Darko Tipurić
University of Zagreb
Department for Organization and Management, Faculty of Economics and Business Zagreb, Croatia
E-mail: dtipuric@efzg.hr

Najla Podrug
University of Zagreb
Department for Organization and Management, Faculty of Economics and Business Zagreb, Croatia
E-mail: npodrug@efzg.hr

Maja Daraboš
University of Zagreb
Department for Organization and Management, Faculty of Economics and Business Zagreb, Croatia
E-mail: mdarabos@efzg.hr

STRATEGIC DIRECTION OF MULTINATIONAL CORPORATIONS IN HYPERCOMPETITIVE ENVIRONMENT[1]

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Abstract

The paper brings together current knowledge on multinational corporations' strategic orientations displayed in hypercompetitive environment. Competitive dynamics is a phenomenon that is becoming more evident in many industries, even in those which were considered relatively stable until recently. There has been an alternation in the competitive conditions in various industries, visible through a sudden increase in competitive activity, greater variability in the profitability of the industry, as well as in noticeable changes in market shares. The main point of this paper is to highlight that even the largest and most successful MNCs experience different internationalization paths and paces. The complexity of MNCs regarding the multiple geographical markets and the dispersed activities within the firm often renders centralized management models ineffective and inefficient. The acknowledgement of the increased relevance of foreign subsidiaries and the observation that some subsidiaries take over strategic roles within the MNC led to a

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conceptualization of the MNC as a network in hypercompetitive environment.

Key words: multinational corporations, strategic orientation, hypercompetitive environment

1. INTRODUCTION

In today's business world speed is a priority. Firms are able to react on moves of competitors more and more quickly, managers have less time to make decisions, while understanding moves of competitors and their activities is becoming increasingly difficult. In addition, the time lag between appearance of a new product on the market and appearance of his imitation is getting shorter, resulting in less opportunity for making extra profits. In fact, studies have shown that the earnings of new products have declined significantly due to the accelerated appearance of imitations on the market, while newly established monopolies survive an average of 3 or 4 years compared to the previous 33 years. There is a general trend of shorter product life cycle, along with increasing competition which leads to price wars and a general decline in prices, with the exception of luxury products. Although price wars, as a rule, harm the entire industry regardless of who wins, they are becoming a common phenomenon because of the ease of its implementation in the fight with rivals.

In an attempt to restore the competitive vitality, the firm is trying to get in shape. It must be ready to respond quickly and be invisible in situations where the surprise and the first move is what it takes to succeed. If the firm is unable to defeat their competitors directly, then it must find a way to indirectly, in cooperation with other firms, improve its own competitive position. Going deeper into the analysis of the competitive environment, what concerns most managers, and occurs as a result of intense competition, is the fact that the success achieved today, does not necessarily means success tomorrow.

An environment where the advantages are created fast, but also deteriorating fast, is called hypercompetition (D'Aveni, 1994). It is characterized by intense competition and rapid moves, where firms must develop strengths quickly, and destroy or compromise the competitors' advantages. Its appearance is the result of more rapid and intense technological change, caused by the technological development and innovation of firms, but also the distribution and availability of firms' resources.

The principal consequence of hypercompetition is the temporary nature of competitive advantage. Temporary competitive advantage is created as a result of a rapid technological change, globalization, industry convergence, aggressive behavior, competition, deregulation, privatization and the growth of new Asian markets, as well as the pressure of short-term incentives for middle management to achieve results etc. Advantages of firm become more and more temporary in nature, since various disorders can be found in environment, while strokes and activities of competitors are increasing. Regulation of competitive behavior might be partly ensured through appropriate development of the institutional context and effective institutions that regulate competition by preventing secret agreements and other noncompetitive practices. The development of an institutional framework affects the gain of competitive dynamics, namely the competitive interactions among firms to enhance the hypercompetitive environment (Hermelo and Vassolo, 2010).

2. MAIN CHARACTERISTICS OF HYPERCOMPETITIVE ENVIRONMENTS

The increase in the intensity of competition causes changes in business practices and has several important consequences. The most important consequence is that the way in which firms create advantages must be reviewed and redefined. The traditional model emphasizes sustainable development and long-term competitive advantages competitors cannot overcome. However, in today's competitive environment, most of advantages will be neutralized and overcome eventually.

Given that the structure of the industry is slowly changing, competitive advantages derived from the positioning within the industry are relatively stable (Porter, 1980). Resource theory especially analyzes the resources and capabilities that a firm possesses, and assumes that firms can achieve sustainable competitive advantage if they possess unique, valuable, and difficult-to-imitate resources for a certain period of time (Barney, 1991). On the contrary, in the presence of hypercompetition, the dynamic perspective, i.e. types of advantages that are of temporary nature, has replaced traditional and constant sources of competitive advantage. Some studies say that the factors that contribute to the hypercompetition include lowering the entry barriers through a global competition, and provide opportunities for enhanced methods of information spreading, which allow rapid imitation (Bettis and Hitt, 1995). Moreover, some researchers have shown that in conditions of hypercompetition, it is not possible to retain outstanding financial performance (Thomas and D'Aveni, 2009).

Hypercompetition and competitive dynamics are the basis for understanding of how the dynamics and intensity of competitive business environment lead to a temporary competitive advantage. Theoretical approach to competitive dynamics shows that the ratio of corporate strategy and business success depends mainly on the strategic behavior of the enterprises, but also the behavior of its competitors and their interaction (Grimm et al., 2006). The theory is focused and related to specific actions taken by the firm and the ways in which competitors respond to these actions. Chen, Smith and Grimm (1992) show that firms achieve competitive advantage through actions or stream of actions, and that the speed of competitors’ response depends primarily on the characteristics of specific actions. In the analysis of the features of firm actions, it is important to consider the action volume (Ferrier et al., 1999), the action speed (Yu and Canella, 2007), but also the buffered industry environment (Ferrier, 2001; Derfus et al., 2008).

Researchers of these disciplines have often explored new conditions brought by the emergence of hypercompetition and ever more severe, almost impossible to maintain, competitive advantages over competitors. However, very few researches have examined how the firm should decide, react and prosper in that environment. Thomas and D'Aveni, (2009) in a longitudinal study on reducing the business performance in the conditions of hypercompetition in the U.S. manufacturing industries, show that firms should try to maintain a competitive advantage by finding and citing a series of temporary advantages, which require taking a number of competitive actions in a certain time period, thereby ensuring the growth of business performance. Other studies focus on the impact of certain characteristics of competitive actions that firms make in the performance of the enterprise (Ferrier, 2001), and the impact of Top Management Team (TMT) and its motivation to take actions (Ferrier, 1999). The motivation of managers to take action is manifested by the initiative of members of top management team in formulating strategy. Entrepreneurial behavior of top management is associated with innovation in various business segments, where innovation enables the firm to adapt effectively to the changing environment in which the firm exists (Daraboš, 2014).

Sustainability of competitive advantage depends primarily on the industrial context in which the firm operates and the nature and possible sources of advantage (McNamara et al., 2003; Thomas and D'Aveni, 2004; Wiggins and Ruefli, 2005). Further on, there is an extensive research related to analysis of achieving or maintaining outstanding business performance of enterprises in hypercompetitive industries (Chen and MacMillan, 1992; Miller and Chen, 1994; Grimm et al., 2005; Ferrier et al., 1999; Chen et al., 2010, Chen et.al., 2010).

Because of the dynamic nature of environment, long-term strategic positioning is not possible, as firms must continually assess their actions and change their strategy once they identify which moves or actions lead to the best results. Principles by which the firm can try to deal with unsustainable advantages can be defined by attempts to introduce new advantages before the competitors do, by taking unpredictable and aggressive actions, and by being constantly up-to-date. There are various studies on the macro-assumptions of temporary advantages at the industry level (D'Aveni, 1994; Warring, 1996; Eisenhardt and Brown, 1998; Ferrier et al., 1999; Wiggins and Ruefli, 2002, 2005; Thomas and D'Aveni, 2009). The fact that hypercompetition leads or does not lead to time compression depends on moderated factors such as: leaders' market value of the competitive advantage, effectiveness of the initiated strategy and intensity of industrial hypercompetition.

The increase in the intensity of competition changes business practices and has several important consequences. The most important consequence is that the way in which firms create advantages must be reviewed and redefined. The traditional model emphasizes sustainable development and long-term competitive advantages competitors cannot overcome. However, in today's competitive environment, most of advantages will be neutralized and overcome eventually.

D´Aveni argues that the attempt to build a sustainable advantage in the intense competition is impossible, and thus leads to irrational use of scarce resources so necessary in today's environment (D'Aveni 1994). Also, he believes that in an environment where every advantage is quickly neutralized, any attempt to maintain the existing advantages leads to obstruction of the development of new ones. Furthermore, not taking into account the dynamic environment of competition or the constant appearance of new competitors is main problem of traditional strategic models and gaining competitive advantages. They usually assume that firms and the environment in which they operate are simple and clear, with the recognized specific causes and effects. However, today's environment is far from stable and predictable.

The most important characteristics of competitive advantage in hypercompetition are aggressiveness in taking actions and integration of top management behavior (Chen et al., 2010). Firm's competitive behavior is determined by the TMT behavior and with an emphasis on socio-behavioral integration, which is to the degree to which members perform together (Smith et al., 1994; Simsek et al., 2005). The focus is on being prepared to take an action, i.e. the extent to which the firm is willing to participate with competitors and act quickly in the involvement and participation. The dynamics of top management is a very important component of the ability of the competitive behavior of firms (Chen et al., 2007). The assumption of being more dynamic in market and collaborative with competitors is the integration of top management of the firm that depends primarily on compatible traits and members' communication skills (Lin and Shih, 2008).

Market and technological changeovers require fast adaptation of capabilities and routines of a firm, so that it could respond to the demands of the market and/or new technologies. Organizational change is ultimately necessary, but the strategic decision-makers and initiators of changes in the firm are often not able to transform the old routines and capabilities of enterprises, since they themselves are strongly influenced by the old skills, habits, models, routines and information (Henderson and Clark, 1990). Managers can identify and use opportunities that result in a competitive advantage, but to preserve acquired positions and build a long-term sustainable competitive advantage (through entrepreneurial behavior), it is necessary to strategically manage the resources and capabilities of a firm (Ireland et al., 2003).

Thus, achieving competitive advantage in hypercompetitive industry largely depends on the internal context of a firm. Principles by which the firm can try to deal with unsustainable advantages can be defined by attempts to be the first in achieving a new advantage, by taking unforeseen competitive actions and by constantly monitoring competitors' moves. Hypercompetition refers to the degree of uncertainty and insecurity that causes a deficiency in the necessary information to identify and understand the causal connection (Sirmon et al., 2007). Information deficit results in different levels of awareness about the scope and pace of changes among the participants in the industry, and omissions that often create opportunities for strategic actions, which could significantly pay off in the future. Firms that take action in order to ensure series of temporary advantages have the ability to succeed with a high rate of success as well (MacMillan, 1989; D'Aveni, 1994). However, readiness, more exact the firm´s ability to promptly react to competitors' responses, largely depends on the characteristics of the firm such as its size and reputation and industry affiliation.

On the other hand, markets are in constant interaction and imbalance, while strategic decisions determine only partly firm´s results (Miller, 1990). In such an environment, results of the firm arise from its interactions with other firms, and strategic decision-makers play an important role in the development of the overall competitive environment. It is important to point out that sustainability of competitive advantage has not been assumed, exactly the opposite; competitive advantage and success will lead to the reaction of competitors and imitation, ultimately leading to the disappearance of competitive advantage.

Generally, very few researches have examined the way in which the firm should decide, react and improve in hypercompetitive environment. Researchers in this discipline analyze the volatility and the dynamics of the business environment that leads to a temporary advantage (D'Aveni, 1994). Competitive advantage is evanescent, where every advantage that a firm creates decreases over time as a result of reaction of competitors. The above mentioned embodies a key premise of competitive dynamics.

Thus, strategic behavior in hypercompetitive industry requires an active presence in the market and aggressiveness of a firm to take action. Such corporate behavior is necessary, but not sufficient. Certain actions may lead to succeeding temporary advantages, while others actions do not have to succeed. The firm will achieve greater success for a longer period of time if there are opportunities to attain sequence of advantages (MacMillan, 1989), but it should bear in mind that the improved performance is not a result of achieving a sustainable advantage, but just a series of temporary advantages. Aggressiveness in taking action reflects on how the firm participates with its competitors in hypercompetitive environment. It is believed that firm has a high level of aggressiveness if, within a short period of time, it takes a large number of actions. Studies show that firms that yield a higher number of actions than its competitors in a year generate greater profits (Young et al., 1996), and also a bigger market share (Ferrier et al., 1999).

3. STRATEGIC PERSPECTIVE OF MNC IN HYPERCOMPETITION

Any firm that is considering competing in XXI. century has to think internationaly and not from national perspective. International competitive advantages are the advantages of a firm in the international competitive conditions, and it can be achieved by positioning on foreign markets (Jansson and Söderman, 2015). Distinguishing international competitive advantage depends primarily on whether the competitive advantages are related to: the specifics of the firm, the specifics of the country or internationalization. Thompson, Strickland and Gamble (2005) conclude that the firm can win a competitive advantage beyond the national market (or make up shortage on the national market) and have identified three modalities to achieve competitive advantage on foreign markets: the use of the location in order to reduce costs or achieve greater product differentiation, the use of cross-border transfer of expertise and capacity and use of cross-border co-ordination in the way that only a national competitor can not (Akerman, 2014).

International firms can achieve competitive advantage by adjusting to the local requirements (advantages of differentiation) and / or by global integration of business activities (the benefits of standardization) (Koles and Kondath, 2014). The strategy of international firms depends on the way of building competitive advantages, therefore differ international, multinational, global and transnational strategies. High advantages of globalization, ie standardization are achieved by the implementation of global and multinational strategy, while the benefits of local adjustment and differentiation are achieved by applying multinational and transnational strategies. Strategic alternatives of international business can be viewed on the basis of the other two dimensions, namely: the necessity of international adjustment and the level of international engagement. Starting from these two dimensions, the firm may opt for indirect export strategy, cooperative export strategy, international, multinational, global or transnational strategy.

Indirect export strategy does not mean active strategy of firms that decide to export products sold on the local market. This strategy is mainly applied small and medium sized firms which do not have adequate knowledge and skills to actively participate in foreign markets (Haase and Franco, 2015). Cooperative export strategy is applied by the firms that do not possess the resources nor ability to actively participate in foreign markets, and are additionally subject to pressure for adjustment of its product and service requirements of the target market. The export strategy is a favorite strategy of Chinese, Korean and Italian firms (Gollnhofer and Turkina, 2015). However, whether long-term export strategy will be successful depends on the relative cost competitiveness of the national manufacturing base. In some industries, firms draw additional economies of scale and benefit from the learning curve from centralized production in one or more giant plant whose production capacity exceeds demand in one of the national markets, so they generate mentioned economies through export. However, the strategy is vulnerable when the costs of production in the export country are significantly higher than those in foreign countries where the competitors do production, when the cost of transporting goods to distant foreign markets are relatively high and when the exchange rate is unfavorable (Thompson, Strickland and Gamble, 2005).

International strategy can be designed to be ethnocentric strategy in which structures, systems, processes and resources are under the control of the dominant parent firm (Perlmutter, 1969). Implementation of the centralized concept is supported by expatriates, who should ensure compliance with the strategic objectives of the parent firm. They are often considered a source of quick profits because they are not subject to adjustment pressure and rapid differentiation of their offer. Only marketing activities adapt to the specifics of foreign demand. While this strategy was successfully applied in the 1960s and 1970s by American firms, its meaning is now smaller due to the globalization pressures.

Multinational strategy is particularly effective in terms of big market and cross cultural differences. Perlmutter denotes multinational strategy as a polycentric or as a strategy to adapt to the requirements of the country subsidiary. The establishment of subsidiary firms, through a decentralized organizational structure, provides the greatest degree of adaptation to the local conditions. At the highest positions in the subsidiaries / branches are placed managers from the subsidiary country, who know the local market characteristics, cost structure, legal norms, etc. While this achieves high efficiency at subsidiary level, it is difficult to apply the synergy potentials of individual activities on foreign markets. The basic features of a multinational strategy are: if necessary adjustment of firm's competitive access in order to to align with market and business conditions in each country - great adaptability to local conditions; selling different versions of the product in different countries under various brands - adjustment of product properties to tastes and preferences of customers in each country; arrangement of plants in many countries, each plant manufactures the product version for the local market; it is desirable to use local suppliers; adaptation of marketing and distribution to local customs and culture; transfer of the expertise and capabilities of the country to another one when possible and great freedom and autonomy of management (Rahimic and Podrug, 2013).

The power of multinational strategy is in a compatibility of a firm's competitive approach to the circumstances of individual countries and different tastes and expectations of customers in each country. This strategy is necessary when there are large differences between countries, between needs and buying patterns, when customers are looking for special customized products or products made to order. The strategy is necessary when there are laws which sold products must meet - these are strict manufacturing specifications or country's labour standards, and when trade restrictions are so different and complex that they in advance prevent unified, coordinated global approach to the market.

Disadvantages of a multinational strategy are: (1) difficult transfer of expertise and firm's resources across national borders (as different countries may use different skills and abilities) and (2) not encouraging the construction of a single, unified competitive advantage (especially those who have adopted the strategy of cost leadership). As a rule, most international firms seek to implement a global strategy, of course, to the extent permitted by the customer's needs.

Global strategy includes formalization and standardization of structures, systems, processes and resources throughout the world. The literature often uses terms such as simple global strategy (Meffert and Bolz, 1988), global integration strategy or strategy of global rationalization (Negandhi and Welge, 1984). The advantages of the standardization are achieved by centralizing strategic decision-making in the parent firm, while there is a minimal local adaptation within the formal market appearance and operational business activities. Although by the beginning of the 1980s advantages of global strategy were promoted, more visible became their economic, entrepreneurial and institutional boundaries. Failed attempts of many firms trying to sell standardized products by applying the uniform strategy across the world confirm that global strategies underestimated the need for local adjustment. It is therefore increasingly more ignorance when it comes to the request for standardization of all firm's functions around the world. The basic features of global strategy are: application of a united strategy in the whole world (strategy of low costs, differentiation, focus strategy - low costs or differentiation); sale of identical products under the same brand name around the world; locating plants on the basis of maximum locational advantages, mainly in countries where production costs are lowest, but the plants can be dispersed if transport costs are high or other locational advantages are dominant; use of the best suppliers from anywhere in the world; coordinating marketing and distribution throughout the world; making minor adjustments to local countries where necessary; competing all over the world using identical technology, expertise and ability, placing the focus on the rapid transfer of new ideas, products and capabilities to other countries; coordinating major strategic decisions around the world, requiring the local managers to adhere to a global strategy (Rahimic and Podrug, 2013).

Literature mentiones regional strategy as an advanced phase of the global strategy (Oh and Rugman, 2014). The reasons for the implementation of the regional strategy are: the existence of critical markets (critical markets provide a large range of activities and first-class consumers, and intense competition ensures suppliers reasonable premiums); the absence of trade barriers (eg EU, NAFTA); size and importance of certain regional markets; fewer cultural differences within the region against the cultural differences between regions and limited resources and goals that define the firm's activities at the regional level (Schlie and Yip, 2000).

Research confirms that the largest multinational corporations actually do not implement global strategy, but the strategy of standardization and rationalization at the regional level. For example, Wal-Mart is today the largest global corporation, and generates 95% of its sales in the region of North America, so we are talking about a regional strategy. There is also a common application of biregional strategy where actually two regions are having the same strategic importance. BP is an example of a multinational corporation that conducts biregional strategy as it generates 48.1% of sales in North America and 36.3% in Europe as another region. Examples of global strategy in the business realities are much less common. Global strategy is implemented by firms such as Coca-Cola, LVMH, Royal Philips Electronics, Sony, Nokia and Intel (Rugman, 2005).

Regional strategy can adopt six modalities; from regional focus, regional portfolio and regional centers which are characterized by intraregional orientation, to regional platforms, regional tasks and regional networks which are characterized by interregional orientation. Practically all international firms start with a regional focus strategy. Zara, a clothing chain with low prices, designs and manufactures highly sensitive fashion products in the proximity of its production and logistics center in northwestern Spain and products are transported by truck to Western European markets in the period of two to four weeks from their design. However, those who focus regionally may lose space to grow or can miss to appropriately hedge themselves. The growth within Europe is becoming Zara's an increasing problem. And the lack of coverage of risk already registered as the main source of concern because eg. in 2006 fall of the dollar against the euro increased Zara's production costs in Europe compared to the competition which relies on imports from Asia, denominated in dollars (Oh and Rugman, 2014).

Ghemavat highlights that the regions proved to be the best unit for expressing the application of a moderate but realistic vision of a half globalized world in which neither the bridges nor the barriers between countries can not be ignored (Ghemavat, 2010).

Transnational strategy is considered to be the ultimate aim of achieving competitive advantages of international firms in today's business environment. The literature reffers to it as dual or opportunistic strategy (Meffert, 1986), as multifocal or as a glocal strategy (Henzler, 1990). The central feature is reflected in the simultaneous exploitation of economies of scale and effects of adaptation to local requirements and needs. It can be said that transnational strategy combines the advantages of global and multinational strategy. Therefore, from an organizational perspective, it is necessary to harmonize the necessary level of centralization of business activities, due to economies of scale and an acceptable level of decentralization, due to the necessary adaptations to local requirements and needs (Rakita, 2006).

4. CONCLUSION

Globalization, deregulation and technological advance caused dramatic changes that have redefined the nature of the business by increasing competition where every successful innovation, every well played market move leads to creative reaction of competitors. Because of that, firms should try to achieve a series of temporary advantages, instead of maintaining old ones. In an environment like hypercompetition, firms, especially those considered to be market leaders, are under constant threat of competitors who are able to react almost immediately to firm´s action. In such environment sustainable advantage is quiet questionable since competitors have opportunity to overcome firm´s advantage through technology, data analysis, reverse engineering, etc. But what is more important, achieving competitive advantage depends a lot on firm´s capability to respond on a new market demands before its competitors.

Furthermore, as highlighted in the previous paragraphs, firm have to be prepared to take a number of actions, i.e. it must be active participant on the market, which primarily depends on the TMT who should mobilize resources effectively, identify business opportunities and be able to throw away old habits and routines and enhance knew knowledge in order to achieve competitive advantage.

In conclusion, it is important to point out that first of all, firms should assess the character of the industry, and pressures towards globalization and its competitive abilities, especially from the perspective of their portability to other markets. The strategic decision of a firm depends, on the one hand whether the industry is of national or international character, and on the other hand the possibility of transfering resources and capabilities outside the country of the parent firm. By selling on international markets it is possible to achieve the benefits of economies of scale, but nowadays it is still not enough to only take a part in the competition with standardized products. Bearing in mind the characteristics of today's business environment to achieve long-term sustainable competitive advantages, it is extremely important to adapt to local conditions, which is exactly the advantage of local businesses in relation to multinational corporations.

Finally, the result of the hypercompetition is a significant increase in the speed of competitive response, the rise of competitive actions and falling prices. It is expected that these trends will continue in the future, and those firms prepared to respond to market demands, as opposed to those focusing on planning and forecasting, will successfully face an uncertain future.

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