



**INTERNATIONALIZATION PERSPECTIVE ON VALUE CREATION AND CO-CREATION OF  
MNCs**

**CASE STUDY OF HAIER GROUP**



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## TABLE OF CONTENTS

1	ABSTRACT .....	4
1.1	List of Figures.....	6
1.2	List of Acronyms.....	7
2	INTRODUCTION.....	8
2.1	PROBLEM STATEMENT.....	12
2.2	INTERPRETATION AND DELIMITATIONS.....	12
2.3	REPORT STRUCTURE.....	13
3	LITERATURE REVIEW.....	15
3.1	Development of Internationalization.....	15
3.1.1	Internationalization Perspectives .....	17
3.2	International Competitiveness.....	22
3.2.1	Macro Level – National Competitiveness.....	23
3.2.2	Meso Level – Industry Competitiveness.....	24
3.2.3	Micro Level – Value Chain Competitiveness .....	25
3.3	Value Creation and Co-creation.....	27
3.4	Global Value Chains (GVCs) .....	28
3.4.1	Value Chain .....	28
3.4.2	Global Value Chains (GVCs) .....	29
3.5	Value Conceptualizations.....	30
3.5.1	Value Creation Logics.....	32
3.5.2	Value and Exchange in Service-Dominant Logic .....	33
3.5.3	Value Creation and Business Models.....	35
3.5.4	Value Creation in Firms .....	36
3.5.5	Value Creation in Internationalization .....	37
3.6	Core Findings from the Revised Literature .....	38
3.7	Recognized Gaps within the Research Fields .....	40
4	THEORETICAL CONCEPTUALIZATION.....	41
4.1	International Business Theories Related with Foreign Direct Investment .....	42
4.1.1	Institutional Theory.....	42
4.1.2	Market Imperfection Theory.....	43
4.1.3	Investment Development Path Model.....	44
4.2	International Business Theories Related with Internationalization .....	45
4.2.1	Uppsala Internationalization Model .....	45
4.2.2	Transaction Cost Approach .....	46
4.2.3	Internalization Theory.....	47
4.2.4	Dunning's Eclectic Paradigm Model.....	47
4.2.5	Linkage, Leverage, Learning (LLL) Perspective .....	48
4.2.6	Network Theory.....	48
4.3	International Competitiveness Models.....	50
4.3.1	Porter Diamond Model .....	50
4.3.2	Porter's Five Forces Model.....	51
4.3.3	The Alternative School's Five Sources Model .....	53
4.3.4	Customer Perceived Value Model .....	53
4.3.5	The Competitive Triangle.....	54
5	Conceptual Framework .....	56

6	METHODOLOGY .....	57
6.1	Philosophy of Science.....	58
6.1.1	Paradigmatic Concepts of Philosophy of Science .....	59
6.1.2	Two major views of understanding .....	60
6.1.3	Two Dimensions, Four Paradigms in the Business Research .....	61
6.1.4	Pragmatist Approach of Paradigms.....	64
6.2	Research Methods and Techniques.....	65
6.2.1	Research Design.....	65
6.2.2	Research Methods.....	66
7	CASE ANALYSIS .....	68
7.1	The Global Home Appliances Industry .....	69
7.1.1	Haier.....	71
7.1.2	Whirlpool Corporation.....	73
7.1.3	Electrolux Group .....	74
7.1.4	Bosch-Siemens (BSH).....	74
7.2	International Competitiveness in the Home Appliances Market.....	75
7.2.1	Analysis of National Competitiveness.....	75
7.2.2	Analysis of Industrial Competitiveness.....	78
7.2.3	Analysis of Value Chain Competitiveness.....	81
7.3	Haier Group's Business Model .....	83
7.3.1	Business Model.....	83
7.3.2	Value Configuration .....	84
7.3.3	Interpretation of Distant Values .....	85
7.4	Haier Group's Acquisition Case of General Electric Appliances Division.....	86
7.4.1	Dimensions of Internationalization .....	86
7.4.2	IDP, OLI and LLL Perspectives of Haier's Acquisition.....	88
7.4.3	Impact of GEA Acquisition on Haier Group's Stakeholders .....	91
7.4.4	Conclusion of the Acquisition of GE Appliances.....	93
8	DISCUSSION .....	94
9	CONCLUSION .....	97
10	REFERENCES .....	101

# 1 ABSTRACT

Haier Group is a Chinese Home Appliances manufacturer, that was established in 1984 and since then it has been upholding its zero distance to consumer concept, while maintaining the spirit of entrepreneurship, innovation and strategy to accomplish its goals. Haier is ranked as Nr. 1 home appliance producer for the 9<sup>th</sup> following years. Under the guidance of Zhang Ruimin, it is characterized by the enterprise management and business philosophy. Learning from Peter Drucker, Zhang has applied the idea, that the purpose of a business is not making money, but rather attracting and meeting the desires of customers. The firm has a solid Value Proposition, it aims not only to add value for its customers, but to add value for every stakeholder in the ecosystem, based on its “RenDanHeYi 2.0 model”. Through its insistent efforts and the acquisition of other global producers of home appliances, such as GEA, allowed the firm to develop its competitive edge with incorporated capabilities in distant activities both in the domestic and foreign markets. On 6<sup>th</sup> June in 2016, Haier Group announced the acquisition of GE Appliances. The transaction resulted in an overall growth of its internationalization, and it allowed Haier to become an “International among others”. Consequently, the acquisition has generated distant values for distant stakeholder. Haier itself, successfully managed to increase its overall revenue and net profit, which resulted in higher shareholder income as well. In addition, end consumers will have the chance to be part of the “personalized user experience”, or the employees are able to obtain elevated level of financial income if they form active part of business activities.

**Design/Methodology/Approach:** The chosen research design is the Case Study and it is founded on a Deductive Mixed research method, and on secondary qualitative and quantitative data to align with objective and subjective philosophical-scientific perceptions.

**Findings:** It is found that the acquisition as a mean of internationalization has numerous effects over the value of the firm and of its stakeholders. Concerning the chosen acquisition, the transaction itself had a positive impact on most of the stakeholders. The overall value of the firm increased, which contributed with higher benefits for the shareholders, or due to resource consolidation, end-users are proposed to capture higher value in return. Regarding the context of Value Creation via M&A internationalization, Haier consolidated its resources in the USA, and established vital collaborations and strategic

alliances, for instance with GE's other divisions, that are projected to contribute with future synergic value on the long run.

**Key Words:** Internationalization, MNCs, International Competitiveness, M&A, Value Creation, Business Model, Haier Group, Home Appliances Market.

**Paper Type:** Master Thesis.

## **1.1 LIST OF FIGURES**

1. Figure.: *Internationalization Trends in top 100 MNCs between 1990 and 2015 (Per cent)* 9
2. Figure: *FDI inflows: global and by groups of economies, 2005-2017* 10
3. Figure: *Four Theoretical Perspectives to Firm's Internationalization: Drivers and Nature of the Decision Process* 17
4. Figure: *Porter's Diamond Model* 23
5. Figure: *Porter's Five Forces Analysis* 25
6. Figure: *Competitive Triangle Model by Hollensen* 27
7. Figure: *The Value Chain* 29
8. Figure: *The five phases of the Investment Development Path* 44
9. Figure: *Internationalization of the firm: an incremental approach* 46
10. Figure: *Four cases of internationalization of a firm* 49
11. Figure: *Customer Perceived Value* 54
12. Figure: *Competitive Triangle* 54
13. Figure: *Conceptual Framework* 56
14. Figure: *Methodological Perspectives* 58
15. Figure: *Scheme for Analysing Assumptions About the Nature of Social Science* 60
16. Figure: *FISI Classification of Paradigms* 61
17. Figure: *Internationalization Paradigms* 65
18. Figure: *Sustained Innovation in Home Appliances Industry* 69
19. Figure: *Global Consumption Value of Household Appliance between 2013 and 2020* 70
20. Figure: *Market share of companies in the global home appliances market in 2012* 71
21. Figure: *Global Market Share of Haier Home Appliances by Products (in terms of retail volume)* 72
22. Figure: *Whirlpool's Global Share Position* 73
23. Figure *Average Annual CPIs between 1950 and 2018 (in percentage)* 83
24. Figure: *Internationalization Stages of Haier Group* 87
25. Figure: *China's FDI Flows between 1990-2016* 88
26. Figure: *USA FDI Flows between 1990-2016* 89
27. Figure: *Haier Group Share Prices 2016-2018* 92

## **1.2 LIST OF ACRONYMS**

4P – Product-Price-Promotion-Place Marketing mix

7P – Product-Price-Promotion-Place-People-Places-Physical Evidence Marketing mix

DC – Developed Countries

EMNCs – Emerging Multinational Corporations

FDI – Foreign Direct Investment

GEA – General Electric Appliances

IDP – Investment Development Path

LDC – Least Developed Countries

LLL – Linkage Leverage Learning Perspective

M&A – Merger & Acquisition

MNC – Multinational Corporation

R&D – Research and Development

S-D Logic – Service-Dominant Logic

TNI – Transnationality Index

UK – United Kingdom

UNCTAD - United Nations Conference on Trade and Development

US – United States

USD – United States Dollar

## **2 INTRODUCTION**

The international business became a fundamental part of organizations' activities especially in developed economies after the First World War. The internationalization of economies and organizations has exaggerated continuously, as the outcome of increasing national economic activities, the international flow of capital, the need for different resources, or the progression of technology and infrastructure. Subsequently, Multinational Corporations (MNCs) went through a fast-tracked evolution and became global players via exporting and Foreign Direct Investment (FDI), such as licensing, setting up Alliances, Joint Ventures, Mergers & Acquisitions or Wholly Owned Subsidiaries (Marin & Marinova, 2012).

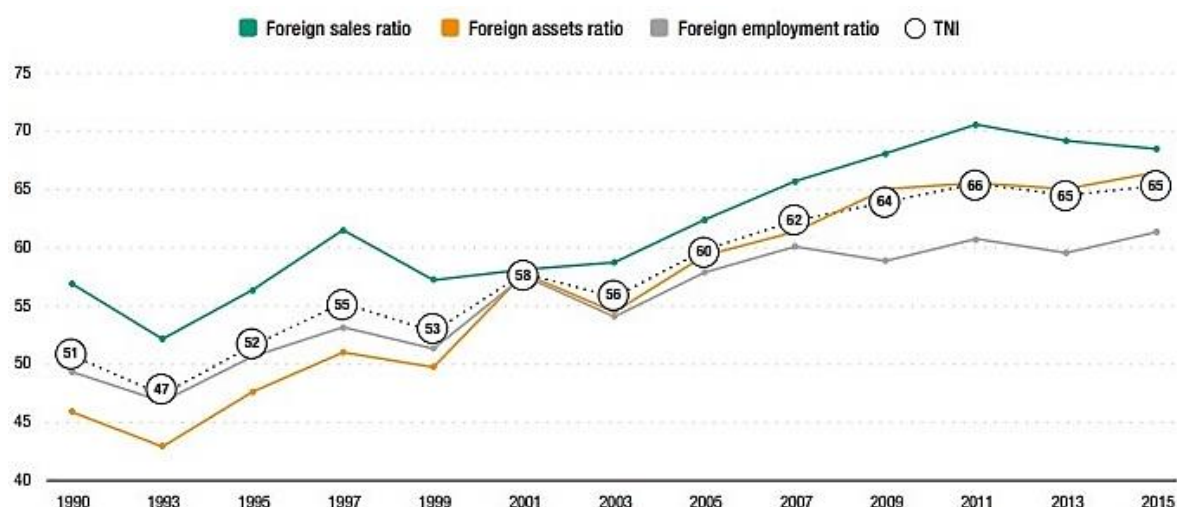
The internationalization of top MNCs has occurred in waves over the last three decades. From the 90s MNCs have increased their foreign operations, that has led to an accelerated integration of capital markets, which was reinforced by globalization. As the components of Globalization has influenced MNCs to carry out a quick restructure of their operations owing to institutional reforms both in their home and host countries, and elevated level of competition and novel opportunities.

However, this foreign investment was uneven and intermittent by crisis. By analysing the Transnationality Index (TNI) of the top 100 MNCs, we can determine two major waves of growth. The first one started in 1993 and lasted until 1997, while the second expansion occurred between 2003 and 2010. These growth stages were outlined by a considerable number of Merger & Acquisition (M&A) agreements and greenfield projects. Nevertheless, the objective of internationalization has changed over the time. Its strategic motivation has shifted from efficiency and resource-seeking to market and strategic asset-seeking activities. Since then, several industries have gone through consolidation and slowing economic growth and international trade (WIR, 2017)

Since the end of 20<sup>th</sup> century, FDI has become the major part of the trade and has overtaken the place of trade in delivering goods and services to foreign markets. Additionally, MNCs' internal international division of human resources has led not only to the integration of markets but to the integration of state manufacture systems as well. Sauvart (2011) has pointed out that, FDI includes both tangible and intangible properties, such as entree to markets, capital, technology, human resources, skills and capabilities that play a vital role in nations' growth endeavour (See Figure 1 below).



**1. Figure.: Internationalization Trends in top 100 MNCs between 1990 and 2015  
(Per cent)**



Source: UNCTAD, FDI/MNE Database

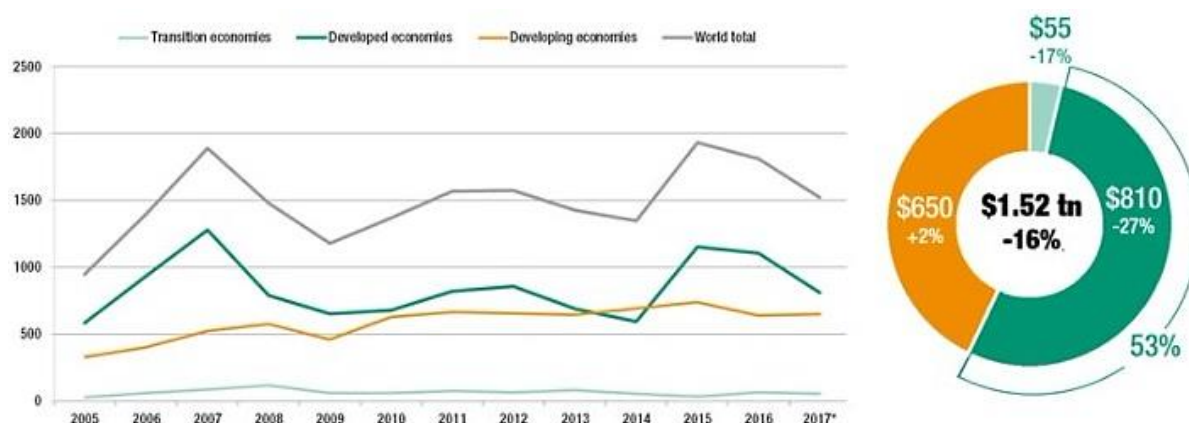
The number of MNCs from Developing and Transition Economies amid the top 100 MNCs has sustained to grow throughout the last couple of years. That indicates a powerful economic growth in their national and regional environment, that has been supported by liberalization of FDI governments, governance modifications, deregulation and the broad application of market-oriented policies. The significance of MNCs from these regions are indicated by their increasing ratio in the outward FDI and their growing weights in the global aggregate that is backed by the large national markets and workforces (WIR, 2017).

Generally, they realize this quick internationalization processes through different ways in order to achieve variety of goals. Once, they have been spreading out to other Developing Countries to acquire new markets and resources (Kedia et al., 2012; Malik & Agarwal, 2012). On the other hand, these EMNCs have been investing in Developed Countries for possessing some kind of knowledge, like access to brands, new technology, research and development, or managerial and operational expertise; or gain new market opportunities in mature businesses, for example to target a price-sensitive segment in a low-tech industry (Belussi et al., 2016).

The global flow of FDI fell by 16 percentages, to \$1,52 trillion in 2017 from a reviewed \$1,81 trillion in 2016, as the World experienced weak economic growth and major policy risks. Investment flows to Developed Countries fell by one fourth (27 %), and it was one of the major element of the global decrease. A solid decrease occurred in Europe and in North America as

well, owing to less megadeals in the United States and lowered inflows to the United Kingdom (UK). Meanwhile, the investment in Developing and Least Developed Countries (LDC) decreased even with a higher percentage, and these structurally weak economies continue to stay unstable and would require a global policy ambient, that promote investments in sustainable developments. Hereby, the United Nations Conference on Trade and Development (UNCTAD) plays a crucial role in guiding national and international investment policy authorities. The provided guidance has been applied in more than 130 countries when novel generation of investment policies were established. The World Investment Report was built on tracing records in order to make aware all parties, how they can operate in an economy with almost 3.000 investment treaties (see Figure 2 below),

**2. Figure: FDI inflows: global and by groups of economies, 2005-2017**



Source: UNCTAD (2018)

Based on the role that FDI plays in the global economy and can play in state growth, it is essential to understand How, Why and Where FDI flows from Developing and Transition Countries, through the application of well-known conceptual frameworks.

By elaborating on the management viewpoint, as Peter Drucker (1973) published in his book, the ultimate purpose of a business is “to create a customer. ...As, it is the customer who determines what a business is... The customer is the foundation of a business and keeps it in existence. He alone gives employment.” Therefore, a firm’s aim is to create and deliver value for its customers in an efficient way that enables it to generate financial return. Concerning MNCs, that are involved in distant phases of transactions performed in their domestic and foreign markets, as well as part of distant networks, like value chain or suppliers than the value creation process for customers is much broader and complex.

The primary purpose of this dissertation is to make a research, and within that purpose to revise relevant literature and to create a comprehensive interpretation of Value concept within international business activities. Moreover, to understand how a firm can transform itself from a near-bankrupt manufacturer of low quality products to a global Nr 1. home appliances manufacturer. And how a firm can become one of the most value innovative company when its roots can be traced back to the Chinese planned economy.

During my research I will map those determinants that enhance or hinder the flow of FDI, especially in the Developing Countries. Since only this region was able to maintain the level of incoming investment, even though the rest of the world experienced a fall in their economic growth. Even when the economic environment is characterized by higher geopolitical risks and uncertainties in policies, that can lead to protectionist market behaviour and restrictive actions in trade. Additional factor that will play a key role in the global investment pattern is the tax reform in the United States (US), which will significantly determine the flow of FDI.

Taken together all the factors, the rapid rise of MNCs from Developing and Transition Countries has become a central phenomenon in the International Business Literature. Primarily, International Business scholars have established models to comprehend the reasons why and how corporations carry out Foreign Direct Investments (Dunning, 1988; Johanson & Vahlne, 1977). Afterwards, MNCs have offered the necessary information to examine, validate, revise and broaden this field of subject (Wright et al, 2005). Therefore, I will examine what kind of role the verified determinants play in the decision-making of MNCs from these countries to invest abroad, as developing markets' characteristics differ from developed ones. Particularly, emerging markets have underdeveloped institutions (governmental and regulatory) and infrastructure, that might lead to different objectives, competitive strategies and risk sensitivity throughout the internationalization.

After the revision of Literature Review, and the Conceptualization of major Theories and Models, I will turn my focus on Haier Group. With the aim of revealing how Haier has continued to plan its journey of self-transformation to become a consistently more ambitious consumer-oriented firm, building on past achievements and the associated knowledge that it has gained along the way.

## **2.1 PROBLEM STATEMENT**

Within this thesis I will carry out a comprehensive International Business Study that will focus on one of the largest Chinese home appliances manufacturer company Haier Group. With the aim to establish an understanding about its subsequent change in their value proposition to set up and maintain its competitiveness in the global household appliances market. I turn my focus on investigating the firm's reasons and processes to internationalize and to create value to its customers, with the intention of answering the following research questions:

*What is the international competition landscape in the global household appliances market?*

*What are the main elements of Haier Group's Business Model and what is the value proposition of the firm?*

*What kind of value (financial return/ resource consolidation/ resource diversification) can the firm generate from internationalization through Foreign Direct Investment?*

*What is the effect of Foreign Direct Investment on the Value Creation and Co-Creation of firm's stakeholders?*

## **2.2 INTERPRETATION AND DELIMITATIONS**

This research study objects to interpret both theoretical and empirical publications that are relevant within the current International Business literature, which then provided the base for formulating the research questions. One central focus is on the theoretical interpretations of Value and Value Creation, as it has an emerging role in the International Business. Hereby, these conceptual interpretations complemented by further literature about the process of internationalization are selected to serve as a baseline for the collection and interpretation of secondary qualitative and quantitative data. Another focus is on the empirical viewpoints, and the research questions are raised in a way, that can form the structure of the case study.

Concerning industry classification, there are eleven sectors, whereby the below case study covers only one of them, namely the Consumer Staples. In addition, the Consumer Staples can be divided into three major industries, such as Food & Staples Retailing; Food, Beverage & Tobacco; and the Household & Personal Products that the below case study

covers. Therefore, as only a small part of industries will be evaluated, it provides a delimitation for the market research.

Regarding the state of the chosen industrial market, the research has been conducted on the latest and most relevant developments within the global Household Products market. The subsection about the selected market covers an overall perception of it and an elaboration on its international competitiveness on three level. Whereby, relevant characteristics are interpreted, such as global market players, suppliers, buyers or complementary industries. Other connecting topics are to be investigated, such as earlier and projected potential market size, state of the global competition and their competitive advantages, the sustained rate of innovation which is an indication of market sustainability, as well as the applied internationalization processes of global leaders. The context in which the global firms' internationalization is explored, is based on the relevance in the reviewed literature. Concludingly, internationalization of MNCs analysed through the transaction of Cross-border M&As.

Additionally, when interpreting the role of Value Creation in international business, the concept of Value must be understood in its contextual appearance. Whereby, Marinova (2017) has highlighted the fact, that everyone seems to know what is value, but if we interpret in distant context, we realize how many meaning it does have. We attribute a universal and a relative meaning to the Value. In general, Value as a concept is linked with the usefulness and worth of something, like a transaction or its output. On the other hand, worth or benefit always assumes a beneficiary, an actor, and such value is dependent on several elements, like nature of economy, resources, bargaining power, and interactions or interdependencies of other actors. Therefore, due to its numerous possible conceptualization, the Literature Review covers some of its interpretation and contexts in what Value and Value Creation is used, but only in relation with internationalization, as it is the most relevant context for the case study.

## **2.3 REPORT STRUCTURE**

The first chapter of the study is the delineation of the problem field and Problem Statement has been represented, concerning the discipline of value and value generation originated from internationalization of global Multinational Corporations, focusing on the household appliances market. The key matter that was determined in the Problem Statement is how Foreign Direct Investment influence the method of value creation in international

business. Whereas, it is to be looked into through a case study about a successful firm operating in “whitegoods” market, namely the Chinese corporation Haier Group.

The second chapter is a Literature Review, whereby two major field are represented that are essential to know to analyse the previously presented issues. These fields are the internationalization and value proposition/creation by firms. The aim of this section to gain a comprehensive understanding of the discipline through a collection and analysis of relevant publications. In addition, to study how the chosen literature approach the relation amid internationalization and value creation.

The third chapter is a Theoretical Conceptualization, which means a theoretical selection of relevant concepts, starting with International Business, Internationalization of Firms, Foreign Direct Investments and International Competitiveness on macro, meso and micro levels. As a conclusion a conceptual framework was developed at the end of this section, related to the research questions.

The following fourth chapter aims to present the chosen Philosophical-Scientific and Methodological perceptions in line with the research area. Whereas, the research problems are defined from four theoretical perspectives, namely Institutional-Economic Perspective, Strategic Competition Perspective, Learning Perspective and last but not least, Inter-Organizational Perspective.

The fifth chapter cover the comprehensive case study about Haier Group, that was founded in 1984 in one of the Emerging Markets. The Chinese firm is one of the most innovative and successful Emerging Transnational Corporation, and it has become a well-known global brand. In this section, there is an elaboration on Haier’s international competitiveness both in its market and industry, its internationalization strategy, its business model and its value proposition that are in line with the Literature Review.

The sixth chapter presents the analysis of Haier group based on the discussed literature and theories. There will be an elaboration how the firm conducted its internationalization and how it has been continuously reinventing its business model and value proposition, in order to become global Nr. 1 home appliances manufacturer.

Last but not least, the seventh chapter recaps the main finding of the research work, and the thought answers for the proposed research questions.

### **3 LITERATURE REVIEW**

The Literature Review chapter is divided into several major subsections. The first subsection outlines the Development of Internationalization. The following subsection is about International Competitiveness. Whereas, the key perspectives, frameworks and theories are defined connecting to the investigated field. The last subsection is about the Value Chain, due to its significance in the International Business and in the examined case study as well. The aim of this chapter to provide an understanding about the development of concepts in the subject both Value Chain and Global Value Chains.

#### **3.1 DEVELOPMENT OF INTERNATIONALIZATION**

As Svend Hollensen (2011) argued the early literature on firms' internationalization processes was based on general marketing theories. Whereby, Penrose (1959) focused on firms' key competences blended with opportunities that could be acquired from foreign environment. In addition, both Kindleberger (1969) and Hymer (1976) highlighted the importance of having some "compensating advantage", in order to reduce the "cost of foreignness". As firms face with social and economic costs when they start to locate their activities in foreign markets. The Liability of Foreignness can manifest in distant ways, such as the inequality of flow of information, discernment by host country's government or regulations on firm internationalization.

According to Hollensen (2011), after the traditional marketing approach the attention of scholars shifted towards Exporting and Foreign Direct Investment as a mean of internationalization. In 1966, Raymond Vernon was presented his Product Life Cycle Theory that explains the pattern of firms' internationalization. As the scholar argued, primarily firms start foreign trade through exporting, then they start Foreign Direct Investment with the aim of locating new markets, finally they invest outside their borders to seek efficiency.

Later on, the Scandinavian School (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) identified a sequential internationalization process, and determined the underlying logic of this pattern. The scholars have argued, this evolutionary development relies on the acquisition of knowledge about the foreign market, and the use of resources in the host-country. They further argue that; this process is an incremental and experiential

learning that explain the continuous increase in the level of commitment towards foreign markets.

In the meanwhile, most of the scholars excluded the intermediate forms of internationalization, such as Licensing to overcome market imperfections. On the contrary, Buckley and Casson (1976) included Licensing as a tool of approaching customers abroad, although in their view Transnational Corporations rather internalize their transactions through direct equity investment than licence their capabilities. They explained firms' strategic initiative of licensing as a chosen market entry based on the market (external) and firm (internal) opportunities.

One of the main concern in the economics is the market failure, which means the inefficient use of goods and services and allocation of production. Both Transaction Cost Theory (Williamson, 1975) and Internalization Theory stress the importance of lowering the aforementioned issue. The major question is which transaction should be applied to minimise the transaction costs and realize the most efficient operation. MNCs can internalise their activities either within their own boundaries (subsidiary) or through some kind of partnership with an external party. Besides, as Rugman (1986) stated Internationalization Theory is the Transaction Cost Theory for Transnational Corporations.

During the 80's John Dunning (1981; 1988) developed a theoretical model that has a vital role in the analysis of MNCs. Dunning argued that firms' internationalization path depends on the state of the economy and its Net Outward Investments (NOI) The International Development Path (IDP) theory suggest that firms go through five stages during their internationalization and firms experiencing structural alterations in the composition of their investments. Dunning' one of the prominent work was the Eclectic Paradigm, whereby the eclectic refers to the fact that is essential to blend several economic theories when we want to understand transnational activities of firms. According to Dunning, firms are concerned about three conditions when they engage in international production, namely Ownership Advantages, Locational Advantages and Internalization Advantages.

Over the last 20 years, many scholars have turned their attention towards the role of networks in the internationalization. Johanson and Mattson (1988) developed the International Network Theory that rationalizes the relationships of a firm on a domestic level network, that plays a bridging mechanism between the firm and other networks.



Meanwhile, the OLI framework provides an explanation for MNCs from Developed Countries, until the Linkage Leverage Learning (LLL) Perspective provides better understanding for MNCs from Developing Countries and Transition Countries. John Matthews (2006) argues that, OLI theory cannot explain entirely the rapid internationalization of Emerging Transnational Corporations. Therefore, Matthews developed the LLL model build on the Resource-Based View and explains how these corporation can internationalize their activities rapidly, even when they do not possess the necessary resources or the international experience.

### 3.1.1 Internationalization Perspectives

Strandskov (1995) argued that firms must adapt, change and develop their fundamental functions, systems and structures to realize continuous internationalization activities, that is the result of interactions amid multinational and transnational ambient. Throughout the years, many different theoretical perspectives have been developed. Therefore, it is essential to analyse the alterations between these theories, concerning such questions, as what kind of issues they address, what kind of question they would like to answer, what kind of perspectives they have on understanding the business.

Strandskov (1995) differentiated four theoretical perspectives on firms' internationalization path, as each viewpoint provide distant strengths and limitations. These perspectives are the following ones: The Institutional-Economic Perspective, The Strategic Competition Perspective, The Learning Perspective and last but not least, The Inter-Organizational Perspective (See Figure 3 below).

**3. Figure: Four Theoretical Perspectives to Firm's Internationalization: Drivers and Nature of the Decision Process**

		Drivers	
		Internal	External
Nature of decision	Planned	An institutional-economic Perspective	A strategic competition Perspective
	Emerging	A learning perspective	An inter-organizational Perspective

Source: Strandskov (1995)

With the aim of positioning the four theoretical perspectives, Strandskov have determined two dimensions: Drivers and Nature of the Decision. Whereby, Drivers indicate to attention-evoking factors, which contribute to firm's decision-making process in their future strategy (Wiedersheim-Paul et al., 1978). These factors can be either internal or external factor. Internal drivers refer to such internationalization process, where firms use their own resources, capabilities or skills (unique competence, abundant capacity in the resources of management, production, sales or finance), while external drivers refer to such progression that are based on outside conditions and external to firms' control (unplanned orders from foreign customers, novel market opportunities, export enhancement by governments, increasing competition).

The other dimension of the Meta-Theoretical Analytical Framework is the Nature of Decision, that point out to the fact whether the firm carried out researches and analysis to determine its internationalization strategies. Or whether the firm make its decisions based on its experiences and learning throughout its operation.

The following subdivisions will go into details on the Meta-Theoretical findings concerning the theoretical literature connecting to each internationalization perceptions (Rask et al., 2008). These perceptions are built on the background of the studies, their hypothesis bases, the field of the study and as well as the implication of the distinct perspectives.

#### *Strategic Competition Perspective*

This approach is the first most cited perspective (Rask et al., 2008). Based on Morten Rask's framework, the internationalization process of the firm is motivated by external drivers, for instance opportunities and threats. Furthermore, the firm makes its decisions on the basis its planned activities.

The Strategic Competition Perspective originates from the industrial economics school, expanded with the strategic management literature. Whereby the empirical focus is on the firms' competitive positioning and the development of competitive advantages.

The primary aim of the firm is to survive and maximize their financial earning in this extremely volatile business environment. The firm assumes that they can find an optimal way of operation based on their company specific advantages and comparative country advantages. In addition, the firm's objective is determined by the context of the industry, such

as the structure of the industry and the progression of the competition, since the industries are characterized by numerous market entry barriers and low level of product differentiation.

This perspective has the relationship between the industry and the firm as its main unit of analysis. That enables firms to focus on their unique capabilities and skills, which allows them to differentiate themselves from competitors and establish competitiveness.

The Strategic Competition Perception explains the internationalization process as a result of firms' competitive position in the industry

#### *Institutional-Economic Perspective*

According to Rask's meta-theoretical framework, this viewpoint found on internal drivers and the nature of decision derives from well planned activities. Based on the assumption firms possess unique resources, but it is not enough sufficient to settle on internalizing business activities. Therefore, decision-making regarding novel activities requires a complex analysis of possible transaction costs and the creation of a plan from managerial side.

The relating theories and models to this perspective are originated from and expanded on the traditional microeconomic theory (Coase, 1937; Hymer 1976; Williamson, 1975). Opportunistic behaviour is assumed as managers act in favour of their self-interest, that is coupled with high-level of uncertainty and bounded rationality. The combination of these features explains the transaction costs correlated decisions on internalization and externalization. Whereby internalization is preferable when decision-makers' rationality is limited and opportunistic behaviour is considerable.

In addition, Institutional-Economic Perspective stress the fact that, firms have only one clear objective, that is the maximization of economic efficiency. The managerial implication is simple, firms must internalize if the transaction costs are higher than control costs related to establishing and maintaining an internal structure. By creating "internal markets", economies of scale can be achieved due to growing control and effect on international activities. Further, an important aim of the increased internationalization process can be the accomplishment of vertical integration through geographical growth. This process can be either downstream in the value chain, expanding via distribution or sales channels, or upstream in the value chain, progressing through manufacturing or production activities (Rask et al., 2008).

### *Learning Perspective*

The gradual acquisition of knowledge of the foreign market was argued, as the basic logic of sequential internationalization process by Johanson and Vahlne (1977). As a result of incremental and experiential learning, firms' commitment to foreign market will grow as they gain more knowledge and use more foreign-based resources.

The Learning Perspective determined by internal drivers concerning the firm's strengths and weaknesses, and the nature of decision is emerging, due to managers make their decision reflecting to earlier experiences. The theoretical background of this perspective shares some similarities with the Institutional-Economic Perspectives, namely the bounded rationality and assumptions originated from classical economic decision theory (Rask et al., 2008). Penrose's Experimental Learning Theory (1959) influenced importantly this perception. Therefore, the main focus of this perspective to explain the reason behind the choice of foreign markets and entry modes as a result of continuous learning experience.

The basic assumption here is that firms make decisions regarding their internationalization path based on their experiences and learnings. As the firms broaden their knowledge and involvements in foreign activities, they initiate operations in more risky markets through more hazardous market penetrations.

Its domain of analysis is the firm as a whole, therefore there are seven significant research fields that determine the theories and models in this subject. These approaches are the following:

- Johanson Vahlne (1977) argues that, managers's decision about the internationalization path is determined by complex elements, and a continuous analysis is preferable before moving towards with the operations.
- Johanson and Mattson (1987; 1988) elaborated on the transaction view, while they were developing the network approach. They stress the fact, these approaches need to be applied differently, but at the same time these two approaches complement each other in the perception of strategy and applicability.
- Andersen and Buvik (2002) have compared the systematic and non-systematic market/customer selection process with a relationship process concerning firms'

internationalization. Whereby, they stressed the importance of business relationship networking.

- Andersen (1993) have made a theoretical evaluation and created a stage theory as he compared the Uppsala and Innovation-based internationalization models. In his work, he challenged these models' principles in order to advance the models of internationalization, and proposed some measures to realize it.
- Buckley and Casson (1998) examined the foreign market entry decision, elaborating on twelve distant market penetration strategy, such as Exporting, Licensing, Joint Venturing or Wholly Owned Foreign Investment. During their research they extended the perspectives on internationalization from the economics of industrial organization approach, and created the Stages Models of Entry. They suggested a further expansion of the study field with manufacturing and services.
- The Uppsala Internationalization model was research field and starting point for many scholars (Andersen, 1993; Hollensen, 2007; Johanson & Vahlne, 1990). As the model supposes sequential learning and knowledge expansion that will lead to small incremental steps in the market commitment.
- Peter Buckley (2002) stress the importance of challenging international business researchers, by looking back at past achievements in internationalizations, in order to enhance future progress.

#### *Inter-Organizational Perspective*

The Inter-Organizational Perspective has its roots from Johanson and Mattson's work (1988). However, this viewpoint is the least investigated one amid the others. The external drivers, such as external opportunities and threats, influence firms in the decision-making process. Whereby, the nature of decision is an emerging process due to their base on the political decision process, that is governed by connecting positions of power and dependence (Rask et al, 2008).

The theoretical background of this perspective is the Organizational Theory and its empirical focus is understanding firms' internationalization as a development through interorganizational relationships.

The basic assumptions about firms' internationalization behaviour is that network relationships founded on technological, economic, legal and most importantly personal bonds. Within this perception, that is assumed there are numerous simultaneous goals in order to maximize firms' position of power and influence compared with competitors and other parties, additionally to minimize its level of dependence.

In the Inter-Organizational Perspective, the unit of analysis is the individual transactions and relationships between firms. These relationships include social relations, economic relations, technical relations or legal relations, concludingly firms' organizational boundaries start to fade as their networks develop. Additionally, the implications explain that firms internationalize its operations by continuously investing in market asset and contracting with both collaborators and competitors as well. Meanwhile, the managerial implications is that, they have to use their established domestic relationships in order to acquire relationships in foreign countries.

In conclusion, there is an understanding that these theories relating to the aforementioned perspectives cannot be applied interchangeably. This does not mean that researchers must use only one perspective while analysing a research field. Moreover, it can be beneficial as these perceptions can complement each other with their strengths and limitations.

### **3.2 INTERNATIONAL COMPETITIVENESS**

In the 1980s and 1990s, scholars started to pay more attention to International Competitiveness, as numerous Japanese MNCs emerged from auto and consumer electronics industries due to governmental support. Additionally, the basic assumption about MNCs was that their foreign operations enhanced technology transfer and host country macroeconomic infrastructure. As a result, governments started to subsidize "national champions" in a discriminative way which was underpinned efficiency-based arguments (Rugman & Chang, 2008).

According to Hollensen (2007), International Competitiveness means that, how a firm can generate and develop distant competitive advantages on an international market level. With the aim of competing with the international competitors, firms must create a competitive basis that includes resources, competences and connections to other parties in

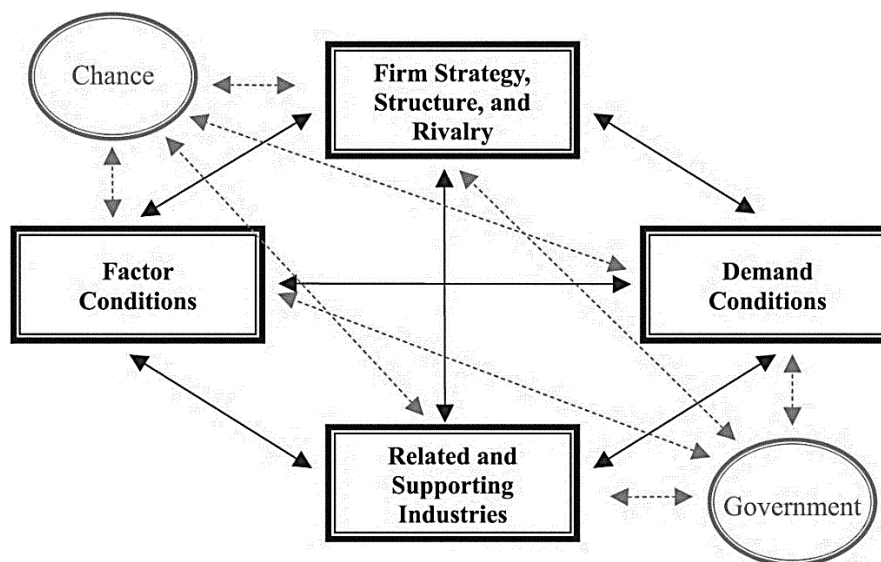
the international environment. Additionally, firms must be able to adapt to the requirements and needs of customers, competitors and public organizations.

To understand the development of firms' international competitiveness, Hollensen (2007) broaden his approach with major theories and models to three levels, namely macro, meso and micro level. Whereby, national competitiveness is analysed on macro level, industry competitiveness is examined on meso level, and last but not least value chain competitiveness is studied on micro level. The below subsections' aim is to present the literature development relating to international competitiveness based on the above-mentioned categorization.

### 3.2.1 Macro Level – National Competitiveness

Micheal Porter (1990) stressed the importance of the effective mix of national factors and firm's strategy to realize competitive advantage. The national factors might provide adequate environment for firms, but firms must seek and take opportunities to compete with international players. Porter's diamond model enables firms to determine the industries to compete with, and the right strategy.

**4. Figure: Porter's Diamond Model**



Source: Porter (1990)

The characteristics of the home country play an essential role in understanding the firm's international competitiveness. As firms best generate advantages if there are elevated level of pressure and challenge within the domestic market, the model contains the following

elements: Factor Condition; Demand Conditions; Related Suppliers and Industries; Firm's Strategy, Structure and Rivalry.

Hereby, Smith (2010) emphasize that Diamond Model has greater relevance within management literature compared to economic literature, a distinction should be made between competitiveness at firm level and at country level. As international competitiveness matter at a firm level. Furthermore, he has noticed that both traditional and novel theories of international trade verify firm's engagement in international activities to possess those benefits that derive from it.

Porter (1990) also raised the significance of industrial clusters, that are determined as a concentration of numerous firms from a particular industry within a certain location/region of a country. Number of advantages are recognized of industrial clusters, such as proximity to customers, suppliers or even to rivals, or better access to information, technology and other networking benefits.

Altogether, as Hollensen (2007) describes, there are six factors that determine the location of global industries, namely factors of production, domestic demand, location of supporting industries, internal structure of domestic industry, governments and chance.

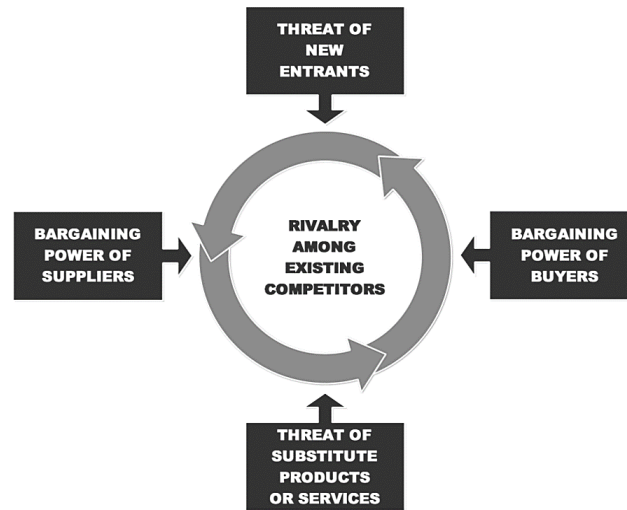
### **3.2.2 Meso Level – Industry Competitiveness**

After understanding the firm's national competitiveness, we must analyse its competition in its industrial environment. A model was developed by Porter (1980), that enables scholars to investigate industry competition that is mainly based on its economic structure and the behaviour of recent competitors (see Figure 5 below). Porter suggested that industry competitiveness is determined by five forces, namely Market Competitors, New Entrants, Suppliers, Buyers, Substitutes and Strategic Groups. The objective of industry analysis is to position the firm in its industry where it has advantages against the other parties, or it can affect them in its own interest. By knowing its position, the firm can define its strengths and weaknesses and a strategy that allows them to propose and provide value to its customers which will differentiate them and generate great profit.

The industry structure analysis is essential in order to outline a strategy that will provide competitive advantage for the firm. In addition, the analysis helps to point out the strengths and weaknesses of each forces and their influence on the industry. These five forces will be discussed in the Theoretical Conceptualization Section.



### 5. Figure: Porter's Five Forces Analysis



Source: Porter (1980)

#### *The Collaborative Five-Sources Model*

The previous model is developed based on the hypothesis that firm can generate competitive advantage when the level of the competition is elevated and the connection with its rivals is intensified. Meanwhile, in the 90's an alternative perception (Kanter, 1994; Burton, 1995) arose and pointed out to the importance of cooperation amid industry parties that can have a positive influence on their business performance.

However, none of the aforementioned model is entirely correct as firms must combine these perceptions and make their strategic decisions about the extent of its collaboration and competition based on its industry environment. The combination should enable the firm to reinforce and improve its position. For instance, horizontal collaboration with suppliers or making alliances with firms that create complementary or substitute products.

#### **3.2.3 Micro Level – Value Chain Competitiveness**

Previously, the international competitiveness of one firm was determined from a strategic angle. However, based on the framework that was determined by Hollensen (2010), we need to examine competitiveness at the micro level as well. Whereby, one firm's competitive advantage compared to market competitors are mainly defined by customers' feedback. Firm's value proposition must be found on the identification of customers' needs in a way he or she attaches higher value compared to competitors' offers.

Firms are operating distant ways from each other, and identify distant opportunities and competitive advantages that can lead to customers satisfaction. According to Richard D'Aveni (2007), there are two simple factors that are essential to understand in order to differentiate firms' performance from competitors', namely the perceived value and perceived sacrifice/cost.

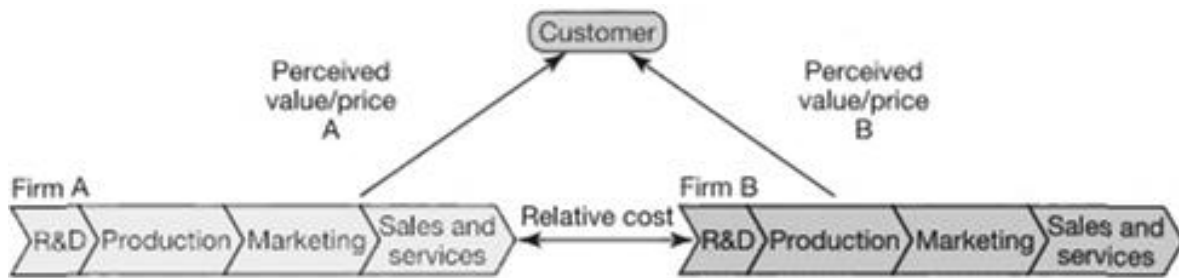
Following Hollensen (2010) approach, firms can map themselves amid their competitors either through applying the competitive triangle model (Figure 6) or either through competitive benchmarking. The first one includes the firm, its competitors and its customers who define the perceived value offered by the market participants. Perceived value is subjective, and it is the connection amid benefits realized by customer and direct and indirect costs that arise from using the products/services. Elevated level of this connection means greater perceived value and a fierce competition in the market. Staying competitive in this kind of environment requires the precise identification of customer needs/desires and the delivery of the right blend of value-providing activities.

Regarding the Relative Cost, all the activities in the Value Chain are carried out at a certain cost. Through the correct mix of these activities a cost advantage can be realized, when the firm's aggregated costs are lower than its competitors. However, the determination of relative cost requires the understanding of rivals' value chain and those factors that influence these costs.

As the below figure shows, Hollensen (2010) enhanced the importance of Downstream activities in the Value Chain, due to the possible differentiation opportunities through the application of 4-P Marketing mix. Whereby, the Marketing Mix includes the Product, the Place, the Promotion and the Price and all of these factors are able to enhance the perceived value.

Moreover, numerous scholars (Booms & Bitner, 1981; Magrath, 1986; Rafiq & Ahmed, 1995) have stressed the importance of additional three elements when we extend the model. The 7-P model is expanded with People, Physical aspects and Process factors. Hereby, personnel have a vital role in affecting customer perception, as customers determine and connect the characteristic of service personnel with the firm itself.

### 6. Figure: Competitive Triangle Model by Hollensen



Source: Hollensen (2010; p. 105)

On the other hand, the competitive benchmarking refers to a technique, where customers compare firm's performance to first-class competitors. Distant measures can be used for benchmarking, such as type of the applied technology (old/cutting-edge), delivery options, ease of ordering, provided after-sales services, provided additional services like customer training. The aforementioned criteria are mainly measures the customers value perception connecting to downstream functions in the value chain. Meanwhile, in the industrial sector a firm must measure its suppliers feedback and offers in the upstream functions. The acknowledgement of these models is required to expand the idea, how a firm can gain competitive advantage. 3.3.7 to be continued

Elaborating on the previous section, there is a need to present the discipline of value chain in order to understand and examine firm's competitiveness. However, first must be explored the concepts of Value and Value Creation within firms to better understand the Micro level analysis of competition.

### 3.3 VALUE CREATION AND CO-CREATION

The concepts of Value and Value Creation within firms have been in the focus of researchers for many decades. Therefore, there are numerous interpretations of them in the International Business field. One of the latest discussion about value was approached by scholars from Northern-Europe. Marinova et al. (2017) have argued that, everyone knows what is "value" but if we examine it in distant processes and distant circumstances, then we might realize how many meanings it does have for the different stakeholders.

For instance, from consumer view, value is associated with the usefulness and merit of an activity or its output, that can appear either in tangible or intangible form (Holbrook, 1994). Meanwhile, some scholars attribute the definition of value to monetary value (Yadav &

Monroe, 1993). Concludingly, the value can be categorized by its connection to the processes and circumstances, besides by its connection to the distant actors as well. The general view is that, value has both a universalist and a relativist meaning, as in the common-sense value is benefit or worth. Whereby benefit always presumes a viewpoint, a direction, a stakeholder that are dependent on the numerous factors, such as the environment, resources or interactions with other stakeholders. In sum the value is stakeholder and context-dependent (Marinova et al., 2017).

To broaden our understanding about this subject, after the chapter of Global Value Chains, I will return to this concept. Whereby, I will explore the studies about value conceptualizations and latest perceptions on the function of service related to the production in creating and co-creating value to end consumers within International Business and Marketing journalism.

### **3.4 GLOBAL VALUE CHAINS (GVCS)**

#### **3.4.1 Value Chain**

Understanding how one firm can generate value and how it can improve it to add more value to its customers, while creating competitive advantage has been discussed by numerous scholars. The Value Chain as a concept first was used by Michael Porter in his book “Competitive Advantage: Creating and Sustaining Superior Performance” in 1985. Porter determined the value chain as a group of activities that a firm complete to generate value for its customers.

The Value Chain present the total value and includes the value activities and margin. The framework displays and categorizes the activities within and around the organization, and enables to determine those opportunities that each of these activities can contribute to firm’s competitive performance. In addition, these activities possess distant physical and technological features, as Porter has described them

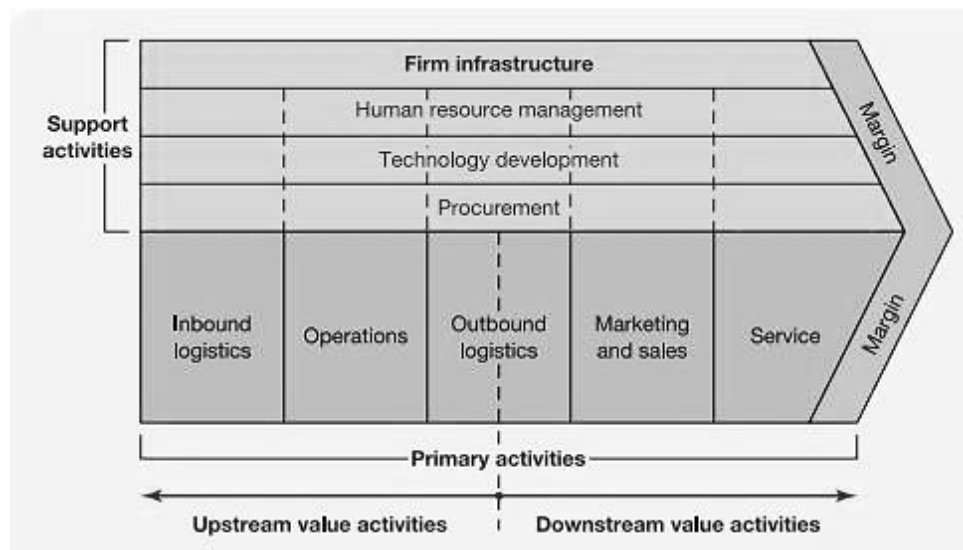
Sheehan and Foss (2009) has argued that these activities play a crucial role amid critical firm resources and realized position in the global competition. Firm must use these resources in its activities in a way that create higher value or lower cost than its market competitors. Therefore, competitive advantage can be realized either through providing more efficient value (lower cost) or either offer these activities in a distinguished manner that lead to elevated customer value. Moreover, firm might identify those activities that cannot be

carried out the before mentioned manners. In that case, it might decide in favour of outside production of them (outsourcing).

Porter grouped these activities into two broad categories, namely Primary activities and Support activities (Figure 7). Whereas, Primary activities relating to the physical production, marketing and sales of the product/service, after-sales services and in- and outbound logistics. On the other hand, Support activities support the Primary activities as its determinations suggest, and consist of the procurement, improvement of technology, human resource management and the development of a firm's infrastructure. Moreover, the concept of Margin indicates that the firm only can realize profit if it can manage all the connection between these activities. In sum, if the organization is able to provide the product or service to its customer at a lower cost than its rivals, he or she is willing to pay.

The Porter's Value Chain analysis has become a well-known technique for determining firm's strategical activities in order to define their ability to affect cost and value creation methods. Although, the value creation aspect is pertinent in every industry, until the achievable competitive advantage that a certain activity can generate is dependent on the industry (Porter, 1985).

**7. Figure: The Value Chain**



Source: Porter (1985)

### 3.4.2 Global Value Chains (GVCs)

By expanding the Value Chains into global viewpoint, we can examine the Global Value Chain framework. The Global Value Chains incorporate all the links and relationships that

occur amid raw-material producers and final consumers at home or abroad. Therefore, GVCs involve all activities that were presented in the Value Chain, such as production, distribution, marketing or sales. These activities can be carried out by the same firm or numerous firms and suppliers (OECD, 2013).

The concept of Global Value Chains means more than just a simple production and sales, as it also includes investments, movement of knowledge, skills or know-how. As a result, international production, trade and investments have become organized across distant countries. By locating the various stages of production process across distant countries, firms are able to achieve efficiency and low cost and higher customer perceived value. In addition, globalization influence firms to restructure their activities internationally via outsourcing or offshoring. Global Value Chains consist of different foreign markets and industries; hence they effect the performance of numerous countries and acknowledge as a significant factor in the process of globalization (OECD, 2013).

### **3.5 VALUE CONCEPTUALIZATIONS**

#### *Exchange Value*

In its roots, the “value” is connected to a process in which it is created or co-created and the exchange of tangible and intangible goods and services leads to advantage and return (Marinova et al., 2017). This was first discussed by Adam Smith in his book, *An Inquiry into the Nature and Causes of Wealth of Nations* (1776). He argued that, the national wealth fare is dependent on the exchange of tangible goods (export) and the production. Whereby, based on the “exchange value”, “the value-in-use” or “Real Value” can be determined, that represent the wealth and complete benefit of a stakeholder. Over the decades, “exchange value” has attained a traditional meaning in economics, that is the worth and dominance of a product or service can be exchanged for either other products and services or either money.

Over the time there was a switch in the logic of marketing from goods-dominant perspective to service-dominant perspective. Vargo and Lusch (2004) has argued that service should be examined rather than products to understand the logic behind an exchange. Therefore, they have developed the concept of Service-Dominant logic, that declares the below of exchange value:

“S-D logic recognizes the importance of financial feedback from the market (exchange value) as a learning mechanism and is compatible with the idea that such feedback is tied to accounting systems that capture value-in-exchange.” (Vargo et al., 2010:141).

The basic concept was that, the Value-in-exchange is merely “the amount of money or goods actually paid for a product or service” (American Marketing Association, 2014). Which suggests that the consumer is only the recipient of the offered value of the firm through a product or a service (Grönroos, 2008). However, this viewpoint has been changed by several scholars, for instance Morris Holbrook (1994) has claimed that value is created in the consumer’s ownership over the utilization process as Value-in-use.

#### *Value-in-use*

In the eighteenth century Adam Smith (1776) already discussed that labour, as a service is a key part of the exchange process and well-being. Therefore, the measurement of exchange can be carried out through the determination of Value-in-use as a configuration of advantages that draw from labour. This concept was complemented by Say (1821), who attributes value with the characteristic of utility, that is determined as an “immaterial quality”.

Furthermore, Marinova et al. (2017) have argued that goods and services possess utility, that is voluntarily traded for other goods, services or money. Nonetheless, the exchange requires the worth and benefits of the trade which is the value, to meet the needs of customer, who is willing to enter the transaction for its utility. This is the institutionalized production-consumption perceptive of value, which indicates two kinds of the role in this exchange. One actor takes the producer-role, while the other actor takes the utility consumer-role.

In addition, Stephen Vargo and his co-authors (2009:132) has made an observation based on several significant economists’ works. Such as Adam Smith (1776), who stated that “real value” rooted in labour, or Jean-Baptiste Say (1821) who claimed the creation of utility is more vital than the matter, or Frederic Bastiat (1860) who argued that intangible resources are more important in value creation.

*“When service is understood as the basis of all exchange, goods take on a role of vehicles or transmitters for service. The value of a good is not created in a factory and distributed to the market; rather, it is derived and determined through its contribution to the customer’s self-service process- its value-in-use.”*

Concludingly, Vargo et al (2009) have argued that, it is vital to take a customer-oriented approach to create value, that derives from the use. However, they recognize the importance of financial feedback (exchange value), which contributes to the learning mechanism. A connection is acknowledged amid Value-in-use and Value-in-exchange.

#### *Value-in-context*

Vargo, Maglio and Akaka (2008) discussed that the concept of Value-in-use does not indicate completely the logic behind Service-Dominant approach. Therefore, they suggested the Value-in-context terminology, that supposes “not only is value always co-created, it is also contingent on the integration of other resources and is contextually specific.”

### **3.5.1 Value Creation Logics**

A biggest part of the theories in International Business and Marketing are based on research of Manufacturing firms, which influenced the work of Stabell and Fjeldstad (1998) and Jensen and Petersen (2013) to have a better understanding of service firms' internationalization processes. At the first time, Michael Porter (1985) has introduced his concept on value chain and firms' value creation processes. Whereby, the mentioned scholars argue that, the value chain model shows the value creation logics of manufacturing firms rather than service firms. The characteristics of motives and means behind internationalization are needed in order to seek answers for the research questions.

The concept of Value Creation Logics is applied in both discipline, in the International Marketing and in the Strategy as well, with distant but complementary interpretations (Stabell & Fjeldstad, 1998). The scholars within Marketing sees value creation logics as a dyadic method in which value is generated jointly by the firm and its customer (Grönross, 2011; Priem, 2007; Jensen & Petersen, 2013). Subsequently, the co-creation is a key element, although it might be broadened with the concept of value capture, as a “value sharing” method (Möller, 2006).

Meanwhile, within Strategic Management literature scholars reckon value creation logics as a strategic process within the firm, and it rarely focus on demand or consumer perspectives. In addition, the extension of this logic with value capture will lead to a focus on rivals, instead of consumers, suppliers, employees or other stakeholders (Foss and Foss, 2005; Johns, 2006; Lepak et al, 2007.)



Hereby, Jensen and Petersen (2013) have argued that value creation logics should encompass both supply and demand-side, in a way that enables firm to still consider their resources and capabilities. Therefore, they have come up with the concept of “Value Proposition”, and introduced Value Configuration Model, which determines Value creation logics as a combination of the possessed capacities and capabilities by a firm and the proposed value that enables the gaining of revenue.

On the contrary, they stress the fact that their conceptualization of value creation logics does not involve macro-level, societal perspectives. Moreover, their definition also mentions only one value proposition, and that is not determined either how the firm’s capabilities and capacities are applied in the value creation process. They suppose that it is more a business model issue, as in that field firms are taken into account entirely. Zott and Amit (2010) argue that the business model is a mean that is able to show how a firm conducts business, how it creates value for all stakeholders involved in the transactions and how it builds a connection between factor and product markets.

### **3.5.2 Value and Exchange in Service-Dominant Logic**

Firstly, the Service-Dominant (S-D) Logic was introduced by Vargo and Lusch (2004) in the Journal of Marketing, but its origin can be lead back to much earlier in the marketing discipline, namely to Adam Smith (1776). Their aim was to present an evolution in marketing field with the revision of Goods-Dominant Logic. They switched the perception of “exchange” employed in marketing from the application of tangible resources and outcomes that leads to firm-created value, to the application of intangible, dynamic resources and inputs that leads to a co-created value.

At the same time, other scholars discussed and contributed to the concept of S-D Logic as well. Although, Vargo and his co-authors realized, there are numerous misconceptions concerning this logic (Vargo et al., 2010). That resulted in the development of many conceptual debate to interpret the value in phenomenological concept, and those determinants that enable and enhance value creation.

This view was strengthened by the editor at Journal of Marketing, Ruth Bolton, who identified the importance and effects of S-D logic in distant theories, practices, marketing, general management and public policy. In addition, she remarked that Vargo’s article (et al,

2004) will challenge the existing perceptions and assumptions about the nature of the market and marketing within the discipline (Bolton et al., 2004:18).

#### *Customer as co-creator of value*

Service is the key element of every exchange, instead of goods as it is defined in the S-D Logic. Vargo and Lusch (2004:11) defined this logic as “interactivity, integration, customization, and coproduction are the hallmarks of a service-centered view and its inherent focus on the customer and the relationship. Scholars locate the S-D Logic and Value Co-creation perspectives at the core of the literature, due to the assumption, that consumer is the only value creator. Based on the supposition, consumer is the resource of firm’s income and firm has the opportunity to propose some value and to co-create value via relationships (Grönroos, 2008; Vargo & Lusch, 2004; Prahalad & Ramaswamy, 2004).

The author Flint (2006) emphasizes the role of marketer in assisting customers in the creation of value at every phase of the “consumption” process, such as planning, selection, purchase, consumption and disposal. Whereby, the core element of the value creation is the experience.

#### *Value Co-creation or Value Co-production?*

According to S-D Logic, from many stakeholders, the consumer is the one who defines and co-creates value through continuous interaction and relationships that occur in market encounters. In addition, the consumer might become a participant in the method of co-production. That is in line with the assumption of S-D Logic, that firms encourage and engage their consumers’ and other value creation partners’ contribution in their co-production activities with the aim of improving and generating more effective market offering. The involvement can occur at any phase of the production, such as the ideation, the innovation, the production of a good or the logistic phase of the marketing offering (Luschen et al., 2007; Karpen et al., 2008).

On the contrary, for instance Kalaignanam and Varadarajan (2006) highlight the fact, that some consumers do not want to be part of the service processes, as the participation might raise their perceived costs. Whereby, Lusch and his co-authors (2007) suggest that service co-production opportunities must be in line with consumers’ desired rate of involvement in order to provide what they really want and achieve strategic competitiveness and financial gain.

Nowadays, technology has an essential role in enhancing co-production activities and realizing the trade-off amid market offerings, personalized service and the perceived cost of association (Lusch et al., 2007; Rust & Thompson, 2006).

### *Value Innovation*

Based on study of 150 strategic moves, Kim and Mauborgne (2005) have come to an understanding, that today's firm can only achieve and maintain success, if they make the correct strategic moves, rather than competing with their rivals, which they defined as Value Innovation.

The scholars have argued that, Michael Porter's (1985) view only lead to a fierce competition and to an incremental market share. Meanwhile, the logic of value innovation supposes the acquisition of a new market, which can be achieved only via disruptive innovation. Hollensen (2010) argues that the value innovation can be extremely customer focused, but through the determination of the right balance between the proposed value and its cost of delivery the firm can realize higher rate of income. For instance, by letting the consumers to co-create the value, firms can develop a unique value proposition without augmented costs.

### **3.5.3 Value Creation and Business Models**

In the previous subsection, there was an interpretation about Value Creation Logics, that covers the concept of value and value creation, which was broaden into the Value Configuration Model by Jensen and Petersen (2014). However, they have stated that, their contribution does not involve the concept of Value Proposition and Business Model. Therefore, the following subsection will emphasize the significance of the Business Model, as it is an essential part of the case study.

The research field of Business Model is relatively young discipline, as the concept first appeared in 1960, but until 1990s, the scholars did not pay a significant attention to it. The concept only became popular when the business environment has started to be shaped by Information and Communication Technology (ICT), globalization, uncertainty and complexity. When managers have started to face with more and more difficulties in their decision-making due to changing business circumstances (Osterwalder, 2004). Although, the literature about the Business Model is still divided and heterogeneous, and it is part of the school of Strategic Management (Onetti, 2010).

According to Teece (2010), the Business Model determine the design or architecture of how a firm creates, delivers and capture value. In line with that, from the perspective of value, Alexander Osterwalder (2010) defined it, as a model that present “*the rationale of how an organization creates, delivers, and capture value*” (2010:14).

The nature of Business Model research is distant from the one we used to, as the reasoning of this research field is to find solutions for the problems, instead of understanding the phenomenon. Therefore, Osterwalder (2004:15) has determined the Business Model, as it is quoted below:

*“A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing a company's logic of earning money. It is a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams.”*

#### **3.5.4 Value Creation in Firms**

Vargo and other authors (2010) has stated that, the value created by the firm can be examined from two perspectives. One perspective put the value at the core of the business model of the firm, meanwhile the other put the product- and service-embedded value delivery at the centre of the business model in the shape of exchange value and value-in-use.

Throughout the last decades, there has been a significant switch concerning scholar's firm-level perspectives and assumptions of value creation. In the 1930's, scholars approach the subject from the resource-based view, which has started to swift to a relationship-based approach. First studies on value creation, pointed out the importance of organizational resources (Schumpeter, 1934; Teece, 1987). Schumpeter (1934) argued that the blend of resources and technology enables firm to create new goods and services, that is the foundation of value creation. The same viewpoint was stressed by Penrose (1959), she identified value creation as a result of firm's resource management in the process of goods and services. This Resource-Based view on value creation has been strengthened by numerous scholars, and they have seen firms' organizational resources as independent bundles that is the core of value creation (Schumpeter, 1934; Penrose, 1959; Barney, 1991; Kaplan & Norton, 2004).

However, Michael Porter with his Value Chain Model has changed the view on how firms create value. His model states that firms can generate value through Primary and Secondary firm-level activities, and it stress the importance of networks, collaborators, consumers and other stakeholders in the value creation process. Stabell and Fjeldstad (1998) suggest that Porter's Value Chain model might not provide explanation for every firm, so they propose a network configuration model to better explain value creation activities within different firms. This view is supported by Marinova (et al. 2017:5), and they define strategic networks as a foundation of value creation, as "firms create value through and in relationships."

Moreover, organizational relationships enable firms to share resources and acquire new ones through synergies, which can be accomplished through different type of alliances, Joint Ventures and Mergers & Acquisitions (M&A) (Hakansson & Snehota, 1989). When these relationships cross over national borders, then we can talk about value creation in internationalization, that will be further interpret in the following subsection.

### **3.5.5 Value Creation in Internationalization**

Erkko Autio (2005) elaborated on the research work of Ben Oviatt and Patricia McDougall, and he concluded that relationships which reaching over national boundaries can create value via the blend and integration of cross-border resources, whereby two or more firms voluntarily take part in relational exchange processes with the aim of value creation. Additionally, Marinova (2017) pointed out that the process of value creation occurs through two possible procedures, namely International Joint Ventures or International Mergers & Acquisitions, which lead to integrated resources and value co-creation.

Seth (1990) have conducted a research about Mergers & Acquisitions with the focus on value creation and business performance. The author stressed the correspondence between value creation in M&A and synergy, due to the expectation that the novel legal entity established by two or more stakeholders via acquisition will have greater value than each of the entities have it on their own. Within the discipline of cross-border M&As, Shimuzu (et al., 2004) studied the theoretical fundamentals of the discipline, and he come to the conclusion that the study of value creation is a core part. Colman and Lunnan (2011) has examined the features of post-acquisition firms' value creation, hereby they concluded that the implication of synergy relates to knowledge transfer, incorporation of resources, costs optimization and

novel opportunities that are the result of the fused organizations. In addition, Svetla Marinova (2017) has stated the firms decide in favour of M&A to realize either resource diversification or either resource consolidation.

Anna Jonsson (2017) has argued that, firms from Emerging Markets in order to compete with rivals and to internationalize make distant strategic choices from the ones were suggested in traditional behavioural models of MNCs. Throughout the internationalization, these firms not only obtain foreign resources in order to elevate the value creation, but they also acquire and generate novel knowledge, that contributes to their added value.

### **3.6 CORE FINDINGS FROM THE REVISED LITERATURE**

Previously, a synthesized literature collection was presented that was built on four major subjects, namely Internationalization and International Competitiveness, Value Chains, Value Creation and Co-creation and last but not least the Value creation in firms and in internationalization.

One of the most well-known and applied scholarly viewpoint about the Internationalization was developed by the Scandinavian school. The Uppsala model in empirical researches has confirmed that commitment and experience are essential elements when we want to improve our understanding about international business behaviour. In addition, the quick development of Information and Communication Technologies makes possible for firms to realize rapid internationalization strategy.

Throughout the past decades, many different theoretical perspectives have been developed on internationalization, concerning the drivers and nature of decision-making. Hereby, Strandskov (1995) differentiated four theoretical perspectives on firms' internationalization path, that are the following ones: The Institutional-Economic Perspective, The Strategic Competition Perspective, The Learning Perspective and last but not least, The Inter-Organizational Perspective. Scholars have attributed more significance to the Institutional-Economic and Strategic Competition Perspectives, due to their ability to emphasize fundamental elements of the internationalization and transaction cost approach and theory connected to MNCs, integrated with institutional perceptions.

The topic of the International Competitiveness was about how a firm generates and develops competitive advantages in the global market. How a firm interacts continuously with its environment and how it modifies its resources, capabilities and relationships to distant

stakeholders in order to compete in the international market. The firm competitiveness can be analysed on three levels: Macro, Meso and Miso levels. The analysis begins with the Macro level analysis through Michael Porter's Diamond Model (1985), which aims to define the concentration of firms within certain industrial clusters. In these industrial clusters firms have a network of connections to other stakeholders of the industry, such as suppliers, competitors or customers. In addition, firms acquire key competitive advantages from the existence of global buyers, suppliers and related industries in its home-base market, as they can provide perceptions about possible needs and technological innovation in the near future.

The second level of the analysis is the Meso Level, which aim is to understand firm's competitiveness in its industry. Hereby, Porter developed his Five-forces model, that enables us to recognize the state of the competition and profit potential in an industry. The model consists of five forces, namely the buyers, suppliers, new entrants, substitutes and rivals. Additionally, Burton (1995) established his systematically similar framework with its focus on the potential sources for developing collaborative advantages.

The third level of the analysis is the Miso Level, which objective is to highlight those elements that enable firms to create competitive advantage between their competitors and to create value for their customers. It is based on Porter's Value Chain analysis, and it has a central focus on customers' feedback in order to evaluate firms' performance. The purpose of Richard D'Aveni's Customer Perceived Value Model (2007) is to have a better understanding of customers' perceptions about the realized benefits and arisen costs.

The following area in the Literature Review was the Global Value Chain, that presented the development of Value Chain concept. Whereby, Value Chain encompasses every activity that are essential to bring an idea to market sale. The importance of the theme has been emphasized by numerous scholars, thanks to its multiple application. It can be used to examine firm's competitive nature derived from its strengths and weaknesses via assessing Primary and Secondary firm level activities.

Relating to the concept of value, there has been many developments with their key focus on the Value Creation and Co-creation. Scholars attribute to value conceptualization with both universal and more explicit perceptive, such as value exchange, utility, correspondence in distant context or innovation. Value creation was extended with the view of active customer involvement within the concept of Value Co-creation. In addition, with the

participation in the different activities of the firm, like designing, producing or other supporting activities to Co-produce value. Value Creation Logics have emerged throughout the last decades, where Vargo et al. (2010) contributed to the production-oriented view with the service-dominant view and with the importance of connections and networks in the method of value creation.

Although, Vargo et al. (2010) do not involve Business Models in Service-Dominant Logics of Value Creation, they still argued the importance of them. As it enables us to better understand firm's value proposition for one of several customer segments. The method, how a firm create, deliver, capture value, while generate financial return.

Following the logic of Marinova et al. (2017), the Literature Review was closed by the differentiation of Value Creation in Firms and Value Creation in Internationalization. Regarding the Value Creation in Firms, a shift can be recognized from a resource-based view (Smith, 1776; Schumpeter, 1934; Penrose, 1959; Barney, 1991) to a relationship-based view (Stabell & Fjeldstad, 1998). Meanwhile, elaborating on the Value Creation in the process of internationalization, scholars have stressed the importance of the integration and combination of resources as the result of these methods. Moreover, Marinova et al. (2017) have argued that the created value in firm's internationalization is synonymous with synergy, as the aggregated value of the united firms surpasses their separate value. Additionally, firms have two primary motives with the creation of International Joint Ventures or through Mergers & Acquisitions, that are either to diversify or consolidate their resources.

### **3.7 RECOGNIZED GAPS WITHIN THE RESEARCH FIELDS**

As it has been emphasized in the Literature Review, the Creation of Value in firm-consumer interaction has an increasing significance within this research fields. According to, Solveig Wikström (1996:9):

*"It is no longer a question of creating value for the customer; rather it is about creating value with the customer and incorporating the customer's value creation into the system."*

Research works indicate that firm-consumer interactions are occurring more often in industrial markets, but in general firms only involve them in one or two value-creating activities, namely the design or the production. In addition, the consumer participation only provides short-term benefits for both stakeholders. On the contrary, the strategic advantages of the involvements are still limited, that might be a result of inadequate innovative



capabilities or an inefficient organizational structure, where the decisions are made by the “wrong” authority.

Nowadays, more and more firms try to adopt practices like direct involvement of customers in production methods, customization, and deeper interaction with customers in order to establish and maintain daily Co-creation of value in their business activities. As a result, Prahalad and Ramaswamy (2004) stated that, the more active the customer participation in the marketplace, the more it will affect how a firm conduct its business and how the firm relate to its customers and other stakeholders. Consequently, the relevance of Value Co-creation is increasing, in term of practice and concept within the field of Marketing.

Richard Priem (2007) argues that elevated attention on end customers is vital issue to accomplish strategic management success, and suggests that future studies related to investigating the firm-customer value linkages can be an improvement to better understand determinants that can enhance performance in a business.

In addition, most of research that have been carried out on Co-Creation of value was managerially oriented, founded on anecdotal evidence (Prahalad and Ramaswamy 2004, Prahalad and Krishnan 2008) and/or the nature of it was conceptual (Vargo and Lusch 2004, Vargo and Lusch 2008). Only a few empirical studies have been carried out, which lead to a gap in the development of empirically based theory of Value Co-creation and a well-defined meaning of it, particularly in a strategic perception.

As a consequence, this research study attempts to address the aforementioned gaps. Its objective to examine and create further understanding about Value Co-creation as a novel strategic dimension. Additionally, to see how Value Co-creation can be explored and explained in the Manufacturing market.

## **4 THEORETICAL CONCEPTUALIZATION**

The objective of this chapter is to elaborate on the findings in the International Business and Internationalization literature and to particulate those theories and approaches that have immense importance related to the field of International Business and Value Creation in Internationalization. The primary subsection describes the most relevant International Business and Internationalization theories, complemented with the models and frameworks that are related to the International competitiveness analysis. The following

subsection's aim to define the conceptual framework of this thesis, that is a further improvement for the addressed research questions.

#### **4.1 INTERNATIONAL BUSINESS THEORIES RELATED WITH FOREIGN DIRECT INVESTMENT**

Most of the initial studies on Internationalization was inspired by traditional marketing theories, and scholars have started to explore the choices between export and FDI only in the second half of twentieth century. With the aim of understanding International Business and the subject of FDI, the following subsections will elaborate on the Institutional theory, the Market Imperfection theory and the Investment Development Path theory. All explanations include the prerequisites and hypothesis of the above mentioned theories. In addition, these theories will be complemented with further related theories, such as the Eclectic Paradigm in order to gain a comprehensive perception on Internationalization.

##### **4.1.1 Institutional Theory**

The concept of institution has been interpreted by numerous scholars over the years, so the institutional concepts can differ from one theoretical line of literature to another. Svetla Marinova (2015) pointed out to the fact, that the perception of Institutional theory is one of the groundwork within International Business. Besides, the author has argued that there are three mainstream view of institutions, which can be distinguished from each other, even so they have their similarity and complementarity regarding their key principals. These interpretations see institutions, as rules and belief systems that should be followed.

Primarily, North (1990) classified institutions into two different groups, whereby formal institutions can be interpreted as laws, regulations and rules, while informal institutions can be determined as norms, practices and values.

According to, Scott's interpretation (1995;2008), institutions can be categorized into three distant groups which are the followings: Cultural-cognitive institutions, that are culture, ethics, morality and value; Normative institutions that are norms and practices; Regulative institutions that are laws, regulations and rules.

The third widespread interpretation was made by Whitley (1992;2010). The scholar distinguishes between two types of institutions. Once, he claims that institutions are proximate, such as laws, regulations, state structure, policies or the labour and financial

systems. On the other hand, he claims that institutions are background, such as norms, ethics and values.

Hereby, Svetla Marinova (2015) has argued that institutions are interdependent, diverse and multilevel, additionally these formal or informal institutions can create challenges for firms during their daily operations. These institutions can exist on national, regional or an actual city level in distant forms, like legal, political or economic institutions. Moreover, the author stresses the importance of networking, as firm's core activity, in order to recognize and solve those challenges that emerge due to the distant institutions. Consequently, meeting with the expectations established by institutions is critical, especially concerning Foreign Direct Investments when a firm needs to deal with multiple institutions across national boundaries.

#### **4.1.2 Market Imperfection Theory**

The Market Imperfection Theory is rooted in the fact of market failure, which supposed that the allocation of production or use of goods and services is not efficient during free market circumstances. Hymer (1976), Kindleberger (1969) and Caves (1971) argue that MNCs has evolved due to market imperfections, and they state that those firms which have a capability to invest outside their borders have a unique advantage, and it makes them able to run their foreign subsidiaries with more financial return than its local competitors. The further argue that this unique advantage is possessed by the firm and cannot be imitated and transferred to other firms easily.

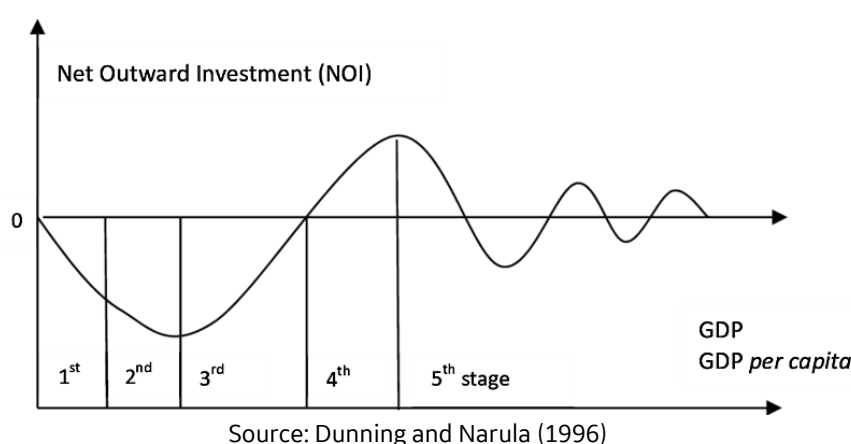
Based on Kindleberger's investigation (1969), firms can acquire unique advantages for FDI from four sources. The first source can be the result of perfect competition in the goods market, firms can differentiate their products and services, specialize in marketing skills or maintain retail prices. The second source can be acquired from the perfect competition in the factor markets, such as raw material inputs, land, labour, capital, unique technology or application of different management skills. The third source of advantages can be accomplished from internal or external economies of scale, while the forth source of the unique benefits can be the result of established limitations on output or entry by the government.

### 4.1.3 Investment Development Path Model

This theoretical framework is essential to investigate the impact of home factors on outward FDI from emerging markets. The IDP model was established by John Dunning (1981) with the aim of defining dynamics of the developments in FDI. Dunning argues that, outward and inward FDI intensity of a country depends on the level and structure of its economic development. Based on the IDP model, outward FDI only occurs when a country's development reached a certain level and firms' ownership advantages have evolved. Hence, FDI pattern might indicate the nature of ownership advantages of domestic firms and the changes in the benefits provided by the home economy.

Dunning (1981) suggests that countries tend to go through five phases, from being the "least developed" to becoming "developed", that can be seen in the below figure:

**8. Figure: The five phases of the Investment Development Path**



In the first stage, there is very little inward and outward FDI. During this state, the Net Outward Investment (NOI) is still negative, which means that the FDI inflow is higher than the outflow in the economy. This is due to the little Country-Specific Advantages (CSA), such as a sizeable market or available natural resources, besides the lack of Firm-Specific Advantages (FSA).

In the second stage, a natural development can be noticed compared to the first stage, but the NOI is still falling due to the rise of FDI inflow because of the rise of per capita incomes and CSAs. Meanwhile the outward FDI continues to stay low or negligible, as firms are still developing.

The third stage is usually referred as intermediate stage of emerging markets, in which phase the NOI has start to improve, owing to the increasing growth of outward FDI and the

decreasing development of inward FDI. Firms within the country are experiencing acceleration in industrial activities and specialization, in addition the intensity of competition is elevating, as local firms are developing and becoming more competitive.

In the fourth stage, the NOI becomes positive, as the outward growth of FDI exceeds the growth of inward FDI. At this phase, the domestic firms possess more and more ownership advantages, that leads to an increasing level of competition and to an expansion in foreign activities. In addition, the cost of capital becomes lower than the cost of labour, thanks to its intensification in the production methods.

In the last stage of the IDP, the country reaches the “developed” state, when the NOI is fluctuating around zero, as a result of the advancement both inwards and outwards FDI. This phase is also characterized by internalized transaction costs rather than transactions within the market.

Additionally, to the improvement in the volume concerning inward and outward FDI, the IDP model also suggests structural changes in the composition of investments. At the beginning, inward FDI flows to low/medium knowledge-intensive or resource-based industries, which is followed by the flow to more technology-intensive industries and the aim of the FDI is efficiency-seeking. Likewise, outward FDI first flows to low-technology or resource-based industries and only a certain level of development, the direction of the FDI will shift to high value-added activities.

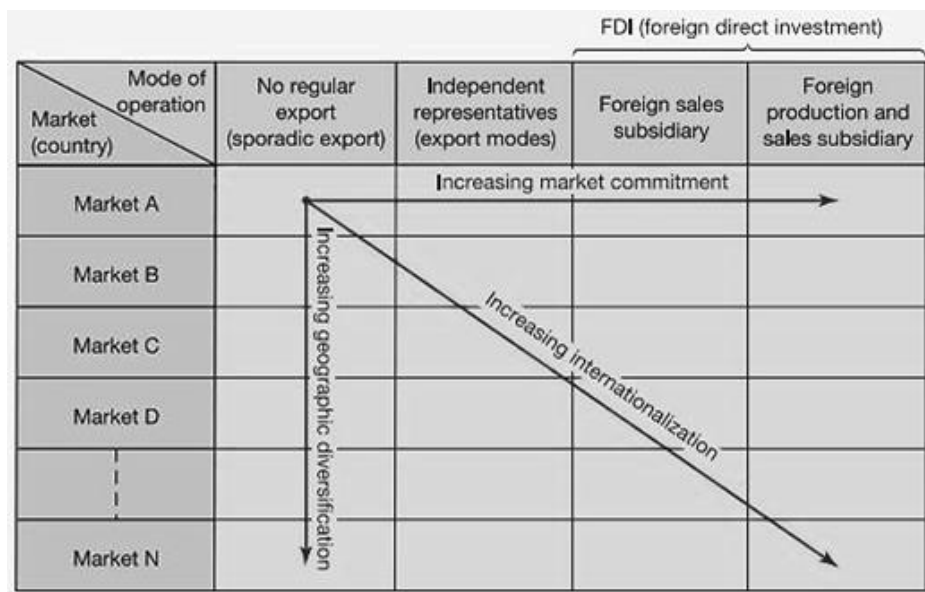
## **4.2 INTERNATIONAL BUSINESS THEORIES RELATED WITH INTERNATIONALIZATION**

### **4.2.1 Uppsala Internationalization Model**

Scholars at the University of Uppsala (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) has investigated the process of internationalization. Whereby, they have developed the “Stage” model, as they noticed different stages of firm’s method of internationalization. Johanson and Wiedersheim-Paul (1975) acknowledged a four stage sequence leading to international production, which was influenced by the work of Aharoni (1966) about decision-making process related to foreign investments. Each of the following phase indicate a higher level of involvement or commitment to the international market, as firm’s experience grows.

The figure below presents the different stages with an incremental approach. One of its dimension shows the increased market commitment, while the other dimension shows the increasing geographic diversification. In the first stage, firms begin by serving the domestic market, without regular export activities. In the second stage, firms start to penetrate to foreign markets, via independent representatives. During the third stage, firms establish foreign sales subsidiaries, until they engage themselves to set up foreign production and manufacturing units.

**9. Figure: Internationalization of the firm: an incremental approach**



Source: Forsgren and Johanson (1975:16)

Additionally, the Uppsala Model supposes that, firm will not commit large level of resources to a certain market until it possesses the necessary level of experiential knowledge, and it starts its foreign operations from culturally and/or geographically close countries and move evolutionary to culturally and geographically more distant countries.

#### 4.2.2 Transaction Cost Approach

Ronald Coase developed his theoretical model in 1937, and he argues that market mechanism is not cost-free, as it includes transactions costs. Transaction costs occur due to some kind of friction amid the buyer and the seller during the transaction. The transaction cost analysis has highlighted particular cost, that can derive from activities of search, contracting, inspecting results or enforcing deals. Further, the he argued that firms tend to perform internally those activities which can be established and managed with lower cost than relying on external stakeholders.

Hereby Williamson (1985) explained the friction between buyer and seller, as a result of opportunistic behaviour. He sees market participants as self-interest seekers who will mislead, distort, disguise and create confusion in order to maximize their economic return. The presence of this behaviour has led to the employment of safeguard or governance structure to provide fairness in transactions with a minimum cost.

The scholars have argued that, if the transaction costs are higher because of conducting business with external parties, than the firm might decide to internalize some of these activities, for instance in the form of its own subsidiaries.

#### **4.2.3 Internalization Theory**

The objective of Internalization Theory is to explain why MNEs exist, that is based on the previously presented Transaction Cost approach. This theory was developed by Buckley and Casson (1976:1) with the aim of broadening the definition of MNEs. Within their work, they state the following:

*"An MNE is a firm that internalizes imperfect markets across national frontiers in the services of an intermediate product owned and controlled by the firm."*

Moreover, they further highlight the variety of levels that can improve the analysis of International Business within Internalization Theory. These levels are the followings: Firm Level, Industry Level, Regional Level and National Level.

#### **4.2.4 Dunning's Eclectic Paradigm Model**

The Eclectic Paradigm, also referred as the OLI Paradigm, that is developed by John Dunning, with the purpose to create one model that can be applied in several fields of the International Business. He argues that, it is necessary to integrate sources of multiple economic theories in order to explain firm's international activities. Based on the OLI Paradigm, firms tend to have higher level of commitment to international production if the below three conditions are realized.

*Ownership Advantages:* Firm possess greater ownership advantages compared to other firms, if it acquires unique proprietary information and various ownership rights within a foreign production facility. Most of the ownership advantages are considered intangible in nature, such as branding, patent, know-how.

*Location Advantages:* Locational attractions refer to such factor endowments within a foreign market that enable firm to generate comparative advantage from performing certain functions abroad, such as labour, natural or created resources, infrastructure, communication channels.

*Internalization Advantages:* A firm tends to engage in foreign production if, higher the net benefits of internalizing foreign intermediate product market, than export them or sell the right to use them.

#### **4.2.5 Linkage, Leverage, Learning (LLL) Perspective**

Although the investigated organization is a well-established Chinese firm, the developed knowledge about latecomer and newcomer firms is vital. Mathews (2006) argues that firms especially from emerging markets internationalize via the process of LLL. In addition, LLL perspective includes the several important themes, such as the issue of inter-firm linkages, the connection between innovation and value creation or to leverage owned resources to accelerate firm's internationalization activities. The framework further assumes that organizational learning will occur as a result of repeated linkage creation and leveraging cycles.

#### **4.2.6 Network Theory**

Johanson and Mattson's (1988) fundamental assumption was that an international firm cannot be investigated as an isolated actor, but it must be analysed within a relation to other actors in the international market due to its dependence on resources that are managed by other actors. The scholars have argued that the model can describe the relationships of a firm on domestic level network, and it can be applied to create bridges among the firm and other networks in other countries.

Consequently, Business networks can be described as numerous autonomous actors are connected to each other via relationships, that is flexible and changes according to the alteration of the environment. Whereby, the relationships are founded on technical, economic, legal and personal ties.

The process of internationalization can be examined from the viewpoint of Network Model as well. Hereby, four distant internationalization situations can be determined, based on the level of market internationalization (low/high) and the level of firm internationalization



(low/high). As the below figure shows, firm's internationalization position can be described as "Early Starter", "Late Starter", "Lonely International" and "International among other".

**10. Figure: Four cases of internationalization of a firm**

		Degree of internationalization of the market	
		Low	High
Degree of internationalization of the firm	Low	The early starter	The late starter
	High	The lonely international	The international among others

Source: Johanson and Mattson (1988:298)

The first case is when the firm is an "Early starter" situation, in which both the market's and firm's degree of internationalization is low, additionally domestic and foreign market actors do not build out important international relationship. Regarding the Uppsala Internationalization Model, this situation corresponds with the primary stage, where the firm starts its foreign activities through agents and it has a low market commitment with low degree of knowledge about the market.

In the second situation, a firm as a "Late Starter" is in a position, where the degree of market's internationalization is high, but the degree of firm's internationalization is low. Compared to the previous situation, firm might find it difficult to set up new positions in a securely structured net. As the best distributors are already conducting business with rivals, and rivals can arrange unprofitable situations for latecomers via predatory pricing. Hereby, we can understand the importance of perfect timing in the global marketing.

The third situation refers to the "Lonely International", whereas the firm already has relationships with other actors in foreign markets, and also possesses knowledge about the market and additional elements, such as institutions, cultural differences, competitors or technical specifications. In addition, "Lonely International" has the capabilities to promote internationalization in its production net, as its rivals, suppliers and customers are less

internationalized. Consequently, firm's relationships with/in other national nets might prove to be a bridge to those nets for customers and suppliers.

In the fourth situation, a firm is "International among Others" and it is able to use its position in one net to bridge over to another net via both extension and penetration. Within this situation, a firm must coordinate its international activities throughout its Value Chain with more attention, as it might have the chance to specialize its product or increase intra-firm transactions. Furthermore, the degree of market knowledge is higher and the processes of internationalization occurs in a more rapid pace than in the other situations.

### **4.3 INTERNATIONAL COMPETITIVENESS MODELS**

By following the structure of the Literature Review on firms' international competitiveness, this subsection further elaborates on theories and models related to the development of a firm's international competitiveness. The theories will be break down into three levels, on the highest level the Porter Diamond Model, on the intermediate level Porter' Five Forces model and on the lowest level the Value Chain analysis will be presented.

#### **4.3.1 Porter Diamond Model**

Michael Porter (1990) argued that, there are features of a firm's home base, when we want to investigate its nature of international competitiveness. He developed a model, that includes six interconnected dimensions that enables us to explain these features. Four of them are endogenous factors: Factor conditions, Demand conditions, Related Suppliers and Industries, Firm's Strategy, Structure and Rivalry, while the Role of Government and Chances Factor are exogenous, they relate to the other factors.

*Factor Conditions:* Within in this element, two factors can be differentiated. On the one hand, there are basic factors that consist of natural resources, such as climate, minerals or oil, where the movement of these resources is low. On the other hand, there are advanced factors, such as sophisticated human skills and research capabilities, that enable firms to generate significant value.

*Demand Conditions:* The elements of Demand Conditions play an important role in the success of industries. These conditions are the result of interactions amid scale economies, transportation costs and domestic market size. Firms to realize efficiency in their production want to supply consumers with an extensive absorbing capacity from a short a geographical

distance to minimize transportation costs as well. In addition, the domestic market needs shape the industry, consequently the core design of the product, which will adapt to the global requirements later on.

*Related Suppliers and Industries:* Porter discussed that the connecting suppliers and complementary industries have a significant impact on the success of an industry. The concentration of firms eventually will lead to industrial clusters, that will enable firms to connect and build networks with other firms. The established relationships with customers, suppliers or even with competitors will allow firms to acquire competitive advantages. Moreover, they might get insight into possible market need and developments.

*Firms Strategy, Structure and Rivalry:* One of Porter's work indicate that the domestic competition has a vital and positive effect on firms' ability to compete with global players. When firms face with strong domestic competition, they are pushed to become more efficient in every activity, to acquire novel technologies that enable them to lower their costs, to decrease the time of new product introduction and to influence employees to involve themselves more actively in firms' processes.

*Role of Government:* In Porter's Diamond model, governments have a significant effect on the development of distant industries. As they can influence production's elements through financing and developing infrastructure, such as constructing roads and airports, subsidizing the use of renewable energies or improving health care and education. In addition, Porter (1990) argues that government can stimulate and be stimulated by all the other factors.

*Chance:* Random events are also mentioned in Porter's model as elements that can influence national competitiveness. One of these random events, is the firstcomer movement, the chance that one firm come up with a pioneer idea first ahead of its competitors.

*Market Competitors:* The intensity of market competition depends on several factors, such as the concentration of the industry, market growth rate, degree of differentiation, exit barriers or switching costs.

#### **4.3.2 Porter's Five Forces Model**

While, Porter's Diamond Model is useful to analyse international competitiveness on macro level, until the Five Forces Model can be applied to examine firm's international

competitiveness on industry level. Whereby, he states that the competition depends on five factors or forces, that defined below.

*Suppliers:* Firm's profitability is highly based on the cost of raw materials and components. Therefore, suppliers' bargaining power has a significant effect on the firm's revenue and a higher bargaining power will lead to higher costs. The level of the cost is influenced by some elements. For instance, the costs will be higher, if the supply is provided by only a few firm, they sell unique or differentiated products, they do not have to compete with other products or they mean threat in the upward vertical expansion. On the contrary, firms are able to mitigate the level of bargaining power by looking for new suppliers or using standardized products that can be produced by numerous suppliers.

*Buyers:* Similarly, to the suppliers, the buyers have their own bargaining power as well. They can negotiate lower prices for example, if they are concentrated and buy in bulks, they can choose amid many suppliers, they generate low profits or mean threats in the downward vertical integration. However, this bargaining power can be lowered through looking for new buyers, providing inimitable and highly differentiated products or threatening to expand business portfolio with buyers' industry.

*Substitutes:* The appearance of substitute products can decrease industry profitability, as it can influence price levels. When the industry is successful than it tends to attract more competitors that will supply substitute products with the aim of attaining and increasing market share. The presence of substitute product turns upon the buyers' willingness to buy these substitutes, the provided value for the money or the switching cost. Although, this threat can be eliminated via setting up switching cost. Strong brand awareness or the provided excellent value proposition can be examples.

*New Entrants:* One of the five forces are new entrants, as they can contribute to the industry competition significantly. Their entrance is influenced by some key elements that can be considered as entry barriers. These are the followings, economies of scale, customers loyalty, start-up capital, switching cost or the accessibility to distribution channels. Therefore, firms should work on building barriers in order to prevent other firms to enter their market and steal their market share.

*Strategic Groups:* After the identification of the five forces and the main competitors, strategic groups must be classified. Porter (1980) described these companies as those firms

that have similar strategies, business models or react to environmental changes like the firm itself. The Strategic group analysis provide information for the management regarding the firm's position in the industry and recognise its direct competitors. Based on these information, the firm can make decision about their possible strategies and they might decide to change its business model and locate itself to other strategic group if the entry barriers are not too high.

#### **4.3.3 The Alternative School's Five Sources Model**

Since the 90', an alternative school (Kanter, 1994; Burton, 1995) has started to emphasize the relevance of cooperation instead if competition amid industry participants to realize greater business performance. Hereby, Burton (1995) aligned the Five Sources Model with Porter's Five Forces Model, and defined how these market participants can become collaborative advantages when a firm engage with them.

*Market Competitors:* a firm can establish horizontal collaborations with firms producing the same or substitute products.

*Suppliers:* a firm can set up vertical collaborations with its component suppliers or service providers.

*Buyers:* a firm can build selective partnerships with its customers, to improve its standard, transactional relationship.

*Substitutes:* a firm can make diversification through alliances with providers of both complements and substitutes.

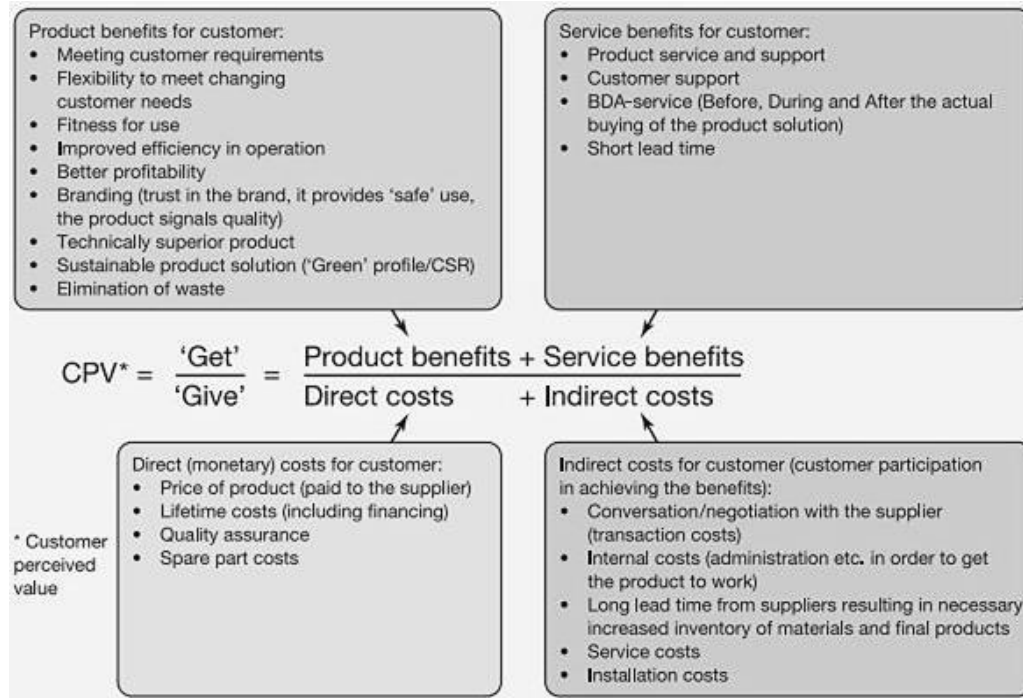
*New Entrants:* a firm can create alliances with firms that were unrelated before, but within the close future a cross-industry fertilization of technologies/business could occur.

#### **4.3.4 Customer Perceived Value Model**

Nowadays, firms not only need to recognize and respond to consumer needs to become successful, but also make sure that the consumer judge its product as a superior one compared to rivals' offer. According to D'Aveni (2007) the reasons behind differences in firms' performance can be traced back to two factors: the Perceived Value compared to the Customer's perceived Sacrifice (costs). Hereby, Perceived value is defined as the relation between the realized benefits and the occurring direct/indirect costs from using the

product/service (see Figure 11) A greater Perceived Value leads to a better competitiveness of the firm's offer.

### 11. Figure: Customer Perceived Value



Source: Hollensen (2010:114), with adaptation of: Anderson et al. (2007, 2008); McGrath & Keil (2007); Smith & Nagle (2005)

### 4.3.5 The Competitive Triangle

The Competitive Triangle is a mean to evaluate firm's business performance from the angle of Customer Perceived Value compared to the purchase price of the product/service, and the relative costs between the firm and its rival (see figure 12) (Hollensen, 2010).

### 12. Figure: Competitive Triangle

		Perceived value (compared to the purchase price)	
		Higher for A	Higher for B
Relative costs	Lower for A	I	II
	Lower for B	III	IV

Source: Hollensen (2011:116)

The Perceived Value is the final evaluation of firm's offer (Value Chain) by the customer. Therefore, by recognizing the value the customer is seeking, firm can set up the adequate mix of value-providing activities. Hollensen (2011:116) argues that each activity within the Value Chain can add Perceived Value to the product/service. Hereby, the price can provide a "good proxy measure of its value" within a competitive situation and certain period of time.

He further argues that; differential advantages can be achieved from the downstream activities of a firm. Greater Perceived Value can be realized through marketing activities, such as traditional product, price, distribution and promotion (4P) marketing mix and the extension of it with people, process and physical aspects (7P) (Booms & Bitner, 1981; Magrath, 1986; Rafiq & Ahmed, 1995).

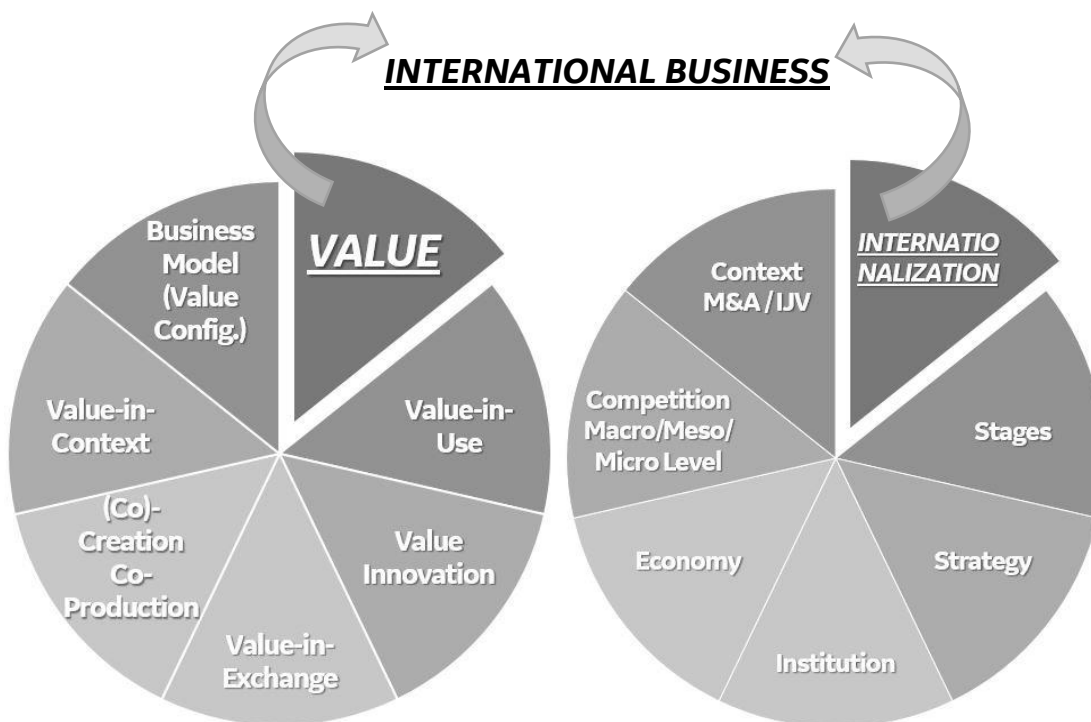
The basic assumption is that, each activity within the Value Chain is performed at a certain cost. Therefore, Relative Cost Advantage can be accomplished via an efficient organization of these activities. There are particular drivers of costs which can be determined and compared to those of rivals, such as capacity utilization, linkages, interrelationships, integration, timing policy decisions, location, and institutional factors (Porter, 1980)

Both Customer Perceived Value and Competitive Triangle Model are relevant for the research work, as it indicates vital sources of advantage for a firm. Perceived Value derived from product/service price can be raised and more control can be attained via distant cost dimensions and distant means to accomplish it in a transnational firm.

## 5 CONCEPTUAL FRAMEWORK

Within this section, an illustration can be seen about the revised literature, that covers the field of Value and Internationalization of a firm within the discipline of International Business.

**13. Figure: Conceptual Framework**



Source: Own illustration based on the revised literature (2018)

*What is the international competition landscape in the global household appliances market?*

The first question covers the field of international competitiveness, that is vital for conducting a comprehensive investigation. As it is indicated in the framework, international competition landscape must be analysed on three distant levels: Macro, Meso and Micro level. Porter's Diamond model were applied on the Macro level, followed by Porter's Five Forces Model with its configuration, Five Sources Model and finalized with Customer Perceived Value on the Micro level.

*What are the main elements of Haier Group's Business Model and what is the value proposition of the firm?*



The second question covers the firm level analysis in depth, considering the Business Modelling, the Value Proposition and the Value Configuration of the firm, complemented with the distant Value perceptions, namely Value-in-Use, Value-in-Exchange and Value-in-Context.

*What kind of value (financial return, resource consolidation...) can the firm generate from internationalization through Foreign Direct Investment?*

The third question covers the firm value creation through internationalization processes within the context of Cross-Border acquisition in order to explore whether the firm intent to consolidate or diversify its resources. That is investigated via the application of relevant theories and models: Uppsala Internationalization Stage model, IDP framework, OLI/LLL perspectives or the Transaction Cost approach.

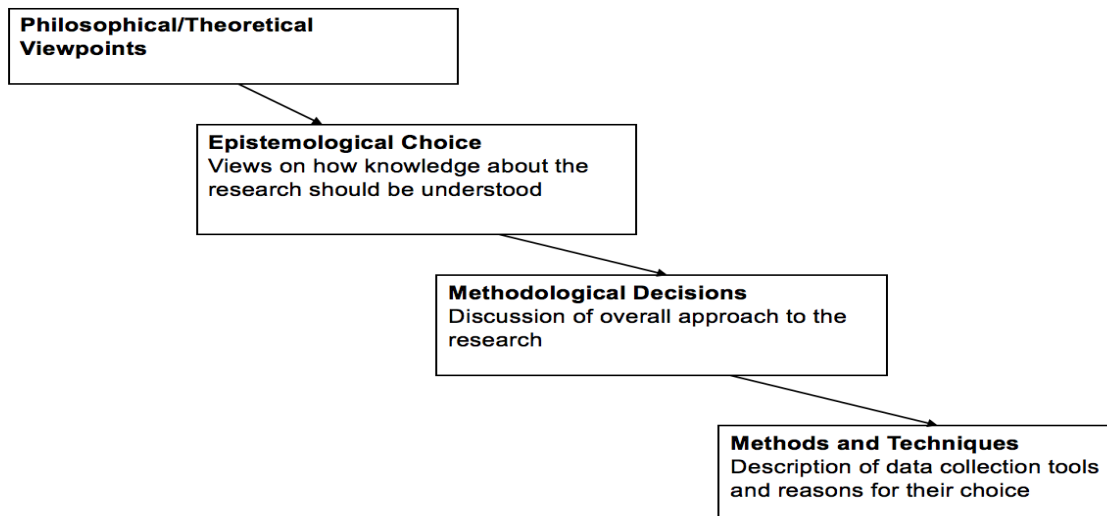
*What is the effect of Foreign Direct Investment on the Value Creation and Co-Creation of firm's stakeholders?*

The fourth question covers the theme of Value Creation and Co-Creation of the distant Stakeholders, whose are relating to the firm. Through the application of above mentioned theories and models, an exploration was conducted about their roles and contributions within the firm's Value Creation process.

## **6 METHODOLOGY**

The objective of this section is to offer a Philosophical-Scientific explanation about the different perceptions related to the reality descriptions and nature of knowledge within this research, especially about internationalization and value creation. It also includes the reasoning behind the applied scientific method, and the entire research approach. Followed by the exploration of tools and motives for choosing the certain type of data collection, supported by methodical-technical explanations. The structure of this chapter is based on the below Figure 14.

#### 14. Figure: Methodological Perspectives



Source: Kuada (2012)

Starting with the Philosophy of Science, the views of understanding reality are presented in the context of the problem statement, and followed by the explanation of paradigmatic choices for the issues of value creation and internationalization. Subsequently, the research design and research methods are defined, with the aim of verifying the phases of answering the questions within the research field.

### 6.1 PHILOSOPHY OF SCIENCE

The backbone of Philosophy of Science is to understand the scientific conventions that construct the foundation of carrying out a research. Burrell and Morgan (1979) argue that paradigms can be applied to clarify the implicit and explicit assumptions of an investigation, whereby Kuhn (1970) define paradigm, as scholar's perception of reality depending on Ontological, Epistemological, Human Nature and Methodological concepts. Furthermore, researchers can apply two distant views regarding their understanding, namely an objective external view or a social constructed subjective internal view (Kuada, 2012).

Additionally, within the research methodology literature there is a debate upon the nature of social science, as Positivist social scientists apply methods that are used in the natural sciences, with aiming to understand society in a stricter sense. On the contrary, Interpretivist social scientists might apply social critique or symbolic interpretation, instead of falsifiable theories, so it might determine science in a broader sense (Burrell & Morgan, 1979).

### 6.1.1 Paradigmatic Concepts of Philosophy of Science

Kuada (2012) within his research of Social science, appointed a question to each concept, that provide the base for their interpretation.

*Ontology: "What is the view or nature of reality?"* Ontology is the examination of the nature of being, existence or reality and their relations. Within the research ontology, it means the individual perception of worldview and reality (Kuada, 2012). Concerning the context of this research, I must define the applied perception of reality. The objectivist perception assumes that the social world is isolated from the individual, and scholars employ quantitative research methods to examine it. Meanwhile, the subjectivist perception argues that human beings are the creators of their own reality, and the social world is constructed by the individual mind, that is analysed with qualitative research methods.

*Epistemology: "What is considered truth or truthful knowledge? How do we know or acquire the truth?"* Epistemology is the theory of knowledge and it examines the nature of knowledge and how it relates to conceptions like truth, belief and justification. Regarding the nature of justification, the way the truthful knowledge is conceived, there is a debate between externalists and internalists. Externalists argue that knowledge can be gained via external observations, while internalists claims that all knowledge can be acquired via intersubjective research (Kuada, 2012).

*Human Nature: "What is the relationship between the human being and his or her environment?". Within the literature, this relationship is determined, based on the ontological aspect of perception on reality. The objectivist perception suggests that, human nature is deterministic, therefore social nature is external to the human being, while the subjectivist perception assumes that, the social nature is in co-determination with the construction of creating human view.*

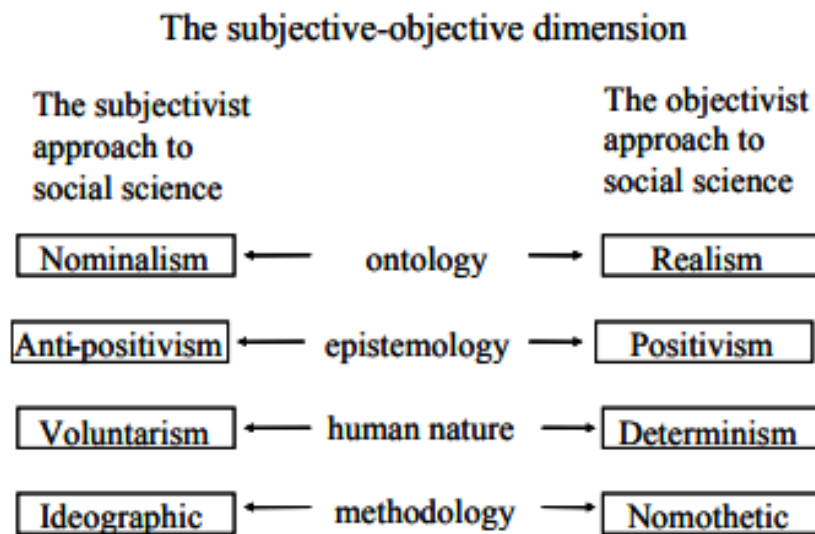
*Methodology: "What is the strategy for research?"* Methodology is the systematic, theoretical analysis of the methods employed within the research (Kuada, 2012).

*Methods and Techniques:* The relevance of this concept is to explain the applied method of data collection in relation with the above concepts. This method can be either, qualitative, quantitative or mixed method, that combine the quantitative and qualitative methods in distant proportion.

### 6.1.2 Two major views of understanding

Burrell and Morgan (1979) conceptualize social science in terms of four sets of assumptions connected to Ontology, Epistemology, Human Nature and Methodology complemented with two broad perspective, described as Subjective and Objective Approach. The below Figure 15 is the scholars' illustration about the relations between the Nature of Social Science and the two major approaches, and their descriptive labels as were named by scholars of Social Philosophy.

**15. Figure: Scheme for Analysing Assumptions About the Nature of Social Science**



Source: Burrell & Morgan (1979)

*Ontological Debate:* The terms of Nominalism and Realism have been the theme of numerous debate within the literature of Social Science. Nominalism assumes that every human being create sits own social world depending on its experience. Therefore, there is no exact structure of social world, as reality is created via interactions amid individuals. On the other hand, Realism states that, “mind-independent reality” exists, and individuals born into this extant social world (Susan et al., 2015).

*Epistemological Debate:* Hereby Burrell and Morgan (1979) define Positivist approach, as an objective orientation that explain and forecast the occurrences in the social world by determining regularities and casual connections between its essential components. Meanwhile, Anti-Positivist approach is a subjective orientation, which assumes that social world is relativistic and it can be interpreted by the individuals, who are directly participating in the activities that are subject of the research.

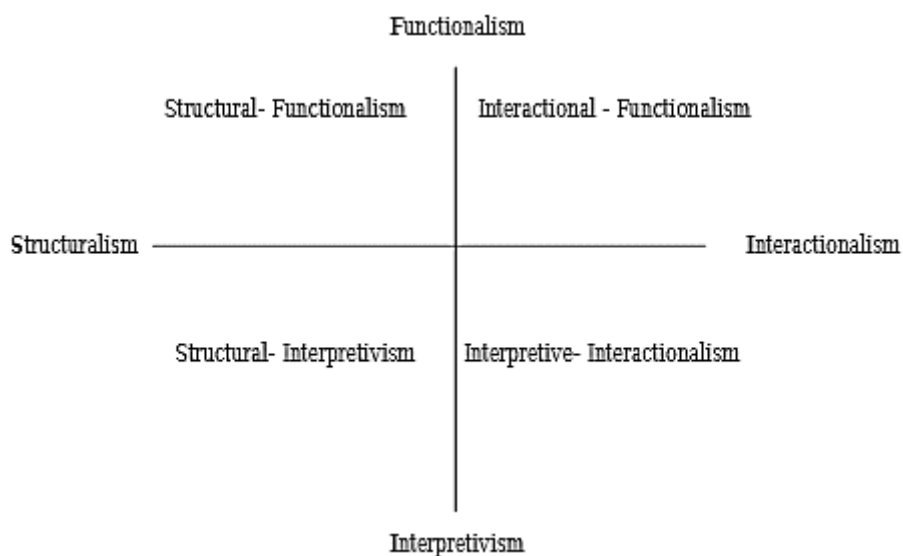
*Human Nature Debate:* The philosophical orientations of Human Nature can be described in two ways. Once there is the Determinist view, that assumes that human beings and their activities are entirely determined by the circumstances the environment in which he or she is positioned. While Voluntarist view identifies individuals with complete autonomy and free-will to its environment and activities (Burrell & Morgan, 1979).

*Methodological Debate:* The subjective approach of methodology is the Ideographic approach, that understand the social world by acquiring primary data of the research subject. Therefore, it stresses the importance of personal observation with entire involvement in the situations. Whereas, the objective Nomothetic approach emphasizes the significance of basing practice on research, that is based on systematic protocols and quantitative techniques, like surveys, or questionnaires (Burrell & Morgan, 1979).

### **6.1.3 Two Dimensions, Four Paradigms in the Business Research**

The right selection of paradigmatic concepts is essential, as it is able to define the present context, in the most desirable mode, regarding my case the Value Creation via internationalization. The above presented subjective-objective debate has contributed with numerous typologies of paradigms, of what two of them have become well-applied within the International Business field. One of it is the FISI Classification, that incorporates Functionalism, Interpretivism, Structuralism, and Interactionism, and it is presented in the following subsections (Kuada, 2012).

**16. Figure: FISI Classification of Paradigms**



Source: Kuada (2012:8)

*Functionalism:* This paradigm adopts the features of Positivist Epistemology, which indicate either an Objective or Positivist type of research. This pragmatic view is often applied in Economics and its related disciplines, as it assumes that organizations implement adaptive structural changes to their environment in order to align with it and accomplish and maintain operational effectiveness (Kuada, 2012). Although, recent studies stress its limitation, due to the common agreement, that strategic and structural changes occur as a result of management decision, that might involve several subjective elements, such as perspectives and beliefs (Donaldson, 1997). Grant and Perren (2002) suggest that perspectives, understandings and theories should be broadened to better explain the developments within business research.

*Interpretivism:* The paradigm explains the state of human mind, where understanding derives from an active involvement in activities and the way the individual experience and make-sense of certain situation. Interpretivism is emphasizing the understanding part instead of the explanations, and it requires a subsequent interpretation, in what human beings actively responding to their changing environment (Kuada, 2012).

*Structuralism:* The Structuralist perspective sees human societies as set of complex systems that are interrelated with each other. Its focus is more on the collective than the individual, and within this context its social position is determined by the construction of the system. Concerning business researches, scholars apply the structuralist approach to understand organizational structures and behaviours, which includes the analysis of firm size, type of industry, number of competitors, buyers or sellers (Kuada, 2012).

*Interactionalism:* The Interactionist paradigm intent to explain the significance of individual interactions within the social system. Scholars, like Meltzer (2003) see that human beings do not react to environmental stimulus in a formerly determined way, but they act through “minded behaviour”. Interactions are at the core of every social acts and facts, therefore scholars apply approaches, such symbolic interactionism and social constructivism to understanding social system (Blumer, 1969).

There are numerous combinations of the aforementioned paradigms, but the below ones are the most popular ones among them.

*Structural Functionalism:* The general view of this perspective is that human societies exist over and above individuals. According to Parson (1951), structural-functionalism has four

major characteristics. Firstly, the adaptation that is the capacity to interact with and modify to external context. Secondly, the goal-attainment that is the capability of social systems to determine and accomplish goals. Thirdly, the integration which is the capability to share values and norms with the aim of creating harmony and convergence. The fourth one is the latency, that is the capability to develop practices and routines over time via socializing new members into the value and norms system.

*Structural Interpretivism:* The scholars within this perception assume that relationships are determined by organized social structures within the society. Although, this time the individuals are the one who determine situations and experiences rather than the contrary. Furthermore, they believe that reality can only be interpreted by those who involved in the experience, and they apply methods that can capture subjective views (Kuada, 2012).

*Interactional- Functionalism:* This Paradigm highlight the significance of human beings, organizations and their interactions, and it further argues that roles in the society are normatively regulated behaviours, which arise as a result of social interactions (Parson, 1951). Additionally, individuals and organizations are assumed to be dependent on their histories, which presented in path-dependence theories within business studies. Cyert and March (1963) define it as “competence trap”.

*Interpretive-Interactionalism:* This perception is mainly adopted by scholars who intent to analyse organizations and institutions. They assume that, organizations and their personnel interact within and outside their organizational borders, and through interactions with other actors and a sense-making procedure, individuals assign meanings and receive meanings into the society as a form of co-creating (Kuada, 2012).

Concludingly, the numerous examples of paradigms’ combinations show social scientists’ willingness to allow the application of multiple paradigmatic perspectives within a social study. Additionally, Rossman and Wilson (1985) contributed with their categorization of researchers based on their ontological perspectives: the purist, the situationalist and the pragmatist views.

*Purists* argue that each paradigm is grounded and must be preserved without any alteration, in addition they stress that within one social research only one paradigm can be applied. On the contrary, *Situationalist* assume that application of different paradigms makes complementary contributions to the research field, therefore they apply distant paradigms at

distant stages of the study depending on the demand of the issues. Meanwhile, *Pragmatists'* objective is to create accountable knowledge by identifying significant, contemporary problems and provide practical and normative oriented results to them.

Based on the previous interpretation and due to the research task, that is involving several theories and models, this research study takes a pragmatist perspective. As it enables the adoption of multiple paradigm approach within the field of International Business. Therefore, the following subsection explore the Pragmatist approach in a broaden aspect.

#### **6.1.4 Pragmatist Approach of Paradigms**

Within one of the subsection of Literature Review, namely the Internationalization Perspectives the Meta-Theoretical Analytical Framework was already presented. Whereby, firms' internationalization as a concept was interpreted in four distant perspectives: The Institutional-Economic Perspective, The Strategic Competition Perspective, The Learning Perspective and last but not least, The Inter-Organizational Perspective. In view of multiple complementary perspective in a study, that is founded on the research issue, is a scholarly backed debate (Kuada, 2012). Therefore, the combination of paradigmatic perspective, research questions perception and the pragmatist approach allows a better understanding of identified research problems.

Following the above-mentioned view, the Strategic-Competitive Perspective (SCP) allows the interpretation of the first question, that is *What is the international competition landscape in the global household appliances market?* As the drivers of internationalization processes are based on external factors, in form of threats and opportunities. Consequently, firm is modifying its structure to align with occurred changes in the external environment.

Additionally, as a complementary perspective to SCP, The Inter-Organizational Perspective also forms part of the broader elaboration. As it can support the understanding about the concept of MNCs' Value Creation in internationalization perspective, which is the third research question: *What is the effect of Foreign Direct Investment on the Value Creation and Co-Creation of firm's stakeholders?*

Therefore, by adopting Kuada's research contribution (2012), the below figure aims to provide an overview of theoretical and paradigmatic base. Whereby, firms' thorough analysis of all relevant decision alternatives and choices about their internationalization path are taken into consideration.



### 17. Figure: Internationalization Paradigms

Dimensions	The Strategic-Competitive Perspective	The Inter-Organizational Perspective
<b>Theoretical Foundation</b>	<i>Theories of Industrial Economics and Business Policy</i>	<i>Theories of Organizational Sociology and Political Science</i>
<b>Major Arguments</b>	<i>Internationalization not only driven by financial goals and competitiveness in industries with high entry barriers</i>	<i>Internationalization process results from networks of relationships and continuous investments in market assets and contacts</i>
<b>Major Contributors</b>	<i>Porter; Bartlett, Ghoshal, Buckley</i>	<i>Johanson, Mattsson, Vahlne</i>
<b>Ontology</b>	<i>Realist/Objective</i>	<i>Realist/Objective</i>
<b>Epistemology</b>	<i>Anti-Positivist/Subjective</i>	<i>Positivist/Objective</i>
<b>Human Nature</b>	<i>Deterministic/Objective</i>	<i>Deterministic/Objective</i>
<b>Methodology</b>	<i>Nomothetic/Objective</i>	<i>Nomothetic/Objective</i>
<b>FISI Typology</b>	<i>Structuralist</i>	<i>Structural/Interactivist</i>

Source: Own illustration (2018), adopted from Kuada (2012)

## 6.2 RESEARCH METHODS AND TECHNIQUES

### 6.2.1 Research Design

In this section, an explanation presented about the research's Research Design, which is the foundation and action plan for this study. Bryman and Bell defined Research Design in their Business Research Methods (2015), as a framework that determine the data collection and analysis method. In addition, the scholars stress the importance of two Research Approach, namely the Deductive and Inductive approaches. Their differences derive from the relation towards theory and research. By applying Deductive approach, the scholar acquires knowledge from the certain theories and research findings, in order to generate hypothesis and test it with the data, whereby the method of data collection and analysis was determined in advance. Meanwhile, Inductive approach is phenomenon-driven, and scholars generate new theory from the observation of a certain occurrence.

Within this study, the Deductive approach was chosen to carry out the research, based on the characteristics of the study field, and on the assumption that firms' internationalization better applied and tested within a Case Study. The application of Deductive approach,

includes the collection of secondary data and a comprehensive investigation within the chosen literature, with the objective to outline the problem definition and describe the determined variables (Bryman & Bell, 2015). Consequently, the major phases of this research are the following ones: critical assess of relevant literature; application of recognized theories and models; acquiring, processing and analysing the collected secondary data; verifying the theories and models within the case study; conclusion.

### **6.2.2 Research Methods**

Throughout an empirical investigation, in order to answer for the determined research problems and questions, we can choose from distant types of data collection methods and techniques. Although, the choice of methods and techniques must be aligned with the adopted research approaches. The following sections elaborate on the differences and on the choice between data collection techniques, complemented with Philosophical-Scientific perspectives, Research Strategy, and Data Sources.

*Research Design – Case Study:* The empirical data presented in the following chapter is founded on a single case study about a Cross-border acquisition where a global Chinese MNC acquired another global MNC in the USA. The Research Strategy was defined in a way, that allows the capture of interconnections between reasons and empirical results, offers relevant interpretation of the investigated phenomenon (Yin, 2003), additionally allows the deduction of explanations in the research context (Welch et al. 2011). Moreover, it must be understood that the explored case below is applied mainly with illustrative objectives. Just as Siggelkow (2007) highlighted, a case provides further but not sole verification for the employed theoretical debates, and the research outcomes are not meant to be generalized for the society but to offer theoretical propositions (Yin, 2003).

Moreover, scholars encourage the adoption of case study as a research strategy, when researcher aims to explore the process of Value Creation via internationalization. By applying case study approach, it is possible to explore identified internationalization theories and models within its real context, which is value creation via M&A in the home appliance industry, and to be exact the case is about Haier Group's acquisition of GE Appliances.

*Data Collection Techniques:* Scholars grouped data collection techniques into two main classes: (1) Qualitative methods and (2) Quantitative methods. Furthermore, some scholars suggest that researchers should choose only one of the method depending on the way they

want to explore the investigated phenomenon. While, others argue that these techniques can be combined to gain a better understanding of the study field (Kuada, 2012).

*Quantitative Research Method:* Quantitative Research defined as a deductive research, with objectivist conception of the social reality and a positivist social science approach. The data collection consists of quantifications and measurements. For instance, the examination of FDI flows, or of firms' market share is based on secondary quantitative data.

*Qualitative Research Method:* This research method considered as an inductive research, with subjective process concerning the data collection and analysis, and it has an anti-positivist social science approach. The evaluation of Customer Perceived Value can be considered as an example for qualitative data, due to its subjective approach.

*Mixed Research Method:* This method assumes the adoption of both quantitative and qualitative research method. Truscott et al. (2010) argues that, by applying a mixed method their advantages can be strengthened while their limitations are minimized. Similarly, O'Cathain et al. (2007) encourage the application of mixed method, as it is an influential and purposeful combination with an objective to increase the outcome of the research. As an example, firms' annual reports, investor reports or most of their reports are based both quantitative and qualitative information. Based on the above arguments, Mixed Research Method was applied within this study to answer the presented research questions.

*Data Source:* Concerning the nature of required data, scholars have defined two types as data source, namely the Primary data and Secondary data. Primary Data is observed and acquired from first-hand experience, with the aim to collect information for a certain research study. Whereby, Secondary Data refers to that kind of data, which has been already published and acquirable from publication of research institutions, providers of statistical data, academic journals and other publication. Compared to Primary data, secondary data is assumed to be readily available and inexpensive to acquire.

Within this research, secondary data collection was used to acquire the necessary information that the selected theories, models and methods required for the case study. That could have been seen as a limitation, as the collected data might not cover the entire study field, not detailed sufficiently or difficult to access and acquire the information.

Furthermore, Data triangulation was used, which means that multitude of theories, models, empirical studies, methods and market data were applied, with the objective to

overcome the limitation or intrinsic biases and other issues that might arise from single method, and single-theory researches. As an example, in the home appliance industry the global market and connecting factors are under continuous change and development, which motivate scholars to investigate it and contribute with numerous publications. Additionally, Zhang Ruimin personally involved in all strategic decision making, particularly those related to internationalization, therefore the numerous conducted interviews enable us to present a comprehensive picture of Haier. As a result, the necessary data were collected from distant sources, and these publications, studies and corporate reports were critically revised to provide credibility and validity.

To sum it up, an evaluation was conducted about the most cited and applied paradigmatic concepts of objective-subjective ontology, realist-anti-realist epistemology, determinist-voluntarist human nature and ideographic-nomothetic methodology, with additional assessment about the choice of decision-making: purist-situationalist-pragmatist. Which highlighted the relevance of The Strategic Competition Perspective and The Inter-Organizational Perspective, that are the closest with the structuralist and structural-interactionalist typologies regarding FISI Classification. Additionally, to better explain the research context, the Pragmatist approach was employed to, complement and improve the distant philosophical-scientific perceptions of firms' internationalization and value creation.

Furthermore, the Deductive Mixed Research approach was employed, in order to better understand and explain the acquired secondary data regarding the chosen method to test the relevant International Business and Internationalization theories and models in line with Value Creation models and configurations. All of these factors and additional arguments of scholars have led to the choice of Case Study as a Research Strategy. As this approach is corresponding with the identified research gap and its outcomes.

## **7 CASE ANALYSIS**

Within this chapter, the case study follows the structure presented in the Conceptual Framework, concerning the four research questions that were stated in the Problem Statement. The first subsection of analysis interprets the state of international competitiveness regarding the home appliances industry. It will be followed by the determination how the case study firm, Haier Group creates value with its developed Business Model to its customers. The third subsection covers the theme of value creation via

internationalization by procedures such as Merger and Acquisition. Finally, it explains how the different stakeholders of the firm are affected due to these processes.

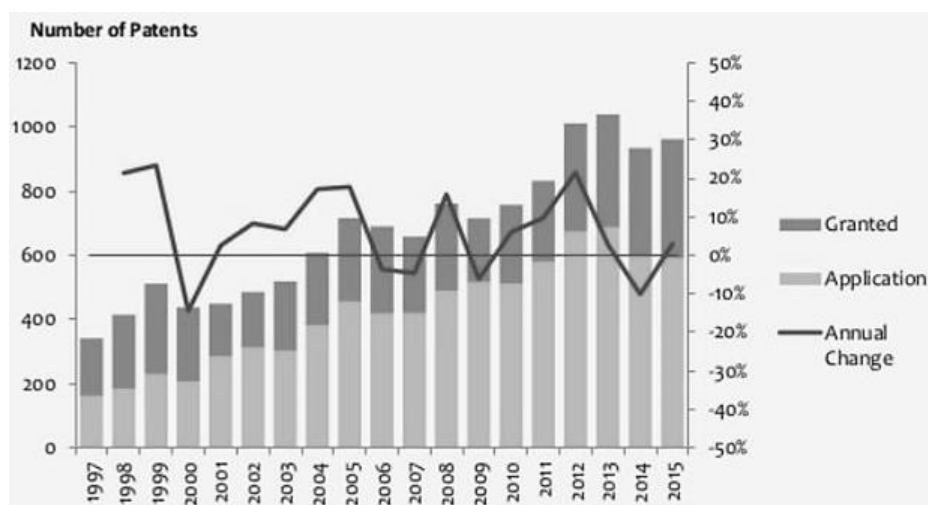
## 7.1 THE GLOBAL HOME APPLIANCES INDUSTRY

The fact that the home appliances industry has becoming more and more global is widely recognized. Another fact is that, each participant has the same objectives, which are to protect its home market and to expand overseas and it does not matter, whether it is Western or Chinese Firm. As competitors from BRIC countries has been emerging at a rapid pace and provide additional degree of complexity to the nature of international competition.

The household appliances industry excepted to be a matured, old-economy industry, on the contrary it is still changing rapidly, there is a strong commitment to continuous innovation., in addition novel competitors appear from emerging markets constantly. Whereby, these emerging rivals combine their low-wage benefits with consumer sensitivity to acquire those markets, that once were dominated by Western firms, and Haier Group is one of these challengers.

The fierce competition is confirmed by the number of patents that have been granted and applied in the last decades. The below illustration (Figure 14) shows the sustained rate of innovation which indicates market sustainability and potentials for market sales, as well as market participants' competitive advantages. Based on the data, provided by PatSnap Insight, the number of yearly application has trebled since 1997 and the number of yearly grant has increased from two hundred to about six hundred.

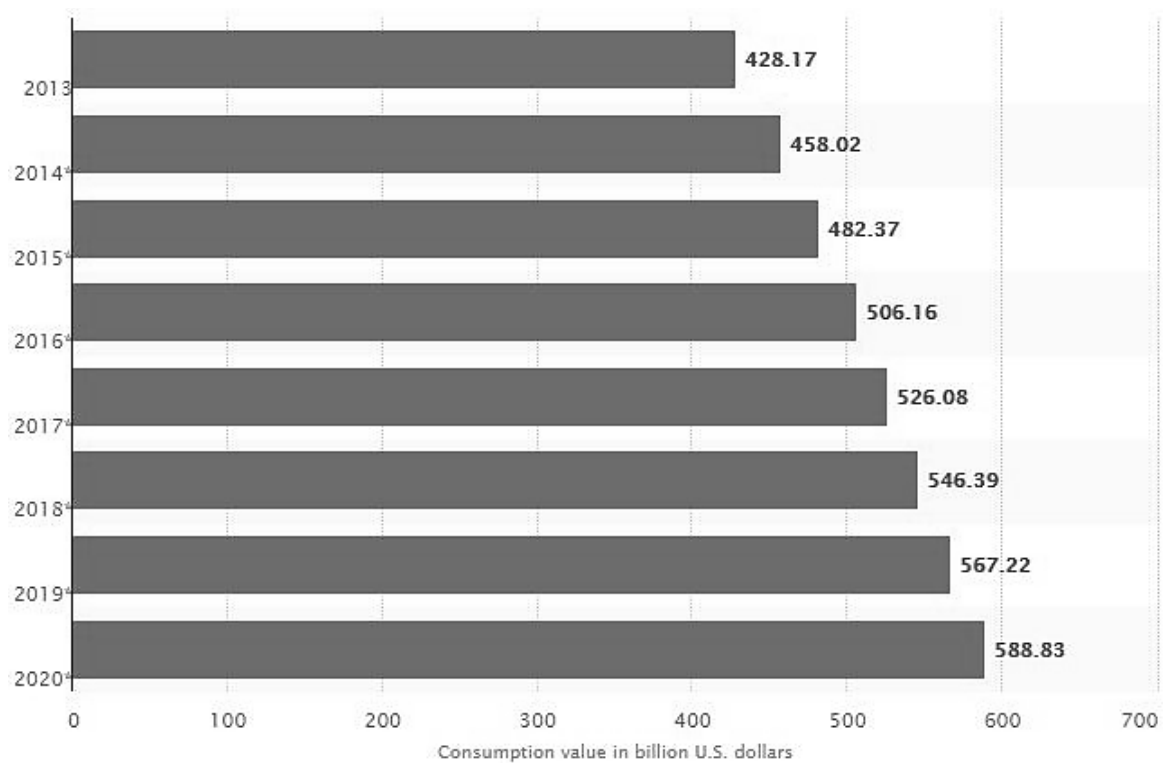
**18. Figure: Sustained Innovation in Home Appliances Industry**



Source: PatSnap Insights (2018)

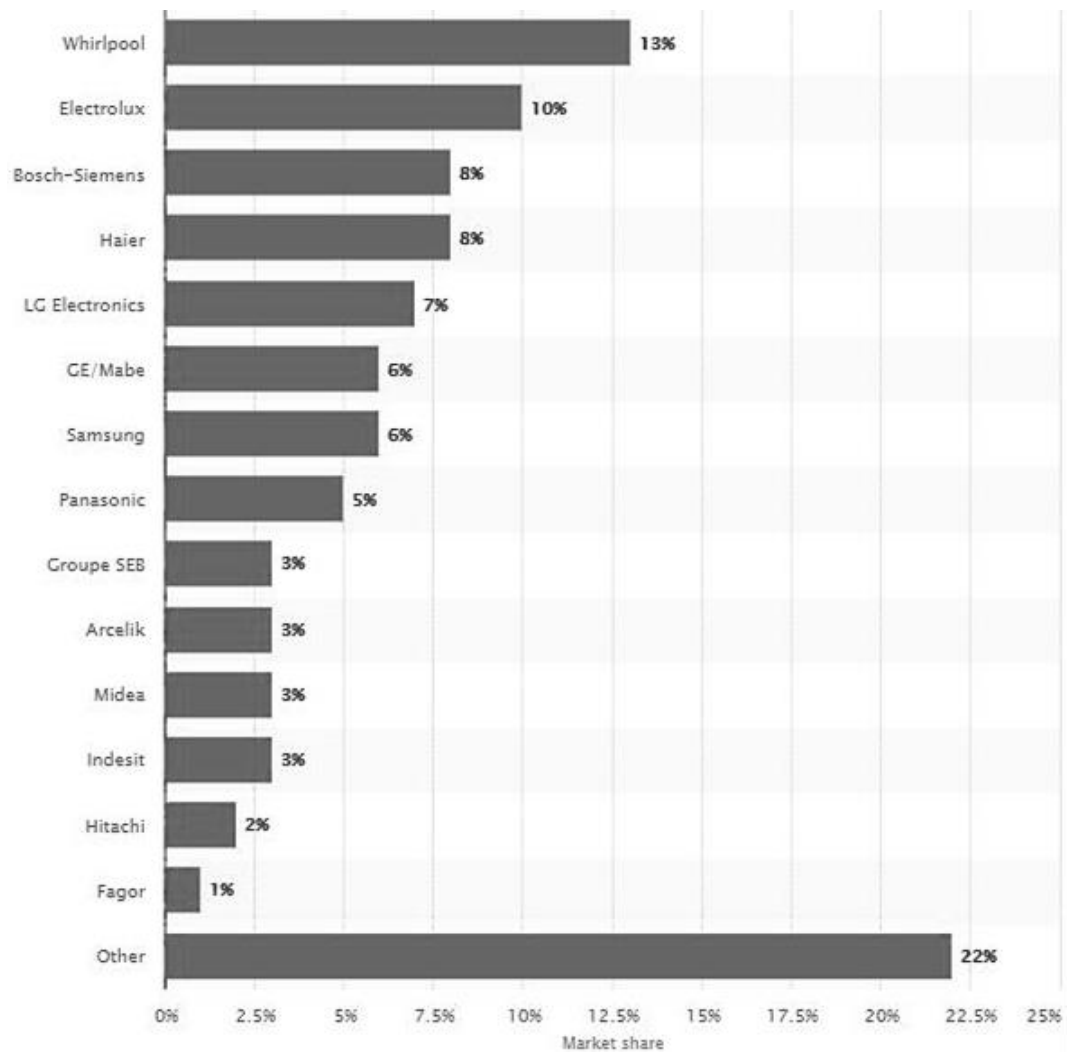
In the figure below, it can be seen how the Global Consumption Value will take shape from 2013 to 2020, based on a statistical data. As it is projected, the value of consumption will grow by 150 billion US dollars between 2013 and 2020 within the household appliances market.

**19. Figure: Global Consumption Value of Household Appliance between 2013 and 2020**



Source: Statista 2018

**20. Figure: Market share of companies in the global home appliances market in 2012**



Source: Statista (2018)

### **7.1.1 Haier**

Haier is the global leading provider of home appliances, and it has a heritage secured in innovation. In 1985, when it was still named as Qingdao Refrigerator Factory, Zhang Ruimin has started the employment of his management and business philosophy within the organization. Zhang already recognized the significance of brand and quality and its interconnection, that led to the public smashing of the refrigerators which captured the interest of the public. Under his guidance, the firm established an organizational structure that enables the continuous implementation of successful business model, while developing novel ones to stay pioneer.

*“Having success today doesn’t mean having success tomorrow. It’s like your footprints in the sand at the beach. When a wave comes, it gently erases all your steps from the past.”*

Zhang Ruimin, CEO of Haier

Based on facts and figures provided by Haier Group, in 2018, the firm achieved a global turnover of 241.9 billion yuan, and the global total pre-tax income exceeded 30 billion for the first time. Haier Group owns 10 R&D centres, 24 industrial parks, 108 manufacturing plants and 66 marketing centres, additionally employs more than 75.000 people across over 100 countries and regions (Haier, 2018).

**21. Figure: Global Market Share of Haier Home Appliances by Products  
(in terms of retail volume)**



Source: Euromonitor 2018

According to the publication of Euromonitor, in 2016, sales of large home appliances represented a global market share of 10.3 %, that ranked Haier Nr. 1 in the world for the 8<sup>th</sup> time. Moreover, with the aim of meeting personalized and diversified consumers’ needs, Haier has eliminated global technical barriers and promoted a healthy development of the industry via global strategic synergy within six global players, namely Haier, GE Appliances in the U.S., Fisher & Paykel in New Zealand, AQUA in Japan, Casarte and Leader. As a result, Haier established the largest cluster of household appliances industry that covers global market and communities (Haier, 2018).

Moreover, despite the strong desire of almost every global player to enter the Chinese market, Haier has been able to maintain its domination over the domestic market, while it was defending it from domestic competitors as well. Whereby, Haier’s competitive success derives from its thoughtful, strategic and creative way of responding to altering needs of market participants.



### 7.1.2 Whirlpool Corporation

Whirlpool Corporation is the second leading major home appliances firm that can be traced back to 1898. The firm manufactures products at 43 locations within 15 countries and sells products in almost every country around the world, with about 21 billion-dollar annual sales and 92,000 employees. The innovation is in the legacy of Whirlpool as well, it has been responsible for numerous first-to-market innovations and the firm is still committed to innovating for future generation of consumers.

The firm is eager to deliver significant and long-term value to both its consumers and shareholder. Therefore, it has established an industry-leading brand portfolio and a strong product innovation pipeline, that are backed with their global operating platforms and executed by their “exceptional” employees. They aim to position their brands between many consumer segments, with Whirlpool and KitchenAid brands, they offer differentiated products that provide great performance and desirable features, while their remaining brands are affordable to every consumer. In addition, the firm states that it holds the Nr. 1 position in seven out of ten largest countries by revenue (see Figure 18).

However, regarding its success within other continents, Whirlpool cannot take over market leader position in China due to mainly three factors. First, the firm underestimated China’s market growth. Second, its management team assumed that the Chinese market could be lead only by Westerns and with their acquired experience. The third factor is, the rigid, inflexible bureaucracy of Whirlpool, limited its speed to conduct business in a quick paced market like China. In addition to the previous factors, the firm has been facing with difficulties to reposition its American mid-end brand in China’s market.

#### **22. Figure: Whirlpool's Global Share Position**



Source: Whirlpool Corporation (2018)

### **7.1.3 Electrolux Group**

Electrolux has been shaping consumers' living for almost a hundred year all around the world. It was founded by Axel Wenner-Gren with 400 employees in 1919. On the contrary, today the firm employs more than 55.000 employees with about 13 billion US dollar annual sales.

Its aim is to maintain profitable growth by creating best-in-class consumer experience. Whereby, Electrolux Group has several desirable brands, such as AEG, Electrolux, Frigidaire, Westinghouse, Zanussi or Avona to meet the desirable needs of consumers. Additionally, to improve its profitability, the Group has set up important priorities, such as active product portfolio management, cost efficiency measure and enhancement of product quality.

Moreover, to broaden its product offerings and to establish a strong platform for expanding in novel customer segments and markets, Electrolux Group engaged itself in acquisitions as a part of its core strategy. The firm has already several other corporations, such as Grindmaster-Cecilware, Kwikot Group, Anova, Best or the Continental Brand.

Similarly to Whirlpool's situation, Electrolux has not been managed to become as successful as in other parts of the world, in China. The firm has not succeeded, thanks to two reasons. On the first hand, it positioned itself as a premium brand without essential knowledge of the market. On the second hand, it wanted to realize frequent changes, without correcting the existing problems. Consequently, Electrolux's image as a premium brand has eroded and has started to lose its market share.

### **7.1.4 Bosch-Siemens (BSH)**

The firm was founded in 1967 as a Joint Venture of Robert Bosch GmbH and Siemens AG. During its operation, it developed from an exporter to the second-largest firm in the home appliances industry. BSH employs more than 61.800 people, manufactures the entire range of home appliances at 43 factories, it has built out a strong network of almost 80 sales, production and service companies all over the world, and it has been increasing its annual revenue to about 16 billion US dollar.

One objective of BSH is achieving its revenue target of 23 billion US dollar by 2025. The firm intends to achieve this objective by building on consumers and their needs. BSH tests prototypes and products together with consumers under real-life circumstances, and the

results are incorporated into novel home appliances and solutions. Additionally, they focus on not only on design and user friendliness, but also on energy efficiency and digital functions (BSH Group, 2018).

Unlike other global players, BSH entered the Chinese market in 1994 via a Joint Venture with Wuxi Little Swan washing machine firm and it has been able to maintain its market position. Its success is attached to its patience, consistency and its long-run vision that have been missing from other global competitor's business model. Additionally, the management has been able to identify talent, build trust and retain valued employees.

## **7.2 INTERNATIONAL COMPETITIVENESS IN THE HOME APPLIANCES MARKET**

The characteristic of home nation plays a significant role, when we intent to describe the success of a company on an international level (Hollensen, 2010:104). Haier Group has developed itself a significant part of home appliance cluster of Qingdao in China. Qingdao is one of the earliest cluster of home appliances, that enables Haier to compete in the fierce global competition. Within this subsection, I will focus the case study firm Haier and on the investigation of international competitiveness on three levels; on national, industrial and on value chain level.

### **7.2.1 Analysis of National Competitiveness**

According to Porter, there are many interconnected factors which influence the international competitiveness, and he further discusses in his Diamond Model, that there are four plus two connected conditions which determine the competitive arena: factor conditions, demand conditions, firm's strategy, structure and rivalry, related suppliers and industries, role of government and chance.

*Factor Conditions:* Over the last 30 years, China has presented an astonishing economic growth. While in 1980, China's GDP per capita at Purchasing Power Parity (PPP) was only 195 US dollar, until in 2017 its GDP per capita at PPP exceeded 8.100 US dollar. Nowadays, China is the second-largest economy and it has become a deeply interconnected Global Supply Chain. The competitiveness of the country is characterized by several factors, such as China's labour force with about 800 million workers; low-wages even if it has started rise rapidly; the abundance of natural resources and low factor prices, that have been attracting foreign investors from all over the world; or the enhancing government policies. Additionally,

throughout these years, China acquired number of novel advantages that allows them to move up on the Value Chain and become leading player in technology innovation.

*Demand Conditions:* The rapid growth of the middle class has increased the domestic demand for more sophisticated and cutting-edge products and services also. This elevated demand helps to cultivate economies of scale, encourage entrepreneurial culture and develop smart manufacturing capabilities. Whereby, the government has recognized the smart manufacturing initiatives and it is already on its priority list to set up adequate policy support and incentives for technology innovation.

The large population has an increasing commitment to learning, so the nation has started to invest in education and set up universities, that can develop an educated labour force and can drive the creation of further clusters. Additionally, the quick pace of urbanization and infrastructure investments, are already attracting novel investments and productivity returns. However, there are numerous unrealized advantages that could derive from broader service liberalization, cost-efficiencies and further innovation (Deloitte, 2018).

Based on industry estimates, the global household appliances market will reach 342.82 billion USD by 2022, that was 240.86 billion USD in 2014. Hereby, they expect a major growth in emerging countries like China, as their demand increasing due to the surge in per capita income and consumer spending. In 2016, 68 % of the demand of these emerging markets accounted for appliances.

*Related and Supporting Industries:* The possible strategic positioning of clusters in China is strengthened by the study of Wu et al. (2007), who stated that there is a high relation between distribution of production and innovation. Wei et al (2015) further claim that, manufacturing agglomeration impacts R&D activities of firms. Hereby, the Chinese government has identified the need of these clusters, and it has initiated the transfer and incorporation of regional industries and fostered domestic value chains, strengthened the financial support for innovation and entrepreneurship and promoted the interaction amid industry, academy, research and itself. These R&D activities jointly with international and interregional technological spill over define regional innovation capability.

*Firm's Strategy, Structure and Rivalry:* In the history of Haier Group, there has been numerous acquisitions. At the beginning it was due to government request to save failing firms from bankruptcy, which resulted in the expansion of its portfolio. However, later on,

Haier Group decided on its own to acquire loss-making competitors and turn them around to broaden more their product portfolio and “Be the first brand of Chinese household appliances”. As a result, they set up a product system that includes 96 categories with more than 15,000 types of products. By 1997, the four biggest Chinese refrigerator brands—Haier, Rongsheng, Meiling, and Xinfeng—possessed 71 percent of the total Chinese refrigerator market share. On the contrary, by 2011 only Haier could consolidate its market position and resources, while has earned a reputation in Chinese consumers.

*“The world’s biggest firms keep on getting bigger.... In the past 15 years the assets of the top 50 American companies have risen from around 70% of American GDP to around 130%. All of the top ten American firms have been involved in at least one large merger or acquisition over the past 25 years.”*

*Economist, Land of the Corporate Giants*

Further investigation of firm’s Strategy, Structure and Rivalry forms part of Porter’s Five Forces Model, that included within the analysis of meso level competitiveness.

*Government:* Chinese government continuously takes steps to further stimulate economic growth. For instance, it has been enhancing state investments in infrastructure projects like highways and port facilities, or announced tax breaks on small businesses. Government policies continuously focusing on core industries and innovation to support firms in moving up the Value Chain and become technological frontier. It intent to back these progressions with talented Chinese scientists and other experts who are either educated at high-level universities in China or trained abroad to return their experience and knowledge to China. Moreover, the protection of intellectual property is strengthened unceasingly to encourage patents, and cutting-edge innovation.

*Chance:* Zhang Ruimin realized to become successful, the firm must differentiate itself by building a strong and valued brand based on exceptional product quality. The recognition of interrelation between quality and brand, had led him to the public destroying of the 76 fridges which captured the interest of the nation and established them as a famous domestic supplier. The early recognition of the need of organizational transformation has enabled Haier to transform itself from a near-bankrupt fridge manufacturer to the world’s leading home appliances provider.

### **7.2.2 Analysis of Industrial Competitiveness**

This subsection presents the application of Porter's Five Forces Model concerning the home appliances industry. The aim of this section to clarify the state of the industry with additional outlook on the bargaining power of buyers and the intensity of market competition. To acquire the overall picture of the market, the mentioned model will be complemented with the Five Sources Model, that provide perspectives about the existing collaborations.

*Market Competitors:* The home appliances market is characterized by differentiated oligopoly and dominated by multi-product firms. The global leader is Haier Group with its 10,3 percentage of market share due to its consumer-driven, flexible and innovative culture that has enabled it to build an exceptional brand reputation all over the world. The industry is still characterized by continuous growth, driven by increasing demand in emerging markets, that offers unserved market opportunities for global players. Potential risks can be the slowdown in macroeconomic growth and strengthening price wars due to market concentration and elevated level of inventory. By applying Blue-ocean strategy, firms able to identify untapped consumer segments, and to create compelling value proposition to them. This can be accomplished by value innovation, diversification of portfolios and better cost management.

However, market players should expect consolidation within the industry that featured by changing trends, like digitalization, sustainability or growing consumer power, which requires investments and economies of scale. Additionally, an increasing competition should be expected due to the appearance of major digital participants or new start-ups that use technology to disrupt the existing Value Chain.

*Suppliers:* The numerous M&As enabled Haier to have access to market participants, like suppliers, business partners, shareholders or consumers. Therefore, Haier Group decided to offer access to its global distribution network and the benefits of its large manufacturing volumes to stipulate its suppliers to implement greater modularization of components and standardization. Additionally, the growth of inward FDI enabled the Chinese government to develop a sophisticated industrial and infrastructural base, to become key part of global manufacturing's supply chain.

All leading market players have realized the benefits of digitalization, that has led them to the implementation of Digital Supply Chain. The Digital processes make possible to have a closer collaboration with suppliers and retailers, which helps to decrease costs, improve

quality and flexibility. For instance, both Electrolux Corporation and Haier Group is building a digitally integrated value chain which enables an interaction between production processes and current consumer demand. It is complemented with an extensive modularization method that decrease product costs, as it unlocks and shares resources for distant products.

All of the above factors enable manufacturers to force suppliers of lowering price for bulk raw materials, such as copper, aluminium, steel plate or oil-related plastic particles. The importance of this pressure is high as the purchase of raw materials accounts for about 30 % of the net income.

*Buyers:* In the home appliances market the consumer bargaining power is growing thanks to the increasing amount of available information about prices, offers or product characteristic. Therefore, every market player is required to offer transparent information about how products and services are differentiated. Hereby, the changing industry dynamics, such as digitalization, sustainability or market consolidation play a significant role in the increased consumer power. Firms need to innovate and transform their businesses into consumer-oriented firms with high proposed value and value innovation.

*New Entrants:* Because of the changing dynamics of the home appliances industry, firms need to broaden their product portfolio with digitalization and smart home offerings, to hinder the enter of new competitors and the disruption of the value chain from distant industries.

*Substitutes:* Firms do not need to concern the appearance of substitutes, as there are no alternative products. All global market leaders intent to have an active portfolio management, to focus on profitable product groups with consumer-oriented innovation. Through continuous innovation, they offer novel products with improved and simplified usage with greater quality. In addition, firms have engaged themselves in conducting extensive interviews and home visits with customers to gain knowledge about consumer needs and behaviours. These business activities lead to the delivery of developed solutions and value innovation.

Based on the previous structure, the following paragraphs apply the Five Sources of Collaborative Advantages Model.

*Market Competitors:* The markets are characterized by the presence of horizontal collaborations. For instance, Haier's COSMOPlat that is a global leading industrial Internet

platform with independent intellectual property rights was developed in collaboration with relevant firms in seven major industries and it is able to provide comprehensive solutions and value-added services to every stakeholder within the Value Chain. Additionally, through R&D collaborations, Haier has sharing R&D, product and module resources for all products under distant brands (Haier, GE Appliances, Fischer & Paykel or AQUA). The multi-brand collaboration in distant regions will lead to an accelerated launch of cutting-edge products, to an increased overall market share and to a clear brand positioning.

*Suppliers:* The methods of digitalization enable firm to have a closer collaboration with both suppliers and retailers, that lower costs, eliminate rigid structures and improve the quality concerning either services or products. In the case of Electrolux Corporation, by using its purchasing power and engaging in collaborative solutions such as holding trainings and providing improvement programs, it can improve logistics.

*Buyers:* Within all the mentioned firms, consumer-centricity is at the core of firms' strategy. For instance, BSH builds on its consumers and their needs, they test prototypes and products together with consumers under real-life circumstances, and the results are incorporated into novel home appliances and solutions. Or Electrolux is engaging with consumers through the purchase and use phases, to build a close interrelation with them and acquire additional information about consumers' behaviour, experiences and needs to offer a "360°Consumer Experience". Whereby, Haier Group established a "Personalized user experience" which indicates that buyers are not passive and one-time consumers anymore, but long-term users, who need to be closely and intensively involved in every phase of manufacturing and innovation processes to achieve the highest value innovation within the industry.

*New Entrants:* Haier Group has established a strong global position, that can enable the firm to acquire new potential market competitors. As Haier is constantly searching for novel ways to improve its value proposition, and it is aiming to identify other emerging industries to recognize and serve untapped markets.

*Substitutes:* Substitute products are not available in home appliance industry, therefore the creation of alliances with them is not possible.



### **7.2.3 Analysis of Value Chain Competitiveness**

Nowadays, Customer Perceived Value plays a vital role in the home appliances industry. With the aim of becoming and maintaining a global leader position, Zhang Ruimin has realized the need of subsequent adaptation and experiment of business model to meet both consumer and employee demands. As mentioned earlier, Haier Group implemented a “Personalized user experience” to motivate consumers to become long-term users, who are closely and intensively involved in every phase of manufacturing and innovation processes to achieve the highest value innovation within the industry.

*Product Benefits for Consumers:* Haier Group’s objective is to engage with consumers on the long run. It aims to transform the purchasers of their offerings from one-time customers to lifetime users, by designing the products and services in a way that solves their problems and elevates their satisfaction. This is where other firms fail, as they are obsessed with the quality of the products so much that they have forget to increase the consumers’ personalized user experience. Additionally, Haier has been focusing on developing user sensors, or devices that observe consumer behaviour from distant perspectives, rather than developing just product sensors. This allows the firm to gather data about the consumers and transfer it to its COSMOPlat, that is shared with its stakeholders. The mass customization platform makes it possible to recognize and to react immediately to changing demands with its collaborators.

*Service Benefits for Consumers:* Thanks to the Internet era, Haier has been able to develop its own platform and implement a real-time presence. Zhang’s goal is to create a platform-based and networked enterprise, whereby they can transform their internally focused, closed system to an open one, that enables the interconnection of all types of resources. By using COSMOPlat, the firm wants to achieve mass customization and to create best user experience during the whole process, from the product design to the product usage. Through the “internet factory” every user will have the chance to customize Haier’s products and co-produce value with an overall value innovation.

*Direct Costs for Consumers:* Haier has promoted the development of e-commerce business and it added the mid-end and high-end products to its online offers, additionally the focus shifted from “price war” to “value war”, which resulted in a slight raise of average price. On the contrary, continuous improvements, such as modularized products, digitalized

production mean higher value delivery for the consumer at a slightly higher price. Other direct cost can be the quality assurance; however Haier Group is committed to always improve quality and create quality programs to create better personalized user experience. By listening to consumers, and identifying early warning detection about any product failures, the firm can eliminate this type of direct cost.

*Indirect Costs for Consumers:* One of the indirect cost could be the proposed active involvement in every phase of business activity. Although, at the end in exchange of the invested time, the consumer should get greater value than without it. Additionally, with the collaboration of Goody and Goodymart Logistics, Haier Group can offer assists regarding good collection and delivery, installation or even one-stop delivery, installation service and replacement service, which decrease the occurrence of indirect cost.

The application of Competitive Triangle provides an interpretation between Perceived Value by customer and Relative Cost.

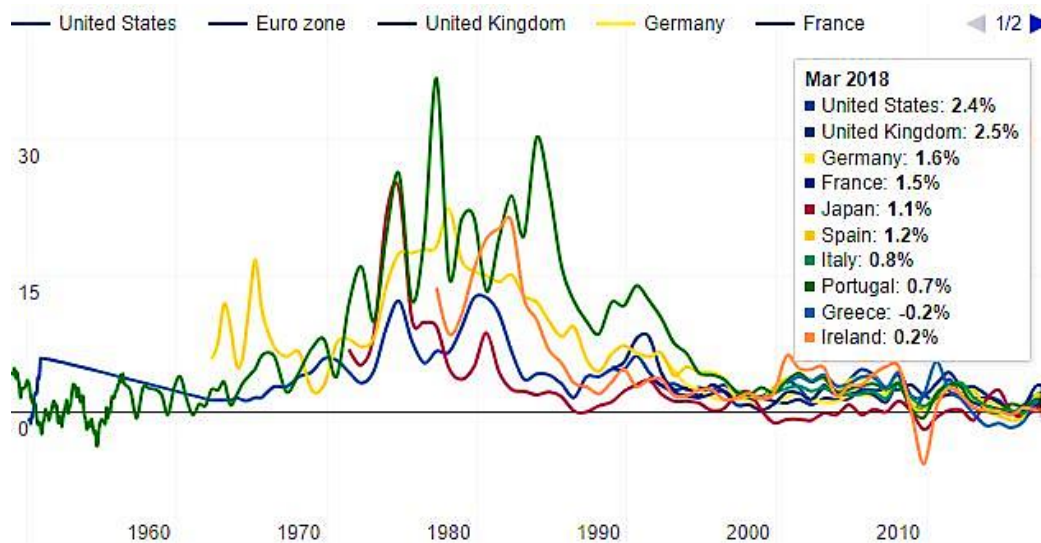
*Perceived Value:* The application of COSMOPlat allows Haier to implement mass customization and to create the best user experience of the whole process. One of the consumer stated the below:

*"As an average user, I think it's immensely important to have an opportunity to indirectly participate in the process of the product creation and have the product customized according to your vision. It's a true celebration of world-class creativity and uniqueness; it's the celebration of the personality and the significance of individual vision in the era of globalization and mass production."*

Marianna Glynska, Contributor of Huffington Post

*Relative Cost:* By looking at the below Figure, we can acquire an overall perception about the change of retail prices, that is indicated by Consumer Price Index (CPI). This index measures changes in prices of all goods and services consumed by the population of a country or a region. Based on the provided data, a slight increase can be noticed that most likely will impact the price trends of home appliances as well. It can be underlined by the fact of rising cost of raw materials which form a significant part of the products. Therefore, the consumers will face with an increase in the prices and with an evolving "Price war" that rather turn into "Value war" as a result of continuous innovation. At the end, the purchaser will make its decision based on the provided value and user experience.

### 23. Figure Average Annual CPIs between 1950 and 2018 (in percentage)



Source: Country Economy 2018

## 7.3 HAIER GROUP'S BUSINESS MODEL

As Alexander Osterwalder and Yves Pigneur have described in their “Handbook” (2010), *the purpose of a business model is to translate a firm’s vision into a blueprint for how it will generate profit if the vision is accomplished. Business models indicate the ambitions of the organization in the way the firm’s offerings are described. What are we actually offering? Through what channels? To whom? Involving what sorts of resources and activities? At what cost? For what price? In what geographies? With which partners?*

### 7.3.1 Business Model

**Value Proposition:** Haier Group’s aim is not only add value for its customers, but to add value for every stakeholders in the ecosystem, based on its “RenDanHeYi 2.0 – ecosystems for co-creation and winning together model”.

**Customer Segments:** Through the global strategic synergy among six brands of household appliances, namely Haier, GE Appliances in the U.S., Fisher & Paykel in New Zealand, AQUA in Japan, Casarte and Leader. Haier has built the largest household appliances industry cluster in the world which covers global markets and communities

**Channels:** Haier Group offers its products and services via distant channels, such as newly launched Internet sites, Immediate downstream presence through B2B firm or Gooday Logistics and Goodaymart Logistics.

*Customer Relationships:* Zero distance to customers with Personalized user experience.

*Key Resources:* “Platform-based enterprise” – all stakeholders can co-create with shared interests, risks and success; “Entrepreneurial employees” – active partners, who can grow together with the firm; “Personalized user experience” – via “Internet factory” user can be part of all business activities.

*Key activities:* Platform-based Operation via two kinds of microenterprises, namely customer-oriented microenterprises, and service and support microenterprises. All microenterprises have its own to power to make decisions, select personnel and distribute its profit. In addition, there is an internal market auction system, whereby these microenterprises are able acquire the desired projects and the necessary resources.

*Key Partnerships:* Increased reliance on external partners to enhance value innovation. Collaborating with other appliance manufacturers via Gooday Logistics or Goodaymart Logistics. Networking with B2B firms that have extended downstream partners.

*Cost Structure:* Raw materials form high rate of the cost, which is balanced with reduced administrative costs via microenterprises, and lowered costs due to “on-demand manufacturing and delivery based on zero-inventory”.

*Revenue Streams:* Major part of the revenue derives from the sales of customized home appliances, but Haier Group possesses several additional revenues thanks to the customized services, new brand acquisition and offered retail services.

### **7.3.2 Value Configuration**

As it was described previously, the main purpose of a firm is the value creation for customers in a way that they are willing to pay to acquire and use it. Whereby this value is the result of configuration of internal and external activities and procedures. Value Configuration describes the arrangement of one or numerous activities in such a way that provide Value Proposition.

From Value Proposition view point, the value configuration of Haier Group is the mass customization via becoming a platform-based firm, where all stakeholders have access to world-class resources and can co-create value with common interests, risks and successes and at the end the customer attains a “personalized user experience”. As Alexander

Osterwalder and Yves Pigneur (2010:20) has described “Customers comprise the heart of any business model. ...A business model may define on or several large or small Customer Segments.” In the case of Haier Group, they aim to become leading provider of better-life solutions, therefore they have engaged themselves in numerous Mergers and Acquisitions to cover global market and communities.

As its Value Configuration indicates, Haier Group basically functions as a value network, based on its intention to closely link all stakeholders via its COSMOPlat platform (Stabell and Fjeldstad,1998). The firm can be described as an integrator, due to its plan to encompass all the stakeholders within one platform to Co-create value. It is underlined by the following case study of the acquisition of General Electric Appliances (GEA), in order to possess its existing resources and knowledge to enhance its value innovation and expand its market share. Haier Group forms horizontal collaborations to extend the network with the aim of obtaining mutual benefits from network externalities. Additionally, it can be described as a mediator, due to its activity to collaborate with lower-level network to acquire the necessary technology or resources through its desire to achieve on-demand production and delivery.

### **7.3.3 Interpretation of Distant Values**

Regarding the Exchange Value, that is in case of the end consumer is the monetary value willing to pay to acquire and use a distant product. Whereby in case of the acquired GEA, the exchange of the ownership transfer was the amount evaluated by the firm’s accounting group and Board members.

The Value-in-Use for the end consumer is an elevated user experience thanks to the thoughtfully designed, innovative and sustainable offers. Regarding the acquisition, the Value-in-Use is defined by its net present value, that was 5.6 billion USD.

Concerning the Value-in-Context, the context this time is Haier Group’s internationalization processes, whereas the value indicates the access to distant advantages such as patents, that can provide important technological benefits which the firm can apply to differentiate itself and compete even more efficiently.

## **7.4 HAIER GROUP'S ACQUISITION CASE OF GENERAL ELECTRIC APPLIANCES DIVISION**

In 2016, the Chinese home appliance producer, Haier Group announced the acquisition of General Electric Appliances (GEA) division headquartered in Louisville, Kentucky. GEA also operates manufacturing facilities in Alabama and Decatur, and has wholly-owned subsidiaries in Georgia, LaFayette, Selmer and Tennessee. Within this subsection, a field overview of internationalization and an internationalization analysis about case firm is presented. Which is followed by an examination of Value-Creation for the firm and its stakeholders derived from the foreign investment processes.

According to an article of South China Morning Post, Haier is aiming to accelerate its revenue and the acquisition of GEA enables the firm to deploy a strategy that involves the implementation of a data platform and the Internet of Things. The firm acquired the home appliance division from GE for 5.6 billion USD in 2016.

### **7.4.1 Dimensions of Internationalization**

#### *Internationalization Stages*

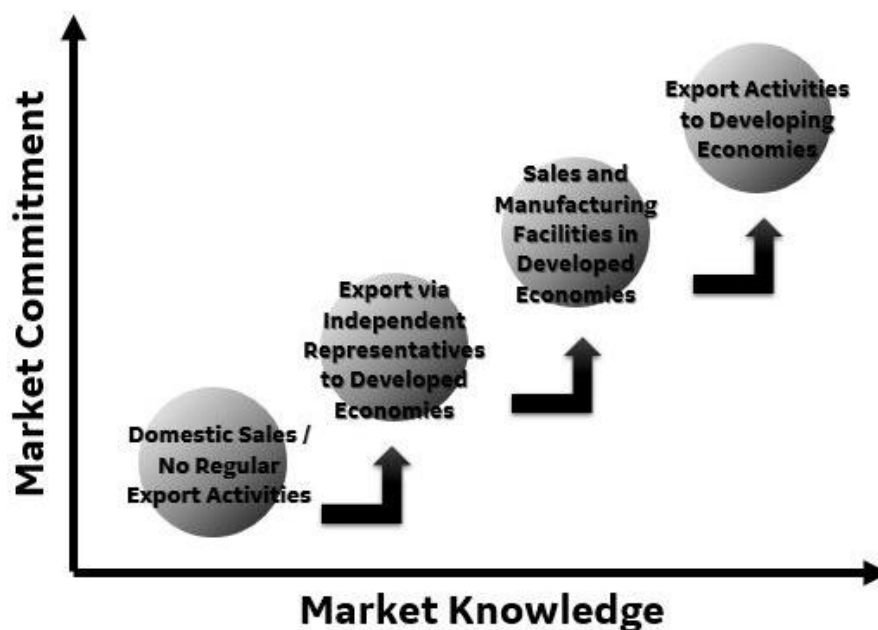
Application of the Uppsala Internationalization Model (see Figure 20. below) enables us to examine the acquired data about geographic diversification and market commitment. Firstly, the main aims of the company were to build a Brand and become number one domestic home appliance manufacturer (The Early Starter). Secondly, after accomplishing a strong domestic market position, Haier, as a Late Starter has decided to expand overseas (developed markets), rather than penetrating less competitive regions in order to establish a global brand. In the second phase Haier starter to export via independent representatives, with the aim of acquiring market information for establishing their own marketing offices. Haier found out that, there are several mature distributors for all product line, that are familiar with the markets and do not face with any difficulties concerning the psychic distance, in addition all of them own extended marketing channels.

Once, it gained market share and had the necessary experience, knowledge, technology and resources, Haier Group has started to apply a localization strategy in foreign markets. In the third stage, Haier set up 10 foreign information facilities, 6 design division and 2 industrial parks with the aim of offering customized home appliances that is adequate for local consumption characteristics. After the establishment of a global brand reputation, the

firm used this strength to expand its business to developing countries and to define the market rules.

Within two decades, Haier Group has achieved to become International among Others, what is more it has been ranked Nr. 1 global manufacturer of home appliances for nine consecutive years, with 37 billion USD global revenue. The firm has managed to set up 10 R&D centres, 24 industrial parks, 108 manufacturing plants and 66 marketing centres and additionally it has acquired 7 well-known brand all around the world.

**24. Figure: Internationalization Stages of Haier Group**



Source: Own illustration (2018)

#### *Transaction Costs of the GEA Acquisition*

As it was described earlier, Transaction costs occurs when purchasing or selling a good or service. Concerning an acquisition, its costs can be divided into two different form, namely ex ante and ex post costs. Whereby, ex ante costs can cover the investigation cost for selecting the correct company. Regarding GEA, General Electric was struggling to sell its appliance division, therefore it was the right time for Haier to acquire it and conquer the US market. Over the cost of search, entering a market has a cost as well, on the contrary barriers of home appliances market were quite low, therefore Haier could manage its purchase activity easily. Furthermore, in relation to the acquisition agreement, contracting cost arise too.

Concerning ex post costs of transactions, monitoring the agreement and fulfilling the obligation are one them. Hereby, as the two firms share similar goals, such as be the most competitive, innovative and consumer-oriented company in the world, monitoring cost possibly stay low. In addition of the similar goals, the companies agreed to cooperate globally and pursue mutual growth project within areas like, advanced manufacturing, healthcare or industrial internet, therefore the cost of enforcing the agreement suggested quite low.

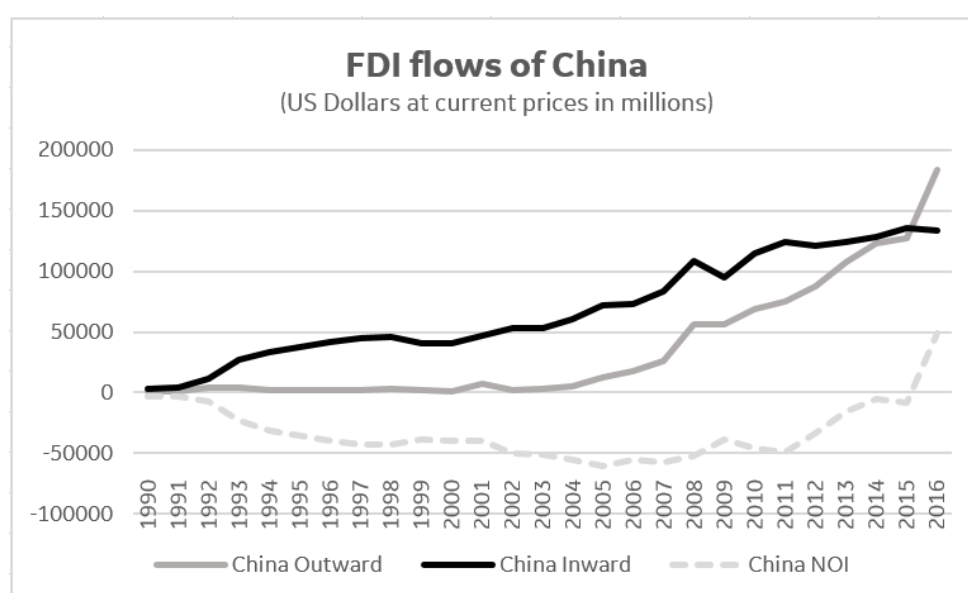
Concludingly, the distant types of Transaction Costs that have been occurring during the integration process of the two firms are considered low. As Haier could minimize these costs based on the above-mentioned aspects, such as familiarity with the US appliance market, or similar business activities, interest and goals. Furthermore, expanding to other market via internationalization suggested to have lower transaction costs, as executing transactions within the organization is cheaper than through markets.

#### 7.4.2 IDP, OLI and LLL Perspectives of Haier's Acquisition

The International Development Path (IDP) theory suggest that firms go through five stages during their internationalization and firms experiencing structural alterations in the composition of their investments depending on the position of the economy and its NOI.

China is still considered as a Developing Economy, whereby the USA categorized as Developed Economy and it is an important part of the global economy.

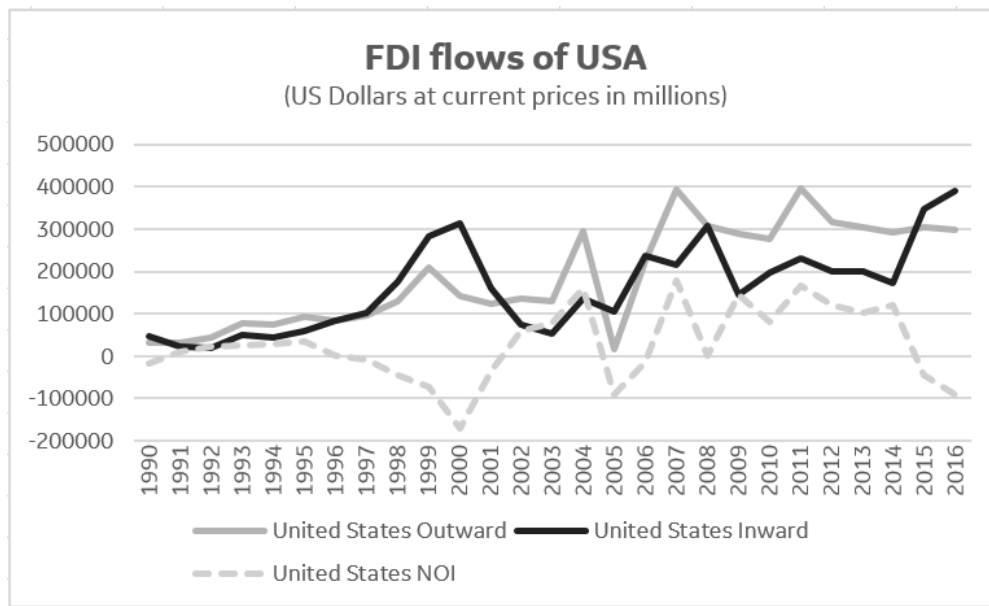
**25. Figure: China's FDI Flows between 1990-2016**



Source: Own illustration based on UNCTAD data (2018)



**26. Figure: USA FDI Flows between 1990-2016**



Source: Own illustration based on UNCTAD data (2018)

Based on the acquired data from UNCTAD, we can see both FDI inflow and outflow in China have shown a tremendous growth within the examined period. Moreover, the outward FDI exceeded the inward FDI in 2015, and China has become the second largest FDI outward investor, that was driven by the facts China has been capturing higher market share and moving up the Value Chain in highly competitive manufacturing markets. Hereby, Cross-border M&As have become an important means to realize strategic goals. Concerning Haier Group, its aims are in line with the national objectives, and it has been contributing to these trends significantly due to its acquisitions and strategic alliances.

On the other hand, we can see a “weak” FDI outflow from the USA mainly due to a slump in investments, but it is still remained the world’s largest outward investing country in 2016. In addition, since 2014, FDI inflow doubled and it was primarily driven by equity investment flows. More than half of FDI inflows targeted the manufacturing and pharmaceuticals sectors, besides China accounted for more than 8 % of these Cross-border M&A sales in 2016 (WIR, 2017). Regarding Haier, it has conducted its acquisition in the USA, in order to obtain location advantages, such as skipping tariffs or decreasing transportation cost. Or to possess ownerships, that enable them to further increase its market share, its brand reputation, or its innovation capabilities.

Based on the Net Outflow Investment (NOI), we can assume that, China is in the fourth stage of IDP, as the country's outward FDI has exceeded the inward FDI. While, the NOI of USA indicates that the country is in the fifth stage, as the stocks of inward and outward FDI reflecting relatively similar amounts.

Originally the OLI framework was developed to explain why a firm makes FDI, in addition how a firm can possess competitive advantages via OLI factors.

*Ownership Advantage:* The acquisition has allowed Haier to consolidate numerous resources. As a result, the firm increased its number of manufacturing facilities within the USA and possessed numerous intangible assets, such as patents or know-hows, that contribute to their further innovations, as it gains, develops and transfers technology within the whole organization. Moreover, Haier acquired also the valuable human resources, culture and partnerships of GE to establish a global brand.

*Localization Advantage:* The acquisition of GEA also enabled Haier to set up additional R&D centres and build out design, manufacturing and marketing networks to further enhance its reputation of brand. By having own producing plants, the firm can avoid tariffs and reduce its transportation costs at the same time. Additionally, the proximity to the consumers, allows the firm to develop such home appliances that have a high value proposition for the end consumers. The location also contributes to the formation of strategic alliances and Joint Ventures with other multinational firms.

*Internalization Advantages:* Through the acquisition, Haier has been able to generate more profit than selling through outside distributors. Furthermore, due to the nature of home appliance market, expanding the business via M&A is more feasible than via greenfield investment.

On the other hand, the core of LLL perspective is to offer a strategic framework about the accelerated internationalization that is based on a light, flexible structure instead of a rigid resource-oriented structure, as it is suggested in the OLI model. Its basic assumption is that, newly emerging multinationals from emerging markets, do not possess all the required resources and capabilities, but by linking with outside stakeholders, players and leveraging their resources and capabilities and repeating (learning) these activities continuously, firms are able to catch up with global players.

*Linkage:* Concerning GEA, it has already built out an extensive Value Chain and Supply Chain connections all around the world, therefore, through the acquisition Haier Group has obtained all of these connections. Moreover, from now on the firm has access to GEA's customer base as well.

*Leverage:* The consolidated resources of GE Appliance, such as market position, patents or know-hows complemented by its human personnel allow Haier to strengthen its internationalization strategy.

*Learning:* With the access to the above mentioned resources, Haier is able to improve its experience and knowledge about the market, that leads to a continuous innovation and increasing market share.

### **7.4.3 Impact of GEA Acquisition on Haier Group's Stakeholders**

*Value for the Firm:* Within internationalization perceptions, M&A suggests creation of synergy value, due to the assumption that, the newly formed organizations have higher net value concerning their aggregated assets. By following the structure of the revised literature, concerning the Resource-Based View, Haier Group has acquired distant type of resources that improve its overall value of the firm. As mergers incorporate the value chains of the merging firms to generate added value. Hereby, the latest perception of value creation in firms founded on Relationship-Based View, indicates that the newly acquired connections with distant parties highly increase the firm's value. Scholars argue that, value creation within a firm is a recurrent method, therefore the results of the acquisition will contribute to firm's value on the long run.

Hereby, the delivered results of GEA acquisition was in line with desired expectations. First, GE appliances has been contributing with healthy performance of operation. Second collaborative initiatives concerning procurement, R&D, Supply Chains and Channels have been developing continuously. For instance, it has signed an agreement to add JC PENNEY to its portfolio of retail channels, which number has exceeded 1000; or it has identified 142 synergic projects, contributing with 22 million USD of synergic value, of that 14 million USD was connected to GEA.

*Value for Haier's Shareholders:* The acquisition of General Electric Appliances was officially announced on 6<sup>th</sup> June in 2016. According to Haier Group's Annual Report, this acquisition contributed to the revenue with about 4 billion USD and to the net profit with

about 138 million USD. While the original business of the firm has accomplished 14.5 billion USD revenue, indicating 3.82 % year-to-year growth. Furthermore, only concerning the original business of Haier Group, the recorded net profit attributable to shareholders was 538 million USD, representing a year-on-year increase of 11.95 %. Meanwhile, the total revenue of Haier Group has increased above 18 billion USD, that represents an increase of 32.59 % with a 31.02 % of Gross profit margin.

In the first half of 2017, GE Appliances has already generated more than 3.5 billion USD revenue with net profit of 180 million USD. Additionally, GEA has improved its market position, accelerated the innovation of most competitive products and employed a high profit strategy via modification of organization and procedures.

**27. Figure: Haier Group Share Prices 2016-2018**



Source: Yahoo Finance (2018)

By looking at the last 2 years stock market performance (see above Figure 21), can be determined that the share price resulted between 10.80 and 28.80 HKD. What we can see is that, since Haier Group announced the acquisition of GEA on 6<sup>th</sup> June in 2016, the share price stayed steady until the end of year and from 2017 it has been ranging due to numerous factors. These factors can be the followings: Nr. 1 ranking in the global market or continuous acquisition of home appliances and alliancing with entrusted brands and strategic participants of the market enables the firm to establish competitive edge with incorporated capabilities in R&D, producing and marketing both at domestic and foreign markets.

*Value for End Consumers:* As a result of the acquisition, the American consumers are also able to be part of the “Personalized user experience”. As all stakeholders can co-create

with shared interests, risks and success, via “Internet factory” where the user can be part of all business activities.

*Value for Core Partnerships and Institutions:* The acquisition has resulted in the establishment of global network of several resources. One of the major agreement was signed with JC PENNEY, that is one of biggest retail chain in the USA. In addition, through GEA, the firm co-created FirstBuild, that is an online community with the aim of changing the way how a product comes to the market from an idea. That is supported by the Microfactory, which is a collaborative makerspace for quick prototyping, fabricating components, and product assembly, and the place where the ideas come to life. Moreover, General Electric and Haier Group has agreed to cooperate globally and pursue mutual growth project within areas like, advanced manufacturing, healthcare or industrial internet.

*Value for Employees:* During the acquisition two group of employees are affected. Once the existing employees at Haier, second the newly acquired employees at GEA. Whereby, Haier Group has started to break down the bureaucratic and rigid linear structures of the organization to smaller work units to better respond to consumers, just like it has done in its other. Additionally, employees are motivated distant incentives, such as financial rewards for pitching ideas, that will result in novel products and services.

*Value for Suppliers:* Concerning the Supply Chains and Channels, it can be assumed that either the existing or the new supply chains will be incorporated into the other. Hereby, the new system might lead to an increasing demand for some suppliers, that would create more value, as supply and price advantages might be exploited in other business divisions of the firm. On the contrary, it might lead to a lower demand or even elimination of some suppliers, that has a relational and monetary value impact on them.

#### **7.4.4 Conclusion of the Acquisition of GE Appliances**

Haier Group has announced the acquisition of GE Appliances, that is headquartered in Louisville, Kentucky on 6<sup>th</sup> June in 2016. This acquisition has affected the parent firm by an overall growth of its internationalization. As a result, Haier has become an “International among others”, as it has expanded its geographical diversification and increased its market commitment. The Transaction Cost analysis indicated low and acceptable costs for the acquisition, based on the facts, that the two firms share similar goals, such as become the most competitive, innovative and consumer-oriented company in the world. In addition, the

barriers of home appliances market suggested to be low, if it is compared to the overall return of the transaction.

Consequently, Haier has obtained numerous benefits, such as ownership, as it has been able to consolidate numerous resources. For instance, the firm increased its number of producing facilities and possessed numerous intangible assets, that contribute to their future innovations, as it gains, develops and transfers technology within the whole organization. Or internalization advantage, as it avoided a costlier greenfield investment. In addition, Haier has been able to advance its number of strategic partnership both Value Chain and Supply Chain collaborations.

The acquisition of GEA has generated distant values for distant stakeholder of the firm. Haier itself, successfully managed to increase its overall revenue and net profit, which resulted in higher shareholder income as well. In addition, end consumer will have the chance to be part of the “personalized user experience”, or the employees are able to obtain elevated level of financial income if they form active part of business activities.

## **8 DISCUSSION**

Within the Discussion chapter, some elaboration can be find concerning major theories found in revised literature of International Business. The main field of Value Creation in internationalization relates to firm’s aim to consolidate its resources through Cross-border M&As as a Value Creation context.

### *Value Creation for Resource Consolidation*

Within the Literature Review, the core finding was that the context in which M&A occurs does matter when evaluating Value Creation. Numerous study investigated the complexity of capturing value creation, and these assume that it is highly correlates with M&A. The focus has been led by the hypothesis, that post M&A value comes from mixing the firm’s inside capabilities and resources in order to generate distant synergies which allow the maximalization of shareholder value. Concerning the case study of Haier Group, it is clear that the firm aims to consolidate its resources through the acquisition. By obtaining GE Appliances manufacturing plants, R&D centres and other resources, Haier has consolidated its assets to increase its market share and build out a global brand reputation. The created values by the acquisition transaction are the obtained new resources, such as intangible assets or human

resources; and the new networks that contribute to the firm's value creation process on the long run. According to the provided data by Haier Group, this acquisition already has a high impact on the firm's revenue and on its value innovation. The revisited literatures on firm's internationalization enabled us to have a better understanding about the perceptions on the acquisition. This investigation was supported by such theories, like Stages of internationalization, Transaction Cost approach or the perceptions of OLI and LLL frameworks.

#### *Impact of major theories on the development of International Business and FDI theories*

While investigating within the field of International Business and FDI theories, we must delimitate our scope of applied theories. As it was presented earlier, most of the theories and frameworks derive from the perceptions on Institutional Theory and Market Imperfection Theory. As numerous scholars have pointed out to the fact, that meeting with the expectations established by institutions is critical, especially concerning FDI, when a firm needs to collaborate with multiple institutions across national boundaries.

Besides, the assumption of market failure, that supposes an inefficient allocation of production or use of goods and services during free market circumstances has provided foundation for multitude of model and theories. These theoretical views elaborate on the supposition, that MNCs has developed due to market imperfections, and those firms that are able to invest abroad have a unique advantage, and it enables them to run their foreign subsidiaries with more financial return than its local competitors.

The application of major assumptions from these theories enables us to understand how and why Haier Group has been able to accomplish competitive advantages out of GEA acquisition. First of all, the acquisition provided it with ownership of unique and complementary resources and technology. Secondly, is provided access to distant networks, like Value Chains and Supply Chains that allowed the further consolidation of its resources in the highly competitive market. Furthermore, the use of the mentioned theories allows the explanation of market nature, as the home appliances market is characterized by differentiated oligopoly and dominated by multi-product firms. Whereby, the leading player is Haier Group with its 10,3 percentage of market share due to its consumer-centric, flexible and innovative culture that has allowed the development of the exceptional brand reputation all over the world.

### *Configuration of IDP theory*

The increasing number of MNCs from Developing Economies, with recent significant part in the global economy is a structural concept closely related to the systematic transformation resulting from globalization. The examination of the level of China's FDI based on the IDP theory suggests that, the internationalization of these emerging MNCs cannot be explained entirely with the traditional theories. As these firms, such as Haier Group choose distant methods of internationalization, then it was determined before based on its level of development. Concerning the case study, it suggests that these firms must seek for novel ways of internationalization due to the fierce international competition.

Concerning the Firm-Specific Advantages obtained by MNCs from both Developing and Developed Economies, a parallel can be drawn between them. Meanwhile, firms from Developed Countries create ownership advantages derived from key assets, like technology, know-how or brands, until organizations from Developing Countries generate advantages from their manufacturing methods, networks or organizational structures just like Haier Group has been doing. Earlier, scholars suggested that MNCs from Developing Economies tend to invest in other Developing Economies. However, that assumption is not applicable in more and more cases, as such firms as Haier conduct Cross-border M&As with the aim of acquiring knowledge, that can benefit them in two major ways. Once, just as the LLL view suggests, they learn from these experiences and improve their global operations continuously. Second, they obtain resources and technology to develop competitive advantages and improve their international competitiveness and market share.

Therefore, it raises further questions in investigating the connection between firms' internationalization process and Investment Development Path of different countries.

### *Value Innovation + Creativity*

It is a well-known fact, that the consumer is the ultimate evaluator of a firm's success. And as it was pointed out by Jack Hughes (2013) within his article about Value Creation in the future; *"The value of products and services today is based more and more on creativity — the innovative ways that they take advantage of new materials, technologies, and processes."* He further argues that mass production, economies of scale and high efficiency of repeatable activities are the past, and the future value creation is must founded on "economies of creativity: mass customization and the high value of bringing a new product or service



improvement to market.” The scholar defines creative output, as innovation, which should be taken out of the R&D labs and should be connected with individuals to generate “creative networks”.

Within his publication, he argues that Value Chain will take over Supply Chain’s roles, as until SC’s goal to achieve process efficiency and cost out, until the objective of VC to create value for both the consumer and the contributor. In addition, he assumes that, creative networks will emerge within the social society, including work, management, product and service innovation and value creation as well as.

By elaborating on his perceptions, many questions arise around the relation of value and creativity. How do you determine it? How do you measure it? How do you alter the embedded knowledge about value creation within the organization? How do you involve every stakeholder to contribute to this creative value creation? and so on.

## **9 CONCLUSION**

This closing chapter explore the conclusions about the research issues and answers. With the aim of finalizing this research study, a review is presented below about the investigated research questions of firm’s value creation in internationalization and the related findings.

*What is the international competition landscape in the global household appliances market?*

The first question explores the landscape of international competition. As it was reflected in the developed framework, international competition status must be examined on three different but connecting levels: Macro, Meso and Micro level. On National Competitiveness Level Porter’s Diamond model were adopted to analyse the impact of the national factors separately and jointly, and the employed strategy of the firm to create competitive advantage within this environment. Which indicates a strong economic growth and development of China, based on such factors as its large labour force, abundance of natural resources, increasing but still low wages compared to other regions or the governmental initiatives to support Chinese MNCs and innovation. Concludingly, Haier Group is allowed to generate benefits based on the found factors. On Industrial Competitiveness Level, to clarify the state of the industry with additional outlook on the bargaining power of

buyers and the intensity of market competition Porter's Five Forces Model and its configuration, the Five Sources Model were applied. As it was found out, Haier's market is characterized by differentiated oligopoly and dominated by multi-product firms, mainly by those who were analysed within the section of The Global Home Appliances Industry. Based on independent market researches, Haier has been able to maintain its global leader position for 9 consequent year, thanks to its application of Blue-ocean strategy. The firm can tap unidentified customer segments and create compelling value position for them via value innovation. Meanwhile concerning the analysis of Value Chain Competitiveness, the Customer Perceived Value approach was employed. On the basis of the findings, Customer Perceived Value plays a vital role in the home appliances market, which has been discovered by Zhang Ruimin. That has led to the subsequent adaptation and experimentation of business model to meet both consumer and employee demands. Additionally, Haier implemented a "Personalized user experience" to motivate consumers to become long-term users, and it highly recognized among the customers.

*What are the main elements of Haier Group's Business Model and what is the value proposition of the firm?*

The second question aimed to find answers for how this Chinese global home appliances producer creates, delivers and capture value. To investigate this, the Business Model Canvas was applied with its nine building blocks. Value Proposition is the core of the Business Model, and concerning Haier, its aim in not only add value for its customers, but to add value for every stakeholder in the ecosystem, based on its "RenDanHeYi 2.0 – ecosystems for co-creation and winning together model". Thanks to its acquired global strategic synergies, Haier can cover global markets and communities through a zero distance to customer approach and a Personalized user experience. In order to support its Value Proposition, Haier builds on its key resources, such as Platform-based enterprise", "Entrepreneurial employees", or the "Internet factory" while relying on its key activity, via the Platform-based Operation. Haier Group has increased its reliance on external partners to enhance value innovation, to realize "on-demand manufacturing and delivery based on zero-inventory", and to maximize the revenue from customized home appliances. By exploring the Value Configuration topic, Haier Group basically functions as a value network, based on its intention to closely link all stakeholders via its COSMOPlat platform to Co-Create Value and achieve Value Innovation.

*What kind of value (financial return/ resource consolidation/ resource diversification) can the firm generate from internationalization through Foreign Direct Investment?*

The third question covers the firm value creation via internationalization processes within the context of Cross-Border acquisition in order to explore whether the firm intent to consolidate or diversify its resources. The applied case study intended to explore Haier Group's acquisition of General Electric Appliances. Based on the assumption, that the two firms share similar goals and portfolio, the impact of the transaction can be noticed from the early phases. As an example, Haier accomplished an overall growth of its internationalization, and has become an "International among others", as it has expanded its geographical diversification and increased its market commitment. As it turned out, the aim of the firm to consolidate its resources, by obtaining GE Appliances manufacturing plants, R&D centres and other resources, additionally to increase its market share and build out a global brand reputation.

Moreover, by applying major assumptions from the relevant theories and models enabled the understanding how and why Haier Group has been able to accomplish competitive advantages out of GEA acquisition. First, the acquisition provided it with ownership of unique and complementary resources and technology. Secondly, is provided access to distant networks, like Value Chains and Supply Chains that allowed the further consolidation of its resources in the highly competitive market. Besides, the use of these theories allowed the explanation of market nature, which as it turned out is a differentiated oligopoly and dominated by multi-product firms.

Concerning the FDI typology of this acquisition, Haier's objective was to obtain location advantages, such as skipping tariffs or decreasing transportation cost; or to possess ownerships, that enable them to further increase its market share, its brand reputation, or its innovation capabilities. Henceforth, Haier employed a strategic asset seeking FDI.

*What is the effect of Foreign Direct Investment on the Value Creation and Co-Creation of firm's stakeholders?*

Within the fourth question, I intended to explore the impacts of the acquisition concerning the related stakeholders. Based on the assessment of the transaction, it has generated distant values for distant stakeholders of the firm. Regarding the organization itself, it contributed with healthy performance of operation (contributed to the revenue with about

4 billion USD and to the net profit with about 138 million USD), and with collaborative initiatives within procurement, R&D, Supply Chains and Channels. The created value for shareholders was 538 million USD of net profit, representing a year-on-year increase of 11.95 %. Meanwhile, the total revenue of Haier Group has increased above 18 billion USD, that represents an increase of 32.59 % with a 31.02 % of Gross profit margin. Additionally, it is a well-known fact, that the consumer is the ultimate evaluator of a firm's success. Therefore, the Value for End Consumers is the most important that need to be explored. Because of the acquisition, the American consumers are also able to be part of the "Personalized user experience". As all stakeholders can co-create with shared interests, risks and success, via "Internet factory" where the user can be part of all business activities. Elaborating on the created value for employees, Haier Group has started to eliminate the bureaucratic and rigid linear structures of the organization to smaller work units, and provide distant incentives, such as financial rewards for pitching ideas.

For closure, the Discussion chapter further elaborated on the IDP theory and suggested further investigation to better configure the theory. As the internationalization of emerging MNCs cannot be explained entirely with the traditional theories, such as Haier Group who choose distant methods of internationalization, then it was determined before based on its level of development. Concerning the case study, it suggests that these firms must seek for novel ways of internationalization due to the fierce international competition, that could be investigated in future studies.

Besides the IDP theory, an additional concept issue was raised that is the Value Innovation and Creativity. As it is a well-known fact, that the consumer is the ultimate evaluator of a firm's success. Whereby, Jack Hughes (2013) pointed out; *"The value of products and services today is based more and more on creativity — the innovative ways that they take advantage of new materials, technologies, and processes."* By elaborating on his views, many questions emerge around the relation of value and creativity. That could be the subject of the future research studies as well.

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