INTRODUCTION

World trade since the end of the Second World War has been characterized by dramatic levels of growth in both scale and scope. For example, since 1950, world exports of manufactured goods have risen by a factor of sixteen compared with output growth of around seven (Buckley and Brooke, 1992). With this increasing trade has come new centres of economic power. If the World Bank's forecast for economic growth to the year 2020 is correct, China will overtake the United States as the world's largest economy and, in addition, India, Indonesia, South Korea, Thailand and Taiwan will all feature in the world's top ten economies (The Economist, 1994). Institutional developments have helped foster these changes. Regional harmonization is continuing in Europe since its landmark year of 1992 and also in North America and East Asia. Growing levels of democracy have created new factor and product markets in Central and Eastern Europe.

These changes have meant that, at the level of the individual firm, the issue of global competition continues to become increasingly important. Of the approximately 7000 multinational corporations (MNCs) operating in 1970, over half were accounted for by just two countries, namely, the United States and Britain. By 1986, there were over 37000 MNCs and furthermore, four of the world's richest countries – the United States, Japan, Germany and Switzerland – accounted for less than half of them. Competition for resources and markets is intense, new challengers are appearing from different parts of the world and formerly secure national industries and firms are being subjected to realities of competition. For example, in 1930, the United States held over 80 per cent of the world market for automobile production, but by 1980 this share had dropped to just over 20 per cent despite the fact that much of the production in US plants was foreign-owned (Aliber, 1993).

Global competition has historically captured the interest of a range of scholars, most notably in the fields of economics and management. However, a great deal of work remains to be done in terms of fully understanding inter-firm competition at the global level and particularly the question of how firms can attain a competitive advantage at this level. To date, the
substantial volume of literature within the field of international business has not been explicitly concerned with these two questions. Contributions from economics have evolved from early trade theory (Ricardo, 1817; Hecksher, 1919) which put the nation rather than the firm at the centre of its analysis of trade patterns and competitiveness. Subsequent work, such as that grounded in industrial organization economics (Hymer, 1960; Kindleberger, 1969) and transaction cost economics (Buckley and Casson, 1976; Rugman, 1981) have proposed alternative explanations for the existence of the multinational firm, while the eclectic paradigm and its extensions (Dunning, 1981) have sought an integrated explanation for international production. Extant management-based contributions have tended to focus on process issues (Bartlett and Ghoshal, 1989; Ghoshal and Nohria, 1993), and where competition has been addressed, it has tended to have been within the confines of the global/local dichotomy (Porter, 1986). Therefore, the purpose of this chapter is to build on and integrate the literature from the fields of economics, international business and strategic management with the view to specifically tackling the question of how the firm can attain a sustainable competitive advantage in a global environment.

SOURCES OF COMPETITIVE ADVANTAGE

One of the principal concerns of the strategic management literature is the question of how some firms manage to consistently outperform others in the marketplace. As this literature has developed, alternative explanations have been proposed. In the early 1980s, the dominant view, reflected by the work of Porter (1980) and grounded in Bain/Mason Industrial Organization (IO), was that superior performance was a function of industry structure and barriers to entry. Porter proposed that superior performance lay in understanding industry structure which could be analyzed in terms of five key forces, namely the rivalry among existing competitors, the threat of entrants and of substitutes and the bargaining power of buyers and suppliers. Firms could earn monopoly rents by either selecting industries which were ‘structurally attractive’ or by manipulating the forces driving competition in their favour through the selection of generic strategies. The normative implication of Porter’s model was essentially a contingency one. He suggested a typology of generic strategic alternatives, the suitability of which was dependent on industry structure and stage of development (Porter, 1980).

However, in the late 1980s, a growing body of empirical work testing Porter’s ideas ironically began to cast doubt on their validity. Researchers observed performance differences not only between firms in the same industry (Hansen and Wernerfelt, 1989; Rumelt, 1991), but also within the