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The Effects of Globalization on Marketing Strategy and Performance

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Abstract: **Building on international business, strategic management, and marketing literature, this dissertation advances prior knowledge on globalization and business by analyzing different effects of globalization on firms. Globalization—the process of increasing social, cultural, political, and economic interdependence—has resulted in several changes in business environment. Global market opportunities and threats are major effects of globalization. While the former refers to the increases in market potential, trade and investment potential, and resource accessibility, the latter refers to the increases in number and level of competition, and the level of uncertainty. Two empirical studies included in this dissertation explore how these effects influence firms' international marketing activities and performance. The first empirical study investigates the effects of globalization on firm performance. The second study examines the role of firms' cooperation in alliances in enhancing their performance amid globalization by specifically focusing on co-marketing alliances and international marketing performance of firms. Conceptual models are developed based on environment-organization literature, transaction cost economics, and market power perspective. Results from both empirical investigations lend support to theoretical conjectures. Specifically, the first study found that while firm performance is enhanced by increased market opportunities evoked by globalization, it is also hampered by growing competitive threats. Moreover, the second study indicates that globalization drives more collaboration in international marketing activities among firms in co-marketing alliances, and such cooperation enables firms to enhance their international marketing effectiveness. Thus, central contributions of this dissertation include: first, it classifies the effects of globalization on firms into global market opportunities and global competitive threats; second, it integrates literature on international business, strategic management, and marketing to address the effects of globalization on firms' marketing conduct and outcomes; third, it demonstrates the generalizability of the transaction cost economics, the market power perspectives, and the literature on environment-organization interfaces in the domain of globalization; fourth, it confirms that globalization acts as a two-edged sword and that alliance cooperation presents a viable alternative for firms to navigate successfully in this new competitive landscape.**

1. INTRODUCTION

Globalization has caused dramatic changes to business practices around the world. Companies such as IBM, Intel, Microsoft, and Philips have started to outsource specialists from various parts of the world, causing job shifts and changes in companies' structures (Engardio, Bernstein, and Kripalani, 2003). Alliances among automakers (e.g., GM-Ford-DaimlerChrysler, Ford-Mazda, and GM-Honda), petroleum manufacturers (e.g., BP-Mobil, NUPI-Chevron Texaco), and airlines (e.g., star alliances) are other examples of changes driven by this phenomenon. Therefore, this dissertation investigates the effects of globalization on business firms with a particular interest on how it affects firms from both emerging economies (i.e., Thailand), and developed economies, (i.e., the U.S). In this study, "globalization" refers to the process of increasing social and cultural inter-connectedness, political interdependence, and economic, financial and market integrations that are driven by advances in communication and transportation technologies, and trade liberalization (Eden and Lenway, 2001; Giddens, 1990; Molle, 2002; Orozco, 2002).

The dissertation is comprised of three related studies. The first study is empirical research designed to examine the effects of globalization on the performance of exporting firms in Thailand and in the U.S. The second study examines the relationships between the effects of globalization and the degree of co-marketing alliance and international marketing performance of firms. The last study makes an empirical investigation of the effects of globalization on the degree of co-marketing alliance and international marketing performance of firms from two distinct economic contexts—developed and emerging economies, which are represented by American and Thai firms, respectively. Thailand and the U.S. are appropriate research settings since these two countries differ greatly in their degree of globalization (Foreign Policy, 2001, 2003, 2004), level of economic development, and national competitiveness (Porter, et al., 2000; Porter and Schwab, 2003).

While the U.S. is highly globalized, Thailand is considerably less globalized. According to the survey conducted by AT Kearney and EDS Company in cooperation with Foreign Policy Magazine (2004), Thailand is ranked 48th, and the U.S. is ranked 7th on the globalization index. Thailand is classified as a lower-middle-income economy, one in which the Gross National Income (GNI) per capita is between \$736 and \$2,935, while the U.S. is considered a high-income-economy whose GNI per capita is above \$9,076 (The World Bank Group, 2003). Furthermore, the national competitiveness of these two nations differs dramatically. The U.S. is the second most competitive country in the world whereas Thailand is ranked number 40 on the national competitiveness index

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(Porter and Schwab, 2003). In this introduction, the phenomenon of globalization, including the effects of globalization on businesses, is first described. The purpose of the study, the major research questions, and the scope of the study are then presented. Finally, the organization of the dissertation is provided in the last section.

2. GLOBALIZATION EFFECTS AND FIRM PERFORMANCE

In the past two decades, the world has gone through the process of globalization, one that causes increasing economic, financial, social, cultural, political, market, and environmental interdependence among nations. Business, as well, is inevitably affected by this process of change towards more interdependence. Many forms of organizational restructuring (such as downsizing, reengineering, implementation of cooperative strategies) have been witnessed as responses to globalization (Jones, 2002). Yet, limited empirical studies have been conducted to investigate how globalization actually affects firms. International business scholars (e.g., Clark and Knowles, 2003; Clougherty, 2001; Eden and Lenway, 2001; Young, 2001) point out the need to explore further the effects of globalization on firms. Therefore, we aim to investigate the effects of globalization on firm performance. In this study, globalization is defined as the process of increasing social and cultural inter-connectedness, political interdependence, and economic, financial and market integrations (Eden and Lenway, 2001; Giddens, 1990; Molle, 2002; Orozco, 2002). Although much descriptive and theoretical literature is published on the impact of globalization, very little empirical work exists that tests globalization effects. A few exceptions of empirical studies examining the impact of globalization include, for example, Clougherty (2001), and Oxley and Schnietz (2001). While Clougherty's (2001) study is related to industry-level variables (i.e., domestic competition policy in the airline industry), the study conducted by Oxley and Schnietz (2001) is more focused on firm-level variables by relating globalization to firm performance. At the macro level, globalization is found to undermine autonomy in domestic airline competition

2.1. Global market opportunities and firm performance: Global market opportunities can be defined as increases in market potential, trade and investment potential and resource accessibility resulting from globalization (Contractor and Lorange, 1988; Fawcett and Closs, 1993; Jones, 2002; Levitt, 1983; Shocker, Srivastava, and Ruekert, 1994). Developments in information technology, removal of trade and investment barriers, privatization, and deregulation of trade and investment policies have provided firms seeking international markets with tremendous opportunities (Scully and Fawcett, 1994). Such changes in the business environment enable firms to not only access new markets but also lower costs by relocating their operations and exploiting cheap resources around the world (Czuchry and Yasin, 2001). Firms can outsource their production in various locations to lower their costs (Chimerine, 1997). Market transactions have also become more efficient due to globalization of technology (Peterson, Welch, and Liesch, 2002). These new market opportunities have eventually fostered rapid growth in various economic sectors in many regions around the world (Graham, 1996). A large volume of cross-border flows of trade, investment, and technology during the 1990s and early 2000s is excellent evidence of increasing opportunities driven by globalization (UNCTAD, 2003).

As discussed earlier, globalization increases market potential, trade and investment potential and resource accessibility of firms. It has become easier for firms to outsource their production to different locations to gain benefits from location advantage since less trade and investment barriers are present in today's global marketplace (Chimerine, 1997; Czuchry and Yasin, 2001). Firms are able to reach out and serve many new untapped markets around the globe. Liberal movements of financial and human capital also facilitate their business transactions. Moreover, advances in communication technology and information systems also lower search costs and improve efficiency (Peterson, Welch, and Liesch, 2002).

2.2. Preliminary test of country and industry effects: We initially assessed the differences in the mean of the dependent variable—firm performance— between two national sub-samples and two industry sub-samples by using one-way ANOVA. The result revealed that there is no difference in the mean of firm performance between Thai and the U.S. exporters (F-statistics = 2.226 at $p > .10$) or between electronics and chemical industries (F-statistics = 0.336 at $p > .10$). Therefore, there is no significant difference in firm performance between firms from these two countries and industries. This is not unexpected since the performance of firms in similar industries (i.e., high-tech industries such as chemical and electronics) may be very similar.

2.3. Estimation: Since there is no difference in the mean of dependent variable across industries and countries and the results of measurement invariance have confirmed equality in the constructs across these two countries, data were pooled for model estimation. Maximum Likelihood Estimation (MLE) was used to fit the structural model presented in Figure 2.1.

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Fitting the structural model after the measurement model has been purified is the procedure suggested by Anderson and Gerbing (1988) and is commonly practiced by many academic scholars such as Li and Calantone (1998) and Zou and Cavusgil (2002). The estimates were computed using AMOS 4.01 (Arbuckle, 1999). The structural proposed model of globalization effects and firm performance is presented in Figure 2.2 along with parameter estimates and fit statistics.

3. GLOBALIZATION EFFECTS, CO-MARKETING ALLIANCES, AND PERFORMANCE

During the past two decades, globalization has caused dramatic changes to business practices around the world. Companies (e.g., IBM, Intel, Microsoft, and Philips) have not only start outsourcing from various parts of the world, but also forming alliances with other firms (GM-Ford-DaimlerChrysler, Ford-Mazda, and GM-Honda, BP-Mobil, NUPI-Chevron Texaco, and star alliances). Nevertheless, limited empirical studies have been conducted to investigate how globalization actually affects firms and how firms respond to such effects. Thus, this paper aims to examine such effects by focusing on how globalization influences the degree of a firm’s international marketing cooperation, which ultimately affects its international marketing performance.

Globalization refers to the process of increasing social and cultural inter-connectedness, political interdependence, and economic, financial and market integrations (Eden and Lenway, 2001; Giddens, 1990; Molle, 2002; Orozco, 2002). Dramatic changes in the business environment that cause shifts in business conduct and marketing activities of firms around the world include, for example, the emergence of global markets for goods and services, labor, and financial capital, advances in technologies, and a reduction in traditional barriers to trade and investment (Deardorff and Stern, 2002; Jones, 2002; Orozco, 2002; Richmond, 2002). These changes have resulted in two significant globalization effects—the emergence of global market opportunities and threats—which are the two most often cited effects in globalization-related literature (Contractor and Lorange, 1988; Fawcett and Closs, 1993; Hitt, Keats, and DeMarie, 1998; Molle, 2002). These two major globalization effects eventually lead to adjustments in business and marketing activities of firms around the world (Hitt, Keats, and DeMarie, 1998; Jones, 2002; Shrader, 2001).

4. THE EFFECTS OF GLOBALIZATION ON CO-MARKETING ALLIANCES AND FIRM PERFORMANCE: AN EMPIRICAL STUDY

In the past two decades, we have witnessed dramatic changes in the business environment that has caused shifts in business conduct and marketing activities of firms around the world. The world has gone through the process of globalization, i.e., increasing social and cultural inter-connectedness, political interdependence, and economic, financial and market integrations (Eden and Lenway, 2001; Giddens, 1990; Orozco, 2002). Multinational enterprises (MNEs), the major agents and beneficiaries of this phenomenon (Eden and Lenway, 2001; Ghemawat, 2003; Rugman and Verbeke, 2004), are inevitably being affected by the process.

Many forms of organizational restructuring (such as downsizing, reengineering, and implementation of cooperative strategies) have been witnessed as responses to globalization (Jones, 2002). Among various forms of business restructuring, alliance formation is considered the most remarkable business trend in the past two decades (Hwang and Burgers, 1997; Kasmai and Iijima, 2002). Nonetheless, empirical studies that investigate how globalization actually affects firms’ cooperation in alliances, and how such cooperation ultimately enhances their performance are scarce.

As suggested by many international business scholars (e.g., Clougherty, 2001; Eden and Lenway, 2001; Young, 2001), the effects of globalization on firms remain unexplored. Thus, we hope to advance current literature on the rationale for alliance cooperation and performance of allying firms. Since superior marketing is a sustainable source of unique competitive advantage in this new competitive terrain, firms should focus on building such advantage (Webster, 1992). Given that inter-firm cooperation in international marketing activities enables firms to achieve superior marketing, it is our emphasis here to investigate whether such cooperation is crucial to firms’ marketing performance. The two research questions of this study are: 1) Does globalization affect the degree of cooperation in co-marketing alliances? and 2) Do co-marketing alliances influence firms’ international marketing performance? To answer these research questions, this study investigates the relationship between two major effects of globalization— global market opportunities and global market threats—and the degree of cooperation in co-marketing alliances. In addition, the influence of the degree of cooperation on a firm’s international marketing performance is also examined.

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5. CONCLUSION

This dissertation is comprised of three papers relating to the effects of globalization on firms. The first paper advances prior knowledge on globalization and business by empirically investigating how this phenomenon affects firm performance. The second and third papers explore the role of firms' cooperation in alliances in enhancing their performance amid globalization by specifically focusing on co-marketing alliances and international marketing performance of firms. A particular emphasis is paid to this type of alliance since superior marketing is crucial for firms to build a sustainable source of unique competitive advantage. Such advantage eventually enables firms to achieve long-run success in a hypercompetitive terrain under globalization. While the second paper proposes a conceptual framework relating globalization effects to alliance cooperation and firm performance, the last paper empirically tests the proposed relationships in two distinct economies (i.e., Thailand and the U.S.).

Given that globalization is a complex phenomenon, there is a scarcity of empirical research investigating its effects on businesses. The three aforementioned papers are among a few empirical studies that explore the effects of globalization on firms. Hence, there are several significant contributions of this dissertation. First, the effects of globalization on firms are classified into two key dimensions—global market opportunities and global market threats— based on an extensive review of scattered literature on the topic. Second, these major effects are operationalized and empirically tested in two conceptual models to examine the relationships among these effects, cooperation in alliances, and firm performance. Third, literature on international business, strategic management, and marketing are integrated to address the effects of globalization on firms' marketing conduct and outcomes. Forth, two complementary theories—transaction cost economics and market power perspectives—and literature on environment-organization interfaces are integrated to explain the phenomenon.

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