perspectives and born-global/international-new-venture theory, explaining the mechanism, contribution and limitations of each.
3	Diagnose a firm's internationalization motives by separating market-seeking, resource-seeking, efficiency-seeking, strategic-asset-seeking, knowledge-seeking, client-following and risk-diversification rationales from vague ambitions to become "global."
4	Construct a defensible foreign-market and location screen that integrates market potential, location advantage, institutional fit, country risk, capability requirements, network position, strategic options and moral constraints without converting a weighted score into an automatic decision.
5	Compare exporting, licensing, franchising, management or service contracts, strategic alliances, joint ventures, acquisitions, greenfield subsidiaries and digital entry using control, commitment, speed, learning, reversibility, knowledge leakage, political exposure and legitimacy criteria.
6	Explain foreign direct investment as an organizational choice, evaluate greenfield investment versus acquisition or joint venture, and identify the conditions under which internal ownership can create or destroy value.
7	Compare international, global, multidomestic, transnational, regional and platform-based configurations and explain why the integration-responsiveness framework is a strategic diagnostic rather than a universal recipe.
8	Map a global value chain or global production network, identify governance relationships and power asymmetries, and analyze process, product, functional and market upgrading together with value capture, local linkage and distributional effects.
9	Evaluate offshoring, outsourcing, nearshoring, reshoring, friendshoring and regionalization as distinct configuration choices, using evidence on cost, capability, resilience, geopolitical exposure and supplier concentration rather than slogans about globalization or deglobalization.
10	Design headquarters-subsidiary governance that combines decision rights, performance control, socialization, incentives, knowledge flows, local autonomy, compliance and subsidiary initiative without treating every subsidiary as either a branch office or an independent firm.
11	Assess strategic alliances and joint ventures through partner complementarity, incentive alignment, governance rights, learning, trust, intellectual-property protection, deadlock resolution, exit arrangements and the risks of opportunism or alliance drift.
12	Diagnose political and geopolitical risk, including expropriation, regulatory change, capital controls, sanctions, export controls, local-content rules, data restrictions, conflict, civil disruption and policy

No.	Learning outcome
	fragmentation; design proportionate staged-commitment, real-option and resilience responses; and distinguish legitimate corporate diplomacy from corruption or improper capture of public authority.
13	Explain how emerging-market and African multinationals may internationalize through regional familiarity, institutional capabilities, linkage-leverage-learning, springboard and other latecomer strategies, network relationships and strategic-asset acquisition, while avoiding deficit narratives and uncritical celebration of scale.
14	Critically evaluate multinational governance through sovereignty, subsidiarity, tax responsibility, labour dignity, cultural integrity, local value creation, human rights, anti-corruption, community impact, environmental stewardship and freedom of conscience.
15	Apply Christian moral reasoning alongside consequentialist, deontological, rights-based, justice, capability, communitarian and stakeholder perspectives to cross-border dilemmas in which legal compliance, profitability and moral legitimacy diverge.
16	Use the Multinational Strategy and Responsible Governance (MSRG) Protocol to formulate, challenge, implement and renew a cross-border strategy with explicit assumptions, responsibilities, integrity controls, local-value commitments, escalation triggers and exit conditions.

Concept Map and Chapter Roadmap

Figure 15.1. Multinational strategy as a chain of commitments.

Source/Note: Author's synthesis integrating internationalization, entry-mode, configuration, network-governance and responsible-enterprise perspectives. The sequence follows the approved Book Blueprint.

The approved purpose of Chapter 15 is to serve as the advanced integration point for firm-level internationalization. Chapter 14 examined the country and regional environment: comparative advantage, trade policy, currencies, external balance and regional integration. This chapter changes the unit of analysis to the enterprise. The central question becomes how a firm interprets that environment, decides whether internationalization is warranted, selects countries and modes, configures activities across locations, coordinates subsidiaries and partners, and remains accountable when corporate reach spans several sovereign jurisdictions. The chapter therefore treats multinational strategy as a sequence of commitments rather than as a simple decision to "go global."

The prerequisites are cumulative. Chapter 12 supplies the general strategic-management foundation, including industry analysis, resources and capabilities, strategic positioning, corporate scope and renewal. Chapter 13 supplies the book-wide architecture of moral reasoning and corporate governance. Chapter 14 supplies the international economic environment. Chapter 15 uses those disciplines without reteaching them. It then hands the reader to Chapter 16, which asks how customer research, segmentation, adaptation, branding, pricing, communication and route-to-market change after the firm has chosen its broader internationalization architecture.

The chapter proceeds in six connected movements. Sections 15.1-15.2 establish the multinational-enterprise problem and critically compare the major internationalization theories. Sections 15.3-15.6 move from motives and country or location choice to entry modes, foreign direct investment, staged commitment and the boundary of the firm. Sections 15.7-15.10 examine multinational configurations, global value chains and production networks, headquarters-subsidiary relations, knowledge flows, alliances and joint ventures. Sections 15.11-15.12 address political and geopolitical risk, sovereignty, resilience, and emerging-market and African multinational enterprise. Sections 15.13-15.16 test the architecture through the Shoprite and TSMC cases and then develop responsible multinational governance and Christian moral reasoning. Sections 15.17-15.19 provide the MSRG professional protocol, recurring analytical errors, chapter synthesis, questions, applied problems and the explicit hand-off to international marketing in Chapter 16.

SCOPE BOUNDARY | Chapter 15 owns advanced internationalization, multinational configuration, cross-border organizational governance and global strategic choice. General competitive and corporate strategy belongs to Chapter 12. Chapter 14 owns trade economics and exchange-rate regimes. Chapter 16 owns international marketing research, adaptation, global branding, international pricing and international channel strategy. Chapter 17 owns corporate foreign-exchange exposure, hedging, trade finance and cross-border settlement. Chapter 18 owns investment valuation and portfolio allocation. Chapter 19 owns trade-law doctrine, formal policy negotiation, sanctions law and geoeconomic statecraft. Chapter 20 owns technology strategy and intellectual-property strategy. Chapter 21 owns sustainability-specific strategy. These interfaces are acknowledged but not retaught.

Opening Case: Shoprite and the Strategic Logic of Selective Pan-African Scale

Internationalization is often narrated as a one-directional story: a successful firm enters more countries, adds subsidiaries and becomes progressively more global. Shoprite Holdings provides a more demanding African case because its recent history shows that international strategy also requires contraction, concentration and country-by-country reappraisal. The relevant managerial question is not how many flags appear on a corporate map. It is whether the firm has a repeatable economic and organizational logic for each jurisdiction in which it commits capital, people, supplier relationships and reputation.

For the 52 weeks ended 28 June 2026, Shoprite reported approximately R270.8 billion in merchandise sales from continuing operations, 7.2% above the prior period. Its Supermarkets Non-RSA segment generated approximately R22.9 billion of those sales, representing 8.4% of Group sales. Reported-currency growth in the segment was 11.0%, while constant-currency growth was 7.1%. The segment ended the year with 276 stores across seven countries. These figures came from a voluntary operational update and had not yet been reviewed or reported on by the external auditor when released on 12 August 2026, so they should be treated as current company-reported operating signals rather than audited final-year evidence (Shoprite Holdings Limited, 2026a).

The currency detail illustrates why a multinational cannot manage "Africa" as one market. Shoprite reported sales growth of 2.1% in Angolan kwanza terms but 9.8% in constant currency; Mozambique showed a 16.4% decline in reported currency and a 10.3% decline in constant currency; Zambia showed 27.4% reported-currency growth and 7.2% constant-currency growth (Shoprite Holdings Limited, 2026a). A headquarters dashboard can therefore show an apparently strong or weak country simply because translation magnifies or suppresses local operating performance. Chapter 17 later treats corporate foreign-exchange exposure and hedging in detail. Here the strategic lesson is more fundamental: country performance must be interpreted through the institution, currency, cost structure, competitive position and strategic role of that subsidiary, not through a single consolidated growth number.

Shoprite had already been narrowing its non-South African footprint. Its 2025 integrated report stated that operating complexity, currency devaluations and sustained customer-affordability pressures led the Group to consolidate its continental footprint in locations where it had operational efficiencies and scale. Ghana and Malawi were classified as discontinued operations. The Group simultaneously emphasized local sourcing and the development of local producers as mechanisms for affordability and in-country efficiency (Shoprite Holdings Limited, 2025a). The combination matters. Withdrawal from one country and deeper local embeddedness in another are not contradictory. Both can follow from the same strategic discipline if the firm distinguishes markets where its capabilities and local relationships support a viable model from markets where the economics or institutional conditions no longer justify continued ownership.

Table 15.1. Shoprite as a multinational strategy problem: selected signals and questions

Signal	Current operating evidence	Multinational strategy question
Group continuing-operation sales	Approx. R270.8bn in FY2026; +7.2%	Does international scope strengthen the Group's economic logic, or merely add complexity?

Signal	Current operating evidence	Multinational strategy question
Supermarkets Non-RSA	Approx. R22.9bn; 8.4% of Group sales	What strategic role should the non-RSA portfolio play relative to the large home-market core?
Non-RSA footprint	276 stores across seven countries	Which activities should be standardized regionally and which must remain country-specific?
Currency translation	11.0% reported growth versus 7.1% constant currency	How should headquarters separate operating performance from currency translation and macroeconomic noise?
Portfolio concentration	Ghana and Malawi classified discontinued in 2025	When does exit represent strategic discipline rather than failure?
Local sourcing	Company reports deliberate development of local producers	Can local sourcing improve cost, resilience and legitimacy while creating durable domestic capability?

Source/Note: Shoprite Holdings Limited (2025a, 2026a). FY2026 figures were released in an unaudited voluntary operational update on 12 August 2026. Shoprite stated that its full 2026 results would be released on 1 September 2026, after this chapter's 28 August 2026 publication-preflight date.

MANAGERIAL INSIGHT | Internationalization is a portfolio of commitments, not a prestige metric. A responsible multinational must know why each country is in the portfolio, what advantage the firm brings, what the location contributes, which capabilities must be localized, which risks remain tolerable, what local value the firm creates, and what evidence would trigger deeper commitment, redesign or exit.

The case also exposes a governance question that ordinary domestic strategy does not fully resolve. A large retailer can bargain with suppliers, landlords, logistics providers and governments. Its purchasing decisions can affect local producers and employment. Its tax structure, data systems, product standards and procurement practices can shift value across borders. A strategy may be legally permissible and commercially efficient while still creating morally serious questions about labour dignity, supplier power, tax responsibility, cultural integrity and the proper boundaries of corporate influence. Chapter 15 therefore treats global strategy as both an organizational design problem and an exercise of cross-border power.

The opening case gives the chapter its central question: **How should an enterprise decide where and how to internationalize, configure and govern cross-border activities, and renew or exit those commitments while remaining economically coherent, institutionally legitimate and morally responsible?**

15.1 Why Multinational Enterprise and Global Strategy Matter

A multinational enterprise (MNE) is an enterprise that controls or coordinates value-creating activities in more than one country. The word "multinational" does not require that the firm be equally present across the world, nor that every foreign operation be wholly owned. What matters is that cross-border activity becomes part of the organization's governance architecture rather than a sequence of arm's-length transactions alone. A domestic manufacturer that occasionally exports through an independent distributor is internationally active but not necessarily an MNE. A firm that owns a foreign subsidiary, controls a joint venture, directs a foreign platform operation, or coordinates integrated production and knowledge across countries more clearly exhibits the organizational features of multinational enterprise.

Global strategy is the set of coordinated choices through which an enterprise creates and captures value across national borders. The adjective "global" should not be read literally as "everywhere." Many firms are regional, selectively international or concentrated in a small number of strategically linked locations. Rugman and Verbeke (2004), for example, challenged the image of the fully global corporation by showing that the activity of many large firms remained strongly concentrated within home regions. Their argument remains useful because it separates international scale from true geographic dispersion. A firm can be multinational yet regionally anchored, and regional concentration may be an economically coherent response to distance, institutions and organizational limits rather than evidence of strategic weakness.

The contemporary environment makes this distinction especially important. UN Trade and Development reported that global foreign direct investment rose 6% to approximately US$1.6 trillion in 2025 after two years of decline, but the recovery was highly concentrated. The top 20 host economies received more than 80% of global FDI, and strategic sectors accounted for 44% of global greenfield project value, up from 16% in 2020. Investment remained especially concentrated in AI-related digital infrastructure and other strategic sectors, while geopolitical tensions, trade-policy uncertainty and financing conditions continued to cloud the outlook (UNCTAD, 2026a). These data describe a world of substantial cross-border investment, but not an evenly integrated world.

Africa illustrates the same mixture of opportunity and concentration. UNCTAD estimated that the continent received about US$70 billion of FDI in 2025. This was below the exceptional 2024 level but still among the stronger annual totals in the historical series. Project values weakened even as the number of greenfield announcements rose, with investment continuing to cluster in energy, infrastructure, critical minerals, logistics, digital infrastructure and selected manufacturing activities (UNCTAD, 2026b). For African managers and policymakers, the strategic question is therefore not simply how to attract more FDI. It is what kinds of international investment create additional productive capability, supplier linkages, skills, technology, tax capacity and durable employment rather than enclave activity or temporary asset extraction.

> **EVIDENCE CHECK |** FDI volume is not a welfare score. A billion dollars of announced investment can represent a productive plant, an acquisition that changes ownership without adding capacity, a data center with limited local employment, a mineral project with large export value but weak linkages, or a project that never reaches completion. Evaluate composition, additionality, financing, local linkages and realized outcomes, not the headline amount alone.

15.1.1 From country economics to firm organization

Chapter 14 explained why relative prices, trade costs, exchange rates, policy and regional integration change the opportunity set facing firms. Those variables are external to any one enterprise. Chapter 15 asks how a firm organizes itself in response. The organization has choices that a country does not: it can export, license an asset, form a joint venture, acquire a local firm, build a greenfield subsidiary, contract with a platform, locate research in one country and manufacturing in another, or decide not to enter at all. It can centralize procurement but localize assortment, standardize technology but delegate government relations, or divide a value chain across several legal entities. These are governance decisions.

The distinction prevents two common analytical errors. The first is to infer firm strategy directly from macroeconomic attractiveness. A country can have rapid GDP growth and still be a poor fit for a particular firm because distribution, regulation, capabilities, partner quality or unit economics are weak. The second is to infer country welfare directly from firm profitability. An MNE can earn attractive returns while shifting substantial risks onto workers, suppliers, communities or the public. Firm-level value creation and host-country human flourishing may overlap, but neither logically guarantees the other.

15.1.2 The multinational enterprise as a problem of incomplete markets and distributed knowledge

Why should a firm own or control foreign activities at all? If markets worked perfectly, a firm could buy every input, license every technology, contract every distributor and sell every output at transparent prices. The multinational enterprise exists partly because many strategically important transactions are not so simple. Knowledge can be difficult to price or protect. Quality may be costly to specify. Partners can behave opportunistically after investments become specific. Local relationships contain tacit knowledge. Governments can change rules. Brand reputation can be damaged by independent operators. Capital markets and contract enforcement differ across jurisdictions. The MNE therefore substitutes internal governance, relational governance or hybrid arrangements for some cross-border markets when doing so reduces transaction and coordination problems.

Yet internalization creates its own costs. Headquarters can misread local conditions, create bureaucracy, slow decisions, suppress subsidiary initiative, transfer inappropriate practices, or underestimate political resentment toward foreign control. A larger internal network also creates information asymmetry between headquarters and subsidiaries. The relevant question is never whether markets or hierarchy are universally superior. It is which transactions should be internalized, which should remain contractual, which should be shared with partners, and how those choices change as knowledge, trust, institutions and strategy evolve.

15.2 Historical and Theoretical Foundations of Multinational Enterprise

International business theory developed because the existence of the MNE poses a puzzle. A foreign firm normally begins with disadvantages: distance from customers and regulators, limited local relationships, unfamiliar institutions and additional coordination costs. If a local firm is better informed and the foreign firm must bear the cost of operating at a distance, why does the foreign firm enter and sometimes outperform? The major theories answer different parts of this puzzle. They should be understood as complementary analytical lenses rather than as competing slogans from which a manager selects a favorite.

15.2.1 Hymer: foreign investment, control and firm-specific advantage

Stephen Hymer's doctoral work, later published as *The International Operations of National Firms*, broke with explanations that treated foreign direct investment as little more than international capital movement (Hymer, 1976). Hymer emphasized control. A firm undertakes direct investment not merely because returns are higher abroad, but because it seeks to control foreign productive assets and because it possesses advantages that can compensate for the costs of foreignness. Such advantages can include technology, brand, scale, managerial capability, privileged knowledge or market power.

Hymer's contribution remains foundational because it locates the MNE within industrial organization and corporate control. It also alerts the analyst to power. Firm-specific advantages can create genuine productivity and innovation, but they can also sustain market power. The presence of a multinational is therefore not automatically evidence that competition is stronger or welfare higher. Host-country policy must examine contestability, technology transfer, supplier development and the conditions under which foreign control affects bargaining power. At the same time, Hymer's approach does not provide a complete process model of how firms learn or a detailed framework for deciding which transactions should be internalized.

15.2.2 Transaction-cost economics and internalization theory

Transaction-cost economics starts from the observation that transactions differ in the hazards they create. Williamson (1985) emphasized bounded rationality, opportunism, asset specificity, uncertainty and transaction frequency. When a transaction requires highly specific investment and future contingencies cannot be completely written into a contract, arm's-length exchange may expose one party to hold-up after the investment is sunk. Hierarchy can sometimes economize on these hazards by bringing the activity under common governance. The logic applies across borders but does not depend on them.

Internalization theory translated related reasoning directly into the multinational context. Buckley and Casson (1976) argued that firms expand across borders when internal markets for intermediate products, especially knowledge, can be more efficient than external markets. Proprietary know-how is a classic case. Selling a patent or licensing a process can reveal knowledge, create difficult pricing problems and empower a future competitor. Internal transfer within a multinational may protect the knowledge and coordinate complementary activities more effectively. Internalization theory therefore explains not only *why abroad* but also *why ownership or control rather than a contract*.

The limitation is equally important. Internalization is not free. It adds monitoring, administration, political exposure and managerial complexity. A firm can over-internalize, retaining activities that specialized suppliers perform better. It can also confuse control with competence. A wholly owned subsidiary gives legal authority but does not guarantee local knowledge, trust or execution capability. The professional task is to compare governance costs on both sides of the boundary rather than assume that ownership is inherently safer.

15.2.3 Dunning's OLI or eclectic paradigm

Dunning's eclectic paradigm integrates three conditions for foreign production: ownership advantages, location advantages and internalization advantages, commonly abbreviated OLI (Dunning, 1988). Ownership advantages are firm-specific assets or capabilities that help the firm overcome the liability of foreignness. Location advantages explain why an activity belongs in a particular country rather than at home or elsewhere. They can include market size, skills, infrastructure, resources, clusters, institutions, trade access, taxation, energy, logistics or strategic proximity. Internalization advantages explain why the firm should control the activity rather than license, outsource or contract it.

FDI logic: O advantage + L advantage + I advantage -> plausible case for foreign controlled production

OLI is a diagnostic framework, not an arithmetic formula. A missing or weak element should trigger deeper questioning of the proposed investment.

OLI is especially useful because it prevents one-dimensional location decisions. A low-wage country is not automatically attractive if logistics, capability or institutional risks outweigh labour savings. A valuable technology does not automatically justify a wholly owned foreign plant if licensing can capture value with lower commitment. A rapidly growing market does not automatically justify FDI if the firm lacks an ownership advantage or if a strong local partner has superior complementary assets. The framework is broad, however, and broad frameworks can become tautological when every observed advantage is labeled O, L or I after the fact. Good analysis therefore specifies each proposed advantage before the decision and identifies evidence that could falsify the claim.

15.2.4 Uppsala internationalization: learning, commitment and uncertainty

The Uppsala tradition explains internationalization as a process of learning and increasing commitment rather than a once-for-all optimization. Johanson and Vahlne (1977) argued that firms often begin with lower-commitment foreign activity and increase their commitments as experiential knowledge develops. The model highlighted the importance of market-specific knowledge, which is difficult to acquire entirely through reports. Later, Johanson and Vahlne (2009) revised the model around business networks, arguing that liability of outsidership can be more important than psychic distance. A firm that lacks a position in relevant networks may face uncertainty even in a culturally familiar country, while a network insider may operate effectively across substantial cultural distance.

The Uppsala model is frequently misread as a rigid sequence in which every firm must export first and eventually establish a subsidiary. It is better understood as a learning logic. Commitment should rise when evidence and relationships reduce uncertainty or when strategic opportunity justifies accepting uncertainty. Some firms leap stages through acquisitions, digital platforms, entrepreneurial networks or globally distributed founding teams. Others deliberately remain low-commitment exporters. The model's practical contribution is the question it forces: what has the firm actually learned that justifies the next irreversible commitment?

15.2.5 Network theory: relationships as strategic infrastructure

Network perspectives shift attention from the isolated firm to the relationships through which information, legitimacy, customers, suppliers, finance and capabilities become accessible. The MNE is not simply headquarters plus legally owned subsidiaries. It participates in customer networks, supplier ecosystems, state relationships, professional communities and joint projects. Ghoshal and Bartlett (1990) went further by conceptualizing the multinational corporation itself as an interorganizational network whose national units are embedded in distinct local networks while remaining connected internally.

This perspective explains why a local partner can be strategically valuable even when the MNE has sufficient capital to enter alone. The partner may contribute regulatory knowledge, supplier relationships, trust, land access, distribution, human capability or social legitimacy that cannot be purchased instantly. Network embeddedness can also become a source of lock-in. A relationship that once reduced uncertainty may become politically exposed, ethically compromised or strategically obsolete. Managers therefore need both relationship capital and the capacity to challenge relationships that have become unhealthy.

15.2.6 Born-global firms and international new ventures

Process theories built around gradual commitment do not fit every firm. Oviatt and McDougall (1994) theorized international new ventures as organizations that derive significant competitive advantage from the use of resources and sale of outputs in multiple countries from or near inception. Knight and Cavusgil (2004) later linked born-global performance to innovative culture and organizational capabilities. Digital distribution, cloud infrastructure, specialized global niches, international venture capital and globally connected founders can allow a young firm to internationalize rapidly without first building a large domestic base.

Rapid internationalization does not abolish the liabilities of foreignness. It changes how they are managed. Born-global firms often rely more heavily on external networks, platforms, specialized partners and intangible assets. Their resource constraints can make compliance, cybersecurity, data protection, customer support and tax complexity proportionately harder. Early foreign revenue can also create the illusion of global fit before the firm has learned whether retention, unit economics and governance remain robust at scale. Speed is therefore an empirical characteristic of the path, not evidence that incremental learning has become unnecessary.

15.2.7 Institutional distance, legitimacy and the liability of foreignness

Zaheer (1995) gave the liability of foreignness a more precise organizational meaning: foreign firms can incur additional costs because of unfamiliarity, relational and legitimacy disadvantages, and the spatial costs of coordination. Kostova and Zaheer (1999) subsequently showed why legitimacy becomes especially complex in the MNE. The organization must satisfy multiple institutional environments that can demand inconsistent behaviour. A practice that appears legitimate at headquarters may be contested in a host country, while a host-country practice may conflict with group standards, home-country law or the firm's moral commitments.

Institutional distance is often operationalized as the difference between countries in regulations, norms or culture. Such measures can be useful screening indicators, but they are not substitutes for diagnosis. Kogut and Singh's (1988) widely used cultural-distance index, for example, helped stimulate research on entry modes, but later scholarship warned that distance measures can assume symmetry, stability and homogeneity that real organizations do not possess (Shenkar, 2001). A numerical distance between two countries does not tell a manager which specific institution creates friction, whether the firm has experience that reduces the friction, or whether a local partner can bridge it. Distance should therefore generate questions, not deterministic predictions.

Table 15.2. Major theories of internationalization and the multinational enterprise

Perspective	Core mechanism	Strongest contribution	Important limitation
Hymer / market power	Foreign firms possess compensating firm-specific advantages and seek control	Explains FDI as control rather than simple portfolio capital movement; foregrounds firm advantage and power	Does not provide a detailed learning process or complete governance-choice model
Transaction-cost economics	Asset specificity, uncertainty and contractual hazards change the efficient governance form	Clarifies make-buy-ally and ownership choices under incomplete contracting	Can understate social embeddedness, institutional legitimacy and capability creation
Internalization theory	Internal markets can govern knowledge and intermediate transactions more efficiently than external markets	Explains why proprietary knowledge or coordination may be kept within the MNE	Internal bureaucracy and political costs can be underestimated if ownership is treated as the default solution
OLI / eclectic paradigm	Ownership + location + internalization advantages jointly support foreign controlled activity	Integrates firm, country and governance logic in one diagnostic	Breadth can become tautological unless advantages are specified and tested ex ante
Uppsala process	Experiential learning and commitment develop iteratively under uncertainty	Explains path dependence, learning and staged commitment	Not every firm follows gradual stages; acquisitions and born globals can leap commitments
Network theory	Relationships and network position provide knowledge, opportunities, legitimacy and resources	Explains outsidership, partner value and embeddedness	Network ties can lock firms into obsolete, dependent or ethically compromised relationships
Born-global / INV	Unique resources, entrepreneurial orientation and networks enable early international scope	Explains rapid internationalization of young knowledge-intensive firms	Speed does not remove governance, compliance, service or capability constraints
Institutional / legitimacy	Formal and informal institutions shape costs, legitimacy and feasible organization	Explains why the same strategy performs differently across jurisdictions	Country-level indices can oversimplify within-country heterogeneity and managerially relevant mechanisms
LLL / springboard	Latecomers use external linkages, leverage network resources and international learning or strategic-asset acquisition to accelerate capability building	Explains internationalization from relative resource disadvantage and rapid emerging-market MNE catch-up	Can overstate agency and speed when absorptive capacity, integration, finance or political constraints are weak

Source/Note: Author's synthesis drawing on Buckley and Casson (1976), Dunning (1988), Hymer (1976), Johanson and Vahlne (1977, 2009), Knight and Cavusgil (2004), Kostova and Zaheer (1999), Luo and Tung (2007), Mathews (2006), Oviatt and McDougall (1994), Williamson (1985), and Zaheer (1995).

CRITICAL DEBATE | No single internationalization theory should be promoted as the theory. OLI asks whether firm, location and internalization advantages coexist. Uppsala asks what the firm has learned and how commitment evolves. Transaction-cost and internalization theories ask which governance form handles hazards efficiently. Network theory asks whether the firm is an insider in the relationships that matter. Institutional theory asks whether the organization can become legitimate in multiple contexts. Born-global theory asks how young firms internationalize before the gradual path predicts. A strong analysis uses the minimum combination of lenses required by the decision.

15.3 Why Firms Internationalize: Motives, Advantages and the MNE as an Organizational Form

Internationalization should begin with a motive precise enough to be tested. "Growth," "global presence" and "diversification" are aspirations, not mechanisms. A firm can grow domestically, international exposure can increase rather than reduce risk, and foreign operations can destroy value when they stretch managerial attention. The analyst should therefore ask what specific economic, strategic or institutional problem internationalization solves that cannot be solved as well through domestic expansion or an arm's-length cross-border relationship.

15.3.1 Market-seeking internationalization

Market-seeking firms enter foreign countries to access customers. The motive is strongest when demand is large or growing, the product is costly to trade, service requires proximity, regulations favor local establishment, local adaptation is important, or competitors are already building durable positions. Market size alone is insufficient. A market can be attractive in aggregate but inaccessible to a particular firm because customer purchasing power, route-to-market, licensing, brand trust or after-sales requirements make the addressable opportunity much smaller than GDP statistics imply.

15.3.2 Resource-seeking and efficiency-seeking internationalization

Resource-seeking internationalization targets inputs that are scarce, costly or strategically located at home. The resources may be natural assets, specialized labour, energy, data, infrastructure, supplier clusters or scientific capability. Efficiency-seeking internationalization reorganizes activities across locations to exploit scale, specialization, cost differences or network effects. These motives often interact. A manufacturer may place an assembly operation near a supplier cluster both because components are available and because coordination costs fall.

Cost arbitrage requires disciplined total-cost analysis. Low nominal wages can be offset by lower productivity, higher logistics costs, unreliable energy, financing costs, quality losses, inventory buffers or management overhead. Chapter 11 developed total landed cost and supply-chain resilience; those tools should be applied here rather than replaced by country averages. The international-strategy question is whether the location advantage remains valuable after the organizational cost of operating there is included.

15.3.3 Strategic-asset and knowledge seeking

Firms also internationalize to acquire capabilities rather than merely exploit capabilities they already possess. Strategic-asset-seeking investment can target technology, brands, distribution networks, patents, human talent, research ecosystems or managerial routines. This motive is especially important for latecomer and emerging-market multinationals that use acquisitions or partnerships to accelerate capability development. Luo and Tung's (2007) springboard perspective explains how emerging-market enterprises can use international expansion to acquire strategic resources and overcome home-country institutional or competitive constraints.

Strategic-asset seeking creates a post-acquisition paradox. The more valuable the acquired knowledge depends on people, relationships and local autonomy, the greater the risk that heavy-handed integration destroys the very asset purchased. Acquisition control therefore does not equal knowledge transfer. Retention, trust, incentives, identity and the absorptive capacity of the acquiring organization matter. Chapter 7 developed knowledge and talent management; the MNE problem is how to connect those capabilities across national units without assuming that knowledge moves merely because the legal entity has changed ownership.

15.3.4 Client-following, ecosystem and defensive motives

Professional services, component suppliers, logistics providers and banks may follow major customers into foreign markets because the customer values continuity across borders. Firms can also internationalize to join an ecosystem, secure access to standards, participate in platform networks or prevent competitors from pre-empting a critical market. Defensive motives can be rational, but they are vulnerable to herd behaviour. A competitor's foreign entry is evidence that a decision deserves examination, not evidence that the same country and mode fit another firm.

15.3.5 Risk diversification: useful intuition, dangerous simplification

Geographic diversification can reduce exposure to a single demand cycle, policy shock or weather event, but cross-border diversification is not automatically risk reducing. Subsidiaries can be exposed to correlated commodity prices, common financing conditions, regional politics, cyber incidents or global technology cycles. Internationalization also introduces exchange-rate, convertibility, sanctions, regulatory and coordination risks. The relevant question is whether the portfolio of foreign operations changes the covariance of cash flows and the firm's ability to absorb shocks after the additional complexity and leverage are considered. Detailed portfolio mathematics belongs to Chapter 18; the strategic point here is that geographic dispersion and risk diversification are not synonyms.

Table 15.3. Internationalization motives and the evidence needed to justify them

Motive	Value mechanism	Evidence required before commitment	Typical failure mode
Market seeking	Access additional demand or proximity-dependent customers	Addressable market, willingness to pay, regulation, channel access, service economics, competitive response	Confusing population or GDP with reachable profitable demand
Resource seeking	Secure scarce or strategically located	Resource quality, rights, total cost, supplier ecosystem,	Resource availability exists but

Motive	Value mechanism	Evidence required before commitment	Typical failure mode
	inputs and capability	infrastructure, governance, community and environmental constraints	extraction or transfer is politically, socially or economically unsustainable
Efficiency seeking	Exploit scale, specialization, cluster effects or factor-cost differences	Total landed cost, productivity, quality, coordination cost, resilience, tax and trade implications	Headline labour or tax savings disappear after full-system costs
Strategic-asset seeking	Acquire technology, brands, networks, talent or organizational capability	Asset quality, strategic complementarity, retention, integration plan, absorptive capacity, IP and regulatory review	Acquirer destroys the asset through cultural or organizational misintegration
Client / ecosystem following	Maintain customer relationship or join strategic network	Anchor-customer economics, network access, cross-selling, dependency and alternative-client potential	Foreign unit becomes dependent on one customer or network sponsor
Risk diversification	Reduce dependence on a single market or institutional environment	Scenario correlation, cash-flow drivers, political exposures, funding structure and exit options	Multiple countries share the same shock while new cross-border risks accumulate

Source/Note: Author's synthesis. The classification builds on established international-business motives while emphasizing the evidence that converts a motive into a defensible strategy.

15.3.6 Foreign direct investment and portfolio investment are not the same

Foreign direct investment is distinguished from portfolio investment by the investor's lasting interest and significant influence over an enterprise resident in another economy. Current international statistical standards operationalize a direct-investment relationship at direct or indirect ownership of at least 10% of voting power, while distinguishing this statistical threshold from legal control (International Monetary Fund, 2025; OECD, 2025). The threshold is a convention for internationally comparable statistics, not a complete theory of corporate control. A 12% shareholder in a concentrated company may have little operational influence, while an investor below 50% can exercise substantial influence through agreements, board rights or dispersed ownership.

The fifth edition of the OECD Benchmark Definition also strengthens the analytical usefulness of FDI statistics by distinguishing investment according to purpose, including greenfield investment, capacity extension, mergers and acquisitions, and financial or corporate restructuring (OECD, 2025). This reinforces an important chapter principle: aggregate FDI volume can combine economically different events. Strategy and policy analysis should therefore ask what kind of investment occurred, what capacity or ownership changed, and what additional productive activity, if any, resulted.

The distinction matters strategically because FDI creates organizational commitments that portfolio investment does not. A direct investor may appoint managers, transfer technology, integrate procurement, assume reputational responsibility, manage labour relations and face host-government bargaining. The investor can capture synergies unavailable to a passive shareholder, but it also becomes responsible for decisions and relationships embedded in the host context. That responsibility cannot be reduced to a financial return calculation.

> **FAITH AND VOCATION |** Cross-border ownership enlarges the radius of stewardship. Control brings not only rights to residual returns but also responsibility for the people, assets, communities and institutional relationships placed under the firm's influence. The moral question is therefore not merely "What return can ownership produce?" but also "What responsibilities become ours because we chose to exercise control?"

15.4 Foreign Market and Location Selection: Where Should the Firm Commit?

Country selection is a nested decision. The firm first identifies a strategic objective, then asks which countries could serve it, which locations within those countries are feasible, which entry mode can access the opportunity, and how the chosen location would fit the broader multinational network. Treating country selection as a ranking exercise alone obscures this sequence. A country that scores highly on average market attractiveness may be unsuitable for a specific plant, data center, service hub or acquisition. Conversely, a country with a modest aggregate score can be strategically critical because it offers a specialized cluster, regional trade access or unique customer relationship.

15.4.1 Market potential is not the same as market accessibility

A disciplined market screen separates total market potential from addressable demand and economically reachable demand. Total potential concerns the broad size and trajectory of need. Addressable demand narrows the market to customers for whom the offering is relevant and legally permissible. Economically reachable demand further accounts for channels, logistics, customer acquisition cost, local adaptation, service support, payments and competitive response. This distinction is essential in African markets where aggregate national statistics can conceal substantial urban-rural, formal-informal, income, infrastructure and linguistic variation. It is equally important in large developed markets, where regulation, entrenched incumbents or distribution economics can sharply reduce accessible demand.

15.4.2 Location advantage as an activity-specific concept

Location advantage should be defined for the activity, not the country in the abstract. A location attractive for R&D may be unattractive for mass manufacturing. A country with expensive labour can still be efficient for automated semiconductor fabrication if it offers reliable infrastructure, specialized engineers, trusted suppliers, intellectual-property protection, large incentives and proximity to customers. A low-cost location may be inappropriate for a regional headquarters if travel connectivity, professional services or talent mobility are weak. The unit of analysis therefore matters: country, city, industrial cluster, special economic zone and corridor can produce different conclusions.

15.4.3 Institutional quality, institutional difference and institutional fit

Institutional analysis should distinguish three questions. Institutional quality asks whether rules are clear, enforceable and administratively capable. Institutional difference asks how the host environment differs from the firm's home and existing operating environments. Institutional fit asks whether the firm possesses capabilities and relationships suited to the specific host context. A company experienced in infrastructure-constrained markets may operate effectively where a competitor from a highly standardized environment struggles. Andrews and Luiz (2025), studying intra-African internationalization into Nigeria, show that MNE capabilities can evolve as firms learn to manage different forms of institutional voids. Their evidence cautions against treating "institutional void" as a single static category.

The terminology itself requires care. Describing a country mainly through what institutions it allegedly lacks can reproduce deficit narratives and obscure functioning informal institutions, adaptive private arrangements and local innovation. At the same time, romanticizing informality can conceal real costs of weak contract enforcement, corruption, unreliable infrastructure or administrative unpredictability. A responsible analysis identifies the exact institutional function needed, how it is currently performed, who bears the cost when it fails, and whether the firm's proposed workaround strengthens or weakens local institutional development.

15.4.4 Country risk as a portfolio of mechanisms

Country risk is not one probability. It is a family of exposures that can affect the firm through different channels: macroeconomic instability, currency inconvertibility, sovereign stress, regulatory change, expropriation, licensing, taxation, conflict, civil disruption, labour regulation, judicial enforcement, corruption, data restrictions, infrastructure, climate hazards and social legitimacy. A composite country-risk score can support comparison, but it should never hide the mechanism. Two countries with the same score can require completely different strategic responses.

15.4.5 Distance: useful when decomposed

Ghemawat's CAGE framework usefully separates cultural, administrative, geographic and economic distance. The practical value lies in decomposition. Language affects customer service and knowledge transfer differently from customs procedures. Physical distance affects perishable goods more than digital services. Income differences change affordability and product architecture. Colonial or treaty relationships can alter legal familiarity and trade access. The manager should therefore ask which distance dimension affects the proposed activity, through what mechanism, and whether adaptation or partnership can reduce the cost.

15.4.6 A transparent location-screening model

Chapter 5 introduced multi-criteria decision analysis. The same discipline can be used for location screening, provided that weights and scores remain transparent and sensitivity-tested. Let each candidate country *j* receive a standardized score s_ij on criterion *i*, with weight w_i. A simple weighted score is:

Location Score_j = Sum_i (w_i x s_ij), with Sum_i w_i = 1

A weighted score supports disciplined comparison; it does not prove that the highest-scoring country should be entered. Non-compensable legal, integrity or safety constraints can override the score.

The crucial design choice is which criteria may compensate for one another. A weak logistics score might be offset by extraordinary market access if mitigation is feasible. A credible corruption red line, sanctions prohibition, inability to protect worker safety or an unresolvable conflict with human dignity should not be treated as merely another weighted disadvantage that strong market growth can cancel. Good location screens therefore combine weighted criteria with hard constraints, scenario tests and qualitative judgment.

Table 15.4. Illustrative country-location screen for a regional service hub

Criterion	Weight	Country A	Country B	Country C	Interpretive caution
Customer and partner access	0.22	8	6	7	Market access should reflect reachable users and partner ecosystem, not GDP alone.
Specialized talent	0.18	6	9	7	Average education indicators may hide occupation-specific shortages.
Infrastructure and digital reliability	0.16	7	8	5	Use service-specific reliability, redundancy and cost data.
Institutional / regulatory fit	0.16	6	7	8	Separate predictable burden from arbitrary uncertainty and firm-specific capability.
Regional connectivity	0.12	9	6	7	Flight, data and trade connectivity depend on the operating model.
Total operating cost	0.10	7	5	9	Nominal wage and tax rates are not total cost.
Strategic resilience	0.06	6	8	6	Test correlated shocks, concentration and alternative locations.
Weighted score	1.00	7.06	7.04	6.98	Small differences are not decision-grade without sensitivity and scenario analysis.

Source/Note: Fictional worked example. Scores use a 1-10 scale for teaching only. Values are deliberately close to demonstrate that apparent precision can exceed evidential precision.

WORKED EXAMPLE | Country A ranks first at 7.06, but Country B is only 0.02 lower at 7.04 and Country C is 0.08 below A at 6.98. Those gaps are smaller than the precision normally justified by uncertain weights and country scores. The correct next step is sensitivity analysis: vary uncertain inputs, test hard constraints, examine the specific city or cluster, and identify which new evidence could reverse or materially widen the ranking. The score is a map of assumptions, not an oracle.

15.5 Entry Modes: How Should the Firm Cross the Border?

An entry mode is the governance arrangement through which a firm participates in a foreign market. The choice determines who owns assets, who controls decisions, who bears risk, how knowledge is transferred, how rapidly the firm can scale and how costly exit may become. Textbooks sometimes arrange modes on a simple ladder from low commitment to high commitment. The ladder is useful but incomplete. Licensing can create high strategic dependence even with low capital commitment; a minority joint venture can create substantial reputational exposure; an acquisition can be reversed financially but not socially after layoffs or supplier restructuring. Entry-mode analysis therefore requires several dimensions at once.

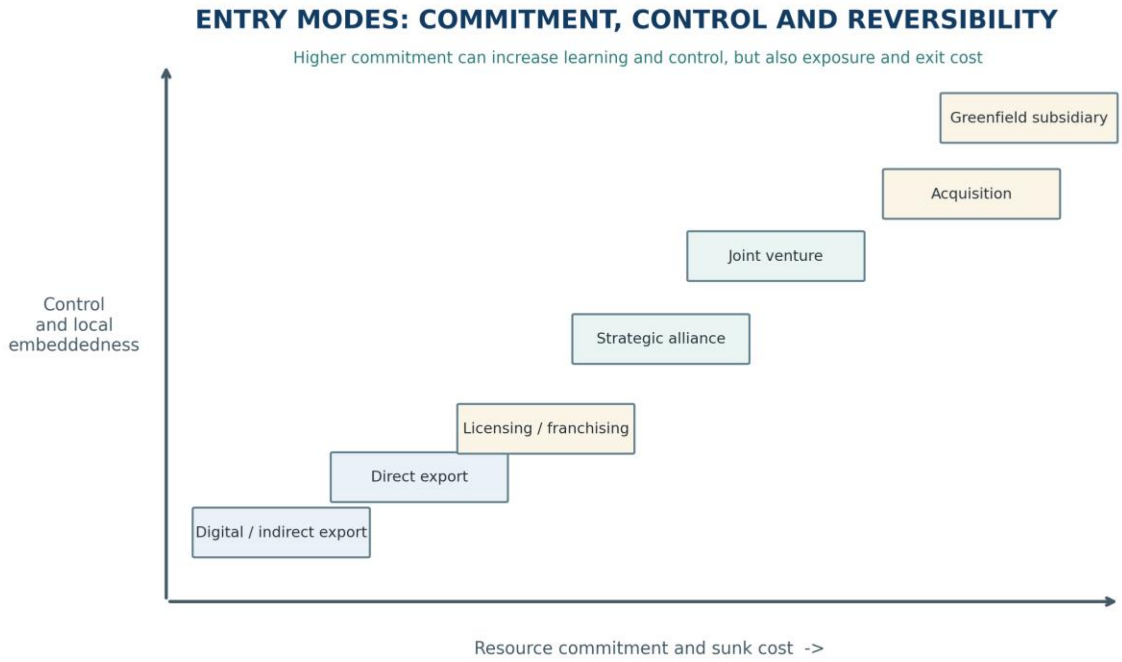

Figure 15.2. Entry modes as a commitment-control-reversibility spectrum.

Source/Note: Author's synthesis. Positions are illustrative rather than universal. Actual commitment and control depend on contract design, sector regulation, ownership restrictions and partner structure.

15.5.1 Exporting: keep production home, cross the market boundary

Exporting separates production location from customer location. Indirect exporting uses intermediaries that aggregate foreign sales, reducing the exporter's commitment and information requirements but also limiting customer knowledge and control. Direct exporting gives the producer closer relationships with foreign distributors or customers, improving market learning while increasing commercial, logistics and compliance responsibilities. Exporting is attractive when production scale matters, trade costs are manageable, local presence is not essential and the firm wishes to preserve reversibility.

The principal strategic risk is to treat exports as proof that the firm understands the market. A distributor can buffer the manufacturer from end customers so effectively that sales rise while the producer learns little about users, competitors or regulation. Exporting can also become fragile when tariffs, transport costs, local-content policies or customer service requirements shift. Chapter 16 later develops the customer and route-to-market details. Here the strategic question is whether the exporting architecture continues to fit the economics and learning needs of the market.

15.5.2 Licensing and franchising: monetize an asset through another firm

Licensing transfers specified rights to use technology, brands, content or other intellectual assets in return for royalties or fees. Franchising is a more comprehensive replication arrangement in which the franchisor provides a business format, brand, processes and ongoing support while the franchisee supplies capital and local operation. Both modes can accelerate expansion with lower capital commitment than wholly owned entry. They are especially useful when local operators possess complementary market knowledge and when the business model is codifiable.

The trade-off is control. Quality failures, labour abuse, corruption or misleading selling by an independent operator can damage the brand even when the legal contract assigns responsibility to the licensee or franchisee. Intellectual-property leakage and future competition can also be serious where know-how is difficult to compartmentalize. The relevant test is therefore not whether licensing is "asset light" but whether the asset can be specified, monitored and protected while maintaining customer and moral standards.

15.5.3 Strategic alliances and contractual partnerships

Strategic alliances allow firms to coordinate selected activities without creating a fully integrated legal organization. They can share technology, distribution, capacity, data, marketing access or standards. Alliances are attractive when partners possess complementary assets and neither needs full control of the other. They also preserve flexibility under uncertainty. The weakness is the classic learning and appropriation problem: each partner may want the joint value created while also protecting proprietary knowledge and preparing for a future in which interests diverge.

15.5.4 Joint ventures: shared ownership, shared control and shared ambiguity

An equity joint venture creates a separately governed organization owned by two or more parents. It can combine local legitimacy and market access with foreign technology, capital or brand. Host-country regulation may require or encourage local ownership, but joint ventures should not be chosen only because they satisfy a formal threshold. The real governance design concerns reserved matters, board representation, management appointment, capital calls, transfer pricing, intellectual property, related-party transactions, dividend policy, dispute resolution and exit.

Shared ownership does not automatically mean balanced power. A 50:50 venture can be dominated by the partner controlling essential technology or regulatory relationships, while a minority shareholder can have strong veto rights. Conversely, legal control can coexist with practical dependence. Managers should map both formal rights and resource dependencies. They should also separate cultural difference from incentive conflict. Many joint-venture disputes attributed to "culture" are more accurately explained by changing strategy, asymmetric contribution or disagreement over reinvestment and control.

15.5.5 Acquisition: buy an operating platform and inherit its history

Acquisition offers speed. The investor obtains assets, customers, licenses, workers, brands, supplier relationships and local routines that would take years to build. It can be particularly valuable where scarce permits, distribution or specialized talent create high entry barriers. Acquisition also brings inherited liabilities. Compliance weaknesses, environmental obligations, labour disputes, hidden related-party relationships, cybersecurity vulnerabilities and cultural tensions arrive with the target. Due diligence should therefore test not only financial statements but also the institutional and moral architecture of the business.

The post-acquisition challenge is to decide what to integrate. Centralizing treasury, cybersecurity or procurement can create scale and control, while local brand, talent or customer routines may require autonomy. A mechanically standardized integration program can destroy the target's local advantage. Conversely, preserving autonomy without control can leave misconduct or weak systems untouched. Integration should follow the strategic rationale for the deal.

15.5.6 Greenfield investment: build the organization the strategy requires

Greenfield investment establishes a new foreign operation rather than buying an existing one. It gives the investor greater freedom to select location, technology, plant layout, systems, culture and employment model. It can create genuinely additional productive capacity in the host economy. The trade-off is time, uncertainty and construction risk. The firm must assemble local knowledge, permits, suppliers, talent and legitimacy rather than inherit them. Greenfield projects can also generate substantial sunk costs before demand is proven, increasing exposure to policy changes or macroeconomic shocks.

15.5.7 Digital entry and platform-mediated internationalization

Digital services complicate the traditional entry-mode ladder. A software firm can acquire foreign users without a local subsidiary, while a marketplace can orchestrate local sellers, payments and logistics through contracts. Yet digital entry does not mean jurisdiction-free entry. Consumer protection, data localization, privacy, tax nexus, content rules, cybersecurity, payments regulation and platform liability can create significant local obligations. Digital scale can therefore precede organizational presence, but sustained scale often creates pressure for local legal, service, policy and trust capabilities. Chapter 20 later owns the technology strategy; the present issue is the governance form through which the digital business crosses jurisdictions.

Table 15.5. Entry-mode comparison

Mode	Capital commitment	Control	Learning / local access	Key strategic risk
Indirect export	Low	Low	Limited and mediated	Weak customer learning; intermediary dependence
Direct export	Low to moderate	Moderate over commercial relationship	Better market feedback	Trade costs; distributor conflict; service limitations

Mode	Capital commitment	Control	Learning / local access	Key strategic risk
Licensing	Low	Low to moderate	Access through licensee	IP leakage; quality and brand risk
Franchising	Low to moderate	Moderate through system and contract	Strong local operator knowledge	Monitoring, labour and brand-consistency failures
Strategic alliance	Variable	Shared / negotiated	Access to complementary assets	Goal divergence; knowledge appropriation; alliance drift
Joint venture	Moderate to high	Shared	Deep local embeddedness and joint learning	Deadlock, partner dependence, governance conflict
Acquisition	High	High legally	Rapid access to installed assets and relationships	Overpayment; hidden liabilities; integration failure
Greenfield subsidiary	High	High	Learning built internally over time	Slow build; sunk cost; local legitimacy and execution risk
Digital / platform entry	Low physical commitment, potentially high intangible exposure	Varies by architecture	Rapid cross-border demand testing	Regulatory nexus, data, cyber, platform dependence and weak local service

Source/Note: Author's synthesis. The categories are ideal types; real contracts can substantially change control, commitment and exposure.

15.5.8 Entry mode as a multi-criteria decision

The entry-mode choice can be made explicit using the decision architecture from Chapter 5. Let the firm score each feasible mode against criteria such as control, speed, capital requirement, knowledge protection, local learning, reversibility, political exposure and responsible-governance capability. The criterion weights should reflect the strategic motive. A technology-seeking acquisition may place high weight on access to tacit knowledge and retention. A market experiment under high uncertainty may prioritize reversibility. A highly regulated service may require local licensing and governance capacity. The same country can therefore justify different modes for different firms and different activities.

PRACTICE TOOL | Before choosing a mode, write one sentence completing each of these prompts: "We need control because..."; "We need a local partner because..."; "We can safely contract this activity because..."; "The knowledge we risk losing is..."; "The sunk cost we are willing to bear is..."; "The condition that would make us exit is...". If the team cannot complete the sentences with evidence, the entry-mode recommendation is not yet mature.

15.6 Foreign Direct Investment Strategy: Ownership, Control and the Boundary of the Firm

Foreign direct investment is not simply a destination decision. It is a boundary decision about what the enterprise will own, control and coordinate internally across jurisdictions. The firm must decide which assets require control, which complementary resources should remain with local partners or suppliers, how the foreign entity will be financed, and what degree of permanence is justified. The investment case should therefore be framed around incremental strategic value, not the symbolic importance of owning an overseas subsidiary.

15.6.1 Greenfield versus acquisition: build or buy

The build-or-buy choice often depends on the scarcity of local assets and the value of organizational fit. Greenfield investment is attractive when the firm's process technology, operating system or culture is a major source of advantage and can be transplanted more reliably than an acquired organization can be transformed. Acquisition is attractive when licenses, distribution, brands, customer relationships, locations or skilled teams are scarce and time-sensitive. The price of speed is the risk that the buyer overestimates synergies or underestimates inherited liabilities.

A sound comparison treats purchase price and construction cost as only the first layer. Acquisition analysis must include integration cost, retention, systems migration, compliance remediation and potential customer loss. Greenfield analysis must include ramp-up losses, recruitment, permitting, infrastructure interfaces and the time value of delayed market access. Investment valuation itself belongs to Chapter 18, but Chapter 15 defines the strategic cash-flow mechanisms that the valuation must represent.

15.6.2 Ownership percentage and control rights

Equity percentage is an incomplete proxy for control. The governance package may include board seats, reserved matters, supermajority requirements, management appointment, audit rights, information access, technology licenses, vetoes and call or put options. In politically sensitive sectors, host governments may hold golden shares or impose ownership ceilings. The investor should map who can decide operational matters, strategic matters and crisis actions under both normal and stressed conditions. Ambiguity that appears tolerable during deal celebration becomes costly when partners disagree.

15.6.3 The parent guarantee problem

Legal separation can limit financial liability, but customers, communities and regulators often attribute subsidiary conduct to the group brand. A parent can therefore face reputational and moral responsibility even where corporate law recognizes separate legal personality. Group policies should clarify which minimum standards apply everywhere, how local units escalate exceptions, and when headquarters must intervene. This does not require micromanagement. It requires a clear distinction between local operating discretion and non-delegable group responsibilities such as anti-bribery, financial integrity, severe human-rights risk, cybersecurity and truthful reporting.

15.6.4 FDI incentives, subsidies and the bargaining relationship with states

Governments compete for investment through tax holidays, grants, infrastructure, land, training support and special economic zones. Such incentives can correct coordination failures or attract activities with positive spillovers, but they can also transfer public resources to projects that would have occurred anyway. The MNE should evaluate incentives as part of location economics without treating every legally available concession as morally costless. A responsible negotiation asks whether commitments are transparent, whether promised jobs and investment are additional, whether local communities bear uncompensated costs, and whether the firm is exploiting bargaining asymmetry in a way that weakens legitimate public capacity.

The bargaining position is dynamic. Before investment, governments may compete to attract the project. After capital becomes immobile, the host may have greater leverage because the firm cannot exit cheaply. Conversely, a very large MNE may possess bargaining power over a smaller state because jobs, exports or infrastructure are locally significant. This reciprocal vulnerability is one reason credible contracts, stable institutions and transparent public accountability matter. Strategic sophistication should not become a license to manipulate weak public institutions.

15.6.5 Staged commitment and real options under uncertainty

Irreversibility changes the value of timing. When a foreign investment is costly to reverse and uncertainty is material, management should ask not only whether the project has positive expected value today but also whether the firm can preserve the right to learn before committing the next tranche of capital. Real-options reasoning treats selected strategic choices as rights, but not obligations, to expand, defer, switch, contract or abandon an investment when new information arrives. Kogut and Kulatilaka (1994) showed that the geographically dispersed multinational network can possess option value because production and growth can be shifted across locations as conditions change. The idea complements rather than replaces conventional valuation: an option has value only when management can actually exercise it and when the flexibility is not already fully captured in projected cash flows.

Staging can take several forms. A firm may begin with direct exports and a service office before building a plant; lease rather than purchase a facility during market learning; install modular capacity with defined expansion gates; enter through a minority position with negotiated call rights; or preserve dual sourcing until a new supplier ecosystem proves reliable. Under geopolitical uncertainty, such structures can limit sunk exposure while preserving access to upside. Moura, Lawton, and Tobin (2026) similarly emphasize that MNE responses to geopolitics depend on both political capabilities and investment real options.

Flexibility is not free. Option premiums, duplicated capacity, slower scale, weaker partner commitment and forgone first-mover advantages can make excessive staging expensive. Nor should real-options language become a sophisticated label for indecision. The board should specify which uncertainty the option addresses, what evidence unlocks deeper commitment, the latest date for exercise, the cost of preserving flexibility and the responsibilities that survive abandonment. A staged strategy is disciplined when it converts uncertainty into explicit learning and commitment rules.

> **REAL-OPTIONS INSIGHT |** Do not ask only, "Enter or do not enter?" Ask which commitment must be made now, which can be deferred, what information will be learned, what event unlocks expansion, and what fair obligations remain if the option is abandoned. Flexibility creates strategic value only when the exercise rule and accountability owner are explicit.

15.6.6 Performance should be evaluated against the entry thesis

Post-entry review should ask whether the original investment thesis remains true. If the thesis was market proximity, has local presence improved service or customer access? If it was strategic-asset acquisition, has the knowledge been retained and integrated? If it was efficiency, have total system costs fallen after quality and inventory are included? If it was regional platform access, has the subsidiary actually served neighboring markets? If the answer is no, sunk cost should not become a reason to preserve a failing commitment. Exit can be economically and morally difficult, but indefinite continuation can waste capital and prolong uncertainty for workers and partners.

15.7 Multinational Strategic Configurations: Global Integration, Local Responsiveness and Regional Logic

Once a firm has entered more than one country, the strategic problem changes. The enterprise must decide whether national units should primarily replicate a home model, adapt deeply to local conditions, specialize as parts of an integrated global system, or combine these logics. Bartlett and Ghoshal (1989) and Prahalad and Doz (1987) made the tension between global integration and local responsiveness central to multinational strategy. Their frameworks remain influential because they expose a real organizational trade-off: scale and consistency pull activities together, while customer differences, institutions and local knowledge pull decisions apart.

INTEGRATION-RESPONSIVENESS CONFIGURATIONS

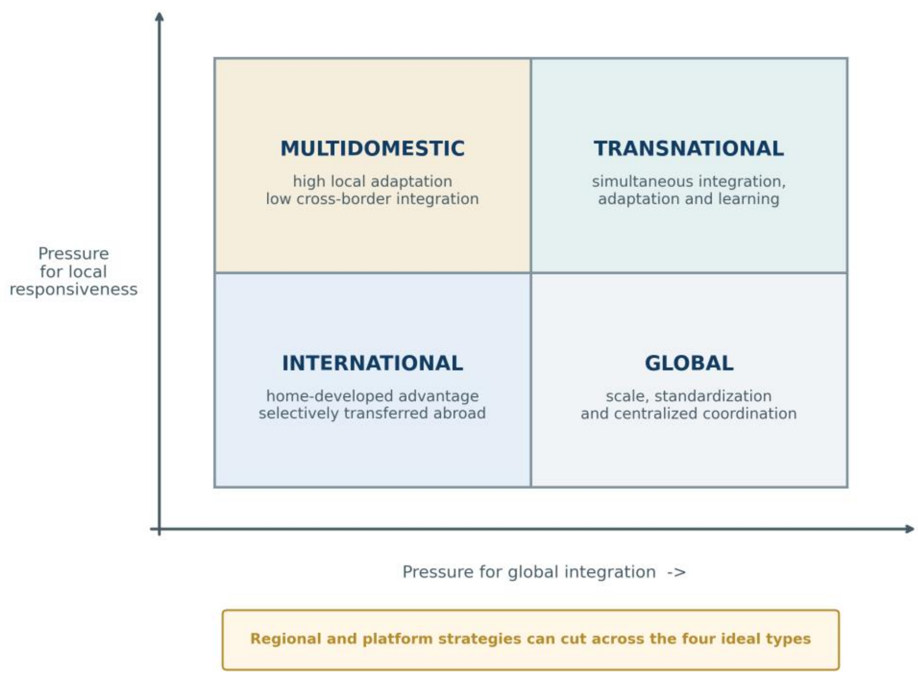

Figure 15.3. Integration-responsiveness configurations.

Source/Note: Author's synthesis drawing on Prahalad and Doz (1987), Bartlett and Ghoshal (1989), and later regional-strategy perspectives. The four configurations are ideal types rather than exhaustive categories.

15.7.1 International configuration: transfer a home-developed advantage

In an international configuration, knowledge and core capabilities remain concentrated in the home country and are transferred selectively to foreign units. Subsidiaries adapt the transferred advantage enough to operate locally but do not independently define the global system. This can work when the firm possesses distinctive technology or know-how and cross-country differences are manageable. The danger is ethnocentrism: headquarters may confuse home success with universal validity and treat local subsidiaries as implementation arms rather than sources of intelligence.

15.7.2 Global configuration: scale and coordinated standardization

A global configuration emphasizes scale, common platforms, standardized components, concentrated production and centralized coordination. It is attractive when customer requirements are similar, fixed costs are high, technology is globally shared, and cost or quality advantages depend on volume. Semiconductors, aircraft, cloud infrastructure and selected industrial components often contain activities with strong integration pressures. Even in such sectors, complete standardization is rare. Regulation, sales relationships, service, language, tax and public policy still create local variation.

15.7.3 Multidomestic configuration: local adaptation and autonomy

A multidomestic configuration grants substantial autonomy to national units because demand, competition, regulation or culture differs materially. Food retail, media, consumer services and regulated sectors frequently require this responsiveness. The benefits are local fit and faster adaptation. The costs are duplication, weaker cross-border learning and limited scale. The MNE can also become a holding company of national businesses with little shared advantage beyond capital and brand. Local responsiveness should therefore be connected to a clear explanation of what actually differs and why the difference merits organizational duplication.

15.7.4 Transnational configuration: simultaneous integration, responsiveness and learning

The transnational ideal seeks global efficiency, local responsiveness and worldwide learning simultaneously. Specialized subsidiaries can become centers of excellence, knowledge can flow in multiple directions, and some activities are centralized while others remain dispersed. The concept is strategically compelling precisely because it refuses a simple either-or choice. It is also organizationally demanding. Conflicting objectives, matrix reporting, complex incentives and slow decision processes can arise when every unit is expected to be both globally integrated and locally autonomous. The transnational form should therefore be treated as a capability challenge, not as the universally superior quadrant of a matrix.

15.7.5 Regional strategy: the world is often semi-global

Regional strategy recognizes that economic integration is uneven. Trade agreements, logistics, language, infrastructure, regulations and customer similarities often create stronger connections within regions than across the globe. Rugman and Verbeke (2004) showed that many large MNEs remained strongly home-region oriented, challenging assumptions of frictionless global markets. Regional headquarters, regional product platforms, shared distribution centers and regional procurement can therefore provide a middle level between global centralization and country autonomy.

The African Continental Free Trade Area can strengthen the logic of regional strategy if implementation lowers real trade costs, but Chapter 14 demonstrated that a formal agreement does not instantly create a single economic space. For an MNE, regional configuration must follow actual corridors, rules of origin, customs performance, payment infrastructure, customer networks and productive capabilities. Treating "Africa" as one operational region because a continental agreement exists would repeat the error of treating Europe, Asia or Latin America as homogeneous markets.

15.7.6 Platform-based configurations

Platform businesses coordinate interactions among multiple participant groups rather than owning every stage of production. Their internationalization can therefore be asset-light in physical terms while deeply dependent on data, standards, algorithms, payments, developer ecosystems and network effects. A platform may centralize software and trust-and-safety architecture while localizing payments, customer support, logistics partners and regulatory relationships. Platform scale can create powerful cross-border advantages, but also concentrated gatekeeping power. The strategic design must address interoperability, dependency, contestability and the governance of participants whose livelihoods depend on rules set far from their country.

Table 15.6. Strategic configurations and their organizational logic

Configuration	Primary logic	Likely coordination pattern	Failure risk
International	Exploit home-developed advantage abroad	Core knowledge centralized; foreign units adapt and implement	Headquarters ethnocentrism; weak reverse learning
Global	Scale, standardization and integrated optimization	Centralized platforms or specialized worldwide activities	Local misfit; political concentration risk; low resilience if critical activities are overconcentrated
Multidomestic	Local fit and responsiveness	High country autonomy; duplicated capabilities where needed	Cost duplication; inconsistent standards; weak cross-border knowledge transfer

Configuration	Primary logic	Likely coordination pattern	Failure risk
Transnational	Integration + responsiveness + multidirectional learning	Differentiated network; distributed centers of excellence	Complexity, matrix conflict, slow accountability and ambiguous decision rights
Regional	Exploit within-region similarity and connectivity	Regional hubs, platforms and shared services	Region treated too broadly; global synergies left unrealized
Platform-based	Orchestrate network participants through digital standards and data	Core digital architecture centralized; ecosystem execution distributed	Gatekeeping power, regulatory conflict, data concentration and local service gaps

Source/Note: Author's synthesis drawing on Bartlett and Ghoshal (1989), Prahalad and Doz (1987), Rugman and Verbeke (2004), and platform-strategy principles. Configuration is activity-specific: one MNE can use different logics for different functions.

MANAGERIAL INSIGHT | Do not ask whether the corporation should be "global" or "local" in the abstract. Ask which activity benefits from scale, which activity requires local knowledge, which knowledge must move in both directions, and at what geographic level the coordination benefit exceeds the complexity cost. Procurement, R&D, manufacturing, marketing, cybersecurity, tax, talent and government relations can legitimately have different geographic architectures.

15.8 Global Value Chains and Global Production Networks: Where Is Value Created and Captured?

A multinational enterprise rarely produces a final offering inside one legal entity or one country. Value is distributed across research, design, raw materials, components, assembly, logistics, software, branding, finance, sales and after-sales service. The global value chain (GVC) perspective asks how these activities are linked and governed across borders. The global production network (GPN) perspective broadens the analysis further by emphasizing the firms, institutions, labour systems, regions and power relationships in which production is embedded (Coe et al., 2004, 2008; Gereffi et al., 2005).

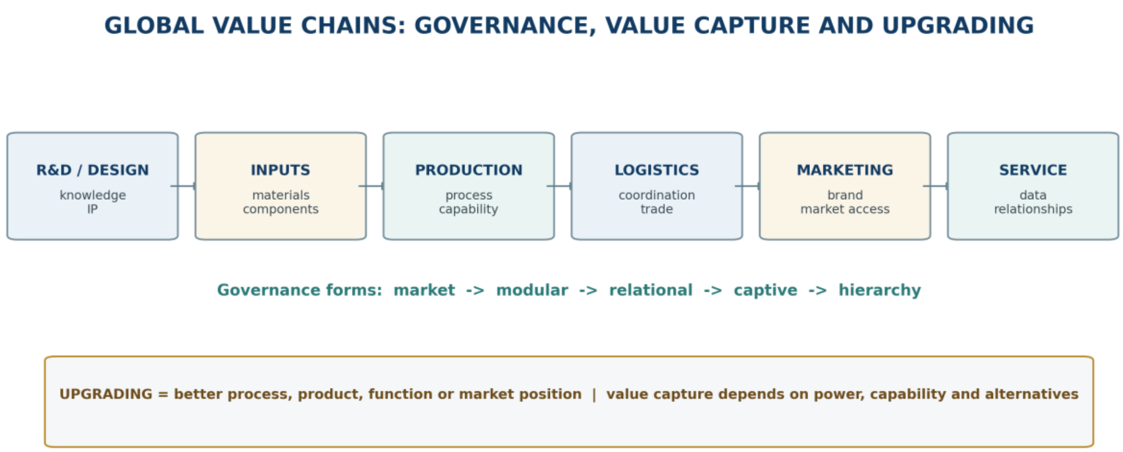

Figure 15.4. Global value chains: governance, value capture and upgrading.

Source/Note: Author's synthesis drawing on Gereffi et al. (2005) and global production network perspectives. Value capture is not mechanically determined by position in the chain.

15.8.1 From linear chain to network

The word "chain" is analytically convenient but can mislead. Modern production is usually a network with multiple tiers, feedback loops and service providers. A smartphone can involve chip design in one location, wafer fabrication in another, assembly elsewhere, software updates delivered globally, cloud services distributed across regions and minerals sourced through several tiers. A supermarket private-label product can involve farmers, processors, packaging suppliers, laboratories, transporters and retail data systems across borders. Mapping the network is therefore a prerequisite for understanding concentration, dependency and hidden responsibility.

15.8.2 Governance types: market, modular, relational, captive and hierarchy

Gereffi, Humphrey, and Sturgeon (2005) proposed five ideal types of GVC governance based on the complexity of transactions, the ability to codify information and supplier capability. Market governance relies more heavily on price and relatively simple transactions. Modular suppliers deliver complex outputs to codified specifications. Relational governance depends on mutual dependence and tacit knowledge. Captive governance places smaller suppliers under strong lead-firm coordination because switching and capability asymmetries are high. Hierarchy brings activities inside the firm.

These categories make power visible. A lead firm can externalize ownership while still exerting substantial operational influence through specifications, audit rights, price setting, data access or purchasing concentration. Legal independence therefore does not automatically mean strategic independence. This has both efficiency and ethical consequences. Tight coordination can improve quality and learning, but purchasing power can also push unrealistic costs or lead times onto suppliers, encouraging hidden labour or safety compromises. Chapter 11 developed responsible procurement; Chapter 15 asks how lead-firm power is embedded in the multinational configuration.

15.8.3 Value creation is not the same as value capture

Different stages contribute to customer value, but bargaining power, intellectual property, scarcity and market access determine how income is distributed. A supplier can perform technically demanding production while capturing thin margins if many alternatives exist and the lead firm controls brand and customer access. Conversely, a specialized component supplier with scarce capability can capture substantial value despite occupying an upstream position. Managers should therefore distinguish physical value added, accounting margins, bargaining power and social contribution.

15.8.4 Upgrading: process, product, functional and market pathways

Upgrading describes movement toward more capable, productive or valuable roles in the chain. Process upgrading improves how an existing task is performed. Product upgrading moves to more sophisticated outputs. Functional upgrading adds higher-value functions such as design, logistics, testing, branding or after-sales service. Market or chain upgrading applies capabilities to new markets or industries. Upgrading is not guaranteed by participation. A local supplier can remain locked in low-margin activities if technology, finance, standards or lead-firm governance limit learning. Policy that seeks GVC participation should therefore examine the pathway from entry to capability accumulation rather than count supplier contracts alone.

15.8.5 Offshoring and outsourcing are different decisions

Offshoring changes the country in which an activity occurs. Outsourcing changes the organizational boundary. An activity can be offshored but kept inside the MNE, outsourced to a domestic supplier, or both outsourced and moved abroad. Nearshoring moves activity closer to a target market or headquarters. Reshoring returns it to the home economy. "Friendshoring" prioritizes jurisdictions judged geopolitically aligned. These labels should be translated into mechanisms: transport time, tariff exposure, political trust, export controls, energy reliability, labour capability, supplier depth, intellectual property and capital cost.

15.8.6 Is globalization reversing? Evidence favors reconfiguration over a universal retreat

The strongest current evidence does not support a simple story of worldwide deglobalization. The *Global Value Chain Development Report 2025* found that GVCs were being rewired by technology, geopolitics, industrial policy and environmental transition, with new hubs and firm networks emerging. The WTO reported that GVC trade represented 46.3% of global trade in 2024, only modestly below its 48% peak in 2022 (World Trade Organization, 2025). The pattern is therefore one of selective reconfiguration rather than wholesale disappearance.

Foreign direct investment evidence tells a similar story. Tan (2024) finds that recent FDI fragmentation has not been uniformly global but is concentrated in strategic sectors and selected bilateral relationships. This distinction matters for strategy. A manager who assumes universal decoupling may duplicate costly capacity unnecessarily. A manager who assumes old integration patterns will persist unchanged may ignore export controls, investment screening, conflict risk or government incentives that materially change location economics. Resilience requires targeted redesign based on specific dependencies.

Recent peer-reviewed reviews reinforce the need for mechanism-specific geopolitical analysis. Moura, Lawton, and Tobin (2026), using the article's corrected review sample of 93 studies, show that MNE responses depend partly on political capabilities and the flexibility of investment commitments, ranging from shaping engagement to adaptation, non-engagement and exit. Patsiaouras, Saren, and Green (2026), reviewing 138 studies, likewise emphasize multipolar blocs, non-market strategy and multi-actor geopolitical threats. These reviews do not create a universal response rule. They strengthen the case for real options, differentiated political capabilities and explicit escalation triggers in multinational strategy.

Table 15.7. Reconfiguration vocabulary: what each term actually changes

Term	What changes	What does not automatically change	Main analytical question
Outsourcing	Ownership / governance boundary	Country location	Can a supplier govern the activity better without unacceptable dependency or hidden harm?
Offshoring	Country location	Ownership boundary	Does foreign location advantage exceed coordination, trade and risk costs?
Nearshoring	Distance to target market or parent is reduced	Supplier ownership may or may not change	Does shorter distance materially improve resilience, lead time or coordination?
Reshoring	Activity returns to home country	Technology, supplier concentration and inputs may remain foreign-dependent	Which vulnerability is actually reduced and at what cost?
Friendshoring	Location is shifted toward politically aligned jurisdictions	Commercial and political alignment are not permanent	Which geopolitical risk is mitigated and which new concentration is created?
Regionalization	Activities become more concentrated within a region	The firm does not necessarily become less international	Are regional trade, logistics, customer and institutional links strong enough to justify a regional architecture?

Source/Note: Author's synthesis. These terms describe configuration changes, not universal prescriptions. Strategic evaluation should identify the specific dependency or exposure being addressed.

POLICY LENS | Supply-chain resilience is not achieved by maximizing domestic content or political alignment. A single-source domestic supplier can be less resilient than a diversified international network, while an efficient global network can be fragile if one node has no substitute. The relevant unit is the dependency: what can fail, how failure propagates, what alternatives exist, and what recovery time the enterprise and society can tolerate.

15.9 Headquarters-Subsidiary Relations: Coordination, Control and Knowledge Flows

The legal chart of an MNE can look deceptively simple: parent company at the top, subsidiaries below. The operating reality is more complex. Subsidiaries differ in market importance, capability, age, regulatory environment, ownership structure and strategic mandate. Some primarily implement group systems. Others adapt products, own regional customer relationships, host manufacturing platforms or create knowledge later used across the network. Ghoshal and Bartlett's (1990) network perspective and Birkinshaw and Hood's (1998) work on subsidiary evolution help explain why the MNE should be governed as a differentiated network rather than a set of identical boxes.

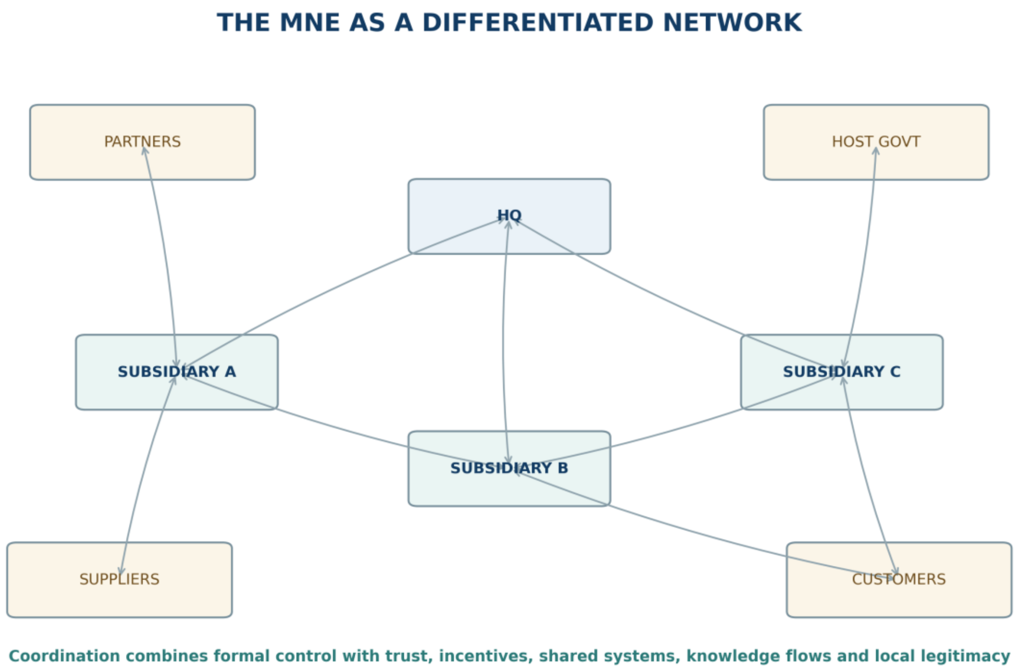

Figure 15.5. The MNE as a differentiated network.

Source/Note: Author's synthesis drawing on Ghoshal and Bartlett (1990), Birkinshaw and Hood (1998), and network-internationalization perspectives.

15.9.1 Decision rights: what belongs at headquarters, region and country?

A useful starting point is the principle of decision-right fit. Decisions should be located where relevant knowledge, incentives and accountability can be combined most effectively. Headquarters may reasonably control capital allocation, group risk appetite, cybersecurity standards, major acquisitions, financial reporting and non-negotiable integrity rules. Country units may need authority over local assortment, pricing within guardrails, relationships with regulators, local talent and operational adaptation. Regional units can coordinate activities whose economics and institutions span neighboring markets. The correct architecture is therefore issue-specific.

Centralization fails when headquarters lacks timely local knowledge or overloads itself with decisions that do not require group-level authority. Decentralization fails when local units optimize their own results at the expense of group value, take risks that the parent ultimately bears, or violate standards whose reputational consequences spill across the network. The governance challenge is to specify decision rights, information requirements and escalation conditions rather than alternate between slogans of "empowerment" and "control."

15.9.2 Control systems: behaviour, output and social coordination

MNE control can operate through several mechanisms. Behaviour control specifies processes and approvals. Output control sets performance targets while allowing discretion over how they are achieved. Social control relies on shared values, professional norms, leadership rotation, networks and organizational identity. Digital systems add real-time monitoring, workflow controls and common data standards. Effective architecture combines these mechanisms. Excessive procedural control can suppress local initiative; excessive output pressure can encourage gaming; social control can become conformity that discourages principled dissent.

Metrics require particular caution across countries. A common return target can be unfair when units face very different inflation, regulatory burdens or maturity stages. A local manager may delay necessary investment to meet a short-term target. Transfer prices and central service charges can also affect apparent subsidiary profitability. Performance evaluation should therefore separate controllable operating outcomes from structural conditions and group allocation choices, while preserving accountability for decisions the local unit genuinely controls.

15.9.3 Subsidiary mandate and evolution

Subsidiaries can evolve from simple sales offices into manufacturing hubs, regional headquarters, product-development centers or centers of excellence. Birkinshaw and Hood (1998) emphasized that subsidiary evolution reflects interaction among parent assignment, subsidiary initiative and the local environment. This helps explain why multinational strategy is not designed only at headquarters. Capable subsidiaries can identify opportunities that the center could not see and can build local resources that justify a wider mandate.

Subsidiary initiative should not be romanticized. A unit may seek a larger mandate to protect its status even when duplication is uneconomic. Headquarters can also underinvest in a subsidiary whose local capabilities are strategically valuable but difficult to measure. Periodic mandate reviews should therefore ask what the unit contributes to customers, learning, resilience and network advantage; what would be lost if the activity were moved; and which local relationships make the capability location-specific.

15.9.4 Knowledge transfer and reverse knowledge flows

Knowledge moves imperfectly across borders. Explicit procedures can be codified, but tacit knowledge travels through experience, relationships and shared problem solving. Language, professional identity, status and absorptive capacity shape whether a subsidiary can receive knowledge from headquarters or whether headquarters can recognize knowledge developed in a peripheral unit. Reverse knowledge transfer is strategically important because local adaptation can generate innovations with wider application. The problem is organizational humility: headquarters must distinguish genuine global standards from habits that merely originated at the center.

Transfer mechanisms include expatriates and inpatriates, temporary assignments, communities of practice, joint projects, digital knowledge repositories, technical academies, supplier-development programs and cross-border teams. Chapter 7 developed these mechanisms at the people-and-knowledge level. Chapter 15 adds the strategic question of where knowledge should reside and how subsidiary incentives affect willingness to share. A unit that expects its knowledge to be taken without recognition or resources may rationally hoard it.

15.9.5 Data architecture and the new geography of control

Digital platforms allow headquarters to observe transactions, inventory, pricing, labour and customer behaviour across subsidiaries at unprecedented granularity. This can improve coordination and fraud detection, but it also creates new concentrations of power and risk. A central data lake may conflict with local data-protection or localization rules. Algorithmic systems trained on one market may misperform elsewhere. Continuous monitoring can erode legitimate local discretion or employee privacy. Chapter 20 owns digital transformation and AI governance; the multinational issue here is that data architecture itself becomes part of the distribution of authority across jurisdictions.

Table 15.8. Headquarters-subsidiary governance choices

Governance question	Centralization is stronger when...	Local autonomy is stronger when...	Control safeguard
Capital allocation	Projects compete for scarce group capital and risk is consolidated	Small operational investments require speed and local knowledge	Tiered authority limits and post-investment review
Product / service design	Global standardization, safety or scale is critical	Customer needs, regulation or infrastructure differ materially	Common core with documented local variants
Pricing	Brand consistency or cross-border arbitrage is material	Purchasing power, taxes and competition vary sharply	Price corridors, approval thresholds and evidence
Cybersecurity / financial integrity	Externalities from one unit can harm the whole group	Local implementation knowledge is needed	Non-negotiable minimum controls with local implementation ownership
Talent	Leadership pipeline and specialist mobility need group coordination	Labour law, norms and local labour markets differ	Global principles plus locally lawful systems
Government relations	Group position or cross-border issue requires consistency	Licensing and relationships are jurisdiction-specific	Transparency, lobbying policy, anti-bribery controls and escalation
Knowledge / innovation	Scale and reuse create network value	Tacit local knowledge and experimentation require proximity	Cross-border communities, recognition and IP rules

Source/Note: Author's synthesis. The table illustrates conditional logic rather than prescribing a universal degree of centralization.

15.10 Strategic Alliances and Joint Ventures: Cooperating Without Surrendering Judgment

Alliances occupy the space between market and hierarchy. They allow firms to combine complementary assets without full acquisition, which is especially valuable when uncertainty is high, ownership restrictions apply, knowledge is distributed or partners need one another but do not want to merge. The challenge is that value creation requires cooperation while value capture creates incentives to protect information, renegotiate terms and prepare alternatives.

15.10.1 Partner selection: strategic complementarity before personal chemistry

A credible partner screen should examine complementary assets, financial capacity, technical competence, reputation, regulatory standing, ownership and beneficial-control structure, political connections, integrity history, cybersecurity, labour practices, decision speed and strategic intent. Personal trust among executives is valuable but cannot replace institutional due diligence. A partner can be commercially powerful and morally or legally unacceptable. Where the partner's value derives mainly from opaque access to officials, licenses or procurement, the supposed location advantage may actually be a corruption risk.

15.10.2 Governance rights should follow the decisions that can destroy value

Joint ventures require explicit treatment of reserved matters. These typically include strategy, budgets, debt, major contracts, related-party transactions, appointment of senior management, technology use, acquisitions, asset sales, dividends and changes in business scope. The purpose is not to maximize vetoes. Too many reserved matters make the venture unmanageable. The design should identify decisions where unilateral action would create unacceptable economic, legal or moral exposure for the other parent.

15.10.3 Trust and contracts are complements

It is a false dichotomy to choose between trust and formal governance. Trust reduces monitoring and supports adaptation when contracts cannot anticipate every contingency. Clear contracts protect the relationship by making expectations, information rights and exit procedures explicit before conflict arises. The strongest alliances use both. Trust without clarity can become dependency; contracts without trust can become continuous renegotiation.

15.10.4 Learning races and knowledge boundaries

Partners often enter alliances partly to learn. The possibility of asymmetric learning creates a "learning race" in which one partner may acquire the other's capability and reduce dependence. The solution is not to block all knowledge flow, because that can destroy the alliance's purpose. Instead, partners should distinguish knowledge essential to the joint task from knowledge that remains proprietary, define personnel access, protect background intellectual property, specify ownership of jointly developed assets and create incentives that reward continued collaboration.

15.10.5 Deadlock, drift and exit

Alliance failure is often gradual. The venture remains legally alive while strategic priorities diverge, managers avoid difficult decisions and the business loses competitiveness. Governance should therefore include regular strategic review, escalation, deadlock procedures, valuation rules for buy-sell arrangements and clear treatment of customers, employees, licenses and intellectual property after exit. Exit clauses are not evidence of mistrust. They are part of responsible stewardship when partners recognize that future conditions can change.

> **ETHICAL DILEMMA |** A local partner offers extraordinary regulatory access and claims it can secure approvals "faster than the normal process." The commercial team regards this as the partner's principal advantage. A responsible MNE should ask what the access actually consists of, who benefits, what payments or political relationships are involved, whether the process is available transparently to competitors, and whether the relationship would remain defensible if disclosed publicly. Strategic complementarity never overrides anti-corruption boundaries.

15.11 Political and Geopolitical Risk: Sovereignty, Non-Market Strategy and Resilience

Internationalization places the firm within the authority of multiple states. Those states can tax, license, regulate, investigate, restrict data, control capital movement, impose local-content conditions, screen foreign investment, prohibit transactions, nationalize assets or change the rules under which the original investment was made. Political risk is therefore not an externality added after the strategy is designed. It is part of the location and governance architecture from the beginning.

15.11.1 Political risk is broader than expropriation

Traditional political-risk analysis emphasized outright expropriation or political violence. Contemporary MNEs face a wider set of mechanisms: gradual regulatory erosion of a business model, discriminatory taxation, sudden licensing changes, restrictions on profit repatriation, sanctions, export controls, foreign-investment screening, data localization, public procurement restrictions, compulsory technology transfer, local-content demands, security review and reputational pressure linked to geopolitical alignment. Some of these policies pursue legitimate public objectives. The firm's task is not to label every unfavorable rule "political risk" but to understand how public authority changes the economics and legitimacy of the investment.

15.11.2 Geoeconomic fragmentation is targeted, not uniform

Recent evidence supports a differentiated view. Strategic sectors such as advanced digital infrastructure, semiconductors, critical minerals and energy transition technologies account for a rising share of global greenfield investment, while governments increasingly use screening, subsidies and trade controls around national-security or industrial-policy objectives (UNCTAD, 2026a). IMF evidence likewise suggests that FDI fragmentation is concentrated in selected strategic sectors and bilateral relationships rather than equally spread across all investment (Tan, 2024). Managers should therefore map exposure at the technology, product, supplier and jurisdiction level instead of applying a generic geopolitical discount to all foreign business.

15.11.3 Sovereignty and the corporate license to operate

Sovereignty means that states possess legitimate authority over activities within their jurisdiction, subject to constitutional, legal and moral limits. An MNE cannot reasonably demand that host countries freeze policy permanently at the date of investment. Public priorities change, evidence changes and governments retain responsibilities toward citizens. At the same time, arbitrary or discriminatory treatment can destroy investment incentives and harm local development. Durable internationalization therefore depends on predictable institutions, due process and a bargaining relationship in which both firm and state recognize legitimate interests and limits.

Subsidiarity adds a further lens. Decisions should be made at the lowest level capable of addressing the issue without creating unacceptable spillovers. This principle neither sanctifies local control nor justifies centralization. A food-safety standard may require national or cross-border coordination because harm travels. A local cultural or community issue may be better handled near those affected. The MNE should ask whether its own central rules respect legitimate local authority, and whether lobbying for harmonization solves a real coordination problem or simply weakens local policy autonomy for corporate convenience.

15.11.4 Non-market strategy and corporate diplomacy

Firms legitimately engage governments, regulators, communities, industry associations and civil society. Hillman, Keim, and Schuler (2004) describe corporate political activity as organizational action intended to influence public policy. Such engagement can provide regulators with technical information, improve policy design and help coordinate infrastructure. It can also become rent seeking, regulatory capture or corruption. The distinction depends on transparency, truthfulness, equal respect for public authority, the means used and the distributional consequences.

Corporate diplomacy is broader than lobbying. It includes sustained relationship management with governments and societal actors whose support affects the firm's legitimacy and operating continuity. In fragile or conflict-affected settings, the responsibility is heightened. Chapter 13 developed conflict sensitivity, business and human rights, corruption controls and moral courage. Chapter 19 later develops commercial diplomacy and geoeconomic statecraft from the rules-and-negotiation perspective. Chapter 15 uses only what is necessary to govern the MNE's exposure.

15.11.5 Resilience: options, buffers and strategic reversibility

Resilience is the capacity to sustain or recover critical performance under disruption. For an MNE, resilience can come from geographic diversification, multi-sourcing, substitute technologies, inventory buffers, financial liquidity, modular systems, regional capacity, contractual options, crisis teams and the ability to transfer production. Each form has a cost. Redundancy can reduce short-run efficiency, and duplication can itself increase complexity. The objective is not maximum redundancy but proportional protection of activities whose failure would create unacceptable business or human consequences.

Reversibility is a strategic asset under deep uncertainty. Exporting may preserve more exit flexibility than greenfield investment; leasing can preserve more flexibility than land purchase; modular capacity can be moved more easily than a single giant plant. Yet reversibility has moral limits. A firm cannot treat workers, communities or long-term suppliers as disposable options. If a project depends on public infrastructure or local sacrifices, exit planning should include fair treatment, notice, remediation and responsible transfer of obligations.

Table 15.9. Political and geopolitical risk: mechanism, indicator and strategic response

Risk mechanism	Evidence / indicator	Strategic response	Moral or governance caution
Regulatory change	Draft laws, regulator priorities, court decisions, sector reviews	Scenario analysis, regulatory capability, modular commitments	Do not equate legitimate public-interest regulation with hostile treatment
Expropriation / creeping expropriation	Property-rights history, sector intervention, contract stability	Political-risk insurance, structure, staged capital, dispute clauses	Contract protection does not justify coercive bargains with weak states
Capital controls / convertibility	Reserve pressure, payment delays, FX rationing, debt stress	Local funding, cash planning, limits on trapped exposure	Avoid aggressive extraction of scarce foreign exchange where essential imports and public needs are affected
Sanctions / export controls	Official designations, controlled technologies, geopolitical escalation	Legal screening, product segmentation, licensing, contingency supply	Legal interpretation belongs with qualified counsel and Chapter 19; do not improvise around restrictions
Conflict / civil disruption	Security indicators, local grievance, supply and mobility disruption	Duty-of-care plans, continuity, conflict-sensitive operations, evacuation protocols	Employees and communities are not merely operational variables
FDI screening / industrial policy	National-security review, subsidy conditions, local-content policy	Early policy mapping, alternative locations, transparent government engagement	Public incentives create reciprocal accountability for promised investment and jobs
Data sovereignty	Localization laws, cross-border-transfer rules, cybersecurity requirements	Data architecture, local processing, privacy and security controls	Data centralization can create power and privacy risks even when technically efficient

Source/Note: Author's synthesis. Legal requirements change rapidly and should be verified against current official sources and competent legal advice.

CRITICAL DEBATE | Neither "sovereignty" nor "global governance" should function as a trump card. States can abuse authority, and transnational rules can correct genuine cross-border failures. Transnational systems can also centralize power, weaken subsidiarity or impose one-size-fits-all standards. MNEs should evaluate institutional arrangements by evidence, legitimacy, accountability, proportionality, local agency and human flourishing rather than by whether authority is national or international.

15.12 Emerging-Market and African Multinationals: Internationalizing from Diverse Institutional Starting Points

Much classic international-business theory was developed from European, North American and Japanese firms that expanded from relatively mature home institutions. African multinationals broaden the evidence base because they internationalize from heterogeneous home environments, often across neighboring markets whose formal institutions, infrastructure and customer systems differ substantially. Their experience does not invalidate established theory, but it tests which mechanisms are genuinely general and which assumptions are historically specific.

15.12.1 African multinationals are not one type of firm

The category includes banks, telecommunications groups, retailers, airlines, industrial firms, construction companies, logistics providers, technology ventures and resource companies. Some are private entrepreneurial firms, some evolved from formerly protected domestic champions, some are state-owned or state-linked, and some grew through regional consolidation.

Their internationalization motives therefore vary. A pan-African bank may seek customer networks and payment corridors. A cement producer may locate production near heavy local demand because transport costs are high. An airline builds a hub-and-spoke network. A retailer depends on logistics, local sourcing and consumer purchasing power. The correct unit of explanation is the firm and activity, not an undifferentiated idea of "African business."

15.12.2 Regional familiarity can be an advantage, but familiarity is not sameness

African firms may possess experience with infrastructure variability, informality, currency volatility, state relationships or low-income customer segments that is valuable in neighboring countries. Luiz, Stringfellow, and Jefthas (2017), examining the internationalization of South African Breweries, show how experience in institutionally uncertain settings could become a capability that supported expansion before the firm later diversified its institutional exposure. Andrews and Luiz (2025) likewise show that capabilities for managing institutional voids can develop in stages rather than exist as a single static advantage.

The inference should remain disciplined. A South African firm does not automatically understand Nigeria; a Kenyan firm does not automatically understand Francophone West Africa; and regional familiarity does not erase different languages, regulatory histories, political settlements, customer norms or logistics. Overconfidence based on presumed continental familiarity can be another form of cultural distance error. Regional knowledge is valuable when it is specific, tested and translated into organizational capability.

15.12.3 The "liability of Africanness" should be analyzed, not reproduced

Boso, Adeleye, Ibeh, and Chizema (2019) discuss challenges facing African firms, including what the literature has called the liability of Africanness: disadvantages linked to stereotypes, weak country-of-origin perceptions, limited access to capital or institutional constraints. The term should be used cautiously. Some disadvantages are real market perceptions that managers must address, but scholarly analysis should not convert prejudice into a natural property of firms. The correct question is which disadvantage exists, who imposes it, whether it is evidence-based, and what capability or institutional reform can reduce it.

15.12.4 Latecomer advantage, linkage-leverage-learning and springboarding

Mathews's (2006) linkage-leverage-learning (LLL) perspective begins from a different starting point than theories that assume the internationalizing firm already possesses strong proprietary advantages. Latecomer challengers can first create linkages with external firms, networks and institutions, then leverage the resources and market positions available through those relationships, and finally convert repeated international engagement into learning and accumulated capability. The perspective is especially useful for analyzing firms that internationalize from relative resource disadvantage and use supplier relationships, diaspora networks, alliances, acquisitions or strategic customers to accelerate capability building. It complements OLI by asking how ownership advantages can be constructed through internationalization rather than merely exploited after they already exist. Its limitation is equally important: linkage does not guarantee learning. Absorptive capacity, financial discipline, integration capability, governance and the quality of the external relationship determine whether borrowed access becomes durable organizational capability.

Latecomer firms can sometimes adopt newer technology without inheriting legacy systems, target overlooked customer segments, or acquire strategic assets abroad. Luo and Tung's (2007) springboard perspective is particularly relevant when firms internationalize to compensate for home-country constraints or capability gaps. The strategy can accelerate learning, but aggressive acquisitions also expose firms to integration risk, leverage and managerial overstretch. The springboard metaphor should therefore not be mistaken for a guarantee that outward investment solves domestic capability weakness.

15.12.5 Home institutions and international ambition co-evolve

Esho and Verhoef (2020) show that emerging African multinationals need to be understood historically rather than as late copies of older Western MNEs. Firm development, domestic market formation, political economy and regional opportunity co-evolve. This perspective matters because internationalization can feed capabilities back into the home economy. Foreign subsidiaries can provide knowledge, finance, brands and managerial routines that strengthen the parent. Conversely, over-internationalization can divert capital and senior attention from the home base that originally supported the firm. The strategic task is to preserve the capability engine while expanding its geographic reach.

15.12.6 AfCFTA creates an option set, not a ready-made strategy

Chapter 14 showed why AfCFTA can reduce trade costs and enlarge market opportunities while leaving substantial implementation and infrastructure constraints. For African MNEs, the agreement can improve the economics of regional platforms, supplier networks and cross-border distribution. It may also attract stronger foreign competitors into home markets. A firm should therefore treat integration as a change in the competitive and location opportunity set, not as a reason to expand automatically. The winning response may be internationalization, domestic capability deepening, regional partnership, specialization or some combination.

> **AFRICAN CONTEXT |** The most useful question is not "Can African firms become global?" Many already operate across borders. The deeper questions are which capabilities travel, which must be rebuilt locally, how regional integration changes scale economics, how local suppliers and workers participate in value creation, and whether international growth strengthens productive capability at home and in host economies.

15.13 African Case: Shoprite as a Portfolio of Country Commitments

The opening Shoprite case can now be reinterpreted through the chapter's frameworks. The Group possesses ownership advantages in grocery procurement, retail systems, store formats, private-label capability, distribution, data and scale. Yet those advantages do not have identical value in every host market. Location advantages depend on customer purchasing power, competitive structure, logistics, currency conditions, local supplier capability, regulation and the possibility of building sufficient density. Internalization advantages arise where owning stores and logistics preserves operating standards and procurement coordination, but ownership also creates fixed costs and exposure that a franchise or arm's-length model would not.

15.13.1 OLI explains the logic, but not the timing of commitment

OLI helps ask whether Shoprite has transferable firm advantages, whether a particular country offers sufficient location value and whether ownership is superior to contracting. Uppsala reasoning adds the temporal dimension. Experience in one country should update the next commitment. Persistent currency pressure, affordability constraints or insufficient scale can reduce the value of further sunk investment. The 2025 decision to classify Ghana and Malawi as discontinued operations demonstrates that internationalization need not be irreversible. Learning can justify de-internationalization as well as expansion.

15.13.2 Local sourcing is simultaneously economic, resilience and legitimacy strategy

Shoprite's stated effort to develop local producers illustrates why global strategy cannot be reduced to procurement cost. Local sourcing can reduce import and currency exposure, shorten replenishment, adapt assortment, create local supplier capability and strengthen legitimacy. It can also be inefficient if imposed regardless of quality, scale or opportunity cost. The strategic objective should be competitive local capability, not symbolic localization. Supplier-development investments are most defensible when they raise productivity and standards rather than create permanent dependence on preferential purchasing.

15.13.3 Currency reveals the limits of headquarters-level performance comparisons

The FY2026 difference between reported and constant-currency growth in Angola, Mozambique and Zambia demonstrates a general MNE problem. A headquarters evaluating local managers in reporting currency can reward or punish effects they did not control. Yet ignoring currency entirely can also be misleading because the parent ultimately consolidates and funds the business in particular currencies. A fair performance system should distinguish local operating execution, translation effects, transaction exposure and capital structure. Chapter 17 develops those mechanics; Chapter 15 establishes the governance principle that accountability should follow controllability.

15.13.4 Exit is part of strategy

Withdrawal raises financial, relational and moral questions. The firm must decide how to treat employees, leases, suppliers, customer obligations, licenses, tax positions and local partners. An exit that maximizes immediate recovery by abandoning obligations can destroy trust far beyond the country involved. A responsible exit therefore has its own governance architecture: clear decision rights, truthful communication, lawful and fair treatment, remediation, data protection and transfer of ongoing obligations. The possibility of eventual exit should be considered before entry because sunk investments and social commitments change the feasible choices later.

> **EVIDENCE CHECK |** Shoprite's current FY2026 non-RSA growth figures are useful but unaudited at the date of this chapter. They should not be used to infer full-year profitability or to attribute performance causally to a particular international strategy. Company reporting can show what management did and what operating outcomes were reported; causal evaluation requires stronger comparison and independent evidence.

15.14 Comparative Global Case: TSMC and the Geography of Strategic Semiconductor Capacity

Taiwan Semiconductor Manufacturing Company (TSMC) provides a contrasting case in which global configuration, technological concentration, customer geography, industrial policy and sovereignty are inseparable. Semiconductor fabrication combines enormous fixed costs, rapid technological learning, highly specialized suppliers and geopolitical sensitivity. A simplistic "move production closer to customers" rule would ignore the agglomeration and capability advantages that made Taiwan central to advanced semiconductor manufacturing. A simplistic "keep all capacity where it is most efficient" rule would ignore customer demand for geographic flexibility, government incentives and concentration risk.

TSMC's 2025 annual report states that the company generated US$122.42 billion in consolidated revenue and US$55.21 billion in net income. It manufactured 12,682 products using 305 process technologies for 534 customers, with annual manufacturing capacity exceeding 17 million 12-inch equivalent wafers. The company continued substantial advanced-capacity investment in Taiwan while expanding manufacturing in Arizona, Japan and Germany (TSMC, 2026). These are company-reported audited or annual-report figures and describe scale and configuration; they do not by themselves establish the welfare effects of public subsidies or the optimal geography of semiconductor production.

The Arizona expansion is especially instructive. In March 2025, TSMC announced an intention to add US$100 billion of U.S. investment to an existing US$65 billion plan, bringing intended U.S. investment to US$165 billion. The additional plan included three new fabrication plants, two advanced-packaging facilities and an R&D center. The company explicitly linked its overseas expansion to customer needs for geographic flexibility and to government support. Its first Arizona fab had entered high-volume production in late 2024. In Japan, the first Kumamoto specialty-technology fab entered volume production at the end of 2024 and a second fab was under development; in Europe, the company was progressing with a Dresden specialty-technology facility focused on automotive and industrial applications (TSMC, 2025, 2026).

Table 15.10. TSMC: strategic configuration signals and the questions they raise

Signal	Company-reported evidence	Global-strategy interpretation
Scale and complexity	US$122.42bn 2025 revenue; 12,682 products; 305 technologies; 534 customers	Scale supports massive fixed-cost technology investment, but customer and technology concentration make configuration strategically consequential.
Taiwan capability base	Continued leading-edge and advanced-packaging investment across Taiwan	Location advantage is path dependent: talent, suppliers, learning and infrastructure accumulate over time.
United States expansion	Total intended U.S. investment announced at US$165bn in 2025	Customer proximity, national-security policy, incentives and resilience can justify duplicating selected capability despite higher complexity.
Japan	Kumamoto volume production from end-2024; second fab under development	A regional customer and supplier ecosystem can create specialized location logic.
Germany	Dresden specialty fab progressing for automotive and industrial applications	Not all foreign sites need to replicate the same technology or mandate; differentiated subsidiaries can serve specific ecosystems.
Government support	Company explicitly identifies necessary government support as part of overseas footprint decisions	Public incentives are part of location economics and create reciprocal accountability for investment, jobs, capability and transparency.

Source/Note: TSMC (2025, 2026). Company plans and expected impacts should be distinguished from completed investment and independently verified outcomes.

15.14.1 Geographic diversification does not mean replication

TSMC's footprint shows that resilience can be achieved through differentiated capacity rather than identical factories everywhere. Taiwan remains central to leading-edge development and manufacturing, while overseas sites serve combinations of customer proximity, regional ecosystems, strategic assurance and policy objectives. This is a transnational and regional logic more than a simple reshoring story. Replicating every capability would sacrifice scale and learning; concentrating every capability in one geography would preserve efficiency while magnifying tail risk.

15.14.2 Industrial policy changes private location economics

Semiconductor investment is a clear case in which state incentives, national-security priorities and corporate strategy interact. Public support can make capacity economically feasible where pure private cost minimization would not. This does not prove that subsidies are socially efficient. A complete evaluation compares additional capacity, technology spillovers, supply security, fiscal cost, opportunity cost, competition and the possibility that jurisdictions bid against one another. The firm should recognize that accepting public support creates obligations that extend beyond legal compliance with grant conditions.

15.14.3 Sovereignty, interdependence and corporate power coexist

The case also resists simplistic political narratives. Advanced semiconductor production depends on international equipment, design software, materials, customers, intellectual property and talent. Sovereign governments nevertheless seek greater control over critical capacity. The MNE sits between these realities. It cannot eliminate interdependence, and it cannot ignore state authority. Responsible strategy requires transparent navigation of legitimate security concerns without allowing geopolitical rivalry to become an excuse for deception, discriminatory conduct or opportunistic capture of subsidies.

> **COMPARATIVE INSIGHT |** Shoprite and TSMC operate in radically different industries, yet the same architecture appears. Both must decide where location advantage justifies commitment, which activities travel and which remain locally embedded, how currency or policy alters headquarters interpretation, how much control is required, and when geographic concentration becomes a strategic risk. The content differs; the multinational logic is durable.

15.15 Responsible Multinational Governance: Local Value Creation, Integrity and the Limits of Corporate Power

Multinational governance extends the corporate-governance architecture of Chapter 13 into a setting where legal authority, economic power and moral responsibility are distributed across jurisdictions. The parent company may be incorporated in one country, list securities in another, borrow in several currencies, employ workers through subsidiaries, buy from legally independent suppliers, store data in regional centers and sell to customers elsewhere. Formal legal separation can clarify liabilities, but it does not erase the operational relationships through which the group creates value and foreseeable harm.

15.15.1 Compliance is necessary but not sufficient

Every subsidiary must comply with applicable law, yet lawful conduct can still be morally defective. A host jurisdiction may permit labour practices that conflict with the group's commitments to human dignity. A tax incentive may be legal but designed through opaque political bargaining. A data practice may satisfy a formal notice requirement while exploiting users who cannot meaningfully understand or refuse it. Conversely, a parent-company rule can be legally permissible yet culturally arrogant or economically harmful when imposed without regard to local institutions. Responsible governance therefore requires a hierarchy of obligations: obey legitimate law, respect non-negotiable moral boundaries, and exercise prudence where rules permit several lawful choices.

15.15.2 Human rights and risk-based due diligence

The UN Guiding Principles on Business and Human Rights distinguish the state duty to protect human rights, the corporate responsibility to respect them and access to remedy (United Nations Human Rights Council, 2011). The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct similarly address human rights, labour, environment, bribery, consumer interests, disclosure, technology, competition and taxation, with a risk-based due-diligence approach extending to operations, supply chains and business relationships (OECD, 2023). These frameworks are influential sources of professional practice. They are not substitutes for law, moral reasoning or context-specific judgment, and their institutional authority should not be confused with divine or universal moral authority.

Due diligence should be proportionate to severity and likelihood, but severity deserves priority where harm could be irreparable. A low-probability risk of fatal worker exposure requires different treatment from a high-probability minor inconvenience. The MNE should identify affected persons, examine how its own purchasing, incentives or deadlines contribute to the risk, take preventive action, monitor outcomes and provide or cooperate in remedy where appropriate. Audit completion is evidence that a process occurred; it is not proof that conditions are safe or just.

15.15.3 Labour dignity and meaningful work

Cross-border labour arbitrage can be economically rational without being morally neutral. Wage differences reflect productivity, cost of living, labour supply, institutions and bargaining power. Paying the legal minimum therefore does not answer every question about justice. A responsible MNE should examine safe conditions, timely pay, non-coercion, reasonable working time, voice, fair treatment, development opportunities and the effect of purchasing practices on contractors. It should also avoid a paternalistic assumption that headquarters can define dignity without listening to workers and local institutions.

The same principle applies to restructuring. International strategy can move production and destroy jobs in one country while creating them elsewhere. Managers have duties to the viability of the enterprise and cannot promise permanent employment regardless of conditions. They also control the timing, information and transition arrangements surrounding change. Notice, truthful explanation, fair severance, redeployment, training and supplier transition can materially alter the human consequences of a necessary strategic decision.

15.15.4 Tax responsibility and economic substance

MNEs legitimately organize transactions efficiently and should not pay taxes that the law does not require. Yet aggressive arrangements that shift profits away from the locations where substantive value-creating activity occurs can weaken public trust and the fiscal capacity on which infrastructure, education and institutions depend. Tax morality cannot be reduced to paying the maximum possible tax, because governments can tax inefficiently or unjustly. The defensible principle is truthful reporting, economic substance, compliance with applicable rules, consistent transfer-pricing governance, board oversight and refusal to use artificial structures whose principal logic depends on misleading authorities about where value is created.

Tax incentives deserve similar scrutiny. A host government may rationally offer temporary incentives to attract investment with spillovers. The MNE should evaluate the full public bargain: investment actually delivered, jobs and training, local procurement, infrastructure use, duration, transparency and what happens when the incentive expires. A lawful incentive obtained through transparent rules differs morally from a bespoke concession secured through political favoritism or undisclosed influence.

The international tax environment has also changed materially. Under the OECD/G20 Inclusive Framework's Global Anti-Base Erosion (GloBE) rules, in-scope large MNE groups are subject, where implementing domestic rules apply, to a coordinated top-up tax mechanism designed to bring jurisdictional effective taxation of covered excess profits up to a 15% minimum rate (OECD, 2026). Implementation, qualified domestic minimum top-up taxes, safe harbours and administrative details vary by jurisdiction and continue to evolve. Strategically, this means that a headline low tax rate or tax holiday may no longer retain the same after-tax value for every large MNE, and location models should test current law, economic substance and interaction with group-wide minimum-tax rules. The existence of Pillar Two does not itself settle questions of tax justice; truthful reporting, substantive activity and accountable public bargaining remain necessary moral and governance tests.

15.15.5 Anti-corruption across unequal institutional environments

Corruption risk often increases at the interfaces where the MNE needs permissions, customs clearance, land, procurement awards or politically connected partners. The common rationalization is contextual: "this is how business is done here." That claim deserves empirical investigation but no moral deference. Bribery distorts public authority, disadvantages honest competitors and can entrench institutions that harm citizens. The MNE should design third-party due diligence, payment controls, gifts and hospitality rules, beneficial-ownership review, procurement integrity, speak-up channels, investigation and consequences that function in the local context rather than exist only as a headquarters policy document.

15.15.6 Local value creation and supplier development

Host governments and communities reasonably ask what remains locally when an MNE extracts revenue or resources. Local value creation can include wages, taxes, supplier purchases, training, technology transfer, management capability, infrastructure, exports and competition. No single percentage is universally correct. Forcing local content without capability can raise costs and create politically connected intermediaries. Ignoring local linkages can produce an enclave operation whose profitability coexists with weak spillovers. The strategic objective is additional local capability that can survive even if the MNE later exits.

15.15.7 Cultural integrity and freedom of conscience

MNEs carry brands, management practices, workplace policies and cultural assumptions across borders. Respect for culture requires humility but not moral relativism. A firm should not exploit harmful local practices merely because they are traditional, nor impose headquarters fashion merely because it is fashionable elsewhere. Cultural adaptation should be evaluated through human dignity, truth, conscience, lawful rights and the actual welfare of affected persons. Workers should not be coerced into ideological affirmations unrelated to legitimate job requirements, and customer-facing adaptation should not manipulate sacred or identity-sensitive symbols merely to improve conversion.

15.15.8 Corporate influence and the danger of private government

Very large MNEs can exercise quasi-governance power through private standards, platform rules, supplier codes, data infrastructures and access to capital. Such standards can raise safety and integrity when public institutions are weak, but they can also displace local authority and create rules for people who did not meaningfully participate in their design. The more the firm sets conditions that resemble public regulation, the stronger the case for transparency, due process, appeal, proportionality and respect for local democratic or constitutional authority.

Table 15.11. Responsible multinational governance: from principle to operating control

Responsibility	Key question	Illustrative control	Failure indicator
Human dignity / labour	Are workers and contractors treated as persons rather than variable inputs?	Safety standards, wage and hours controls, grievance, contractor due diligence	Repeated harm, retaliation, unpaid work, unsafe production hidden by subcontracting
Anti-corruption	Can any payment, partner or political relationship improperly influence public authority?	Third-party screening, approval thresholds, beneficial ownership, audit trail, investigation	Unexplained intermediaries, success fees tied to approvals, off-book payments
Tax responsibility	Does the structure reflect real economic activity and truthful reporting?	Board tax policy, transfer-pricing documentation, economic-substance review	Profit locations diverge from substantive activity without credible business rationale
Local value creation	Does foreign presence build durable host capability?	Supplier development, training, local management pipeline, linkage metrics	Enclave activity with weak learning and repeated import dependence despite feasible local capability
Culture / conscience	Does adaptation respect persons without surrendering moral boundaries?	Local consultation, conscience protection, human-rights review	Coercive ideological requirements or exploitative use of cultural identity
Data / technology	Who controls data and automated decisions across borders?	Data mapping, lawful transfer, cybersecurity, human review, contestability	Centralized surveillance or opaque automated exclusion without remedy
Community / sovereignty	Does corporate influence respect legitimate public authority and affected communities?	Transparent government engagement, grievance and remedy, public commitments register	Regulatory capture, opaque concessions, intimidation or displacement of local voice

Source/Note: Author's synthesis building on Chapter 13, United Nations Human Rights Council (2011), OECD (2023), and multinational-governance scholarship.

15.16 Faith, Ethics and Moral Reasoning

Multinational strategy intensifies ordinary business ethics because distance can hide consequences. Headquarters can approve a sourcing decision without seeing the worker who absorbs the deadline. A tax team can optimize a structure without seeing the public services affected by fiscal loss. A government-relations team can secure a concession without confronting the citizens excluded from the bargaining table. The moral task is therefore to reconnect decisions with persons, authority and consequences across the full radius of corporate influence.

15.16.1 Human dignity places persons before corporate abstraction

Christian moral reasoning begins with the human person as bearing God-given dignity, not market-assigned worth. Genesis 1:26-28 grounds human dignity and stewardship in creation. Workers, customers, suppliers, managers and public officials therefore cannot be reduced to labour costs, consumer segments, bargaining units or political obstacles. This does not eliminate economic calculation. It establishes a moral boundary: efficiency is a means for serving legitimate human goods, not a license to sacrifice persons whose costs are less visible in the model.

15.16.2 Stewardship disciplines ownership and control

The biblical idea of stewardship denies that control creates absolute moral entitlement. Greater authority brings greater accountability, captured in the principle that much is required from those entrusted with much (Luke 12:48). Applied to the MNE, control over capital, technology, jobs, data and supply chains creates responsibilities proportionate to the firm's capacity to foresee and influence consequences. A parent company should therefore resist the moral fiction that harmful conduct becomes someone else's problem merely because it occurs through a subsidiary or contractor that the group substantially controls.

15.16.3 Truthfulness governs prices, contracts, tax and public influence

Scripture repeatedly condemns false measures and dishonest exchange. Proverbs 11:1 uses the image of dishonest scales to expose economic deception. For an MNE, truthful dealing applies to customs declarations, transfer-pricing documentation, product claims, sustainability representations, employment promises, government commitments and internal reporting. Technical legality should not be used to create a materially false picture of where value is created, what a project will deliver, or what risks a community is being asked to bear.

15.16.4 Justice concerns wages, bargaining power and distribution

The biblical concern for workers is direct. Deuteronomy 24:14-15 forbids exploiting poor and vulnerable workers and requires timely wages, while James 5:4 condemns withheld pay. These texts do not supply a universal wage formula, but they establish that bargaining power does not exhaust moral obligation. An MNE sourcing from a low-income country should not interpret a worker's weak alternatives as permission to push compensation or conditions to the lowest legally survivable level. Justice requires attention to safety, fairness, voice and the distribution of gains from productivity.

15.16.5 Neighbour-love expands the relevant stakeholder horizon

Jesus' command to love one's neighbour (Matthew 22:39) is incompatible with a strategy that treats distant people as morally invisible because they sit outside the consolidated financial statements. Neighbour-love does not require the firm to satisfy every claim or abandon profit. It requires management to take the good of affected persons seriously, refuse exploitation and seek forms of value creation that do not depend on foreseeable injury to those with less power.

15.16.6 Justice and humility constrain corporate influence

Micah 6:8 joins justice, faithful love and humility. The combination is particularly relevant to corporate diplomacy. A technically sophisticated MNE can know more about its sector than a small public administration and can exercise substantial bargaining power. Humility requires that capability be used to inform rather than dominate legitimate public authority. Justice rejects bribery and coercive capture. Faithful dealing requires commitments to governments and communities to be kept even when political attention moves elsewhere.

15.16.7 Respect for authority is not moral surrender

Christian teaching recognizes legitimate governing authority and the duty to render what is owed, including taxes and respect (Romans 13:1-7). Yet no human authority is morally absolute. Where authorities demand conduct that directly violates obedience to God, Scripture also establishes the limit expressed in Acts 5:29. For multinational managers, this tension rules out two opposite errors: opportunistically ignoring lawful host-country authority when rules are inconvenient, and using "local law" as a complete moral defense for participation in grave wrongdoing.

15.16.8 Creation stewardship and intergenerational responsibility

Internationalization often reallocates environmental burdens across borders. A polluting activity can be moved to a jurisdiction with weaker enforcement while the final product is sold elsewhere. Creation stewardship requires the firm to consider the real material and ecological consequences of location decisions rather than arbitrage regulatory weakness. Chapter 21 develops sustainable business, circularity and climate in detail. Chapter 15 establishes the governance principle: a firm should not define a location advantage by the ability to impose environmental harms on communities that lack bargaining power.

15.16.9 Engaging alternative ethical traditions fairly

Christian moral reasoning should be intellectually serious enough to engage other traditions on their strongest terms. Consequentialism asks whether an internationalization decision improves aggregate welfare after all material benefits and harms are counted. Its strength is attention to outcomes and trade-offs; its limitation is the danger that severe burdens on a minority can be justified by larger aggregate gains. Deontological approaches emphasize duties and respect for persons, offering strong protection against using people merely as means, but they can struggle when duties conflict across jurisdictions.

Rights-based ethics highlights labour, privacy, property, due process and freedom of conscience. Justice approaches examine the distribution of benefits, burdens and procedural voice. The capability approach asks whether people gain substantive opportunities to live and work well rather than merely whether income rises. Communitarian perspectives draw attention to local institutions, social meaning and the danger that corporate practices can weaken communities. Stakeholder theory asks managers to recognize multiple legitimate claims rather than shareholder interests alone. These perspectives often converge with Christian concerns, yet Christian ethics adds a distinct account of creation, stewardship, sin, neighbour-love, moral accountability before God and the non-negotiable worth of persons.

Table 15.12. Ethical lenses applied to a multinational location decision

Lens	Question it foregrounds	Contribution	Risk if used alone
Consequentialist	Which location produces the greatest net benefits after all material effects?	Forces explicit attention to outcomes, opportunity costs and scale of impact	Can justify serious harm to less powerful groups if aggregate gains dominate
Deontological / rights	Which duties and rights may not be violated for advantage?	Protects persons against purely instrumental treatment	Can become rigid when legitimate duties conflict
Justice	How are benefits, burdens, voice and remedy distributed?	Makes power and incidence visible	Different theories of justice can support different distributions
Capability	Do affected people gain substantive opportunities and agency?	Looks beyond income to meaningful human functioning	Measurement and cross-cultural interpretation can be difficult
Communitarian	What happens to local institutions, identity and social cohesion?	Corrects overly individualistic economic analysis	Can romanticize existing community norms or suppress individual rights
Stakeholder	Whose legitimate claims must enter the decision?	Broadens corporate attention and governance	Does not by itself rank conflicting claims
Christian moral reasoning	Is the decision truthful, just, neighbour-loving, stewardship-oriented and consistent with the dignity of persons before God?	Integrates character, duties, consequences, authority and ultimate accountability	Requires disciplined interpretation and must not be used as superficial proof-texting or a substitute for evidence

Source/Note: Author's synthesis. The aim is professional moral judgment, not a caricatured competition among ethical traditions.

FAITH AND VOCATION | A Christian executive cannot outsource conscience to the jurisdiction with the weakest rule, to the consultant with the most aggressive structure, or to the algorithm with the highest projected return. Vocation in multinational enterprise means exercising technical excellence under moral authority: seeking legitimate profit, telling the truth, honoring workers and communities, resisting corruption, respecting lawful sovereignty, and accepting responsibility when corporate choices foreseeably harm others.

15.17 Professional Toolkit: The Multinational Strategy and Responsible Governance (MSRG) Protocol

The MSRG Protocol converts the chapter into a repeatable decision discipline. It does not replace industry expertise, legal advice, valuation or local due diligence. Its purpose is to prevent a common failure in international expansion: different teams solve different pieces of the problem while no one tests whether the complete cross-border commitment is economically coherent, governable and morally defensible.

Figure 15.6. Multinational Strategy and Responsible Governance (MSRG) Protocol.

Source/Note: Author's synthesis. The protocol integrates strategic motive, evidence, commitment, configuration, governance, moral boundaries and renewal.

15.17.1 Step 1: State the purpose and the non-negotiable boundaries

Write the internationalization thesis in causal form: "We propose to enter X because Y location mechanism allows our Z ownership advantage to create value that cannot be captured as effectively through the current arrangement." Then state the moral and legal boundaries that the strategy may not cross. Examples include bribery, deception, forced labour, unsafe work, prohibited transactions, exploitation of vulnerable communities and artificial concealment of economic substance. Naming boundaries before negotiations begin reduces the temptation to redefine them when an attractive opportunity appears.

15.17.2 Step 2: Build the evidence base and identify what remains unknown

Separate facts, estimates, assumptions and judgments. Validate market size, reachable demand, partner ownership, regulatory requirements, currency conditions, infrastructure, labour capability and country risk. Identify which assumptions are decision-sensitive. For a greenfield investment, construction timing and ramp-up may matter more than a small difference in tax rate. For a digital entrant, data localization and payments may be binding. The evidence plan should target what could actually change the decision.

15.17.3 Step 3: Choose location and mode as one commitment decision

Do not select a country first and then mechanically choose an entry mode. The mode can change the attractiveness of the country because a strong partner reduces institutional uncertainty, an acquisition provides licenses and customer access, or a wholly owned operation creates unacceptable capital exposure. Evaluate feasible country-mode combinations against the same strategic thesis, including reversibility and exit cost.

15.17.4 Step 4: Configure activities, value chains and capability

Specify which activities remain at home, which move, which are centralized regionally and which require local capability. Map critical suppliers, data flows, intellectual property, talent, financing and decision rights. Test concentration and bottlenecks. Include the local value proposition to the host economy: jobs, skills, suppliers, taxes, technology, infrastructure or competition. A project that cannot articulate local value may still be legally feasible, but its legitimacy risk deserves explicit attention.

15.17.5 Step 5: Design governance before growth

Assign board and management responsibilities, reserved matters, integrity controls, reporting, third-party due diligence, knowledge-sharing mechanisms, tax governance, worker and community grievance, cybersecurity, data responsibility and crisis escalation. Governance should match the strategic risks rather than reproduce the parent's domestic template. A country manager must know which decisions are theirs, which require escalation and which standards cannot be waived.

15.17.6 Step 6: Define learning, renewal and exit triggers

Specify milestones and signposts that would justify deeper commitment, adaptation, pause or exit. A pilot might require defined retention and unit economics before a plant is built. A joint venture might require capability-transfer milestones before capital expansion. A politically exposed operation might have specific sanctions, convertibility or security triggers. Exit criteria should include employee, customer, supplier, community and data obligations so that reversibility is governed rather than improvised.

Table 15.13. MSRG decision record

Protocol field	Decision record question	Required evidence / output
Purpose	What cross-border problem are we solving, for whom, and why now?	Causal internationalization thesis and alternative strategies
Ownership advantage	What transferable capability makes us competitive despite foreignness?	Evidence of firm-specific resource, capability, brand, technology or network advantage
Location advantage	Why this country / cluster rather than home or another location?	Activity-specific market, institution, cost, cluster and policy evidence
Mode / commitment	Why ownership, partnership or contract at this level of commitment?	Control, speed, learning, sunk cost, reversibility and leakage analysis
Configuration	What is global, regional, local and external?	Activity map, GVC/GPN map, supplier and data dependencies
Governance	Who decides, controls, learns and escalates?	Decision-rights matrix, board / JV rights, controls and knowledge architecture

Protocol field	Decision record question	Required evidence / output
Responsible conduct	Who can be harmed or excluded, and what is our duty?	Human-rights, labour, tax, anti-corruption, community and cultural-integrity assessment
Sovereignty / political risk	Which public-authority changes could alter the thesis?	Scenario map, legal screen, non-market engagement plan and resilience options
Local value	What durable host capability or welfare is plausibly created?	Jobs, supplier, skills, technology, tax and community commitments with evidence
Renewal / exit	What evidence would make us deepen, redesign, pause or leave?	Milestones, signposts, review date, exit obligations and accountable owner

Source/Note: Author's MSRG Protocol. The record is designed for board, investment-committee, strategy or subsidiary-governance use and should be adapted to sector-specific legal requirements.

PRACTICE TOOL | The protocol is most valuable when it produces a decision log that can be reviewed two or three years later. Record what management believed, what evidence supported the belief, which risks were accepted, which moral boundaries were stated, and which outcomes would falsify the thesis. Without that record, organizations often rewrite the past and lose the learning value of international experience.

15.18 Common Misconceptions, Analytical Errors and Professional Pitfalls

15.18.1 "International" and "global" are synonyms

They are not. A firm can operate in several countries while remaining overwhelmingly home-region dependent. Another can serve global customers through exports without owning many foreign assets. Strategy should describe the actual geographic distribution of customers, assets, capabilities and decision rights rather than use "global" as a prestige label.

15.18.2 Large market means attractive market

Large population or GDP says little about reachability, willingness to pay, channels, regulation and unit economics. Country screening must move from total potential to addressable and economically reachable demand.

15.18.3 Cultural distance predicts failure

Distance measures can identify potential friction, but they do not determine outcomes. Capability, network position, partner quality, organizational learning and the specific institution matter. Country averages should never be used to stereotype individuals or to explain every execution failure as "culture."

15.18.4 Higher ownership always means better control

Legal control can increase decision authority but also increases capital, political and managerial exposure. Some assets are better governed through contracts or partnerships. Effective control also depends on information, capability, incentives and local legitimacy, not equity alone.

15.18.5 Standardization is efficient; adaptation is expensive

Both statements can be true and still mislead. Standardization saves cost only where customer, regulatory and operational commonality is real. Adaptation can create value and legitimacy. The correct comparison is marginal: which local difference materially affects outcomes, what adaptation is required, and whether its benefit exceeds cost and complexity.

15.18.6 More countries automatically diversify risk

Geographic dispersion can create correlated exposures and new risks. Diversification should be tested against underlying cash-flow drivers, supply dependencies, financing and geopolitical scenarios. Country count is not a risk metric.

15.18.7 A GVC is resilient because it has many suppliers

Nominal supplier count can conceal common dependence on one sub-tier, technology, port, cloud provider or country. Resilience analysis should identify single points of failure and recovery options across tiers.

15.18.8 Local partner means local legitimacy

A politically connected or commercially powerful partner can reduce legitimacy if its influence is opaque, exclusionary or corrupt. Partner selection should test reputation, beneficial ownership, stakeholder relationships and integrity, not simply nationality.

15.18.9 Compliance proves responsibility

Compliance is a floor. Legal rules can lag technology, permit exploitation or differ across jurisdictions. Responsible governance asks whether conduct remains truthful, just, respectful of dignity and defensible when viewed from the perspective of affected persons.

15.18.10 Exit means the original strategy failed

Sometimes it does. But exit can also be the correct response to new evidence, changing capabilities or altered institutions. The deeper failure is continuing an uneconomic or harmful commitment because management is unwilling to admit that assumptions changed.

15.19 Chapter Synthesis

Multinational enterprise is best understood as an organizational response to cross-border opportunities and imperfections. Firms internationalize when firm-specific capabilities interact with foreign location advantages and when ownership, partnership or contractual governance can capture value more effectively than the available alternatives. Hymer explains why foreign control requires compensating advantage and raises questions of power. Transaction-cost and internalization theories explain the governance boundary. OLI integrates ownership, location and internalization. Uppsala and network approaches explain learning, commitment and embeddedness. Born-global theory explains rapid internationalization by young firms. Institutional and legitimacy perspectives explain why the same organizational form faces different costs and expectations across countries.

Foreign market selection should therefore be activity-specific and evidence-based. Market size, institutional quality and country-risk scores are inputs, not decisions. Entry mode determines control, commitment, learning, reversibility and exposure. FDI creates the possibility of deep coordination and capability building, but also transfers responsibility to the firm. Multinational configuration then determines which activities are integrated globally, adapted locally, coordinated regionally or orchestrated through platforms.

Global value chains reveal that ownership and power do not coincide perfectly. Lead firms can govern independent suppliers through standards, purchasing power and data. Participation can support learning and upgrading, but it does not guarantee local value capture. Current evidence suggests that GVCs and FDI are being selectively rewired rather than universally dismantled. Resilience should therefore target actual dependencies and geopolitical exposures rather than pursue symbolic localization.

Headquarters-subsidiary governance is a problem of differentiated authority. Decision rights should follow knowledge, incentives and responsibility. Subsidiaries can become sources of innovation and regional capability, while headquarters must protect group-wide integrity and risks whose consequences spill across borders. Alliances and joint ventures add relational governance, requiring partner due diligence, clear rights, trust, knowledge boundaries and credible exit mechanisms.

African multinationals demonstrate that internationalization theory must accommodate firms that expand from diverse institutional settings and build capabilities through regional experience, latecomer strategies and cross-border learning. Shoprite illustrates selective continental concentration and the strategic legitimacy of exit. TSMC illustrates how advanced technology, customer demand, industrial policy and sovereignty can produce a differentiated global manufacturing footprint. Neither case supports a universal formula.

The chapter's moral conclusion is equally disciplined. Cross-border scale enlarges the radius of corporate responsibility. International strategy is legitimate only when profit, control and influence remain accountable to truth, human dignity, labour justice, responsible tax behaviour, anti-corruption, local value creation, cultural integrity, lawful sovereignty, subsidiarity and stewardship. These principles do not replace economics. They prevent economic abstraction from erasing the persons and institutions whose lives make multinational enterprise possible.

Transition to Chapter 16

Chapter 15 has decided the firm-level architecture of internationalization: why to cross borders, which countries and locations fit the strategy, which entry modes and ownership structures are appropriate, how activities are configured across global and regional value chains, and how the multinational is governed. Chapter 16 now moves inside the foreign-market interface. It asks how international market research, segmentation, adaptation, branding, pricing, distribution and communication should change across countries. The corporate entry architecture belongs here; the cross-border customer-growth system belongs next.

Key Terms

Table 15.14. Key terms for Chapter 15

Term	Definition
Multinational enterprise (MNE)	An enterprise that controls or coordinates value-creating activities in more than one country through ownership, contractual governance, organizational systems or a combination of these.
Foreign direct investment (FDI)	Cross-border investment associated with a lasting interest and significant influence in a foreign enterprise; international statistics commonly use at least 10% of voting power as the operational threshold.
Liability of foreignness	Additional costs or disadvantages a foreign firm can face because of unfamiliarity, distance, relational barriers, discrimination or legitimacy challenges.
Ownership advantage	A firm-specific asset or capability that helps the enterprise compete despite the costs of operating abroad.
Location advantage	An activity-specific reason why production, service, knowledge or market activity is more valuable in one foreign location than elsewhere.
Internalization advantage	A reason to govern an activity inside the firm rather than through an arm's-length contract or license.
OLI paradigm	Dunning's eclectic framework combining ownership, location and internalization advantages to explain international production.
Uppsala model	A process theory in which international commitment evolves through experiential knowledge, relationships and learning under uncertainty.
Liability of outsidership	Disadvantage arising from being outside relevant business networks and relationships.
Born-global firm	A young firm that develops substantial international activity from or near inception rather than following a long domestic-first path.
Institutional distance	Difference between countries in formal rules, norms, cognitive frames or institutional arrangements; useful only when decomposed into mechanisms relevant to the decision.
Entry mode	The governance arrangement through which a firm participates in a foreign market, such as exporting, licensing, alliance, joint venture, acquisition or greenfield subsidiary.
Greenfield investment	Foreign direct investment that establishes a new operation or facility rather than acquiring an existing enterprise.
Joint venture	An organization or project jointly governed by two or more partners, often through shared equity and negotiated decision rights.
Integration-responsiveness framework	A strategic diagnostic comparing pressures for global coordination with pressures for local adaptation.
Multidomestic strategy	A configuration emphasizing country-level adaptation and autonomy.
Global strategy	A configuration emphasizing cross-border integration, scale and coordinated standardization.
Transnational strategy	An ideal-type configuration seeking simultaneous global efficiency, local responsiveness and multidirectional learning.
Regional strategy	A configuration that organizes substantial activities around economically or institutionally connected regions rather than a single global or country-by-country architecture.
Global value chain (GVC)	The sequence and network of activities through which a product or service is conceived, produced, delivered and supported across locations.
Global production network (GPN)	A broader network perspective that embeds firms and value-creating activities within institutions, regions, labour systems and power relationships.
Value-chain governance	The mechanism through which transactions and relationships in a value chain are coordinated, ranging from market to modular, relational, captive and hierarchical forms.
Upgrading	Movement toward more capable, productive or valuable roles through process, product, functional or market improvement.
Offshoring	Moving an activity to another country without necessarily changing who owns or governs it.
Outsourcing	Moving an activity outside the firm's organizational boundary without necessarily changing its country location.

Term	Definition
Nearshoring	Relocating an activity closer to a target market or coordinating center.
Reshoring	Returning an activity to the firm's home economy.
Subsidiary mandate	The role, responsibilities and strategic scope assigned to or developed by a foreign subsidiary within the MNE network.
Corporate diplomacy	Structured engagement with governments and societal actors to sustain legitimate relationships, operating continuity and mutual understanding across jurisdictions.
Political risk	The possibility that public authority, political conflict or institutional change alters the value, feasibility or safety of a business commitment.
Subsidiarity	The principle that decisions should be made at the lowest competent level unless wider coordination is necessary to address spillovers or protect legitimate common goods.
Local value creation	Durable host-economy contribution through wages, taxes, supplier capability, skills, technology, infrastructure, competition or other productive linkages, beyond the mere presence of foreign capital.
Strategic renewal	The disciplined adaptation, reconfiguration, deepening, contraction or exit of multinational commitments as evidence and environments change.
Real option	A staged strategic right, but not an obligation, to expand, defer, switch, contract or abandon a cross-border commitment when uncertainty resolves; its value depends on genuine managerial flexibility and an explicit exercise rule.
Linkage-leverage-learning (LLL)	A latecomer internationalization perspective in which firms build external linkages, leverage network resources and market positions, and convert repeated international engagement into accumulated organizational learning and capability.

Source/Note: Definitions are tailored to the chapter's analytical use and should be read together with the theories and qualifications developed in the text.

Concept-Check Questions

1. What distinguishes a multinational enterprise from an exporter that has no foreign controlled operations?

2. Why did Hymer treat foreign direct investment as a problem of control rather than simply international capital movement?

3. How do transaction-cost economics and internalization theory differ from, and complement, the OLI paradigm?

4. What does each component of OLI mean, and why can a strong location advantage be insufficient to justify FDI?

5. What is the central learning mechanism in the Uppsala model, and how did the later model incorporate networks and outsidership?

6. Why do born-global firms not invalidate the importance of learning and liability of foreignness?

7. What is the difference between market potential, addressable demand and economically reachable demand?

8. How do exporting, licensing, joint venture, acquisition and greenfield investment differ in control, commitment and reversibility?

9. Why is equity percentage an incomplete measure of control in a joint venture?

10. What is the difference between a global, multidomestic, transnational and regional configuration?

11. How do market, modular, relational, captive and hierarchical GVC governance differ?

12. What is the distinction between offshoring and outsourcing?

13. Why can a subsidiary evolve into a center of excellence rather than remain an implementation unit?

14. What makes political risk broader than expropriation?

15. Why should FDI volume not be interpreted as a direct measure of host-country welfare?

16. What does the MSRG Protocol add to an ordinary country-entry analysis?

17. How does real-options logic change the timing and scale of foreign commitment under uncertainty, and why is staged commitment not the same as indecision?

18. How does the linkage-leverage-learning perspective complement OLI when analyzing latecomer or emerging-market multinationals?

Higher-Order Analytical and Critical-Thinking Questions

1. A firm possesses superior technology but weak local relationships in a high-growth market. Use at least three internationalization theories to explain why they might recommend different entry paths.
2. Under what conditions can a regional strategy be more coherent than either a globally standardized or fully multidomestic strategy? Illustrate with an African industry.
3. Is a government subsidy that changes the preferred location of an MNE evidence of market distortion, legitimate industrial policy, or both? Develop criteria for judging the case.
4. When can local-content requirements strengthen host-country productive capability, and when can they create rent seeking or inefficient dependency?
5. A lead firm does not legally own a supplier but determines specifications, deadlines and prices. What responsibilities follow from this form of value-chain power?
6. How should headquarters distinguish legitimate subsidiary autonomy from weak group control? Develop a decision-rights logic for a regulated industry.
7. Critically assess the claim that geopolitical fragmentation makes deglobalization inevitable. What evidence would you require before redesigning a global value chain?
8. Can an MNE legitimately exit a country after accepting large public incentives? Identify the contractual, economic and moral considerations.
9. How should a Christian executive respond when host-country law permits a labour practice that the executive believes violates human dignity but immediate withdrawal could also harm workers?
10. Compare shareholder, stakeholder, consequentialist and Christian stewardship arguments for and against aggressive international tax planning.

11. Design a staged real-options entry plan for an African firm entering a politically uncertain but strategically attractive market. Specify what is committed now, what is deferred, what evidence unlocks expansion, and what obligations remain if the firm exits.

Applied Case: Nyota Diagnostics and the Choice Between Exporting, Partnership and Regional FDI

CASE NOTE | Nyota Diagnostics Ltd. is fictional. All company facts and country scores in this applied case are constructed for teaching. The case uses realistic international-business mechanisms but should not be read as current data about any named country.

Nyota Diagnostics Ltd. is a Rwanda-based manufacturer of compact diagnostic devices for district hospitals and private clinics. Its core advantage is a rugged device architecture that tolerates power interruptions, uses replaceable modules, and synchronizes results when connectivity becomes available. After six years of domestic growth, the firm generates US$18 million in annual revenue, has positive operating cash flow, and owns proprietary firmware and calibration routines. It currently exports small volumes through independent distributors to three neighboring countries but has no foreign subsidiary.

The board wants to build a regional business over the next five years. Management has narrowed the first major commitment to three markets: Kenya, Ghana and Zambia. The proposed product is classified as a regulated medical device in all three markets, although registration procedures, tender systems, service requirements and data rules differ. The board is considering four entry architectures: continue direct exporting; license manufacturing and service to a local medical-technology partner; form a 50:50 joint venture with a distributor; or establish a wholly owned sales-and-service subsidiary with an option to add assembly after two years.

Nyota's motives are mixed. The commercial team emphasizes market seeking. The engineering team wants field data and clinical relationships that can improve product design. The CFO believes a regional service platform could reduce maintenance cost once scale is reached. The CEO is attracted to the symbolism of a foreign subsidiary and wants the company to be described as a pan-African multinational. One director warns that symbolism is not a strategy.

Table 15.15. Nyota Diagnostics: fictional country and mode evidence

Factor	Kenya	Ghana	Zambia
Estimated reachable annual device demand after year 3	8,000 units	5,500 units	4,200 units

Factor	Kenya	Ghana	Zambia
Expected contribution per device before country fixed costs	US$620	US$700	US$760
Annual subsidiary fixed cost	US$2.7m	US$2.0m	US$1.4m
Time to full product registration under base case	12 months	16 months	10 months
Qualified service partners identified	3	2	1
Distributor concentration risk	Moderate	Low	High
Relative regional air connectivity for technical teams	High	Medium	Medium
Local assembly supplier readiness	High	Medium	Low to medium
Currency / convertibility scenario risk in board assessment	Medium	Medium	High
Public tender dependence	Medium	High	Medium
JV partner integrity screen	One strong candidate	Candidate has undisclosed political relationship requiring enhanced due diligence	No candidate yet

Source/Note: Fictional teaching data. Dollar amounts are illustrative and intentionally exclude taxes, financing, inventory and working-capital effects so that students focus first on multinational strategy architecture.

Case task 1: Diagnose the internationalization thesis

Identify Nyota's ownership advantages and determine whether they are genuinely transferable. Separate the motives that justify internationalization from the CEO's prestige motive. For each market, explain which location advantage is relevant to market access, learning, service or future assembly. Then apply OLI and the Uppsala perspective to determine what evidence would justify increasing commitment.

Case task 2: Compare country-mode combinations

Estimate the annual gross contribution at the stated year-three reachable demand before fixed country cost. Then compare the implied fixed-cost burden of a wholly owned subsidiary. Do not treat this calculation as a valuation. Use it as one input alongside registration time, service capability, partner quality, learning, control and reversibility. Identify at least two country-mode combinations that deserve deeper due diligence and one combination that should be rejected or delayed.

Case task 3: Design the governance architecture

Assume the board chooses a joint venture in one market and a wholly owned subsidiary in another. Create a decision-rights matrix covering pricing, product registration, customer data, service quality, public tenders, third-party agents, firmware access, hiring, capital expenditure and government relations. State which matters remain non-delegable group responsibilities and why.

Case task 4: Build the learning and renewal plan

Specify the 12-, 24- and 36-month evidence that would justify local assembly. Include commercial demand, service reliability, supplier capability, regulatory stability and local-value creation. Identify exit triggers and explain how workers, customers, distributors and data would be treated if Nyota withdraws.

Case task 5: Make and defend a recommendation

Use the MSRG Protocol to produce a board recommendation of no more than 1,200 words. It must identify assumptions, quantify the most decision-sensitive economics, explain why the chosen mode is preferable to at least two alternatives, address political and integrity risk, state local-value commitments, and include a review date and falsification conditions.

Ethical and Faith-Informed Dilemma: The Partner Who Can "Get Things Done"

During Nyota's Ghana due diligence, the preferred distributor discloses that its chairperson is a close relative of a senior official in the ministry that oversees a major public procurement program. The relationship is lawful and publicly known. The distributor insists that no bribes are paid and says the relationship is valuable because the chairperson "understands how decisions are really made." The partner also offers to fund local technician training and promises to open a service center employing 45 people if the joint venture proceeds.

A rival bidder has weaker distribution coverage but no known political connection. The commercial team argues that rejecting the preferred partner would be naive and could reduce access to a market where Nyota's devices could improve rural diagnostic capacity. The compliance officer argues that the relationship creates an unacceptable appearance and a high risk that public tenders will not be demonstrably fair. The CEO proposes a compromise: proceed but require all tender contacts to be handled by the local partner so Nyota itself remains "at arm's length."

Analyze the proposal under anti-corruption principles, conflict-of-interest governance, rights and justice, consequentialist reasoning, stakeholder analysis and Christian moral reasoning. Does delegating government contact reduce Nyota's responsibility or merely hide it? What enhanced due diligence, governance rights, transparency or tender restrictions could make the relationship defensible, if any? At what point should the firm walk away even if the expected social and financial benefits are substantial? Explain how Proverbs 11:1, Micah 6:8 and the stewardship principle in Luke 12:48 inform but do not mechanically settle the decision.

Data and Evidence Exercise: Distinguishing International Growth, Currency Translation and Structural Reconfiguration

Use Table 15.16 together with the chapter's evidence standards. The figures combine current company-reported or institutional evidence from sources dated 2025-2026. Your task is not merely to calculate growth. It is to determine what each number can and cannot support.

Table 15.16. Evidence set for analytical exercise

Evidence item	Reported value	Source / status
Shoprite Group sales from continuing operations, FY2026	Approx. R270.8bn; +7.2%	Shoprite Holdings Limited (2026a); voluntary update, unaudited at release
Shoprite Supermarkets Non-RSA sales growth	+11.0% reported currency; +7.1% constant currency	Shoprite Holdings Limited (2026a); seven-country continuing footprint
Shoprite Mozambique sales growth	-16.4% reported currency; -10.3% constant currency	Shoprite Holdings Limited (2026a)
Shoprite Zambia sales growth	+27.4% reported currency; +7.2% constant currency	Shoprite Holdings Limited (2026a)
Global FDI, 2025	Approx. US$1.6tn; +6%	UNCTAD (2026a); institutional estimate
Developing-economy FDI, 2025	Approx. US$901bn; +2%	UNCTAD (2026a)
Africa FDI, 2025	Approx. US$70bn	UNCTAD (2026b)
Strategic-sector share of global greenfield project value	44% in 2025 versus 16% in 2020	UNCTAD (2026a)
GVC trade share	46.3% of global trade in 2024 versus 48% peak in 2022	World Trade Organization (2025), GVC Development Report 2025

Source/Note: All values should be read with source-specific definitions and dates. Do not combine them into a single index or causal narrative without a defensible mechanism.

Exercise tasks

1. Calculate the approximate FY2026 sales of Shoprite's Supermarkets Non-RSA segment using the FY2025 base of R20.6 billion and the reported 11.0% growth. Compare the result with the approximate R2.3 billion sales addition reported by the company and explain rounding differences.

2. For Mozambique and Zambia, calculate the gap between reported-currency and constant-currency growth. Explain why the gap is evidence of currency translation effects but not a complete measure of transaction exposure or economic currency risk.

3. Calculate developing economies' approximate share of global FDI using the UNCTAD values. Then explain why this ratio says nothing by itself about the development quality of the investment.

4. Calculate the change in strategic sectors' share of global greenfield project value between 2020 and 2025 in percentage points and as a multiple. What does the result suggest about the concentration of current international investment?

5. The GVC trade share fell from 48% to 46.3%. Calculate the percentage-point change and proportional decline. Evaluate whether the result justifies the statement "global value chains are collapsing."

6. Write a 250-word evidence note distinguishing observation, inference and speculation across the full table. Identify which two additional data series you would seek before advising a manufacturing firm to redesign its international footprint.

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Annotated Further Reading

1. **Dunning (1988), eclectic paradigm.** The classic synthesis of ownership, location and internalization advantages. Read it to understand why OLI is a diagnostic architecture rather than a mechanical entry-mode formula.

2. **Johanson and Vahlne (2009), revised Uppsala model.** A crucial update that shifts the process model from simple psychic-distance reasoning toward networks and liability of outsidership. Especially useful for understanding experiential learning and relationship-based market access.

3. **Bartlett and Ghoshal (1989), Managing Across Borders.** The foundational treatment of the transnational challenge: simultaneous efficiency, responsiveness and learning. Its organizational logic remains valuable even though contemporary digital and geopolitical conditions require updating.

4. **Gereffi, Humphrey, and Sturgeon (2005), GVC governance.** A rigorous typology of market, modular, relational, captive and hierarchical governance. It helps managers ask how complexity, codifiability and supplier capability change interfirm coordination and power.

5. **Rugman and Verbeke (2004), regional strategy.** A corrective to simplistic assumptions that successful MNEs are uniformly global. The article shows why many large firms remain regionally concentrated and why distance continues to matter.

6. **Boso et al. (2019), Andrews and Luiz (2025), and Mathews (2006), African and latecomer internationalization. Read together, these sources place African firms inside mainstream international-business theory while showing how institutional constraints, perceptions, dynamic capabilities and linkage-leverage-learning can shape expansion from diverse starting positions. Mathews is not Africa-specific, but its latecomer logic is a useful comparative lens when applied critically rather than mechanically.**

7. **Kogut and Kulatilaka (1994), Moura, Lawton, and Tobin (2026), and Patsiaouras, Saren, and Green (2026), flexibility and geopolitics. Kogut and Kulatilaka provide the foundational real-options logic for multinational operating flexibility. The two current reviews organize evidence on geopolitical risk, political capabilities, real options and MNE response, helping readers avoid indiscriminate claims that every international activity is deglobalizing.**

8. **UN Trade and Development (2026), World Investment Report.** The most current authoritative global evidence used in this chapter on FDI concentration, strategic sectors and the uneven geography of investment. Read the methodological notes before using headline totals in policy or strategic claims.

9. **World Trade Organization (2025), Global Value Chain Development Report.** A comprehensive current assessment of how GVCs are being rewired rather than simply disappearing. Particularly useful for regionalization, digitalization, resilience and developing-economy participation.

10. **OECD (2023) and UN Human Rights Council (2011), responsible MNE conduct.** These institutional frameworks are important professional reference points for risk-based due diligence and the responsibility to respect human rights. They should be applied critically alongside local law, evidence and substantive moral reasoning rather than treated as self-validating ethical authority.

PUBLICATION QUALITY NOTE | Current corporate and institutional figures in this chapter are dated explicitly and should be rechecked in any later edition. Company-reported operating signals are distinguished from audited evidence and from independent causal evaluation. FDI definitions and international tax context have been updated to current 2025-2026 official standards. The chapter deliberately preserves the specialist boundaries of Chapters 16-21 while providing the multinational-strategy architecture those chapters will use.