

RE-EXAMINING IMBEDDEDNESS: A CRITICAL ANALYSIS OF GLOBAL STRATEGIC MANAGEMENT

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ABSTRACT

Studies of the international tendencies in organizational activities have led to the emergence of the sub-field of global strategic management. Theorists of global strategy have suggested that imbeddedness, both at the level of geography and culture, is an impediment to growth, and advocate an approach that is free of such constraints in the quest for above average profits.

In this paper, we suggest that global strategic theorists have viewed the process of internationalization from a narrow and western-oriented perspective. Drawing upon the more diverse views of internationalization from economics and political science, we identify the critical views of internationalization which do not find mention in this research. We critique existing frameworks of global strategy, and offer an alternate research agenda for international organizations as well as theorists, as an imperative against intellectual marginalization and as a possibility for a more inclusive approach to non-western subjects in the field of international business.

INTRODUCTION

In this paper, we attempt a critical examination of the assumptions that appear to have informed the literature on international corporatization in the field of Strategic Management, and therefore question the theory building processes that have arisen from the scholarship. In doing so, we seek to identify a few key research questions and directions which might invest the field with a greater degree of legitimacy, and address the various criticisms that have been leveled against it from diverse ideological positions.

In the past few years, the literature in Strategic Management has been increasingly captivated by the ideas of the globalization of management strategy (van Gelder, 2004; Harris 2002; Nohria and Ghoshal, 1994). While the issue of the internationalization of capital has had a long history in the field of business strategy, going right back to the works of Chandler (1962) and Perlmutter (1969), the current resurgence in the field may be interpreted as an attempt by the academy to respond to the issues that have arisen following the exponential increase in the globalization of world economic activity (Dicken, 2003), in terms of global shifts in manufacturing and production operations internationalization of investment, and widening circuits of capital.

We review the literature in the field of Global Strategic Management (GSM), in an attempt to locate the various ideological assumptions that drive the field. Following from the economic assumptions that are articulated within the mainstream scholarship in GSM, we examine the influential microeconomic theories of the Multinational Enterprise (MNE) that inform the mainstreams of GSM, in particular the internalization theory (Hymer, 1976) and transaction cost theory (Williamson, 1985). We also discuss the critical treatment of the internalization theory as it unfolds in various other social sciences, mainly economics and political science, offering a thesis

that while the mainstream views of internationalization accentuate the non-antagonistic differences between the corporation and the state, they actually understate how collusive arrangements between the transnational elites actually create conditions for ensuring the successful performance and economic domination of MNEs. In juxtaposing these points of view, we attempt to contextualize the unqualified acceptance of the superior performance (and beneficial impact) of MNEs by the field of GSM and suggest that alternate research agendas in the field need to achieve a more balanced understanding of the theme of globalization. We end with a suggestion that theories of GSM need to exhibit greater sensitivity to power imbalances, issues of national priorities and geo-political egalitarianism, and the larger socio-cultural impacts of globalization rather than operate in a purely economic and unidirectional perspective.

GLOBAL STRATEGIC MANAGEMENT - AN APPRAISAL OF THE LITERATURE

At face value, the literature in the field of Strategic Management that deals with globalization appears to be marked by a great deal of diversity. For instance, Melin's (1992) review of three volumes of the *Journal of International Business Studies* found them representing seven different areas of internationalization, namely finance and banking, cross cultural aspects, international joint ventures, human resources, foreign direct investments, coordination/control and host government relationships. Such a broad spectrum of interest areas have led to a variety of research interests, which appear to pull the field in different directions.

While there have been many attempts at developing typologies of research themes in the field, two influential organizational frameworks for research in the field of Global Strategic Management (GSM) are noteworthy. First, Ghoshal (1987) sees global strategies as being mediated by two key variables, strategic objectives and sources of competitive advantage. In an attempt to recast the "totality of a multidimensional and complex phenomenon" (p 438) into a two dimensional framework, Ghoshal identifies three strategic objectives, namely efficiency, risk management and innovation; and three sources of competitive advantage, namely national differences, economies of scale and economies of scope. From the network of this 3x3 matrix, Ghoshal identifies 9 strategies of globalization, designed to "help managers and academics in formulating various issues that arise in Global Strategic Management" (p 433).

It is interesting to note that of the six aforementioned factors that Ghoshal uses to form the perimeter of his taxonomy, only 'national differences' may be identified as being a non-economic variable. However, upon closer examination, it is evident that Ghoshal's treatment of national differences also arises from economic aspects such as "wage rates, interest rates of currency exchange rates" and second order effects like "economically inefficient environments", or "inter-organizational linkages, the educational system and managerial know-how" (p 433).

While Ghoshal's organizing framework can be charged with being too constricting and reductionist, the framework proposed by Melin (1992), is far more flexible. After an extensive review of the literature, Melin identifies three broad themes of internationalization in the mainstream literature. The first theme attempts to cast internationalization as a stage in the development of a corporation. It is here that we may place the influential 'eclectic theory' of Dunning (1980, 1988), which sees foreign involvement as a function of locational, integrational and ownership-specific advantages of the internationalizing firms. The second theme attempts to study the sequential and causal link between strategy and structure. A bulk of the empirical research in internationalization has centered on this theme (see Martinez and Jarillo, 1989, for a review of studies done in the field). Much of this research is concerned with identifying the direction of the causal arrow in the strategy-structure linkages. Chandler's (1962) famous assertion that structure follows strategy has been continually supported and refuted by a number of studies in the international context (see Peters, 1980 and Melin, 1989 for a review of this research). The third theme that seems to have dominated the internationalization debates has been termed the "Process School" (Prahalad and Doz, 1987).

Concentrating their research in the direction of the Diversified Multinational Corporation (DMNC), the researchers affiliated to the Process School eschew the "architectural" approach of to the MNE literature in favor of examining the constant balancing that MNEs have to perform between the 'economic imperative' of profit maximization.

LESSONS FROM OTHER SOCIAL SCIENCES

Irrespective of the nature of one's ideological affiliations, it would be difficult to deny the reality that economic and political structures have begun to be increasingly linked on an international basis. As the capitalist economy continues to be further globalized, the debate is not on the extent of internationalization, but on the way it needs to be analyzed. While the mainstream social scientists believe that the internationalization of capital has rendered the nation state and economic class obsolete as units of analysis (Williamson, 1985), scholars with critical affiliations are circumspect that these distinctions have disappeared altogether (Ruccio, Resnick and Wolf, 1991).

While the issue of the transnational enterprise (and its relationship with the nation state) has not been subjected to any major dissenting views in the field of management, it has been the subject of many contentious debates in some of the other social sciences, especially the fields of economics and political science. In this section, we briefly attempt to examine some aspects of the debates in this field, in an attempt to use the experiences to inform mainstream management theory. The MNE and the nation state: mainstream and critical perspectives in Economic Theory.

The mainstream approach to the MNE can best be exemplified by the transaction cost approach. Derived from the classical microeconomic theoretical approach of using the market as the starting point of analysis, the transaction cost approach attempts to explain both the firm and the state as a safeguard against 'market failures' such as monopolistic and oligopolistic markets which may deter the optimal allocation of resources. The market, on its own, would not be able to sustain optimum allocation except through paying a high price in terms of transaction costs. The state then is conceptualized as an institutional device with a monopoly over coercion and a task of ensuring a market that does not degenerate into a situation of failure. The firm on the other hand, resorts to a variety of activities such as vertical and horizontal integration and contracts mediated by the state to replicate the perfect market conditions (see Hennart (1991) for a detailed review). [For more analysis of the critical perspective, please write for the full version of the paper].

IMPLICATIONS FOR RESEARCH IN GLOBAL STRATEGIC MANAGEMENT.

The moot point raised by critical theorists, as to whether these theories adequately portray existing power imbalances and the role of international economic regimes in reinforcing these inequities continues to be unengaged with. For instance, it has been contended that international economic regimes such as the erstwhile Bretton Woods Agreement on exchange rates, the IMF, GATT and OECD, which have a history of dominance by a few select countries in selection of leadership, staffing and finance, are nascent representatives of materialized relations of social production, which is subjected to shadow control by a few nation states, thus implying that the nature of control by nation states of international processes is being transformed rather than being diminished. Critical economic and political theories contest the representation of national interests in terms of the interests of specific dominant classes. They see the state as a condensation of class relations (Poulantzas, 1978), acting as the organizer of the disparate interests of specific social strata, where the powers encapsulated by the state are functions of the extent to which the elite classes gain control over surplus value. The process by which transnational elites and local elites engage in commerce has been theorized in critical economic analysis by making distinctions between fundamental class processes, which exist at the site of production and subsumed class processes,

which exist in transnational value flows such as intellectual property rights and international debt service repayments (Resnick and Wolf, 1987).

This then is the central theme of this paper: while mainstream management theory has borrowed consistently from a particular viewpoint prevalent in the social sciences, it has neglected to engage with, even for the purpose of refutation, the critical treatment of internationalization in these fields. In doing so, much of the research and theory building in mainstream GSM has been contingent upon the reification of the elite classes as being the sole objects of national interest.

For instance, the Process School may be seen as a study of how the transnational elite, represented by the controlling forces of the DMNC, and the controlling elites of nation states engage in the dynamics of cooperation and competition. As long as the discourse is able to equate the interests of this controlling elite with 'local' interests, the Process School remains a model of rational processual inquiry. Likewise, as long as theories of entry and diversification retain their economistic focus and stay out of the realms of cultural environmental or political introspection, their models of causality and interpretation will continue to remain valid.

Such a unilinear and view of a process as complex as internationalization is quite perplexing. While this view of the organization offers a consistency of argument, it is in danger of imminent marginalization because of the speciousness of the assumptions that drive this consistency. The reality of the process of international expansion is that firms entering newer markets are encountering a high level of uncertainty, heterogeneity and multiplicity. Also, in their interaction with local and indigenous forms of society and industry, they are causing very fundamental impacts, which need to be assessed, challenged and transformed in an attempt to mediate the harmonious process of international economic exchange.

CONCLUSION

While the context of research in GSM will need to address this critique of its unilinear focus, it needs to be qualified that research in GSM has often provided the most meticulous and innovative analytical methods and tools. It has led the way in informing various facets of the Resource based view of the firm, through an examination of the core competency theories (Hamel, 1991), internal differentiation processes (Ghoshal and Nohria, 1989), inter-organizational networking (Ghoshal and Bartlett), the role of subsidiaries in structural and processual frameworks (Jarillo and Martinez), schematics of knowledge flows (Gupta and Govindarajan, 1991) and various other aspects of the firm.

However, unless it continues to subject its basic assumptions to rigorous scrutiny, and attempt to address areas of criticism that arise from other social sciences and ideological positions, it will not be able to extricate itself from the allegations that it is little more than a polemical and inward looking branch of the study of organizations.

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