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A Theoretical Investigation on Global Expansion of Shipping Companies

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I. Introduction

A wealth of literature exists to explain why business organizations expand their activities to foreign markets. A review of the works under the aegis of international business reveals a number of major streams of research that have contributed to the establishment of global expansion theories. However, such intellectual developments seem not to have received an equal amount of

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attention in the transport industry, and there are few theoretical investigations exploring global freight delivery activities. Addressing cross-boundary delivery behaviour and the global strategy of shipping companies, the explanatory power of conventional theories weakens because the transport sector has idiosyncratic features which distinguish it from other industries. Whilst there have been several studies which adopt the classical theories in the domain of global engagement by service sectors (most notably retailing), it seems that attempts to apply the established theories specifically within the unique transport context are both potentially precarious and misleading.

Under these circumstances it is felt that an alternative framework is needed within which the global delivery operation can adequately be understood and we contend that a resource-focused perspective has the potential to be applied to areas of the transport sector. Hence, this paper applies a resource-focused theory as a frame of reference and advances a theoretical foundation for the study of transport global expansion and the global strategic behaviour of shipping companies. The paper commences with a review of classical global expansion theories accepted as orthodoxy in business studies circles, and subsequently identifies the difficulty of applying any of these theories to the transport sector. Reflecting the view that 'the classical theories cannot adequately explain the reason for transport company's global expansion' the next section introduces the resource-focused views, and offers theoretical propositions concerning the global expansion of shipping companies from this perspective. The paper concludes with a discussion of the future direction of research into the study of global expansion.

II. Traditional Views of Global Expansion

Numerous propositions in the international business literature have been advanced as reasons to lead companies to expand their business activities to foreign countries. Although the theories are mainly oriented towards manufacturing companies, they are generally extended to service sectors (including retailing) and used to explain their global expansion. This section provides a review of these mainstream theories prior to introducing the necessary qualifications in relation to the global expansion of the transport sector.

The first reason suggested for global expansion is the "monopolistic –oligopolistic advantage theory" which was presented by Hymer (1976)[1), Kindleberger (1969)[2), Caves (1971)[3) and Knickerbocker (1973)[4). In order to explain why multinationals exist, this model assumes both that global organizations operate with an innate drawback in respect to national companies because of the extra costs of doing business abroad (i.e. due to unfamiliarity with the host country environment a global company might be at a disadvantage vis–à–vis local firms) and that the market has several imperfections, which also provide opportunities for foreign companies to gain advantage over local companies. Accordingly, if the firm possesses any compensating monopolistic advantage that local incumbents cannot obtain, the company is likely to expand its business abroad. This theory also maintains that the global expansion of companies tends to occur largely in oligopolistic industries rather than in industries operating under near–perfect competition. In particular, it suggests that after one oligopolistic competitor makes the first global investment in an industry, other companies in that oligopolistic industry feel obliged to follow suit in order to negate the action of the first firm.

The second dominant explanation advanced for understanding the firms' global expansion is the "internalization theory". In this approach there are two theoretical assumptions which were initiated by the works of Coase (1937)[5)

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1) S. H. Hymer, 1976, The International Operation of National Firms: a Study of Direct Foreign Investment, Cambridge, Mass: MIT press.

2) F. T. Knickerbocker, 1973, Oligopolistic Reaction and Multinational Enterprise, Boston: Davison of Research, Harvard University.

3) R. E. Caves, 1971, 'International Corporation: The Industrial Economics of Foreign Investment,' Economica, Vol. 38, pp. 1–27.

4) F. T. Knickerbocker, op.cit.

5) R. H. Coase, 1937, 'The Nature of the Firm,' Economica, Vol. 4, pp. 386–405.

and Williamson (1973)[6]. The first assumption is that since there are costs of co-ordinating economic activity (i.e. transaction costs) through the price mechanism, companies appear to economize on the transaction cost. The second is that transactions can be categorized into market transactions (i.e. multiple demanders and suppliers) and hierarchy transactions (i.e. transactions within the firm), where the "markets and hierarchies" are alternative instruments for completing a related set of transactions. Grounded on these assumptions of transactions cost, the internalization theory explains the firms' global expansion as a method for bypassing imperfection of international markets. This theory asserts that: 1) firms are attempting to maximize profits in a perfect market, 2) there is an incentive to bypass the imperfect markets with intermediate products, 3) firms want to control the market mechanism, and 4) global enterprises are created when markets are internalized across national boundaries[7]. By classifying transactions into 'arm's length' transactions in an 'external'market (i.e. when market transactions are affected by exchange of ownership) and 'notional' transactions in an 'internal'market (i.e. when ownership does not change), this theory stresses that global companies can be developed through transferring resources internationally without the exchange of ownership.[8]

A third theory of global expansion is based on the analysis of the life-cycle of a company's products; i.e. international product life cycle theory (IPLC). Such a product life cycle approach was proposed by Vernon (1966)[9], Wells (1968)[10] and Hood and Young (1979)[11] who attempted to identify patterns

6) O. E. Williamson, 1973, 'Markets and Hierarchies: Some Elementary Considerations,' American Economic Review, Vol. 63, No. 2, pp. 316-325.

7) P. J. Buckley and M. Casson, 1976, The Future of the Multinational Enterprise London: Macmillan.

8) M. Casson, 1979, Alternatives to the Multinational Enterprise, London: Macmillan.

9) R. Vernon, 1966, 'International Investment and International Trade in the Product Cycle,' Quarterly Journal of Economics, Vol. 80, No. 2, pp. 190-207.

10) Jr. L. T. Wells, 1968, 'A Product Life Cycle for International Trade?,' Journal of Marketing, Vol. 32, pp. 1-6.

11) N. Hood and S. Young, 1979, The Economics of Multinational Enterprise, New

of global market expansions within manufactured products. According to this theory, every product evolves through three phases of development (i.e. new product stage, the maturing stage, and the standardization stage), and the patterns of global expansion are largely determined by different types of economies during each stage. The IPLC theory maintains that, in the first phase, a new innovative product is manufactured in the most industrially advanced country, and, based on their superior technology the company will enjoy a monopoly position in the new product. However, as a certain degree of standardization takes place lower costs become critical to competitive successes; the production technique becomes less important and the manufacturers who were originally located in the most developed countries gradually expand their business operations to developing countries where wage rates are substantially lower.

The final explanation for global expansion, is the eclectic theory. Synthesizing several conceptual strands, this theory proposes the O-L-I paradigm (ownership-location-internalization) which is grounded in the theory of internalization. Unlike other theories, this eclectic idea is interested not only in 'why firms engage in global business' but also focuses on the question of 'who' goes to 'where'. In order to answer these questions, the eclectic theory postulates an holistic framework of global expansion theory; i.e. the propensity of a company to be involved in global business activities depends on various conditions being satisfied.[12]

In particular, this theory firstly stresses that ownership-specific conditions are required in the engagement of the company globally. Assuming that global business operations are disadvantaged in comparison with local companies then, in order to compete with foreign companies, the parent firms in one country must possess assets or rights which foreign companies do not posses

York: Longman.

12) J. H. Dunning and M. McQueen, 1982, 'The Eclectic Theory of the Multinational Enterprise and the International Hotel Industry,'in Rugman, A. M. (ed.) New Theories of the Multinational Enterprise, London: Croom Helm.

s.[13] Secondly, similar to the transactional cost theory, the eclectic approach observes that there are market failures or imperfections in the buying and selling of essential inputs and outputs. Therefore, the market imperfection leads to the exploitation of foreign markets by internalizing the markets for the inputs and outputs. Finally, this theory suggests the importance of the locational advantages of countries as a key determinant of the global operation of firms[14]. According to Dunning's argument, even though there is the superior ownership advantage of firms of one nationality over those of another and the incentive to internalize these advantages, it is a prerequisite for global expansion that it must be more profitable to undertake their business activities outside their home countries. In his view, a growth in international activities reflects a shift of the locational advantages (e.g. the availability of labor, availability of natural resources, trade barriers, cultural difference and political situations) in favour of foreign countries vis-à-vis the home country, or an increase in business activities which favours a foreign rather than a domestic location.[15] Recognizing the connection of the three conditions, the eclectic theory considers that the more a company possesses monopolistic advantages, relative to enterprises of other nationalities, the greater the inspiration to internalize them rather than externalize their use; and the more they find it in their interest to exploit them from a foreign country, the more they are likely to engage in an international business operation.[16]

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13) J. H. Dunning, 1981, 'Explaining the International Direct Investment Position of Countries: Towards a Dynamic or Development Approach,' Weltwirtschaftliches Archiv, Vol. 117, No. 1, pp. 30-64.

14) J. H. Dunning, 1979, 'Explaining Changing Patterns of International Production: In Defense of the Eclectic Theory,' Oxford Bulletin of Economics and Statistics, Vol. 4, No. 4, pp. 269-295.

15) J. H. Dunning, 1983, 'Changes in the Level and Structure of International Production: the Last on Hundred Years,' in M. Casson (ed.) The Growth of International Business, London: Allen & Unwin.

16) J. H. Dunning, 1980, 'Toward an Eclectic Theory of International Production: Some Empirical Tests,' Journal of International Business Studies, Vol. 11, No. 1. pp. 9-31.

Ⅲ. Limitations of Global Expansion Theories When Applied to the Shipping Sector

The above global expansion theories are generally regarded as substantial contributors to understanding the determinants of global expansion. However, while the classical theories have enriched our appreciation of the global behaviour in manufacturing and some service sectors, little attention has been paid to the transport sector. For this reason, several difficulties are encountered when we consider the conventional classical theories in the context of the global expansion of transport organizations.

The first criticism to be considered is that, even though the earlier theories may be extended to include the service sectors, the global expansion of transport cannot be understood by the conventional approaches because most theories do not account for the idiosyncratic characteristics of the transport service. For example, IPLC theory which viewed the global expansion as a sequential process is less applicable in the shipping companies. In the IPLC argument, Vernon showed that innovating companies first exploit overseas markets via exports and, as the product matures, the firms move to the stage of global operation to further exploit their monopolistic advantage.[17] The theory implies that there is a possible choice between exporting and foreign business activities (i.e. foreign manufacturing), and the companies are under progressive evolution from the former towards the latter under certain conditions. However, there is some doubt in applying the IPLC theory to the transport sector since it may be argued that the global transport expansion should include a state perspective rather than a process view. In this regard, Boddewyn and his colleagues (1986)[18] argue that it is difficult to apply the

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17) M. K. Erramili, 1989, 'Entry Mode Choice in Service Industries,' International Marketing Review, Vol. 7, No. 5, pp. 50-62.

18) J. J. Boddewyn, M. B. Halbrich and A. C. Perry, 1986, 'Service Multinationals: Conceptualization, Measurement and Theory,' Journal of International Business Studies, Vol. 17, No. 3, pp. 41-57.

model to a service sector. The writers reason that a comparison of exporting vs. the global operation is difficult in the case of some services which require non-equity forms of international operation from the very beginning. In transport the delivery service product cannot be generated in foreign countries or customers' places. Also, the service consumption takes place simultaneously with production in home countries. Considering such unique characteristics of the transport service (i.e. perishability and simultaneity), the distinction between the two concepts (i.e. export and global operation) is not clear in the boundary of the transport sector. However, the IPLC model views the global operation within the progressive process of the manufacturing companies. For this reason, Vernon's study is inappropriate to explain the phenomena of global operation of a transport company.

Moreover, while the internalization theory provides a valuable interpretation for the global expansion issues of manufacturing companies, it is incapable of explaining the driving force behind global transport. In the rationale of Erramilli and Rao (1993)[19], the internalization theory is inappropriate in explaining the global expansion of the service sector. Their critique on the theory focuses on the assumptions of the transaction cost theory; i.e: 1) the only benefits of integration are a reduction of transaction costs in imperfect markets (thus removing all incentives for low-specificity firms to integrate), and 2) the costs of integration are always high. Accordingly, Erramilli and Rao maintain that the high costs of integration are not strictly true in the case of many (although not all) service firms. According to their argument, for most firms the ownership of overseas manufacturing facilities entails considerable resource commitment, risk, and switching costs however this is not true for many service firms, since large-scale investments in plants machinery, buildings and other physical assets are not required in the case of the service sector.

19) M. K. Erramilli and C. P. Rao, 1993, 'Service Firms' International Entry Mode Choice: A Modified Transaction-Cost Analysis Approach,' Journal of Marketing, Vol. 57, No. 3, pp. 19-38.

Viewed in the context of the freight transport industry, this paper generally agrees with the argument of Erramilli and Rao and believes that, in order to provide a global delivery service, shipping companies are not required to invest large amounts of assets in overseas market places. Indeed, the creation of a wholly owned subsidiary in foreign countries is limited to creating an office, warehouse or a few pieces of transport equipment. Even though some other assets may be required in order to facilitate the flow of international delivery, the amount of asset commitments in foreign counties is relatively small vis-à-vis the manufacturing sector: i.e. comparatively small integration cost is needed. In this regard, the internalization theory therefore does not provide an adequate explanation for transport global expansion.

The second critique against the conventional theories is that they do not address the various types of global activities undertaken by shipping companies (e.g. the international co-operative behaviour of shipping companies, or strategic alliance, for global delivery service). It can be said that the primary goal of the private transport organization is success in financial objectives. In order to attain their objective, some transport organizations carry out their dynamic activities through various global-level strategies. In fact, recently, we have seen that many transport companies co-operate with other shipping companies for the delivery service on a global scale. It is even noticed that some shipping companies collaborate with other non-transport sectors (e.g. internet-based e-commerce providers). When such diverse types of global expansion activities of shipping companies are considered the established theories cannot explain why firms formulate partnerships with other companies.

In this sense, the logic of firm-specific advantages cannot explain the co-operative behaviour of the shipping companies. The theory focuses on the possibility that only firms possessing their own resources can be sourced in the global operation but it ignores the fact that some shipping companies obtain the other companies' resources through co-operation, and then go abroad to achieve their financial profit.[20] Also, oligopolistic theory cannot give a clear explanation for the idea of partnerships amongst shipping companies that do business together, because the theory only regards global expansion as an individual reaction against the behaviour of competitors.

Furthermore the international logistics co-operation of shipping companies cannot be explained by the internalization theory. In the framework of strategic alliances, several researchers have identified the shortcomings of this theory. For example, Madhok (1996)[21] maintains that the internalization theory is not really concerned with the dynamics of competition other than the possibility of creating competitors of the partners with whom companies engage in dynamic exchange. Also, Das and Teng (2000)[22] discuss the faults of the internalization theory. The opinion of many researchers is that when we look at the strategic alliances combining features of internalization and market exchanges, in some ways it is possible to understand the co-operative behaviour as an effort towards internalizing the market. However, they argue that since global expansion through strategic alliances still requires various forms of contracts between separate partners, the internalization theory is not enough to justify the global operation by partnerships as a type of vertical integration.

This paper partly agrees with the insufficiency of the internalization model in explaining shipping companies' partnerships. Yet, our opinion is somewhat different to Das and Teng's argument. Although Das and Teng are concerned with why firms become involved in international alliances and overtake other indigenous firms, their critique does not consider the friction of the collaboration. In fact, conceiving the strategic alliance as a semi-internalization, they simply accept that the co-operation activities of firms are associated with internalization movements. Taking a different view of

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20) W. Shan and J. Song, 1997, 'Foreign Direct Investment and the Souring of Technological Advantage: Evidence from the Biotechnology Industry,' Journal of International Business Studies, Vol. 28, No. 2, pp. 267-284.

21) R. Makadok, 2001, 'Toward a Synthesis of the Resource-based and Dynamic-capability Views of Rent Creation,' Strategic Management Journal, Vol. 22, No. 5, pp. 387-401.

22) T. K. Das and B. S. Teng, 2000, 'A Resource-based Theory of Strategic Alliance,' Journal of Management, Vol. 26, No. 1, pp. 31-61.

their criticism, this study proposes that the co-operative behaviour of transport organizations is totally irrelevant to the global expansion of companies, and argues that the semi-internalization logic does not explain why the co-operative relationships between two shipping companies sometimes break down and why one partner would seek another. The global transport operation through partnerships is not a part of the vertical integration activity

Our third criticism is that the traditional theories do not appreciate the shifts of the current environments in which the shipping companies operate. For example, the locational advantages argument within the eclectic paradigm does not adequately explain the contemporary patterns of global transport. According to the theory, many factors determine the locational choice made by the global companies.[23] Among the many locational factors, Dunning (1979)[24] particularly emphasized that the actions of governments are very important in shaping the framework, or conditions, within which the ability and attitudes of the participants develop in their market and, he claimed, governmental control is one of the most significant barriers to the global expansion of firms. Indeed, in the past, locational considerations (i.e. government control) were an important factor for international transport service providers. It was a truism that the global expansion of the shipping companies was bound up intrinsically with the governments' regulations, standards and laws to protect home industries. In this sense, locational arguments have been appropriate during the last few decades.

However, the locational argument is not strictly relevant to the shipping companies at present. The current atmosphere for global transport is dramatically different from that of the last few decades. Recently there have been fundamental shifts towards the liberalization of transport suppliers (e.g.

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23) C. H. Wai, 2001, Some Factors Behind Global Investment Trends Before 1950 [Online]Available:http://www.armchaireconomist.com/Some%20Factors%20Behind%20Global%20Investment%20Trends%20Before%201950.pdf

24) J. H. Dunning, 1979, op cit.

deregulation, privatization and multi-governmental transport agreements). Under these circumstances, the shipping companies are employing their resources in international activities on the basis of real market conditions rather than in response to local governmental transport restrictions. In this regard, Ohmae (1989)[25] proposed that today's companies everywhere are more and more able to obtain any kind of information they want directly from all over the world. The world has become much more unified and consequently country barriers for international transport activities are disappearing. In such a borderless world, the locational paradigm within the eclectic framework is somewhat losing its explanatory power due to the contemporary changing patterns of global transport environments.

The final criticism is that previous theories ignore a company's aspiration for profitability which may push a transport company towards a global market. In the transport sector, the choice of geographic expansion of the transport service is associated with financial gains, although the global expansion of shipping companies does not always promise a profit. Since generally the longer the delivery distance the greater the financial attainment, shipping companies tend to seek global customers in a more aggressive and active manner yet the existing theories seem to claim global expansion occurred for reactive or defensive reasons. For example, the oligopolistic reaction builds up its logic based on the passive reason; i.e. it saw the global expansion as a risk-minimizing action or a defensive reaction against competitors'behaviour.[26] The theory ignores the more positive motivation as an active desire for the financial success of the shipping companies. The internalization approach also regards the global involvement of the companies as defensive or protective. Accordingly, the global firm is explained in terms of "natural" market failures, due to high costs of carrying out international

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25) K. Ohmae, 1989, 'Managing in a Borderless World,' Harvard Business Review, Vol. 67, No. 3, pp. 152-161.

26) P. L. Chng and N. Pangarkar, 2000, 'Research on Global Strategy,' International Journal of Management Reviews, Vol. 2, No. 1, pp. 91-110.

market exchanges. The theory contends that in order to avoid high transaction costs in the external markets, global companies should internalize the imperfect markets for the interdependent activities. Here, we can observe that the internalization theoretical approaches do not take into account the shipping companies' desires for profit maximization. This view is supported by Rugman and Verbeke's (2001)[27] criticism which argues that too much emphasis was put on both the importance of the transaction cost and the danger of firm specific advantage dissipation. Consistent with Rugman and Verbeke's statement, this paper argues that the theory devotes too much concern to the transaction cost and ignores profit-driven reasons which might be one of the most important factors for global expansion.

Global expansion should be seen in respect of the firm's basic desire for profit and the global expansion of shipping companies should be regarded as a proactive and aggressive profit-seeking activity (i.e. profit-seeking global expansion), rather than passive, defensive or protective behaviour. Focusing only on the transactional cost (without considering the ultimate goal of a transport company)may lead to an incomplete understanding of the motivation for transport global expansion.

IV. An Alternative Resource-Focused Perspective

Understanding the determinants of firms' behaviour is one of the most important research areas in strategic management disciplines and a number of theories have been proposed to understand the behaviour. Amongst many postulations, the most widely acknowledged view of a business organization is the market-focused one in which the basic assumption is that firms competing in the same industry are homogeneous. Grounded in this assumption, the

27) A. M. Rugman and A. Verbeke, 2001, 'Subsidiary-Specific Advantages in Multinational Enterprises,' Strategic Management Journal, Vol. 22, No. 3, pp. 237-250.

market-focused view has argued that a firm decides its strategic behaviour based on the external market environments, and the firm's adaptation to the characteristics of its market is the major determinant of firm performance.[28] This market-focused paradigm has been dominant over long periods among many business scholars and attention has focused on the external opportunities of firms. However, from the middle of the 1980s, doubts about the market-focused view started to grow among many strategy scholars such as Werernfelt (1984)[29], Barney (1986)[30], Dierickx & Cool (1989)[31] and Prahalad & Hamel (1990)[32]. Such a number of strategy theorists contended that a market perspective – that a firm's success was wholly determined by its external environment – is unrealistically limited because the theory fails to address adequately such critical issues (Russo & Fouts 1997) as the reasons for differences in performance among firms participating in the same industry and the factors that enable a firm to grow and take advantage. Consequently, such a lack of explanatory power of companies' behaviour led many researchers to look at the internal considerations of firms, and their arguments were theoretically configuring as a 'resource-focused perspective'.[33]

The main theoretical premises of resource-focused arguments can be summarized within four distinct themes. Firstly, the resource-focused perspective argues that a firm is a collection or bundle of tangible and

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28) C. Truss, 2001, 'Shifting the Paradigm in Human Resource Management: From the Resource-based View to Complex Adaptive Systems,' Kingston University Working Paper, [Online] Available: http://business.kingston.ac.uk/research/shape/paradigm.pdf

29) B. Wernerfelt, 1984, 'A Resource-based View of the Firm,' Strategic Management Journal, Vol. 5, No. 2, pp. 171-180.

30) J. B. Barney, 1986, 'Strategic Factor Markets: Expectation, Luck, and Business Strategy,' Management Science, Vol. 32, No. 10, pp. 1231-1241.

31) I. Dierickx, and K. Cool, 1989, 'Asset Stock Accumulation and Sustainability of Competitive Advantage,' Management Science, Vol. 35, No. 12, pp. 1504-1513.

32) C. K. Prahalad and G. Hamel, 1990, 'The Core Competence of the Corporation,' Harvard Business Review, Vol. 68, No. 3, pp. 79-91.

33) S. Olavarrieta and A. E. Ellinger, 1997, 'Resource-based Theory and Strategic Logistics Research,' International Journal of Physical Distribution and Logistics Management, Vol. 27, No. 9, pp. 559-587.

intangible resources. This bundle of idiosyncratic resources is unique, and each firm is consequently considered to be different (heterogeneous) from each other within the same industry.[34] Based on this, the resource-focused perspective further holds that even two companies cannot be alike because no two companies have had the same set of experiences, acquired the same assets and skills, or built the same organizational cultures.[35]

Secondly, according to the resource-focused aspect, even though the companies are heterogeneous, every company operates their business activities pursuing one common goal; i.e. the maximization of long-lived returns (i.e. profits).[36] In order to attain such above-normal (average) rates of returns the resource-focused perspective suggests the firm should formulate a strategy efficiently deploy its resources in its product (or service) market places. Here, the resource-focused perspective points out that since the level of resources in each company is different, a strategic plan based on resources cannot be the same in each firm, and the deploying behaviour of resources will be expressed in different ways. Put differently, the resource-focused view contends that differential endowment of resources among firms is the ultimate determinant of strategic decisions, which then leads to differences in returns of resources).[37] The resource-focused perspective holds that what a firm possesses would determine what it accomplishes.

Thirdly, the resource-focused point of view notes that although such resources can be an important source of business strategy and performance, all

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34) N. J. Foss, 1997, The Resource-based Perspective: An Assessment and Diagnosis of Problems, Danish Research Unit for Industrial Dynamics, DRUID Working Paper, No. 97-1.

35) D. J. Collis and C. A. Montgomery, 1995, 'Competing on Resources Strategy in the 1990s,' Harvard Business Review, Vol. 73, No. 4, pp. 118-128.

36) C. W. Moon and A. A. Lado, 2000, 'MNC-Host Government Bargaining Power Relationship: A Critique and Extension within the Resource-based View,' Journal of Management, Vol. 26, No. 1, pp. 85-117.

37) S. Zou and S. T. Cavusgil, 1996, 'Globalisation Strategy: a Review and an Integrated Conceptual Framework,' European Journal of Marketing, Vol. 30, No. 1, pp. 52-69.

resources are not of equal importance in formulating firms' strategies and cannot be the source of good performances. In order to employ internal resources as potential sources of above-normal returns, the resource-focused perspective proposes that four conditions of resources should be satisfied in order to serve as potential sources of sustainable competitive advantage. They must be: 1) non-transparent - i.e. a firm's resources should be difficult for competitors to comprehend, 2) non-temporal, so that the resource can sustain competitive advantage over time, 3) non-transferable, so that competitors cannot substitute resources at will, merely by purchasing and selling the required components at market prices, and 4) non-transcriptable - i.e. it is difficult for competitors to imitate or duplicate the resources.[38]

Here, under the four qualifications of strategic resources, the resource-focused perspective places special emphasis on the 'core resources'which are distinguished from 'general resources'. Accordingly, while the general resources are highly mobile among companies and easily imitated by others, the core resources (which incorporate the meaning of capabilities and core competencies) are the cumulative bodies of firm-specific skills that are the result of the collective learning processes in a company.[39] The resource-focused perspective argues that, unlike general resources, the core resources are firm-specific since they are embedded and stationary in a company, while the general resource is not. Due to their static nature, ownership of core resources cannot easily be transferred from one company to another.[40] Intangible resources such as technological know-how, experiences and company image, are examples of core resources which are difficult to trade, replicate, copy and purchase between organizations. The resource-focused perspective points out that these types of core resources can be utilized as the main driver of strategy and performance.

A final important issue in the resource-focused view isthat while some type

38) I. Dierickx and K.. Cool, 1989, op cit.

39) C. K. Prahalad and G. Hamel, 1990, op cit.

40) R. Makadok, 2001, op cit.

of resources (e.g. core resources, intangible resources) might be a useful source of strategy implementation, the utilization of such resources in a firm's strategies formulation cannot be permanent since all types of resources are not everlasting (i.e. they are subject to erosion over time).[41] According to the resource-focused perspective, resources possess changing characteristics, and a unit of resource evolves along the "resource life cycle". That is, a resource is generated, evolved and embedded by a business organization through imitation, innovation and purchase, in response to changing environments, and the resources are depreciated by a firm, and other new types of resources start evolving.[42] For example, technological know-how depreciates over time because of technological obsolescence and innovation by competitors brand awareness erodes as the consumer population changes(existing consumers exit the market, while new consumers enter) or as former consumers forget past experience. In this sense, the resource-focused perspective suggests that the concept of resources is distinguished from the notion of ownership specific advantage in the literature of classical global theories, which stress the static and sticky nature of resources and focuses on the importance of tangible resources rather than invisible resources.

V. Resource-focused Perspective on Shipping Companies' Global Expansion: Some Theoretical Extensions

Social science philosophers suggest that if a theory is to be properly tested and evaluated, the underpinning assumptions which form the theory's boundaries must be provided in justifying a theoretical idea before developing

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41) C. C. Markides and P. J. Williamson, 1994, 'Related Diversification, Core Competences and Corporate Performance,' Strategic Management Journal, Vol. 15, pp. 149-165.

42) D. J. Teece, G. Pisano and A. Shuen, 1997, 'Dynamic Capabilities and Strategic Management,' Strategic Management Journal, Vol. 18, No. 7, pp. 509-533.

the thought. This notion of boundaries based on implicit assumptions is a basic part as it sets the limitations in applying the theory. Two main assumptions are necessary to understand the global expansion of shipping companies. The first is that the aim of the transport company is the maximization of the financial returns of the resources. This assumption simply came from a basic resource-focused argument that the ultimate purpose of the firm is to maximize rent.[43] Given a full appreciation of this argument, this paper assumes that all shipping companies will undertake their business activities to achieve this end, and are trying to maximize profits.

Our second assumption is that the global operation of shipping companies is related to the desire for profit creation. This assumption arose from Penrose's research (1959)[44] regarding "firm's growth". The argument in her resource-focused study, sets the theoretical ground on an assumption that every business organization is primarily interested in the profitable expansion of their activities. Hence, profits are a necessary condition of expansion and growth. She proposes that the total profits will increase with every increment of investment that yields a positive return, and firms will want to expand as fast as they can in order to take advantageous opportunities. In light of Penrose's proposition, it appears reasonable to suggest that the same logic can be applied to the transport sector. Moreover, taking into account the characteristics of transport service (i.e. that the more distant service leads to the greater financial profits), it is more likely that the logic is particularly explicable to the global expansion of shipping companies. Therefore, it is postulated that a geographical expansion of transport service is associated with the aspiration for financial success of the transport company.

Given the above assumption, we might expect that every transport company is willing to provide services on as many continents as possible in order to take opportunities for the above-normal financial return. However, it appears

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43) B. Wernerfelt, 1984, op cit.

44) E. Penrose, 1959, The Theory of the Growth of the Firm, Oxford: Oxford University Press.

that global operations are not a phenomenon in every transport company. Some shipping companies provide the global service, while others are only regional operators. This raises two questions: 1) why don't all freight carriers provide an international transport service in view of the potential for raising profitability? and 2) what factors promote or restrict the global expansion of shipping companies?

To answer these questions, we turn to two types of considerations which are widely accepted in general strategy literatures; i.e. environments and internal considerations. External considerations can be ruled out for the following reasons. Firstly, although global environmental changes may have a significant implication on the industrial level, it is difficult to understand an individual transport company's behaviour within the same industry. Since the global environments are largely the same to different shipping companies within a nation, the external factors cannot be useful in understanding the reason for global expansion of individual shipping companies in a country. Secondly, external impediments to global expansion are largely coming down. Current environments encourage more shipping companies to go global. Therefore, external strategic considerations are not appropriate to understanding the global expansion of the transport sector. Attention can be automatically turned to internal factors (i.e. transport resources) which can be manipulated by the firm to serve its own purposes. Accordingly, derived from the resource-focused idea, this paper submits four propositions that are relevant to the global expansion of the transport sector.

The first is: the more a company possesses the greater the incentive to provide a global transport service. When it comes to the issue of the global expansion, the resource-focused perspective is relevant in two ways - first, the global expansion is 'pulled' by resources of the foreign markets; second, the global expansion is 'pushed' by internal resources.[45] The first view argues that the business organizations are motivated by their own disadvantages, and thus

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45) M. W. Peng, 2001, 'The Resource-based View and International Business,' Journal of Management, Vol. 27, No. 6, pp. 803-829.

go abroad to compensate for missing resources. In this regard, several studies, such as those of Hooley, et. al. (1996)[46], Shan and Song (1997)[47] which mainly focus on high-technology industries and small companies support the first thought regarding global expansion.

Again, their ideas do not adequately explain the transport sector's global operation which is related to profit seeking behaviour. Therefore, this study concentrates on the second view which considers the abundance of internal (tangible and intangible) resources as the principal driver of global expansion and several relevant empirical tests apply. For example, Tyebjee (1994)[48] explored the relevance between the firm's (high technology companies) financial resources and the initial entry into international markets and found that global expansion is strongly influenced by possession of financial resources. Tallman (1991)[49] tested whether large companies (automobile companies) use global production more often than manufacturing firms with fewer resources and found that companies with large MNEs have similar strategies and undertake international production more often than small companies. Recognizing that know-how is a key resource for the global expansion of many established companies, Westhead and his associates (200 1)[50] investigated the differences in experiences and skills of entrepreneurs between international and regional companies. They found that companies with more entrepreneurial experiences, with more industry-specific knowledge,

46) Hooley, et. al., 1996, 'Foreign Direct Investment in Hungary: Resource Acquisition and Domestic Competitive Advantage,' Journal of International Business Studies, Vol. 27, No. 4, pp. 683-709.

47) W. Shan and J. Song, 1997, 'Foreign Direct Investment and the Souring of Technological Advantage: Evidence from the Biotechnology Industry,' Journal of International Business Studies,Vol. 28, No. 2, pp. 267-284.

48) T. T. Tyebjee, 1994, 'Internationalization of High Tech Firms: Initial vs. Extended Involvement,' Journal of Global Marketing, Vol. 7, No. 4, pp. 59-81.

49) S. B. Tallman, 1991, 'Strategic management Models and Resource-based Strategies among MNEs in a Host Market,'Strategic Management Journal, Vol. 12, pp. 69-82.

50) P. Westhead, M. Wright, and D. Ucbasaran, 2001, 'The Internationalization of New and Small Firms: a Resource-based View,' Journal of Business Venturing, Vol. 16, No. 4, pp. 333-358.

denser information and contract networks, and considerable management know-how are significantly more likely to be exporters. Anderson and Kheam (1998) examined whether the firms' resource profile affects international strategic decisions (i.e. growth strategy, market penetration strategy, product develop strategy, market develop strategy and diversification strategy) and their empirical analysis of 697 exporting companies in Norway, found that a firm's resource profile had an influence on the general intended growth strategy. In particular, they noticed that managerial and marketing resources had a significant effect on their international production development strategy, their international market development strategy and their diversification strategy.

The second proposition is: the lack of resources constrains the global activities of the shipping companies pursuing profitability. Using the same logic as the first perspective, it can be suggested that the strategic options of shipping companies are limited within the established framework of available resources.[51] In particular, on the level of a global setting it is likely that resources serve as crucial barriers to global expansion simply due to the longer distances involved and other related works that accompany international shipments.[52] Having accepted that to some extent a bundle of tangible and/or intangible resources are required for operating a new transport service in a foreign country, it is proposed that small shipping companies lacking resources have fewer opportunities for global expansion than large shipping companies.

The proposition that the storage of resources inhibits liberal behaviour of companies is both implicitly and explicitly supported in the literature. In the domain of manufacturing, Winsted and Patterson's (1998)[53] observation indicates that resources are the key barriers to global expansion. In order to

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51) Y. Spanos and S. Lioukas, 2001, 'An Examination into the Causal Logic of Rent Generation: Contrasting Porter's Competitive Strategy Framework and the Resource-based Perspective,' Strategic Management Journal, Vol. 22, No. 10, pp. 907-934.

52) D. M. Lambert, J. R. Stock and L. M. Ellram, 1998, Fundamentals of Logistics Management,Boston: Irwin McGraw-Hill.

53) K. F. Winsted and P. G. Patterson, 1998, 'Internationalisation of Services: the Service Exporting Decision,' Journal of Service Marketing, Vol. 12, No. 4, pp. 294-311.

identify whether a lack of resources was a hindrance to exporting by non-exporters, they examined consulting engineering firms in the US and discovered that non-exporters perceive both know-how and resource limitations as the greatest barriers to global service.

The third proposition is: when a transport company lacks resources, the company can provide a global service in conjunction with domestic or international partners. Given the two previous propositions, one might argue that the idea of a resource-focused perspective is not conceptually different from the ownership-specific advantages in the classical theories. In fact, when we compare the two models of global expansion, it is thought that there is some degree of similarity between them in so far as they highlight the role of internal resources in going abroad. However, despite the similarity of the two theories, they vary because the logic of ownership-specific advantages cannot explain why, lacking resources, small firms do provide global services with partners.

Here, the resource-focused view is able to explain the phenomenon of the global expansion of the small companies. According to the resource-focused perspective, despite the fact that the small companies have little chance to go beyond their geographical boundary due to a lack of resources, entering foreign markets is possible if they have external resource supports.[54] It is suggested that the same logic can be applied to the transport sector: i.e. the small shipping companies which lack relevant resources for global transport are likely to form strategic partnerships with other firms, and provide international transport services through co-operative services rather than their own global operation. Sanjeev and Ramaswami (1992)[55] saw the global expansion of small companies from the resource-focused perspective they

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54) E. Vatne, 1995, 'Local Resource Mobilisation and Internationalisation Strategies in Small and Medium Sized Enterprises,' Environment and Planning, Vol. 27, No. 1, pp. 63-80.

55) A. Sanjeev and S. N. Ramaswami, 1992, 'Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internationalization Factors,' Journal of International Business Studies, Vol. 23, No. 3. pp. 1-28.

explored whether firms that had few resources are more likely to choose a joint venture mode in a global operation. Considering a multinational experience as an important resource in a global operation, they tested several hypotheses on the equipment leasing industry in the US. From their empirical analysis, they found that smaller and less multinational firms have a higher propensity for joint ventures in global markets.

The final proposition is: resources possessed by a transport company are associated with the performance of the company. The resource-focused perspective argues that the resources are the ultimate indicator of a company's performance. Several theoretical research efforts have been dedicated to explaining the relationships between resources and performance. Barney (198 6)[56] saw resources as the main determinant for creating performance with financial return being closely related to long-term competitive advantage. He asserted that in order to have competitive advantages in product markets, the companies should possess strategic resources which are imperfectly imitable and imperfectly substitutable. He maintained that firms that possess assets which underpin competitive advantages will earn financial profits.

Grant's (1991)[57] work also demonstrated the importance of internal resource management in enhancing performance. Although he accepts the relationship between the resources and competitive advantages, he regards resources as a main indicator for expecting performance rather than competitive advantages. According to his argument, the financial returns (i.e. performances) to a firm's resources depend upon two key factors; i.e. sustainability of the competitive advantage which resources confer upon the firm, and the ability of the firm to appropriate the rents earned from its resources. However, since competitive advantages are related to market environments and competitive advantages in markets are unsustainable because

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56) J. B. Barney, 1986, op cit.

57) R. M. Grant, 1991, 'The Resource-based Theory of Competitive Advantage: Implication for Strategy Formulation,' California Management Review, Vol. 33, No. 3, pp. 114-135.

of the effect of externalities, the competitive advantages cannot be a prediction of performance. Under these circumstances the resource is a preliminary predictor of the firm's performance.

Significant bodies of research propose the importance of resources. Yet, it is difficult to find empirical evidence about the relationships between internal characteristics and performances. Although the literature regarding the relationship between the level of resource possession and performance is mostly explanatory in nature this study believes that there are empirical implications between resources and performance in the context of the global transport operation. In this regard, this paper suggests that resources affect the decision of global transport operations and, thus, global operations of the transport service are associated with profit creation. It is thought that there should be an indirect relationship between resources and performances in global transport markets.

Ⅵ. Conclusions

Two overarching research questions served to drive this discussion: "what are the motives that make companies go abroad?" and "why do global shipping companies act differently from one another in a foreign market?" In order to explore these questions, this paper firstly reviewed major global expansion theories including the monopolistic-oligopolistic advantage theory, internalization theory, product life cycle theory and the eclectic theory. By reviewing the global expansion theories, it was found that previous theoretical approaches could not satisfactorily explain the global expansion of shipping companies which were seeking a financial gain through undertaking a global operation. Motivated by the serious lack of theory in regards to transport global expansion, we have examined resource-focused theory for its applicability to global operations by transport sectors, and suggested that the application of a resource-focused view to the transport industry could possibly provide an explanation for transport global expansion and its strategies. From this discussion, the following points emerged: (1) the possession of resources represents a stimulus to global expansion for shipping companies; whilst the lack of resources has served as a hindrance in their attempt to initiate the global expansion and/ or maintain global activities (2) the internal resource endowment shave significant implications on strategic choices of transport organizations, and (3) the possession and deployment of superior resources play a positive role in influencing the performance of shipping companies in a global market. Further research is required before a resource-focused theory can be fully developed and applied to a global expansion of the transportation industry. Future efforts should be directed towards the identification of resources in the context of the shipping sector and the comparable analysis on transport resources which determine global strategic options. This paper also provides some limited confirmation of generalisability, in respect of formal relationships between a resource-focused view and a global transport expansion. To enhance the generalisability of our findings, further additional research, through the application of a wide range of survey-based and field-based methods, is needed to investigate whether internal resources have an effect on the global decision of shipping companies and various dimensions of the shipping companies' global strategy. The practical applications of the knowledge gained will be extremely important to validate the conceptual works developed in this paper, and future empirical findings, based on the present approach, will make a substantial contribution to the study of international transport and the strategic management of transport.

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ABSTRACT

A Theoretical Investigation on Global Expansion of Shipping Companies

Jung, Jun Sik

This paper discusses global expansion and global strategies of shipping firms. Acknowledging the lack of research on global expansion by freight transport companies, this paper employs the resource-focused model, and explores "why shipping companies emerge" and "why the strategic behaviour of shipping companies is different in the global market". Despite there being a plethora of theoretical and empirical studies on the international operations of business organisations, it is acknowledged that researchers have largely neglected the issues regarding the international expansion within the freight transport industry. Identifying the general lack of contemporary studies concerning the international behaviour of shipping firms, this study addresses the important gap in our knowledge in the theoretical manner. The theoretical analysis suggests that the shipping company's internal resources can be a real reason for the international market participation.

Key Words: Shipping Company, Global expansion, Resources