Universidad de los Andes
Facultad de Administración

CÁTEDRA CORONA 11

Strategies for Global Leadership:

The Australian Experience

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Foreword

The Corona Visiting Scholars publishing program is the editorial byproduct of presentations by internationally recognized foreign professors who visit the Management School of the Universidad de los Andes for a brief period thanks to funds donated by the Corona Organization in 1996 to finance the visiting scholar program that bears its name.

Through the years, the Corona Distinguished Visitors Program has fostered valuable interchange among researchers and teachers, renewing and stimulating the School's academic environment. It has also strengthened links with the international academic community in various areas of management and produced valuable feedback about the School's orientation, problems and future plans.

Work by invited professors takes place the respective area of the School in such a way that it initiates a long-term relationship through joint research projects and extended arrangements such as visiting professorships.

The program also promotes travel by the School's professors to foreign academic institutions to strengthen the School's strategic connections and create long-term relationships with academic peers in foreign institutions.

With more than 143 visitors coming from various North American, European, Asian, Australian and Latin American universities in the United States, France, England, Spain, China, India, Australia, Argentia, Brazil, Mexico and Venezuela, this series of publications is editorial testimony of the program's valuable contribution. The current issue, number 11 in a series, corresponds with one of the presentations made by Professor Tatiana Zalan of the School of Economics and Commerce at the University of Melbourne in Australia during her visit in August 2006.

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Introduction

This monograph seeks to provide a broad overview of Australia's experience of globalisation. Various rankings of the world's multinationals and surveys of the leading firms by industry (e.g., Rugman & Verbeke, 2004; Rugman, 2005;) show that firms from triad economies of the U.S., Europe and Japan predominate. Nevertheless, firms from small open economies such as Australia have been argued to be 'trailblazers' responsible for several paradoxes in the emerging global economy (Dunning, 2001). For example, both the degree of multinationality of firms and the propensity of multinational corporations (MNCs) to engage in innovative activities outside their national boundaries are considerably more marked in the case of firms from small countries than those from medium and large countries.

Australia is a somewhat atypical case of a medium-to-small-sized open economy. The factors that make Australia unique include high geographical distance from major markets, low language and cultural distance from the developed markets of the U.S. and the U.K., small home market (20 million people), abundance of natural resources and, until recently, government protection. In part because of these factors, Australian firms have found it difficult to mature into multinationals, suggesting that the Australian experience can be quite informative for other small-to-medium-sized economies in South America, Africa, the Middle East or Southeast Asia (Dick & Merrett, forthcoming).

This monograph is a synthesis of the author's research agenda which is focused on understanding the causes of success and failure of international firms, using Australian MNCs' experience as a context to explore this question. Explaining international success or failure represents one

of the fundamental, and still under-explored, issues in strategy (e.g., Rumelt, Schendel & Teece, 1994) and perhaps even '*the* big question' in international business (Peng, 2004). More detailed insights into internationalisation experiences of Australian firms can be gleaned from the forthcoming book *The Internationalisation Strategies of Small-Country Firms: The Australian Experience of Globalisation*[1] which contains a collection of review chapters, and industry and case studies.

This monograph is structured as follows. It starts with a short section on the historical context of the Australian business, drawing largely on a series of detailed historical studies of Australian MNCs by Merrett (e.g., 2002a; 2002b), the economic history review by Lewis, Morkel & Stockport (1999) and the author's own work on the administrative heritage of Australian firms (e.g., Zalan & Lewis, 2006; Zalan & Lewis, forthcoming). This brief historical overview assists in illuminating path dependence in how Australian firms developed distinctive competencies in the home market (see Jones & Khanna, 2006). Three waves of globalisation of Australian business are then presented, with an emphasis on the extent of globalisation achieved by Australian MNCs by the mid 2000s, the performance outcomes of these waves and the explanation of their outcomes. Winning strategic responses are outlined with reference to the stages model of internationalisation (Zalan, 2003). The concluding part summarises the main ideas presented in the monograph and discusses implications of the Australian experience of globalisation for Colombian firms.

[1] The book is a joint initiative between the members of the Australian Centre for International Business, Department of Management, University of Melbourne, and industry partners.

Australia's Economic and Business Heritage

Historical Background

Australia is now part of the developed world. Formed as a British colony in 1788, when European settlement began, it has been the recipient of large inflows of capital and people over the past two centuries. These factors of production were applied during the first 150 years of settlement to exploit the colony's agricultural and mineral resources which provided the basis for a substantive export trade based on a narrow range of commodities – fibers, foodstuffs, gold, coal and ores (Merrett, 2002a). Gradually, industries were established throughout the colonies to provide goods and services for everyday life: furniture, leather saddlery, blacksmithing, clothing, footwear, building materials, processed foods and beverages, as well as financial services. These simple industries were able to operate under the natural protection afforded by the high cost of transportation from Britain. The pastoral boom in the 1820s-1830s based on the export of unprocessed merino wool to British mills and subsequent gold rushes of the 1850s combined with high levels of immigration underpinned much of Australia's economic prosperity in the 19th century (Lewis et al., 1999).

By the beginning of the 20th century, the Australian economy already resembled that of a modern, urban country: the primary sector (agriculture and mining) accounted for less than a third of the country's GDP, and the

service sector (construction, government, transportation, financial services, retailing, personal services) more than half of the total output. Australia's highly efficient export industries underwrote a high standard of living and the provision of a wide range of products and services (Lewis et al., 1999). Starting in the 1920s, this long-term shift in the structure of the economy was accelerated by government policy, aimed at establishing import-substitution industries with assistance of devaluation of the currency and increased tariff protection (e.g., the Greene tariff expanded the range of protected goods to cover 72% of all imports) (Merrett, 2002a; Lewis et al., 1999). From then on, several trends shaped the Australian business landscape: a sustained high rate of immigration, heavy regulation of the financial system, lack of anti-trust legislation and, most importantly, continuing high levels of protection in a small and remote domestic economy as a result of government and trade union intervention (Karmel & Brunt, 1960). Under a pattern once described as 'protection all round', Australian manufacturers were protected by tariffs, employees by basic wage awards and farmers by marketing and price stabilisation schemes.

These externalities shaped the strategic responses of Australian MNCs (Zalan & Lewis, 2006). One long-term response was the increasing concentration of economic power within the confines of the small domestic market, following a clear pattern of expansion of the primary business, consolidation (via mergers and acquisitions), related diversification and / or vertical integration, and, finally, unrelated / conglomerate diversification. By the late 1980s, the industry structure of the Australian economy had become what was eventually labelled as 'the land of the duopoly' or the 'Noah's Ark' economy (two players in every industry).

Until 1980 (when the first wave of globalisation via FDI started - see below), there were few Australian firms venturing abroad[2], and those who did, overwhelmingly sought refuge in the nearest and most familiar market, New Zealand. These firms typically pursued multinational strat-

[2] Firms that did venture abroad via FDI included the monopolist sugar refiner CSR, copra trader Burns Philp, Dalgety, and Nicholas Aspro, the manufacturer of aspirin.

egies (Bartlett & Ghoshal, 1989) of having subsidiaries operating independently of the parent and serving a single host market. The scale, economic structure and location of the Australian economy from the late 19th century until the sweeping trade and competition reforms of the 1980s did not generate country- and firms-specific advantages resulting in the relatively low levels of outward FDI (Merrett, 2002b).

Administrative Heritage

Within the business and institutional context described above, Australian firms developed a particular 'administrative heritage' (Bartlett & Ghoshal, 1989; Collis, 1991). Administrative heritage is understood as the path by which a company develops – its organisational history – and the values, norms, and practices of its management – its management culture. A firm's administrative heritage consists of the cultural and physical heritage. The cultural heritage reflects the national culture of the organisation, management mentalities, and the leadership style. These intangible factors cumulatively provide distinctiveness to a firm's culture and directly frame the administrative context of strategic decision-making. The physical heritage denotes the configuration of physical assets which have resulted from the firm's strategies of growth and diversification. These two aspects of administrative heritage are part of the accumulated assets of the firm, influencing its organisational form and distinctive competencies and acting as a firm-specific enabler of or constraint on strategy. In the specific case of large Australian firms, administrative heritage was characterised by three aspects: (1) weak FDI traditions; (2) a domestic portfolio mentality, which in turn led to (3) reliance on strategic assets for competitive advantage (Zalan & Lewis, 2006). This heritage, as will be argued further, turned out to be a constraint on firms' international strategies.

Weak FDI traditions

As mentioned above, the overwhelming majority of Australian firms internationalised through FDI late in their history. When the recent outflow of FDI began in the early 1980s, Australian MNCs had a narrow geographic focus,

typically on one country, with an average of only 1.6 foreign subsidiaries per firm. There was also a remarkable lack of expatriates, with nearly half of the subsidiaries having no expatriate managers (Merrett, 2000). In 1990, Australia had only two MNCs – News Corporation and BHP – among the 100 world's largest non-financial corporations as ranked by foreign assets. Because News Corporation was by that time an 'Australian' firm only by registration (the place of business and a significant proportion of its assets were in the US, and its CEO was and still is an American citizen)[3], this left Australia with only one significant MNC. In 1990, BHP, known as 'the Big Australian', had only very recently engaged in FDI. Its first significant acquisition – of Utah International from General Electric in 1984 – was 'internationalisation by accident', rather than a deliberate strategy: BHP bought Utah for its Australian coal assets and 'picked up' a variety of offshore assets in the process.

A partial explanation for this late and limited entry of the Australian firms into international markets is to be found in the broader economic context. Factors that may have impeded the internationalisation of Australian firms include small firm size, monopolistic, duopolistic and oligopolistic industry structures, the government's protection of local industries via trade barriers, physical isolation from major markets, and a wide and shallow range of manufacturing industries (Merrett, 2000). This business and institutional environment resulted in what Bartlett and Ghoshal (2000) have termed 'liabilities of origin' which may have constrained the development of the firms' competitive advantages. The firms' limited exposure to global competition left MNC managers overconfident in their abilities or blind to potential dangers of overseas expansion[4]. This context was conducive to the Australian firms competing on the basis of strategic assets, and, therefore,

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[3] In 2005, the company's headquarters were relocated to the US.

[4] Bartlett and Ghoshal (2000) identify three psychological factors that may hold back multinationals from the periphery of the global economy: 1) the gap between technical requirements and design norms at home and world-class standards abroad; 2) management who are either unaware of the company's global potential or too debilitated by self-doubt to capitalise on it; and 3) limited exposure to global competition.

structural or positional advantages in the home market rather than on the basis of distinctive and internationally transferable capabilities.

Besides these externalities, management mentalities also contributed to weak FDI traditions. After living a 'quiet life' for twenty five years post World War II in a heavily protected and regulated environment (Merrett, 2002b), senior executives of Australian firms had few incentives to internationalise: the entire wine industry, for example, adopted in the 1980s a very opportunistic approach to exporting – FDI was not even on the horizon. With the exception of the resources industry – which was international by nature of its world markets – firms often lacked commitment to international operations, as demonstrated by the deliberations of ANZ (one of Australia's largest banks) in the 1970s whether it should divest its international operations. Even within the internationally oriented resources industry, there were visible differences in management mentalities: Rio Tinto, majority owned by RTZ (UK), always had an external perspective, while WMC and BHP were much more focussed on the domestic market.

Domestic Portfolio Mentality

Many large Australian firms which eventually became sizeable multinationals (such as Amcor, the National Australia Bank, BHP and Foster's Group) pursued portfolio management approach to corporate strategy with some elements of restructuring. Although more elaborate conceptualisations of corporate strategies exist, Porter's (1987) taxonomy, which includes three approaches to corporate strategy – portfolio management, restructuring, and leveraging resources (transferring skills and sharing activities to capture what is commonly referred to as 'synergies') – helps to explain how value can be created at the corporate level through each of these strategies. Porter (1987) argues that each of these approaches rests on a different mechanism by which the corporation creates shareholder value and each requires different managerial and organisational arrangements. Table 1 summarises the most salient features of the three approaches to corporate strategy.

Portfolio management, which is based on a firm's ability to identify and acquire underperforming targets, can create value in undeveloped capital markets, but only if managers are aware that corporate costs have to be less than the modest value added. Restructuring strategy can also create a significant amount of value, via improvements to the acquired company and / or industry restructuring, but this value comes from 'one-off' actions rather than from continuously creating value. Both strategies are underpinned by broadly similar organisational arrangements – autonomous business units, M-form structures (Chandler, 1962) and incentive systems based on outcome / financial control (Ouchi, 1979).

Table I. Approaches to Corporate Strategy.

	Portfolio management	Restructuring	Leveraging resources
Strategic prerequisites	Diversification via acquisitions Superior insights into identification of under-valued targets Businesses categorised according to cash requirements	Superior insights into identifying restructuring opportunities 'Buy cheap, turn around, sell at a premium' strategy	Both start-ups and acquisitions as entry vehicles Ability to accomplish transfer of skills and sharing activities on an ongoing basis Based on similarities of skills and activities, both need to be essential to competitive advantage
Organisational arrangements	Autonomous SBUs, linkages ignored Small, low-cost corporate staff Incentive systems based on SBU results (outcome / financial control)	Autonomous SBUs, linkages ignored Incentive systems based on SBU results (outcome / financial control)	Collaborative SBUs Large corporate centre Incentives based on group and corporate results
Role of corporate centre	Resource allocator and cash flow manager – banker and reviewer	Sophisticated financial and strategic management skills – selector, banker and change manager	Conscious and active management of synergies
Source of value	Works well in underdeveloped capital markets	Value is captured in one move	The most effective way to add value beyond what could be achieved if business units were separate

Source: Based on Porter (1987).

Diversification into increasingly unrelated businesses that many Australian firms pursued in the 1970s-1980s was based on generic resources (cash and general management skills) and, therefore, precluded economies of scope. Nevertheless, because capital markets in Australia were inefficient at that time, managers of the firms were able to create value by operating internal capital markets and realis-

ing governance economies (Williamson, 1975; Hill, 1994). Restructuring, too, had limited life: after firms consolidated and rationalised their industries, value creation opportunities through restructuring were largely exhausted in the Australian market. To sum up, corporate strategies resting on portfolio management and restructuring approaches in the small domestic market had run their course by the mid 1980s, hence firms looked to international markets as a platform for further value creation. Ultimately, because firms typically diversified and consolidated in the domestic market prior to internationalisation through FDI[5] – they attempted to transplant the portfolio approach to value creation to international markets.

Reliance on Strategic Assets

The third constituent of the firms' administrative heritage is their *reliance on strategic assets*, rather than capabilities, for competitive advantage in their domestic market. Drawing on the theoretical developments in the area of the resource-based view of the firm (e.g., Barney, 1991), 'strategic assets' are defined as those that involve substantial resource commitments (Ghemawat, 1991), tend to suffer from asset specificity (Riordan & Williamson, 1985) and give the firm structural / positional advantages in the home market (Porter, 1980). Examples include brands, economies of scale, superior sales force, control of distribution and preferential access to acquisitions. These sources of advantage, because they are typically associated with high barriers to imitation, resulting from path-dependent, irreversible commitments over a long period of time, provide domestic firms with sustainable competitive advantage in their local market. Capabilities, such as brand- or distribution-building skills, are defined as routines by which firms integrate and reconfigure resources (Eisenhardt & Martin, 2000; Teece, Pisano & Schuen, 1997) to undertake different activities or the same activities in a different, superior way (Porter, 1996).

[5] The banking industry was an exception, because the banks had a long history of international involvement. However, their activities before the 1980s were confined to correspondence banking (equivalent to exporting in manufacturing firms) and international trade finance carried out through representative offices and branches. The banks' international operations were of marginal significance.

The distinction between strategic assets and capabilities is key to understanding the nature of the firms' advantages in foreign markets. Strategic assets are location-specific and immobile. By contrast, capabilities-based advantages can be extended and leveraged in international markets, provided internationalising firms have capabilities that are competitively superior in these markets, and have the skills and mindset to coordinate them internationally. Because Australian firms for most of their history were relatively unencumbered by competition from either new domestic or foreign entrants, the capabilities on which their original success was built gradually gave way to competitive advantages based on strategic assets. Few, if any, of these strategic assets can be transferred internationally.

To summarise, transplanting the portfolio approach to international markets and relying on strategic assets for competitive advantage, combined with limited FDI traditions, were three distinct aspects of the administrative heritage of large Australian firms. This administrative heritage determined to a large extent Australian firms' unimpressive performance internationally in the 1990s (these performance outcomes are discussed further in the monograph and additional explanations are provided). In order to create value in international markets, firms needed both internationally transferable *capabilities* that could provide competitive advantages in new markets (or be able to acquire such capabilities) and superior *coordination skills* to manage international operations. An administrative heritage relying on strategic assets and a portfolio approach to strategy meant that the firms did not develop these capabilities and skills. The following section sheds further light on Australia's experience of globalisation by describing some of the characteristics of the three waves of FDI and providing evidence on their performance outcomes.

Australia's Three Waves of Globalisation

In recent history Australia experienced three waves of globalisation in terms of increased stocks of outward FDI. The first wave started in the early 1980s (A$511 million in 1980) and gained momentum in the late 1980s (A$6.6 billion in 1989) (Maitland & Nicholas, 2002, Table 1). The second wave started in the 1990s, and the early 2000s marked the onset of the third (and current) wave. The destination of FDI for Australian MNCs changed significantly over this period. In 1982 the majority of FDI was in the neighbouring Pacific area (38.5%), with Americas, the EC and Asia constituting 25%, 19%, and 16% respectively; by the beginning on the 1990s the share of the Pacific decreased to 17% at the expense of Americas (30%), the EU (31%) and Asia (17%) (1992 data). During the third wave the importance of Americas continued to increase (52% in 2002), leaving behind the EU (29%), the Pacific (11%) and Asia (4%) as preferred destinations for outward FDI.

Extent of Globalisation

One of the most remarkable characteristics of the current wave of FDI is the significant number of truly global MNEs (Zalan, forthcoming) relative to a comparable population of *Fortune Global 500* firms (Rugman, 2005; Rugman & Verbeke, 2004). Rugman and Verbeke, who adopt the extended triad concept of Ohmae (1985) and use the ratio of foreign sales to total sales as an indicator of multinationality[6],

[6] The following cut-off points have been adopted for MNC classification: (1) home-region oriented firms have at least 50 % of their sales in their home

establish that most large MNCs have an average of 80% of total sales in their home triad region; only nine firms of the largest 500 companies are unambiguously global. For example, Wal-Mart, the largest *Fortune 500* firm, with 94% of its sales in North America, is a home-region oriented MNC. These results are interpreted as the outcome of a rational preference of managers for regionally based activities, resulting from a careful cost-benefit calculation.

When a similar method is applied to a comparable Australian dataset[7], which includes 58 firms, it is clear that the majority of Australian firms with international operations are either bi-regional or home-region oriented, which is consistent with the Rugman and Verbeke's study. Table 2 compares the distribution for Australian firms with Rugman and Verbeke's findings. Although direct comparisons with Rugman and Verbeke's study are fraught with difficulties[8], the Australian sample reveals a much higher incidence of global and bi-regional firms. If the four Australian firms originally classified as bi-regional by assets but global by sales plus the one firm originally classified as global by assets and host-region oriented by sales, and the firm classified as global by assets and bi-regional by sales are added to this list (Table 2, explanatory note d.), the number of global firms increases to ten, which is over 17 % of the sample. Similarly, if the three firms belonging to the mixed category (classified as bi-regional by sales and home-region oriented by assets) were reclassified as bi-regional, which

region; (2) bi-regional MNCs have at least 20 % of sales in each of the two regions, but less than 50 % in any other region; (3) host-region-oriented MNCs have more than 50 % of their sales in a triad market other than their home region; (4) global firms have 20 % or more sales in each of the three parts of the world, but less than 50 % in any one region of the triad.

7 The degree of multinationality for the largest Australian firms is calculated in fiscal years 2004/05. These data are supplemented with the proportion of foreign assets to total assets. The sampling frame was the *Business Review Weekly* 100 list based on the Australian Stock Exchange (ASX) 100 list where firms are ranked by market capitalisation. Unlike Rugman and Verbeke, who include 54 purely domestic firms in their 'home regional' categorisation of multinationals, I exclude those companies that do not report foreign sales (assumed to be domestic firms).

8 The 380 firms in Rugman and Verbeke's study included 120 firms with no data and 15 firms with insufficient data. Further, the study of Australian firms used *both* sales and assets as measures of multinationality.

is consistent with Rugman and Verbeke's operationalisation of multinationality, there would be 14 bi-regional MNCs (24% of the sample). Clearly, for a considerable proportion of Australian MNCs globalisation is no longer a distant goal, let alone a 'myth', as has been claimed by Rugman and his co-authors on many occasions (Rugman & Bain, 2003; Rugman & Girod, 2003; Rugman, 2005; Rugman & Verbeke, 2004).

Table 2. Internationalisation of Australian Firms (2004/05) vs Fortune 500 firms (2001)

Classification	Australian firms	Representative Australian firms	Fortune 500 firms	Representative Fortune 500 firms
Home-region oriented	30 (50.8%)[a]	ANZ, AMP, Coles Myer, Santos	266 (85.5%)[b]	Wal-Mart, GE, Total Fina Elf and Sumitomo
Bi-regional	9 (15.5%)	Westfield, Rio Tinto, Brambles Industries, Ansell	25 (8%)	BP, Electrolux, 3M, Nissan
Global	4 (6.7%)	Amcor, Lend Lease, Babcock & Brown, and Sims Group	9 (2.9%)	IBM, Sony, Philips, Nokia, Intel, Canon, Coca-Cola, Flextronics, LVMH
Host-region oriented	1 (1.7%)	Paperlinx[c]	11 (3.5%)	News Corporation, ING Group, Royal Ahold, Honda
Mixed categorisation[d]	14 (24.1%)	BHP Billiton, National Australia Bank, CSL, Rinker Group	N/A	N/A
Total	58		311	

[a] Percentage of the 58 firms included in the study.

[b] Percentage of the 311 firms included in the study. These percentages do not match those reported in Rugman and Verbeke (2004: 7), because the 54 purely domestic firms in their study have been excluded to allow comparison with Australian firms.

[c] The majority of sales and assets are in Europe.

[d] Depending on whether sales or assets are used as a base. These included global by assets and host-region oriented by sales (1 firms – Macquarie Infrastructure Group); home-region oriented by assets and bi-regional by sales (3 firms- BHP Billiton, Aristocrat Leisure, Zinifex); bi-regional by assets and home region-oriented by sales (4 firms – National Australia Bank, Centro Properties Group, DB REEF Trust, and Flight Centre); bi-regional by assets and global by sales (4 firms – CSL, Computershare, Billabong International, and Nufarm), bi-regional by assets and host-region oriented by sales (Rinker Group) and global by assets and bi-regional by sales (Ansell).

Source: Annual Reports.

These results are particularly noteworthy, given that Australian firms were, on average, late to internationalise, as argued above. Some of these truly global firms were able to catch up with firms which internationalised much earlier by adopting 'accelerated strategies' that are resource- and knowledge-seeking rather than resource-exploiting (Dunning, 1995). Amcor Ltd is a telling example of a late internationaliser which not only caught up with other MNCs in the

packaging industry but has recently become a world leader: with annual sales of around US$ 11 billion and 240 plants in 39 countries, it is now among the world's top three packaging firms by market capitalisation, sales and profits. Amcor's example supports the contention that in the new environment where companies increasingly compete on their ability to discover, mobilise and leverage knowledge dispersed around the world, "what matters is not where you are from but who you are" (Doz, Santos & Williamson, 2001:x). While this proposition may appear somewhat extreme – a firm's administrative heritage is equally important – late entry of Australian MNCs' into foreign markets should not necessarily translate into competitive disadvantage.

Performance Outcomes

In sum, Australian firms experienced three waves of globalisation starting in the 1980s. Despite having an administrative heritage that had put limits on what they could do internationally, firms managed to significantly expand their geographical footprint in a relatively short space of time. But what have been the performance outcomes of these three waves? In other words, have Australian MNCs added value for shareholders?

The official data on average income earned by overseas subsidiaries of Australian firms (which approximates profits) reveals a sharp decline in the 1980s-early 1990s (Merrett, forthcoming). Therefore, it can be concluded with confidence that the first wave of globalisation for Australian firms was not successful. The second wave (the 1990s), as the firm-level study by Lewis, Jarvie and Zalan (2003), reported in Lewis & Zalan (2005) shows, was not successful either. This study compares FDI experiences of 64 large Australian MNCs and domestic companies in the period of 1992-2001[9]. The three key findings are, first, that MNCs do not out-perform purely domestic firms; second, that Australian MNCs destroyed economic value (measured as economic profitability) and third,

[9] This study is now being extended to include all Australian public firms in the Worldscope/ Compustat databases.

that they were not rewarded for internationalisation by the equity market. In addition, the returns from firms' foreign assets were generally lower than returns from their domestic assets.

These findings are broadly consistent with the findings of the Australian Bureau of Statistics (ABS) and the Templeton Global Performance Index (Gestrin et al., 1998, 2001). According to the ABS, three of the four biggest markets for Australian FDI in 2001-2002 failed to produce returns above the bond rate of 4.75 %, the minimum requirement for an investment. In 2001, the return on Australian FDI in the US (42% of the total) was only 2.66 %, from the UK 3.45 % (15% of the total) and 1.69 % from Japan (6% of the total). Only the return from New Zealand (6% of the total) was healthy, at 8.1 % (Ferguson & James, 2003: 40). The average returns on Australian firms' foreign assets reported in the Templeton Global Performance Index were even lower, at 0.31 % in 1996-1997 and at 1.51 % in 2000, which placed Australia in last place in terms of performance in both years[10]. Among the big 'losers' from overseas expansion during this period were the big banks –ANZ Bank, the National Australia Bank and Westpac– who sold off large parts of their overseas acquisitions. The leading insurer, AMP, divested its disastrous UK operations, now trading as Henderson Global Investors. The list of firms who had written down the value of overseas assets or reported losses in the late 1990s and early 2000s includes the resources giants (BHP Billiton, Rio Tinto and Pasminco), insurers (HIH Insurance and QBE), the construction firm Lend Lease, the alcoholic beverages firm Foster's Group, building and construction firms and the national telco Telstra and News Corporation (Merrett, forthcoming).

It should be noted that such lack of success in international markets is not a uniquely Australian phenomenon. The findings of previous studies on the relationship between international diversification and performance in a variety of contexts and timeframes have been inconclusive

[10] The Templeton Global Performance Index is based on a selected number of companies from various countries. Thus, in 2000 only 5 Australian firms were included in the index.

(see, for example, Contractor, Kundu & Hsu, 2003; Kotabe, Srinivasan & Aulakh, 2002, for reviews). Further, there is a growing realisation by business scholars and practitioners worldwide (e.g., Slywotsky & Wise, 2002) that international diversification through FDI is problematic in different national contexts. Further, two comprehensive empirical studies of U.S. firms by Click & Harrison (2002) and Denis, Denis & Yost (2002), each using in excess of 40,000 observations over a substantial period of time (1984-1997), show that FDI destroys economic value. In addition, 80% of FDI in the early 2000s worldwide is via mergers and acquisitions (UNCTAD, 2000), and the performance outcomes of these strategies are notoriously poor (see KPMG's 1999 report).

The third (and current) wave appears to be more successful in terms of performance: for example, the study by Lewis et al. (2003) demonstrated that there was weak evidence for improved profitability of firms' overseas assets during this period. Business analysts also seem to take a more benign view of overseas operations, suggesting that Australian MNCs must have eventually learned from past mistakes (e.g., Hooper, 2005). However, in the absence of firm-level data on the profitability of foreign operations it is difficult to judge whether there has been any learning or a 'lag and lead' effect at work (i.e., when past investments are eventually starting to pay off dividends)[11].

Explanation of Performance Outcomes

The available evidence presented so far points to the conclusion that international diversification through FDI for Australian firms in the 1980s and 1990s did not pay off and has in fact resulted in economic value destruction. These findings beg the explanation of why MNC managers pursued unprofitable international growth that was not rewarded by the equity market (see Lewis et al., 2003).

[11] Many Australian MNCs stopped reporting profits earned from foreign assets, following the introduction of the new accounting standard. For example, out of 58 firms included in this study, 28 firms did not report profits in 2004/2005.

First, managers of Australian MNCs may not fully appreciate the economic consequences of internationalisation and have unrealistically optimistic expectations regarding the performance of foreign investments. Although this explanation may seem overly simplistic, it is nevertheless plausible: as with product diversification strategy, international strategy may be a poorly understood activity by managers of international firms (see Collis & Montgomery, 1995).

Second, internationalisation can be triggered by defensive motives: if Australian firms do not get bigger through FDI, they will be vulnerable to attacks by overseas competitors. In this case, internationalisation through FDI may be pursued in the name of a broader national good; that is, Australia needs Australian-owned global firms to preserve its national industries and maintain high value-added jobs. Internationalisation would thus represent a trade-off between economic value and societal value, with shareholders subsidising value transfer to the broader society. Third, it is also possible that poor performance causes firms to diversify by undertaking defensive acquisitions, and there exist empirical evidence both in Australia and other contexts supporting this argument (e.g., Hubbard, 1991; Matsusaka, 2001). This hypothesis is yet to be tested.

Further, the empirical results can be explained by agency theory; that is, a conflict of interest exists between the management of the firm and its shareholders, resulting from the separation of ownership and control in public companies (see Eisenhardt, 1989). This argument has been offered by Click & Harrison (2002) as well as by many other researchers in the area of corporate diversification (e.g., Morck, Shleifer & Vishny, 1990) to explain the observed value destruction in US multinational firms. Agency theorists (e.g., Fama & Jensen, 1983) argue that managers derive psychic benefits from running corporate empires and have incentives to expand the company size beyond the scope that maximises shareholder wealth. It is likely that the behaviours of at least some of senior managers of Australian MNCs could be explained in terms of agency problem. This finding is partially supported in an extensive qualitative study by Zalan (2003).

Finally, given that the vast majority of FDIs by Australian firms has been via acquisition, the findings may be explained in terms of what we refer to as 'the internationalisation preference' (paraphrasing DuBoff & Herman's (1989) 'merger preference' – a concept used to describe the experiences of US firms during the four preceding corporate diversification waves). With the benefit of hindsight, much of this corporate diversification activity in the US was a 'mistake', because it did very little to enhance diversified firms' profitability (Schleifer & Vishny, 1991). The primary beneficiaries from these merger waves were promoters (investment bankers, brokers, lawyers) and agents, the senior managers of the firms. It should be added that, with the exception of the 1960s wave, shareholders of the acquired firms were also clear winners of diversification. Although no comprehensive tests of the promoter hypothesis have been carried out in the Australian context, one could speculate that there is no reason why the situation in Australia should be any different from the US.

It is highly likely that a combination of the agency problem and the promoter effect offers the best insights into the phenomenon of economic value destruction. There is no conclusive empirical evidence, in a variety of contexts, that international diversification benefits to the firm's shareholders and, more recently, there is a growing body of evidence that it does not. This leads to a proposition that there is a strong case for regarding internationalisation as an institutionalised phenomenon; that is, a conventional business practice that has become legitimised independent of evidence that it 'works' (see Davis & Diekmann, 1994). Such institutionalisation is possible because senior managers, boards, investment banks and lawyers have a vested interest in promoting internationalisation.

It is equally possible, though, that managers seek international diversification to meet the expectations of the capital market for further growth (primarily through acquisitions). Frank Cicutto, former National Australia Bank's chief executive, summarised the strategic options open for the bank after its withdrawal from the U.S. market subsequent to the divestment of Michigan National and HomeSide mortgage administration business in the following way: "If we just re-

treat back home, I scratch my head and wonder where the growth options are going to come from for purely Australian-based financial institutions" (Ferguson & James, 2003: 43).

These growth pressures would create a genuine dilemma for managers of Australian MNCs even if the agent-promoter effect were not present. On the one hand, managers experience pressures for growth from the equity market and thus must internationalise, because they quickly exhaust growth opportunities in the small domestic market. On the other hand, once Australian firms progress to fully-fledged FDI, they will be confronted with liability of foreignness (Hymer, 1960; Zaheer, 1995), asymmetry in resources between Australian firms and foreign market incumbents and high coordination costs in international markets (Zalan, 2003) and, hence, economic value destruction. In the following section solutions to this genuine dilemma are proposed and winning strategies for MNCs are discussed. This discussion is couched in the 'stages model of internationalisation', developed from grounded theory research by Zalan (2003).

Winning Strategic Responses

Stages Model of Internationalisation

When Australian firms internationalise, they typically progress through a series of stages – from being purely domestic firms to pursuing a strategy of opportunistic exporting, followed by strategic exporting, export-supporting FDI, then strategic FDI and, finally, to becoming a global network / transnational (Zalan, 2003). Each of these stages is characterised by an increasing degree of commitment of assets to foreign markets. Commitment complicates strategic choice and puts constraints on firm strategies, as it is associated with (1) significant sunk costs as a result of locking into a strategy by managerial action; (2) opportunity costs of reacquiring and redeploying sticky resources; (3) lags in adjusting the organisation's stock of sticky resources to desired levels and (4) organisational inertia (Ghemawat, 1991).

A strategic exporter commits specific assets in the home market to support exporting: for example, investments in vineyards and wine maturation facilities made by the wine companies in Australia in the mid 1990s signalled a shift from opportunistic to strategic exporting. The next stage in the firms' internationalisation is export-supporting FDI. The process school of internationalisation (e.g., Johanson & Vahlne, 1977) does not make a clear distinction between export-supporting FDI and full-fledged, strategic FDI, even though some

researchers do note that the committed involvement in exporting may be associated with other types of international involvement, such as direct investment in sales subsidiaries (see Cavusgil, 1984). At this stage, firms make overseas investments in marketing, brand-building, distribution and sometimes even in production facilities to support their exporting strategies. Strategic FDI is associated with significant commitments to production in foreign markets, with the National's acquisition of the UK banks and the acquisition of Beringer (US) by Foster's serving as examples of such FDI. A global interdependent network is the ultimate stage of internationalisation, where additional investments are made on the basis of the needs of the whole network. Two firms in the study seem to have progressed to this stage – Rio Tinto and BHP Billiton – as a result of acquisitions by large global corporations.

The integration of this model with the literature on the economic consequences of exporting and FDI suggests that the earlier stages of internationalisation tend to be associated with value creation and higher profitability (e.g., Click & Harrison, 2002; Majocchi & Zucchella, 2003), while later stages are likely to be associated with value destruction and depressed performance (Click & Harrison, 2002; Contractor et al., 2003; Lewis et al., 2003). Therefore, there is a point in a firm's history when a firm makes a 'strategic error' in its internationalisation strategy. This critical point is conceptually distinct from 'the threshold of internationalisation' proposed in some international diversification-performance studies (e.g., Sullivan, 1994; Contractor et al., 2003), where the depressed performance beyond the threshold is typically explained in terms of higher coordination costs and a lower profit potential in peripheral markets once the firm has expanded into most attractive markets. *This critical point appears to occur when a firm progresses from export-supporting FDI to strategic FDI*, and it is at this point that the profitability of the firm's international assets decreases below the domestic returns and indeed below its cost of capital. This critical point represents, in effect, a progression from commitment to exports to commitment to FDI.

The progression from strategic FDI to a global network stage is not unlike crossing the desert, be-

cause it stretches the resources of an internationalising firm to the limit. While a firm is crossing the desert, it will lose a substantial amount of economic value along the way, and shareholders of the firm need to fully understand the motivations of management and strategic logic behind this action: once the desert is crossed, performance will improve. While some well-resourced firms from larger economies can do it, it is questionable whether Australian firms could survive the crossover without significant losses or without being acquired by larger, non-Australian firms, when their own resources run out. BHP (acquired by South African Billiton) and CRA (acquired by the British Rio Tinto) are examples of firms that did not survive the crossover.

Based on this model, four winning strategies for internationalising firms are proposed: (1) export-based strategies; (2) acquisition by foreign MNCs; (3) global niche specialists and (4) 'born globals'.

(1) Export-based strategies

The success of these strategies (including the stage of export-supporting FDI) is best exemplified by Casella Wines, a private firm based in the irrigated Riverina district of New South Wales, which rose from obscurity to commanding, in the mid 2000s, nearly 9% of the Australian wine industry on the back of its export success. It is now a significant exporter to Europe, Asia, the UK, the US and Canada. Capitalising on Australia's diamond of national competitive advantage in the wine industry, Casella Wines exports almost 97% of its production and has built a highly profitable business in the US with its popular premium [yellow tail]® brand. Casella Wines entered the highly competitive US wine industry with a value proposition carefully tailored to a selected segment, based on the market insights of Casella's US distributor, and constructed a focused supply chain to deliver this value proposition at minimum cost. The brand leapfrogged competitors with no promotional campaign, mass media or consumer advertising. In the short space of two years, [yellow tail]® emerged as the fastest growing brand in the history of the Australian and US wine industries, the number one imported wine in the US, surpassing the wines of France and Italy, and commanded over

36% of the Australian category in the US (Kim & Mauborgne, 2005). By constrast, Foster's Group, now one of the largest alcoholic beverages companies and a top premium wine producer in the world, undertook extensive strategic investments in overseas markets (e.g., the acquisition of the Californian wine producer Beringer Wine Estates in 2000). The analysts' view is that these investments are not profitable.

There is one caveat to bear in mind about the value of export-based strategies. Despite the advantages of exporting (and licensing), market contracts may be an inadequate mechanism for selling intangibles, particularly complex knowledge, because much of it is tacit and its value is difficult to determine (Kogut & Zander, 1993; Teece, 1977). Opportunistic behaviours of export intermediaries in foreign markets have been shown to represent a significant problem for Australian-based exporters (Karunaratna, 1997). Unlike an established brand name or a mature technology, which can be leveraged through exporting, complex technology products are more efficiently handled through FDI (wholly owned subsidiaries or joint ventures) which are best suited for highly proprietary, unstructured and poorly understood products and processes (Teece, 1986; Anderson & Gatignon, 1986). Australian MNCs will thus need an appropriate method of transferring evolving or highly complex knowledge-based competitive advantages to foreign markets or they may need to sell out to global players at the point where they have optimised the value they can create with the business (this point is discussed further in the monograph).

(2) Acquisition by Foreign MNCs

One way of achieving the progression to the global network / transnational status and thus avoiding the value-destroying stage of strategic FDI for Australian firms could be to position themselves for acquisition by a global corporation, hence absorbing them into a value-creating global network. Lockwood, acquired in 2001 by the Swedish multinational Assa Abloy, BRL Hardy, acquired in early 2003 by its U.S. joint-venture partner Constellation Brands, and the Clipsal Electrical business of Gerard Industries, acquired by Schneider

Electric (France) in 2003, are good examples of this strategy. For example, BRL Hardy successfully grew its international markets through exporting and foreign investments in distribution and brand-building, had international returns above the returns from the domestic market over the 1992-2001 period and, in 1997-2001 recovered its cost of capital from international markets (Zalan, 2003). It could be argued that BRL Hardy's management had the foresight to avoid economic value destruction and consciously sought to be taken over by a larger firm. The management of Gerard Industries were highly successful at establishing and growing the Clipsal brand in Australia, but made a realistic assessment of their lack of resources to take the brand to the world markets. In the words of Robert Gerard, "We took the Clipsal brand name as far as we could with the strength we had from here…but we needed a global partner to take it further…This [acquisition] will give Clipsal a door in Europe, a door into America – doors we could never open" (Keane, 2003: 1).

While the acquisition of Australian-owned firms may be seen by some scholars and policy-makers as a sign of failure of international strategy, it nevertheless represents one of the few strategies for success. The shareholders of the acquired Australian firms can then reinvest the proceeds from the sale in firms at earlier, value-creating stages of the internationalisation lifecycle, hence contributing to the revitalisation and further development of Australia's economic base. It is interesting to note that this strategy seems to be a popular response of managers of small entrepreneurial firms from New Zealand, who cede their ownership rights to global MNCs in order to grow or globalise their businesses (Scott-Kennel, 2002).

(3) Global niche specialists

Theory (e.g., Hu, 1995; Markides, 1997) and systematic empirical evidence in other contexts (e.g., Campbell & Hulme, 2001) would suggest that a further winning strategy for established Australian MNCs could be to reconfigure their sources of competitive advantage in international markets and become global specialists in well-defined market segments where they can gain a strong competitive

position. This 'segment dominance' approach will require a realistic assessment of the global industry structure and dynamics, and the firm's competitive positioning.

Succeeding in international markets can be compared with the difficulties firms face in overcoming barriers to entry in their home market (e.g., Markides, 1997, Porter, 1979). Most of the positional advantages that large Australian firms possess in the domestic market (e.g., distribution networks, economies of scale and brands) are associated with high entry barriers to the oligopolistic industries (frequently monopolies or duopolies) in which these firms compete. These advantages are, however, very difficult to transfer internationally, as has been argued earlier in the section 'Administrative Heritage'. Although valuable capabilities are, by definition, difficult to imitate (Barney, 1991), and hence to replicate in a different setting (Teece et al., 1997) and require higher level of coordination and learning skills, they are by far the most important source of competitive advantages in international markets due to their higher international transferability. Hence, it can be argued that 'potential winners' in international markets are likely to rely on capabilities for competitive success, providing the necessary learning and coordination capabilities exist or can be developed, as posited by the transnational model (Bartlett & Ghoshal, 1989).

Pacific Dunlop, now known as Ansell, a world leader in healthcare barrier protection, is a high-profile example of a once diversified firm that was forced to become a global specialist under external pressures (see Lewis & Zalan, forthcoming). Pacific Dunlop (established in 1893) was one of Australia's oldest, most successful and innovative conglomerates. It was also an Australian leader in internationalisation, covering the entire gamut of strategies, from exporting and offshoring to FDI via acquisition. Like all firms, Pacific Dunlop developed within a specific historic, geographic and institutional context. The strategic assets and capabilities on which Pacific Dunlop's success was built were developed within this context (Markides & Williamson, 1996; Teece et al., 1997). As the competitive environment changed, Pacific Dunlop's strategic assets were eroded and the corporate strategy became a constraint rather than a driver of change. The firm became imprisoned in

its administrative heritage (Bartlett & Ghoshal, 1989; Zalan & Lewis, 2006; Zalan & Lewis, forthcoming), failing to respond to the changing environment or understand the sources of its competitive advantage in a globalising world. In its cable business, for example, Pacific Dunlop was competing with Alcatel, BICC and Sumitomo in an increasingly consolidating and global industry in which scale economies and product technology were the keys to survival. The same was true of the battery and the tire businesses. Pacific Dunlop was left with only two options: either to become globally competitive or to sell the businesses.

Pacific Dunlop's evolution into Ansell is a good illustration of strategies pursued by some diversified MNCs in more recent times. These firms either increase the extent of international diversification while decreasing product diversification, or abandon product diversification strategies altogether to become specialists in global niche markets. For example, Swedish firms such as Electrolux, Atlas Corpco, Skanska and SKF pursued higher geographical scope while reducing the level of product diversification in 1985-1998, and this shift in strategy was associated with a strong increase in financial performance (Bengtsson, 2000). Likewise, diversified Danish firms such as GN Great Nordic and Danisco accelerated internationalisation to become global MNCs with strong market positions in each of the triad markets at the expense of a sharp reduction in product diversification. These strategic responses seem to be driven by shifts in the relative importance of country-specific and business-specific resources and capabilities due to changes in internal and external environments, particularly the globalisation of markets and supply chains (Meyer, 2006). The rise of profitable global specialists may well be the next stage in corporate evolution in Australian business, following the period of excessive product diversification and disastrous forays in foreign markets.

(4) 'Born globals'

The emergence of 'born globals'[12] in the Australian context is well documented ever since the McKinsey

[12] The concept of 'born global' was coined by McKinsey / AMC specifically to describe Australian firms, but has since been applied to other populations of firms.

/ Australian Manufacturing Council study of 300 high-value added manufacturers (Rennie, 1993). These firms, also known as international new ventures, instant multinationals, global start-ups and born transnationals (e.,g., Oviatt & McDougall, 1994; Knight & Cavusgil, 2004) are small and medium enterprises which from their inception seek to derive competitive advantages in multiple overseas markets through exporting. As Cavusgil (1994: 18) stated:

> There is emerging in Australia a new breed of exporting companies, which contribute substantially to the nation's export capital. The emergence of these exporters though not unique to the Australian economy, reflects two fundamental phenomena of the 1990s: 1. Small is beautiful. 2. Gradual internationalisation is dead.

Born global firms such as ResMed (manufacturer of medical respiratory devices), Cochlear (manufacturer of hearing implants), Mincom (developer of enterprise planning solutions for asset-intensive industries), ThinkSmart (a financial services company specialising in high-volume transactions) and many boutique wineries now represent approximately one quarter of all new exporters in Australia (Walker, 2006). These firms seem to be prevalent in high technology industries with low transportation costs and highly concentrated customers (Dow, 2006).

Born globals defy the conventional thinking that a firm needs a strong domestic base before venturing into overseas markets. Although many born globals are confronted with liabilities of foreignness, newness and lack of resources in overseas markets, they also have formidable advantages. Born globals are typically first movers into niche markets on the back of their superior products, intellectual property and brands, have a strong innovation culture and entrepreneurial orientation. These firms have a different administrative heritage, and, therefore, different / few constraints on strategic choice relative to large firms and, conceivably, better capacity to acquire new knowledge. Managers of born globals have distinct mentalities from managers of larger firms or non-exporters and a 'global mindset' from the beginning. The CEO

of BinaryThing, a PDF software developer competing head-on with Adobe Acrobat, described the firm's motivations to internationalise and its strategic approach in the following way (Walker, 2006: 94):

> We recognised very early on that Australia, while we may call it home, doesn't have a population size to suit our goal and vision. And with Adobe being in the US, for us to be truly competitive, we needed to go after the US market. So from day one we have been making five or six trips a year to the US with various stints of living there as well.

Even though Australian born global firms, on average, do not experience superior performance relative to non-born global firms (Dow, 2006)[13], some born globals are outstanding performers. A case in point is Cochlear, which experienced average annual growth in revenues of 18% in 1999-2003 and 22% in 2005 and an after-tax return on shareholder funds of 46%, four times the corporate average in Australia (*www.cochlear.com.au*).

This strategy of instant internationalisation will, however, work only if born global firms have access to capital. Unlike their U.S. counterparts, small to medium sized innovative firms in Australia face considerable difficulties in funding international growth[14]. Given the nature of these firms, including their relatively small size and perceptions of high riskiness, the existing Australian capital markets are poorly positioned to connect these firms with investors.

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13 This study shows that born global firms perform better than non-born global firms, but the differences are not statistically significant. Dow (2006) acknowledges that the small sample size might have been a constraint in revealing differences in performance. It should be noted that this research is the first to test for performance differentials between born globals and non-born globals, and, clearly, more research in other national contexts is urgently needed.

14 Many Australian born globals attempt to overcome this problem by sourcing venture capital in the US.

Conclusions and Implications for Colombian Firms

This monograph has attempted to present a broad-brushed overview of Australia's experience of globalisation, with some attention to the Australian business context and Australian firms' administrative heritage. The monograph further focused on the three waves of globalisation and their outcomes in terms of firms' extent of globalisation, performance and shareholder value creation. Some of these experiences are perhaps best summarised by a quote from a popular Australian business magazine: "If globalisation were an exam, Australia would so far have barely managed a pass" (James, 2005: 21). These sentiments are somewhat attenuated by more recent evidence of improvement in the performance of MNCs' international assets, suggestive of a learning or a 'lag and lead' effects at work.

Despite the mediocre overall performance outcomes of the first two waves of globalisation, some winning firm-level strategic responses can be identified, which have been discussed here with reference to the 'stages model of internationalisation' (Zalan, 2003). Such responses encompass export-based strategies (rather than undertaking full-fledged investments in production); positioning for acquisitions by foreign MNCs, which takes Australia-based MNCs to the global network stage; becoming global specialists in a specific niche; or being 'born globals' right from the beginning. These strategies have been argued to have the potential to create economic value for the firms' shareholders and, more broadly, for the national economy.

To what extent are the experiences of Australian MNCs transferable to other national contexts, and particularly Colombia? At first sight today's Colombian context could not be any more different: unlike Australia, Colombia is a developing country, characterised by political instability, continuing –and worsening– social problems, pervasive corruption and high, sustained unemployment (de Guevara et al., 2006). Nevertheless, it should be remembered that until recently the economic and business history of Australia bore striking similarities with Colombia: for example import substitution, protectionism, government subsidies, heavy regulation, monopolistic / oligopolistic industry structures, dependence on resource industries and general lack of international competitiveness were distinctive features of the Australian landscape (see Merrett, 2000; 2002; Lewis et al., 1999; Elstrod, Lewis & Lopetegui, 1994). Because of this shared economic history, many of the challenges that Australian firms faced when they attempted to internationalise in the 1980s-1990s would be similar to those that Colombian firms are facing today. A case in point is the need to develop strong clusters across a wide range of industries and step up innovation efforts (e.g., Salom, 2005).

Further, given the export opportunities created by the FTA with the US, Colombian firms could look to successful Australian export-oriented industries and firms within these industries as case studies of best practice. The Australian wine industry, for example, is one of Australia's few triumphs of internationalisation in manufacturing. Its phenomenal success has been built on natural and created advantages and achieved without government subsidies or trade protection, albeit with some tax incentives. Firms such as Casella Wines, referred to in this monograph, cleverly combined these advantages with a unique value proposition specifically developed for the US market.

Colombian firms, it would seem, have one significant advantage in international markets. They are accustomed to the instability of the 'rules of the game' in the domestic market and have developed a phenomenal ability of survival in a complex environment (Dávila, 2006). Such flexibility may well become key to their future international success.

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