This book summarizes an interesting research (the author’s PhD dissertation) on the impact of product and market diversification strategy, as well as network diversity, on the performance of MNEs. The empirical testing is based on a large sample of Japanese MNEs in diverse industries, including mining, wholesale trading, and financial services, among others. The statistical analyses show that the diversification moves studied are significant in explaining the performance of these firms, but the direction of their impact varies and combines both linear and non-linear relationships. Consistent with findings of previous research in this area (Palich, Cardinal and Miller 2000), the performance benefits of product diversification are curvilinear, that is, they increase up a point beyond which greater product diversification harms performance. The effect of market diversification (or geographic scope in the author’s terminology) on performance varies for different measures, combining both strong linear positive relationships as well as concave relationships. Finally, there are convex relationships between network diversity and economic performance.

I regard the main strengths of this work to be several folds, combining both theoretical and methodological contributions. One is the treatment of network diversity (i.e., variance in partners’ cultures, nationalities and business backgrounds) as a factor that has performance implications. Networks scholars have recently begun studying the relationships between the networking behavior of firms and their performance (Zaheer and Bell 2005), but little attention has been given to the diversity of the network as one major determinant of this effect. The study thus contributes to this emerging research area by empirically documenting this effect. The non-linear relationships between network diversity and performance cast doubt on the notion that network diversity is always desirable. Only a few of the firms studied reached superior performance that is associated with high levels of network diversity. For the majority of the firms, diverse networks adversely affect performance. In explaining these findings, the author builds on two recent developments in network theory, and links his study to these developments. One that has acknowledged variations in the strategic value of network relationships, including their possible negative effects, for example, by isolating firms from knowledge residing outside the network (Gulati, Nohria and Zaheer 2000). The other is the recent recognition that networking consumes resources (Gulati 1999), and as such it is subject to the logic of resource constraints and efficient resource allocation and utilization.

A second important contribution of the research reported in this book is the operation of market diversification. The author employs two measures - asset diversity (an entropy that measures the geographic distribution of a firm's assets), and the institutional, political and economic diversity of host country environments. In doing this, the author offers an important extension to the literature on the geographic scope of MNEs (and in fact the performance outcome of multinationality itself). The dominant tendency in this literature has been to measure geographic diversification by some distribution of activities across countries (Sullivan 1994). By adding a measure of the characteristics
of the host countries in question the author rightly implies that it matters where MNEs invest, not only in how many countries. The results of the statistical analyses illustrate the merit of this approach, in that they suggests that these two measures indeed exercise independent and diverse effect on the performance of MNEs.

A particularly noteworthy methodological strength of this study lies in the empirical data. These data are taken from a 1999 survey of 13,529 subsidiaries of Japanese MNEs published by Toyo Keizai, a leading Japanese publisher. These subsidiary level data were aggregated by the author into a database of 580 MNEs, and augmented by a variety of additional data drawn from secondary sources. The resulting dataset is novel in that parent data are the aggregate of all their subsidiaries, and may thus reveal some inter-firm variation that cannot be observed when aggregate values are employed. This research does not make use of this richness of the data, but there is an enormous potential for the application of advanced hierarchical modeling, with subsidiaries nested within the MNEs.

The focus on Japanese MNEs is of considerable merit in that it extends the empirical basis of research in this area to a non-US context. This appears to be particularly valuable at a time in which Japanese firms embark upon major restructuring and fundamental changes in their organizational structure and managerial practices. These changes may put to question the validity of some of past research on these firms, and make the study of their current activities of considerable importance.

Notwithstanding the considerable virtues of this study, a few reservations might remain. For one, it is hard to follow the rationale behind the treatment of network diversity on par with product and market diversification. Previous research has jointly examined product and market diversifications (e.g., Tallman and Li 1996, Geringer, Tallman and Olsen 2000), and has shown the merit of bringing these two growth directions of firms into a unified framework. Network diversity, however, is a characteristic of the network that firms establish, and appears to occupy a position in the firms’ activities that differs in kind from diversification activities.

Further, while there are references to managerial implications on a number of occasions, I was missing a coherent, elaborated discussion of the implications of this research to managers. This omission appears somewhat surprising given the author has had an impressive career at high managerial positions in MNEs prior to joining academia.

Aside from the notable strength of the data, there are a number of confounding attributes that may inhibit the generalizations of the findings. For one, certain distinctive characteristics of Japanese MNEs may limit the validity of the findings to firms of other nationalities. The competitive advantages of these firms appear to be highly industry-specific, and perhaps less transferable across industries (Fruin 1994), and this may affect the link between product diversification and performance. Furthermore, Japanese MNEs are likely to be geared towards their neighboring Asian countries (Delios and Beamish 2005, Rugman 2005). This distinctive geographic pattern may influence the impact of market diversification on performance. Lastly, Japanese firms are well known in the distinctive nature of their networking relationships within their keiretsu networks (Jameson, Sullivan and Constand 2000).

An additional issue that may constrain the generalization of the finding is the timing of the study. The data on which this research is based were collected in the late 1990s, when Japan was at the midst of a deep recession, and its neighboring Asian countries that attract much of Japanese investment just begun to emerge from the 1997 financial crises. Some of the relationships studied may have been affected by this specific reality.

Finally, when defining MNEs, the author adopts Stopford and Wells (1972)’s definition, and includes in the study only MNEs that operate in at least six countries. It is hard to see the rationale for this approach, but it probably results in a sample of larger MNEs. This is yet another attribute of the data that should be borne in mind when assessing the findings.

Overall, this is an interesting work that deepens the understanding of the determinants of MNE
performance, and is probably of particular interest to scholars studying networks, as well as to those interested in product and market diversifications as two related directions of firms’ growth.

References


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