# Globalfocusing:

# From Domestic Conglomerates to Global Specialists

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**Abstract**

Globalisation is changing the competitive terrain on which companies develop their corporate strategy. On the global stage, key competitive advantages are gained through internationally fungible resources. Consequently, diversified conglomerates are converting to global specialists in narrower niche markets and competing with a small number of multinational enterprises operating worldwide. Their *internationalisation* and their reduction of product *diversification* are opposite sides of the same coin: *globalfocusing*.

I extend Penrosian resource-based theory to analyse this change process, notably by distinguishing country and industry specificity of firms' core competences, and by integrating divestment as part of firm growth processes. Globalfocusing is driven by shifts in the relative importance of country-specific and industry-specific resources and capabilities due to changes in the internal and external environment, notably the globalisation of markets and supply chains.

The argument is developed using case studies of restructuring of two Danish manufacturing enterprises. On this basis, I analyse the forces driving globalfocusing processes and suggest propositions for empirical testing.

## INTRODUCTION

Over the past decade, European businesses have accelerated their internationalisation. At the same time, 'focus' has become a buzzword in corporate boardrooms as firms pursue core competencies and divest peripheral activities in their home-base product portfolio. The two strategies are opposite sides of the same coin, as firms engage in "globalfocusing": Companies with moderate international operations accelerate their internationalization by focusing on global niche markets. In this paper, I show that changing specificity and transferability of corporate resources can explain this phenomenon.

Resources drive the growth of the firm (Penrose 1959), and thus diversification and internationalisation. In particular, firms with resources valuable in one location would diversify, while firms with resources that can create competitive advantages in an industry at different locations would internationalise. Globalisation changes the competitive terrain. It reduces the scope for leveraging location-specific resources by domestic diversification, and gives the competitive edge to specialists that can leverage industry-specific resources across global operations. I argue that changes in diversification and internationalization strategies are part of the same reconfiguration process, globalfocusing, which is induced by changes in the country and industry-specificity of firms' resources. Thus, conglomerates, firms with high degrees of related and even unrelated diversification but few international operations, convert themselves to global specialists in narrower defined core industries.

Scholars of strategic management analyse internationalisation and diversification as largely distinct phenomena, and thus fail to explain both their interdependence and the dynamics of changing from one to the other. Some cross-sectional studies identify linear and non-linear effects of have internationalisation and diversification on firm performance implications of US firms (Tallman and Li, 1996), Japanese firms (Delios and Beamish, 1999) and across emerging economies (Nachum 2004). Others analyse interaction between internationalisation and diversification (Hitt *et al.* 1997; Qian, 2002; Doukas and Lang, 2003), yet their results vary across studies such that they can be considered inconclusive. More importantly, this literature does not address how and why strategies change over time. Hitt *et al*. (1997: 793) conclude that there is "a need to understand the combined evolutionary path of international and product diversification". Similarly, studies on product diversification and internationalisation conclude with a call for "specific analysis of changes over time to reveal the dynamics of strategic change" (Geringer *et al*., 2000: 76). This study aims to close these gaps in the literature by investigating the process of change from one type of strategy to another.

The analysis of change processes requires a process theory (Langley, 1999), and the most appropriate is Penrose (1959). She argues that resources are the foundation of firm growth, and that their application to new tasks shapes the pattern of growth. Penrose's (1959) work has inspired a broad range of 'resource-based theories' (RBT) (Meyer and Peng, 2005). They include the resource-based view analysing resources as the foundation of competitive advantage (Barney, 1991), as well as dynamic theories such as the internationalisation process model (Johanson and Vahlne, 1977; 1990), the evolutionary theory of the firm (Kogut and Zander, 1993), and the analysis of 'dynamic capabilities' (Teece et al., 1997). RBT suggest that expansion would benefit the firm *if and only if* it is grounded in appropriate resources, particularly managerial resources, yet the limited pace at which firms can build such resources is a key constraint on firm growth, and subsidiary growth in particular (Tan and Mahoney, 2005). This may explain the inconclusiveness of the aforementioned cross-sectional studies. Thus, cross-sectional studies ought to control for the antecedents of diversification (Campa and Kedia, 2002), especially the nature of the firm's resources, which they however rarely do.

Penrose's contribution to the field of strategic management has recently been subject to considerable controversy (Rugman and Verbeke 2002; Dunning, 2003; Kor and Mahoney, 2004), and has been re-examined in a special issue (Thompson and Wright, 2005). Yet, remarkably, scholars contributing to this discourse are largely reinterpreting each others words, while others analyse large cross-sectional datasets (Tan and Mahoney 2005). It seems that few are doing what Penrose did, namely talking to managers and examining case companies in a longitudinal perspective (Penrose, 1960). Yet, such research is necessary to advance RBT, and to adapt it to the conditions of the globalised economy of the 21st century.

I have conducted longitudinal research into two companies. On the basis of this qualitative research, I extend Penrose's *Theory of the Growth of the Firm* in four ways: (1) Penrose argues that growth is driven by enhancement and redeployment of resources. In consequence, I argue that the *direction* of a firm's growth, in particular its relative preference for diversification or internationalisation, is a function of the nature of its resources. (2) Penrose (1959: 179; 1960: 15) notes occasional divestment as consistent with her theory, but does not elaborate on when and why this would occur. I argue that divestments are a natural part of firm growth, and are more common in the 21$^{st}$ century than at the time of Penrose's empirical research – mainly because of more efficient markets for corporate assets. (3) Penrose argues that firms' rate of growth would be constrained primarily by managerial resources. I argue that firms facing this 'Penrose constraint' and wishing to rapidly expand one line of business may do so by freeing resources through divestment of peripheral lines of business. Thus, the Penrose constraint explains why firms concurrently acquire and divest. (4) Penrose acknowledged the importance of environmental conditions. In the final part of this paper, I develop propositions on external and internal drivers that may influence firms' resource endowment and thus induce strategic shifts from domestic diversification to internationalisation in their core business.

Together, these additions to Penrosian Theory can explain why we observe the phenomenon of globalfocusing. In addition, I draw on institutional perspectives to investigate how the value of resources and their potential for growth are moderated by the context, and thus to analyse "the effects of changing environmental conditions on strategy", another need identified by Geringer *et al.* (2000). Institutional perspectives have recently been applied to related strategic management issues, namely diversification strategies (Khanna and Palepu 2001; Kogut *et al*., 2002; Nachum, 2004), corporate restructuring (Newman, 2000; Uhlenbruck *et al.*, 2003) and foreign direct investment strategies (Meyer 2001; Delios and Henisz, 2003; Meyer and Nguyen, 2005). This perspective has become particularly important for the analysis of business strategies in emerging economies (Meyer and Peng, 2005; Wright *et al*., 2005), and researchers have began to integrate institutional and resource-based arguments (Olivier 1997; Newman 2000). Following this literature, I argue that changes in the environment of the firm can change the opportunities to exploit resources, thus inducing firms to shift from one strategy to another.

Similar to Penrose (1959; 1960; see also Kor and Mahoney, 2000), I analyse internationalisation and diversification with a longitudinal research design to build theory from cases studies (Eisenhardt, 1989). I take an inductive approach, analysing the patterns of internationalisation and diversification from 1990 to 2004 for two large Danish businesses, food industry conglomerate *Danisco* and telecom conglomerate *GN Great Nordic*. Both firms have expanded their core business to establish a worldwide market presence and integrated global operations. This accelerated internationalisation was related to a sharp reduction of their product portfolios.

In this paper, I thus analyse the implications of globalization on corporate strategy, and thus introduce the concept of globalfocusing and advance Penrosian theory. In the next section, I review how RBT explain internationalisation and diversification, and present my Penrosian framework on country and industry-specific resources as determinants of the scope of the firm. I present two original longitudinal case studies in section 3, and on that basis develop propositions concerning the drivers of globalfocusing in section 4. Section 5 outlines the implications of the strategic changes for management practice and for theory development, and section 6 outlines a future research agenda.

## THEORETICAL PERSPECTIVES

### Diversification, Internationalisation, and Resource-based Theories

Penrose's ideas have stimulated the development of RBT in two broad schools of thought in the strategic management literature. The resource-based view relates firms' resource endowments to their competitive advantages and thus their ability to earn rents (Barney *et al.*, 2001). This equilibrium conceptualisation (Locket, 2005) primarily aims to explain firms' financial performance. On the other hand, dynamic RBT focus on the process dimension of Penrose's work, and aim to explain the behaviour of firms over time in terms of for instance foreign entry modes (Kogut and Zander, 1993), internationalisation processes (Johansen and Vahlne, 1990), or product diversification (Chatterjee and Wernerfelt, 1991). Arguably, this second line of work is more in line with Penrose own intentions (Rugman and Verbeke, 2002).

RBT suggest that diversification is an outcome of emergent growth strategies, which in turn are driven by firms' resources. Firms continuously develop new resources and then seek new applications for them. Firms accumulate resources in a dynamic way, through internal growth such as organizational learning (Fiol and Lyles, 1986), as well as through acquisition of external resources (Kogut and Zander, 1993; Teece *et al.*, 1997; Uhlenbruck *et al.*, 2003). However, resources come in bundles that are indivisible and, especially in the case of tacit knowledge-based assets, difficult to transfer using market mechanisms (Kogut and Zander, 1993). Hence, some resources are 'slack', i.e. they are not necessary for current operations, but can be used to grow internally (Teece, 1982). Hence, firm growth and diversification arise from the internal processes of resource accumulation and redeployment.

Most applications for existing resources are in related activities and their redeployment leads to path-dependent patterns of growth (Diericks and Cool, 1989). This is reinforced by competitive pressures to be efficient, and to optimise the use of organizational and technological capabilities. Firms pursuing internal growth can better realize synergies by diversifying into products that are related to their existing organizational and technological capabilities (Teece *et al*., 1997). They thus re-deploy resources to new activities where they can earn additional rents, which gives rise to related diversification. This prediction is supported by empirical evidence that *related* diversification leads to better performance than *unrelated* diversification (Montgomery, 1994). Thus, diversification is, to a large extent, driven by firms' desire to increase rents from resources that are not specific to a single industry.

However, some resources may generate rents in seemingly unrelated industries. Certain managerial capabilities give rise to diversification across markets with similar competitive structures (Markides, 1995). Customer relationships may be an asset to be shared across operations in firm operating in business-to-business (B2B) markets with complex customer interfaces, high interdependence and transfer of knowledge. Moreover, internal labour markets allow rotation and allocation of highly qualified personnel where external recruitment is difficult or costly (Khanna and Palepu, 2000). Similarly, unrelated diversification allows more efficient allocation of financial resources, where weak disclosure rules or accounting and auditing standards inhibit the efficiency of financial markets (Peng, 2001). Such application of capabilities across similar institutional environments may give rise to diversification along ‘institutional relatedness’ (Peng *et al*., 2005).

Similarly, resource endowments drive international growth. This process is described by the internationalisation process model (Johanson and Vahlne, 1977), an early application of Penrose’s ideas. Firms expand internationally if they possess some transferable resources and capabilities, or ‘ownership advantages’ (Dunning, 1993), that enable them to overcome the natural competitive disadvantage of being foreign to a market. This advantage is typically a superior technological or organizational capability that can be transferred to other countries. A foreign operation can exploit or enhance a firm’s resources in many ways, depending on the nature of the ownership advantages. Traditionally, many multinational enterprises (MNEs) expanded horizontally, replicating their operations to serve foreign markets, thus transferring comprehensive bundles of capabilities. However, modern MNEs exploit comparative advantages of different locations worldwide, and site their production or research units where costs are lowest (Kogut, 1985; Sturgeon, 2002; Kenney, 2004). Their core competences may be grounded in more specific capabilities that are combined with local resources at different locations. Thus, internationalisation may locate sales close to markets, production facilities where costs are lowest, logistics units in a transportation hub, or R&D units in a technology cluster. In other words, international business is far more than serving markets around the world.[1]

Yet this internationalisation is a gradual process driven by the interaction of incrementally increasing commitments to foreign markets and building capabilities (Johanson and Vahlne, 1977; 1990). Managers make decisions over possible business abroad based on the information and resources available at the time. The decision leads to a commitment of resources to the foreign country, which in turn leads to learning processes and then to enhanced capabilities valuable in international business.

[1] As I do not only consider market-seeking FDI, I do not use the term ‘international diversification’ common in the strategic management literature, as it raises the image of spreading risks across markets. Internationalisation is a much broader concept including international sourcing, international production, international R&D and, consequently, international logistics as well as operational management.

RBT explain how firms grow in terms of internationalization and diversification as an outcome of the underlying resource accumulation process, but when do firms diversify and when do they internationalize? How do RBT explain that firms shrink occasionally? Why do firms, at times, reduce one dimension while expanding the other? In the next section, I expand RBT to analyse these questions.

**A Penrosian Theoretical Framework of Globalfocusing**

If some resources give rise to diversification, and others to internationalisation, then the nature of a firm's resources should provide indications of its likely path of growth. Some capabilities, such as knowledge of local consumer behaviour and national institutional systems, are highly specific to a given country, but may be profitably deployed to other industries within this country. Such "location-bound firm-specific advantages" (Rugman 1996) may therefore give rise to diversification. Note that "country-specificity" may, in special cases, refer to larger or smaller units than a nation state. Some industries see the emergence of Europe-wide markets, while in large heterogeneous countries such Russia or China even barriers within the country may create geographically segmented markets.

Other resources are specific to an industry and can be exploited in the same industry in other countries. Especially dynamic capabilities, such as managerial expertise concerning of restructuring and upgrading production facilities, or experience in building mass-market brands in emerging economies, can drive international growth.

****** Figure 1 approximately here ******

A firm's bundle of resources can be depicted in a 2x2 matrix (Figure 1). This classification enables a prediction on how a firm may redeploy its resources to earn additional rents, thereby pointing to the direction the firm would grow. I define resources as 'specific' to a country or industry if they can be exploited elsewhere within that country or industry. A firm with resources that are country-specific but not industry specific would aim to expand at the given location but diversify into related businesses (quadrant I). A firm with resources that are industry-specific but not country-specific would internationalise its core business (quadrant IV). A firm competing with core competences that are specific to both the industry and the country would face limited growth opportunities and is likely to stay small and focused (quadrant II). A firm whose resources are neither country nor industry specific could theoretically grow in either direction. However, as barriers to entry in its home market would also be low, it may face fierce competition in both its original and any future markets, such that high rents and growth potential are limited (quadrant III). Hence, firms that are located on the top-left to bottom-right diagonal of Figure 1 may have better growth prospects than those in the quadrants II and III. Firms in quadrant II may focus on profitability rather than growth, staying 'small and beautiful', while those in quadrant III may strive to develop new core competences to escape this low rent–low growth position.

A firm's position in Figure 1 is, however, not fixed. It may shift as a result of external influences, such as the obsolescence of technology, or due to the firm's strategic investments. For instance, when telephones replaced global telegraph networks, the telegraph operating firms would find themselves slipping from quadrant IV to quadrant III. With globalisation, country specific capabilities are more likely to lose their value. In particular, formalization of institutions would reduce the value of networks with authorities and institutional relatedness (Peng *et al.*, 2005); while convergence of consumer behaviour among young people diminishes the value of country-specific marketing knowledge. Companies with such resources would see themselves drifting from quadrant I into quadrant III. They may then alter their resource endowment and invest in developing new industry-specific capabilities.

In several ways, new capabilities may be developed through internationalisation, as global linkages may strengthen a firm in its core business. (1) Serving multiple national markets from one production site permits MNEs to realize greater economies of scale in production. (2) Global sourcing permits MNEs to lower input costs. (3) Global disaggregation of the supply chain enables MNEs to take advantage of comparative cost advantages at different locations (Kogut, 1985; Sturgeon, 2002). (4) Global distribution networks permit MNEs to serve global business customers requiring delivery of the same product at multiple sites around the world. (5) Multiple research and development sites allow MNEs to tap into local knowledge clusters in different parts of the world (Dunning 1993; Nachum, 2000). (6) Exchange of operational experiences from one country to another may enhance the overall efficiency of each operation.

Where globalisation opens opportunities for building resources by internationalisation, it triggers changes in companies' global strategies. Enhanced competitive pressures reduce advantages of incumbents' country specific capabilities as foreign investors find it easier to enter the market and limit firms' abilities to compete in unrelated industries. Thus, the "liability of foreignness" (Zaheer, 1995) declines relative to what we might call the "liability of the industry outsider", who may know the local context but understands little of the technologies and the competitive strategies employed in the industry. Industrial organisation economists may describe this process by referring to barriers to entry (BTE). Traditionally high BTE into countries are diminishing, as technological and administrative barriers to trade are reduced, while BTE to industries are becoming relatively more important as increasing complexity of technology and supply chains increases sunk costs.

Thus, globalfocusing is a strategic response to the globalisation of markets and supply chains, where firms with global leadership roles may earn higher rents on their resources. At the same time, single-country competitors lose competitiveness relative to their internationally operating rivals. Consequently, firms are globalfocusing. The diagonal arrow in Figure 1 indicates this strategic shift.

**Penrosian Growth and Divestment**

Globalfocusing does not necessarily imply corporate growth. Penrose (1959) suggests that firms would continuously reassess the profitability of each operation they created. Thus, as firms pursue

> *" 'diversification for growth', a great deal of their diversification will be experimental in nature. Thus there are always likely to be firms who want to withdraw from given lines of activity: expectations of profits may have been too optimistic and the actual results disappointing; or new opportunities may have arisen as a result of developments within the firm or in the outside world. On*

*the other hand, we cannot assume that businesses unprofitable for their existing owners will also be unprofitable acquisitions for others"* Penrose (1959:179).

Her case study, the Hercules company, was created as a spin-off from Du Pont in 1912, an event that *"illustrates … that the splitting up large companies will often not have adverse effects if the advantages they have in expansion are economies of growth and not economies of size*" (Penrose 1960: 4, footnote 2). For the next 45 years, Penrose reports only one incident of closure of a production facility (the casein operation, Penrose, 1960:15), but no sale of any division to another company. This clearly distinguishes her case from businesses in the 1990s when divestment takes a more central role in firms' growth processes. Thus, the brief treatment of divestment and downsizing is, from today's perspective, a major gap in Penrose's theory (Pitelis, 2005, Thompson & Wright, 2005). Yet, Penrose's theoretical arguments, notably the above citation, contain the core for an explanation of divestment.

If – following a period of growth – the scope of the firm exceeds the optimal size of the firm, then Penrose would expect a spin-off or sale of a division. A sale would occur if freed managerial and financial resources can be reinvested to earn higher returns in another activity. The fact that it was profitable to develop a new operation from its existing resources does not imply that this new operation would generate most revenues if it continues under the governance of the parent firm (Locket, 2005). Knowledge linkages and resource sharing that may have been important during the establishment phase may decline in importance. Other linkages may become more important suggesting higher synergies from integration with another firm. These advantages of integration with another firms however have to be larger than the transaction costs associated with the sale of the company. Thus, more efficient markets for corporate assets facilitate corporate restructuring, which may explain why divestments were less common in Penrose's time. Yet, with efficient financial markets, the sale and acquisition of business units is a natural part of resource-driven firm growth.

More generally, divestment allows reallocation of resources to new activities where growth opportunities and profit potential are higher, such that selective divestment may be an important element of firms' growth strategy (Capron et al. 2001; Locket, 2005). For instance, a diversified firm may see profit opportunities in international growth of one of its operations that exceed profits currently earned in another domestic business unit. At the same time, imperfect external capital markets may inhibit fast internationalisation unless at least part of the funding is generated internally. Thus, it would thus be natural to internationalise the first division with the help of funds generated by divesting the second division, and the firm would globalfocus.

A related link between growth and divestment is the 'Penrose constraint'. If a firm wishes to rapidly grow one of its businesses – notably by creating a global operation – it may face limited managerial resources to successfully run the business. Acquisitions may allow for faster growth, yet the implementation of acquisitions requires scarce managerial resources, and they would not normally provide complementary managerial resources that can readily be integrated in the existing top management team (Penrose, 1959: 128-9). Divestments would free top management resources to manage acquisitions, and to lead the new international operations. Thus, the Penrose constraint implies that fast growth of one line of business may require divestment of another.

Penrose (1959) moreover notes possible 'external causes' for divestment, though she does not develop her argument further to discuss which kind of external changes would induce divestment. In the case of Hercules' casein operations, it was increasing import competition (Penrose 1960:15). Figure 1 enables us to generalise this argument: environmental change may shift the relative value of industry and country-specific resources, and hence the optimal scope of the firm in terms of diversification and internationalisation. This would lead not only to changes in the direction of growth, but also to separation of units outside the redefined core businesses. This may – at least temporarily – reduce the size of the firm before the new core grows internationally. However, globalfocusing differs from other forms of strategic change, such as refocusing (Markides, 1995) or downscoping (Hoskisson and Hitt, 1994), in that aggressive internationalisation is made possible by a reduction in the portfolio of industries in which the firm operates.

Hence, globalfocusing is induced by a shift in the firm's resources as domestic units peripheral to the new core industry are divested and complementary units are acquired internationally. The two effects described in this section link this combined de-diversification and internationalisation: core competences grounded in the international operations, and constraints on growing financial and managerial resources.

To further explore how and why the country and industry specificity of firms' resources shift, and how this translates into globalfocusing, I conducted qualitative longitudinal research into the accelerated internationalisation processes of two firms that were already moderately international at the outset.

## CASE STUDIES

Danish companies provide interesting case studies of firms with high degrees of internationalisation because the home economy is small and open, and firms in many industries have been exposed to international competition for a long time. They may show patterns of behaviour that firms from other countries may develop when their home markets become similarly open to foreign competition. The institutions supporting the market economy have been comparatively sophisticated for many years, and the liberalization associated with the EU internal market created in 1992 has further increased both competition and financial market-based governance. In the last decade of the twentieth century, leading Danish businesses thus developed highly international sales (Benito *et al*., 2003).

In the spirit of Penrose's methodology (Kor and Mahoney, 2000), this analysis focuses on two in-depth longitudinal case studies, *GN Great Nordic* and *Danisco*. Both companies are traded on the Copenhagen Stock Exchange, and have expanded beyond Europe in recent years. I chose 1990 as the start year for the case studies because it is the first year of operation *Danisco* after a 3-way merger, while *GN Great Nordic* experienced a strategic shift around that time. At the onset of the 1990s, both companies were operating in a number of related industries, selling primarily in Denmark and some other European markets. In the terminology of Rugman and Verbeke (2003), they were European 'regional MNEs'. By the end of the decade, they were pushing towards becoming 'global MNEs' with strong market positions in each of the Triad markets. However, this accelerated internationalization came at the expense of a sharp reduction in the product portfolio. This process of globalfocusing is documented and investigated in this section.

Both case studies began with an investigation into the firms’ latest moves towards internationalisation in Asia. This first step was based on interviews with middle and senior managers in, respectively, Hong Kong and Shanghai in the winter of 2001/02, and on archival sources in Asia and Denmark. To investigate the link between recent entries and corporate strategy, I further interviewed managers that had been members of the corporate boards for more than a decade and could provide a longitudinal perspective. These were conducted in Copenhagen in the spring and summer of 2002. In total eight managers have been interviewed, some twice, for between 30 and 90 minutes. In addition, I had several informal conversations from 2002 to 2005 with competitors and former employees to verify information and discuss interpretations. The case firms’ position in the 1990’s was investigated using archival data such as earlier case studies, articles in the Danish and international press, and the companies’ own publications. Between 2001 and 2005, the companies were followed in real time. In the case study research process, theoretical priors were continuously reassessed (Eisenhardt, 1989; Yin, 1994). Initially, the internationalisation process model (Johanson and Vahlne, 1977; 1990) was used as primary point of reference, but the empirical data indicated that this model was not sufficient to explain the interesting dynamics in the case firms. Penrose developed her ideas trough interaction between inductive and deductive work with her case companies and other firms that she studies less in depth (Locket, 2005). Similarly, I iterated between theory and case materials to develop the new, dynamic concept of ‘globalfocusing’, and the afore discussed advances of Penrose’s Theory. I briefly reflect over globalfocusing in other companies in the concluding discussion. The following summaries draw primarily on archival sources that I have discussed extensively with company and industry insiders.

****** Table 1a to 1c approximately here ******

***Danisco*: From Food Conglomerate to Ingredients Specialist**

*Danisco A/S* was created in 1989 through a merger of three companies that date back to the nineteenth century: *AS Danisco*, *Danish Distillers* and *Danish Sugar*. From the 1960’s through the 1980’s, they dominated relatively protected markets, notably spirits and sugar, and used generated cash flows to pursue domestic growth by related, and sometimes unrelated, diversification through acquisitions of smaller Danish companies. They eventually merged with the aim of creating a strong Danish company that could compete with foreign entrants and keep traditional businesses 'in Danish hands' (Cortzen, 1997: 208 & 218).

The new *Danisco* of 1989 operated in five business areas: food and beverages (38% of turnover), food ingredients (15%), packaging (16%), machinery and technology (19%), and other (13%) (Table 1b). From the outset, *Danisco* defined its core business as the broadly defined food industry and pursued related diversification. The stated strategy was *"to be a first-class supplier to the international food industry on the global market and be a supplier of high quality foods and branded goods on selected European markets"* (*Danisco* annual report, 1989/1990: 5). To implement this strategy in the early 1990s, *Danisco* sold its businesses in the machinery and 'other' area while strengthening the first three business areas through acquisitions, mainly in Europe (Table 1a). Between 1989 and 1995 foreign sales in Western Europe increased from 43% to 60% of turnover, such that *Danisco* became a regional European MNE.

The notions of 'focus' and investment in 'related' industries were already present in the inaugural annual report of 1989/1990. Over the next decade, the focus was redefined, leading to a much sharper definition of the firm's core competences and the markets in which *Danisco* wished to compete. Following a period of unsatisfactory share price performance and the appointment of a new CEO in 1997, top management designed a new strategy focusing on food ingredients. In the spring of 1999, *Danisco* announced strategically important acquisition of Finnish ingredients manufacturer *Cultor OY*, and began to sell its businesses in branded foods and food packaging.

By 2001, *Danisco* had implemented its new strategy as a full range supplier of food ingredients with core competences in the development and application of ingredients based on natural raw materials. *Danisco Ingredients* was developing, manufacturing and distributing emulsifiers, stabilizers, flavours and enzymes, while *Danisco Sugar* dominated northern European sugar markets. *Danisco* cooperated with customers in the food industry to select and develop ingredients for new products, and to adapt them for consumer tastes in different countries. *Danisco*'s global leadership ambition required the capability to serve global customers, such as *Unilever, Kraft, Danone* and *Nestlé*, as well as regional and local players, thereby also requiring global production and logistics.

In implementing the new focus on a global niche industry, sales in Denmark continuously declined from 37% in 1989 to 31% in 1995 and to 12% in 2003/04, at which time most sales were in the sugar division (Table 1c). With 2001/02 sales percentages of 41%, 20% and 37% in respectively Europe, Asia and North America, the ingredients division even fulfilled the Rugman-Verbecke (2003) criterion of a global firm.[2] The firm grew in terms of sales and employment during the change process, but declined sharply with the sale of the packaging business in 2001/02. The number of employees in 2004 was actually lower than in 1990.

At the same time, *Danisco* established production sites in 17 countries worldwide, in part to serve local markets, such as China, and in part to process natural ingredients only found a specific locations, such as Chile. From 2001 to 2004, Danisco grew its new core -- the ingredients business -- around the world. Expansion in Europe, North America and Australia occurred mainly through acquisitions, while business in emerging markets grew organically to a larger extent.

In summary, over the 1990s *Danisco* sharply focused its product portfolio by selling businesses in Northern Europe and acquiring businesses worldwide in its new core area. Consequently, by 2001 *Danisco Ingredients* had become a global player in a niche market, with substantive positions in most major markets worldwide.

****** Table 2a to 2c approximately here ******

**_GN Great Nordic_: From Telegraph Company to Telecom Equipment Specialist**

*GN Great Nordic A/S* (*GN*) has a long and prestigious history dating back to 1867. The company constructed

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[2] The divisional breakdown of sales by regions is not available for more recent years. However, growth occurred primarily in North America (mainly by acquisition) and in Asia Pacific (mainly organic). In contrast, *Danisco Sugar* is operating in several North European countries and benefits from EU regulation of the sugar market (Meyer & Møller, 1998).

and operated international telegraph-networks, including the telegraph line through Russia to the Far East, providing an essential communication infrastructure in the early ages of information technology. After World War II, *GN* transformed itself into an industrial conglomerate by reinvesting cash flow from the telegraph business into building manufacturing operations for a wide range of products loosely related to communication technology (Iversen, 2005). Most production was located in Denmark, while 60% of sales were in foreign markets, mainly throughout Western Europe (Table 2b).

This telecommunications conglomerate was transformed between the late 1980s and the early 2000s into a specialist equipment manufacturer operating in two related global niche markets (Table 2a). This transformation was a turbulent process, as diversions and unexpected crises occurred along the way. Restructuring was initiated in 1987 with the closure or sale of several mainly domestic business units after several years of unsatisfactory financial performance. Turnover fell in that year by more than 30%, and the share of sales in Denmark fell from 44% in 1987 to 8% in 1993.

A major diversion was *GN's* 1991 participation in a joint venture operating Denmark's first private mobile phone service, *Sonofon*, which accounted for 29% of turnover by 1999. In this venture, *GN* acted as the local partner in a three-partner consortium, contributing its context-specific knowledge of the Danish telecom industry. Another diversion from the long-term strategy was GN's investments in Eastern Europe in reaction to new opportunities in 1990. *GN* entered several JV's and tried to exploit its hundred-year expertise in Russian operations.

Both the mobile phone venture and the Russian joint ventures were successful in themselves. However, they were too small to allow *GN* to become a leading player in the respective industries, and provided few synergies with other business units. Thus, GN divested these and other activities in the late 1990s, making considerable profit on the mobile phone business in particular. The revenues of these sales were reinvested in acquisitions strengthening the global market position in the remaining core business areas. The enterprises bought and sold from 1998 to 2001 totalled DKK 16 billion, which exceeded *GN's* total asset value in 2001 (DKK 15 billion) (*GN* annual report, 2001).

By the turn of the millennium, *GN* had focused its operations in three businesses: *GN Resound* (hearing aids), *GN Netcom* (phone headsets) and *NetTest* (network testing equipment). Within these business units, *GN* aggressively acquired complementary companies to build market share and to access distribution networks. Faced with lower profitability than key competitors, *GN* businesses were reorganised as integrated global operations, utilizing locational advantages at different sites around the world. Most notably, a new production facility was established in Xiamen, China in 2001; and most of the production of *GN Netcom* was relocated from England and the USA to China. This relocation, along with organizational innovations such as a new integrated global supply chain, significantly enhanced *GN Netcom*'s competitive position (Meyer, 2006).

Of approximately 1000 employees in the *GN Netcom* division at the end of 2001, approximately half were in the US, 150 were in China (mainly production), 80 were in Denmark (mainly R&D), 114 were in the UK and the remainder in sales operations around the world. Different activities were located where the relevant locational advantages were most conducive. The global nature of these businesses is underlined by the internationalization of *GN*'s top management team (TMT). In 2001, only 19 of 34 individuals were Danes, with US citizens accounting for most of the remainder. Indeed, one of the group's headquarters -- *GN ReSound* -- was temporarily based in California during the integration of the acquired *ReSound Corporation*.

The *GN NetTest* division was earmarked for stock market flotation in 2001 in an effort to create two focused companies operating in worldwide niches. However, the burst of the Internet bubble and, arguably, mismanagement of the *Phonetics* acquisition in France devalued the firm, and it was sold for a symbolic price of 1 DKK in 2003. In this manner, *GN* achieved its long-term strategic objective of creating a focused enterprise, but at considerable costs.

In summary, *GN* experienced a fundamental change in its corporate strategy, restructuring its product portfolio to focus on two related high technology sectors (Table 2c). Its core competences are in the development and marketing of headsets, hearing aids and related products. The core businesses reinvested financial resources from the sale of other businesses to strengthen their worldwide market presence, and to create new globally integrated operations.

**Case Communalities and Differences**

The two firms operate in very different industries, but their change in corporate strategy shows remarkable similarities. Both firms engaged in long-term global restructuring from conglomerate to focused strategy in closely related business areas over a period of more than 10 years. The restructuring involved selling non-core business units, while acquiring businesses around the world in the core business area. In both cases, this has been a continuous process rather than a one-off restructuring.

In both cases the focusing is related to rapid internationalisation outside of Europe. However, some countries have a substantially lower profile in the global operations in 2002 than they had a decade earlier, notably Russia in the case of *GN* and the UK in the case of *Danisco*. Internationalisation in both firms involves more than just entry into a range of different markets. New business models have been developed to take advantage of global sourcing opportunities and of locating production where costs are most favourable. These global operations created new internationally transferable competitive advantages. Moreover, both firms experienced temporary decline of sales of sales and employment during the process. In fact, *Danisco* employed 25% fewer employees in 2003 than in 1990 and has grown from that basis over the next two years. Periods of aggressive restructuring were followed by continuous and mainly organic growth of the international business.

The case firms established themselves as global players in selected industries, while exiting those industries where they could not achieve market leadership. The two strategic changes appear causally related, consistent with the theoretical arguments developed in the previous section, for several reasons. First, industry-specific capabilities have been created through the global operation. *GN* is lowering production cost through its manufacturing operations in China and enhancing efficiency through integrated global logistics. *Danisco* is sourcing unique natural ingredients worldwide and supplying global customers through local operations. Second, divestment helped overcome financial and managerial resource constraints. *GN* sold

*Sonofon* and reinvested in the (newly defined) core businesses. Danisco financed its largest acquisition, Cultor, short-term and repaid with income from subsequent sales of businesses.

However, there were also differences in the cases in such areas as leadership. In *Danisco*, the globalfocusing occurred with the fairly coherent implementation of a vision developed by top management, while the strategy of *GN Great Nordic* has been considerably moderated by 'emergent strategies' (Minzberg and Waters, 1985). In the next section, I explore the driving forces behind the shifts in strategies.

## GLOBALISATION AND GLOBALFOCUSING

Globalisation sets the context for the strategic changes observed in the cases. The theoretical considerations in section 2 suggest that globalfocusing would be a result of changes in the relative value of firms' resources. To understand under which external circumstance Penrosian growth and divestment processes occur, it is necessary to analyse how external changes interact with the internal evolution of resources. In this section, I explore four different channels through which globalisation changes the relative value of firms' country and industry-specific resources (Figure 1): liberalization in the regulatory environment, financial markets, competition in the industry, and the firm's own management. I complement RBT with institutional perspectives to develop propositions that may guide future empirical research.

### Globalisation and Institutional Liberalization

The institutional environment moderates the selection mechanisms through which competition selects which firms perform best and survive (Aldrich, 1999). Less transparent or instable institutional environments require more 'adaptability' than relatively stabile market economies. In societies where personal relationships are important, 'contact capabilities' may be a valuable resource that can be shared across businesses. At the same time, conglomerates may have a stronger bargaining position vis-à-vis state bureaucracies and political agents. Hence, where such country-specific resources and capabilities are important, diversification may be the most suitable growth strategy for many firms. Firms' diversification strategies are thus "subject to nation-specific governance and resource constraints" (Kogut *et al.*, 2002), and changes in the institutional environment would affect the scope of the firm (Peng *et al.*, 2005).

Changes in the external environment affect the value of country-specific resources. In particular, liberalization of markets reduces barriers to entry and the benefits of incumbency. New entrants with strong industry expertise create pressures for local firms previously protected formally or informally. In Denmark, many industries were gradually liberalized in line with EU-wide liberalization processes, especially in the context of the "1992 internal market" program. Recent EU reforms opened for instance public sector procurement to international bidders. Such liberalization may initially led to a concentration process in a number of industries. The merger that created *Danisco* in 1989, and the subsequent streamlining of *Danisco*'s corporate strategy, have been described as outcomes of the corporate restructuring induced by 'project 1992' (Cortzen, 1997).

These observations correspond with the literature on institutional development and diversification. If high levels of government involvement encourage diversification, then alterations in policy may reverse this effect (Kock and Guillén, 2000; Peng *et al.*, 2005). Deregulation alters the competitive dynamics in the pertinent industries by allowing prices to float more freely, by reducing costs for importers, and by allowing domestic and foreign entry. Entry and increased rivalry, in turn, create pressures that induce firms to restructure (Cool *et al*., 1989).

Moreover, as institutions become more effective in regulating markets, more information on potential partner firms and employees becomes available, which reduces the value of the incumbents' country-specific resources, such as knowledge of local firms. At the same time, liberalisation lowers costs of moving goods and people, thereby creating new opportunities to create industry-specific capabilities grounded in global operations, including global sourcing, geographic disaggregation of the supply chain, and tapping into knowledge clusters worldwide. This enhances competitive advantages of those best coordinating and integrating geographically dispersed operations (Sturgeon 2002, Kenney 2004). These opportunities would apply in particular to those operating in B2B markets. Liberalization of the firm's industry would facilitate the entry of new competitors, whereas liberalization of a customer industry would change that industry's sourcing behaviour. Consequently, liberalization and other institutional changes in input and output markets may induce globalfocusing strategies.

*Proposition 1a: Liberalization of the industry in the home country can trigger globalfocusing.*

*Proposition 1b: Liberalization of a customer industry in the home country can trigger globalfocusing of firms operating in B2B markets.*

While liberalization of home markets may 'push' firms into globalfocusing, it may also be induced by the 'pull' of new business opportunities created by liberalisation in potential markets. Business customers in a deregulated industry face more pressures to control costs, including procurement costs. They may therefore abandon national preferences and their reliance on informal networks in securing supplies. This raises competitive pressures for existing suppliers while opening new opportunities for entry by international industry specialists. The European telecommunications industry of the 1990s is a prime example of liberalization and internationalisation of procurement. This opened new markets and increased competition for equipment suppliers, such as *GN NetTest*. Similarly, changes in the public healthcare systems in some countries opened up for international entry of hearing aid suppliers, such as *GN ReSound*.[3]

Liberalization in the home country would primarily enhance competition in existing markets, while liberalization abroad would create new opportunities for market entry as a competitor in the industry, or as its suppliers. This leads to two additional propositions concerning foreign markets, relative to the focal firm.

[3] Liberalization affected *Danisco*'s corporate strategy outside the time period under investigation here. In the 1970s and 1980s, the liberalization of the alcoholic beverages industry lead initially to considerable concentration processes, with *Danisco*'s predecessor companies emerging as a leading domestic players, but it also lead to foreign entry. Eventually, *Danisco* exited the industry when it did not achieve the aspired profit margins, and focused on more profitable lines of business. In the future, the anticipated liberalization of the EU sugar regime may, according to press reports, dramatically change the dynamics of the sugar industry in which *Danisco* has a dominant role in Northern Europe.

*Proposition 1c: Liberalization of the industry in potential foreign markets can trigger globalfocusing.*

*Proposition 1d: Liberalization of a customer industry in potential foreign markets can trigger globalfocusing of firms operating in B2B markets.*

The empirical testing of all propositions in this section however needs to consider that the impact of liberalization may be observed only with time lags.

**Financial Market**

An institution of particular relevance is the financial market. When I asked top managers an open-ended question on why they changed their strategy, the expectations of financial markets were usually mentioned quickly. Similarly, company press statements express the expectation that reduced diversification would reduce the ‘conglomerate discount’ in the stock price. Based on research in the USA, it has long been believed that conglomerates trade at a discount. However, studies in Europe could not confirm such an effect (Lins and Servaes, 1999) and recent research sheds doubt on the existence of such a discount as studies that control carefully for antecedents of diversification did not find a statistically significant discount (Campo and Kedia, 2002). Such scientific evidence notwithstanding, the belief still exists, and can influence managerial decisions. Penrose recognized that managers take decisions with real consequences under higher imperfect information and that imperfect bases for decisions affect actual strategies (Thompson and Wright, 2005). *GN*’s CEO expressed his view that *GN* was traded at a conglomerate discount prior to restructuring, which appears to have influenced the decisions. When, however, I asked my interviewees more directly ‘how important were financial markets in guiding your strategy?’, they quickly discounted this influence. Interviewees would instead stress their own analysis of both the industry and their own resources as basis for their decision.

Indirect evidence, however, suggests that financial markets did play a role in both companies’ strategic change. Both increased non-Danish ownership over the past decade. In the case of *Danisco,* non-

Danish shareholdings rose from approximately 5% in 1989 to 15% in 1996 (Cortzen, 1997: 346), and to between 40% and 50% in 2003. Consequently, international financial analysts and institutional investors have more closely observed *Danisco*. Moreover, both companies increased their communications with the financial markets in various ways, including investor presentations and their own websites.[4] In these communications, they acknowledge financial market expectations and emphasise the focus-aspects of their corporate strategy. Moreover, both companies' share prices underperformed prior to the push for focus in the late 1990s, which might have contributed to strategic change.

The link between financial markets, corporate governance, and the shareholder value orientation of strategic management is fairly well established in the literature (Shleifer and Vishny, 1997). Using agency theory, excessive diversification is commonly seen as an indication of weak governance, and improvements in governance have been shown to induce reductions of the firm's product scope (Hoskisson and Hitt, 1984). Decision makers in investment funds and other (potential) shareholders buy, hold or sell shares based on expected future earnings and share prices. International investors would be more aware of the potential to enhance competitiveness in the industry through global operations. In the case firms, the increasing stakes held by international shareholders appear to have intensified financial market pressures. Similarly, Tihanyi *et al.* (2003) show that firms with higher proportions of institutional investors are more internationalised.

Managers should serve shareholders' interests, and may hold shares or share options that align their personal objectives with those of shareholders. They therefore have an interest in meeting investors' expectations. If financial markets are efficient, then market expectations reflect changes in the industry. Hence, financial markets reinforce competitive pressures, as expectations of financial analysts influence the design of corporate strategy. They may be particularly vigilant when the stock market performance is weak:

*Proposition 2a: Globalfocusing is more likely the larger the shareholding by institutional and international*

[4] See for instance the company websites aimed at shareholders, respectively www.danisco.com/investor and investor.gn.com .

*financial investors.*

*Proposition 2b: Globalfocusing is more likely after a period of underperformance on the stock market.*

**Industry and Competition**

Globalisation changes the competitive structure of many national industries as some of the world's best companies may enter with superior technologies, better organizational practices, and the synergies of global operations. The horizontal axis in Figure 1, industry-specific resources, is measured against industry best practice. If competitors enhance their competences, a firm may slip back into the undesirable quadrant III. This creates pressures on local firms to innovate to be able to survive or to exit the industry. Both case firms experienced foreign entry into Denmark and concentration processes in the global industries in which they were operating. When the mobile phone operating business consolidated worldwide, *GN* saw itself faced with much larger competitors and exited the industry. *Danisco* exited the packaging industry when the increasing scale in the industry began to require large-scale investment that it could not afford at the time.

In many industries, global participation is necessary to achieve efficient scales, while technologies and organizational capabilities are benchmarked against the best in the industry worldwide (rather than nationally). On the global stage, firms face competitive pressures to rationalize their product chain by establishing production facilities at low cost sites or by selective offshoring (Kenney, 2004). If a firm enhances its competitive advantage through better global integration, this creates pressures on competitors to either follow suit or exit.

Globalisation of customer or supplier industries can also trigger globalfocusing. If customers move towards global sourcing, the relevant benchmark becomes the global industry. Industry-specific capabilities that cannot be upgraded to serve customers worldwide thus loose their rent-generating potential. *Danisco* serves the food processing industry, which has seen the emergence of global market leaders over recent decades. To supply these global customers at their respective production sites, *Danisco* is positioning itself as a global supplier with local operations near customers' production sites at a time when the food industry is moving toward global sourcing. *GN* also has global customers, including global service MNEs that prefer standardized equipment, including telecommunication hardware, in their call centres worldwide.

Changes in the structure of the industry may thus induce changes in business strategies (Porter, 1980). International reach is essential when markets transcend national borders, competitors become global players, and global customers seek suppliers who can deliver to their sites anywhere in the world, as is particularly common in B2B industries. To access these customers, local business networks and other local competences are less important. Global sourcing, therefore, induces suppliers to globalfocus. Hence, internationalization of an industry can be a self-reinforcing process:

*Proposition 3a: Globalfocusing is more likely the more competitors are extending the international reach of their operations.*

The reinforcing effect works differently for competitors and customers. If competitors lower costs through relocation of production or improved operational efficiency, they may enhance their industry-specific competences. This creates competitive pressures to build stronger capabilities or to exit. If customers move towards global sourcing, this creates demand for suppliers to serve all their operations worldwide. Yet, to build a global operation requires additional resources, which may be gained by divesting peripheral operations. For many businesses serving B2B markets, the internationalisation of markets and customers can be the main motivation to pursue a globalfocusing strategy. This also suggests that globalfocusing is more common in B2B industries. Consumer goods manufacturers face domestic consumers in each country and may find it easier to extend their brand to related products than to introduce them to new consumers abroad:

*Proposition 3b: Globalfocusing is more likely for companies operating in B2B markets than for those manufacturing consumer goods.*

**Top Management**

The top management team (TMT) is both a vital resource and the crucial decision making body. TMT members' perceptions about other resources influence how these resources are deployed, exploited or enhanced. Given this pivotal role of the TMT, and the CEO in particular, it is not surprising that major changes in the global strategy of the case companies were associated with changes in the TMT. Alf Duch Pedersen took over as CEO of *Danisco* in 1997 and was a driving force in the changes implemented starting in 1998/99. In *GN*, major changes were associated with Thomas Duer taking over in 1987 and Jørgen Lindegaard in 1997.

Globalization changes the education and career experience of top managers. The younger generation of Danish business leaders has often been trained in an international business school outside the country, which naturally widens their experience horizon and raises the understanding of international business opportunities while lowering cognitive and practical barriers. For example, INSEAD-trained Niels B. Christensen initiated changes of business unit strategy in *GN Netcom* in 2000, with production in China and a new, global, demand-driven supply chain management system (Meyer, 2006). Trained in an international environment, he contributed different ideas than managers educated domestically, and would more naturally perceive the international arena as the relevant stage.

The TMT guides the corporate restructuring process, and may initiate organizational innovations that allow for better international leveraging of resources or creation of new competitive advantages through global operations. They continuously reassess their core competences, and adjust their strategy to grow the business, strengthen the core, or divest business units that are becoming peripheral (Penrose, 1959; Teece *et al.*, 1997). In this assessment, managers with different educational or experiential backgrounds may come to different inferences as to the quality of existing resources and their potential. They may therefore recognize of new opportunities to strengthen competitive advantages in established (European) markets through integrated global operations, and know how to create and leverage such advantages. The human capital and cognitions of the TMT are, thus, crucial to strategic change (Hambrick and Mason, 1984). In turn, cognitive differences are a function of experience, career paths and personal backgrounds (Lyles and Schwenk, 1992). The case studies point to international experience and international education as important factors influencing cognition, factors which have not been analyzed in recent literature. Internationally experienced managers may recognize how new business models permit better exploitation and augmentation of the firm's resources.

Changes in the TMT may generate new ideas and new cognitive models of the firm's core competences and the dynamics of industry competition. This applies, in particular, to new executives with different personal backgrounds, values and assumptions. Such new TMT members may initiate or facilitate shifts in the 'dominant logic' (Prahalad and Bettis, 1986) of the firm, leading to strategic and organizational changes. For example, top managers in both case firms made reference to the concept of 'core competences', which was popularised by Prahalad and Hamel (1990). This notion was not around in the 1980s. Its widespread usage in management parlance in the 1990s is an indication of changing management cognition. Young managers implementing such new ideas from their MBA training would potentially become drivers of strategic change. Thus, a change of CEO has frequently been associated with strategic change (Kesner and Sebora, 1994), and the cases suggest that this would hold for globalfocusing as well.

Hence, globalisation changes the experience and cognitions that top managers can contribute to their company. Their subjective assessment of alternative opportunities to leverage the resources of the firm is the basis for strategic decisions, and globalfocusing in particular. The personal characteristics of the TMT and changes in the TMT may drive globalfocusing:

*Proposition 4a: Globalfocusing is more likely the more members of the TMT have international education and job experience.*

*Proposition 4b: Globalfocusing is more likely following changes in the TMT that lower the average age of TMT members.*

****** Figure 2 approximately here ******

## DISCUSSION

The longitudinal double case study explores two key issues of global strategy -- diversification and internationalisation -- and identifies globalfocusing as a strategic response to the globalisation of markets and supply chains. Globalfocusing reflects a shift in the relative importance of the country and industry-specific resources underlying corporate growth (Figure 1). This process is driven both internally by top management, and externally by the evolution of the industry, and liberalization of the institutional environment and financial markets (Figure 2).

### Penrose's Theory in the Global Economy

How would Edith Penrose interpret this new evidence, and the extension of her theory? It is instructive to compare the Hercules case (Penrose, 1960), which had a strong influence on her thinking, to the two case companies in this study. The differences illustrate how profoundly the world has changed over the past half century.

First, Penrose's case is set in a large economy. While import competition was important for some products neither inward foreign investment played a role, nor does Penrose discuss any international business activities of Hercules itself. Its core competences seem in part grounded in business relationships with customers, and the understanding of the (potential) needs of these customers, a capability that does not naturally lead to internationalisation. My cases are set in a small open economy, Denmark, where potential for domestic growth is far more limited. Moreover, globalisation and liberalization reduced barriers to foreign entry thus lowering the costs of international growth relative to domestic growth.

Second, Penrose does not at all discuss the ownership or governance structures of the firm. This would be a significant omission from such a study conducted in the 1990s. Yet, it seems that this dimension – and hence the role of financial markets – was not of central concern to managers or scholars investigating corporate strategies in the 1950s. Thus, the financial markets dimension adds a moderating variable that was not important in Penrose's day. Among other consequences this implies that markets for corporate assets are more efficient and reduce the transaction costs of divestments.

Third, the dynamics of industry competition into the 1950s was largely played out on a national level, not withstanding the importance of imported products in some segments. Moreover, few if any customers transcended borders. Thus, no industry dynamics would have induced firms to consider globalfocusing.

Fourth, managers of the 1950s typically received their education domestically, and neither the education system nor typical career paths would have provided them with much experience relevant for international business. Wartime experiences as soldiers may have been common, but would not have provided a solid basis for peacetime business. Thus, cognitive barriers and lack of relevant experience would act as barriers to internationalisation, in ways that no more applied in the 1990s.

Overall, these differences point to major new influences that impact on the evolution of corporate strategies. Many firms possess resources that are best enhanced or exploited by international growth rather than product diversification, and they are much more flexible in readjusting strategies by divestments and acquisitions. The comparison of the cases of *GN* and *Danisco* with *Hercules* reinforces my earlier argument that we need an extension of Penrose’s theory to apply it to businesses in the 21$^{st}$ century. Yet, as I have demonstrated in this paper, this can be done – which in itself is testimony to the power of Penrose’s ideas.

**Management Implications**

Changes in both the home countries of MNE and in the global economy compel MNEs to expand internationally. In liberalised markets, specialist manufacturers and foreign entrants challenge diversified conglomerates in the different industries in which they operate. Globalisation and increased competitiveness in key markets gives the competitive edge to industry specialists that can exploit and enhance industry-specific resources across their global operations. On this global stage, key competitive advantages are gained by leveraging resources across the world and by creating new capabilities through effective global integration of operations. Firms are under pressure to divest peripheral activities in which they cannot attain industry leadership and focus on the industry in which they are best. In this core business, they may aim for worldwide market leadership, and optimise their operations and supply chain on the global stage. Many firms convert their corporate strategy from related diversification in their home market to 'globalfocusing' -- selling a core product worldwide in both mature and emerging economies.

The timing of globalfocusing, however, is closely related to institutional change that may be a long term process of gradual changes in the regulatory framework. In the EU, it is the outcome of cumulative changes in both the regulatory institutional framework and in the industrial structure. Consequently, corporate ambitions for growth, which may have led to branching out in related or unrelated industries within a domestic market up to the 1970's, may now be pursued by internationalisation. The more open the markets for goods, services and capital, the more firms pursue focused strategies that are global or at least Europe-wide in nature (Rugman and Verbeke, 2003).

However, there are limits to globalisation and to managers' ambitions to become world leaders. Firms and industries are changing toward global markets, but perfectly free global markets cannot be expected in many industries. Not surprisingly, globalfocusing can be observed in particular for companies operating in B2B markets, which compete with geographically fungible industry-specific resources. Globalfocusing applies less to consumer goods MNEs that rely to a larger extent on country-specific capabilities, such as marketing assets.

Globalfocusing has dramatic implications for management. *Two decades ago, companies had a choice between being a big fish in a small pond, and being a small fish in a big pond. They no longer have that choice*, at least not in Europe. Globalisation has created one big ocean, where everyone competes with everyone else who happens to make similar products. As Simon (1996) pointed out, many medium sized German "Hidden Champions" proper as global market leader in a specific market niche. The Danish case firms have transformed themselves towards Simon's model of the global specialist.

Globalisation induces companies to develop new business models that create comparative advantages through operations at different locations worldwide. This has major implications for firms in markets opening to global competition: *they have to develop new organizational structures, new management profiles, and* *capabilities throughout the organization such that interaction across borders becomes a way of life* for everyone in sales, management or R&D functions.

## GENERALISATION AND FURTHER RESEARCH

Qualitative case research always raises the issue of generalisability to a broader population of firms. Patterns of globalfocusing similar to those of the two case firms can be observed among many of the 25 largest Danish manufacturing firms, especially those traded on the stock exchange and those selling their products in B2B markets. For example, *Rockwool* and *FL Smith* sharply focused in a manner similar to *Danisco* and *GN*, while *Novo Nordisk* spun off its enzymes business in *Novozymes* in 2000 to create two focused entities. Denmark's largest company, *A.P. Møller Mærsk*, continuously strengthened its core business, container shipping and handling, and in 2004 started divesting side interests with the sale of *Mærsk Data*. In two cases, the *East Asiatic Company (ØK)* and the *Lauritzen Group*, the restructuring occurred under duress and reduced both their international business and product diversification in response to a severe financial crisis. Among consumer goods manufacturers, brewer *Carlsberg* divested its side interests, such as its stake in the *Tivoli* amusement park, and aims to establish a worldwide presence for its brand.

Still, not all firms follow this trend. Some firms pursue continuous growth with more stable industry focus and diversification strategies, especially those not traded on stock exchanges. Privately held *Danfoss* and *Grundfos* pursued broader applications of their core technological competences in thermostats and pumps respectively, which led to a moderate increase in product scope during the 1990s. Cooperative-owned *Danish Crown* and *Arla Foods*, Denmark's 'giants' in the meat and milk processing industries respectively, have grown through domestic mergers and regional market dominance. We observe globalfocusing in many, but not all, industries. The patterns in the top 25 Danish companies provide tentative support for propositions 3b (customer industries) and 2a (financial markets). The prime challenge for future research will be to establish how widespread the phenomenon is within and beyond Europe. For example, corporate restructuring in Asia following the financial crisis of 1997 often points in the direction of globalfocusing. On the other hand, the phenomenon may be less important to businesses in a very large domestic market, namely the USA, as illustrated by the comparison with Penrose's Hercules case. The propositions provide some suggestions as to which firms are most likely to globalfocus.

However, this study also raises even wider issues for operational management. I have analysed *why* firms globalfocus, but future research may investigate *how* they *implement* this dynamic process. The Penrosian theoretical framework proposed in this paper (Figure 1) suggests that a shift from a diversified firm to an international specialist requires changing the firm's resource profile. Both case firms accomplished such a shift through massive acquisitions and divestments of business units. This, however, creates major operational challenges such as reorganizing internal structures and processes, and managing post-acquisition integration. The case firms have usually, but not always, been successful at these tasks. However, they and others like them would appreciate a better understanding of how to manage these processes.

This study also has major implications for the design of cross-sectional studies of the performance implications of diversification and internationalisation. Campa and Kedia (2002) showed that by controlling for the antecedents of diversification, they could make the conglomerate discount disappear. However, they provide little theoretical rationale for how they control for antecedents. The theoretical framework in Figure 1 suggests that the specificity of resources to industries and countries respectively would provide the crucial antecedents. Therefore, future cross-sectional regression analyses of internationalization or diversification ought to control for firms' resource endowments. I would expect such studies to find that the diversification discount, on average, disappears. However, firms experiencing externally caused shifts in the value of their resources, such as those arising from market liberalization, may underperform prior to implementing a strategic reorientation.

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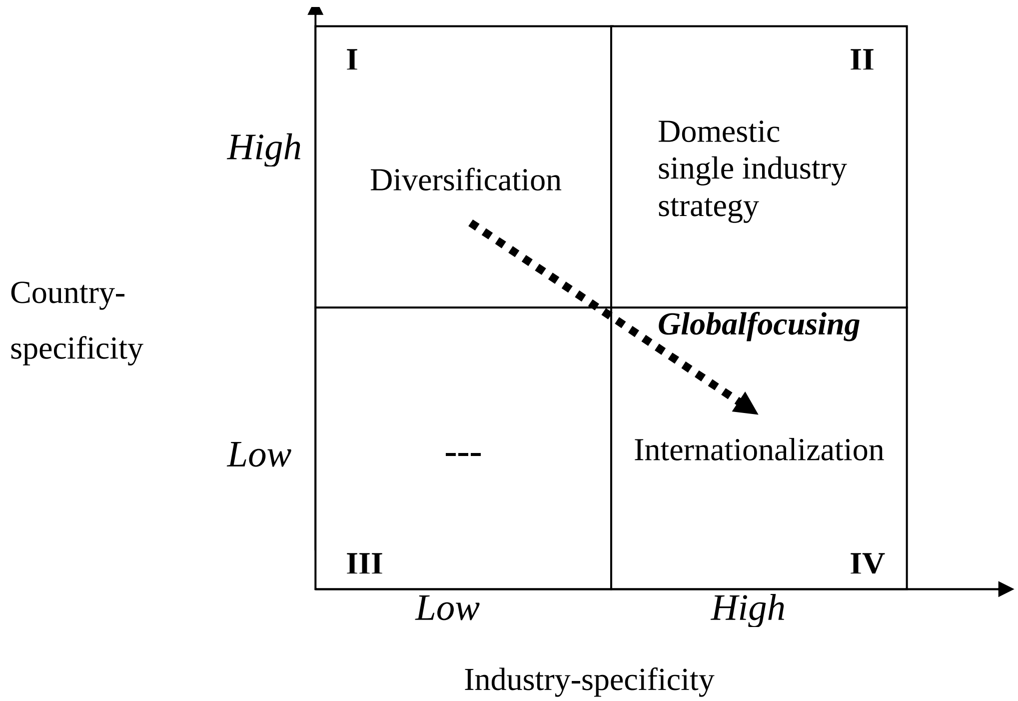
*Figure 1: Country and industry specificity of resources*




Note: The arrows indicates change induced by liberalisation and globalisation of industries

*Figure 2: Drivers of globalfocusing*

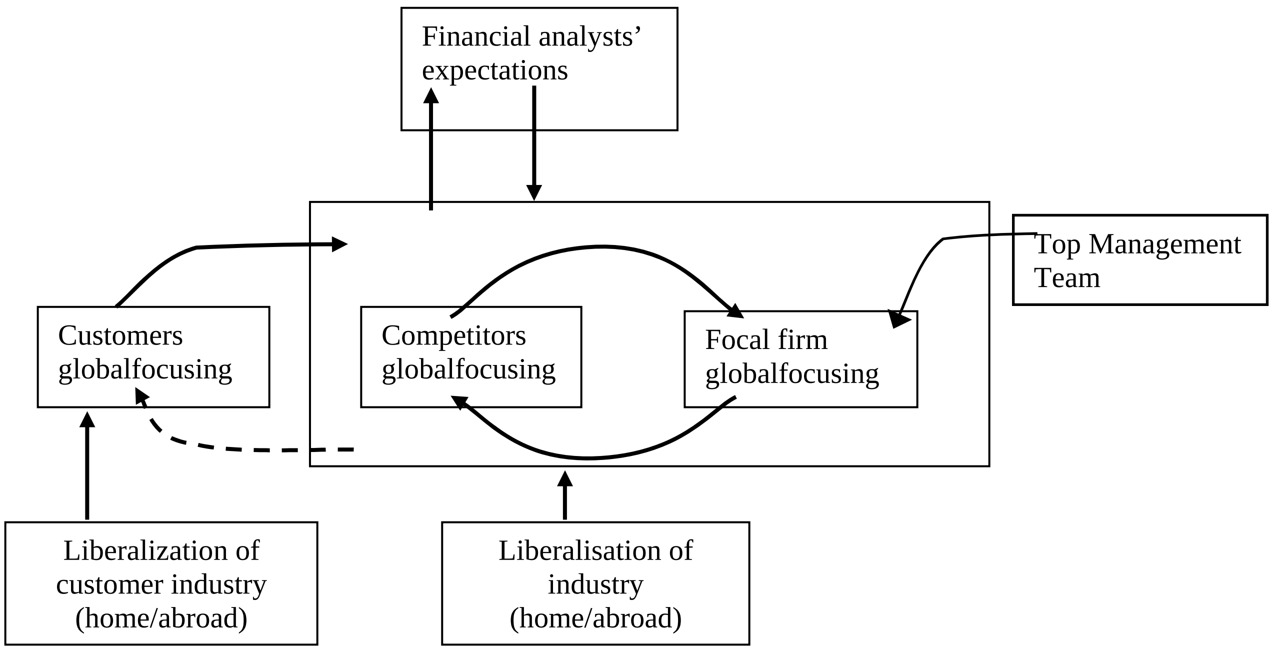


*Table 1a: Building and Restructuring of Danisco, 1989-2004*

| Year | Business Units Sold | Businesses acquired |
|---|---|---|
| 1989 | Merger of Danish Distillers, Danish Sugar and AS Danisco | |
| 1989 | De Forende Papirfabrikker (75%); DDS Filtration | Raackmann Fabriker, Nykøbing Sugar Factory, Mette Munk |
| 1990 | I Kruger AS; Havnemøllerne (50%) | Frigodan AS; Bux Corrugated Containers Ltd (UK); Kirk Frozen Foods AS; Irma Vin AS; Svendborg Fabrikker; Peter F. Heering AS; Skelmersdale Packaging Lts (UK) |
| 1991 | Dansk Estrella; Farma Food AS | Zuckerfabrik Stralsund ((Eastern) Germany); Bæhnkes Delikatessefabrikker AS; Colon Embalage (outstanding 50%); Nyborg Lynfrost AS; Vegejardin (Spain) |
| 1992 | --- | Sockerbolaget AB (Sweden); Trinity Paper Packaging Ltd (UK) |
| 1993 | Novenco; Niro AS | Chesterfield Packaging Ltd (UK); Dansk Carna Consum AS; Otto Nielsen Emballage AS |
| 1994 | --- | Vinhuset Norden; Pektin Smirice (Czech Rep); Howard D Webb (UK) |
| 1995 | --- | Unibag AS (increase to 100%); Clyde Corrugated (UK); Calder Corrugated (UK); Herning Aeskeindustri AS; Hamburger Wellpappenfabrik (Germany) |
| 1996 | --- | Crown Packaging Group Ltd (UK); Crown Corrugated Ltd (UK); Celtic Packaging UK); Amadeus Packaging (UK); Westward Packaging; CMB Flexible; IL Recycling (UK); Woodcocks; Beacon Ltd; Groko Foods (NL); Monoplast AS (Norway) |
| 1997 | --- | Schupbach AG (Switzerland); Fri-d'Or BV (Netherlands); Borthwicks plc (UK); Langfern Packaging Ltd (UK) |
| 1998 | Better Brands; I.D. Nordic | Esterchem Sdn Bhd (Malaysia); Sugar Lithuania; Becks Flavours; RolDan Spzoo (Poland); Wisby (Germany/Denmark) |
| 1999 | Danisco Pack Denmark; Danisco Paper; Ewos; Pesquera Pacific Protein; Danisco Distillers; Suomen Rehu | March Packaging Group (UK); Sidlaw PLC (UK); Cultor OY (Finland) |
| 2000 | Danisco Foods: frozen vegetable and potato activities; RolDan (Sugar Poland) | --- |
| 2001 | Danisco Flexible (packaging); Danisco Pack UK; Danisco Foods: jam activities; Mette Munk | Germantown (Australia); Florida Flavours (USA) |
| 2002 | Danisco Foods: onions and condiments activities | Perlarom (Belgium) |
| 2003 | Amcor Flexibles Europe | --- |
| 2004 | Danisco Seeds: rapeseed oil activities | Henan Tianguan (China, 80% in JV); Rhoda Food Ingredients (France) |
| 2005 | --- | Genencor (USA, acquisition of outstanding shares) |

*Source:* Danisco annual reports and stock market announcements, various years.

*Table 1b: Danisco 1989/1990*

| Line of Business | Company / main products | Sales* mill. DKK | Empl. | Den-mark | West Europe | North America | Other |
|---|---|---|---|---|---|---|---|
| Food and beverages | Danish Sugar | 6021 | 3134 | yes | UK, N, D | - | - |
| | Havnemøllerne (50%) | | | yes | - | - | - |
| | Danish Distillers | | | yes | - | - | - |
| | Frozen Foods | | | yes | - | - | - |
| | Taffel foods-snacks | | | yes | S, N, NL, D | - | - |
| Food Ingredients | Grindsted products | 2345 | 2204 | yes | D, UK, F, E, CH, NL, B | USA | Japan, Malaysia, Mexico, Brazil |
| | Maribo Seeds | | | yes | F, I., E, UK | USA | - |
| | Biochemical Laboratory | | | yes | - | - | - |
| Packaging | Raackmann Fabriker | 2582 | 1313 | yes | N, S, UK, D, NL | - | - |
| | Colon Embalage (50%) | | | yes | - | - | - |
| | Bux Corrugated Containers | | | - | UK | - | - |
| | Grenaa Papfabrik | | | yes | - | - | - |
| Technology and Machinery | Niro-Atomizer | Ca 2349 | 2111 | yes | F, E, CH, I, B, UK, NL, D | USA | Japan, Malaysia, Singapore, Mexico, Argentina, Brazil, AUS, NZ |
| | Møller & Jochumsen | Ca 677 | | yes | - | - | - |
| Other Activities (to be sold) | NOVENCO- ventilation | Ca 1155 | 2598 | yes | N, D, NL, I, UK | Canada, USA | Japan, Korea, Singapore |
| | Farma Food | Ca 876 | | yes | - | - | - |
| | I. Krüger (engineering) | | | yes | - | - | - |
| | Total Sales | 16005 | | 36.7% | 37.0% | 8.3% | 11.6% |
| | Total Employment | | 11360 | | | | |

*Note: Due to the merger, the accounting year 1989/1990 had 16 months (January 1989 to April 1990). Regional breakdown of sales refer to 1990/1991 as no such data were reported for 1989/1990.*

*Table 1c: Danisco 2004/2005*

| Line of Business | Company / main products | Sales* m DKK | Empl. | Den-mark | West Europe | East Europe | North Am | Latin Am | Asia-Pacific | Other |
|---|---|---|---|---|---|---|---|---|---|---|
| Ingredients and Sweeteners | Danisco Ingredients (incl. Sweeteners) | 9875 | n.a. | yes | 41 affiliates in 13 countries | Russia, Poland, Czech R. Romania | Canada, USA, | 10 affiliates in 7 countries | 14 affiliates in 6 countries | India |
| Sugar and Seeds | Danisco Sugar | 8155 | n.a. | yes | 5 countries | Lithuania | - | - | - | - |
| | Seeds | | | yes | 6 countries | Poland | - | - | - | - |
| Other | Holding companies etc. | n.a. | n.a. | yes | 6 countries | - | USA | - | - | Mauritius |
| | Total Sales | 17835 | | 11.2% | 44.2% | 9.0% | 13.8% | 4.8% | 10.5% | 6.5% |
| | Total Employment | | 9235 | 22% | 35% | 14% | 14% | 8% | 8% | 0.5% |

*Source: Danisco Annual Report 2004/05 (financial year May 2004 to April 2005), countries listed are those where Danisco has a subsidiary company listed in the annual report.*

*Table 2a: The Restructuring of GN Great Nordic 1990-2004*

| Year | Business Units Sold | Businesses acquired |
|---|---|---|
| 1990 | GN Laur. Knudsen (isolation materials) | Navtel, Canada (NT)<br>Madsen Electronics (GNR) |
| 1991 | --- | Danish Polish Batteries (partial) |
| 1992 | GN Batteries International | GN Rawthorn, UK<br>Comtext International (increase to 100%)<br>GN Con Tec Teledate, SpA (increase to 100%) |
| 1994 | GN Communications<br>GN FileTech | Danatronics, Switzerland<br>Laser Precision Corp, USA |
| 1995 | --- | Audiologic, USA<br>Talkline Nordic |
| 1996 | --- | Azure technologies, USA<br>Mark Group, USA<br>Unex, USA (GNN)<br>Sonofon (further 17.5% to 53.5%) |
| 1997 | GN Rawthorn, UK | Italiana Audioprotesi, 90% (GNR)<br>Bimcom, UK<br>Siemens OTE, USA (NT) |
| 1998 | --- | Online Resource Center, Russia, 48.7% (TS)<br>ACS Wireless; USA (GNN)<br>Fastware, France (NT), Faxnet, 22% (GNC) |
| 1999 | Faxnet, sale of partial ownership (GNC) | ReSound, USA (for US$ 182m; GNR)<br>PK Technology (for US$ 45m, NT)<br>RTC Page (TS)<br>Danplex (for DKK 15m, GNR)<br>EAC-GN Communications (NT)<br>GN Resound China, increase of equity to 100% |
| 2000 | GN Comtext's network business<br>Sonofon (53.5% equity stake)<br>York Sensors (for US$ 3m, NT) | AB Transistors, Sweden (GNN)<br>Beltone (for DKK 3.1bn, GNR)<br>Voxtel, Moldova, 20% stake (TS)<br>JABRA, USA (for US$ 62m, GNN)<br>Hortmann, Germany (GNR),<br>GM Iris (NT), Optran (NT)<br>Hello Direct, USA (for US$ 95m, GNN)<br>Phonetics, France (for DKK 9.1bn, NT)<br>ICS Medical, USA (for US$ 10.6m, GNR) |
| 2001 | Denerco & ZAO, St. Petersburg (TS)<br>GN Comtext | Sensortech (GNN),<br>Auditdata, increase of equity to 100% (GNR)<br>Ultravox Holdings (GNR), Dana Japan (GNR) |
| 2002 | Last sale of residential real estate<br>NetTest (NT) | Claria Headsets, Australia (GNN) |
| 2003 | No major transactions | |
| 2004 | Voxtel, Moldova (20% equity stake) | |
| 2005 | | Interton Hörgeräte, Germany (GNR) |

*Source:* GN Great Nordic, annual report and stock market announcements, various years.

*Abbreviations:* GNN = GN Netcom, GNR = GN ReSound (previously GN Danavox), NT = NetTest (previously GN Elmi), GNC = GN Comtext, TS = GN Store Nordiske Telegraf-Selskab.

*Table 2b: GN Great Nordic in 1990*

| **Company / main products** | **Sales mill. DKK** | **Empl.** | **Den-mark** | **Europe** | **America** | **Asia** | **Other** |
|---|---|---|---|---|---|---|---|
| GN Danvox (later GN ReSound) | 292 | 708 | yes | UK, N, D, NL, S | Canada, USA | China | Brazil |
| GN Elmi (later NetTest) | 189 | 225 | yes | A, D, UK, F | Canada USA | - | AUS |
| GN Netcom | 187 | 327 | yes | UK, D, F | Canada, USA | - | - |
| GN Batteries | 93 | 146 | yes | - | - | - | - |
| GN Communications | 166 | 224 | yes | - | | | - |
| GN DataCom | 140 | 161 | yes | D, UK, F | USA | Japan | - |
| GN FileTech | 19 | 22 | yes | - | - | - | - |
| GN Telegraph Co. | 9 | 7 | yes | Russia*, Poland* | - | Japan* | - |
| GN Ejendomme (real estate) | 27 | 7 | yes | UK | - | - | - |
| Other (incl. GN Citytel, Store Nord Energi) | 274** | 577** | yes | - | - | - | - |
| Total Sales | 1396 | | 40.0% | 36.6% | 7.4% | 12.9% | 3.1% |
| Total Employment | | 2404 | | | | | |

*Source:* GN Great Nordic, annual report1990.
*Notes*: *ownership of telegraph cables and similar assets, not affiliates. ** calculated as difference between total and available divisional sales figures.

*Table 2c: GN Great Nordic in 2004*

| **Company / main products** | **Sales mill. DKK** | **Empl.** | **Den-mark** | **Nordic** | **West Europe** | **America** | **Asia** | **Other** |
|---|---|---|---|---|---|---|---|---|
| GN Netcom (headsets) | 2514 | n.a. | yes | S, | UK, D, F, E, I, NL | USA, Canada | China, Japan, HK, Singapore, | AUS |
| GN ReSound (hearing aids) | 3018 | n.a. | yes | N, S, FIN, | D, NL, B, CH, F, E, I, UK, IRL, A, HU, PL | USA, Canada, Brazil, Mexico | China, HK, Japan | AUS, NZ |
| Other, HQ | 16 | n.a. | yes | - | - | - | - | - |
| Total Sales | 5548 | | 2.6% | 5.7% | 37.8% | 42.4% | 9.2% | 2.3% |
| Total Employment | | 4630 | | 40% | | 31% | 29% | |

*Source:* GN Great Nordic, annual report2004.