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EDITORIAL

What determines the scope of the firm over time and around the world? An Asia Pacific perspective

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Abstract "What determines the scope of the firm?" is a fundamental question in strategy research. We argue that a new generation of diversification research needs to address the extended question: What determines the scope of the firm—both product and geographic—*over time* and *around the world*? This article has three goals: (1) to increase awareness among researchers on the necessity to add the much needed but often neglected time and geographic dimensions by introducing a new typology in diversification research, (2) to review how Asia Pacific research, including articles in this Special Issue, has contributed to our global understanding along both dimensions, and (3) to advance an institution-based view on diversification strategies that has largely been propelled by Asia Pacific research.

Keywords Scope of the firm · Product diversification · Geographic diversification · Institution-based view

What determines the scope of the firm? This is one of the most fundamental questions in strategy research (Rumelt, Schendel, & Teece, 1994). After more than 30 years of research

Both authors made equal contributions. This article draws on a keynote speech delivered at the *APJM* Special Issue Conference on "Conglomerates and Business Groups in the Asia Pacific" in Singapore, December 12–14, 2005. It is based on a series of meetings in Atlanta, Beijing, Dallas, Honolulu, Shanghai, and Singapore during 2004–2006. We thank all the authors, reviewers, Marleen Dieleman, Mingfang Li, Sarainna Lundan, Klaus Meyer, Lilach Nachum, Steven White, Xiaohua Yang, and especially the Special Issue conference participants for their insights. Yung Hua, Ted Khoury, Kwok Siew Geok, Wendy Ng, and Kenny Oh provided able assistance. The conference was funded in part by the National University of Singapore and the Asia Academy of Management. Peng's research was supported in part by a National Science Foundation CAREER Grant (SES 0552089). The views expressed here are ours and not necessarily those of the funding organizations.

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since Rumelt (1974), we are still far from reaching a clear answer on the product scope question (Palich, Cardinal, & Miller, 2000). Moreover, the answer needs to involve consideration of both the product scope and geographic scope of the firm. Most recently, scholars have become increasingly interested in identifying contingent factors underlying the optimal product and geographic scope of a firm—both in Asia and elsewhere (Chang, 2006a; Leung & White, 2004; Yeung, 2007). It is with this goal in mind that we set out to publish a Special Issue on "Asian Business Groups and Conglomerates."

The search for contingencies in the relationship between product and geographic scope and firm performance emerges from three areas of dissatisfaction with current research. First, most current research either focuses on product diversification (often under the "strategic management" label) or geographic diversification (usually under the "international business" label). Scholars rarely address how these two strategies interact. Therefore, there is a need to investigate both product and geographic diversification *simultaneously* (Delios & Beamish, 1999; Hitt, Hoskisson, & Kim, 1997).

Second, the relationship between the scope of the firm and performance may vary over time (Peng, Lee, & Wang, 2005). Although in the post-Rumelt (1974) era in developed economies, unrelated product diversification (conglomeration) is usually found to destroy value (Palich et al., 2000), conglomeration was found to add value during an earlier era (Davis, Diekmann, & Tinsley, 1994). In Asia, until 1997, conglomeration had been widely noted to add value by filling institutional voids (Khanna & Palepu, 1997). Yet, this wisdom has been increasingly questioned in the post-1997 era (Bruton, Ahlstrom, & Wan, 2003; Kim, Hoskisson, Tihanyi, & Hong, 2004a; White, 2004). Therefore, it is imperative that a time dimension be incorporated in diversification research (Chan, 2002; Lee, Peng, & Lee, 2007).

Finally, as research increasingly encompasses the breadth and depth of strategies of firms that compete in all corners of the globe, there is an increased recognition that we need to identify how the question of scope has varying answers across different regions of the world (Wright, Filatotchev, Hoskisson, & Peng, 2005). Even when holding the time period constant, a reasonably solid answer for a given region of the world such as North America may not necessarily hold in other regions such as Asia (Khanna & Palepu, 1997; Singh & Delios, 2005).

As a result, a new generation of diversification research needs to answer the extended question: What determines the scope of the firm—both product and geographic—*over time* and *around the world*? Being aware of the complexity of this question, we have no pretension that we will be able to satisfactorily address it in this article. Instead, this article has three goals: (1) to increase awareness among researchers on the necessity to add the much needed but often neglected time and geographic dimensions by introducing a new typology in diversification research, (2) to review how Asia Pacific research, including articles in this Special Issue, has contributed to the global understanding along both dimensions, and (3) to advance an institution-based view on diversification strategies that has largely been propelled by Asia Pacific research and that will shed additional light on the scope of the firm question in the future.

Defining the scope of the firm

The scope of the firm has received almost as much definitional attention as it has empirical and theoretical attention. Aside from the issue of distinguishing product scope from geographic scope, there is also the definitional concern about the nature of a firm's product

scope (Robins & Wiersema, 2003). Early research by Rumelt (1974) focused on distinguishing the type of firm (e.g., conglomerate unrelated-diversifier, related-diversifier, or single-business firm) by the types of products it produced, the percentage of revenues associated with each product line, and the vertical relationship between the products produced in a firm. This categorical definition later gave way to a continuous definition and measurement based upon the concepts of related and unrelated diversification as implemented through a Herfindahl or Entropy based measure. The crux of this system was how to define related and unrelated diversification—either by SIC code, by relationships across a product's customers, or by relationships in the types of productive assets used to produce a product (Chang, 1996). Geographic scope also faced a similar definitional debate, as highlighted by Sullivan (1994). Ultimately, researchers have settled on country scope count measures (Lu & Beamish, 2004) or Herfindahl and Entropy type measures (Hitt et al., 1997).

A key aspect in these two lines of research on product and geographic scope is that they have often remained separate from one another. Seldom have researchers looked at the twin issues of whether and how product and geographic scope interact with one another.[1] Even recent theoretical work that has considered other contingencies affecting product scope, such as time (Peng et al., 2005), has not considered the interaction of the two. This lack of attention is somewhat surprising given the large amount of anecdotal evidence, for example, in the case of US firms, that has twinned the two concepts together in the "product focus, global expansion" mantra of the 1990s and early 2000s (Bodnar, Tang, & Weintrop, 1997; Denis, Denis, & Yost, 2002; Meyer, 2006b; Tallman & Li, 1996). Our point, which we develop in more detail in subsequent sections, is simply that product scope and geographic scope need to be examined simultaneously in future research.

Basic drivers of the scope of the firm

As a starting point to examine the interaction between product scope and geographic scope, we need to establish a baseline understanding of their determinants. For both kinds of scope, we need to jointly consider the costs and benefits. First articulated by Jones and Hill (1988), the basic cost and benefit relationship can be described in terms of a comparison between marginal bureaucratic costs (MBCs) and marginal economic benefits (MEBs) of a given product scope (Figure 1). MBCs arise from the additional structure created within a firm to coordinate its expanding activities. As product scope increases, there tend to be greater levels of costs associated with managing the organization. These costs include the costs of greater levels of hierarchy, larger administrative head counts, more complex information systems, and so forth. Meanwhile, MEBs are the various forms of synergy that arise from an additional unit of growth—for example, as brought by the most recent acquisition. Synergy can be considered as per unit reduction in costs associated with the greater output of the firm.

[1] In the "ocean" of studies on product and geographic diversification, to the best of our knowledge, only a small pool of studies have examined these two strategies simultaneously. Outside of Asia, these include Bodnar et al. (1997), Denis et al. (2002), Hitt et al. (1997), Kumar and Seth (2005), Tallman and Li (1996), and Wan and Hoskisson (2003). In Asia, Delios and Beamish (1999), Geringer, Tallman, and Olsen (2000), Guillen (2003), Kim et al. (2004a), Nachum (2004), Wan (1998), Wan (2005), and Wright et al. (2005) probably represent the entire (small) population of such work.

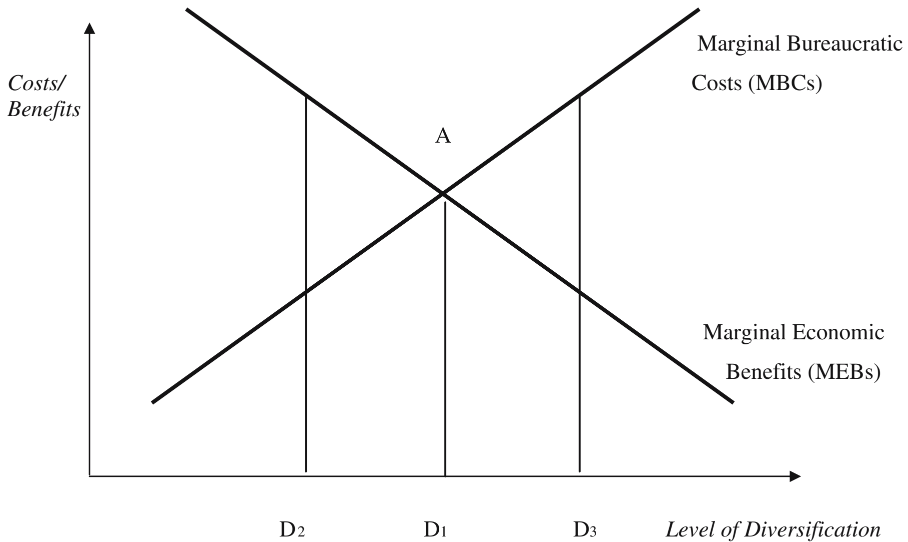

Figure 1 Basic drivers of the scope of the firm. (Jones & Hill, 1988, p. 166)

Typically, with an expanding product scope, MBCs increase while MEBs decrease. MEBs may exceed MBCs at low levels of diversification. Eventually, MBCs may outweigh MEBs. The optimal level of diversification is the point at which MBCs equal MEBs. For firms in the United States, the recent equilibrium point seems to be at a modest level of product-related diversification (Palich et al., 2000). In many economies in Asia, even today, the equilibrium point seems to be at a higher level of product diversification. Again, one must also consider the possibility that these relationships may change over time (Peng et al., 2005). Even in Asia, there is a modest trend towards downscoping by reducing the product scope of a firm or group (Ahlstrom & Bruton, 2004; Bruton et al., 2003; Chang, 2006a, 2006b; Kim et al., 2004a; Yeung, 2007).

Research on geographic (international) diversification has followed a similar line of analysis, although the determination of the optimal geographic scope has not been explicitly couched in terms of MEBs and MBCs. Even before undertaking a formal cost–benefit analysis, one has to consider that the weight of opinion on leaders in organizations is to "go international, go global," so to speak. Even small and medium-sized firms (SMEs) are being urged to go abroad, despite the challenges associated with the early stages of internationalization for SMEs (Lu & Beamish, 2001).

The costs associated with internationalization—expansion of geographic scope—are similar but not identical to those associated with the expansion of product scope. The similar costs are the hierarchical administrative costs, which tend to be most pronounced at a high level of geographic diversification. The dissimilar costs are those encountered at a low level of internationalization, and primarily relate to learning how to operate in international markets, as well as those associated with developing the capabilities to operate in markets with different institutional structures relative to the home country (Delios & Beamish, 2001; Luo & Peng, 1999). The benefits tend to arise during early and middle stages of geographic diversification, and include economies of scope, amortization of fixed costs of R&D over greater sales revenues, and reduction in costs from increased bargaining

power. The consequent optimal level of geographic diversification may not necessarily lead to a completely global firm with revenues from all six continents, but rather one with a modest level of geographic diversification (Lu & Beamish, 2004; Tong, Reuer, & Peng, 2007).

Empirical evidence finds that not all multinational enterprises (MNEs) are as global as popular opinion would suggest (Rugman & Verbeke, 2004). Certainly, many firms have increased their geographic scope.[2] That said, many major MNEs are situated in large home country markets, and have consequently followed a regionalization, not a global, strategy when internationalizing (Delios & Beamish, 2005; Rugman & Verbeke, 2004). The point here is that internationalization—expansion of geographic scope—does have value (Bodnar et al., 1997; Morck & Yeung, 1991), it is just a matter of what is the limit to geographic expansion, beyond which further expansion may destroy value (Denis et al., 2002; Lu & Beamish, 2004; Nachum, 2004).

When we expand our investigation of geographic scope from developed economy multinationals to emerging economy multinationals, we encounter the further complication of considering which markets can lead to competitive gains for emerging economy multinationals (Nachum, 2004; Wright et al., 2005). Developed economy multinationals are typically depicted as holding a unique competitive advantage over domestic incumbents in their host country markets, but such a feature may not apply to the case of emerging economy multinationals (Makino, Lau, & Yeh, 2002). The result is that we have to consider the nature of the market in which the firm is investing, as well as the nature of the firm's home market (Mathews, 2006; Peng, Au, & Wang, 2001a). As with an analysis of a product diversification strategy, the nature of the market can be addressed by considering its institutions.

An institution-based view on diversification

Recent research around the world (Davis et al., 1994) and especially in Asia (Delios, Xu, & Singh, 2007; Leung & White, 2004; Peng et al., 2005) has started to sketch the contours of an institution-based view on diversification strategies. This view complements the existing industry- and resource-based views on diversification (see Figure 2 and Peng, 2006 for details on these two views).

The institution-based view draws primarily from institutional economics, which conceptualizes a nation's institutions as the rules of the game that comprise informal constraints (sanctions, taboos, customs, traditions, and codes of conduct) as well as formal rules (constitutions, laws, and property rights) (North, 1990). The formal rules perspective emphasizes the political and legal aspects (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). A core proposition is that variation in national institutional environments enables and constrains different strategic choices such as product and geographic diversification (Khanna & Palepu, 1997, 2000; Peng, 2002, 2003; Peng & Heath, 1996; Peng et al., 2005; Wright et al., 2005).

Product and geographic diversification are strategies that have differing implications for a firm, depending on its institutional environment. One way to view product diversification is as a rational response to the opportunities and constraints presented by

[2] Major MNEs from small open economies may be exceptionally international. For example, Ericsson and Electrolux from Sweden have over 90% of revenues and assets abroad.

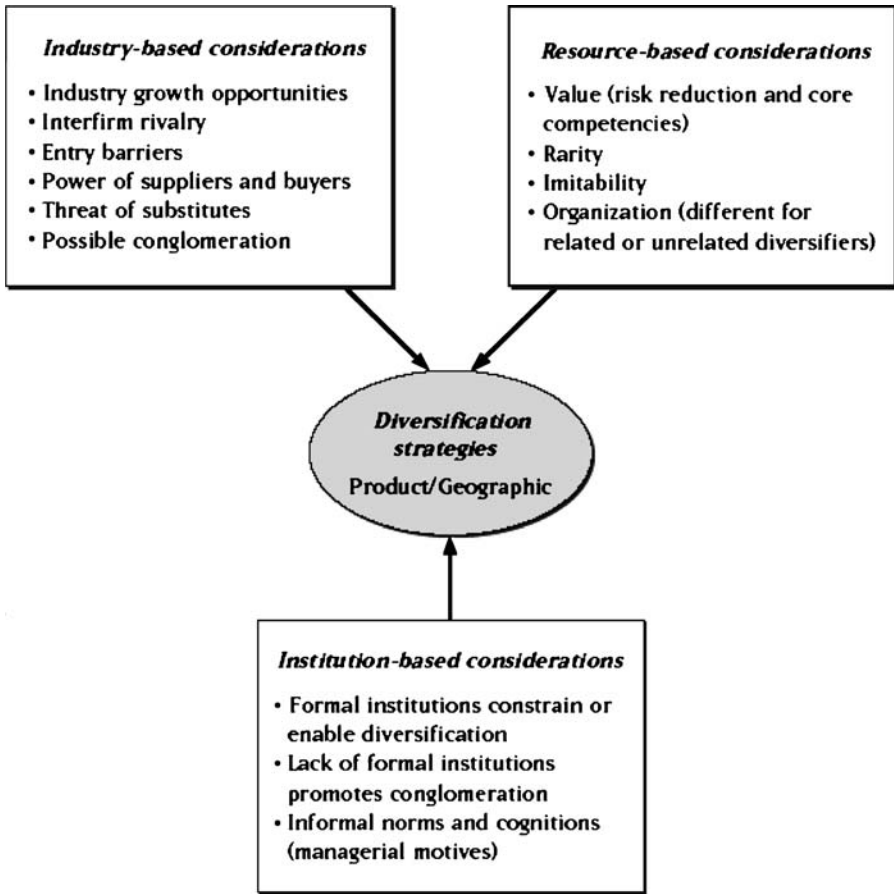

Figure 2 What drives diversification strategies? Adding an institution-based view (Peng, 2006, p. 368)

the institutional environment in which a firm is situated. For example, the formal institutions in a country might promote unrelated diversification through the enactment of antitrust laws that inhibit intraindustry mergers as a form of firm growth, as in the United States in the 1950s. Likewise, formal institutions can also spur or constrain geographic growth through currency regulations and the laws and regulations encouraging or discouraging (or banning) foreign direct investment (FDI).

Informal institutions can have a similar but more subtle effect. As more firms diversify, there can emerge normative pressures for strategic conformity (often known as the "bandwagon" effect), and more firms will engage in diversification, such as numerous firms in China in the early 2000s (Zhou, 2006). Because diversification—along product, geographic, or both dimensions—usually results in a larger organization and because managerial power, income, and prestige are usually correlated with the size of the firm, many managers may engage in empire-building. Once diversification becomes a norm, many eager empire-builders may jump on the bandwagon while performance may not be satisfactory (Denis et al., 2002). This seems to be one of the key reasons why South Korea experienced such heavy debt loads in the 1997 Asian economic crisis—certain *chaebols*

engaged in reckless product and geographic diversification as unleashed by empire-building managers (Oh, Choi, & Choi, 1998).

At a more general level, the strength of countries' institutions that support external transactions may also influence decisions about the optimal scope of the firm. In institutionally weak countries, where businesses incur higher transaction costs than in institutionally strong countries, product diversification can be a strategic action to create substitutes for absent factors and institutions (Wan, 2005; Wan & Hoskisson, 2003). Business groups, as a means to increase product diversity levels by leveraging multiple affiliated firms, can compensate for institutional voids in the external environment and create an internal institutional structure that provides substantial benefits to affiliated firms (Khanna & Palepu, 1997; Peng et al., 2005). Business groups and product-diversified firms thus may create value by imitating these institutions internally, and by acting as an intermediary between entrepreneurs and markets (Khanna & Palepu, 2000). Overall, an institution-based view on diversification posits that in addition to industry- and resource-based considerations, formal and informal institutions significantly shape product and geographic diversification strategies (Figure 2).

Institutional transitions and diversification strategies

Institutions are not static, nor are strategies. Specifically, as institutions develop, we can likewise observe changes in the costs and benefits associated with diversification strategies along product and geographic dimensions. From the period of the 1950s–1970s to the period of the 1970s–1990s, considerable development in the economic, political, and legal environment took place in the United States. This institutional development lowered the costs of interfirm transactions, heightened the availability of information about firm strategy to individual investors, and reduced the costs of financial transactions. This development first increased the MEBs of product unrelated diversification, which led to a widening of the product scope of the firm in the 1970s. This was followed by an increase in the MBCs, which led to a subsequent narrowing of product scope (Davis et al., 1994).

At present, if we compare the institutional environment in much of Asia (emerging economies) against the present environment in the United States (developed economies), MBCs in Asia may be lower than in the United States. This in itself could promote a higher level of product diversification. The MEBs in Asia may also be greater, again supporting a conglomeration logic. Although this discussion above has not delved into detail on the institutional underlay of these cross-regional and cross-time comparisons (see Peng et al., 2005 for details), our point here is that the institutional environment can either support or inhibit the efficacy of a strategy such as diversification.

The most relevant point for emerging economies, such as those in Asia, that needs to be considered as we move forward is that the institutional context will be a changing one. Ultimately, we may see developments in institutions in Asia that reduce the costs of external market transactions, heighten the efficiency of product markets, and lower the costs of information flow to relevant transactional parties (Peng, 2003). These considerations will likely lead to a situation in which the optimal product scope of a firm's activities are reduced (Kim et al., 2004a).

Yet, this reduction may not necessarily lead to a situation in which the optimal product scope of a firm in Asia is equivalent to that of a firm in a developed economy. Informal institutions, which can be slow to change, can still yield efficiencies to conglomeration in Asia. Even when such efficiency gains associated with conglomeration disappear, there can

still be significant inertia on the part of managers who refuse (or are slow) to reduce the firm's product scope (Carney, 2004; White, 2004; Young, Ahlstrom, Bruton, & Chan, 2001).

Similarly, institutional changes in home and host country regulations governing FDI may significantly influence firms' geographic diversification strategies. For example, governments in China, South Korea, and Taiwan significantly loosened capital control requirements in the 1990s, thus making it possible for *outbound* FDI from these countries to flourish (Au, Peng, & Wang, 2000; Young, Huang, & McDermott, 1996). At the same time, numerous host countries in Asia, such as China, India, Indonesia, Thailand, and Vietnam, have intensified their competition for *inbound* FDI through investor-friendly policies. These policies fueled the geographic diversification of firms from countries such as Japan, Singapore, South Korea, and elsewhere (Pangarkar, 1998; Peng, Lee, & Tan, 2001b). In other words, MNEs' rising interests in geographic expansion need to be viewed in the larger picture of significant institutional transitions in the region.

Overall, it is useful to link the ideas of time and locational contingencies to diversification strategies along both product and geographic dimensions. The lynchpin for the joint consideration of time and location is the institutional environment and its changes.

A typology on product and geographic diversification

Having separately discussed the changing product scope and geographic scope in the last few decades, how can we consider them *simultaneously*? Figure 3 illustrates such a 2×2 typology (Peng, 2006).[3] Earlier we mentioned the competitive ethos that emerged in the United States in the late 1980s and early 1990s. This was the idea of narrowing product scope, while increasing geographic scope—essentially a *multinational replicator* strategy (Cell 1).

The *anchored replicator* (Cell 3) is the position that most firms are in before expanding product scope, geographic scope, or both. Specifically, these firms have a product related strategy and conduct business in a limited number of countries.

The MNE that was typically the attractor for vilification through the 1970s was the *far-flung conglomerate*—a firm that sold a wide range of products in many markets (Cell 2). Other than a handful of firms such as GE, far-flung conglomerates are now largely absent. Some Asian business groups, such as Samsung from South Korea, had ambition to emerge as far-flung conglomerates prior to 1997. Since then, such ambition has been curtailed (Chang, 2006a, 2006b).

A *classic conglomerate* (Cell 4) is the type of firm that was under pressure in the 1970s in the United States, and is coming under pressure in the 2000s in numerous Asia Pacific economies. Some of the present-day success stories are firms that were classic conglomerates, but switched to a multinational replicator strategy (Meyer, 2006b). Nokia is one such firm that had a tremendous range of products sold in Finland two decades ago before becoming a worldwide leader in mobile phones.

As discussed earlier (see Figure 2), these considerations of the four strategy types in Figure 3 do not emerge without a consideration of the institutional environment. Institutional development increases the costs to being a classic conglomerate (Bowen & Wiersema, 2005). A shift can be made to an anchored replicator or a multinational replicator. The preference for one strategy over the other is largely defined by the present

[3] See also Meyer (2006b) and Porter (2004).

Figure 3 A typology of diversification strategies along product scope and geographic scope. (Peng, 2006, p. 367)

		Product Scope	
		Related	**Unrelated**
Geographic Scope	**Extensive**	(Cell 1) *Multinational replicator*	(Cell 2) *Far-flung conglomerate*
	Limited	(Cell 3) *Anchored replicator*	(Cell 4) *Classic conglomerate*

day institutional environment that has decreased the costs of doing business abroad, despite the existence of the usual "liability of foreignness."

How does an Asia Pacific perspective contribute?

Table 1 outlines the extensive research on product and geographic diversification throughout Asia Pacific. It is evident that with approximately 100 studies published since 1995, this is a thriving field. *APJM* has made significant contributions to this literature, by publishing approximately half of the studies—and this Special Issue will continue and solidify this leadership position. So, how does an Asia Pacific perspective contribute to our global understanding of the scope of the firm question?

We believe that collectively, Asia Pacific research has made the *most significant* contributions to the institution-based view on diversification strategies. This is because research in developed economies (especially in the United States), where a set of market-supporting "rules of the game" are taken for granted, has had a difficult time separating an independent institutional effect on diversification strategy and performance. A focus on Asia allows us "to vary institutional contexts;" otherwise, "it is difficult if not impossible to discern the effects of institutions on social structures and behaviors if all our cases are embedded in the same or very similar ones" (Scott, 1995, p. 146). While theoretical work on product diversification has often been under the broader umbrella of "emerging economies" (Hoskisson, Eden, Lau, & Wright, 2000; Hoskisson, Johnson, Tihanyi, & White, 2005; Khanna & Palepu, 1997; Peng, 2003; Peng et al., 2005; Wright et al., 2005) or "transition economies" (Peng & Heath, 1996), such work has often had some very strong and identifiable Asia Pacific roots. Recent theoretical debates on the frontiers of geographic diversification have directly built on the experience of Asia Pacific multinationals, as in Mathews (2006), which challenges existing thinking on MNEs (Dunning, 2006; Narula, 2006).

Empirically, the vast majority of the evidence in support of the institution-based view comes from Asia—not only in various country-specific studies (see Table 1) but also in studies investigating a group of emerging economies, many of which are from Asia

Table 1 Research on product and geographic diversification in Asia Pacific (1995–present)[a].

	Product diversification	Geographic diversification[b]	Both
China	Guthrie (1997), Keister (1998), **Li and Wong** (2003), **Lu and Yao** (2006), **Ma et al.** (2006), Peng (1997), Yiu, Bruton, and Lu (2005)	Young et al. (1996)	
Hong Kong	**Young et al.** (2001)	**Au et al.** (2000)	**Wan** (1998)
India	Bertrand et al. (2002), Chacar and Vissa (2005), **Kedia et al.** (2006), Khanna and Palepu (2000), **Ramaswamy and Li** (2001), **Ramaswamy, Li, and Petitt** (2004), Ramaswamy, Li, and Veliyath (2002)		
Indonesia	**Dieleman and Sachs** (2006), **Mursitama** (2006)		
Japan	**Dow and McGuire** (1999), **Isobe et al.** (2006), Lincoln, Gerlach, and Ahmadjian (1996), McGuire and Dow (2003), **Rose and Ito** (2004)	Delios and Henisz (2000), Henisz and Delios (2001), Lu and Beamish (2001, 2004), **Makino and Beamish** (1998), Makino and Delios (1996), Peng et al. (2001b)	Delios and Beamish (1999, 2001), Geringer et al. (2000), Kim et al. (2004b)
Malaysia		Zin (1999)	
Singapore	Lim and Teck (1995)	**Lin, Ping, and Chiu** (2005), **Rajan and Pangarkar** (2000), **Sim and Pandian** (2003), **Zutschi and Gibbons** (1998)	
South Korea	Chang (2003), Chang and Hong (2000, 2002), Chang et al. (2006), **Kim et al.** (2004a), Lee et al. (2007) Mahmood and Mitchell (2004)	**Erramilli, Agarwal, and Kim** (1997), Erramilli, Srivastava, and Kim (1999), **Han** (2002), Lee and Beamish (1995), **Oh et al.** (1998)	Guillen (2003)
Taiwan	Chang et al. (2006), **Chu** (2001), Chung, C.-N. (2001), Chung, H.-M. (2006), **Filatotchev et al.** (2005), Luo and Chung (2005), Mahmood and Mitchell (2004), **Young et al.** (2001)	**Brookfield and Liu** (2005), Chen and Chen (1998), **Lee and Chen** (2003), **Li** (2003), Makino et al. (2002), **Sim and Pandian** (2003)	
Thailand	**White** (2004)	**Pananond and Zeithaml** (1998), **Peng et al.** (2001a)	
Emerging economies (as a group)	**Ahlstrom and Bruton** (2004), **Ahlstrom, Young, Chan, and Bruton** (2004), Bruton et al. (2003), Carney (2004), Claessens et al. (2000, 2003), **Cuervo-Cazurra** (2006), Guillen (2000), Hoskisson et al. (2005), Khanna and Palepu (1997), Khanna and Rivkin (2001), Khanna and Yafeh (2005), **Li et al.** (2006), Peng (2003), Peng and Heath (1996), Peng et al. (2005)	**Dunning** (2006), **Mathews** (2006), **Narula** (2006), **Pangarkar** (1998), **Wang, Huang, and Bansal** (2005)	**Chang** (2006b), Nachum (2004), Wan (2005), Wright et al. (2005)

[a] **Bold** typeface indicates that the article was published in *APJM*. This table is representative but is not exhaustive. Only journal articles are included

[b] We refer to *outbound* international expansion. This literature is also known as the "Asian multinational" literature (see Pangarkar, 1998)

(Guillen, 2000; Khanna & Rivkin, 2001; Khanna & Yafeh, 2005; Nachum, 2004). While there is some emerging evidence coming from empirical work in Africa, Central and Eastern Europe, and Latin America, collectively, its volume and weight pales in comparison to the extensive and expanding base of empirical work in Asia (Leung & White, 2004; Yeung, 2007). In this regard, this article, in fact this Special Issue, is both a celebration of the Asia Pacific contributions to the global literature and a call for more sustained and rigorous research efforts in the coming years.

This Special Issue

For this Special Issue, we received a total of 26 submissions by July 2005. After the first round of anonymous review, authors of 14 articles were invited to revise and resubmit, and to present their work at a Special Issue Conference in Singapore, December 12–14, 2005. Approximately 50 individuals, including editors, authors, keynote speakers, and other interested scholars and graduate students, participated in the Conference. Papers were then revised, resubmitted, and reviewed in early 2006. While some papers were accepted at that stage, other papers were revised one more time.

Eventually, nine papers survived our rigorous review process and are included in this Special Issue. With slight tongue in cheek, we can say that we have practiced what we preached, by considering both the product scope and geographic scope of the Special Issue simultaneously when selecting papers. In terms of product scope, we have included theoretical (Cuervo-Cazurra, 2006; Li, Ramaswamy, & Petitt, 2006), qualitative (Dieleman & Sachs, 2006), and quantitative work (the other six papers). In terms of geographic scope, five major Asia Pacific economies are covered. The seven empirical papers include two papers on China by Lu and Yao (2006) and Ma, Yao, and Xi (2006), one paper on India by Kedia, Mukherjee, and Lahiri (2006), one paper on Japan by Isobe, Makino, and Goerzen (2006), two papers on Indonesia by Dieleman and Sachs (2006) and Mursitama (2006), and one paper on Taiwan by Chung (2006). In addition, our keynote speaker at the Conference, Sea-Jin Chang, was invited to write a Perspective piece (Chang, 2006b). While Chang (2006b) looks at business groups in East Asia broadly, his paper has naturally been influenced by his experience in South Korea, which nicely fills a missing gap—otherwise, we would not have a paper on South Korea.

As editors we are enormously proud of the contributions made by the papers in this Special Issue. Some of them offer first-of-a-kind contributions, which push the frontier of our existing understanding. For example, using data from China, Ma et al. (2006) articulate and substantiate the construct of “ownership voids,” which significantly enriches the broader but more loosely defined construct of “institutional voids” (Khanna & Palepu, 1997). Based on case data from Indonesia, Dieleman and Sachs (2006) present the first set of evidence documenting the migration from a relationship-based model to a market-based model during institutional transitions, a claim speculated (but not substantiated) by Peng (2003). Using data from Japan, Isobe et al. (2006) refute a traditional hypothesis that Japanese horizontal *keiretsu* allows member firms to trade profits for reduced risk. Their findings thus add more weight to the recent global findings by Khanna and Yafeh (2005). Overall, we are confident that this Special Issue will be widely read, discussed, and cited in the future.

Having “bragged” about the contributions of Asia Pacific research in general and of this Special Issue in particular, let us outline some frustrations and opportunities that we see in the current state of scope research. A casual look at Table 1 suggests that few papers have looked at product and geographic diversification simultaneously. In our Special Issue,

we are disappointed that no paper focusing on geographic diversification has survived the review process, let alone anyone dealing with both dimensions simultaneously—except some comments made by Chang (2006b). Although the volume of research on product diversification outweighs the volume on geographic diversification, this in itself may not be a problem. It may simply be a reflection of the fact that outbound international expansion from countries such as China, India, and Indonesia is a very recent and relatively small scale phenomenon. In contrast, research on the international expansion of firms from Japan, Singapore, South Korea, and Taiwan is naturally more voluminous. What seems to be urgently in need, when scholars design a next generation of studies, is to incorporate both product and geographic dimensions of diversification strategies *simultaneously* (Nachum, 2004).

Where to go from here?

Taking stock, charging ahead

A brief article such as ours is certainly unable to do justice to the vast and expanding literature on the determinants of the scope of the firm over time and around the world, but we believe that this article has made it abundantly clear on the necessity to highlight *both* product and geographic scope dimensions. Time, geography (location), and strategic interrelationships matter in determining the effectiveness of a complex strategy such as diversification. By focusing on institutions, we can identify how time and location matter, and gain insight into the effectiveness of the interaction between product and geographic dimensions of the scope decisions.

Although global in nature, the emerging institution-based view on diversification strategies has largely been informed by theoretical and empirical work focusing on Asia Pacific (Delios & Beamish, 1999, 2001; Delios & Henisz, 2000; Khanna & Palepu, 1997, 2000; Lee et al., 2007; Peng, 2002, 2003; Peng & Heath, 1996). This view has exposed the limitations of Western research, which is primarily based on the *recent* (post-1970s) US experience in favor of reduced product scope and increased geographic scope. In the 1960s, conglomeration was in vogue among many US firms and was viewed *positively* by capital markets, a situation similar to what we observe in many Asia Pacific economies recently. The search for the underlying differences has uncovered the important role that institutions play in diversification decisions–both over time and around the world (Peng et al., 2005).

Recently, Meyer (2006a) complains that Asian management research lacks self-confidence, because Asian scholars shy away from pursuing a research agenda grounded in Asian realities and from challenging the limitations of US-centered research. Although we are sympathetic to Meyer's (2006a) complaint in general,[4] in this particular area, namely, diversification research, we beg to differ in at least one regard. It is here that the cumulative research efforts of Asian management scholars have led to the articulation and emergence of a new, institution-based view, which is being added as a third "leg" to the tripod that explains the drivers behind diversification strategies (see Figure 2 and Peng, 2006). While relevant to Asia, the institution-based view has also been shown to have

[4] After all, we as editors invited Klaus Meyer to contribute this thought-provoking piece (Meyer, 2006a). Meyer is not alone in this regard. Similar complaints have been voiced by Lau (2002) and White (2002) in the pages of this *Journal*.

significant explanatory and predictive power to help inform diversification research in *developed* economies (Peng et al., 2005). A comprehensive review of strategy research in Asia by Delios et al. (2007) has singled out research on product diversification and geographic diversification as having the strongest contributions. In response to Meyer (2006a), we suggest that research that probes into the scope of the firm question is the one area in which Asian management research does not lack self-confidence.

Charging ahead, future research to advance the institution-based view needs to consider how institutions and their changes, both at home and abroad, impact both types of scope simultaneously. This is particularly paramount to Asia. The scope decisions of Asian firms are increasingly subject to simultaneous pressures on product and geographic scope. Note, importantly, how this differs from the US case, in which institution-based pressures influencing product scope in the 1970s emerged before those on geographic scope that were heightened in the late 1980s.

In terms of geographic diversification, research to date has been effective in looking at how firms from developed economies compete in developed economies and emerging economies. It has also begun to devote attention to the outward FDI of firms from emerging economies (Au et al., 2000; Makino et al., 2002; Mathews, 2006; Peng et al., 2001a). But the amount of research on emerging economy firms investing in developed economies is as yet sparse, and even more sparse for the case of emerging economy firms investing in other emerging economies (Delios & Beamish, 2004: Figure 8.1; Wright et al., 2005; Yamakawa, Peng, & Deeds, 2006). These gaps certainly represent intriguing research opportunities to charge ahead. Further, there are a number of substantive areas in which we would like to see future research contribute. Next, we frame three research opportunities as questions.

The scope of what?

The very question, “What determines the scope of the firm?” may itself be questioned. Especially in an Asia Pacific context, perhaps the foremost need is for more theoretical development to answer the question first raised by Coase (1937): “What is the nature of the firm?” Much work on “firm” strategies does not agree on what is *exactly* a firm. A firm in the West has relatively clear legal boundaries characterized by hierarchical control by its top management. A conglomerate or business group in many Asian economies tends to have “blurred” boundaries permeated by personal connections, partial ownerships, and board interlocks. The difficulty in defining conglomerate or group boundaries has not only led to nontrivial empirical problems when measuring their size, but also resulted in a conceptual debate on whether these organizations qualify as “firms.”

Specifically, Hamilton and Feenstra (1995, p. 58) argue that the narrowly defined Coasian firm with clear boundaries “does not have the same empirical and conceptual significance throughout the world but, rather, is a prominent feature ... only in modern Western societies.” Although research on *keiretsu* in Japan has forced researchers to examine the validity of our conceptualization of the firm based on the Western model (Peng et al., 2001b), more recent work finds that similar groups dominate the organizational landscape in Asia (e.g., the articles in this Special Issue). A traditional answer is to suggest that these organizations are “outliers” operating under a different set of logic, and that the field can afford to ignore them and develop “grand” theories (mostly focusing on Western economies). However, such an answer is indefensible, if we as a field ever endeavor to approach a *global* science of organizations—we may even argue that *APJM* exists to reject such an answer. While delineating the essence of this debate is

beyond the scope of this article, future conceptual work needs to progress on what constitutes a “firm” when addressing the question on the scope of the “firm” (or whatever) in Asia and elsewhere (see Cuervo-Cazurra, 2006).

Optimal scope for whom?

Even if we agree to skip the conceptual debate on the nature of the “firm” above and proceed with the “scope of the firm” question, the search for the optimal product and geographic scope calls for another question: Optimal for whom? The dependent variables for traditional diversification research are usually accounting- or market-based returns, presumably benefiting shareholders. Yet, in an Asia Pacific context, the question becomes significantly more complex, because large firms, conglomerates, and business groups tend to be owned and controlled by families, who naturally are interested in advancing their interests (Luo & Chung, 2005). In doing that, they may end up hurting, or using a more negative jargon “expropriating,” minority shareholders (Bertrand, Mehta, & Mullainathan, 2002; Chang, 2003; Claessens, Djankov, & Lang, 2000). Thus, in addition to the principal–agent conflicts observed when probing into the roots of diversification strategies in developed economies, in Asia another set of conflicts between controlling shareholders (families) and minority shareholders—termed “principal–principal” conflicts by Young, Peng, Ahlstrom, Bruton, and Jiang (2006)—is prominent. These conflicts help explain why there is so much resistance in restructuring in much of Asia, even after the shock of 1997 (Carney, 2004; White, 2004). Traditional diversification research in the West (e.g., Rumelt, 1974) has ignored corporate governance issues. In Asia, we cannot afford to ignore the unique corporate governance dynamics behind diversification strategies (Bruton et al., 2003; Filatotchev, Lien, & Piesse, 2005; Young et al., 2006).

Paragons or parasites?

In addition to minority shareholders, Asian governments, societies, and citizens at large often have an interesting (and at times painful) “love–hate” relationship with business groups and conglomerates. Prior to the 1997 crisis, business groups and conglomerates were widely regarded as paragons, which embodied “Asian values” and contributed to Asian economic growth (also known as the “miracle”). However, since 1997, the same business groups and conglomerates, often pursuing the same diversification strategies led by the same families, have often been harshly criticized as evidence of the ill effects of “crony capitalism,” “reckless growth,” and “grabbing hands” (in every industry)—somehow the paragons became parasites(!). From a policy standpoint, post-1997 reforms have often focused on “taming the conglomerate beast” by forcing them to restructure (Chang, 2006a; Hoskisson et al., 2005). Although there is evidence that the advantages associated with conglomeration turned into disadvantages between the 1980s and 1990s (Lee et al., 2007), it is not clear how and why these transformations took place. One promising stream of research investigates whether business groups facilitate or inhibit a nation’s innovation performance (Chang, Chung, & Mahmood, 2006; Mahmood & Mitchell, 2004). Business group exert dual effects on innovation. They facilitate innovation by providing much needed infrastructure, but they also discourage innovation by raising entry barriers for nongroup firms’ innovative efforts. Therefore, there is a threshold, beyond which additional market share gains held by business groups may inhibit a nation’s innovation performance.

The "paragons versus parasites" debate is indicative of most existing research, which is of a simplistic, static nature—that is, scholars propose and test *linear* relationships, such as whether business groups are always good or bad. The *dynamic* aspects of the complex relationships have rarely been explored. The work on business groups' impacts on innovation highlights the necessity to avoid simplistic characterizations and look for points of inflection. Such points of inflection, at which "paragons" may turn into "parasites," may be different for different Asian countries, as Chang et al. (2006) and Mahmood and Mitchell (2004) find in South Korea and Taiwan.

Conclusion

What determines the scope of the firm over time and around the world? An Asia Pacific perspective suggests that the key to address this complex question lies in institutions. The shapes, forms, and transitions of institutions, both at home and abroad, have a weighty bearing on both the product scope and geographic scope of business groups and conglomerates.

Although global in nature, an institution-based view on diversification strategies has largely been propelled by the extensive work situated in the Asia Pacific in the last decade (see Table 1). Meyer (2006a, p. 134) argues that Asia Pacific research will have "arrived" once such regional flavor has become an integral part of the global scholarly discourse. Papers in this Special Issue continue the *APJM* tradition of using Asia Pacific insights to inform global research on business groups and conglomerates (Lau, 2002; Peng, 2005; White, 2002).

In general, business groups and conglomerates are creatures of institutional imperfections. In an influential recent volume on the subject, Chang (2006a) argues that as long as markets, especially capital markets, are imperfect and Asian governments continue to influence resource allocation, business groups and conglomerates will not only survive but may also prosper in the region (Chang, 2006b). We agree. To the extent that the purported demise of business groups and conglomerates has been vastly exaggerated by the advocates of radical reforms in the post-1997 era, Asia Pacific economies in the foreseeable future will remain fertile grounds for probing into the question of what determines the scope of the firm over time and around the world. We are confident that a new generation of scholarship pursuing the scope of the firm question in the Asia Pacific region and beyond will widen and extend the trail blazed by the papers published in this Special Issue.

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