

van den Bulcke, Daniel; Verbeke, Alain; Yuan, Wenlong: *Handbook on Small Nations in the Global Economy. The Contribution of Multinational Enterprises to National Economic Success*. Cheltenham: Edward Elgar 2009. ISBN: 978-1-84376-592-9; 277 S.

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Due to the implications of globalization, there is even in countries of large size an increasing need to flexibly adjust economic policies and firms strategies to external influences. Tracing back the historical origins of a number of small countries' successful integration into the world economy can, therefore, offer a pool of best practices for both small and big countries, making the topic of this volume highly relevant. Small countries can in this sense function as „trailblazers“ for big ones, this expression being used in the sense of John H. Dunning in a previous publication of the editors of this volume, distinguished scholars of strategic management and international business.¹

The title „handbook“, however, is not appropriate for the present volume. First of all, the term „small“ country is far from being exactly defined and a theoretical reflection on the consequences of country size on policy choices and MNE development had not been included here² Second, no systematic presentation of ongoing research trends has been included into the volume such as small countries' innovation systems³ or the contribution of economic history to the understanding of the specific path of big business from small countries.⁴ Thus, the reader will find his expectations for a handbook not fulfilled. The volume offers exactly what the subheading promises: „The Contribution of Multinational Enterprises to National Economic Success“. Therefore, the analysis presented here is crucial for researchers, managers and political leaders as well. The studies collected in this volume have a common theoretical framework, a similar outline and research questions. Therefore, instead of presenting each contribution, the structure of the book will be discussed here

including a few points deserving extra attention such as the contribution of this collection of essays to the development of Porter's diamond model.

The book consists of an introduction and ten case studies about „small, open economies“. Though openness is measured according to the transnationality index used in the UNCTAD's World Investment Report 2007, but as already said the criteria for a small country are not defined here. The case studies deal only with „successful economies“, yet fail to provide the criteria for selecting the cases. The selection of the case studies covers a wide range of countries from the size of Canada to Mauritius, low-, middle- and high-income countries, economies that are developing, in transition from socialism and highly industrialized ones. The common denominator seems to be the outstanding importance of FDI for their economic development. The geographical scope of the volume covers all continents from North America (Canada), South-America (Chile), Africa (Mauritius), Western Europe (Belgium, Ireland, the Netherlands and the Nordic countries), Eastern Europe (Slovenia), Asia (Cambodia) and Oceania (New Zealand). The focus of the studies lies on the last two decades though many contributions cover a much longer time span to present waves of and shifts in multinational activities.

Michael Porter's well-known diamond model⁵ is used to explain the competitiveness

¹ Daniel Van den Bulcke / Alain Verbeke, *Globalization and the Small Open economy*, Cheltenham 2001.

² For example Alberto Alesina / Enrico Spolaore, *The Size of Nations*, Cambridge 2003, Peter J. Katzenstein, *Small States in World Markets. Industrial Policy in Europe*, Ithaca 1985.

³ For example Christopher Freeman / Bengt-Åke Lundvall (eds.), *Small Countries Facing the Technological Revolution* Pinter, London 1988, Charles Edquist / Leif Hommen, *Small Country Innovation Systems. Globalization, Change and Policy in Asia and Europe*, Cheltenham 2008.

⁴ Such as Harm Schröter, *Aufstieg der Kleinen. Multinationale Unternehmen aus fünf kleinen Staaten vor 1914*, Berlin 1993, Alfred D. Chandler / Franco Amatori / Takashi Hikino (eds.), *Big Business and the Wealth of Nations*, Cambridge 1997, Margrit Müller / Timo Myllyntaus (eds.), *Pathbreakers. Small European Countries Responding to Globalisation and Deglobalisation*, Bern 2008.

⁵ Michael Porter, *The Competitive Advantage of Nations*.

of national economies and industries, investigating the contribution of multinational enterprises to national economic success in this framework. The potential of multinationals for small countries' economic growth is, accordingly, summarized in the main hypothesis of the book, which states „that small nations increasingly need to rely heavily on both home-grown and foreign multinational enterprises to achieve domestic economic success in industries characterized by international competition, as these firms augment the domestic diamond determinants with foreign components, thereby permitting sustainable high production and employment per capita as compared with other nations.“ (p. 1) Particularly interesting is therefore the inclusion of the experience of Slovenia into this volume which provides a case where FDI was not encouraged resp. seen as the most important source of quick structural change, an approach that contrasts with the one chosen by the majority of the other transition economies of East Central Europe.

All studies roughly follow the same outline: 1) the description of the strengths and weaknesses of the respective country according to Porter's diamond model, 2) „the role of inward and outward FDI and multinational enterprise activity in the successful industries considered“, 3) geographic concentration of domestic production and the role of multinational activity in domestic cluster functioning, 4) the impact of government policy (or the lack of thereof) on the success of the industries studied, particularly the government's role in facilitating „internalization arbitrage“. That is, governments' activities are investigated with respect to their ability to further the inward direct investment's contribution to the upgrade of location advantages and that of outward FDI in both their home and host countries, thereby creating internationally competitive value chains.

Combining the theory of international business with the well-known diamond model of Michael Porter about the drivers of national competitiveness is the major theoretical contribution of this volume to the understanding of factors influencing competitiveness on both the national and sector level. The diamond model has been refined in the various case

studies here so far as the impact of multinationals and that of government policy had been systematically included into the investigations as driving forces of competitiveness instead of being classified as external factors like in Porter's original model. As research on the impact of outward direct investment on a home country's economy, especially in the case of small countries, is considerably less developed than that on inward FDI, the systematic inclusion of this question into a series of investigations contributes to the research on multinational enterprises. Here, the distinction between operational internationalization to seek markets, lower costs and access resources and strategic internationalization (moving strategic activities and units for foreign locations) as proposed by Robertstad et al. in their contribution about the internationalization patterns of large companies from Denmark, Finland and Norway promises clues to a government policy seeking to further the embeddedness of both home-grown and foreign multinationals. Furthermore, the outstanding case study about Ireland (Cassidy et al.) in this volume shows how Porter's diamond model can be meaningfully extended by profiting from recent years' studies on clusters: An organizational understanding of clusters helped to understand the factors of the creation of different types of Irish clusters and their role in their specific multinationals global network. The subsidiaries of US- resp. EU-based multinationals in Canada (Yuan and Verbeke) showed a strikingly different self-perception of their success in absorbing and exploiting firm-specific advantages, developing unique competence areas within the Canadian environment and, ultimately, their position in their mother companies' global network (according to Bartlett and Goshal's typology).⁶ The diamond model refined by the cluster theories can help explaining the differences in performance of multinationals of different origin in a specific market and formulate policies to upgrade the position of the subsidiaries in the network of their specific multinationals.

ons, New York 1990.

⁶ Christopher. A Bartlett / Sumantra Goshal, Tap your subsidiaries for global reach, in: Harvard Business Review 64 (1986) 4, S. 87-94.

nals, ultimately to further the embeddedness of multinationals' subsidiaries and to move away from natural sources based-industries to skill-based ones.

The book only presents case studies of „successful economies“. That does not mean, however, that they have been equally successful in unfolding the potential of MNEs to „upgrade“ the national diamond. New Zealand presents a striking case for lost chances in leveraging the externalities offered by international involvement. The essay about Cambodia is rather undecided about the positive effects of FDI suggesting, on the one hand, that „[g]iven the creation of employment and its contribution to the country's GDP and exports, FDI has contributed significantly to the economy of this civil-war ranged kingdom though multiplier and spill-over effects“ (p. 268) However, the reader is at a loss to discover this positive effect if the authors state that „from Cambodia's example, it is clear that Porter's views on the determinants of the competitive advantage of industries (...) have either to be amended, or otherwise lead to the conclusion that Cambodia's success in attracting FDI, particularly in the garment sector, does not contribute to the building up the country's competitive advantages“ (p. 264) and that FDI did not help to even out the geographical distribution of economic activity either.

The key message of the various case studies is that government matters: The full potential of multinationals' activity furthering the competitiveness of specific industries resp. of the national economy can only be harnessed with a clear government strategy, unfolding existing though latent location advantages of a country and a firm commitment to invest first profits into the continuing improvement of these location advantages - despite the strong vested interests and risking popularity due to seemingly benefiting only foreign investors. (Introduction) Coordinated business activity to profit from the possible externalities of MNE's activities receives much less attention than that of governments here. Exceptions are Hogenbirk et al. emphasizing once again the importance of large Dutch MNEs' and trade unions' participation at policy formulation and implementation in the Netherlands du-

ring the last decades or Peerally and Cantwell stressing that, in Mauritius, the private sector has also been active in the formulation of policies like its push for the promotion of cluster building.

Thus, though the present volume cannot be seen as a handbook the studies published here present an important contribution to the ongoing debate about globalization and a rich source of ideas for policy makers and managers from both small and large countries.

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