How globalized is the most global industry? International business and the financial services industry

There are at least two key aspects of the financial services industry. First, in some critical ways, this industry is like no other. The intangible aspects of public confidence in financial services – the so-called “cobweb of invisible filaments” (de Soto, 2003: 158) – support the creation of a vast superstructure of financial assets on a small base of real resources. Where this confidence is strong, enormous wealth is created. When this confidence is shaken, the consequences are potentially disastrous. This is the notion of “systemic risk” – the idea that the failure of a financial firm can shake the confidence of the public, potentially bankrupting the entire system (Bartram, Brown and Hund, 2007; Schwartz, 2008).

Second, this industry has long been held up as the exemplar of the flat world. International finance scholars argue that money knows no borders and flows to find the highest returns anywhere in the world (Mudambi, 1998). In this sense, studying the financial services industry through the lens of international business is powerful, both from the perspectives of theory and practice. If the “flat world” hypothesis of global connectivity and arbitrage does not hold in financial services, it is unlikely to hold anywhere. The fundamental tenets of international business, based on the nuanced study of country factors, firm factors and their interplay, become critical to understanding the workings of the global economy.

While some aspects of finance like transfer pricing have been studied in the context of multinational firms (e.g., Eden, 1998), the financial services industry itself has received relatively little attention from mainstream international business scholars. This is why the book is particularly welcome. It comes at a particularly appropriate time, when there are fears about the viability of many major players in the international financial services industry. Reading this lucid book demonstrates the power and applicability of the theories of international business, particularly in testing times.

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References

The timing for the release of this book could not have been better. In 2008, the world economy plunged into the deepest financial crisis since the Great Depression. The world's largest financial institutions have been forced to question some of fundamental assumptions underlying their most basic financial models. As they rethink their global positions, there is an increasing recognition that the framework of international business (IB) has much to offer in terms of understanding the broader strategic questions that face the industry. Markus Venzin, a respected scholar specializing in IB and finance, presents a rigorous and well-researched book of high managerial and practical relevance. This formal assessment of the state-of-the-art in the IB aspects of financial services is desperately needed.

For most readers this alone would be a sufficient reason to pick up the book. But Venzin attempts to do more. The book draws on extensive research and personal insights that the author has accumulated over a period of several years. In close to 300 pages the author leads readers through a wealth of ideas, data and conclusions on how shareholder value can be created through cross-border strategies. While not all of the ideas are original, what is new and particularly valuable is its application to a sector that has received surprisingly little attention from IB scholars.

The key message of the book is straightforward: the particularities of the industry have rendered incumbents particularly prone to what Venzin refers to the “growth paradox”. Put more normatively this may be summarized as “more is less”. He challenges the assumptions that scale economies in arbitrage and aggregation will continue to increase and that national differences will continue to diminish. As such his conclusions are largely in line with Rugman (2005), but the rich data contained in the book makes the case more accessible than macro-data.

The book is structured in three sections. In the first part of the book Venzin defines the particular characteristics of financial services (Chapter 1). He starts with a short and interesting overview of the development of the industry over time and focuses on key drivers of internationalization. In particular Venzin examines the relative value of factors like internet connectivity and pure market potential when evaluating the internationalization options of financial service firms. Venzin then moves the discussion to the bottom line by honing in on the relationship between internationalization and firm performance. In the process, he challenges some key aspects of recent research on the relationship between internationalization and performance (Contractor., Kundu and Hsu, 2003; Lu and Beamish, 2004). In doing so he concludes that the increasing internationalization is the path to increased performance for some firms in some circumstances. The dilemma is often solved on a firm- and case-by-case-basis. This understanding builds the main basis for the remainder of the book.

Part II of the book draws the attention to the specific issues involved in strategic decision-making in the financial services industry. In a series of chapters, Venzin applies IB theory to specific context of the financial services industry. He analyzes the motivations to go abroad, deciding on which markets to enter, as well as where and how to compete. Drawing heavily on examples from his field research, Venzin maps out effective and less effective strategic moves of financial services firms and provides normative recommendations that may prove particularly valuable for the practicing manager.
Part III shifts the focus from the challenges surrounding strategy development towards pertinent issues in implementing an international strategy in the financial service sector. Consistent with the main idea of the book “more is less”, Venzin provides an interesting and concise account of the strategic pitfalls of global expansion and also provides clear evidence on how firms can move towards better strategy execution.

The book ends with a critically important epilogue that re-contextualizes the book in light of recent developments within the sector. Consistent with the main trust of the book, Venzin’s conclusion remains that, in fact, “more is less”. Or to put it differently, that the crisis’ largest impact on the industry will not be a fundamental change in the underlying economics of the business. Complete global standardization has never been the basis for value creation and competitive advantage in the industry. Hopefully the main effect of the crisis will be to increase managers’ awareness of the theories and knowledge that have been developed. Insights from international business (e.g., institutional distance, liabilities of foreignness) regarding the impact of country factors on the firm’s risk profile can support better decision-making in the industry.

Furthermore, Venzin’s analysis nicely demonstrates how and where standard IB literature needs to be modified to accommodate the idiosyncratic features of the financial services sector. This demonstration underlines the usefulness of sector specific studies in general. From a practitioner’s point of view, the numerous illustrations and hands-on company examples in sections II and III on how to design and implement a successful international strategy are probably the most valuable read of the book.

To conclude, “Building an International Financial Services Firm” is a most interesting read. From a scholarly point of view Venzin’s analysis of the world’s financial service institutions makes a series of interesting observations that fall in line with more the general theses of regionalization (Rugman, 2005), a “semi-globalized world” (Ghemawat, 2007) and the importance of local knowledge (Mudambi, 2008). The book’s prime strength and contribution lays in spelling out the growth trajectories and limits of globalization in this most globalized of industries. In particular these limits of globalization might be of particular interest to those seeking further evidence that the world is in fact not flat, or that a finance course at a business school is not “global” only because stock market quotations of firms like Nike, can be obtained via the internet from anywhere on this planet.

References


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