Academy of International Business

# Insights

Volume 2, No. 1, 2002




**Who's On Top of the World?**

You may be surprised to find that Argentina, Australia, New Zealand, and South Africa believe they deserve top billing. The "down-under" map, reproduced here, is a great way to get students to "see the world" from a new perspective, and I have used this map successfully in a variety of classes and workshops. There are other ways to picture the world (east at the top or west at the top, in economic terms, based on religion, and so on). All are equally valid. I find maps really work to stimulate students' thinking. -- BJ

*AIB Insights* is published quarterly by the Academy of International Business.
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## Comments from the Guest Editor, Doren Chadee

How are small open economies coping with the pressures of globalisation? This special issue attempts to provide insights into how two remote small open economies, Australia and New Zealand, are responding to the pressures of globalisation. Chadee and Cartwright argue that, on balance, the processes of globalisation have made it more difficult for these two economies to achieve and sustain strong competitive positions in world markets. The future of both countries

*...Continued on page 3*

# Comments From the Editor

**Insights** was launched with the second quarter 2001 Newsletter. This is our fourth edition, and reactions to Insights have been very positive. Earlier editions in 2001 have included new International Business Blunders and a variety of teaching materials, as well as these articles:

- The World after 11 September: A Balance Sheet – Hon. Gareth Evans, Australia
- Terrorism and the International Business Environment - Peter Enderwick, New Zealand
- Leading Globally: Giving Oneself for Things Far Greater Than Oneself - Nancy Adler, Canada
- Arguments For and Against a Monetary Union for North America - Sam Antrobus, United Kingdom
- Myth of Global Strategy - Alan Rugman, United Kingdom
- Globalization: Another Viewpoint (a response to Rugman's article) - Paul Simmonds, USA

The current issue of Insights is guest edited by Doren Chadee, and features articles on "down-under" international business issues. International business research has focused primarily on North America, Europe, and Japan. We hope that Insights can help broaden this focus, and that this issue will contribute to new thinking on research opportunities outside of the traditional areas.

The next issue of Insights will feature the most exotic AIB conference, and the effect of health care on globalization. We want to continue bringing you thought insightful articles and classroom suggestions. We need your submissions and suggestions!

## Submission Information

• Submissions to Insights can be sent at any time to the Editor.
• Submissions may be electronic, by fax, or by mail. *Electronic submissions are preferred.*
• Submissions will be reviewed by the Editor to ensure material is appropriate for Insights, then the advisory board will comment on submissions.
• For consideration for specific editions, submissions must reach the editor by the following dates:

| | |
|---|---|
| 1st Quarter: | December 15 |
| 2nd Quarter: | March 15 |
| 3rd Quarter: | June 15 |
| 4th Quarter: | September 15 |

• Articles should be approximately 2-3 printed pages.
• Exercises, simulations, and other material should include all the information needed for use in the classroom. Material submitted should not contravene any copyrights.
• Blunders should be based on real-world events and should be new - ie, not previously published, or disseminated in other media.
*We look forward to your comments and submissions.*

- BJ

*__Insights__ provides an outlet for short, topical, stimulating, and provocative articles. Please submit materials for consideration to the editor - Betty Jane Punnett at eureka@caribsurf.com. Submissions are reviewed by the Advisory Board*

*These can be accessed through the AIB Website* ***www.aibworld.net***

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...Continued from cover

now lies in closer alignment, and further integration, into one of the triad economies. The paper by Maitland and Nicholas suggests that history has shaped the nature of Australia's outward FDI and consequently, there is something unique about Australian MNEs. Devinney, challenges the opponents of globalisation and argues that inward FDI has been beneficial to Australia, and that there is no evidence that the Australian corporate sector is being taken over by foreigners. These three contributions provide a bird's-eye view on the experience of two small economies with globalisation. We hope these insights from down under will generate debate on these topics, and more international business research about Australia and New Zealand.

**FAQs**

*The most frequently asked questions relate to the length and format for submissions to Insights. We do not have strict guidelines for submissions. We encourage you to send material in the format that you believe will provide the best insights. If we want to include the material, we may then ask you to make changes to suit a particular issue. We do have general guidelines:*

- *submissions should be short (usually about two printed pages, although there will be both longer and shorter pieces), and*
- *they should be "insightful" (providing knowledge obtained by mental penetration - Oxford), and can be provocative (inviting a reaction, stimulating a response – Mirriam -Webster)*
- *necessary references should be provided as end notes*

# Globalisation and Competitiveness of Small Countries:

## Perspectives from Down Under

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Judging by their populations, contributions to world merchandise trade and foreign investment activities, both Australia and New Zealand are relatively small economies by world standards (table 1). Although they are geographically isolated from the major world markets, they are inextricably linked to the process of globalisation. Because of their small domestic markets, both rely on their export sectors for growth. New Zealand exports mainly land-based products (dairy, meat, wool, timber, fruits and vegetables) whereas Australia has a more diversified economy that exports minerals and mineral fuels, metals and industrial products in addition to grains and cereals, dairy, meat, wool and horticultural products. The triad markets (Asia, Europe and US) are the main markets for both countries' exports although trade between the two countries is also significant. Australia is the single largest market for New Zealand (taking 21% of NZ exports in 2000), and New Zealand is Australia's fourth largest export market. Both countries are staunch sup-

"As with most countries, globalisation has presented both opportunities and threats to both Australian and New Zealand enterprises. On the one hand, the opening of world markets has presented opportunities for Australian and New Zealand home-based multinationals through increased access to world markets. On the other hand, market liberalisation is also threatening the survival of domestic firms as more and more foreign multinationals compete with these firms in their home markets. "

porters of free trade, are among the most open in the world and have standards of living comparable to the OECD average (table 1). Thus, the overall picture is one of two remote, small open export oriented economies competing in the triad markets in an environment which has become more global. Furthermore, the external environment has been subjected to a new element in recent months: Terrorism. Given this context, we address two questions: How well have enterprises in Australia and New Zealand responded to the pressures of globalisation? And, What does the future look like for enterprises in both countries given the current global economic and political climate?

## Responding to Globalisation

As two former British colonies, Australia and New Zealand have historically depended on Britain for their exports, imports and investments[i] . And, because of this heavy reliance on the UK, both countries have been slow in developing and diversifying their export and investment sectors. Both account for a minute share of world merchandise trade, rely heavily on the exports of agricultural products, find it relatively difficult to attract FDI and have difficulty in investing overseas (see table 1). As with most countries, globalisation has presented both opportunities and threats to both Australian and New Zealand enterprises. On the one hand, the opening of world markets has presented opportunities for Australian and New Zealand home-based multinationals through increased access to world markets. On the other hand, market liberalisation is also threatening the survival of domestic firms as more and more foreign multinationals compete with these firms in their home markets.

On balance, the processes of globalisation have made it more difficult for Australian and New Zealand industries to achieve and sustain strong competitive positions in world markets. In New Zealand, for example, the pressures of globalisation have led to three main changes at the corporate level that tend to reduce economic activity:

(1) The centralisation effect: There has been an increasing tendency in recent years for New Zealand businesses to move their corporate management offshore -- closer to the 'centre of gravity' of their markets. For example, several New Zealand MNEs (eg. Heinz-Wattie, Brierley, Bendon, and Air New Zealand), have relocated their head offices offshore (mainly to Australia and Singapore) in recent years. Although corporate migration may lead to improved performance for the firm, it also tends to diminish economic activity at home as the services of supporting industries (such as materials suppliers, and providers of

**Table 1: Economic Characteristics of Selected Countries**

| | US | UK | AUS | NZ |
|---|---|---|---|---|
| Population: 1999 - total *(million)* | 245 | 57 | 19 | 3.8 |
| - per sq. km *(person)* | 29 | 242 | 2 | 14 |
| GDP per Cap. (US$ 000) *(2000)* | 33.2 | 21 | 24.5 | 18.4 |
| Export as % GDP *(1998)* | 11 | 27 | 21 | 36 |
| Agriculture as % of total exports *(1998)* | 8 | 6 | 18 | 48 |
| Share of world merchandise export *(%)* | 12.3 | 4.4 | 1.0 | 0.21 |
| Direct Investments as % of GDP, *(1998)* | | | | |
| - inflows | 2.3 | 4.9 | 1.85 | 3.2 |
| - outflows | 1.5 | 8.5 | 0.19 | 0.65 |

Source: OECD in Figures, 2000

accounting and legal services) are no longer required. It also reduces the opportunity for corporate role modeling in the domestic economy, which adversely affects innovation and upgrading, especially in management skills.

(2) The expansion effect: This involves firms moving offshore to locate in larger markets. The market seeking strategy is particularly relevant for firms from small economies given the limited scope for them to expand and grow locally. There has been a tendency in recent years for more New Zealand firms to relocate their production to the larger Australian market (e.g. Fisher and Paykel, Nufarm and Heinz-Wattie).

(3) The acquisition effect: Domestic firms that perform well internationally are also vulnerable to acquisition by overseas companies, which then take intellectual property and skilled workforces offshore (MAS and Dorf Industries). This has also been a significant trend in recent years, accelerated by the weak local currency. Another aspect of the acquisition effect has been the sale of many state assets (rail, electricity, gas, and forests) to foreign interests that have then rapidly realized capital gains (sometimes through asset depletion) that have been repatriated offshore.

Data on FDI (see table 1) also suggest that Australia and New Zealand have not been particularly successful in attracting foreign MNEs (see table 1). This is especially the case for technology-focused and knowledge-based multinationals. Recent failures to attract American and European technology companies in both countries have been linked to the small size of the domestic markets, limited supply of skilled workers, limited infrastructure, and limited history of technology-based innovation and geographic isolation. As a means of countering these disadvantages, the Australian governments (at both federal and state levels) have devised policies consisting of financial incentives such as preferential corporate tax rates, and tax exemption for R&D and regional economic development incentives to attract foreign investment. New Zealand is now considering such incentives, but its strict neoclassical policies of the last 15 years has made it ideologically difficult to 'change gear' in a way that develops effective intervention policies.

## Issues for the Future

It seems likely that the events of 11 September, on top of the earlier pricking of the 'New Economy' bubble, have established a lasting risk premium on investment in globalised economic activity. This will have mixed effects 'down under'. Australian and New Zealand exports have relied heavily on trade liberalisation so that, to the extent that stronger security measures increase the costs of international business and/or re-raise trade barriers, the economies of these countries will be adversely affected. This is, of course, in addition to the impact of recession in export markets.

A higher risk profile for international investment, especially in relatively little-known countries such as New Zealand and Australia, will make it even more difficult for these countries to compete for the sites of high-technology multinationals. Contrary to this, the very isolation of these countries, their relatively 'clean' environmental condition, stable democratic governance, and low probability of direct terrorist interventions, could tend to increase their attractiveness as locations for multinational investment. A growing international appreciation of the strength of the base for biotechnology that is present in the agricultural and horticultural industries of the two countries could reinforce this effect.

The growing concern about food safety and security in the affluent consumer markets of the world appears to have been increased indirectly by anxieties about bioterrorism. This trend could assist with strengthening the differentiated market positions of New Zealand and Australian exporters (such as the large Fonterra dairy multinational) because their producing environments accord well with security, and companies have implemented advanced food safety standards and procedures.

If the medium-term future brings greater instability in financial markets, this will harm Australia and New Zealand disproportionately, as their exports get caught up in regional collapses (such as the 'Asian Crisis' of 1997), or receive unjustified risk premiums through being positioned outside the financial markets' main focus of concern.

Overhanging all of these sources of change is the bigger question of the shape and role of small, isolated sovereign nations in a more security-conscious but still substantially globalised world. Although countries will still make certain policy determinations, the critical economic decisions about investment, location of enterprises, and market entry are made by multinational corporations. Under these circumstances, it is difficult to avoid the conclusion that economic 'sovereignty' may soon be more notional than real in small open economies such as Australia and New Zealand, and that their future political economy lies in much closer allegiances with one of the triad groups.

End Notes:

i. For a comprehensiv account of Australia's economic history, see Boehm, E.A. (1993) *Twentieth Century Economic Development in Australia*. 3rd Ed Longman Cheshire, Melbourne; Sinclair, W.A. (1976) Process of Economic Development in Australia. Longman Cheshire, Melbourne. The development of New Zealand's economic history is well documented in Hawke, G.R. (1985) *The making of New Zealand: An Economic History*. Cambridge University Press, Cambridge; Crocombe, G., Enright, M. and Porter, M.E. (1991) *Upgrading New Zealand's Competitive Advantage*. Oxford University Press, Auckland.

# What's Different About Australian MNEs?

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## Australian Derivative Industrial Structure

The Australian economy presents a paradox for IB scholars: it is a wealthy, developed resource-rich country with few large indigenous MNEs. The limited scale of outward FDI contrasts sharply with Australia's long-run reliance on foreign firms and foreign technology: during the 1960s, inward FDI dwarfed outflows twenty to one. Today, a large part of manufacturing remains an offshoot of American, Japanese, British and European industry[1]. By taking-over domestic firms in the highly protected import-replacing manufacturing sectors, foreign investors created foreign-dominated oligopolistic industries, characterised by over-capacity and restrictive trade practices. Failing to adapt their scale dependent technologies to fit the size of the Australian market, foreign MNEs created inefficient and inflated cost structures throughout the economy, rendering Australian manufacturing exports uncompetitive.

Foreign control of domestic oligopolies not only led to poor productivity growth and manufacturing export performance, but also constrained outward FDI by Australian firms. In 1980, Australia's FDI stocks were just $US2.6billon compared to $US6b for Belgium, $US42b for the Netherlands, and $US5.6b for Sweden, other small open economies[2]. From the early 1980s, government policy focused on trade and financial liberalisation, micro-economic reform and the export of high value-added products. For a small and mature economy like Australia, which sits outside regional trade and investment blocs, the omission of outward FDI policies was—and remains—a surprising anomaly. In part, this anomaly is due to the export orientation of Austrade, the government body that promotes exports and foreign investment. Partly it is due to Australia's history of tariff protection and inward FDI controls with the resulting neglect of outward FDI.

We identify two causal links between foreign MNEs in Australia and Australian FDI. First, the achievement of rapid industrialisation through reliance on foreign MNEs and import-substitution constrained the development of indigenous technologies and brands in those industrial sectors in which MNEs concentrate. Secondly, the pre-eminence of foreign MNEs in leading industrial sectors forced domestic entrepreneurial capacity into niche segments of the economy, or areas protected from foreign control by government regulation.

Since the 1980s, it has been firms from these niche segments that have successfully pursued international growth, with Australia's stock of FDI increasing 14 fold between 1980-1994. These late-mover Australian MNEs draw on competencies shaped by the home environment that are distinctly different from the technologies, brand names and trademarks that characterise today's global MNEs. Nevertheless, the distinctive competencies of Australia's late-mover MNEs have proved successful. We demonstrate our arguments drawing on surveys of Australian MNEs in the challenging, emerging economies of Indonesia, Vietnam and China[3].

## Australian Late-Mover Competencies

In all three markets, Australian firms were significantly underrepresented in globally branded products or the suppliers of intermediate inputs for these products. Seeking niche manufacturing or service activities outside the sectors dominated by the large Fortune 500 MNEs, our data show that Australian MNEs:

- entered to service the needs of large and expanding domestic markets, with few in export-oriented offshore activities.
- were lightly represented in manufacturing, but prominent in services (comprising property, business and finance sector services), and to a lesser extent mining and construction. Compared to other foreign investors, Australian firms were under-represented in manufacturing (35% compared with 56%) and utilities (4% compared with 9%), but over-represented in mining (5% compared with 1.8%) and property and business services (28% compared with 14%)[4].

Australian MNEs drew on two distinct sets of largely tacit know-how: knowledge of efficiently operating an enterprise and the ability to build a consumer base, which were driven by a strong global mindset. Process and non-process technology, comprising managerial skill, skilled personnel and intangible knowledge of coordinating and controlling product and service delivery embodied in human capital, were the pre-eminent sources of Australian firms' competencies. Complementing this operational expertise, Australian firms drew on product technology and marketing and distribution expertise to define and establish customer loyalty. Codified knowledge, including patents, copyrights and designs, were of second order importance. The relatively low importance attached to codified technologies and brand names and trademarks is anomalous when compared with the importance of these firm-specific assets for non-Australian MNEs.

## Contract Architecture

Evidence also suggests that Australian firms were quick in entering the three markets under consideration. Negotiations for the first entry into China, for example, was completed as rapidly as the second or third investments by US MNEs. In China, Indonesia and Vietnam, Australian firms were adept at carefully crafting JV and non-equity contracts to protect their tacit know-how. Australian MNEs did not seek complementary physical assets from their partners, but access to intangible knowledge, comprising downstream distribution know-how, local market intelligence, government and commercial contacts, and cultural and social insights. Such assets could not be replicated or purchased through the market. To inhibit knowledge spillover, Australian firms frequently selected partners outside their core business activities. Where JVs are involved, Australian MNEs also tend to appoint a large number of the general managers (65% for China, 78% for Indonesia, and 69% for Vietnam) and also tend to control the joint venture boards. Unlike the approach of some MNEs, Australian firms also recognised the inherent weaknesses of legal solutions to commercial problems, relying on negotiations for dispute resolution in JV and non-equity contracts (such as licensing, subcontracting and management agreements). Partnerships were long-lived, and disputes were relatively few.

## Learning and the Global mindset

Data on negotiating experience revealed the presence of a number of firms aggressively promoting Asian investment strategies, with senior personnel leading market entry negotiations. The data also showed that tacit know-how and learning capabilities gained in coordinating overseas activities in other investment locations was leveraged for entering and operating in Indonesia, China and Vietnam. For Indonesia, nearly 50 percent of subsidiary heads were experienced in running overseas operations and in one third of the subsidiaries, more than half the Australian employees possessed prior overseas work experience. Incremental learning was also apparent in the high number of firms in China (62 percent) or Indonesia (77 percent) that utilised their China and Indonesian experiences to facilitate new FDI projects elsewhere. For Australian MNEs, this knowledge of how to initiate and establish a new investment was highly concentrated in the parent headquarters, with staff in China or Indonesia not transferred to new overseas projects.

In sum, our research uncovers some

distinctive features of Australian MNEs. Path dependency has played a key role in the international growth of Australian firms. The dominance of foreign MNEs in the domestic Australian market both pushed indigenous firms into niche sectors at home. Emerging from a slow-growing mature economy, Australian MNEs have been successful in fast-growing emerging markets, particularly in Asia. Carving out niche areas of profitable activity, they have avoided head-on competition with the type of MNEs that dominate the manufacturing sector at home.

The nature of Australian MNEs and their pattern of internationalisation raise several important questions. First, whether this pattern of internationalisation is unique to Australia or shares common attributes with other similar economies. Second, whether firms from other small open economies can learn from the Australian internationalisation experience and whether Australians firms can learn from the experiences of similar firms in other countries. In order to address these questions, further survey work is required to expand our knowledge of the operation and performance of Australian MNEs in other Asia countries as well as the US and Europe, which account for the overwhelming share of Australian FDI. Currently there is a comparative research project that is comparing the internationalisation processes from Australia, Hong Kong and the Scandinavian countries, which will enrich our understanding of how firms from small open economies are responding to the pressures of globalisation. The behaviour and performance of Australian MNEs remain a neglected area of research mainly because so little data are available to understand our industrial past or our economic future under globalisation.

## End Notes

[1] Hunter, A. 1962. *The Economics of Australian Industry: Studies in Environment and Structure*. Melbourne, Melbourne University Press; Merrett, David. 2000. "Australia's Outward FDI in a Comparative Context: A Case of Constrained Internationalisation?" in *The Role of Multinational Enterprises in the New Millennium, Proceedings of the 2000 ANZIBA Conference*, Auckland and Waikato

[2] Merrett,. 2000. "Australia's Outward FDI"

[3] The Australian Centre for International Business surveyed Australian MNEs, collecting data on 35 firms in Vietnam, 64 in Indonesia and 171 in China.

[4] *Chinese Statistical Yearbook*. Various years. State Statistical Bureau of China. MNEs differed markedly from the profile of the 310 Fortune 500 Companies in China, where two-thirds were in sectors classified as "capital-technology intensive industries" Wang Luolin (ed). 2000. 2000 *Zhongguo waishang touzi bagao – daxing kuakuo gongsi zai Zhongguo de touzi* (Report on Foreign Direct Investment in China, 2000 – Investments by Large-scale Multinational Enterprises). Chinese Academy of Social Sciences International Investment Research Centre. Beijing, China Finance and Economic Press.

# Why Australia Needs To Be A Branch Economy

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Holden, Vegemite, Arnotts, Optus, Ansett …. The list is long and creates a sense of anxiety in executive suites, union halls, and parliamentary chambers. Australia, the conventional wisdom goes, is selling its birthright, its talent, its innovation, its very being to foreign corporations. However, like most conventional wisdom, such a view—although palatable to xenophobic self-interest—is far too simplistic and devoid of a real understanding of the phenomenon that is occurring. The proposition I wish to raise is a simple one and two fold—there is little evidence that Australia is becoming a branch economy and Australian business and society would be improved significantly with more foreign ownership and involvement, particularly from that group normally derided as 'heartless'—the multinational corporation (MNC).

First, a comparison of the percentage of equity ownership by foreigners for a host of similar countries[i] (table 1) suggests that Australia, at between 25–30 per cent ownership, is not out of the ordinary. Second, a look at the amount of GDP related to foreign entities operating within similarly situated economies further confirms that Australia is no special case. Third, an examination of data on the flow of cross-border merger and acquisition (M&A) does not support the evidence that Australian business is succumbing to outside influence. From 1990 through 1994 Australia's net M&A position was about zero (as it was again in 1996). In only one year (1995) during the decade did the position exceed –$5,000 million, a relatively minor figure when compared with the stock of corporate assets existing in the country.

Why do corporations invest overseas? The main reasons fall into these three categories: (1) the seeking of new markets, (2) the seeking of new resources, and (3) the gains in efficiency from global operations. For a country like Australia, with a high level of development, mature markets, a small population, and moderate to low population and GDP growth relative to developing nations one rarely finds that corporations invest here to develop a 'new' market. This leaves the other two reasons.

In seeking out new 'resources', foreign investors are not just looking for what's in the ground but also looking for what's in the mind—sources of talent, ingenuity, managerial skills, technical competence, and so on. Companies like Nestlé operate research and development facilities all around the globe not because they seek to dominate a country or monopolize its resources but because they know that specific pockets of talent are idiosyncratic to specific areas—e.g., coffee production in the Andes—and that to tap that talent one needs to keep it co-located with the factors that caused it to evolve in the first place. Hence, it would make little sense for an energy company to invest in Australian solar cell research only to try and relocate it to cloudy France.

If all that foreign investors did were trawl the globe looking for resources to purchase there would be little benefit to them. Their benefit arises from the ability to globally manage these operations such that the return to each is larger than it would be had it remained in isolation. The returns to a MNC arise from the management of their global system and, because this entails large fixed costs relative to local firms, only those organizations best able to operate a complex mix of far-flung operations can survive and expand.

It is my proposition that these two factors ensure that MNC operations in a country like Australia are socially and economically enhancing. Economically, MNCs that invest in Australia are doing so because of the physical and mental resources available in this country. Because these resources are made part of a global network that would be unavailable to a local operation, the earning potential is simply greater. However, because Australia is such a small market for most MNCs—perhaps with the exception industries such as mining—no investment in Australia is made just to gain 'market' access. Hence, Australian subsidiaries must prove their worth as a major contributor to the MNC network not as a pure implementer of resources developed elsewhere.

At this point one can think of the obvious counter-argument that this may be true but that all of these returns will go to the MNC shareholders. However, this too ignores the facts. Because the resources either are (in the case of people) or were (in the case of physical assets) owned by Australians, the extent to which the returns from their integration accrue to locals depends on the price that is negotiated for their use. Thus, the real value of a branch economy is not in the monetary transfers but the utilization and incentives associated around the use of the resources.

Clearly a number of groups will lose either power or prestige when the playing field is made global and the three most relevant are corporate executives, governments, and unions. Arguments that MNCs are more likely to violate social contracts, however, do not stand up to scrutiny. As a group, global corporations from developed countries are more likely to be philanthropic, hold to higher standards in terms of corrupt practices and follow more stringent internal guidelines with respect social causes—worker rights, pollution, resource usage, etc. This is not only because of their concerns about negative publicity but also due to the fact that their corporate cultures are aligned more closely with the standards of developed nations and their employees would be de-motivated by working for organizations that flout basic rights.

But these factors ignore the benefits of a branch office economy. Because the benchmarks for performance—financial, technical and managerial—are global and the nature of investment is global, performance standards are ratcheted up considerably. Hence, not only do local managers and local workers gain the advantages of meeting global benchmarks, these people are, by definition, local, and skills and talents that would be unavailable to the country are now gained.

Similarly, MNCs use subsidiaries in different ways and inter-subsidiary competition is as valuable as inter-subsidiary cooperation. Clearly, the Australian subsidiary gains by having access to the knowledge base of the other subsidiaries but it also gains by competing for attention and

**Table 1: Activities of Foreign Firms in Australia**

| | Foreign Equity Ownership (%) (1998) | GDP from Foreign Affiliates (%) (1998) | Net Merger and Acquisition ($Millions) (1990-1997 avg.) |
|---|---|---|---|
| Australia | 26 | 17 | -1,152 |
| Sweden | 28 | 15 | 835 |
| France | 18 | 17 | 2,690 |
| Canada | 28 | 30 | 2,644 |
| USA | 17 | na | -12,151 |

**Source:** United Nations, *World Investment Report*, Geneva (2000), Eurostat, *Statistics in Focus: Industry, Trade and Services*, Theme 4, 20/2001.

investment. My own research[ii] shows that inter-subsidiary networking dramatically increases MNC subsidiary innovation and performance. However, this research also shows that subsidiary autonomy and learning do so as well. Hence, the MNC must make a choice about the specific latitude it gives subsidiaries. By operating a system encompassing both global competition and global cooperation, MNCs can develop resources more quickly and diffuse them across markets at a more rapid rate.

The debate over foreign ownership in Australia is not unique. Similar debate on the adverse effects of MNEs is also taking place elsewhere (e.g. in large and small countries alike). One common thread in this debate is that it has taken place in a slightly jingoistic and simplistic manner. The winners and losers from the activities of MNEs are not well understood. Corporate executives, government and unions stand to lose the most because they lose control when MNEs enter a particular country. However, the benefits from further integration into a global network accrue to a wider segment of the population and as such is likely to far outweigh the losses to narrow subsections of society. Unless the extent of such benefits are carefully researched and assessed, the xenophobic sentiments against MNEs are likely to continue.

## End Notes

i On the basis of population size and gross domestic product, this would include, for example, France, Sweden and Canada.

ii Venaik, Sunil, Midgley, David, and Timothy Devinney, "Autonomy, Networking and Interunit Learning in an Model of MNC Subsidiary Innovation and Performance," Unpublished working paper, AGSM and INSEAD, May 2001.

## Blunders

They speak English in the both Australia and the USA, right? The movie Crocodile Dundee does a great job of portraying that English is not always English, and that misunderstandings, because of cultural differences in language and gesture, are easy. Two examples illustrate the difficulties:

- John Zeeman, then Executive Vice President (Marketing and Planning) for United Airlines, in a speech to the Academy of International Business (1987) said "fortunately the solution to operational problems can be fairly straight-forward" but "far more serious … is cultural illiteracy". He related a number of blunders that United had made in their entry into the Pacific region. Among these –

  - "Perhaps the most embarrassing mistake was our inflight magazine cover that showed Australian actor Paul Hogan wandering through the Outback. The caption read, 'Paul Hogan Camps it Up.' Hogan's lawyer was kind enough to phone us long-distance from Sydney to let us know that 'camps it up' is Australian slang for 'flaunts his homosexuality.'

- The Globe and Mail (August 23, 1993) featured a photograph of President George Bush giving a thumbs up signal with the headline "When it's not okay to say okay" as part of a primer on the different meaning of gestures. The report says that the President had concluded a successful trip to Australia when he walked up the stairs to Airforce One for the trip home – he turned to the crowd and gave the thumbs up, surprising the waiting Australians by a signal which is essentially the equivalent of the raised middle finger in the USA.