

Coevolution of the WTO and the and international business

How do multiple embeddedness and coevolution effect
the decision making of MNE wrt the WTO



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1 | Introduction

Trade has been as old as the Middle Paleolithic (300.000 to 30.000 years ago) and originated with the start of communication in prehistoric times. The first signs of trade have been discovered from around 150.000 years ago [Miller et al. 2006] [Watson 2005] [Fernández-Armesto 2003] [Mayell 2003] [Henahan 2002]. These first trades were in ochre, an earth pigment, used to dye fabrics. These trades were mainly in the form of bartered goods and services [O’Sullivan et al. 2003] from each other before the innovation of the modern day currency [Watson 2005]. The innovation of money meant that barter ¹ was not longer a necessity to trade goods or services. With money medium common between the supplier and the demander became available. This facilitated a wider market and created the possibility of mercantilism [Heckscher 1936]. That trade is an important aspect in our history, can be observed from the fact the silk route is still a well known aspect, although this route has been out of commission in the way that was used.

In some way money changed from a means to an objective. Amidst the financial turmoil that engulfed the world in 2012 and 2013, one may assume that "*Money makes the world go round*". The quote has been around for some time now, dating back to the musical *Cabaret* from the 1960s.

From a trade perspective money is still a means As [Mises 2009] has defined: "The function of money is to facilitate the business of the market by acting as a common medium of exchange".

¹according to [Merriam-Webster](#): barter is *to trade by exchanging one commodity for another*

By this line of thought the underlying motivation of money is the exchange of goods and later services.

After World War II much needed to change. The world had to come together. Hence two global albeit of truly global organisations have For this purpose the International Monetary Fund (IMF) and World Bank were founded in 1944.

The World Trade Organisation (WTO) was established on January 1 1995. The WTO came into existence after the General Agreement on Tariffs and Trade (GATT) had been dissolved into the WTO.

2 | Literature Review

In an time of austerity and double dips in the economy, International business (IB) is playing the game on different fields. Companies like Apple and Samsung are not only fighting for customers but also fighting in court overIntellectual Property (IP) as well. Next to this fight over IP subsidies are at the forefront of the public debate as well. Boeing and Airbus have been fighting over subsidies for decades where on more than one occasion the WTO has ruled on the validity of these subsidies. More recently solar panels have become a topic of tariffs between the European Union and China.

The field of play is governed by governments, trade blocks and the WTO on the one hand and IB on the other. A multitude of forces are acting on this playing field and the different actors on this pitch have to cooperate. Different Multinational Enterprises (MNE) will cope differently with the challenges that are set by the institutions and the environment that they are operating in. That this environment is of importance is explained by Institutional Based View (IBV) [Kostova et al. 1999; Meyer et al. 2009; Wang et al. 2012]

2.1 Institutional Based View in international Business

IBV has been a reaction on the theory of Resourced Based View (RBV) introduced by [Barney 1991]. The RBV theory has gained a lot of support in the international business community. The aforementioned article has received more than 5000 citations ¹ since it has been published

¹according to Google Scholar

in 1991.

Where RBV stated that a firm's strategic advantage is depended on its heterogeneous resources (a bundle of all assets, knowledge, and capabilities) which have to be

- (a) must be valuable, in the sense that it exploit opportunities and/or neutralises threats in a firm's environment
- (b) must be rare among a firm's current and potential competition,
- (c) must be imperfectly imitable
- (d) there cannot be strategically equivalent substitutes for this resource that are valuable but neither rare or imperfectly imitable

This concept is also known under the acronym VRIN.

In contrast to RBV, which is introspective in nature, IBV is extrospective. IBV takes into account not only strategic choices driven by industry conditions and firm-specific resources that traditional strategy research emphasises ([Porter 1980], [Barney 1991]), but are also a reflection of the formal and informal constraints of a particular institutional framework that decision makers confront ([Oliver 1997; Scott 2001]).

Following [North 1990], we understand institutions as "humanly devised constraints that structure human interaction". Institutional factors function as the formal and informal "rules of the game" that socially constrain contracting practices between the boards of directors (BoD) and executives ([]). These formal and informal constraints operate in structures for both social and economic exchanges. Institutions are pervasive in that they are capable of shaping the behaviours of multiple actors (i.e. individuals, firms, industries, and non-governmental organisations (NGOs)). More broadly speaking, institutions serve to reduce uncertainty for different actors by conditioning the ruling norms of firm behaviours and defining the boundaries of what

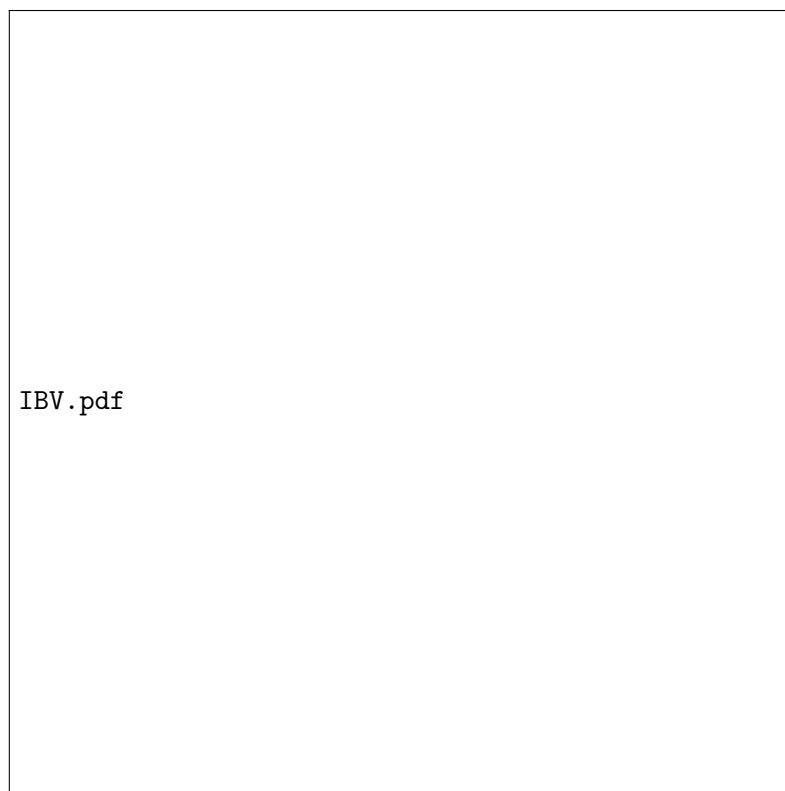


Figure 2.1: Institutions, organisations, and strategic choices. (Source: [])

is considered legitimate [Peng and Khoury 2008].

So IBV is cannot consist by itself but needs [Barney 1991] and [Porter 1980] as is shown in figure 2.1. Where looked solely at the firm in a set environment IBV also takes the surroundings into account. These surroundings are the institutions that govern the environment the MNE is playing the game. The actions of institutions can be divided into three pillars. Compliance from the firms occurs through

- (1) expedience (regulative pillar or coercive isomorphism),
- (2) social obligation (normative pillar or normative isomorphism), or
- (3) on a taken for granted basis (cognitive pillar) or mimetic isomorphism where organisations respond to uncertainty by adopting patterns of other organisations that are deemed ‘successful’ [DiMaggio:1983; Kostova et al. 1999; Peng and Khoury 2008; Scott 2001; Westney 2005].

MNE conform to these pillars or isomorphisms because these provide legitimacy [Powell et al. 1991]

Although firms take decisions on the individual resources and capabilities [Barney 1991] the influence of institutions can no longer be ignored. This is the difference between and IBV.

According to [Peng 2003] unfortunately, little is known about how organisations make strategic choices when confronting such large-scale institutional transitions.

Firms do not only have to look at their resources and capabilities [Barney 1991], but have to look at “the rules of the game” [Scott 2001]. These so called rules include the environment that the firm MNE has to adhere to.

Not only have more scholars have come to realise that institutions matter [Powell et al. 1991; Scott 2001], and that strategy research cannot just focus on industry conditions and firm resources.

The central argument is that “organisations conform to the rules and beliefs systems in

the environment because this isomorphism (regulatory, cognitive and normative) earns them legitimacy

Not only have more scholars have come to realise that institutions matter and, that strategy research cannot just focus on industry conditions and firm resources alone [Powell et al. 1991; Scott 2001].

Nowadays institutional theory appears to be a highly insightful approach when probing into organisational strategies in Asia [Hoskisson et al. 2000]

IB has long been a favourite topic in academic literature. The term IB alone gives over 2M hits in Google Scholar. Since [Porter 1980] introduced the concept of favourable industries,

When introduced the RBV in international business literature this view gained a lot of support. The theory has been expanded upon and IBV was introduced by [Kostova et al. 1999; Meyer et al. 2009; Wang et al. 2012]

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Acronyms

BoD boards of directors. [4](#)

GATT General Agreement on Tariffs and Trade. [2](#)

IB International business. [3](#), [7](#)

IBV Institutional Based View. [i](#), [3](#), [4](#), [6](#), [7](#)

IMF International Monetary Fund. [2](#)

IP Intellectual Property. [3](#)

MNE Multinational Enterprises. [3](#), [6](#)

NGO non-governmental organisation. [4](#)

RBV Resourced Based View. [3](#), [4](#), [7](#)

WTO World Trade Organisation. [2](#), [3](#)