

# Competing globally for resources

---

John M. Stopford\*

**The rapid expansion of cross-border activities during the past decade has raised new questions about the dynamic nature of global competition. Starting from the proposition that competition is not solely a contest among players of different scale all playing by the same rules, but also a contest among alternative conceptions of firm-level strategy and thus a race for accumulating next-generation resources, this article explores the question of how a firm's choice of organization—in terms of hierarchy or external network of alliances—affects its ability to harness resources of different kinds. Given that global competition has made some resources more mobile than previously, while other resources have become less mobile, the article speculates that we are currently in a period of great experimentation in both firm strategy and organizational form. The result is likely to be a divergence of performance, rather than the convergence that is commonly associated with global competition and the “deep-integration” effects of transnational corporations’ activities on national economies. The propositions derived from the argument set up lines of enquiry that hold out hope for a better understanding of the dynamics of competition.**

Models of competition do not provide robust explanations of the seemingly contradictory company performances over the past two decades. How can one explain the demise of such famous names as Pan Am, Dunlop, or the deep troubles that currently afflict such giants as IBM and General Motors? How have some traditional leaders retained or even increased their market shares, and how have upstart competitors in other industries overcome the disadvantages of small scale to contend for global leadership? Transnational corporations (TNCs) are being buffeted by unprecedented turbulence in the “rules of the game” that is not well understood and that provokes new questions.

---

\* Professor of International Business, London Business School, London, United Kingdom. An earlier version of this article was presented at a symposium at the East-West Centre, Hawaii, July 1994.

One depiction of the turbulence is that it is a race for accumulating and controlling the resources needed for the next round of competition. Because a leading market share does not always provide protection from new competition, these races can be won by speed and innovation over extended periods, as well as by strength at the start. Where strength has bred complacency and inertia, David has the opportunity to beat Goliath. Consequently, conventional frameworks used to analyze competition need to be enlarged to recognise that it is “not exclusively a battle between the large and the small, or the well resourced versus the impoverished, all playing by the same set of ‘rules’”. Competition is also a contest among strategies” (Baden-Fuller and Stopford, 1994, p. xii).

This article explores two linked questions about how firms find novel ways of developing, accumulating and controlling next-generation resources. One concerns an aspect of the “supply-side” of strategy: the form of organization. Do some forms of organization facilitate resource accumulation more than others? In particular, attention is directed to the contrasts between two attributes of organization: the form, whether based on a hierarchy or a network; and the configuration of assets and influence, whether centralized or dispersed. In simplified form, these contrasts provide four different, “supply-side” strategies that separately or in some combination add variety to the range of competitive structures. Critical to the argument is the notion that the unit of analysis is no longer restricted to the legal entity of the firm, defined by the extent of its equity ownership of resources. The competitive unit can also be the alliance defined by a web of contracts.

The second issue concerns the location and mobility of assets that are needed to build future competitiveness. Has global competition acted both to increase the mobility of some factors of production and reduce the mobility of others? The growing variety of forms of competition and the interactions among corporate strategies and national policies suggest that both trends are strong. Their co-existence could lead to a world of *divergent* outcomes rather than some form of convergence.

These two questions are explored at several levels of aggregation to suggest alternative ways of analyzing the dynamic nature of contemporary competition. Many hypotheses are implied, only a few of which are spelled out explicitly: more work needs to be done in order to understand the causal forces for change before they can be modelled adequately. Instead of trying to define comprehensively what is going on, the aim of this article is to encourage others to develop broader analytical models, for there seems to be a discontinuity in the evolution of relationship between firms and Governments and in the nature of competition itself.

---

## Trends and data

Among the recent trends in TNC behaviour, two stand out as being of particular importance in shaping how firms choose their weaponry for the competitive battle. The first of these is the growing specialization of assets. The pressures of competition have forced many TNCs to adopt new strategies for gaining the advantages of both scale and scope, as well as for efficiency. Declining costs for many transactions, especially those dependent on information management, greater technical possibilities for flexible production and a liberalizing trend in the regulatory environment have all helped to adopt new strategies. Even the largest firms have found they cannot command all the resources needed for success in international competition, and have consequently begun to slim down the scope of their operations and focus on the basic core of strategic resources they need to control (Markides, forthcoming).

Strategies of specialization have been enhanced by a growing willingness to contract-out activities that are not of central strategic importance to the long-term competitiveness of an enterprise. A measure of this development is the rapid rise of the services component in the national accounts related to both trade and foreign direct investment (FDI). Specialization has also been enhanced as firms have entered into strategic alliances and networks, especially in research-intensive industries. Contracts and mutual "understandings" both among suppliers and competitors are being used as non-equity forms of internationalization. It is not clear, however, where the limits to such developments lie, and there is a lively debate both among managers and academics as to whether it is possible to find an optimal balance between equity and non-equity means of securing access to innovation and maintaining control over assets.

Networks are also a feature of the second trend: the specialization of location. Many TNCs have shifted away from previous strategies of transferring a complete, fully-functional business to a foreign market—what can be called "cloning" an operation—towards greater specialization by location. They have found novel means of placing specific parts of the value chain where local factor costs and conditions are the most favourable (Dunning, 1993). One measure of that trend is provided by the rise in intra-industry trade over the past three decades. The index of its growth is highest for European countries, reflecting the importance of intra-regional trade as Europe becomes more integrated. The index is lowest in Japan, but there it has been increasing rapidly during the last decade especially as regards the trade with other East Asian countries (OECD, 1994). Another indicator is the extent to

---

which trade is “captive” within a TNC’s network of affiliates (i.e., intra-firm trade). The latest available data show that over one third of United States merchandise trade is “captive”. For both Japan and the United States, that proportion is much higher in research- and skill-intensive industries.

Growing specialization of location has been associated with a growing realization that the sources of competitive advantage are not restricted to resources of the mobile, “global” variety, but include also those rooted in local networks or clusters of largely immobile resources.<sup>1</sup> The managerial cliché of the need to be both global and local simultaneously reflects the reality that leading competitors are those that have found new ways of harnessing mobile resources and gaining access to immobile ones while minimizing the transaction costs of both.

Because many of these issues are relatively new, there is a paucity of information available to test the strength of the trends, and what general data are available only provide some clues. Even though the recession of the early 1990s reduced sharply FDI flows, the world FDI stock at the end of 1993 has been estimated to be over \$2 trillion, almost double the value recorded only four years earlier (UNCTAD-DTCI, 1994). And these figures understate the full economic impact of TNCs, as they omit the trends towards networks, contracts and formation of alliances.

The fact that the output of the foreign affiliates exceeds world trade—and has done so now for about two decades—is one indicator of the extent of “deep integration” among national economies. It also suggests that trade and foreign production are increasingly **complementary** means of serving foreign markets. In the traditional literature trade and FDI have been regarded as **substitutes**: FDI was used predominantly to supply markets protected by barriers to trade. The fact that the process of deep integration is undertaken by a small number of firms—one third of the total FDI stock is accounted for by 100 firms (UNCTAD-DTCI, 1994)—suggests the potential problems Governments might face when they have to deal with these large firms; only a few have the necessary skills in negotiation to obtain the best deal (Dunning, 1993, part 4). Many governments have become more directly involved in contributing resources needed for attracting or maintaining TNCs operating within their borders, thus adding to the friction of localizing forces that can make the development of a truly global system within a TNC both more expensive and often less appropriate. Targeted support for creating spe-

---

<sup>1</sup> For a general statement of the power of local clusters, see Porter (1990); for an industry study that calculates the importance of specific impediments, see Baden-Fuller and Stopford (1991).

---

cialized infrastructures has now become one means of fostering TNC strategies of building cross-border networks. The result, visible in Silicon Valley, the City of London, the Po valley in Italy and elsewhere, is the accumulation of resources bound together and the creation of externalities that make them effectively immobile.

These broad trends provide the backdrop to a more detailed investigation. Because “the important sources of long-term business rents . . . are not associated with industry, but with the unique endowments, positions and strategies of individual businesses” (Rumelt, 1991, p. 168), firm-level data are needed to reveal the causal forces for change. In particular, resource-based views of strategy are needed to provide fine-grained assessments of why firms choose a particular stream of investments to develop new assets, and why seemingly similar firms in an industry may choose quite different streams. The divergence of responses to market stimuli suggests that the turbulence of competition has opened up fresh options for the ways in which an enterprise chooses to compete.

## **Alternative ways of harnessing resources**

Resource-based views of strategy help to uncover how firms choose their organizational modes as well as the configuration of assets or the choice of market strategy. A key question is the extent to which the resources required are best managed within the firm or by other firms in some form of contractual arrangement. Some argue that the need to retain operational control requires control exercised by equity ownership, preferably 100 per cent.<sup>2</sup> In more theoretical language, one can regard this position as that of placing continuing reliance on the traditional virtues of using the hierarchy. And given the well-known difficulties of managing change in any organization, investments in corporate purpose and shared competencies are relatively more likely to pay off when there is unanimity of ownership than when there are legally separate partners with divergent objectives. Yet, as discussed later, ownership does not necessarily buy control; there are severe internal obstacles to the transfer of best practice. Moreover, the efficiencies are essentially short-term and bought at the price of ignoring the need for learning and the development of new capabilities. The sum of these needs may be so great as to exceed the scope of an individual firm. Alliances

---

<sup>2</sup>For an eloquent statement to this effect from the Chairperson of SmithKline Beecham (United Kingdom), a major pharmaceutical TNC, see Wendt (1993).

provide a means of combining resources within the scope of each partner. Control can be maintained by mutual trust and contractual obligation.<sup>3</sup>

Both networks and hierarchies come in many configurations. One important dimension is the extent to which the control of assets and strategic choices are dominated by the corporate headquarters or are dispersed around the world. Some TNCs rely on centralized power and ultimate control. Others have a more dispersed organizational structure in which there are many centres of excellence of roughly equal strategic importance and power.

Form and configuration of an organization provide the axes of a simple matrix (shown in figure 1). Some examples may help to illustrate the extent of the differences among the four alternative modes of organization in terms of creating, accumulating and exploiting resources. A traditional hierarchy with strongly centralized tendencies is exemplified by many Japanese TNCs such as Toyota. Royal Dutch/Shell (the Netherlands/United Kingdom) also employs a hierarchy, but one in which power and influence are widely dispersed. Indeed, Shell's leadership in developing scenario planning was part of a strongly held belief that the future cannot be readily forecasted and thus local managers are often better placed than central officials to choose which resources need to be developed through investment.<sup>4</sup> Shell, in effect, operates as a dispersed network of national affiliates in a way that facilitates the rapid transfer of knowledge and creation of leverage from innovation anywhere within the hierarchy.

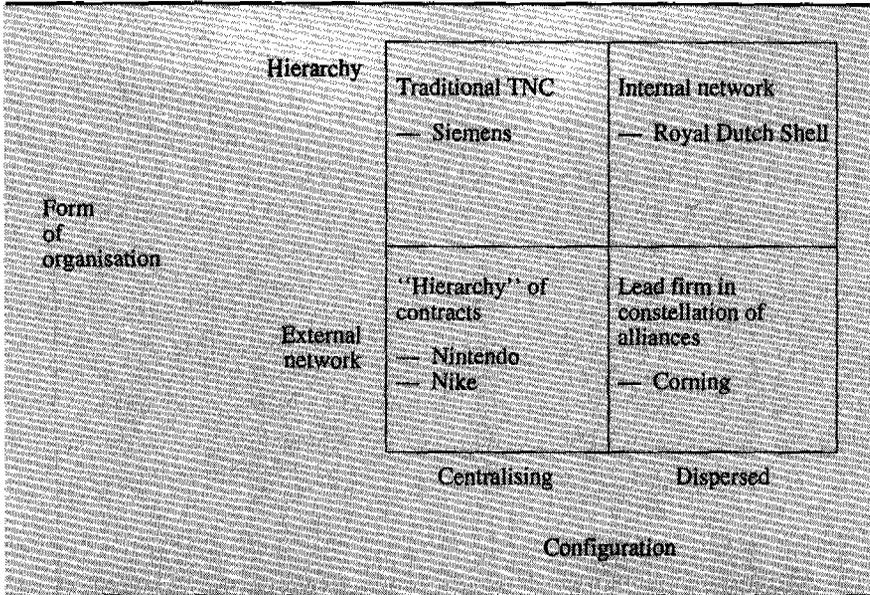
External networks have many of the same features. An example is Corning, which operates a web of many joint ventures and alliances. Similarly, Fujitsu has hundreds of external partners, some of which (e.g., ICL and Advanced Micro Devices) are partially owned while others are linked by contract alone. Managing such distributed networks and still retaining adaptive capabilities requires special skills of organization. Consequently, many network organizations do not have power evenly balanced among all members. Instead, they rely on a lead (or central) firm to give the whole network a sense of direction and adaptive capability (Lorenzoni and Baden-Fuller, 1993). The lead firm's investments in specific assets emphasize access to consumers and global brand presence. Some have used the term "flagship firm" to describe the same types of asymmetry in the relationships across such networks (D'Cruz and Rugman, 1993).

---

<sup>3</sup> I am indebted to Stephen Kobrin (1995) for some of these ideas; see also Jarillo (1994).

<sup>4</sup> For some details on the philosophy and the system, see De Geus (1988, 1990). By contrast to Shell, Exxon seems to remain much more centralized in its operating philosophy, even though the two firms meet head-to-head in most markets of the world.

**Figure 1. Alternative means of harnessing resources**



An external network does not necessarily imply a dispersion of power and control; some have strong, centralizing tendencies. For example, the Japanese games producer, Nintendo, has designed a configuration of contracts that permits its 1,500 employees to command one of the world's highest sales/employee ratios and, for a time in 1993, a market capitalization greater than Matsushita and Sony combined. The contracts are designed to give Nintendo great powers of control over even tiny details of the operations of its contract partners. Much the same can be said for other consumer-oriented firms such as Nike in sportswear. To put muscle behind their desire for control of their contractual relationships, Nintendo and other firms specialize their resources and skills in two activities: design and marketing.

These four organizational modes can be used to conjure with many questions that have hitherto attracted little attention. What happens when a group of firms in a network (often an alliance) competes with a market leader organized as a traditional hierarchy? The Airbus-Boeing contest in aerospace is one such example. Which type of organizational mode is the most efficient? Which mode is likely to gain at the expense of the others over time? How durable and adaptable is a given form of organization under conditions of rapid change? How does today's organizational form affect an

---

enterprise's ability to create or acquire particular types of new resources for tomorrow? In other words, is one form of organization better at enhancing what has come to be called the "core competencies" of an enterprise than others? If so, is it always a single form, or does the answer to the last question also depend on particular technological or regulatory conditions?

The characteristics of both alliance structures and internal networks are described in greater detail in the sections that follow. Several hypotheses are developed to suggest partial answers to the questions posed above. There remains, however, great uncertainty about what types of change favour one mode of organization over another: some types of change favour networks, others favour hierarchies. These are empirical questions that cannot satisfactorily be answered by existing theory without amplification to deal with recent developments.

## **Strategic alliances and the growth of networks**

In many industries, notably aerospace, electronics, pharmaceuticals, new materials and telecommunications, there have been exponential increases in the use of strategic alliances. Data on them are fragmentary, yet it seems clear that they vary significantly ranging from traditional forms of inter-firm agreements to cartels, *keiretsu* or joint ventures. Cartels are formed primarily to suppress competition within an industry as a whole; alliances may suppress some forms of competition among the members, but rival groups compete vigorously for industry dominance. *Keiretsu* arrangements are typically broad-based, whereas alliances are structured around clearly focused goals. Alliances can resemble those forms of joint venture that span several countries, but many alliances involve no equity sharing at all.<sup>5</sup>

An important advantage claimed for alliances over hierarchies is that they permit faster exploitation of global scale economies in key activities. Particularly in industries in which competitive demands require a presence in all of the major markets and the differing needs of Governments must be accommodated (e.g., aircraft and airlines), alliances provide large competitors with new ways to gain leverage from existing resources without undue asset exposure. They also offer smaller competitors new possibilities for profitable survival.

---

<sup>5</sup> For example, the concept is ignored completely in the authoritative *New Palgrave* (Eatwell *et al.*, 1991).

---

One can speculate about how alliances create benefits related to scale economies. One hypothesis is that networks become relatively more attractive as the number of critical technologies needed for future competitiveness increases. Few enterprises have the ability to command leadership positions in multiple technologies, especially when these technologies are themselves changing rapidly. IBM, for example, used to be a strident opponent of alliances, but has now reputedly entered into over 300 alliances in a bid to regain some of its lost market share. Alliance networks provide a set of technical options that can be deployed whenever or wherever needed. But it is not clear who can pick up effectively and develop further a specific technology. For example, the European Union's pre-competitive research collaborations—ESPRIT and the like—have been criticised for lacking the "connection" to commercial reality that is needed for transforming technology into a competitive product.

A second hypothesis is that alliances, at least those covering key functions, provide faster access to new customers. This is another kind of scale benefit that is especially important when new technical standards are being set for new and emerging products. In software and micro-chips, for example, the alliance among Sun Microsystems, IBM and Hewlett-Packard for reduced instruction-set computing (RISC) linked hardware and software producers and accelerated progress towards the critical mass needed to establish new standards in the market-place. Issues of critical mass loom large when technology links together businesses that were previously separate and distinct and opens up new avenues for creating knowledge. For example, the coming together of telecommunications, video and audio technologies has made possible the development of personal digital assistants. And AT&T, Matsushita, Marubeni and Olivetti have linked up to develop and sell their personal digital assistants in competition with another alliance centred on Apple.

Defining the circumstances under which alliances provide superior means of gaining greater technological scope and greater speed of access is not, however, a simple task. Hierarchies can also be stretched and flexed. In technology, for example, NEC (Japan) has emerged as the only producer in the world's top five firms in **both** computers and communications. NEC's divisions have doggedly pursued the slogan of "computers and communications" and have created a stream of new products from the converging technologies. Meanwhile, computer producers like IBM have dipped in and out of communications alliances with little to show for their pains. Furthermore, the example of MIPS Computer Systems' rapid growth in an alliance struc-

---

ture and its equally rapid decline suggests that speed of access to standards-setting customers can be created at the price of engendering competitive fragility if hierarchically organized competitors retaliate (Gomes-Casseres, 1993b).

The earlier suggestion that networks within an alliance are usually asymmetric and reliant on a lead firm to give the whole a sense of direction and purpose provokes a third hypothesis: alliances are stable when the lead firm builds trust and reciprocity in ways that “make the learning races” between partners both a competitive and a collaborative game” (Lorenzoni and Baden-Fuller, 1993, p. 2). There is mixed evidence on the conditions that create the possibilities for such stability. Some case-study evidence suggests instability and eventual gains for the partner that wins the learning race by virtue of superior ability to “hollow out” the competencies of the others (Hamel, 1991). Other evidence suggests that mutual gains are possible (Bleeke and Ernst, 1991). Conventional theory in industrial economics suggests that a hierarchy is a superior form of organization for dealing with the risks in the learning races and the difficulty of managing ill-defined obligations inherent in an alliance (Coase, 1937; Williamson, 1985). Yet, many alliances have proved durable over many years, suggesting that the concept of trust needs to be added to the lexicon of economics.<sup>6</sup>

## Internal networks

How can a large-scale, complex organization retain the nimbleness of a small firm, learn faster than other firms and still command sufficient resources to invest in all possible sources of future competitiveness? To confront such challenges and create greater flexibility without losing discipline and stability, some TNCs, such as Shell and ABB (Sweden/Switzerland), have developed internal networks that can operate with less central instruction than hitherto. Internal networks, like their external counterparts, need to be made durable by means of sustained and consistent investments to build trust and mechanisms for collaboration, “contracting” and coordination.

There is now an active debate as to whether or not markets, hierarchies and networks are discrete organizational alternatives, for the reality often seems to be that large-scale organizations have elements of all three.<sup>7</sup> Many

---

<sup>6</sup> From among the growing literature on alliances, see, for example, Gomes-Casseres (1993a); Hagedoorn and Schakenraad (1990) and Mytelka (1991).

<sup>7</sup> For a review of the basic arguments and the literature, see Ghoshal and Bartlett (1990).

---

observers agree with Walter Powell that networks are distinct and a more social form of exchange "... more dependent on relationships, mutual interests and reputation ... [they] entail indefinite, sequential transactions within the context of a general pattern of interaction ... [in which] ... there are gains to be had by the pooling of resources" (Powell, 1990, p. 303).

One important spur to the development of internal networks has been the growing need for hierarchies to tap into the resources embodied in immobile local clusters. These "anchors" add considerably to the complexity of organization if TNCs are to create new advantages by combining immobile and mobile resources within workable systems. One way to limit the added complexity has been to concentrate decision making for one product line in the territory where the strategic environment is strongest. Some firms have accorded some of their foreign affiliates a "world product mandate" for a particular line of products. For example, AT&T shifted its corded telephone business to France in 1992; DuPont moved its electronics-related businesses to Japan in 1992; Siemens has moved its nuclear medicine and ultrasound business headquarters to the United States and its air-traffic management to the United Kingdom; Hyundai moved leadership for its personal computer business to the United States. Such moves are usually inspired by opportunities to leverage local stimuli for innovation or other factor advantages. On occasion, they can be prompted by legislation and the need to comply with specific performance requirements, as in Canada.

Internal networks can be developed beyond the legal boundaries of the enterprise to place suppliers in more strategically salient roles. Sometimes this means that a firm organized in a traditional hierarchy acts as a lead firm in a growing external network. Consider, for example, the automobile industry in which multiple strategies and forms of networks co-exist. Some firms such as Rover<sup>8</sup> are highly centralized, pursuing more locally based, export-dependent strategies; others, like Toyota (Japan) have strong centralizing tendencies despite a considerable dispersion of their assets around the world; yet others, like Ford (United States), have long managed highly dispersed assets, but have been moving away from a centrally dominated hierarchy towards an internal network, exemplified by the design process of the Mondeo model. Regardless of such strategic choices, all of the major assemblers are seeking to concentrate on core skills and have passed more responsibility for component design to their principal suppliers.

---

<sup>8</sup> The company previously owned by British Aerospace was acquired in 1994 by BMW. The reference here is to its former organizational structure before changes were introduced by the new management.

---

---

For example, while Ford has more than 700 suppliers for its United States-built Tempo/Mercury/Topaz range, it plans to have only 227 suppliers for the Contour/Mercury Mistique models. The French component maker, Valeo, used to be served by 3,500 suppliers in 1991; it is now served by about 1,800 suppliers and plans to reduce that number to about 1,000 by the end of 1995.<sup>9</sup> To make these new arrangements work effectively, the assemblers are having to undo the damage created by decades of adversarial relationships in which they cut costs by squeezing their suppliers in year-to-year buying programmes. They aim to build greater mutual trust so as to take advantage of the fact that the remaining key suppliers face greater volumes and less immediate business risks embodied in longer-term, more open-ended contracts: success will not be achieved overnight.<sup>10</sup>

In all cases, TNC managers have to strike a balance between the forces for integrating operations across borders and those for recognizing and exploiting the differences among national markets. ABB has carried such a strategy much further than many other firms, and has developed a novel form of matrix structure and related processes capable of delivering a series of common economic and social goals with specialized managerial roles across business areas, countries, functions and seniority (Bartlett and Ghoshal, 1993). Leadership for lines of business is spread across the globe—power transformers in Germany, process automation in the United States, and so on—and centred in regions where there are other global leaders.

In theory, the act of transferring ideas and proven practices within a hierarchical TNC seems simple; in practice, it has proved enormously difficult. All the obstacles of the familiar “not invented here” are multiplied when communications have to cross national, linguistic and cultural barriers. Thus, to make their internal networks work, leaders like Shell and ABB have had to pay particular attention to these issues. The practical difficulties are such that it is by no means clear that transfers of best practice are easier within a hierarchy than within an external network. There is abundant evidence of severe friction in both modes of organisation, contradicting the claims of increasing mobility made by some writers, for example, Kenichi Ohmae (1990) and Robert Reich (1991). Moreover, the difficulties are multiplied when the opposing dynamics of mobile and immobile resources have to be harnessed together. The growing requirement for TNCs to become arbitrageurs among regional clusters—perhaps cross-pollinators is a better metaphor—adds further complexity to an already difficult assignment.

---

<sup>9</sup> “World Automotive Components”, *Financial Times*, 12 July 1994.

<sup>10</sup> The problem is similar to that posed theoretically by Fama (1990).

---

## Creating and leveraging core competencies

The image of global competition as a race to accumulate resources provokes the following question: how do organizational strategies affect firms' abilities to create and leverage core competencies, the heart of the resources needed? Much of the existing literature assumes tacitly that hierarchies are superior in this regard.<sup>11</sup> There are, however, grounds for reconsidering that assumption. The known examples of lead firms retaining and developing core competencies within a network may be less exceptional than has been previously assumed.

A core competence—for example, technology, organizational skill or brand reputation—can be considered as a resource that has three basic properties: it can be applied to more than one unit of the parent firm; it adds unique value to customers; and it is sufficiently complex that it is difficult for rivals to copy. Without the last property, any new competence developed would be rapidly traded away and provide the originator with no competitive advantage (Hamel and Prahalad, 1994).

Often, technological advantages need to be closely tied to organizational capabilities to be protected from imitators and human attributes need to be deeply embedded in the fabric of the corporate structure so as not to be readily exportable to alliance partners. Those attributes, however, do not prevent the lead firm from sharing part of the technology in a form suitable for exploitation by others. The old distinction made between “know-how” and “know-why”, common in debates about technology transfer to developing countries, applies here. The lead firm can retain both its proprietary “know-why” and the initiative in new developments, while allowing its partners or contractors to participate in exploiting and learning from last-generation technologies.

The experience of Nintendo provides one example of how this delicate balancing act can be managed. In that case, a tightly defined and centralized “hierarchy of contracts” is used to manage radical shifts in technology while maintaining control: precisely what conventional theory suggests is done best within an equity-based, traditional hierarchy. Nintendo uses carefully controlled “learning races” with its partners to promote rapid innovation and restricts partners' contributions, for example, in software design to

---

<sup>11</sup> See, for example, Hamel and Prahalad (1994), who say little about alliances in their extensive treatment of competencies, except to suggest that they can be useful devices for one firm to “borrow” the assets of another.

---

three years. These restrictions are designed to promote greater striving for excellence and to accelerate the pace of change. Shimuzu of Nintendo stated: "some large (integrated) firms started to take an interest in family computers, but this is an extremely difficult area since the cycle of fashion is so short. Matsushita and Sony have failed in their undertakings related to MSX, a home-use personal computer. NEC produced a PC engine and entered into the family computer business but failed . . . these are hardware manufacturers, who have a typical hardware manufacturer's mind—if Nintendo produces an 8-bit computer, why don't we launch a 16-bit one? Software for video games, however, is entirely different from ordinary computer software. Talented sound creators and scenario writers are necessary to develop game software. The fact that we have them is the secret of Nintendo's success." (Lorenzoni and Baden-Fuller, 1993, pp. 10-11.)

The same sort of balanced flexibility can be seen within the marketing function. Where consumer-goods enterprises like Nike and Benetton have out-sourced most of the routine functions, they have retained brand development as one of their core competencies. Alongside branding has gone investment in marketing leadership as a principal way of providing coherence and direction for the network as a whole. One study concluded that the combination of brand support and marketing leadership made a difference in how the network fared overall. "In less successful alliances, we note that marketing is not always controlled in such a key way." (Lorenzoni and Baden-Fuller, 1993, p. 14.)

The skills required to retain global marketing leadership are becoming more complex. Instead of either standardizing the marketing function globally or adapting everything to the special needs of each market, firms must now seek the right balance of standardization and adaptation for each element of the marketing mix at the national, regional and global levels (Douglas and Wind, 1987; Quelch and Hoff, 1986; Yip, 1992). Some lead firms in alliance networks have created significant economies of scale by standardizing one or more elements of the marketing mix and gaining scope advantages by flexing other elements, either alone or in partnership with other firms in the network. For example, British Airways and Intel have concentrated on standard advertising campaigns; IBM has standard sales promotion methods; and Benetton has standardized its advertising campaigns and its distribution network.

It may be hypothesized that the more the various marketing variables require local adaptation the greater the likelihood that members of an alliance will be willing to cede responsibility for marketing and brand manage-

---

ment to a lead partner. One consequence of such a specialization may be a form of mutual dependency in which the marketing leader can be dependent on other firms for technology or low-cost, flexible supply. Another consequence is that the lead firm may dominate most of the key functions; but it does not abuse its power, otherwise instability is bound to follow.

Specialization and the development of more adaptive marketing skills have a bearing on the recent surge of interest in corporate identity in the form of a global brand. Many lead firms in alliances, such as ABB, IBM and Sony, have been investing heavily to develop an image in consumers' minds about the enterprise as a whole, rather than its products. Long dismissed as a curious waste of time and money by traditionalists in consumer marketing, corporate branding seems set to become an established feature of the global marketplace. There seem to be at least three reasons. The first is that corporate branding lowers the cost of entry of new or related products to established channels of distribution. For example, both customers and consumers are aware of the reputation of the supplier for superior quality. A corporate brand can reap a "halo effect" from earlier success. Second, the same effect can take place when entering a new national market, especially if Government regulators need to be convinced of the worth of the foreign supplier. Third, the brand reputation of the lead firm can add considerable "oomph" to a separately designated product brand of another member of the alliance; and sometimes two brands are used together.

Skills in deploying all these marketing options are rare. Consequently, many of the brand-intensive markets are strongly oligopolistic. An alliance may be no better or no worse than a hierarchy in fostering a core competence in marketing, but it holds out the promise that many second- or third-rank players can gain advantages by contractual associations with the leader firm. The implications for public policy and for identifying which types of local firms are worth fostering because they create more local value-added are only just beginning to be addressed.

In both technology and marketing, one can surmise that an important motivation for adopting an alliance form of organization is "not scale alone; rather it is a combination of scale (in terms of cost and risk) *and* specialisation. Modern industries such as . . . semiconductors . . . increasingly require both the global extension of markets and the division of labour among two or more large organizations" (Kobrin, 1995, pp. 11-12). The new division of labour within an alliance can be both a cause and a consequence of the immobile resources that are emerging within the local industry clusters discussed in the next section.

---

---

## Localizing forces

A paradox seems to be emerging, namely, that while the workings of the global economy have made some factors of production more mobile, they have also made others even more rooted in local structures. The available corporate evidence suggests that multiple responses are likely to be made to these contradictory trends, leading to new and pluralistic structures of competition. Thus, we are more likely to experience a *divergence* of outcomes rather than a convergence towards some dominant model of economic behaviour.

Consider some of the contradictory trends. Education and the basic technologies needed for an efficient physical infrastructure are readily available. Consequently, neither an educated workforce nor a good infrastructure provides the national advantages they used to. Advantages now arise from highly *specialized* clusters of related skills, technologies and infrastructure, especially when these are hard to duplicate (Porter, 1990). These may be considered as the “core competencies” of areas within nations. Their power in influencing firms’ choices of location seems to have increased, as Michael Enright suggested in a thoughtful review of the organizational differences among three clusters: the Prato textile cluster in Italy, the Swiss watch industry and Hollywood. Each cluster is different from the others in its history (Enright, 1993). Hard-to-copy distinctiveness has evolved from the convergence of natural and man-made forces over time, helped by public policy and private-sector attitudes.

Bruce Kogut and his contributors (1993) argued that, because national advantages are entwined in national structural and institutional factors, they are hard to imitate elsewhere and are “sticky” in terms of a firm’s ability to export business practices from one country to another. This argument builds on earlier ones that emphasized the crucial roles played by national policies and business systems (Zysman and Tyson, 1983), national culture and ideology (Lodge and Vogel, 1987) and distinctive forms of capitalism (Albert, 1991). Transnational corporations must find ways to master all these factors if they are to succeed in every market. These arguments can be applied also at the sub-national level, for differences are equally visible among areas within nations. In Germany, Baden-Württemberg has long been more prosperous than other neighbouring *Länder*; in Italy, Emilia-Romagna now has wage rates twice the national average. Even more telling is the example of the United States. Despite a national structure of common laws and language and no tariff or currency barriers to trade among States, large-scale producers of agricultural equipment are concentrated heavily in Wisconsin,

---

advertising and publishing in New York, etc. Very few scale-intensive industries are dispersed evenly across the United States.

Localization of some key resources is also made evident by the clustering of leading players in the same locations. Japan has 11 mass-market automobile assemblers—an industry in which Western logic has suggested that three at most would suffice—and is also home to the world's four dominant motorcycle producers and many of the leading producers in industries as diverse as factory automation, cameras and consumer electronics. Germany is home to the world's three largest chemical firms. The United States is home to a cluster of leading competitors in computer workstations, mass-market software, and medical instruments. N. J. Piore and C. F. Sabel (1984) showed clearly how networks of mostly small, linked but generally loosely coupled manufacturing firms had produced many specialized industrial districts in Europe. These firms represent, perhaps, an extreme form of clustering, but serve to underscore the strength and political salience of specialized infrastructure as an immobile source of competitive advantage.

Does all this mean that we should now be dusting off the older notions of business districts and regional economics? Bennett Harrison (1992) provided both an excellent summary of the earlier literature and an elegant argument that the contemporary industrial clusters cannot satisfactorily be explained neither by agglomeration economics and externalities nor by transaction-cost economics. He points to the critical role of communal non-economic institutions and various attributes of "trust" embedded in local society that permit the various actors both to compete and to collaborate. He develops a simple model of causality that runs "from proximity to trust to collaboration to enhanced regional economic growth" (p. 478). Given the development possibilities described above for networks, it is no accident that trust and collaboration feature so prominently in the argument. Institutions, public as well as private, are finding new payoffs from altered behaviour.

With sufficient degrees of trust extending to foreigners, Harrison's beneficial spiral of regional growth can be accelerated by inward FDI: there can be a mutuality of interest between local public bodies and foreign enterprises, just as in the case of an alliance. Strong clusters of successful firms attract new entrants, often foreign ones. Much of the European chemical investment in the United States is located alongside local competitors like Du Pont and Dow. Likewise, the leading role of London in international financial services would not be possible without the active participation of over 600 foreign banks and investment houses. The United Kingdom's capital market regulations have been designed carefully to ensure that foreign interests are balanced appropriately against purely local ones.

---

Growing inward FDI has helped to accelerate the trend towards specialization in local networks because many TNCs now choose to locate parts of their value chain in different places. One consequence is increased trade flows directly tied to FDI and therefore more incentives for local authorities to woo prospective investors. Where the local network itself provides a source of development advantage for, say, investors from the Republic of Korea in Silicon Valley, the parent firm has to grant the local unit freedom to become a leader of change, thus adding further distinctiveness in the locality.

Such strong localizing forces can co-exist with globalization, as the recent rapid cross-border growth of service industries has demonstrated.<sup>12</sup> Services are generally considered to be among the most “local” of industries and therefore hard to internationalize. The localising “anchors” of service provision can be pried loose by technology, as in banking. The various segments of the banking industry illustrate the extent of variation in the global/local balance struck to create new advantages. Technological advances have allowed many personal banking services to become “disembodied” and thus to be offered from a distance—a form of what has been labelled the “industrialization” of services (Levitt, 1986). Some observers now claim that capital-market trading activities are entirely free of location, being undertaken by hundreds of thousands of traders whose computer screens are linked directly and indirectly.<sup>13</sup> The financial derivatives segment is already over \$16 trillion per year worldwide and it is exerting pressures for change in the central business of wholesale banks. In such markets, one can think of the theoretical possibility of the unit of scale being a single computer screen—particle physics rather than Newtonian mechanics is a convenient image for the difference. Even so, the localizing forces are far from defeated, especially in the retail segment, and most banking executives claim that truly global banking remains far away.

Where the scale effects of critical “back-office” activities, such as software development, are large and where the service transaction itself remains locally “embodied” and dependent on local regulations and facilities, service businesses become prime candidates for cross-border alliances. An

---

<sup>12</sup> For detailed data, see UNCTAD-DTCI, 1994. For a thoughtful analysis of the managerial issues, see Segal-Horn (1993).

<sup>13</sup> To claim that the market is entirely free of location bias is clearly an exaggeration, for the record shows that where a trader sits has a great bearing on the composition of his or her portfolio preferences. The international component of most portfolios, though growing, remains proportionately small in all major capital markets. In other words, information and understanding remain biased by location.

---

example is telecommunications, where major service operators are joining forces across the globe to provide a range of value-added services that none could provide independently. These are industries in which an external network rather than a hierarchical approach to the task of building global resources appears to be required.

Growing organizational ability to manage both scale-dependent international activities alongside locally differentiated ones reduces the incentive to rely on a single organisational approach to the market. Such ability permits some firms to use two strong incentives to maintain local differences, perhaps even promote them. One incentive comes from public policy procedures for setting standards where local firms are treated as “insiders” in the process and gain advantage. For example, in European electronics, where membership in the European Roundtable of Industrialists is an important part of being accepted for public procurement contracts, setting technical standards and gaining access to European Union research funding, it is noticeable that United States firms like Motorola have been accepted as local firms whereas the Japanese have largely been excluded. Though this exclusion probably reflects European fears more than the behaviour of Japanese firms, it indicates the extent of the challenge that insider status poses. Where such status is valuable, the foreign firm can act more as a local firm than as a guest and thus become part of the local “trajectory” of development that has its own unique form.

The second incentive is that TNCs are often in a good position to exploit differences where they exist. Rather than try to suppress these differences, TNCs can deploy their international strengths to serve those differences better than purely local firms and thus have reason to attempt to magnify them. One example is shown by the complex interaction of supply and demand shifts in the European white goods business in which pronounced local preferences can be served effectively by only a few of the international strategies employed by competitors (Baden-Fuller and Stopford, 1991). Another is Volkswagen’s ability to create a niche market in the United States, selling its Brazilian-made Fox to the Hispanic population.

The discussion so far has suggested that, whether within hierarchies or alliances, TNCs are finding effective new ways of maintaining an appropriate balance between global and national markets. The question arises, however, as to the impact of regional integration developments. Can a TNC be national, regional and global, all simultaneously? A cautious answer is that some can, but for different activities.

---

Relatively few of the activities of a “global” firm are truly worldwide (Morrison et al., 1991). For example, only a few TNCs have internationalized their basic research activities and many have kept the production of skill-intensive products particularly concentrated in their home countries. One depiction of the emerging organizational form is that the production functions become integrated in regional networks—as in the case of the European Union—where there are cost and tariff advantages that allow scale efficiencies to be gained. The result is increased **intra**-regional trade in tangible goods. At the same time, the corporate centre and its various specialized offshoots accumulate the resources of knowledge (technology, brands, etc.), capital and control systems. These central functions spur an increase in **inter**-regional trade in intangible goods (Stopford, 1992). In industries in which FDI is the predominant mode of serving foreign markets—pharmaceuticals and packaged foodstuffs, for example—many TNCs take the position that they are largely immune to frictions among the trade blocs. Where inter-regional trade is important—as in aircraft and many types of specialized machinery—firms are more exposed to trade threats and tend to be involved more actively in political lobbying.

The contemporary role of a TNC is both that of an arbitrageur linking immobile resources and giving them some mobility and that of an impresario who has to run a world-class opera house. The sound of international stars, whose performances are supposedly the same regardless of the stage, has to be blended with the particular timbre of the local chorus if the whole is to create a pleasing harmony. No one would wish La Scala in Milan to sound like the Metropolitan in New York, though both compete for the stars and some privileged few of the audience go to both houses.

## Conclusions

The turbulence of the global market is likely to continue and even become more disorderly, adding opportunities for innovation in strategy. At the centre of the storm is a contest about creating, accumulating and combining resources in ways that transform both the competitiveness of the individual firm and the structure of the market.

At the same time, the unit of analysis for assessing global competition is shifting from the legal entity known as the firm to the contractual network of firms tied together by mutual long-term interest. In markets in which the two forms of organization co-exist, it will no longer be sufficient to look at

---

the individual firms, for that would be to miss much of the dynamics of competition. It is, however, perfectly possible that the most complex forms of organization now visible in the distributed networks will prove unmanageable: the competing virtues of the hierarchy are still strong in many settings.

The central implication is that assessments of strategy and competition should be enlarged to embrace the notion that there is a contest among quite different depictions of strategic opportunities, **plus** a contest among alternative organizational forms. Considerable work is needed to sort out the conditions that favour or hinder contestants in these new battles—traditional theory gives only a few clues about the necessary structuring of the evidence or the argument.

These developments could mark a transition in the form of interdependence among nations. Governments are increasingly being drawn into the debate on international investment issues. The development of networks and the greater specialization of assets in local clusters poses new challenges for policies fostering national competitiveness. Moreover, there are serious problems to be resolved about the appropriate measures to be used for the regulation of competition. What determines a dominant share of a national market or an abuse of a dominant position? Where the strategic market extends beyond one nation and where power to control a market may, in a network, be exerted indirectly and at a large distance, the conventions of anti-trust law may act against policies of building or fostering competitiveness. The forms of integration and interdependence among nations are likely to provoke revisions to public policy. Those, in turn, may alter the structures of resource advantages and prolong the turbulence that marks the contemporary market. ■

---

## References

- Albert, Michel (1991). *Capitalisme contre Capitalisme* (Paris: Seuil).
- Baden-Fuller, Charles W. F. and John M. Stopford (1994). *Rejuvenating the Mature Business* (Boston, Mass.: HBS Press).
- Baden-Fuller, Charles W. F. and John M. Stopford (1991), "Globalisation frustrated: the case of the European white goods industry", *Strategic Management Journal*, 12, 7, pp. 493-507.

- Bartlett, Christopher A. and Sumantra Ghoshal (1993). "Beyond the M-form: toward a managerial theory of the firm", *Strategic Management Journal*, 14, special issue (Winter), pp. 23-46.
- Bleeke, Joel and David Ernst (1991). "The way to win in cross-border alliances", *Harvard Business Review*, 69, 6 (November-December), pp. 127-135.
- Coase, Ronald H. (1937). "The nature of the firm", *Economica*, 4, pp. 386-405.
- D'Cruz, Joseph R. and Alan M. Rugman (1993), "Business networks, telecommunications, and international competitiveness", *Development and International Cooperation*, IX, 17 (December), pp. 223-243.
- De Geus, Arie (1988). "Planning as learning", *Harvard Business Review* (March-April), pp. 70-84.
- De Geus, Arie (1990), "Strategy as learning", Stockton Lecture, London Business School, London, United Kingdom (May), mimeo.
- Douglas, Susan P. and Yoram Wind (1987). "The myth of globalization", *Columbia Journal of World Business* (Winter), pp. 19-29.
- Dunning, John H. (1993). *Multinational Enterprises and the Global Economy* (Reading, Mass.: Addison-Wesley).
- Eatwell, John, Murray Milgate and Peter Newman, eds. (1991). *The New Palgrave: The World of Economics* (London: Macmillan).
- Enright, Michael (1993). "Organization and co-ordination in geographically concentrated industries", in Daniel Raff and Naomi Lamoreaux, eds. *Co-ordination and Information: Historical Perspectives on the Organization of Enterprise* (Chicago: Chicago University Press for NBER).
- Fama, Eugene (1990). "Agency problems and the theory of the firm", *Journal of Political Economy*, 88, pp. 288-307.
- Ghoshal, Sumantra and Christopher A. Bartlett (1990). "The multinational corporation as a strategic network", *The Academy of Management Review*, 15 (October), pp. 603-625.
- Gomes-Casseres, Benjamin (1993a). "Computers: alliances and industry evolution", in David B. Yoffie, ed. *Beyond Free Trade: Firms, Governments and Global Competition* (Boston, Mass.: HBS Press), pp. 79-128.
- Gomes-Casseres, Benjamin (1993b). "MIPS computer systems (A) and (B)", Harvard Business School cases 792-055 and 793-049.
- Hagedoorn, John and Jos Schakenraad (1990). "Strategic partnering and technological cooperation" in B. Dankbaar, J. Groenewegen and H. Schenk, eds., *Perspectives in Industrial Economics* (Dordrecht: Kluwer).
- Hamel, Gary (1991). "Learning in international alliances", *Strategic Management Journal*, 12 (special Summer issue), pp. 83-103.
- Hamel, Gary and C. K. Prahalad (1994). *Competing for the Future* (Boston, Mass.: HBS Press).
- Harrison, Bennett (1992). "Industrial districts: old wine in new bottles?", *Regional Studies*, 26, 5, pp. 469-483.

- 
- Jarillo, J. Carlos (1994). *Strategic Networks: Creating the Borderless Organization* (Oxford: Butterworth-Heinemann).
- Kobrin, Stephen, J. (1995). "Regional integration in a globally networked economy", *Transnational Corporations*, 4, 2 (August), pp. 15-33.
- Kogut, Bruce (ed.) (1993). *Country Competitiveness: Technology and the Organizing of Work* (New York: Oxford University Press).
- Levitt, Theodore (1986). *The Marketing Imagination* (New York: The Free Press).
- Lodge, George and Ezra Vogel (1987). *Ideology and National Competitiveness: An Analysis of Nine Countries* (Boston, Mass.: Harvard University Press).
- Lorenzoni, Gianni and Charles Baden-Fuller (1993). "Creating a strategic centre to manage a web of partners", Bath, University of Bath, working paper, mimeo.
- Markides, Costas (forthcoming). *Diversification, Refocusing and Economic Performance* (Cambridge, Mass.: MIT Press).
- Morrison, Allen J., David A. Ricks and Kendall Roth (1991). "Globalization and regionalization: which way for the multinational?", *Organizational Dynamics* (Winter), pp. 17-29.
- Mytelka, Lynn K. (1991). *Strategic Partnerships: States, Firms and International Competition* (Rutherford, New Jersey: Fairleigh Dickinson University Press).
- OECD (1994). "Indicators of market access barriers" (Paris: OECD), mimeo.
- Ohmae, Kenichi (1990). *The Borderless World* (New York: Harper Business).
- Piore, Michael J. and Charles F. Sabel (1984). *The Second Industrial Divide: Possibilities for Prosperity* (New York: Basic Books).
- Porter, Michael E. (1990). *The Competitive Advantage of Nations* (New York: The Free Press).
- Powell, Walter W. (1990). "Neither market nor hierarchy: network forms of organization", *Research in Organizational Behavior*, 12, pp. 295-336.
- Quelch, John A. and Edward J. Hoff (1986). "Customizing global marketing", *Harvard Business Review*, May-June, pp. 59-68.
- Reich, Robert (1991). *The Work of Nations* (New York: Knopf).
- Rumelt, Richard P. (1991). "How much does industry matter?", *Strategic Management Journal*, 12, pp. 167-185.
- Segal-Horn, Susan (1993). "The internationalization of service firms", in *Advances in Strategic Management*, JAI Press, pp. 31-55.
- Stopford, John M. (1992). "Offensive and defensive responses by European multinationals to a world of trade blocs", *OECD Development Centre Technical Paper No. 64* (Paris: OECD), mimeo.
- UNCTAD, Division on Transnational Corporations and Investment (UNCTAD-DTCI) (1994). *World Investment Report 1994: Transnational Corporations, Employment and the Workplace*. Sales No. E. 94.II.A.14.
- Wendt, Henry (1993). *Global Embrace: Corporate Challenges in a Transnational World* (New York: Harper Business).

- 
- Williamson, Oliver, E. (1985). *Economic Institutions of Capitalism* (New York: The Free Press).
- Yip, George (1992). *Total Global Strategy* (Englewood Cliffs, New Jersey: Prentice-Hall).
- Zysman, John and Laura Tyson (1983). *American Industry in International Competition: Government Policies and Corporate Strategies* (Ithaca, N.Y.: Cornell University Press).