

Coevolution of the WTO and the and international business

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



UNIVERSITY OF AMSTERDAM

Duco Wiertsema

University of Amsterdam

Supervisor 1:

Supervisor 2:

A thesis submitted for the degree of

Master of Science in Business Studies

June 2013

Table of Contents

Table of Contents	i
1 Introduction	1
2 Literature Review	3
2.1 Institutional Based View in international Business	3
Bibliography	7
Acronyms	14

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

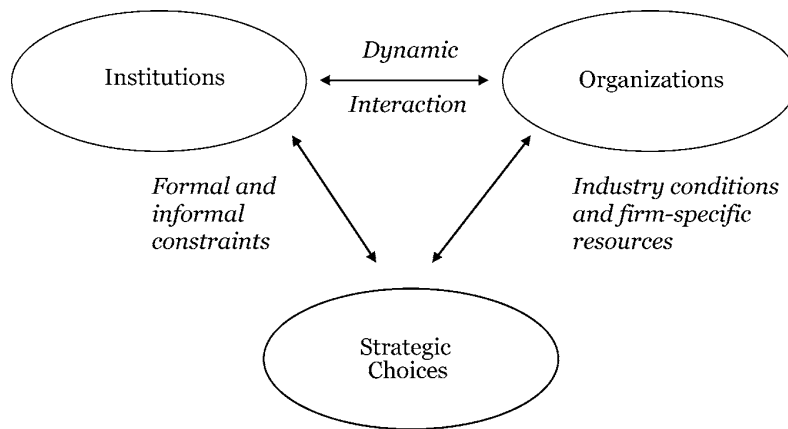


Figure 2.1: Institutions, organisations, and strategic choices. Source: []

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 strate-

gic 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 MNEhas 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]

Bibliography

- [Barfield 2001] Claude E Barfield. “Free Trade, Sovereignty, Democracy: Future of the World Trade Organization”. In: *Chi. J. Int’l L.* 2 (2001), p. 403.
- [Barney 1991] Jay Barney. “Firm Resources and Sustained Competitive Advantage”. In: *Journal of management* 17.1 (1991), pp. 99–120.
- [Buckley et al. 2007] Peter J Buckley et al. “The determinants of Chinese outward foreign direct investment”. In: *Journal of International Business Studies* 38.4 (2007), pp. 499–518.
- [Cantwell et al. 2009] John Cantwell, John H Dunning, and Sarianna M Lundan. “An evolutionary approach to understanding international business activity: The co-evolution of MNEs and the institutional environment”. In: *Journal of International Business Studies* 41.4 (Dec. 2009), pp. 567–586. DOI: [10.1057/jibs.2009.95](https://doi.org/10.1057/jibs.2009.95).
- [J Child 1972] J Child. “Organizational Structure, Environment and Performance: The Role of Strategic Choice”. English. In: *Sociology* 6.1 (Jan. 1972), pp. 1–22. DOI: [10.1177/003803857200600101](https://doi.org/10.1177/003803857200600101).
- [John Child et al. 2005] John Child and Suzana B Rodrigues. “The Internationalization of Chinese Firms: A Case for Theoretical Extension?[1]”. In: *Management and organization review* 1.3 (2005), pp. 381–410.
- [Dodge et al. 1994] H Robert Dodge, Sam Fullerton, and John E Robbins. “Stage of the organizational life cycle and competition as mediators of problem perception for small businesses”. English. In: *Strategic Management Journal* 15.2 (Feb. 1994), pp. 121–134. DOI: [10.1002/smj.4250150204](https://doi.org/10.1002/smj.4250150204).

- [Draucker et al. 2007] C B Draucker et al. “Theoretical Sampling and Category Development in Grounded Theory”. English. In: *Qualitative Health Research* 17.8 (Oct. 2007), pp. 1137–1148. DOI: [10.1177/1049732307308450](https://doi.org/10.1177/1049732307308450).
- [Düzgit et al. 2011] S.A. Düzgit and S. Suvarierol. “Turkish Accession and Defining the Boundaries of Nationalism and Supranationalism: Discourses in the European Commission”. In: *South European Society and Politics* 16.3 (2011), pp. 469–482.
- [Dyer et al. 1991] W Gibb Dyer and Alan L Wilkins. “Better stories, not better constructs, to generate better theory: A rejoinder to Eisenhardt.” In: *Academy of management review* 16.3 (Jan. 1991), pp. 613–619.
- [Economist 2009a] Economist. “A dogfight no one can win”. In: *Economist* (Aug. 2009), pp. 1–2.
- [Economist 2009b] Economist. “Boeing and Airbus argue about subsidies”. In: *Economist* (Aug. 2009), pp. 1–3.
- [Eisenhardt 1989] Kathleen M Eisenhardt. “Building theories from case study research”. In: *Academy of management review* (Jan. 1989), pp. 532–550.
- [Eisenhardt 1991] Kathleen M Eisenhardt. “Better stories and better constructs: The case for rigor and comparative logic.” In: *Academy of management review* 16.3 (1991), pp. 620–627.
- [ELLINAS et al. 2011] ANTONIS A ELLINAS and EZRA N SULEIMAN. “Supranationalism in a Transnational Bureaucracy: The Case of the European Commission”. English. In: *JCMS: Journal of Common Market Studies* 49.5 (Jan. 2011), pp. 923–947. DOI: [10.1111/j.1468-5965.2010.02164.x](https://doi.org/10.1111/j.1468-5965.2010.02164.x).
- [Elsig 2010a] Manfred Elsig. “The World Trade Organization at work: Performance in a member-driven milieu”. English. In: *The Review of International Organizations* 5.3 (July 2010), pp. 345–363. DOI: [10.1007/s11558-010-9093-2](https://doi.org/10.1007/s11558-010-9093-2).
- [Elsig 2010b] Manfred Elsig. “The World Trade Organization at work: Performance in a member-driven milieu”. In: *The Review of International Organizations* 5.3 (2010), pp. 345–363.

- [Essen et al. 2012] Marc van Essen et al. “An institution-based view of executive compensation: A multilevel meta-analytic test”. In: 43.4 (Mar. 2012), pp. 396–423. DOI: [10.1057/jibs.2012.6](https://doi.org/10.1057/jibs.2012.6).
- [Esty 2006] D. Esty. “Good governance at the supranational scale: globalizing administrative law”. In: *Yale Law Journal* 115.7 (May 2006), pp. 1490–1562.
- [Fernández-Armesto 2003] Felipe Fernández-Armesto. *Ideas That Changed the World*. DK Publishing, 2003.
- [Gao et al. 2009] Gerald Yong Gao et al. “A “strategy tripod” perspective on export behaviors: Evidence from domestic and foreign firms based in an emerging economy”. In: *Journal of International Business Studies* 41.3 (May 2009), pp. 377–396. DOI: [10.1057/jibs.2009.27](https://doi.org/10.1057/jibs.2009.27).
- [Heckscher 1936] Eli F. Heckscher. “Revisions in Economic History: V. Mercantilism”. In: *The Economic History Review* 7.1 (Jan. 11, 1936), pp. 44–54. DOI: [10.2307/2590732](https://doi.org/10.2307/2590732).
- [Henahan 2002] Sean Henahan. *Art Prehistory*. 2002. URL: <http://www.accessexcellence.org/WN/SU/caveart.php>.
- [Hoskisson et al. 2000] Robert E Hoskisson et al. “Strategy in emerging economies”. In: *Academy of management journal* (Jan. 2000), pp. 249–267.
- [Hudec 2002] R E Hudec. “Free trade, sovereignty, democracy: the future of the World Trade Organization”. In: *World Trade Review* 1.02 (2002), pp. 211–222.
- [2012]. *Interview Disclosure Consent Form v1.0*. Tech. rep. Jan. 2012.
- [Kostova et al. 1999] Tatiana Kostova and Srilata Zaheer. “Organizational legitimacy under conditions of complexity: The case of the multinational enterprise”. In: *Academy of management review* (Jan. 1999), pp. 64–81.
- [Kreppel 2001] A. Kreppel. *The European Parliament and Supranational Party System: a study in institutional development*. Cambridge University Press, 2001.
- [Kroll 2005] John H. Kroll. “History of Coinage”. English. In: *The Classical Review. New Series* 55.1 (2005), pages.
- [Lamy 2012] P Lamy. “The Future of Europe in the New Global Economy”. In: (2012).

- [Lawton et al.] Thomas C Lawton, Johan P Lindeque, and Steven M McGuire. “Multilateralism and the Multinational Enterprise”. In: *Business and Politics* 11.2 (). DOI: [10.2202/1469-3569.1274](https://doi.org/10.2202/1469-3569.1274).
- [Lewin et al. 1999] Arie Y Lewin and Henk W Volberda. “Prolegomena on coevolution: A framework for research on strategy and new organizational forms”. In: *Organization science* 10.5 (Jan. 1999), pp. 519–534.
- [Lewis et al. 1983] Virginia L Lewis and Neil Churchill. “The five stages of small business growth”. In: *Harvard business review* 61.3 (Jan. 1983), pp. 30–50.
- [Lindeque 2012] Johan Lindeque. *Interview Protocol v1.1*. Tech. rep. Jan. 2012.
- [Mayell 2003] Hillary Mayell. *When Did "Modern" Behavior Emerge in Humans?* Feb. 20, 2003. URL: http://news.nationalgeographic.com/news/2003/02/0220_030220_humanorigins2.html (visited on 06/06/2013).
- [Melendez-Ortiz et al. 2012] Ricardo Melendez-Ortiz, Christophe Bellmann, and Miguel Rodriguez Mendoza. “The Future and the WTO: Confronting the Challenges”. In: *2. THE FUTURE OF THE MULTILATERAL TRADING* 2012a.pdf (June 2012).
- [Meyer et al. 2009] Klaus E Meyer et al. “Institutions, resources, and entry strategies in emerging economies”. In: *Strategic Management Journal* 30.1 (Jan. 2009), pp. 61–80.
- [Miller et al. 2006] Barbra Miller et al. *Anthropology*. Ed. by Allyn Bacon. 2006.
- [Mises 2009] L. Mises. *Theory of Money and Credit*. Ludwig Von Mises Institut, 2009.
- [North 1990] Douglass C North. *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, Oct. 1990.
- [Oliver 1997] Christine Oliver. “Sustainable competitive advantage: Combining institutional and resource-based views”. In: *Strategic Management Journal* 18.9 (1997), pp. 697–713.
- [O’Sullivan et al. 2003] Arthur O’Sullivan and Steven M Sheffrin. “Economics: Principles in Action”. In: *Economics: Principles in Action* (2003), p. 443.
- [J Pauwelyn 2005] J Pauwelyn. “The Sutherland Report: A Missed Opportunity for Genuine Debate on Trade, Globalization and Reforming the WTO”. English. In: *Journal of International Economic Law* 8.2 (June 2005), pp. 329–346. DOI: [10.1093/jielaw/jgi023](https://doi.org/10.1093/jielaw/jgi023).

- [Joost Pauwelyn 2005] Joost Pauwelyn. “The sutherland report: a missed opportunity for genuine debate on trade, globalization and reforming the wto”. In: *Journal of International Economic Law*. 8th ser. 2 (2005), pp. 329–346. DOI: [doi:10.1093/jielaw/jgi023](https://doi.org/10.1093/jielaw/jgi023).
- [Peng 2000] Mike W Peng. *Business Strategies in Transition Economies*. English. SAGE Publications, Incorporated, 2000.
- [Peng 2002] Mike W Peng. “Towards an institution-based view of business strategy”. In: *Asia Pacific Journal of Management* 19.2-3 (Jan. 2002), pp. 251–267. DOI: [10.1023/A:1016291702714](https://doi.org/10.1023/A:1016291702714).
- [Peng 2003] Mike W Peng. “Institutional transitions and strategic choices”. In: *Academy of management review* (2003), pp. 275–296.
- [Peng and Khoury 2008] Mike W Peng and Theodore A Khoury. “Unbundling the institution based view of international business strategy”. In: *UNBUNDLING THE INSTITUTION-BASED* 2008apdf (Jan. 2008), pp. 256–268.
- [Peng, Sun, et al. 2009] Mike W Peng, Sunny Li Sun, et al. “The institution-based view as a third leg for a strategy tripod”. In: *The Academy of Management Perspectives* 23.3 (2009), pp. 63–81.
- [Petersmann 2011] Ernst-Ulrich Petersmann. “Future of the WTO: From Authoritarian Mercantilism to Multilevel Governance for the Benefit of Citizens, The”. In: *Asian J. WTO & Int’l Health L & Pol’y* 6 (Jan. 2011), p. 45.
- [Porter 1980] Michael E Porter. “Industry structure and competitive strategy: Keys to profitability”. In: *Financial Analysts Journal* (Jan. 1980), pp. 30–41.
- [Powell et al. 1991] Walter W Powell and Paul J DiMaggio. *The New Institutionalism in Organizational Analysis*. University of Chicago Press, Jan. 1991.
- [Ryan et al. 2003] Gery W Ryan and H Russell Bernard. “Techniques to Identify Themes”. In: *Field Methods* 15.1 (Feb. 2003), pp. 85–109. DOI: [10.1177/1525822X02239569](https://doi.org/10.1177/1525822X02239569).
- [Schumpeter 2012] Schumpeter. “Apple versus Samsung: Copy that”. In: *Economist* (Aug. 2012), pp. 1–3.
- [Scott 2001] W Richard Scott. *Institutions and Organisations*. Sage Publications, Jan. 2001.

- [Shaffer 2005] Gregory C Shaffer. “The Role of the WTO Director-General and Secretariat”. In: *World Trade Review* 4.3 (2005), pp. 429–438.
- [Stearns 2013] Jonathan Stearns. “EU Hits China With Solar-Panel Duties in Biggest Dumping Row”. In: *Bloomberg Businessweek* (June 2013), pp. 1–3.
- [Stone Sweet et al. 1997] Alec Stone Sweet and Wayne Sandholtz. “European integration and supranational governance”. In: *Journal of European public policy* 4.3 (Jan. 1997), pp. 297–317.
- [Tallberg 2002] Jonas Tallberg. “Delegation to supranational institutions: why, how, and with what consequences?” In: *West European Politics* 25.1 (Jan. 2002), pp. 23–46.
- [Tsebelis et al. 2001] George Tsebelis and Geoffrey Garrett. “The institutional foundations of intergovernmentalism and supranationalism in the European Union”. In: *International Organization* 55.2 (Jan. 2001), pp. 357–390.
- [Von Reden 2004] Sitta Von Reden. *Money and its Uses in the Ancient Greek World*. Jan. 2004.
- [Wang et al. 2012] Chengqi Wang et al. “What drives outward FDI of Chinese firms? Testing the explanatory power of three theoretical frameworks”. English. In: *International Business Review* 21.3 (June 2012), pp. 425–438. DOI: [10.1016/j.ibusrev.2011.05.004](https://doi.org/10.1016/j.ibusrev.2011.05.004).
- [Watson 2005] P. Watson. *Ideas: A History of Thought and Invention, from Fire to Freud*. HarperCollins, 2005.
- [Westney 2005] D Eleanor Westney. *Organization Theory and the Multinational Corporation*. Ed. by Sumantra Ghoshal and D Eleanor Westney. Palgrave Macmillan, Jan. 2005.
- [Westney 2011] D Eleanor Westney. “Global strategy and global business environment: changing models of the global business environment”. In: *Global Strategy Journal* 1.34 (2011), pp. 377–381. DOI: [10.1111/j.2042-5805.2011.00034.x](https://doi.org/10.1111/j.2042-5805.2011.00034.x).
- [WTO 2012a] WTO. *GATT to WTO*. 2012.
- [WTO 2012b] WTO. *What is the World Trade Organization?* Ed. by WTO. 2012. URL: http://wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm.
- [WTO 2012c] WTO. *WTO history*. 2012.

- [Yin 1981] Robert K Yin. “The case study crisis: some answers”. In: *Administrative science quarterly* 26.1 (Jan. 1981), pp. 58–65.

Acronyms

BoD boards of directors. [4](#)

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

IB International business. [3](#), [5](#), [6](#)

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

IMF International Monetary Fund. [2](#)

IP Intellectual Property. [3](#)

MNE Multinational Enterprises. [3](#), [5](#), [6](#)

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

RBV Resourced Based View. [3](#), [4](#), [6](#)

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