3
Corporations and Structural Change in the World Economy*

Introduction

The major agents of change in the world economy are corporations. Firms do not act in a vacuum and the context – set by the government, consumers, suppliers, the level of extant technology and the culture of the countries in which the firms operate – plays a key part in determining the outcome of the changes they initiate. Further, firms are reactive as well as proactive. They react to the context and to other firms. This chapter examines current controversies in comparative economic structure, including the nature of competitiveness, the nature of the 'Asian miracle', the public/private sector divide, the role of trade blocs and the notion of the competition of cultures. These issues are presented as 'new stylized facts' which need to be explained by successful models of multinational enterprises (MNEs) (Buckley and Casson 1976, 1985). Finally, extant models of multinationals are discussed and extended by questioning traditional notions of ownership, exchange, competition and information.

The foregoing discussion enables us to examine the stylized facts listed below as key issues in the changing global economic structure and to subject them to a process which leads from (i) overall trends to (ii) specific market changes and (iii) an analysis of the competences which firms need to meet the challenges of these changes. This will lead to (iv) changes in the optimal boundaries of firms, and finally to (v) changes in the internal organization of firms.

Comparative economic structure

What has changed in the world economy since the 1980s? What are the new stylized facts that need to be explained by models of multinational

enterprise? A number of key stylized facts are presented here in order to confront the challenges to the theory of the multinational enterprise as we enter the twenty-first century.

The key updated stylized facts may be broken into empirical and conceptual issues: four empirical issues and four conceptual issues demand attention.

Empirical issues:

(i) The rise (and relative recent decline) of Southeast Asian economies;
(ii) The lack of development in the poorest countries;
(iii) The change in the balance between private and public sectors, with the former in the ascendant; and
(iv) The dominance of trade blocs in the world economy: the integration of markets internationally and the trend towards 'globalization'.

Conceptual issues:

(i) The conceptualization of competitiveness (is this a phenomenon that can be described meaningfully at the aggregate (national) level?);
(ii) The integration of culture into (economic) models;
(iii) Welfare; and
(iv) Ownership as a signalling process.

Empirical issues

The rise of Southeast Asian economies

International business theory has a tradition of responding to (incorporating) 'stylized facts'. The most profound incorporation is the response to the rise of Japan, whose distinct culture and non-Judeo-Christian tradition meant that simplistic theories of the dominance of 'the West' had to be rejected. This development led to the refutation of models of the world economy which posited 'the West' as a singular exemplar of development and the rest of the world as 'other'. A critical outgrowth of this recognition was much soul-searching that led to an outpouring of concern over 'competitiveness' – a relative term, since there was now something to be relative to! In addition, it led to the search for differences between 'successful' Western economies – bank-based versus market-based financial systems, unitary versus federal states are examples.

The rise of Southeast Asia (generally considered as a conceptual term covering Hong Kong, Taiwan, Korea and Singapore (the four little tigers or dragons) and recently including a second wave – Malaysia, Thailand,

Indonesia, to be followed by Vietnam and the huge somnolent dragon, China) has caused further intellectual frissons.

The revisionist view of Krugman (1996) is essentially that this was an accident waiting to happen. His view is that this involved a transfer of labour from the traditional (agricultural) sector to the modern (industrial) sector but that, crucially, total factor productivity in the modern sector has not improved.

For international business scholars, the rise of these new competitors raises interesting new issues concerning the international transfer of technology and changing competitive strategies. Many firms in East and Southeast Asia have achieved the transfer of technology from advanced countries without the necessity of accepting foreign direct investment (FDI). Indeed, they have found ways of circumventing the need to pay market prices for proprietary technology. One method has been to initiate best practice by hiring consultants from 'the West' to send their best human capital abroad for training. Thus a transfer of technology has been achieved without inward investment. Methods such as sending key personnel to be trained in Western universities circumvents proprietary control of technology. Emerging country competitors have found institutions which underprice technology and have created mechanisms to transfer this technology relatively costlessly, to their own emergent multinational firms. Advanced countries' established multi-nationals are now faced with a problem of non-appropriability of technology and management skills. This is a far broader issue than the classic 'foreign direct investment versus licensing' issue, and it places the knowledge transfer and appropriability issues right back at the heart of international business theorizing.

A second new competitive challenge lies in the new competitors' use of labour and the spin this gives to 'flexibility of labour' as a key competitive weapon. Typically, in the West, flexibility of labour implies deregulation of the labour market, removing minimum wage standards, reducing unionization and other barriers to labour mobility. This concept is challenged by the Asian company's use of flexible labour *within* the firm, rather than between firms. This intra-firm flexibility – moving workers around jobs within a firm rather than between firms – allows the building of loyalty to the firm and greater internalization of labour efficiencies.

The lack of development in the poorest countries

The least developed countries in the world (LTDCs) are not catching up with the newly industrializing economies (NIEs) and, indeed, are slipping

both relative to the rest of the world and in many cases, absolutely. The LTDCs do not attract FDI in any quantity. FDI is very skewed, first towards advanced economies and then towards a small minority of less-developed countries, with a particular current bias to China.

The motives for FDI reveal why this is so. FDI is targeted on: (i) markets (preferably large and rapidly growing); (ii) key inputs, notably scarce natural resources; and (iii) plentiful cheap labour. Although motive (iii) would seem to favour LTDCs, it does not do so because these typically lack the key complementary inputs – a good (transport) infrastructure, political stability, good educational standards and a culture of hard work and compliance with multinational firms' standards. Countries which are resource poor, small in GDP terms and landlocked are particularly disfavoured.

The change in the balance between public and private sectors

Transfer of assets from the public to the private sector has become a widespread panacea for governments seeking to increase efficiency and growth. However, this policy of privatization has only been tractable where well-established property rights exist. Frydman and Rapacynski (1993: 13) suggest that the meaning of privatization in East Europe 'has turned out to be complex and ambiguous. Instead of the clarification of property of a capitalist society, the privatization process has, so far, led to a maze of complicated economic and legal relations that may even impede a speedy transition to a system in which the rights of capital are clearly delineated and protected'. This is quoted by Williamson (1996: 324), who points out that getting property rights correct is too narrow a conception of institutional economics.

The privatization of whole swathes of previously publicly-owned assets has set in train the creation of a set of emerging multinationals in telecommunications, railways, utilities (water, electricity distribution, power generation, refuse collection and so on). Some will argue that new principles are required to explain these 'new (new) multinationals', but the analysis below shows that this is unnecessary.

The dominance of trade blocs in the world economy

The success of the European Union (EU) in achieving greater European integration, the deepening and extension of the North American Free Trade Agreement (NAFTA) and the rise of free trade areas such as MERCOSUR, point towards an accelerating trend in world trade – the growth of trade blocs. These trade blocs are also investment and technology blocs, encouraging closer ties between member economies.

The concept of globalization has become devalued by the ascendancy of use over meaning. Perhaps we should return to markets to give meaning. Broadly, if we envisage three levels of markets – financial markets, markets in goods and services, and labour markets – we can envisage each of these moving at differential speeds towards global integration.

Financial markets are already very closely integrated internationally, so much so that no individual 'national market' can have an independent existence. Goods and services markets are integrated at the regional level, and this co-ordination is largely policy-driven through institutions such as the EU, NAFTA, ASEAN and so on. Labour markets, however, are functionally separate at the national level and here integration is largely resisted by national governments (the UK's opt-out of the EU Social Chapter to 1997, examples from NAFTA).

The beneficiaries of this differential speed of integration are multinational firms. They can raise capital at the lowest possible cost, reap economies of scale in regional goods and services markets, and segment labour markets by choosing least-cost inputs for different spatially separate activities (Buckley, 1997).

It is somewhat ironic that issues of economic geography have not been to the fore in international business theorizing. Perhaps this is because of the difficulty of modelling in this area (Krugman, 1995) or an unfortunate by-product of the academic division of labour. However, spatial issues should not be underrated in constructing more satisfactory and comprehensive approaches to international business theory.

The key to progress is to elide from geography to the spatial division of labour. Geographical barriers (mountains, deserts, large land masses with no sea coast) represent difficulties of transportation (which vary with historical time because of technological innovations in transportation) that inhibit trade and the emergence of specialization and co-operation in effecting a division of labour. The political division of economic space into nations results in countries having an internal division of labour which differs from that prevailing externally. Primarily, this difference is mediated through trade and so the existence of an entrepôt becomes a crucial factor in stimulating exchange and development (Buckley and Casson, 1991).

In the modern world economy, this entrepôt function is provided by the MNE. In this sense, the MNE compresses space by its organization – the mountain comes to Mahomet. The internal and external divisions of labour meet at the boundary of the multinational firm. The spatial boundaries of the state are crucial in international trade, but in a world

economy dominated by MNEs, this boundary becomes much less important. The borderless world (Ohmae, 1990) results from exchange across the different divisions of labour, becoming spatially internal to every national member of the global economy. Mediation of different divisions of labour is no longer trade through an entrepôt but through the mediation of the different resulting price signals by the managers of multinational firms. This gives rise to issues such as the 'Who is us?' issue posed by Reich (1990). Is 'us' British firms wherever they are located, or all firms in Britain whoever the ultimate owners are? On this issue hangs much of modern economic policy.

Perhaps the permeable boundaries of multinational firms have relegated the importance of geography, as have technological developments in telephony which make the management of spatially diverse entities, such as the multinational firm, so much more efficient. If so, this puts much more emphasis on the co-ordination problem. The importance of the multinational firm arises from the fact that it is a system for integrating and co-ordinating intermediate product flows arising from activities concentrated at different locations. It is in this sense that the multinational firm represents a real challenge to the nation state, which attempts to co-ordinate activities within a given spatial area defined by politically and historically determined national boundaries (now completely permeable to intermediate product flows of information by telegraphic communications).

Conceptual issues

The conceptualization of competitiveness

Competitiveness (or 'international competitiveness') is an elusive concept which has generated controversy among commentators on international business. Obviously, competitiveness is difficult to measure, for numerous practical reasons, which make quantification problematic, including the measurement of quality, taking into account changing exchange rates, purchasing power parity deviations and differences in ends as well as means. There are two important issues in clarifying these problems: one is the essential comparative component of competitiveness, the other is the multifaceted and dynamic nature of the concept (Buckley *et al.,* 1988).

There are essentially three methods of assessing competitiveness – by reference to the past (the historical comparator); to another area of economic space (spatial comparisons); and by reference to a counterfactual position (what would have happened if some crucial event had not

occurred or some crucial decision not been taken). Competitiveness has to be measured against some other state of the world – over time, across space or against a well-defined 'straw man'. The critics of the way that competitiveness is presented in more 'popular' versions (Thurow, 1992), such as Krugman (1996), object largely to the concept being applied to countries (or aggregations larger than the single firm) – 'firms compete, not countries'. Krugman's attack is well grounded. It points to the essentially benevolent outcome of free trade based on comparative advantage and the welfare-enhancing nature of specialization and trade – going back in the tradition of David Ricardo.

This is, however, to take a narrow view of the situation. The international business literature, here as elsewhere, scores in terms of its wider remit. Countries do, in fact, compete in that they provide public goods on which firms located so as to take advantage of this provision can draw. This might be location-specific (subsidies to R&D in their territory, for example) or might provide a base for launching an attack on the world market (education and training for managers). The difficulty for governments is to create public goods for 'our' firms, but to prevent leakage of these benefits to 'their' firms. The creation of such 'selective' public goods not available to outsiders is a major dilemma – as is the decision as to which firms are 'our' firms (Reich, 1990). The creation of the oxymoron 'selective public goods' emphasizes this problem and is the essence of the analytic difficulties on which Thurow and others have seized imperfectly.

Perhaps this issue is best dealt with by distinguishing between transferable and non-transferable assets. If firms located in a given territory are highly competitive in ways that do not depend on cheap labour, then they are drawing on intangible assets. Competition based on assets that are not transferable from the 'home' territory will predispose the firm to move towards integrating forward into distribution or backward into long-term contracts for raw materials and key inputs to maintain the home base. Examples of the latter include Japanese backward integration into raw materials and colonization in Africa. Thus these non-transferable resources in the home country lead to an export base in the home country that needs complementary resources. This leads to an 'export platform' type of development with integration both backwards and forwards, maintaining control of a vertically integrated global structure. Contrast this situation with firms reliant on transferable resources. Such firms can substitute FDI for exporting from the home base by the transfer of technology or expertise to a cheaper labour country, leaving the home base with a vertically disintegrated economy,

Table 3.1 Comparative measures of competitiveness

	Firm	**Nation**
Historical comparisons	1. ✓	2. ✓
Spatial comparisons	3. Inter-regional and international comparisons	4. Problems of international comparability. 'Firms compete, not nations'
Counterfactual comparisons	5. Conceptually possible, but difficult	6. Possible, but very difficult at the aggregate level

subject to the vagaries of shifting, footloose FDI, and dependent upon depressing wages to attract new inward FDI and keep existing firms from exiting. Thus competitiveness of nations is an issue – and one that existing international business (IB) theory can illuminate.

These points are well taken. However, as Table 3.1 shows, there is an aggregation problem when we move to Cell 4, where it is difficult to compare nations spatially. It is possible to track the competitiveness of a nation over time (Cell 2), leading to notions of a 'loss of competitiveness' but there are myriad problems in comparing, say, Japan with Germany, at a given point of time. Similarly, the counterfactual comparison is difficult within a firm (what would have happened if you had not invested in a new plant?), but the order of magnitude increases dramatically when we examine counterfactuals for a whole nation (what would have happened if you had not increased the education budget?).

The second difficulty concerns the wide-ranging nature of competitiveness – it is clearly more than simply performance; it must contain the idea of sustainability. After all, the easiest way to gain world market share is to give your product away! Thus some measure of future potential (investment) must be incorporated. Given that there are trade-offs between performance (consumption) and potential (investment), the concept must include some element of choice of ends (objectives) and not just means. Because there has to be a balancing of ends and means, management becomes important.

Competitiveness thus requires a blend of hard data and more judgemental inputs, which makes modelling difficult.

The integration of culture into models

If the above section is correct, it provides a crucial insight into the current preoccupation with culture in international business. This is

because a shared culture, through its role in reducing transaction costs, can determine the relative efficiency of alternative types of organization – firm and nation are two such examples. The injunction 'render unto Caesar what is Caesar's', may be opposed by 'render unto Toyota what is Toyota's'. In the case of cultural affiliation, the balance may have shifted, and be shifting to the firm rather than the political entity.

There can be no gainsaying the fact that culture is not amenable to simple modelling. Its holistic nature demands attention, as do the awkward attempts to 'draw lines' from a box with 'culture' written on it to a box with 'economy' or 'firm' written on it! Buckley and Casson (1991) attempted to examine 'scientific outlook and systems thinking' and 'competitive individualism versus voluntary association' as key determinants of development, and to link them to geographical aspects of a trading system. The key links here are the development of a sustainable specialization through a division of labour, and falling transaction costs through repeated interactions and shared cultural values (see also Fukuyama, 1996).

Welfare

Economic models permit judgements about efficiency to be made. The efficiency calculus is generally based on maximizing consumer welfare using market-determined prices to value individual satisfaction. This measure of efficiency has become a moral imperative for economists who have stood accused of regarding individualist hedonism as the only criteria for judging human society (Buckley and Chapman, 1996). However, the core assumption of economics – that people optimize – leaves open what enters into their objective function. Since people cannot optimize meaningfully unless they can rank alternatives in order of preference, it is assumed that optimization is with respect to a well-behaved objective function. It may simply be consumption goods; alternatively, it may not be selfish materialistic wants. The utility function can represent altruistic feelings and emotional needs (Buckley and Casson, 1993).

Another feature of the welfare function is that it is usually specified where everything in it is controlled by the individual concerned. There is no interdependence, such that one person cares about something that another person decides: there are no vicarious components. Selfishness is thus a convenient assumption for economic modellers, because it is feared that the additional complications of altruism would undermine the theory's predictive power. However, the inclusion of preference interdependence is often a straightforward means of modelling issues

such as morale and motivation (Buckley and Casson, 1993). This has strong links to informational issues in welfare (Casson, 1997; Buckley and Carter, 1996).

Ownership as a signalling process

In models of multinational enterprises, ownership has been conceived largely as a management governance mechanism. Where transactions cost configurations so dictate, hierarchy (ownership) will be preferred to market transacting. The transfer of ownership to foreign countries creates multinationals.

Ownership may be conceived of in an entirely different, but complementary, fashion. The ownership of an enterprise may be seen as a signalling mechanism, drawing on characteristics associated with the parent firm, and often therefore on characteristics associated with the country of origin of the parent firm. Thus, when the Rover car company of the UK was taken over by BMW of Germany, Rover took on the characteristics of style, efficiency and engineering quality of its new parent by osmosis. Similarly, the establishment of a greenfield plant by Toyota conveys to the new (potential) workers, investors and consumers the kudos of quality and reliability of product, and the view that it will be managed in a Japanese style (concerned, democratic, and using modern techniques of personnel management). To some extent, these are myths. Ownership signals, like any other asset, though, require investment. It is incumbent upon MNEs to instil precisely those qualities which ownership signals presage.

In this respect, ownership is akin to branding, patenting and image making. It confers a premium upon paper issued by a firm that possesses it – thus a higher price will be paid for the same income stream issuing from Rover when it is owned by BMW. This is a microeconomic version of Aliber's multiple currency theory of FDI (Aliber, 1970, 1971). In this crude version, it relies on investor myopia, because, of course, rational investors would see that the firm retains the same income stream. Some degree of consistent improvement of performance, and more importantly the expectation of this continuing into the future, must underpin this belief for it to be a sustainable hypothesis.

We can take this further by relating the reputation for maintaining and increasing value to the issue of who takes over whom. A reputation of this kind creates 'blue chip' status for a company which can be leveraged to ensure that the financial markets back firms with such a reputation against those without one. We can build this into a theory of acquisition and account for the stylized fact of the growing importance

of mergers and acquisitions as a means of foreign market entry and development by examining the nuances of 'the way assets are managed' as a reputation capable of being leveraged. Such a reputation reflects the broad-based perception of a firm's management. This is subtly different from the value of goodwill, physical assets, brands and patents, because we are now putting value on the managerial system for extracting values from given assets. The quality of the system of internal co-ordination and entrepreneurship is more difficult to value than the assets enumerated above.

Models of Multinational Enterprises

The modelling process

As signalled above, this chapter illustrates the process by which we can move from the analysis of general trends to specific propositions (see also Buckley, 1988).

Several major trends were identified in the section on comparative economic structure above. These trends (the rise of East Asia, lack of development in the poorest economies, privatization, and trade blocs) have induced specific market changes. These changes include: new competitors in mass production and high technology sectors from countries such as Korea and Malaysia; the failure of import-substituting investments, for example in Africa; new competitors and competitive structures in newly privatized industries; and, combined with the driving down of transport costs (through containerization and so on) the result is the possibility of new competitive strategies such as just-in-time production internationally.

The specific market changes require new competences from companies facing these challenges. In general, the competences required are of the more general entrepreneurial type than the previous generation of technological skills required for efficient mass market production. In final product markets, more competition is experienced. In intermediate product markets, the transport cost revolution makes dispersed activities more feasible, and in labour markets the adoption of policies of deregulation means that more aggressive management policies can introduce increasing flexibility to labour management. In capital markets, the mushrooming of stock markets means that the increasing threat of hostile acquisition puts more pressure on company managements to perform above the norm.

These specific market changes affect the boundaries of the firm and have an impact on the internal organization of the firm.

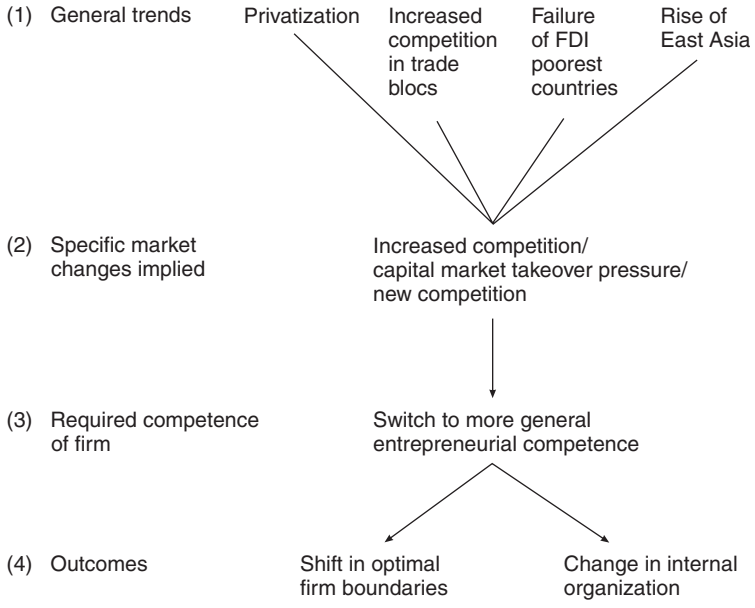

Figure 3.1 Modelling trends in the international economy

Figure 3.1 shows that the *principles* of the analysis are timeless, but that the context differs and so does the empirical outcome of the given trends. The process can be traced through a variety of potential scenarios, given well-established stylized facts. New theories are not required, but the intelligent application of well-established models and frameworks are necessary.

The choice of contractual arrangements

The forces outlined in Figure 3.1 can be expected to have a major impact on the current and future institutional arrangements in the international economy. This chapter suggests that international business theory leads to several predictions of changes in the global economy. These will include a greater share of international business activity being focused on mergers and acquisitions; increasing volatility of foreign direct investment based on cheap labour seeking; differential success of firms, and firms of given nationality; creating value from a reputation for managing assets; leveraging of generalized skills to create powerful globally integrated groups; and competition of national territories to create non-transferable asset bases.

This will lead to the configuration of the world economy as depicted in Figures 3.2 and 3.3. Quadrant 1 of Figure 3.2 represents the situation where the country of location is competing on labour costs (or labour flexibility in the external market sense), interacting with firms which have asset skills (physical assets, patents, brands). This leads to a vertically disintegrated structure with a volatile 'home' economy where the firms' transferable skills can combine with cheap labour at home or elsewhere. Quadrant 2, similarly, has a country of location competing on low-cost labour but this time interacting with firms which have appropriable generalized management skills. This leads to a mix of outward FDI seeking locationally fixed public assets, together with a fluctuating flow of cost-seeking inward investment. Quadrant 3, which combines locationally fixed public goods with firms with asset skills, will represent prime targets for inward takeovers of indigenous firms. Quadrant 4 represents the powerful home base of a vertically integrated structure, both forwards and backwards.

Asset ownership by firms

		Conventional assets	Appropriable skills
Country of location	Labour costs	1. Vertical disintegration volatile home economy	2. Mixed outward FDI and inward labour cost-seeking FDI
Competitive base	Public assets	3. Inward investment – home firms as take-over targets	4. International vertically integrated structure with powerful home base

Figure 3.2 Interactions between country of location and the ownership of assets by firms

Asset ownership

		Conventional assets	Appropriable skills
Country of location	Labour costs	Less developed countries of Africa, Asia and Latin America in low-tech industries	UK industry 'old European industries'
Competitive base	Public assets	British car industry	Japanese export platform and *keiretsu* companies

Figure 3.3 Examples of interaction between country of location and the ownership of assets by firms

Figure 3.4 examines the implications of the changes identified by plotting their effect on the change of contractual arrangements made by multinational firms. East Asian and other 'new' multinationals favour non-contractual means of acquiring assets and knowledge, and have a penchant for joint ventures with foreign-owned multinationals. In their outward involvements, they favour greenfield ventures, often on a wholly-owned basis, but also using joint ventures. They are insufficiently integrated, so far, into the world capital market and are culturally unfamiliar with take-overs, so that the acquisition mode favoured by Western multinationals does not appeal to them. The newly privatized companies have had recourse to inward licensing and joint ventures in order to acquire skills and technology previously unavailable to them (or of which they previously had little need, such as generalized marketing skills). They have also come under the acquisition spotlight, as foreign predators see them as ripe targets because of their undervalued assets and unreleased potential. In their outward activities, they have favoured licensing and joint ventures to access capabilities they do not possess, but some have sought complementary packaged assets by acquisition.

Finally, the development of trade blocs has facilitated and been facilitated by joint ventures and acquisitions between multinational firms.

Thus we can observe a different emerging configuration of modes of doing international business (compare Buckley, 1981). Non-contractual modes are increasing in importance as (covert) means of technology

	Rise of new economies		Privatization		Trade blocs
	Inward	Outward	Inward	Outward	
Non-contractual modes					
Imitation	✓				
Educational transfers	✓				
Piracy/counterfeiting	✓				
Contractual modes					
'Licensing'			✓	✓	
Control modes – FDI					
Joint ventures	✓	✓	✓	✓	✓
Greenfield ventures		✓			
Acquisition			✓	✓	✓

Figure 3.4 The changing configuration of modes of international business activity

transfer, but in areas where higher levels of competitiveness and market development exist, joint ventures and acquisitions are in the ascendant because these are key means of acquiring capabilities.

Implications for the organizational structure of multinational firms

The pressures analysed in this chapter will have a profound impact on the organizational structure of multinational firms. They are presented with two key imperatives – to create appropriable assets, especially those based on generalized management skills (and, by analogy, to prevent leakage of returns from assets where appropriability is difficult) and to derive rent by internalizing locationally specific public goods. These imperatives require radical restructuring and will alter the scope of such firms.

Leakages in appropriability can be stemmed in two ways: by moving into assets which do not leak, and by stopping leakages in conventional assets (Buckley, 1983). As Figure 3.4 showed, non-appropriability is a key issue in 'non-contractual transfers'. Largely, because of institutional difficulties, multinationals have hitherto found it difficult to control these transfers – they are mainly occurring under the auspices of governments, universities and other non-commercial entities, and through grey and black markets. Our analysis leads us to expect that multinational firms will seek increasingly to control these areas. This will involve political action to internalize some governmental activities (or at least quasi-internalize them by representation in government and on the governing bodies of non-commercial organizations) to seek to extend patent rights, licensing arrangements, copyright, branding design and technological protection, and to clamp down on piracy and counterfeiting.

Our analysis further suggests that acquisition, in particular, and joint ventures will become more important as FDI modes. Acquisition results from companies capitalizing their general entrepreneurial skills – backing their valuation of what these skills can achieve with post-takeover assets against the market valuation of this value. This will lead to a new breed of financier, whose key skills will be to value generalized entrepreneurial and management skills residing in a firm's system of control. Company valuation will become even more of an art, and even more well rewarded for those at the successful apex of activity. One key part of these skills will be cultural sensitivity, because foreign acquisitions require this quality in abundance in order to release the value promised to the financiers in the post-acquisition integration phase.

Conclusion

This chapter has examined the process of modelling multinational enterprises. It has sought to show that the significant stylized facts of the global economy at the start of the twenty-first century can be explained satisfactorily by a combination of timeless principles together with a careful and judicious selection of special assumptions suited to the local and temporal situation that is to be explained.

The five-stage process outlined in Figure 3.1 enables analysts to make progress while working to a common paradigm. Specific models with different specialist assumptions can be developed, and these can compete to explain and predict changes in the global economy as they are confronted with empirical evidence. So, working from general trends to the specific market changes implied by these changes, to the required competences of the firm and the implied impact on the firm's optimal boundaries and changes in internal organization, a clear modelling procedure can be followed. Given the rapid rate of change in the world economy, it is likely that adaptations of models will be needed frequently. We should beware of jettisoning key principles while this is occurring.

Note

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