Global-local paradox

Giovanni Marin
Department of Economics, Society, Politics
Università degli Studi di Urbino 'Carlo Bo'

References for this lecture

- BBGV
  - Chapter 7, paragraphs 7.1, 7.2, 7.3, 7.4, 7.5

Overcoming the liability of foreignness

- **Porter**’s diamond (1980)
  - **Home-country features** drive **competitiveness** in global markets and enable firms to **overcome** the **liability of foreignness**

- **Firm-specific advantages** are also very important to overcome the liability of foreignness

- Key question: **how** can firms **organize** their **foreign activity** in the **most efficient** and **effective** way such that it **contributes** to their **firm-specific advantage**?

Firm-specific advantages

- The concept of firm-specific advantage comes from the RBV (**resource-based view** of the firm) theory (Penrose, 1959)

- RBV
  - Firm's **competitive advantage** depends on firm's **valuable resources** (trivial…)
  - Firm as a **bundle** of **tangible** and **intangible assets** that are **complemented** with **capabilities**
  - **Assets** (resources) + **capabilities** ➔ sustained **competitive advantage**

Firm-specific advantage

- A **resource contributes** to firm-specific advantage if it is
  - **Valuable**
  - **Rare**
  - **Inimitable** → cannot be easily duplicated by competitors
  - **Non-substitutable** → competitors cannot easily develop substitutes

- Firm's resource should be **compared** with **competitors'** resource → relative advantage

Resources

- **Tangible** physical resources
  - Technologically-advanced production plants
  - Exclusive access to crucial natural resources
  - …

- **Intangible** resources
  - Rich patent portfolio
  - Brands
  - Reputation
  - …

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Table 7.1: Brand name and technology as firm-specific advantages

	Reputation as a resource Top 20 Most valuable global brand name		Technology as a resource Top 20 Patents per company	
1	Apple	Technology	IBM	5,866
2	IBM	Technology	Samsung	4,518
3	Google	Technology	Microsoft	3,121
4	McDonald's	Fast food	Hitachi	2,852
5	Microsoft	Technology	Canon	2,656
6	Coca-Cola	Soft drinks	Panasonic	2,536
7	Marlboro	Tobacco	Toshiba	2,212
8	AT&T	Telecoms	Sony	2,130
9	Verizon	Telecoms	Siemens	1,743
10	China Mobile	Telecoms	Intel	1,652
11	General Electric	Conglomerate	Fujitsu	1,646
12	Vodafone	Telecoms	Hewlett-Packard	1,596
13	ICBC	Financial	General Electric	1,516
14	Wells Fargo	Financial	LG electronics	1,488
15	VISA	Financial	Seiko-Epson	1,438
16	UPS	Logistics	NEC	1,283
17	Walmart	Retail	Oracle	1,222
18	Amazon	Retail	Ricoh	1,198
19	Facebook	Technology	Cisco	1,114
20	Deutsche Telekom	Telecoms	Honeywell	1,074

Source: patents per company: US Patent and Trademark Office (www.ipo.org); brand name ranking: MillwardBrown, a global marketing consultancy firm (www.millwardbrown.com).

Resources and capabilities

- Having valuable, rare, inimitable and non-substitutable **resources** is a **necessary** (but **not sufficient**) condition
- Resources need to be **combined** with **capabilities**

- Capabilities
  - **Managerial** quality
  - Entrepreneurial ability to **reinvent** themselves
  - **Dynamic nature** of capabilities

Resource-based view

- Resources that **satisfy all the conditions** are **difficult** to be **observed in practice**

- **Limited policy** and **managerial implications**
  - How do firms **acquire** crucial **resources**?
  - How do firms **develop capabilities**?
  - How do firms **combine** resources with capabilities?

- **Under-estimate** factors that are **external** to the firm

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Firm-specific advantage and internationalization

- How does firm-specific **advantage influence internationalization** choices of firms?

- Firm-specific advantage may also be **useful** when the firm decides to create or acquire subsidiaries **within** the **same country ➔ multi-location**

- However, firm-specific advantage is **crucial** when multi-location firms become **multinational** firms ➔ **liability of foreignness**

Transferability of firm-specific advantages

- Firms that want to become **multinational** need to successfully **transfer** the firm-specific **advantage across borders**
- Alternatively, the multinational firm needs to **develop** firm-specific **advantages** in the **subsidiary** located in the host country

- **Multi-location** firm vs **multinational** ➔ **transferability** of firm-specific advantage

Transferability of firm-specific advantages

- Geographical, economic, institutional and cultural **distances** represent **barriers** to the **transferability** of firm-specific **advantage**

- There is a **tension** between **cost effectiveness** (i.e. economies of scale) that arises from standardization and **customization** to the host country (local) circumstances (that is costly) ➔ **<u>global-local paradox</u>**

Global-local paradox

- To **exploit** their **firm-specific advantage** in the **global** market, firms need to identify the **right balance** between **standardization** and **customization** of global **operations** (production) and **products**

- The **choice** of the right balance depends on
  - **Characteristics** of the **resources** and **capabilities** that determine the **firm-specific advantage**
  - **Characteristics** of the **host country**

Global-local paradox

- **Two dimensions** need to be combined
  - Pressure for **local responsiveness** (high or low)
  - Pressure for **global integration** (high or low)

Table 7.3 Integration-responsiveness framework

Pressure for global integration	Pressure for local responsiveness	
	Low	High
High	Global standardization strategy	Transnational strategy
Low	International strategy	Localization (multi-domestic strategy)

Source: based on Bartlett and Ghoshal (1989)

International strategy

- **Low** pressure for **local responsiveness**
- **Low** pressure for **global integration**

- Internationalization occurs by **copy-pasting home operations** in host countries
- This works for **goods** and **services** that serve **universal needs** and are **not complex**

- **Easiest** internationalization strategy
- Often adopted by firms that are **exploring new markets** for the first time
- **Low pressure** for **cost reduction**

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Localization strategy

- **High** pressure for **local responsiveness**
- **Low** pressure for **global integration**

- **Limited firm**-level **economies of scale** (research, marketing, etc)
- Also labelled as '**multi-domestic strategy**'
- Firms **adapt** to the '**local**' culture and tastes of the host country to a great extent
- **Markets** are **traeted separately**

- **Low pressure** for **cost reduction**

Global standardization strategy

- **Low** pressure for **local responsiveness**
- **High** pressure for **globlal integration**

- Presence of relevant **firm-level economies of scale** in
  - Innovation and R&D
  - Marketing
  - …
- **Products** and **processes** are **standardized worldwide**
- **Functional activities** are **concentrated** (not necessarily in the headquarter)

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Transnational strategy

- **High** pressure for **local responsiveness**
- **High** pressure for **globlal integration**

- Both **economies of scale** and **adaptation** to local culture and tastes are **crucial**
- To be able to **combine** these two requirements, the management needs to **organize knowledge flows** within the multinational in an efficient and effective way
  - **Local** (host country) **learning** feeds **back** into the **global firm-specific advantage**
  - **Subsidiaries** play a **crucial** role