

CAVE! HIC DRAGONES!
Alan M. Rugman's Contributions
to the Field of
International Business

Booz Allen Hamilton IMD Eminent Scholar Session
2004 Academy of Management, New Orleans, LA

Comments by

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I. Introduction



I am delighted to be here today to honor the work of Alan Rugman. Alain Verbeke (Calgary) and I will discuss Alan's contributions, with me focusing primarily on his contributions to the field of international business (IB); Alain on his contributions to international management (IM).

Alan and I first met twenty-five years ago, introduced by a mutual friend, Judy Alexander, at the Canadian Economics Association annual meetings I believe in 1979 (maybe Alan remembers). Judy and Alan had been office mates while doing their PhDs in Economics at Simon Fraser University. A couple of years later, Alan and I co-sponsored a conference together at Dalhousie University on multinational enterprises and transfer pricing and then co-edited the conference papers as *Multinational Enterprises and Transfer Pricing* (St. Martins and Croom Helm, 1985). We have participated in each other's conferences, read and/or edited each other's papers, and organized panels at annual meetings on a fairly regular basis since then. I have read and own copies of almost all of Alan's published works. We have also taught occasional executive training courses together for the Canadian government. I have seen him give multiple conference and professional presentations over the years.

In my opinion, Alan Rugman is one of the world's leading scholars of international business, ranking with John Dunning and Raymond Vernon in terms of his contributions to the discipline. He is an extraordinarily prolific scholar, with more books and articles in top journals than almost anyone else in the Academy of International Business.

If asked, I suspect Alan would identify himself as a professor and scholar of international (not global, see below) strategic management (ISM), with his research standing at the intersection of international business, strategic management, international economics and public policy. Trained as an international economist, Alan recognized early on that transaction costs provided an explanation for the existence and success of the multinational enterprise.

Alan Rugman's most important contribution to international business theory, in my opinion, revolves around two activities: first, his role in building the theory of internalization as a general theory of the MNE and, second, his bridging the gap between internalization theory to strategic management.¹ Other major scholarly contributions are his work with Joe D'Cruz on the double diamond of competitiveness; with Alain Verbeke on political strategies of multinational enterprises (MNEs) (e.g., shelter-based strategies) and MNE theory (location-bound and non-location bound firm specific advantages, linking internalization theory with the strategy

literature); and his own work on regional integration (Canada-US Free Trade and NAFTA). I also believe that our co-edited book, “Multinationals and Transfer Pricing”, is the seminal work in this area. Along with single and co-authored books, journal articles, book chapters, monographs, and so on, Alan has also been a prolific book series editor in international business and global strategic management, inviting and pulling together the works of dozens and dozens of scholars around the themes he has seen as key in the profession.

Alan has also played an extraordinarily active role in professional associations, most notably the Academy of International Business where he has held the positions of Vice President, Program Chair, and now President. He is a long-time AIB Fellow also.

We all know that Alan Rugman does not “suffer fools gladly”; he can make very critical comments about academic papers, comments that others might judge unnecessarily harsh. He says what he thinks and gives honest, but blunt, criticism. Since he's almost always right, the comments are always useful even if they can be hard to hear!

II. A Segue: Susan Strange and the Dragons

In thinking about how to write this piece honoring the work of Alan Rugman, I was reminded of the similarities between Alan and another well-known social scientist - *Susan Strange* (1923-1998).²

I am not sure how many members of the Academy of Management will recognize Susan's name – certainly Steve Kobrin, John Stopford and Alan himself will - but she was and still is a legend within the International Studies Association (ISA). A long-time faculty member at the London School of Economics, Susan Strange was a British international relations scholar and pioneer in the field of international political economy (IPE). She was a former president of ISA and founder of the British International Studies Association. Susan saw IPE as the interaction between states and markets (firms), where structural power determined “Qui bono (who benefits)?” She enjoyed being contentious and provocative, seeing her role in the profession as a provocateur and agent of change. She regularly railed against what she saw as “fuzzy thinking” and lobbied actively for more interdisciplinary work, arguing that the mainstream social science disciplines were “silos” engaged in a “dialogue of the deaf”. Late in life, she began to focus on multinational enterprises, co-authoring with John Stopford the book, *Rival States, Rival Firms*, which won the Academy of Management's book prize in 1992. Susan was much loved, by her colleagues and students, but perhaps not by those she regularly skewered with her sharp tongue at conferences and workshops.



The article for which Susan is perhaps most famous is “Cave! hic dragones: a critique of regime analysis”.³ The title comes from the Latin, “Beware! here be dragons!”, which Susan notes was “an inscription often found on pre-Columbian maps of the world beyond Europe” (Strange 1982: 479). A dragon was a pitfall for unwary scholars, a theory or concept that Susan saw as potentially *not* useful to students of IPE, and even possibly “actually negative in its influence, obfuscating and confusing instead of clarifying and illuminating, and distorting by concealing bias instead of revealing and removing it” (ibid, 479).

In this particular article (which is on every IPE required reading list), she goes after international regime theory, accusing it of five dragons: that it is a passing fad that makes no long-term contribution to knowledge; it is imprecise and woolly; value biased (“as dangerous as loaded dice”); distorting by overemphasizing the static and underemphasizing the dynamic

elements of change in world politics; and narrow-minded. The article is not “entirely destructive” though as she concludes by developing what she sees as a “more value free, more flexible, and more realistic approach” (ibid: 480).

Susan’s own views about her role in academia are summarized in her biography:⁴

“I have tried to teach both students and children **not to expect justice in life--but to try hard to get it; to work hard--but to question authority, whether political or academic; to distrust ideologies--but to respect the evidence; to avoid following the crowd--but to trust your own judgment and to stand up for your own ideas.** The freedom to do so is one of which, in free countries, the universities should be the most jealous guardians. That and not the service of the state is the true justification for their existence.” (Strange, 1998: bold added)

After she died in 1998, the International Studies Association established the Susan Strange Award to recognize her “unique and extraordinary role within the International Studies Association and the worldwide community of scholars”. The award would go to “a person whose **singular intellect, assertiveness, and insight most challenge conventional wisdom and intellectual and organizational complacency** in the international studies community during the previous year” (bold added; <http://www.isanet.org/committee/Strange.html>). I think Alan Rugman is eminently qualified to win the Susan Strange Award.

III. Alan Rugman’s Dragons

I hope Alan Rugman will forgive this segue to Susan Strange, but in many ways, their intellectual role in their own disciplines has been similar. Alan, like Susan, has played a unique role in not only the field of international business, but more generally in strategic management and international management. His intellect, assertiveness and insights often challenge conventional wisdom and the intellectual and organizational complacency in our discipline. Alan, raised in Britain like Susan, works hard but questions authority; distrusts ideologies but respects the evidence; and avoids following the crowd but trusts his own judgment and stands up for his own ideas. Alan too regularly raises the call, “Cave! hic dragones!” in our own field.

Scholars like Susan Strange and Alan Rugman are too rare in our profession. As George Bernard Shaw says in *Man and Superman*:

“The reasonable man adapts himself to the world: the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man.”

We all benefit from the unreasonable man (or woman!) -- even if we may find the criticism uncomfortable when it is at our own expense.

What I want to do in the rest of my talk is to give you some examples of the dragons – and alternative solutions -- Alan Rugman has developed over the 29 years since his first two articles were published in 1975. I could talk about many more dragons⁵, but given the time I will focus on four: the “big bad MNEs”, the anti-free traders, Porter’s diamond, and globalization.

A. The “Big Bad” MNE v. Internalization Theory

In the 1960s and 1970s, economists explained MNEs by explaining FDI location patterns (focusing on the activity and not the firm). It was highly popular in those days, particularly among the general public and the political science discipline, to see MNEs as big and bad. The first scholar to specifically take a micro look at firms (Stephen Hymer, another Canadian, in his 1960 dissertation) saw MNEs as taking advantage of barriers to entry to exploit monopoly rents. MNEs were therefore welfare reducing.⁶ Even Ray Vernon’s *Sovereignty at Bay* (1971) was interpreted as big MNEs taking power away from nation states (although that was not how he intended the book to be interpreted). Popular books at the time included *Global Reach* (1975) by Barnet and Muller,⁷ for example; later updated in Barnet and Cavanaugh (1994).⁸ In Canada, the equivalent book was Kari Levitt’s *Silent Surrender: The Multinational Corporation in Canada* (Ottawa: Carleton Library Series), published in 1970.

The sea change in thinking about MNEs came with the development of internalization theory.⁹ Along with Peter Buckley, Mark Casson, John Dunning and Jean-Francois Hennart, Alan was involved in developing the core theory of internalization that argued MNEs were a reaction to missing and imperfect markets. Their ability to make internal markets was therefore welfare enhancing, and not exploitative.¹⁰

Alan was also involved in all the early debates about internationalization versus internationalization, whether market imperfections were always exogenous or could be endogenous, and the roles played by FSAs and CSAs (firm and country specific advantages, respectively).¹¹ His FSA-CSA framework, developed with Alan Verbeke, is a very simple yet telling way to explore firm strategies in different locations. From this simple 2x2 box graph, Rugman has developed a whole series of extensions. One I particularly use is the concept of location-bound and non-location-bound FSAs and CSAs.

(Insert Figures 1 and 2 about here)

Since non-location-bound FSAs are, in effect, the “resources” of the resource based view, Rugman was able to link Bartlett and Ghoshal’s national responsiveness-global integration framework to the FSA-CSA framework. Standing between England (internalization theory *sine qua non*) and the United States (home of Williamson, Porter and Barney), Alan Rugman from his Canadian location explored (and arbitrated) the overlaps, linkages and missing links between international business and strategic management. In many ways, Alan Rugman may have been the first economist-trained IB scholar to link IB to and SM (strategic management) to create the new field of ISM (international strategic management) or IMS (international management strategy) – I won’t call it global since globalization is dead (see below). Thus, Alan, because of his pioneering role in ISM, is particularly well suited for this new award from the International Management division of AOM.

B. The Anti-Free Traders: Alan Rugman and the CUSFTA/NAFTA Debates

Alan Rugman has written extensively – and I *extensively* – on multinationals and government policy, particularly trade and FDI policy.¹² If one believes that MNEs are inherently world welfare increasing, then government regulation of their behavior is likely to reduce overall welfare gains; first because regulation prevents MNEs from doing what they do best (internalizing markets) and second governments are likely to get it wrong, making matters worse. The natural implication is that MNEs are better not regulated, and that the role for governments should be to reduce natural and structural impediments to markets.¹³ In both trade and FDI policy, Alan has argued for liberalization of government policies.

While I particularly like his work on administered protectionism (countervailing and antidumping duties) and firm strategies, his work in this area was less about staying an existing dragon than bringing together concepts from the strategic management literatures and the strategic trade policy literatures to develop the new concept of shelter strategies.¹⁴

However, a real dragon appeared in the Canadian naysayers to Canadian free trade with the United States. Here, Alan threw himself into the public debate, as he says in his short bio, as an “outside advisor on free trade, foreign investment and international competitiveness to two Canadian Prime Ministers over the 1986-1993 period”. This included serving on industry task forces advising the Canadian government during the CUSFTA and NAFTA negotiations (the sole academic among the CEO advisors) and frequent public debates with anti-free traders on national TV and in the press. I cannot think of any other academic who so stepped outside of his/her normal academic routine and immersed himself in the public policy debate over CUSFTA and NAFTA as did Alan Rugman.

His publications over this period related to Canada, multinationals and Canada-US free trade are prolific and argue strongly in favor of free trade.¹⁵ A key argument against Canada-US free trade, from the Canadian side, was that with the loss of the Canadian tariff, US subsidiaries in Canada would close up and go home. Alan argued persuasively that while the tariff might have been responsible for bringing US firms to Canada in the first place (a shelter strategy), they had now developed FSAs and Canada had sufficient location-bound CSAs to keep them there. He railed, however, against US countervailing and antidumping duties for their closing off access to the US market. Canadian MNEs, he argued needed to adopt a North American mindset and develop strategies for the region as a whole.

C. Porter’s Diamond v. the Double Diamond

Perhaps Alan’s best known dragon is Michael Porter’s diamond of competitive advantage. Alan has published at least 14 scholarly pieces, including one book, on this topic.¹⁶ The basic argument in Porter’s diamond, of course, we all know: that industries derive their competitive advantage from a strong home diamond. Rugman’s critique is that Porter’s views are conditioned by his being trained and employed as a US academic, in the largest and richest country in the world. For firms in small countries, such as Canada, the implications of Porter’s diamond are disastrous. Confined by geography, limited by locationally bound endowments and labor, what competitive future was open to small countries? Alan Rugman and Alain Verbeke’s key insight was that firms from small countries could access a regional diamond, particularly if they were in a regional trade agreement such as NAFTA. Hence was born the “double diamond”. Rugman’s critique of Porter’s diamond appears to have been success as Porter has since admitted that firms can have multiple home bases.

(Figures 3 and 4 go about here)

D. The Myth of Globalization v the Reality of Regionalism

The most recent dragon that Alan Rugman has tackled is globalization.¹⁷ His book, *The End of Globalization* (2000) is quite blunt. Abstracting from the Preface:

“I have written this book because I have been convinced by the evidence.....I have been surprised by the lightweight nature of the debate and saddened by the distorted criticisms leveled at multinational enterprises and their managers. It is to help redress this highly relevant but potentially sterile debate that I have written

this book.I have been struck...by the strong opinions, but lack of facts, presented by critics of multinational enterprises. Again on the internet, a huge volume of material is available on the subject of globalization, but most of it is unscientific and insubstantial at best and downright wrong at worst. We need to move on and look at the evidence on the activities of multinational enterprises. This book is an attempt to redress the balance of the debate on globalization.” (p.xi)

In sum, his “theme is that a paradox of globalization is that it never really occurred; it is a myth” (p. 12). This is despite the large number of centers of globalization research that exist around the world.¹⁸

(Figure 5 goes about here)

While the book covers a wide variety of topics including the WTO and the MAI, a core part of the book is statistical. A major theme in Alan’s work has been the Triad – over 90% of trade and investment activity takes place among the United States (sometimes replaced by North America), the European Union and Japan. Trade and FDI flows and stocks among these three regions are a common theme in Alan’s work; see for example, the following graphs for trade (2000) and FDI (1999).

(Figures 6 and 7 go about here)

However, if one examines the top MNEs by sales or assets, he argues with Alain Verbeke that multinationals are regional not global entities. They do not have global strategies but rather regional strategies because almost none of the top MNEs have a significant percentage of sales in all three regions of the Triad. Most firms sell most of their products within their home region. While their assets may be more globalized, sales are not. He concludes there is no evidence for globalization, nor evidence of a trend toward globalization, but rather that Triad blocs are hardening as a result of political and NGO pressures. MNEs have regional not global strategies.

Conclusion

Alan’s paper presented here today includes all of the themes I have outlined above – and then some. He has been actively involved in academic and public policy debates involving multinational enterprises since the mid-1970s. He has fought a variety of dragons or pitfalls for the unwary, on both the academic and public policy fronts, over the past 25+ years.

In this brief note, I have highlighted four dragons – the “big bad” MNE, the anti-free traders, Porter’s diamond and the globalization debate – and tried to briefly show his own counter-arguments.

Interestingly, he has fought these dragons almost entirely with theory, statistics and graphs (most notably 2x2 boxes of which there are dozens), not with weighty econometric regressions built around testing large datasets. He has extensively used qualitative methods, directly interviewing company CEOs and managers. He has brought the data to the theory and when he found the theory wanting, has developed his own.

At the AOM International Management doctoral consortium held on Saturday August 7, 2004, Bob Hoskisson (Arizona State) told the doctoral students that three things were critically important for success in this profession: passion, playfulness and perseverance. Alan has exhibited all three characteristics over his 30 year career: a long-run passion about multinational enterprises and public policy, a playfulness in his gently poking fun at others in the AOM and

AIB (and occasionally himself!), and perseverance in his view of the world as it applies to multinational enterprises.

So in honor of Alan being honored today, I want to bestow on him a new title in addition to the one from Booze Allen – Alan Rugman, the dragon slayer!

Endnotes

¹ Many of the core readings are brought together in Alan Rugman, The Theory of Multinational Enterprises: The Selected Scientific Papers of Alan M. Rugman, Volume One (Cheltenham, U.K. and Brookfield, U.S.A.: Edward Elgar, 1996).

² Although Alan criticizes Susan for associating the large size of MNEs with political power; see Rugman, *the End of Globalization*, 2000, p.6.

³ Susan Strange, "Cave! hic dragones: a critique of regime analysis". *International Organization* v36/n2 (Spring 1982): 479-496.

⁴ Susan Strange, "I Was Never Meant to be an Academic", in Kruzel, Joseph and James N. Rosenau, eds. (1988) *Journey through World Politics; Autobiographical Reflections of Thirty-four Academic Travelers*. Lexington, MA: Lexington Books. Posted on the web at <http://csf.colorado.edu/isa/newsletter/25-8/Strange-Academic.htm>.

⁵ Some other examples are Rugman's work on administered protectionism and shelter strategies of MNEs, subsidiaries with world product mandates, business networks and flagship firms, beyond the three generics, megafirms, MNEs and environmental regulations, and the "imbalance" in US-Japan FDI stocks.

⁶ See Alan Rugman, "The Influence of Hymer's Dissertation on the Theory of Foreign Direct Investment," (with John Dunning) American Economic Review: Papers and Proceedings (May 1985): 228-232.

⁷ Barnet, Richard J. and Muller, Ronald E. *Global Reach: The Power of the Multinational Corporations*, Jonathan Cape, London, 1975.

⁸ Richard J. Barnet and John Cavanagh. *Global Dreams: Imperial Corporations and the New World Order*, New York: Simon and Schuster, 1995. For a review that illustrates the dragon is still alive and kicking, see http://www.innovationwatch.com/books/bks_0671633775.htm.

⁹ I am putting internalization theory together here with John Dunning's OLI Paradigm, which will clearly upset some of the key participants, but this is not the time or place to discuss the differences.

¹⁰ A recent example that many AIB members will remember is his first remarks from the floor at the AIB meetings in Charleston, South Carolina, at a session on the Janus face of globalization organized by Stefanie Lenway. The session dealt with the Janus (positive and negative) aspects of the MNE. Alan's remarks immediately after the presentations were about the "unambiguously welfare-enhancing" aspects of MNEs and asked for direct evidence (proof) that MNEs could potentially lower welfare.

¹¹ The core internalization readings are:

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¹² Some of his works on trade policy are reprinted in Alan Rugman, Multinational Enterprises and Trade Policy: The Selected Scientific Papers of Alan M. Rugman, Volume Two (Cheltenham, U.K. and Brookfield, U.S.A.: Edward Elgar, 1996), 428 pages.

¹³ A recent piece outlining this view is Alan Rugman, "Multinational Enterprises and Public Policy" (with Alain Verbeke) in Carla Muller, Robert Grant and Chong Choi (eds.) International Business: Emerging Issues and Emerging Markets. (London: Macmillan, 2000): 21-43. See also, Alan Rugman, "Multinational Enterprises and Public Policy (with Alain Verbeke) in T. Brewer, et al. The New Economic Analysis of Multinationals (Cheltenham: Elgar, 2003):122-144.

¹⁴ See, for example, Alan Rugman, "Strategic Trade Policy is Not Good Strategy," (with Alain Verbeke), Hitotsubashi Journal of Commerce and Management 25:1 (December 1990): 75-97.

¹⁵ His work in this area includes:

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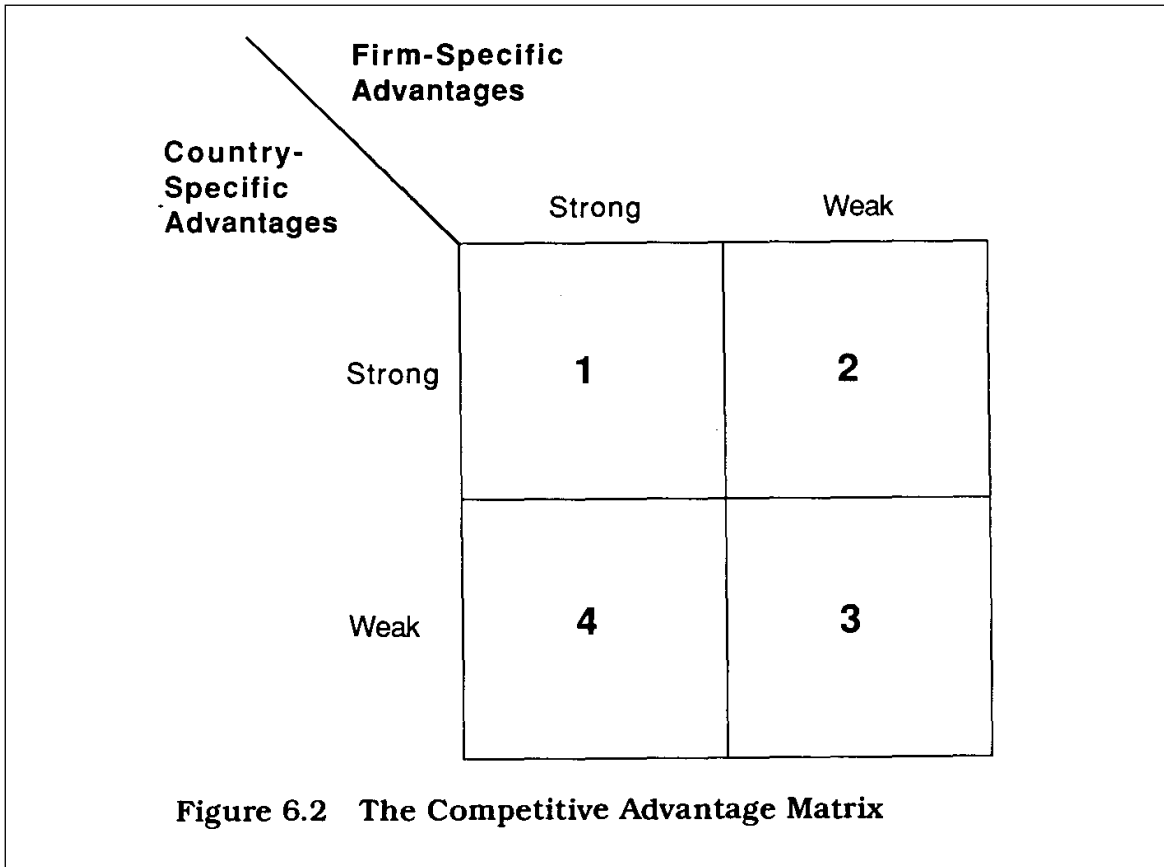
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¹⁸ See for example the list of centers here:

<http://www2.warwick.ac.uk/fac/soc/csgr/activitiesnews/conferences/gsnconfpr.pdf>

Figure 1: The FSA-CSA 2-x-2 Box



**Figure 2:
Location and Non-Location Bound FSAs in a 2x2**

		<i>Type of Firm Specific Advantage</i>	
		Location Bound	Non-Location Bound
<i>Number of Home Bases</i>	Multiple	1	3
	One	2	4

Figure 2. Principal categories of efficiency based strategies.

Figure 3 Porter's Diamond of Competitive Advantage

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Figure 2. Porter's Home Country Diamond Approach To Canadian Business

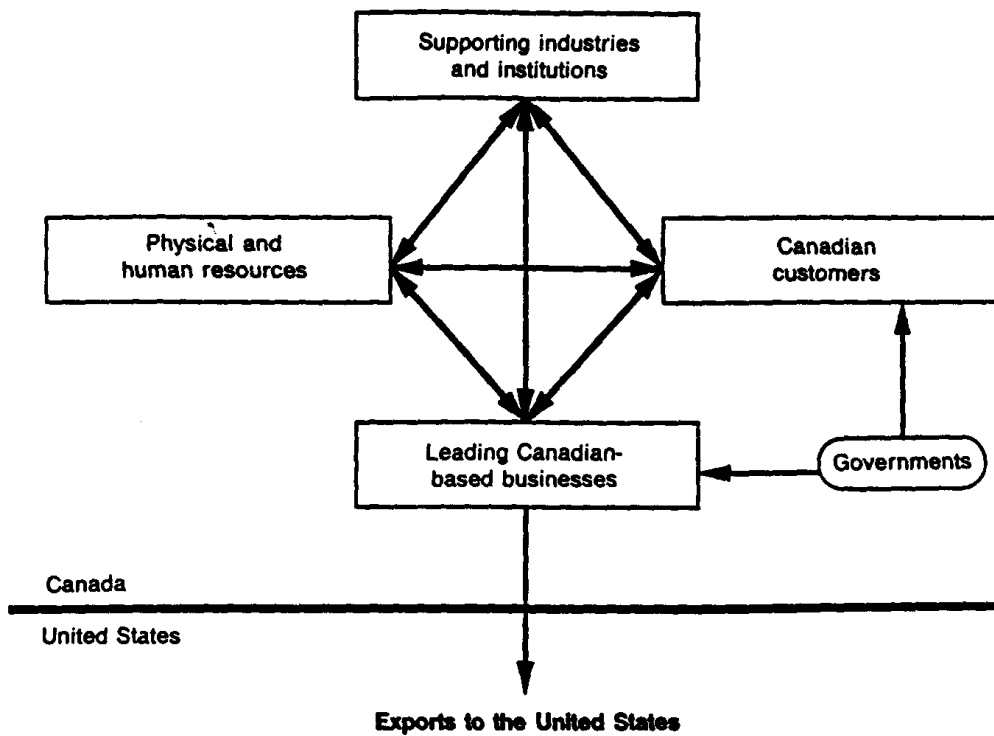


Figure 4
The Rugman-D’Cruz Double Diamond

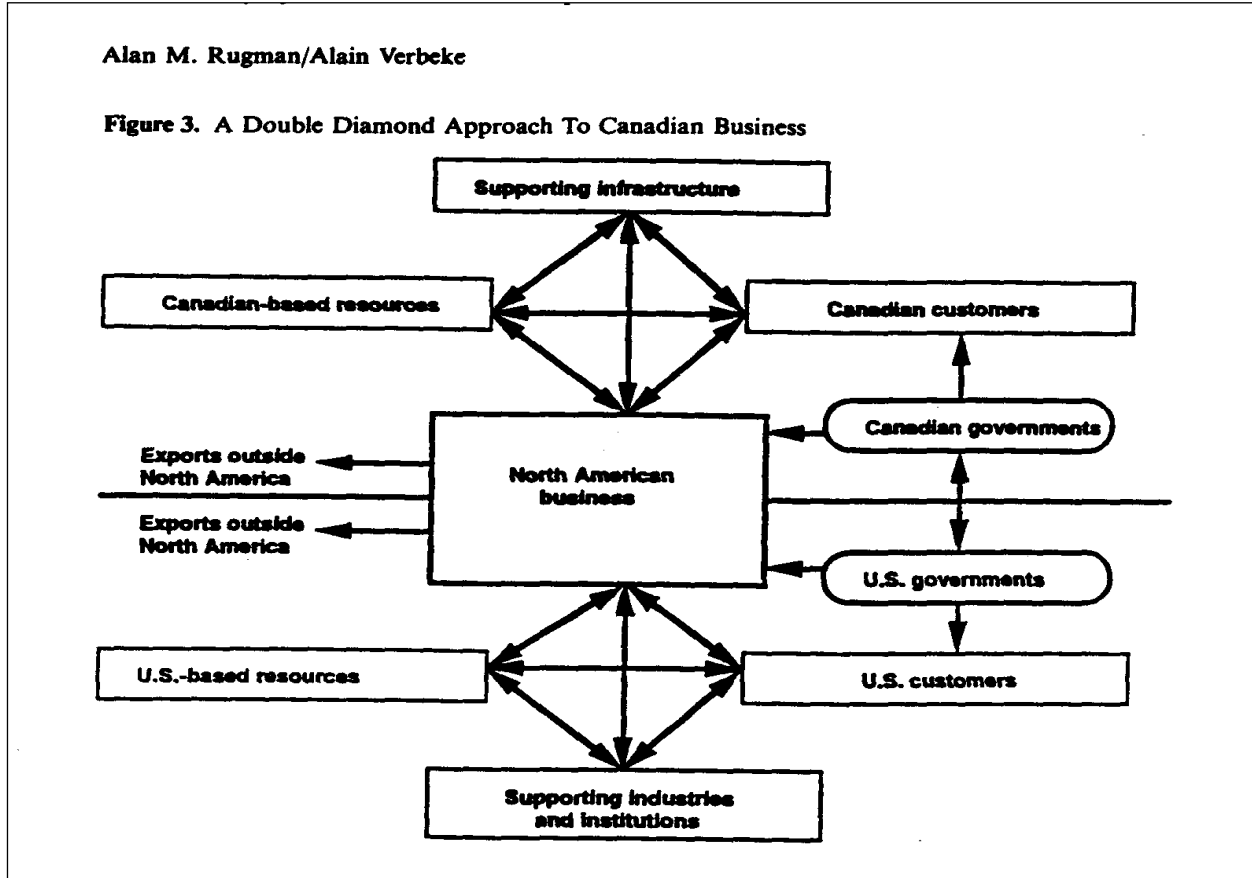


Figure 5
The Globalization Debate



Figure 6
The Triad using Trade Data

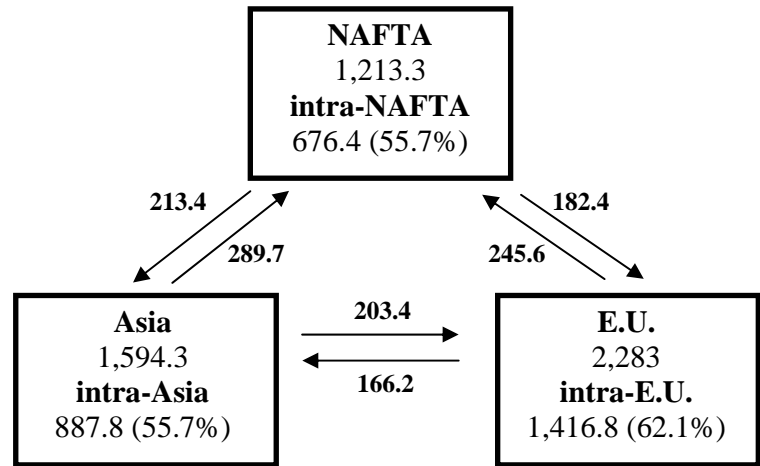
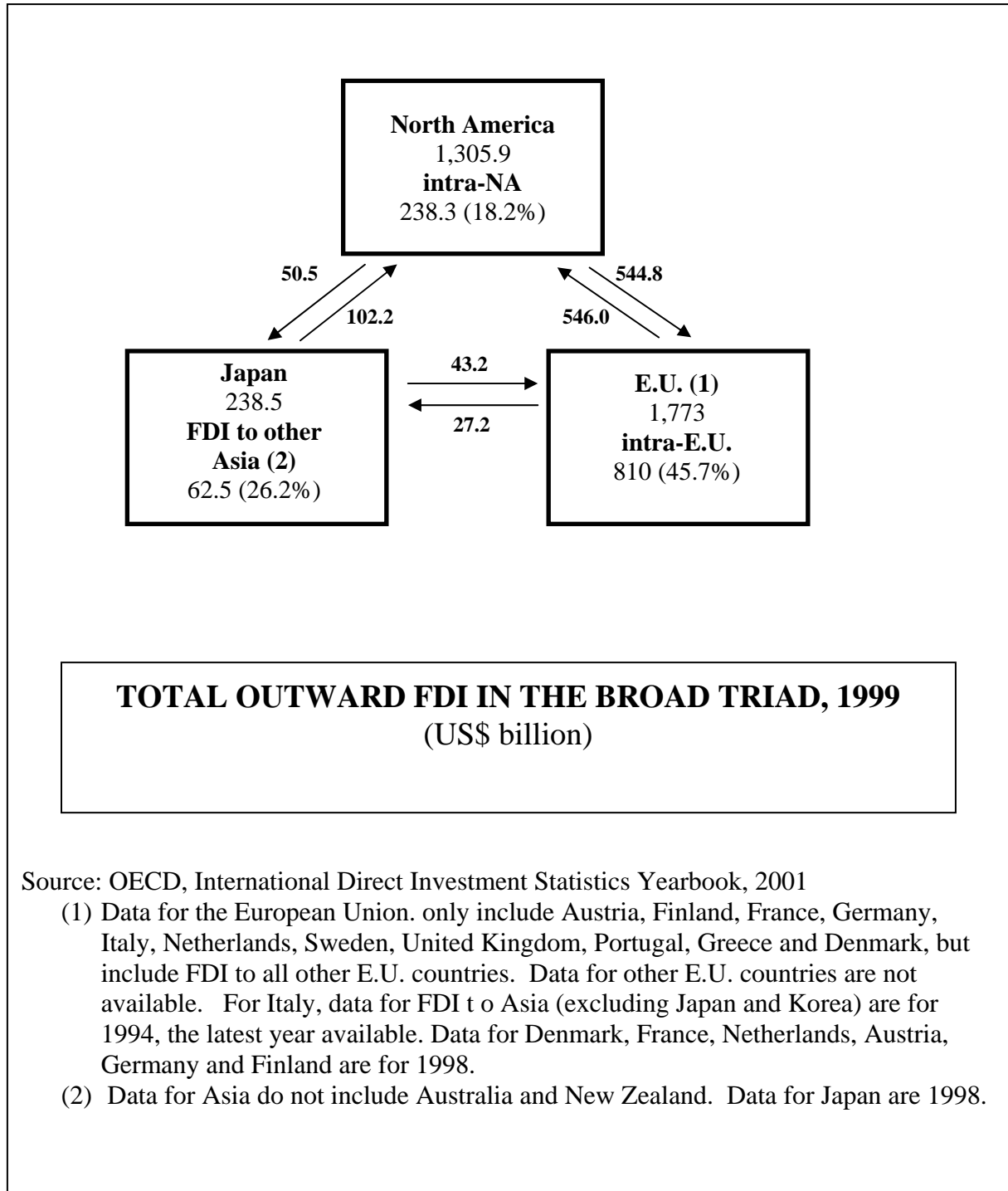


EXHIBIT 1: EXPORTS IN THE BROAD TRIAD, 2000
(US\$ billion)

Source: Adapted from International Monetary Fund, *Direction of Trade Statistics Yearbook, 2001*, (Washington D.C.: IMF, 2001). Asia and intra-Asia is the addition of Japan and Developing Asia in the IMF, *Direction of Trade Statistics Yearbook*. It does not include New Zealand and Australia.

Figure 7
The Triad using FDI Data



Alan Rugman - Dragon Slayer

