The changing global context of international business

Peter J. Buckley

The Changing Global of International Business

Peter J. Buckley

palgrave
macmillan

First published 2003 by
PALGRAVE MACMILLAN
Houndmills, Basingstoke, Hampshire RG21 6XS and
175 Fifth Avenue, New York, N.Y. 10010
Companies and representatives throughout the world

PALGRAVE MACMILLAN is the global academic imprint of the Palgrave Macmillan division of St. Martin's Press, LLC and of Palgrave Macmillan Ltd. Macmillan® is a registered trademark in the United States, United Kingdom and other countries. Palgrave is a registered trademark in the European Union and other countries.

ISBN 0–333–99444–2

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data
Buckley, Peter J., 1949–
The changing global context of international business / Peter J. Buckley.
p. cm.
A collection of articles co-authored by Buckley and collaborators between 1997–2001.
Includes bibliographical references and index.
ISBN 0–333–99444–2 (cloth)
1. International business enterprises. 2. International business enterprises—Management. 3. Joint ventures. 4. Knowledge management. 5. International economic integration. I. Title
HD2755.5 .B818 2002
338.8'8—dc21

2002072508

10 9 8 7 6 5 4 3 2 1
12 11 10 09 08 07 06 05 04 03

Printed and bound in Great Britain by
Antony Rowe Ltd, Chippenham and Eastbourne

For Bob Pearce

Foreword

Since the publication in 1976 of *The Future of the Multinational Enterprise*, co-authored with Mark Casson, Peter Buckley has continued to write on different aspects of international business. The present volume, *The Changing Global Context of International Business*, contains a series of papers written by Peter Buckley and several colleagues during the years 1997–2001.

The domain of international business is not clearly defined, though it can be viewed as dealing with cross-border interactions between different organizations, with interactions between different units belonging to a single enterprise, between independent enterprises and between enterprises and the environments in which they operate.

The distinction between international and domestic business is manifested by several factors, most of which are related in some sense to distance. Geographic distance, economic distance, cultural distance and political distance constitute factors that affect cross-border interactions. Distance gives rise to distance premiums which, when applied to cross-border transactions, constitute trade and investment barriers. To overcome these barriers, firms engaged in international business have devised operating modes, institutional structures, control mechanisms and other business techniques different, more complex and more challenging from those commonly employed in domestic business practices. Bearing in mind the growing importance of international business in the world economy, and the increasing complexity of managing international interactions, it is not surprising that international business has attracted the attention of a growing number of scholars from different disciplines, ranging from economics, through political science, sociology, law and philosophy.

Technological developments especially in transportation, communication and information processing have dramatically lowered the international trade and investment barriers discussed above. Barriers have been further lowered by the adoption of pro-trade and pro-investment policies by governments. A growing number of first, second and even third world governments have relaxed trade and investment retarding policies such as state trading, high tariffs and strict control of both incoming and outgoing foreign direct investment and have adopted liberalization, deregulation and other pro-market policies. These trends have been instrumental in promoting the phenomenon of 'globalization' – the growing integration of the world economy – manifested by a dramatic increase in world trade and investment, accompanied by the growing economic power and prominence of large multinational enterprises (MNEs), mostly from the USA. These developments constitute the changing global context of international business which the present book addresses.

The opening essay, 'The Moral Basis of Global Capitalism', co-authored with Mark Casson, sets the tone of the book. Following John Dunning, the authors argue that the survival of global capitalism cannot be taken for granted. Survival depends on global capitalism's ability to cope with a number of difficult problems, created in part and certainly exacerbated by its tremendous achievements. The list includes the skewed distribution of economic development and income, the deterioration of the environment and the decline of non-renewable natural resources.

While acknowledging the achievements of globalization, Buckley and Casson offer a scathing criticism of its shortcomings, which they ascribe to western commercial culture. In their view, 'Western commercial culture is like a "public bad" – a low-trust culture, based on selfish manipulation – gained credibility from the enormous strength of western technology, to which it appeared to be linked'. They point to a philosophical difficulty associated with the attempt to understand globalization and possibly overcome its shortcomings – the assumption that firms' actions, impelled by the profit motive, can be counted on, through the mechanism of Adam Smith's 'hidden hand', to bring about socially desirable outcomes.

Many of the shortcomings of globalization can be attributed to the simple fact that the hidden hand's assumptions concerning the functioning of markets simply do not hold in the globalized world economy, which is characterized by a series of systemic market failures. These failures are not random, they are endemic to systems characterized by 'ownership advantage', i.e. firm-specific assets, which constitute the *raison d'être* of MNEs. Moreover, the dark side of 'ownership advantage', when unconstrained by Adam Smith's 'hidden hand', is also manifested by the ability of MNEs to manipulate consumer tastes and by the inadequate bargaining power of their host governments, which are unable to impose on them rules and regulations consistent with public interest.

Buckley and Casson suggest that the major achievements of globalization might be preserved provided the MNEs adopt a code of behaviour based on ethical values. In their words, 'Modern social science presents a misleading view of human nature which overlooks the crucial significance of self-control. The only antidote is better social science based on development and refinement of ideas about human nature found in traditional religions rather than attempting to replace them with some radically different secular alternatives' (p. 36).

In my view, the phenomenon of globalization suffers from another structural problem, vividly illustrated in the 2002 Johannesburg summit on sustainable development. I am referring to the phenomenon that the late Raymond Vernon referred to as 'sovereignty at bay'. Global business transactions are carried out, as we have seen, mostly by multinational enterprises operating in a world divided into national states, claiming sovereignty over all economic activities taking place within their boundaries. However, while sovereignty does not extend beyond the national borders, MNEs are able to shift resources globally, thus escaping some of the controls national governments seek to impose on them. Governments apparently value sovereignty over all other considerations. Consequently they have failed to agree on the establishment of worldwide institutions endowed with credible authority to monitor and regulate global business transactions conducted by global enterprises. Here lies the primary responsibility for the failings of globalization so convincingly analysed in the essay.

In the essay entitled 'Corporations and Structural Change in the World Economy', which further explores the globalization phenomenon, Buckley distinguishes between three types of market integration: Financial markets, trade and investment markets and labour markets. Financial markets are globally integrated, trade and investment are more and more regionally integrated, while labour markets remain largely subject to national regulation. Since business activities require access to all three markets there are predictable inefficiencies and market failures whose existence favours certain types of enterprises over others. MNEs, for example, benefit due to their ability to locate different activities in the 'best' locations, i.e. those enjoying 'ownership advantage', and to transfer resources efficiently between different locations. Consequently, if more governments were ready to submit to the disciplines of integrated markets, MNEs would lose some of the advantages they enjoy because of their superior ability to exploit market imperfections.

Regional groupings, ranging from loosely organized free trade areas (NAFTA) through all-embracing economic unions (EU) undoubtedly provide a limited answer to the challenge of the MNEs to the sovereignty of both home and host governments. Regional groupings also pose structural and locational challenges to firms located both inside and outside the region. It is therefore understandable that the book contains several essays concerned with regional integration. Traditional integration theory explores the effects of integration on the economies of the participating countries, on the changing relationships between different insiders and between insiders and outsiders. Here the focus rightly shifts to the firms, the economic agents which transform the abstract notions of trade creation and trade diversion into real cross-border trade and investment flows, accompanied by a whole range of business activities undertaken in response to changing environmental conditions.

Individual countries have additional motives when they engage in international groupings. They seek to promote or maintain their share of world investment, employment income and growth. Regional economic integration is a way of increasing the preference of MNEs for local production by discriminating against outsiders. Outsider and insider firms are encouraged to locate activities within the integrated area. By eliminating borders and other barriers to cross-border transactions, regional integration is a substitute for country size. Moreover, regional integration encourages firms to increase their own size, by exploiting economics of scale, of scope and of learning, and by engaging in firm-specific asset creation, which has been increasingly recognized as the major source of competitive advantage.

The section on regional integration offers a number of predictions regarding the future effects of regional integration international business: an increase in the share of mergers and acquisitions over greenfield investments, increased volatility in labour-seeking investment, increasing importance of generalized managerial skills relative to technological skills, increasing importance of globally integrated MNE groups, and an increase in the competition between national territories for incoming foreign direct investment.

Two papers explore international joint ventures. This operating mode, though observed in domestic business situations as well, is certainly more common, more pronounced and generally more interesting, when considered in the context international business. It is a mechanism employed to reduce risk, to overcome deficiencies in resources, to gain time, and to neutralize strategic moves of competitors.

International joint ventures are, however, notoriously unstable. They find it increasingly difficult to overcome the built-in conflicts between parent companies, embodying different managerial cultures, different expectations, different views of risks and opportunities, and different interests concerning the goals and operating modes of the organization they jointly own. While some of these conflicts can be foreseen, others cannot. They evolve over time, as the relative bargaining power of the parents changes as a consequence of unforeseen developments. Consequently a very high proportion of international joint ventures, and other forms of coalitions, are either dissolved, or taken over by one party. Much more research must be done on international coalitions in general and joint ventures in particular before we can claim to understand this phenomenon and derive meaningful conclusions about their relative merits as instruments for acquiring needed resources, handling risks and undertaking strategic moves in the global marketplace.

The final section of the book consists of two papers which address issues of cross-border knowledge management. The authors appear to be fully aware of the fact that the relatively new discipline of knowledge management has yet to be formulated in a manner which will facilitate incorporation of its relevant parts into the theory and practice of international business. The challenges posed by the knowledge revolution requires the transformation of the enormous quantities of data made available by the new transmission and processing technologies into manageable, systematic and useful decision tools. To achieve these ends, it is necessary to devise organizational mechanisms which will facilitate efficient communication between different parts of the organization and co-ordination between them for the purpose of ensuring consistency with the firm's overall goals.

Following Casson, the firm is viewed as a 'specialized intermediator, created by an entrepreneur, to synthesize information routinely about different sources of volatility'. Three such sources are identified. Primary uncertainty arises from exogenous shocks such as random acts of nature, unpredictable changes in consumer preferences and technological changes. Secondary uncertainty is represented by the risk that individual managers will not combine their knowledge with their colleagues in an optimum fashion. Tertiary uncertainty arises from opportunism – the risk that managers will fail to utilize the knowledge they have acquired in the best interests of the firm.

Chapter 13 suggests that 'knowledge management' is about coping with the secondary uncertainty identified by Casson, namely the problem of aligning the knowledge possessed by different managers in a manner which will best serve the interests of the organization. A superior knowledge management system is characterized by a mechanism for gathering data, processing the data first into information and then into meaningful business knowledge, efficiently transmitted between different parts of the organization so as to facilitate its timely exploitation.

The concluding paper consists of two case studies describing in some detail the strategies employed by two UK-based firms to achieve a sustainable competitive advantage by imaginatively using their firm-specific knowledge management systems. The authors should be commended for using the seemingly old-fashioned tool of a case study. I cannot think of any other research tool which could demonstrate more convincingly the advantages which can be gained by the imaginative employment of this potentially powerful, super modern but imprecisely defined, and as yet imperfectly understood management tool, provisionally labelled 'knowledge management'.

SEEV HIRSCH
Recanati Business School
Tel Aviv University
Israel

Acknowledgements

As always, I would like to thank my co-authors (ten are represented in this volume) and Leeds University Business School for providing a stimulating research environment.

The authors and publishers are grateful for permission to reproduce copyright material as follows:

Chapter 2 first appeared in *International Journal of the Economics of Business*, vol. 8, no. 2, July 2001, pp. 303–27. Chapter 3: *Structural Change and Cooperation in the Global Economy*, Cheltenham, Edward Elgar, 1999, pp. 39–55. Chapter 4: *Management International Review*, vol. 39, no. 1 (Special Issue) 1999, pp. 45–53. Chapter 5: *The Globalization of Multinational Enterprise Activity and Economic Development*, London, Macmillan, 2000, pp. 155–79. Chapter 6: *International Management*, Wiesbaden, Gabler Verlag, 1999, pp. 118–37. Chapter 7: *WSI Mitteilungen*, vol. 53, no. 6, April 2000, pp. 213–27. Chapter 8: *International Business Review*, vol. 7, no. 5, October 1998, pp. 503–20. Chapter 9: *Canadian Journal of Regional Science*, vol. XXI, no. 2, Summer 1998, pp. 255–75. Chapter 10: *Management International Review*, vol. 41, no. 3, 2001, pp. 251–74. Chapter 11: *British Journal of Management*, vol. 8, no. 3, September 1997, pp. 199–222. Chapter 12: *Management International Review*, vol. 39, no. 2, 1999, pp. 123–47. Chapter 13: *International Studies of Management and Organization*, vol. 28, no. 1, Spring 1999, pp. 80–104. Chapter 14: *Long Range Planning*, vol. 33, no. 1, February 2000, pp. 55–71

I would also like to thank Mrs Janet Wood, who, as secretary of CIBUL, has held everything together as research proceeds chaotically around her well-organized office.

This volume is dedicated to Bob Pearce, long-term friend and collaborator, with whom I shared an office at the University of Reading, 1973–4.

Leeds PETER J. BUCKLEY

Notes on the Contributors

Martin J. Carter is Lecturer in Economics, Leeds University Business School.

Mark Casson is Professor of Economics, University of Reading.

Jeremy Clegg is Jean Monnet Senior Lecturer in European Integration and International Business Management, Leeds University Business School, Centre for International Business, University of Leeds (CIBUL).

Adam R. Cross is Senior Lecturer in International Business, Leeds University Business School, Centre for International Business, University of Leeds (CIBUL).

Ronald W. Edwards is Associate Professor, Department of Management, Monash University, Victoria, Australia.

Nicolas Forsans is Lecturer in Strategic Management, Leeds University Business School and Centre for International Business, University of Leeds (CIBUL).

Keith W. Glaister is Professor of International Strategic Management, Leeds University Business School, Centre for International Business, University of Leeds (CIBUL).

Kevin T. Reilly is Lecturer in Economics, Leeds University Business School.

Heinz Tüselmann is Senior Lecturer, International Business Unit, Marchester Metropolitan University.

Stephen Young is Professor of Marketing at the University of Strathclyde, Glasgow.

Contents

List of Tables

List of Figures