4
Competitiveness of Multinational Enterprises

4.1 Introduction
In Chapter 2, we reviewed some aspects of modern firm and MNE theory. In this chapter, we expand that review by examining the literature on some of the major sources of firm and MNE competitiveness. This chapter provides the theoretical basis for our empirical investigation of the competitive advantages of four Brazilian and Chilean MNEs in Chapter 5.

We limit our analysis to an investigation of the sources of firm productivity, as it has been argued by McFetridge (1995, p. 4) that firm productivity is a good proxy of firm competitiveness. This focus presents the additional advantage of providing a link with national competitiveness, given that we defined it as national productivity in Chapter 1. Some possible sources of firm productivity are price, quality, technological level and organization.

Price and quality are obvious productivity sources, and were already discussed in Chapter 3. Therefore, we concentrate on theories that consider the impact of technological level and organization on productivity. Indeed, increases in firm productivity can be achieved through technological\(^1\) and organizational\(^2\) innovation (Schumpeter, 1954, p. 84); however, technological innovation is itself often influenced by the nature, quality and organization of resources within the firm (Kay, 1997, p. 24). For example, Kay shows that firm resources cause the firm’s multinationalization, which in turn induces the exploitation of research linkages. Hence, we focus our investigation on the impact of organizational innovation on firm productivity.

We can distinguish between three types of organizational innovation – internal networks, external networks, and plant innovations (Lazonick and West, 1998). Internal networks are an innovation in the management
of linkages between the different sub-units of the firm (for example between headquarters and subsidiaries in the case of MNEs). While internal networks can also exist at the plant level (for instance, in the form of integration between labour and management) we will be mostly interested in internal networks between headquarters and subsidiaries. External networks occur in the management of linkages between the firm and other firms or public institutions (Zanfei, 2000). Plant innovations occur in production techniques and management at the plant level (for example, human resource management, quality control, or Japanese management techniques). In the case of internal networks between headquarters and subsidiaries, the manager is involved in linkages with another manager; in that of external networks, he is involved in linkages with another firm or public institution; in that of plant innovations, he is involved in linkages with workers.

In this chapter, we first describe some traditional measures of firm competitiveness; we then summarize various theories of organization and show how they imply that internal and external networks and plant innovations are potential sources of firm productivity and competitiveness. Then, we examine the specifics of MNE competitiveness. We draw from the theories of firm competitiveness and argue that competitive MNEs are involved in internal and external networks.

4.2 Indicators of firm competitiveness

There are a number of strictly economic indicators of firm competitiveness. For a comprehensive survey of these indicators, see McFetridge (1995). As argued by him, an unprofitable firm, for which average cost exceeds the market price of its product offering, is uncompetitive. Alternatively, a firm is uncompetitive if the market value of its debt and equity is less than the replacement cost of its assets. McFetridge notes that ‘at the firm level, profitability, cost, productivity and market share are all indicators of competitiveness’ (ibid., p. 4). Alternatively, he mentions that the Commonwealth of Australia’s Bureau of Industrial Economics uses the growth of sales, the profit/sales ratio, and the profit growth/turnover ratio as its statistical indicators of competitiveness.

A more dynamic vision of competitiveness emerges if we concentrate on the anticipated future profits of a firm: they depend on the firm’s relative productivity and input costs and the relative attractiveness of its product offering over time (ibid., p. 5). In this case, ‘the future profitability of a firm may be a function of its current spending on R&D, its patenting activity, or many other facets of the firm’s strategy’ (ibid., p. 6).