

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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Supervisor 1:

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A thesis submitted for the degree of

Master of Science in Business Studies

June 2013

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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 and Sheffrin \(2003\)](#) 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

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

money is to facilitate the business of the market by acting as a common medium of exchange“. 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 and Zaheer \(1999\)](#); [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 (Scott:2001; Oliver (1997)).

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 (North (1990)). 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

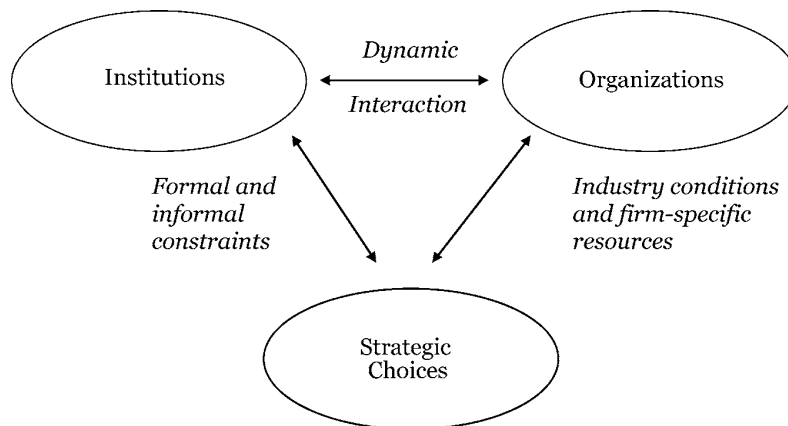


Figure 2.1: Institutions, organisations, and strategic choices. Source: Peng (2000)

of what 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' Scott:2001; DiMaggio and Powell (1983); Kostova and Zaheer (1999); Peng and Khoury (2008); Westney (2005).

MNE conform to these pillars or isomorphisms because these provide legitimacy Powell and DiMaggio (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 MNE has to adhere to.

Not only have more scholars have come to realise that institutions matter [Scott:2001](#); [Powell and DiMaggio \(1991\)](#), 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 [Scott:2001](#); [Powell and DiMaggio \(1991\)](#).

Nowadays institutional theory appears to be a highly insightful approach when probing into organisational strategies in Asia [Hoskisson, Eden, 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 and Zaheer \(1999\)](#); [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](#), [6](#)

IBV Institutional Based View. [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](#)