Effect of Institutions on IB

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

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Chapter 1

Introduction

In an 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). Companies like Apple and Samsung are fighting in court over intellectual property (IP) in a multitude of countries [CNN (2013) and The Wallstreet Journal (2013)]. The cell phone department of Motorola was bought by Google solely because of it's numerous IPs The Wallstreet Journal (2011). The 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 (2009). 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 enterprises (MNE) will cope differently with the challenges that are set by the institutions and the environment that they are operating in. That this environment is of importance is explained by Institutional Based View (IBV) [Kostova et al. (1999) and

Wang et al. (2012)].

1.1 Research Area

In this thesis the implications of WTO agreements[1] 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 (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), and Peng, Wang, et al. (2008)], but also by (economic) newspapers [Deutsche Welle (2011), Financial Times (2006), and 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 Bank[2]. The terms used do define different economies is quite diverse. 'Emerging markets' and 'emerging economies' are often used to indicate the same countries or regions.
Similar can be found in the terms 'developed' and 'advanced' economies. 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

[1] The 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)
[2] He was referring to the economies with stock markets in countries with a cutoff of $10,000 in income per capita Wharton University of Pennsylvania (2008). The reference made was defined in terms of economics and levels of wealth Financial Times (2006)

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 lit theories consist of three lines of thought namely IBV, Resource Based View (RBV) and Industry Based View (Industry Based View) Peng, Sun, et al. (2009).
In short the Industry Based View, 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 and regulations are created by a supranational institution as the WTO. Therefore the context is considered constant to the different firms even is 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 theory by Barney (1991) will be described in more detail in Section 2.5.1.

1.2 Methodology used

1.3 Research Question

Does the WTO effect firms from different backgrounds differently? to answer this question on has to look at to view the institution of the WTO. Is it intact an institution and what are its inner workings. When the WTOissues 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 Peng's strategy tripod some of the chooses by firms may be explained. This chapter will visit the strategy tripod and the theories that are the foundations of this tripod.

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

1.4 Structure of the Document

Chapter 2

Literature Review

2.1 Introduction

If one thinks of IB 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

[1]Oxford Dictionary of English 3rd edition

> “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

> 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, wether 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), and Westney (2005)].
The latter of the definitions (by the economist North) has a more economically orientated standpoint where as of the aforementioned definitions by Scott and Fligstein are, as they are, of a more sociologist point of view. A host of other 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 verses 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 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 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 thorough 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 responsive 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 though 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 employe 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) Scott (2005, p.14) defines an organisations as:"organisations were recognised

[2]Oxford Dictionary of English 3rd edition

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) and 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 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) and 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), and 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 isomorphism[3] [DiMaggio et al. (1983) and Westney (2005)].
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) and 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 et al. (1999), Peng and Khoury (2008), Scott (2001), and 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.

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

The three possibilities that Scott identified are:

[3] isomorphism can be defined as 'the adoption of structures and processes prevailing in other organisations within the relevant environment' Zucker (1987)

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 Laws Sanctions	Certifications Accreditation	Common beliefs Shared logic of action
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

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

These three compliance basis correspond to the already mentioned pillars of institutions2.2.1. 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 is 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 homogenise 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 heterogenise 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 heterogenise 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 dependancies on the level of institutions, resources and home and host country are shown in figure /reffig:Meyer 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).

On the other hand the MNE could organise themselves to take full advantage of the

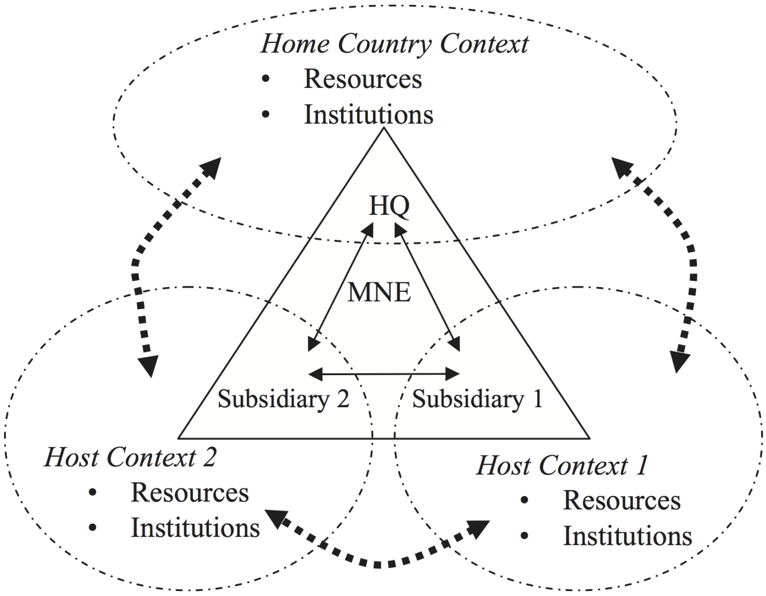

Figure 2.1: Multinational enterprises and local context (source: Meyer, Mudambi, et al. (2011))

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 wit 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 harmonious 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 with in 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

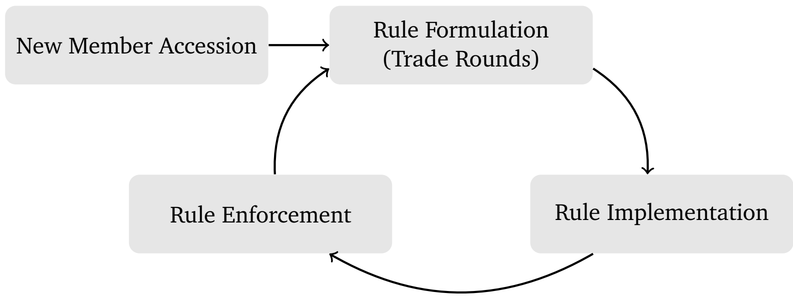

Figure 2.2: WTO lifecycles source: Lawton, Lindeque, et al. (2009)

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 negotiations[4] 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 as a negotiating forum World Trade

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

Organization (2008). The WTO is a place where members can appear to try sorting 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 the host to new negotiations, under the "Doha Development Agenda" launched in 2001 World Trade Organization (2012b).

Implementation Phase

Once the member nations have come to an agreement on the sets of rules and regulations, these have to be implemented. This is 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 settlement[5]. It are the members, hence the nations, that have standing in the WTO so they have to bring foreword 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 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.

[5] This 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)

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 theoryin Section 2.2.3 is a powerful tool. In order to understand the influence of the WTO on IB in the region of Advanced Economy (AE) and Emerging Economy (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. It alters the organisation at it's 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 make by [Cantwell et al. (2009) and 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), and 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 witch 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. Off 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) and 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) and Carney et al. (2003)].

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

Working Proposition 4. *Firms are more likely to adopt to change in a mannor 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), and 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, spacial or internal change.

Working Proposition 5.A. *Advanced economy firms are expected to fase 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) and 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) and 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).

Spacial adjustment

Spacial 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). 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 s(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) and Deloitte (2013)]. This knowledge can lead to the following:

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

2.5 IB Strategy and Firm Specific Resources

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 Industry Based View and to a lesser extend Institutional Based View both theories are discussed in Appendix C.1 and C.2 respectively.

2.5.1 Resource Based Theory

RBV came as a response to Industry Based View 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).

This logic will be continued 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), and Wernerfelt (1984)]. Studies of firm performance using Resource Based View (RBV) have found differences not only between firms in similar industry but also within narrower groups within industries [Cool et al. (1988) and 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) and Wade et al. (2004)]. Where *assets* are anything tangible or intangible the firm can use in it's processes for creating, producing and/or offering it's 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 it's critiques [Dũng (2012), Kraaijenbrink et al.

(2009), Narayanan et al. (2005), and 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), and Mukherjee (2013)].

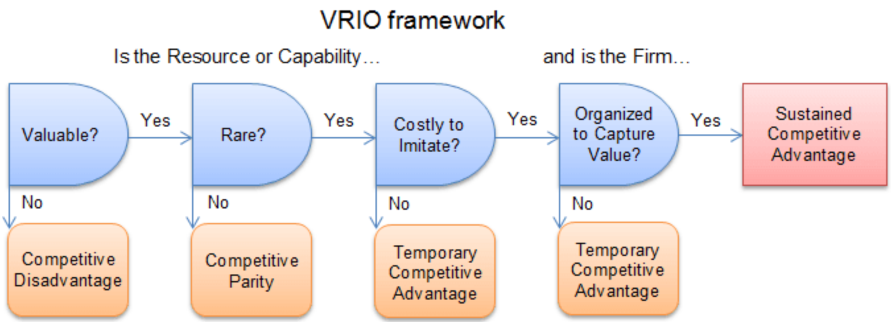

Figure 2.3: The VRIO framework. Adapted from Rothaermel (2012)

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.

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 advantage[6].

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) and 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) and 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*

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) and 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).

[6] adopted from Strategic management insight (2013)

The same holds for (high-tech) Korean firms expanding to Emerging Economy (EE) and Advanced Economy (AE). Here a difference strategies was observed while sill 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 FSAhave 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 FSAare 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), and 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 certainly. 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) and 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) and 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 it's context [Marshall (1996) and 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) and 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 studie 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) (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) and Yin (1981)].
The multiple case study can been seen as the ideal method of collecting data and or information for this research question Yin (2009), since we are looking at two different regions of the world based on the economic development of that area (EE vs. AE see also Appendix A) and also researching two different industries in these economic areas, Pharma and ICT services governed by WTO rules and regulations. The rationale behind the choice of these two industries and specific companies is explained in the next section.

This research method aims to find 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) and Yin (2009)].
In this research, the propositions were developed prior to carrying out the case study research. This is in line with [Hyde (2000) and 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 make on a number 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 is seems only logical to choose Europe as the AE.

As for a EE a number of choices as possible. The obvious choice in this case would be China a there is already there is a lot of research being done with China and Chinese NMEs. 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 productxspace (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 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) and Walsh (2010)]. Although not as old as the European history, India does have a history in the pharmaceutical industry Mazumdar (2013).

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) and 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 work.[1] 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 the growth aspect, Europe boasts still healthy number if IT services companies Computer Weekly (2011). 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 or (Sanofi) as the European contenders. Both the European firms are top 20 of pharmaceutical companies[2] 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

[1] More on the working practices of the IR services industry can be found in 3.2.2
[2] `http://www.contractpharma.com/issues/2013-07/view_features/top-20-pharma-report-/`

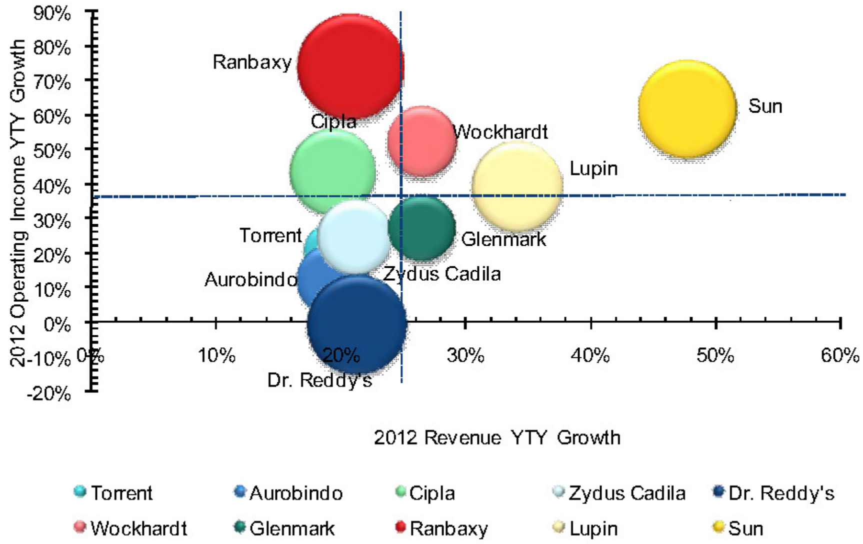

Figure 3.1: Competitive Landscape of the Top 10 Pharmaceutical Companies in India, 2012. source: ResearchandMarkets (2013)

are among the largest IT 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 (2013) and 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.

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

Table 3.1: Firms of under investigation. Source Author

	Advanced Economy (EU)	Emerging Economy (India)
Services Industry	Capgemini T-Systems	Infosys WiPro
Manufacturing Industry	Novatis GSK	Ranbaxy Cipla

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). Therefor 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 business porcess outsourcing (BPO)services [Capgemini (2013), Infosys (2013), T-systems (2013), and 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 than (b) developed, then is 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 authorities[5]. Manufacturing and marketing of the drug can begin only after this approval has 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 dug 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) and 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 India's 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).

[5]These 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	Capgemini	T-Systems		Infosys
Economy	Advanced Economy	Advanced Economy	Emerging Economy	Emerging Economy
Industry Type	ICT Services	ICT Services	ICT Services	ICT Services
Home Country	France	Germany	India	India
Employees	100.000+	48.000	135.000	150,000+
Revenue (2012)	€ 10Bn	€ 9Bn	€ 5.56Bn[3]	€ 4.32Bn[4]
Description	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.	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.	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 MNE s that are located in the financial services, healthcare, manufacturing and telecommunications domains.	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 MNE s that are located in the financial services, healthcare, manufacturing and telecommunications domains

[3] revenue was posted as ₹ (433.608Bn) using table B.1 Euro value was calculated
[4] revenue was posted as ₹ (337.340Bn) using table B.1 Euro value was calculated

Table 3.3: Manufacturing Firm Details. Source Author

Firm Name	NOVARTIS	gsk GlaxoSmithKline	RANBAXY Trusted medicines.Healthier lives	Cipla Caring for life
Economy	Advanced Economy	Advanced Economy	Emerging Economy	Emerging Economy
Industry Type	manufacturing	pharma manufacturing	pharma manufacturing	pharma manufacturing
Home Country	Switzerland	UK	India	India
Employees	120.000+	95.000	10.000+	16,000+
Revenue (in 2012)	€ 42.95Bn[6]	€ 30.1Bn [7]	€ 1.58Bn [8]	€ 1.09Bn [9]
Description	Novartis is the product of a merger between Ciba-Geigy and Sandoz Laboratories in 1996. In this merger the pharmaceutical devisions 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 (2013a)	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)	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 **Ran**bir and Gur**bax**. In 2008 Daiichi Sankyo of Japan acquired a controlling share in Ranbaxy. Ranbaxy however remains listed on the Indian stock exchange. 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 products[Businessweek (2013b) and maheshsundar.com (2013)]	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).

[6] revenue was posted as $ 56.7Bn using table B.1 Euro value was calculated
[7] revenue was posted as £ 26Bn using table B.1 Euro value was calculated
[8] revenue was posted as ₹123Bn using table B.1 Euro value was calculated
[9] revenue was posted as ₹85.24Bn using table B.1 Euro value was calculated

3.2.3 WTO and the environment change

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 Products (ITA) was introduced. The IT services exports have grown spectacularly following the introduction of ITA Lee-Makiyama (2011).

The pharmaceutical industry has seen significant change following the patent protections on pharmaceutical products. In 2005 the Indian government changed the patent law to recognise foreign (often western) pharmaceuticalpatents citeChandran:2005vu patents Chandran et al. (2005) . Being a Emerging Economy (EE) India could use a 10 year transition period to comply with the TRIPs rules and regulations.

3.3 Data Collection

As the multiple case study method will be used, the data will come from a comprehensive keyword search of the Lexis Nexus database for relevant news papers. The relevant newspapers will be from both Indian and European origin and are described in more detail below.
The working propositions have been linked to codes. The following table gives the link between the working propositions and the coded words. The key words used for the data collection are:

Data sources

The data used in this thesis is sourced form major (english) world news papers. These newspapers included in the search are listed below

- Times of India

Working Proposition	A Priory key words
WP1	Response, advanced economy, emerging economy
WP2	Multinational enterprise, multicountry
WP3	instant change
WP4	past strategy, historical choices, history
WP5	Western firms, WTO, Indian firms, IP, patent, generics
WP6	WTO changes, pharma industry, IT services industry
WP7	People, diversity, management descisions

Table 3.4: Key words used in search

- Hindustan Times
- The Hindu
- Financial Times
- The Guardian
- The Washington Post
- The Business Times Singapore
- Africa News

Taking into account the changes that have been happening in both the IT services and the pharmaceutical industry a suitable timeframe has been considered. The timeframe we will be looking are the years surrounding the change in environment the firms have encountered.

3.4 Conclusion

This multiple case study is the preferred methode to conduct this study. The data collection has been done according to the methods describe in [Miles et al. (1994) and Saunders et al. (2009)] . This research design will ensure this thesis meets the necessary requirements. The findings of are discussed in Chapter 4.

Chapter 4

Results

In this chapter the results of the analysis are discussed. First, the within-case analysis describes the similarities and differences of the particular cases of the manufacturing and services industries. Secondly the cross-case analysis is done, in which the cases are compared across the industries to eventually find patterns that could support our working propositions Eisenhardt (1989) .

(1) Witin case analysis

(2) and (3) Cross case analysis

4.1 Within case analysis

In the within case analysis the firms of in the two different in the same industries are analysed compared to each other. across in the same regions. In this case this means the

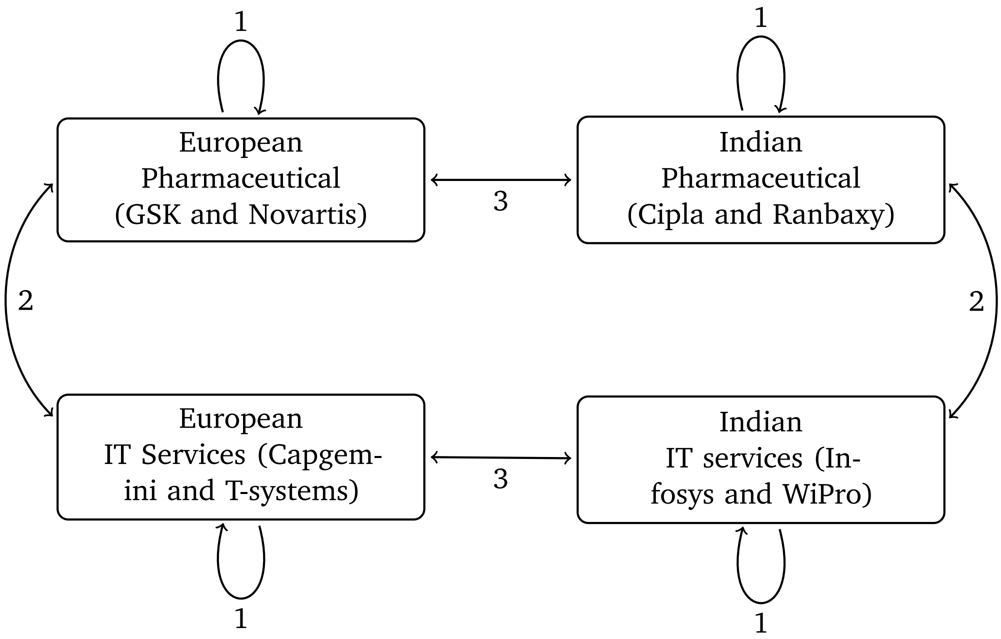

Figure 4.1: Within and across case analysis

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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.

[1]the 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 UNDP (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 countries[2] 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'.

[2]The 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 UNDP (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	

[3] On July 1, 1997, Hong Kong was returned to the People's Republic of China and became a Special Administrative Region of China.
[4] On December 20, 1999, Macua was returned to the People's Republic of China and became a Special Administrative Region of China.

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 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 capita[5] 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

[5]for the calculation method of the GNI refer to `http://data.worldbank.org/about/data-overview/methodologies`
[6]India is considered as Lower-Middle-Income in this characterisation WorldBank (2013a).
[7]The 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.

provide a clear group that can be classified as ‘emerging economies’ Nielsen (2011).
Perhaps the most usefull 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 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.

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 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 banks[12] and financial institutions[13] 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'.

[8] FTSE (2012)
[9] MSCI (2013)
[10] Standard & Poors (2013)
[11] the Emerging Market Global Player project is maintained by the Columbia University `http://www.vcc.columbia.edu/content/emerging-market-global-players-project`
[12] Deutschebank 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`)
[13] FTSE and MSCI both have a 'frontier market' index

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	✓				

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 November 25, 2013 source: ECB)

USD	**GBP**	**INR**
1.3202	0.8637	78.035

Appendix C

Strategy Literature

C.1 Industry Based View

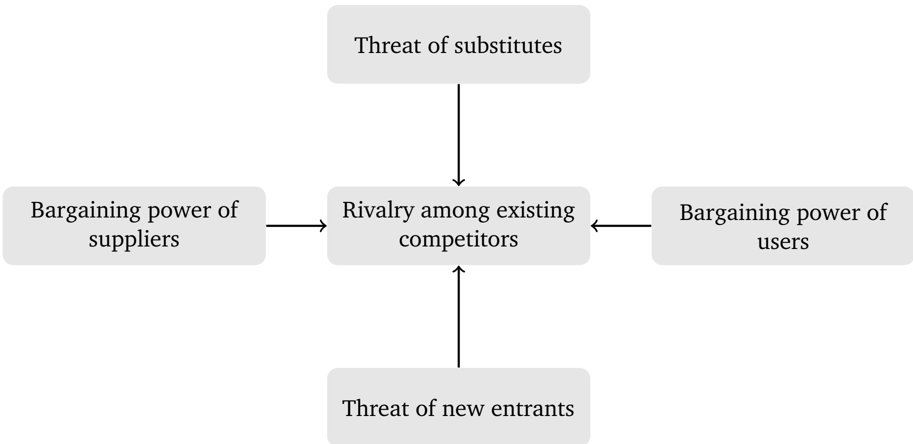

Figure C.1: Five Forces Diagram source: Porter (1980)

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. Vise 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.

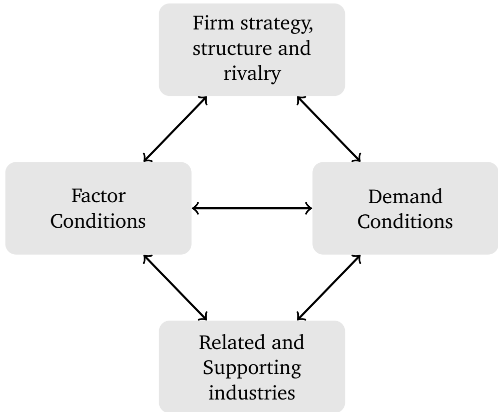

Figure C.2: Porter's Diamond source: Porter (1980)

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 nights 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) 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), and 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)]).

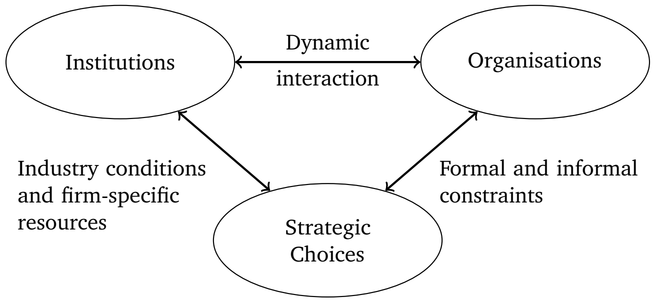

Figure C.3: Institutions, organisations, and strategic choices. Source: Peng (2000)

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.

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) and 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

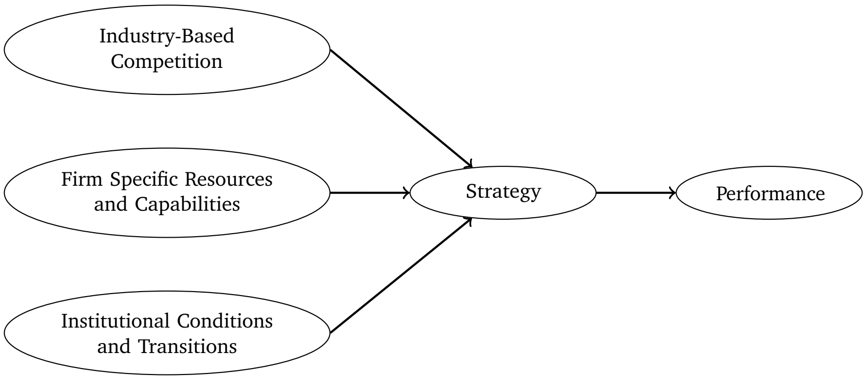

Figure C.4: The Institution-Based View as a Third Leg for a Strategy Tripod. Source: Peng, Sun, et al. (2009)

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 et al. (1999), Meyer, Estrin, et al. (2009), and Wang et al. (2012)].

C.3 Critiques on Barney 1991

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 costs[2].

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 Dũng (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 Industry Based View (and Resource Based View) of a lack of awareness of context Narayanan et al. (2005).

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

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