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BOOK REVIEW

In a recent paper in the Journal, Rugman and Verbeke (2004) aim to provoke IB scholars by arguing that international business activity is mainly 'regional' rather than 'global'. In '*The Regional Multinational*' Alan Rugman expands his discussion of the phenomenon. Most firms have a strong home base, and first and foremost expand to neighboring countries, as one would expect, based on long streams of research in international business exploring concepts such as 'internationalization process', 'psychic distance' or the 'liability of foreignness'. Rugman shows that this holds true even for most of the largest firms of the world, which may have been insufficiently recognized in the literature. D. Eleanor Westney has reviewed the book and underlines the importance of the conceptual contribution of this research, which transcends her concerns about the methodology employed to demonstrate the phenomenon.

This is the last book to be reviewed 'on my watch' as Ram Mudambi and a new team have taken over as JIBS book review editor at the start of 2006. It remains for me to thank everyone who contributed to the quality of the section and the book review website over the past six years, and to wish my successor good luck and many deadline-conscious contributors.

Klaus Meyer
JIBS Book Review Editor

Reference

Rugman, A.M. and Verbeke, A. (2004) 'A perspective on regional and global strategies of multinational enterprises', *Journal of International Business Studies* **35**(1): 3–18.

The Regional Multinationals: MNEs and 'Global' Strategic Management

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This is an important book. It is also an exasperating one, and some aspects of its framing and data might tempt the reader to focus on criticizing it rather than on giving its insights and arguments the serious consideration they deserve. It would, however, be a disservice to the IB field not to take seriously the challenges the book raises.

The central themes of the book are clearly and succinctly laid out in the short introductory chapter, and they can be summarized as follows: nearly all of the world's largest MNEs are primarily focused on their home region. They will continue to be so in the foreseeable future, because most firms can capture adequate benefits of scope and scale within their own region. There are very few global firms; in fact, only nine of the Fortune Global 500 qualify as global firms in terms of their distribution of sales. Therefore, both globalization and global strategy are 'myths'. Top executives in most large firms should concentrate their attention on designing effective regional strategies, not global strategies.

The rest of the book expands on these arguments, through detailed presentation of 2001 sales data for the Fortune Global 500 (Chapter 2), frameworks for classifying international strategies (Chapters 3 and 4), brief case studies of specific industries, which are anchored by detailed exposition of the regional sales data (Chapters 5–8 on retailing, banking, pharmaceuticals and chemicals, and the automotive industry), and case studies of firms that represent each of the four categories of MNE strategies (Chapter 9). These four categories are: home-region-oriented, with at least 50% of sales in the firm's home region (320 firms); bi-regional, with less than 50% of sales in the home region and over 20% in each of the home and another region (25 firms); host-region-oriented, with over 50% of sales in a region other than the home (11 firms); and global, with 20% of sales or more in each of the three Triad regions of North America, Europe, and Asia-Pacific (9 firms). The author then expands on the implications of his findings for strategy (Chapter 10), government policy (Chapter 11), and IB research (Chapter 12).

The exasperation factor sets in almost immediately, in the first two chapters, with the explanation of the database that anchors the rest of the book. The author himself inadvertently signals a significant problem with the titles of the first two tables summarizing the database. Table 1.1 is billed as 'The world's largest 500 multinational enterprises' (p. 3); Table 1.2 is 'Classification of the world's largest 500 firms' (p. 4). The second title is accurate; the first is not. The database is built on the Fortune Global 500, which, unlike such resources as the *World Directory of Multinational Enterprises*[1] (Stopford *et al.*, 1980) or the *Directory of Multinationals*[2] (Timbrell and Tweedie, 1998) is not a listing of MNEs. It covers the largest firms in the world, regardless of their sales or involvement outside their home country. Professor Rugman's database therefore is drawn not from a listing of 500 multinationals but from the world's 500 largest firms, as measured by sales. In reality, as the author states clearly, the database actually used for the analysis consists of the 380 largest firms for which any data are available on their geographic distribution of sales (there are 120 firms for which no such data are available, 'most of which are entirely domestic' p. 4). That means, therefore, that the author is over-stretching with tables entitled 'The top 500 MNEs, by industry' (Table 6.1, p. 97), or when he asserts that 'These 500 firms dominate international business…These firms are the 'units of analysis' for research in international business. They are key vehicles for both FDI and trade.' (p. 3) A further problem in defining even the 380 firms as 'MNEs' is that the author presents the geographic distribution of sales according to Triad region, making no distinction between sales in home *country* and sales in other countries in the home *region*. Therefore an almost wholly domestic company like the Japanese retailer Daiei (which has barely 1% of its sales outside Japan) is in the database, and is classified as a home-region-based company, just like General Electric, which has 41% of its sales outside its home country. Finally, the insistence that to qualify as 'global' a firm must have 20% or more of its sales in each of the three Triad regions means that Nestle, which in 2002 had 32.2% of sales in Europe, 21.7% in North America, 33.7% in non-Triad emerging markets but only 12.3% in Asia-Pacific, does not count as a global firm. The author acknowledges the problem and presents Nestle as one of nine 'near miss global firms', rather than as one of the nine global firms. However, the 'near-miss' global firms, which don't meet the 'global' definition because a significant percentage of their sales is in non-Triad emerging markets, disappear into one of the other categories for most of the analysis (I assume they fall into 'bi-regional').

Such problems can all too quickly lead a reader to believe that the author is, in the hackneyed phrase much used in debating circles, using data as a drunk uses a lamp-post: for support, rather than illumination. The suspicion that the author set out to build a database that could prove an argument he already *knew* was right is reinforced by its name: the RNGMA database (which is not, as some might suspect, a clever anagram of RUGMAN; it stands for Regional Nature of Global Multinational Activity). Dismissing the study on the grounds of flaws in the data would be unfortunate, however, because the indisputable finding that at the beginning of the 21st century so many of the world's largest firms were focused on their home country and home region is a powerful corrective to the 'strong globalization' arguments that constitute one of the author's main targets. Even replacing the constricted definition of 'global' used in this analysis with a more generous definition would still yield a relatively small number of the world's largest firms with the distribution of sales that most people envision when a firm is said to be global. This is the most important contribution of the book: its challenge both to the proponents of global strategy and to the anti-globalization critics. According to Alan Rugman's findings, both sides have exaggerated the role of MNEs in globalization and the global reach of the world's largest firms. Although both strategy experts and CEOs have embraced the rhetoric of 'think global', most large firms remain focused on their home countries and regions. Therefore, the assumption of both pro and anti-globalization forces that global integration is primarily driven by the strategies of the world's largest companies is, according to the Rugman data, fundamentally flawed. Regrettably, the IB field has not been a significant participant in the globalization debates that in the last decade have engaged the popular imagination and the attention of so many social scientists and policy-makers. Alan Rugman is one of the few IB scholars to weigh in.

The author provides several frameworks for thinking about the geographic market strategies of firms, in the form of two-variable matrices. These frameworks build on the concepts of firm-specific advantages (FSAs) and location-specific advantages (country-specific CSAs), which are not directly measured but are inferred from the database. The frameworks therefore seem to classify rather than to explain, and to become somewhat tautological: a firm is global because (a) its FSAs have a global reach and (b) the geographic scope of its locational FSAs are global (Figure 3.5, 'The regional strategy matrix' p. 49). The strong anchoring of the conceptual frameworks in the database is rooted in the author's approach to strategy, which he sees not as the stated aspirations and goals of top executives – 'espoused strategy' – but as the firm's actual market presence – its 'revealed strategy'. The author argues, quite reasonably, that after a decade and a half of insistence on the need to 'think global' he is justified in looking at the data for evidence of global strategies in action. His frequently reiterated statement that 'global strategy is a myth' should therefore be interpreted as meaning 'successful global strategy is a myth'. He does not dispute that executives aspire to be global, but he strongly asserts that the data show that is a misguided strategic aspiration, which does not reflect the actual strategies of most of the world's largest firms.

Whether the reader finds the strategy frameworks helpful or not, the author does develop a number of important insights in the course of their discussion, and raises some contentious issues that those in the IB field should explore and push further. One of the most useful insights is that much of the seminal theory in global strategy was developed in the 1980s, when the Triad was much more limited (its third leg was Japan, not Asia-Pacific, and Europe was Western Europe only), and the key route for growth by large firms seemed to be reaching across Triad regions. In the 1990s, however, regional dynamics enabled many firms to focus on their own backyards. This was probably most marked in the EU, where the 'single market' of 1992 proved to be just the beginning of a decade of expansion, with the remarkable opening of Eastern Europe and Russia to FDI and the consequent opportunities to expand into new markets and to exploit diversity in location advantages within the region. The Asia-Pacific region also saw a significant expansion in the number of countries open to FDI (most notably China and Vietnam) and the expansion of market opportunities in the rapidly growing countries of Southeast Asia. There was arguably less geographic scope in North America, limited to three countries (two of them relatively small compared to the regional giant, the United States), but opportunities were growing in Central and South America, providing opportunities for non-Triad expansion by US firms (and for cross-regional but non-Triad growth for European firms). Alan Rugman is correct to say that in the IB field, we were too slow to come to grips with those challenges. We continued to work with the strategy frameworks of the 1980s, which, despite their many strengths, tempted us to see the differences between regional and global strategies as quantitative rather than qualitative.

If the differences are indeed qualitative – a matter of kind and not degree, as the author insists – then one of the issues that this study raises needs much deeper exploration: whether the same regional strategies and organizations are effective in multiple regions. If the difference between regional and global strategies is simply one of degree, then building an effective regional strategy and organization in one region should provide capabilities and even a template that the firm can employ successfully in other regions. If this is not the case, then a regional strategy does not readily provide a step to a global strategy. And then the question becomes 'Why not?' For Alan Rugman, the answer is that 'cultural and political differences among members of a single Triad region may remain, but these differences will mostly be less significant than those across regions' (p. 63). This is arguable for the Asia-Pacific region, which is the most diverse and least formally integrated of the Triad regions; it is questionable even for Europe today (in contrast to the Europe of the 1980s). Therefore an alternative explanation may be that the regions differ considerably in the range of variation they present; another may be the physical distance both within the region (Asia-Pacific covers a greater range than Europe) and from the home country. It is clear from the database that Asia-Pacific presents the greatest challenge for firms based outside the region, and this is worthy of further exploration. It may even present greater challenges for firms based within the region, something we cannot know without separating home country and home region sales (Japanese firms appear to do well in the Asia-Pacific region, based on the RNGMA database, but this may be because they have such a large home-country market). If there are effective regional strategies and organizations that a firm can leverage and learn from across regions, further research can tell us more about what these are. The author advocates a regional level of governance in the firm (pp. 62, 72–74), but doesn't provide much detail about what specific forms have worked well, in which industries and for what firms. This is, as the author himself indicates, a potentially fruitful area for IB research.

Another important issue that the author identifies is the different geographic distribution of upstream and downstream parts of the firm's value chain. This issue has been a focus of concern for those interested in the 'hollowing-out' of large firms in their own country, but the IB field has not paid much attention to the implications of this for a firm's evolving strategy and organization. For example, does re-locating the 'back end' of the value chain lead over time to greater market involvement in that location? Is the physical separation of the front and back ends of the value chain a step on the road to out-sourcing? What, if any, political and cultural challenges does this generate within the firm? Again, there are a number of interesting issues that researchers in IB could pursue.

On a much more mundane level, all authors need to take note of the evidence provided by this book that even the best presses no longer seem to provide adequate copy-editing services. This book contains many examples of copy-editing failures, of which I shall give only a couple. Through most of the book, the author insists that there are only nine global firms in the 2001 database. However, in both Chapters 2 and 4, we suddenly some across the figure of 10 global firms in the 2001 database. In Chapter 2, for example, Table 2.1 has a figure of 9 global firms, but Table 2.7 has a figure of 10 (I could find no clue as to what firm the new addition might be) – even though both tables give the same data source. The same inconsistency appears in Chapter 4: page 65 says that there were 9 global firms in 2001, but page 76 says there were 10. Several of the chapters have appeared previously as journal articles, and the customary substitution of 'this chapter' for 'this paper' has been made at the beginning of the chapter – but most of the references to 'this paper' remain in the subsequent text, giving the reader the uncomfortable feeling that no one at the press actually read the manuscript carefully.

In conclusion, some readers may be uncomfortable with the fact that this book is as much polemic as it is exposition. The author marshals his data and his arguments like troops in a battle, and never allows the reader to forget that global strategy is *wrong*. Readers will be tempted to argue back in equally combative fashion. Some will say that refusing to distinguish between domestic sales and sales in other countries in the region undercuts the whole argument, since the major pillar of the case for the primacy of regional strategies is the overwhelming preponderance of 'home-region-oriented' firms in the database. Others will say that the case should not be tested on the Fortune 500 firms but on genuine MNEs, or on younger firms, or on firms in specific industries. And still others will assert that the real test of global strategies is change over time, not absolute levels of geographic dispersion in a single year. This stimulus to combat may not be a bad thing. I am reminded of the words of Sumantra Ghoshal, who often expressed his frustration that those in the IB field weren't willing to engage in arguments ('you disagree with him – why don't you get in a fight?' he would say when he was a commentator on panels and papers). Alan Rugman developed his data and his models out of a deep disagreement with the global strategy approach. I believe he would be the first to rejoice if others are driven by an equally deep disagreement with his own arguments to develop their own databases and models to push the field of IB further along in its quest to understand the complex workings of cross-border business.

Notes

[1]To be included in this database, a firm had to meet one or more of the following criteria: 25% or more of

the equity in manufacturing or mining companies in at least three countries; at least 5% of consolidated sales or assets attributable to foreign investments; $50 million in sales in 1977 originating outside its home country. By these criteria, a number of the Fortune Global 500 would not be included on a list of MNEs.

[2]This directory profiled 500 of the world's largest corporations with consolidated sales in 1996 of over US $1 billion and sales outside the home country in excess of $500 million. These criteria would exclude an even higher number of the companies in the Fortune Global 500.

References

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