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Globalization and diversification strategy: A managerial perspective

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Summary This study presents survey evidence about managerial views on how the processes of globalization affect managers' strategic decisions regarding a firm's international and product market scope. Our purpose is to assess whether managerial behaviors are consistent with theoretical predictions and whether managerial decisions about firm scope are consistent with the findings of recent empirical research. Our findings generally support those of academic research on the impacts of globalization on managerial decisions concerning firms' strategic scope, but raise questions about findings to date on the nature of a relationship between product and international diversification and their impacts on firm performance. Our findings serve as a check on the results of extant research and offer guidance for future research.

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Introduction

The ongoing globalization of markets and industries constitutes one of the most important changes in the business environment of firms. In general, higher levels of foreign competition, international outsourcing, and off-shoring have meant heightened competition both domestically and internationally (OECD, 2003). Many firms have responded to the rising levels of competition and the different sources of this competition by increasing the international scope of their

sales activity (Denis, Denis, & Yost, 2002; Hautz, Mayer, & Stadler, 2014; Hutzschenreuter & Gröne, 2009; Wiersema & Bowen, 2008), broadening and deepening the activities of their international network of subsidiaries (Wiersema & Bowen, 2011), and narrowing their product market scope (Bowen & Wiersema, 2005; Hautz et al., 2014; Hutzschenreuter & Gröne, 2009).

Despite widespread recognition that the processes of globalization have had fundamental impacts on corporate diversification strategy, only recently has empirical research formally examined their implications for diversification strategy (e.g., Bowen & Wiersema, 2005; Hautz et al., 2014; Hutzschenreuter & Gröne, 2009; Kumar, 2009; Wiersema & Bowen, 2008). Within this general theme, researchers have also started to consider more deeply how product and international diversification strategies may interrelate in the decision-making processes of managers (e.g., whether these two modes of firm expansion are viewed as substitute or

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complementary strategies), and how the nature of their interrelationship ultimately affects firm performance (e.g., Bowen & Wiersema, 2007; Kumar, 2009; Mayer, Stadler, & Hautz, 2014; Meyer, 2006). The findings of this nascent research stream suggest that managerial reactions to the changes in the competitive environment arising from globalization largely explain the observed trends over the past three decades of an increasing international scope and a narrowing product market scope of firms' activities, particularly U.S. firms. However, further studies are needed to cement support for these initial findings. Considerably more work is called for to better understand how the strategies of corporate and international diversification interrelate and impact firm performance.

Toward this end, we report in this paper the results of a survey designed to elicit manager's views on how the processes of globalization affect their strategic behaviors and decisions regarding the scope of a firm's activities. Our purpose is to assess whether managerial behaviors are consistent with theoretical predictions of how manager's will respond to the forces of globalization, and whether managers' strategic decisions about the international and product market scope of a firm's activities are consistent with the findings of recent empirical research. The survey also serves to complement and extend recent academic research by investigating managerial views of how decisions about a firm's product and international diversification strategy interrelate. In the international business literature, the nature of such interrelationship has until recently been examined empirically using product diversification as either a control variable or as a moderator of international diversification when estimating an international diversification-firm performance relationship (Hitt, Tihanyi, Miller, & Connelly, 2006) However, recent research recognizes that product and international diversification strategies are likely simultaneous (endogenous) decisions and have begun to more rigorously investigate empirically for the nature of their interrelationship using methods that account for such simultaneity (Bowen & Wiersema, 2007; Kumar, 2009; Mayer et al., 2014). Therefore, on this topic, our survey evidence has a pragmatic orientation and serves as a check on recent results and offers guidance for further research.

Our study contributes to the extant literature on diversification strategy. First, while the literature is rich with empirical tests of the relationship between diversification strategy and firm performance, little survey evidence examines how changes in a firm's business environment, especially the competitive forces that characterize the process of globalization, affect the diversification strategies of firms. Therefore, our results provide unique information on how such changes affect firm strategies and represent an unconventional and innovative attempt to verify theoretical arguments and serve as barometer of what managers are thinking.

Second, because we designed our survey instrument to incorporate various hypotheses and findings of recent empirical studies and the evaluation of management responses to these research findings, our study helps to bridge the gap between theoretical research issues and management perceptions and practices that guide today's corporations. As Bruner (2002:50) notes, "The task must be to look for patterns of confirmation across approaches and studies much like one sees an image in a mosaic of stones." Our empirical

method fits somewhere between a case study and a statistical analysis based on large data samples. The former enables us to observe much detailed processes and rich contexts whereas the later enables us to observe general dynamics across many firms. Thus, our survey results add new and complementary evidence to other empirical studies of diversification strategy. Finally, understanding the perceptions of managers on the issues addressed by our survey provides valuable insights that can help predict how firms respond to the forces of globalization and how decisions about international and product diversification strategy interrelate.

The remainder of the paper is organized as follows. We begin by discussing our methodology and survey instrument. Next, we present our results by first summarizing the main ideas and findings of academic research on a given topic and then assess the extent of correspondence with the findings from our survey. Finally, we provide a summary and conclusions.

Methodology

In brief, we use a survey instrument whose results are used to indicate how many managers agree or disagree with various statements about theoretical propositions and associated empirical findings on a given topic. Our analysis indicates what managers think about the efficacy of various propositions, but it does not formally test theoretical propositions and causal relationships. In conducting our survey we do not necessarily assume that managers are better informed than existing theories and the wealth of empirical studies.³ Instead, manager's perceptions provide a complementary source of information to conventional studies, which may provide confirmatory or conflicting evidence relating to available evidence. Thus, managers' perceptions can provide a type of reality check on whether researchers are focusing on the right issues.

As with any research methodology, survey research has potential limitations and weaknesses. For example, respondents may not be representative of the population. However, established procedures (as used in this paper) are available for testing for non-response bias. Survey data may be superficial because designing questions that go into considerable detail can be difficult. Further, surveys measure attitudes, beliefs, and behaviors but not necessarily actual actions. Additionally, respondents may be unwilling to answer sensitive questions truthfully. Instead, they may express what they believe is the common understanding of the different issues or some "politically correct" response. Although surveys rarely achieve perfection in making inferences about a large population from a sample (Chaudhuri & Stinger, 2005; Lohr, 1999; Scheaffer, Mendenhall, & Lyman, 2005), they nonetheless provide a complementary view of an issue, with their ultimate worth proportional to the resources devoted to their design and implementation (Baker, Singleton, & Veit, 2011).

³ We also do not explore the question of how managers may form their perceptions, which is an issue that that we address in the limitation section.

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