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Globalization and diversification strategy: A managerial perspective

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Summary This study presents survey evidence about managerial views on how the processes of globalization affect managers' strategic decisions regarding a firm's international and product market scope. Our purpose is to assess whether managerial behaviors are consistent with theoretical predictions and whether managerial decisions about firm scope are consistent with the findings of recent empirical research. Our findings generally support those of academic research on the impacts of globalization on managerial decisions concerning firms' strategic scope, but raise questions about findings to date on the nature of a relationship between product and international diversification and their impacts on firm performance. Our findings serve as a check on the results of extant research and offer guidance for future research.
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Introduction

The ongoing globalization of markets and industries constitutes one of the most important changes in the business environment of firms. In general, higher levels of foreign competition, international outsourcing, and off-shoring have meant heightened competition both domestically and internationally (OECD, 2003). Many firms have responded to the rising levels of competition and the different sources of this competition by increasing the international scope of their sales activity (Denis, Denis, & Yost, 2002; Hautz, Mayer, & Stadler, 2014; Hutzschenreuter & Gröne, 2009; Wiersema & Bowen, 2008), broadening and deepening the activities of their international network of subsidiaries (Wiersema & Bowen, 2011), and narrowing their product market scope (Bowen & Wiersema, 2005; Hautz et al., 2014; Hutzschenreuter & Gröne, 2009).

Despite widespread recognition that the processes of globalization have had fundamental impacts on corporate diversification strategy, only recently has empirical research formally examined their implications for diversification strategy (e.g., Bowen & Wiersema, 2005; Hautz et al., 2014; Hutzschenreuter & Gröne, 2009; Kumar, 2009; Wiersema & Bowen, 2008). Within this general theme, researchers have also started to consider more deeply how product and international diversification strategies may interrelate in the decision-making processes of managers (e.g., whether these two modes of firm expansion are viewed as substitute or

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complementary strategies), and how the nature of their interrelationship ultimately affects firm performance (e.g., Bowen & Wiersema, 2007; Kumar, 2009; Mayer, Stadler, & Hautz, 2014; Meyer, 2006). The findings of this nascent research stream suggest that managerial reactions to the changes in the competitive environment arising from globalization largely explain the observed trends over the past three decades of an increasing international scope and a narrowing product market scope of firms' activities, particularly U.S. firms. However, further studies are needed to cement support for these initial findings. Considerably more work is called for to better understand how the strategies of corporate and international diversification interrelate and impact firm performance.

Toward this end, we report in this paper the results of a survey designed to elicit manager's views on how the processes of globalization affect their strategic behaviors and decisions regarding the scope of a firm's activities. Our purpose is to assess whether managerial behaviors are consistent with theoretical predictions of how manager's will respond to the forces of globalization, and whether managers' strategic decisions about the international and product market scope of a firm's activities are consistent with the findings of recent empirical research. The survey also serves to complement and extend recent academic research by investigating managerial views of how decisions about a firm's product and international diversification strategy interrelate. In the international business literature, the nature of such interrelationship has until recently been examined empirically using product diversification as either a control variable or as a moderator of international diversification when estimating an international diversification-firm performance relationship (Hitt, Tihanyi, Miller, & Connelly, 2006) However, recent research recognizes that product and international diversification strategies are likely simultaneous (endogenous) decisions and have begun to more rigorously investigate empirically for the nature of their interrelationship using methods that account for such simultaneity (Bowen & Wiersema, 2007; Kumar, 2009; Mayer et al., 2014). Therefore, on this topic, our survey evidence has a pragmatic orientation and serves as a check on recent results and offers guidance for further research.

Our study contributes to the extant literature on diversification strategy. First, while the literature is rich with empirical tests of the relationship between diversification strategy and firm performance, little survey evidence examines how changes in a firm's business environment, especially the competitive forces that characterize the process of globalization, affect the diversification strategies of firms. Therefore, our results provide unique information on how such changes affect firm strategies and represent an unconventional and innovative attempt to verify theoretical arguments and serve as barometer of what managers are thinking.

Second, because we designed our survey instrument to incorporate various hypotheses and findings of recent empirical studies and the evaluation of management responses to these research findings, our study helps to bridge the gap between theoretical research issues and management perceptions and practices that guide today's corporations. As Bruner (2002:50) notes, "The task must be to look for patterns of confirmation across approaches and studies much like one sees an image in a mosaic of stones." Our empirical method fits somewhere between a case study and a statistical analysis based on large data samples. The former enables us to observe much detailed processes and rich contexts whereas the later enables us to observe general dynamics across many firms. Thus, our survey results add new and complementary evidence to other empirical studies of diversification strategy. Finally, understanding the perceptions of managers on the issues addressed by our survey provides valuable insights that can help predict how firms respond to the forces of globalization and how decisions about international and product diversification strategy interrelate.

The remainder of the paper is organized as follows. We begin by discussing our methodology and survey instrument. Next, we present our results by first summarizing the main ideas and findings of academic research on a given topic and then assess the extent of correspondence with the findings from our survey. Finally, we provide a summary and conclusions.

Methodology

In brief, we use a survey instrument whose results are used to indicate how many managers agree or disagree with various statements about theoretical propositions and associated empirical findings on a given topic. Our analysis indicates what managers think about the efficacy of various propositions, but it does not formally test theoretical propositions and causal relationships. In conducting our survey we do not necessarily assume that managers are better informed than existing theories and the wealth of empirical studies.[3] Instead, manager's perceptions provide a complementary source of information to conventional studies, which may provide confirmatory or conflicting evidence relating to available evidence. Thus, managers' perceptions can provide a type of reality check on whether researchers are focusing on the right issues.

As with any research methodology, survey research has potential limitations and weaknesses. For example, respondents may not be representative of the population. However, established procedures (as used in this paper) are available for testing for non-response bias. Survey data may be superficial because designing questions that go into considerable detail can be difficult. Further, surveys measure attitudes, beliefs, and behaviors but not necessarily actual actions. Additionally, respondents may be unwilling to answer sensitive questions truthfully. Instead, they may express what they believe is the common understanding of the different issues or some "politically correct" response. Although surveys rarely achieve perfection in making inferences about a large population from a sample (Chaudhuri & Stinger, 2005; Lohr, 1999; Scheaffer, Mendenhall, & Lyman, 2005), they nonetheless provide a complementary view of an issue, with their ultimate worth proportional to the resources devoted to their design and implementation (Baker, Singleton, & Veit, 2011).

[3] We also do not explore the question of how managers may form their perceptions, which is an issue that that we address in the limitation section.

Survey questionnaire and sample

Our survey instrument contains two main sections. The first has four questions that provide background information about respondents and their firms. The second section consists of 28 closed-end statements that cover three main areas of inquiry: (1) the impacts of industry globalization on decisions regarding firm scope (12 questions), (2) the nature of a relationship between product diversification and international diversification (11 questions), and (3) the nature of the relationship between firm scope and firm performance (5 questions). Our survey asks respondents to indicate their level of agreement or disagreement with each statement on a five item Likert scale where SD = strongly disagree (−2), D = disagree (−1), UND = undecided (0), A = agree (+1), and SA = strongly agree (+2). The questionnaire contains a company identifier to permit later testing for non-response bias and to avoid duplicate responses. The survey instrument is available from the authors upon request.

Our target respondent was an executive likely to be most knowledgeable about a firm's global strategic management issues. Using *finance.google.com*, we first identified executives with the title Chief Operating Officer (COO). Absent that, we searched for titles suggesting involvement in the firm's global strategy, corporate planning, or business development. If we could not identify such a person, we used the firm's President and/or Chief Executive Officer (CEO). Our survey instrument was mailed in March 2011 to 730 U.S. firms, randomly drawn from a total of 2867 firms in the COMPUSTAT segments database that were active in one or more years between 2000 and 2005. This group of firms contains both single and multi-business firms, some with only U.S. domestic sales and others with international sales.

Our cover letter assured recipients of confidentiality and that results would be reported only in summary form. If recipients preferred not to respond to the survey personally, we asked them to give it to someone actively involved in their firm's global strategic management decisions or to return a blank questionnaire. We also offered to provide an executive summary of our results to each respondent via Each mailing included a cover letter and a self-addressed stamped envelope. We received 38 responses from our first mailing. A follow-up mailing took place in May 2011 and resulted in 27 additional responses. The resulting total of 65 responses represents a response rate of 8.9 percent.

Respondent and firm characteristics

All respondents report being actively involved in their firm's global strategic management decisions. About 60 percent of respondents hold the title of CEO and/or President while 18 percent are COOs. In many cases, the COOs also hold a position such as President or Executive Vice President. The remaining 22 percent hold various positions such as Director of Corporate Strategy, Vice President of Business Development, and Corporate Planning and Strategy Manager. All respondents indicate that their firm derives revenue from outside the U.S. domestic market, and 83 percent indicate that their firm derives revenue from more than one product market.

Reliability and non-response bias

Reliability refers to the consistency of the measurement. Good questions are reliable when they provide consistent measures in comparable situations. Presenting all managers with standardized questions helps to eliminate unreliability (Baker et al., 2011). When designing these statements, we consulted experts in survey design, foreign competition, industry globalization, and product market and international diversification to avoid including statements that respondents might not properly understand or which might not elicit appropriate information. Thus, we devote careful attention to such factors as question wording and questionnaire format and content to enhance reliability. We have no reason to suspect that respondents are being untruthful.

As with any survey, our study could suffer limitations due to sample size and attendant non-response bias. We took steps to increase the response rate and hence reduce potential non-response bias by guaranteeing confidentiality, using multiple mailings, and offering a free report of the results as an incentive to complete the questionnaire. We acknowledge that while our direct evidence from managers does add an important dimension to existing research on product and international diversification strategy, the relatively small number of responses (65) cautions that our findings should be regarded as suggestive rather than definitive.

To test for non-response bias, we compare firm-specific and industry characteristics for responding firms to those of non-responding firms. If the characteristics of the two groups are similar, this would lessen the concern about potential non-response bias. As Table 1 shows, interpretation of the t-tests for differences in means suggests that respondents closely correspond with non-respondents on firm characteristics including firm size, product diversification, and international diversification. As Table 1 also shows, the respondents closely correspond with non-respondents on industry level characteristics including the four-firm concentration ratio, return on assets (ROA), research and development (R&D) intensity, an index of intra-industry trade, and capital-labor ratio. We find no statistically significant differences between the two groups for any of these firm and industry characteristics at the 0.05 level of significance. Therefore, we conclude that our responding sample of firms is representative of the overall sample of firms.

Other limitations

As with any empirical method, our attempt to verify theoretical arguments using survey methodology has its own relative strengths and limitations. Our main motivation is modest: to ascertain if the perceptions of managers correspond to that addressed by academic research. Because numerous statistical analyses based on large data samples test formal hypotheses or causal relationships, our study does not take this route but rather focuses on testing if the response of managers on each closed-end statement differs significantly from "undecided". Given the exploratory nature of our survey, we also do not attempt to speculate on how to resolve some confounding results in prior works compared with those in our survey. Attempting to explain such differences can provide fertile

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Table 1 Firm and industry characteristics: responding and non-responding firms.

	Responding firms	Non-responding firms	*t*-value
Firm characteristics			
Firm size	5.39 (*n* = 59)	5.46 (*n* = 675)	(0.28)
Product diversification	0.26 (*n* = 59)	0.30 (*n* = 675)	(0.81)
International diversification	0.32 (*n* = 59)	0.33 (*n* = 675)	(0.26)
Industry characteristics			
Industry four-firm concentration ratio	31.28 (*n* = 57)	34.92 (*n* = 669)	(1.45)
Industry return on assets (ROA)	0.023 (*n* = 57)	0.017 (*n* = 643)	0.96
Industry research and development (R&D) intensity	5.42 (*n* = 56)	6.89 (*n* = 655)	(1.54)
Industry intra-industry trade index	74.10 (*n* = 55)	71.88 (*n* = 649)	0.86
Industry capital-labor ratio	137.06 (*n* = 58)	141.04 (*n* = 665)	(0.16)

ground for future research studies. Further, due to potential problems of small sample sizes, we do not partition our sample by industry type, size, or other variables in an effort determine whether variations exist among firms or managers. Since our survey does not contain questions relating to personal characteristics of respondents such as education or age, we do not examine whether these factors may affect survey responses. Because our survey is already completed, going back to managers to explore further questions is impractical at this time but could be the basis of future study. Finally, agreement with our statements about a theory of what managers do does not necessarily constitute strong evidence that their behavior is indeed consistent with theory or other academic research. It does, however, provide direct evidence from managers on how they view both the theoretical predictions and empirical findings of prior managerial research.

Research issues and survey evidence

In this section, we examine core research issues in four areas that encompass how managers respond to major changes in their business environment as typified by the main processes of globalization (increased foreign competition and industry globalization) that have been the focus of the theoretical and empirical literature. The four areas are: (1) the impact of foreign competition on managerial decisions about firm product diversification and international diversification strategy; (2) the impact of industry globalization on managerial decisions about firm product diversification and international diversification strategy; (3) the nature of a relationship, if any, between product and international diversification; and (4) the relationship between diversification strategy and firm performance. Below we first review key findings of prior research for each area examined and then present the pertinent findings from our survey.

Impact of foreign competition on product diversification strategy

Prior research

Expansion of a firm's scope in terms of its diversification into different product markets may create benefits that arise from economies of scope and potential synergies among the different businesses in a firm's portfolio (Penrose, 1959; Teece, 1980, 1981, 1982). However, the spatial distribution and dissimilarity of these businesses, as well as the combined complexity of managing a portfolio of businesses, impose limits on organizations (Coase, 1937).

Transaction cost theory posits that a firm's optimal level of diversification balances the economic gains from diversification against the bureaucratic costs of a multi-business firm (Jones & Hill, 1988). If changes in a firm's competitive environment due to foreign competition require it to expend more resources toward monitoring, integrating, and coordinating its activities, then such competition would be expected to increase the costs of managing a multi-business firm (Dundas & Richardson, 1980; Hill & Hoskisson, 1987; Jones & Hill, 1988). Moreover, the different nature of foreign-based competition is more likely to engender changes in competitive conditions that increase both uncertainty and complexity in the marketplace that restrains higher levels of corporate diversification.

Lawrence and Lorsch (1967) argue that the degree of differences in orientations among managers in an organizational unit is directly related to the diversity of the environments in which they operate. At the same time, this increase in organizational differentiation requires greater collaboration and integration of interdependencies on the part of a firm, leading to increased coordination costs (Lawrence & Lorsch, 1967; March & Simon, 1957). While these arguments mainly addresses the effects of foreign competition at the firm and industry level, Hautz et al. (2014) argue that the economy-wide effects of foreign competition also affect a

firm's product diversification decision since foreign competition can reduce the opportunities available to a firm to diversify within its home market. The above considerations have led researchers to posit an inverse relationship between the level of foreign competition and the extent of a firm's product diversification.

Researchers such as Bhagat, Shleifer, and Vishny (1990) and Markides (1992, 1995) contend that the widespread restructuring and refocusing of firms, particularly U.S. firms, during the 1980s and 1990s was largely a response to growing global competitive pressures. Bowen and Wiersema (2005) systematically investigate for the conjectured link between foreign competition and the extent of a firm's product market diversification using annual data on a sample of U.S. manufacturing firms over the period 1985–1994. Their results indicate that firms respond to increased foreign competition (import competition) by reducing the level and scope of their product diversification, but that they also increase the resource-based relatedness among the firm's (smaller) portfolio of businesses. This latter finding suggests that while firms reduce the extent of their product market diversification in response to greater foreign competition, this refocusing attempts to maintain and strengthen the firm's underlying resources and resource-based barriers that are hypothesized to be the basis of their competitive advantage (Barney, 1991; Conner, 1991; Reed & DeFillippi, 1990).

Hutzschenreuter and Gröne (2009) examine for the impact of foreign competition on firm scope but differentiate between foreign competition from imports versus that from foreign direct investment (FDI), the latter capturing locally-based competition from the affiliates of foreign firms. Like Bowen and Wiersema (2005), Hutzschenreuter and Gröne (2009) maintain that import competition will lead firms to reduce their product market scope but that competition associated with FDI will instead lead firms to increase their product market scope. The different responses to import versus FDI competition derive from the differing nature of the two forms of competitive "attack," with competition from FDI leading incumbent firms to seek competitive advantages through expansion of complementary products and hence their product market scope.

In a sample of 500 large U.S. manufacturing firms covering the period between 1987 and 2003, Hutzschenreuter and Gröne (2009) find evidence of their conjectured negative relationship between product market scope and import competition, thus confirming the results of Wiersema and Bowen (2008). They also find evidence supporting their conjectured positive relationship between product market scope and foreign competition arising from FDI. Finally, Hautz et al. (2014) find a negative relationship between foreign competition (whether FDI-based or import-based) and firm product market diversification in a sample of European firms over the period 1993–2007. This finding supported their hypothesis that, by limiting firms' opportunities for diversification within their home market, higher foreign competition leads to lower levels of product market diversification.

Survey evidence

Table 2 provides responses to two statements specifically about the impact of foreign competition on firm product diversification strategy (S1e, S4b). For the survey, product diversification is defined as the dispersion of a firm's activities across different product markets. On average, respondents express agreement with each statement in this section as indicated by the positive means, each significantly different from 0 (undecided) at the 0.01 level.

As Table 2 shows, a majority of respondents agree that foreign competition in the U.S. domestic market motivates managers to increase their firm's product diversification (S1e). Respondents also offer their views about how managers respond as a firm's core business is subjected to foreign competition. The majority of respondents agree that as foreign competition in a firm's core business increases, managers are more likely to increase the extent of their product diversification (S4b). This view is consistent with the relationship conjectured by Hutzschenreuter and Gröne (2009) for foreign competition arising from FDI but contrasts with the findings of Bowen and Wiersema (2005), Hutzschenreuter and Gröne (2009), and Hautz et al. (2014) who find that product diversification falls with higher levels of import competition.

Table 2 Managerial views on the impacts of foreign competition on product diversification.

Statement (S)	Disagree (%)		(%)	Agree (%)		Mean	Std. dev.	*t*-value
	SD −2	D −1	UND 0	A +1	SA +2			
S1e. Foreign competition in the U.S. domestic market motivates managers to increase their firm's product diversification.	0.0	24.6	16.9	50.8	7.7	0.42	0.95	3.52**
S4b. As foreign competition in a firm's core business increases, managers are more likely to increase the extent of their firm's product diversification.	0.0	9.4	34.4	50.0	6.3	0.53	0.76	5.63**

*$p < 0.05$; ** $p < 0.01$.
N = 65 for S1a and N = 64 for S4b.

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One explanation for the disparity between the views expressed by survey respondents and recent empirical evidence is that manager's perceptions of "foreign competition" relate mainly to that arising from locally-based affiliates of foreign firms (i.e., from FDI). Whether this explains the difference between manager's views and the findings of empirical research cannot be answered at this time because the survey does not differentiate between imports and FDI as alternative sources of foreign competition.

Impact of foreign competition on international diversification strategy

Prior research

Initial research on this question contends that the influence of foreign competition on firms' international diversification strategy operates on two levels (Wiersema & Bowen, 2008). First, foreign competition is expected to force domestic firms to undertake actions to become more competitive if they are to successfully meet the challenges of foreign rivals. Evidence of such a response comes in part from the findings of the industry-level studies discussed previously on the general impacts of foreign competition on U.S. domestic firms. Based on these industry-level findings, researchers posit that domestic firms that successfully meet the challenge of increased foreign competition in their domestic market will also have demonstrated their ability to compete successfully against foreign rivals outside their domestic market. Hence, these firms can compete at the global level (Wiersema & Bowen, 2008). Such firms may therefore seek to expand internationally to build competitive advantages through global scale and scope economies. Second, increased international diversification may arise if domestic firms expand their activities abroad to offset any location specific advantages enjoyed by their foreign-based rivals, such as low labor costs (Wiersema & Bowen, 2008).

More recently, Hautz et al. (2014) argue for a third level on which foreign competition affects firms' international diversification. Namely, the economy-wide effect of higher foreign competition reduces firms' opportunities for product diversification within their home market. As a result, firms will seek to "escape" from an increasingly competitive business environment within their home market. This "escape" hypothesis implies that, regardless of the form of foreign competition (FDI-based or import-based), firms will seek international expansion and thereby increase their international diversification.

As previously discussed, Hutzschenreuter and Gröne (2009) posit that the effects of foreign competition on firm strategy vary with the source of this competition: imports or FDI. They conjecture import competition will lead firms to reduce their international scope as they seek to concentrate their resources to defend themselves from the competitive attacks of foreign-based firms. Conversely, foreign competition arising from FDI is instead expected to lead firms to increase their international scope for reasons broadly similar to those posited by Wiersema and Bowen (2008).

In a sample of U.S. manufacturing firms for the period 1987–1999, Wiersema and Bowen (2008) find strong evidence for their hypothesized positive relationship between the level of the firm's international diversification and the level of foreign competition in a firm's core business industry. In contrast, Hutzschenreuter and Gröne (2009) find that geographic diversification falls with rising import competition,[4] but rises with rising foreign competition from FDI. Finally, consistent with Wiersema and Bowen (2008) but contrary to Hutzschenreuter and Gröne (2009), Hautz et al. (2014) find, in a sample of European firms over the period 1992–2007, that higher levels of both FDI-based and import-based foreign competition are associated with higher geographic diversification by firms.

Survey evidence

Table 3 provides responses to four statements about the impact of foreign competition on a firm's international diversification strategy (S1d, S4a, S9, and S11). For the survey, international diversification is defined as the dispersion of a firm's activities (sales/operations) across different national markets. On average, respondents express agreement with all four statements in this section as indicated by the positive means, all of which differ significantly from 0 (undecided) at the 0.01 level.

As Table 3 shows, the majority of respondents agree that foreign competition in the U.S. domestic market motivates managers to increase their firm's international diversification (S1d). Respondents also offer their views on how managers respond as a firm's core business becomes more globalized. For the survey, a firm's core business is defined as the industry segment (4-digit SIC) that generates the largest share of total firm sales. The majority of respondents agree that as foreign competition in a firm's core business increases, managers are more likely to increase their firm's international diversification (S4a). Although almost a third of respondents are undecided about this statement, on average their views are consistent with the finding of Wiersema and Bowen (2008) and Hautz et al. (2014), that higher levels of international diversification are associated with higher levels of import competition in a firm's core business industry. Respondent's views also align with the findings of Hutzschenreuter and Gröne (2009) for FDI-based foreign competition but are contrary to their findings for import-based foreign competition.

Finally, the vast majority (84.6 percent) of respondents agree that if foreign-based rivals enjoy location-based advantages such as lower labor costs, a firm is likely to undertake production abroad in response to increased competition from such foreign-based rivals (S11). Since such advantages are likely to be exploited through exporting, this result can be interpreted as contrary to the conjecture of Hutzschenreuter and Gröne (2009) that international diver-

[4] One possible explanation for the differing results of Wiersema and Bowen (2008) versus Hutzschenreuter and Gröne (2009) concerning the effects of import competition is a difference in the measured scope of import competition facing a given firm. Wiersema and Bowen (2008) measure import competition only to a firm's core business industry, whereas Hutzschenreuter and Gröne (2009) measure import competition more broadly, as the sales weight average of the import penetration ratios in each industry in which a firm is active.

Table 3 Managerial views on the impacts of foreign competition on international diversification.

Statement (S)	Disagree (%)		(%)	Agree (%)		Mean	Std. dev.	*t*-value
	SD −2	D −1	UND 0	A +1	SA +2			
S1b. Foreign competition in the U.S. domestic market motivates managers to increase their firm's international diversification.	0.0	15.4	15.4	56.9	12.3	0.66	0.89	6.00**
S4a. As foreign competition in a firm's core business increases, managers are more likely to increase the extent of their firm's international diversification.	0.0	16.9	30.8	44.6	7.7	0.43	0.87	4.01**
S9. International differences in factor input costs are likely to influence a firm to reorganize its value chain to undertake activities where factor input costs are lowest.	0.0	9.4	12.5	45.3	32.8	1.02	0.92	8.86**
S11. If foreign-based rivals enjoy location-based advantages such as labor costs, a firm is like to undertake production abroad in response to increased competition from such foreign-based rivals.	1.5	7.7	6.2	52.3	32.3	1.06	0.92	9.34**

*$p < 0.05$; ** $p < 0.01$.
$M = 65$, except S9 where $N = 64$.

sification and import competition are likely to be negatively related. Respondents also tend to agree (78.1 percent) that international differences in factor input costs are likely to encourage a firm to reorganize its value chain to undertake activities where factor input costs are lowest (S9). The views expressed on statements S9 and S11 are consistent with those of Kogut (1983) and Porter (1986). They are also in line with the premises of Wiersema and Bowen (2008) and Hautz et al. (2014) when arguing that higher levels of foreign (import) competition are expected to motivate firms to increase their international diversification.

Impact of industry globalization on international diversification

Prior research

Industry globalization is a process characterized by growing linkages between national markets in terms of consumers, production activities of firms, and the extent of the relevant market in which firms compete (OECD, 2002, Chap. 8). A global industry is one in which domestic markets are integrated across national boundaries, where competition among firms takes place on a worldwide basis, and where a firm's competitive position in one country is affected by its position in other countries (Porter, 1986).

Research documents how firms in an industry shift from operating and competing in domestic arenas to operating and competing in a worldwide market (Bartlett & Ghosal, 1989; Dunning, 1993; Johansson & Yip, 1994). Elements indicating an industry's evolution toward becoming more global include standardization of products and services, building global level scale economies in operations (e.g., automotive) and in R&D (e.g., pharmaceutical). Standardization of products permits uniform branding and advertising that can result in marketing and product-based economies of scale (Johansson & Yip, 1994; Levitt, 1983) whereas building global level scale economies can drive rationalization of manufacturing and R&D (Hout, Porter, & Rudden, 1982; Krugman, 1980; Porter, 1986).

Globalization of an industry provides opportunities for firms to expand both sales and profit, and forces managers to contemplate expansion overseas as a legitimate strategic option. In this regard, Bartlett and Ghosal (1989) cite the shift toward more global competitive thinking on the part of managers as both a key driver and outcome of industry globalization. This has led researchers to posit that as the extent of globalization rises in a firm's core business industry international expansion is likely to become a greater strategic priority of the firm (Wiersema & Bowen, 2008).

As an industry globalizes, internationally-oriented firms can gain competitive advantages and can compete on a global level by exploiting location differences in national resource endowments (Kogut, 1983), leveraging their strategic resources, and achieving gains from economies of scope across markets. Exploiting inter-regional differences in factor costs may necessitate a complete reorganization of a firm's value chain activities that requires decisions about which activities are to be undertaken internally versus outsourced, and where to locate different activities internationally (Kogut, 1983; Porter, 1986). Empirical evidence

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indicates that firms respond to industry globalization drivers, especially market and cost drivers, by adopting more global corporate strategies (Johansson & Yip, 1994). These arguments have led researchers to posit a positive relationship between the level of globalization in a firm's core business industry and the extent of a firm's international diversification. Wiersema and Bowen (2008) find support for this hypothesized positive relationship between the extent of globalization of a firm's core business industry and the level of international diversification in a sample comprising annual data on U.S. manufacturing firms over the period 1987—1999.

In their study, Wiersema and Bowen (2008) also contend that competitive conditions in a firm's domestic market are likely to moderate the expected positive relationship between international diversification and industry globalization in a firm's core business industry. If a firm's core business industry faces a high level of import competition, then the more intense competitive environment is likely to add to existing pressures from industry globalization to increase international diversification. The authors cite two reasons for this outcome. First, the firm may see limited prospects for growth within its domestic market and will seek additional growth in international markets as global markets expand. Second, if foreign-based rivals enjoy location-based advantages such as lower labor costs, a firm may choose to counter such advantages by undertaking production abroad. Given this, Wiersema and Bowen (2008) hypothesize that the higher the level of foreign competition in a firm's core business, the greater will be the positive effect of industry globalization on a firm's international diversification. Their empirical results indicate support for this positive moderating relationship.

Survey evidence

Our survey defines industry globalization as the dispersion of an industry's supply chain across different markets and hence focuses on the global sourcing aspects of industry globalization. Table 4 reports how responding managers view statements on how this aspect of industry globalization affects a firm's international diversification. On average, respondents

Table 4 Managerial views on the impacts of industry globalization on international diversification.

Statement (S)	Disagree (%)		(%)	Agree (%)		Mean	Std. dev.	*t*-value
	SD −2	D −1	UND 0	A +1	SA +2			
S5. Firms respond to industry globalization drivers, especially market and cost drivers, by adopting more global corporate strategies.	0.0	4.6	10.8	73.8	10.8	0.91	0.63	11.61**
S6. As an industry becomes more global, firms that adopt a more international strategy are likely to compete more effectively at the global level.	0.0	0.0	6.2	53.8	40.0	1.34	0.59	18.18**
S7a. As a firm's core business becomes more globalized, managers are more likely to consider international expansion a strategic priority for the firm.	0.0	3.1	3.1	75.4	18.5	1.09	0.58	15.21**
S7b. As a firm's core business becomes more globalized, managers are more likely to increase their firm's international diversification.	0.0	1.5	6.2	73.8	18.5	1.09	0.55	15.98**
S8. As the level of foreign competition in a firm's core business increases, the more likely that increased globalization of its core business will lead a firm to increase its international diversification.	0.0	12.3	23.1	55.4	9.2	0.62	0.82	6.03**
S10. Firms facing limited growth prospects in the domestic market are likely to respond to rising industry globalization by seeking growth via international diversification.	0.0	6.3	7.8	59.4	26.6	1.06	0.77	10.98**

* $p < 0.05$; ** $p < 0.01$.
$N = 65$, except S10 where $N = 64$.

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express agreement with all statements on this issue, with the mean response on each statement being significantly different from 0 (undecided) at the 0.01 level. As discussed below, the typical response on each question is consistent with findings in the extant literature on the effects of industry globalization on a firm's international diversification.

As Table 4 shows, respondents agree or strongly agree (84.6 percent) with the premise that firms respond to industry globalization drivers, especially market and cost drivers, by adopting more global corporate strategies (S5), thus supporting the arguments of Johansson and Yip (1994) and the premises of Wiersema and Bowen (2008). Respondents also believe that as an industry becomes more global, firms that adopt a more international strategy are likely to compete more effectively at the global level (S6). Of the 38 statements in the survey, this statement has the highest mean response (1.34), and is the only statement about which respondents neither disagree nor strongly disagree. In fact, 93.8 percent of respondents express agreement with this statement. The views of the survey respondents therefore strongly coincide with the theoretical arguments of Kogut (1983) and Porter (1986) and the empirical evidence reported by Wiersema and Bowen (2008).

More than nine out of 10 respondents agree that as a firm's core business becomes more globalized, managers are more likely to consider international expansion a strategic priority for the firm (S7a) and to increase their firm's international diversification (S7b). Respondents generally agree with the statement corresponding to the finding of Wiersema and Bowen (2008) that higher foreign competition has a positive moderating effect on the relationship between globalization and international diversification (S8). Finally, 86 percent of respondents express agreement with the idea that firms facing limited growth prospects in the domestic market are likely to respond to rising industry globalization by seeking growth via international diversification (S10). Overall, the direct evidence provided by managers supports a link between industry globalization and a firm's strategy to seek international diversification.

Relationship between international and product diversification

Prior research

How managerial decisions about a firm's geographic and product market scope interrelate is an important yet still unanswered question within the international business and strategy literatures (Glaum & Oesterle, 2007; Peng, 2004). Managerial decisions about the geographic and product market scope of a firm's activities are likely to be interdependent because both decisions require investment commitments to leverage a firm's fixed bundle of resources into new geographic and product markets (Bowen & Wiersema, 2007; Kumar, 2009; Meyer, 2006; Penrose, 1959; Teece, 1982; Thomas, 2004). Further, both will add complexity to the management of the firm (Jones & Hill, 1988). Yet, only recently has the presumed interdependence of these decisions been subjected to direct empirical verification (Bowen & Wiersema, 2007; Kumar, 2009). A key focus of this research is to determine the nature of this interdependence; that is, whether the relationship is one of complements or substitutes.

Arguments for a substitute relationship derive mainly from transactions cost theory. As managers expand a firm's business activities and as these activities become more diverse, the costs of control and coordination rise (Hoskisson & Johnson, 1992; Hoskisson & Turk, 1990; Jones & Hill, 1988; Markides, 1995). Increased organizational differentiation will require greater collaboration and integration of interdependencies on the part of the firm, and hence increase the costs of coordinating activities (Hoskisson & Johnson, 1992; Hoskisson & Turk, 1990; Jones & Hill, 1988; Lawrence & Lorsch, 1967; March & Simon, 1957; Markides, 1995). The higher internal governance costs associated with jointly pursuing higher levels of geographic and product market diversification are also conjectured to adversely affect firm performance (Tallman & Li, 1996). Overall, these arguments suggest that constraints on managerial resources and organizational capacity to manage greater diversity imply that geographic and product market diversification are economic trade-offs to the firm (Bowen & Wiersema, 2007; Kumar, 2009). For example, expansion of a firm's product market scope will constrain management's ability to also expand the firm's geographic scope and vice versa.

Arguments for a complementary relationship are instead derived on the basis of resource-based theory. This theory views the firm as a repository of a set of productive and potentially unique resources. In the presence of excess or unused capacity of a firm's resources, the inability of the firm to sell these excess resources due to imperfect factor mobility (Barney, 1991) then provides incentives for managers to leverage these excess resources into new markets (Penrose, 1959; Peteraf, 1993; Teece, 1982; Wernerfelt, 1984).

Given this, if one posits that operating in multiple geographic or product markets enhances the firm's knowledge base and capabilities due to experiential learning (Barkema & Vermeulen, 2001; Hitt, Hoskisson, & Kim, 1997; Mayer et al., 2014; Zahra, Ireland, & Hitt, 2000), then higher levels of international or product market diversification may serve to augment a firm's otherwise fixed bundle of resources, which it can then use to expand into new product or geographic markets (Delios & Beamish, 1999). This implies a complementary relationship between international and product diversification, with higher levels of product market diversification associated with higher levels of geographic diversification.[5]

Empirical evidence on the nature of the relationship between international and product diversification is mixed. Some studies find no evidence of a significant interaction between international and product diversification in a firm performance equation (Geringer, Beamish, & daCosta, 1989; Geringer, Tallman, & Olsen, 2000; Tallman & Li, 1996) and other studies claim support for a complementary relationship (Davies, Rondi, & Sembenelli, 2001; Denis et al., 2002; Hitt et al., 1997; Kim, Hwang, & Burgers, 1989). More recent studies that correct for the issue of endogeneity between the choice to pursue international and product diversification

[5] However, Meyer (2006) uses resource-based theory to argue that product and international diversification may evidence a substitute relationship as firms reallocate and redeploy their managerial resources in response to factors such as globalization, a process he labels "global-focusing."

find evidence that the relationship is one of substitutes (Bowen & Wiersema, 2007; Kumar, 2009). Mayer et al. (2014) also find evidence of a substitute (negative) relationship, but only among firms with no or low levels of prior diversification experience. For firms with high levels of prior diversification experience, the authors instead find a complementary relationship.

Bowen and Wiersema (2007) were the first to jointly model the interdependence between international diversification, product diversification, and firm performance. In this framework, they find that the direct relationship between international and product market diversification is negative, supporting the conjecture of a substitute relationship. Using a similar framework, Kumar (2009) also find support for a negative direct relationship between international and product market diversification. Bowen and Wiersema (2007) emphasize that because the relationships among firm performance, international diversification, and product diversification are jointly interdependent, any analysis of a direct relationship between international and product diversification must assume that the (expected) level of firm performance is being held constant as the mix of international and product diversification is varied. Given this, they conclude that international diversification and product diversification are substitutes for generating a given level of firm performance. This conclusion means that, for example, the complementary relationship reported by Denis et al. (2002) can be questioned because their analysis does not control for the level of firm performance when examining the relationship between international and product diversification.

Mayer et al. (2014) build from Bowen and Wiersema (2007) to examine if the substitute (negative) relationship found between product and international diversification is conditional on a firm's prior diversification experience. In a dataset of 767 U.S. and European manufacturing firms coving the period 1993—2007, they find a substitute relationship for firms with no or low prior diversification experience (on either dimension) but a complementary relationship for firms with a high level of either product or international diversification experience. They argue that this finding reflects that prior diversification experience allows firms to overcome the short-run difficulties associated with transferring tacit knowledge, ambiguous competencies, and limited absorptive capacity (all of which may give rise to a substitute relationship) when seeking simultaneous growth in international and product diversification. In this regard, their findings indicate that prior product diversification experience has a greater impact than prior international diversification experience in terms of supporting a complementary relationship.

Survey evidence

Table 5 examines 11 statements about the relationship between international and product diversification. These statements are grouped into four subgroups (Panels A through D of Table 5) based on similarity of the subject matter. However, these subgroups are not necessarily mutually exclusive because inter-relationships exist among the statements. The average response differs significantly from 0 (undecided) at the 0.01 level for all statements except S27.

As Panel A of Table 5 shows, the respondents disagree, on average, that a high level of product diversification is likely to constrain a firm's ability to increase its levels of international diversification (S12) or product diversification (S14). This evidence suggests that expansion on one dimension of firm scope is not constrained by a high level on the other dimension. This finding is contrary to Bowen and Wiersema (2007) and Kumar (2009) who argue that the higher the existing level of diversification on one dimension, the greater is the constraint on a firm's ability to expand on the other dimension. This finding is consistent with Mayer et al. (2014) who find that a high level of prior diversification experience on either dimension leads to a complementary relationship between international and product diversification.

Panel B of Table 5 shows the second subgroup consisting of four statements (S13, S17, S21, and S27) that relate to the costs or benefits associated with higher levels of product or international diversification. Generally, respondents agree that higher levels of product or international diversification increase the cost of coordination and control within the firm (S13). The majority of respondents disagree that high levels of product diversification lower the costs of expanding a firm via international diversification (S17). However, respondents on average tend to agree that experience gained from having a high level of diversification on one dimension is helpful for managing the costs associated with the other dimension (S21 and S27). This result is consistent with the premises of Mayer et al. (2014). Yet, about a third of respondents are undecided about this association. In fact, the mean response for S27 does not differ significantly from undecided at the 0.05 level. This overall result may reflect that our sample of respondents is a mix of firms with high and low levels of prior diversification experience. Since we created our survey instrument before the work of Mayer et al. (2014), it does not differentiate levels of prior diversification experience when addressing questions dealing with the costs or benefits associated with high levels of product or international diversification.

Panels C and D of Table 5 examine how the strategies of international diversification and product diversification interrelate in the decision-making processes of managers. Panel C (S20 and S22) focuses on whether respondents view these modes of firm expansion as complementary strategies, while Panel D (S16, S19, and S25) focuses on these modes as trade-offs (substitutes). As previously noted, the responses to S17 indicate that respondents generally agree that being highly product diversified does not convey any cost reducing benefit for expanding internationally, a finding inconsistent with the prior diversification experience hypothesis of Mayer et al. (2014). However, consistent with Mayer et al. (2014), respondents disagree that a high level of diversification on either dimension is likely to dissuade firms from expansion on the other dimension. In fact, almost three quarters of respondents disagree with statements S20 and S22.

As Panel D of Table 5 shows, respondents generally agree that they trade off the economic benefits of greater diversification against the additional costs of coordination and control arising from greater levels of such diversification (S16). Thus, they tend to take into account the current level of product diversification when deciding to increase their firm's level of international diversification (S25). These findings suggest interdependence regarding decisions to expand a firm through either product or international diversification.

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Table 5 Managerial views on the relationship between product diversification and international diversification.

Statement (S)	Disagree (%)		(%)	Agree (%)		Mean	Std. dev.	*t*-value
	SD −2	D −1	UND 0	A +1	SA +2			
Panel A. Subgroup one								
S12. A high level of product diversification is likely to constrain a firm's ability to increase its level of international diversification.	10.8	47.7	15.4	24.6	1.5	−0.42	1.03	−3.25**
S14. A high level of international diversification is likely to constrain a firm's ability to increase its level of product diversification.	6.3	62.5	14.1	12.5	4.7	−0.53	0.96	−4.43**
Panel B. Subgroup two								
S13. Pursuing increased product or international diversification is likely to raise the cost of coordination and control within the firm.	0.0	14.1	7.8	68.8	9.4	0.73	0.82	7.15**
S17. High levels of product diversification are likely to lower the costs of expanding the firm via international diversification.	6.2	47.7	30.8	15.4	0.0	−0.45	0.83	−4.34**
S21. Highly internationally diversified firms are better able to manage the higher costs of coordination association with higher levels of product diversification.	0.0	12.5	32.8	53.1	1.6	0.44	0.73	4.78**
S27. Highly product diversified firms are better able to manage the higher costs of coordination associated with higher levels of international diversification.	1.5	27.7	33.8	36.9	0.0	0.06	0.85	0.59
Panel C. Subgroup three								
S20. Highly product diversified firms are less likely to pursue international diversification.	3.1	70.8	21.5	3.1	1.5	−0.71	0.66	−8.71**
S22. Highly internationally diversified firms are less likely to pursue product diversification.	1.5	72.3	13.8	12.3	0.0	−0.63	0.72	−7.07**
Panel D. Subgroup four								
S16. When deciding the extent of product or international diversification, managers often trade off the economic benefits of greater diversification against the additional costs of coordination and control arising from greater levels of such diversification.	0.0	20.0	13.8	60.0	6.2	0.52	0.89	4.76**
S25. Managers are likely to take into account the current level of product diversification when they decide to increase their firm's level of international diversification.	0.0	23.1	13.8	63.1	0.0	0.40	0.84	3.82**
S19. A negative relationship is likely to exist between the extent of a firm's international diversification and the extent of its product diversification.	3.1	63.1	26.2	7.7	0.0	−0.62	0.68	−7.32**

* $p < 0.05$; ** $p < 0.01$.
$N = 65$, except S10 where $N = 64$.

The respondents disagree with the statement that international diversification and product diversification evidence a negative (substitutes) relationship (S19). This view is consistent with respondent views that high international diversification (or high product diversification) does not constrain further product diversification or international diversification (S12 and S14). The view that international diversification and product diversification are not trade-offs contrasts with the

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findings of Kumar (2009), who conjectures these expansion strategies are trade-offs due to resource constraints within the firm, and of Bowen and Wiersema (2007), who conjecture these expansion strategies are trade-offs when the level of firm performance is held constant. These views are, however, consistent with the findings of Mayer et al. (2014) that the nature of the relationship between international and product diversification is conditional on a firm's prior diversification experience.

Firm diversification strategy and firm performance

Prior research

The vast majority of studies on firm diversification strategy focus on its implications for firm performance. Within the product diversification literature, a consensus has emerged that the relationship between product diversification and firm financial performance is an inverted U-shape, with the relationship positive at relatively low levels of product diversification but negative at relatively high levels of production diversification (Palich, Cardinal, & Miller, 2000). The positive relationship at relatively low levels of product diversification is thought to reflect that firms first diversify into related product markets in which firms can best leverage their core competencies and obtain benefits of economies of scope. The negative relationship at higher levels of product diversification is thought to arise because high levels of diversification reflect mainly diversification into unrelated markets for which firms gain few benefits of economies of scope. Further, highly diversified firms are expected to incur substantial costs in terms of higher managerial complexity and need for greater coordination.

In contrast, as discussed in the survey by Hitt et al. (2006), no such consensus has emerged as to the nature of the relationship between international diversification and firm performance. The empirical literature finds evidence of no relationship, a positive and negative linear relationship, an inverted U-shaped relationship, a U-shaped relationship (Ruigrok & Wagner, 2003) and more recently for an S-shaped (Contractor, Kundu, & Hsu, 2003; Lu & Beamish, 2004), with this relationship negative at a very low level of international diversification, positive at moderate levels of international diversification, and negative at a high level of international diversification. Empirical studies examining for the S-shape show mixed results (Contractor et al., 2003; Lu & Beamish, 2004). This plethora of mixed results has recently attracted the attention of theorists who have more closely investigated the theoretical reasoning researchers use to argue for one type of relationship versus another (e.g., Bowen, 2007; Hennart, 2011) and find it wanting. Researchers such as Wiersema and Bowen (2011) are also increasingly questioning whether the measures commonly used to operationalize international diversification capture the underlying strategies that may account for any performance benefits associated with international diversification.

In this regard, Doukas and Lang (2003) examine the relationship among FDI, diversification, and firm performance. They present evidence that geographic diversification increases shareholder value and improves long-term performance when firms engage in core-related FDI. However, they also find that non-core-related foreign investment is associated with both short-term and long-term losses. According to the authors, their results suggest that synergy gains stemming from the internationalization of markets are rooted in the core business of the firm.

Survey evidence

Table 6 presents the results for the five survey statements related to the relationship between firm diversification strategy and firm performance. The mean response differs significantly from 0 (undecided) at the 0.01 level for all questions except S26.

As Table 6 shows, the majority of respondents (67.7 percent) express disagreement with the statement that seeking growth through product diversification or international diversification is likely to reduce a firm's financial performance (S15). Respondents are undecided on whether international diversification and product diversification are trade-offs for generating firm performance (S26). This statement is pertinent to the arguments of Bowen and Wiersema (2007) that international diversification and product diversification represent trade-offs for generating a given level of firm performance.

The fact that the responses generally indicate positive performance outcomes from expanding the geographic or product market scope of a firm are perhaps not unexpected. Managers are unlikely to consistently engage in a diversification strategy diversification if it consistently loses money. Also, the complexity of the decision-making process may cloud respondent views about the trade-offs and impact associated with higher levels of diversification on firm financial performance. Yet, for international diversification, the fact that about two-thirds of respondents disagree or strongly disagree that growth though international diversification is likely to reduce a firm's financial performance suggests that this perception would apply regardless of the level of international diversification. A similar conclusion could be reached from the fact that 72.3 percent of respondents either disagree or disagree strongly that a firm's stock market value is likely to fall when it announces plans to expand into new product or international markets (S18). This is consistent with the evidence by Doukas and Lang (2003) that core-related FDI is value increasing whereas FDI outside a firm's core business is associated with a loss in shareholder value.

Responses to S15 and S18 cast doubt on the theory that the relationship between international diversification and firm performance is S-shaped. These responses also suggest that managers would not engage in levels of international diversification that earned consistently negative returns to the firm. This also casts some doubt on the empirical evidence of either a U-shaped or an inverted U-shaped relationship, in that most respondents view international diversification as a strictly positive development for firm financial performance.

Finally, the majority of respondents (60.0 percent) agree that the main purpose of product diversification is to exploit a firm's propriety knowledge in new product lines (S23). A similar percentage (61.5 percent) agrees that the main purpose of international expansion is to exploit a firm's propriety knowledge in new international markets (S24). These responses are consistent with the main arguments of the resource-based view and the motives underlying diversification strategy (Penrose, 1959; Peteraf, 1993; Teece, 1982; Thomas, 2004; Wernerfelt, 1984).

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Table 6 Managerial views on the impact of product diversification and international diversification on firm performance.

Statement (S)	Disagree (%)			(%) Agree (%)		Mean	Std. dev.	*t*-value
	SD −2	D −1	UND 0	A +1	SA +2			
S15. Seeking growth through product diversification or international diversification is likely to reduce a firm's financial performance.	10.8	56.9	18.5	12.3	1.5	−0.63	0.89	−5.69**
S18. A firm's stock market value is likely to fall when it announces plans to expand into new product or international markets.	13.8	58.5	21.5	4.6	1.5	−0.79	0.80	−7.91**
S23. The main purpose of product diversification is to exploit a firm's propriety knowledge in new product lines.	1.5	16.9	21.5	60.0	0.0	0.40	0.83	3.91**
S24. The main purpose of international expansion is to exploit a firm's propriety knowledge in new international markets.	0.0	18.5	20.0	61.5	0.0	0.43	0.79	4.40**
S26. International and product diversification represent trade-offs for the purpose of generating a given level of firm financial performance.	0.0	33.8	16.9	46.2	3.1	0.19	0.95	1.57

*$p < 0.05$; ** $p < 0.01$.
$N = 65$.

Summary and conclusions

Diversification strategy is an important theme in both international business and strategic management research. Yet, only recently has research focused on understanding the implications for diversification strategy of the ongoing globalization of industries and markets. Our study contributes to the extant literature by providing evidence of how managers of U.S. companies view several of the conjectures and findings of academic research concerning the response of firms to foreign competition and industry globalization, as well as aspects of the relationship between international and product market diversification strategies and their implications for firm performance.

Our survey evidence indicates that respondents tend to agree that increased foreign competition motivates managers to pursue greater international and product market diversification. The view that levels of foreign competition and product market diversification are positively related is contrary to the findings of empirical research when foreign competition is measured as competition from imports (e.g., Bowen & Wiersema, 2005; Hautz et al., 2014; Hutzschenreuter & Gröne, 2009) but is consistent with findings when foreign competition is measured by FDI (Hutzschenreuter & Gröne, 2009). These mixed results suggest further research is warranted to determine the extent to which manager's views on the impact of foreign competition on diversification strategy reflect their perceptions of the main source of such competition (i.e., imports versus FDI). Using survey methodology, such research could seek to also understand the process by which managers form their perceptions, a line of inquiry that relates more generally to understanding the processes of managerial learning and capabilities development, such as discussed in Gavetti (2005).

On the question of the nature of a relationship between international and product diversification strategies, our survey respondents tend to agree that greater diversification on one dimension (product or international) is not constrained by an existing high level of diversification on the other dimension. This finding appears contrary to recent research (Bowen & Wiersema, 2007; Kumar, 2009) that finds a negative relationship between international and product diversification strategies. However, these findings are broadly in line with the recent work of Mayer et al. (2014) who find that the nature of the relationship between international and product diversification is conditional on the level of prior diversification experience. Regardless the nature of the relationship between international and product diversification, survey respondents affirm that managers are aware of the additional costs of coordination and control associated with higher levels of diversification, and hence take these costs into account when deciding on further expansions of a firm's scope. Respondents also acknowledge that the pursuit of product and international diversification are interdependent decisions, and that managers do consider the trade-offs associated with the benefits and costs of each type of diversification. Hence, our survey results generally support the theoretical reasoning of extant academic research on how globalization may impact managerial decisions involving a firm's strategic scope and, as per the recent work of Mayer et al. (2014), they suggest the importance of prior diversification experience in determining the nature of the relationship between product diversification and

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international diversification. Our view is that this particular topic remains fertile ground for both new theoretical and empirical investigation.

Not surprisingly, respondents generally disagree with the notion that either product or international diversification is likely to reduce a firm's financial performance. A majority agree that the main intent of both product and international diversification is to exploit a firm's proprietary knowledge into new markets.

The results presented in this study offer insights into manager's views of how the main processes associated with globalization impact decisions regarding the international and product market scope of firms. Contrasting these views with the findings of extant research revealed some areas of disagreement. This, in turn, points to areas where further research is needed to gain understanding of how changes in a firm's business environment impact its strategic scope, thereby enabling management scholars to refine their theoretical frameworks so as to improve their predictive ability.

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