Title: Outsider’s Advantage in International Business

Abstract:
Research Summary: Arbitraging social biases is a valuable source of competitive advantage for multinational firms. The field of global strategy/international business has long focused on certain topics like market choice, entry mode choice, and use of nonmarket political strategies to avoid government or private-sector-partner expropriation. I argue based on my empirical research (Siegel, Pyun, and Cheon, 2013; Siegel, Kodama, and Halaburda, 2013) that there is an entirely different strategy which global multinationals can use to secure long-term competitive advantage. This entirely different strategy is based on what I call “outsider’s advantage.” The idea is to identify the nature of social bias in each host market in which one is doing business. Then the idea is to actively arbitrage that social bias by importing the informal institutions of meritocracy necessary to attract, hire, and promote talent members of the locally excluded group, be it female managers in Japan and South Korea, or members of an excluded ethnic or racial minority elsewhere. I attempt to show that outsider’s advantage is a type of competitive advantage which is both economically significant and sustainable at least in the medium term (given that countries are slow to change even their informal institutions).

Even multinational firms from home markets with social bias can arbitrage differences in social bias across markets. One of my other empirical findings is that even if a company discriminates in its home market, it may still nevertheless find it feasible and highly profitable to go against discrimination in foreign host markets. I find this especially for the case of Japanese firms. I argue that a combination of social network obligations and beliefs about the benefits of social homogeneity lead these firms to discriminate in their home market. When these firms go to a foreign host market like South Korea, they may carry their beliefs but they don’t have the burdens of their home-market social network obligations. As a result, they are only partially constrained in experimenting with social bias arbitrage. As a result, the Japanese firms are in a competitive position somewhere in between the host Korean firms that often actively discriminate and the American
firms that, in turn, act more like fully meritocratic Scandinavians when they do business in South Korea.

I then go on to ask whether my empirical results in Japan provide some explanation for why the economic theory of discrimination is severely incomplete. After all, according to the economic theory of discrimination, as pioneered by Becker, the market incentive for profit should weed out bigots quickly. Yet we do not appear to be close to this economists’ nirvana of the profit incentive eliminating social bias. I argue and present evidence showing that the economic theory of discrimination is incomplete because it fails to take fairness concerns into account. Those who hire female managers but pay them a depressed market wage (as opposed to something between a market wage and an efficiency wage) shoot themselves in the foot and hold their economies back. That is because these female managers hired at a depressed market wage do not thank the company that hired them, but instead see unfairness in being paid less than those males with observably identical qualifications. This then leads to less engagement, and it likely is responsible for the hundreds of thousands of Japanese women frozen out or exiting the managerial labor market in Japan.