

COUNTERPOINT

Comment on Yetton, Davis and Swan, Going International

by

David F. Midgley †

1. Introduction

Yetton, Davis and Swan (1991), in their report to the Australian Manufacturing Council entitled *Going International: Export Myths and Strategic Realities*, present a challenging and different perspective to the continuing debate about Australia's economic future. In essence they argue that Australia's most successful companies have evolved in industries whose basic technology is more suited to "multi-domestic" strategies. With such strategies, international growth is achieved by the establishment of overseas operations rather than by exporting from Australia. *Going International* therefore concludes that any export-led solution to the nation's trade imbalance must come from other industries and other companies.

There is much to commend in this report which has improved the quality of the debate on international competitiveness. Specifically, *Going International* focuses on the development of *competitive* advantage at the firm level and, at least to a degree, avoids more macro-level discussion of Australia's *comparative* advantage. As such, it redresses the balance in a debate which, up to this point, has largely been centred around macro-level economic models—to the exclusion of much of the empirical literature on corporate strategy and firm performance. *Going International* reminds us that there are many sources of knowledge we can bring to bear on Australia's economic problems, and that no one discipline has a monopoly on truth.

The report also points out that if a globally competitive enterprise is the pinnacle of corporate achievement, then there are many routes to the top of the mountain. This conclusion would come as no surprise to anyone who has read the broader literature, nor to anyone who has ever observed global success. Some companies have achieved by exporting (e.g., Boeing), some by global operations (e.g., McDonald's), and some have changed from one strategy to another (e.g., Toyota). Furthermore, as Yetton et al. would argue, all were likely driven to select their strategies by the basic characteristics of their products, markets, and competitors. Again, *Going International* attacks the debate from a more subtle viewpoint than hitherto, and very effectively categorises and evaluates the possible strategies for improving Australia's economic performance (increased revenues

† Australian Graduate School of Management, University of New South Wales,
P.O. Box 1, Kensington NSW 2033.

from the multi-domestics, encouraging greater investment by foreign multinationals, capturing “mobile” links in the value chain, and developing more strategic exporters).

Yet in the end I find *Going International* both incomplete and unconvincing, especially around its normative prescriptions for industry policy. This partially stems from the schizophrenic nature of the report: the first half is an insightful micro-level analysis of why some leading Australian companies succeeded internationally, whereas the second half is built around what, in my mind, are suspect macro-level simulations of changes in industry policy. There is a basic clash of paradigms evident here, and as Hughes (1991) has noted, some tension between the “level playing fields” and “picking winners” approach to firm development. Of course, Yetton et al. are not alone in that tension—it preoccupies economic commentators and politicians throughout the Anglo-Saxon economies.

I have two questions to raise about *Going International*. My motivation in raising these questions is not to detract from the report’s value in documenting the multi-domestic strategy, and in categorising possible strategies for Australia. Rather, it is to place some qualifications on the scope of the report’s claims and on the validity of its conclusions around the effects of micro-economic reform. My questions are as follows.

2. Has the Multi-Domestic Strategy Been the Only Route for Australian Companies to Succeed Internationally?

Going International is based on a small scale in-depth sample of the very largest Australian companies [as to a lesser extent was its predecessor *The Global Challenge* (PCEK 1990)]. The merit of this approach is that it adds richness to the discussion, but the dangers are that the sample does not represent the totality of successful Australian companies. In some recent work, the Centre for Export Marketing (1991) surveyed a random sample of 178 of Australia’s 1,500 largest businesses. Depending on how one defines international success, we project from this sample that between 100 and 200 of the 1,500 business are performing well in overseas markets. Of more importance than these projections is the fact that the internationally successful companies in the sample are employing a variety of strategies. These include strategic exporting, overseas operations and, in contrast to *Going International*, some large companies who both export and have overseas operations. Now I would be the first to admit that this survey is subject to some limitations. But at the minimum it raises the issue of whether one successful strategy really dominates Australia’s economic history.

Our survey also raises issues around how one defines success. Clearly, Yetton et al. regard absolute scale as the criterion, since they chose to base their sample on nine large companies. There are, however, other possible criteria, such as share of world markets, share of new world markets, or net effect on Australia’s trade imbalance. Analysis based on other criteria might well produce a very different picture. In passing, one might also note that even on the scale criterion,

Australia's largest company, BHP, does not quite fit the multi-domestic model in that it mines overseas but exports value-added products from Australia.

I would conclude that while *Going International* is a valuable addition to our knowledge we still need further research to document precisely what strategies are being used, and to what effect, on a range of criteria for "success".

3. Do the ORANI-MINE Simulations of the Effects of Micro-Economic Reform Have Any Validity?

To me this is the most questionable section of the report. Of course to someone trained in physics and marketing any model with so many parameters and equations, and estimated on such inherently noisy data, would be suspect from the start. In fact I would regard such a model as more akin to astrology than science. But even setting aside my biases, the authors of the report are not able to produce any evidence for the validity of the model other than the weak defence that it "has been extensively used in the Federal bureaucracy". They do attempt to finesse this problem by stating that:

Because the model does not keep track of all variables that can influence industry, model results are not a forecast of what will actually happen given the change in policy. By comparing one 'comparative static' picture of the economy with another, the relative merits of policies can be assessed.

In direct contradiction to the first sentence, the report not only presents forecasts of changes to policy but uses these to support "level playing field arguments". Furthermore, if one looks closely at these two sentences they are mutually exclusive. If we have a model which does not provide forecasts of real phenomena, then we are essentially unable to say anything about the relative merits of any particular setting of that model. Indeed, without reference to empirical reality, one set of model outputs is just as good as any other.

No, if we wish to make strong assertions about the effects of policy changes, then we need a model which has (i) been shown to accurately predict real events and (ii) been able to provide plausible explanations of these events. ORANI-MINE clearly fails the first of these tests. In fact, the model does not appear to be falsifiable, in that it provides no time path for its output variables. Thus, if the model predicts a 10% rise in the exports of an industry sector, and this occurs within an infinite time horizon, then while the model is "correct" this is hardly a strong test of predictive validity.

I would also argue that the model fails the "plausible explanation" test as well. I have two main grounds for this conclusion. First, the simulations on the effects of micro-economic reform appear to concentrate on reduction in costs due to the introduction of "international best practice". In the model, reduced costs lead to increased competitiveness via price reductions, and in turn to increased exports for the manufacturing industry. These increased exports form the basis of *Going International's* optimistic conclusions about the effects of micro-economic

reform. This is an overly simplistic view of the operation of world markets for elaborately transformed manufactures. Yes, demand will rise with falling prices—but only if the products are competitive in design and quality. To argue that price reductions alone will produce increased exports from an industry that is known to spend little on research development, and at least in the popular view is thought to have poor quality control, is to treat the overseas customers as very unsophisticated.

Second, ORANI-MINE appears to view the rest of the world as an undefined black box that will obligingly stand still while Australia gets its act together. There are very profound changes occurring in the world economy both in the formation of trading blocs and in the entry of low-labour-cost countries using the latest production technology (e.g., Mexico, Thailand). It is not clear to me how the simulations account for these developments. Admittedly, to account for them would be an ambitious exercise, but unless we model the world economy as a more differentiated and dynamic system it is difficult to give much credibility to our predictions.

4. Conclusion

My final conclusion is that, while I would like to believe the optimistic prognosis for Australia's manufacturing sector put forward by *Going International*, in the end I do not think these forecasts are soundly based. I have no doubt some companies and industries will succeed in the new conditions, but unless there is a profound change in the way Australia develops and commercialises innovation then I expect the net effect to be much smaller than that suggested by *Going International*. Indeed, one observation that struck me from the report was that all the sectors examined were in essence yesterday's industries. It is difficult to believe many of these will be the dominant industries of the twenty-first century; instead, the future may well belong to those who successfully develop and apply sophisticated scientific and technological knowledge to new markets.

(Date of receipt of final typescript: June 1992.)

References

- Centre for Export Marketing, 1991, *Australian Management and International Competitiveness* (Canberra, AUSTRADE).
- Hughes, H., 1991, Going international: export myths and strategic realities—implications for public policy and politics, *Australian Journal of Management*, 16, 2, 245–247.
- Pappas, Carter, Evans and Koop/Telesis, 1990, *The Global Challenge: Australian Manufacturing in the 1990s* (Melbourne, Australian Manufacturing Council).

Yetton, P., J. Davis, and P. Swan, 1991, *Going International: Export Myths and Strategic Realities* (Melbourne, Australian Manufacturing Council).

