Strategizing and Economizing in Global Strategy

Geisler Asmussen, Christian; Foss, Nicolai J.

Document Version
Final published version

Published in:
Global Strategy Journal

DOI:
10.1002/gsj.1443

Publication date:
2022

Received: 9 November 2021 | Revised: 18 March 2022 | Accepted: 29 April 2022

DOI: 10.1002/gsj.1443

SPECIAL ISSUE ARTICLE

GLOBAL STRATEGY JOURNAL WILEY

Strategizing and economizing in global strategy

Christian Geisler Asmussen[1,2] | **Nicolai J. Foss**[1]

[1]Department of Strategy and Innovation, Copenhagen Business School, Frederiksberg, Denmark

[2]King's Business School, King's College, London, UK

Correspondence
Nicolai J. Foss, Department of Strategy and Innovation, Copenhagen Business School, Kilevej 12, 2nd fl., 2000 Frederiksberg, Denmark.
Email: njf.si@cbs.dk

Abstract

Research summary: The strategic management and international business fields have followed, in some respects, quite similar intellectual trajectories, as reflected in the push for a field of "global strategy." However, a key distinction in the strategy literature—namely, Williamson's distinction between "strategizing" and "economizing"—has not been explicitly recognized in the international business/global strategy fields. We argue that progress can be made in global strategy by recognizing this distinction and exploring the interaction between "strategizing" and "economizing." To lend credence to this claim, we offer a simple model of the entry decision which highlights both economizing and strategizing aspects of this decision. We also offer recommendations on economizing-strategizing research in global strategy.

Managerial summary: Multinational enterprises gain competitive advantage either by improving the efficiency with which they operate (by having unique resources, lowering costs, or improving managerial practices) or by exercising their market and bargaining power. Most research has emphasized the former source of competitive advantage. However, in actuality, the two sources are intertwined. We detail how they are intertwined by means of a simple numerical example of the entry decision facing a company that can choose between competing or collaborating with the

local firm. We show that strategizing plays into the entry decision in this case.

KEYWORDS
economizing, global strategy, strategizing, the entry decision

One of the key organizing distinctions in the firm strategy literature is Williamson's (1991) distinction between "economizing" and "strategizing" views. In the former view (exemplified by the resource-based view and transaction cost economics; Barney, 1991; Williamson, 1985), firms seek competitive advantage by improving efficiency by controlling or having access to unique resources, lowering their costs, or improving their managerial practices. In the latter view (exemplified by the Porter positioning approach; Porter, 1980, 1981), firms seek to obtain stronger bargaining positions against their buyers or suppliers and exercise market power against rivals (Shapiro, 1989; Tirole, 1988).

The strategy and international business fields have developed in often similar ways, even if the similarity of the efforts has not always been recognized by scholars in these fields. For example, transaction cost economics became influential in both strategy and international business at roughly the same time, namely around 1980, but was applied and developed in separation and in somewhat different ways (notably Buckley & Casson, 1976; Hennart, 1982; Teece, 1986). About a decade later, knowledge- and resource-based ideas were explored in separate ways in the two fields (Kogut & Zander, 1993; Rugman & Verbeke, 1992). It is perhaps not surprising that the bifurcation into distinct economizing and strategizing perspectives can also be found in the international business literature.[1] Thus, early work emphasized the importance of industrial organization insights in the exploitation of market power (ie, strategizing) as motives for firm behaviors in an international setting (Dunning & Pitelis, 2008; Hymer, 1960, 1969, 1972), but this increasingly gave way to an economizing approach, as the theory of the multinational firm became firmly based on, first, transaction cost economics (Buckley & Casson, 1976; Hennart, 1977, 1982; Teece, 1986) and, later, resource- and knowledge-based ideas (Kogut & Zander, 1993; Rugman & Verbeke, 1992). The theory of the multinational enterprise has remained fundamentally efficiency-based ever since (Clougherty & Skousen, 2021), and therefore sidesteps market and bargaining power motives in the explanation of such international business phenomena as entry into new markets and international competitive interaction.

We argue that it is time to revisit strategizing approaches in international business theory. First, strategizing is a fact of international business, as large dominant multinational enterprises may succeed in leveraging monopoly and monopsony powers in ways that may break with efficiency considerations. Second, taking strategizing more explicitly into account will expand the explanatory reach of our theorizing. A pure efficiency lens excludes issues of market and sometimes even bargaining power. We need to take these into account. However, we are not arguing that we need to abandon efficiency perspectives and embrace strategizing perspectives. Rather, in line with recent research, we argue, first, that efficiency and strategizing are complementary views that can be integrated in overarching formal models (which may express efficiency and strategizing views as pure cases; see Asmussen, 2015; Asmussen, Foss, Foss, & Klein, 2021; Legros & Newman, 2014; Makadok, 2010); second, that a number of international business phenomena require both views to be fully comprehended; and, third, that a combined efficiency-strategizing lens is productive of new insight. Hence, the novelty of our argument lies in calling

for work that *simultaneously* takes efficiency/economizing and market power/strategizing into account and in showing by means of a simple model that such a combined undertaking is productive of new insight.

In the remainder of this article, we substantiate these claims by first discussing the role of strategizing and economizing in international business and global strategy research and then building a simple "toy model" of the entry decision which highlights both economizing and strategizing aspects of this decision. To be sure, there is much more to international business and global strategy research than the entry decision, but it is sufficiently historically important and central to global strategy research that it makes sense to illustrate our core ideas with reference to this decision.

1 | ECONOMIZING AND STRATEGIZING IN INTERNATIONAL BUSINESS RESEARCH

1.1 | Economizing and strategizing

Oliver Williamson's (1991) distinction between "economizing" (or, efficiency) and "strategizing" (or, market power) approaches in strategy is often taken to be a description of two distinct paths to superior firm performance (e.g., Peteraf & Barney, 2003). Economizing theories include the resource-based view (Barney, 1991; Peteraf, 1993) as well as Williamson's own brand of transaction cost economics (Williamson, 1985, 1996). This approach emphasizes a firm's productive assets, relationships, and managerial practices as the main source of competitive advantage. Firms succeed and prosper because they are more efficient than rivals, having superior capabilities for identifying, assembling, and governing strategic resources. In contrast, positioning theories based on industrial organization economics constitute the strategizing branch (Porter, 1980; Tirole, 1988). In this approach, firms try to keep rivals at arms' length to make their own markets less competitive and hence more profitable. Ultimately, strategizing approaches see firm success as the result of market power, the ability to raise price over marginal cost and/or the ability to strike favorable bargains with suppliers, complementors, and buyers.

Williamson argues that economizing and strategizing approaches are orthogonal; while both ultimately aim at explaining long-lived heterogeneity in financial outcomes, they highlight entirely different theoretical mechanisms. While Williamson acknowledges the role of strategizing, he argues that economizing is more important: "economy is the best strategy" (Williamson, 1991, p. 75). Similarly, proponents of the RBV, such as Peteraf and Barney (2003, p. 320), argue that the resource-based view "would not benefit from incorporating" ideas from strategizing approaches. The argument is the same as Williamson's: While these two theories seek to explain firm performance differences, each one is silent about the mechanisms described by the other.

Elsewhere, we have taken issue with this compartmentalization, arguing that strategizing and economizing are in fact intertwined mechanisms (Asmussen et al., 2021; Foss, Foss, & Klein, 2018). Thus, Asmussen et al. (2021) build a formal model that incorporates an explicit treatment of transaction costs, a central construct from economizing theories, modeled as bargaining frictions. When transaction costs are positive, parties that seek to economize (ie, create value through more efficient means of organizing) cannot ignore other parties' efforts to strategize (ie, improving their ability to capture created value through market positioning)—as it is the presence of transaction costs that make strategizing possible (see Foss et al., 2018).

The resulting equilibria may incorporate elements of both economizing and strategizing—some parties are reducing impediments to trade and making markets more efficient while other parties are seeking just the opposite. In the following, we discuss the relevance of these ideas for international business theory.

1.2 | The international business and global strategy research context

Hymer's seminal work (Hymer, 1960, 1969, 1972) is among the earliest economics-based international business research. His key idea is that foreign direct investment only makes sense in the presence of imperfections that may give rise to above-normal profitability. In particular, firms reduce competition by implementing foreign direct investment. While Hymer's thinking cannot be placed in narrow analytical boxes, to a large extent, it was based directly on traditional industrial organization economics which until well into the 1970s was dominated by market power perspectives, only gradually giving in to more efficiency-based views (notably, Chicago-UCLA industrial organization and transaction cost perspectives). The emphasis on the structural characteristics of industries in early industrial organization economics may have been attractive to international business scholars, given the emphasis of early international business theory on the external environment of firms.

In international business research, the publication of Buckley and Casson (1976) signaled the advent of efficiency perspectives on the multinational corporation. Buckley and Casson make reference to Coase (1937) (but not to Williamson), and basically argue that multinational enterprises replace external markets because they can run better internal markets.[2] While this is a transaction cost idea (e.g., Williamson, 1975)—specifically, internal organization may have informational and transaction cost advantages when it comes to evaluating and implementing firm-specific ideas—it did not become a core idea in the subsequent development of an efficiency-based theory of the multinational enterprise. Hennart's (1982) work espouses a more "classical" transaction cost economics perspective with an emphasis on value creation stemming from the internalization of various externalities and an explanation of how imperfections in intermediate product markets shape the vertical and horizontal boundaries of companies.

When such imperfections, that is, transaction costs, characterize transactions across borders, there may be a case for foreign direct investment. Later work by Rugman, Teece, and many others refined this view in various ways. Somewhat indirectly, work on the knowledge-based multinational enterprise by, notably Kogut and Zander (1993) renewed this emphasis by highlighting the cost of building and sharing knowledge within the multinational enterprise network.

The dominance of efficiency perspectives in international business and global strategy research since the early pioneering work of the above-mentioned scholar has been so strong that research that explicitly takes a strategizing perspective is rare. It is not entirely clear why the international business and global strategy research communities seem to have mainly emphasized economizing/efficiency perspectives. However, a main reason may be that these fields invested heavily in establishing the multinational enterprise as the central object of analysis. And explaining why the multinational enterprise exists, chooses specific boundaries, and adopts a particular kind of internal organization is mainly explained by economizing perspectives rather than by strategizing perspectives.

Still, strategizing work has not been entirely absent from the international business and global strategy research literatures. In addition to Hymer's work, important early examples of

such a perspective include the work by Frederick Knickerbocker and the stream of research that builds on his seminal 1973 book, *Oligopolistic Reaction and Multinational Enterprise*. The book includes an informal argument according to which firms match their internationalizing rivals' moves into foreign countries. The motivation for such matching moves is to minimize the risk of ending up at a competitive disadvantage if the rivals were to acquire "earnings ... or new capabilities" in those countries (Knickerbocker, 1973, pp. 24–25). Head, Mayer, and Ries (2002) later formalized this argument and showed that the risk aversion of the firms must exceed a threshold for this behavior to take place.

Building on the oligopolistic perspective, other authors have looked at the strategic interaction between firms that compete, or have the potential to compete, in multiple markets. While MNEs are a preeminent example of such firms, the argument as such does not rely on the global context (e.g., drawing on cultural differences, geographic distances, and liabilities of foreignness) and therefore would also apply to domestic firms (e.g., spanning different regions or different product markets). Two main types of interaction have been discussed.

First, in an explicitly international application of the "Folk Theorem," Graham (1990, 1998) sets up a game theoretic model where firms from different countries can enter each other's markets and by doing so compete away the profits of the local incumbents. He demonstrates that this is a Prisoner's Dilemma game where the Nash Equilibrium is market entry and competition, leading all the resulting multinational enterprises to reap lower profits than they would have if they all had remained domestic monopolists. This, of course, raises the possibility of tacit collusion, where the firms stay out of each other's markets because they fear that entry will lead to retaliation (entry) from the local incumbent. The implication of this argument is that firms will only enter markets occupied by strong competitors if (a) they have much to gain, for example, because the host market is large and attractive and/or they have a competitive advantage, and (b) they have little to lose if the incumbent retaliates, perhaps because their own home market is small and/or they are strong enough to compete against the incumbent there.

Second, a literature in economics has used game theory to study the implications of "multipoint competition" (e.g., Bernheim & Whinston, 1990) and the insights from these models have been applied by strategy scholars (e.g., Fuentelsaz & Gómez, 2006). However, in spite of their fairly obvious relevance to global strategy research, these models have not been applied by global strategy or, more broadly, international business scholars. The models take the location of firms as exogenous (e.g., post entry) and examine how their competitive behavior in each market is influenced by their simultaneous co-presence in other markets. The main proposition is one of "mutual forbearance," where firms reduce the vigor with which they compete in a focal market (e.g., by keeping prices high) because they are afraid that their rivals will respond to competitive behavior by retaliating (e.g., with low prices), not only in the focal market, but also in other markets. In other words, the simultaneous presence in other markets makes the threat of retaliation more serious in a tacit collusion equilibrium, thereby (under certain circumstances) making it more likely that such tacit collusion can be enforced. The implication of this is that MNEs might follow their rivals into foreign markets, not out of risk aversion but in order to establish mutual forbearance capabilities.

1.3 | Opportunities for integration

These ideas have had limited impact on international business research. Graham's strategic entry deterrence ideas have received only scant attention in the subsequent international

business literature. A few scholars have tested hypotheses about the impact of oligopolistic and competitive factors on foreign direct investment, building on Knickerbocker and Graham, but with mixed results (Hennart & Park, 1994; Ito & Rose, 2002; Nachum & Zaheer, 2005; Yu & Ito, 1988). Virtually all the empirical studies of multipoint competition have been single-country studies, perhaps in the service of data availability and consistency (e.g., Evans & Kessides, 1994; Fernandez & Marín, 1998; Gimeno & Woo, 1996).

This dearth of attention to such issues is surprising inasmuch as there is a potential to combine these strategizing perspectives with the dominant economizing perspective in international business theory. For example, the idea of multipoint competition has implications for the foreign entry mode choice. Indeed, "a key assumption of the theory of multimarket competition is that firms coordinate their activities across markets," (Fuentelsaz & Gómez, 2006, p. 481), and internalization theory has traditionally held as central the idea of coordination and control through ownership (although the "fuzziness" of this relationship is currently debated; see Forsgren & Holm, 2021; Narula, Asmussen, Chi, & Kundu, 2019). While usually interpreted in terms of efficiency (e.g., joint ownership may reduce transaction costs and align incentives which increases value creation), coordination and control may also be instruments furthering dominance and the exploitation of such dominance in product and input markets.

Hence, suppose that an argument based on transaction cost economics would predict externalization in a given host market; for example, a multinational enterprise forms an arms-length relationship with a local distributor, because there are few relationship-specific investments and high liabilities of foreignness makes a hierarchical solution expensive. However, suppose that another multinational enterprise operates in the same market, and without local operations, the first multinational enterprise might lose the ability to punish the second one (e.g., by lowering prices in their market as a response, if they lower prices in one of our markets), thereby preventing mutual forbearance and leading to low prices. In that scenario, if the use of multipoint competition as a disciplining device is sufficiently attractive, it may make the first multinational enterprise internalize the local distributor.

Of course, this argument itself involves transaction cost reasoning, albeit implicitly (see further, Foss et al., 2018). Given sufficiently low transaction costs, the multinational enterprise could simply write a contract with the local distributor to agree to lower or raise prices whenever the multinational enterprise needs it for strategic reasons. Realistically, of course, this would not be sufficiently agile, and the multinational enterprise would face the risk of the distributor trying to opportunistically renegotiate the contract. Thus, we revert to the idea, which is central to internationalization theory, that internalization is a means of hierarchical control when external means of control fail. Of course, in the case considered here, the benefit of control is in fact "strategic," rather than being related to quality, compliance, social responsibility, or other issues that are normally mentioned in applications of internalization theory. This illustrates the intertwined nature of economizing and strategizing (Asmussen et al., 2021; Foss et al., 2018) also in a global strategy context.

On a few occasions, scholars have begun to call for more explicit recognition of market power/strategizing issues in international business research. Narula and Hagedoorn (1999) argued that a pure economizing view of alliances means that we only focus on their short-term cost-efficiency motivation and forget about their "strategic" long-term value-creating motivation. We concur, but add that a pure economizing view also loses sight of bargaining and market power issues, in the short as well as long run. More recently, Clougherty and Skousen (2021) identified market power considerations as a potential "blind spot" caused by overemphasis on efficiency-based explanations. Based on a relative assessment of efficiency and

market power effects in cross-border acquisitions, they conclude that the former outweighs the latter by two to one, but they do not consider interactions between the two types of effects. A third example is Forsgren and Holm (2021, p. 4), who argue that there are situations in which "strategic motivations outweigh transaction-cost-economizing motivations" when firms are developing relationships with other firms in a global value chain. The example they provide is when a multinational enterprise aims to "develop close relationships with a specific business actor because this is deemed important for the possibility to access other parts of the network." They also criticize the view of the multinational enterprise as "all-powerful" and able to dictate the setup of the global value chain, which they argue characterize much international business theorizing. While they do not explore this example further, it raises the question of the value appropriation of the "specific business actor," whose access to the other parts of the network is so valuable for the multinational enterprise and who, therefore, presumably would expect to be compensated for sharing that access. It also raises the question of the willingness-to-pay of the multinational enterprise for this access, the value of which must presumably cover the costs to the specific business actor, evoking aspects of economizing that can therefore not easily be disentangled from the strategizing issues.

In combination, these arguments suggest that it can be useful to take a bargaining perspective on the cross-border interaction between firms. In the following, we deploy such a perspective, starting from the economizing or efficiency perspective on the cross-border boundaries of the multinational enterprise and then introducing strategizing by means of an example.

2 | THE ENTRY DECISION: A "TOY MODEL" OF STRATEGIZING AND ECONOMIZING

The basic proposition of the economizing perspective is that the choice of modes of organizing across borders is governed by considerations of maximizing the value net of transaction costs in complementary activities. The latter may be activities within a value chain or may be lateral activities (such that, e.g., knowledge transfer between similar but geographically dispersed stages of a value chain becomes value-increasing; Teece, 1986).

For example, Hennart (2009) develops an "asset bundling" framework where internationalization is driven by the benefits of exploiting complementarities between assets in different countries, such as between the technological knowledge of an MNE and the local market access resources possessed by a firm in a foreign country. The optimal governance form is then determined by the transaction costs in the markets for the "services" of those assets (e.g., components), the markets for the assets themselves (e.g., licenses), or the markets for the firms possessing the assets (ie, mergers and acquisitions). For example, if there are market failures in the two former markets but not in the latter, the multinational enterprise and the local firm might have to merge so as to combine their complementary assets in the least costly way. Hennart's (2009) paper exemplifies the emphasis of transaction cost economics and internalization theory on economizing/efficiency. He notes that "[a]gents will make mistakes, but we would expect that inefficient arrangements would not survive in the long run" (p. 1437; see Williamson, 1985, for similar arguments). In other words, the assumption is that the outcome is the one that maximizes the joint surplus to the various players (in excess of their opportunity costs). In addition (and related to that), the model takes as given the absolute necessity (in order for entry to occur) of bundling the assets of the entrant MNE with the complementary assets controlled by the local firm, whether by using the market for the assets themselves, for

their services, or for the firms that own them. However, Hennart (2009) does not explicitly discuss the opportunity for each firm to invest in its own proprietary assets to *replace* those possessed by the other party—an omission which is logical since such investments would be inefficient, but for our purposes may still be important. In other words, it is possible that the other firm possesses assets that are indeed rare and valuable, but nevertheless (at least) partially imitable or substitutable (Barney, 1991), so that imitation or substitution provides an alternative to acquiring the firm, their assets, or the services of their assets.[3] It is well established in the strategy literature that firms' resources and capabilities are highly endogenous to the investments that they make in internal development and/or strategic factor market acquisitions (Adegbesan, 2009; Asmussen, 2015; Maritan & Peteraf, 2011). Accordingly, local firms often can and do invest in their own technology (perhaps in expectation of increased competition from abroad) and multinational enterprises invest in their own foreign market knowledge, for example, when preparing to set up a greenfield subsidiary. These actions may have both strategizing and economizing motivations that interact in complex ways, and we now sketch a simple model to capture this phenomenon.

2.1 | Model assumptions

Suppose that there are two firms (denoted 1 and 2) that operate in different countries, but own assets that can be combined and exploited synergistically in country 2. For example, it is useful to think of firm 1 as being "the multinational enterprise" possessing non-location bound technological knowledge, and firm 2 as being "the local firm" which has location-bound knowledge as well as access to the market in country 2, for example including local manufacturing facilities and distribution networks. So far, this model is entirely consistent with Hennart's (2009) bundling model. Furthermore, as described by one of the many possible scenarios in that model, we assume that it is possible for the multinational enterprise to sell the knowledge and the right to use it to the local firm in a licensing deal (e.g., enabling the local firm to manufacture it locally) and that this is the efficient governance form from a transaction cost perspective, for example, because the costs of setting up and enforcing the licensing deal is low and it is feasible to transfer the knowledge.

2.2 | A numerical example

For a simple numerical example, we assume that such a deal enables firm 1's global technology to be exploited in combination with firm 2's local market access and provide a coalitional payoff (economic profits) of 30. The payoff accrues (as gross revenue) to firm 2, which then pays firm 1 a licensing fee. If negotiations break down, the alternative to collaboration is that firm 1 establishes a greenfield subsidiary to exploit its knowledge and competes against firm 2 in the market. This gives a payoff of 10 to each firm.

Clearly, the competitive outcome is jointly suboptimal compared to the collaborative outcome because $10 + 10 = 20 < 30$. There are at least three reasons for this. First, when they compete, each firm will rely on subpar assets: firm 1 will have to create its own market access and suffer a liability of foreignness in the process, while firm 2 will have to try to imitate firm 1's technology (and we assume it to be a priori inferior in this regard). Second, the multinational enterprise will have to invest in partly redundant capacity, where it could otherwise rely on the

local firm's spare capacity (which is co-specialized with its local market knowledge). Third, as basic microeconomics suggests, joint oligopoly profits are lower than monopoly profits in the absence of collusion.

Of course, it is exactly because of these three effects that there is "super-additivity" in the game; in other words, there are gains from collaboration (of 30–20 = 10) that the two firms can bargain over. To see the outcome of such bargaining, notice that firm 1 will accept no license price below 10, because that is what it could get on its own, and firm 2 will pay no license price above 20, because that would leave it with a payoff of less than 10 (=30–20), which it could get on its own. The core of this bargaining game is thus a price [10, 20], and the Nash Bargaining Solution is a price of 15, which distributes the profits and the gains from collaboration evenly.

Now, we add to this game the possibility that each firm can invest in replicating the other firm's assets. This is an inherently wasteful activity, since it does not help in exploiting the synergies between the assets of the two firms. However, from the perspective of the individual firm, these resources generate a "fallback" option, and investing in replication therefore has strategizing advantages. In other words, firm 1 can invest in building its own market knowledge, and firm 2 in building its own technology, so as to get a better bargaining position through a stronger outside option. Suppose that such an investment increases one's own outside option by 12 but reduces the opponent's outside option by 6. The latter follows because of the competitive interaction; specifically, the other firm will now be competing against a stronger opponent. Hence, if firm 1 invests, it now has an outside payoff of 22 and will accept only a price above that amount, whereas firm 2 gets an outside payoff of 4 and will therefore be willing to pay any price up to 26 (=30–4). The Nash Bargaining Solution is now 24 and firm 1 has therefore increased its payoff by 9, by having a more serious threat of replacing firm 2's assets (while firm 2's payoff declines to 6). The analysis is similar for firm 2 if it invests.

Finally, if they both invest, they will have outside options of 16 each (=10 + 12–6). In that case, the gains from collaboration (super-additivity) have disappeared (because 16 + 16 = 32 > 30). There is therefore no quasi-surplus that the parties can bargain over. They will therefore end up competing against each other rather than enter a licensing deal and thereby earn 16 each.

Suppose that the price of each investment is 8. In that case, the firms are playing the game shown in the payoff matrix in Figure 1, where the investment costs have been subtracted. As the matrix shows, this is a Prisoner's Dilemma game: It is a dominant strategy to invest in the fallback assets, and this strategy leads to a suboptimal Nash Equilibrium where both firms are worse off. In this equilibrium, the multinational enterprise invests in its own market access and the local firm in its own technology, and they then compete against each other instead of collaborating.

2.3 | Implications for the entry mode decision

Interestingly, the strategizing of the two firms interacts with the objective of economizing, as it changes the entry mode of firm 1 from a licensing approach to a greenfield subsidiary. Clearly, the value-maximizing outcome for the two firms would be that they collaborate on licensing and combine their synergistic assets. Instead, they end up competing against each other unnecessarily, using assets that they have acquired much too expensively. In fact, the outcome is not only second best but third best: even if the firms would have competed anyway, their investments are too expensive. For example, if the transaction costs of licensing were prohibitively

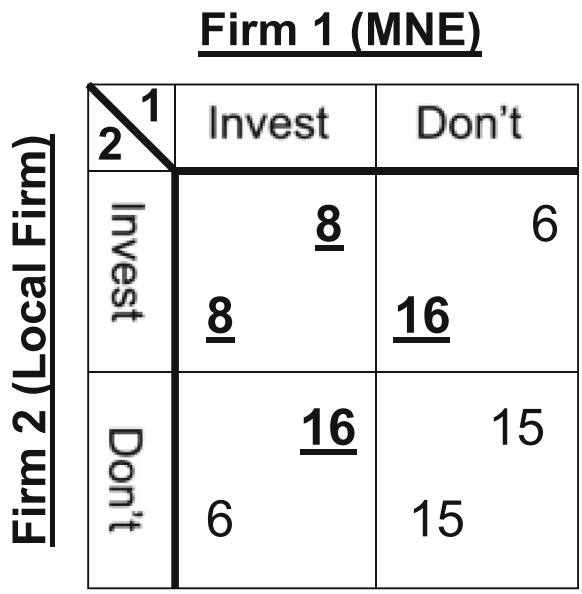

FIGURE 1 Strategizing as investments in fallback assets. The payoffs of firm 1 (top right in each cell), firm 2 (bottom left in each cell), for combinations of strategies. Underlined payoffs denote best responses and accordingly the Nash Equilibrium is (Invest, Invest)

high, the efficient solution would have them compete against each other, without additional investments, resulting in a payoff of 10 instead of 8. This "overpaying" for competitive advantage is similar to the result described by Asmussen (2015).

2.4 | Theoretical implications of the model

Based on this simple model, it is possible to extract some novel insights into a number of related issues debated by global strategy scholars. The first is the issue of "linking investments" as described by Grøgaard and Verbeke (2012). Often, it will be necessary for the firms to invest in mutual adaptation; for example, with the multinational enterprise adapting its knowledge to generate blueprints that work better with the manufacturing practices of the local firm and the local firm adapting in other ways to the MNE. Of course, these are relationship-specific investments: they increase the value of the relationship but have neutral or negative impact on the outside options. They are therefore subject to hold up of the classical type (Grossman & Hart, 1986).

In contrast, when the firms invest in their own fallback assets, they can include linking in these investments—for example, the multinational enterprise can build its own market access in a way that is co-specialized with its technology, and the local firm can develop technology that works with its own manufacturing practices. By linking their fallback assets to their core assets, they may be able to surpass the value of a superior, but non-linked inter-firm asset bundle (as implied by the payoffs in the numerical example). Hence, the multinational enterprise may still have the best technological assets, and the local firm the best market access, but because these are not linked, the outcome is that the firms compete against each other with suboptimal, but linked assets.

One way to interpret this outcome is that the strategizing of the two firms constitute a type of market failure in the markets for the assets (licensing). In fact, the investments in fallback assets can be seen as the flip side of relationship-specific investments—they diminish the relative value of the relationship and *reduce* the quasi-surplus remaining to be bargained over. As such, they can be seen as causing a "reverse hold-up problem"; in the classical hold-up problem, the opportunistic renegotiation happens because of an *increase* in the quasi-surplus. A promising avenue for future theorizing is to model the linking investments of the firms and explore how they interact with the fallback investments.

Interestingly, this also means that the solution to the hold-up problem (internalization) may not solve the reverse hold-up problem. In the classical hold-up problem, the lack of relationship-specific investments might constitute a market failure that forces firms to move to the "market for firms," where the multinational enterprise can acquire the local firm and subsequently ensure though fiat that the relationship-specific investments are made (Hennart, 2009). However, while an acquisition can ensure *ex post* investments, it cannot always prevent *ex ante* investments. Too see that, we need only replace licensing with acquisition and profits with present values in the numerical example, and the same incentive for both firms remain. The local firm's owners can push up the acquisition price if the alternative to an acquisition (competition) is better for them and worse for the multinational enterprise's owners, and investments in fallback technology will ensure that. Similarly, the multinational enterprise can push down the acquisition price by investing in fallback market access, because then the local firm's owners will face a competitive disadvantage if they turn down the acquisition offer.

In this setting, the threat of replacing the other firm's assets may become a self-fulfilling prophecy just like in the licensing scenario, and if these investments are sufficiently successful, the firms may end up competing against each other instead of merging. This illustrates that there is a thin line between developing a local venture with a view toward being acquired by a global firm and developing one with a view toward market domination. When a locally entrenched firm (e.g., TikTok in China) develops its technological assets, it simultaneously enhances its ability to appropriate value in a future acquisition (e.g., by Facebook) and the likelihood that it can (and therefore will) successfully compete on its own against such potential bidders. This provides an explanation of why even large and technologically superior multinational enterprises may not easily achieve world domination: their global expansion depends on linking with synergistic market access assets, which are controlled by local firms—who, in turn, may choose to strategize against the multinational enterprises rather than collaborate with them.

3 | CONCLUSION

The strategy and international business research fields are close cousins that have in some key respects developed in parallel and have more recently converged in the global strategy field. However, while the strategy field has long been characterized by the coexistence of efficiency and market and bargaining power perspectives, the international business field has for more than four decades been dominated by efficiency perspectives. Even though one of the key initial architects of the field, Hymer (1960), emphasized both the efficiency-seeking exploitation of firm-specific advantages *and* the pursuit of market power as motives for foreign direct investment, the emphasis of the field subsequently concentrated on efficiency perspectives, particularly after the publication of Buckley and Casson (1976) and Hennart (1982). The potential

role of market and bargaining power motives in the entry decision as a motive driving other international business phenomena was neglected.

However, we argue that separating considerations of efficiency and market and bargaining power makes little sense. The separation is questionable if we want to understand firm behavior: While large dominant firms have usually acquired their positions of dominance because they have served consumers and customers in a superior way in the past, they are typically also able to wield considerable bargaining power vis-á-vis, say, suppliers, and may also leverage market power. If the latter is empirically meaningful and may influence international business phenomena, they should be part of global strategy theory. Separating efficiency from and bargaining and market power also makes little sense theoretically. Transaction cost economics (Williamson, 1996) and property rights theory (Grossman & Hart, 1986) suggest that when contracting between, say, a multinational enterprise and a local firm is incomplete, bargaining powers will matter for outcomes (ie, efficiency).

Thus, separating economizing/efficiency and strategizing/market power is a major conceptual oversight. Integrating the two perspectives will not fundamentally change global strategy concepts and insights, but will rather expand the set of insights and predictions from global strategy. For example, the understanding of the temporal and spatial dimensions of global strategy research will benefit from an integrated perspective, as for instance, the history of competitive interaction between two firms in multiple products and/or geographic markets will affect the stability and predictability of their future competitive interactions, including how such interaction shapes their access to critical input sources and hence their ability to invest in efficiency-enhancing resources and capabilities. This may be a particularly relevant perspective in times of disruption, such as the recent Covid-19 pandemic, as such disruptions may upset supply chains that are largely shaped by considerations of efficiency and start multinational enterprises scrambling for increasingly scarce inputs, leveraging market and bargaining power in the process.

We have shown by means of a simple numerical example that not only are efficiency and bargaining powers intertwined; they are also intertwined with market power, as the potential to wield market power can influence the entry mode. While a complete theory of these interrelations is yet to be developed (cf. also Legros & Newman, 2014), we have argued that a fruitful path for international business research is to pursue such integration, returning the field to its Hymerian roots (Hymer, 1960).

ACKNOWLEDGEMENTS

The authors thank, without implicating, Alvaro Cuervo-Cazurra for excellent editorial guidance and five anonymous reviewers for comments.

ENDNOTES

[1] Of course, we are not claiming that that strategizing and economizing views exhaust the universe of international business and global strategy research. There are other perspectives, such as institutional theory, nonmarket strategy, and network theory, that have informed international business and global strategy research but which are difficult to fit into the strategizing and economizing categories.

[2] As an anonymous reviewer rightly pointed out, Buckley and Casson (1976) also contain strategizing/market power perspectives, such as their arguments that integrated enterprises/multinational corporations may be better capable of engaging in successful price discrimination.

[3] The type of asset is crucial in this context—for example, if the local firm possesses a unique legal permit to operate in a certain market, it may be impossible for the MNE to replace that asset and our arguments hence

would not apply. In contrast, intangible assets such as knowledge and brands may be partially imitable through investment in R&D and advertising, and physical capital such as plants and dealers may be partially substitutable through building in other locations.

REFERENCES

Adegbesan, J. A. (2009). On the origins of competitive advantage: Strategic factor markets and heterogeneous resource complementarity. *Academy of Management Review*, *34*, 463–475.

Asmussen, C. G. (2015). Strategic factor markets, scale free resources, and economic performance: The impact of product market rivalry. *Strategic Management Journal*, *36*, 1826–1844.

Asmussen, C. G., Foss, K., Foss, N. J., & Klein, P. G. (2021). Economizing and strategizing: How coalitions and transaction costs shape value creation and appropriation. *Strategic Management Journal*, *42*, 413–434.

Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, *17*, 99–120.

Bernheim, B. D., & Whinston, M. D. (1990). Multimarket contact and collusive behavior. *RAND Journal of Economics*, *21*, 1–26.

Buckley, P., & Casson, M. (1976). *The future of the multinational enterprise*. London: Palgrave-Macmillan.

Clougherty, J. A., & Skousen, B. R. (2021). The efficiency and market-power interpretations of the multinational enterprise: Two out of three ain't bad. *Global Strategy Journal*, *11*, 356–379.

Coase, R. H. (1937). The nature of the firm. *Economica*, *4*, 386–405.

Dunning, J. H., & Pitelis, C. N. (2008). Stephen Hymer's contribution to international business scholarship: An assessment and extension. *Journal of International Business Studies*, *39*, 167–176.

Evans, W. N., & Kessides, L. N. (1994). Living by the 'golden rule'. Multimarket contact in the US airline industry. *Quarterly Journal of Economics*, *109*, 341–366.

Fernandez, N., & Marín, P. L. (1998). Market power and multimarket contact: Some evidence from the Spanish hotel industry. *Journal of Industrial Economics*, *46*, 301–315.

Forsgren, M., & Holm, U. (2021). Controlling without owning – Owning without controlling: A critical note on two extensions of internalization theory. *Journal of International Business Studies*, 1–13.

Foss, K., Foss, N. J., & Klein, P. G. (2018). Uncovering the hidden transaction costs of market power: A property rights approach to strategic positioning. *Managerial and Decision Economics*, *39*, 306–319.

Fuentelsaz, L., & Gómez, J. (2006). Multipoint competition, strategic similarity and entry into geographic markets. *Strategic Management Journal*, *27*, 477–499.

Gimeno, J., & Woo, K. (1996). Hypercompetition in a multimarket environment: The role of strategic similarity and multimarket contact in competitive deescalation. *Organization Science*, *7*, 322–341.

Graham, E. M. (1990). Exchange of threat between multinational firms as an infinitely repeated noncooperative game. *International Trade Journal*, *4*, 259–277.

Graham, E. M. (1998). Market structure and the multinational enterprise: A game-theoretic approach. *Journal of International Business Studies*, *29*, 67–83.

Grøgaard, B., & Verbeke, A. (2012). Twenty key hypotheses that make internalization theory the general theory of international strategic management. In A. Verbeke & H. Merchant (Eds.), *Handbook of research in international strategic management* (pp. 7–30). Cheltenham, UK: Edward Elgar.

Grossman, S., & Hart, O. E. (1986). The costs and benefits of ownership: A theory of vertical and lateral integration. *Journal of Political Economy*, *94*, 691–719.

Head, K., Mayer, T., & Ries, J. (2002). Revisiting oligopolistic reaction: Are decisions on foreign direct investment strategic complements? *Journal of Economics and Management Strategy*, *11*, 453–472.

Hennart, J.-F. (1977). *A Theory of Foreign Direct Investment*. University of Maryland.

Hennart, J.-F. (1982). *A theory of the multinational enterprise*. Ann Arbor: Michigan University Press.

Hennart, J.-F. (2009). Down with the MNC-centric theories! Market entry and expansion as the bundling of MNE and local assets. *Journal of International Business Studies*, *40*, 1432–1454.

Hennart, J.-F., & Park, Y.-R. (1994). Loction, governance, and strategic determinants of Japanese manufacturing investment in the United States. *Strategic Management Journal*, *15*, 419–436.

Hymer, S. H. 1960 *The international operations of National Firms: A study of direct foreign Investment* (PhD dissertation. Published posthumously). Cambridge; MA: The MIT Press.

Hymer, S. (1969). *Multinational corporation and international oligopoly: The non-American challenge* (Center Discussion Paper, No. 76). New Haven: Yale University, Economic Growth Center

Hymer, S. (1972). The internationalization of capital. *Journal of Economic Issues*, *6*, 91–111.

Ito, K., & Rose, E. L. (2002). Foreign direct investment location strategies in the tire industry. *Journal of International Business Studies*, *33*, 593–602.

Knickerbocker, F. T. (1973). *Oligopolistic reaction and the multinational enterprise*. Cambridge, MA: Harvard University Press.

Kogut, B., & Zander, U. (1993). Knowledge of the firm and the evolutionary theory of the multinational corporation. *Journal of International Business Studies*, *24*, 625–645.

Legros, P., & Newman, A. F. (2014). Contracts, ownership, and industrial organization: Past and future. *The Journal of Law, Economics, and Organization*, *30*, 82–117.

Makadok, R. (2010). The interaction effect of rivalry restraint and competitive advantage on profit: Why the whole is less than the sum of the parts. *Management Science*, *56*, 356–372.

Maritan, C. A., & Peteraf, M. A. (2011). Building a bridge between resource acquisition and resource accumulation. *Journal of Management*, *37*, 1374–1389.

Nachum, L., & Zaheer, S. (2005). The persistence of distance? The impact of technology on MNE motivations for foreign investment. *Strategic Management Journal*, *26*, 747–767.

Narula, R., Asmussen, C. G., Chi, T., & Kundu, S. K. (2019). Applying and advancing internalization theory: The multinational enterprise in the twenty-first century. *Journal of International Business Studies*, *50*, 1231–1252.

Narula, R., & Hagedoorn, J. (1999). Innovating through strategic alliances: Moving towards international partnerships and contractual agreements. *Technovation*, *19*, 283–294.

Peteraf, M. A. (1993). The cornerstones of competitive advantage. *Strategic Management Journal*, *14*, 179–191.

Peteraf, M. A., & Barney, J. B. (2003). Unraveling the resource-based tangle. *Managerial and Decision Economics*, *24*, 309–323.

Porter, M. E. (1980). *Competitive strategy*. New York: Free Press.

Porter, M. E. (1981). The contributions of industrial organization to strategic management. *Academy of Management Review*, *6*, 609–620.

Rugman, A., & Verbeke, A. (1992). A note on the transnational solution and the transaction cost theory of multinational strategic management. *Journal of International Business Studies*, *23*, 761–771.

Shapiro, C. (1989). The theory of business strategy. *RAND Journal of Economics*, *20*, 125–137.

Teece, D. J. (1986). Transactions cost economics and the multinational enterprise an assessment. *Journal of Economic Behavior & Organization*, *7*, 21–45.

Tirole, J. (1988). *The theory of industrial organization*. Cambridge: MIT Press.

Williamson, O.E. (1975). *Markets and Hierarchies*. New York: Free Press.

Williamson, O. E. (1985). *The Economic Institutions of Capitalism*. New York: Free Press.

Williamson, O. E. (1991). Strategizing, economizing, and economic organization. *Strategic Management Journal*, *12*, 75–91.

Williamson, O.E. (1996). *The Mechanisms of Governance*. Oxford: Oxford University Press.

Yu, C.-M., & Ito, K. (1988). Oligopolistic reaction and foreign direct investment: The case of the U.S. tire and textile industry. *Journal of International Business Studies*, *19*, 449–460.

How to cite this article: Asmussen, C. G., & Foss, N. J. (2022). Strategizing and economizing in global strategy. *Global Strategy Journal*, *12*(3), 578–591. https://doi.org/10.1002/gsj.1443