

Effects of Institutions on International Business

Does the WTO effect firms in advanced and
emerging economies differently?



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Acronyms

ACM Autoriteit Consument en Markt. 103

AE advanced economy. 4, 20, 23, 29, 32–34, 37, 38, 40, 47, 48, 54–56, 63–65, 68

API Active Pharmaceutical Ingredient. 40

ARV anti retroviral. 49

BPO Business Process Outsourcing. 34, 37, 52

CMA Competition and Markets Authority. 103

CRAMS contract research and manufacturing services. 59, 64

DSU Dispute Settlement Understanding. 17

EE emerging economy. 4, 20, 23, 24, 29, 32–34, 37, 38, 40, 43, 50, 55, 63–65, 68

EMA European Medicines Agency. 39

EMGP Emerging Market Global Player. 92

EU European Union. 2, 19, 33–35

FDA Food and Drug Administration. 39

FSA firm specific advantage. 28, 29

GATS General Agreement on Trade in Services. 50

GATT General Agreement on Tariffs and Trade. 15

GDP gross domestic product. 33

GNI gross national income. 92

GSK GlaxoSmithKline. 42, 49

HDI Human Development Index. 90, 95

IB international business. 1, 2, 7, 19, 32, 101

IBV institutional based view. 1–4, 26, 30, 100–103

IMF International Monetary Fund. 89

InBV Industry Based View. 2, 3, 26, 103

IP intellectual property. 1, 7, 22, 46, 54, 55

IT information technology. 2, 34–38, 43, 50, 52

ITA Information Technology Agreement. 43, 57

MNE multinational enterprise. 1, 7, 10, 13–15, 22–24, 37, 38, 56, 103

NCE New Chemical Entities. 25

NDDS Novel Drug Delivery Systems. 25, 40, 48

NGO Non-Governmental Organisation. 16

NMA Nederlandse Mededingings Autoriteiten. 103

NME new molecular entity. 54–56

OFT Office of Fairtrade. 103

RBT resource based theory. 4, 26–28, 30, 48, 65

RBV resource based view. 2, 26, 27, 102, 103

TRIPs Trade Related Aspects of Intellectual Property Rights. 7, 16, 25, 39, 43, 46, 59, 64

UNDP United Nations Development Programme. 89, 90

VRIN Valuable, Rare, In-imitable, Non-substitutable. 28

VRIO Value, Rarity, Imitability, Organisation. 28

WEO World Economic Outlook. 92

WTO World Trade Organisation. 1, 4, 7, 15–20, 23, 24, 30, 33

Chapter 1

Introduction

Trade has been as old as the Middle Palaeolithic (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 (Fernández-Armesto, 2003; Henahan, 2002; Mayell, 2003; Miller et al., 2006; Watson, 2005). 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 barter¹ 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 word, although this route has been out of commission in the way that was used on earlier times.

In this time of austerity and double dips in the economy, international business (IB) is playing ‘the game’ not only over products and customers but also with institutions Forbes (2012). Amidst the financial turmoil that engulfed the world from 2008 until 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. 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“. By this line of thought the underlying motivation of money is the exchange of goods and later services.

¹according to Merriam-Webster ‘barter’ is: *to trade by exchanging one commodity for another*

Companies like Apple and Samsung are fighting in court over intellectual property (IP) in a multitude of countries (CNN, 2013; The Wallstreet Journal, 2013). The cell phone department of Motorola was bought by Google solely because it owned numerous IPs (The Wallstreet Journal, 2011). The playing field not limited to IPs. Next to the 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 World Trade Organisation (WTO) has ruled on the validity of these subsidies (The Economist, 2009b). More recently solar panels have become a topic of tariffs between the European Union and China (European Commission, 2013). 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 Meyer, Estrin, et al. (2009). Different multinational enterprise (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; Wang et al., 2012).

1.1 Research Area

In this thesis the implications of WTO agreements² on the choices that firms make will be researched. This will be done by looking closer at firms in different sectors and in two different economic regions. Back in 1939 a differentiation was made as to different industries that are around. Fisher (1939) defined three different industries. The firm selection has been done in accordance with the distinction of primary, secondary and tertiary industries. The two areas that have been selected are (pharmaceutical) manufacturing as a 'secondary' industry and (information technology (IT)) services as a 'tertiary' industry.

The second distinction that will be made is as said across economic regions. There has been a lot written about especially emerging markets not only in papers (Gao et al., 2009; Hoskisson, Eden, et al., 2000; Meyer, Estrin, et al., 2009; Nielsen, 2011; Peng, Wang, et al., 2008), but also by (economic) newspapers (Deutsche Welle, 2011; Financial Times, 2006; The Economist, 2013).

The term "emerging market" was introduced in back in 1981 by Antoine van Agtmael Bloomberg (2010) and The Economist (2010) at that point working at the World Bank³. The terms used do

²The legal ground-rules for international commerce that are negotiated and signed by a large majority of the world's trading nations, and ratified in their parliaments World Trade Organization (2013c)

³He was referring to the economies with stock markets in countries with a cutoff of \$10,000 in income per capita Wharton

define different economies is quite diverse. 'Emerging markets' and 'emerging economies' are often used to indicate the same countries or regions.

Similar problems can be found in the terms 'developed' and 'advanced' economies. These terms are often used interchangeably and could lead to confusion. In this thesis the terms advanced, emerging and frontier economies will be used. In Appendix A the classification of Advanced and Emerging Economies and the rationale for using economies instead of countries or markets will be explained. A list of countries and regions that are included in the concepts of advanced and emerging economies are given in Appendix A.

The advanced economies that are considered in this thesis are the economies in the European Union (EU). The emerging economy that is considered is India.

With the use of IB strategy theories the possibilities that firms from the different economies have to respond to the different rules and regulations will be investigated. Currently IB strategy theories consist of three lines of thought namely IBV, resource based view (RBV) and Industry Based View (InBV) Peng, Sun, et al. (2009).

In short the InBV, as introduced by Porter (1980), states that the industry that a firm is in, is the predominant factor in achieving sustainable competitive advantage. In this thesis the premise is that firms are striving for sustained competitive advantage. This goal drives them to make the choices they make.

The firms that are under investigation in this thesis are located in similar industries, across different economic areas (see Appendix A) In this research, the responses of the firms (in the similar industries) to the changes in the rules and regulations will be investigated and compared to responses of firms in that industry.

As the type of industry is the critical element in the theory by Porter (1980) this leaves that his theory is considered not relevant to the choices made by the companies for the comparison is done within the same industry. In Appendix C.1 the theory of Porter (1980) is briefly explained.

The second of the three IB strategy literature Peng, Sun, et al. (2009) streams is IBV. This theory is the most recent of what Peng, Sun, et al. (2009) calls the three IB strategy legs. The theory has been conceived by Peng (2002) and essentially states that context is of influence to the choices that firms make. This context comes in the form of the influences that surround the firms in their 'habitat'. This context can have a number of shapes and sizes. That said, as this thesis focusses on responses to institutional rules and regulations, these are equal to all as the rules

University of Pennsylvania (2008). The reference made was defined in terms of economics and levels of wealth Financial Times (2006)

and regulations are created by a supranational institution as the WTO. Therefore the context is considered constant to the different firms even if they are located in different economies. Thus the theory by Peng (2008) is deemed not relevant to the part that the firms under investigation do not have to make their decisions spanning different contexts. The rules and regulations governed by the WTO should be applied equally with regard to the different (types of) firms. Whether it are the firms in the services industry or the firms in the manufacturing industry the implementation of the rules and regulations should not differ. A more detailed description of the theory of IBV is provided in Appendix C.2.

This logic leaves the (internal) resources of the firm as the differentiating force in the decisions that firms make. Following this line of thought, the theory conceived by Barney (1991) is vital in explaining possible differences between the firms. The theory by Barney (1991) corresponds with the third and final theory identified by (Peng, Sun, et al., 2009). The mentioned theory by Barney (1991) will be described in more detail in Section 2.5.1.

1.2 Research Question

Does the WTO effect firms from different backgrounds differently? to answer this question one has to look at to view the institution of the WTO. Is it intact an institution and what are its inner workings. When the WTO issues a directive the strategy of firms has to be adapted to this change in environment. So the context in which the firm is operating is changing. With IBV and some of the choices by firms may be explained. The literature review chapter will visit IB strategy and the theories that are the foundations of this research.

Research Question: **Does the WTO effect firms in developed and emerging economies differently?**

1.3 Methodology used

The method of a multiple case study has been chosen to do the research. This study will try to address the research question through in-depth multiple case study analysis of eight multinational enterprises. These eight companies are originating from two different economic regions. Four are from advanced economy (AE) and the other four are from emerging economy

(EE). Here the AE are represented by the European countries of Germany, Switzerland and Great Britain and France. The EE is represented by India. Next to the two different economic regions, two different industries have been selected for the research. One secondary and one tertiary (see Fisher (1939) on this typology) type of industry has been researched. To maximise the available choices the industries are the manufacturing and services industries. To obtain current data for these companies, recent newspaper articles have been employed to gather the necessary information.

1.4 Structure of the Document

The structure of this document is as follows. First the theoretical foundations of this research will be discussed. These theories include institutional theory, the structure of the WTO, and resource based theory. The paper will continue by discussing the methodology used in this research. An in-depth multiple case study design will be used to collect qualitative data. The research will continue with an analysis on the data that has been obtained by a newspaper search. Then the findings from the analysis are discussed in relation to the multiple case study analysis. Finally a conclusion will be drawn about the key findings. This in conjunction with the research limitations, implications and recommendations for future research.

Chapter 2

Literature Review

2.1 Introduction

If one thinks of international business and literature a number of large firms and their business strategies spring to mind. What choices did they make and what will they do in the future?

Many companies respond to the current events in the choices they make. Even very large MNE who have the resources to engage in scenario planning or other costly and time consuming methods to prepare for the eventual future can be caught off guard. This is illustrated by Microsoft having to announce (Financial Times, 2013) a broad reorganisation of the company to combat the decline in PC sales. These are economic challenges, brought upon the company due to changes in consumer preference or consumer behaviour. But what happens if the rules change?

The introduction of Trade Related Aspects of Intellectual Property Rights (TRIPs) should have had an effect on the way business was done around IP rights. The change in rules was forced on the businesses. This change was imposed on the IB by institutions such as the WTO. It were the institutions that created the new rules and companies had to live with these new rules. Many more global impacting trade rules are set by the WTO. In this section the WTO will be conceptualised as an institution with the aide of institutional theory. The concept of institutional theory and institutions will be researched. Also the predominant IB strategy literature will be visited to provide a basis for the reactions firms have to such changes that institutions as the WTO present to MNEs.

2.2 Institutions, Organisations and Institutional Theory

To grasp the concept of institutional theory first institutions and organisations have to be clearly understood. These two are the basis for the concept of institutional theory.

2.2.1 Institutions

The term ‘institution’ is defined in the dictionary as ‘an organisation founded for religious, educational, professional, or social purpose’ or ‘an established law or practice’¹. It is the concept of an ‘established law or practice’ that is of interest here.

Also (IB) literature is replete with definitions of what an institute construes. Among sociologists such as Scott the definition of institutions is still a work in progress. In 1995 Scott defines institutions as:

Institutions consist of cognitive normative and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are transported by various carriers –cultures, structures and routines– and they operate at multiple levels (Scott, 1995)

Then starting in 2008 Scott has a slightly different definition:

Institutions are social structures that have attained a high degree of resilience [and are] composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life (Scott, 2008b, 2010)

Fligstein, like Scott also with a sociology background, articulates

“rules and shared meanings ... that define social relationships, help define who occupies what position in those relationships and guide interaction by giving actors cognitive frames or sets of meanings to interpret the behaviour of others” (Fligstein, 2001).

North, being an economist, provides a somewhat different view on the concept of institutions as

¹Oxford Dictionary of English 3rd edition

The rules of the game in our society or more formal the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social or economic (North, 1990)

North summarised institutions as the 'rules of the game'. This very short explanation is often used in literature (Essen et al., 2012; Hotho et al., 2012; Jackson et al., 2008; Newman, 2000; Peng, 2008; Westney, 2005).

The latter of the definitions (by the economist North) has a more economically orientated standpoint where as of the aforementioned definitions by (Fligstein, 2001; Scott, 2008b) are, as they are, of a more sociologist point of view. A host of others have also defined institutions. A list of them can be found in Scott (2010). Their definition depends on their background and their varying attention to one versus another institutional element Scott (2010).

Some scholars identified that institutional theory could become an interdisciplinary turf battle Peng, Sun, et al. (2009) as institutional theory has both sociological and economical aspects and hence the exact definition of the concept of the institution. Peng, Sun, et al. (2009) also adds to the institutional discussion by stating: "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 is considered legitimate" (Peng and Khoury, 2008, p.66).

No preference is given in this thesis to either of the conceptualisation of institutions.

One commonality in the discussion surrounding institutions is the identification of three different types of institutions. Scott (2005) uses the term pillars or elements to typify the different types of institutions. The same three types of institutions have been identified by others such as Peng and Khoury (2008) with the term dimensions.

Following the conceptions of Scott (1995) the three pillars are:

regulative Regulative elements stress rule-setting, monitoring, and sanctioning activities. Regulative elements are more formalised, more explicit, more easily planned and strategically manipulated. In this pillar laws, rules and regulations are set and enforced through force, fear or expedience (Scott, 2005, 2008a, 2010).

normative Normative elements introduce a prescriptive, evaluative, and obligatory dimension into social life. Actors are viewed as social persons who care deeply about their relations to others and adherence to the guidelines provided by their own identity. These normative systems include both values and norms and define goals and objectives. Decisions are re-

sponsive not only to 'instrumental' considerations but to the logic of 'appropriateness' (Scott, 2005, 2008a, 2010).

cultural-cognitive cultural-cognitive elements emphasise the "shared conceptions that constitute the nature of social reality and the frames through which meaning is made. The elements are cultural because they are socially constructed symbolic representations. they are cognitive in that they provide vital templates for framing individual perceptions and decisions (Scott, 2005, 2008a, 2010).

Concluding, institutions can have different forms, or pillars as Scott named them. The way in which one complies to these institutions and the mechanisms employed to comply with the explained in the sections on institutional theory.

2.2.2 Organisations

As seen, institutions influence organisations. But what are these organisations? The dictionary defines organisations as: 'an organised group of people with a particular purpose, such as a business or government department'².

(Scott, 2005, p.14) defines an organisations as: "organisations were recognised to be 'rationalised' systems—sets of roles and associated activities laid out to reflect means-ends relationships oriented to the pursuit of specified goals".

Among scholars of institutional theory there has been debate on the use of the term organisation, some prefer the term 'organisational field' (DiMaggio et al., 1983; Westney, 2005).

Here the purpose is to have a clear understanding that the organisations can be the international firms (MNE) that are subject to the institutions that are governing their business fields. The so called organisational fields are the set of organisations or companies that do business as suppliers and product consumers.

2.2.3 Institutional Theory

Institutional theory begins with the premise that organisations are a social as well as technical phenomena (Westney, 2005). This means that the pressures that come from institutions (rules, regulations, norms etc.) is not interpreted on their technical merit alone. Organisations cannot be

²Oxford Dictionary of English 3rd edition

seen as rational (Westney, 2005).

Institutional theory takes into account the context of both the organisation and the institutional environment. Instead of looking inside the organisation, institutional theory looks at the social context and focusses on “isomorphism within the institutional environment” (Westney, 2005; Zucker, 1987).

The basis of order, motives for compliance, logics of action, mechanisms, and indicators employed differs among the institutional pillars Scott (2008a) organisations comply to the pressures of rules, norms and meanings (Scott, 2008a).

Institutional theorists argue that organisations in the same population or industry tend toward similarity over time because they conform to many common influences and are interpenetrated by relationships that diffuse common knowledge and understandings (DiMaggio et al., 1983; Jepperson et al., 1991; Meyer and Rowan, 1978; Oliver, 1988; Scott, 1987).

It is the environment populated by organisations that has relationships, not simply transactions, that is the basis of organisations towards alternative ways of organising themselves, thereby influencing organisations towards isomorphism³ (DiMaggio et al., 1983; Westney, 2005; Zucker, 1987).

Institutional theory focuses on the reproduction or imitation of organisational structures, activities, and routines in response to state pressures, the expectations of professions, or collective norms of the institutional environment (DiMaggio et al., 1983; Zucker, 1987).

The mechanisms that support this process of institutionalisation; the social forces that energise the diffusion DiMaggio et al. (1983) can be summarised in three isomorphisms. Isomorphic pressures DiMaggio et al. (1983) refer to influences for conformity exerted on firms by the government, professional associations and other external constituents that define or prescribe socially acceptable economic behaviour (Scott, 2001).

The three isomorphisms, the mechanisms through which organisations comply with the rules, norms and meanings, imposed by institutions are:

First coercive isomorphism, organisational patterns are imposed on on organisations by a more powerful authority, normative isomorphism appropriate organisational patterns are championed by professional groups and organisations, mimetic isomorphism , where organisations respond to uncertainty by adopting the patterns of other organisations that are deemed ‘successful’ in that kind of environment (DiMaggio et al., 1983; Kostova and Zaheer, 1999; Peng and Khoury, 2008;

³isomorphism can be defined as ‘the adoption of structures and processes prevailing in other organisations within the relevant environment’ (Zucker, 1987)

Scott, 2001; Westney, 2005). Table 2.1 gives an overview of the pillars and their attributes with regard to compliance basis, mechanisms of isomorphism etc. Scott (2005) talks here about pillars of institutions. This has been summarised in Table 2.1.

Table 2.1: Pillar of Institutions (source:adapted from (Scott, 1995))

	Regulative	Normative	Cultural-cognitive
Basis of compliance	Expedience	Social obligation	Take-for-grantedness Shared understanding
Basis of order	Regulative rules	Binding Expectations	Constitutive Schema
Mechanisms	Coercive	Normative	Mimetic
Logic	instrumentally	Appropriateness	Orthodoxy
Indicators	Rules	Certifications	Common beliefs
	Laws	Accreditation	Shared logic of action
	Sanctions		
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognisable Culturally supported
Supported by	Economists	Early Sociologists	Late Sociologists
Primary Propagandists	North	Selznick	DiMaggio and Powell, Scott
Degree of formality	Formal institutions	Informal institutions	Informal institutions

More on how organisation internally deal with institutional pressure can be found in Section 2.4.

The three possibilities that Scott identified are:

- (1) expedience
- (2) social obligation
- (3) on a taken for granted basis

These three compliance basis correspond to the already mentioned pillars of institutions 2.2.1. The basis of compliance and the mechanisms (or isomorphism) with which organisations employ themselves to are relative to the same pillars (see table 2.1).

Going back to North (1990) he also identified different institutions. However his distinction was along the line of formal and informal institutions. The theories of North and Scott are somewhat complementary (Peng, Sun, et al., 2009). Hence the fact that the terms of North and Scott are presented in the same table. Where North's 'formal' institutions refer to Scott laws, rules and regulations (regulative pillar), the informal are somewhat consistent with the normative and social-cognitive pillars of Scott.

The application of institutional theory is on the rise (Westney, 2011). Not solely because it can be a highly insightful approach when probing into organisational strategies in Asia Hoskisson, Eden,

et al. (2000), but also because it gives a handle why the same rules (regulations) have different outcomes when imposed on different societies North (1990).

MNE have these issues across the fact that they have different rules of the game in different societies (countries) but also because they operate in different countries and under different rules and regulations.

The rise of institutional theory provided a way of interpreting these developments with an alternative to the model of the firm and its environment that has long dominated strategy research (Westney, 2011). With this in mind one can derive the following working propositions.

Working Proposition 1.A. *Firms in the same economic region and in similar industries (Services or Manufacturing) are likely to have a homogenous response to changes in the institutional environment*

Working Proposition 1.B. *Firms in the same economic region, but in different industries (Services or Manufacturing) are likely to have a heterogeneous response to changes in the institutional environment*

Working Proposition 1.C. *Firms in the same industry (Services or Manufacturing) but in different economic regions are expected to have a heterogeneous response to changes in the institutional environment*

2.2.4 Multiple embeddedness

Globalisation impinges on MNEs and their complex interdependencies within and between multiple host locations as well as on their internal hierarchies (Meyer, Mudambi, et al., 2011). The intricate dependencies on the level of institutions, resources and home and host country are shown in figure 2.1 As such they are likely to be subject to a selection of different and possibly contradictory influences that originate from the different environments they operate in (Westney, 2005). Firms respond to these isomorphism pulls by setting up formal structures to cope with or replicate the environmental pressures (Westney, 2005). In other hand these differences over countries within one organisation can cause problems. MNE must balance 'internal' embeddedness within the MNE network, with their 'external' embeddedness in the host milieu (Meyer, Mudambi, et al., 2011). These can be in the form of corporate legal departments isomorphism to law firms in the local domain or public relation offices staffed with former public officials (Westney, 2005). The opportunity for clashes is not limited to MNE and external pressures. Within the MNE there is the potential of clashes. Managers in the home country can be rooted in a different institutional context that can lead them to pursue different strategies for the firm, rather than

adapt to these local settings (Jackson et al., 2008). The resource constraints that firms face can be managerial, and this limit to growth is described as the ‘Penrose effect’ (Hutzschenreuter et al., 2011). Limited resources mean that firms often experience a trade-off between product diversification and international diversification (Dunning et al., 2008). The resulting clashes can create an endemic potential for strategic conflict (Jackson et al., 2008).

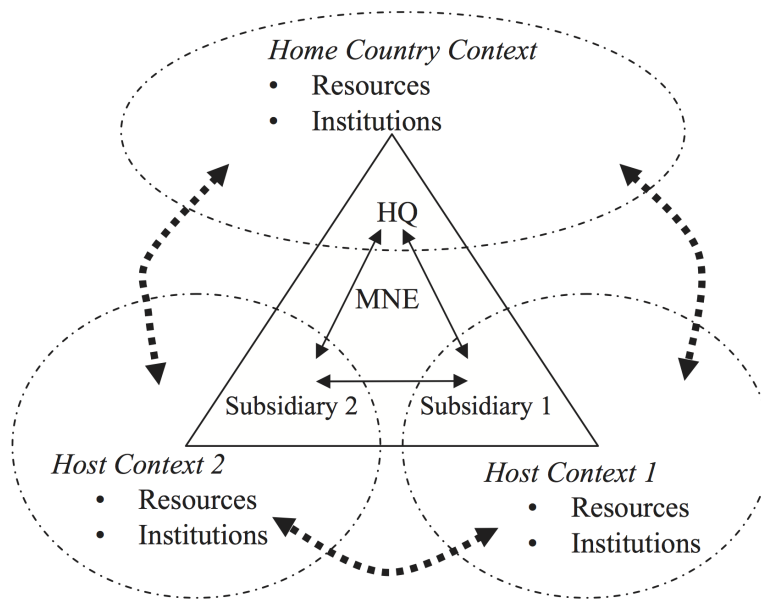


Figure 2.1: Multinational enterprises and local context (source: Meyer, Mudambi, et al. (2011))

On the other hand the MNE could organise themselves to take full advantage of the differences in local rules and regulations. Firms need to manage not just their corporate networks, but also their external networks (Meyer, Mudambi, et al., 2011). MNEs may therefore focus certain activities in their home country in order to utilise certain institutional resources (Jackson et al., 2008).

Or as Meyer, Mudambi, et al. (2011) states: given that many larger MNEs are a complex aggregation of a large number of constituent subsidiaries, such multiple embeddedness generates trade-offs between external and internal embeddedness, since each subsidiary must reconcile the interests of its parent with those of its local business interests.

Here the current status of the tax-breaks that Apple profited from in Ireland and the US springs to mind. This ability to create, transfer, recombine, and exploit resources across international borders is one of the key reasons for existence of the MNE, their value creation is based on international arbitrage (Meyer, Mudambi, et al., 2011).

The embeddedness that firms have to respond to may become a barrier to enterprise survival (Newman, 2000), on the other hand the multiple embeddedness that MNE inherently have can provide them with opportunities as well. Due to the multiple embeddedness of many MNE's the homogeneity is likely over different (economic) regions. This leads to the following working proposition.

Working Proposition 2. *Multiple embeddedness is expected to have a homogenising effect on the responses of firms in similar industries across different economic regions.*

2.3 World Trade Organisation

To be able to define the WTO one has to look at what the WTO actually is. A brief history of the WTO will be presented as well as the various roles the WTO has and the different life cycles that exist within the rules setting environment in the WTO.

The WTO was only established on January 1st 1995 under the Uruguay multilateral trade rounds. Before the establishment of the WTO, the General Agreement on Tariffs and Trade (GATT) was the primary body delegated with international trade. The WTO incorporated many Uruguay Round changes such as newly formed negotiated reforms, bodies to oversee the new trade agreements, a stronger dispute resolution procedure, a regular review of members' trade policies and many other committees and councils. In contrast to the GATT, the WTO was created as a permanent structure, with "members" instead of "contracting parties" Fergusson (2007).

Nowadays at its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. The WTO sets rules or legal agreements for international commerce and finally it helps to settle disputes World Trade Organization (2012b).

2.3.1 WTO life cycles

The WTO agreements are reached through a three step process. Understanding this process (the life cycles) is very relevant for only at the formulation phase of the process actual influence on the content of the rules of the agreement can be had World Trade Organization (2012b). Within these life cycles the various roles the WTO has, will become relevant.

The three phases of the decision-making lifecycle Lawton, Lindeque, et al. (2009) within the WTO consists are:

- the formulation of trade rules

- the implementation of those rules and
- the enforcement of the rules

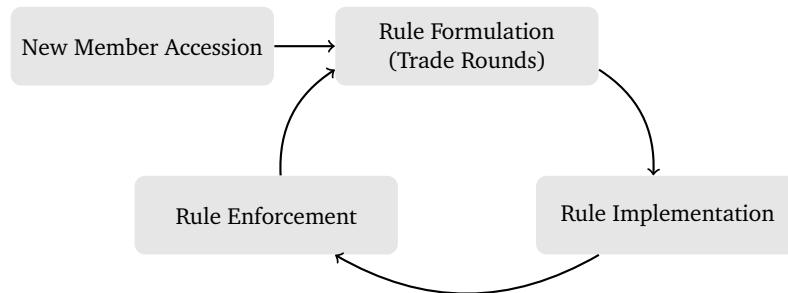


Figure 2.2: WTO lifecycles source: Lawton, Lindeque, et al. (2009)

Figure 2.2 indicates the relationship of the three phases. One phase is not mentioned. This is the phase where new members enter into the WTO as is phase is not of concern in the research shown here we will forgo this phase and concentrate on the three phases that are present in every lifecycle in the WTO.

Formulation Phase

In the formulation phase the WTO plays the role of facilitator. At this point in the cycle new agreements are being formulated through negotiations among members World Trade Organization (2012b). It is widely acknowledged that business and Non-Governmental Organisation (NGO) actors attempted to shape these agreements through engagement with their national governments Lawton, Lindeque, et al. (2009). One example of the influence that firms imposed on the negotiations⁴ through their own government were the agreements dictated in TRIPs Lawton, Lindeque, et al. (2009).

In this phase, the role of the WTO is that of a negotiating forum World Trade Organization (2008). The WTO is a place where members can appear to try to sort out the trade problems they face with each other. This entails a lot of negotiations between the members. Everything the WTO does, is the result of negotiations World Trade Organization (2008). The WTO is currently host to new negotiation rounds, under the “Doha Development Agenda” launched in 2001 World Trade Organization (2012b).

⁴These were the Uruguay Round (1986-1994) negotiations

Implementation Phase

Once the member nations have come to an agreement on the sets of rules and regulations, these have to be implemented. The implementations are a whole different process in itself World Trade Organization (2013a). The agreements need to be implemented and operationalised, this is a complex and nuanced process Lawton, Lindeque, et al. (2009).

During the implementation phase the firms are adjusting to the new rules and regulations. Amendments to the rules and regulations may only be made once a regulation is challenged in the WTO disputes process Lawton, Lindeque, et al. (2009). The members have considerable latitude in the exact way in which they implement the aforementioned rules. Tariffs and anti-dumping chief among those rules where latitudes are applied Hoda (2001) and Reynolds (2009).

The role of the WTO at this point in the process is that of a set of rules. This set of rules (negotiated agreements) are essentially contracts binding members to keep within the limits of these agreements on the topic of international trade. The goal here is to facilitate and improve the flow of trade World Trade Organization (2008).

The WTO has also been active in settings rules for a number of intellectual properties such as copyrights, patents, trademarks and geographical names used to identify products World Trade Organization (2013b).

Enforcement Phase

The final phase of the life cycle in the WTO is the Enforcement Phase. Rules enforcement takes place at both the multilateral and national levels Lawton, Lindeque, et al. (2009).

At the multilateral level, the WTO attempts to facilitate the diplomatic resolution of disputes between members over trade policies, but also provides a formal process for dispute settlements⁵. It are the members, hence the nations, that have standing in the WTO so they have to bring forward the complaints of their individual firms to the WTO. Firms have play no part in the processes World Trade Organization (n.d.).

On national level the responsibility falls to the national government (within the WTO boundaries) to ensure a 'level' playing field for domestic industries, primarily through the use of antidumping, countervailing duty and safeguard investigations. National level enforcement is the responsibility

⁵This process is established by the Understanding on Rules and Procedures Governing the Settlement of Disputes also known as the Dispute Settlement Understanding (DSU) (WTO, 2003, 55) Lawton, Lindeque, et al. (2009)

of member governments' domestic bureaucracy Lawton, Lindeque, et al. (2009).

The WTO does have the role of enforcer. This enforcer or judicator role is very important to give the agreements the power they need Bown et al. (2010). When necessary, albeit the negotiated agreements, members can bring disputes before the WTO World Trade Organization (n.d.). Settling these disputes is the pillar of the WTO trading system. The rules set by the WTO are not as effective when there is no system to enforce these rules. The set of rules is not designed to pass judgement, the priority is to settle disputes (through consultations if possible) World Trade Organization (2013d). In 2008 only about 136 of the nearly 369 cases had reached the full panel process. Most of the rest have either been notified as settled "out of court" or remain in a prolonged consultation phase – some since 1995 World Trade Organization (2012a).

The life-cycles have been summarised the and actors in table 2.2.

Table 2.2: Multilateralism and the Multinational Enterprise. Source Lawton, Lindeque, et al. (2009)

Actors	Formulation Phase	Implementation Phase	Enforcement of Rules Phase
WTO	Facilitates negotiations	Monitors compliance, provides information	Operates disputes process, sanctions trade retaliation
Nation States	Participates in negotiations	Reforms domestic laws as necessary	Acts as plaintiff or defendant in cases; acts as interested third party in other cases
Firms	Non-market strategy to secure preferred policy outcomes of rules formulation	Adjustment to the rules	Adjustment to the rules Non-market strategy to gain redress for perceived unfairness by using the rules or amend the rules

2.3.2 Institutions and the WTO

The WTO with its explicit accentuation of a 'rules-based approach', supported by norms of behaviour in their implementation can be and has been conceptualised by a number of authors through an institutional lens Bhagwati (2003), Herschinger et al. (2012), Irwin (2003), Kim (2002), Reich (2004), Sokol (2009), and Wilkinson (2013). The rules and norms distinctions is helpfully conceptualised using North (1990) formal and informal institutional categories (see also table 2.1). In this paper, above all, the formal institutions are of interest. According to North

(1990) these formal institutions are the laws, regulations and rules. These regulatory codes (laws, regulations and rules) are set by the governing institutions.

The codes can be set at different levels. Take the EU, here the codes can be set on regional, national and even European level. Belgium for example has a federal structure of government. Hence on codes are set on regional (federal) (in Flanders and Wallonia) level and a national level. Both have their own governments and impose codes independently. Superseding the national level, Belgium has to adhere to the European laws, rules and regulations.

On a global level and where trade is concerned the WTO is the body that has the final say in the rules and regulations. The WTO formulate and enforce the global trade rules and this should reduce uncertainty for organisations Peng (2002). The uncertainty reduction is one of the key elements in the functioning of institutions and the primary *raison d'être* of many of them. Clearly the WTO tries to reduce the uncertainty for organisations by not only setting the rules but enforcing them as well.

Obviously the actions of institutions influence the decision making of organisations. This is also observed by Peng (2002) and shown in figure C.3. Here Peng (2000) talks about strategic choices in the form of the decision making. According to Hotho et al. (2012) institutions affect which governance arrangements are most efficient, but they have little impact on how the game is played other than through the establishment of rules and regulations. So it is the establishment of rules and regulations that is the primary concern of institutions. Here we see that the rule setting role of the WTO seamlessly fits within the confines of what Hotho et al. (2012) defines as institutions. Also according to Hotho et al. (2012) and Jackson et al. (2008) “institutions, such as the WTO are conceived of as factors that independently constrain or impact [...] the cost of IB activity”.

In the differentiation defined by Scott (2001) the WTO is seen as a Regulatory (or Coercive) (see table 2.1) system or institution. Again the rules setting role of the WTO give the WTO the status of an institution according to Scott (2001).

2.4 Firm responses

2.4.1 Responses to institutions

As seen institutional theory in Section 2.2.3 is a powerful tool. In order to understand the influence of the WTO on IB in the region of AE and EE in particular it is of importance to understand how

firm react to 'institutional change'. According to North (1990) institutional change may result from changes in the character and content of either or both of these, or their relevant enforcement mechanisms.

First and second order changes

Literature makes a distinction in first and second order changes when it comes to firm responses Meyer, Goes, et al. (1995). First order changes involve changes in processes, systems and or structures. These changes happen in periods of relative calm and tend to span extended periods of time Dutton et al. (1991), Fox-Wolfgramm et al. (1998), and Tushman et al. (1985). Second order change however is associated with more radical, transformational and fundamental change. It alters the organisation at its core Meyer, Goes, et al. (1995), Meyer (1982), Newman (2000), and Tushman et al. (1985). This leads to the next working proposition.

Working Proposition 3. *The WTO rules and regulations are expected to incur only second order changes*

Traditionally firms have to respond to changes in the business landscape due to market driven changes (Chittoor, Ray, et al., 2008).

Now the change is initiated by institutions and this can lead to these aforementioned second order changes (Chittoor, Sarkar, et al., 2009). So in this case it is not the market that forced the change however is the market that as a whole has to adapt to (the same) change. There is a relative paucity of research on how organisations transform themselves in the face of institutional transitions (Chittoor, Ray, et al., 2008).

Strategic Responses

Cantwell et al. (2009) provides a very intriguing insight in the different coping mechanism that firms employ in the face of institutional change. According to North (1990) institutional change may result from changes in the character and content of either or both of these, or their relevant enforcement mechanisms. Among scholars notable contributions on the conception of how firm react to changes have been made by (Cantwell et al., 2009; Oliver, 1991). The broadest being Oliver (1991) as seen in table 2.3, gives five basic reaction types. The reactions are categorised from from passivity to increasing active resistance: acquiescence, compromise,

avoidance, defiance, and manipulation (Oliver, 1991).

Table 2.3: Strategic responses to institutional processes (source Oliver (1991))

Strategies	Tactics	Examples
Acquiesce	Habit	Following invisible, taken-for-granted norms
	Imitate	Mimicking institutional models
	Comply	Obeying rules and accepting norms
Compromise	Balance	Balancing the expectations of multiple constituents
	Pacify	Placating and accommodating institutional elements
	Bargain	Negotiating with institutional stakeholders
Avoid	Conceal	Disguising nonconformity
	Buffer	Loosening institutional attachments
	Dismiss	Ignoring explicit norms and values
Defy	Escape	Changing goals, activities, or domains
	Challenge	Contesting rules and requirements
	Attack	Assaulting the sources of institutional pressure
Manipulate	Co-opt	Importing influential constituents
	Influence	Shaping values and criteria
	Control	Dominating institutional constituents and processes

Organisations commonly accede to institutional pressures Oliver (1991), however there are some instances where an alternative is followed. Some forms relevant to the thesis at hand will be discussed here.

Imitate (as a form of acquiescence) can be seen as consistent with the concept of mimetic isomorphism, refers to either conscious or unconscious mimicry of institutional models, including, for example, the imitation of successful organisations and the acceptance of advice from consulting firms or professional associations DiMaggio et al. (1983). Compliance is considered more active than habit or imitation, to the extent that an organisation consciously and strategically chooses to comply with institutional pressures in anticipation of specific self-serving benefits that may range from social support to resources or predictability (DiMaggio et al., 1983; Meyer and Rowan, 1978; Pfeffer et al., 2003).

Firms hardly follow the changes willingly. Under certain circumstances, organisations may attempt to balance, pacify, or bargain with external constituents, Oliver (1991) they might seek a compromise in the (enforced) changes. This might be expressed by behaviours such as balancing. Here balancing is meant as the organisational attempt to achieve parity among or between multiple

stakeholders and internal interests Oliver (1991). An even stronger negative response can be found in the form of avoidance.

Avoidance is defined here as the organisational attempt to preclude the necessity of conformity; organisations achieve this by concealing their nonconformity, buffering themselves from institutional pressures, or escaping from institutional rules or expectations (Oliver, 1991). The even more active form of resistance in defiance and the outright manipulation or exerting power actively to change or exert power over the content of the expectations themselves or the sources that seek to express or enforce them Oliver (1991) are two forms that are not in scope for the purpose of this thesis. Cantwell et al. (2009) provides a very intriguing insight in the different coping mechanism that firms employ in the face of institutional change in the distinction that firms have three basic responses to changes in the institutional environment.

- Avoidance
- Adaption
- Coevolution

Typically avoidance of the institutional rules takes place in weak institutional environment, characterised by a lack of accountability and political instability, poor regulation and deficient enforcement of the rule of law (Cantwell et al., 2009). Firms tend to take the (external) institutional environment as a given (Cantwell et al., 2009). The attitude of some Indian pharmaceutical companies and the Indian government in the 1990's towards IP Chittoor, Sarkar, et al. (2009) and Kazmin (2013) can be seen as modern avoidance techniques.

The second form of which Cantwell et al. (2009) speaks is institutional adaptation. With institutional adaptation the MNE seeks to adjust its own structure and policies to better fit the environment. This can be done using the techniques of political influence, bribery or emulate the behaviour, commercial culture and institutional artefacts that are most desirable in that country. This line of thought is related to what Oliver (1991) refers to as imitate (as a form of acquiescence) and later is also referred to as isomorphism. These two forms of firm responses can be considered exogenous.

The final form of adaption is partly endogenous in that the MNE is engaged in a process of coevolution. Here the objective of the firm is no longer simply to adjust, but to affect change in the local institutions – be they formal or informal (Cantwell et al., 2009). The process of coevolution can only take place in the “Enforcement of Rules Phase” (see table 2.2 on the different life cycle

phases of the WTO). In the implementation phase the MNE (through their home country) cannot influence the rules setting process. Of course the MNE can try to influence the proceedings in the first phase (see section 2.3.1).

Different responses in economic regions

Once a set of rules and regulations has been agreed upon and phased-in in the different (member) countries, the effect that these rules have, varies between AE and EE countries significantly ((Seligman, 2008; Shenkar, 2006)). It is also the heritage of the firm that will contribute to the kind of response that the company will choose Carney et al. (2003).

It are especially the EE firms that choose a defensive strategy or exit (fail) in their response to institutional changes (Chittoor, Ray, et al., 2008). This response of fighting the changing environment can be attributed to the administrative heritage of firms in EE (Bartlett et al., 1989; Carney et al., 2003).

The observations by (Bartlett et al., 1989; Carney et al., 2003; Chittoor, Ray, et al., 2008) lead to the following working proposition.

Working Proposition 4. *Firms are more likely to adopt to change in a manor they have grown accustomed to over time (they use strategies they have used in the past).*

The role of institutions is more salient in emerging economies because the rules are being fundamentally and comprehensively changed, and the scope and pace of institutional transitions are unprecedented Peng (2003). This mainly has to do with the fact that in EE the domestic rules and regulations are not as developed as in AE. Western MNE in contrast have superior resources and capabilities to adapt their competitive strategies in the face of institutional upheaval (Chittoor, Ray, et al., 2008; Newman, 2000; Prahalad et al., 2003). The ability to adapt is engrained longer in their company DNA and therefor the response comes more natural (Chittoor, Sarkar, et al., 2009).

The reaction of especially EE MNE to fight the changes is rather futile since firms have to adhere to the agreements that have been agreed upon during the formulation phase Lawton and McGuire (2005). And only when the agreements have been implemented and the enforcement phase is reached, the option for firms, (through their respected governments) to make amendments to the agreements becomes an option (Lawton and McGuire, 2005) (see also table 2.2).

So changes in response to institutional and in this case WTO change are limited to either product, spatial or internal change.

Working Proposition 5.A. *Advanced economy firms are expected to face a lower degree of institutional change compared to emerging economy firms with respect to (changes in) WTO rules and regulations*

Working Proposition 5.B. *The greater the difference in institutional change between regions in response to WTO rules and regulations the more likely heterogeneous responses are from firms in the same industry in their respective regions*

2.4.2 Firm responses to WTO rules and regulations

Looking at firm reactions, not to institutions in general but more closely to the changes imposed by the WTO agreements one can delve even further in the specific options that are available to firms to adapt or change. Typically firm have the opportunity to respond to changes in a number of ways: In their paper Lawton, Lindeque, et al. (2009) looked specifically at the types of changes firms make in the wake of changes initiated by the WTO. They concluded that firms can (a) adjust their product; (b) initiate a spatial adjustment; or (c) make an internal adjustment (Lawton, Lindeque, et al., 2009; Lawton and McGuire, 2005). Chittoor, Ray, et al. (2008) adds to this to divest and exit that specific business. Where as Chittoor, Ray, et al. (2008) provide the fifth option to “a defensive strategy aimed at defending, protecting and consolidating the position” or as Lawton and McGuire (2005) calls it rule adjustment (harmonisation of trade rules to eliminate regulatory arbitrage). The responses that firms can have are not mutually exclusive as one can follow the other (Chittoor, Ray, et al., 2008; Lawton, Lindeque, et al., 2009).

Internal adjustment

Internal adjustment can be found in increasing productivity. This internal adjustment can also be described as a process of firms aligning their business activities with the multilateral trade rules (Lawton, Lindeque, et al., 2009). The possibilities on how to achieve this increased productivity stretches beyond the scope of this thesis.

The process can be seen as a specialised form of (internal) adoption described according to (Cantwell et al., 2009).

Spatial adjustment

spatial adjustment can be achieved by moving plants through foreign direct investment, outsourcing, or alliances. The Indian government's agreement to TRIPs forced a restructuring of the Indian industry (Lawton, Lindeque, et al., 2009).

The process can also be seen as a specialised form of (internal) adoption described according to (Cantwell et al., 2009; Hoekman et al., 2004). This meant that the old was out and new ways to remain competitive. The new patent regime (the Indian legislation incorporating TRIPs) has also made it imperative that for its sustained future growth, the Indian pharmaceutical industry has to undertake its own innovative research into New Chemical Entities (NCEs) and Novel Drug Delivery Systems (NDDS) (Lawton, Lindeque, et al., 2009).

Product adjustment

Product adjustment provides firms the opportunity to switch out of some product lines and into others Ferreira et al. (2010) sums this up nicely in stating that product adjustment (or adaption) is found in the form of expansion into new product-markets, including perhaps different customers, the exploration of new market opportunities and possibly development of new resources to tap into the new market.

Not only can one see a differentiation in the kind of response firms have to institutional change. This response could be dependant on the type of industry. One can imagine that firms that have large investments in the plant and such are less likely to opt for a spatial change in the form of moving a plant to a different country with more favourable (say patent) laws.

Here one can observe the combination of a coevolution and an adjustment strategy as defined by (Cantwell et al., 2009). By changing the product or the entire environment the firm is operating in may well change. This the case for suppliers and other firms that deliver to that company. Also it could mean companies and local authorities cooperate in creating incentives for sustainable or R&D activities (Bloomberg, 2006; Deloitte, 2013). This knowledge can lead to the following:

Working Proposition 6. *The preferred mode of adjustment to WTO rules and regulations for MNE in different industries is likely to be heterogeneous*

2.5 International Strategy

Since being introduced by (Porter, 1980) Industry based view and (Barney, 1991) RBV have gained a lot of momentum in the international business community. Strategic management (theory) or strategy in short has become a household name. In the following sections the theories of Barney (1991) and Barney et al. (2011) will be discussed briefly, followed by a more extensive discussion on institutional based view. As the resource based theory is the prevailing theory in this thesis an more detailed view will be given of this theory. As however resource based theory is not the only important IB theory and resource based theory is closely linked to InBV and to a lesser extend institutional based view both theories are discussed in Appendix C.1 and C.2 respectively.

2.5.1 Resourced Based Theory

RBV came as a response to InBV by Porter (1980) and was introduced by among others Barney (1991) and Wernerfelt (1984) Nowadays more and more scholars are using the term resource based theory.

scholars are increasingly using the term resource-based theory instead of resource-based view. This reflects the fact that resource-based research has reached a level of precision and sophistication such that it more closely resembles a theory than a view (Barney et al., 2011).

The term resource based theory for the theory of Barney (1991) and Barney et al. (2011) will also be used in this thesis.

Contrary to Porter (1980), resource based theory researched the link between firm's internal characteristics and it's performance (Barney, 1991).

Key in all this is that resource based theory assumes that (a) firms across one industry may be heterogeneous with respect to strategic resources and (b) that resources are not perfectly mobile across firms, hence heterogeneity may be long lasting (Barney, 1991).

The resource based theory argues that firms posses resources, a subset of which enables them to achieve competitive advantage and a further subset which leads to superior long-term performance (Barney, 1991; Grant, 1991; Wernerfelt, 1984). Studies of firm performance using resource based theory have found differences not only between firms in similar industry but also

within narrower groups within industries (Cool et al., 1988; Hansen et al., 1989). The resources that are mentioned are defined as *assets and capabilities that are available and useful in detecting and responding to market opportunities or threats* (Sanchez et al., 1996; Wade and Hulland, 2004). Where *assets* are anything tangible or intangible the firm can use in its processes for creating, producing and/or offering its products (or services) to a market (Sanchez et al., 1996). And *capabilities* are repeatable patterns of actions in the use of assets to create produce and/or offer products to a market (Sanchez et al., 1996).

- (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

The list of that is itemised is also known as the VRIN framework (Barney, 1991).

Later Oliver (1997) added to the resource based theory by providing the following definition:

A resource-based view proposes that resource selection and accumulation are a function of both within-firm decision-making and external strategic factors (Oliver, 1997).

This unique combination of resources will lead to competitive advantage (Barney, 1991). resource based theory is not without its critiques (Düng, 2012; Kraaijenbrink et al., 2009; Narayanan et al., 2005; Priem et al., 2001). Some more detail on the critiques on (Barney, 1991) can be found in Appendix C.3.

In his paper 2011 paper Barney et al. (2011) concludes that resource based theory and therefore also resource based view is not on the decline. The fact that resource based theory is still in use in recently published papers perhaps speaks more volume on the fact that the theory can still be considered relevant (Hoskisson, Wright, et al., 2012; Lockett et al., 2013; Mukherjee, 2013).

The VRIN framework developed in Barney (1991) was also extended and improved upon Barney (1995) just as he had improved on the terminology of resource based theory. Barney (1995) introduced the concept of VRIO to improve on VRIN

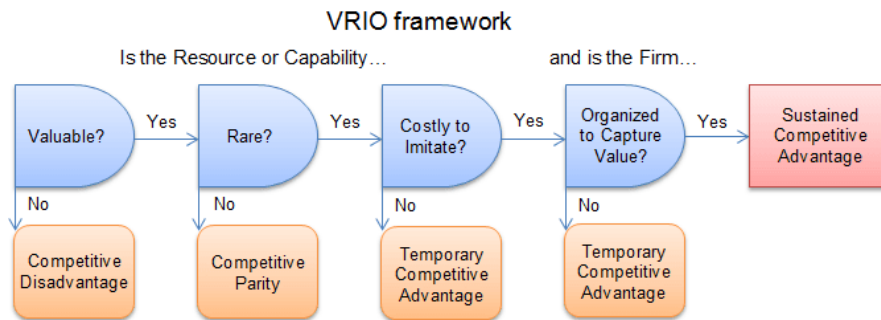


Figure 2.3: The VRIO framework. Adapted from (Rothaermel, 2012)

The Question of Value Resources are valuable if they help organisations to increase the value offered to the customers. This is done by increasing differentiation or/and decreasing the costs of the production. The resources that cannot meet this condition, lead to competitive disadvantage.

The Question of Rarity Resources that can only be acquired by one or few companies are considered rare. When more than few companies have the same resource or capability, it results in competitive parity.

The Question of Imitability A company that has valuable and rare resource can achieve at least temporary competitive advantage. However, the resource must also be costly to imitate or to substitute for a rival, if a company wants to achieve sustained competitive advantage.

The Question of Organisation The resources itself do not confer any advantage for a company if it's not organised to capture the value from them. Only the firm that is capable to exploit the valuable, rare and imitable resources can achieve sustained competitive advantage⁶.

The key improvement to the VRIO (see also 2.3) framework from the VRIN framework is the addition of the question if the organisation is ready and capable to exploit all the resources (Barney, 1995; Strategic management insight, 2013). The point is that all this should again lead to competitive advantage through firm specific advantage s(FSAs) (Barney, 1991, 2001b; Barney et al., 2011). The frameworks by Barney (1991, 1995) lead to the following:

Working Proposition 7. *The diversity in internal resources (humans and knowledge) within firms could be responsible for the heterogeneity of firms responses to changes institutional environment*

⁶adopted from (Strategic management insight, 2013)

2.5.2 Firm specific resources

A key concept of (Barney, 1991, 2001b) is that the different (internal) resources lead to FSAs. The resources of MNE are by definition located in the host and home country of that MNE. Barney (1991, 1995) suggests that “resources within the firm are not perfectly mobile across firms and that heterogeneity can be long lasting” (Barney, 1991). Whether this assumption holds true is a matter of discussion. The fact that resources might be (perfectly) mobile given certain constraints has been brought up (Lavie, 2006; Priem et al., 2001) already.

Hu (1995) identified that the firm’s advantages are indeed transferable, be it with varying amounts of success (certain constraints). The success are visible through the expansion of Hong Kong firms in East Asia (Hu, 1995). However these similar firms expanding to the US or Great Britain yielded a different story Hu (1995).

The same holds for (high-tech) Korean firms expanding to emerging economy and advanced economy. Here a difference strategies was observed while still dealing with comparable MNEs (Erramilli et al., 1997). The same firm specific resources were employed in different capacities relative to the market that was entered.

Not only the economic regions that are entered are relevant to the methods and impact resources have on the MNE. The type of resource has a profound effect on its capacity to be either internationally mobile or immobile (Tseng et al., 2007).

Some FSA have in the form of resources have different characteristics in general. Rugman et al. (2001) differentiates between three types of resources.

- (a) Non location bound FSA
- (b) Location bound FSA
- (c) Subsidiary specific advantages

Where the (non) location bound FSA are in it self to be exploited globally and easy to diffuse locally (a) or hard to exploit globally and provide local national responsiveness (b) the subsidiary specific advantages are a different animal by itself. They are easy to deploy globally but difficult to exploit internally (Rugman et al., 2001). The subsidiary specific advantages display characteristics of perfectly mobile resources as they are very mobile across firms, but not within firms or MNEs. The observations above relax the statement of Barney (1991) somewhat as to the perfect mobility of resources. According to (Erramilli et al., 1997; Hu, 1995; Rugman et al., 1992, 2001; Tseng

et al., 2007) some consideration has to be given to the fact that resources are perfectly immobile according to resource based theory. This may not be always a certainty. This depends off course on a case by case basis as indicated above.

2.6 Conclusions

From an theoretical standpoint the WTO can certainly be seen as an institution. As a rules setting body the WTO does certainly qualify as an institution and by setting these roles it tries to reduce the uncertainty for organisations. The institutional characteristics are certainly very visible in the Formulation Phase of the WTO life cycle. The outcome of the institution, the result, is most visible in the Implementation phase. this is where the organisations (firms) have to respond to the new landscape.

Their context has changed. This changing context is best theorised by the IBV and more to the point the strategy tripod Peng, Sun, et al. (2009) and shown in figure C.4. The manner in which the firms respond to the changing context is not only dependant on the context, country and state and stage of the economy, but also has to do with the available resources and the industry of the firm is competing in.

The possible differences and similarities will be investigated in the next section.

Chapter 3

Methodology

This chapter will focus on the research methodology and design. Before going into the research design, the reasoning for the use of qualitative research model will be discussed. Then the case criteria selection and the data collection methods will be given.

When doing research two basic methods can be distinguished, qualitative and quantitative (Saunders et al., 2009). when researchers try to discover causal links between two or more subjects quantitative research is deemed most appropriate (Van Der Velde et al., 2008). In this thesis the data will be analysed using what (Saunders et al., 2009) refers to as ‘non numeric’ data, hence this research study is qualitative in nature. To determine motivations, perceptions or beliefs of a certain phenomenon (Eisenhardt, 1989; Van Der Velde et al., 2008) qualitative research is considered most appropriate. The study will be done in a mono-method capacity, hence no quantitative data will be used in this research (Saunders et al., 2009). The qualitative case study methodology provides tools for researchers to study complex phenomena within their contexts (Baxter et al., 2008; Ryan et al., 2003).

3.1 Multiple Case Study Research Design

The research design explains the structure of research. In fact, it explains how research is conducted and how the subsequent data is analysed (Van Der Velde et al., 2008). To collect the

(qualitative) data for this study the method of the multiple case study has been selected. According to Yin (2009) case studies differentiate from other types of studies in that an attempt is made to examine a contemporary phenomenon within a real-life context. The technique of case studies is mostly employed when there are no clear boundaries between that particular phenomenon and its context (Marshall, 1996; Yin, 2009). Clearly the effects of the WTO on IB and the firms within the IB environment are a real-life current phenomenon.

The multiple case study differs from the single case study (Van Der Velde et al., 2008; Yin, 2009). The single case study is often used when dealing with an exceptional situation, where the multiple case study deals more than one case, having the benefit replication across cases (Saunders et al., 2009). The (qualitative) multiple case study is an approach to research that facilitates exploration of a phenomenon within its context using a variety of data sources (Baxter et al., 2008). This ensures that the issue is not explored through one lens, but rather a variety of lenses, which allows for multiple facets of the phenomenon to be revealed and understood (Baxter et al., 2008). This is an approach to research that facilitates exploration of a phenomenon within its context using a variety of data sources (Baxter et al., 2008).

The advantage of this method is, it assures a richness of content, as Eisenhardt (1989) explains and can lead to novel, testable and rich information.

However, the disadvantage of this method is that the results are not statistically generalisable (Yin, 1981). By investigating a phenomenon at one particular location, cross-sectionally and with only few organisations within the sample as units of analysis, this would result in lower generalisability (Klossek et al., 2012). The results are only valid in a specific setting for specific type of organisations (Deng, 2007). This research method aims to describe, rank and explore data with the aim of generating working propositions or illustrating an existing theory (Eisenhardt, 1989; Yin, 1981).

The multiple case study can be seen as the ideal method of collecting data and or information for this research question (Yin, 2009). This thesis is investigating two different regions of the world based on the economic development of that area (EEs vs. AEs see also Appendix A) and also two different industries in these economic areas, the pharmaceutical and ICT services industries that are governed by WTO rules and regulations. The rationale behind the choice of these two industries and specific companies is explained in Section 3.2.2.

This research method aims to discover not as much explanatory, but moreover exploratory findings Yin (1981) on the effects of the WTO rules and regulations. The ‘why’ question for multiple

case study is associated with explanatory research questions Yin (2009), this thesis does not seek to answer those. Here the question is whether the WTO effects some companies in certain countries or regions differently. Hence the research question is an exploratory one (Miles et al., 1994; Yin, 2009).

In this research, the propositions were developed prior to carrying out the case study research. This is in line with (Hyde, 2000; Yin, 2009) (multiple) case study approach.

3.2 Case Criteria and Selection

The next step is to identify and select the cases that will be used. As mentioned by Pettigrew (1990), the number of cases that are studied is usually limited, therefore it is a good approach to select cases that signify correctly the differences at hand. In the selection process certain boundaries have been set to ensure a comprehensive selection can be made. The selection of the firms will be made on a number of differentiating levels. The first differentiating level will be economic region. The second will be on type of industry.

3.2.1 Economic Region Selection

The aim of this study is to compare the effects of the WTO decisions on EE and AE firms. Hence the cases will be selected from EE and AE firms. The terms EE and AE have been defined in Appendix A and the specific economic regions or countries associated with the EE and AE are also listed in this Appendix.

The region that has been selected as AE is the European Union. To create a larger potential group of firms (MNEs) the EU has been selected as opposed to a single European country. As this thesis is written in a European environment it seems only logical to choose Europe as the AE.

As for an EE a number of choices are possible. The obvious choice in this case would be China as there is already a lot of research being done with China and Chinese MNEs. However India does make for a very interesting candidate. The exposure India as a country and economic power receives might be less. The Economist does have a separate section on China but does not have one on India for example. Looking at the 2012 gross domestic product (GDP) of both India and China they rank 4th and 3rd respectively (with the EU and the US in 1st and 2nd) (CIA, 2013). India does have a well established services sector contributing over 50% to GDP (Government of

India, 2012). India be less known as a manufacturer as China Daily Mail (2010), it does have a lot of potential (Dhawan et al., 2012).

Therefor India is a very interesting EE and has dully been selected.

3.2.2 Industry Selection

In Porter (1980) already identified the importance of industries in the search for competitive advantage. The industry types have to be existent in sufficient quantities in both economic blocks. For a good comparison looking at different industry types seems logical.

Fisher (1939) defined three industry sectors; the Primary, Secondary and Tertiary sectors. The primary sector consists mainly of raw material sourcing companies, the secondary sector has to do with manufacturing and the tertiary sector consists of services firms. For the purpose of this research we will focus on firms from the secondary and tertiary sectors (Fisher, 1939).

Manufacturing Industry

To be able to come to a comprehensive comparison, the sectors under investigation are to be both present in the EE and the AE alike. This is the case for the pharmaceutical industry in both EU and in India.

The pharmaceutical has been long present in the EU. Especially Germany, Switzerland and Britton have a history (dating back to the 18th century) in the pharmaceutical business (Liebenau, 1984; Walsh, 2010). Although not as old as the European history, India does have a history in the pharmaceutical industry (Mazumdar, 2012).

Not of primary concern, but still useful, the pharmaceutical sector has decent size firms in both EU and India. Hence the amount of information is expected to be sufficiently available on companies in these regions and sectors.

Services Industry

As a service the IT services industry is very much on the move and an example of the globalisation of the workplace (Reuters, 2012). Development centres are being set up all over the world (India Times, 2008; Reuters, 2012). As for the services industry, India is well known for their ICT services industry. One can almost argue that India has a leading role in the IT services and Business

Process Outsourcing (BPO) practices (The Hindu, 2011). The I(C)T services industry is one of the largest Industries of India. It accounts for 41.7% of the total services export (Government of India, 2012). One can conclude the IT services industry is well established in India and could be solid choice as a services industry example.

In Europe and the EU the IT services firms do not see the same amount of growth as the Indian industry however there are still some large companies active (Deloitte, 2010). Much of the IT services is about outsourcing IT work¹. For this reason all IT services firms have a global presence and a lot of the actual (coding) work is done in low-wage countries (like India). Notwithstanding this globalisation aspect, Europe boasts still healthy number of IT services companies Computer Weekly (2011) that can be used in this thesis. From this on can conclude that overall the IT services industry in Europe is still a healthy one to serve as a services industry example.

Both the IT services and pharmaceutical industries seem interesting industries to focus on, with regard to the services they provide and in the light of the division in industries as defined by (Fisher, 1939).

Firms

Finally within these industries defined, the firms can to be selected. To be able to find as much information as possible multinational pharmaceutical companies have been selected from both the European and Indian markets.

The Indian pharmaceutical companies are Ranbaxy and Cipla.

The choice of these two companies is base on the size, they are among the largest in India and have a decent amount of growth (see Figure 3.1).

Many European pharmaceutical companies have merged with or have been purchased by US firms. We will focus on firms that have no original ties with the US through mergers and that stem from the European mainland. As counterparts for the Indian firms we will choose Novartis and GSK as the European contenders. Both the European firms are top 20 of pharmaceutical companies² in the world.

As for the ICT services firms in India there is a lot of choice. Here we opt for pure Indian companies were not only the operations are performed in India but the management and ownership are also Indian. Here Infosys and WiPro have been chosen. Both companies are among the largest IT

¹More on the working practices of the IT services industry can be found in 3.2.2

²http://www.contractpharma.com/issues/2013-07/view_features/top-20-pharma-report-/

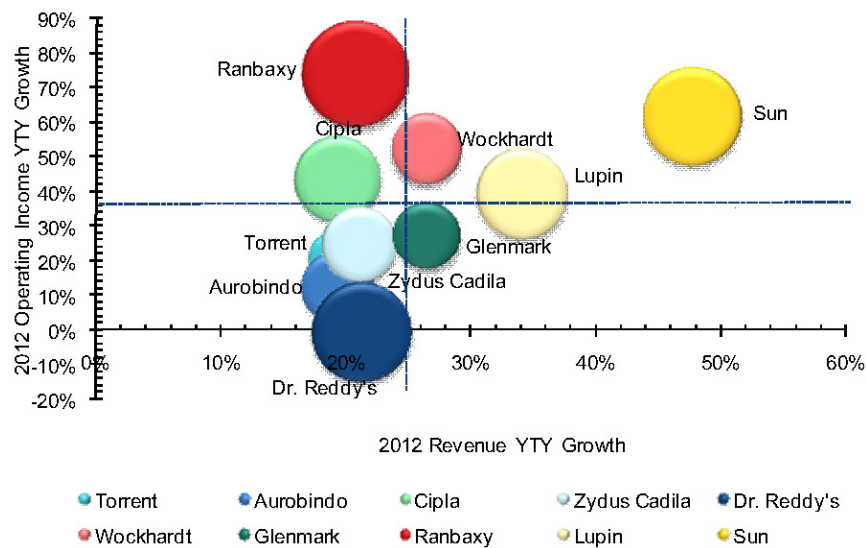


Figure 3.1: Competitive Landscape of the Top 10 Pharmaceutical Companies in India, 2012. source: (Research and Markets, 2013)

services firms in India feature in Gartner's Magic Quadrant for IT services firms Gartner (2013) and not a subsidiary from a larger company. This would be the fact with TCS as this is part of the Tata group.

For the European Firms the choice is less broad. Pure European ICT firm are not as prevalent as Indian ICT services firms (Deloitte, 2010). This said Capgemini and T-systems as well as Atos are all very good examples of international ICT services firm. There are a number of local (national) ICT services for a good diversity of information these are not included.

Here the choice is Capgemini and T-systems as they again rank among the largest companies in this field in Europe. T-systems and Capgemini have roots in different European countries (Capgemini, 2013a; T-systems, 2013) (France and Germany) this could provide an additional richness of data. The firms in their respected economic areas and industries will be summarised in table 3.1.

Table 3.1: Firms of under investigation. Source Author

	advanced econ- omy (EU)	emerging econ- omy (India)
Services Industry	Capgemini T-Systems	Infosys WiPro
Manufacturing Industry	Novatis GSK	Ranbaxy Cipla

The Firms will be described in more detail in the following section.

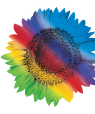
Detailed description of the firms The way IT services firms operates within the IT services business is largely the similar for Indian or European firms Gardner (2013). Therefore these working practices are described for the entire sector and not repeated in table 3.2. IT services firms generally provide IT maintenance and development through outsourcing (in near or offshore locations) and BPO services (Capgemini, 2013a; Infosys, 2013; T-systems, 2013; Wipro, 2013).

The majority of MNE have their own (proprietary) IT application landscape that is vital to their operations (Willcocks et al., 2004). As part of the application management services, IT services firms can maintain the current IT application landscape and also develop new applications (or replace applications build with old technology) that are specifically tailored for their clients (Cusumano, 2008). The IT services firms typically, by acquiring the account to maintain and develop the IT applications also take over part of the personnel that was working at the parent company. Subsequently (a large) part of the development work done, is transferred to low-wage-countries (Barthélemy, 2001). The employees of these companies are located both in the home country of the client and in the home country of the IT services firms (Lacity et al., 2009). This trend that has been observed is that these companies want to focus on their core business (Willcocks et al., 2004). As IT is not their core business they outsource this to other companies or set up a second company to perform these services (Earl, 2012). Firms that are more heavily IT reliant are telecommunications and financial services firms (Gonzalez et al., 2006). Some IT services firms started life as subsidiary that is operating (semi) independently, this is the case with T-Systems or have a spin-of company that is now competing in the market on its own (T-systems, 2013). Others started out as pure IT firms that have grown to become IT services firms partly by insourcing employees from their (former) customers (Barthélemy, 2001). The firms in the IT services area are described in table 3.2.

In general in the pharmaceutical business one can distinguish four phases in the process of the drug to hitting the market. The drug has to be researched (a) and then (b) developed, then it has to be manufactured (c) and finally it has to be marketed and sold (d) (Paul et al., 2010). The research and development stages are among the most cash intensive to the process to come up with a new (blockbuster) drug (Munos, 2009). The drugs have to be approved by the appropriate authorities⁷. Manufacturing and marketing of the drug can begin only after this approval has

⁷These are the Food and Drug Administration (FDA) in the US and the European Medicines Agency (EMA) in Europe

Table 3.2: Services Firm Details, Source Author

FirmName	Economy	Industry Type	Home Country	Employees	Year Founded	Revenue (2012)	Profit ^a (2012)		
	advanced economy	ICT Services	France	100,000+	1967	€ 10.26Bn	€ 829Mn		
	advanced economy	ICT Services	Germany	48,000	2000	€ 10.02Bn	€ 350Mn		
	emerging economy	ICT Services	India	135,000	1945	€ 4.32Bn ³	€ 0.95Bn ⁵		
	emerging economy	ICT Services	India	150,000+	1981	€ 5.56Bn ⁴	€ 1.29Bn ⁶		
Description									
<p>Capgemini is a listed company at the Euronext stock exchange in Paris. The main business of Capgemini are ICT and consulting services. The latter was acquired via a takeover of Ernst&Young Consulting. The name came to be from a merger between CAP, Sogeti and Gemini inc. Now Sogeti is wholly owned daughter of Capgemini. Typical clients are found in large manufacturing companies, banking and insurance, but also the public sector and healthcare.</p> <p>T-systems is a subsidiary of Deutsche Telekom AG. Although a subsidiary it does serve other customers than DT. The main activities are IT consulting and IT services. These include minting the IT application landscape and building new applications specific for the client. Typical clients are found in large manufacturing companies, banking and insurance, but also the public sector.</p> <p>WiPro is an Indian ICT services company, that unlike others started of as an company that manufactured oils, soaps and waxes as the 'Western India Vegetable Products'. This heritage is still maintained in its company logo of a sunflower. In 1981 WiPro diversifies into IT services. The business is now known for. Their main clients other MNEs that are located in the financial services, healthcare, manufacturing and telecommunications domains.</p> <p>In 1981 Infosys Consultants was established. In 1992 the name was changes to Infosys Technologies. Infosys is a NYSE listed global consulting and IT services company stemming from India. Similar to other Indian IT services firms the clients are MNEs that are located in the financial services, healthcare, manufacturing and telecommunications domains.</p>									

^aEBITDA^{a3} revenue was posted as ₹ (337.340Bn) using table B.1 Euro value was calculated^{a4} revenue was posted as ₹ (433.608Bn) using table B.1 Euro value was calculated^{a5} revenue was posted as ₹ (74.142Bn) using table B.1 Euro value was calculated^{a6} revenue was posted as ₹ (100.61Bn) using table B.1 Euro value was calculated

been received (Kessel, 2011).

Normally a drug that has been newly developed will also be granted a patent for a certain number of years. After this patent expires the drug can be manufacturing by anyone (Kaitin et al., 2009). This drug becomes a so-called generic drug. Manufacturing generic drugs can might have different implications from manufacturing proprietary drugs (Kessel, 2011).

Indian pharmaceutical companies have seen tremendous growth between 1970 and 1991 (Bruche, 2011; Chaturvedi et al., 2006). In 1970 the Patent Act was passed, which allowed the domestic manufacturing and marketing of patented products without a licence. This fuelled a large reverse-engineering spree of patented drug by (almost all) Indian pharmaceutical companies (Bruche, 2011). This practice was halted in 1991 with the signing of TRIPs. TRIPs marked the turning point of Indian policy regime towards the world (Chaturvedi et al., 2006). The reverse engineering practices came to a halt. The new patent regime that did not allow reverse engineering of known molecules, together with the pressure exerted by liberalisation and globalisation, is forcing firms to transform their R&D activities and realign their competencies (Chaturvedi et al., 2006).

3.3 Data Collection

Since a multiple case study method will be used, the data is sourced from major newspapers. Martin et al. (2013) has identified that doing a newspaper (with keyword search) can provide almost similar results as doing semi structured interviews. “We found [...] evidence that interviews and articles provide highly overlapping information in terms of both the entities discussed (articles covered just about all entities in interviews)” (Martin et al., 2013, p.10). He continues with “the high degree of conceptual overlap observed suggests that, in general, the expense of interviews is not warranted if the goal is to find new or different information from what is available in newspaper articles.” (Martin et al., 2013, p.10)

To find the data, a comprehensive keyword search has been conducted in the LexisNexis database. In every search the company name has been used as a keyword. For some companies it was necessary to use additional keywords, using only the company name rendered to many results. In Table 3.4 the combination of company names, keywords and relevant newspapers is given, along with the total number of clippings and the number of useful clippings. When necessary the newspaper data was enhanced using annual accounts from the companies under investigation. These most relevant newspapers that were included in the search are listed in table 3.4. Some

Table 3.3: Manufacturing Firm Details. Source Author

<div>     </div>		Firm Name	
Economy	advanced economy	advanced economy	emerging economy
Industry Type	manufacturing	pharma manufacturing	pharma manufacturing
Home Country	Switzerland	UK	India
Employees	120.000+	95.000	16.000+
Year Founded	pre 1900	pre 1900	1935
Revenue (in 2012)	€ 42.95Bn ⁸	€ 30.1Bn ⁹	€ 1.09Bn ¹¹
Profit (in 2012)	€ 8.72Bn	€ 8.57Bn	€ 1.57Bn
Description	<p>Novartis is the product of a merger between Ciba-Geigy and Sandoz Laboratories in 1996. In this merger the pharmaceutical divisions continued operation under the name Novartis while the other operations were divested. Novartis engages in research, development, manufacturing and marketing of prescription (proprietary) drugs. These four stages mentioned earlier. Businessweek (2013b)</p> <p>GlaxoSmithKline in full or GSK, was formed through a merger of Glaxo Wellcome and SmithKline Beecham in 2000. GSK has a portfolio of products for major diseases and also a large consumer healthcare division. GSK engages research, development, manufacturing and marketing of prescription and over-the-counter drugs. Businessweek (2013c)</p> <p>Ranbaxy was founded in 1937 as a distributor of Japanese manufactured drugs. The name Ranbaxy is a aggregation of the names of its first owners Ranbir and Gurbax. In 2008 Dai-ichi Sankyo of Japan acquired a controlling share in Ranbaxy. Ranbaxy however remains listed on the Indian stock exchange.</p> <p>In later stages Ranbaxy developed NDDS techniques, thereby adding their own value to the existing products. There is an tendency though seen at Ranbaxy to seriously pursue new drug discovery programmes. It is suggested that Ranbaxy, generally, has been investing more in the R content of R&D and have gradually moved away from reverse engineering Chaturvedi et al. (2006). However the bulk of the Ranbaxy business lies in manufacturing, marketing (and selling) pharmaceuticals productsBusinessweek (2013a) and maheshsundar.com (2013)</p> <p>Cipla was founded as the Chemical, Industrial and Pharmaceutical Laboratories in 1935. Nowadays it is better known as its acronym then by its full name. Cipla manufacturing OTC prescriptions drugs. Next to this they also manufacture Active Pharmaceutical Ingredient (API) and drug intermediates. Cipla is engaged in manufacture and marketing (sales) of pharmaceutical products in India and internationally. Cipla focusses on improving their manufacturing efficiency and establishing large production facilities. Cipla has invested more in the D content and have strengthened their infrastructure and financial position through process efficiencies, economies of scale and large product baskets rather than researchChaturvedi et al. (2006).</p>		

⁸ revenue was posted as \$ 56.7Bn using table B.1 Euro value was calculated⁹ revenue was posted as £ 26Bn using table B.1 Euro value was calculated¹⁰ revenue was posted as ₹123Bn using table B.1 Euro value was calculated¹¹ revenue was posted as ₹85.24Bn using table B.1 Euro value was calculated

newspapers are not listed specifically in table 3.4, but have been used in the search, these are itemised below.

- Hindustan Times
- The Hindu
- The Washington Post
- The Wall Street Journal
- The International Herald Tribune
- The Business Times Singapore
- Africa News
- Straits Times

Once the searches had been completed every newspaper clipping was scanned to determine the usefulness in this thesis. The scan was performed taking into account the keywords and the topic discussed in this thesis. Those clippings that were determined to be relevant, have been analysed in more detail.

Using the information in the relevant clippings, a narrative of the firms strategic decisions and responses has been constructed. This method has previously been described by (Kolk et al., 2013; Maguire et al., 2009) in their 2013 and 2009 papers respectively.

The availability of different sources, not only from different newspapers but also from different countries, on the same topic, added the possibility of triangulation of data.

Considering the timeframe for the data collection one has to recognise that both the IT services and the pharmaceutical manufacturing industries have been touched by the rules and regulations of the WTO. The international IT services industry was significantly changed when in 1999 Information Technology Agreement (ITA) was introduced and exports (from India) have grown spectacularly following the introduction (of ITA) Lee-Makiyama (2011). The pharmaceutical industry in India has seen significant change following adoption of TRIPS in 2005 for pharmaceutical products (the Indian government changed the patent law to recognise foreign (often western) pharmaceutical patents Chandran et al. (2005)). Being an emerging economy, India could use a 10 year transition period to comply with the TRIPs rules and regulations and thus did so.

Table 3.4: Key words used in search

Company Name	Keywords	Newspapers consulted	Total	Useful
Cipla	WTO		41	12
	Patent	English Language Newspapers	556	43
	TRIPS		80	12
Ranbaxy	WTO		35	10
	Patent	English Language Newspapers	1150	44
	TRIPS		56	9
GlaxoSmithKline	WTO	English Language Newspapers	101	25
	Patent	Times (England)	351	41
	Patent	Guardian (England)	177	35
	TRIPS	English Language Newspapers	1027	15
Novartis	WTO	English Language Newspapers	70	30
	Patent	The Times (England)	125	41
	Patent	NY Times (Unites States)	104	33
	TRIPS	English Language Newspapers	444	11
T-Systems	Outsourcing	English Language Newspapers	101	18
	Non	Handelsblatt (Germany)	33	15
	Non	BörsenZeitung (Germany)	347	22
Capgemini	Non	Financial Times (England)	689	50
	Non	The Guardian (England)	103	23
	Non	The Times (England)	185	19
	–	Company Annual Report of 2012	–	–
WiPro	Outsourcing	Times of India	271	37
	Outsourcing	Economic Times (India)	491	44
Infosys	Outsourcing	Times of India	372	53
	Outsourcing	Economic Times (India)	612	61

Taking into account the changes that have been happening in both the IT services and the pharmaceutical industries a suitable timeframe for the data collection had to be considered. The timeframe we will be looking are the years surrounding the change in environment, the firms in both industries have encountered. The timeframe for both industries also had to be similar to facilitate a cross case analysis (Similar economic regions but different industries). To accommodate for a cross-case analysis and to have a sufficient time period to observe the firm responses, without having an unreasonably long time period, the 10 years spanning 2003 to 2013 have been chosen for the analysis.

3.4 Conclusion

This multiple case study is the preferred method to conduct this study. The data collection has been done according to the methods describe in (Kolk et al., 2013; Maguire et al., 2009; Miles et al., 1994; Saunders et al., 2009). The method of narrative description has been found very effective to consolidate the information for this thesis. It was also a useful tool to ensure data triangulation. The findings of are discussed in Chapter 4.

Chapter 4

Results

This chapter discusses the results of the analysis are. First, the within-case analysis is performed, which describes similarities and differences of particular cases of the manufacturing and services industries in similar economic regions. Secondly the cross-case analysis is done, in which the cases are compared across the industries and across economies. The cross-case analysis is executed to eventually find patterns that could support our working propositions (Eisenhardt, 1989). The sequence of analysis will be done along the lines indicated in Figure 4.1. Here (1) represents the within-case analysis and (2) and (3) represent the cross-case analysis.

4.1 Within-Case Analysis

In the within-case analysis, firms in the same industries and the same economic regions are analysed (See figure 4.1). Here the analysis will commence by investigating the the two Indian pharmaceutical companies (Cipla and Ranbaxy), than two European Pharmaceutical with each other (GSK and Novartis). Than the two European IT services firms (T-systems and CapGemini) will be analysed. The within-case analysis will be concluded with the analysis of, the two Indian IT services firms (WiPro and Infosys). Part of the case analysis will be a short description of challenges the industry in these economic area have faced in the 10 year (2003-2013), the time period that has been analysed.

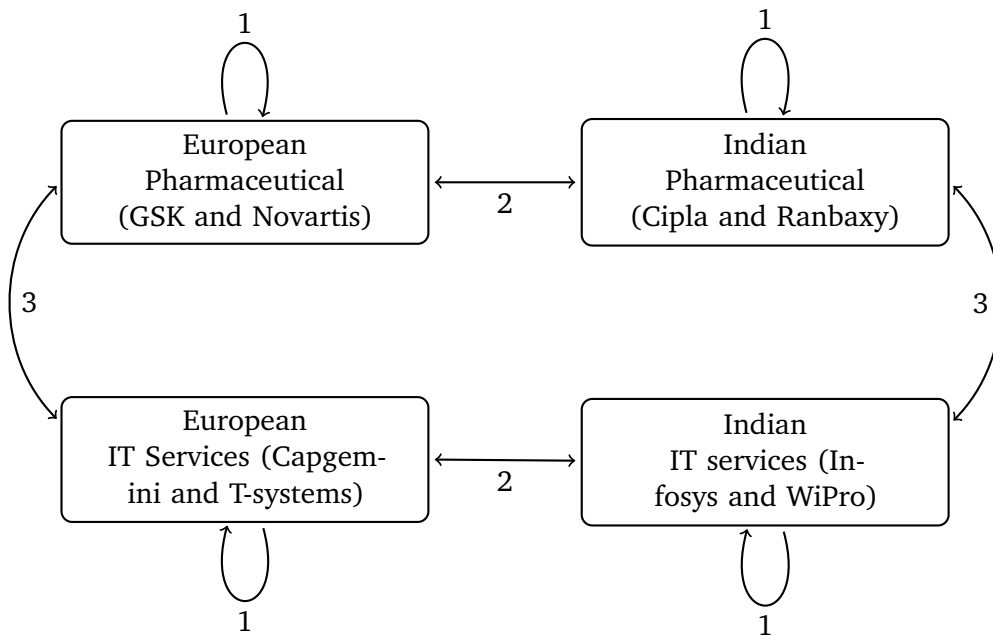


Figure 4.1: Within and across case analysis

4.1.1 Indian Pharmaceutical Industry

Both companies have been producers of generic pharmaceutical products, often of patented medicines through reverse engineering. Generics are medicines, like aspirin, that are no longer patented. Generics producers have claimed legitimacy over recent years due to the fact that it helped to combat the AIDS epidemic (mainly in Africa) with affordable and quality medicines and ageing populations of the developed world.

Both Cipla and Ranbaxy have become major pharmaceutical players due to their ability to reverse engineer patented drugs under the Indian patent act of 1970. India agreed to the TRIPS agreement during the Doha trade rounds in 1995. Then it was agreed that India would recognise pharmaceutical (product) patents in the same way the European and North American countries do. After a 10 year 'grace' period in 2005, India changed its patent act. The Indian patent law not only now protected processes but also protected products intellectual property. From 2005 on, the Indian pharmaceutical could no longer resort to reverse engineering medicines under the Indian patent law.

Comparison between Cipla and Ranbaxy

Both Cipla and Ranbaxy recognised the upcoming changes and started to prepare for these changes. Ranbaxy¹ responded by buying European generic pharmaceutical manufactures. Cipla responded by buying into an African generics manufacturer. Acquiring European generics firms served the Indian companies two goals:

- The high cost in legally opposing Big Pharma's² extension of their (patents) on drugs has not resulting in sufficient success and revenue (The Business Times Singapore, 2006).
- Takeovers of an established European company, which already has approval to sell several generic drugs and an established customer base in Europe, give the firms access to the European market (The Business Times Singapore, 2006).

Lower manufacturing cost in India of approved drugs for the European market is one of the opportunities to recoup the investment (The Business Times Singapore, 2006). There is another reason to enter into the European market. Three of the top five pharmaceutical markets are located in Europe (The International Herald Tribune, 2008).

Acquiring these generics manufacturing is inline with responses (adaption and spatial adjustment) that firms employ according to (Cantwell et al., 2009; Lawton, Lindeque, et al., 2009; Oliver, 1991). The similarity in strategy employed by both firms, is a sign of mimic isomorphism to institutional rules and regulations changes as described by among others (DiMaggio et al., 1983; Kostova, Roth, et al., 2008; Westney, 2005; Zucker, 1987). This also corresponds with the 'Comply-Imitate' formulation of (Oliver, 1991).

Since reverse engineering is no longer a proposition for both companies they have to find other ways (internal adjustment (Lawton, Lindeque, et al., 2009)) to conduct their business. Here a significant difference can observe between Ranbaxy and Cipla. Cipla is still challenging patents of mainly advanced economy pharmaceutical firms. The Cipla CEO (Yusuf Hamied) is against monopolies and has been quoted to say: *I am willing to pay a royalty on a new invention but I am against monopolies. Monopolies imply higher prices.* He also is giving an example how to deal with this: *Canada copied any drug or product it chose to, provided it paid a 4 per cent royalty to the patent holder on the sales. There were no protests from the multinationals.*

¹Ranbaxy has bought Romanian generics manufacturer Terapia and also bought out Allen SpA of Italy and Ethimed of Belgium The Business Times Singapore (2006) and The Nikkei Weekly (2006)

²Big Pharma is used in the same sense as Big Oil and are considered major global pharmaceutical companies mainly located in Western-Europe and the US

This stance on monopolies and to a lesser degree, patents is exemplary of the company's stance on these issues. Cipla has been in numerous legal battles over patent infringement with AE pharmaceutical firms. Some of these legal battles have been won by Cipla (in Indian courts). This strategy can be seen as avoidance or even defiance more often observed in weaker institutional environments (Cantwell et al., 2009). Cipla is employing a combination of what Oliver (1991) dubbed 'defiance and avoidance'.

The strategy of Cipla can be seen in contrast to the strategy adopted by Ranbaxy. Ranbaxy does not promote the same view on this topic. They have chosen to comply (Oliver, 1991) with the new patent rules and regulations. Ranbaxy is starting up R&D activities to discover new molecules and they are also innovating their Novel Drug Delivery Systems activities. This is also a clear signal that Ranbaxy is adhering to the new rules and regulations and inline with the adoption strategy of (Cantwell et al., 2009).

On patent issues, instead of fighting over patents, Ranbaxy settles with its western (advanced economy) competitors. Currently Ranbaxy is actively seeking cooperation with patent holders to come to arrangement over generics. This new approach is very much the vision of the chairman of Ranbaxy (grandson to the original founder of the company). Here the difference in the strategies of both (Indian) companies and the opinions of both companies towards patents and monopolies, is considered the result of differentiating opinions in the (top) management teams of both companies. This difference can be explained using resource based theory (Barney, 1991; Barney et al., 2011). It is an example of different (human) resources having different outcomes in the company choice of strategy and is inline with the findings of resource based theory (Barney, 1991; Barney et al., 2011).

Conclusion

The two pharmaceuticals Indian companies expanded into other geographic markets in the last 10 years. However the responses were not homogenous. The firms took different routes to overcome the institutional changes. Where Cipla challenged and even fought (Bartlett et al., 1989) to combat the changes, Ranbaxy sought the route of coevolution (Cantwell et al., 2009). Even going into R&D projects for new molecular entity. These actions made them an interesting partner for AE pharmaceutical firms.

4.1.2 European Pharmaceutical industry

The European (and also the US) pharmaceutical industry has relied on patents for a long time. A host of mergers was fuelled by the lure of long term profitable 'blockbuster' drugs that benefitted from 20 year patents. Companies like GSK and Novartis have extensive pipelines with possible new drugs. During the decade that is investigated in this thesis, two themes have emerged for the European pharmaceutical companies.

In the early part of the 2000s, profits were high in the pharmaceutical industry. However the availability (a) of cheap anti retroviral (ARV) drugs in poor, mostly African countries, at affordable prices was almost non existent. The pharmaceutical companies like GlaxoSmithKline (GSK) were under heavy scrutiny and pressure to provide these ARV drugs at 'generic' prices to the African countries. Finally the WTO in 2003 brokered a deal where affordable ARV drugs could be manufactured and supplied to African countries. This somewhat silenced the discussion on the affordable drugs for poor countries.

In the later stages of the 2000s the drying of the pipeline (b) and simultaneous ending of patents became a more prudent concern for the global and European pharmaceutical companies.

Austerity has also hit European health budgets. Budgets have fallen by 9% in 2012. This is pressuring the revenues of pharmaceutical firms and is putting pressure on the bottom-line. Drug prices have to come down following the measures from European governments.

Novartis and GlaxoSmithKline

Novartis and GSK have been employing similar strategies in seeking 'blockbuster' drugs and selling them to European and North-American customers at very high, patent protected prices. This business model is under pressure. GSK and Novartis are still working at filling their pipeline with new molecules to compensate for those drugs that go off patent. Over the years R&D departments have been overhauled in pharmaceutical firms (also Novartis and GSK) The second similar and classic response of pharmaceutical firms is to go on a shopping spree when faded with diminishing revenue streams. Both GSK and Novartis have adopted this tactic. Both have acquired other firms over the past 10 years in order to keep the revenue stream going.

This type of response, repeating the same behaviour (acquisition other firms), is consistent with Carney et al. (2003). The internal adjustment are consistent with Cantwell et al. (2009). The two responses in both firms are consisted with the acquiesce (imitate) strategy as defined

by (Oliver, 1997) and the tactic of compliance. GSK and Novartis are both successful firms in the pharmaceutical environment. The fact that both are using the same strategy in acquiring other firms and applying a diversification strategy is also evidence of mimic isomorphism (DiMaggio et al., 1983; Kostova, Roth, et al., 2008; Westney, 2005; Zucker, 1987).

However the type of acquisition made by Novartis is different from the ones made by GSK. They are responding by only diversifying their product portfolio, while Novartis also made an acquisition to diversify its product range. Novartis already has a generics division and has made acquisitions in the field of generics producers thus increasing its generics volume. Novartis is already active in the generics production. This acquisition might be evidence of historical (heritage) factors influencing decision making (Carney et al., 2003) within a firm, opposed to GSK only diversifying into a different product range. Diversification strategies are evidence of spatial adjustment Lawton, Lindeque, et al. (2009) by both firms and institutional adaption Cantwell et al. (2009). The similarity in the (diversification) strategy is inline with isomorphism and the attractive power that successful companies have on each other.

In order to counter the price pressures, pharmaceuticals are investigating how to decrease their cost structure. Again Novartis and GSK use similar strategies. Both have formed alliances with Indian Pharmaceutical companies to reduce costs and cooperate in R&D activities. The possibility of going into these partnerships has been brought on by the possibility of enforcement of product patents in India since 2005.

Conclusion

European (and Western) pharmaceutical firms are still responding in a somewhat traditional way. Buy yourself out of trouble. Profits are still high in the sector (see Table 3.3). The companies have the means to acquisition other firms in order to bolster their revenue or pipeline. The responses of Novartis and GSK to the changes in their environment have been largely in the area of spatial adjustments (Lawton, Lindeque, et al., 2009) (mostly with acquisitions). The institutional change they faced was minor. It offered more opportunities than hindrance. The other change on operational level has been on outsourcing more work. This combination of internal adjustment (Hoekman et al., 2004; Lawton, Lindeque, et al., 2009) (in an effort to reduce cost or Capex) and outsourcing (thus spatial adjustment (Lawton, Lindeque, et al., 2009)) has been undertaken by both European Firms. All in all the two European firms have been responding

very similar to the changes in the environment. This is a nice example of (reciprocal) mimic isomorphism behaviour (DiMaggio et al., 1983; Kostova, Roth, et al., 2008; Westney, 2005; Zucker, 1987).

4.1.3 European IT Services

The European IT services sector has been in operation since the early 1970s. It wasn't until the General Agreement on Trade in Services that they experienced competition from EEs. T-systems and Capgemini both generate the majority of their revenue in European markets. Both are under pressure from companies in lower wages economies to keep delivering at a compatible prices. Hence the hourly rates that they can charge have been under pressure.

T-systems and Capgemini

First of, there is a difference in the ownership between Capgemini and T-systems. T-systems is a subsidiary of Deutsche Telecom where Capgemini is a publicly traded company.

T-systems has no tradition in offshoring³ outsourced work. Their model has always been doing the work close to home (near shoring). This meant that it executed the outsourced work, either in Western or Eastern Europe. T-systems did a number acquisitions between 2003 and 2013 as well, they were mostly in Eastern Europe, hence in near shoring activities. This is consistent with their long term strategy of near shoring the activities. The increase in development capacity in Eastern Europe is not viewed as a response or adjustment (Lawton, Lindeque, et al., 2009) to the price pressure and increased competition but more as a continuation of the existing practices of T-systems. To respond to the price pressure T-systems entered into numerous cooperations and partnerships with other IT firms. Among others, they gained access to offshoring capabilities (in low wage economies) that they previously did not have. As seen earlier this is a form of spatial adjustment (Lawton, Lindeque, et al., 2009).

In contrast Capgemini has opened offshore centres (in India) as early as 2006. Capgemini now employs more staff outside its home country than inside. They have a long history of growing through acquisition. Now they are transitioning and going a different direction. The chairman wrote *Having acquired many companies of different sizes over the past few years, we decided to take a break in 2012 and concentrate on integrating these newcomers (Capgemini, 2013b).*

³transferring work to low wage countries in Asia or Latin America

In respond to the downturn of the European economy and the competition from mainly India, Capgemini is seeking growth, not by more acquisitions but organically. This is an adoption strategy Cantwell et al. (2009) away from what they know best (growth through acquisition). By opening these offshore centres the hourly rate can be reduced, by creating a mixing personnel from different high and low wage locations (and thus hourly rates). This practice can create increased productivity. In the context of this thesis this is considered as internal adjustment Lawton, Lindeque, et al. (2009) and and adaption strategy in the terms of Cantwell et al. (2009).

Conclusion

T-systems is using alliances (spatial adjustment strategies) to improve its proposition to the global IT outsourcing market. The continuously seeking of partners, is a strategy in itself. However it is not a response to the institutional environment, but ingrained in the T-systems culture. Capgemini has used both internal and spatial adjustments to respond to changes in its environment. It is also using adaption strategies to switch to organic growth instead of growing through acquisition. Somewhat surprising is the fact that, though leaders in the European field of IT services, hardly any isomorphism behaviour is observed when comparing T-Systems and Capgemini.

Indian IT Services

The Indian IT services industry grew in the wake of the dot.com crises in the early 2000. The majority of the outsourcing contracts (for Indian firms) comes from large US based firms. Up to the bankruptcy of Lehman in 2008, the industry (Wipro, Infosys and their other competitors) has seen spectacular growth. However since 2009 the growth has come with leaps and bounces. Four major players have been emerging since. Two are subject of this research (Infosys and Wipro) the others are Tata Consultancy Service (TCS) (part of the Tata Group) and Cognizant an US based IT services firm. Infosys and Wipro still receive the majority of their revenue from in-sourcing work. The in-sourced work is mostly Business Process Outsourcing, call centres and IT application development and maintenance. The companies service mostly financial services companies and banks, other clients are global manufacturing companies, telco's and the oil & gas industry. From these the financials have the larges IT budgets (around 10% of total spendings). Therefor these are the most sought after clients.

Infosys and Wipro

Infosys and Wipro were up to 2009 very comparable companies. They are delivering identical services. More than once both companies have the same clients at the same time, providing the same services. Both are invested in high margin, IT outsourcing contracts with major MNE in the US and Europe. The two differentiating facts are that Wipro did not start as an IT services company and has lagged Infosys a bit in terms of revenue (not growth). Both companies have seen a (mimic) isomorphism pull towards each other in the products and services they offer.

From 2010 first Wipro experienced margin pressure due to new delivery models and technologies. They responded by reshuffling their top system structure and changing the structure of the business units (this is both an adaptation (Cantwell et al., 2009) on the strategy level and an internal adjustment (Lawton, Lindeque, et al., 2009) on the operational level).

Infosys ran into margin pressure around 2011. Like Wipro, they revamped their top management and changed the structure of the business units. This is a combination of an adaptation on strategy level, internal (productivity) adjustment (Lawton, Lindeque, et al., 2009) on the operational level and isomorphism pull with (regard to Wipro). As an added measure Infosys are adopting a product line extension where they try to move up in the value chain. This can be viewed as a product adjustment (Lawton, Lindeque, et al., 2009).

Conclusion

No real differentiation between Wipro and Infosys can be made until 2009. Both companies mimicked the strategy of their respective competitors (these include TCS and Cognizant). Since 2009 some differentiation can be observed in that Infosys among others is moving towards product differentiation, where Wipro is sticking to their current product portfolio.

In table 4.1 an overview is given of the results of the within case analysis relative to the working propositions. The table indicated if the comparison of the firms yielded a positive (the comparison reinforced the working proposition), a negative (the comparison had an invalidating effect on the working proposition) or no claim towards the working proposition could be made due to the analysis, the influence will be 'Neutral'. If the analysis yielded no information towards the working proposition 'None' is used. Any working proposition, that has not been influenced by all four comparisons (in the cross case analysis), has been omitted from the table.

Table 4.1: Direction of influence of within-case analysis on the WPs

Analysis of	WP1a	WP3	WP4	WP5a	WP7
European IT services	Positive	Positive	Neutral	None	Neutral
Indian IT services	Positive	Positive	Positive	Positive	Positive
European pharmaceutical	Positive	Positive	Positive	Positive	Neutral
Indian pharmaceutical	Negative	Positive	Neutral	None	Positive

4.2 Cross-Case Analysis

Following the guidance of Figure 4.1 for the cross case analysis the manufacturing industries of Europe and India will be compared as well as the services industries of Europe and India.

4.2.1 Similar Industries Different Economic Region

Pharmaceutical Industry

The pharmaceutical industries in Europe and India have faced very different types of changes over the past 10 years. The Indian firms had to cope with a change in the patent policy of the Indian government. Once in 2005 product patents were recognised, this changed the institutional landscape profoundly (Scott, 2008a; Westney, 2005). No longer could they copy drugs and sell them to Indian or say African customers without the fear of lawsuits and penalties. The response of the Indian firms had to be significant. As already observed the response was not homogenous, across the Indian industry. The change in the patent act and therefor the more rigorous intellectual property enforcement did provide the Indian pharmaceutical industry with not only negative effects. Advanced economy firms were not afraid to go into partnerships with their Indian colleagues. Suddenly the Indian firms could diversify their product range. Not only were they able to partner, but they could insource part of the procedures that are necessary to bring new molecular entities (NMEs) to the market. First of this constituted doing clinical trials and expanding the further development of NME that has already been researched in the home country R&D facilities. Gradually even the first stage research work is being in-sourced into Indian pharmaceutical firms. The integration went so far as that Ranbaxy has been acquired by and advanced economy pharmaceutical firm (Daiichi Sankyo of Japan).

This type of change has not affected the European pharmaceutical firms. The degree change they have faced was more economical than institutional. Their dwindling pipelines combined with the end of patent life of a number of the 'blockbuster' drugs, meant significant changes were to be expected. Some advanced economy firms generate more than 15% of their revenue from one or two drugs. The change in economic environment has been further enhanced by the austerity politics of the European governments. Combining these three facts does provide the pharmaceuticals with a challenge. Both companies selected from the European pharmaceutical theatre posted a very healthy profit over 2012 (see table 3.3). One cannot however, ignore the signals on the wall, change is happening. The pace of the change is more likely to be in the form of a slow rolling wave at the middle of the ocean. Everyone can see it coming, unfortunately the speed and height at which the wave will reach the shore are difficult to predict at this point in time. One thing is certain: It will hit.

The responses to the changes of the two firms are homogenous and in directions that one might foresee. Advanced economy pharmaceuticals are taking an example of other industries in outsourcing possibilities. Like IT has been outsourced to low wage economies, the same trend can be observed with clinical trials, NME development and contract manufacturing of medicines. The firms are actively looking for ways to decrease the cost of their operations.

The tightening of the patent laws in especially India does not mean that patent conflicts are in the past. Still the major advanced economy pharmaceutical are fighting legal battles with Indian (not all but some) firms over patents. Since these advanced economy are so dependant on these patents this is a significant strategy for them to maintain the very lucrative patents. Some prices of medicines that went off patent, have fallen as much as 80%. The longer the AE firms can push this 'patent cliff' ahead the more profit they can rake from the medicines.

Conclusion

The changes incurred by the emerging economy firms in the pharmaceutical (manufacturing) industry were more profound and more sudden than the more 'rolling' changes in the advanced economy. This is consistent with literature from (Meyer, Goes, et al., 1995) in that the changes in the EE are second order changes and the ones in the AE are more consistent with first order changes.

The responses from the firms the two economic regions are different in that the inducement for responses was different. Indian pharmaceutical firms were very much effected by the change in

the Indian stance in IP and patents. This is in line with Peng and Ruban (2003), where he argues that the role of institutions is more salient in emerging economies because the rules are being fundamentally and comprehensively changed, and the scope and pace of institutional transitions are unprecedented.

One can argue the change has been somewhat beneficial to advanced economy firms and somewhat detrimental to emerging economy firms. The Indian pharmaceuticals have, in some cases, to change their business model. On the other hand, the change also provides new opportunities in that Indian companies are now doing business in partnerships and outsourcing contract with western (AE) firms. It is likely that the incentive for advanced economy pharmaceutical firms to cooperate with their Indian counterparts is fuelled by the impending patent cliff, the smaller new molecular entity pipeline and the austerity measures from especially European governments. (At the point of writing this thesis, any effects of 'Obamacare' are known)

The incentive to cooperate with the Indian firms is quite possibly purely driven by price pressure and rising cost of finding new molecular entity. In some sense the IT sector has shown the path to cost reduction by outsourcing certain activities. The fact that partnerships and outsourcing has been initiated by advanced economy firms can be explained using (Chittoor, Ray, et al., 2008; Newman, 2000; Prahalad et al., 2003) in the fact that advanced economy firms have more experience in coping with (economical) changes. The fact that European pharmaceutical firms have enlisted the cooperation of Indian firms to combat the margin pressure they have encountered is an interesting development.

IT Services Industry

The IT services industry has expanded over the years. this was done on the premise that outsourcing IT tasks to dedicated companies would provide the outsourcer the benefit of cost reduction and the possibly of quality improvement.

The European IT services companies have had their client base in (mainly) western Europe. Their rise has come through the necessity of (larger) firms to automate certain activities. Large European MNE s could invest in their own IT departments. Especially IT intensive companies such as Dutch Unilever and Rabobank, Deutsche Telecom and Swedish Tele2 created their own (in-house) IT departments. The smaller companies has the same IT need but not the leverage to set up specialised departments. This void was filled with companies like CapGemini. Outsourcing only became de rigueur in the 2000s. By then companies like Deutsche Telecom realised that their

‘cost centre’ IT development could become a ‘profit centre’. By catering their services to other customer (than their parent) money could be made. Since outsourcing was now becoming an accepted practice companies like T-systems were actively hunting for new clients and competing with the likes of Capgemini.

Based on the two European companies that have been investigated, it is hard to define a common strategy for the European IT services business. One is seeking partnerships to achieve its goals, where the other is setting up offshore centres to do the same. One theme can be identified, the customers of the two European companies are for the majority other European companies. Also the pressure on the rates they can charge are increasing. Austerity does not only effect the healthcare budgets of European governments, but also the IT budgets of the large customers. When looking for cost reduction, reducing the outsourcing prices is an effective measure. Given the location of the development centres from the European IT services companies, the wage costs are still those of middle or high wage economies.

The Indian IT services companies have gained a lot of ground over the past 10 years. The top 4 companies in India are now posting billion dollar revenue figures and each employ over 100.000+ employees each. Growth for the Indian firms has been largely organic. Some acquisition have been make but this was not the primary growth strategy for the Indian firms. The companies have benefitted from a large population with a good education system. Yearly a large number of new, university educated, people enter the Indian labour market. This amount exceeds the European or US number. Secondly, the hourly wage in Indian is much lower than the cost for the same person in Europe (or the US). Due the high growth numbers (figure differ from 10 to 20% on an annual basis) there is some pressure on the wages in India. The yearly salary hikes for the employees (as they are called) are around the 10%. Growth for both companies has slowed down somewhat. This slowdown was the major reason for the restructuring that went on in both companies. However growing is still what both companies are doing. Recently Indian off-shoreders have received critiques from the US. The fact that they are shipping jobs out of the US have not received favourable critiques. In response more development centres have been opened in the US by both.

Conclusion

In the institutional environment there have not been significant changes. Since ITA came into play at the end of the last century tariff have come down significantly. This has not changed in the last decade. The significant changes in the IT services environment have been of economic nature. The number of outsourcing contracts is not increasing as much as it has been in the past. Also there is pressure on the hourly rate all companies can charge their customers.

Both, the European and Indian companies, provide the same kind service and compete for the same customers. The playing field is a truly global one. The changes and challenges all four companies have faced over the last 10 years, are broadly speaking the same. The total value of the outsourcing contracts available is not increasing.

The European companies have, to some extent, experience with slow growth and diminishing opportunities. This is one of the reasons offshoring of work was done in the first place. So they have experience in changes in the environment, albeit the changes coming slowly and should be able to react to this phenomenon more effectively (Prahalad et al., 2003).

Growth is ingrained in the Indian IT services companies and growth has come relatively easy for the the Indian IT services companies. This is in contrast to their European competitors who are more used to lower growth figures. One reason for this could be that the Indian companies have a more balanced customer based. Not only on the types of companies they service, but also geographically. For the majority of the IT services companies this is the first time (ever) they do not see 'double digit growth'. They are not as experienced in these kinds of low growth situation. So the responses are in some way experiments as well (Chittoor, Ray, et al., 2008; Newman, 2000). Leadership and structure change within the Indian IT services companies have followed the lower growth numbers.

Whether the Indian and European companies have different tools to respond to the changes is to be seen. All companies are embedded globally, with development centres all around the world (India, South Africa, China and Latin America). For any of the companies to differentiate from the others is difficult. The Indian and European companies have roughly the same measure they can take because of them being multiple embedded (Meyer, Mudambi, et al., 2011; Westney, 2005). There is one slight advantage the Indian companies might have. They can 'mix' their proposition possibly better. The 'mix' is the percentage of onsite personnel compared to the offshore personnel. The wages that are paid (and charged) for offshore personnel are in the order of one third of

the wages of onsite personnel. Thus they could have an better position to improve their internal productivity or margin (Lawton, Lindeque, et al., 2009).

4.2.2 Similar Economic Regions Different industry

European IT Services vs European Pharmaceutical Industry

The changes and challenges of the European manufacturing and IT services industries have encountered were very different. The European pharmaceutical companies are following the outsourcing direction into low wage economies. This path has already been taken by the European IT services companies. Spatial adjustment (Lawton, Lindeque, et al., 2009) is still on the table for the European pharmaceutical companies as a mode of coping with the changes in institutional and economic environment. This road has been taken by the European IT services firms. The possibilities for the European IT services firms lie mostly in the area of product adjustment.

The AE IT services companies have equal size competitors (in the EE), where the AE pharmaceutical companies are still are in a league of their own. This size advantage in combination with the profit margins (see Table 3.3) give the European firms the financial backing to expand their product portfolio. A clear form of product adjustment has been witnessed in the European pharmaceutical business. The profitability of the European IT services firms (see Table 3.2) is much lower than that of the pharmaceutical firms. So they have less capital to available to expand their operations in new business lines (no signs of product adjustments). Organic growth and to some extend consolidation are in favour with the European IT services industry. This tactic is considered a mild form of internal adjustment. Through the consolidation and organic growth strategies, the IT services firms try to increase their margins and thus achieve productivity increases.

Indian IT Services vs Indian Pharmaceutical Industry

The WTO rules and regulations affected the pharmaceutical and IT services very differently. TRIPs enabled outsourcing of work to indian IT services firms. In contrast, the Indian pharmaceutical firms were at an disadvantage due to new WTO rules and regulations. As the IT services firms accelerated and became global outsourcing players, the pharmaceutical firms needed to reworked their strategies due to the patent restrictions. The Indian IT services industry had matured

and is fully engaged in global competition. The Indian pharmaceutical firms did not have to compete in the global theatre, before India adapting the current stance on patents. They were engaged in their home market and exported to mainly to the African theatre. As observed this changed in 2005. The industry mostly complied with the new rules and regulations and formed offshoring, contract research and manufacturing services (CRAMS), and other alliances. The Indian pharmaceutical industry in a way, has been following in the footsteps of the IT services industry with their outsourcing and alliances deals. Here mimic isomorphism are at play, where successful IT firms (like Wipro and Infosys) are being copied. Not by firms in the same line of business but by pharmaceutical firms in the same economy. The resemblance in similar strategies (IT and pharmaceutical) to work with the AE firms is striking. A US pharmaceutical manager was quoted saying: *“Pharmaceuticals is going to be the next big thing in India after IT.”* (The Daily Telegraph, 2004)

The Indian IT services firms are further in their development and are facing different changes and challenges. Their adjustment is internally focussed, looking for new business and moving up the ‘value chain’. A member of the Infosys board was quoted: *“We are constantly looking at moving up the value chain. Our investment in consulting and package implementation package is in that direction.”* (The Economic Times, 2011) These actions are in contrast to the directions of the pharmaceutical firms. Currently they are moving their business with the aid of AE allies not on their own account. Ones own account could also be acquisition other companies to enter the new business line. When learning from history, the hurdles the IT services firms faced, could still be on the path of the pharmaceutical companies. Comparing both industries a difference might be observed in the responses they have to the changes and challenges of now.

In table 4.2 an overview is given of the results of the cross case analysis relative to the working propositions. The table indicated if the comparison of the firms yielded a positive (the comparison reinforced the working proposition), a negative (the comparison had a invalidating effect on the working proposition) or no claim towards the working proposition could be made due to the analysis, the influence will be ‘Neutral’. If the analysis yielded no information towards the working proposition ‘None’ is used. Any working proposition, that has not been influenced by all four comparisons (in the with-in case analysis), has been omitted from the table.

Table 4.2: Direction of influence of cross-case analysis on the WPs

Comparison	WP1b	WP1c	WP2	WP3	WP4	WP5a	WP5b	WP6
European IT services and pharmaceutical	Positive	None	None	Positive	Positive	None	None	Negative
Indian IT services and pharmaceutical	Positive	None	None	Positive	Positive	None	None	Negative
European and Indian IT services	None	Negative	Positive	Positive	Neutral	Positive	Positive	None
European and Indian pharmaceuticals	None	Positive	Neutral	Positive	Positive	Positive	Positive	None

Chapter 5

Discussion

This chapter discusses to what extent the working propositions derived in 2 are supported by the outcome of the analysis, that was done in chapter 4. The outcome gives an indication to if and to what extent the theoretical findings can be applied to real-life situations. This can give an insight as to the influence of institutions such as the WTO on advanced economy respectively emerging economy.

The within-case analysis provided insight in the responses of similar firms in the two industries across both economic regions. The firms in the European economic area have shown similar or almost similar responses to the changes and challenges that came from the rules and regulations that are imposed by the WTO. The only dissonant behaviour has been observed by Cipla. They are actively resisting the new rules and regulations (Patent Laws) and engaged in multiple lawsuits because of this stance. As a sample for the entire Indian pharmaceutical industry, the stance of Cipla could be atypical. The claim that *Firms in the same economic region and in similar industries (Services or Manufacturing) are likely to have a homogenise response to changes in the institutional environment* (WP1a) is partially supported.

Different Industries face different issues at any given time. This is reflected in the different responses by firms at that given time. Indian pharmaceutical firms are copying the strategy of the IT services firms to some extent. Only this strategy was employed by the IT services firms some 10 years ago. At present they have very different problems and thus responses. The element of time is very important when judging the responses.

IT services firms from both economic regions faces similar problems and choose somewhat identical responses. All four companies have gone through leadership changes in the last 3 years. All are or have been reorganising in more or less similar degree. Here the maturity of the companies (and industry) might also be a factor. An argument could be made that the pharmaceutical industry in Europe is more mature¹. Maturity here, is based on the number of years the companies have existed. Significant differences were found between the responses of European pharmaceuticals and Indian pharmaceuticals. As far as such a claim can be made, maturity of the firms, relative to the industry as a whole, is suspected to have an influence.

Especially the IT services companies gave support for the claim that multiple embeddedness can have a homogeneous effect on firm responses. The fact that all companies are truly global enterprises, all four are on the same playing field when it comes to the services (or IT products) they provide. This is not the case in the pharmaceutical industry. The advanced economy firms are far bigger than the emerging economy firms in the pharmaceutical industry. This size difference creates a very different playing field. The analysis of the four pharmaceutical companies does not support this claim that multiple embeddedness can have a homogeneous effect on firm responses.

The changes in rules and regulations that occurred during the period under investigation, all had a radical and fundamental impact on the industries under investigation. The WTO rules and regulations can be considered second order changes as defined by Meyer, Goes, et al. (1995).

That firm history is in important influence on the type of response a company chooses has been observed in the European pharmaceutical industry. As a matter of automatic response the pharmaceutical start to acquisition other companies when revenues tend to go down. The majority of the companies that are considered 'Big Pharma' have been the results of mergers (GSK, Pfizer, Sanofi, and AstraZeneca). The press has linked Novartis and Roche (both Swiss) more than once in merger rumours (The New York Times, 2011). The companies in the other industries have not disproven this claim, however no indication has been found to contradict this claim either. This working proposition is therefor supported.

Advanced economy firms, especially in the pharmaceutical industry have faced almost no institutional change. The effect of the change they have seen, only provided them with opportunities in outsource and offshore certain types of works (o.a. CRAMS and clinical trials). The emerging economy have seen a lot of change in the institutional environment. The adoption of TRIPs by

¹Company maturity has not been a factor in this research and no literature has been consulted on this topic, when making any statements on this part

India is the foremost example. This effectuated a change in the way they had to do business. The EE IT services firms did see some institutional change. This was not initiated by the WTO, it was the public opinion that, especially in the US, turned negative towards offshoring work and thus shipping jobs to other countries. The European IT services companies did not face this kind of critique. Even if they also had work done by people in low wage economies. Working Proposition 5.A is thus supported.

Working Proposition 5.B is also supported Following the same reasoning as above and considering the following. The institutional difference in the rules and regulations between the advanced economy pharmaceutical firms and the emerging economy pharmaceutical firms is far greater than of the IT services firms. This resulted in very different response to these institutional changes. While the Indian IT services firms merely started a PR campaign, the Indian pharmaceutical firms could no longer revert to reverse engineering drugs.

The modes by which firms choose to adjust is not necessarily heterogeneous across industries. All firms have acquisition other firms, either for growth or diversification purposes. No clear division has been observed between the pharmaceutical and IT services industries in terms of response choices. working proposition has therefor been rejected.

Though it is difficult to determine the effects of internal resources through the analysis of newspapers articles, the effects of chairman and CEO's has been found in these sources. The CEO's of Ranbaxy and Cipla both have been quote in Indian newspapers. Their influence can be said to be quite high. The resource based theory by (Barney, 1991; Barney et al., 2011) considers all resources in the company. Here the only resources that have been considered are human beings. The analysis of the other firms did not result in such explicit differences in firm behaviour to similar changes in (institutional) rules and regulations. Considering the difference between Cipla and Ranbaxy is the only well founded example, working proposition 7is considered at least partially supported. It is not fully supported due to the lack of additional evidence.

Table 5.1: Working Propositions and level of support. Source: Author

Working Proposition	Description	Findings
WP 1.A	Firms in the same economic region and in similar industries (Services or Manufacturing) are likely to have a homogenise response to changes in the institutional environment	Partially Supported
WP 1.B	Firms in the same economic region, but in different industries (Services or Manufacturing) are likely to have a heterogenous response to changes in the institutional environment	Supported
WP 1.C	Firms in the same industry (Services or Manufacturing) but in different economic regions are expected to have a heterogenous response to changes in the institutional environment	Supported
WP 2	Multiple embeddedness is expected to have a homogenising effect on the responses of firms in similar industries across different economic regions.	Supported
WP 3	The WTO rules and regulations are expected to incur only second order changes	Supported
WP 4	Firms are more likely to adopt to change in a manor they have grown accustomed to over time (they use strategies they have used in	Supported
WP 5.A	Advanced economy firms are expected to face a lower degree of institutional change compared to emerging economy firms with respect to (changes in) WTO rules and regulations	Supported
WP 5.B	The greater the difference in institutional change between regions in response to WTO rules and regulations the more likely heterogeneous responses are from firms in the same industry in their respective regions	Supported
WP 6	The preferred mode of adjustment to WTO rules and regulations for MNE in different industries is likely to be heterogeneous	Rejected
WP 7	The diversity in internal resources (humans and knowledge) within firms could be responsible for the heterogeneity of firms responses to changes institutional environment	Supported

Chapter 6

Conclusions

In this chapter, the conclusions regarding the findings will be presented. Also any limitations of the research shall be discussed as well as the implications and suggestions for additional and future research.

6.1 Conclusions

This research has been investigating the effects of WTO (institutional) rules and regulations changes on advanced economy and emerging economy firms. There is not much novelty in pitching firms from AE and EE regions against each other. China and the US are prime the usual suspects in this case. Now Europe and India have been selected to supply the necessary companies to fill our data set. Also this research has looked at firms in different industries, the manufacturing industry through pharmaceutical firms and the services industry through IT services firms.

When it comes to response to change, firms can employ a number of tactics. Responses can be found on strategy level (avoidance, adaption and coevolution are available (Cantwell et al., 2009)) and on operational level (Internal, spatial and product adjustment (Hoekman et al., 2004; Lawton, Lindeque, et al., 2009)). More than often the responses are a copies (DiMaggio et al., 1983; Scott, 2008b) of successful changes by firms that form a example. Sometimes the change or response is a human factor. Internal resources (as defines by Barney (1991)) thinking in a certain direction. This is than adopted by that company.

To answer the research question, a multiple case study of four European and four Indian (eight

in total) has been conducted. See how the firms are divided of the the economic regions and industries.

The results of the analysis show, EE are influenced more by changes in WTO rules and regulations than their AE cousins. Especially the EE pharmaceutical firms faced significant institutional change. To overcome this change they has to change (Cantwell et al., 2009; Lawton, Lindeque, et al., 2009) or challenge (Bartlett et al., 1989) the existing rules and regulations.

The history of the firm (Chittoor, Ray, et al., 2008) and also the internal resources (Barney, 1991) (in the form of their leadership) were also influences of the choices that the firms made facing the new (institutional) reality. The multinational character of the investigated firms was of harmonising effect on their responses.

6.2 Limitations

This study has been conducted by analysing newspapers articles from various large mostly english language newspapers. However the amount of sources for the Swiss, German and French companies has been limited. Some German language newspapers have been consulted. This increased the number of sources to some extend. However it did not provide the same number of sources as was available for the Indian and British companies. This limited the information availability. On the other hand the number of sources that were available on especially the Indian companies was such an amount, that keyword were necessary to limit the amount of 'hits'. Only two newspapers have been used with one keyword. This limits the information that has been found and also limits the diversity of the information sources. This made the sources biased to some extend towards those keywords. The nature and origin of search engines influences the data that is used. Better quality data is generated when using multiple search engine sources (Torralba et al., 2011). He found that "Obtaining data from multiple sources (e.g. multiple search engines from multiple countries) can somewhat decrease selection bias" (Torralba et al., 2011, p.1527).

6.3 Implications

This study can contribute in two ways. First it shows that what is equal on paper is not always equal in their effects. The WTO rules and regulations are equal for advanced economy and

emerging economy alike. The responses from the companies in those economies are not. Taking into account that the location of a company is of influence on the response direction of that company, can help in better formulating the new rules and regulations.

Secondly it can also be a stepping stone for the formulation of future WTO rules and regulations. This study give the insight that, in different economic regions WTO rules and regulations are effecting firms differently. When considering future rules and regulations, the implications mentioned in this study can be helpful in formulation more balanced rules and regulations towards advanced and emerging economies.

6.4 Future Research

Further research can be done by extending the newspaper search to include sources from the home countries of the companies involved in the study. Most hits have been found when the newspaper and the company have the same home country. Finding information in Swiss, German and French newspapers in their respective companies is suggested. Furthermore seeking more diverse sources on the indian companies omitting keywords when finding sources can broaden the scope of information.

This research has only chosen a subset of manufacturing and services companies. To increase the quality, a larger set of companies within the subsets of manufacturing and services companies is suggested. The extending to more than two companies increases the change of finding outliers in the information set. Cipla in their, somewhat activist stance, could be one of those outliers.

This study did not take the maturity of the companies or the industry into account. The analysis gives some indication that maturity of the industry and companies in that industry can have an implication on the type and direction of the response towards the industry changes and challenges.

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Appendix A

Classification of economic regions

The world's economic regions can be classified into 'advanced economies', 'emerging economies' and 'frontier economies'. The word 'economies' is used instead of 'countries' or as financials would like to do 'markets' for the status of Hong Kong, Macao and Taiwan Province of China, the word 'countries' was dropped in favour of the word 'economies' Nielsen (2011). Hence here the term 'economy' will be used.

A number of international organisations have come up with country classification systems Nielsen (2011). Three of them (the United Nations Development Programme (UNDP)¹, the International Monetary Fund (IMF) and the World Bank) will be used to define what countries can be classified into what 'Economies' and how to interpret these classifications.

In table A.1 the naming conventions and thresholds for the different types of economies is given. The different international organisations that research this country classification use different terms. In order to avoid confusion the terms 'advanced economies', 'emerging economies' and if necessary 'frontier economies' will be used. The reason for using the term 'emerging' is that 'developing' and 'developed' are easily misinterpreted.

¹the UNDP is a subsidiary body of the UN established pursuant to a UN General Assembly resolution

Table A.1: Country Classification System (loosely adopted from Nielsen (2011))

	IMF	UNDP	World Bank
Name for Advanced Economy	Advanced country	Developed country	High-income country
Name for Emerging Economy	Emerging and developing country	Developing country	Low and middle income country
Threshold for Advanced Economy	Not explicit	Top 25 percentile in the HDI distribution	GNI of 12,616 or more (in \$US)
Threshold for Emerging Economy	Not explicit	Between 25–75 percentile in the HDI distribution	GNI between 1,036–12,615 (in \$US)

A.1 Advanced Economies

The IMF has publicised a list of countries they define as ‘advanced economies’ International Monetary Fund (2013). The list can be found in table A.2.

The UNDP list of ‘advanced economies’ is somewhat more extensive than the list of the IMF. The UNDP base their finding on the Human Development Index (HDI) that they (yearly) publish. The UNDP considers a number of additional countries as ‘advanced economies’ on top of the IMF list. The additional Programme (2013) ‘advanced economies’ are given in table A.2.

Finally, the World Bank uses the term ‘high income economies’ for the reference to the other terms see table A.1. The distinction of ‘high-income’ creates the largest group of all. The World Bank definition extends the list with 34 countries and regions. Among these are a number of island states and constituent countries² WorldBank (2013a). The countries that make up the ‘high income’ group are given in the last part of table A.2.

For the purpose of this thesis the countries as defined by the IMF will be seen as ‘advances economies’.

²The listing of the World Bank in this thesis is copied without prejudice

Table A.2: List of Countries and regions with Advanced Economies

Advanced Economies according to International Monetary Fund (2013)		
Austria	Germany	Greece
Ireland	Italy	Luxembourg
Malta	Belgium	Cyprus
Estonia	Finland	France
Netherlands	Portugal	Slovak Republic
Slovenia	Spain	Norway
San Marino	Singapore	Sweden
Switzerland	Taiwan Province of China	Australia
United States	Japan	Canada
Czech Republic	Denmark	United Kingdom
Hong Kong SAR ³	Iceland	Israel
Korea	New Zealand	
Additional (to IMF) Advanced Economies according to Programme (2013)		
Barbados	Brunei Darussalam	Estonia
Hungary	Poland	Qatar
	United Arab Emirates	
Additional (to UNDP) Advanced Economies according to WorldBank (2013a)		
The Bahamas	Croatia	Equatorial Guinea
Kuwait	Latvia	Oman
Saudi Arabia	Russian Federation	Andorra
Antigua and Barbuda	Bahrain	Bermuda
Uruguay	Liechtenstein	Monaco
Sint Maarten	St. Martin	Macao SAR ⁴
St. Kitts and Nevis	Turks and Caicos Islands	Virgin Islands (U.S.)
New Caledonia	Northern Mariana Islands	Puerto Rico
Greenland	Guam	Faeroe Islands
Curaçao	Aruba	French Polynesia
Cayman Islands	Channel Islands	Isle of Man
	Trinidad and Tobago	

A.2 Emerging Economies

The IMF categorises all countries not being the ‘advanced economies’ as ‘emerging market and developing economies’ International Monetary Fund (2013). According to the International Monetary Fund (2013) this is a total of 153 countries. The IMF does not state what the difference

³On July 1, 1997, Hong Kong was returned to the People’s Republic of China and became a Special Administrative Region of China.

⁴On December 20, 1999, Macua was returned to the People’s Republic of China and became a Special Administrative Region of China.

is between an ‘emerging market economy’ and a ‘developing economy’ if there is a difference at all. In the World Economic Outlook (WEO) of 2012 International Monetary Fund (2012) the IMF provides a list of what it considers ‘emerging market economy’. The countries listed are:

Argentina, Brazil, Bulgaria, Chile, China, Colombia, Estonia, Hungary, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand, Turkey, Ukraine, and Venezuela International Monetary Fund (2012).

The World Bank provides a different scope. They measure the gross national income (GNI) per capita⁵ and determine accordingly the categorisation shown in table A.3.

Table A.3: GNI income distribution source WorldBank (2013b)

Income range	GNI per capita (in \$ US)	Type of Economy
Low-income	1,035 or less	Frontier Economy
Lower-middle-income ⁶	1,036 to 4,085	Frontier or Emerging Economy
Upper-middle-income	4,086 to 12,615	Emerging Economy ⁷
High-income	12,616 or more	Advanced Economy

The list of countries that are included in the High-income range (see table A.2) is larger than the list that the IMF is keeping. In the classification that the worldBank uses, countries such as Brunei Darussalam, the Russian Federation, Oman, Saudi Arabia and Chile are seen as part of the High-Income group WorldBank (2013a). The World Bank does not provide a clear group that can be classified as ‘emerging economies’ Nielsen (2011).

Perhaps the most useful classification of ‘emerging economies’ has been made by several banks and other financial institutions. In the landmark piece on Emerging Markets O’Neill (2001) the term BRICs was coined as an acronym introducing Brazil, Russia, India and China as the leading Emerging Markets. Others have also identified South Africa as a leading emerging market or emerging economy Deutsche Welle (2011).

In table A.4 the emerging economies according to the IMF, the FTSE, MSCI, S&P Dow Jones and the Emerging Market Global Player (EMGP) project, maintained by the Colombia University. The table provides a somewhat conclusive view of what countries and regions can be classified as emerging economies.

The majority of the consulted institutes consider both (south) Korea and Israel as advanced

⁵for the calculation method of the GNI refer to <http://data.worldbank.org/about/data-overview/methodologies>

⁶India is considered as Lower-Middle-Income in this characterisation WorldBank (2013a).

⁷The distinction of Emerging Market Economies is not specifically given in the world bank documentation. However based on the list of countries that is included, such as Eastern European countries, China, Brazil and South Africa, the author feels the terminology is justified.

economies. The IMF considers the Czech Republic and Slovenia to be an advanced market economy. All institutes include India as an emerging economy in their classifications.

Table A.4: Emerging Market Economies according to different sources

Institute Country	IMF	FTSE ⁸	MSCI ⁹	S&P Dow Jones ¹⁰	EMGP ¹¹
Argentina	✓				✓
Brazil	✓	✓	✓	✓	✓
Bulgaria	✓				
Chile	✓	✓	✓	✓	✓
China	✓	✓	✓	✓	✓
Columbia		✓	✓	✓	
Czech Republic		✓	✓	✓	
Egypt		✓	✓	✓	
Estonia	✓				
Hungary	✓	✓	✓	✓	✓
India	✓	✓	✓	✓	✓
Indonesia	✓	✓	✓	✓	
Latvia	✓				
Lithuania	✓				
Malaysia	✓	✓	✓	✓	
Mexico	✓	✓	✓	✓	✓
Morocco		✓	✓	✓	
Pakistan	✓	✓			
Peru	✓	✓	✓	✓	
Philippines	✓	✓	✓	✓	
Poland	✓	✓	✓	✓	✓
Romania	✓				
Russia	✓	✓	✓	✓	✓
South Africa	✓	✓	✓	✓	
Taiwan		✓	✓	✓	✓
Thailand	✓	✓	✓	✓	
Turkey	✓	✓	✓	✓	✓
UAE		✓			
Ukraine	✓				
Venezuela	✓				

A.3 Frontier Economies

All three institutions come to a somewhat similar conclusion of what are advanced economies constitutes. The thresholds that are used to define whether a country (or region) belongs to an advanced economy are given in the table A.1. However there is a lack of clarity around how these

⁸FTSE (2012)

⁹MSCI (2013)

¹⁰Standard & Poors (2013)

¹¹the Emerging Market Global Player project is maintained by the Columbia University <http://www.vcc.columbia.edu/content/emerging-market-global-players-project>

thresholds have been established in all organisations Nielsen (2011).

For Economies of the bottom 25 percentile in the HDI no specific term is found. However some banks¹² and financial institutions¹³ like to use the term 'Frontier Markets' for their investment vehicles specialised in what the The Wallstreet Journal (November 29, 2007) called the smaller 'emerging' emerging markets. As the terminology is geared towards investments and financials one can easily adopt this term to the economy, hence 'Frontier Economies'.

¹²Deutsche Bank has an 'Frontier markets' fund <http://www.businessinsider.com/deutsche-bank-presents-the-new-african-frontier-2011-12?op=1> as does HSBC (<https://www.emfunds.us.assetmanagement.hsbc.com/funds/f-7/hsbc-frontier-markets-fund/a/overview.fs>)

¹³FTSE and MSCI both have a 'frontier market' index

Appendix B

Exchange rates

The different revenues have been calculated to Euro's. The exchanges rates for the currencies that have been use, are given in table B.1

Table B.1: Exchange rates with Euro for selected currencies (rate obtained on December 5, 2013 source: ECB)

USD	GBP	INR
1.3202	0.8637	78.035

Appendix C

Strategy Literature

C.1 InBV

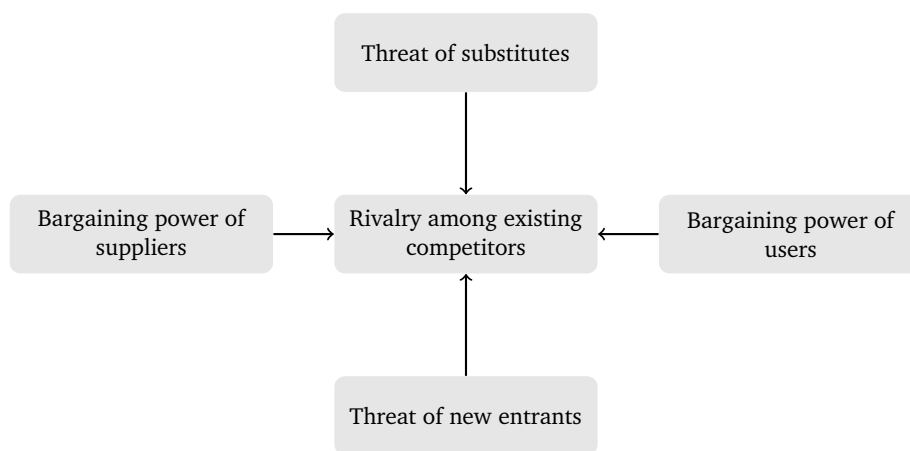


Figure C.1: Five Forces Diagram source: Porter (1980)

To understand the early thinking in strategy research we have to look at Porter's diamond model (See figure C.2) and his five forces (see figure C.1).

The five forces model shows how to determine a company's competitive environment, and thus it's competitive advantage, which affects profitability. The bargaining power of buyers and suppliers affect ability to increase prices and manage costs, respectively. Vice versa, a supplier can have bargaining power over its customers. Low-entry barriers attract new competition, while high-entry

barriers discourage it. Industry rivalry is likely to be higher when several companies are vying for the same customers, and intense rivalry tend to have a price eroding effect.

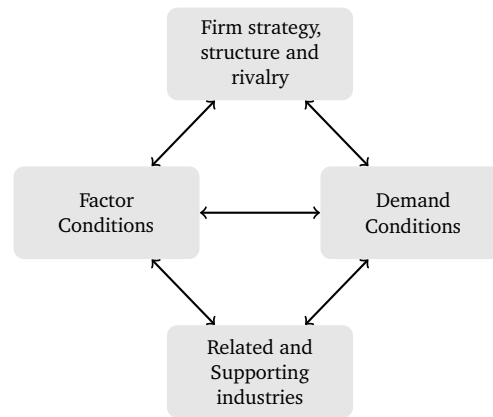


Figure C.2: Porter's Diamond source: Porter (1980)

The four blocks in Porter's 'Diamond' show the factors at work that shape the competitive advantage of different industries in various nations. Factor endowments refer to resources that are available for the companies. This is not just the human part of resources but also natural resources (such as oil in Saudi Arabia or Educated people in India) Countries that invest in education have a skilled workforce, which helps companies engage in research and development. The presence of supporting industries can act as an catalyst for related industries Supporting industries include raw materials suppliers and component manufacturers. A competitive industry structure is also important because companies that can survive tough competition at home are usually able to withstand even tougher competition in a global business environment. Finally, there should be domestic demand. At least in the pre-internet era firms were born locally and than internationalised. The local demand can propel industries to new heights before going global.

C.2 Institutional Based View

Context and institutions are the prevalent terms when it comes to institutional based view. This institutional based view considers not only the firms (similar to Porter (1980)) and resources (similar to Barney (1991)) but also engages in considering the institutional constraints.

The institutional based view dictates that firms performance and choices do not only depend on resources and the industry the firm is competing in, but also depends on the (a) environment

(institutional constraints) in which managers and firms pursue their interest (Peng, 2008). The institutional framework can have a positive effect on innovations (in the US for example) and a negative effect in Japan. In this case old drug are more profitable than new drugs in Japan (Peng, 2008).

On the other hand institutional based view proposed that (b) formal and informal institutions combine to govern firm behaviour, in situations where formal constraints fail, informal constraints play a larger role in reducing uncertainty and providing consistency to managers and firms (Peng, 2008).

Both effects (a) and (b)s can be summarised in the word 'context'. Context is the third leg Peng, Sun, et al. (2009) that influences the various decisions that firms have decide on in IB. The institutions (which are part of the context) present themselves in two forms 'formal' and 'informal' (Peng, 2002). The latter are things like accepted social behaviour and come into play when formal constraints fail (DiMaggio et al., 1983; North, 1990; Scott, 2001). The first include political rules, judicial decisions, and economic contracts. More on the theory of institutions will be investigated in Section 2.2.

So institutional based view takes into account not only strategic choices driven by industry conditions and firm-specific resources, that traditional strategy research emphasises (Barney (1991) and Porter (1980)), but are also a reflection of the formal and informal constraints of a particular institutional framework that decision makers confront (Oliver (1997) and Scott (2001)). Given the influence of institutional frameworks on firm behaviour, any strategic choice that firms make is inherently affected by the formal and informal constraints of a given institutional framework (North (1990) and Oliver (1997)).

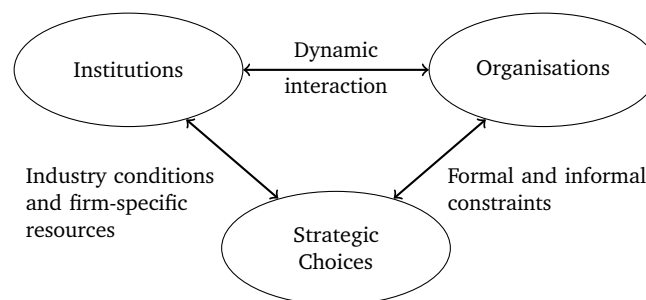


Figure C.3: Institutions, organisations, and strategic choices. Source: Peng (2000)

So institutional based view focusses not only on strategy and the firms that make these strategic choices but takes into account the institutions that govern the playing field. Moreover the

interaction between the firms, institutions and the strategic choices is what institutional based view is all about.

Strategic literature does not discuss the specific relationship between strategic choices and institutional frameworks (Peng and Khoury, 2008). In contrast to earlier theories, institutional based view does not exist on it's own. It is merely an extension on earlier theories. This figure (C.3) shows the dependance on both the theories of Barney (2001a) and Porter (1980) for institutional based view. Obviously institutional based view is not an attempt to dismiss other theories more an attempt to complete theories on strategy as they exist at the moment. Strategy is about making the right choices at the correct moment.

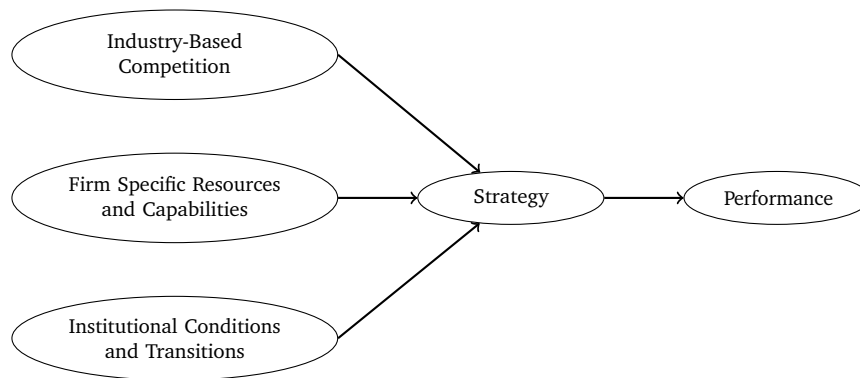


Figure C.4: The Institution-Based View as a Third Leg for a Strategy Tripod. Source: (Peng, Sun, et al., 2009)

Treating institutions as independent variables, an institution-based view on business strategy, therefore, focuses on the dynamic interaction between institutions and organisations, and considers strategic choices as the outcome of such an interaction (see figure C.3) (Peng, 2002). Not only have more scholars come to realise that institutions matter (Powell et al., 1991; Scott, 2001), but also that strategy research cannot just focus on industry conditions and firm resources (Khanna et al., 1997). Although firms take decisions on the individual resources and capabilities Barney (1991) the influence of institutions can no longer be ignored. This is where institutional based view extends strategic literature. 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, Estrin, et al., 2009; Wang et al., 2012).

C.3 Critiques on Industry Based Theory

Using the examples of Google, Apple, Samsung, Boeing and Airbus strategies of the large MNE have extended. It is no longer just resources and industries that dictate the strategies that companies employ. According to Peng, Sun, et al. (2009), the market-based institutional framework has been taken for granted, and formal institutions (such as laws and regulations) and informal institutions (such as cultures and norms) have been assumed away as “background”.

The lack thereof of considering institutions and context is part of the critiques to Barney and Porter that have emerged Narayanan et al. (2005). Under certain circumstances for example, the pursuit of cost leadership can be deemed unethical in that the raising broilers however sustainable were seen as cruel by modern animal welfare standards. Some times the cost-leadership strategy can drive companies to engage in (illegal) price fixing actions. In the Dutch mobile phone market, the telecom providers (KPN, Vodafone and T-mobile) have been reprimanded twice in the last decade or so by the Autoriteit Consument en Markt (ACM)¹ for price fixes deals on mobile calling costs².

Kraaijenbrink et al. (2009) also summarised RBV critiques in his 2009 paper. He concluded that it is mainly the definition of ‘resource’ and ‘valuable’ in combination with the lack of acknowledgement of the combination of bundling resources and the human involvement, that is undermining strength of RBV. Likewise Priem et al. (2001) concluded that the contexts are missing from RBV, where Dūng (2012) states that the “resource-based view often neglects the issues of strategy implementation, i.e., various activities through which competitive advantage is directly created. Some resources may be valuable and rare at some point in time, this can change in an instant“. Take a look at the operating system that Nokia used in its mobile phones in the early 2000s. This was considered the peak of user-friendliness; until the iPhone came along. The rare resource of a user-friendly operating system and user interface became defacto obsolete hence non-valuable. The internal forces that underpin IBV are a reaction to criticisms on the theory of InBV (and resource based view) of a lack of awareness of context Narayanan et al. (2005).

¹The ACM is the new name for the Nederlandse Mededingings Autoriteiten (NMA) which is the Dutch regulatory agency for competitions, comparable to the British Office of Fairtrade (OFT) (soon to be Competition and Markets Authority (CMA))

²Sourced from <http://www.volkskrant.nl/vk/nl/2844/Archief/archief/article/detail/3067315/2011/12/07/Mobiel-bellen-blijkt-te-duur-door-kartel.dhtml>