Overview

The book addresses an important topic: the role of flagship-dominated international business networks in the development of industrial regions. With good reason, this topic commands widespread attention. Unfortunately, important weaknesses reduce the value of this publication. We first highlight the relevance of the topic, and situate the book within a burgeoning literature. After a brief synopsis of the argument, we assess what contributions the book can make to international business studies, and highlight important weaknesses.

1. Relevance

The authors address theoretical, empirical, and policy issues that are high on the agenda of international business studies and policy debates. Questions raised include, for instance: What forms of business organization are conducive for developing and upgrading industrial regions in a globalizing world, where intensifying competition is combined with growing knowledge-intensity? What are the limits to traditional M-type forms of business organization (a la Williamson and Chandler), with MNCs internalizing resources, capabilities and knowledge? What are key features of international business networks that apparently take over the role of MNCs? How do flagship-dominated asymmetric networks affect the international diffusion of knowledge? What does this imply for competitive dynamics and the upgrading potential of industrial regions? And, finally what implications do result for regulations and policy formulation?

Such questions are the subject of an expanding literature. There is a growing recognition that traditional models of FDI and MNCs are insufficient. To capture the impact of globalization on industrial organization, knowledge diffusion, and regional development, the focus of research needs to move from the industry and the individual firm to the international dimension of business networks. Consider the following recent examples. An edited volume by Chandler, Hagstrøm and Sølvell (1998) explores the role of technology, strategy and network organization in the development of industrial regions. A collection of case studies, edited by Dunning (2000), highlights how globalization and the transformation of business organization reshape the agenda for regional development. Birkinshaw and Hagstrøm (2000) analyze how network organization affects strategic flexibility and capability management in fuzzy cross-border business networks. Guerrieri, Iammarino and Petrobelli (2001) explore the transformations imposed by global production networks (GPN) on industrial clusters in Italy and Taiwan that traditionally were dominated by SMEs,. And Borrus, Ernst and Haggard (2000) document how GPN established by American, Japanese and Asian flagships reshape Asia`s electronics industries, providing a catalyst for industrial upgrading.

Rugman and D`Cruz could make an important contribution, given their proven track record in this field. By combining theory construction with case studies in North America and Europe, the book could enhance our understanding of the drivers and impacts of asymmetric, flagship dominated international business networks.

2. Arguments: Brief Synopsis

The book is firmly grounded in the dominant theoretical approaches to organization and strategic management. A combination of IO theory, transaction cost theory, sociological network theory and resource-based theory of the firm is used to support three main arguments. First, networks rather than hierarchies are the dominant mode of competition in a globalizing world. By now, this argument is well established, but unfortunately it dominates much of the book`s conceptual and theoretical discussion in parts I and II.

The second argument focuses on the hierarchical nature of international business networks. The authors deserve credit for introducing
this idea. They correctly emphasize that successful international business networks are dominated by global flagships, and hence are characterized by decision asymmetry. This implies that networks do not necessarily give rise to less hierarchical forms of firm organization (as predicted for instance in Bartlett and Ghoshal, 1989, and in Nohria and Eccles, 1992). International business networks typically consist of various hierarchical layers. The flagship is at the heart of a network: it provides strategic and organizational leadership beyond the resources that, from an accounting perspective, lie directly under its management control. The strategy of the flagship company thus directly affects the growth, the strategic direction and network position of other participants, like key suppliers and customers, and the so-called “non-business infrastructure” (universities, unions, research institutes and various public agencies). These other participants “have no reciprocal influence over the flagship strategy” (p.84). These refreshingly blunt statements could catalyze an important research agenda that moves beyond the simplifying assumption that international business networks are less hierarchical than traditional MNCs.

Rugman and D’Cruz move one step further, and argue that flagship-dominated business networks can be a boon rather than a bane for regional development. Their asymmetric distribution of resources, power and decision-making can facilitate trust and credible commitments, enhancing stability, coherence and organizational learning. It is argued that flagships have an inherent interest in “sharing knowledge among network partners in order to facilitate inter-organizational learning.” (58) The authors acknowledge that this knowledge sharing is limited to a select group of key suppliers, customers and strategic competitors who collaborate in selective alliances. Again, this is a potentially powerful argument that could reshape much of our understanding of the mobility of knowledge. Certainly, recent developments in digital information systems (including the Internet) have increased the plausibility of this argument. Unfortunately, the authors provide only dated evidence and a cursory theoretical treatment. I am hard-pressed to see how an unconvinced reader could be won over.

The third argument is the most problematic, and unfortunately also the least well developed. The authors state unambiguously their “belief” that flagships rather than governments must assume the prime responsibility for leading a region’s industrial strategy process (81). In their view, the flagship determines strategy, while governments and other so-called are responsible for operational success (69). Such statements are contradicted by a growing literature that emphasizes that strong national and regional policies and institutions are required to extract benefits from asymmetric global flagship networks (e.g., Mowery and Nelson, 1999; Rodrik, 1999; Ernst, 2000 and 2001). Globalization, paradoxically enough, has increased the necessity of such policies.

The real question, then, is no longer whether national policies and institutions can make a difference. Instead, it is what kind of policies and institutions will prove most conducive for unlocking new sources of economic growth. Not less, but actually more, knowledge and expertise are required in the public sector of industry peculiarities, rather than a sector-neutral and minimally active policy stance. It requires an understanding of the widely varying technological properties of specific industries, the logistical and strategic concerns of multinational businesses, the fundamental transformations in the organization of their global production networks, and the rapidly evolving international investment environment.

3. Assessment

The most important contribution of the book is that it raises the important question how asymmetric decision power in global flagship networks affects regional development. This could stimulate readers to contemplate research agendas that highlight the hierarchical features of these networks, exploring consequences for managing local network suppliers as well as policy implications. While the right questions are asked, the theoretical framework remains patchy, and the book largely fails to provide convincing answers.

Four major weaknesses prevent the message from shining through more clearly in the text. First, most case study data were collected during the early 1990s. Important transformations in industry structure (i.e., “vertical specialization”) and network organization (i.e., the growing importance of digital information systems) are neglected. Rather awkwardly, the role model for the author’s flagship model is the Japanese “keiretsu” system, a form of network organization that today few managers of Japanese flagships would be willing to defend any longer.

Second, pasting together earlier journal articles (most of them published during the early 1990s) acts like an albatross around the authors’ neck. Much of these texts address issues that were hot during the early 1990s, but are no longer so today. Republishing old articles also makes for a lot of repetition, which makes reading cumbersome and unpleasant.

Third, the authors have not made up their mind whether networks replace MNCs (as indicated in the title of chapter 4), or whether they
are identical with the network flagships (as implied throughout much of the next). If the first is true, this would indicate a fundamental transformation in business organization, while in the second case, one wonders whether the term “flagship” is yet another word for MNCs.

Finally, as for theory, there is too much repetition of the familiar arguments for vertical integration, as introduced quite a while ago by IO theory, transaction cost economics and resource-based theory. This discussion would fit nicely into a textbook on international business studies. But for a book that claims to push forward theoretical debates, the litmus test is how the authors explain the rationale for asymmetric global flagship networks. The authors correctly emphasize that exploiting the advantages of size and market power is no longer sufficient. Competitive success now depends on organizational flexibility, i.e. a capacity to respond to and cope with complex and rapidly changing markets and technology. This logically implies that organizational learning and knowledge creation become critical. While this is repeatedly stated, the authors fail to convincingly develop this important link into an original theoretical contribution. Arguably this is a result of a heavy reliance on transaction cost theory (that neglects these issues), and only timid attempts to bring into the analysis resource-based theories of the firm. In particular, there is a neglect of recent attempts in evolutionary economics, centered on the classic contributions by Penrose, Richardson and Nelson and Winter, to center the analysis on innovation and knowledge.

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Published at http://aib.msu.edu/JIBS/BookReviews/HTML/2001-09.html
Reviewed on: April 1, 2001
c)2001 - Academy of International Business