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RIVAL STATES, RIVAL FIRMS

Competition for world market shares

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Instead of expensive feasibility studies by visiting experts sent by international agencies, the employment of administrative mercenaries – Swiss, perhaps – on a long-term basis might be more cost-effective. Appropriate monitoring of existing investments is necessary, for many firms will, given half a chance, find the temptation to bend the local rules irresistible. Equally, training officials in the analytical techniques would reduce the problems we noted in chapter 6 about misunderstanding how social and economic returns differ and where the priority issues and risks lie in any project.

Training them abroad would pay dividends in the long run. It is false economy to insist – as some developing countries do – that local managers and skilled workers must be trained *in situ* rather than spend foreign exchange on their education. There seems little doubt that Indonesia's recent progress owes much to the fact that President Suharto has insisted that his top officials all received extensive training abroad and could consequently command a world view of priorities. More generally, an international perspective shared among many officials would help to reduce the wide divergence of views held in different ministries and the consequent inconsistencies of policy and implementation. Only by sustained investments in such education can the needed learning begin to permeate the administrative structure.

8 *Set clear rules* is a corollary of the advice above. The less administrative *discretion* the better, both for firms and for development prospects. In many developing countries, legal systems are antiquated, contradictory and impenetrably obscure. Firms need to know the extent of their legal obligations and of their legal rights. Although it is reasonable for a government to reserve the right to change the rules, the changes should be consistent, pointed in the same direction, and transparently clear. Arbitrary decisions provide one of the biggest disincentives to investors.

Small, poor states may find this advice especially difficult to accept. They may feel it imperative to continue to intervene, even if it is to start the process of reform. They should, however, recognise the costs of prolonged intervention and lay the ground work for later change as early as possible. A major dilemma for them is that they are 'marginal' to most multinationals' interests (in the sense described in chapter 5) and can find that persistent intervention can serve to discourage new entrants and established players alike. Similarly, states that begin to achieve high rates of growth may be tempted, as Grosse (1989: p. 251) noted, to intervene more on the grounds that their bargaining advantage had increased. Such thinking is, in our view, a dangerous, though perhaps outdated, illusion: the data explored in chapter 4 show how strongly the tide of liberalisation is running in both high- and low-growth countries.

9 *Watch the competition*. Do what firms have always done – watch what the competitors are up to, and learn from their successes and failures. Some governments have plainly been stimulated to act by the example of other states. One such instance was when Tunisia emulated the King of Morocco in ending delays in dealing with licensing applications from foreign investors. A royal decree in 1989 allowed any firm that had heard nothing from the bureaucracy within two months to assume that its licence was granted. In the same year, Tunisia followed suit by reinterpreting the provisions of an existing law. Another was Malaysia copying the example of Singapore in privatisation and in moving to build Kuala Lumpur as a financial market and banking centre. But, just as in corporate competition, mere imitation is not sufficient; distinctive local advantages must also be created.

Watching the competition between firms in world markets may be important too. When military power was the key to survival, states spent – some still do – large amounts on gathering information – intelligence – about enemies or rivals. Today, attention paid to monitoring the costs and benefits, the risks and opportunities of different policies, and of particular deals with foreign firms in specific sectors is equally in the national interest. The difficulties arising from a switch to export-oriented development are compounded by greatly increased uncertainty and a dearth of information on which governments can make considered judgments. Added to the uncertainties about how international markets will evolve, which partners to choose and which markets to attack are uncertainties about how firms will react to evolving government policies. It will pay to devote more resources to finding out. In addition, officials can benefit from engaging the firms in dialogue to help build the basis of confidence and lasting trust.

ADVICE TO MULTINATIONALS

Our advice to the multinationals is largely the mirror image of what we say to governments. It is similarly limited, in the sense that we do not attempt to cover all the complexities of global strategy. Instead, our focus is on firms' behaviour as it applies in developing countries. We are conscious that many leading multinationals are already well versed in what we have to say. Yet we have found that

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practice, especially among the new entrants, often falls short of the standards of behaviour we imply.

1 *Watch global trends*. In almost every sector of international business, managers today must take a world view, carefully watching structural change in politics and security matters, in finance and in the climate of ideas no less than the details of their own business. Many could make better use of corporate research departments, making them collect and interpret statistical and other information as new trends affect the firm. Some firms would be well advised to ensure that their managers, scattered around the world, meet or at least communicate regularly to pool their information. How change is perceived depends largely on where one sits in the organisation. As illustrated in chapter 5, managers at headquarters in even experienced multinationals can formulate policy more out of ignorance than knowledge of new conditions or new opportunities. A common base of knowledge and understanding is imperative if the decentralised organisation is to act in a co-ordinated and consistent way over the long haul.

2 *Recognise the political role* that firms increasingly have with their host governments. World-class ~~firms almost~~ need a kind of foreign ministry and a cadre of corporate diplomats that combine local expertise and broad experience of dealing with governments in other countries. If firms only rotate managers among their foreign subsidiaries on a two-year cycle, they will tend to lack local *savoir-faire*. Most of the experienced investors to whom we talked in Brazil had established central departments for managing political and administrative relationships with governments and its labyrinth of agencies. Staffed largely by locals, these departments provided the political expertise and knowledge that could be tapped by the decentralised divisions. In business, as in diplomacy, personal rapport and intimate knowledge of the 'corridors of power' helps to build trust and a lasting relationship.

Like good diplomats, managers must be able to work positively with local politicians and officials and understand how their kinds work and whence they derive their power. Nor dare they neglect the political opposition. Only in this way can the firm realise the ambition of most managers to be truly agents of development and progress. Like their opposite numbers in government, managers must have the perspective and tolerance needed to search continuously for areas of common ground and mutual interest and not to retreat to assumptions of an adversarial relationship.

As 'diplomats', managers must be on their guard against, perhaps unwittingly, falling into the trap of conspiring to exploit local corruption or behave in other ways that are not acceptable. This is only good business sense; sooner or later the failure to recognise the firm's lasting political role will catch up with the firm as administrations change, as many have found to their cost.

3 *Look for sustainable growth* when choosing where the firm should expand its operations. Managers must be able to look through the short-term economic numbers to relate them to the social and political conditions of the country. Failure to analyse the local investment 'climate' in broad terms can prove expensive, as we have illustrated. Lacking good understanding of how a state may wish to shift its 'development intent', firms will remain blind to the new risks created as negotiating priority slips from one cell to another in our matrix of agendas. Moreover, dealing with events *ad hoc* as they occur often means that policy is inconsistent and the long-term strategic objectives for the firm forgotten.

A corollary of the above is that managers need to set themselves an agenda for assisting the states where they invest. If the growth is truly to become sustainable, then firms must become part of the process of accumulating the necessary local resources. Just as we argued earlier for environmental issues, it is the firms that possess many of the crucial resources that need to be deployed if the constraints to growth are to be harnessed.

4 *Good citizenship* becomes critical for profitable survival in each territory. Not only must managers be culturally aware and able to deal with local issues effectively, they must also avoid tying their futures to a single elite group. Given the dynamics of change, it is vital that firms cultivate many local allies, not front stooges or oligopoly cronies, but among social groups like unions, farmers' co-operatives, women, environmentalists. Such behaviour should not be restricted to a few favoured territories, but should become a matter of standard practice. As IBM's president said recently, 'IBM cannot be a net exporter from every nation in which it does business; we have to be a good citizen everywhere' (quoted by Reich, 1990: p. 58). We heard many similar statements from experienced multinationals that had learned the hard way.

To be turned into the social legitimacy now demanded in many countries, good citizenship must be seen as involving more than building up contacts in the local society; it means taking actions that help fuel development in the ways we described in chapter 6. It also means disclosing more than profits and losses in their annual reports. These should report contributions to local social and economic goals, while signalling to government at least their broad future strategies.