

FROM STRATEGIC BUSINESS UNIT TO INTERFIRM STRATEGIC BUSINESS UNIT: A THEORETICAL FRAMEWORK TO IBU PERFORMANCE AND PLACEMENT

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Abstract

Global manufacturing businesses manage a flexible use of time and space, in order to take the most of different manufacturing locations: thus, companies are pressed to search for manufacturing solutions that can combine both manufacturing time and spatial requirements, in order to control and guard the most convenient global areas with own strategic manufacturing units.

Businesses face competition also by associating with other businesses, creating a competitive network by stressing many and intense relationships: two or more companies achieve mutual advantage by giving up the absolute control they held over certain business processes, to exploit common benefits generated by their association.

This realize a radical re-thinking of their whole organization: through a massive recourse to outsourcing strategies – with the aim to take the best from the market by developing complex mechanisms aimed to implementing the competitive relationships either ‘individually’ or in association with other businesses (suppliers, distributors, or even competitors) – internal skills undergo a progressive reduction until the ‘core business’ remains under strict control.

The shared activities can be realized in interfirm business units, representing the smallest part of a cooperative network.

In this paper we examine the fundamental international literature on alliances and network, finding a new perspective on interfirm business units placement and performance evaluation

Keywords: Strategic business unit, interfirm business unit, localization, performance, network

Introduction

In global markets, qualified by hypercompetition and uneasy features, and even more in global over-supplied markets, a flexible placement of manufacturing activities is needed: the starting point is the definition of a set of principles on which a localization¹ choice can be usually based (first of all, the proximity to the outlet and supply markets, the possibility to gain state-related incentives, and so). But obviously the choice has to be accomplished with further factors, qualifying the markets in which the company intends to be present, as the existence of unsold goods (produced but not absorbed by demand in any markets) to the above-mentioned cooperation between companies.

To manage the localization of manufacturing plants is obviously complex as related to a continuous monitor and evaluation of changing environmental conditions. Indeed, it is very different from the choice to locate a plant in global static markets, in which demand is markedly higher than manufacturing capacity: e.i. in a under-supply situation, manufacturing is naturally placed near the supply, energy resources and raw materials' markets (that is, to crucial factors for the company).

The firm is considered as a 'living system'² relied mainly on its ability to answer to external stimuli to survive and acquire competitive advantage. It is therefore of paramount importance to understand the environment – and its main features – it relates to, and weakness, strength, threats and opportunities it conceals. In this sense, if a firm is operating in a under-supply market – based on the behavioural stability of both demand and competition, chose a static localization mainly as it needs to be close to energy resources. Such stability lets the firm to place few large manufacturing units and thus determines sizable fixed costs that can only be absorbed in the long term³.

On the other hand, a company competing in global over-supplied markets has to quickly change the localization of its manufacturing plants if there is an advantage in doing so (if particularly favourable conditions appear in different locations – either in the same country or otherwise), thus pursuing dynamic localization policies.

¹ 'Localization is the process of selecting the place for specific socio-economic activities', see M. DAMBORSKÝ-M. JETMAR, *Localization decision-making of the firms as dynamic process*, Paper, University of Prague, 2011, p. 1.

² Cf. G. M. GOLINELLI- M. GATTI, L'impresa sistema vitale. Il governodei rapporti sistemici, in *Symphonya*. Emerging Issues in Management (www.unimib.it/symphonya), n. 2, 2000-2001.

³ Cf. M.E. GARBELLI, Product Differentiation Cost and Global Competition, in *Symphonya*, Emerging Issues in Management (www.unimib.it/symphonya), n. 1, 2005.

In static competition⁴, manufacturing plant localization is a decision lasting long-time thanks to the stability⁵ of the markets, characterized by primary needs and plentiful demand, which is willing to move to find satisfaction to his needs.

Indeed, localization choice can be driven by proximity to the supply markets and the company usually find one or few location to place both manufacturing and all company's activities.⁶

But, when commercial and marketing activities take increasing importance, confining the firm's activities to one or few manufacturing sites cannot suitably satisfy market's demand.

As the market is complex even if static, the company splits geographically and chooses where to place its processes directly by linking to the critical features of the market: the distribution activities will be located close to distributors and customers, but manufacturing ones are located adjacent to supply markets, in order to optimize at the same time workers and transportation costs⁷. The placement decision made are valid in the long term because of the static nature of the market.

Strategic Business Unit and Interfirm Business Unit: a definition

Global companies face strong instability and hypercompetition⁸, qualifying global markets, by adopting light business solutions, in order to

⁴ Markets go on without shocks in the short term (or with global shocks, but not involving directly the specific sector in object). In the long term, there are significant, but quite expected, changes and companies have time and resources to adapt, by gradually react with coordinated and ongoing processes of adjustment over time.

⁵ 'It is important to stress, however, that such stability does not imply invariability or irreversibility in the choices made. A business can change its location choices but only in extraordinary circumstances as the related cost is far from negligible', see M.E. GARBELLI, Over Supply and Manufacturing Localization, in *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya) n. 1, 2002.

⁶ 'On closed, static markets, companies compete in a defined space, the sector, in which territorial and administrative boundaries are clear-cut and stable in time, and whose structure influences corporate strategies', Cf. E. RANCATI, *Market-Driven Management, Global Markets and Competitive Convergence*, in *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya) n. 1, 2010.

⁷ The geographical split can also be due to the need to act on manufacturing costs by overcoming to institutional constraints (union power, absenteeism, etc.), by decreasing workforce rigidity, see. M.E. Porter, *Il vantaggio competitivo*, Edizioni di Comunità, Milan, 1995.

⁸ Globalization increases the level of interdependence between markets, because it increases financial, commercial and cultural exchanges, breaking down the barriers that hinder the transfer of goods, services, capital, resources, information and technology between the various countries. This changes the configuration of a company's competitive horizon by modifying the competition boundaries; space is no longer characterized by distance and by territorial or administrative frontiers (market-space management). This

let businesses face environmental complexity and variability optimally (such as introducing information and communication technologies (ICT), adopting flexible plants and developing an intense network of relationships with company partners⁹ and the outside world) in order to improve its competitiveness both with progressively decreasing fixed costs and becoming dynamic.

A fixed cost reduction needs a radical change in the structure of business costs but gives a business the capability to better answer the market needs in short time and lets it free from the static character imposed, for example, by amortization periods and the financial burden¹⁰.

Such commitment can be realized for examples by the choice to rent the production capability rather than buy a business unit area, or to rent a plant than to built an own one, or the choice to lease the equipment and machinery employed instead of acquiring them. Moreover, the reduction in fixed costs is also implemented by the search – often performed worldwide – of the regions or countries in which specific cost categories appear more advantageous¹¹.

The trend to lighten the business is reflected even on the localization choices¹²: instead of building big and static plants totally owned by the company, the firm aim to create small plants, based on complex localization factors – such as proximity to supply and outlet markets, availability of

transforms the organization within the competition space of the relations and transactions of any company that focuses on time as a competitive driver (time-based competition). see E. RANCATI, *Market-Driven Management, Global Markets and Competitive Convergence*, in *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya) n. 1, 2010.

⁹ P.S. AULACK-A. MADHOK, *Cooperation and performance in International Alliances: The Critical Role of Flexibility*, in F.J. CONTRACTOR-P. LORANGE, *Cooperative Strategies and Alliances*, Pergamon, 2002. In their work the Authors enhance the role of flexibility in global alliances, as ‘since international alliances are much more strongly impacted by external influences (e.g., exchange rate uncertainty, political uncertainty, instability of existing institutional infrastructure, etc.), particularly in the case of emerging markets, having flexibility in such alliances (rather than preset rigid contracts) can have especially important implications for international alliance performance’, see P.S. AULACK-A. MADHOK, *Cooperation and performance in International Alliances: The Critical Role of Flexibility*, p. 29.

¹⁰ M.E. GARBELLI, *Product Differentiation Cost and Global Competition*, in *Symphonya, Emerging Issues in Management* (www.unimib.it/symphonya), n. 1, 2005

¹¹ In many sectors and mainly in the computer, electronics and telecommunication one, many companies are looking for places where labor is cheap to delocalize manufacturing plants. Such dynamism in localization is also made possible by the adoption of lightweight organization choices that allow for the compression of fixed costs.

¹² I use the term ‘localization’ as in economic geography that is ‘the location of production in space’, that is, that branch of economics that worries about where things happen in relation to one another. (see KRUGMAN 1991a, p

government incentives, fast disinvestments potential in a given area – implicitly expresses the need to reduce action-reaction times (time compression).

Those features are due to the specific market requirements: facing a global over-supplied situation means try to satisfy the changing features of an unstable market in a very short time (time to market). A big plant with a large mass-manufacturing unit cannot be dynamic, but a small plant with flexible machinery systems is at an advantage, as it can be easily adapted to change. Such plant has moreover the easiness to proceed to rapid disinvestment as it allows for a wide margin of action. This asset deeply influences localization choices, by characterizing them with a dynamism that is inconceivable for a mass manufacturing unit.

However a company supporting such ideological and structural changes, need to boost the system of relationships with the outside world through both outsourcing and sharing business processes – typical of market-space competition – with other companies in vertical cooperation (upstream or downstream in the manufacturing chain) but even by cooperating with competitors (horizontal cooperation). As most common types of cooperation used to achieve a specific competitive edge, alliances and joint ventures arise to contain some costs, but at the same time allow for ownership to remain unchanged; the cooperative relationship can be easily closed if the mutual pursued advantage disappear. That's a relevant, dynamic asset.

That explain why in recent years, markets have seen an enormous growth of alliance activity, specifically, in voluntary interfirm agreements involving exchange, such as the sharing or co-development of products, technologies or services (Gulati 1998¹³); such agreements can be equity based or non-equity based (Osborn and Hagedoom 1997¹⁴) and involve contested markets and uncertainty over outcomes (Arino et al., 2001¹⁵). Because of their widespread use, alliance activities seem to have modified the level of competitive rivalry (Ziggers and Tjemkes 2010¹⁶).

As a result, a competitive network, the interorganisational structure resulting from the whole portfolio of alliance agreements, is not strictly a set of multiple locations of business branches with different owners, as the role

¹³ R. Gulati (1998), Alliances and Networks, in *Strategic Management Journal*, vol. 19, issue 4, p. 293–317.

¹⁴ R. N. Osborn, J. Hagedoom, The institutionalization and evolutionary dynamics of interorganizational alliances and networks, *Academy of Management Journal* n.40, issue 2, p.216-278, 1997.

¹⁵ A. Arino, P.S. Ring, J. De la Torre (2001), *Relational quality: Managing Trust in Corporate Alliance*, Research paper n. 434, Research Division of IESE.

¹⁶ G.W. Ziggers, B. Tjemkes, Dynamics in Inter-firm Collaboration: The Impact of Alliance Capabilities on Performance., in *International Journal on food system dynamics* 2/2010.

of synergies between partners is of fundamental importance. We can better define a competitive network as a collection of businesses with similar and complementary needs and compatible information systems, but with different aims and cultural values – all of which are linked to each other by dynamic cooperative relations (i.e., alliance relationships of mutual cooperation) (Busi and Bititci 2006)¹⁷.

I call Interfirm Business Units a structural change on the ownership and the exploitation of manufacturing plants shared with partners: such a change goes on with the dynamic management of the cooperative relationships. The existence of such units is directly connected to the need of giving flexibility to the firm structure with a better ability to adapt to the context but a fixed costs reduction at the same time. The ability to change quickly at ever-lower cost when carrying on, and even to be closed with reduced costs, are basic assets for the cooperation agreements in global over-supply markets; moreover, the decision taken by the partners can be carried out at the strategic level first, and then easily translated into the Interfirm Business Units operations with lower costs.

Indeed, the dynamic localization of the Interfirm Business Units is connected both to:

- a ‘physical movement’ of plants to different places whenever partners, no more mass manufacturers or geographically centralized, split themselves into interfirm strategic business units (IBU), and decide to transfer the SBU to different locations according to the temporary advantage of specific places;

- an ‘ideological’ more than ‘physical’ movement, implemented by cooperative manufacturing agreements between partners, that leads a presence of the company in a specific partner’ site in an area, even if not independently. Such agreement implies however a loss of control over the site by the owner but it is accompanied to specific advantages (according with the agreement) and realize the dynamic process of manufacturing localization but without physical movements (e.i., of machinery or other tangible assets).

¹⁷ M. Busi; U. S. Bititci (2006), Collaborative Performance Management: Present Gaps and Future Research, in International Journal of Productivity and Performance Management, n. 55, pp 7-25, p. 9. According with Godrej, founder and manager of one of the top business organizations in India, ‘a conglomerate works when each of its businesses is run with clear and focused accountability. What makes for a well-run conglomerate is the same set of principles and behaviors that distinguish a successful single-business company from an unsuccessful one.’, in A. Godrej (2004), Creating Value with a Conglomerate: the Case of the Godrej Group’, in Journal of Applied Corporate Finance.

Interfirm business unit performance

Global markets features force companies to adopt complex, more efficient, organisational structures. To accomplish this, businesses combine two different types of renovation. Individually, the company moves toward a geographical split in different strategic business areas (SBU), each representing an autonomous branch of the business. Second, the business is forced to cooperate with others (to create one or more common manufacturing, assembly or distribution plant, to use a partner's unexploited production capability, or to develop a common research laboratory instead of building plants wholly owned and in many cases under-used by the business) in order to reduce their competitive costs (Garbelli 2005¹⁸; Nielsen 2007) and enhance their competitive position¹⁹, also through the mutual benefits related to the knowledge generation and dissemination within the network. The inter-organisational solution is expected to develop trust between organisations, as shared informal rules and beliefs can help partners to face external uncertainty better than they could individually²⁰. At the same time, many problems can affect the good management and exploitation of the partnership (Tyrrel 2010²¹, Ziggers and Tjemkes, 2010²², Lee and Cavusgil, 2006²³; Sluys et al., 2011, Todeva and Knoke, 2005,...)

¹⁸ M. Garbelli (2005), Product Differentiation Costs and Global Competition, in *Symphonya. Emerging Issues in Management*, www.unimib.it/symphonya, 1. Doi: <http://dx.doi.org/10.4468/2005.1.06garbelli>

¹⁹ Craven et al. (1993) argue that 'strategic alliances are a means for organizations to gain competitive advantage in a product/market when environmental turbulence and diversity are high and the organization's skill and resource gaps are high', in D.W. Cravens, S.H. Shipp, K.S. Cravens (1993), *Analysis of co-operative interorganizational relationships, strategic alliance formation, and strategic alliance effectiveness*, in *Journal of Strategic Marketing*, 1, pp. 55-70.

²⁰ On a similar subject, Noordewier et al. argue that shared beliefs between buyer-vendor relationships in unpredictable markets can improve performance level. T. Noordewier et al. (1990), *Performance outcomes of purchasing arrangements in industrial buyer-vendor relationships*. *Journal of Marketing*, 54 (4), pp. 80-93.

²¹ Tyrrel P., *Sharing the Idea. The Emergence of Global Innovation Networks*, The Economist Intelligence Unit (2007). Tyrrel found some risks related specifically to the building of a network for innovation: first of all, a lack of trust on partners, and on the same concern, the loss of control on its own knowledge property (Theft of intellectual property and Loss of control over innovation process). Beside it, the greatest risks are related to difficulties due to the alliance management, such as difficulties in ensuring compliance, in sharing knowledge, in managing remote staff and in cultural differences. There are also some others to be evaluated: Possibility of conflict, Incentives not sufficiently aligned Excessive complexity in supply chain, Concerns over quality control.

²² G.W. Ziggers, B. Tjemkes (2010), Dynamics in Inter-firm Collaboration: The Impact of Alliance Capabilities on Performance, in *International Journal on Food System Dynamics*, n.2.

²³ Y. Lee, S.T. Cavusgil (2006), Enhancing alliance performance: The effects of contractual based versus relational-based governance, in *Journal of Business Research*, n.59, pp. 896-905.

For this reason, a business needs to measure periodically its performance, from multiple perspectives, in accordance with the popular phrase, ‘you cannot manage what you don’t measure.’ Performance measurement lets the company quantify and qualify management decisions and evaluate its various types of relationships:

- inside its boundaries (with workers and shareholders); and
- outside its boundaries:
- within a competitive network; and
- with the global environment, given that social and environment issues are gaining increasing attention.

Globalization forces companies to evaluate their performance from a multiple point of view and with a clear sustainable approach (which is, many times, just a partial commitment) create a performance management system that integrates multiple and balanced perspectives to better satisfy - in a sustainable way - market requirements.

An accurate and appropriate measurement of performance is critical in entrepreneurship research; without such measurements, the theoretical literature is impeded in its ability to suggest prescriptions for entrepreneurs (Murphy, Trailer & Hill, 1996²⁴). Measurement is just one step in the more complex Performance Management System.

The Performance Management System finds a useful application both for network level of analysis, for the alliance one, for company level but also for SBU. Some studies, for example Gresof and Stephens one²⁵, enhance not only the role of a unit in building the multiunit company’s performance, but of influencing the management and performance of other units.

It also plays a central role when a company is composed of a network of business units: in a similar situation, it becomes fundamentally important to be able to estimate the performance of each unit in order to optimise its management and to evaluate the utility of keeping it operational (Kaplan and Norton 2000; Neely et al. 1996; Bititci et al. 1997²⁶), as each business unit has to remain individually competitive in the specific market in which it

²⁴ G.B. Murphy, J.W. Trailer, R.C. Hill (1996), *Measuring Performance in Entrepreneurship Research*, in Journal of Business Research, n.36, p.15.

²⁵ C. Gresof and C. Stephens, *The Context of Interunit Influence Attempts*, Administrative Science Quarterly, 1993, Page 252-276

²⁶ A. Neely et al. (1996), *Getting the Measure of your Business*, University of Cambridge, Cambridge; U.S. Bititci, A.S. Carrie, L.G. McDevitt (1997), Integrated Performance Measurement Systems: a Development Guide, in *International Journal of Operations & Production Management*, vol. 17, n. 6, pp.522-535; R.S. Kaplan, D.P. Norton (2000), *Having trouble with upir strategy? Then map it*, Harvard Business Review, vol. 78, pp 167-176;

operates (Bititci et al. 2005²⁷). Thus, to calculate an SBU performance involves evaluating its economic, social²⁸ and environmental performance in terms of results gained, analysing each business unit dimension (customers-needs-technologies) and evaluating the opportunities to change such dimensions or to keep them unchanged over time²⁹. SBU performance is also related to the company's own learning and innovation ability, which derives from its network position and absorptive capacity (Tsai 2001³⁰). Different network positions represent different opportunities for a unit to access external information and knowledge and thus improve performance; absorptive capacity refers to an SBU's ability to assimilate and replicate new knowledge gained from external sources (Cohen and Levinthal 1990; Hill et al.,³¹), which are associated with performance increases. According to Tsai, knowledge transfer among organisational units provides opportunities for mutual learning and inter-unit cooperation that stimulate the creation of new knowledge and, at the same time, contribute to the organisational unit's ability to innovate. Tsai also outlines the importance of inter-unit openness in increasing the SBU's cost efficiency through the dissemination of 'best practices' within the organisation.

The process and the metrics applied to performance measurement can also change according to the particular location of the SBU. For example, Maskell focuses on the opportunity to use specific tools to more precisely

²⁷ According with Bititci, business units can be product oriented (the product itself determine how it compete in the market) or market oriented (the product is subjected to different competitive pressures in different markets). In both cases, the SBU performance derives from the combined performance of every activity conduct in the unit. U.S. Bititci, K. Mendibil, V. Martinez, P. Albores (2005), *Measuring and managing performance in extended enterprises*, in International Journal of Operations & Production Management, vol. 25, n.4, pp. 333-353.

²⁸ Its noted that 'developing an adequate control system for a company and its business units requires recognition of the culture of the manager and workers within the different segments of the company.', P. O'Clock, K. Devine (2003), *The Role of Strategy and Culture in the Performance Evaluation of International Strategic Business Units*, in Management Accounting Quarterly (Winter), pp. 18-26.

²⁹ Simons (2000) argue that the performance evaluation of a business unit has a positive correlation with the identification of a specific responsibility as it is useful to relate the output forecast of the unit ant the work expected level for human resources with the unit's results. R. Simons (2000), *performance Measurement and Control Systems for Implementing Strategy*, Perentice-Hall.

³⁰ W. Tsai (2001), Knowledge transfer in Intraorganizational Networks: Effects of Network Position and Absorptive Capacity on Business Unit Innovation and Performance, The Academy of Management Journal, vol. 44, n.5.

³¹ W. Cohen, D. Levinthal (1990), *Absorptive capacity: a new perspective on learning and innovation*, Administrative Science Quarterly, 35, 1990; M. A. Hitt, R.D. Ireland, R.E. Hoskisson (2005), *Strategic Management*, Thomson.

estimate business volume in different locations (Maskell 1991³²). In a similar way, Yenyurt (2003³³) suggests a specific performance management system for businesses with multiple locations. His work is particularly useful for analyses focused both on strategic business units and on competitive sites.

The relevance of performance measurement is enhanced whenever the business unit is managed by sharing its functionality with partners: what we define interfirm business units (IBU) instead of strategic business unit, are the operative level of the alliance. According with Tsai (2001), a organizational unit can produce more innovations and enjoy better performance if it occupies central network positions that provide access to new knowledge developed by other units. The work of Gresov and Stephen (1993³⁴) on the other hand enhances the concept by talking about an interunit influence, according with organization context (the pool of factors affecting the organization as a whole) and the specific unit context (they mean, factors qualifying the interaction between the unit and closely related units).

For an IBU, closely to a SBU, the performance gained depends to some factors:

- A clear identification of the specific unit' goals to be achieved (Gresov and Stephen³⁵,1993);
- A positive commitment on explain to employees what they are doing, why, etc, in order to build a positive culture for the organization
- A clear identification of the timing of the goals: the right timing let the unit work with short time steps in order to achieve the final goal. A similar approach helps to be not scared about high scores required (positive attitude toward middle goals) and facilitate a continuous control;
- The right level of resources allocated to the unit (Gresov and Stephen³⁶,1993), functional to the daily management;

32 V. B. H. Maskell (1991), *World Class Manufacturing. A Model for American Companies*, Productivity Press, New York, p.20 e segg.

33 Cfr. S. Yenyurt (2003), A Literature Review and Integrative Performance Measurement Framework for Multinational Companies, in *Marketing Intelligence and Planning*, n. 21, pp.134-142.

³⁴ C. Gresov, C. Stephens, The Context of Interunit Influence Attempts, *Administrative Science Quarterly* © 1993, p. 252-276.

³⁵ C. Gresov, C. Stephens, The Context of Interunit Influence Attempts, *Administrative Science Quarterly* © 1993, p. 252-276.

³⁶ C. Gresov, C. Stephens, The Context of Interunit Influence Attempts, *Administrative Science Quarterly* © 1993, p. 252-276.

IBU performance evaluation has to take into account the performance measurement system of each partner, using the same tools and metrics to facilitate the single firm's evaluation of its profitability within the network.

On the one hand, the IBU performance depends on the interfirm unit's ability to improve learning and innovation by enhancing the resources (human or technical) shared between partners, as is the case for SBUs. In fact the ability to create innovation is a relevant performance metric: in their survey, Robinson Jr. and Pearce (2006³⁷) found that strategic orientations emphasizing product innovation or those incorporating 'efficiency' and 'differentiation' patterns of strategic behaviour were associated with significantly higher performance levels.

On the other hand, an IBU's performance evaluation is closely related to the cooperation agreement: depending on the terms of that agreement, partners can decide to keep unchanged, modify or leave the agreement if they believe that they have obtained few or no personal benefits. Thus, performance evaluation lets each of the partners focus on the activities generating value for itself.

Interfirm business unit placement: a dynamic process

As often underlined previously, we can briefly identify global markets by associating to over-supply conditions, strong instability and hyper competition, which is focused more on intangible products and company assets than tangible ones, and on time and space management. We point out that globalisation increases the level of interdependence between markets, because it increases financial, commercial and cultural exchanges, breaking down the barriers that hinder the transfer of goods, services, capital, resources, information and technology between the various countries. This changes the configuration of a company's competitive horizon by modifying the competition boundaries: space is no longer qualified by distance and by territorial or administrative frontiers (market-space management). This transforms the organisation within the competition space of the relations and transactions of any company that focuses on time as a competitive driver (time-based competition) 38.

Businesses face similar uneasy markets features by giving priority to 'light' business solutions, in order to take the best from the pool of relations with its stakeholders and from the relationship with a complex and variable environment. Briefly, by introducing information and communication

³⁷ Robinson Jr. and Pearce, Planned patterns of strategic behavior and their relationship to business-unit performance, *Strategic Management Journal*, Volume 9, Issue 1, pages 43–60, 1988, DOI: 10.1002/smj.4250090105

³⁸E. Rancati, *Market-Driven Management, Global Markets and Competitive Convergence*, Symphonya. Emerging Issues in Management, 1, 2010, 76-85.

technologies (ICT), adopting flexible plants and developing a system of alliances and relationships with the partners and the outside world, the firm aims to improve its competitiveness on one hand by progressively decrease fixed costs and on the other hand by becoming dynamic and market-driven.

Moreover, the reduction in fixed costs is also implemented by the research – often performed worldwide with low costs – of the regions or countries in which specific cost categories appear more advantageous. As noted by Li et al., , regional integration enables costs to be reduces by locating the value activities in the cheap factor economies within the same integrated area (Sneideriene 2013; Buckley et al 2001³⁹). In many sectors (from agriculture and mainly in the computer, electronics and telecommunication one, many companies are looking for places where labour is cheap to delocalise manufacturing plants. Such dynamism in localization is also made possible by the adoption of the above-mentioned lightweight organisation choices for the fixed costs reduction.

As suggested by Zucchella (2007⁴⁰), the world of production has changed deeply over the last three decades. Production of final goods is more and more the result of value chains, which are:

- Dispersed across the globe;
- Dispersed across different organizations.

This trend to lighten the business is reflected even on the localization choices: instead of building big and static plants totally owned by the company, the firm aim to create small plants, based on complex localization factors –proximity to the markets, availability of government incentives, fast disinvestments potential in a given area.

In order to find the best location for its SBU, a business need to make a distinction between firm specific advantages and country specific advantages (Johansson 2005⁴¹, Sneideriene 2013).

The first ones qualify a business and are transferrable within the company; the FSAs can be summarized as follows:

³⁹ P.J. Buckley, J. Clegg, N. Forsans, K.T. Reilly, *Increasing the size of the 'country': regional economic integration and foreign direct investment in a globalised world economy*, Management international review, 41 (3), 2001, 251-274; A. SNEIDERIENE, *Social issues in multinational corporations activities including the regional dimension*, Social Research, 2013, 1 (30), 87-95; Li G.H., Yu C.M., Seetoo D.H., *Torward a theory of regional organization: the emergin role of sub-regional headquarters and the impact on subsidiaries*, Management international review: mir, Journal of international business, 50 (1), 2010, 5-33.

⁴⁰ A. Zucchella, *Network Social Responsibility*, Symphonya. Emerging Issues in Management, 2, 2007, 64-71.

⁴¹ J. Johansson, *Global Marketing: Foreign Entry, Local Marketing and Global Management*, McGraw Hill Education, 2005; A. SNEIDERIENE, *Social issues in multinational corporations activities including the regional dimension*, Social Research, 2013, 1 (30), 87-95.

- Product or process technology
- Managerial or marketing capabilities
- Distributional skills
- Production knowledge

The country specific advantages on the other side are a pool of features qualifying a specific geographical area. We can clearly identify the following ones:

- Natural resources
- Human capital
- Technological resources
- Institutional factors
- Demand
- Labour force
- Associated culture factors
- Other potential strategic assets

The first ones are the best condition for international development as they are transferrable to new subsidiaries or SBU (Rugman and Verbeke 2004⁴²); at the same time, since there are barriers for a business transferring its FSAs across regions, it should adopt a different strategy, based on its position in each region (ranging from being a leading role in one region and a follower in the second one) (Sneideriene 2013, Hu et al 2010⁴³).

The trends above described, express the need to reduce action-reaction times (time compression) in order to serve the market's needs faster than the competitors and at lower costs.

The above-mentioned features are due to the specific market requirements: facing a global over-supply situation means try to satisfy the changing features of an unstable market in a very short time (time to market).

Obviously, a big plant with one – or few at least – large mass-manufacturing unit cannot be dynamic, while a small plant with flexible machinery systems can be easily adapted to change. Such plant has moreover the easiness to proceed to rapid disinvestment as it allows for a wide margin of action⁴⁴.

⁴² A.M. Rugman, A. Verbeke, *A perspective on regional and global strategies of multinational enterprises*, Journal of International Business Studies, 35 (1), 2004, 3-18.

⁴³ A. Sneideriene, *Social issues in multinational corporations activities including the regional dimension*, Social Research, 2013, 1 (30), 87-95; HO F.N., WANG H.D., VITELL S.J., *A global analysis of corporate social performance: the effects of cultural and geographic environmental*, journal of business ethics, 107 (4), 2010, 423-433.

⁴⁴ 'The largest multinationals of industrialised economies promote multiple forms of competitive cooperation, through strategic alliances of the Equity and Non-Equity type',

If the plant is not entirely owned or its production capability is not owned but rent, its flexibility is higher: that is the case of the Interfirm Business Units.

Indeed, in order to face optimally such ideological and structural changes, a business needs to boost its system of alliance relationships with the outside world through outsourcing and business processes' sharing with other companies: upstream or downstream in the manufacturing chain (vertical cooperation) but even with competitors in horizontal cooperation (Culpan 2002), and by creating an alliance portfolio.

By doing so, and according with the firm specific – country specific advantages theory, the localization of IBU differs depending on the type of competitive advantage owned by the parental companies and on the nature of the advantage they are looking for.

In fact, principles and procedures used to locate the SBU are not completely different to the IBU ones, but the different nature and ownership of the units, gives the IBU specific rules, which depends on the advantages the parental firms are searching. These advantages affect the same partner selection.

If a company is looking to fill a skill gap against its competitors, it is probably searching a partner with firm specific advantages (such as managerial skills, innovative technologies and so on) to acquire, wherever locate. While evaluating the opportunities to enter a regional area in order to benefit from its geographical advantages (CSA), a business will contact potential partners in the mentioned area.

In both cases, the different relevance of FSA versus CSA does not exclude one another in defining the IBU location.

Conclusion

Over the last few years, markets have seen an enormous growth of alliance activity, specifically, in voluntary interfirm agreements involving exchange, such as the sharing or co-development of products, technologies, services (Gulati 1998⁴⁵) and of research and development; such agreements can be equity based or non-equity based (Osborn and Hagedoom 1997⁴⁶) and involve contested markets and uncertainty over outcomes (Arino et al.,

S.M. Brondoni, *Network Culture, Performance & Corporate Responsibility*, Symphonya. Emerging Issues in Management (www.unimib.it/symphonya), no. 1, 2003.

⁴⁵ R. Gulati (1998), Alliances and Networks, in *Strategic Management Journal*, vol. 19, issue 4, p. 293–317.

⁴⁶ R. N. Osborn, J. Hagedoom, The institutionalization and evolutionary dynamics of interorganizational alliances and networks, *Academy of Management Journal* n.40, issue 2, p.216-278, 1997.

2001⁴⁷). Because of their widespread use, alliance activities seem to have modified the level of competitive rivalry (Ziggers and Tjemkes 2010⁴⁸).

As a result, a competitive network, the inter-organisational structure resulting from the whole portfolio of alliance agreements, is not strictly a set of multiple locations of business branches with different owners, as the role of synergies between partners is of fundamental importance.

In fact, the network structure is flexible and senses the changing market needs and information.

According with this point of view, we can better define a competitive network as a collection of businesses with similar and complementary needs and compatible information systems, but with different aims and cultural values – all of which are linked to each other by dynamic cooperative relations (i.e., alliance relationships of mutual cooperation) (Busi and Bititci 2006⁴⁹) that impact on the network organization and structure.

When the company operates in a competitive network (with partners under cooperative agreements), it becomes difficult to identify and to measure its performance, as we can identify different levels of analysis performance dimensions more significant for the network as a whole. The relationship tying two companies is the alliance: its performance emerges not only from the ability of the companies involved in building a relationship among partners but also from their ability to run and optimise them.

At the same time, a company in a competitive network cannot underestimate the importance of its performance (and the SBU's performance), the IBU and alliance benefits produced and the ability to communicate and interact within the network in achieving mutual synergies.

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⁴⁷ A. Arino, P.S. Ring, J. De la Torre (2001), *Relational quality: Managing Trust in Corporate Alliance*, Research paper n. 434, Research Division of IESE.

⁴⁸ G.W. Ziggers, B. Tjemkes, Dynamics in Inter-firm Collaboration: The Impact of Alliance Capabilities on Performance., in *International Journal on food system dynamics* 2/2010.

⁴⁹ Cfr. M. Busi; U.S. Bititci (2006), *Collaborative Performance Management: Present Gaps and Future Research*, in *International Journal of Productivity and Performance Management*, n. 55, pp 7-25, p. 9. According with Godrej, founder and manager of one of the top business organizations in India, 'a conglomerate works when each of its businesses is run with clear and focused accountability. What makes for a well-run conglomerate is the same set of principles and behaviors that distinguish a successful single-business company from an unsuccessful one.', in A. Godrej (2004), *Creating Value with a Conglomerate: the Case of the Godrej Group*, in *Journal of Applied Corporate Finance*.

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