

KJELL A. ELIASSEN (ED.)

BUSINESS AND POLITICS IN A NEW GLOBAL ORDER



GYLDENDAL
AKADEMISK

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Preface

The book focuses on conditions for doing business in a globalised economy. The current wave of globalisation has brought about many changes for multinational companies, presenting not only opportunities, but challenges, too. As a result of the changing business environment, company strategies, business models and even modes of leadership have been revised. Changes in the global framework have been driven by digitisation, changing global economic and political hegemonies, the emergence of new markets and market actors, and reduced state ownership. All these factors are closely linked to the globalisation process we are witnessing today, where the scale and scope of global interrelations has reached a point where it affects almost every aspect of human life.

The digital revolution is without doubt the driving force behind changes in the global business environment that is having the most impact. It has revolutionised how and where people communicate and has created a base for a new global information economy and information society. Without the digital revolution and the information society, the present wave of globalisation could not have been as powerful and far-reaching.

In addition to the digital revolution, this book focuses on driving forces that are not linked to any particular technological development. One of them is the shift in the geographical hegemony of the global economy, with power and production increasingly moving eastwards. Market actors from Asia have become serious competitors for Western companies, not only in Asia but also in Western countries. That kind of change will also require new government and business strategies. Furthermore, increased economic activity at a global level has resulted in a push towards globalisation of politics. Global and regional regulations, standardisation and international NGOs have a profound influence on the business frame-

work. In addition to the abovementioned factors, the emergence of multinational corporations has had a huge impact on the global business environment. The number of firms engaged in international production has increased significantly, and with it the role they play in the global economy.

I feel very privileged to have been afforded the opportunity to edit a book dealing with these topics. The book is made possible through a generous grant from Telenor, and I have been given complete freedom to invite respected colleagues and friends from all over the world to contribute to a scholarly analysis of business and politics in a new global environment.

I would also like to thank those who have helped me with compiling the book and drafting chapters 1 and 13, in addition to keeping in touch with the authors during the editing process. First and foremost I would like to thank Agnes Árnadóttir for contributing to the coordination of topics and chapters for both the introduction and the conclusion about what we have learned from this analysis. I have also greatly appreciated and benefited from comments and discussions with our fellow contributors to this volume. I would also to thank Nicole Dante for her assistance in maintaining contact with the authors and Marit Sjøvaag-Marino for her valuable comments on the different chapters.

Oslo, December 2012

Kjell A. Eliassen

CHAPTER 1

Introduction¹

Businesses in a rapidly changing
global environment

Kjell A. Eliassen

In cooperation with Agnes Árnadóttir

This book addresses the rapidly changing environment for multinational companies and the implications this has had for the development of company strategies and global operations.

The main theme of this book is the changes in the (global) framework for multinational companies, and their most important drivers and consequences, since the turn of the century. We focus on multinational companies and their markets, ownership and regulation, digitisation and the information society, and global governance.

Over the past twenty years the digital revolution has formed the basis for a global information society. Network operators have provided infrastructure and new communication possibilities that have revolutionised the way multinational companies operate. The speed of communication, the amount of information available, the plethora of different networks and the multiple usage of communication as a backbone in all aspects of business operations and management have created a new global business environment. Complex technical networks facilitate complex organisational networks, and vice versa—both are key components in the current global market.

1 This soft cover volume is based on a hard cover book with the same title published in 2012 to celebrate Telenor ten years in the headquarter at Fornebu. This version excludes, however, the first chapter about the headquarter buildings.

In this book, we look at changes in the global business environment brought about by digitisation and also other aspects of a changing global order which are only partly or not at all linked to the communication revolution, such as changing global economic and political hegemony, new markets and new market actors, and state ownership.

Most of these developments are linked to the globalisation process we have witnessed during the past two decades or more. The current wave of globalisation has been brought about by four main factors, two of which are the political conviction that states would derive economic advantages from free trade and the implementation of a global free trade regime through the WTO, and technological change, and digitisation in particular. Globalisation has changed the function of states and of societies, the operation and environment of business, and the function and life of most individuals. The scale and scope of global interrelations have grown so much in recent years that they now affect almost every aspect of human life. They also affect all kinds of issues ranging from environmental hazards, the way businesses operate, educational and health systems to military intervention and the global arms trade. Worldwide economic integration has linked the fates of nations, communities and households across regions and around the world in such a way that a crisis in one country usually takes its toll on jobs, production and investments somewhere else in the world (Eliassen and Sitter 2008: 16).

In addition to the two abovementioned factors, a third key factor in this process of globalisation is the international, or multinational, company. Multinational companies account for between 25 and 33 per cent of world output, 70 per cent of world trade and 80 per cent of international investment. Overseas production by these companies considerably exceeds the level of world exports, and every day more than USD 2 trillion is handled at the foreign exchange markets (Baylis and Smith 2011: 16). This makes such companies key players in global trade, investment, and production whilst effectively operating outside the control of their nation states and even regional or international organisations. At the same time the external effects of their decisions on investment, production, and trade have to be dealt with by the nation states through their welfare and regional development policies.

The fourth key factor is the context and environment in which production and trade take place. The collapse of communism in Europe in 1989 and the end of the Cold War brought about radical changes in the international political and economic system. As Thomas Friedman (2000) put it, the world went from playing chess to playing Monopoly. The end of the Cold War, the bipolar world and the ideological struggle between capitalist liberal democracy and communism removed some of the

biggest constraints on trade and interaction between states as well as non-state players (Eliassen and Sitter 2008: 16).

Globalisation is, however, not only a post-World War II phenomenon; we have witnessed periods of globalisation in earlier times as well. The so-called 'first wave' of globalisation from 1870 to 1913 was a period of dramatic change in trading costs and of enormous growth in international trade (Jacks, Meissner and Novy 2010), and was arguably an even more open and extensive integration of the world economy than today (Dicken 2007: 7). In this phase the invention of the telegraph introduced a technology that was in many ways as powerful a driver of globalisation as digitisation is today. Like digitisation, it reorganised the way in which companies were operated and managed, as discussed by Norman in his chapter.

Globalisation is also closely linked to regional integration and the development of multilateral and bilateral free trade agreements. The aims of these more limited agreements—from a geographical point of view—are to reap the economic benefits of distribution of labour among the participants and to protect them from some of the negative effects of globalisation. At the same time, the failure of a comprehensive trade regime has sparked a substantial increase in the number of inter-regional and bilateral free trade agreements, as discussed in several chapters in this book. Although regional trade agreements have intensified activities in all world regions, they are most prominent in the western hemisphere and in Asian Pacific (Crawford and Fiorentino 2009).

Since the turn of the century, globalisation has become perhaps the most important framework for national and local politics and policymaking. The globalisation process has dramatically reduced the freedom of governments and other publicly elected bodies to make unilateral decisions. The development of free trade regimes, the reorganisation of global companies, and the prominent role played by global and regional regulatory regimes have had a direct impact on international, national and local companies. They have also had political implications. One could argue that the globalisation process has created two types of democratic deficits. First, the political influence of the democratic institutions in the nation states may be reduced, and second, new global systems of governance are established outside direct democratic control. The end result is both increased pressure on national welfare states and, at the same time, a desire for the development of better and stronger global regimes. However, the establishment of such regimes requires unanimous agreement between the states involved. This has proven very difficult to achieve, not only in respect of trade, but also in respect of the environment and most other global issues (Eliassen and Sitter 2008: 18).

What certainly distinguishes late twentieth and early twenty-first century globalisation from earlier, similar processes is the interrelation between the global reorganisation of production (of both goods and services) and the territorial opening of free trade by most of the countries in the world. During the 1970s the cost of sea freight was dramatically reduced, which greatly contributed to a rapid increase in the free movement of goods in this wave of globalisation. This was due both to new technology and to new logistics systems. More than 80 per cent of world trade in goods is conducted by sea transport. Moreover, the digital revolution has played a major role in the (potentially) global integration of intangible commodities in the form of ideas, knowledge and services. The impact of these two developments is also felt in areas such as culture, environment, defence, migration, etc. (Eliassen and Sitter 2008: 17).

Multinational corporations

Multinational corporations (MNCs) are not a new phenomenon, but they have acquired a completely new role in the global economy. They emerged as a significant and enduring component of the international economy during the late nineteenth century and were at that time a response to national market differences. They were organised as decentralised federations of overseas units with local orientation, considerable autonomy, and simple financial control systems, based on informal personal coordination. Many expanding European companies used this model of organisation (Dicken 2007: 119). Despite MNCs not being a new invention, they are emerging at an increasing speed. In a period of thirty years, the number of companies engaged in international production has increased ninefold. So, as a natural consequence of the growing number, the role MNCs play in the global economy has gained enormous importance (Oatley 2010: 166–167). Today an MNC can be defined as a «firm that engages in foreign direct investment by directly investing in, controlling, and managing value-added activities in other countries» (Peng 2009: 4).

Of the many studies of internationalisation focusing on how companies can exploit ownership and location advantages, Dunning's eclectic paradigm is one attempt to explain internationalisation of companies. According to this paradigm, a company will engage in transnational production when three conditions are met. These conditions are: ownership-specific advantages, location advantages, and internationalisation advantages. Ownership advantages can consist of property rights (to, for example, technology or knowledge), size or market power. Location advantages refer to those factors or conditions that make it more profit-

able for a company to exploit its internalised assets in a foreign location. Factors such as labour costs, natural resources and political conditions might all attract companies to a particular country. Internationalisation is often a response to uncertainty in a business environment and is especially likely to occur in the case of knowledge. To ensure enough profit from a company's investment in research and development, and to protect its assets, there is a strong incentive to retain technology for use within the company. So, rather than sell or lease the technology to another company abroad, the company sets up its own production facilities and exploits its technological advantage directly (Dicken 2007: 109). In the third chapter of this book, Hveem, Knutsen and Rygh discuss how these three advantages outlined by Dunning are affected by state ownership.

New markets and market actors: Telenor was one of the early movers among European companies—and Western companies in general—to exploit the new possibilities that opened up in the Uruguay Round of trade negotiations for entering into the non-Western markets for telecommunication services. From then on, Asia and Latin America in particular became important; not only for manufacturing by exploiting low labour costs, but also as a market for selling advanced high-tech services.

From the beginning of the 1990s we have seen a rapid growth in the outsourcing of different aspects of services to these countries. This constitutes an important part of the indirect effects of digitisation on business strategy and operations. Today, companies are separating different aspects of design, development, production, marketing and delivery of different products and services and dividing them between different countries. Examples cover everything from outsourcing of call centres to complex product development and manufacturing in multiple countries in such a way as to exploit the relative advantages of the different countries (proximity to market, technological competence, cheap labour, etc.). All the different places for design and production are linked up with modern communication technology. Production in one country is controlled by computers in laboratories in another. Companies shift their focus from the production itself to knowledge about how to produce, where to produce and how to develop new products. There has for a long time been a shift from a production economy to a knowledge economy, and all the major companies are moving in this direction.

Part of this internal reorganisation of advanced technological companies has been the 'industrialisation' of operations in different countries to maximise synergy effects. Again, Telenor has in the past ten years been very successful at exploiting these possibilities to create a more globally integrated company.

Another change in the role of different market actors has recently taken place. Companies in advanced technological industries from developing countries, especially China and India, have not only become major competitors to Western companies inside their own countries, but also in Western countries. At the same time, companies from rapidly developing economies in developing countries have started buying Western companies to access raw materials and high-technology products and competencies. China's BlueStar acquisition of Elkem is a good example of the latter.

Even though these developments, and especially the technological leaps forward, are visible in all developing countries, and even though acquisitions of European and American companies are happening in many countries, especially the BRICS countries (Brazil, Russia, India, China and South Africa), we have to limit ourselves to one example in this book, namely that of Asian companies' acquisitions of European companies.

From state intervention to regulation

As David Levi-Faur states in his chapter, the relations between business and government are becoming increasingly important. These relations are often characterised by conflicts due to very divergent views on how tight these relations should be. In order to control and stimulate economic activity in the form of trade and investment within and outside national boundaries, national governments hold a wide range of regulatory tools (Dicken 2011: 182). For decades there has been a global tendency to move from direct state intervention to general rules and regulations as the governing strategy of states, regional organisations and global institutions. Regulation as a mode of governance is more significant and accepted today than ever before, and its expansion includes more and more spheres of life and political arenas (Jordana and Levi-Faur 2004: 1).

As Levi-Faur states in his chapter, the emergence and expansion of the global trade regime has increased the interdependence of business and government significantly, not only at national level but also at global level. This interdependency is a structural feature of capitalist democracy where market, business and the economy enjoy relative autonomy from states and politics and vice versa. On the one hand, government regulations such as property rights, etc. create a «welfare state for business». On the other hand, businesses are increasingly expected to accept the supremacy of governments. The global trade regime, i.e. the set of trade principles, norms, regulations, etc. that governs international production and the allocation of

resources, has become more comprehensive and decentralised. Global regulations define rules and are monitored and enforced by global actors such as the World Trade Organization (WTO). With the expansion of the global trade regime, regulation is now occurring at the global level rather than national level, following deregulation at the national level and less direct state intervention.

Although the tendency is that regulation is increasingly moving to a global level, most countries still regulate multinational corporation (MNCs) operating within their borders. Despite the potential benefits of foreign direct investment, most national governments do not allow MNCs to operate without restrictions. Through national regulations and bargaining, governments have tried to make sure that foreign companies operate in compliance with national objectives. Governments have used such regulations to either prohibit foreign companies from engaging in certain activities or to require them to take part in others (Oatley 2012: 189). When it comes to regulating foreign direct investment (FDI), the move from national to global level has not been realised to the same extent as the regulation of other business areas.

While most FDI is bound by some restrictions through national regulations in the host country, the international regulatory framework for FDI continues to be weak and highly uneven. As Hveem et al. point out in their chapter, there is no global multilateral institution to effectively monitor and regulate FDI. This results in a riskier environment for transnational enterprises. This is equally relevant for both state- and privately-owned enterprises that face the same challenges in the international market. However, their behaviour is quite different, and state-owned enterprises (SOEs) have both advantages and disadvantages over privately-owned enterprises. For the past years SOEs have grown and increased their share of the total FDI stocks relative to privately-owned enterprises. State ownership has a long tradition in market economies, though mostly limited to the home country of a company. Hveem et al. note that while most of the activity is still bound to the home country, SOEs are increasingly going abroad. The international expansion of SOEs has gained attention in recent years, particularly the creation of large SOEs in the major OPEC countries and the growing engagement of Chinese SOEs in FDI. One might ask whether SOEs are more able and willing to take risks abroad than are privately-owned companies, and whether and how this will change when the SOEs open up to private investors. There is no conclusive evidence of this, but for Telenor at least it seems like the ability to take risks was more pronounced prior to the partial privatisation of the company (Eliassen and Grøgaard 2007: 253).

The digital revolution

One part of this book focuses on the consequences of digitisation and how this has changed most aspects of the operation and management of global businesses like Telenor. These aspects are regulation, vulnerability, business models, business activities, the rise and fall of certain companies (and states), the changing influence of certain companies (and states), company-building architecture, working environment, and the role and importance of the communication technology itself.

Digitisation has created a completely new global communications infrastructure with enormous capacity and flexibility, and has brought about the convergence of telecommunication, communication and IT into a strong and powerful ICT (information and communication technology) base for a new global information economy and information society. This influences everything from running a business to the spread of new hits in the music industry. Without this digital revolution, the present wave of globalisation could not have been as forceful, let alone had such radical consequences.

What was the driving force behind the digitisation revolution that created a totally new environment for global industry? The transition from analogue to digital technology revolutionised the information and communication industry due to the dramatic impact it had on the volume, speed and consequently, the cost of informing and communicating. Information and communication technologies have made a significant impact, especially in the financial sector. As From and Flodda argue, advanced use of information technology in information gathering and processing has made information about markets, prices, trends etc. far more accessible to all actors in the industry. This has to a large extent rendered the traditional stockbroker obsolete, since his informational advantage, a key factor in his business, is now eroded and most of his tasks can now be performed faster and better by machines. However, the sophisticated and advanced use of ICT in financial analytics and financial transactions has not only changed the workings of the existing financial industry; to some degree it has also led to a blurring of the boundaries between the financial industry and other industries, and has opened up for new business models and cross-sector partnerships. As From and Flodda also argue, this is particularly true with regard to the telecommunications industry. The spread of the mobile phone has opened up new opportunities for the ways in which people use financial services.

Of all the technological changes, information and communication technology is perhaps the one that has had the most profound effect on society. Victor Norman argues in his chapter that, in terms of social impact, one could call mobile