Efficacy of Managing Strategically in Globalized Environment: Perspectives from Two Conceptual Lenses

Abstract

Globalization has become one of the most dominant forces in contemporary times. In the social sciences, the efficacy of models developed prior to this postmodern globalization era has not been explored sufficiently to date. This paper addresses how firms can integrate globalization dynamics into all levels of strategic management to maintain a successful competitive position in the global marketplace. It does so by critiquing the classic strategic models offered by Ansoff (1965) and Hofer and Schendel (1978) through the lenses of the RBV and TCE. It then concludes by offering some evaluative perspectives about these two conceptual lenses.

[Key words: Strategic Choice, Transaction Costs, Resource-Based View, Globalization]

Introduction

Globalization has been defined as the spread of economic activity in the form of goods, services and human capital across national borders as the world's economies converge into one global economy (Hitt, Ireland, and Hoskisson 2003, Mangaliso, Mir, and Rogers 2000). Factors of production can move across economies, as once distinctive markets become increasingly homogeneous. Rosabeth Moss Kanter (1995) has argued that the spread of globalization is typified by two trends: a reduction of political control over national economies and an increase in synchronization among corporate giants. She goes on to emphasize that globalization is also characterized by, "…the process of change stemming from a combination of increasing cross-border activity and information technology enabling virtually instantaneous communication worldwide" (Kanter 1995: 51).

As the world continues on the path of economic integration and transnational activities, firms need to re-assess the implications of such significant trends. Globalization has changed the business landscape dramatically and firms can no longer rely on old practices if they want to succeed in the global economy (Hitt, Ireland, and Hoskisson 2003, Porter 1990, 1997, 1998). In conjunction with rapidly emerging new technologies, globalization continues to complicate the business climate. It is this complexity and the uncertainty it creates that make strategic management all the more imperative to a firm's long-term success (Porter 1997).

Globalization and Strategic Management and Models

Globalization is a labyrinthine economic phenomenon with layers upon layers of ramifications that organizational scholars are just beginning to understand. Among the different conceptual frameworks used by these scholars, the two most prominent have been the resource-based view or RBV (Barney 1991, Wernerfeldt 1984,) and the transaction cost economics or TCE theory (Coase 1937, Williamson 1985). Given the broader scope of sustainable competitive advantage addressed in this paper, I submit that it is also critical to scrutinize the strategic management models available to reveal their efficacy in the global market. The two models chosen for this paper are the Hofer and Schendel (1978) model (hereinafter H&S model) and the Ansoff (1965) model, both of which are widely accepted within strategic management.

The H&S model consists of four main components; namely, product and market scope, resource deployment and distinctive competencies, competitive advantage, and synergy (Hofer and Schendel 1978, Schendel and Hofer 1979). Nested within this model are three levels of strategy: the corporate, business, and functional levels. The H&S model further stipulates that to fully evaluate strategic decisions, the firm should perform three different types of analysis: environmental, resource, and value. The Ansoff model differs from the H&S model in that its main objective is to maximize economic return (Ansoff 1965). This model has five components; namely, product and market scope, direction of the change in scope, competitive advantage, combinations of competencies to enable synergies, and the decision of whether to produce something "in-house" or through outsourcing. Ansoff's model differs from the H&S model not only in its different components, but also in its different methods of analysis, as will be seen later. In the sections that follow I will begin by presenting the essence of the RBV and TCE concepts and then use these theories to analyze globalization as seen through the H&S and Ansoff models.

The RBV and TCE as Conceptual Lenses

It is common practice in the social sciences to use conceptual frameworks and theories as *explanans* for economic activity. In their pioneering article, Hempel and Oppenheim (1948) declared that one of the foremost objectives of all rational enquiry is to explain the phenomena in the world of our experience by answering the question "why?" rather than only the question "what?" In philosophy of science, a scientific explanation of an empirical phenomenon consists of two parts. The first part comprises sentences that describe the phenomenon to be explained—known as the *explanandum*. The second part—the *explanans*—comprises a set of sentences that gives an account about why the observed phenomenon occurs, explains the antecedent conditions that lead to it, and offers law-like general statements about the phenomenon (Hempel and Oppenheim 1948, Popper 1958). Strategic management has benefited from the introduction of concepts and theories from other disciplines that can serve as *explanans* for the phenomena observed in the field and thus provide the rationale behind behaviors such as the choice of corporate strategies, structures and systems. Two of the most important underlying theoretical anchors that will be highlighted here are the resource-based view or RBV, and the transaction cost economics (TCE) theories (Williamson 1975, Barney 1984). These two theories have been said to supplement each other in that while the TCE theory only offers a partial explanation of the nature of the firm, the RBV complements the nature side and goes far beyond in dealing with the question of the firm's essence, thereby providing a fruitful starting point for an integrative framework (Pitelis and Pseiridis 1999). After evaluating the two strategic management models using these two theoretical lenses, I will make concluding observations about the efficacy of each.

The Resource Based View

The origins of the Resource Based View of the firm can be traced back to the seminal work of Penrose (1959), who saw the firm as a collection of heterogeneous resources, which serve as the source of growth and expansion within a given industry. Firms are able to develop their resources into unique productive bundles that enable them to obtain above-normal returns, which are protected from other competing firms in that industry (Barney 1991, Conner and Prahalad

1996, Mahoney and Pandian 1992, Wernerfelt 1984, 1995). In the last few decades the RBV, along with the dynamic capabilities and knowledge-based views (Teece, Pisano & Shuen 1997; Grant 1996), has evolved into what has become known as the resource based theory or RBT (Conner 1991, Conner & Prahalad 1996, Grant 1991), which has become an important theoretical anchor for sustainable competitive advantage (Barney 1991; Mahoney and Pandian 1992; Priem and Butler 2001). Figure 1 below depicts the mechanism by which sustainable competitive advantage develops according to the RBV.

Insert Figure 1 about Here

Essentially, the RBV argues that organizations possess resources or input factors such as land, labor (human resources), and capital which, when properly configured, can result in a firm achieving sustainable superior performance in terms of above-normal rates of return on investment (Barney 1991, Porter 1990). The theory extends beyond these conventional factors of production to include other resources regardless of the form they take. Firm resources are defined as "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" (Barney 1991:101). This view helps explain how firms competing in the same industry experience varying levels of profitability. The fundamental premise upon which the RBV argument is based is the idea of generating economic rent over and above the cost of the capital employed (Barney, 2001; Priem and Butler, 2001). It is mostly the tacit resources, by virtue of being valuable and rare, that contribute to a firm's competitive advantage. Moreover, for these tacit resources to lead to sustainable competitive advantage they must also be non-substitutable, inimitable and therefore less mobile (Barney 1991, Priem and Butler 2001, Wernerfelt 1984). Wernerfelt (1984) suggests that the types of resources that lead to above-normal returns may be identified and used to create barriers to entry into the given product market. The notion of resource position barriers implies that firms that hold and develop these resources may preempt certain competitive threats, thus bolstering their ability to cope with uncertainty in the organizational environment.

To reiterate, firms generate and sustain their competitive advantage if their resources are valuable, rare, imperfectly imitable, or non-substitutable (Barney 1991). A resource is valuable if it allows the firm to improve its efficiency; rare if is not possessed by several competing firms; and inimitable if it is subject to one or a combination of the following three factors: historical conditions whereby the ability to obtain resources depends upon time and place, causal ambiguity whereby the link between the resources and sustained competitive advantage of the firm is not clearly understood, and social complexity whereby firms find it difficult to manage and influence social phenomena such as relations between managers of a firm. A resource that is non-substitutable is one that is not necessarily rare or imitable, yet is not replaceable by another resource (Barney 1991). A firm needs some combination of resources that fall within these parameters to be able to compete in the highly competitive global economy.

Evaluating the Hofer & Schendel Model under the RBV

As indicated above, the H&S (1978) model consists of four main components; namely, product and market scope, resource deployment and distinctive competencies, competitive advantage, and synergy. Each of these components will now be scrutinized from the RBV framework. This will later be followed by a similar analysis of the Ansoff (1965) model.

Product and market scope. Within the H&S model, the firm's product-market scope is defined by performing three analyses - environmental, resource, and values (Hofer and Schendel 1978, Schendel and Hofer 1979). In performing these analyses, the firm will take all of its tangible and intangible assets into account at the corporate, business, and functional levels of strategy (Barney 1991, Hofer and Schendel 1978, Schendel and Hofer 1979, Wernerfeldt 1984). RBV allows the firm to look not only at conventional assets like property, plant, and equipment, but also at intangible assets such as organizational values, employee morale, management expertise, etc. (Barney 1991). This broader scope of analysis allows many of the noneconomic implications of globalization, such as those involving cultural, embedded, and relational issues, to have a place in the decision-making process (Uzzi 1996). It is important to note that since RBV analysis includes so many different factors and looks at intangible assets, it may not lead to the choice of the most profitable decision outcome in the short term. Incorporating other considerations that take into account the interests of all its various stakeholders rather than just its shareholders leads to long-term sustainable competitive advantage.

Resource deployment and distinctive competencies. In the Hofer and Schendel model, the firm makes decisions about resource deployment and distinctive competencies by again performing the three analyses, taking all resources into account, for all levels of strategy (Barney 1991, Hofer and Schendel 1978, Schendel and Hofer 1979, Wernerfeldt 1984). The firm will analyze many of globalization's ramifications in its decisions. Furthermore, the firm may find distinctive competencies that may not necessarily be quantifiable (Barney 1991, Hofer and Schendel 1978, Schendel and Hofer 1979, Wernerfeldt 1984). For instance, the firm may have management in place that understands how to work with a culturally diverse staff. This is a distinct competency that would be very important as the firm operates globally. If such intangible resources are not identified, however, they may go unresearched and underutilized. As was discussed above, this theory may not always result in the traditional economic optimal resource allocation since other considerations are also considered important.

Competitive advantage. Firms need a sustainable competitive advantage if they want to succeed, especially as the global market becomes increasingly more competitive (Porter 1990, 1997, 1998). With the H&S model the firm performs the analyses taking all assets into account for all levels of strategy (Barney 1991, Hofer and Schendel 1978, Schendel and Hofer 1979, Wernerfeldt 1984). This approach makes it easier to identify any potential for competitive advantage. The RBV theory maintains that competitive advantage can be derived from assets of a firm that are valuable, rare, not easily imitable, and not substitutable (Barney 1991, Wernerfeldt 1984). By examining intangible assets, it has a better chance of developing inimitable assets (Barney 1991, Hofer and Schendel 1978, Schendel and Hofer 1979, Wernerfeldt 1984). For example, a firm might gain a more compelling competitive advantage from how it organizes its production capabilities than from what those capabilities actually are, especially when a complex phenomenon like globalization comes into play (Barney 1986, Porter 1997, Porter 1990, Porter 1998, Kogut 1991). With RBV it is easier to identify some of these organizational competitive advantages.

Synergy. In this model, the firm discovers synergies by performing the three analyses, taking tangible and intangible resources into account (Barney 1991, Hofer and Schendel 1978, Schendel and Hofer 1979, Wernerfeldt 1984). The strength of the H&S model is apparent in this component. To have a truly global strategy, the firm's international markets need to be interdependent

(Collis 1991, Engelhoff 1988, Engelhoff 1982). RBV looks beyond the numbers of the firm to find these interdependencies which will only serve to increase the synergy among these markets.

Evaluating the Ansoff Model under the RBV

As discussed before, the Ansoff (1965) model consists of five components; namely, product and market scope, direction of the change in scope, competitive advantage, combinations of competencies to enable synergies, and the decision whether to produce something "in-house" or outsource it. An analysis of these components is presented below.

Product and market scope. Within Ansoff's model the firm will define its product and market by examining all the resources it has at its disposal, regardless of what form they take (Ansoff 1965, Barney 1991, Wernerfeldt 1984). This approach is very similar to the one discussed for this component in the H&S model except that it does not explicitly break down the analyses for all levels of strategy (Ansoff 1965, Barney 1991, Hofer and Schendel 1978, Schendel and Hofer 1979, Wernerfeldt 1984). Similarly to the H&S model, RBV allows the firm to look at more than just the conventional resources. The firm can look at intangible assets as well, permitting the noneconomic ramifications of globalization to play a role in the decision-making process.

Direction of the change in scope. The firm will determine the direction of the change in scope by looking at all resources it has in its arsenal (Ansoff 1965, Barney 1991, Wernerfeldt 1984). RBV requires the firm to look beyond its tangible assets. While economic factors can contribute valuable information, other types of resource information also provide the firm a clearer indication of what the direction of the change in scope should be. Hence the noneconomic ramifications of globalization play a part in the choices the firm makes as RBV affords the firm the opportunity to make a more informed decision within a complex scenario.

Competitive advantage. With the Ansoff model the firm examines all its resources, making it easier to recognize and develop a competitive advantage (Ansoff 1965, Barney 1991, Wernerfeldt 1984). The RBV theory maintains that competitive advantage can be derived from assets of a firm that are valuable, rare, not easily imitable, and not substitutable (Barney 1991, Wernerfeldt 1984). By taking all resources into account, it has a better chance of developing inimitable assets that can become a competitive advantage (Barney 1991, Hofer and Schendel 1978, Schendel and Hofer 1979, Wernerfeldt 1984). Often a firm can gain more of a competitive advantage from how it organizes its production capabilities rather than simply from what those capabilities actually are, especially when a complex phenomenon like globalization comes into play (Barney 1986, Porter 1997, Porter 1990, Porter 1998, Kogut 1991). The RBV approach can facilitate identification of such potential organizational competitive advantages.

Combination of competencies to enable synergies. To optimize synergistic combinations of competencies, the firm must identify distinctive competencies amongst both its tangible and intangible assets (Ansoff 1965, Barney 1991, Wernerfeldt 1984). By recognizing intangible resources that can combine to create competencies, the firm can create synergies it otherwise would have missed that encompass global ramifications into the decision-making process .

Produce something "in-house" or outsource it. With Ansoff's model firms make decisions on whether to produce something "in-house" or to outsource it based on all the resources it has at its disposal (Ansoff 1965, Barney 1991, Wernerfeldt 1984). If a decision is based solely on tangible resources available, the results can be less than optimal or even disastrous. The RBV framework factors into the equation intangibles such as employee morale and management expertise. By taking these types of intangible assets into account the firm can make a more informed decision.

Transaction Cost Economics

Transaction cost economics (TCE) has had a profound impact in the field of economics. First introduced by Ronald Coase (1937), TCE has more recently been refined and applied to the study of organizations by several scholars, notably Williamson (1985). The main assumptions of TCE are that economic actors are subject to bounded rationality and opportunism (Ghoshal and Insead 1996, Masten 1993, Picot and Kirchner 1987, Williamson 1985, Zacharakis 1997). Moreover, this view holds that firms exist as a particular form of organization for administering exchanges between two parties or firms (Coase 1937). Employed to assess a firm as an economic entity, TCE has been used by different scholars to explain the way firms function and the differences in their performance outcomes (Coase 1937, Teece 1986, Williamson 1985, Ouchi 1981). In its most general formulation, TCE posits that activities will be optimally organized when they minimize the production costs and economize the transaction costs involved in producing the desired outcome. This view looks at strategy through an economic lens and does not necessarily look at other mitigating factors. TCE evaluates strategic choice based on transaction costs and benefits.

The firm is conceived of as a "managerial hierarchy," in contrast to the notion of the "market" in which transactions take place independently of managerial oversight (Williamson 1985). The managerial hierarchy therefore functions to economize in transaction costs in order to achieve efficiency. As Figure 2 indicates, TCE is about discerning the tradeoffs between transactions that are coordinated through managerial hierarchy or fiat on the one hand, and autonomous transactions coordinated through the market on the other. Firms exist precisely because of their access to fiat, which is an advantage in coordinating transactions in the face of market opportunism and uncertainty. Firms are considered better at price negotiations and oversight of the various post-transaction activities associated with the exchange (Gebauer and Scharl 1999). TCE is predicated on agency theory assumptions that reduce all transactions in economic interaction to a set of contracts between principals and agents (Jensen and Meckling 1976, Fama 1980, Eisenhardt 1989).

Insert Figure 2 about Here

Transaction costs are those costs associated with economic exchanges that vary independent of the competitive market price of the goods and services in the exchange (Robins 1987). Exchanges with external firms entail a variety of co-ordination costs associated with various aspects of transactions. Under certain conditions, such as high asset specificity, high uncertainty, and bounded rationality, market transactions become subject to opportunistic behavior, which makes them more costly than if they were done within the hierarchy. "Asset specificity" refers to the appropriateness of some assets to be used in applications other than those initially acquired for. According to Williamson (1985: 55), at least four different types of asset specificity are distinguishable: site specificity, physical asset specificity, human asset specificity, and dedicated assets. Asset specificity results in sunk costs. "Uncertainty" occurs when one party possesses more information about the transaction than the other, which may lead to opportunistic behavior, defined as “self-interest seeking with guile” (Williamson 1985:30). Opportunism includes calculated attempts to obfuscate, disguise, distort, or hide information, all of which contribute in raising the cost of the transaction. ”Bounded rationality” is a function of the cognitive limits of the human mind’s ability to process information and incomplete information, skill and time, all of which lead to the impossibility of devising *a priori* fully specified contracts (March and Simon 1958). The most fundamental problem in the transaction cost analysis is the control of opportunism, commonly known as defection in the game theoretic literature (Rubin and Somanathan 1998). As these authors point out, the paradigm transactions cost problem is the ‘make or buy’ decision and the extent to which firms must internalize their vertically integrated transactions or handle them through the market. The strategy literature is almost unanimous in predicting that managers will chose the most profitable solution to the problem, i.e., the one that minimizes the costs of the transaction, and empirical evidence is consistent with this prediction. However, in a globalized environment, the costs and benefits of alternative strategies depend on the underlying preferences of workers and the amounts that they must be paid to induce them to work in alternative structures. They include the costs of monitoring to avoid cheating or opportunism by workers.

Hofer & Schendel Model under the TCE Theory

Product and market scope. In the H&S model the firm will choose its product and market scope by completing the three analyses for each of the levels of strategy. TCE, however, does not necessarily include intangible assets (Coase 1937, Hofer and Schendel 1978, Schendel and Hofer 1979, Williamson 1985). In the end the firm will choose the product and market scope that would maximize its economic return without taking all of the noneconomic ramifications of globalization into account. While in theory TCE may choose the most profitable product and market scope, in reality it may lead the firm astray in the long run as it does not account for as many variables as the RBV theory. Economic factors alone are often too static to accurately forecast the future (Bartlett and Ghoshal 1991, Hill and Kim 1988).

Resource deployment and distinctive competencies. In this model, the firm makes decisions about resource deployment and distinctive competencies by again performing the three analyses of the economic factors for all the levels of strategy (Coase 1937, Hofer and Schendel 1978, Schendel and Hofer 1979, Williamson 1985). The firm will fail to take many of globalization’s ramifications into account in its decisions. Furthermore, the firm will not find distinctive competencies that may not be quantifiable (Coase 1937, Hofer and Schendel 1978, Schendel and Hofer 1979, Williamson 1985). Similar to what was discussed above, in theory TCE may find the economically optimal allocation of resources for resource deployment to create distinctive competencies, however in reality it is lacking other considerations which may actually result in a misallocation of resources.

Competitive advantage. With the H&S model the firm performs the analyses for all levels of strategy; however, again it does not take intangible assets into account (Coase 1937, Hofer and Schendel 1978, Schendel and Hofer 1979, Williamson 1985). By not taking intangible assets into account, it may fail to recognize certain intangible inimitable assets that can be a competitive advantage (Coase 1937, Hofer and Schendel 1978, Schendel and Hofer 1979, Williamson 1985). Oftentimes a firm can gain more of a competitive advantage from how it organizes its production capabilities than from what those capabilities actually are especially when a complex phenomenon like globalization comes into play (Barney 1986, Porter 1997, Porter 1990, Porter 1998, Kogut 1991). Unfortunately with TCE this may not be taken advantage of.

Synergy. In this model, the firm discovers synergies by performing the three analyses for all levels of strategy (Coase 1937, Hofer and Schendel 1978, Schendel and Hofer 1979, Williamson 1985). It will be more difficult to identify synergies using an economic maximization objective since it ignores other intangible resources. The model may not see international market interdependencies which will make it very difficult to synergize (Collis 1991). Furthermore the fact that the model does not take cultural and environmental differences into account may cause tension and further reduce synergy within the firm. With a pure profit motivation it will be difficult for the firm to have synergy with any of its subsidiaries as well.

Ansoff's Model under the TCE Theory

Product and market scope. In this model the firm would choose the product and market scope that would maximize its economic return (Ansoff 1965, Coase 1937, Williamson 1986). The other factors considered in the H&S model are not a function of this model. While in theory this model may choose the seemingly most profitable product and market scope, in reality it may not in that it does not take all factors into account in the decision making process. Economic factors are often too static, too narrow to accurately forecast into the future (Bartlett and Ghoshal 1991, Hill and Kim 1988).

Direction of the change in scope. This is very similar to the above component. The Ansoff model will choose how the firm's scope will change to maximize economic potential, ignoring all noneconomic considerations (Ansoff 1965, Coase 1937, Williamson 1986). Unfortunately the firm that uses this model will have the same problems as described above.

Competitive advantage. With Ansoff's model the firm will identify its competitive advantages by trying to maximize economic return (Ansoff 1965, Coase 1937, Williamson 1986). This model may overlook some competencies that do not have a numerical value (Kogut 1991). The Ansoff model may have the firm integrate across borders if the perceived monetary benefits outweigh the costs, however, it may miss benefits that cannot be quantified (Kobrin 1941). The firm using Ansoff's model may also actively engage in behavior that one using Hofer and Schendel's would not (Ansoff 1965, Coase 1937, Hofer and Schendel 1978, Schendel and Hofer 1979, Williamson 1986). For example, the firm may cross borders to escape taxes or environmental controls (Teece 1981). However a firm under the H&S model may not enter another market simply because its environmental standards were lower. Unfortunately this model also may not take into account the cultural and environmental differences when the firm enters a new market. All these factors will hurt the firm because it has not taken all significant factors into account in its decision making process.

Combinations of competencies to enable synergies. It will be more difficult to identify synergies using an economic maximization objective (Ansoff 1965, Coase 1937, Williamson 1986). The model may not see international market interdependencies which will make it very difficult to synergize (Collis 1991). Furthermore the fact that the model does not take cultural and environmental differences into account may cause tension and actually reduce synergy within the firm. With a pure profit motivation it will be difficult for the firm to have synergy with any of its subsidiaries as well. By not taking so many other factors into account, the firm will be at a distinct disadvantage.

Produce something "in-house" or outsource it. Since the Ansoff model dictates a straight cost-benefit analysis in deciding whether or not to outsource (Ansoff 1965, Coase 1937, Williamson 1986), less quantifiable information will not be considered and the decision to outsource will be made with incomplete information. For instance, whereas the Hofer and Schendel model considers employee welfare, the Ansoff model does not (Ansoff 1965, Hofer and Schendel 1978, Schendel and Hofer 1979). It instead looks to maximize the direct economic opportunities of globalization without dealing with any of the seemingly ancillary issues that might impact the results long term.

Discussion and Conclusion

At first glance it seems that each of the two models typically employed for assessing the effectiveness of strategy offers useful insights for making choices in the globalized market environment. It appears that when using RBV, more well-rounded and sustainable globally competitive strategic choices can be reached, especially when RBV is used in conjunction with the Hofer and Schendel model (Barney 1991, Hofer and Schendel 1978, Kim and Mauborgne 1991, Wernerfeldt 1984). This model, with its different layers of analysis, seems to fit very well within the RBV framework. But the RBV, by offering the firm a more holistic view of the business landscape, including serious considerations of both tacit and intangible resources such as culture, institutionally embedded behaviors, networks, etc., would allow the development of much more effective strategic plans (Cook and Levi 1990, Hirsch 1997, Granovetter and Swedberg 1992). The effective applicability of the TCE in global strategic management is limited since TCE does not necessarily take into consideration the relevant institutionalized socio-cultural, political, historiographic, and other networking factors. The indomitable preoccupation of TCE theory with economic considerations makes it too narrowly focused to meet the exigencies of an ever changing global market place (Engelhoff 1982, 1988). In order to objectively analyze the impact of globalization one has to look not only at how it affects the firm, but also at how it affects the socio-political and economic environment in which firms must operate. Researchers and practitioners in the field of strategic management will be well-advised to exercise caution before formulating their strategic plans based upon the recommendations of models based solely on economic theory. As Porter (1998) suggested, economists should not - or must be rarely allowed to - play a major part in strategic planning. Instead, their role should be limited to performing underlying tasks such as forecasting and regulatory market analysis that assist those who do make strategic plans. The potential consequences arising from the dominance of economic analysis is not limited to the private sector, since governmental strategies frequently exhibit similar problems when heavily influenced by economists who gravitate towards economic solutions based on theoretical rationality assumptions that exclude serious consideration of other factors. Strategic management in the global environment has become very dynamic and the *ceteris paribus* assumptions of many economic models are likely to lead to fallacious strategic choices. As useful as TCE may be as a tool of analysis, it should not be used as the only determinant of strategic choice in global transactions, but rather used in conjunction with other relational considerations discussed throughout this paper.

Figure 1: Development of Competitive Advantage from the Resource Based View
Adapted from Yolles (2008)

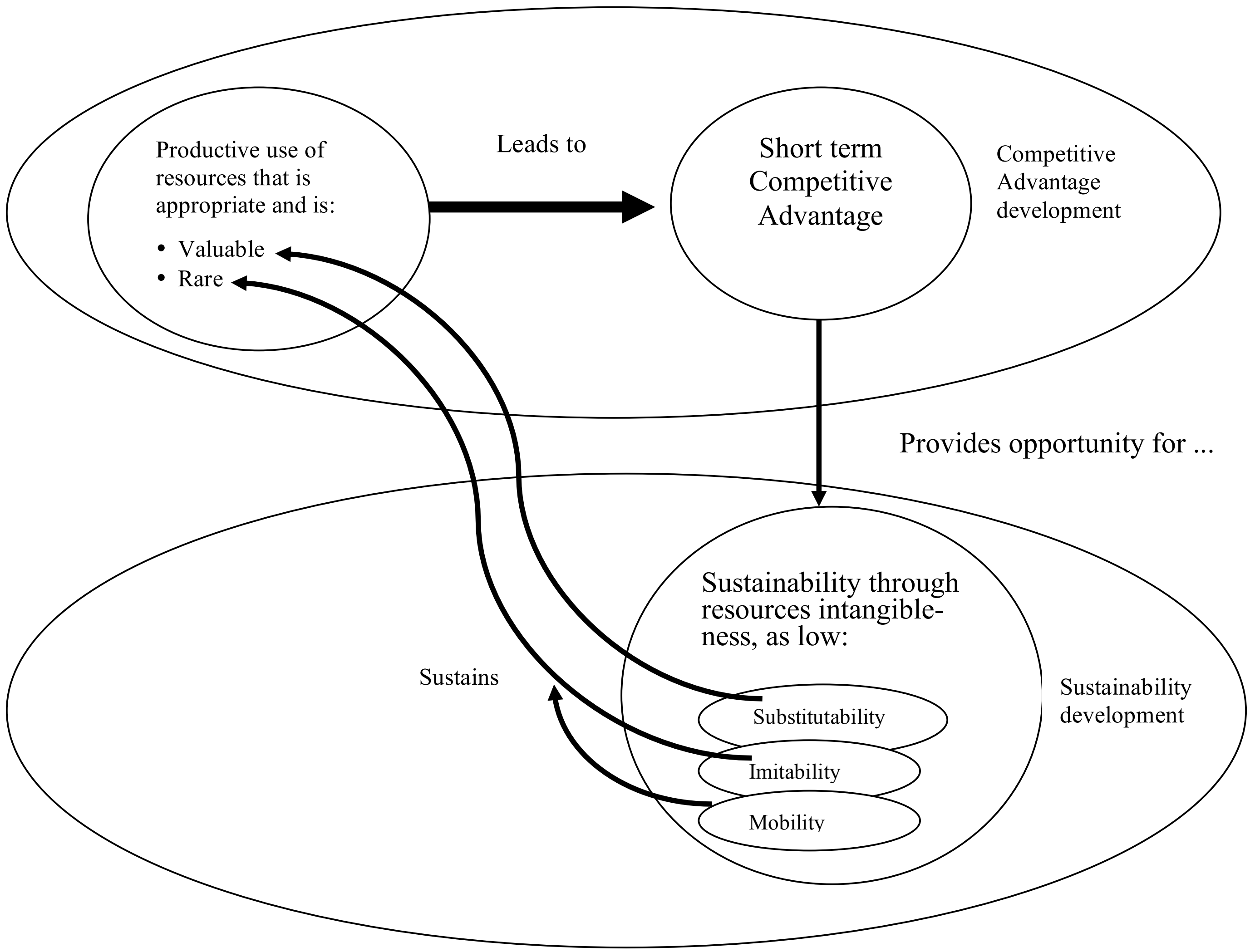
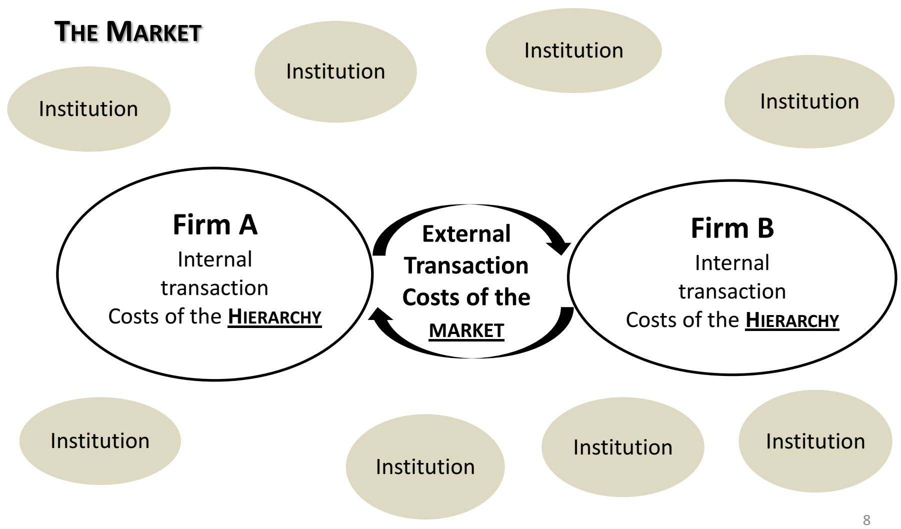


Figure 2: Mechanism of the Transaction Cost Economics



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