The Search for Synergy between Institutions and Multinationals: Institutional Uncertainty and Patterns of Internationalization

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The search for synergy between institutions and Multinationals: institutional uncertainty and patterns of internationalization

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Abstract

The debate on globalization has long been characterized by theses of institutional convergence and divergence. The emergence of Anglo-Saxon shareholder capitalism as the dominant paradigm since the start of the 1990s is associated with the pursuit of global strategies by Multinational Enterprises (MNEs) and the consolidation of a multilateral trade regime. Yet the link between actual MNE strategies and developments in the institutional arena remains an understudied phenomenon. Tensions between multiple levels of institution building – unilateralism, regionalism and multilateralism – create an environment of strategic uncertainty for MNEss. Consequently, MNEs' actual international strategies reveal much about perceptions of the institutional environment in which they operate and allows for the documentation of more subtle paradigm shifts. The internationalization strategies pursued by MNEs from the Triad over the 1990s reveal that a multilateral strategic reality was anticipated by only an elite few, while the vast majority of firms operated in a unilaterally- or at best regionally-determined institutional environment. This contribution suggests that institutional restructuring is multifaceted and sometimes contradictory, casting a new and more subtle light on the globalization debate.

Keywords: Institutions, globalization, regionalization, international strategy

Introduction

The debate on the nature and significance of 'globalization' – indeed whether it exists at all – has centered largely on the discussion of an emerging paradigm of convergent institutional development (Radice, 2000). Traditionally the literature on globalization has been classified as 'globalizationist' (Ohmae, 1990; Reich, 1991; Levitt, 1983) or 'skeptical' (Wade, 1996; Boyer and Drache, 1996; Hirst and Thomson, 1996). The debate is strongly driven by concerns that globalization amounts *de facto* to the rise and diffusion of Anglo-Saxon liberalism on a global scale in the form of large public Multinational Enterprises (MNEs) embracing the shareholder model of capitalism as the preferred institutional environment (Hay, 2004).

As drivers of international restructuring, MNEs are rightfully positioned at the heart of the 'globalization' debate. Yet the underlying relationship between (perceptions of) institutional development and the international strategies of MNEs has thus far been relatively understudied, with relatively few exceptions (Holman and van der Pijl, 1996; Ruigrok and van Tulder, 1995; Hirst and Thomson, 1996). While some authors pay particular attention to the non-market aspect of firm strategy in building institutions (Baron, 2000; Cowles, 1995; Greenwood, 1997), the role of market strategy has been addressed to some extent in the literature on business-government relations, e.g. the literature on the 'obsolescing bargain' (Vernon, 1971; Kobrin, 1987). This emphasis on firms has been even more developed in the International Business literature on e.g. 'flagship firms' (Rugman and D'Cruz, 2000) and 'leader firms' (Lorenzoni and Baden-Fuller, 1995). Taken together these bodies of literature show that governments and large companies are the two main actors in institutional change (Vernon, 1994).

Much of the management literature that emerged concurrent with the International Relations literature on 'globalization' and 'convergence' in the 1980s and early 1990s was characterized by an emphasis on global strategies (Porter, 1986; Prahalad and Doz, 1987; Bartlett and Ghoshal, 1989; Ohmae, 1990; Dekker, 1991). By the mid-1990s studies were beginning to emerge that tempered the focus on 'global', highlighting the viability of alternate strategies (Rugman, 2000; Schlie and Yip, 2000). This view was also rooted in empirically founded suggestions of the existence of an 'internationalization threshold' and the risk of overstretch (Geringer *et al.*, 1989) with respect to the performance implications of MNE internationalization. More recent studies even argue that the center of gravity in institutional development as well as the strategies of firms is in fact found at the supra-national regional level (Rugman and Verbeke, 2004; Delios and Beamish, 2005).

The uncertainty in strategy thinking is mirrored by uncertainty in companies' institutional environments. The fall of the Berlin Wall in 1989 was heralded by many as the beginning of the era of globalization and the supremacy of multilateral institutions with a free-market agenda. Instead, the fifteen years following 1989 turned out to be much more convoluted. In the 1990s, business leaders were generally strong proponents of the 'globalization' trend, but in practice have also been actively engaged in supporting initiatives to establish and/or strengthen regional integration initiatives, even with divergent visions of how regional integration should develop (van Apeldoorn, 2002). Rather than unequivocal support for the multilateral institutions that would reinforce globalization, a strange institutional mixture of multilateralism, regionalism and unilateralism has therefore developed, with each representing different, and potentially conflicting, visions of global economic restructuring. This institutional mixture has thus also sent mixed signals to managers on how to organize their activities.

The viability of institutional arrangements is rooted in the support it receives from societal actors – in this case particularly governments and multinational firms. How did MNEs respond to this international institutional ambiguity in their internationalization strategies and what does this reveal as to the viability of the chosen arrangements? Is a domestic strategy still viable for major players in today's economy? Did companies have global orientations, regional ones or some combination thereof?? Business is confronted with the question of how to develop sophisticated general strategies during uncertain circumstances; for policymakers, the question remains how business assesses the institutional environment and adapts strategy accordingly.

This paper first explores further the link between institution building and the internationalization strategies of MNEs at a conceptual level. Next we develop a typology of international strategies and discuss briefly some of the strategic issues that arise under different institutional frameworks. Finally, we look at the actual strategies adopted by a set of the world's largest companies from the United States, Europe and Japan (the Triad) for the 1990-2001 period in which most of the international institutional changes materialized. This part considers the consequences and implications of those strategies for firm performance as well as for the global institutional context.

The emergence of uncertainty: tension between institutional layers

Studying the relationship between institutional uncertainty and company strategies, represents a classic 'level-of-analysis' problem. Three 'layers' can be distinguished in the institutional environment that companies face. At the highest level, the 'multilateral layer' is embodied by the move towards a 'global' system and convergence in global economic and political institutions. World trade and foreign direct investment (FDI) flows relative to world

GDP have been on the rise, along with cross-border mergers and acquisitions (M&As) (UNCTAD, 1999). At the same time, the world's foremost multilateral institution in the realm of the global economic system, the World Trade Organization (WTO), has grown from 123 members in 1989 to 148 members in 2005. Even so, WTO negotiations have stalled amidst a rain of public protest and shifting balances of power within the WTO itself. Multilateral institutions in other areas, such as the Kyoto protocol on greenhouse gas emissions and the OECD's Multilateral Agreement on Investment (MAI) have run aground, indicating that the multilateral system may be losing steam.

Meanwhile the 'regional layer' of institution building seems increasingly to represent the fast track of international restructuring. The number of Regional Integration Agreements (RIAs) in the world has exploded in recent years, rising from fewer than 50 in 1990 to more than 150 in 2004, with considerable uncertainty as to whether regionalism is a 'building block' or a stumbling block' to further multilateralism (Bergsten, 1997). Although in principle the WTO does not allow for RIAs that raise barriers to trade, in practice RIAs like the North American Free Trade Agreement (NAFTA) and the European Union (EU) are fraught with exemptions such that most do not even approach anything like 'free' trade (Globerman, 1994) or the unrestricted movement of factors of production.

At the same time, the 'unilateral layer' continues to exist as well. Many states continue to take a unilateralist approach to the international institutional environment, either in the form of outright unilateralism, demonstrated by countries such as North Korea and Iran, to more hidden forms of unilateralism pursued by individual states in either the multilateral or the regional context, characterized for instance by a preference for individually established bilateral trade agreements or a reluctance to submit to multilateral agreements (cf. Lung and van Tulder, 2004).

Examples of this underlying form of unilateralism are e.g. the United States' venture into Iraq, its rejection of the Kyoto Protocol on Greenhouse Gas Emissions, and its current approach to trade relations with Latin America; Norway's reluctance to join the European Union; the UK's continued aversion to the Euro; or the popular rejection of the EU constitution by France and the Netherlands in 2005. These developments support the view of Whitley and Christensen (1996) and van der Pijl (1992) who argue that national institutions and interests – and hence 'unilateralism' – will not be erased by integration.

The strategic uncertainties posed by these multiple and shifting layers of the institutional environment center on how fragmented or cohesive the emergent environment will be. Would multilateralism be the dominant track for international restructuring? If so, will it be far-reaching and balanced, or continue to be ad hoc and heavily contested? Similarly, it remains uncertain how regionalism will continue to develop as a 'fast track' of international restructuring, not only in terms of policy harmonization and cooperation ('depth'), but also in terms of market access, mobility of production factors and membership ('openness'). Will integration be primarily 'negative' (consisting of dismantling institutions such as trade barriers) or 'positive' (building institutions able to deal with e.g. macroeconomic risks and reduced national policy latitude, as in the case of the Stability Pact in Europe)? Will regionalism develop in multiple locations in an atmosphere of conflict, or will regions develop parallel to a strong multilateral system such that the two are mutually reinforcing ('parallel regional-multilateralism')? And finally, as a consequence, it remains unclear whether and to what extent individual states will be a major source of unilateral institution-building in the 21st century.

These potentially divergent institutional developments at the multilateral, regional and unilateral level create push and pull forces that influence the geographic dispersion of firms. By considering the de facto strategies pursued by firms from 1990 onwards, insight can be gained into the shifting balance between layers of institutional development and their interplay with firm strategies, also leading to improved understanding of the multifaceted outlook of what is often too casually referred to as ‘globalization’.

Institutional restructuring and MNE internationalization strategies

The relevance and potential impact of institutional uncertainty for firms depends largely on actual (as opposed to intended) firms’ strategies (cf. Ruigrok and van Tulder, 1995). The relevant period to study is the decade following the fall of the Berlin Wall in 1989, which heralded the beginning of the end of the Cold War, but also showed the greatest international institutional uncertainty. The key characteristic of firms’ strategies is their actual internationalization strategies in the subsequent period. International strategy reflects not only the overall degree of firm internationalization (DOI), but also the geographic scope of that internationalization. In practice, both vary considerably. Despite much of the attention for ‘global’ strategies, it is increasingly accepted even today that the vast majority of Fortune 500 firms, have regional, if not domestic, orientations (Rugman and Verbeke, 2004). Many cases of the latter can be found e.g. among leading American retailers, while at the other extreme, firms such as Nestlé and Philips may generate more than 95 percent of their sales outside their respective home countries. In between the (home) regional geographic scope and the global scope, various levels of geographic orientation have been identified ranging from ‘host regional’ to ‘bi-regional’ (Rugman and Verbeke, 2004) and ‘Triadic’ or even ‘quadratic’ (Delios and Beamish, 2005).

In exploring firm strategies, we concentrate on a sample of the largest Fortune 500 non-financial firms from the Triad. We documented the geographic dispersion of firm assets across Triad regions. The internationalization of assets of non-financial firms is a better and more stable indicator of internationalization than either the internationalization of sales or employment (cf. UNCTAD, 1999). The geographic dispersion of assets is also related to the growth of Foreign Direct Investment (FDI), which is considered a better indicator of 'globalization' than for instance the growth of international trade. For Triad-based Fortune Global 500 firms, five general levels of geographic scope could be distinguished in the base year 1990: domestic; (home) regional; bi-regional; semi-global and global (Table 1). A *domestic* orientation means that virtually all goods are produced within the home country borders. In practical terms, some of this production may be exported as final goods or for final assembly in foreign markets but the home market will continue to account for at least 75 percent of total sales. A domestic orientation may be rooted in sufficient home-market size, home market protection, or in strategically sensitive sectors such as defense or aerospace.

TABLE 1 HERE

Home region strategies tend to have their roots in strong domestic positions and incremental internationalization. Although firms with a home-region focus often have an extra-regional dimension to their international strategies, this reflects in practice no more than ten to 25 percent of overall activity. *Regional* strategies are based on the exploitation of activities in countries inside the home region by virtue of their low geographic, economic, administrative and cultural distance (Kostova and Zaheer, 1999; Ghemawat, 2003), often entailing some regional division of labor. These relatively low forms of distance reduce transaction costs and allow for improved exploitation of scale economies through e.g. platform strategies while keeping the 'liability of foreignness' (Zaheer, 1995) manageable. Car companies such as Chrysler, Fiat and Peugeot were key examples of firms pursuing a regional integrated strategy in 1990.

Bi-regional strategies are those by which production and consumption are more or less evenly split across the home region and one primary host region. Such strategies have traditionally been confined nearly exclusively to the 'dyad' of North America and Europe and are one of the anchors of 'trans-Atlanticism'. Firms with a bi-regional orientation generally have a long history in both regions that often pre-dates World War Two. Bi-regional strategies are linked to market size, synergies in consumption patterns and living standards, or similarities in technologies and tastes. *Bi-regional* strategies in 1990 could be seen in e.g. food and retail (e.g. Ahold, Franz Haniel and Sara Lee) and the chemical and electronics industries (e.g. Dow Chemical, Du Pont, IBM and Compaq).

A *semi-global* strategy exists when a firm's home region continues to account for about 50 percent of the firm's activities, while the remaining 50 percent is spread more or less evenly over at least the remaining two Triad regions. In practice strategies of this type reflect firms from North America or Europe with a bi-regional orientation that had expanded into Asia to generate production of intermediate and final goods for markets in North America and Europe. Firms in this context in 1990 were e.g. Philips, Motorola, Hewlett Packard and Imperial Chemical Industries.

Global strategies are reflected *de facto* in a relatively even spread of production across the three Triad regions of North America, Europe and Asia. Despite the emphasis in the management literature at the time, only very few firms pursued true global strategies in 1990, concentrated in two industrial clusters. A small number of global firms could be found on the one hand in fast-moving consumer goods (Nestlé, Unilever, Coca-Cola and British American Tobacco) and on the other hand in petroleum extraction and refining (Exxon, Royal Dutch Shell, British Petroleum and Mobil) or related industries (British Thermoplastics and Rubber).

Issues of emergent strategic uncertainty: the search for synergy

Over time, there is an interplay between a firm's geographic scope and the institutional environment in which the firm operates. The different levels of institutions can be juxtaposed against the various levels of firm geographic scope to show how a lack of synergy between the two can generate expansionary or contractionary pressures on firms (Figure 1). When a firm's geographic scope largely reflects the predominant level of instutitional development to which the firm is exposed, the institutional environment and the firm's international strategy are said to be in synergy. For instance, in a world in which regional-level integration processes predominate, the development of a predominantly regional orientation will mitigate unnecessary risks that might otherwise exist if the firm had a solely domestic orientation. In turn, in a multilaterally-determined global system, (semi)global firms face relatively low levels of uncertainty in their operating environment due to the transparency and relative homogeneity of supranational institutions. A predominance of global institutions will facilitate strategies of a broad geographic scope, while the fragmentary nature of institutions driven by national interests will discourage strategies of a broad geographic scope.

FIGURE 1

As the institutional environment changes over time, these changes will exert pressures on firms depending on their geographic scope. For example, globally-oriented firms will have optimal latitude in arranging and coordinating their operations under a consolidated multilateral system. If, however, the emphasis in institution-building shifts from the multilateral level to the regional level, tensions at the institutional level can put strains on the firm's ability to manage its global strategy. As individual regions such as the European Union (EU) or North America under the North American Free Trade Agreement (NAFTA) pursue their own respective policy agendas, the chance of cross-regional harmonization decreases relative to the case of an (anticipated) single, multilateral system. This creates tension within firms that span multiple regions. That tension can translate into contractionary pressures, by which the firm may best be served by increasing regional-level autonomy within the organization or even reducing the geographic scope of its operations. On the other hand, firms that have developed solid domestic strategies in an environment of unilaterally determined national markets are exposed to expansionary pressures if the unilateral approach is abandoned for a regional or multilateral track of institutional development.

Table 2 addresses some of the key strategic issues that arise through institutional uncertainty given the way different firms had organized their activities spatially in 1990. Domestic firms, for instance, are faced with uncertainty as to whether and how to manage a transition from a relatively manageable national environment to a regional or even global competitive space. Such firms see the potential for greater global reach, but are anxious to protect their home-market positions. On the other hand, domestic firms (e.g. Japanese carmakers) may equally be concerned with the prospect of being locked out of third-party regions, as in the case of 'Fortress Europe'.

TABLE 2 HERE

For regionally oriented firms, regional integration processes in the home region were expected to increase competition levels within the region, forcing firms to choose between regional entrenchment strategies or a risk reduction strategy based on geographic dispersion outside the region. In contrast, bi-regional firms were faced with the possibility of increased strategic complexity as a result of regional integration in both the home region and the host region (i.e., North America and Europe or vice versa). Regionalism in both regions creates a threat of institutional divergence between the two that leads to bifurcating gravitational pull and the risk of ‘overstretch’, necessitating a strategy of contraction. On the other hand, multilateral institution-building could smooth out this process and facilitate further expansion.

For semi-global strategies, a multilateral solution could be expected to facilitate further expansion and the possibility of a true global spread. Yet the gravitational pull of regional integration could jeopardize a thinly spread strategy by increasing the costs of doing business across regions. Similarly, a global strategy could profit from a multilateral regime conducive to easy market penetration, while institutional divergence through regionalism (or unilateralism) could at the same time increase the tension between a firm’s need to aggregate in order to exploit scale and local responsiveness pressures by de facto increasing the institutional distance between regions and /or countries (cf. Kostova and Zaheer, 1999).

Strategic migrations between multilateralism, regionalism and unilateralism

The multiple layers of institutions, and the uncertainty that surrounds them, are relevant in different ways to firms with different patterns of internationalization. A firm’s pre-existing internationalization pattern is instrumental in shaping its strategic response to the prevailing institutional framework. Figure 2 provides a number of indicative examples of the way contractionary and expansionary pressures can affect a firm's internationalization strategy under different circumstances. In the figure, pressures to expand or contract are broken down into two components: inside the home region and outside the home region. For example, if regionalism emerges as the prevailing institutional framework, this will exert contractionary pressures on (semi-)global MNEs both inside and outside their home regions (1). On the other hand, regionalism will generate expansionary pressures for domestically oriented firms (5). In contrast, regionally oriented firms will be faced with contractionary pressures in the case of unilateralism (2), and so on. Below these ideal-type migrations will be compared to the actual strategic migrations of large firms from the Triad to substantiate which pressures dominated for which kinds of firms, and thus which institutional layers formed the basis of firm strategic realities over the 1990s.

FIGURE 2 HERE

Japanese strategies: responding to regionalism on the outside

In 1990, the average domestic share of company assets for the 60 largest Japanese firms was well over 90 percent. Most of the large well-known trading/manufacturing companies such as Mitsubishi, Marubeni and Mitsui were primarily domestic in their orientation, pursuing at best a limited export strategy. Others, such as Honda and to a lesser extent Toyota, pursued a peripheral domestic strategy based on assembly operations on the North American and European continents (cf. Carillo *et al*., 2004). Only Sony had well-established international production at that point, with a bi-regional integrated strategy spanning Asia and North America as well as a growing presence in Europe. These low levels of internationalization can be attributed to cultural factors (discussed elsewhere, cf. Whitley, 1999; Ruigrok and van Tulder, 1995), the choice for a particular trade and industrial policy, and the legacy of Japan's defeat in World War Two.

Since 1990, the strategies of Japanese firms have been shaped by the political choices of their government not to engage in any formal and deep regional integration initiative and to maintain a home economy that is fairly closed from the outside in (although export-oriented). This, coupled with the economic malaise that gripped Japan throughout the 1990s, led to two major strategic imperatives for Japanese companies in the 1990s. First, Japanese companies were motivated to develop and preserve a sphere of influence in Asia, fueled by the Newly Industrializing Economies (NIEs) and increased de facto regional integration under the auspices of the Association of South East Asian Nations (ASEAN). Secondly, the threat of exclusion from the North American market as a result of the North American Free Trade Agreement (NAFTA) and from the European market as a result of the Single European Market (SEM) necessitated an 'outside-in' internationalization thrust in both those regions. In the case of both imperatives, Japanese companies were faced with institutional developments that were largely out of their own hands, largely as a result of their pre-existing low levels of internationalization of production. The various forms of economic retaliation imposed upon Japan by Europe and the USA in particular – from the Plaza agreement which negatively changed the Yen-Dollar ratio to the imposition of 'voluntary' export quota – had effectively 'contained' Japan, which consequently experienced a prolonged period of economic stagnation throughout the 1990s (van Tulder, 2004).

By 2001, only a small number of firms had succeeded in building a solid international portfolio of production locations. Companies such as Honda, Bridgestone, Toyota and Nissan had developed solid bi-regional integrated strategies spanning Asia and North America in order to cater to the local content requirements for automobiles under the NAFTA. Other firms, like Mitsui and Mitsubishi, had developed modest toeholds in North America and Europe but remained within the context of their overall domestic orientation. The vast majority of Japanese firms retained a domestic or – at best – regional character throughout the period. In addition to the cultural and macro-economic aspects that shaped Japanese strategies, this can be seen as the result of a limited ability on the part of Japanese firms to influence institution-building, and therefore to manage institutional uncertainty. By not playing the international institution-building game, Japanese firms were put at a disadvantage. They found themselves fighting for market access in North America and Europe, two regions undergoing institutional transformations in the 1990s from which most Japanese firms were geographically too far removed to be able to shape substantially. In the end the Japanese state pursued only a very modest internationalization strategy, one mirrored by the majority of the largest Japanese firms.

European strategies: banking on parallel regional-multilateralism

In 1990, the largest European firms had on average two-thirds of their assets located in the home country, and in total four-fifths located in Europe. Fifteen firms were primarily domestically oriented (e.g. Tesco, Metro and Karstadt), and another 29 firms showed varying degrees of regional orientation (e.g. Peugeot, Thyssen, Preussag, BMW and Danone). Four of the European firms were bi-regional in 1990 (e.g. Ahold and Rhone-Poulenc) and another four were semi-global (e.g. Electrolux and Philips), while only six firms qualified as global (e.g. BP, Unilever and Nestlé). The fact that 41 out of the 62 largest European firms (66 percent) had at best a regional orientation in 1990 underscores the strategic significance of regional integration at that time. It has been argued elsewhere that European firms with different international orientations had very different attitudes towards European integration (van Apeldoorn, 2002; Holman and van der Pijl, 1996). Those attitudes can largely be traced back to the strategic issues addressed above.

The move away from a predominantly nationally-organized business environment to one of deepening regional integration exerted pressure on domestically oriented firms to expand their geographic scope. Primarily, that expansion was targeted at the rest of Europe. However, the subsequent prospect of a region-wide shakeout due to enhanced regional competition induced domestically oriented firms to expand outside Europe as well. This process was in turn facilitated by a strong belief in Europe in the multilateral process, in the form of the GATT's 1995 transformation into the WTO. This expectation of parallel regional multilateralism on the part of European countries, and on the part of European companies, also facilitated extra-regional expansion by firms with a pre-existing regional strategy. In many cases, regionally oriented firms complemented extra-regional expansion strategies by also expanding their home regional base. It is also worthy of note that six of the 62 European firms under scrutiny were acquired by other firms during the decade (in all but one case at the hands of another firm in the set), and that all six were regionally oriented MNEs. This suggests that the regional-level shakeout was already underway by the end of the decade.

Bi-regional and semi-global firms, with their greater geographic scope, were perhaps better aware of the uncertainties plaguing the multilateral system at the time and subjected less to the expansionary pressures associated with the expectation of an emergent parallel regional-multilateral institutional environment. To these firms, the apparent dynamism of European integration represented a gravitational pull on the geographic scope of their activities. Moreover, the consolidation of the NAFTA as an inward-looking regional integration agreement (see below) created tension in bi-regional and semi-global strategies, which are primarily based on developing synergies between European and North American activities. As regionalism began to supersede multilateralism as the dominant institutional framework, bi-regional and semi-global firms were exposed to increasing contractionary pressures.

Consequently, in two of the four cases (Pechiney and Franz Haniel) European bi-regional firms showed a *reduction* in North American assets and an *increase* in the share of assets in the home region over the 1990s. On the other hand, semi-global European firms (ICI, Philips and Electrolux) continued to internationalize marginally outside of Europe, but did so in a relatively concentrated fashion instead of pursuing a 'global' geographic scope. In most cases additional internationalization amounted to consolidation of existing activities in existing locations – a primarily defensive strategy. In contrast, the six global European companies managed to increase their global dispersion over the decade, suggesting that at the highest levels of internationalization, the gravitational effects of regional (and to some extent unilateral) processes are less tangible.

Evidence that the internationalization strategies of European MNEs over the 1990s were primarily organized around regionalism suggests that regionalism in Europe was the level of institutional development associated with the lowest levels of uncertainty. Moreover, the parallel emergence of regionalism in North America seems to have further precipitated a regional orientation among European MNEs, and likely reinforced the uncertainty surrounding multilateralism. The result appears to have been the emergence of a 'chasm' between regional strategies and global strategies that represents the institutional uncertainty surrounding the parallel development of regional and multilateral institutions.

North American strategies: the shift towards regionalism

Many of the general trends observed among European MNEs are evident among North American MNEs as well, in particular the general trend towards increased internationalization among the least international firms in 1990, and relatively little internationalization among the most internationalized firms. However, some important differences can be identified as well. To begin with, more North American firms had a primarily domestic orientation in 1990 (28, or 48 percent) than their European counterparts (15, or 25 percent). Secondly, while European domestically oriented firms in many cases pursued internationalization simultaneously both within Europe and without, North American firms tended to opt for the one or the other – and in many cases did neither. Five companies (Costco, Wal-Mart, AT&T, GTE and Sears) expanded primarily within the NAFTA region, while two companies (GE and ARCO) pursued expansion strategies aimed outside of North America. Most striking is that a full 16 firms pursued a 'stay at home' strategy and hardly internationalized at all. By the end of the decade, however, five of the original 28 domestically oriented North American firms had been acquired, in three cases by other firms in the sample.

Largely as a result of the relatively small size of the Canadian and Mexican economies, most regionally-oriented North American firms had more extra-regional activity than did European regionally-oriented firms to start with. Of the 18 regionally-oriented firms in the US in 1990, 13 pursued internationalization strategies involving expansion in North America. Of those, seven combined regional expansion with expansion outside the home region. Five companies reduced their home region positions over the decade, in all but one case in combination with extra-regional expansion. By 2001, three regionally oriented firms had been acquired by or merged with other firms (ARCO, Amoco and Chrysler).

Bi-regional companies, with solidly established bases in North America and Europe, show similar patterns as European bi-regional companies. In contrast to the expansionist tendencies of regionally oriented firms (and to a lesser extent domestically oriented firms), bi-regional North American MNEs showed a marked reduction in the scope of their extra-regionality, with only one exception (Dow Chemical). In contrast, three of the four semi-global MNEs continued to expand extra-regionally, targeting in particular Asia. The three global MNEs did not show any clear tendencies, with data clouded by the merger between two of the three (Exxon and Mobil). However, both ExxonMobil and the other remaining global North American MNE (Coca-Cola) showed lower levels of extra-regional activity in 2001 than in 1990, indicating overall a modest relative contraction.

Overview

The palette of diverse strategies pursued by Triad firms over the 1990s is shown in Figure 3. The axes of the diagram run in two directions from the center, representing either intra- or extra-regional contraction or expansion, respectively. The center of each axis, and thus the center of the diagram, represents 'no change' in one direction or the other. From that point, firms can migrate in four general directions: global expansion, which includes internationalization both inside and outside the home region; regional expansion, which involves an increased focus solely on the home region; regional escape, by which internationalization occurs outside the home region; and retreat, involving contraction across both dimensions.

Figure 3 shows on the one hand that many Japanese and North American firms remained primarily domestically oriented even into the new millennium. On the other, many domestic and regional firms embarked on global expansionist trajectories, combining growth within the region and growth without. More fundamentally, Figure 3 shows that the MNEs with the highest levels of internationalization in 1990 in general experienced contraction over one or, in some cases, both dimensions, suggesting that a general 'globalization push' has not occurred since 1990. Rather a complex mix of strategic migrations has taken place that mirrors shifts in institutional emphasis in different geographic spaces over the decade, as well as differences in perceptions of the institutional environment by firms at different levels of internationalization. The evidence indicates that highly internationalized firms were better able to use their geographic scope to assess the real developments in the institutional environment over the 1990s, while domestic and regional firms may have generated a 'bandwagon effect' as a result of the globalization hype.

FIGURE 3 about here

As a final example of how firm strategies mirror the institutional environment in which they operate, it should be noted that changes in the sample of firms under study occurred over the decade in the form of mergers and acquisitions (M&As). In total, 16 firms in the list were acquired by others or merged with another firm in the sample (circa ten percent of the total). Striking is that in Europe, the wave of mergers all involved firms with a regional orientation. In North America, on the other hand, the wave of mergers occurred at the domestic level, with five of the ten cases involving domestically oriented firms. Although this pattern is clearly shaped in part by changing competition and market consolidation, it must be emphasized that developments in firms' 'competitive space' are inextricably intertwined with developments at the politico-institutional level.[i]

Conclusions

This paper is aimed at creating nuances in the debate on institutional and economic transformation by revealing a considerable degree of institutional and strategic complexity. By addressing three levels of institution building, we have tried to reduce complexity and pinpoint some of the tensions that exist between these institutional levels. Moreover, we attempted to establish a link between institution building and the strategic reality of MNEs in the form of the search for equilibrium, or 'synergy' between institutions and international strategy. We explored the different geographical orientations of non-financial MNEs from the Triad, and the strategic migrations they pursued over the 1990s, to glean insight into the perceptions of MNEs of their institutional environment and the pressures to expand or contract the geographic scope of their activities in an attempt to improve synergy.

The evidence from MNE internationalization strategies in the 1990s shows that institutional development in the perception of firm strategies was far more complex than is suggested by the convergence-divergence debate. The notion of a multilateral, globalized world that received so much attention in the academic literature and media in the late 1980s and the 1990s has been the institutional reality for only a very small number of select firms with a truly global strategy. The evidence presented here suggests that to the strategists of the overwhelming majority of MNEs from the Triad, strategic reality was shaped most by institution building at the regional level, and in many cases Triad firms even saw unilaterally developed institutions as strategically most relevant.

Just as the past decade and a half paints a complex picture, the future is also likely to be plagued by further institutional uncertainties. Will the multilateral system get back on track after Cancùn, or does the rise to prominence of some of the world's larger less-developed countries such as Brazil and India within that framework signal a return to unilateralism? Does Europe's expansion into Eastern Europe in May 2004 represent consolidation of a regional sphere, or will the 'Anglo-Saxon' mentality of many of the new members provide a 'globalist' impetus to European integration? Or will growing resistance within 'Old' Europe to further integration and expansion set the tone for a shift from parallel regional multilateralism to conservative regionalism? Will the 'chasm' continue to grow between the US and Europe which arose through parallel regionalism trajectories in the 1990s, and has been exacerbated by political tensions over Irak and other issues, as US investors pull out of Europe (Business Week, May 23 2005)?

Perhaps more profound is the potential shift in institutional development signaled by China's accession to the WTO in 2000. Recent years have witnessed the emergence of China as not only a major production powerhouse, but as an up-and-coming buyer of Western MNEs in a gambit to acquire technology and local market presence. At the same time speculation continues to exist surrounding the emergence of a de facto trading bloc dominated by China in the East. The rise of China may be a particular source of uncertainty to the US, and may trigger a consolidation of unilateralist tendencies. The one-off growth effects of the NAFTA appear to be waning given the erosion of Mexico's comparative advantage relative to cheap producers in East Asia, and the hope of an FTAA has all but faded. Together these complex shifts in the geo-political landscape exert gravitational pull on MNEs, and will continue to reshape not only the institutional environment, but also global competitive spaces.

[i] Comparable patterns have been observed with respect to the Merger and Acquisition strategies of financial services firms like banks throughout the 1990s; the prevailing influence of domestic institutions on firm strategies - and the uncertainty on the exact outlook of international institutions like the Basle Agreement - prompted banks first to consolidate in the home market rather than to search for cross-border activities (cf. Focarelli and Pozzolo, 2001).

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Table 1: MNE Strategies

Geographic orientation	**Characteristics**	**Rationale**	**Industries in 1990**
Domestic	• >90% production and <75% sales in home country	• Security of a large and protected home market; strategic sensitivity (e.g. defense industries) • May involve a limited geographic diversification strategy based on a large protected home market and limited internationalization in protected target markets to support local assembly and sales	• Retail; utilities; aerospace; heavy industry; automotive; telecom
Home regional	• >75% production and sales in home region	• Sufficient size to avoid acquisition; internationalization strategy that avoids high agency costs in too many geographically- and culturally distant (extra-regional) markets • Exploitation of comparative advantage (division of labor) across national markets on the basis of relatively low transaction costs. Emerged from strong historical domestic positions	• Retail; fast-moving consumer goods (FMCG); utilities; autos and heavy industry; petroleum
Bi-regional	• >85% production and sales split across two regions	• Market-driven strategy that emerged in the early- to mid 20th century based on growth opportunities in North America and Europe capitalizing on relative similarities in market characteristics and growth opportunities	• Retail; FMCG; computers / electronics; chemicals
Semi-global	• ≈50% production in home region; 25% in two host regions each (sales may be slightly more extra-regional)	• Near global competitive positioning, particularly in terms of markets, but with home region bias in higher value-adding activities such as R&D and skilled production	• Electronics, chemicals and pharmaceuticals
Global	• <50% production in home region; approaching even split across home and two host regions (sales will be equally or less extra-regional than production)	• Global competitive positioning by which economies of scale or firm intangible assets can be optimally exploited over as large a geographic space as possible	• FMCG; petroleum

Figure 1: Linking institution-building and the geographic scope of MNE strategy

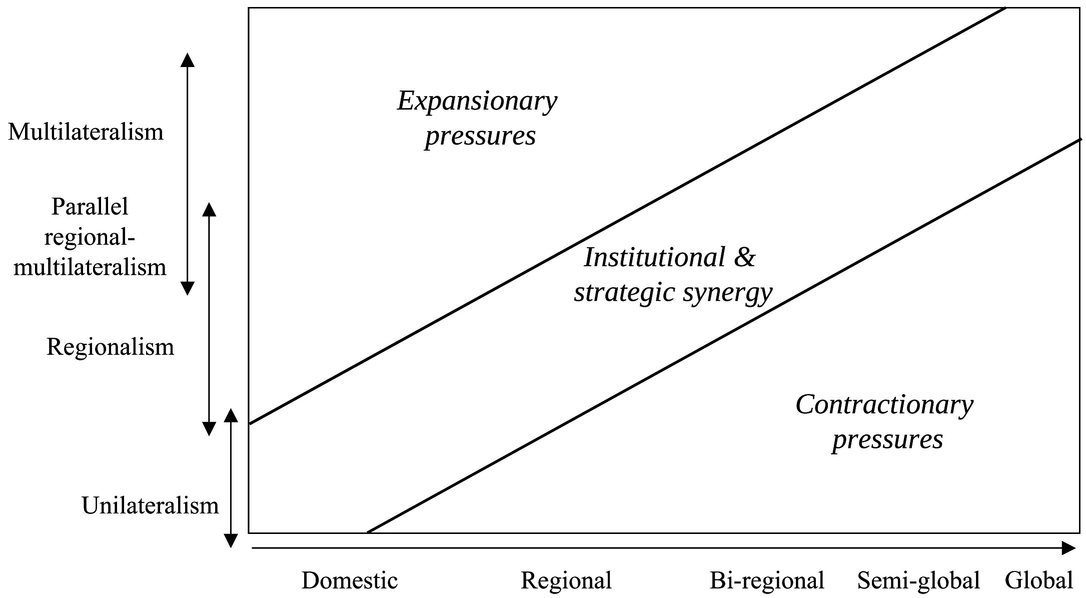


Table 2: Emergent issues of MNE strategy under institutional uncertainty

Geographic orientation	**Strategy issues under multi-layered institutional uncertainty**
Domestic	• How to manage transition from national organization to regional or multilateral environment • How to protect national production base while exploring potential for geographic expansion under regionalism or multilateralism • Formulation of 'optimal' geographic and strategic focus
Home regional	• Whether regionalism will create potential for regional synergies • How to survive anticipated shake-out • Whether to consolidate regionally or to use regional platform as a spring-board for extra-regional expansion
Bi-regional	• Whether regionalism in EU and NAFTA will lead to polarization and create a 'schism' in aggregation strategies (based on economies of scale) • Whether to attempt the leap towards a (semi)global strategy or to consolidate in (bi)regional base
Semi-global	• Whether possibilities for international and inter-regional arbitrage of factor markets will increase or decrease, and thus whether production will require increased or decreased dispersion
Global	• Whether possibilities for global aggregation or arbitrage will increase (through multilateralism) or decrease (through regionalism), and thus whether integration- and local responsiveness pressures will play out nationally, regionally or globally

Figure 2: Examples of shifts in the institutional environment and international strategy

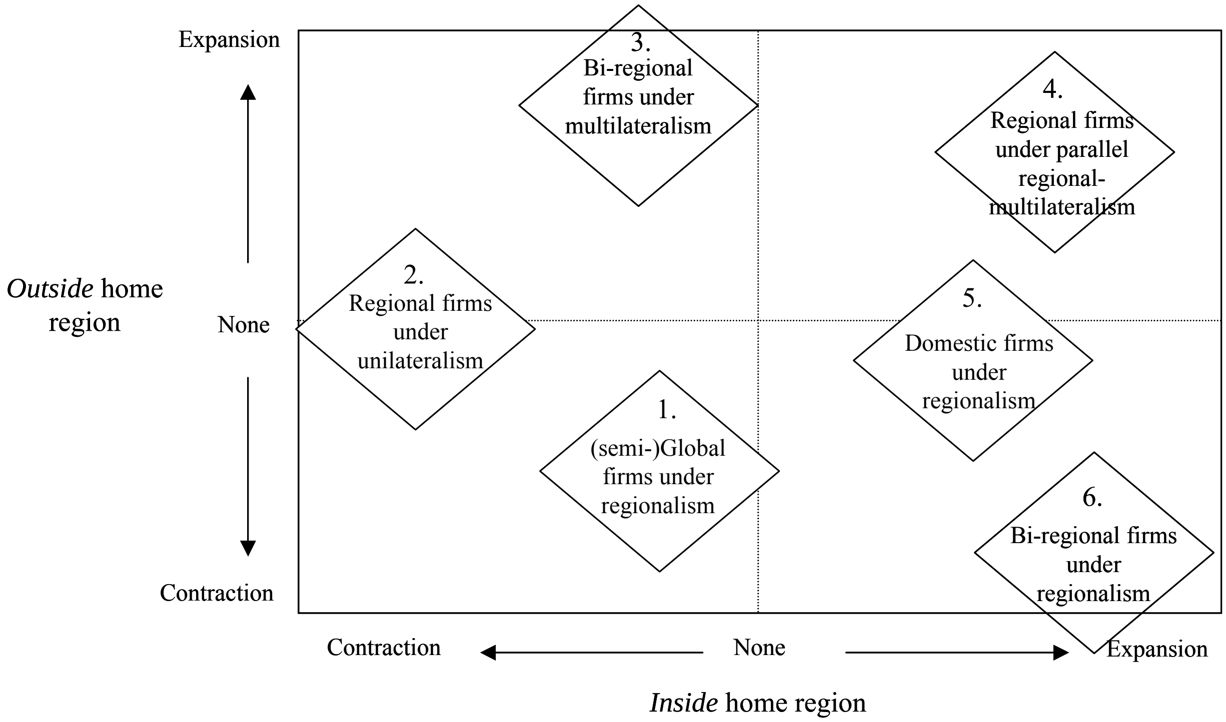
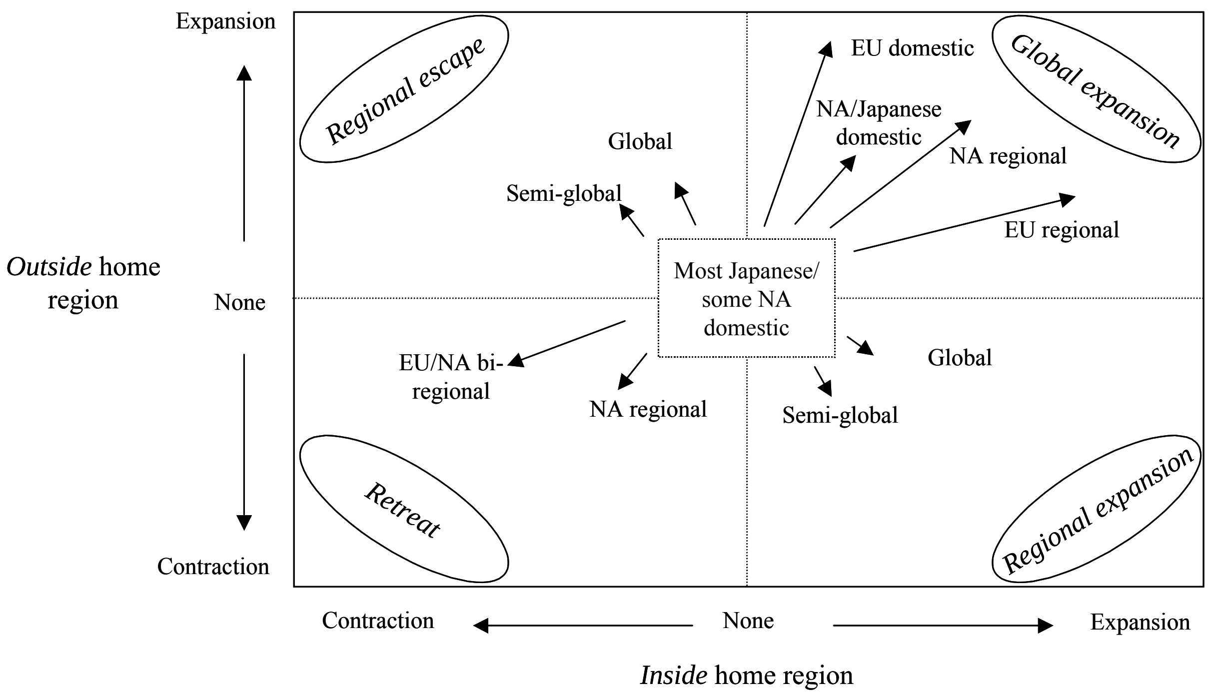


Table 3: Strategic migrations of Triad MNEs, 1990-2001



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