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# 1

## The Complex Competition for Relevance?

*John B. Kidd and Frank-Jürgen Richter*

We are all different on this planet – the flora, the fauna and ourselves – the humans. Observably we perceive different genders, our skin tones, and we find some of us are tall others short, chubby or slim: some wear spectacles, other use contact lenses. We speak many different languages, and are divided more or less naturally into different countries with individuals from each country exhibiting different habits and behaviours. Indeed the collective nature and attitudes of individuals in each country has prompted Hofstede (1991) to speak of ‘the software of the mind’ as determining the local culture, which in turn helps determine our local manners and ways of behaviour that makes them different from the others – our Welsh-ness, or German-ness and so on. From our early days of being hunter-gatherers we have looked to our leaders for guidance, and thus learn to work with their management models. Now we are globalized we observe there are both strong and weak economies. It is somewhat natural to aspire to be like the rich and powerful, and thus we might be inclined to take up their economic models – to be more like them, we hope. Yet, reverting to Hofstede’s findings, we may find that our individual and collective attributes are unsuited to take-up another’s economic model. The Americans proclaim a market-driven model, which was in total contradiction to the old Soviet-style planned economy. And while the Soviet model has been superseded today, the collectivist system still lives on in the models used in Asia, while Europe works within another paradigm – the social market economy. In Continental Europe, the unique aspects of the welfare system financed by contributions and backed by the state provided security for the individual. Indeed, as Munkhammar argues later, too many people still look to the State for support ... since this system persists despite powerful forces for change.

With this book we do not want to add fuel to chauvinist sentiments. What the contributors of this book are writing about is not a battle between the states and their respective economic models but a comparison of systems of economic integration which, *per se*, are neither good nor bad. General – or even Universal – theories meant to explain similar economic processes across cultures are almost certain to mislead. Differing historical traditions will almost always intervene to make economic development unique in each nation.

It is the aim of this book to trigger a deep and fruitful discussion about the reality and practice of economic modelling. It is governments' and other stakeholders' primary task to steer economic development in an effective and sustainable way, and we hope that this book can contribute to these endeavours.

### **The work ethic?**

Some of our learned behaviour also help determine our propensity to work – what some call the Protestant Work Ethic (mentioned in Chapters 2 and 3, for instance) – yet over time this aspect is changing with young people angering their parents by their flippant attitudes to work, or to not saving for old age and not looking carefully to the long term. Instead our European youth seem to be rushing to embrace a hedonistic lifestyle: 'burn it now, live it up' seems to be their slogan. And Japanese youth have two forms of 'idleness'. One set are called *freeters*<sup>1</sup> – and while they earn enough money for their lifestyle in temporary jobs they are a growing cause for concern: features upon them are written even in the popular press – note a reprint from the *Asahi Shimbun* in the *Asahi Evening News* (Tuesday, 4 January 2000: 5). Colin Joyce (2002) notes there are three types of *freeter* – (i) those who follow a dream (which may also be a hobby), (ii) those who can't yet decide on what career to follow, and (iii) those who simply fail to keep down a job. All nations have the third category, though they are not called *freeter*. But the growth, in Japan, of category (i) and (ii) is alarming. There are about 4 million *freeters* in total, although 70 per cent of these people assert they want to get a job, most are still supported by ageing parents, so they don't search hard for a job. But, worse, they too age day by day and become less attractive to a prospective firm: most do not pay into state pension schemes and most are not productive – they are sometimes called 'parasite singles'. They reduce Japan's falling birthrate by marrying late, or not at all (at least they are responsible in not having children they can't support) and soon, as their old parents die, they will become

a 100 per cent burden on the state. The second form of 'idle person' is called *NEET* – 'not in education, not in employment, not in training'. They seem to be a growing problem, not only for Japan but for the UK too according to Peter Kingston, writing in the *Guardian* (Tuesday, 2 November 2004). He thinks that the UK has only about 161,000 children (that is about 9% of the 16–19 age group) in this category compared to 600,000 in Japan.

Not so long ago in the aftermath of the Chinese Cultural Revolution when all formal schooling broke down, the cult of 'Zero is Hero!' (白卷英雄) emerged, where a student gaining a zero per cent grade was lauded as the best of the anti-intellectual brigade. Times have changed – now Chinese parents are pressing their children to gain maximum grade-scores to get into the best of the Chinese (or indeed world-best) universities. Their model of success is to have their children so well-educated as to become global 'warriors', able to compete and work with the best, and to have high economic recompense for their effort. Furthermore, Asian children are very able in general terms, and some consider their abilities to be technically superior to Western children (Lynn and Vanhanen, 2005). Meanwhile these Chinese youngsters, like many others across the globe, wish to dress in jeans, listen to pop songs and download them to their iPods.

## Problems of ethnocentricity

Business Schools were created in the USA in Harvard University ... as their website proclaims, 'Founded in 1908, Harvard Business School is nearly as old as the concept of management education itself – and in less than a century, the School has produced leaders and ideas that have shaped the practice of management in vital organizations of every kind around the globe'. This is all well and good, yet, as the leaders of Harvard would be quick to point out, there are many alternative views on management held in high esteem in different parts of the globe. We know also that there are many pressures to accept modes of democracy, politics and commerce that are modelled on the American system, but which do not fit easily in the local environment. This comes about often through an overzealous zeal, or an ethnocentric belief in all things American being best.

Ethnocentricity arises partly from the difficulty of (a) creating a valid (local) model, and (b) maintaining a belief in its veracity. The distillation of local knowledge to create the model inevitably uncouples its wider connotation as it focuses tightly to the local issues and to local solutions.

This often leads to an oversimplification of broader issues through searching locally for a solution of an issue that may perhaps be a widescale problem. Take for instance the logistics learning of military graduates of West Point in the USA and Sandhurst in the UK when they were faced with resources provisioning during the Vietnam war. They refused to believe the enemy could build a substantial delivery system based on cycle power, asking, 'whoever heard of a modern army relying on guys with bikes?' Yet they were to rue their words, as the local terrain was undeveloped, supporting only a poor infrastructure and unsuitable for many ground-based transports, so they had to rely on noisy airborne transports that could not pass unnoticed through the jungle, as could bicycles. This was the result of a rigid mindset in teaching establishments who had seen the rising power of the combined air, sea and land forces in the wars of Europe and the Middle East, but who had not studied the alternatives needed in the very different terrain of tropical Asia.

### **Problems of control**

Typically we are informed by the Project Management literature that we may control the variables of time, cost or quality in order to meet our desired goals. Most often we control a single attribute, usually 'time' as this makes management more simple, sometimes two variables are controlled (adding in cost management, for instance), but rarely can all three variables be controlled since the feasible solution space becomes severely constrained (Kidd, 1991). It is often also the mistaken thought of clients that they can control tightly the development of complex projects through the use of software, forgetting that these aids are simply *aids* to better interpersonal management. By and large, too many controls lead to failure through being in conflict with each other, while no control at all leads to havoc – we need to move to an understanding of what may be controlled and what should be allowed to be self-developing, though observed, so as to track and avoid oscillations that may later prove unwieldy.

We find the 'modern' project management tools and techniques grew up in the USA in the 1950s onwards: the techniques are arid, and do not accommodate human relations, but they have a logic that is generally good – begin at the bottom and add the walls and roof to these foundations in a controlled fashion. More broadly however, we find that interpersonal trust needs to be developed in all projects – a fact often forgotten in the West, and a fact which is certainly never mentioned in the western project management literature. This pressure to follow the

American way leads to many conflicts worldwide in project management unless the human touch is brought to bear. And we find the Asian mind has been there before and outlines ways forward that conjoins logic and ethics (Low, 2004: 151 pp).

## **Policy, governance and economic infrastructure**

The development of an adequate economic policy, suitable for a local region, would seem akin to the Project Management task system. Yet while it would seem clear that the goals of these models will differ depending on the 'owners' and their political inclination, nevertheless the World Bank, the International Monetary Fund and other major donors of funds have in the past imposed a rigid model of financial management that stems from the American viewpoint. The results of these severe restrictions have been discussed at many meetings of the G8 world leaders – and in the 2005 meeting in Gleneagles there were strong policy changes proposed by the USA and the UK (effectively to alleviate the debts in most African countries, so allowing them to develop). We are seeing a move to allocate aid to infrastructure development rather than consumption (though hunger needs to be averted) and to promote trade as the mechanism of growth rather than allowing corrupt leaders to steal the incoming cash. Even so, within this new scenario there is the need to adhere to the local mechanisms although honest and trusting governance has to be developed. We must not impose methods that will not work in the locality.

It is the intention of this book through the words and analyses of the learned experts' chapters, to inform, to generate critique, and to allow one to form an opinion about the competition to provide the best models. We may then be able to decide if there might eventually be a unique and hence dominant economic model. But for the moment we think this is like the search for the Holy Grail.

## **Structure of the book**

This book reviews different economic models proclaimed in the global marketplace today. The models are placed generally in the context of the political, economic and cultural background of a region that has sufficient strength and inertia to determine its general rules of operation and how it interfaces political actions against the economic models running in other regions. Yet, many would argue that cultural inertia is difficult to overcome, since many of today's actions are determined by decisions

made in a long-ago past rather than by recent decision-making. The European Union for example, now encompassing 25 countries in Europe, has a discernable mode of operation based on its historical roots way back to the 1950s when several countries agreed a Common Programme developed by Robert Schuman. It was agreed that the six countries that signed the Treaty of Paris (1951), Belgium, France, Italy, Luxembourg, the Netherlands and West Germany, would pool their coal and steel resources.

Common policies have been agreed in many other regions – for instance, the North American Free Trade Agreement (NAFTA), the Southern American MERCOSUR, the emergent ASEAN agreement, and there is a Middle East Gulf States agreement on ‘local’ free trade and monetary union. These regions do not as yet have a discernable overall economic model, but their rationale is determined by underpinning local economic models: NAFTA has a strong US model, the EU has several strong historical models, and Asia too has its own rationales. Some of these macro-economic models are even used to simulate the effects of fiscal change. Sometimes we might joke that presidents or prime ministers might think they are really guiding their nations as they manipulate the parameters of their macro-economic models, forgetting that their model only simulates effects.

The major economic models have been derived by eminent economists in America, in Europe and elsewhere over a period of time, they have been tested and often proved to be reliable and have verisimilitude. Naturally discussions of these models form the basis of the initial chapters of this book. Of course, there are counter-arguments, and we offer insight to these too. Later in the book we look to how these models have influenced regional and global development, and finally we engage in discussions upon the way forward. The book has 13 chapters, divided into four parts. The first part considers the globalized development models, the next part critiques these models and considers alternatives; the third part looks to ways forward, while the short final part reviews the past and considers the future.

### **Part 1: models**

In this chapter, ‘**The Complex Competition for Relevance**’, John Kidd and Frank-Jürgen Richter introduce the notion that we cannot really expect to see and work with simple applications of leadership, across broad regions; that we cannot expect to apply a unique economic model that might fit all situations across the globe. The peoples of the world are all different and adhere to local values, hence local models work well in

these regions. Even so, the authors question if new rules and procedures might not yield benefits, and that in order to create these new rules we must understand the major economic models, which are described in the following chapters of this section.

In Chapter 2, **'The Anglo-Saxon Model'**, Nara Srinivasan describes how the 'neo-liberal' system of development, most associated with the United States and the United Kingdom, which has come to be commonly known as the Anglo-Saxon model of development, is a market-based model. Srinivasan looks closely at how this model has developed through the years and how it has influenced growth. He also looks at the various arguments of this model being the 'best or only' real model of economic development since it is influenced by the largest and most dominant groups globally throughout the history of development, that is the United States and the United Kingdom.

The model is rooted in the beginning of the industrial revolution (circa 1750s in the UK) and marks the beginnings of capitalism, since the established role of the Anglo-Saxon culture in the development of the Industrial Revolution is undoubted. It can be argued that in reality it was the birth of capitalism and it was the strengthened focus on the individual within economies that reflected the strength and involvement of the Anglo-Saxon culture in maturing the industrial revolution and capitalism. In simple terms, the guiding aspects of the Anglo-Saxon model are property rights, Protestantism (work ethic), and the 'Celebration of the individual'.

Srinivasan concludes that the Anglo-Saxon model propagates 'free trade' but in reality this does not include unregulated movement of labour through the markets. This limitation is caused by cultural and political factors rather than true economic argument. As such, the neo-liberal position of Anglo-Saxon theory of free trade that would result in free capital flows does not take into account the full picture, that is unregulated labour movement through the markets. Trade blocs try to address this issue, but it will take time to convince politicians that free trade in the real sense is workable.

Further, these economies have seen major collapses in business ethics due to market manipulation and serious frauds by senior management. While this is not restricted to the Anglo-Saxon economies, nevertheless the perception is that it is the companies and states that adapted the Anglo-American model of governance that have been largely affected by these failures. As a model of development, the Anglo-Saxon or Anglo-American model is facing its biggest challenge so far due to the growth in markets that did not adapt to their systems. In parallel the companies

and states running with the Anglo-Saxon model are revising their statutes relating to financial probity, ethics and transparency – we will see by the end of this decade if these changes will erode the basic principles on which this system was based.

Chapter 3 is entitled '**Communitarian Capitalism and the Social Market Economy: An Application To China**', by Chong Ju Choi. The economic success of the United States in the mid-1990s created for several years the idea that the capitalism or business system of the United States was ideal, and that globalization was equal to Americanization. However, the stockmarket and technology crash of 2001, and the subsequent corporate scandals such as Enron, Andersen, WorldCom, Global Crossing and Tyco, all showed that no single business system is perfect in the twenty-first century. What was also underestimated in the 1990s was the phenomenal emergence of China, its global economic influence, as well as its business system. China has advocated a 'social market economy' as their business system, and one purpose of this chapter is to show that the Chinese social market economy has similarities to the communitarian capitalism and stakeholder business system that exists in continental Europe.

Although the term West is often used to describe both North America and Western Europe as a relatively homogenous grouping of countries in terms of economic and political systems, there is a significant difference between Anglo-Saxon countries such as the USA, Canada and the UK and those of continental Europe, which are often seen as closer to a 'social market economy'. The Communitarian business system includes the eastern and western European countries that are very different from the Anglo-Saxon countries in term of their domestic business systems that emphasize the role of the government in economic and social affairs. In these countries there are also close linkages between banking and industry, and the group orientation of the society and Communitarian values. In sum, their stakeholder systems are fundamentally different.

The suitability of the Anglo-Saxon model of capitalism for other regions of the world, such as South America or Africa, was especially questionable after the corporate scandals in the United States in the early twenty-first century. So Choi notes that in the year 2005 we are wiser in knowing that there is no one perfect business system. Both the Anglo-Saxon and Communitarian systems practised in continental Europe and the developed economies in Asia such as Japan, Korea, Singapore and Taiwan have all proven there is more than one way to approach a national business system and economic success in the twenty-first century. The more urgent question is what model or what

combination of models is most appropriate for the emerging and developing economies of the world, especially in South America and Africa?

One of the views expressed by Haldor Byrkjeflot in Chapter 4, '**The Nordic Model of Economic Development and Management**', is that an inward-oriented and self-confident view of the Nordic system seems to have climaxed in the mid-1980s, before currently popular global management philosophies were well-known. Those were the days when management consultants and union representatives came to Scandinavia to learn from their experiences in a wide spectrum of areas such as management, user-friendly technology development, industrial democracy, group-work, welfare legislation and industrial relations. Many observers even came to Scandinavia to study the future. Sweden was perceived to be forming a vanguard in the inevitable march first towards a new industrial society, and later towards a post-industrial society.

The Nordic economic comeback, with its emphasis on electronics, mobile phones and the Internet, as well as the remodelling of the welfare states, has been an inspiration for those who want to display the model to the rest of the world. The Swedish industrial relations system in particular has been seriously restructured, and it is in this domain that defenders of the Nordic model have the most difficult time arguing for its 'essence' and continuity. The many predictions in the late 1980s and early 1990s about the coming collapse of the welfare state have failed to materialize, however. Currently there seems to be a positive attitude towards the architecture of the welfare state among Nordic intellectuals and politicians. There is a great deal of political controversy in the wake of the continuous advancement of the welfare state, however, particularly on the issue of privatization and the use of market mechanisms and individual rights in welfare provision. There are thus no signs that ideology has been reduced to irrelevance, as suggested in the 'end-of-ideology thesis'. The welfare state is still intact, its architecture is disputed, not its existence.

Yet it is now difficult for industrial managers in the Nordic welfare democracies to achieve a position of power and legitimacy that matches their wealth. Increasing economic gains for the upper middle classes in the private sector represent a threat against the traditional regime, as such gains undermine the status of the historically more powerful political and organizational elite. The long tradition of 'functional socialism' and state paternalism implies that there is no strong support for the idea of unrestricted property rights or the suggestion that firms exist to maximize shareholder value. It is difficult to imagine a new Nordic compromise

between a 'shareholder value' and a 'stakeholder' view of society. Nonetheless, it may be too early to wave goodbye to the Nordic model of compromise – the compromise between management and democracy and the compromise between extremes.

In Chapter 5, **'The Indian Reform "Model"'**, by Laveesh Bhandari, Bhandari notes that the Indian model of economic development is essentially a political economic model and not a purely economic model. And thus the political-economic model by default is more oriented to improving the processes of economic governance. Moreover, the speed with which economic policies change are determined by (i) the interplay between different pressure groups within its democratic polity, (ii) the different roles of the three tiers of its government (central, state and local), and (iii) the ever-changing macro-economic conditions acting upon the sub-continent.

One of the most important aspects of India that makes it somewhat different from many countries in the immediate vicinity is that India is a democracy with clearly demarcated powers of the various arms of government. Unless there is some sort of a consensus between different groups, any type of change is difficult. Given the fractured election results for the last 15 years demanding coalition parties be set up, the ruling party has had to defer to others on many issues, and reforms have also been slow; changes have occurred in spurts in some areas and leaps in others, but followed by slowdowns and sometimes even reverses a few years later.

A severe Balance of Payment crisis led to the post-1991 reforms which reversed many economic policies being pursued until the 1980s. Import-substitution industrialization and self-reliance were overthrown by reforms that preached deregulation and liberalization. Licences for domestic manufacturing were abolished, private-sector players were allowed to enter areas reserved for the public sector, import tariffs were reduced drastically, and the rupee was being devalued. The reforms were wide-ranging in the early years and many areas were thrown open to the private sector. The Stock Exchange Board of India (SEBI) was strengthened as a regulatory body for the stockmarket that brought in greater transparency and e-trading in stockmarkets.

Now, says Bhandari, there is a lack of clarity of the ultimate objective of reforms. Reforms have till now been 'sold' as the answer to India's economic problems. That is, those wanting to see greater reforms have been arguing that they will ensure greater growth and equity. Though data shows impressive gains, many do not believe these claims; it is difficult to make credible claims about improving equity when more

than 250 million people continue to live below absolute poverty. Many continue to ask the basic question, 'has the bulk of the Indian population gained from reforms?' The answer is an unambiguous no. Most Indians have not experienced greater economic freedom.

In Chapter 6, '**The East Asian Development Model**', by Wolfgang Klenner commences by stating that the East Asian countries developed extraordinary economic dynamics, suffered from the Asian financial crisis, and are now again on an arguably more balanced growth path. This chapter, focusing mainly on Japan and China, looks into the question as to whether economic growth in the region may be partially explained by specific sets of 'intrinsic' institutional arrangements of the relations between state and firms, management and employees, and banks and firms, or whether it was generated just by sound economic policies.

In most East Asian countries, physical and human capital have been intelligently accumulated. Domestic investment has been financed by high savings rates, and considerable investment has been directed towards the education of the labour force which has contributed to a rapidly growing human capital. Most countries have been heavily trade-oriented and initially pursued import-substituting industrialization and later export-pushed trade strategies with declining protection rates. By integrating into world markets they were able to attract foreign capital, since the 1980s increasingly in the form of foreign direct investment, and in 2004 China became the world's largest recipient of foreign direct investment (of \$65 billion dollars) and is also expected to be the world's third largest economy after the USA and Japan by 2008. No wonder we are looking to this 'new economic miracle'.

According to the widely held view of Western observers, East Asian governments are playing an active and extremely efficient role in their national development processes. Moreover, it is said that subordination of individuals to responsible and benevolent leadership is regarded as more efficient than the free play of individual interests, and that the betterment of groups or even the nation is considered more important than increases of individual wealth. These features, in connection with other socio-economic fundamentals, are usually regarded as the key elements of the Confucian ideal. This chapter will not dwell on Confucianism, but will consider the institutional issues concerning the relations between the state and the economy, between management and employees, and between banks and firms.

Klenner suggests that the idea 'that sound economic policy generates growth' would hardly come as a surprise for economists. But it would probably disappoint Asian experts who have developed considerable

expertise to grasp East Asia's particular features. Herein he argues that the empirical evidence of a specific East Asian development model is rather weak. It would hardly encapsulate the regional and temporal diversities of East Asian countries. Yet he concludes that analyses which focus on institutional arrangements for tasks, countries and periods of time different from those examined in this chapter might lead to different conclusions. Examples which might be explained other than by economics are easy to find: according to empirical research, for instance, the profit-sales ratio of Japanese firms was 3.8 per cent in Japan and 5.1 per cent in other Asian countries, but this ratio fell to -0.2 per cent for affiliates in the USA. We must ask, therefore, why did these firms perform much better in Asia than outside Asia?

## **Part 2: critiques and alternative views**

Capitalism in any country, says Tony Mitchell in Chapter 7, '**East Asian Capitalism: The View from the Tokyo, Seoul, Beijing Axis**', is a dialogue between the state, the market, entrepreneurs, professional managers, co-workers and providers of funds, banks and shareholders. Many of these actors have separate dialogues with one another and the shape of these dialogues is more frequently directed by the values which inform the society rather than issues related to profitable operation. However, in reference to East Asia, it is not necessary to argue about specific elements of Confucianism or to revisit Max Weber, since the argument is simply that entrepreneurs and managers in East Asia have grown up in nations which have developed through interpretations of each others' experience in a common cultural milieu. Also, it will be necessary in the future to define the differences within Michel Albert's 'Rhine model' between Japan and Germany, and here Confucian values emerge rapidly as posing a very different set of values informing the development of society and its socio-economics. In Germany, or better in the old Swedish model, there was a social compact between labour and capitalism, whereas in Japan the agreement flows not out of disputes of the period of industrialization but out of the continuity. The three major players of East Asia – Japan, South Korea and the PRC – are likely to coordinate more, and build their own common institutions. Their attitude towards their companies will be distinctly different from that of the Anglo-Saxon model. And while there are strong differences between Japanese, Korean, Chinese and overseas Chinese firms, including Singapore, Taiwan and Hong Kong, nevertheless they have some common elements.

This chapter argues that both the lost decade and 'the IMF crisis' taught Japanese and Korean companies many things about capitalism,

notably that the actual structure of finance of their firms could not defy gravity just because the founder wanted it to be defied. Those who now run Japanese, Korean and Chinese firms are much more sophisticated in their risk management and use of capital than those who ran them 10–15 years ago. But as Nicholas Kristof shrewdly put it in 1998, adopting a Western diet or clothes does not make East Asians more American, just as ‘Americans do not become more group-oriented or respectful of their parents when they put on a Sony Walkman’.

Mitchell continues, and observes, that a feature of the East Asian system is the need to persuade powerful government officials to let the company do its business in an uninterrupted manner, which in freer and less regulated markets would be unnecessary. Sometimes it was easier to get corrupt politicians to do the work for the company than persuade more public-spirited officials. Sometimes it was easier to have gangsters involved in shareholder meetings to ensure no embarrassing criticism. Was this an essential part of the old model and will it continue into the future? These and other questions must be answered, especially as there is strong pressure from Wall Street and venture capitalists to have firms work in the ways with which they are familiar – and the Sarbanes-Oxley Act (2002) does nothing to ease this pressure when US firms work in Asia.

Finally Mitchell notes that Korean, Chinese and Japanese companies when they act in their national interests might appear to act as politicians would like US companies to act – putting national issues, normally jobs, ahead of shareholders’ interests in pure profit. In fact none of these companies have acted primarily to preserve jobs in their respective nations (though there is a spectrum of difference from Japanese to overseas Chinese firms). Rather they have acted in the belief that ownership of global markets and assets by national companies advances the interests of the nation itself – perhaps echoing Sloanism of prewar America. We even get this apparent convergence in the future; America will not discover the power of Confucian values since it is itself built on a legal and confrontational model rather than a consensus model. At the present time Japan and China seem far apart, and an East Asian community far from reality. As the consensus model begins to operate we may find an East Asian community on the doorsteps of America and Europe much faster than we can imagine.

In Chapter 8, ‘**“Emerging Multinationals” in the Global Economy**’, by Andrea Goldstein argues that understanding domestic entrepreneurship and the private sector is key to strengthening productive and trade capacity in emerging, developing and transition economies. In this context, it is not surprising that foreign direct investment (FDI) by

multinational corporations (MNCs) based in such economies is playing an increasingly visible role on the world stage. Indeed, in a differing context the dissemination of humanitarian aid is now seen best to be targeted at increasing local trade and to the development of local infrastructures to support the trade, rather than directly at consumerism, though the amelioration of hunger and thirst is seen as very important. What are relatively new, in short, are the forms that FDI from non-industrial countries is taking, the motivations, and the effects.

These developments call for new research on the international expansion of such companies, bridging the gap between the existing literature on business in emerging economies. The former often portrays corporations as rent-seekers that flourish thanks to privileged access to political, financial and transactional resources. Scholars should now consider resources as the basis for corporate success. Factors such as protecting proprietary processes and competitive advantages, 'learning by competing' in high-income markets, following important customers, or the increasing global nature of managers (in terms of citizenship, education, recruitment and professional background) all combine to explain the decision to invest abroad. To advance this research agenda, scholars need to analyse the specific activities and capabilities of the firms involved, and the impact of FDI on the broader social and environmental context. In particular, research must come to terms with the concept of heterogeneity across firms as the best way to extend existing models to make them more realistic, but still theoretically precise.

Goldstein notes that for an emerging multinational corporation (EMNC) aspiring to become a profitable international player and recognized brand, acquisitions may improve its chances, but in international business the 'edge' of low labour costs – one of the emerging economies' advantages in competing with Western rivals – is less and less important. In countless industries, the big winners are mainly masters of an ultra-efficient logistics management: of suppliers, assembly and distribution. An important point emerging here is to note the heterogeneity of internationalization patterns and the consequent need to explore in great depth the linkages between the political and institutional environment, on the one hand, and corporate trajectories on the other. This point is certainly not novel. The 'varieties of capitalism' literature finds its origins in the analysis of OECD economies – and has even greater heuristic pertinence in the case of multinationals based in countries where, on account of weaker entrepreneurship, government institutions and policies have been so crucial in determining economic successes and failures.

In Chapter 9, '**Is Lean Production Sustainable? The Rise and Decline of Neo-Fordism**', Hock-Beng Cheah discusses another mantra

almost as strong as the idea of a national development model, that is, the Japanese production model which many believe was the bedrock upon which its postwar economic success stood and towards which many industrialized nations aspired. Significant changes are underfoot that are transforming the mass production system that (in fact) dominated many economies for most of the twentieth century. However, Cheah suggests that these changes do not extend far enough, and they will need to incorporate greater concern for sustainability in the twenty-first century. These further changes will lead in the direction of what may be called a 'sustainable production system'.

Over time, relative to Fordist mass production, Japanese firms have been successful in developing superior forms of production management (such as just-in-time production systems, *kaizen* ('Continuous improvement'), and 'lean production') and employee management (involving long-term employment, extensive job-rotation and on-the-job training, strong teamwork, and keen employee motivation). Together, these constitute the lean production system. These, in combination with very effective corporate supporting structures (*keiretsu*), provided Japanese firms with very significant competitive advantages. The Toyota (Japanese) lean production system improved and effectively developed a more sophisticated and more flexible application of Ford's early ideas, and thus it may be labelled neo-Fordism to delineate both its genealogy as well as its constraints.

But the latest variation – the new sustainable production system (SPS) – will need to incorporate new dimensions of sustainability. At the micro level, the SPS will have to be integrated into the culture of the firm. At the macro level, conditions for the effective establishment and consolidation of the new SPS will depend on national and international efforts to recreate complementarity and flexibility to the global economy. However, what is required may be even more fundamental shifts in the focus of prevailing management and development processes. To achieve that outcome would require us to move beyond lean production to sustainable production, that is, producing goods and services in a manner that is sustainable for people and organizations, communities, nations and the world, based on the effective integration of economic, ecological, social and ethical imperatives. This gives rise to the concept of a sustainable organization; that is, an organization that is focused on the quadruple bottom line, to achieve long-term sustainability.

### **Part 3: ways forward**

In Chapter 10, 'A New European Model', Johnny Munkhammar discusses the European Social Model that is the focus of European public debate and policy-making. This has been the situation for years, but the

debate has become even more intense. The main question is whether this model is a cause of many of Western Europe's serious economic problems or part of the solution. Clearly, there are problems. The average US citizen is about 40 per cent richer than the average Western European. The aim of the Lisbon Agenda of economic reforms, started in 2000, was to close that gap in ten years; but since then the gap has widened. Unemployment is high in most European countries; in Germany it is at its highest level in 75 years. Many people are dependent on the state throughout Europe; in Sweden, about 60 per cent of the adult population is dependant to some extent. In general, people wait for years to have treatment in public healthcare, and 'public' schools are performing more poorly every year. Yet, conversely, Spain is 'suffering' an economic boom.

Munkhammar states that the European Social Model should rather be called the Western European Social Model. There are differences which support this claim, but also central features. High taxes, regulated labour markets, large government transfers and public welfare services – schools, healthcare, child and elderly care – are the core parts of this model. Despite all the talk about keeping it, reforms to dismantle it are taking place. They have different names, such as Agenda 2010, but they have one direction in common: towards lower taxes, free competition in welfare services, higher employment. Throughout this chapter Munkhammar addresses the following questions: What are the main features of the European Social Model? When and why did it emerge? What are its main effects? Which are the challenges towards it? What reforms need to be done?

After the Second World War, Western Europe remained politically free. Economically, the main foundations for a market economy were still there, allowing fast and strong economic development during the first decades after the war, not least due to necessary reconstruction. But the foundations for the market economy were increasingly put aside and the state took possession of an ever larger part of society. High taxes and public monopolies steered and planned development. The so-called mixed economy was created – or, to give it another name – the European Social Model. Thus 'big' government began to be the major provider, even for those out of work, and over the years the model has become unsustainable.

Western Europe needs radical reforms, and basically knows what needs to be done. But of course it is not easy; most leading politicians have told the people for decades that this model is morally and economically superior; so doing the opposite quickly is a hard act. This

also shows that introducing systems of benefits from government to people is the last thing you should do. It becomes almost impossible to take away. When a majority of the voters live off the system, they will hesitate before they vote to take them away. You know what you have, but not what you may get: there is a natural fear of the unknown.

Finally he says that it is clear what we have (the European Social Model) and therefore it is dear to many; but a big change is needed. And it has started, though strong forces will try to stop change. Large Western European countries will try to stop competition from the new EU members. They may shut their eyes to the world: but the elevator doesn't stop falling just because you close your eyes. Sooner or later things will change.

'**A View from Porto Alegre**', by François Houtart, is the subject of Chapter 11. Over the past few years the World Economic Forum has held an annual meeting, usually in Davos, a small Swiss town. There, invited guests and paying delegates mix to discuss issues affecting the globe and its peoples. But there are alternative views – at the same time as 'Davos' takes place, a meeting is held in Porto Alegre in southern Brazil, where invitees discuss alternative views, and proclaim ways to reach their targeted goals. Houtart leads us through many of these issues.

Capitalism can claim with some reason to be the most effective system for producing goods and services – as long as not too many questions are asked about the conditions of production and how the results are distributed. Ecological destruction and social exploitation, which have been continuing since the fifteenth century, are considered externalities and are not taken into account unless social movements or public authorities react. The widening chasm between rich and poor countries, as well as the rich and poor within them, indicates that if we define the economy as 'the activity to ensure the material basis needed for the physical and cultural life of all human beings', the capitalist economic system is the most ineffective in history. Never has so much wealth been produced and never have there been so many poor people. Let us quote a few examples: according to UNICEF, 640 million children do not have decent housing, 500 million have no access to sanitation, and 400 million have no access to drinking water; 270 million lack healthcare and 90 million are undernourished. In Latin America alone, in 2000, there were 210 million poor.

It is not only the financial and juridical mechanisms that reinforce the process of private wealth accumulation against the common good. Culture, too, is serving the purpose. In fact, the market's hold over

education is becoming stronger and stronger. In the United States, the education business already takes up 82 million dollars worth of investment. The universities are gradually being reduced to advanced technical schools for the service of the market. Research is becoming privatized, university chairs are being sponsored by transnational corporations, scholarships are being replaced by loans. Universities are obliged to become centres of competitive excellence and whole sectors of the 'humanities' are disappearing from the taught curriculum. Everything must become commoditized, the only way of contributing to accumulation. The educational sector becomes one of its new frontiers and, in its wake, a source of new inequalities.

It is not that alternatives are lacking, but the lack of political will to apply them. The vision of Porto Alegre is that of the victims of the system, as well as those who identify with their cause. It reflects the views of those who have understood that the market is a social relationship and that the capitalist market creates unacceptable unequal relationships. The people meeting at the Social Forum demand the introduction of parameters ignored by capitalist logic into economic calculation: the so-called externalities. This is a first step to prevent the concentration of wealth in the hands of a minority, when majorities are victims of the system. They propose alternatives, essential for the survival and quality of life of all human beings. They constitute a globalization of resistances against the globalization of capital.

Chapter 12 is entitled '**Moral Capitalism**', by Stephen Young. In 1994 the Caux Round Table (CRT) network of experienced business leaders proposed a set of guidelines for decision-making in business. These are called the Principles for Business, and make express reference to the stakeholder relationships necessary for sustained profitability of enterprise. More fundamentally, the CRT Principles for Business attempt to articulate goals and objectives for enterprise based on the moral ideals of *Kyosei*. *Kyosei* is a Japanese standard of conduct that values mutuality and interdependence among living beings and their environments. The vision of *Kyosei* presumes that we live within a network of dependencies, and that we thrive as those relationships increasingly support us in return for our support of them. *Kyosei* commands that our ideal of justice provide for mutuality and respect for that on which we depend. More broadly, we find that Stewardship values are inherent in many religions, and indeed the tradition of responsible behaviour that devolved upon the authors of the Caux Round Table Principles for Business was Calvinist. Protestants in general and Calvinists in particular emphasize a

theology that has individual humans responsible for the good use of the power and opportunities that God places in their hands. Enterprise capitalism first arose in the Calvinist Protestant societies of The Netherlands, England and Scotland in the sixteenth, seventeenth and eighteenth centuries.

Enterprise capitalism, therefore, needs a moral basis from which to reach wealth and profitability. What guides this structure of economic rationality is a moral capitalism. So therefore we should not be surprised to find that economic activity is embedded in culture and values. The behaviours of people seem tied to mental perceptions of value, beliefs and interests, which only subsequently are translated into market preferences and choices. We arrange our lives around intangible structures of meaning.

The first general principle of the seven Caux Round Table Principles for Business affirms that a business must maintain its own economic viability in order to continue creating value for society, but its 'survival is not a sufficient goal'. A business is seen from a moral perspective as a means of improving the lives of all its customers, employees and shareholders. In addition, suppliers and competitors should be treated honestly with fairness; and businesses must understand that they are responsible citizens of the local, national, regional and global communities in which they operate. The six additional Caux Round Table general principles affirm that business must contribute to the economic and social development of the community at large through effective and prudent use of resources, free and fair competition, and with emphasis on innovation; that they must go beyond the narrow requirements of the law to honour sincerity, candour, truthfulness and transparency; that they should recognize that some behaviour, though legal, may still have adverse consequences; that they should cooperate in the liberalization of global trade; that they should protect, and where possible improve, the environment; and, finally, that they must avoid corruption, bribery and every form of illicit transaction.

Finally Young concludes that as there is no formal need to identify capitalism with 'Brute Capitalism', or the extreme individualism and short-sightedness with high externalities for stakeholders sometimes found in the Anglo-Saxon model, intentional efforts can move business practices towards a more moral form of free markets and entrepreneurial wealth-creation. What should be sought is optimal wealth-creation for the global community, with fair distributive outcomes resulting from the allocation of private-sector capital investment coupled with minimal negative externalities for stakeholders, including the environment.

**Part 4: endpiece**

In Chapter 13, ‘**Futures – and Still More Complexity**’, John Kidd & Frank-Jürgen Richter look at some of the issues raised by the authors in earlier chapters – the need for better accounting standards (both in terms of widespread application, and in terms of creating comparability and promoting transparency); the interaction with cultural norms (defining beliefs and behaviours that clash when crossing national borders); and the role of Business Schools (historically, and the need for them to alter their curricula in the future to address the *art* of management); and finally the need to address the dark side of business, the corruption and the production of fakes which seems to have reached, globally over US\$ 500 billion in 2004. The fakes have various effects – items made of inferior materials do not last as long thereby annoying customers (but then they were cheap); some may however be life-threatening if they are drugs with no discernable pharmaceutical properties (again cheap to buy, but is life that cheap?); and all fakes in some way reduce the income accruing to the official manufacturer which will sooner or later cause them to exit their business as they can not afford the development costs (which are not recovered by their forecast sales).

From a brief consideration of outsourcing and offshoring and noting the sheer variety of human needs and the natural variety of their socio-metrics, they determine that no single development model can ‘fit all’. But with better learning taking place between peers it ought to be possible for manufacturers, traders and politicians to consider the other in a more open way, and think of the ‘economic model’ as an advisor. Equally, global financiers ought to consider more than the single bottom line and address sustainability in their balance books when offering international aid.

**Note**

- 1 *Freeter* is coined from two words – the English word *free*, and the German word *arbeiter* (labourer). The term ‘*freeter*’ was said to be coined in 1987 by Yukio Okubo, general manager of the ‘think-tank’ of the employment agency Recruit.

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