A model of overseas expansion for businesses from small economies

Abstract

Using core periphery theory as a framework, this paper examines the internationalisation process of businesses domiciled in peripheral economies. The paper proposes that a number of popular theories of internationalisation are based upon resource availability which is only likely to be found in continental sized economies. The theories fail to explain the strategic options available to firms in peripheral economies. This paper proposes a model which identifies four stages of expansion which are likely to be experienced by firms domiciled a small economy. It starts with domestic focus and moves though early expansion, full engagement and finally the last stage of loss of national identity. The characteristics of each stage are identified and the relevance of core periphery theory for multinational location is discussed.

INTRODUCTION

One of the main streams of international business enquiry is into multi national corporations. For instance, the reasons behind location decisions of multinationals has engaged the interest of researchers for some time. The work of Ekholm and Forslid (2001), Dunning (1998) and Ietto-Gillies (2000) provides an illustration of this interest. Porter (1990) also developed a framework which was aimed, in part, at explaining the link between location and competitiveness. Further work on clustering has been carried out by Rama and Calatrava (2002) and Masahisa and Thisse (2003). Complimenting this work has been the proposal of strategic types that seek to classify the strategies which may be adopted by firms expanding overseas. Examples are Bartlett and Ghoshall (1989) and Yip (1995).

Resource use decisions by multinationals are of importance as they affect the nature and form of business activity in much of the world, and consequently influence wealth and power distribution both nationally and internationally. Most theorising on the form of expansion of multinationals, as well as much of the empirical work, has originated in the large, continental sized economies of North America and Europe. The heavily concentrated economic activity in these economies has led to the growth of most of the world's well-known multinationals. Additionally, the leading business schools are also located in these
regions so it is not surprising scholars attached to them focus on the world they see around them.

Much of the discussion on the location of multinational activities starts with the assumption that a firm is already located in a large and advanced economy (Ietto-Gillies 2000). Theory relies heavily upon the increasing mobility of resources across boundaries (Dunning 1998). The theories also tend to downplay financial and logistical limitations upon a firm's actions. The underlying assumption is one of an established firm with few limitations on its capacity to act. (Ekholm and Forslid, 2001; Krugman and Venables, 1995). Theorists assume environments are undifferentiated and the carrying capacity of the environment and any limitations presented by it are assumed away. As the largest sources and receivers of foreign investment are the continental sized industrialised, high income economies, these may be reasonable assumptions to make. They are also resonate with the environment in which most theorists are based (Hinnings, 1996).

However these assumptions fail to reflect the reality of most firms which have their origin outside the large economies. Because of their isolation from the main centres of economic activity, such countries may lack financial and managerial depth, access to specialist resources and be generally limited by the small size of the domestic market. Variations in location, population and resource base present challenges to the assumptions underlying internationalisation theories. One framework that attempts to identify the manner in which geography influences outcomes is core-periphery theory. Core periphery theory was popularised by sociologists such as Wallerstein (1991) to provide a taxonomy which would assist in explaining different patterns in economic development. Wallerstein considers core-periphery theory is a component of world systems theory which in turn is an approach to explaining how variations in development may arise from geographic dispersion.

As may be discerned from the words core and periphery, the theory is not value free. Wallerstein (1991) and his colleague Goldfrank (2000) approached core periphery theory as a means of explaining unequal economic development. Those at the core are assumed to derive some benefit from their position compared to those on the periphery, particularly in relation to
resource flows. Wealth, status and capacity to influence decisions are proposed to be greater at the core. This contrasts to equal development and mutual benefit that are inferred by terms such as internationalisation and globalisation. The economic theory of comparative advantage also identifies the mutual benefits to be derived from trading relationships regardless of where countries are located.

Core periphery theory has been incorporated into contemporary economics and economic geography by Paul Krugman and others to assist in explaining the pattern of development both within and between regions (Krugman, 1991, 1998, Krugman and Venables, 1995, Ottoviano and Puga, 1996, Ekholm and Forslid, 2001). Krugman (1991) introduces simplifying assumptions in his model development. He concentrates on just a few products, and assumes there are no barriers to movement of capital, ideas or products. Disadvantages of distance are subsumed under the general heading of transport costs. Nor does he incorporate differences in market size or intangibles such as time zones. These simplifying assumptions fail to reflect the complexity of modern economies. But the application of Krugman’s model has a fairly clear outcome; the peripheral economies face a continuous effort to maintain their relevance and to attain reasonable levels of economic growth. Krugman’s model suggests that they mainly do this by concentrating on keeping their costs, including wages, low in order to attract the attention of decision makers in the core (Bellone and Maupertuis 2003). This process may also occur within a country, such as the economic relationship between rural and urban areas, as well as describing relationships between countries.

Whilst core-periphery theory was developed within the disciplines of sociology and economic geography, it provides us with a useful conceptual framework and terminology with which to approach the analysis of the internationalisation of businesses domiciled in peripheral economies. For the purpose of this paper, we consider a peripheral economy as being one which is under twenty million people and not part of a large trading bloc such as the European Union. This simplified measurement does not capture the full complexity of being on the periphery. A more complete definition would be multi dimensional and include
measures of GDP and business development as well as geographic isolation. But a population measure has been chosen because the small market in countries of this size is insufficient for firms to achieve economies of scale in many industries.

The small economic size of peripheral countries limits the opportunities for firms to enter many industries. Few peripheral companies have significant influence in industries such as motor vehicles, aerospace or capital equipment manufacturing. The small size of the domestic market also limits a company’s growth prospects and their ability to attract the attention of suppliers of capital. These circumstances indicate that the experiences of companies in peripheral economies are not fully explained by conventional strategy theories. For instance the small size of economies on the periphery implies that companies face the challenges of overseas expansion and the competitive pressures exerted by better financed and lower cost overseas competitors when they are quite small in size compared to their counterparts in core economies. Theorising peripheral firm’s experiences would therefore provide an insight into the challenges faced by many businesses in small countries.

The challenge of being on the periphery is of major relevance to many managers. Excluding those countries in the European Union, approximately 90 countries fit within our definition. Businesses in many of these countries are fortunate to be able to participate meaningfully in the world economy, let alone have an even minor impact upon it. Of the Business Week top 1000 firms in 2003, only 52 had their country of domicile outside the large continental economies although the Business Week survey excludes firms from what they term emerging markets. This paper attempts to create a model which explains peripheral firm’s experiences.

The model which is described is a process model and is expressed in non-mathematical terms in order to enhance explanatory richness. The model aims to explain the behaviour of firms on the periphery that are owned in their country of origin. Greater detail is available on domestically owned firms as they are generally listed on local stock exchanges and their operational performance is widely discussed by financial analysts and journalists. As foreign owned firms are headquartered in another country, their decision making is likely to
follow a different pattern to locally owned firms. The model also aims to describe only direct overseas investment; flows of portfolio investment are best explained by other models.

For explanatory purposes the model also draws upon Australian business experience but does not exclusively reflect Australian experience. The relevance of the model is heightened by recent concerns that Australia would become a "branch economy" as decision making by major corporations moved overseas. (Tingle, 2002). This process was seen to be accelerated by the takeover of thriving local firms by better-financed overseas companies, and the loss of successful companies as they expanded into overseas markets. The model described in the following section identifies the stages through which this process may occur.

DISCUSSION OF THE MODEL

The model consists of four stages, which have been called *domestic focus, early expansion, full engagement* and the final stage, *loss of identification with country of origin*. Each stage represents the progression from being exclusively focused on the domestic market to the situation where overseas operations represent the greatest part of the firm’s activities. The four stages are shown graphically in Figure 1. Progression through the four stages is not automatic; companies may regress to an earlier stage and later make another attempt at overseas expansion. They may also stop at any stage and move forward only if they make the strategic decision to do so.

*Stage 1: Domestic Focus*

The first stage is called *domestic focus*. This is where a company has no overseas operations and only serves its home market. Until twenty years ago, this was the only orientation of most companies in peripheral countries. Part of the reason for this was that much of the world was closed to new investment and capital flows. But also, the preferred path to growth was to move into unrelated, domestically focussed businesses. This conformed to strategic theories at
the time which promoted the conglomerate as the preferred form of industrial organisation (Amit and Livnat 1988). The structure of prominent Australian companies such as Boral, CSR and BHP reflected this orientation.

From the early 1980s, the business environment started to change and the opportunity to expand overseas emerged (Dunning, 1998). Tariffs began to fall and many industries were deregulated. Opportunities emerged overseas as barriers to investment fell. The pace of consolidation of Australian business increased and companies began concentrating on a fewer number of core areas. However owing to the small size of the domestic market many firms failed to achieve the economies of scale enjoyed by larger overseas competitors. Such economies related not only to short production runs but also to the large sums needed for design and development of new products.

Strategies based on conglomeration also started to lose favour. Many markets, such as those for whitegoods and building materials, were mature and sales growth was largely limited to population growth. Also, because of the small size of the market, one or two firms found themselves dominating the industries in which they operated. Further, domestic expansion in their industry was blocked by anti-monopoly laws.

For many firms the only growth option was, and is, overseas expansion. They could do this in two ways. They could make investments, generally through acquisition, in the same or a similar industry, or they could seek new markets through exporting. Additionally, manufacturers could expand by setting up factories in markets with less expensive labour.

There is a third option which has not been mentioned in the model, namely establishing a joint venture with an overseas partner. This form of expansion has dynamics similar to the purchase of an overseas company.

Although the above description applies to those firms which were market players twenty years ago, the general principal still applies to firms which have grown to dominate their domestic market. Computershare, the share registry business, and Flight Centre are examples. These firms also started with a domestic focus but found the small size of the
domestic market limited growth prospects. Few firms, with the exception of some information and biotechnology firms, incorporate overseas expansion as part of their initial business plan.

**Stage 2: Early expansion**

During the second stage, called *early expansion*, companies start expanding into overseas markets. But problems of scale begin to emerge. Given the modest financial resources of peripheral firms, they can generally only buy or establish small companies in their target markets that in turn lack scale. AMP's and NAB's expansion into UK financial services are examples as are Australian building material firm's expansion into Asia. Austereo in radio is a more recent example. The expectation is the investments may be expanded or added to over time. The phrase "establishing a beachhead" is often widely quoted to describe moves of this nature.

One of the characteristics of this phase is that firms often pay too much for what are second rate assets. NAB's purchase of Homeside provides and example, as does AMP in the UK and Air New Zealand with Ansett. First class assets with useful market share are often too expensive or are beyond the means of companies from the periphery. Further difficulties are encountered when second rate assets are purchased with the expectation of building upon them through further investment and management effort. In most cases initial expectations are not realised and the assets remain second rate. In some cases they are written off after efforts to develop the business prove unsuccessful. This occurred with Westpac's Asian investments and Hoyts and Village Roadshow's multiplex operations.

Investments in Asia often prove disappointing. Many western companies have seen their dreams of building substantial businesses in the Chinese market fail to come to fruition, Foster's being a typical Australian example. Returns also often fall short of expectations in other Asian countries and over time, many companies write off their assets, such as Telstra's investment in Reach. Others have found that the effort expended is not worth the meagre returns and the significant investment of management time and effort. In this case they are
often sold or merged with other operators, such as Boral's Asian plaster board operations with those of Lafarge. Other problems which lead to failure are inadequate market research, an inability to expand operations to gain the desired economies of scale, inadequate management skills or management depth and lack of local knowledge. Firms are often competing against better informed and better-financed local operations such as Air New Zealand in the Australian market. This stage represents a very steep learning curve for management as well as being a testing time for shareholders.

Many manufacturers have succeeded in their aim of expanding by exporting, particularly in high value added areas or with products which have a significant technical advantage such as may be found with Australian wine or Pacifica's automotive brake business. But lack of success may also be caused by inadequate preparation, intense competition, undercapitalisation or inappropriate product design. In this case firms may withdraw to their home market to reassess their strategy.

Companies may find themselves operating in markets which have higher levels of competition than they are familiar with. This is typically found in the US. The peripheral economies, being smaller entities with few participants, generally have lower levels of competition. In core markets they may find themselves competing with better-financed operations which also enjoy greater economies of scale, local knowledge and distributional advantages. The unfamiliarity of management with highly competitive markets, and the access to resources compete in them may lead management to reconsider whether it is worthwhile to pursue overseas expansion.

A strategy which may be adopted in these circumstances is to engage in a joint venture or strategic alliance with a local partner. This permits the company to reduce the amount of management time allocated to day-to-day management whilst accessing superior local knowledge. Brambles and GKN in the European and US pallet business is an example. Forming a joint venture or merging businesses may occur some time after the initial investment when it has become clear that the operation will have difficulty in achieving adequate returns such as with Boral's Asian operations or Foster's brewing interests.
There are number of possible outcomes for firms at this stage. They can persevere with their investments and maintain their overseas presence, generally in just one or two countries. Alternatively they may decide that the returns, and prospects, are not worth the effort and that resources and management time may be better spent elsewhere. As a result they may write off or sell the investments or, if they are an exporter, withdraw from the market. They then regress to a domestic focus. Harvey Norman currently must decide whether to proceed with its overseas expansion or withdraw to Australia.

Another possibility is that the overseas moves are sufficiently encouraging to continue expanding in a similar manner. CSR's and Boral's early stage US operations provide an example as well as well as Amcor's early packaging operations. If firms do follow this path they then move to stage 3 of the model.

Before examining the characteristics of stage 3, we should consider the actions of those firms that abandon the early stages of overseas growth. Generally, withdrawal from overseas markets is not permanent. Valuable lessons are often learned and further attempts at expansion may be made as opportunities arise. But firms may find that they only have the resources, or the interest, to operate in the domestic market. This need not disappoint shareholders; good returns may be made by concentrating on markets that are well understood and where local knowledge provides an advantage. Westfarmers, Woolworths and GUD provide examples.

**Stage 3 Full engagement**

In stage 3, called full engagement, firms are more settled in the international arena as their overseas ventures become established. Most firms adopt a multi-domestic strategy; that is each business has its own local management and acts as an insider in the markets in which it operates. There is little move towards the transnational form as described by Bartlett and Ghoshal (1989) although BHP and Rio Tinto go close to achieving this form. Firms have achieved sufficient scale for their overseas operations to be a large part of their business.
Flight Centre, Brambles and Paperlinx provide examples. Although these operations may be quite small by the standards of global business or large firms from the core, they form a large and increasing part of the operations of companies from the periphery. Note that achieving this stage of overseas expansion may take up to twenty years such as in the case of Amcor or Fosters.

By this stage a number of mergers or acquisitions may have been made which are consolidated to achieve larger scale. Amcor provides an example. These are generally in the one country or region. Few peripheral firms successfully scatter their operations around the globe, being more likely to operate in a small number of markets where they can become insiders. Companies which generally succeed overseas are those which have a successful product in the domestic market and have then taken it onto the world stage such as with Amcor with packaging and Boral with bricks. Few have made enduring investments in areas in which they have been unsuccessful at home.

Management changes also take place at this stage. Sometimes foreign representatives are invited onto the Board. Senior managers often spend time in the overseas subsidiaries and key personnel are moved closer to overseas customers. There is generally a more international orientation within the company. In some instances, the managing director may find it beneficial to locate in a key market to be close to both customers and expansion opportunities. This has occurred with both CSL and Burns Philp.

As often occurs with a multi domestic strategy, the ultimate ownership of an overseas subsidiary is often hidden, or at least not widely broadcast. This is indicative of the ongoing problem of credibility; how can a business from the periphery maintain the confidence of customers in a large, core market? This credibility gap narrows the range of merger partners as NAB is finding in the UK. Financing options are also limited. Having shares listing in peripheral stockmarkets means that script generally cannot be used in takeovers as it is illiquid in foreign markets. Making cash bids in overseas markets is also made more difficult by the often adverse exchange rates of peripheral economies.
Those that export manufactures can also thrive at this stage. Their products are generally in specialist areas where distance is not a disadvantage. Fisher and Paykel Health, Resmed and Cochlear are examples as is Fonterra's dominance of the dairy trade and Austal's success in fast ferries and patrol boats. They may also enjoy a price benefit arising from undervalued currencies. But costs are generally insufficiently low to enable competition with traditionally low wage areas. Often facilities are established overseas to be closer to customers or to manufacture goods which are low value and bulky to transport. Austal has purchased a US shipyard in order to tender for US Navy work. Manufactured goods exporters may locate key marketing and technical support personnel in receiving markets.

What contributes to failure at this stage? For those investing in overseas businesses, an inability to generate sufficient return on investment is a continuing problem. Good overseas investments may be difficult to come by at an acceptable price. Financial resources may be limited by a weak domestic currency, overseas firms may be reluctant to merge with a firm from the periphery, or potential merger partners may prove to have little to offer. Firms often have difficulty in scaling up their operations in order to achieve economies to compete in large markets. Firms may also find that their management skills are too stretched to effectively run an expanded overseas operation.

As with Stage 2, companies faced with too many disincentives may regress to an earlier stage. Few companies actually fail through overseas losses; they are more likely to write off or sell their ventures and return to the more familiar, and profitable, domestic market. More likely, seeing as they have invested considerable money and time, they may reduce the spread of their overseas investments to concentrate on a few key profitable markets. Rinker has achieved this by concentrating on the US and Australia.

What of the successful firms? They may change their growth profile by attempting to expand through organic growth and small bolt on acquisitions. If manufacturers are exploiting a profitable niche, they may be quite happy to continue to do so. Manufacturing companies may take advantage of the various incentives offered by some countries and set up facilities overseas leading to an increasing proportion of their output being produced closer to the
customer. Regardless of the product, opportunities for expansion overseas operations exceeds those offered by the domestic market, and consequently the proportion of overseas operations increases.

One exit from our model at this stage is for the firm to be taken over by an overseas company. It is axiomatic that those firms which have been successful in developing overseas businesses have a successful product and an appropriate strategy. They make an appropriate complimentary acquisition for a better financed firm from one of the core economies. Currency weakness in the peripheral economies and shallower capital markets make successful peripheral companies inexpensive and very attractive to overseas purchasers. Many Australian mining companies, such as CRA, fall into this category, as does Pioneer Concrete and TNT.

Strategies involving continued growth move firms further from their peripheral roots. There are a number of factors driving this. Better known and understood firms generally have access to cheaper capital, so there is an incentive to move closer to deeper capital markets where key financial analysts are located. Large investment funds may only wish to invest in companies that have reached, in peripheral terms, is an extremely large size. So to gain the attention large investors, a company needs to be both large and close to core markets. Once such attention has been gained, the cost of capital for successful firms falls, thus adding to competitiveness. As a consequence, the incentive to reach a critical mass through overseas growth is quite large.

A second factor is that management domicile tends to follow the location of the bulk of the operations. So as a greater proportion of the firm’s business is conducted in offshore markets, management orientation is inevitably drawn in this direction. A further management related factor is that, notwithstanding improvements in communication technologies, much top management decision making requires extensive networking which in turn requires and increasing amount of time to be spent overseas.
Stage 4: Loss of national identity

The almost inevitable result for successful firms from the periphery which succeed in achieving continuous growth by overseas expansion is loss of national identity, which is name for Stage 4. Apart from takeover, which we discussed in the previous section, the continued disadvantage of running a global business from a remote location means that there is an inevitable pull to move control closer to where most of the business is located. Simple arithmetic illustrates why loss of national identity occurs far earlier in the growth stage of peripheral firms that those at the core. The US market has approximately 350 million consumers; Australia has 20 million. A US firm may be approximately 15 times bigger than a large Australian domestic firm and still have a domestic orientation. An Australian firm of the same size would well and truly have outgrown its place of origin.

In order to access deeper capital markets firms may seek a dual listing, generally in both Australia and London, BHP Billiton, Brambles and Rio Tinto are examples. Given the time difference, London then becomes the main driver of price as most profit announcements are made to the London stock exchange. Overseas listing is often accompanied by the domicile of the chief executive in one of the core economies with only brief visits to the home market. Eventually few of the characteristics of the peripheral economy remain in the orientation or management of the firm. Firms in this category are BHP Billiton, Brambles, CSL, News Limited, James Hardie and Burns Philp.

DISCUSSION OF IMPLICATIONS

The model presented above indicates that there is not always a happy ending to the story of growth by expansion for those firms in the periphery. The underlying theme of the model is one of a constant quest for size and economies against a background of small domestic markets and the many disadvantages of distance from major economic centres.
The model highlights that whilst all firms may face a similar globalised environment, the resources available to peripheral firms to take advantage of that environment is limited (Krugman and Venables, 1995). They are at locational and timezone disadvantages compared to competitors from the main core markets. They often lack the economies and financial resources to establish a meaningful presence in core markets which makes achieving cross border synergies difficult to achieve. This is a significant problem for peripheral firms as such synergies form the main benefits of globalisation. Finally, and less easy to quantify are behavioural issues such as lack of depth in management skills, inexperience in dealing with high levels of competition and lack of knowledge of overseas markets.

Whilst not invalidating the theories of globalisation as proposed by Bartlett and Ghoshall (1989) and Yip (1995), the matters raised by this paper indicate that there may be a need to qualify them in some way in order for them to be applied to peripheral economies. The examples provided by the authors, concentrating as they do upon well known multinationals from core economies, reveal their limited application to peripheral economies. More specifically, the prospects of establishing a global or transnational business based in a peripheral economy would appear to be limited unless it was in an extremely small and specialised area such as with Cochlear. Yip’s (1995) proposals for a total global strategy would appear to require resources which are well in excess of those in most firms in peripheral countries (and perhaps of many firms in the core as well). This position reflects the North American bias in much of the business literature (Hickson 1995).

The model also suggests that it may be misleading to treat multinationals the same regardless of where they are located. This acts as a counterpoint to much of the literature on multinationals, such as that discussed by Dunning. The model indicates that the nature of the firm’s domicile is important with factors such as geographic location, size of domestic market and the carrying capacity of the environment influencing the nature of business expansion.

The political implications of unequal outcomes from globalisation are likely to be significant in the long term. Globalisation has generated many benefits for peripheral countries, particularly in opening access to markets (with some exceptions, notably
agricultural products) and in reduced barriers to capital flows. Economic modelling however takes little account of national sensitivities and the political implications over the loss of important businesses. If the large-scale migration of industry control reaches a politically unacceptable level, then countries may restrict takeovers or relocation of their "national icons".

One of the themes running through this model is that managing overseas operations is not a simple replication of managing activities at home. Even the best-managed firms have made ill-judged forays into foreign markets and have subsequently had to reconsider their strategy. Overseas expansion is a learning and developmental process which occurs over a number of iterations. In addition, establishing an overseas presence adds complexities to organisational structures and costs to management. As a result it is not surprising that much overseas expansion fails to meet expectations and that rethinking approaches needs to be undertaken. Drawing upon Australian experience it make take as long as ten years before self-sustaining overseas operations are established.

**CONTRIBUTION TO CORE-PERIPHERY THEORY**

Core-periphery theory describes relationships between two economic entities in which the core derives economic benefits at the expense of the periphery. This implies a loss of autonomy and continuing subservient status for peripheral economies.

Globalisation and core-periphery theory tend to be contradictory philosophies. Whilst globalisation proposes that all benefit from the reduction of barriers to trade and the integration of the world economy, core-periphery theory suggests that, regardless of the openness of a trading system, there are ongoing disadvantages of isolation and marginalisation for some countries and regions. Indeed, the opening of the world economy has in some ways contributed to this marginalisation through the process of the internationalisation of indigenous businesses. In this section we discuss whether the model we
have described in this paper provides support for the development of unequal economic relationships under conditions of globalisation.

What are the contributions the model may make to the development of core-periphery theory? First it identifies the way in which the business experience of those firms in the periphery differs from those in the core. They are based in smaller markets leading to lack of economies of scale and growth options. Firms are generally smaller in size and the cost of capital may be higher compared to those companies in core. They may also lack credibility in core markets. Peripheral financial markets also lack the depth of those in core economies putting peripheral companies at a disadvantage when raising capital.

The model also illustrates the process through which key business decision making may become centralised within the core economies. It describes the process through which head-quarter and top end corporate activities gravitate to the main financial centres. The larger the corporation and the greater the proportion of overseas assets, the more likely this is to happen. Only some of the firm's functions move to core areas but these are very important parts. They are associated mainly with finance and strategic decision making. With these functions goes top end consulting, accounting, IT and other services. For small economies, this may lead to a significant loss of part of their intellectual base. In vernacular terms this is often referred to as the "brain drain".

The political and economic implications of this process are little understood. In some ways the development of transnational companies whose managers owe no allegiance to any particular country, seems an appropriate artefact of the global village. But in other ways it is difficult to see this move as being to the benefit of the peripheral economies. They are only likely to be viewed through a narrow lens as providers of raw materials or other specialist products where they have a comparative advantage. As a result, significant decisions about their future are often made in distant capitals on false premises leading to peripheralisation becoming self-perpetuating.
Of importance to the periphery however is the flow of capital and technology from the core to the peripheral economies. Left to their own resources and limited markets, peripheral economies would never be able to generate the technological levels and quantities of capital to fully develop their economies. Additionally, it is only by access to core markets that peripheral firms may grow to the size where they start to loose identification with their home markets. Without such access they would remain small and isolated with probably lower skill and technology levels. Perhaps this explains why standards of living on the periphery need not be lower than that at the core. But it is difficult not to conclude that with key assets moving out of control of the peripheral economies, being at the edge tends to be self perpetuating.

CONCLUSION

One of the underlying themes of the model is that there is not a level playing field for companies in the globalised world. Those in large core economies have the opportunity of achieving economies of scale in their domestic markets. They are generally adapted to high levels of competition and enjoy the benefits of being closer, geographically and emotionally, to major customers. As a result, many firms in the US for instance, can satisfy their desire for growth without having to move out of California or the north eastern states.

In contrast, firms on the periphery face difficulties, certainly not insurmountable ones, in seeking growth. They soon outgrow their home market and are presented with the difficult task of accessing overseas markets when they may be quite small in size. One possible end result is loss of the internationalisation process for these firms is the relocation most of their decision making capability closer to their largest markets.
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Dr. Neil Barnwell  
School of Management  
University of Technology, Sydney  
neil.barnwell@uts.edu.au

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