Book Reviews

As the lowering of trade barriers eases the flow of goods worldwide, business survival increasingly hinges on a company's ability to compete globally. Competitors from overseas are targeting previously secure domestic markets, while competitors at home are using overseas sources of supply as a basis for cost reduction and product and service innovation. Global sourcing is rapidly becoming a prerequisite to competing in today's marketplace. The question is no longer whether to go global but how to capture the strategic benefits of global sourcing while minimizing the costs and risks.

This book presents the empirical studies conducted by the author on the subject of global sourcing activities of firms and the effect of these activities on a firm's competitive strengths and market performance. The author describes global sourcing strategy as:

management of the interfaces among R&D, manufacturing, and marketing on a global basis and of logistics identifying which production units will serve which particular markets and how components will be supplied for production, such that the firm can exploit both its own competitive advantages and the comparative advantages of various countries (p. 6).

The author proposes and subsequently tests the hypothesis that a firm's competitive strengths and its market performance are determined by the successful management of the above interfaces, namely R&D, manufacturing, and marketing. The book is divided into two parts. Part I examines the global sourcing strategies of European and Japanese multinational firms and the effect of these strategies on the performance of these firms. Related management issues facilitating the development of these sourcing strategies are also examined. Industries surveyed were in the area of electronics, transportation equipment, scientific and photographic equipment, motor vehicles and parts, aerospace, computers and office equipment, and industrial and farm equipment. Part II examines whether managerial implications gleaned from the experiences of European and Japanese firms can be applied to U.S. multinational firms. Future research directions are also presented. The contents of the book can be best covered by summarizing each chapter separately, since each chapter is a study with a set of different research questions.

Chapter 1 discusses the nature of the current global marketplace and the significance of the disappearance of national boundaries. The conceptual framework of the model on which the book is based is presented. The applicability of
the international product cycle model developed by Vernon to the theory of global sourcing is discussed.

Following an overview of the issue of global sourcing strategy and its relevant literature in Chapter 1, Chapter 2 presents a taxonomy of sourcing strategies employed by European and Japanese firms in serving the U.S. market. The product’s market performance is found to be positively related to the firm’s capability to source major components internally and negatively related to the extent of product adaptation. Performance is affected by neither the source of assembly nor by the assembly locations. The Japanese keiretsu arrangement is examined.

Chapter 3 examines the effect of product and process innovative activities on performance and the relation of these activities to global sourcing strategies and performance. It is found that product and process innovations are intertwined such that continual improvements in manufacturing processes lead to product innovations. Also, the firm’s ability to procure major components internally appears to help improve its market performance independently of product and process innovative activities.

Chapter 4 looks at the role of corporate product policy and its effect on product and process innovative activities and sourcing strategies. Those firms that stress the strategic importance of both product and process innovations simultaneously are found to perform better than other firms. Firms emphasizing product design standardization are also found to perform better than those emphasizing product adaptation. This is because product design standardization permits standardization of components in the product, and at the same time permits different product positioning strategies in different market segments.

Chapter 5 examines the marketing strategies of European and Japanese multinationals. They differ in their marketing styles but this difference is found to have no impact on a firm’s performance. Regardless of marketing styles, firms that emphasize future market growth and product standardization register a higher level of market performance than those who do not.

Chapter 6 focuses on the Japanese model of new product development. Japanese firms are found to emphasize "incremental" improvement of existing products and employ a proactive product standardization strategy. They adopt emerging technologies first in existing products to satisfy customer needs better than their competitors. This affords an opportunity to gain experience, debug technological glitches, reduce costs, boost performance, and develop designs to accommodate the products for customer use around the world.
In Chapters 7 and 8, the global sourcing activities of U.S. multinational firms are examined. The relationship between the extent of "hollowness" and market performance of U.S. multinationals is investigated. Chapter 8 explores U.S. firms' future competitive viability. U.S. multinationals with a higher level of integration and coordination of production and marketing on a consolidated basis are found to retain innovative ability more efficiently and effectively than would be expected. Finally, Chapter 9 explores the emerging issues of strategic alliances from a global sourcing perspective. Firms that enter into a strategic alliance to complement their product technology with the manufacturing and marketing competencies of their partner are predicted to lose their competitive advantage to the partner in the long run.

In summary, successful multinational firms are those that adopt the four strategic thrusts: (1) proactive product standardization, (2) simultaneous emphasis on both product and manufacturing innovative activities, (3) integrated sourcing of major components, and (4) marketing in all Triad regions of the world for growth.

As the author correctly points out, there is a gap in the literature with respect to having some systematic and logical framework as well as theory on global sourcing and its complexities. The taxonomy of sourcing strategies presented by the author is a step in that direction. Most research on sourcing strategy published so far has been aggregative in nature, usually focusing on intra-firm trade involving parent companies and/or parent countries (usually the United States). This book attempts to fill the void in the literature by presenting the empirical investigations of factors influencing sourcing policy at the individual firm level, as mentioned by the author himself. This book is useful to students and researchers in international business for its well-presented details on the study of methodology and the statistical analysis. To corporate managers or practitioners, the book's main contribution is its findings, namely that successful multinational firms are those that: (1) strive to develop an innovative but standardized product, (2) stress manufacturing efficiency and flexibility, (3) are capable of procuring in-house key components, and (4) are willing to take on the challenge of marketing it in all Triad regions.

A limitation of the book is the absence of any discussion of the costs and risks involved in global sourcing. Direct and indirect costs incurred by global sourcing can be substantial, particularly for small firms. The risks of losing proprietary technology and exchange rate fluctuations are additional considerations. Other barriers to global sourcing such as domestic market nationalism and lack of foreign market experience and ways to overcome these barriers are also neglected. Implementation of global sourcing strategies,
preferably a step-by-step approach for managers to steer their firm towards global sourcing activities, would also be useful. Global sourcing is not a simple or easy solution to a company’s sourcing needs; some organizational guidelines would be helpful if the reader is to make use of the presented findings.

Madhu Agrawal
Michigan State University

Takatoshi Ito’s *The Japanese Economy*, is intended as a broad introduction. But it is also a rigorous and thoughtful examination of basic facts on the Japanese economy. Toward this end, the author briefly explores relevant aspects of the country’s history, culture, and politics to shed light on the underlying premises of its economic structure. Once the basics of the current Japanese economy have been presented, they are subjected to modern economic analyses, both theoretical and empirical. Throughout, Japanese institutions and policies are compared with their American counterparts. Economic performance of the two countries is also compared and current issues, such as US-Japan economic conflicts, are discussed at length.

The major strength of the book is its rigorous theoretical and empirical examination of the complex Japanese economy, which it presents in a very comprehensible format and language. Takatoshi Ito’s pedagogical skills surface when he transforms complex economic analyses into simple facts that can be comprehended without in-depth knowledge of economics. To accomplish this, the author makes ample use of appendices, case studies, and inserts to clarify material and increase reader involvement. The book should appeal to a wide audience including business students, academics, public policymakers and practitioners.

The book consists of three parts. The first presents general background information. Chapter 1 gives the overall picture of the current Japanese economy, alluding particularly to its strengths and weaknesses. The second chapter reviews the long history of Japan up to World War II from an economic perspective. This second chapter is particularly useful in setting the stage for later discussion of the traditional and historical underpinnings that support Japan’s unique economic structure.

Part 2, the most rigorous section of the book, consists of nine chapters, each devoted to an important aspect, of the Japanese economy. The second section, chapters three through nine, places little emphasis on cultural factors; the approach is mainstream economics. The author intends the findings to be offered at the level of an introductory course in the principles.