Chapter 6

Understanding the Realities of Contemporary Internationalization of the MNE: Regionalization vs. Globalization

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ABSTRACT

While the idea of regio-centric firm behavior had been expounded as early as 1969 (see Perlmutter & Heenan, 1974), research in international strategy and marketing since has mainly gone from a multi-domestic focus to a global focus. Reality seems to indicate that more and more multinational enterprises (MNEs) have been implementing regional strategies as opposed to either global or multi-domestic ones. Debate has been active over the last two decades on the reality of globalization and regionalization. This chapter reviews the debate, distills major themes, and offers a structured understanding of the phenomenon of regionalization vs. globalization as seen in contemporary internationalization.

INTRODUCTION

The debate into the globalization vs. regionalization debate raises significant questions deserving of researchers’ attention (Buckley, et al., 2001; Malhotra, et al., 2003; Rugman, 2008). Through this debate, even the very concept of what constitutes globalization has been called into question (Porter, 2003).

Globalization is best viewed as a combination of processes rather than as a uniform concept (Paliwoda & Slater, 2009). Alan Rugman (2000, 2005) has brought to the forefront the assertion that “global” companies are, in fact, regional in nature. It has also been observed that major multinational enterprises (MNEs) have been increasingly opting for regional marketing strategies as a balance between globalization and localization.
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(Muller, 2004). Therefore, are regional strategies a temporary stage before a domestic firm goes truly global, as many have suggested (Stevens & Bird, 2004)? Or, are global firms breaking down into regional strategies to be more responsive to local markets while still maintaining some level of integration across the organization? These questions have been raised in the existing debate, and the primary objective of this chapter is to review the major issues raised by, and insights offered through, this ongoing scholarly discussion as well as refine areas of further research that may provide the means to properly comprehend this debate.

A thorough understanding of regionalization vs. globalization dynamics is of vital importance to constructing effective strategy in multinational enterprises (MNEs). One of the major limitations of Rugman’s (2000) contention that firms are more regional in nature is the research does not adequately address whether regionalization is a stepping stone to globalization or a post-globalization reality. There is evidence suggesting increasing numbers of MNEs are employing regional strategies (as opposed to global strategies) in their international operations (Rugman, 2001). However, there are keys in the debate which can help decipher this phenomenon. Through an understanding of the underlying conditions which justify regionalization, we can actually understand why and how firms are organizing in regional vs. global structures. Looking into these underlying conditions, we discover there are intense, contradictory pressures on MNEs to integrate across borders as well as to respond to local pressures simultaneously—i.e., the trade off between “more globalization” and “more localization” (Roth & Morrison, 1990). Even the giants among these corporations must have a locally-oriented ground game to excel (Buckley & Casson, 1998; Lasserre & Probert, 1998; Reed, 1997).

There are two parts to the concept of regionalization. First is the regionalization of the MNE (the micro component), as indicated above. There also exists the regionalization of countries (the macro component) – most notably manifested in Regional Trading Blocs (RTBs). Most scholars would agree globalization was never predicted to be seamless process. Indeed, that has been the case. Both countries and companies appear to be embracing the basic principles of globalization, as evidenced by ever increasing cross-border trade and the widening grip of MNEs on international business. However, it is observed this notion of globalization is, in fact, fragmented. There are pockets of globalization across the world, wherein countries and companies form regional areas of intensive international commerce.

The basic principle of fragmentation has been utilized before (Firat, 1997) in differing contexts, all referring to the idea that globalization is true only under certain limitations. That is, the “interconnectedness of markets” and “homogenization of consumer tastes” (Levitt, 1983) is not observed uniformly in the real world (Ohmae, 1995a; Safarian, 2003; Porter, 1991).

Industry has already taken the lead in recognizing regional considerations as opposed to global ones, as witnessed by the rise in cross-border regional headquarters (RHQs). It is imperative the academic community investigate the regionalization of the global economy and its ramifications on MNE strategy (Sheills, 1995; Johnson, 1995; Sheth, 1992, 2001).

Hitherto, regionalization has often been regarded as either an incidental phenomenon on the path to globalization, or an alternative explanation to globalization. This chapter suggests both strategies are active and that there are underlying contextual reasons wherein each strategy is indicated.

REGIONAL STRATEGY OF THE FIRM: THE MICRO COMPONENT

Regional strategies can either be viewed in terms of providing a “half-way house” of sorts between multidomestic strategies and full-scale global strategies for an MNE (see Wilcox, 2005), or they