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## **Advancing Global Production Networks research: What might be learned (or borrowed) from International Business & Strategy?**

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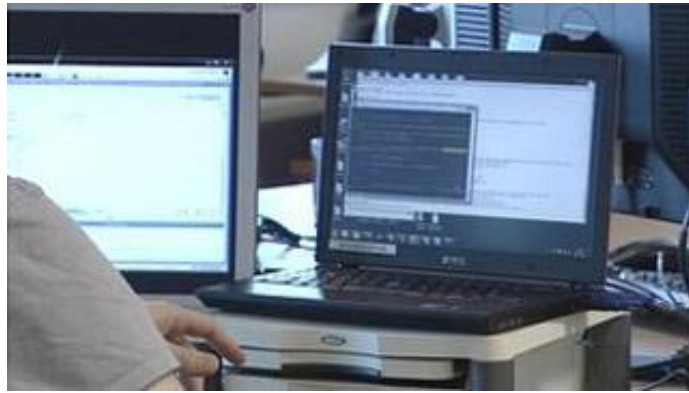
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**Advancing GPN research: What might be learned (or borrowed)  
from International Business & Strategy?**

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# Agenda

1. Two recent and ongoing projects: an overview
2. Comparing the two disciplines: IB and EG
3. Acknowledging strengths of the GPN approach compared to mainstream IB
4. How might some ideas from IB be applied in GPN? 3 themes
  - a. 'Distance'
    - + *illustration: 'offshore services' FDI and GPNs*
  - b. Institutions
    - + *illustration: GVC entry study in Central Asia*
  - c. Firm strategy

# 1. Two contrasting GPN-type research projects

## Project 1

- Central Asia countries: Tajikistan & Kyrgyzstan
- Post-Soviet transition economies; landlocked, poor developing, primary industries dominate
- Focus on indigenous SMEs' entry and participation in cotton textile and garment industry global value chains
- Concerned with the influence of the national institutional environment (transition economies) on this issue (comparative matched case)

Makhmadshoev, D. (2014). *Institutional Influences on GVC Entry: A Comparative Case Study of Two Less Developed Transition Economies*. Unpublished PhD these, University of Strathclyde.

Makhmadshoev, D., & Crone, M. (2014). Exploring the influence of the national institutional environment on SME exporters: Comparative evidence from Tajikistan and the Kyrgyz Republic. In *Internationalization of Firms from Economies in Transition: The Effects of a Politico-Economic Paradigm Shift*.

Makhmadshoev, D., Ibeh, K., & Crone, M. (2015). Institutional influences on SME exporters under divergent transition paths: Comparative insights from Tajikistan and Kyrgyzstan. *International Business Review*, 24(6).

## Project 2

- Northern Ireland
- Semi-peripheral old industrial region in northwest of EU & UK, branch plant past, new services FDI
- Focus on rounds of inward investment and the changing position of this region with wider inter/intra-firm networks and IDOL – including recent waves of 'offshore services' projects
- Concerned to understand the region's experience of the above by combining insights from traditional EG, GPN and IB literatures (& EEG?)

Crone, M. (2016). Offshoring, outsourcing and services FDI in Europe's "old periphery": Probing the experience of Northern Ireland. In *Globalisation and Services-Driven Economic Growth: Perspectives from the Global North and South*.

Crone, M (in preparation) Strategic coupling dynamics in the semi-periphery: rounds of mobile investment and regional industrial change in Northern Ireland since the mid-1990s. [A preliminary version was presented at Regional Studies Association annual conference, Dublin, June 2017 – PPT available on request]

## 2. Comparing the two disciplines

### International Business

- "IB scholars explore **how and why cross-national differences matter** and **how businesses are able to transcend national (and other) differences...**" (Meyer, 2013, p.10)
- "A central theme in IB studies... is the **search for 'universal truths' or general principles**. This sits alongside a second IB theme, that locations or places vary and context matters..." (Collinson et al, 2013)
- A core research theme: the activities, strategies, structures and decision-making processes of **multinational enterprises** (but an increasingly diverse research agenda)

### Economic Geography

- "The discipline's goal has long been to offer **multi-faceted explanations for economic processes** – growth and prosperity as well as crises and decline – **manifested across territories at various scales...**
- geographers study **geographically-specific factors** that shape economic processes and identify key agents (incl. firms) and drivers that prompt **uneven territorial development...**" (Aoyama et al., 2010, p.1)
- economic geographers are interested in, and concerned to explain, **unique, one-of-a-kind outcomes for particular places**, which are viewed as a consequence of the interplay between **wider trans-local processes** and particular **local conditions**

- There are significant overlaps between the core research interests of IB and the GPN school of EG
- But different UoA, theoretical traditions and understandings of what constitutes theory and how it may be discovered
- Methodological contrasts: empirical IB research dominated by quantitative modelling approaches (but a minority of qualitative IB researchers and case study research has some acceptance in some journals – esp. non-US)

### 3. Acknowledging some strengths of the GPN approach compared to mainstream IB (a personal view)

- Acknowledgement of extended network contexts within which firms operate and their power dynamics (GVC too).
  - IB (due to its focus on the MNE as UoA) has been slow to recognise and react to this phenomenon (e.g. Buckley's work on 'the global factory' not gained much traction). Corporate power is quite rarely discussed in IB.
- Attention to multiple spatial scales and relational view of geographic space ('mutually constitutive' etc).
  - IB has a dominant (but not exclusive) focus on the country level and views territorial units as 'containers'
- Greater attention to the role of agency - particularly the agency of policy makers and other local institutional actors (though perhaps less on the agency of firms and managers?) – e.g. in conception of how 'strategic coupling' occurs.
  - IB pays surprisingly little attention to agency, taking a macro-view and making assumptions about rationality (or bounded rationality). However, see recent micro-political perspectives in the subsidiary management stream.
- Greater recognition of the role of non-firm actors in the operation and configuration of GPNs, including the state, NGOs, labour, consumption, etc.
  - Core IB retains its primary focus on the MNE and its interactions with nation-state (e.g. Rugman's CSA/FSA)

## 4. How might ideas from IB be applied in GPN? a. 'Distance'

### *Distance (not) in economic geography and GPN?*

- From an IB perspective, one might observe a 'peculiar' absence attention to **geographical (and other forms of) distance** in the GPN literature.
  - This might be seen as odd given geographers' rebuttals of end of geography/death of distance arguments (e.g. Morgan, 2004). But it could reflect earlier rejection of positivist spatial science in HG and a subsequent focus on 'place' over 'space'?
- This can be contrasted with the significant attention given to '**proximity**' (in its various forms; Boschma, 2005) in some other branches of EG – such as innovation systems and clusters research.
- Economic globalisation has paradoxical tendencies towards both **dispersion** and **concentration**. But these issues have been explored more by regional/urban economists like Phil McCann, Ed Glaeser. *Consider: What are the **costs** as well as the benefits of the international dispersal seen in GPNs?*
- An interesting recent article by Sumandan (2016) calls for a **rethinking of distance** in HG (and articulates an updated and multi-dimensional conception of distance)...

## 4. How might ideas from IB be applied in GPN? a. 'Distance'

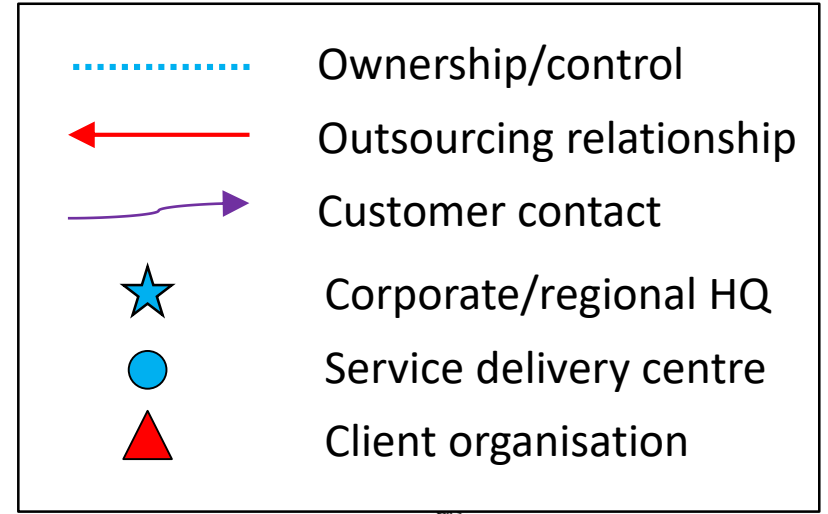
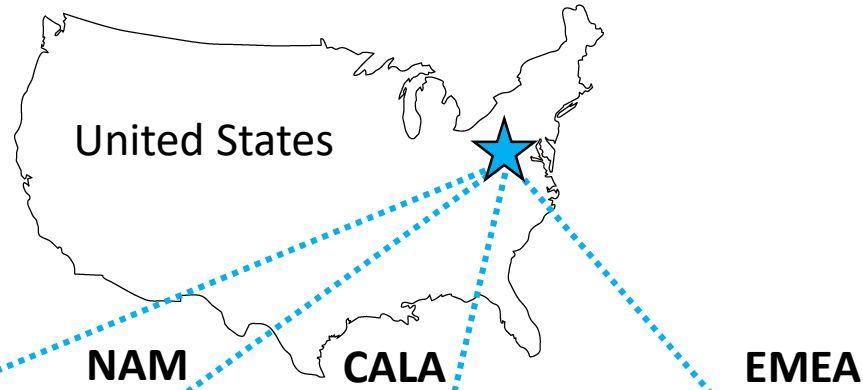
- **In the IB (&IM) field, multi-dimensional distance** concepts have become a significant part of the research agenda – studies have explored the impact of different 'types' of distance on various IB phenomena (critically reviewed in Berry et al, 2010; Hutzschenreuter et al, 2016).
- For example, **Ghemawat's (2007) CAGE distance framework** draws attention to the influence of various types of **cultural, administrative, geographic & economic 'distance'** (between countries) on firms' strategies in the context of what he calls the 'semi-globalisation' of the world economy.
- Simple **geographic distance** has been assumed to be less relevant than in the past due to falling transport and communication costs (a frequently cited driver of globalisation) - but have distance costs *universally* fallen to insignificant levels? e.g. persistence of multi-domestic strategies in cement industry
- Of course, the '**regionalisation**' phenomenon has been well documented by Rugman et al. So, even in apparently globalised industries like electronics or automobiles, we see firms adopting wholly or partially regionalised 'geo-organisational' strategies (e.g. Dell of the 1990s, Toyota to this day). If this is not **caused by 'distance' factors** of the type discussed in IB, then what explains it?
- Don't the **various types of distance** impose real **costs and barriers** that shape the geographical configuration of GPNs (alongside other influences)? How do these affect 'cost/capability ratios'?
- Q. Could the incorporation of 'distance' into GPN analysis help explain the specific geo-organisational configurations that we see in different industries or between different firms in the same industry?



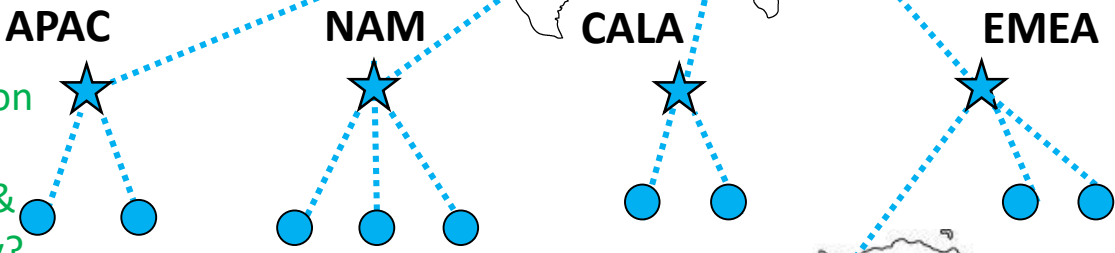
# Illustration: Observations on the global footprint and international strategy of an outsourced contact centre specialist



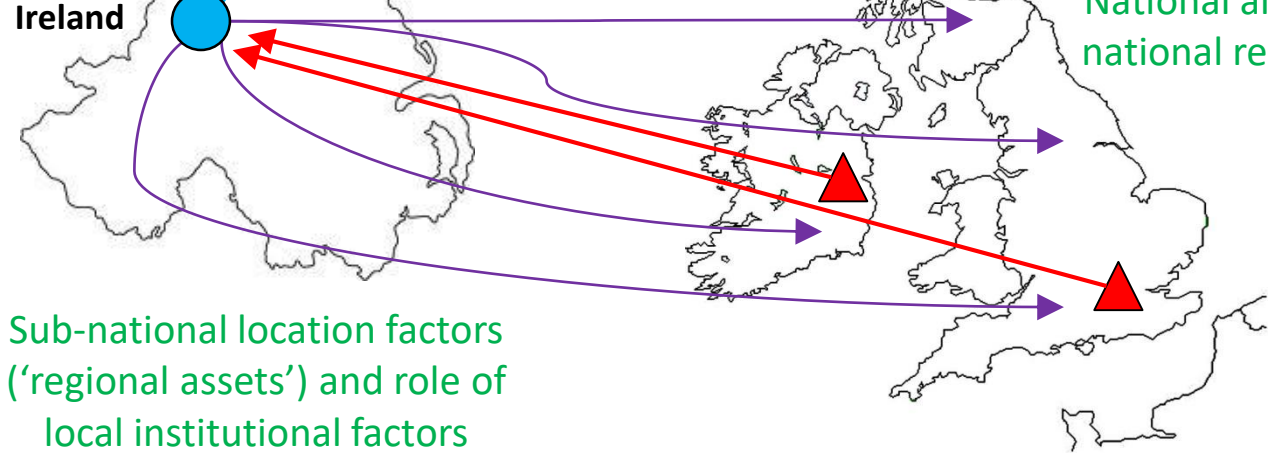
This specialised supplier firm (an MNE) provided various customer contact services to global lead firms in several 'vertical markets'



Globalising competition  
'Regionalised' corporate structure & international strategy?



Northern Ireland



National market  
National and supra-national regulations

Sub-national location factors ('regional assets') and role of local institutional factors

The GPN framework (2.0) illuminates many issues in this case; e.g. the 'lead firm'/'supplier firm', 'inter-firm control', and 'strategy coupling' concepts help in understanding the way this region is 'articulated' into particular GPNs.

**BUT** some issues are not necessarily explained – e.g. Why is supplier firm strategy regionalised? What specific role does N Ireland play? Why NI?

Using this Northern Ireland case example...

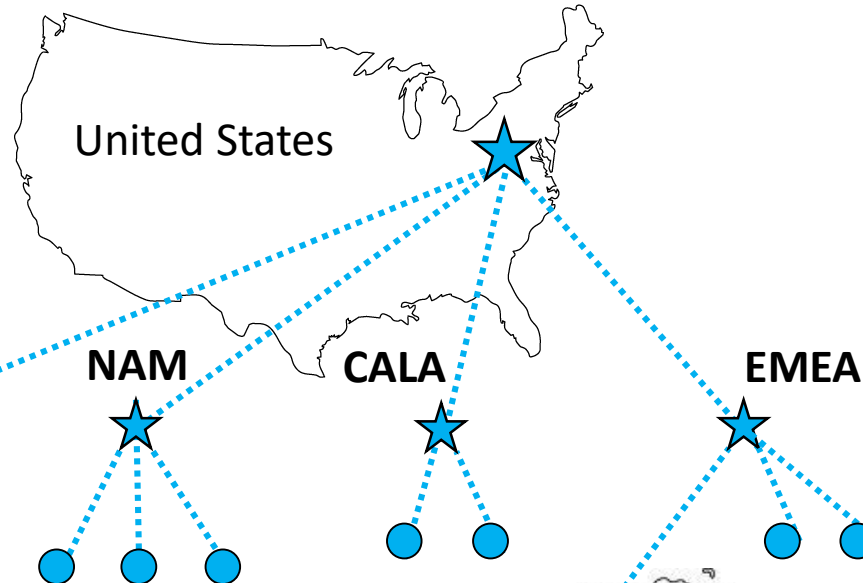
## How might attention to 'distance' enhance our GPN interpretation?

### 1. GPN-type insights (on strategic coupling):

Northern Ireland provided (fairly) generic set of regionalised assets (appropriate labour, Grade A office space, broadband telecoms)

...and a favourable 'cost/capability ratio' (relatively low wages, low labour turnover, low office rents, English speaking educated semi-skilled labour)

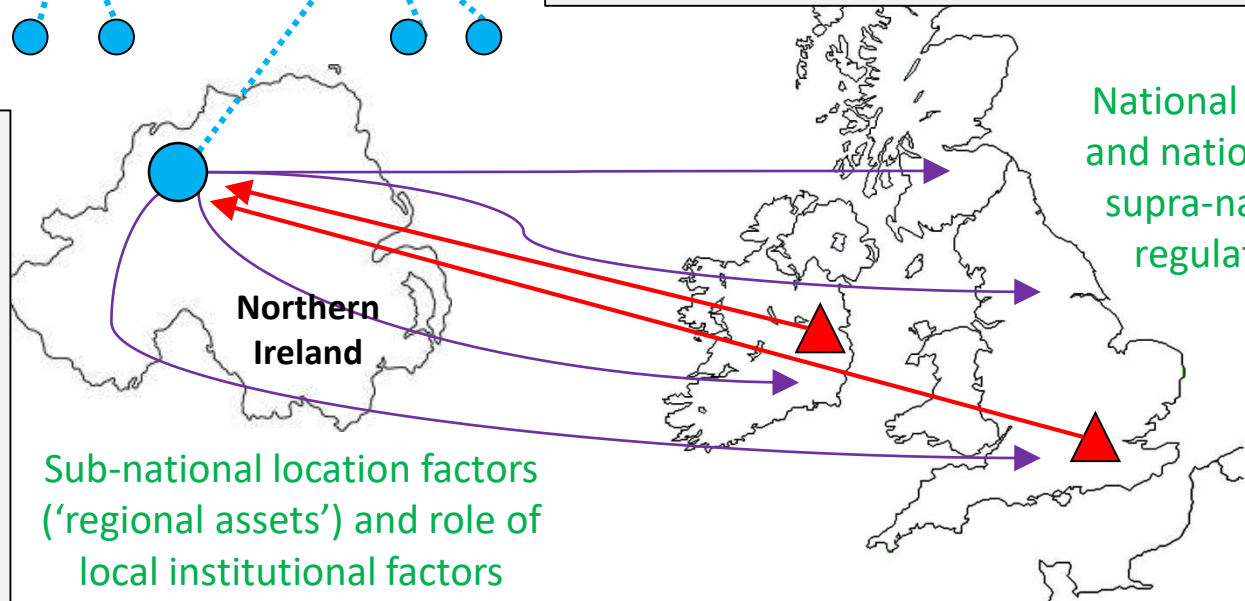
...and local policy actors (the RDA) consciously articulated the region into this GPN through policy supports and investment promotion activities



'Regionalised' corporate structure & international strategy?

### 2. 'Distance'-type insights (on geog. configurations):

Beyond economic distance factors (lower costs), Northern Ireland offered relatively **low** administrative and cultural/linguistic distance to the home country of the parent firm (USA) and **low** administrative, cultural/linguistic and geographic (esp. time-zone) distance to the client firms (US ICT firms like Dell and Microsoft) and their end customers in the UK market – when compared to 'nearshore' and 'farshore' alternatives (e.g. CEE, India, Philippines).

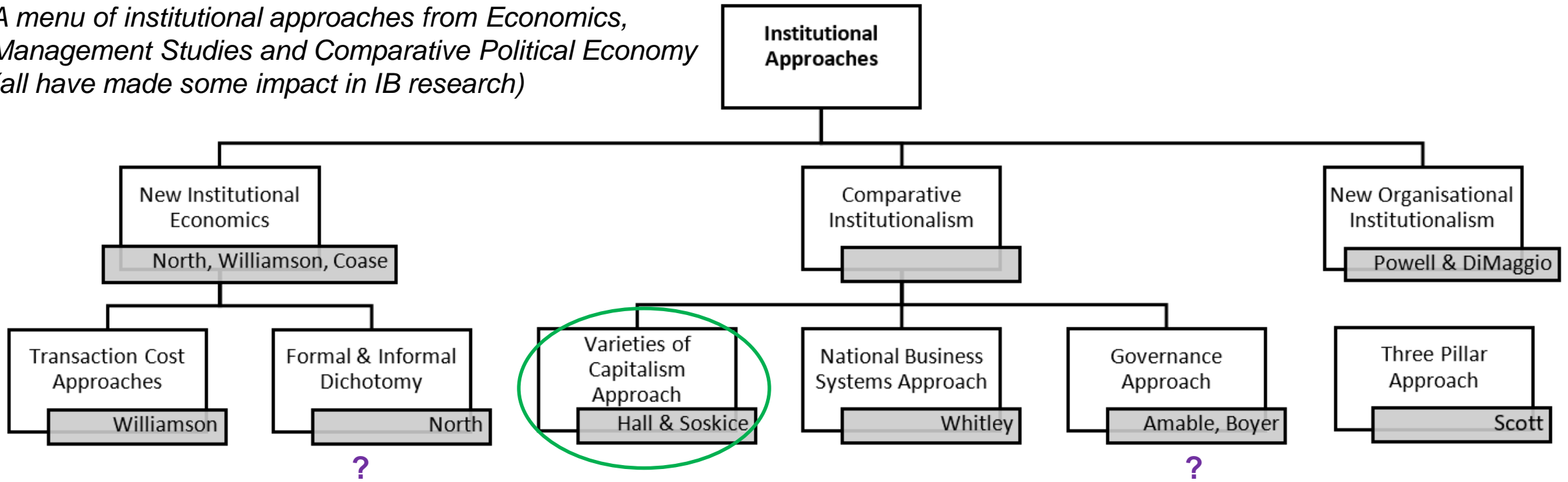


National market and national and supra-national regulations

Sub-national location factors ('regional assets') and role of local institutional factors

## 4. How might ideas from IB be applied in GPN? **b. Institutions**

*A menu of institutional approaches from Economics, Management Studies and Comparative Political Economy (all have made some impact in IB research)*

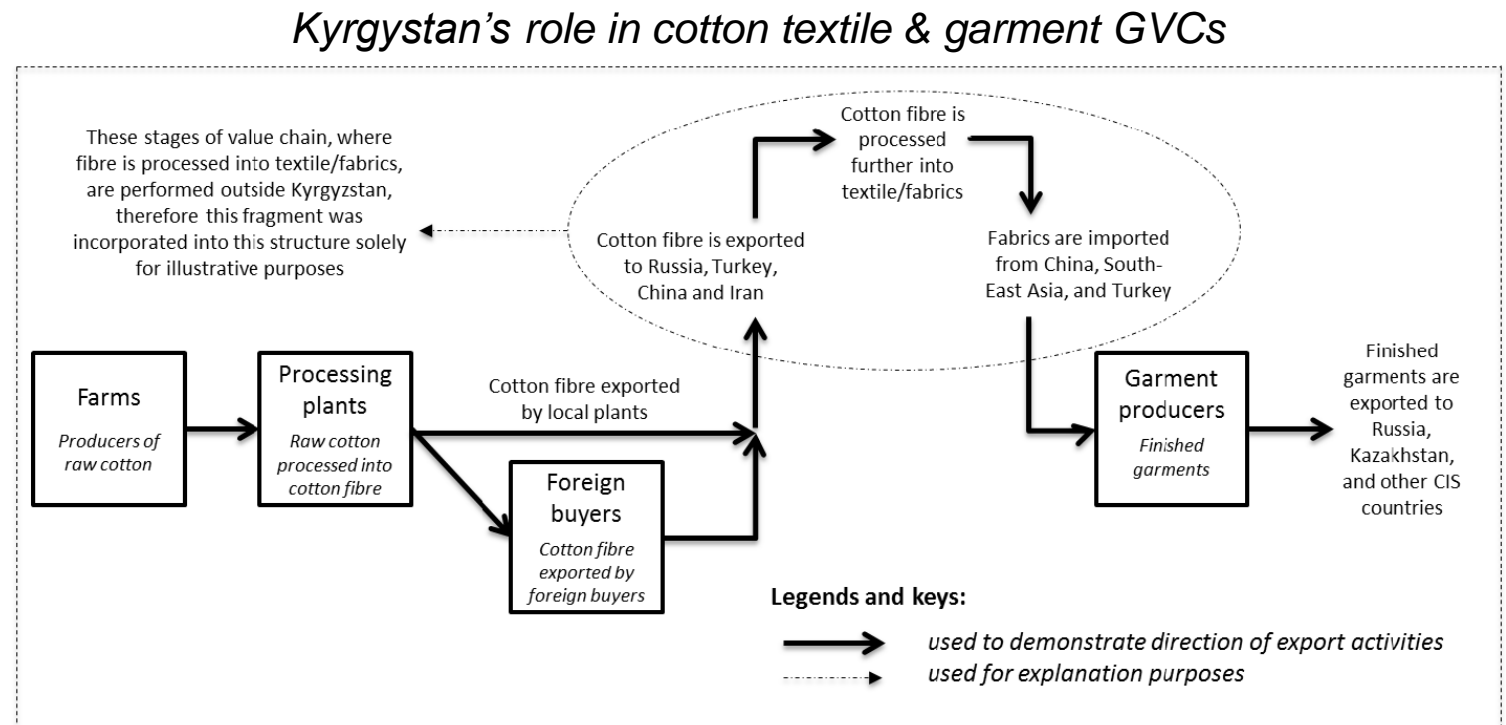


Source: Drew Woodhouse, Sheffield Hallam University

- GPN 1.0 (Henderson et al, 2002) included 'institutional power' and also 3 types of institutions (governmental, quasi-governmental and non-governmental) but no new theorisation of these or references to established institutional theories.
- GPN 2.0 (Coe & Yeung, 2015) also says relatively little about institutions (in a theoretical/conceptual sense) – although several incidental references to them, brief ref. to VoC (but primary focus is on dynamics, strategies and development)
- Also an issue of conflating organisations and institutions (contra North) – could be problematic, depends on perspective

## 4b. Institutions: *illustration* from Makhmadshoev et al (2015)

- This study explored the influence of institutional environments on SME exporters in the cotton textile and garment sector in two Central Asian transition economies (Tajikistan and Kyrgyzstan). Qualitative fieldwork in both countries. A comparative matched case research design.
- Utilising North's (1990) theorisation of institutions (NIE tradition), we explored how formal and informal institutions and the 'enforcement mechanism' in these two transition economies create specific incentives and barriers for SMEs seeking to enter/participate in global value chains.



Source: Makhmadshoev (2014)

### So what?

Study illustrates the relevance of (need for) greater consideration of institutions in GVC/GPN analysis, including at the national scale.

*Explicit theorisation* of institutions - adopted from the NIE tradition (North) - helped frame the data collection, analysis and inferences.

## 4b. Institutions: potential developments in GPN research

- A range of potentially interesting research questions could be developed with an enhanced conceptualisation of the role of institutions – supported by ‘off-the-shelf’ institutional theory - e.g.
  - How do different national (and potentially other scales) institutional configurations (as per NIE, VoC or other CPE theories) impact on the geographical organisation of GPNs across and within industries? Which industries are most/least impacted by institutional influences and why?
  - Do particular types of national institutional configuration lend themselves to particular 'modes of strategic coupling' (Coe & Yeung 2015, Table 5.2) and 'types of regional strategic coupling' (Coe & Yeung 2015, Table 5.3) with GPNs?

## 4. How might ideas from IB be applied in GPN? **c. Firm strategy**

- GPN 1.0 was rather silent on (firm) strategy; see self-critique in Coe et al (2008) on 'black box' of firm.
- GPN 2.0 (Coe & Yeung, 2015) contains a specific discussion of **strategies** and acknowledges the heterogeneity of firm strategies within GPN (even between firms in same industry/same national origin)
- ...acknowledges (albeit briefly) that different VoC may impact on GPN of firms from particular countries in specific ways (e.g. the extent to which financialisation influences lead firm strategy, the extent to which extra-firm bargaining influences lead firms)
- ...outlines and elaborates 4 types of 'strategy' (intra-firm coordination, inter-firm control, inter-firm partnership and extra-firm bargaining).
- However, this focus on types of 'network configuration' only scratches the surface of 'strategy' as understood in IB and the wider Bus-Mgt field....

## 4. How might ideas from IB be applied in GPN? **c. Firm strategy**

*Some observations on 'strategy' in GPN 2.0:*

- There is limited discussion of the '**competitive strategies**' and '**strategic positioning**' of lead firms, strategic partners or supplier firms (as discussed by authors like Porter and Bowman in the strategy literature; also see Heracleous on Apple's 'quantum strategy', for example).
- Issues associated with **industry structure and concentration, entry barriers and scale economies** are not explored much; e.g. monopolistic/oligopolistic versus more open/competitive industries, more or less globalised industries (where the former is understood as having the same group of firms competing in all major regional world markets).
- The fact that different firms in the same industry may adopt different approaches to strategy is implicitly acknowledged but not elaborated – **scope for more consideration of corporate strategy decisions** (in lead firms, strategic partners, specialised suppliers) concerning: geographical scope (e.g. home regional vs. global), level of vertical (dis)integration, and extent/scope of horizontal (un)related diversification.
- Also, the '**geo-organisational**' **configuration** aspect of international strategy (as discussed in the I/R framework or Ghemawat's AAA framework, for example) is not really explored – *but see Wood et al (2014) on Tesco's Asian retail expansion for an example of a study that bridges this disciplinary divide.*

## 4. How might ideas from IB be applied in GPN? **c. Firm strategy**

- **Examples of ‘off-the-shelf’ theorisations** from IB&S that could be used to ‘flesh out’ the understanding of firm strategies within GPN 2.0:
  - resource-based view and dynamic capabilities;
  - competitive positioning frameworks (e.g. Bowman, Heracleous);
  - the integration-responsiveness framework;
  - Ghemawat’s (2007) Adaptation-Aggregation-Arbitrage framework;
  - ‘subsidiary management’ stream on intra-MNE relationships/micro-politics (Birkinshaw, Dörrenbächer);
  - research on Emerging MNEs, SOEs and other non-conventional types of lead firm (e.g. Matthews).
- *Also see interesting contributions from Sako (2015) on bringing management studies into GVC research and Fuller & Phelps (forthcoming in JEG) on the MNE in GPNs.*
- A range of potentially interesting research questions/lines of inquiry could be explored – e.g.
  - What is the link between the ‘competitive strategies’ and ‘strategic positioning’ of firms (be they lead firms/strategic partners/etc) and their GPN ‘network configurations’ or geo-organisational strategies?
  - What is the link between the ‘international strategies’ (as per I/R or AAA framework) of firms (lead firms/strategic partners/specialized suppliers) and their GPN ‘network configurations’?