



# Organizational space: a new frontier in international business strategy?

Organizational  
space

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## Abstract

**Purpose** – Through an intervention from a geographical perspective on organizational space, this article aims to offer a new horizon in understanding international business strategy.

**Design/methodology/approach** – Starts with two interrelated questions: does space exist in organizations and how does an organization manipulate and produce this organizational space in order to gain competitive advantage? By tackling these questions in the context of international business activities, this paper engages existing (international) management theories.

**Findings** – This article critically reviews the narrow focus of most international business theories on physical location and distance as a significant determinant of foreign direct investment and diverse activities of transnational corporations (TNCs). Quantitative empirical studies in this genre tend to emphasize physical space as a mere “container” of different locations of TNC activities and to measure the distance between these locations as an independent variable in statistical models. Drawing upon recent theoretical developments in economic geography, the paper develops a relational perspective on business organizations. In such an organization space, there are no fixed locations manifesting themselves in physically measurable forms. Instead, locations and distances in an organizational space are relational and thus discursively constructed through actor-specific strategies and practice. The paper argues that one key strategic goal of business organizations is to continuously expand its organizational space (viz. physical space) and to economize on this spatial expansion.

**Research limitations/implications** – Reveals the need for a critical reexamination of existing management and organization theories to take account of how space and boundaries may influence the strategy, structure, and performance of business organizations.

**Originality/value** – Examines the properties of organizational space and applies the proposed concept to the case of TNCs.

**Keywords** Critical thinking, Geography, International business, Strategic management, Transnational companies

**Paper type** Conceptual paper

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## Introduction

Do organizations have different spaces in them? If so, how does an organization like a global corporation configure its vast variety of spaces? Consider Hofstede's (1980) deployment of the notion "cultural distance" to describe work value differences in IBM's global operations in different countries. The presence of cultural distance among IBM's different operational units implies that there are distinct spaces of control and conformity within IBM. These spaces are demarcated by their distinctive boundaries defined on the basis of workforce nationality, product mix, job nature and so on. Once we have identified these spaces and their boundaries in an organization such as IBM, we can ascertain that there are significant variations in the mindset, behavior and action among employees in different social spaces. Indeed, organizations often configure their different units and activities across physical space in such a way that they effectively produce a different sort of space – known as "organizational space". Organizational space not only exists as a physical attribute, it can also be strategically configured to enhance an organization's competitive advantage. For example, a global corporation may separate its product development teams into different R&D spaces such that they are mutually competing for the shortest time to market. Moreover, a large semiconductor foundry firm may set up strictly enforced manufacturing spaces within the same wafer fabrication location in order to cater to the confidentiality demand of different customers. These organizational spaces thus differ from physical space that can be geometrically measured. Organizational space can be defined as a kind of spatial configuration or area constituted by ongoing relations within and between organizations. In an organization space, there are no fixed locations manifesting themselves in physically measurable forms. Instead, locations and distances in an organizational space are relational and thus discursively constructed through actor-specific strategies and practice. My conception of organizational space therefore moves away from theorizing how organizations fill up gaps or areas in physical space (e.g. manufacturing and office locations) to theorizing how organizations actively create and produce organizational space in their own images.

In this conceptual paper, I argue that organizational space, as a potentially new conceptual lens, matters in management and organization theories for at least three reasons. First, despite the advent of contemporary globalization, there is no conclusive evidence that global corporations from different home countries are converging in their organizational behavior and strategic management. The strategic production of different organizational spaces may well explain why persistent differences in these corporations, presumably the key drivers of globalization, continue to exist (Dicken, 2003a; Doremus *et al.*, 1998; Guillén, 2001). Business organizations are consciously creating spaces of exclusion in order to compete against each other. Second, space and spatial relations of organizations remain largely under-theorized in mainstream management and organization theories, a reflection of their predominantly Anglo-American origins. Ghoshal and Westney (1993, p. 6-11, emphasis added) have argued that "organization theorists have ignored or underemphasized the case of diversified organizations whose various constituent units are located in different business or geographic contexts". Theorizing explicitly about how organizations from different geographical contexts organize their spaces of activities may help redress this Anglo-American bias (Gertler, 2004; Yeung, 2002; Yeung and Lin, 2003). Third and more importantly, recent studies of competitive strategy and international production

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have explicitly incorporated location in their analytical frameworks (Cantwell, 2004; Dunning, 1998; Mucchielli and Mayer, 2004; Porter, 2000). Space is incorporated into these frameworks as the backdrop or scaffolding on which economic and organizational processes operate. Although distance (both physical and cultural) and location are conceptualized as exerting some “friction” and influence on the strategy and behavior of organizations, space and geography (spatial configurations) are essentially stripped down to “location” as an independent variable, which in turn is translated into measurable distance between points in physical space (e.g. Grinblatt and Keloharju, 2001; Lomi, 1995). Though inadequate, these conceptions of physical space as a “container” of locational coordinates of different organizations mark a useful start in bringing space into management and organization studies.

This paper aims to bridge theories in management and economic geography (Clark *et al.*, 2000; Peck and Yeung, 2003) and to show the value of incorporating a critical geographical perspective into management and organization studies. More specifically, I develop a relational perspective on organizational space. Space and locations should not be viewed as a passive source of organizational resources “out there” to be exploited by business organizations. Instead, organizational space should be conceived as an active and integral element in structuring the formation, management, and performance of business organizations. How is this relational perspective related to existing management and organization theories? Organizational space maps out relations within a particular organization and with other organizations and institutions. This relational conception of organizational space refers to the ways in which its geometry varies with specific relations constituted by different organizational units within and between organizations (see also DiMaggio, 2001; Dyer and Singh, 1998). My relational perspective, however, differs from the resource-based view of inter-organizational relationships in which physical space is conceived as a resource input into organizational activities and performance (see Péli and Nooteboom, 1999). Organizational space is different from the concept of organizational fields in institutional theories that define the structural or population characteristics of organizations as “the totality of relevant actors” (DiMaggio and Powell, 1983, p. 148). The concept of organizational field tends to suffer from the problem of boundary definition (Badaracco, 1991). This boundary problem is better overcome in my conception of organizational space. There are not only locational coordinates within organizational space (e.g. relational locations of financial, strategic planning, and production activities in organizational charts), but more importantly also relational configurations (e.g. spatial divisions of markets, human resources, power, and decision-making capabilities). These specific attributes of organizational space intersect and couple with physical space to create spatially differentiated patterns of business organizations and their activities. This in turn explains why business groupings and organizational dynamics vary significantly in North America, Western Europe, and East Asia.

My relational conceptualization, nevertheless, does not stop short of pursuing a social constructionist approach to the study of organizations (see Mir and Watson, 2000; Mizruchi and Fein, 1999). After identifying the relational properties between organizations and space, the perspective goes one step further to explore what makes space count in the study of organizations. My main proposition is that a key strategic goal of any business organization is to expand continuously its organizational space

and to economize on this spatial expansion. Here, I propose the idea of spatial economies and argue that business organizations such as global corporations can better exploit spatial economies through specific calibrations and configurations of their organizational spaces. In this sense, we can talk about different spatial strategies of business organizations in their quest for market shares and corporate performance. This explicit theorization of organizational space, in lieu of merely spatial aspects of organizations in physical space, can potentially redress our bias towards location as the single most important dimension of physical space in existing management and organization theories. It also represents a first step towards developing a new frontier in management and organizational research – known as organizational geography – that is concerned with the understanding and explanations of spatial configurations constituted through relations within and across different organizations. The paper is organized into five sections. I first start with a brief review of various theoretical frameworks in the study of TNCs that have explicitly incorporated location into their explanatory matrixes. The second section of the paper theorizes the nature of organizational space, followed by a discussion in the third and fourth sections on how organizations configure their organizational spaces to exploit spatial economies. The concluding section considers some implications of my relational perspective for future research in management and organization studies.

### **Organizations as locations: a critical appraisal of international business theories**

To date, there has been no shortage of critical reviews of leading international business theories (see Rugman and Brewer, 2001; Ietto-Gillies, 2005). My aim in this section is to explicate the logic of spatiality in these theories and to demonstrate the value of incorporating a relational perspective in fully understanding the role of organizational space in international business activities. Table I summarizes the key analytical explanations and spatial variables examined in five leading international business theories. In the early oligopolistic theory, space is reduced to a theoretical backdrop as resource differences between countries to be exploited by national firms. The product life-cycle (PLC) hypothesis not only explicitly incorporates time in its theorization of why national firms go through successive stages of internationalization, but also considers in a preliminary way the role of location in these internationalization processes. It shows that the location of production facilities and subsequent implications for trade patterns are dependent upon the “stage” which the product has reached. This problematic association of space and geography with physical distance and location *per se* is not readily resolved in Dunning’s eclectic framework of international production that brings together under one rubric the theoretical insights from Hymer’s oligopolistic theory, Vernon’s PLC hypothesis, and Buckley and Casson’s internalization theory. A later revision of the framework by Dunning takes up the “neglected factor” of location in influencing TNC activities by focusing on “the importance of location *per se* as a variable affecting the global competitiveness of firms” (Dunning, 1998, p. 60). The role of location-specific assets sought after by TNCs to build up or enhance their strategic assets and resources has been recognized more explicitly.

On the other hand, theoretical advancement in strategic management since the mid-1980s has helped us understand better one key dimension of these dilemmas – the

International business theories and their main proponents	Key analytical explanations	Spatial variables	Critical evaluations
Oligopolistic theory (Hymer, 1960; Kindleberger, 1969)	TNCs as national firms with strong ownership-specific advantages Existence of internal division of labor and hierarchy of control within TNCs	Exploitation of uneven spatial distribution of factor resources by TNCs	Spatial differences as passive resources to be tapped into by TNCs No attention to how space shapes and is shaped by the structure and organization of TNCs
Product life-cycle hypothesis (Vernon, 1966)	Internationalization as different stages of product life-cycles TNC activities abroad facilitated by technological change in production	Foreign locations of production in different stages of product life-cycles Importance of home country factor endowments and markets	Location as the only relevant spatial variable
Eclectic framework (Dunning, 1977, 1998)	TNCs as constellations of ownership- and location-specific and internalization advantages TNCs as nexus of configuration and coordination of value-chain activities	Location-bound assets of TNCs TNCs as common governance of cross-border activities Global integration as a strategic goal of TNCs Local responsiveness to spatial differences	Geography is still about location only
Integration-responsiveness framework (Porter, 1986; Prahalad and Doz, 1987; Bartlett and Ghoshal, 1989)			Global-local dimensions as oversimplified geographical scales Insufficient attention to spatial relations in TNC configurations and coordination
Differentiated networks model (Nohria and Ghoshal, 1997)	TNCs as differentiated networks of affiliates	Exploitation of different national environments	Geography is still about locational differences only

**Notes:** Transaction costs theory is not included here because no specific geographical variables can be observed in this theory, whether in its original version (Coase, 1937; Williamson, 1975) or in the variant for international business studies (Buckley and Casson, 1976)

**Table I.**  
The role of space and geography in leading international business theories, 1960-2003

tension between global integration and local responsiveness of TNC operations (see Table I). The starting point of this global-local framework is the value chain that refers to an interlocking set or network of activities performing or competing in a particular industry. Coupled with the integration-responsiveness matrix and the “transnational solution”, Porter’s (1986) configuration-coordination grid represents a classic strategy-structure theoretical framework for analyzing the creation of competitive advantage by business organizations in global competition. These three interrelated theoretical frameworks focus on global integration as a strategic goal of TNCs to maximize efficiency and local responsiveness as a strategy to exploit geographical differences among buyers, customers, and suppliers. They have collectively contributed to our understanding of how competitive pressures and forces work themselves out through corporate strategies operating at both global and local scales. We also understand better the global-local tensions confronting TNCs and their managers worldwide (see also Dunning and Mucchielli, 2002; Mucchielli and Mayer, 2004). Despite this attention to global-local scales in TNC configurations, the logic of spatiality remains underdeveloped in the sense that the role of complex and overlapping geographical scales – defined as the hierarchical ordering of physical and organizational spaces – in facilitating and/or constraining TNC activities has not received adequate attention (see next section).

An immediate offshoot of this recent theoretical development in strategic management is the parent-subsidiary literature that has implicitly incorporated the role of geography in its empirical analysis. In their theorization of multinational subsidiary evolution, for example, Birkinshaw and Hood (1998, p. 781) argue that “the particular geographical setting and history of the subsidiary are responsible for defining a development path that is absolutely unique to that subsidiary, which, in turn, results in a profile of capabilities that is unique”. More specifically, Nohria and Ghoshal (1997) contend in their model of TNCs as differentiated networks that internal differentiation is requisite to a TNC’s success because overall subsidiary performance is positively correlated with a high degree of internal differentiation (see Table I). As diverse subsidiaries operating in distinct national environments and geographical contexts, different attributes of the TNC can be explained in terms of selected attributes of the external network within which it is embedded. The idea of subsidiaries in different national contexts and hence (physical) space making a difference to TNC performance is certainly useful. But to equate locational differences among different subsidiaries with relations within the same organizational space of TNCs is problematical.

To sum up, while leading international business theories have considered the role of physical space in explaining the emergence and management of transnational corporations, only three standard spatial variables are explored theoretically and tested empirically: distance, location, and global-local tensions. First, physical distance and/or transport cost has often been taken as a proxy to measure how geography or proximity shapes the entry of TNCs into foreign markets (Shaver, 1998). Second, the analysis of location in international business studies continues to focus on the choice of host countries and/or regions for FDI by TNCs (Delios and Henisz, 2000; Pan and Tse, 2000). Similar studies have examined the geographic origins and scopes of TNC functional activities and firm performance (Goerzen and Beamish, 2003; Rangan and Drummond, 2004). Third, the influence of geography on the strategies and structures of



TNCs is analyzed in relation to the integration-responsiveness framework (Murtha *et al.*, 1998; Roth and Morrison, 1990). The analysis of space and geography in these different strands of theoretical development and burgeoning empirical literature proves to be an important start in bringing space into management and organization studies. Innovative studies of “relative distance” (e.g. cultural and psychic) in determining international business activities (Kogut and Singh, 1988; Kostova and Roth, 2002), for example, hint at the relational dimension of organizational space – a theoretical issue to be fully explored in the next section.

### **A relational perspective on organizational space**

In a rather stylized manner, Figure 1 maps out the nature and properties of organizational space (i.e. space in organizations) *vis-à-vis* physical space in which organizations are located. Organizational space (Figure 1b) is fundamentally different from physical space (Figure 1a) in at least three aspects. First, unlike physical space that has definite territorial boundaries within specific countries or regions, organizational space is only bound by the organizational capabilities and reach of specific business organizations. For example in Figure 1b, business organization A has a much wider organizational space than its other competitors (e.g. B and F), potentially allowing A to tap into wider markets/resources/knowledge and to exploit cost differentials, and thereby enhancing its competitive performance. Unlike the contemporary nation states bounded in sovereign physical space (Figure 1a), territoriality in organizational space is “stretchable” because its geographical boundary is never fixed and immobile (see also Amin and Cohendet, 2004; Dicken, 2003b; Dicken and Malmberg, 2001; Yeung, 2004). Drawing upon resource-based and institutional theories of organizations (Barney, 1991; DiMaggio and Powell, 1991), we can identify several factors that account for this greater “stretchability” of organization space: information, capabilities, resources, legitimacy, and so on. Business organizations with greater repertoire of information can venture beyond the physical confines of particular regions or countries. This venturing and stretching of organizational space is supported by greater organizational capabilities in strategic planning, management structures, and operational activities. These greater organizational capabilities, to a certain extent, are an outcome of existing resources within business organizations (e.g. financial and technological assets). But they can also be an outcome of innovations that drastically transform existing organizational practices and, in the Schumpeterian tradition, create “new combinations” of resources for production and marketing activities. Moreover, the stretching of organizational space requires overcoming the problem of legitimation that refers to both the legitimacy of physical locations of organizational units in multiple host countries (see Kostova and Roth, 2003; Kostova and Zaheer, 1999), and the legitimacy of new organizational units in relations to existing units elsewhere and other stakeholders (e.g. competitors, customers, and suppliers) in organizational space.

Second, location plays itself out differently in organizational space. Instead of a specific point in physical space, location in organizational space is a relational concept in that it depends on ongoing relations between units within the same business organization. These organizational relations can exist in different forms too – competitive, cooperative, legitimate, hostile, and so on. For example in Figure 1b, if  $A_1$  is the worldwide headquarters of business organization A, the location of  $A_2$  in relation

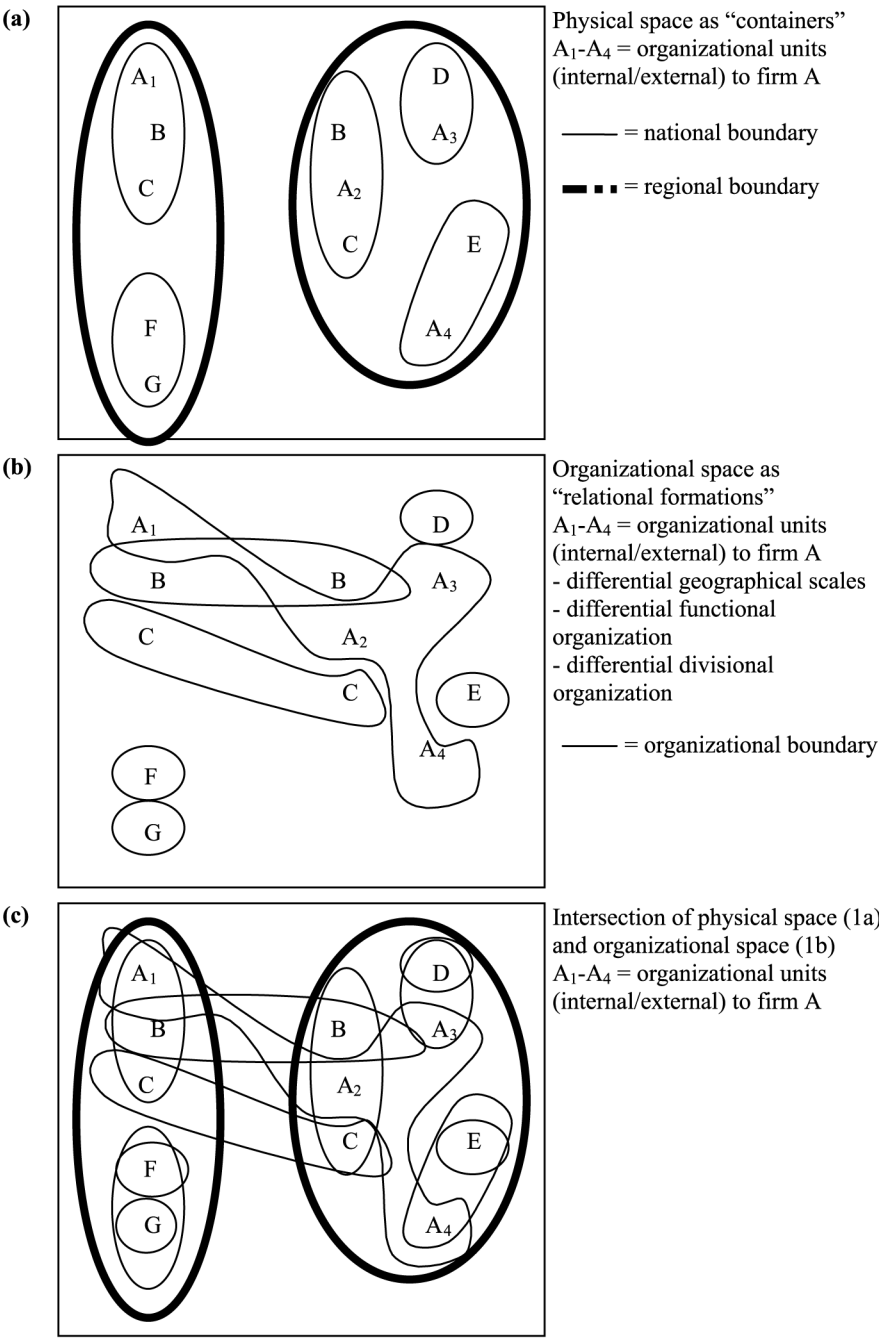


Figure 1.  
The nature of  
organizational space



to  $A_1$  is not necessarily closer than the location of  $A_4$ , even although  $A_2$  is closer to  $A_1$  in absolute distance (Figure 1a). This difference in relational location may occur because  $A_4$  has a much more cooperative working relations with the headquarters  $A_1$ . Alternatively,  $A_1$  may have much better information about and control over  $A_4$  than  $A_2$  because of  $A_4$ 's functional importance to the group as a whole (e.g. in global R&D). For example,  $A_4$  may be the only R&D center of the high-tech business organization A, whereas  $A_2$  is a regional headquarters and most of its functions are either replications of  $A_1$  or can be easily performed by  $A_1$ . Locational attributes within organizational space such as proximity and distance are highly relational, and subject to social and cognitive constructions and power relations among different organizational units. The organizational distance between  $A_4$  and  $A_1$  is relatively shorter than that between  $A_2$  and  $A_1$ . The greater proximity of  $A_4$  than  $A_2$  in functional terms also underscores peculiar power relations in business organization A (see Amin, 2003; Clegg, 1990; Yeung, 1998).

Third, the concept of geographical agglomeration in organization studies needs to be reexamined in light of organizational space. Previously studies of the locational dynamics of organizations point to the significance of agglomeration economies and geographical concentration in specific localities (Driffield and Munday, 2000; Shaver and Flyer, 2000; cf. Martin and Sunley, 2003; Tallman *et al.*, 2004). The sheer geographical co-presence of organizational units in one physical location, however, does not necessarily mean that these units have something in common or they engage in some forms of traded interdependencies in economic terms. In fact, a relational perspective on organizational space reveals that organizational units within and between business organizations may have divergent strategic objectives and heterogeneous resource repertoires. While organizational units  $A_1$ , B, and C are co-located in the same national cluster in Figure 1a, their organizational linkages and transactional networks may rest with other units outside this national cluster (see Figure 1b). For example,  $A_1$ 's organizational space intersects with national clusters involving  $A_2$ -B-C and  $A_4$ -E. The geographical co-presence of organizational units  $A_1$ , B, and C in one national cluster may thus be explained by "untraded interdependencies" (Storper, 1997; Storper and Salais, 1997) that refer to a variety of such non-economic reasons as local rules, conventions, and contexts which bind firm locations. Other recent geographical studies of clusters also show the non-local nature of inter-organizational linkages (see Bunnell and Coe, 2001; Coe *et al.*, 2004; Yeung, 2005).

Having clarified the important differences between physical space and organizational space, I now turn to the intersection of organizational space and physical space (Figure 1c). For brevity reasons, I focus only on one key dimension of this intersection – geographical scales. Defined as the hierarchical ordering of physical and organizational spaces, geographical scales are commonly used to understand spatial configurations in terms of local, urban, regional, national, and global scales. The problem of geographical scales has recently emerged as a central theoretical issue in geographical studies (Brenner, 2001; Sheppard and McMaster, 2004; Yeung, 2005). These geographical interpretations have clarified the status of overlapping geographical scales and reconfiguring of territorial units in understanding today's global economy. Historically, physical space was territorially organized by the nation state and the national scale became the most visible form of spatial configuration (e.g.

national boundaries on any world map). The growing significance of supra-national organizations (World Bank, IMF, WTO and so on) and the recent devolution of power and authority from national governments to local authorities demonstrates that the national scale, as a historically defined level of political governance, has been increasingly challenged by power and authority situated at other geographical scales (up-scale at the supra-national scale and down-scale at the local and regional scales).

Based on this understanding of geographical scales, the scalar configuration of organizational space is found to pose an interesting analytical problem because relational processes within and between organizations may transcend preexisting scalar hierarchy in physical space centered on the national scale. For example, a transnational automobile firm may organize its activities on the regional scale within the European Union that makes it difficult for any national government to control or regulate (see also Kobrin, 2001; Kostova and Zaheer, 1999; Rugman, 2005). Referring to the physical space in Figure 1a, if we assume each small cell in which organizational units are located as a country and different cells form regions demarcated by dotted lines, there will then be one global economy in which two regions exist and 12 organizational units are distributed in five countries. Some of these business organizations are national firms (D, E, F, and G); others are transnational corporations operating in more than one country (A, B, and C). Even in this highly simplified representation of the global economy, organizational relationships are structured by hierarchies of different geographical scales. At the local scale, organizational units interact with each other in specific clusters within countries (e.g. A<sub>1</sub>, B, and C). They may or may not benefit from agglomeration economies.

At the national scale, different countries not only represent different markets for competing organizational units locating within and outside them, but these countries are also competing against each other in all sorts of economic dimensions (e.g. technological development and industrialization). At the supra-national scale, we can conceive cooperative relationships among organizational units within each of the two regions that may be competing against one another. For example, organizational unit A<sub>1</sub> may simultaneously cooperate with F within a regional framework of free trade agreement (e.g. NAFTA), and compete against D for a market share within D's highly protected home region (e.g. East Asia). Finally, at the global scale, not a single organization is truly global yet in the sense that it has integrated organizational units in all countries and regions. Even organization A has not fully globalized itself because it does not have a presence in the country currently occupied by F and G. As shown in Figure 1a, there is a fairly clear-cut hierarchy of geographical scales in this global economy. The nature and extent of relationships among different organizational units depends therefore crucially on the geographical scale of our investigation.

The scalar ordering/differentiation of organizational space, however, differs significantly from that in physical space. Geographical scales are products of social construction in relation to macro-economic and organizational change. Within organizational space (Figure 1b), geographical scales are structured in relation to the functions and significance of specific organizational units (Yeung, 1998, 2005). For example, while A<sub>1</sub> serves as the worldwide headquarters and production center of organization A (global scale), its regional headquarter A<sub>2</sub> manages A<sub>3</sub> and A<sub>4</sub> within the host region (regional scale), and its local production unit A<sub>3</sub> fulfills only the strategic mission to serve the host country market (national scale). This simultaneous

juxtaposition of overlapping geographical scales in A's organizational space (Figure 1c) is evidently explained by mapping the functions of its organizational units (strategic planning and management, R&D, production) onto the hierarchical ordering of geographical scales in physical space (Figure 1a). Host country regulation, for instance, severely limits the geographical scale at which  $A_3$  can operate. In fact, trade protection in this country forces organization A to establish a stand-alone production subsidiary to cater to the host market.  $A_3$ 's relatively isolated location in this host country, however, cannot be divorced from its location in organizational space. In fact,  $A_3$  may have very intimate organizational relationships with  $A_1$  (worldwide headquarters responsible for strategic directions and planning),  $A_2$  (regional headquarters in charge of management and performance), and  $A_4$  (worldwide R&D center supplying latest technological and production information). Recognizing these differences in the role of geographical scales in structuring organizational and physical space therefore allows us to appreciate better the complexity of international business strategies and activities.

### **What makes organizational space count? The scale and scope of spatial economies**

To show why organizational space matters in analyzing international business strategy, I theorize that greater economic efficiency and performance can be obtained through appropriate configurations of organizational space. These configurations enhance spatial economies, defined as economic efficiency and organizational benefits accrued to peculiar spatial configurations of organizational space by business organizations through the adoption of certain spatial strategies. Spatial economies are different from agglomeration economies *per se* because the latter refer to a peculiar type of economic efficiency derived necessarily from geographical co-presence and concentration of organizational activities in one location, i.e. increasing returns to scale (Fujita *et al.*, 1999). Spatial economies refer to broader advantages and efficiencies not necessarily derived from the agglomeration of organizations. In fact, the agglomeration of organizations is neither the only spatial strategy nor the necessary condition in reaping spatial economies. A business organization can tap into other spatial strategies to achieve greater efficiency and performance levels (see below).

In general, spatial economies exist in both physical and organizational spaces, and are differentiated by their different scale and scope (see Table II). In terms of physical space, business organizations can exploit greater spatial economies of scale through simultaneous presence in all major markets and in the location of their strategic assets. Those organizations operating on the global scale tend to accumulate greater spatial economies of scale through larger territorial coverage. A common example is a large global corporation specializing in a single product or industry that has a worldwide market (e.g. Dell in computers and Sony in consumer electronics). This organization is able to maximize spatial economies of scale from its global production and marketing efforts. Fitting spatial configurations of its production and marketing activities in a hierarchical order of multiple locations of global marketing and specialized production locations, the single-product organization can obtain strong scale efficiency and spatial economies. These spatial scale economies are not necessarily the same as "economies of scale" arising from larger production volumes as theorized in industrial economics (see Chandler, 1990). For example, wider geographical coverage may enhance greater

**Table II.**  
A typology of spatial  
economies

Spatial economies	Scale	Scope
Physical space	Proximity to large markets Embedded in leading high tech clusters Hierarchical order of global-regional-national-local operations Example: a large single product or industry global corporation (e.g. Microsoft and Xerox)	Tapping into differentiated markets and resources in different locations Greater differentiation in cognitive representations of national and foreign operations Sensitivity and responsiveness to local differences and learning opportunities Example: a decentralized global corporation with a highly diversified range of products (e.g. Philips and Unilever)
Organizational space	Greater “stretchability” of organizational structures Highly centralized control and coordination of different organizational units More internally coherent identities and practices among different organizational units Greater legitimacy for dominant organizational culture and mindset Example: a global corporation with strong parent company knowledge and capabilities (e.g. Procter & Gamble and Ericsson)	Greater differentiation in organizational structures and geocentric mindset Highly integrated networks of organizational configurations of dispersed assets, specialized operations, and interdependent relationships Existence of different organizational identities and subcultures Example: a global corporation with very strong globally-oriented organizational capability and management mentality (e.g. IBM and Hewlett Packard)

organizational learning and marketing performance that goes well beyond lower marginal costs per unit of production.

Business organizations can tap into scope economies at different geographical scales. Differentiated markets, resources, and sites of organizational learning often exist at different geographical scales. For example, while today’s global markets tend to be highly regionalized (Rugman and Verbeke, 2004; Rugman, 2005), specialized resources and strategic assets tend to be highly localized and are often available at the sub-national scale (see Amin and Thrift, 1994; Scott and Storper, 2003). A business organization with an organizational structure that is highly sensitive to this scalar differentiation of market, resource, and learning availability can achieve greater scope of spatial economies. It is possible for a decentralized global corporation, say Unilever, with a highly diversified range of products to tap into differentiated regional markets and, simultaneously, to secure highly localized resources and assets.

Spatial economies can also be secured through a strategic fit of different configurations of organizational space (see Table II). Business organizations can reap greater spatial economies of scale by expanding the territoriality of their organizational space. This expansion does not imply merely physical expansion of organizational reach to operate in more locations and countries. Organizational space is a relational concept to business organizations and includes a whole range of different institutions and communities. It is possible, for example, for an organizational space to be

expanded through building cooperative alliances with other non-firm institutions and communities in the same location without the organization reaching out to more locations in physical space. Contrary to the conventional wisdom of spatial expansion in international business theories (e.g. the product life-cycle hypothesis in Table I), this expansion in organizational space can take place even though the organization does not open new locations of international operations. It is an expansion of relational space rather than physical spatial coverage. This expansion of organizational space must be related to the internal capabilities and knowledge flows within the business organization. In other words, the expansion of organizational space is synonymous with the greater ability of an organization to control and coordinate its diverse organizational units in different physical locations. Stretching organizational space entails more highly centralized control and coordination that allows key organizational knowledge and capabilities to be diffused from one organizational unit to another (Gupta and Govindarajan, 1991; Nohria and Ghoshal, 1997; Inkpen and Tsang, 2005). Only when business organizations are able both to expand into more physical locations and to control and coordinate these units, spatial scale economies embedded in organizational space can be exploited to enhance their competitive advantages.

Spatial scope economies embedded in organizational space are perhaps most difficult to be exploited because this exploitation has some stringent organizational requirements. These scope economies are quite different from scale economies embedded in physical space (e.g. agglomeration economies). First, it requires significant internal differentiation in organizational structures that allows for the identification and development of different strategic assets and resources within the organization. Instead of being reduced to costs and friction, relational distance in organizational space might be thought as an organizational asset insofar as this distance enables the preservation of organizational diversity. This diversity through maintaining organizational distance can in turn be a key precondition for organizational learning and innovation because the potential for interactive learning in a spatially homogeneous setting is virtually absent. Second, it necessitates a highly geocentric mindset among different organizational units (Perlmutter, 1969; see also Malnight, 1995; Murtha *et al.*, 1998). Business organizations with this mindset take a globally integrated approach to decision-making that is dependent on the location of individuals with whom the decision taker has the most relations and transactions. Organizational structures are more likely to be heterarchical than hierarchical (Hedlund, 1986), and network structures are preferred to allow for better integration of dispersed assets, specialized operations, and interdependent relationships (Inkpen and Tsang, 2005).

Third, reaping spatial scope economies assumes significant functional variations in the spatial configurations of different departments within a business organization, and between the headquarters and other organizational units. This assumption is reasonable because certain organizational functions (e.g. marketing) may be highly centralized at the global headquarters, whereas other functions (e.g. production and after-sales services) may be localized and differentiated. The marketing department of an organization may be located and thus “localized” in its worldwide headquarters, but its function in organizational space is highly global (e.g. pursuing a strategy of global branding). Conversely, while production activities may be highly regionalized or globalized in terms of their locations in physical space, their function in organizational

space may be highly localized because of their embeddedness in localized transactional practices and their highly specialized function within global production networks (see Coe *et al.*, 2004; Dicken *et al.*, 2001; Henderson *et al.*, 2002). Scope economies in organizational space are more likely to be tapped by business organizations with very strong globally oriented organizational capability and management mentality. Referring to Figure 1, these organizations must be able to make good sense of the complex intersection of physical and organizational spaces (Figure 1c), and to create structures and instill mindsets among their organizational units to overcome tensions in the intersection of these different spaces.

### **Exploiting spatial economies through spatial strategies**

While recognizing these different scale and scope of spatial economies for business organizations, it remains to be seen how these economies can be exploited through specific spatial strategies. Spatial strategies adopted by business organizations often have contradictory objectives manifested in the tensions between spatial division and spatial integration, between spatial fixity and spatial mobility, and between spatial inclusion and spatial exclusion (Yeung, 1998, 2005). While business organizations can exploit differences in the location of labor, technology, markets, and so on in physical space by dividing organizational space into different territorially based organizational units (e.g. a multi-domestic TNC), these spatial divisions of labor, technology, and markets within organizational space require a significant degree of spatial fixity in different territorially based organizational units. Spatial fixity, alternatively termed “local embeddedness”, points to a condition of significant investment in resources for local organizational units. The spatial fixity of organizational units creates an opportunity for these units to take advantage of localized resources and markets found in such physical locations as “hot spots” (Pouder and St John, 1996), clusters (Porter, 2000), and export-processing zones. It also enables localized organizational units to exclude effective involvement and intervention from other units in the same organizational space, e.g. the role of subsidiary initiatives in a TNC’s organizational space. Global corporations often aim at integrating organizational spaces to maximize their organizational, product and market advantages. A stylized example is the transnational global corporation that controls highly integrated networks of organizational configurations of dispersed assets, specialized operations, and interdependent relationships (Bartlett and Ghoshal, 1989; Harzing, 1999). This global integration of organizational space can be facilitated by the searching for spatial mobility to reach wider resources/markets and to include other organizational units in overall knowledge development and organizational innovations.

Once these contradictory objectives of spatial strategies are understood, it is possible to consider how different spatial strategies can accomplish these objectives and secure specific types of spatial economies outlined earlier. In particular, four spatial strategies are recognized and discussed here (see also Lefebvre, 1991; Yeung, 1998):

- (1) The appropriation and use of physical space.
- (2) Spatial accessibility and distancing.
- (3) The domination and control of organizational space.
- (4) The production of space.



The first spatial strategy for business organizations is the appropriation and use of physical space. This strategy refers more specifically to physical space as organizational resources in terms of land and location of establishments, plants and factories. The locational choice of organizational units is important in enhancing the competitive advantage of the organization as a whole precisely because resources are not randomly distributed in all locations and regions. Different locations are endowed with different institutions, norms, and practices that provide a variety of opportunities for organizational action and embeddedness (Cooke and Morgan, 1998; Storper, 1997). By appropriating specific locations in physical space through greater spatial fixity of assets and investments, business organizations are able to tap into localized resources and scope economies in physical space. This spatial strategy, for example, is commonly found among large resource-seeking TNCs that locate their processing plants near sources of natural resources.

The second spatial strategy of business organizations is to increase the accessibility of different organizational units through technological innovations in transport and communications, and organizational change. The increased accessibility and mobility of organizational units allows for greater flexibility and “stretchability” of organizational space, as in the case of the emergence of American corporations during the early twentieth century (see Chandler, 1977, 1990). This flexibility in organizational space in turn allows organizational units to be increasingly dispersed in different geographical locations in physical space to tap into different scope economies (see Table II). The combined condition of greater flexibility and inclusion in organizational space and dispersion in physical space is known as the “spatial distancing” of business organizations. Through spatial distancing facilitated by greater accessibility, organizational units are increasingly distanced from each other in terms of their geographical locations, and yet they are more integrated and inclusive than ever in relation to organizational space. This strategy of spatial accessibility and distancing allows large business organizations to transform themselves from multi-domestic operations to spatially integrated networks of organizational configurations, and to exploit economies of scope in both physical and organizational spaces. A good example of this spatial strategy is the worldwide integration of subsidiaries through global mandates and the possibility of subsidiary initiatives (see Birkinshaw, 1997; Kostova and Roth, 2003). Greater spatial distancing also allows for the growth of organizational diversity and therefore possibilities for organizational learning and innovations.

Business organizations may also adopt the third spatial strategy of dominating and controlling organizational space in their competition for market shares at different geographical scales. This spatial strategy is related to the idea of territoriality in spatial competition for markets and resources. Through technological and/or cost leadership and the attainment of scale economies in physical space, business organizations can exercise greater dominance in specific product markets not necessarily organized at the national scale. With better spatial configurations and integration of different organization units, these business organizations can also attain greater scale economies in organizational space. This is related to the territorialization of organizational space in which different organizational units are increasingly coordinated and centralized by a dominant center or node, often the parent company or the worldwide headquarters. This domination and centralization facilitates the reaping

of spatial scale economies that may be highly important in the intense battle for global market shares. For instance, this spatial strategy is particularly relevant for understanding why some very large global corporations are producing only a few main products (see also Table II).

The fourth spatial strategy of the production of space is critical in a situation of diseconomies of scale and scope in both physical and organizational spaces. This happens when resources and markets in physical space are highly territorialized and saturated, and organizational space exhibits too much permanence and rigidity that stifles change and innovation. To resolve the problem of saturation in physical space, new spaces of markets and resources need to be opened up for business organizations. Sometimes, this production of new spaces is justified and achieved through specific political imperatives and policy interventions (Angel, 1994; Boddewyn and Brewer, 1994; Hillman and Hitt, 1999). Moreover, organizational revitalization is made possible through the production of new organizational space that requires dramatic changes in organizational routines of learning, knowledge, and practices (see Schulz, 2001). Through organizational restructuring, new spatial coordinates in organizational space can be identified. New centers of organizational dynamics and new spatial configurations of organizational relationships and networks will emerge. A different kind of organizational space will surface that can potentially attain better spatial economies of scale and scope. This strategy of producing new organizational space is critical to the long-term viability and survival of business organizations in a global economy characterized by intense competition across different geographical scales.

### **Conclusion**

This paper develops a relational perspective on the spatiality of business organizations and suggests several concepts for future management and organization research into organizational geography. Starting with a lacuna in existing management and organization theories addressing the international operations of transnational corporations, I show how space and geography might be better incorporated into our theorization of business organizations, particularly those spanning different regions and countries in the global marketplace. To demonstrate the significance of space in the constitution of business organizations, I introduce a new concept “organizational space” that describes the formation of spatial relations among different organizational units within and between business organizations. Taking a social constructionist view of organizations, the nature and extent of organizational space is theorized as relational because location, territoriality, and scales in organizational space are not fixed ontological entities. Instead, these spatial dimensions are socially constructed through organizational processes and structural relationships. By mapping this geography of organizational space onto existing concepts of physical space in management and organization theories, the proposed relational perspective contributes to a more nuanced and critical understanding of the complex interfaces between physical and organizational spaces.

In particular, these interfaces are grounded in the idea of spatial economies that clarifies why business organizations and researchers should be concerned with physical and organizational spaces. An examination of the scale and scope of spatial economies unfolded through organizational processes explains why and how geography/space matters in management and organization studies. These spatial

economies, however, are not just abstract concepts for discussion among theorists; they can indeed be reaped through appropriate choice of spatial strategies and configurations of organizational units. Future theoretical work may put these abstract ideas into a more concrete setting and examine how the internationalization of domestic firms to become transnational corporations can be analyzed. This work may also suggest research propositions that link the strategy, control, performance, and impact of TNC activities to differentiated exploitation of spatial economies of scale and scope.

Although the theorization of organizational space in this relational perspective remains preliminary, there are some significant implications for future organizational research and management practices. To begin, we need a critical reexamination of existing management and organization theories to take into account of how space and boundary may influence the strategy, structure, and performance of business organizations. For example, the resource-based view of the firm explains its strategic advantages in terms of access to and exploitation of certain resources. One might ask where these resources come from and how firms with different configurations of organizational space can tap into these resources. The issue of organizational boundary can also be an important research priority in organizational research. Recognizing the relational construction of organizational boundary tends to problematize conventional theories of international business firms. There are also methodological issues because we are so used to existing statistical measurements of firm boundaries based on their legal ownership (Badaracco, 1991). A relational definition of firm boundaries and their organizational space will likely pose new methodological challenges to the existing statistical approach to research methodology in management and organization studies. This critical reflexivity in organizational theories is important to the intellectual development of the discipline because it allows for a greater likelihood of new theories and concepts to be developed in order to grapple with ever-more complex realities of organizational processes and change (Ofori-Dankwa and Julian, 2001; Sullivan, 1998).

We also need more creative theorization of the dynamics of space in determining organizational processes and outcomes. Despite providing such concepts as spatial economies and spatial strategies, the relational perspective in this paper is not dynamic enough and does not address how the role of organizational space varies and interacts with other organizational variables to create certain tendencies in organizational processes. For example, will the role of organizational space change over time through technological and organizational innovations? If so, how can we theorize the causes and effects of this changing role? As the level of abstraction and theoretical complexity goes up, however, we must be prepared to forego some of our guarded management and organizational principles. A dynamic theory of organizational space has to take into account how space is simultaneously a cause and an outcome of organizational processes. Taking the example of corporate performance, one can argue that while the configuration of organizational space may influence the performance of TNCs in their internationalization, the performance outcome also shapes the capability of TNCs in organizing and commanding space because it affects the subsequent access to and exploitation of strategic resources and assets. A methodology more attuned to organizational dynamics can potentially avoid this problematic tendency towards conflating the cause and effect of configuring organizational space.

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