



Location advantage: Emergent and guided co-evolutions[☆]



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ABSTRACT

We analyze how location advantage is created and developed at the country level. We argue that location advantage can be best understood as the result of the interaction between two distinct types of co-evolutionary processes: emergent, whereby location advantage is created as the result of agglomeration dynamics in product and factor markets; and guided, whereby location advantage is created as the result of infrastructure dynamics in institutions and endowments. We illustrate empirically the application of the co-evolutionary perspective and the differences between emergent and guided co-evolutionary processes with the analysis of the development of location advantage in the Costa Rican tourism industry.

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1. Introduction

For firms, location matters. The access to external resources that comes from operating in the right place helps companies develop their own proprietary resources, consolidate their competitive positions, and even become MNEs (Dunning, 1977; Foss & Eriksen, 1995; Porter, 1990). These external resources are as diverse as natural resources (Dunning, 1993), highly skilled personnel (Saxenian, 1994), external capital (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997), technology (Cantwell, 1989; Nelson, 1993), or sophisticated clients (Vernon, 1966) among many others. The sum of benefits that firms in a particular location achieve constitutes the essence of location advantage, which arises from privileged access to external resources available in that location and scarce elsewhere.

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Among the determinants of international production and MNEs, location advantage has received the least attention in management studies (Dunning, 1998). Most studies in international business have focused on understanding how the characteristics of a host country attract or deter foreign investors (see reviews in Rugman, 2009), and a recent research stream has started to focus on understanding how the characteristics of the home country have direct and indirect influences on a firm's global strategy (see a review in Cuervo-Cazurra, 2011) and how the home and host country interact in their influence on the firm (see a review in Meyer, Mudambi, & Narula, 2011), going beyond the traditional differences between home and host country (Cuervo-Cazurra & Genc, 2011).

However, we have a less clear understanding of the process by which the advantage is created, as most studies take the characteristics of a location as a given. Yet understanding this process remains of importance. Managers need to distinguish between the firm's ownership and location advantages, including the processes that lead to each (Itaki, 1991), while government officials need to understand processes that lead to the development of location advantage if they are to support domestic firms' competitiveness and attract foreign direct investment (FDI) (Dunning, 1993; Porter, 1990). Hence, in this paper we study how location advantage is created, specifically addressing the process of development of the location advantage, rather than its determinants as done in other studies (Porter, 1990). In so doing, we link extant research on location advantage from international management, strategic management, and economic geography studies with research on processes from organization studies, to provide a parsimonious but integrative framework.

Location advantage is a country-level phenomenon, but location as a spatial concept is often ill defined. Here, we use location and country as synonyms for simplicity of exposition, and for coherence with the illustration of the application of the framework; in large countries the analysis of location advantage can also be undertaken at the sub-national level (Porter, 1990) and the framework we present can easily be adapted to discuss this. Since advantage is composed of elements that interact interdependently on distinct levels (i.e., country, industry, and firm), we view location advantage as a multi-level system of nested hierarchies (Van de Ven & Grazman, 1999) and we model its creation by using a co-evolutionary lens (Baum & Singh, 1994; Cuervo-Cazurra, 2002; Levinthal & Myatt, 1994; Lewin & Volberda, 1999), where the different levels of analysis undergo a simultaneous evolution as actions in one level of analysis influence the actions in another.

Specifically, we argue that the process of creation of a location advantage can be best understood as the result of the interaction between two distinct types of co-evolutionary processes: emergent and directed. In the emergent processes, the actions of social actors (firms in our case) are not directed towards the creation of country-level location advantage but towards their own interest, unintentionally contributing to the creation of location advantage via agglomeration dynamics. In the guided processes, the intentions of social actors (the government in our case) are specifically directed at contributing to the development of country-level location advantage via infrastructure dynamics. This co-evolutionary perspective provides a useful way to integrate micro- and macro-level evolutions within a unifying framework, incorporating multiple levels of analysis into one integrative framework while leaving room for contingent and emergent effects (Lewin & Volberda, 1999, pp. 520).

2. The emergent and guided co-evolutions of location advantage

2.1. Location advantage

Location advantage is the benefit that firms in a particular geographical space have in relationship to firms located elsewhere. Firms enjoy a location advantage because they have access to location resources that firms in other locations do not have. Building on the concept of firm resources (Penrose, 1959; Wernerfelt, 1984), we define location resources as the tangible and intangible assets tied semi-permanently to a location. Among them one finds educated labor (Saxenian, 1994), technological infrastructure (Nelson, 1993), developed capital markets (La Porta et al., 1997), a network of competitive firms (Gulati, Nohria, & Zaheer, 2000), or supporting institutions (Khanna & Palepu, 2010; Peng, Wang, & Jiang, 2008) and good regulations (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2002), among many others. Provided that the firm accesses them (Hennart, 2012), these resources, available to the firm but external to it, support the development of its own resources (Foss & Eriksen, 1995), its innovativeness (Nelson, 1993) and its competitiveness (Porter, 1990; Saxenian, 1994), which can even push the firm to internationalize (Vernon, 1966) and become multinational (Cuervo-Cazurra, 2011).

Although location has received less attention than other sources of advantage (Dunning, 1998), there is a growing if disperse literature that identifies some of the factors that support it. First, international management scholars highlight the relevance of the location advantage for the behavior of the firm and for its performance (Dunning, 1977; Hymer, 1976). This literature has centered its attention mainly on two areas: how the existing location advantage of the home country supports the internationalization of the firm (Vernon, 1966), and how the existing location advantage of the host country attracts FDI (Dunning, 1977), and it has identified several factors that contribute to the advantage, such as natural resources (Dunning, 1993), technology (Cantwell, 1989), or sophisticated clients (Vernon, 1966).

Second, political economy scholars have analyzed in detail the characteristics and factors that enable certain areas to develop a constellation of highly competitive firms (Amsdem, 1989; Piore & Sabel, 1984; Saxenian,

1994), identifying the role of government and the interactions among firms in facilitating the development of competitive advantage. Following this tradition, other studies have identified the factors that contribute to the competitiveness of locations and the emergence of clusters, such as factor markets, product markets, supporting industries, and demand conditions (Enright, 1998; Porter, 1990).

Third, research in economic geography indicates the importance of agglomeration of economic activity in general and the importance of increasing returns, transportation costs, and movement of productive factors to explain the agglomeration of economic activity at urban, regional, and international levels (Fujita, Krugman, & Venables, 1999). Agglomeration facilitates interdependence and specialization in production, resulting in positive externalities (Chung & Kalnins, 2001).

Finally, research on evolutionary economics and systems of innovation has identified the different elements (economic, institutional, and human resource infrastructure) of a country that help in the innovation process (Nelson, 1993). Additionally, this research shows the usefulness of evolutionary notions to explain the creation of systems of knowledge that supports innovation in firms.

2.2. Co-evolution

Co-evolution is a useful mechanism to analyze the transformation of multi-level entities (Lewin & Volberda, 1999). Co-evolution is generally understood as the simultaneous evolution of organizations and their environments (Baum & Singh, 1994), and as the “joint outcome of managerial intentionality, environment, and institutional effects” (Lewin & Volberda, 1999, pp. 526). It is characterized by multilevel, embedded, multidirectional causalities; non-linearities; positive feedback loops; and path and history dependence (Lewin & Volberda, 1999, pp. 532).

We propose two types of co-evolutionary processes to understand the development of location advantage: emergent processes that evolve into a pattern without intention (Mintzberg & Waters, 1985), and guided processes that involve the selection of objectives and the application of a series of means to obtain them (Lovas & Ghoshal, 2000). First, in emergent processes, changes in one level lead to changes in another level with no a priori intention on the part of the social actors in one level to develop the other; they originate in the nested nature of the phenomena. For example, new firms independently entering an industry motivated by their own objectives alter industry dynamics in unintended ways (Baum & Singh, 1994). Similarly, changes in the capabilities of firms can lead to more competitive industries (Levinthal & Myatt, 1994). Although social actors may have clear intentions, we term these co-evolutionary processes emergent because their intentions are not directed at transforming other levels of analysis; changes in other levels nevertheless emerge as by-products, leaving a coherent pattern of behavior that can be identified.

Second, guided processes of co-evolution work in a different manner. Here, the intentions of social actors in one level of analysis are to foster changes in other levels. In these processes, actions are guided towards the attainment of desired outcomes, via evolutionary changes (Lovas & Ghoshal, 2000). While clearly the achievement of outcomes is not assured, the intentions of the social actor are clear and precede, sometimes imperfectly, the decisions and actions that are taken. Clearly, these are “actions which involve motives and consequently a choice between various alternatives” (Merton, 1936, pp. 895). For example, innovators may aim to alter the dominant technology and the characteristics of the industry in which they compete (Rosenkopf & Tushman, 1994), or legislators may try to induce the transformation of the industry and firms within the industry (Van de Ven & Grazman, 1999).

2.3. Co-evolution and location advantage

We apply the two types of co-evolutionary processes to the analysis of the development of location advantage to illustrate the multi-level process of transformation, arguing that the two processes apply to

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