

# *Consequences of Firm Diversification*

**PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)**

International Business & Trade  
Università degli Studi di Bergamo  
Dipartimento di Scienze Aziendali  
Bergamo, ITALY

# What Did We Learnt in WEEK 2-2 & 2-3?



## ■ Key Points

- ❖ Collaborative alliances vs. contractual alliances;
- ❖ Benefits & costs of vertical *keiretsu* networks;
- ❖ The rationale for forming joint ventures in emerging economies;
- ❖ ‘3’ key determinants of partner selection;
- ❖ The importance of a mix of CEO psychological attributes (*e.g.*, risk propensity) & CEO power dynamics in determining DOI;
- ❖ Sources of power; &
- ❖ CEO duality / CEO time horizon problem / agency theory / prospect theory / stock options as a governance mechanism etc.

# Consequences of Firm Diversification



## ■ Opening Questions

**Does Internationalization Enhance/Harm Firm Performance?**

**Any Specific Examples/Stories in Reality?**

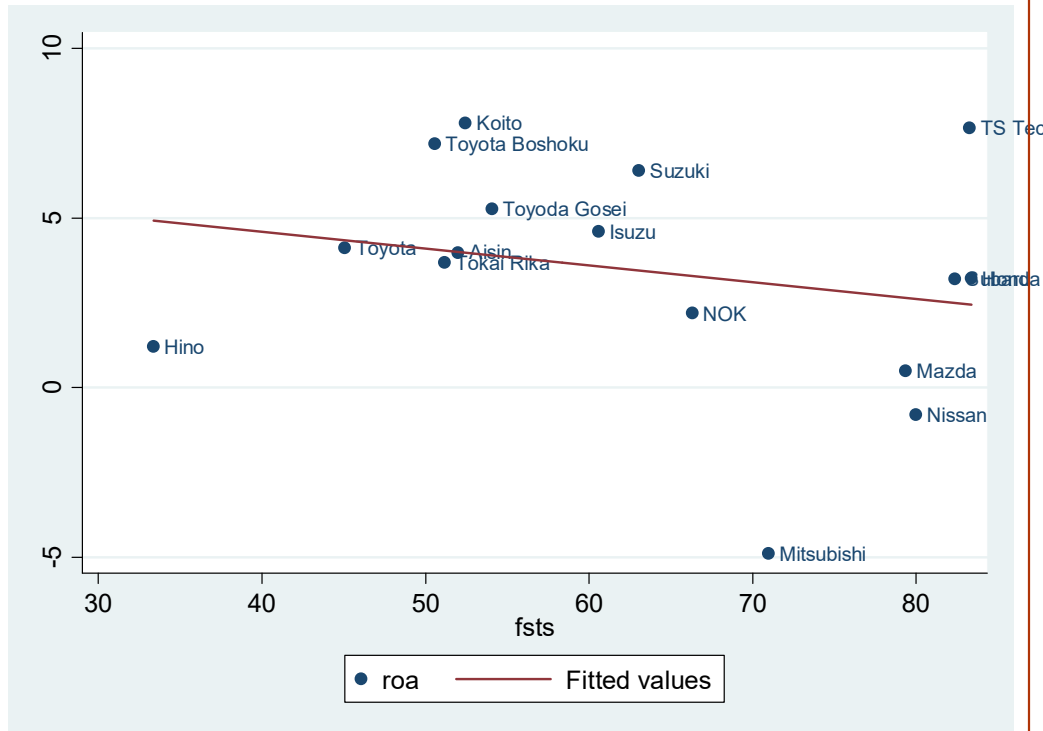
**Why? How?**

# Consequences of Firm Diversification

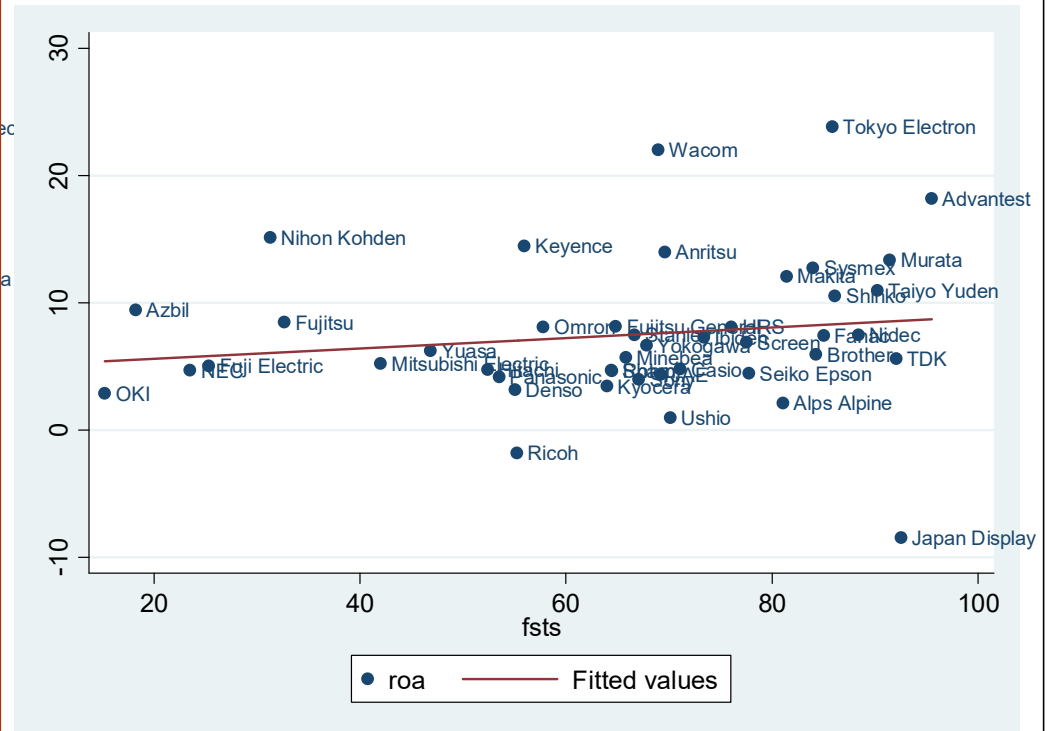


## Opening Questions

### Electronics Industry (2021)



### Transportation Industry (2021)



**Not Statistically Significant !**

Source: Own illustration.

**Not Statistically Significant !**

# Consequences of Firm Diversification



## ■ Hsu, Chen & Cheng (2013).

### ❖ Questions

1. Discuss the **core argument** of this scholarly investigation & clarify what research gap the authors try to fill.
2. What is the relationship between the **upper echelon perspective** & the **information processing theory**?
3. Explain why a **CEO who is younger, more highly educated, & who has more international experience** is important in **enhancing the positive impact of dispersion** into many foreign markets on firm performance (*i.e.*, **return on asset**).
4. Elaborate on the mechanism that the **interaction of internationalization with CEO duality** is significantly **negative**.
5. Discuss the **managerial relevance** of this paper.

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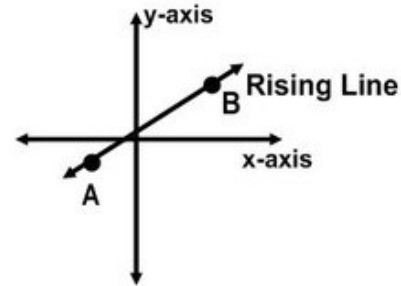


## ■ Hsu, Chen & Cheng (2013).

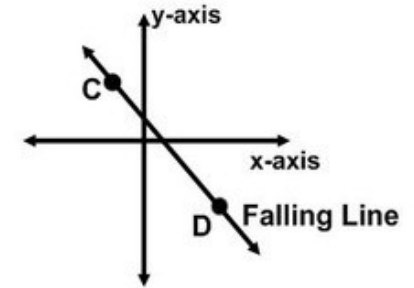
### ❖ Positive

1. Learning effects;
2. Market power;
3. Scale & scope economies; &
4. Opportunities for growth & value creation
5. Increased access to resources (*e.g.*, new knowledge).

POSITIVE SLOPE



NEGATIVE SLOPE



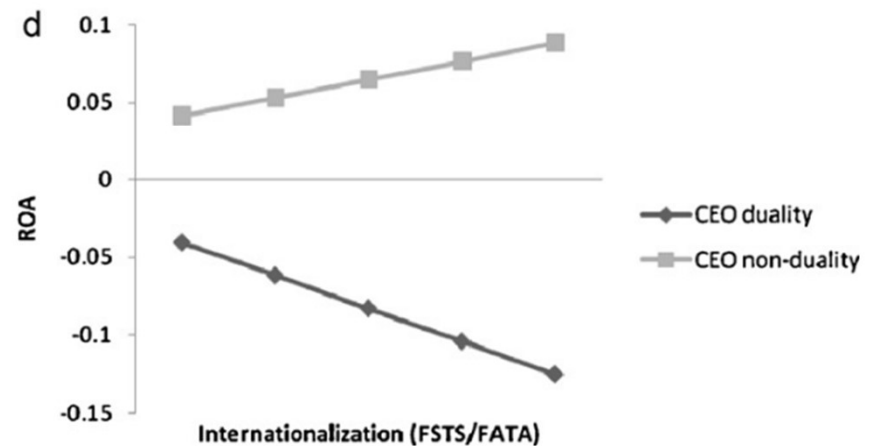
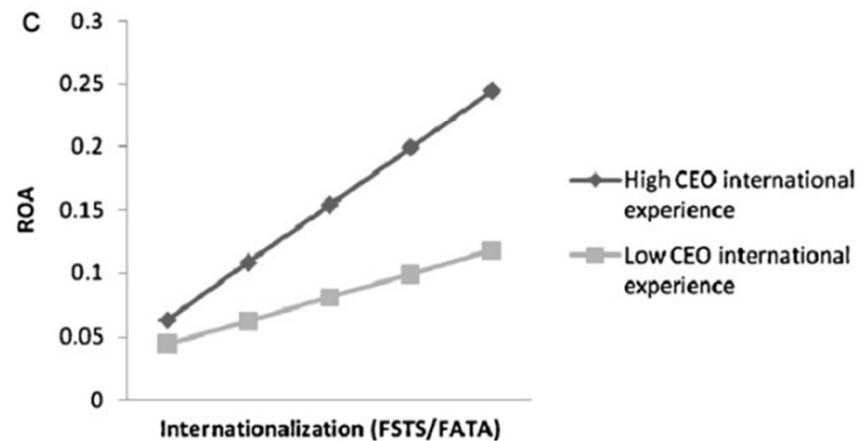
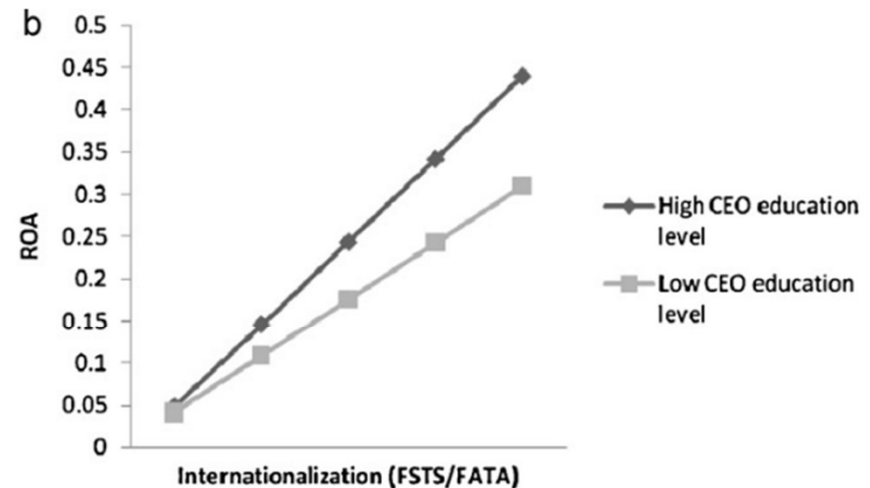
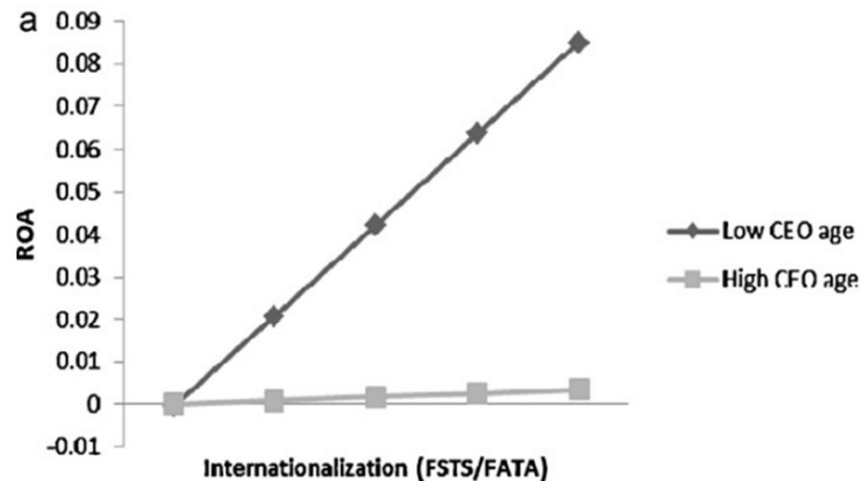
### ❖ Negative, Inverse U-Shaped, or S-Shaped

1. Increased costs of coordination/governance among diverse operating units;
2. High information processing demands;
3. Communication problems derived from cultural diversity;
4. Managerial overcapacity; &
5. High levels of complexity of an unrelated strategy.

# Consequences of Firm Diversification



## ■ Hsu, Chen & Cheng (2013).



Source: Hsu et al. (2013: 9).

# Consequences of Firm Diversification



## ■ Vermeulen & Barkema (2002).

### ❖ Questions

1. What is the **uniqueness/originality/novelty** of this study?
2. **What benefits** can be reaped through **diversifying into a variety of counties**?
3. Clarify the rationale why the **pace, scope, & rhythm** of the internationalization process **negatively** influence the profitability of a MNC's international expansion in an extension of the notion of **time compression economies**.
4. Provide the **core take-home message** that can be drawn from the empirical evidence of this study in practical terms.
5. Do you **feel convinced of their research**? If yes, why? If not, why not?

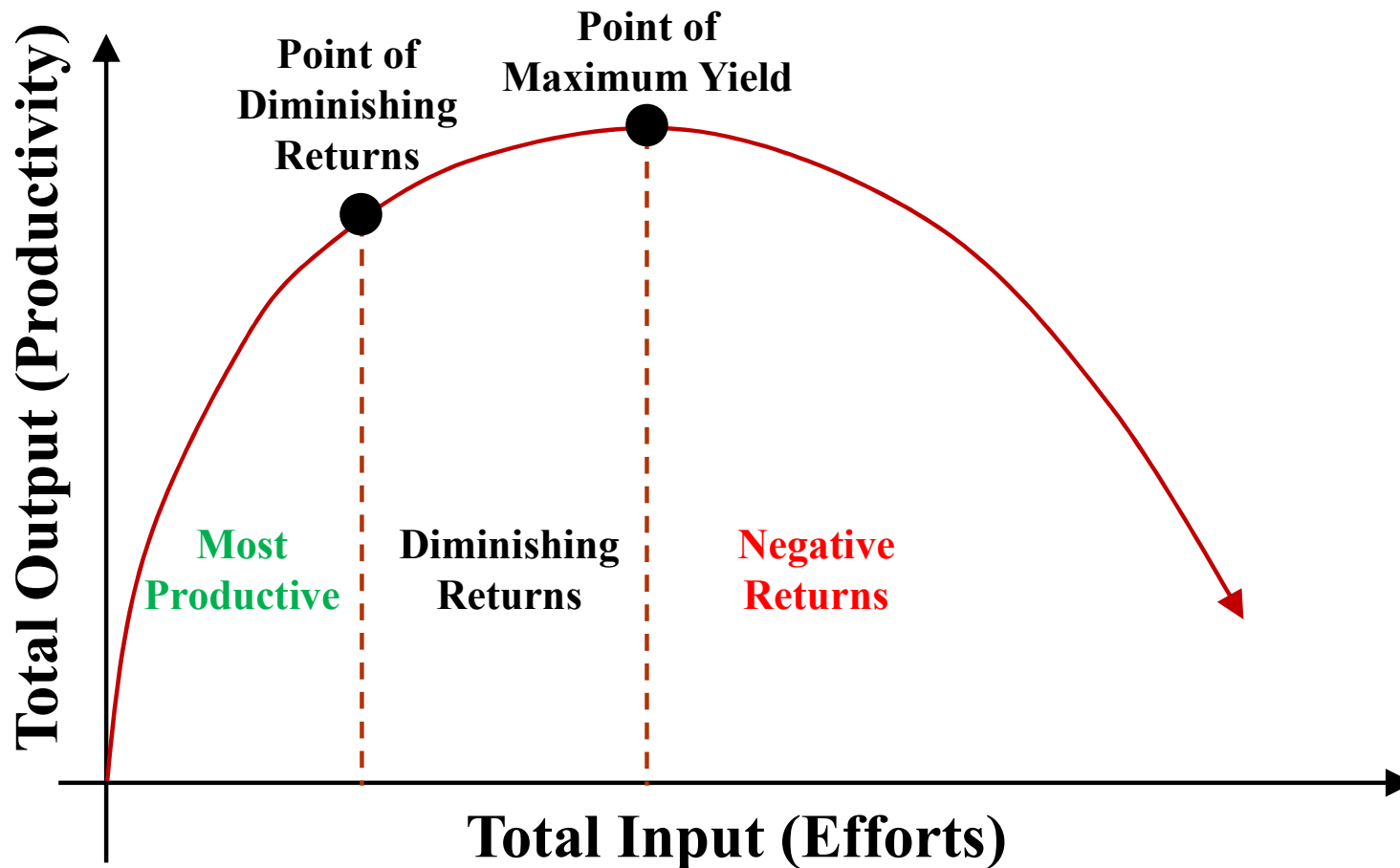


# Consequences of Firm Diversification



## ■ Vermeulen & Barkema (2002).

### ❖ Law of Diminishing Returns

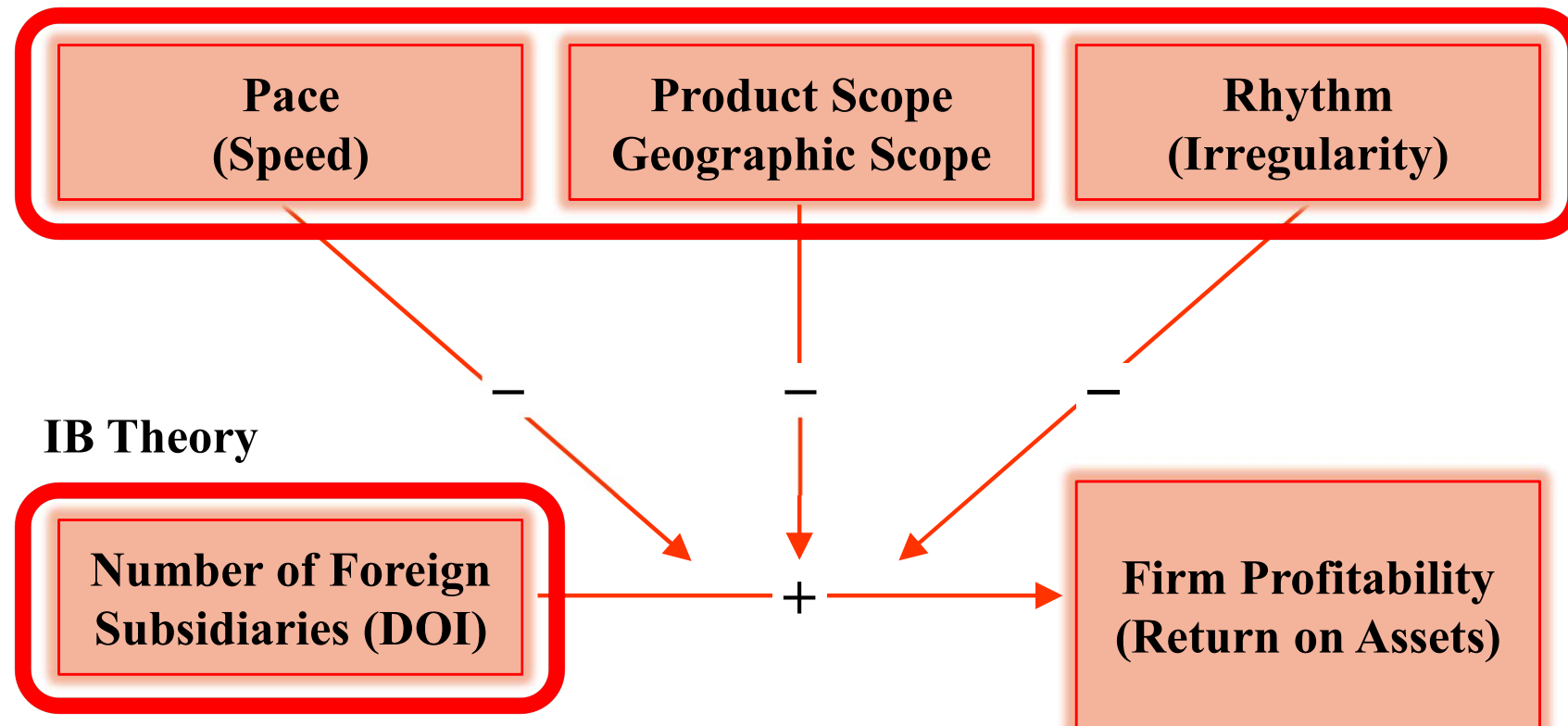


# Consequences of Firm Diversification



## ■ Vermeulen & Barkema (2002).

### Diseconomies of Time Compression



# Consequences of Firm Diversification

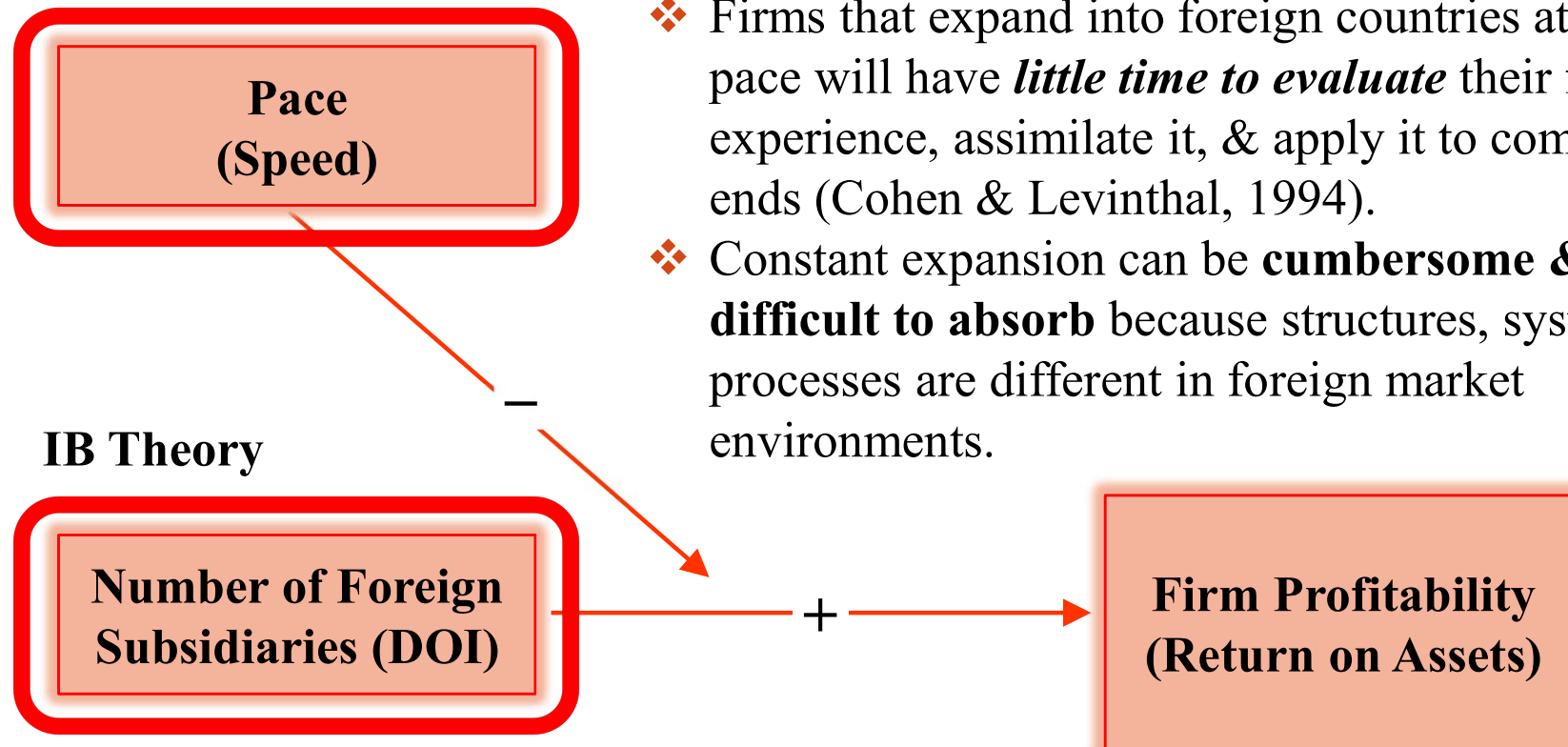


## ■ Vermeulen & Barkema (2002).

### Diseconomies of Time Compression

### KEY POINTS

- ❖ Firms that expand into foreign countries at a high pace will have *little time to evaluate* their foreign experience, assimilate it, & apply it to commercial ends (Cohen & Levinthal, 1994).
- ❖ Constant expansion can be **cumbersome & difficult to absorb** because structures, systems & processes are different in foreign market environments.



# Consequences of Firm Diversification



## ■ Vermeulen & Barkema (2002).

### KEY POINTS

### Diseconomies of Time Compression

❖ The simultaneous jump into new businesses makes it more likely that the firm is *unable to fully absorb* the excess of new signals & experiences.

Product Scope  
Geographic Scope

❖ It takes *considerable time & attention* to (1) adapt to new customers, (2) cultivate ties with new suppliers, (3) recognize competitors' behaviors, & (4) build new systems & structures.

### IB Theory

Number of Foreign Subsidiaries (DOI)

Firm Profitability  
(Return on Assets)

❖ *Causal ambiguity & information overload* make a firm *difficult to digest*.

# Consequences of Firm Diversification

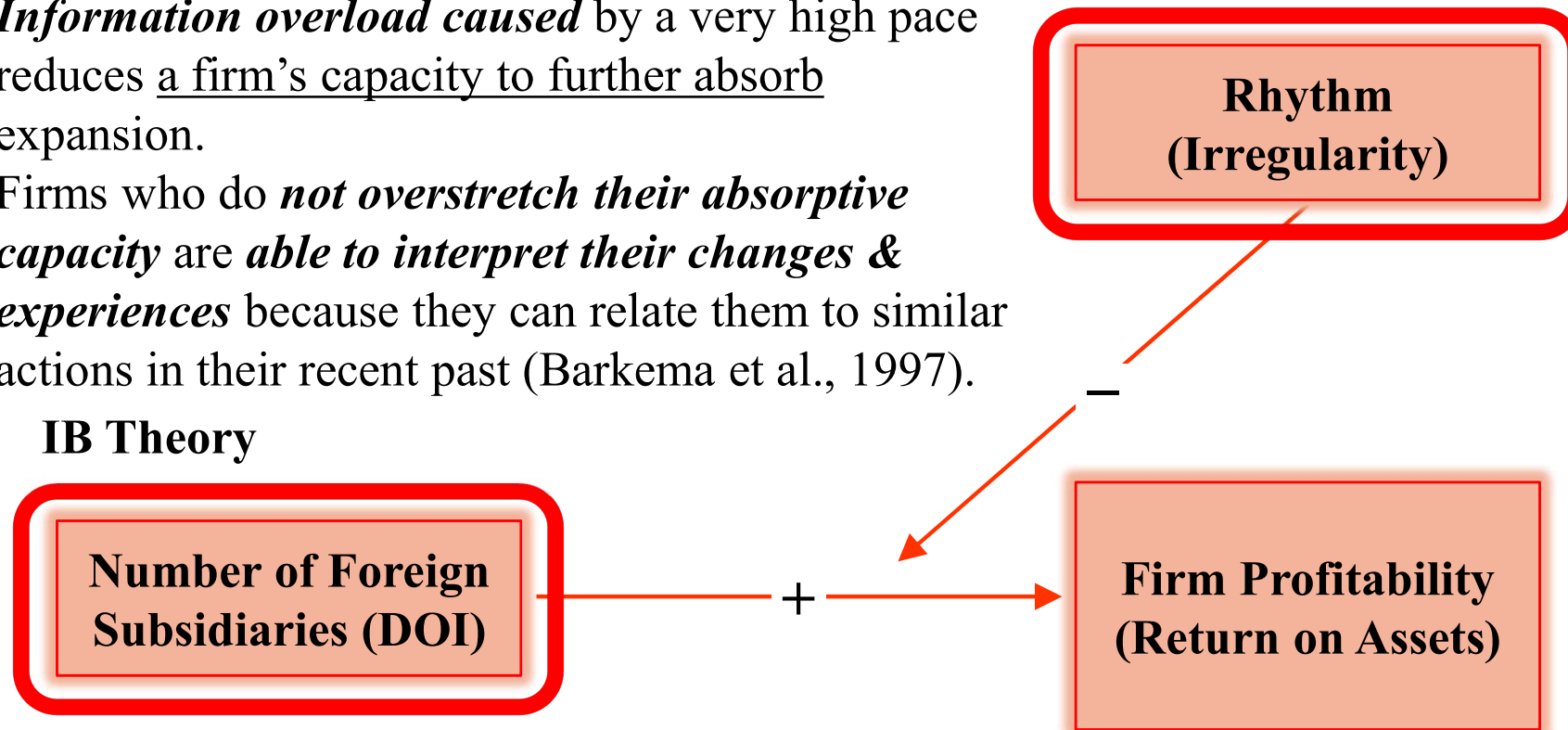


## ■ Vermeulen & Barkema (2002).

### KEY POINTS

- ❖ *Information overload caused* by a very high pace reduces a firm's capacity to further absorb expansion.
- ❖ Firms who do *not overstretch their absorptive capacity* are *able to interpret their changes & experiences* because they can relate them to similar actions in their recent past (Barkema et al., 1997).

### Diseconomies of Time Compression



### IB Theory

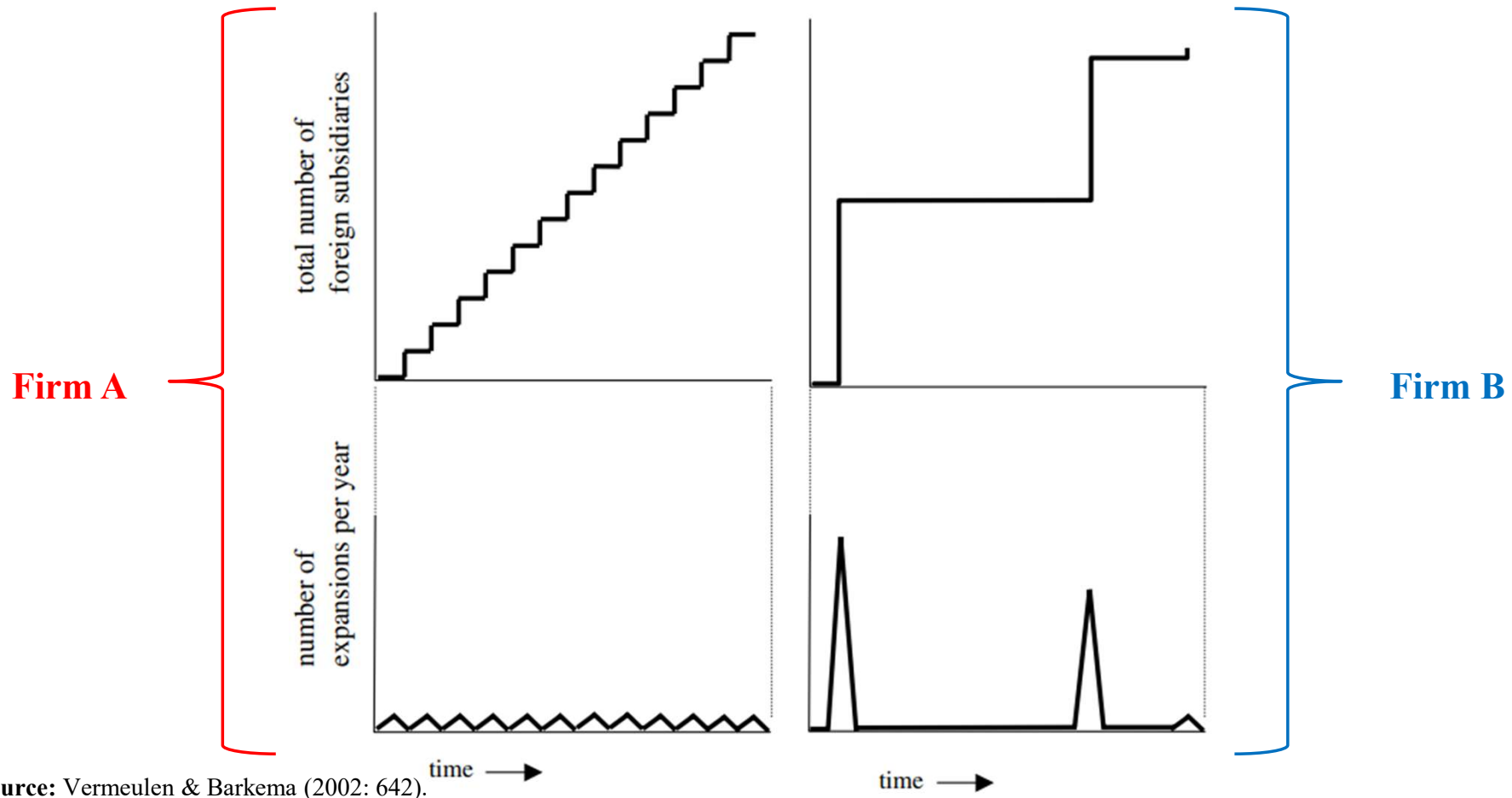
- ❖ *Periods of inactivity* → a firm's *absorptive capacity* (↓) (Cohen & Levinthal, 1990).

# Consequences of Firm Diversification



## ■ Vermeulen & Barkema (2002).

### ❖ Rhythmic & Irregular Expansion Patterns



# Consequences of Firm Diversification



## ■ Vermeulen & Barkema (2002).

### ❖ Crucial Implications

- ‘*Diseconomies of time compression*’ exist because the capacity of a firm to absorb expansion is constrained, owing to *bounded rationality, cognitive limitations, & structural inertia*.
- *Adding complexity in one dimension* by increasing the pace of the internationalization process implies that a firm *needs to restrict complexity in other dimensions* by limiting the number of novel countries or businesses entered during the expansion.
- Firms wishing to be global have to achieve *a path of balanced growth*.
- There are *constraints* on *how much expansion* a firm can *digest* = *A regular expansion pattern* helps to build *a profitable MNC* while avoiding any uncontrolled herd behavior.



## ■ Reading Assignments for 07.03.2024 (Thursday)

### ❖ Determinants of Superior Foreign Subsidiary Performance

- **Delios, A., & Beamish, P. W.** (2001). “Survival & Profitability: The Roles of Experience and Intangible Assets in Foreign Subsidiary Performance.”, *Academy of Management journal*, 44(5), 1028-1038.
- **Isobe, T., Makino, S., & Montgomery, D. B.** (2000). “Resource Commitment, Entry Timing, & Market Performance of Foreign Direct Investments in Emerging Economies: The Case of Japanese International Joint Ventures in China. *Academy of Management Journal*, 43(3), 468-484.

**Q. Please find one MNC subsidiary & detect why it succeeded or failed.**



# The End of Today's Lecture



ご清聴有難う御座いました。

**Thank you so much!**

**Vielen Dank für Ihre Aufmerksamkeit!**

**Grazie mille !**

## **【Contact Address】**

**ADDRESS: 208 in Via dei Caniana 2, 24127 Bergamo, ITALY**

**E-mail: [norifumi.kawai@unibg.it](mailto:norifumi.kawai@unibg.it)**