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**REGIONAL AND GLOBAL STRATEGIES OF
MULTINATIONAL ENTERPRISES**

by

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Abstract

It is widely accepted that multinational enterprises (MNEs) are the key drivers of globalization. The ultimate test to assess the level of globalization is the actual penetration of markets across the globe, especially in the broad 'triad' markets of NAFTA, the European Union and Asia. Yet, data on the activities of the 500 largest MNEs reveal that very few actually operate globally. For 320 of the 380 for which geographic sales data are available, an average of 80.3% of their total sales are in their home region of the triad. This means that the world's largest firms are not global, but regionally based in terms of breadth and depth of market coverage. Globalization thus reflects a special, and rather unusual, outcome of doing international business, and regional strategies are more relevant than global ones. This has important implications for various strands of mainstream international business research, as well as for the broader managerial debate on the design of optimal strategies and governance structures for MNEs.

Key Words: Semi-globalization; regional strategy; triad; value chain; firm specific advantages; localization; global strategy

Introduction

Globalization, in the sense of increased economic interdependence among nations, is the issue of our times, but, like many great issues of history, it is poorly understood. In this paper, looking at the business aspects of globalization, we discuss the key actors in the globalization process, namely the firms that drive this process. A relatively small set of multinational enterprises (MNEs) accounts for most of the world's trade and investment. Indeed, the largest 500 MNEs account for over 90% of the world's stock of foreign direct investment (FDI) and they, themselves, conduct about half the world's trade, Rugman (2000). Yet, this paper demonstrates that most of these firms are not 'global' businesses, in the sense of having a broad and deep penetration of foreign markets across the world. Instead, most of them have the vast majority of their sales within their home leg of the 'triad', namely in North America, the European Union (E.U.) or Asia. This new view on 'globalization' is very different from the conventional, mainstream perspective. The latter perspective focuses primarily on macro-level growth patterns in trade and FDI, and compares these data with national GDP growth rates, but without ever analyzing the equivalent domestic or home region growth data for the MNEs responsible for the trade and FDI flows, World Investment Report (2002).

The Triad Power Concept

In 1985, Kenichi Ohmae, at that stage a leading McKinsey consultant in Japan, published his landmark study *Triad Power*, arguably one of the most insightful, international management books of the last two decades. The triad, in Ohmae's work, is a geographic space consisting of the United States, the E.U. and Japan. (Rugman, 2000, presents data on this 'core' triad). This geographic space, according to Ohmae, shares a number of commonalities: low macro-economic

growth; a similar technological infrastructure; the presence of large, both capital and knowledge intensive, firms in most industries; a relative homogenization of demand (with a convergence of required key product attributes) and protectionist pressures. The triad is home to most innovations in industry, and also includes the three largest markets in the world for most new products.

A useful indicator of the triad's enduring importance is the concentration of the world's largest MNEs in the United States, the E.U. and Japan, as reported in Rugman (2000). In 2000, of the world's largest 500 MNEs, 430 had their corporate headquarters in these core triad regions. In 1996, it was 443; in 1991 it was 410 and back in 1981 it was 445. Over the last twenty years the trend has shown a decrease in the proportion of U.S. MNEs, from 242 in 1981 to as few as 157 in 1991, but up to 162 in 1996 and 185 in 2000. The E.U. number is very consistent, being 141 for the old EEC members in 1981 but up to 155 for the enlarged E.U. in 1996, and down to 141 again by 2000. For Japan the number doubled, from 62 in 1981 to 119 in 1991 and 126 in 1996, but then fell to 104 in 2000.

The problem faced by many of these MNEs, according to Ohmae, is that they sell 'engineered commodities', i.e., innovative and differentiated products, resulting from high investments in capital intensive production processes and knowledge development. Unfortunately, these products rapidly lose their 'monopoly status'. In spite of patents and brand names, technology often diffuses more rapidly to rivals than the required distribution capabilities can be built in foreign markets, thereby making it difficult to recoup innovation costs. The dilemma for any company that has developed a new 'superproduct' with large expected demand throughout the triad is thus as follows: setting up an extensive distribution capability for the product ex ante, throughout the triad, may entail high, irreversible, fixed costs and therefore high

risks, if the superproduct somehow does not deliver on its sales expectations. Conversely, if the superproduct is first marketed at home, rival companies in other legs of the triad are expected to rapidly create an equivalent product, capture their triad region market and dominate distribution in that market.

In this context, Ohmae introduces the concept of ‘global impasse’ to describe the problems faced by even the largest companies to repeat their home triad base market share performance in the two other triad markets. Only a limited number of firms, such as Coca-Cola and IBM have, according to Ohmae, succeeded in becoming a ‘triad power’. A triad power is defined as a company that has “(1) equal penetration and exploitation capabilities, and (2) no blind spots, in each of the triad regions”, Ohmae (1985, p.165). In Ohmae’s view, the deep penetration into each triad market is critical to recover innovation costs. The absence of blind spots is important in order to ‘avoid surprises’, i.e., unexpected strategic moves by foreign rivals or home country competitors setting up alliances with foreign firms. A triad power is thus an MNE that has been successful in ‘insiderisation’.

Given the global impasse challenge described above, Ohmae (1985, Chapter 12) prescribes the use of consortia and joint ventures to capture the non-home triad markets. The relative non-transferability of the MNE’s home region capabilities to greenfield affiliates may result from an inappropriate repertoire of routines to deal with host region demands, in the spirit of Nelson and Winter (1982). Second, the tacit and socially embedded nature of capabilities deployed by host region rivals may make it too expensive for the MNE to duplicate such capabilities in the short run. Finally, the firm may need access to resources that cannot be purchased in efficient factor markets. The above considerations imply that hybrid entry modes may be optimal in host regions. In case the MNE wishes to become a triad power on its own,

through wholly owned operations, Ohmae prescribes an ‘Anchorage’ perspective, i.e., a corporate centre that is mentally located in Anchorage (Alaska), at an equidistance from the economic and political power bases in the United States, the E.U. and Japan. This is in line with Perlmutter’s (1969) prescription of developing a geocentric mentality in MNEs. In practice, such a firm should operate with regional headquarters in each leg of the triad in order to capitalize on commonalities within each region, at a lower cost and with more market knowledge than if corporate headquarters performed these activities.

The triad power MNE’s operations in each region should exhibit the following nine characteristics, Ohmae (1985, p. 206). These are clearly not grounded in theory, but reflect useful insights at McKinsey based on consulting assignments:

- “1. Well-established management systems
2. Full set of business functions spontaneously responsive to local conditions (though they may be supplemented by headquarters’ and other regions’ functions where it makes strategic sense)
3. Management fully familiar with local and regional customers and competitors
4. Continuity in management, with mostly home grown and globally trained personnel
5. Quick and autonomous decision making, but which is fully synchronized and in communication with the rest of the corporation (that is, corporate headquarters is fully informed of, but seldom interferes with, regional management)
6. Strong “staying power” during periods of discontinuity and difficulty in the key markets, with creative solutions, which respond to changing markets
7. Active communications at all costs within the corporation at the interfaces with affiliated companies, and with the headquarters, by telephone and face-to-face conversations as well as by longer term exchange of people
8. Little tolerance for standard “it’s out of my control” excuses regarding shortcomings and mistakes
9. Significant presence and weight felt throughout the community where operations are located”

The end result of the above list, according to Ohmae (1985, p. 207) is that foreign firms can become ‘honorable incumbents’ in host regions of the triad. Finally, Ohmae (1985) contains one last important insight, namely that MNEs from each triad region should identify a ‘fourth region’, where it should be easy, relative to the rest of the world, to earn an important market share. This fourth region will depend on the industry and firm involved, but for Japan it would typically include Asian markets, for the United States its neighboring trading partners and for Europe, those countries with which much trade or trade potential exists.

However, Ohmae (1985) did not actually anticipate the extension of the core triad to the 'broad' triad of today. The broad triad consists of NAFTA, the expanded E.U. and Asia. In parallel with the introduction of the Canada U.S. Free Trade Agreement in 1989, NAFTA in 1994 and its expansion to the Free Trade Area of the Americas by 2005, the E.U. will further expand to 25 countries by 2005 (and perhaps more in the future). In Asia, in November 2002, China agreed to a free trade agreement with the ten members of the Association of South East Asian Nations (ASEAN), signaling a wide trade and investment agreement for Asia. Such institutional arrangements constitute the cooption of attractive, proximate foreign markets (from a geographical, cultural, economic, and administrative perspective) into a 'broad' triad region. This will facilitate even deeper intra-regional market penetration. In some cases, when less developed countries are involved, this may accelerate location shifts of mature industry operations from highly developed areas in the region toward lower cost sub-regions. Rugman (2000) provides data on the intra-regional trade and investment of these broad triad regions, with a majority of trade already being intra-regional in each part of the broad triad of NAFTA, the E.U. and Asia.

The present paper tests whether the world's largest firms have been capable of implementing Kenichi Ohmae's visionary strategy and becoming (broad) triad powers during the two decades after his path-breaking book.

Empirical Evidence of Triad Power

The 500 largest companies in the world accounted for over \$14 trillion of total sales (revenues) in fiscal year 2001. The average revenues for a firm in the top 500 were \$28 billion, ranging from Wal-Mart at \$220 billion to Takenaka at \$10 billion. In this study of the intra-regional sales of these 500 firms, a total of 380 were included with available geographic segment

data. These 380 firms account for 79.2% of the total revenues of all the 500 firms. The average sales volume of a firm in the set of 380 is \$29.2 billion. Across these 380 large firms the average intra-regional sales represent 71.9%.

A relative sales dominance in a specific regional market, rather than a very wide and evenly distributed spread of sales reflects five underlying issues, critical to the MNE's functioning. First, it demonstrates the fallacy of so-called 'global' products. If most MNEs' sales are unevenly distributed across the globe, and mostly concentrated in just one geographic market, this means that products are not really global in the sense of being equally attractive to consumers all around the world.

Second, the lack of global market success reflects the limits to the non-location bound nature of the MNEs' knowledge base, i.e., its firm specific advantages (FSAs). Firms may have sophisticated and proprietary technological knowledge, brand names etc., but there appear to be severe limits to the joint international transferability of this knowledge, and its acceptance by customers across regions, irrespective of whether this knowledge is embodied in final products and then exported, transferred as an intermediate product through licensing or used in foreign affiliates through FDI.

Third, the perceived lack of market performance across regions also points to a relative inability to access and deploy the required location bound FSAs, which would lead to benefits of regional and national responsiveness.

Fourth, if the MNE's market position is very different in the various regions of the world this indicates the need for very different competitive strategies: a leadership role in one market requires very different patterns of decisions and actions than the role of a (perhaps ambitious) junior player in another market. This should obviously be reflected in the deployment of specific

combinations of non-location bound and location bound FSAs in each region. Unfortunately, in spite of much ‘think global, act local’ rhetoric in both the academic and popular business press, there appears to be little empirical evidence that this approach has permitted host region market penetration levels similar to the ones obtained in the home region.

Fifth, the four elements above have important implications for MNE governance. It might be incorrect to attribute the present relative lack of overseas market success of many firms to an inappropriate governance structure. The presence of multiple environmental circumstances may also be critical here (powerful foreign rivals in other triad regions; government shelter of domestic industries; buyer preferences for local products; cultural and administrative differences as compared to the home region, etc.). However, the need for regional strategies does suggest the parallel introduction of a regional component in the MNEs’ governance structure to deal appropriately with the distinctive characteristics of each leg of the triad, and with the regions outside of it, much in line with Ohmae’s (1985) prescriptions. This perspective is developed further in the later sections of the paper.

This need for distinct regional strategies is an important observation as many well known strategy and international business (IB) scholars keep developing normative models that advocate simple globalization strategies as a set of purposive decisions and actions instrumental to a broad and deep penetration of foreign markets, i.e., extreme geographical fragmentation of sales. Authors who have recently argued in favor of a global strategy and ignore the realities of regionalization include: Vijay Govindarajan and Anil K. Gupta (2001), J. P. Jeannet (2000) and George Yip, (2002). Regionalization should be viewed as an expression of semi-globalization, Ghemawat (2003). It implies that international markets are characterized neither by extreme geographical distribution of sales, nor complete integration. Incomplete integration means that

location specificity, in this case regional specificity, matters. Only in a context of incomplete integration is there scope for international MNE strategy that is conceptually distinct from conventional domestic strategy.

The Meaning of Regional Strategies

The majority of the world's largest 500 companies are MNEs, i.e. they produce and/or distribute products and/or services across national borders. Yet, very few MNEs are 'global' firms, with the ability to sell the same products and services around the world. The challenge of selling standardized products and services across borders, as originally advocated by Levitt (1983), has been dealt with appropriately in most of the mainstream IB literature. It is now widely recognized that benefits of integration resulting from global scale economies can only be reaped if accompanied by strategies of national responsiveness, guided by both external pressures for local adaptation and internal pressures for requisite variation. What is unfortunately not correctly understood is that, irrespective of MNEs' efforts to augment their alleged non-location bound FSAs with a location bound component, no *balanced* geographical dispersion of sales is achieved in most cases. Instead, the data indicate that most MNEs are regionally based in their home triad market, of either North America, the E.U., or Asia (principally Japan). An apparent paradox is that a very large MNE in terms of overall foreign sales volume can have a concentration of its international activities in its home triad region and lack a truly global dimension. While it could be argued that there is more to globalization than sales dispersion, for example, foreign assets and foreign employment have sometimes been used together with foreign sales to compose a 'transnationality index', it should be recognized that only sales dispersion constitutes a true performance measure at the output level.

If MNEs have exhausted their growth potential in the home triad region and then decide to venture into other regions, they may face a liability of regional foreignness, including several additional risks that were absent in the host region and may be of an economic, cultural, administrative or geographic nature, in accordance with Ghemawat's (2001) recent observation that distance still matters. Given the size of each triad region, most of the advantages of standardization can often be achieved within the home triad region, and this process is enhanced if governments in this region pursue policies that promote internal coherence via social, cultural and political harmonization (as in the E.U.) or even merely via economic integration (as in NAFTA and Asia).

A related point is that inter-block business is likely to be restricted relative to intra-regional sales by government imposed barriers to entry. For example, the E.U. and the United States are likely to fight trade wars and be responsive to domestic business lobbies seeking shelter in the form of subsidies and/or protection. Cultural and political differences among members of a single triad region may remain, but these will mostly be less significant than across triad regions, Rugman (2000). The end result is the persistence of MNEs that will continue to earn 80% or more of their income in their home triad region. There will only be a limited number of purely 'global' MNEs in the *Fortune 500*.

For 366 of the 380 firms included in our study, data were available that permitted a further decomposition of their foreign sales. It should be noted that many of the remaining 134 *Fortune 500* companies are actually operating solely in their home region, with no sales elsewhere, and for others there are insufficient data. Of the 366 with data, the vast majority (320) is home triad region based, having few sales in the other two parts of the triad. A limited set (36) is 'bi-regional', which we define as having at least 20% of sales in two legs of the triad. Only 10

MNEs are truly ‘global’, with at least 20% of their sales in all three parts of the triad. This picture of regionalization, rather than globalization, is shown in Table 1.

The MNEs included were ranked in descending order according to sales, with Wal-Mart currently being the world’s largest company.

Table 1 here

The definitions adopted in Table 1 are as follows:

- a) Home triad region oriented: 320 firms have at least 50% of their sales in their home region of the triad. The threshold of 50% was chosen as we assume that a region representing more than 50% of total sales will systematically both shape and constrain most important decisions and actions taken by the MNE. It also implies a concentration of the MNE’s customer end related FSAs in that region. The concept of customer end FSA is explained in the next section.
- b) Bi-regional: 25 MNEs are bi-regional, defined as firms with at least 20% of their sales in each of two regions, but less than 50% in any one region. This set includes 25 firms with sales ranging between 20% and 50% in the home region and 20% or over in a second region. The threshold of 20% was chosen because we assume that having two regional markets each representing at least one fifth of a ‘\$ 10 + billion’ firm’s sales reflects impressive market success resulting from extensive ‘customer end’ FSAs in those two markets. The question could then be raised whether a particular absolute volume of sales, irrespective of the 20% threshold percentage, would make a firm bi-regional. In our framework, an absolute sales volume is, in itself insufficient. We view the status of a region from a micro-level, corporate strategy perspective:

here, this status is fully dependent on the relative sales achieved vis-à-vis market performance in other regions.

- c) Host triad region oriented: 11 firms have more than 50% of their sales in a triad market other than the home triad region;
- d) Global: only ten of the MNEs included are global, defined as having sales of 20% or more in each of the three parts of the triad; the 20% figure is less than the one third required for an equal triad distribution, and so is biased downwards in favor of finding global MNEs. Conceptually, it implies the successful deployment of customer end FSAs in three distinct markets. The North American and European region of the broad triad are of approximate equal size, as measured by GDP. Asia is smaller than either as measured by GDP but is nearly equal in terms of purchasing power parity (PPP). In other words, weighing the broad triad by GDP or PPP will not generate more global firms.

Within each of the groups above, the home triad region sales weighted averages are as follows:

- a) Home triad region oriented (320 firms): 80.3%
- b) Bi-regional (25 firms): 42%
- c) Host triad region oriented (11 firms): 30.9%
- d) Global (10 firms): 38.2%

Of the 380 companies for which data can be classified by percentiles, 58 are purely home triad region based (15.3% of the total). Another 69 have over 90% or more of their sales in the home region (18.2%), and a total of 230 have over 70% or more of their sales in their home triad region. Those with over 50% or more intra-regional sales add up to the 320 identified above as

home triad region based. This reflects an extraordinary degree of regionalization, rather than globalization. These data also confirm the study of the 49 retail MNEs in the 500, in Rugman and Girod (2003). In that study, only one retail MNE was found to be global, namely LVMH (Moët Hennessy Louis Vuitton SA)

The ten triad based global MNEs are identified in Table 2. As the data were being reported, Christian Dior and LVMH were being merged, so their data are identical. In fact, this merger has reduced the total set of global MNEs to nine. Most of these nine global MNEs are in the computer, telecom, and hi-tech sectors.

Table 2 here

The bi-regional MNEs are listed in Table 3. This includes MNEs such as Unilever and McDonald's, which are nearly global (in both cases they have under 20% of their sales in Asia). These bi-regional MNEs may be well positioned to extend their market reach further, across all three triad markets.

Table 3 here

The eleven host region MNEs are reported in Table 4. These include DaimlerChrysler as one of eight MNEs originating from Europe, but with more than half of their sales in North America. There is also one Asian business, Honda, and the Australian based News Corp. that also have most of their sales in North America. Only one U.S. MNE, Manpower, has more sales in Europe than in its home market. Most of these MNEs have been attracted by the size of the U.S. economy. Their geographical expansion strategies have been driven by market access considerations and in several cases, as with DaimlerChrysler, largely implemented through mergers and acquisitions, reflecting to some extent the inability to achieve a similar penetration through internal, organic growth.

Table 4 here

Table 5 lists the 25 largest home region based MNEs. As noted above, there are 320 of these. They pursue essentially an intra-regional strategy.

Table 5 here

Finally, Table 6 reports on important firms that are ‘near miss’ global MNEs, as they have close to 20% of sales in each region of the triad. Yet, they could not be classified because the necessary data were not available. One subset in Table 6 includes ExxonMobil, Royal Dutch/Shell and Nestlé, which are probably global in terms of geographic spread of their sales, but cannot be so classified due to absent data. Five other MNEs, namely Eastman Kodak, Anglo-American, McDonald’s, 3M and AXA would likely just miss the ‘global firm’ status. Finally, two firms, namely Compaq and Aventis might fit into either category if the missing data were available.

Table 6 here

Some Special Cases

The two MNEs conventionally regarded as ‘global’, indeed as the agents of globalization, are Coca Cola and McDonald’s. Yet, only Coca Cola is truly a global MNE. Ranking as 129th in the *Fortune 500* list, it has over 20 percent of its sales across all three parts of the triad: 38.4% in North America; 22.4% in Europe and 24.9% in Asia. Of Coca Cola’s sales in Asia, 74% are in Japan, but the company is attempting to increase its market in China. In contrast, McDonald’s, ranked as 340th in the *Fortune 500* list, is a bi-regional MNE. It has 36.6% of its sales in North America; 37.1% in Europe but only 13.8% in Asia.

Nike is another interesting case. It is not one of the largest 500 MNEs, as its sales are under \$10 billion. It sources 99% of its products offshore, primarily in China (38%) and South

East Asia (61%). Yet, Nike is a business with the majority of its sales in the Americas (58.2%). Indeed it has 52.1% of sales in its home market of the United States. Nike also competes in Europe with 29% of its sales there, but not much in Asia with only 12.9% of sales there.

Implications for Emerging Research Themes: Analysis

In this section some of the implications of this lack of empirical evidence for globalization are considered across the field of IB research. Six research areas of particular relevance were selected. The first two areas deal with the foundations of MNE competitive advantage, namely FSAs and location advantages respectively. The next three areas are related to MNE strategy, structure and performance. Finally, the sixth area assesses the broader societal implications of regional MNEs.

(i) Implications for the relevance of the internalization and internationalization models of international expansion

The internalization model of foreign expansion, Buckley and Casson (1976), Rugman (1981), and especially its 'eclectic paradigm' version has been the dominant conceptual model in IB research during the past two decades. It suggests that firms will establish foreign affiliates in the case of strong FSAs, location advantages in host countries and internalization advantages, Dunning (1981). The model assumes that MNEs systematically engage in a cost/benefit calculus of all possible entry modes, namely exports, licensing, FDI (including, more recently, hybrid modes). Here, FDI may be the preferred mode from the outset if government-imposed and natural market imperfections make exports and licensing impossible or comparatively more expensive, and if the firm has already been operating abroad, Buckley and Casson (1981). In contrast, the internationalization model of the Scandinavian school argues that firms will incrementally build foreign operations, starting with low resource commitments in culturally

proximate countries, and then expanding these commitments and geographic scope. Here, experiential learning is critical and path dependencies can be observed in the growth of the MNE's experiential knowledge base, especially as regards knowledge of the markets involved, see Johansson and Vahlne (1977) (1990), Barkema et al. (1996). Little integration has occurred between the two schools, which have largely flourished on their own without much cross-fertilization, and each has a loyal following of researchers. The internalization school focuses at the outset on market imperfections involving 'business/usage' specificity, whereas the internationalization school starts from imperfections arising from 'location specificity', in the spirit of Ghemawat (2003). The data presented in this paper suggest that the two approaches may actually be closer to each other than usually thought.

The relative lack of market success in host triad regions can be interpreted, at least partly, as a reflection of the limited customer value attributed to home triad region FSAs, whether transferred through exports (FSAs embodied in final products), licensing (FSAs transferred to foreign licensees) or FDI (FSAs transferred to foreign affiliates, whether subsidiaries or hybrid units). It also suggests that the nine conditions proposed by Ohmae (1985) to become a performing insider in host triad regions are beyond the reach of most MNEs. If only limited customer value is attributed to the MNE's FSAs, exports become impossible and location advantages abroad cannot be used to leverage these FSAs. In those cases, the internalization question of optimal entry mode choice becomes redundant. In other words, it is only in locations (typically in the home region of the triad) where the MNE's home region FSAs are valued by customers, as compared to relevant rivals, and for which minimum sales volumes can be expected, that conventional internalization theory is fully relevant. In this case of easy market penetration, there is no need for a lengthy learning process, in the sense of an incremental

accumulation of host region experience, to compensate for the liability of foreignness. The case of easy market penetration is consistent with Vernon's (1966) product life cycle and the findings in Rugman (1981) that R&D (at that time) was centralized in the parent firm, and would constitute the basis for a relatively easy international expansion, but with the entry mode choice contingent upon transaction cost considerations. Interestingly, the Scandinavian school internationalization model may be useful in determining the locations where MNEs have the luxury of such an extensive entry mode choice menu and where they do not, as a function of location-driven learning requirements (as opposed to mere business/usage transaction cost reduction considerations). The data suggest that extensive choice options occur in the home triad region only, for most companies. Future research should therefore explore in more depth the complementarities, rather than the differences, between the internalization and internationalization perspectives on international expansion.

(ii) Implications for research on the diamond of international competitiveness

Porter (1990) has suggested that international competitiveness at the level of specific industries critically depends on a favorable configuration of home country diamond conditions. Here, four determinants have been viewed as critical: factor conditions (with a focus on created and advanced production factors); demand conditions (with a focus on total demand and sophistication of demand, based on precursor status); related and supporting industries (with a focus on the presence of world class firms with which cluster type linkages exist); and strategy, structure and rivalry (whereby strong rivalry and benchmarking against the toughest competitors are critical to innovation). Porter's perspective has led to several follow-up studies, some of them applying the diamond framework, Cartwright (1993), Dunning (1996), and other ones providing

extensions and suggestions to ameliorate the model, Rugman and D’Cruz (1993); Rugman and Verbeke (1993a), Rugman et al. (1995); and Moon et al. (1998).

The data in this paper suggest two important extensions of research building upon the diamond concept.

First, the diamond is useful primarily to expand internationally in the home triad region, meaning that ‘favorable diamond conditions’ in the home country do not appear sufficient in most cases to permit a truly global expansion. IB research should focus on the reasons for this lack of relevance of the home country diamond in host triad regions.

Second, the reduction in geographic scope of the national diamond’s significance for international competitiveness has asymmetric implications for large economies such as the United States, Japan and Germany and small open economies such as Canada, Belgium and Singapore. For MNEs originating in large countries, it means reassessing the market attractiveness of so-called small markets in the home triad region. The presence of FSAs instrumental to achieving a high market share in geographically proximate markets, but that are region bound, should refocus these MNEs’ efforts from assessing foreign market attractiveness through using macro-economic data toward developing and using data that better indicate the firm’s real market penetration potential, as illustrated by the Tricon case discussed in Ghemawat (2001). As regards MNEs from small open economies, the data suggest that it makes sense to focus on demand in adjacent, large economies that are part of the home region. This confirms the need to adopt double diamond thinking in IB research that focuses on MNEs in these small open economies, much in line with Rugman and Verbeke (1993a), Rugman et al. (1995) and Moon et al. (1998). Here, it should be emphasized that regional integration not only benefits MNEs in the form of creating supply side efficiencies, but also improves market integration at the demand

side, for example in terms of positively influencing buyers' confidence, attitudes and purchase intentions vis-à-vis products from foreign countries inside the triad region, Agarwal et al. (2002). Here, it would appear that, within one triad region, country of origin effects in purchasing decisions are complemented with 'region of origin' preferences.

(iii) Implications for research adopting a resource based perspective on the integration / national responsiveness framework

Perhaps the most important implications of the empirical data on triad based MNE activities are for research adopting a resource based approach to MNE functioning. The integration / national responsiveness framework developed by Bartlett and Ghoshal (1989) was given a resource based interpretation by Rugman and Verbeke (1992). The latter authors have argued that benefits of integration, in the form of scale economies, scope economies and benefits of exploiting national differences require non-location bound FSAs. In contrast, benefits of national responsiveness require location bound FSAs. The data presented in this paper, however, suggest the need for a radical extension of the framework, as suggested in Figure 1 (A, B, C).

Figure 1 (A, B, C) here

Figure 1A provides a stylized, alternative representation of the conventional integration / national responsiveness framework. Here, the horizontal axis describes the discrete set of critical activities (elements of the various value chain functions) to be performed by MNEs in order to be successful in foreign markets in terms of effectively selling a particular product in those foreign markets. The tasks, numbered from 1 to n, are arranged as a function of the relative needs for non-location bound FSAs (area NLB) and location bound FSAs (area LB), with an increasing need for the latter. Bartlett and Ghoshal's (1989) 'transnational solution' case can then simply be interpreted as a firm that can effectively access and deploy the required dual knowledge bundles

(of NLB and LB areas) for each activity to be performed, for each product, within each strategic business unit. In addition, each ‘generic’ subsidiary type (namely strategic leaders, contributors, implementers and black holes), receives access to an idiosyncratic set of FSA bundles or resources to create such bundles, thereby guaranteeing appropriate selectivity in resource allocation. The basic framework described in Figure 1A does not take into account the learning imperative, the resource based implications of which have been discussed elsewhere, see Rugman and Verbeke (2001a).

The conventional framework needs to be augmented since operating in the *home* triad region may be associated with new needs for the development of *region bound* FSAs, imposed by regional integration see e.g., the nine cases discussed by Rugman and Verbeke (1991), especially the Volvo Trucks case. This situation is represented in Figure 1B, where many activities require a set of region bound FSAs. Hence, regional integration creates both a threat and an opportunity for MNEs as they need to complement the conventional bundles of non-location bound FSAs and location bound FSAs with a set of region bound FSAs. The data in this paper suggest that many of the world’s largest and most international MNEs have been quite successful in doing so.

Finally for the case of MNEs in *host* triad regions, few of these firms are capable of developing and deploying the required set of region bound FSAs. Instead, a too limited set of region bound FSAs is usually created, leading to a competence gap. This is represented by the area within the dotted lines in Figure 1C. Here, the decay of the non-location bound FSAs occurs at a much faster rate (depending upon the differences between the regions involved) than in the home triad region, and it also becomes much more difficult to access and deploy the required conventional location bound FSAs. This is compounded by the fact that region bound FSAs

cannot be simply created to fill the competence gap. This is in contrast with the home triad leg case, whereby the reach of conventional location bound FSAs is extended across borders or non-location bound FSAs are ‘regionally sharpened’, and a competence gap can be avoided. This explains why many MNE operations in host regions are primarily sensing instruments with little real effectiveness in market terms, thus giving these operations a ‘black hole’ status.

In this context of two generic FSA types, it is interesting to observe that many large MNEs are much less home region based in terms of their sourcing, both in resource industries and manufacturing, but appear incapable of capitalizing on this broader geographical sourcing to achieve global sales penetration. This has two critical implications. First, it means that the concept of location bound versus non-location bound FSAs needs to be extended. The former concept usually implies that profitable deployment is possible only in the home country. The latter concept assumes global transferability. The data suggest that many MNEs have FSAs that are region bound, i.e., they can be deployed across national borders, but only in a limited geographic region. Here, value added through aggregation, in the sense of exploiting similarities across countries, Ghemawat (2003), can be achieved in the home region but appears difficult across regions. Second, the required MNEs’ FSAs in ‘back end’ activities to achieve broad geographic sourcing (of R&D outputs, raw materials, intermediate inputs, labor and capital) and production, may be very different from the FSAs required in ‘customer end’ activities to achieve a global distribution of sales. Here, value added through arbitrage, Ghemawat (2003), i.e., exploiting differences among countries, appears to be achievable more often across regions. Customer end activities that require specific FSA bundles are defined here as all activities included in the interface with the firm’s customers and that are significant to the customer’s decision to purchase goods and services from the firm, irrespective of the value chain function to

which these activities belong. The back end activities requiring specific FSA bundles include all activities outside this critical interface with customers, but which are also significant to the firm's success, again irrespective of the value chain function in which these activities occur.

In this context, Figure 2 shows two hypothetical accumulation patterns over time, of the MNE's FSAs at the back end (sourcing/production) and the front end (sales). At either end of the value chain, these resource bundles consist of non-location bound FSAs, conventional location (read country) bound FSAs and region bound FSAs. The poor market performance achieved in host triad regions suggests that most firms are not capable of accessing and deploying the required knowledge bundles at the customer end side, because these bundles are likely to be quite different from the knowledge combinations effective in the home triad region, whereas this does not necessarily hold for back end activities. In broader terms, national and home region organizing principles adopted by MNEs, and engrained in their FSAs, appear to limit most MNEs' repertoire of customer end strategies required to be effective in the host region market. This is particularly interesting given that many markets, especially for commodity products, are characterized by 'global' (uniform) prices, driven by 'global' competition. In contrast, it appears much easier to adopt effective sourcing (and manufacturing) strategies associated with a broad geographical coverage. The liability of foreignness faced by the MNE, Hymer (1976) Zaheer (1995) thus needs to be unbundled into customer end and back end components.

Figure 2 here

The diagonal arrow in Figure 2 shows a hypothetical expansion path over time, whereby the FSAs available for effective global sourcing/production (here, in the sense of broad geographical coverage, but not necessarily limited to a triad context, since the most optimal

geographical configuration of sourcing and production is firm and industry specific) and those for global market penetration grow in very similar ways.

In contrast, the arrow on the left hand side of the diagonal in Figure 2 reflects a new perspective on the typical large top-500 MNE, which is trapped in its home triad region as far as market penetration is concerned. Here, the development of customer end FSAs seriously lags behind the growth in back end FSAs. It may thus be potentially easy to achieve a global distribution of sourcing/production, whereas a global distribution of sales may be more difficult to accomplish. This observation implies, in terms of institutional theory, that most MNEs are not capable at the customer end, to effectively cope with either (or both) the internal isomorphic pressures arising from headquarters or home region units and isomorphic pressures arising from host region, external organizations, Campbell and Verbeke (2001). In fact, having an origin in one region may have negative legitimacy spill-over impacts on the MNE's operations in host regions. In contrast, at the back end, best practices and legitimate behavior in industry can be more readily emulated, namely by observational learning and selective imitation, even without strong prior network ties in host regions.

The new perspective suggested in Figure 2 implies that IB research should perhaps be redirected from trying to analyze an MNE's FSAs through conventional measures (such as R&D expenditures, advertising expenditures etc.) towards finding appropriate proxies for these firms back end and front end FSAs. This requires making a distinction between those that are truly transferable globally and those that are location (country) bound and region bound, meaning that they are characterized by a rapid decay once attempts are made to deploy them outside the home region. To a large extent, much of the recent work on the globalization of particular value chain functions, such as finance, R&D, purchasing and logistics, production etc. has focused solely on

the back end portion of the MNE's FSA bundles. This largely reflects an arbitration issue, with the MNE taking advantage of the incomplete integration of factor markets, Ghemawat (2003). This may reflect a 'global logic' in the minds of managers, but is distinct from a strong global market performance.

The most extreme case of this perspective is Porter's (1986) focus on the MNE's configuration, i.e. the concentration versus dispersion of its value added activities, and the coordination thereof. The limited relevance of the configuration/coordination framework for international business strategy has already been explained elsewhere, Rugman and Verbeke (1993b). It is also useful to note that the important issue of comparative market share performance in different regions, irrespective of how value added activities are distributed and coordinated across borders, is not taken into account by Porter. In practice, any value chain function can have substantial back end and customer end components. The back end /customer end dichotomy can therefore not be reduced to the simple distinction between upstream and downstream activities.

(iv) Implications for research on MNE structure

A large body of work has been written on the need for a fit between strategy and structure in MNEs, as a precondition for survival, profitability and growth, much in line with mainstream work in strategy and industrial organization on domestic firms. In this particular case, the strategic importance of each triad region, combined with the different market characteristics faced by MNEs in each of these regions would suggest the introduction of geographic components in the MNEs' structure.

Some of the more grounded work on MNE strategy/structure interfaces can be attributed to Egelhoff (1982) and his follow-up work, including Wolf and Egelhoff (2002). Egelhoff

adopted an information processing model to study the strategy-structure fit. He viewed the use of geographic divisions in MNEs as appropriate in cases whereby: “operations within a region are relatively large, complex and sufficiently different from other regions that opportunities for specialization and economies of scale are greater within a region than they are along worldwide product lines”. His empirical work suggested that three variables are critical to choose geographical divisions: relatively large operations (measured as F/T sales), foreign manufacturing (share of foreign manufacturing in foreign sales) and a large number of foreign subsidiaries.

Two comments can be made here. First, although the mean foreign sales percentage of the 34 *Fortune 500* firms included in his initial research was 50%, no distinction was made between intra-regional and inter-regional sales. Second, the research assumed that one particular organizational structure always dominates the MNE (functional structure, international division, product divisions, geographic divisions, a matrix structure) and can be readily identified based upon statements made by managers and the analysis of publicly available information. However, the data in this paper suggest that the geographical distribution of foreign sales does matter and that a strong discrepancy between intra-regional and inter-regional sales has important implications for MNE structure. More specifically, the differentiation between back end and customer end, building upon different sets of FSAs should be reflected in the MNE’s organizational structure, systems and perhaps even culture.

Interestingly, several papers have been written on regional components in MNE organizational structure, such as regional headquarters, Heenan (1979), Grosse (1981), D’Cruz (1986), Daniels (1987), Dunning and Norman (1987), Morrison et al. (1991) Lasserre (1996), Yeung et al. (2001). To the extent that these papers discuss customer end related structural

elements, these appear to be largely of a normative nature, i.e. intended to improve the firm's market position, without much empirical evidence that such structural elements are actually effective in practice. For example, Lasserre (1996) has argued that Western MNEs' regional headquarters in Asia serve entrepreneurship enhancing roles (scouting out new business opportunities, processing and distributing relevant information on the region, signaling commitment to regional stakeholders) and integrative roles (exploitation of synergies across national subsidiaries, executing activities in areas where regional resource allocation should occur). However, little if any evidence is provided that any of these roles fundamentally improved the MNEs' effectiveness in bringing their products to the Asian customer. Yeung et al.'s (2001) analysis of such regional headquarters in Singapore, building on Lasserre (1996) argues that their roles will depend on a number of parameters, which include geographical distance, familiarity with the host region, commitment to the host region, regional integration etc., thus implicitly suggesting the importance of using the regional headquarters to complement in an idiosyncratic way each MNE's existing FSA bundles.

More research is needed that links the required knowledge bundles for each critical value added activity in host triad regions with specific structural elements, that may also include elements of organizational physiology and psychology, Bartlett and Ghoshal (2000). Here, it should be recognized that such regional elements may increase the difficulty of managing multidivisional (M-form) companies since performance evaluation should be differentiated for units operating in the various regions, even within similar businesses, given the enormous differences in environmental circumstances faced by the affiliates in each region. In other words, even at a single point in time, MNEs may adopt both participative decentralization and administrative centralization simultaneously.

These two approaches have traditionally been viewed as inefficient corruptions of the M-form, Williamson (1975), Freeland (1996), but may in reality constitute a pre-condition for the effective governance of MNEs with regional strategies. Here, participative decentralization reflects the involvement of regional divisions in corporate strategic planning, and this may be critical for successfully conducting customer end activities in host regions, given both the relative lack of appropriate information at the corporate headquarters' level on host regions, and the need to preserve subsidiary commitment and initiative in those host regions. In contrast, administrative centralization may be more appropriate for the management of back end activities across regions, given the relative availability of information at corporate headquarters on these activities and the possibility of reducing both production and coordination costs through optimally exploiting imperfections in national and regional factor markets.

(v) Implications for research on the performance effects of geographical diversification

Much of the literature on geographical diversification has attempted to evaluate the linkage between diversification and profit performance, see e.g., Rugman (1976), Buckley et al. (1977) (1984), Geringer et al. (1989), Morck and Yeung (1991), Hitt et al. (1997). Usually some proxy is adopted for the share of foreign sales in total sales (or in some cases, a more back end related measure, such as the number of subsidiaries abroad) to assess the degree of geographical diversification. Recent research has established the importance of the home country environment, i.e., the *locus of origin* of geographic diversification efforts, for the scope and financial performance effects of geographic diversification Wan and Hoskisson (2003).

In this paper, however, we emphasize the importance of the *locus of destination*. The relative sales in host triad regions, vis-à-vis the home triad region, are themselves a critical performance parameter. Perhaps the mixed results in past research on the profit impact of

geographical diversification, may be partly explained by: (1) a lack of investigation of the *locus of destination* of the diversification efforts (intra-regional versus inter-regional) and (2) the fact that market share success in non-home triad markets may be at the expense of profit performance. Thus, future research on the impacts of geographic diversification should study explicitly the regional patterns and scope of MNE sales growth. In addition, it could include relative sales in host region markets as a performance parameter (dependent variable), rather than as a mere independent variable affecting financial profitability. Recent work by Vermeulen and Barkema (2002) correctly points out that some benefits of international expansion (such as tax benefits, common purchasing, and improved access to inexpensive labor) are easier to accomplish than other benefits, which require learning. Although these authors do not view host region market penetration performance relative to home region performance as a proxy for international success, their work does suggest that a broader geographic scope of the expansion process negatively moderates the impact of a firm's foreign subsidiaries on its profitability. More specifically, they demonstrate that a broader geographic scope strains the MNE's absorptive capacity, Cohen and Levinthal (1990), particularly in the short run, leading to time compression diseconomies. They also show that foreign expansion is easier to absorb for MNEs if it occurs in 'related' countries, following the classification of countries into clusters developed by Ronan and Shenkar (1985).

Another recent paper by Ruigrok and Warner with a focus on back end FSAs confirms this perspective. Ruigrok and Warner (2003) suggest that U.S. firms are usually characterized by an inverted J-curve, in terms of an internationalization impact on performance (measured by return on assets).

Internationalization is associated with performance improvements, until a threshold is reached, when performance starts to decline. The reason is that U.S. firms can usually expand (from a back end perspective) in a first stage to culturally proximate countries such as Canada, the United Kingdom and Australia. In contrast, German firms face a U-curve in terms of performance effects of internationalization. A low psychic distance is found in only two small economies, namely Austria and Switzerland, which implies that German firms are required to target a much wider and varied market (the E.U.) from the outset, thereby incurring higher learning costs. Ruigrok and Wagner's (2003) perspective on back end internationalization suggests that even there, the linkages between country of origin and country of destination are critical in determining the optimal route of internationalization and organizational learning.

This is an important observation as influential work in IB has argued that the operational flexibility of MNEs, resulting from their internationally dispersed network of affiliates confers arbitraging advantages, information related network externalities etc., Kogut (1983), Kogut and Kulatilaka (1994). However, the analysis above suggests that location determines the extent to which such benefits can be earned. More specifically, a lower (cultural, administrative, geographic and economic) distance, although reducing the hypothetical, maximum arbitraging and network externality benefits, will facilitate earning such benefits in practice.

A question to be answered by future research is whether the prior existence of a strong internal network in the home region (and the related proven ability to learn and to manage risks) is critical for subsequent positive performance effects associated with interregional expansion. The creation of a strong competitive position in the home region may reflect one step in an evolutionary strategy of resource re-combinations, that follows a clear sequential pattern, and creates platforms for future investments, Kogut and Zander (1993). However, it is unclear

whether such platforms are themselves truly non-location bound, or can only be applied in a limited geographic space.

(vi) Implications for research on the societal effects of MNE activities

The implications of MNE activity for societal welfare and public policy have been the subject of a particularly large and varied literature in economics and political science, Rugman and Verbeke (1998). The topic of the integration impacts resulting from regional trade and investment agreements has been studied extensively, especially in the context of North American and European integration processes, see Pomfret (2001) for an extensive review. Much of the relevant literature has focused on two issues. First, the problem of trade creation versus trade diversion, whereby insiders and outsiders may be affected differently by a regional integration program, building upon the seminal work of Viner (1950). Second, the relative merits of regionalization vis-à-vis efforts toward multilateralism, such as through the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO).

Here, four contradictory perspectives have been formulated, Poon (1997). First, an emphasis on the economic inferiority of regional vis-à-vis multilateral integration outcomes, Bhagwati (2002). Second, the view that regionalism is an efficient substitute for ill-functioning multilateral institutions in terms of economic outcomes, Rugman and Verbeke (2003a). Third, a focus on the comparative ease of conducting a regional integration process (with only a limited number of participants that are geographically close) vis-à-vis a multilateral integration process that could involve all the 144 countries in the WTO. Fourth, a focus on the organic nature of economic integration in regional clusters Krugman (1993), Frankel et al. (1995). Here, regional integration is not driven primarily by the strategic intent of government agencies and powerful economic actors to increase or consolidate economic exchange within a region through new

institutions in a top-down fashion. Rather, it reflects bottom-up efforts by a multitude of economic actors, who wish to expand their geographical business horizon, guided by immediate opportunities that are geographically close and associated with low transaction costs, as well as a high potential for agglomeration economies. In the long run, such agglomeration, in the sense of improved 'regional diamond conditions' may improve the MNEs' capabilities to penetrate other triad markets, Rugman and Verbeke (2003b).

None of these four perspectives has paid much attention to the MNE as the appropriate unit of analysis, with some exceptions that include Rugman and Verbeke (1990a) (1990b) (1991), Rugman et al. (1990), Rugman (1994). This is a fruitful avenue for future IB research, for five reasons.

First, the role of individual MNEs in the institutional processes of regional integration could be investigated in more depth, without starting from the ideological assumption that all MNEs pursue a narrow and homogenous business agenda. Each firm's regional integration preferences and role will depend upon its configuration of FSAs and location advantages, much in line with its preferences regarding trade and investment protection at the national level, Milner (1988), Salorio (1993). These preferences may even vary from business to business in a single firm, Rugman, Verbeke and Luxmore (1990).

Second, rather than merely analyzing macro-economic or sectoral data, there is a rich avenue of work to be pursued on firm level adaptation processes to regional integration, with a focus on the types of FSAs needed to compete effectively (non-location bound and location bound ones) and on the processes to obtain them (internal development versus external acquisition), Rugman and Verbeke (1991). An analysis of such new knowledge development in MNEs may be critical to understand fully the societal effects of increased regionalization.

Third, the impacts of regional trading agreements have often been interpreted in terms of changes in entry barriers facing insiders and outsiders, at the macro, industry and strategic group levels. From a resource based perspective, however, there is a real need to understand how regional integration processes affect the creation or elimination of isolating mechanisms, and thereby economic performance, at the level of individual MNEs and subunits within MNEs.

Fourth, regional integration also has implications for knowledge exchange, as it is likely to increase the geographic reach of MNE networks in terms of backward and forward linkages, and even the MNEs broader flagship networks, Rugman and D’Cruz (2000). To the extent that such linkages and networks are associated with knowledge diffusion spill-overs, these should also be taken into account in any analysis of the regional integration welfare effects.

Finally, regional integration can have an impact on the MNE’s internal distribution of resources and FSAs; more specifically, regionalization often implies the relocation of specific production facilities to the most efficient subunits to capture regional scale economies and a re-assessment of subsidiary charters. This implies to some extent a zero sum game with ‘winning’ and ‘losing’ subsidiaries.

Interestingly, it has also been observed that regional integration may energize subsidiaries to start new initiatives and to develop new capabilities, which really implies a non-zero sum game, Birkinshaw (2000), again with macro-level welfare improvements as an outcome. Will the deepening of a regional trading block, even if it has positive net welfare effects inside the region and at the world level, strengthen the affected insider MNEs in other legs of the triad? Or will it, on the contrary, act as an incentive to focus these MNEs’ resource allocation processes and market expansion plans even more on intra-regional growth opportunities? The empirical data

presented in this paper appear to indicate that regional integration during the past decade has had little effect on the abilities of MNEs to increase their globalization capabilities.

Implications for Senior Management in MNEs

In this paper, globalization was defined in terms of geographic dispersion of sales across regions, with regional effects being potentially very different in back end, and customer end activities. For example, some firms, such as Nike and Wal-Mart have sourcing structures that may be much more geographically dispersed than their sales. Global sourcing of primary and intermediate inputs, as well as dispersed production may greatly contribute to a firm's success in its home region. However, ultimately it is market penetration (if achieved in a profitable way) that provides the best, in fact the only, indicator of global corporate success. What are the immediate managerial implications of the observed geographic concentration of sales in most MNEs, beyond the broader research issues discussed above? The following five managerial implications are critical.

First, the regional issues discussed in this paper, whether viewed as opportunities or threats, cast additional doubts on the validity of the transnational solution model as the panacea for global corporate success. The main weakness of the transnational solution model is its internal complexity, as discussed in Rugman and Verbeke (2001) (2003c). The regional aspects identified here further compound this complexity, and this despite the financial markets' demands for transparency and simplicity in strategy and structure. The empirical evidence suggests that MNEs, especially smaller ones, should try to capitalize on opportunities in their home region as far as customer end activities are concerned, rather than engaging in a path of rapid 'global roll out' of their products and services. A narrow geographic market focus may thus

be required as much as a narrow product focus, so as to guarantee the presence of FSAs capable of providing maximum value added to customers.

Second, from a strategic management perspective, a key problem associated with attempts to implement the transnational solution is the implicit assumption that every activity in the firm requires a careful analysis of its need for location bound versus non-location bound company strengths, and resulting managerial decisions to develop and deploy such strengths. The managerial reality, however, is that not all individual activities conducted in the MNE require FSAs instrumental to outperforming rivals. It is therefore important to identify those activities for which FSAs are critical to success. In addition, various combinations of location bound and non-location bound strengths may lead to equivalent performance outcomes. Hence, it is necessary to first identify those activities for which access to specific FSA bundles is critical to the MNE's ultimate economic performance (in terms of market penetration and profitability). In addition, as noted above, it is likely that many of the identified back end and customer end activities will require a different composition of FSA bundles, but even if this requisite variety can be correctly assessed, this does not guarantee market success. Market success requires three more conditions to be fulfilled: first, the appropriate bundling of critical activities with similar FSA requirements in properly functioning organizational units; second, the effective coordination among these units; third, the differentiation of these units across geographic regions, as a reflection of the MNE's idiosyncratic market position in each region.

Third, even in allegedly global functions, such as finance (due to the result of liberalized financial capital markets) there are elements of regionalization that need to be examined. Here are three:

1) The world financial system is now largely dominated in terms of financial intermediation by the three major currencies: the U.S. dollar, the euro and the yen. The pound sterling is increasingly affiliated with the euro, reflecting British exports of 64% with the rest of the E.U. and 50% of its inward FDI stock in 1999 from there, Rugman and Kudina (2002).

2) The leading stock markets appear to largely serve local companies. For example 91% of the new issues on the U.S. NASDAQ are by U.S. companies; in the German Neuer Market 83% of new issues were German, and most of the remaining ones were by other E.U. companies.

3) The foreign exchange traders in New York and Tokyo exhibited strong isomorphic behavior guided by home country patterns of legitimate behavior, according to Zaheer (1995). Even in a perfect market with instantaneous transmission of information, American foreign exchange traders behaved differently from Japanese traders. Hence, even for tasks and functional areas for which the non-location bound nature of successful patterns of decisions and actions is widely accepted in the firm, it may be necessary to revisit the old assumption of international transferability and acceptability, especially if adopting home region best practices confers a liability of foreignness in host regions, Zaheer and Mosakowski (1997). In other words, a home region competence may lead to a host region competence trap.

Fourth, the largest service companies appear even less global than manufacturing companies. In retail, only one of the largest 49 retail firms is global (LVMH) and only five are bi-regional, Rugman and Girod (2003). In banking, all the companies have the vast majority of their assets in the home region, e.g. Citigroup has 80% of its assets in North America. Insurance is even more local. Even knowledge intensive services industries are largely local. For example, professional service firms—such as law firms, consultants, accountants, etc. are usually

embedded in local clusters, with partners being largely immobile and their loose networks being, at best, regionally based.

This situation was anticipated by Campbell and Verbeke (1994), who assessed the validity of the transnational solution for service MNEs. They concluded that the potential for scope economies resulting from the transfer of non-location bound FSAs is usually lower in service firms, because of the impossibility in many cases of separating the back end and customer end segments of the value chain (inseparability of production and delivery). In this context, this implies that regional market responsiveness at the customer end is only possible if innovation at the back end is also decentralized. In other words, decentralization of decision-making power to the regional level may require that large sets of decisions be delegated to that level. In some cases this may, paradoxically, reduce rather than increase the MNE's back end globalization approach, namely if back end practices viewed as legitimate in a host region differ from the home region (e.g., in case of the required use of local resources and network participants).

Fifth, if MNEs face a higher liability of foreignness in customer end activities as compared to back end activities, this has two managerial implications from a dynamic perspective. First, learning (in the sense of lowering the liability of foreignness) occurs at a different pace in different activities of the value chain. Foreign market penetration success ultimately is constrained by the activity area with the lowest rate of learning. Managers should thus try to identify the most constraining activities in the critical time paths to achieve international market growth, or to put it differently: they need to recognize that parts of the firm (especially at the customer-end) may operate regionally, whereas other parts (at the back-end) may function globally. Second, whereas back end activities can often be appropriately upgraded

as a result of observational learning and selective imitation, this does not appear so simple at the customer end. Here, it should also be noted that customer end FSAs, instrumental to success in the home region need to be renewed continuously in dynamic environments, thereby reducing the managerial attention and resources that can be devoted to host regions.

Hence, Ohmae (1985) may be correct when he suggests that the deep market penetration of host triad regions should be achieved through collaborative instruments (consortia, joint ventures etc.). These lead to rapid local embeddedness and access to social network ties. However, collaborating with foreign partners and permitting foreign affiliates to develop local network ties brings its own set of managerial problems. First is the danger of FSA dissipation through intentional appropriation by the foreign partner, but also in a broader sense through knowledge diffusion as a result of proximity induced imitation, Hamel et al. (1989). Second is the danger of reduced coherence within the MNE, if affiliates become locally embedded in host region networks at the expense of the MNE's overall institutionalization logic, Campbell and Verbeke (2001). The challenges above reflect critical trade-offs to be made, much in line with the decision-making challenges on product diversification in large firms Ollinger (1994).

Conclusions

The evidence is that of the world's largest MNEs, the vast majority has an average of 80% of total sales in its home region of the triad. There are as few as ten triad based global companies among the largest 500 companies. What are the normative implications of this observation? It could be argued that these few examples of global corporate success should be viewed as best practices and benchmarks, to be carefully studied, and emulated by other large MNEs, most of which are characterized by a much more narrow and shallow penetration of host region markets. However, the observed weak market position in host regions, as compared to the

home triad market, may also be interpreted as the outcome of a rational preference for regionally based activities, resulting from a careful cost benefit calculation. Here, strategic interactions among large players, taking the form of 'inter-regional chess, may influence international sales patterns and the selection of target markets.

More generally, it could be argued, from a co-evolutionary perspective, that regional strategies of MNEs are embedded in - and co-evolve with - the broader competitive, organizational and institutional contexts at the regional level, in the spirit of Koza and Lewin (1998). In this situation, MNE regional strategy choices evolve interdependently with changes in prevailing industry practices, legitimate organizational forms, government regulations etc. It should be recognized that regions themselves may change over time (as with the inclusion of the Americas in NAFTA and further E.U. expansion), and therefore provide new opportunities for MNE growth. The triad perspective developed in this paper should therefore be viewed as a starting point for future empirical analyses, recognizing that regionalization is open-ended over time.

Where globalization does occur, it is only at the back end of the value chain. Some of the world's largest MNEs master the art of connecting globally dispersed inputs. These can be in the form of financial capital, human capital, R&D knowledge, components etc. and can be integrated to better serve home region clients. Hence, it appears possible to be global at the back end of the value chain, and much can undoubtedly be learned from observing and imitating the routines of global leaders in this portion of the value chain.

Does this imply that large MNEs should be complacent as far as the customer end is concerned and solely focus on their home region of the triad? Probably not, but senior MNE management should understand that widespread geographic diversification may well have

managerial pitfalls similar to the conventional drawbacks of product diversification. A clear focus is required in terms of scope of geographic expansion, and the economic evaluation of international growth plans must take into account the costs of inter-regional ‘distance’ and the liability of inter-regional foreignness.

The recognition of the fallacy of customer end, global strategies, may go a long way to improving the ability of world’s largest MNEs to profitably exploit international growth opportunities. Perhaps it is time for ‘global strategy’ scholars to recognize the limited usefulness of simple messages advocating the globalization of MNE strategy and structure. Such globalization is not being achieved by the vast majority of MNEs, which operate mainly in their home region of the triad.

Finally, this paper has uncovered two fundamental paradoxes of IB, which so far have eluded most, if not all, scholars in the field. First, at the customer end, national responsiveness and localized adaptation are almost universally advocated as a panacea for penetrating international markets, but in reality most MNEs attempt to add value primarily by capitalizing on similarities across markets. This is an aggregation strategy often met with success in the home region. Second, at the back end (including FDI-driven foreign manufacturing), opportunities for scale and scope are usually considered abundant. Yet, in reality, MNEs add value primarily through arbitrage, i.e., exploiting differences across nations and regions. Successful integration thus reflects locational specificities. We live in a world of semi-globalization, where IB research needs to fundamentally rethink the substance of aggregation and arbitrage opportunities; this paper has suggested that the region may be a good starting point for such an endeavor.

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Table 1 : Classification of the Top 500 MNEs, 2001

| Type of MNE | No. of MNEs | % of 500 | % of 380 | Weighted average % of intra-regional sales |
|----------------------|------------------------|---------------------|---------------------|---|
| Global | 10 | 2.0 | 2.6 | 38.2 |
| Bi regional | 25 | 5.0 | 6.6 | 42.0 |
| Host Region Oriented | 11 | 2.2 | 2.9 | 30.9 |
| Home Region Oriented | 320 | 64.0 | 84.2 | 80.3 |
| Insufficient Data | 14 | 2.8 | 3.7 | 40.9 |
| No Data | 120 | 24.0 | | NA |
| Total | 500 | 100.0 | 100.0 | |

Note: Weighted averages were calculated by assuming the lowest point in intra-regional sales (i.e. >90=90)

Table 2: Global MNEs, 2001

| 500 Rank | Company | Region | Revenues in bn U.S.\$ | F/T Sales | % intra regional | North America % of total sales | Europe % of total sales | Asia Pacific % of total sales |
|----------|-------------------------------|---------------|-----------------------|-----------|------------------|--------------------------------|-------------------------|-------------------------------|
| 1 | 19 Intl. Business Machines | North America | 85.9 | 64.8 | 43.5 | 43.5 ^l | 28.0 ^m | 20.0 |
| 2 | 37 Sony | Asia Pacific | 60.6 | 67.2 | 32.8 | 29.8 ^z | 20.2 | 32.8 ^j |
| 3 | 143 Royal Philips Electronics | Europe | 29.0 | na | 43.0 | 28.7 ^a | 43.0 | 21.5 |
| 4 | 147 Nokia | Europe | 27.9 | na | 49.0 | 25.0 ^l | 49.0 | 26.0 |
| 4 | 162 Intel | North America | 26.5 | 64.6 | 35.4 | 35.4 ^z | 24.5 | 40.2 |
| 5 | 190 Canon | Asia Pacific | 23.9 | 71.5 | 28.5 | 33.8 ^l | 20.8 | 28.5 ^j |
| 6 | 239 Coca-Cola | North America | 20.1 | na | 38.4 | 38.4 | 22.4 ^m | 24.9 |
| 7 | 388 Flextronics International | Asia Pacific | 13.1 | na | 22.4 | 46.3 ^z | 30.9 | 22.4 |
| 8 | 446 Dior (Christian) | Europe | 11.3 | 83.4 | 36.0 | 26.0 ^z | 36.0 | 32.0 |
| 9 | 459 LVMH | Europe | 11.0 | 83.4 | 36.0 | 26.0 ^z | 36.0 | 32.0 |
| | Weighted Average Total | | 30.9 | | 38.2 | | | |
| | | | 309.2 | | | | | |

Notes: a. includes only U.S. and Canada, l. refers to Americas, m. refers to EMEA: Europe, Middle East and Africa, z. refers only to the U.S.

j. refers only to Japan.

Table 3: Bi-regional MNEs, 2001

| 500 Rank | Company | Region | Revenues in bn U.S.\$ | F/T Sales | % intra regional | North America % of total sales | Europe % of total sales | Asia Pacific % of total sales |
|----------|---------|-------------------------|-----------------------|-----------|------------------|--------------------------------|-------------------------|-------------------------------|
| 1 | 4 | BP | 174.2 | 80.4 | 36.3 | 48.1 | z 36.3 | na |
| 2 | 10 | Toyota Motor | 120.8 | 50.8 | 49.2 | 36.6 | 7.7 | 49.2 j |
| 3 | 58 | Nissan Motor | 49.6 | 50.3 | 49.7 | 34.6 | 11.0 | 49.7 j |
| 4 | 68 | Unilever | 46.1 | na | 38.7 | 46.6 | 38.7 | 15.4 |
| 5 | 138 | Motorola | 30.0 | 56.0 | 44.0 | 44.0 | z 14.0 | 26.0 |
| 6 | 140 | GlaxoSmithKline | 29.5 | 50.8 | 28.6 | 49.2 | z 28.6 | na |
| 7 | 153 | EADS | 27.6 | na | 44.9 | 33.7 | 44.9 | 10.2 |
| 8 | 158 | Bayer | 27.1 | na | 40.3 | 32.7 | 40.3 | 16.1 |
| 9 | 210 | L.M. Ericsson | 22.4 | 97.0 | 46.0 | 13.2 | 46.0 | 25.9 |
| 10 | 228 | Alstom | 20.7 | 88.0 | 45.1 | 28.0 | 45.1 | 16.1 |
| 11 | 230 | Aventis (q) | 20.5 | 87.2 | 32.1 | 38.8 | a 32.1 | 6.4 j |
| 12 | 262 | Diageo | 18.6 | na | 31.8 | 49.9 | 31.8 | 7.7 |
| 13 | 268 | Sun Microsystems | 18.3 | 52.6 | 47.4 | 47.4 | z 30.2 | m 17.2 |
| 14 | 285 | Bridgestone | 17.6 | 61.2 | 38.8 | 43.0 | l 10.1 | 38.8 j |
| 15 | 288 | Roche Group | 17.3 | 98.2 | 36.8 | 38.6 | 36.8 | 11.7 |
| 16 | 316 | 3M (q) | 16.1 | 53.1 | 46.9 | 46.9 | z 24.6 | 18.9 |
| 17 | 317 | Skanska | 15.9 | 83.0 | 40.0 | 41.0 | 40.0 | na |
| 18 | 340 | McDonald's (q) | 14.9 | 62.4 | 37.6 | 37.6 | z 37.1 | 13.8 |
| 19 | 342 | Michelin | 14.6 | na | 47.0 | 40.0 | 47.0 | na |
| 20 | 383 | Eastman Kodak | 13.2 | na | 48.5 | 48.5 | z 24.7 | m 17.2 |
| 21 | 386 | Electrolux | 13.1 | na | 47.0 | 39.0 | 47.0 | 9.0 |
| 22 | 390 | BAE Systems | 13.0 | 82.7 | 38.1 | 32.3 | a 38.1 | 2.7 |
| 23 | 408 | Alcan | 12.6 | 95.4 | 41.1 | 41.1 | a 39.6 | 13.9 |
| 24 | 415 | L'Oréal | 12.3 | na | 48.5 | 32.4 | 48.5 | na |
| 25 | 416 | Lafarge | 12.3 | na | 40.0 | 32.0 | 40.0 | 8.0 |
| | | Weighted Average | 31.1 | | 42.0 | | | |
| | | Total | 778.3 | | | | | |

Notes: a. includes only U.S. and Canada, l. refers to Americas, m. refers to EMEA: Europe, Middle East and Africa, z. refers only to the United States, j. includes only Japan, q. Aventis: Estimated using sales for core business (which totaled 17, 674 euros in 2001); 3M: Data for Europe include the Middle East; McDonald's: Estimated using data for 1999.

Table 4: Host Region Based MNEs, 2001

| 500 Rank | Company | Region | Revenues in bn U.S.\$ | F/T Sales | % intra regional | North America % of sales | Europe % of total sales | Asia Pacific % of total sales |
|-------------|-------------------------------------|---------------|--------------------------|--------------|---------------------|-----------------------------------|-------------------------------|--|
| 1 | 7 DaimlerChrysler | Europe | 136.9 | na | 29.9 | 60.1 | 29.9 | na |
| 2 | 20 ING Group | Europe | 83.0 | 77.3 | 35.1 | 51.4 | 35.1 | 3.4 |
| 3 | 38 Royal Ahold | Europe | 59.6 | 85.0 | 32.8 | 59.2 | 32.8 | 0.6 |
| 4 | 41 Honda Motor Santander Central | Asia Pacific | 58.9 | 73.1 | 26.9 | 53.9 | 8.1 | 26.9 j |
| 5 | 136 Hispano Group | Europe | 30.4 | 66.1 | 44.3 | 55.7 l | 44.3 | na |
| 6 | 245 Delhaize 'Le Lion' | Europe | 19.6 | 84.0 | 22.0 | 75.9 | 22.0 | 1.0 |
| 7 | 301 AstraZeneca | Europe | 16.5 | na | 32.0 | 52.8 z | 32.0 | 5.2 j |
| 8 | 364 News Corp. | Asia Pacific | 13.8 | na | 9.0 | 75.0 z | 16.0 u | 9.0 |
| 9 | 476 Sodexo Alliance | Europe | 10.6 | na | 42.0 | 50.0 | 42.0 | na |
| 10 | 482 Manpower | North America | 10.5 | 80.9 | 19.1 | 19.1 z | 68.6 | na |
| 11 | 487 Wolseley | Europe | 10.4 | 79.1 | 28.7 | 66.3 | 28.7 | na |
| | Weighted Average | | 40.9 | | 30.9 | | | |
| | Total | | 450.1 | | | | | |

Notes: u. refers only to the United Kingdom; l. refers to Americas; z. refers only to the United States; j. includes only Japan

Table 5: The Top 25 Home Region Based Companies, 2001

| 500 Rank | Company | Region | Revenues in bn U.S.\$ | F/T Sales | % intra regional | North | Europe | Asia |
|-------------|---------------------------------|---------------|--------------------------|--------------|---------------------|--------------------------------|---------------------|--------------------------------|
| | | | | | | America % of total sales | % of total sales | Pacific % of total sales |
| 1 | 1 Wal-Mart Stores (q) | North America | 219.8 | 16.3 | 94.1 | 94.1 | 4.8 | 0.4 |
| 2 | 3 General Motors | North America | 177.3 | 25.5 | 81.1 | 81.1 | 14.6 | na |
| 3 | 5 Ford Motor | North America | 162.4 | 33.3 | 66.7 | 66.7 | 21.9 | na |
| 4 | 9 General Electric | North America | 125.9 | 40.9 | 59.1 | 59.1 | 19.0 | 9.1 |
| 5 | 12 Mitsubishi | Asia Pacific | 105.8 | 13.2 | 86.8 | 5.4 | 1.7 | 86.8 |
| 6 | 13 Mitsui | Asia Pacific | 101.2 | 34.0 | 78.9 | 7.4 | 11.1 | 78.9 |
| 7 | 15 Total Final Elf | Europe | 94.3 | na | 55.6 | 8.4 | 55.6 | na |
| 8 | 17 Itochu | Asia Pacific | 91.2 | 19.1 | 91.2 | 5.5 | 1.7 | 91.2 |
| 9 | 18 Allianz | Europe | 85.9 | 69.4 | 78.0 | 17.6 | 78.0 | 4.4 |
| 10 | 21 Volkswagen | Europe | 79.3 | 72.3 | 68.2 | 20.1 | 68.2 | 5.3 |
| 11 | 22 Siemens | Europe | 77.4 | 78.0 | 52.0 | 30.0 | 52.0 | 13.0 |
| 12 | 23 Sumitomo | Asia Pacific | 77.1 | 12.7 | 87.3 | 4.8 | na | 87.3 |
| 13 | 24 Philip Morris | North America | 72.9 | 42.1 | 57.9 | 57.9 | 25.8 | na |
| 14 | 25 Marubeni | Asia Pacific | 71.8 | 28.2 | 74.5 | 11.6 | na | 74.5 |
| 15 | 26 Verizon Communications | North America | 67.2 | 3.8 | 96.2 | 96.2 | na | na |
| 16 | 27 Deutsche Bank | Europe | 66.8 | 69.0 | 63.1 | 29.3 | 63.1 | 6.5 |
| 17 | 28 E.ON | Europe | 66.5 | 43.4 | 80.1 | 9.4 | 80.1 | na |
| 18 | 29 U.S. Postal Service (q) | North America | 65.8 | 3.0 | 97.0 | 97.0 | na | na |
| 19 | 30 AXA (q) | Europe | 65.6 | 77.3 | 51.2 | 24.1 | 51.2 | 19.9 |
| 20 | 31 Credit Suisse | Europe | 64.2 | 73.3 | 60.9 | 34.9 | 60.9 | 4.1 |
| 21 | 32 Hitachi | Asia Pacific | 63.9 | 31.0 | 80.0 | 11.0 | 7.0 | 80.0 |
| 22 | 34 American International Group | North America | 62.4 | na | 59.0 | 59.0 | na | na |
| 23 | 35 Carrefour | Europe | 62.2 | 50.8 | 81.3 | na | 81.3 | 6.6 |
| 24 | 36 American Electric Power | North America | 61.3 | 12.3 | 87.7 | 87.7 | 11.8 | na |
| 25 | 39 Duke Energy | North America | 59.5 | 13.1 | 96.5 | 96.5 | na | na |

Notes: u. refers only to the United Kingdom, j. includes only Japan, f. includes Africa.

q. Wal-Mart: Estimated using number of stores, AXA: Europe represents France, the UK, Germany and Belgium. An additional category "other countries" might include other European nations, U.S. Postal Service: U.S. data reflects an Annual Report statement that says less than 3% of total revenues originate outside the United States.

Table 6: The "Near Miss" Global MNEs, 2001

| 500 Rank | Company | Region | Revenues in bn U.S.\$ | F/T Sales | % intra regional | North America % of total sales | | Europe % of total sales | | Asia Pacific % of total sales | |
|----------|-------------------------|---------------|-----------------------|-----------|------------------|--------------------------------|---|-------------------------|---|-------------------------------|---|
| 2 | Exxon Mobile | North America | 191.6 | 69.6 | 37.5 | 37.5 | a | 8.9 | u | 10.4 | j |
| 8 | Royal Dutch/Shell Group | Europe | 135.2 | na | 46.1 | 15.6 | z | 46.1 | | na | |
| 30 | AXA (q) | Europe | 65.6 | 77.3 | 51.2 | 24.1 | z | 51.2 | | 19.9 | |
| 55 | Nestlé | Europe | 50.2 | na | 31.6 | 31.4 | | 31.6 | | na | |
| 117 | Compaq Computer (q) | North America | 33.6 | 62.0 | 38.0 | 38.0 | z | 36.0 | m | na | |
| 230 | Aventis (q) | Europe | 20.5 | 87.2 | 32.1 | 38.8 | a | 32.1 | | 6.4 | j |
| 316 | 3M (q) | North America | 16.1 | 53.1 | 46.9 | 46.9 | z | 24.6 | | 18.9 | |
| 340 | McDonald's (q) | North America | 14.9 | 63.7 | 40.4 | 40.4 | a | 31.9 | | 14.8 | |
| 341 | Anglo American | Europe | 14.8 | 86.7 | 46.1 | 18.9 | | 46.1 | | 17.8 | |
| 383 | Eastman Kodak | North America | 13.2 | na | 48.5 | 48.5 | z | 24.7 | m | 17.2 | |

Notes: a. includes only U.S. and Canada, u. refers only to the United Kingdom, m. refers to EMEA: Europe, Middle East and Africa, z. refers only to the United States

j. only includes Japan

q. individual notes: AXA: Europe represents France, the UK, Germany and Belgium. An additional category "other countries" might include other European nations. Compaq Computer: merged with HP in 2002, Aventis: Estimated using sales for core business (which totaled 17, 674 euros in 2001), 3M: Data for Europe include the Middle East, McDonald's: Data for Asia include the Middle East and Africa

Figure 1A

A Resource-based Re-interpretation of the Integration-Responsiveness Framework

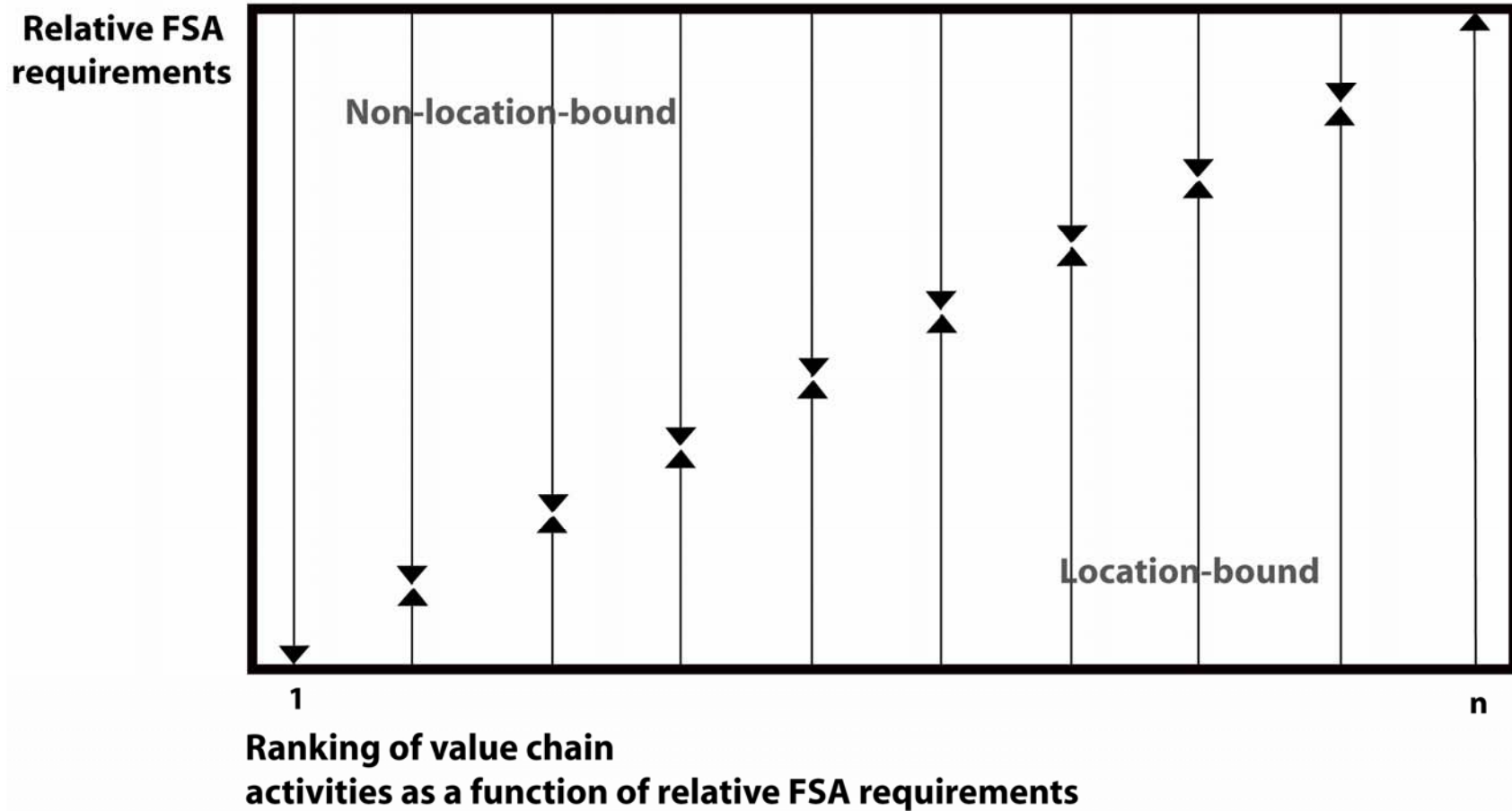


Figure 1B

**A Conceptual Extension of the Resource-based Integration-Responsiveness Framework:
The Home-Region Case**

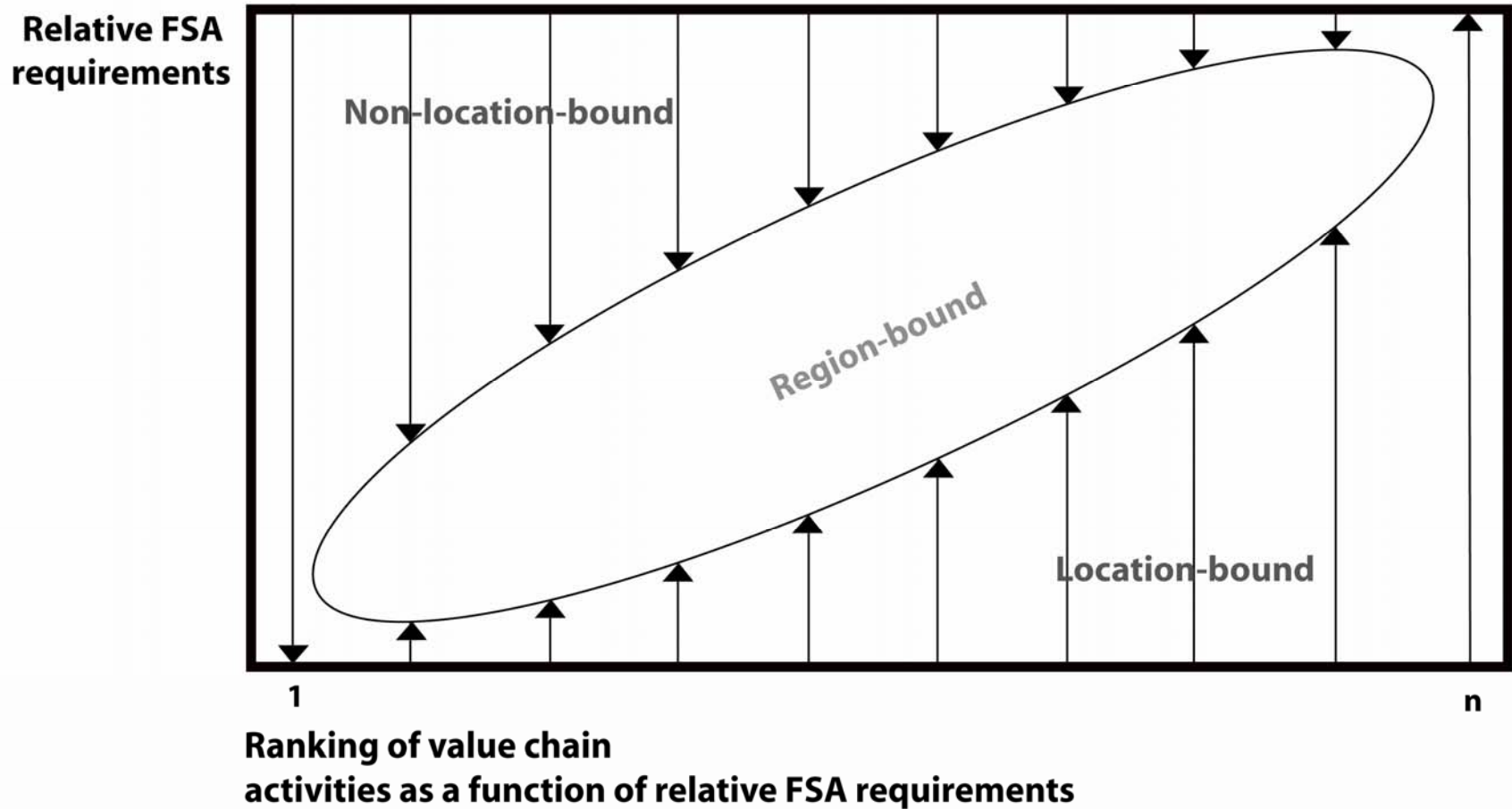


Figure 1C

**A Conceptual Extension of the Resource-based Integration-Responsiveness Framework:
The Host-Region Case**

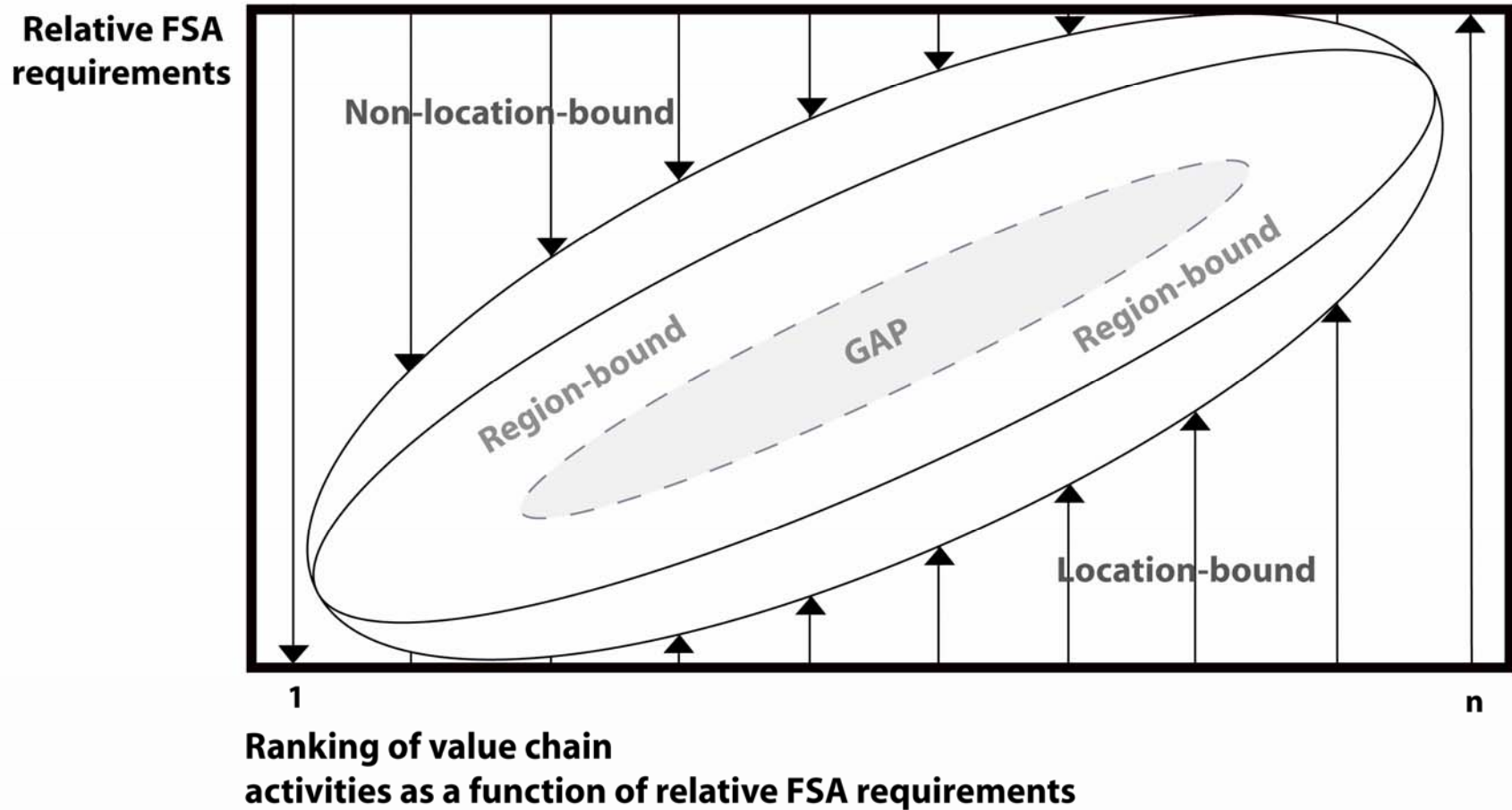


Figure 2
Old and New Perspectives on the Largest 500 Companies

