

# Theofanis Tsoulouhas

## *Presentation Title*

### **Business Commonality, Standardization and Product Cycles**

#### *Abstract*

So far product cycles consisting of an inhouse and an offshoring stage have been attributed to flexibility in adjusting inputs or making product improvements initially, to market power, to endogenous innovation and technology transfer through imitation and, more recently, to incomplete contracts and contract enforcement. This paper shows that tension between business commonality and standardization is an alternative important source of product cycles. By introducing production with a continuum of tasks subject to common stochastic effects, the paper addresses the question of whether business commonality and standardization work in tandem or against each other in a general framework, when fragmentation of production is or is not possible due to contractual incompleteness or technology features. Unlike current literature, the analysis shows that a product cycle can be obtained even with complete contracts, through the importance of retaining manufacturing within the firm, in order to enhance and exploit commonality in the early stages of production and reduce the cost of providing incentives, while standardization later on can favor offshoring.

#### *Keywords*

Product cycle; globalization; offshoring; complete and incomplete contracts; tournaments; management

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