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## **BOOK REVIEW**

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### **Ruth Rama's (ed), *Multinational Agribusinesses*, Haworth Press Inc, New York and London, 2005**

Reviewed by

**Papatheodorou Andreas**  
*University of the Aegean, Greece*

Multinational enterprises (MNEs) play a substantial role in the contemporary business environment. They are essentially the product of an evolutionary magnification process largely related to the seizure of scale and scope economies. The emergence and growth of MNEs has been explored by a number of researchers in international trade, political economy and industrial organisation. Nonetheless, the Ownership – Location – Internalisation (OLI) framework proposed by Dunning (1988) offers a holistic approach within a dynamic context of corporate rivalry. In particular, a company may decide to extend its presence abroad to seize ownership advantages; this is the “O” in the OLI framework, which explains “why” corporations decide to internationalize their operations: human and capital resource endowments, organisational structures, patents and intellectual property rights are examples of such “O” advantages at a company level. Moreover, by establishing a presence abroad a company may improve its access into product and factor markets and exercise

its oligopsonistic and oligopolistic power thanks to reduced unit costs, mass purchase of inputs and large production of outputs. “O” advantages are also related to the mastering of operations in business uncertainty and to the pursuance of an effective risk diversification policy.

In terms of location (“L”) advantages, transnational operations allow a company to gain access to specific country resources and favourable business conditions including the existence of a low cost and/or high quality labour force, good transport and communication infrastructure, tax breaks and subsidisation by government funds. Internationalisation may also be used to overcome trade barriers and/or other protectionist policies imposed on imports and to reduce the psychological and cognitive distance (i.e. culture, language, etc.) between the home country product and the host society. In this context, the “L” characteristics answer the “where” questions in the process of transnationalisation. Finally, internalisation (“I”) advantages enable a corporation to minimise transaction costs in acquiring inputs and most importantly to reduce uncertainty by exercising effective and direct control over its intangible assets such as brand names, logos and image. Internalisation advantages answer the “how” question in transnational business involvement and their accrual is often associated with mergers and acquisitions of local companies, which offer demand and/or supply complementarities (synergies) to the MNE products.

A valid example of MNEs is multinational agribusinesses (MAs) which are active in both food and drink processing and/or vertically-related upstream industries, such as agriculture, aquaculture, etc. From an international trade perspective, MAs help invalidate those arguments against a country’s specialisation into food production. More specifically, the latter is often regarded as undesirable being primarily based on labour-intensive methods, which cannot benefit from scale economies. This is not true, however, for MAs which are heavy users of capital and machinery in the production and processing. In addition, income elasticities of food products are perceived to be below one; as a result, countries which specialise in food production will face a deterioration of their terms of trade as world income increases. Nonetheless, MAs are often involved in extensive food processing and product diversification strategies, which result in income elastic products of high added-value. MAs also operate into an oligopolistic environment, which allows them to make super-normal profits. If the markets are contestable and potential competition is sufficient to deter companies from abusing their market power, then MAs will use part of their profits for research and development into process and product innovation. As a result of this Schumpeterian rivalry, MAs

may lead to an increase in agribusiness productivity to the benefit of consumer welfare.

Further to these advantages of MAs a number of questions and issues emerge with respect to their business involvement in food production and processing. For example, does the internationalization of MAs operations act as a substitute or as a complement to world trade development? Do MAs rely on the international distribution framework or do they prefer to build on their extensive exchange networks for business transactions leading to the increase of intra-firm trade? Do MAs prefer to transfer their R&D activities to foreign countries denying their home base labour force from engagement into high-tech jobs? What is the impact of technology globalisation on the national systems of innovation and patent protection? What about the role of the new regionalisation (EU, NAFTA and MERCOSUR being notable examples) in the transnational operations of MAs?

Although some of the above issues have already been satisfactorily examined in the context of other MNEs, their analysis in the context of MAs has been scanty. Despite the prominence of MAs in world agribusinesses, our knowledge is essentially derived from cross-sectional studies on MNEs. Nonetheless, MAs are often represented by small samples of giant US companies in the majority of such studies; these are insufficiently illustrative of the wide range in size and nationalities of new entrants into the international market.

These knowledge gaps are validly filled and thoroughly addressed by the book on “Multinational Agribusiness” edited by Ruth Rama. In spite of its edited nature, the book has a coherent structure based on three main pillars: a) the discussion of major methodological issues and models in the area of MNEs and MAs, b) the examination of a multitude of case studies at a country and company level and c) the provision of very interesting statistics and data on the world’s 100 top MAs, which may be used by other researchers in subsequent work. While most existing research in international business is still at a highly aggregated level, a growing number of academic scholars believe that the provision of more empirical research at the company level would be more representative in terms of offering a better understanding of MNE behaviour. Several chapters of this book analyse the MA at the firm-level and even at the within firm level offering an interesting and innovative perspective on MAs.

The first chapter by Selma Tozanli explores the rise of global enterprises in the world’s food chain. It considers one of the most important structural changes within economic globalization to have occurred in recent years, namely, changing modes of entry for foreign direct investment (FDI). The chapter

emphasises the refocus of MAs into their core business as the outcome of an evolutionary process of geographical and industrial diversification. The impact of this process is examined in detail by chapter 2 written by Anastassopoulos and Rama. The theoretical background of the chapter is complemented by a very interesting econometric exercise, which examines the relation between diversification, size and rate of growth for the world's 100 largest MAs. Chapter 3 written by Alfranca, Rama and von Tunzelmann provides a literature review on both technical and design innovation in MAs, and offers new evidence obtained from a large database of patents granted to major MAs as part of their corporate strategy in the global business environment.

While the first three chapters of the book focus on aspects related to MAs based in a variety of home-countries, the remaining six analyse evidence on MAs in specific settings (the US, France, Australia and New Zealand, South-East Asian countries and Brazil). Chapter 4 written by Pick and Worth focuses on the characteristics of the US affiliates of foreign MAs, most of which are based in other developed nations; then, it focuses on outflows of FDI from the US to the food and kindred industries of other countries mostly located in the developed world. Chapter 5 by Barkley summarizes and extends previous research on the dialectic between FDI and trade by empirically analysing the determinants of the exports of the United States food processing and agricultural industries. Chapter 6 by Chevassus-Lozza, Gallezot and Galliano analyses, with unique empirical evidence, intra-firm trade in French agribusiness stepping forwards from the traditional analysis of inter-firm transactions. Chapter 7 by Pritchard examines the question if a country's competitiveness in food trade is a good departure point for its internationalized agro-food firms, using major Australian and New Zealand food multinationals as a case study. Chapter 8 by Burch and Goss add to the FDI literature on agribusiness by studying the structure, conduct and performance of the vertically integrated MA conglomerates in South-East Asia. Finally, Chapter 9 by Farina and Viegas provides a contrasting yet synergistic perspective from chapter 8 by studying the case of a developing country (Brazil) as a recipient for inward agro-food FDI.

Overall, I really enjoyed reading this edited book. The contributors are experts in their fields and provide a comprehensive and state-of-the-art review of current issues in multinational agribusiness. The data appendices and the subject index are helpful and reader-friendly. The book is available in both paperback and hardbound editions and is modestly priced. My only concern is that despite the obvious focus of the book on international and industrial economics issues, contributions on the corporate social responsibility strategies of MAs towards local producers and the importance of international trade in genetically modified crops would be a welcoming addition. Apart from this

comment, I believe that the book will be of major interest to both academic and practitioners and offer insightful knowledge to students in the field.

**Reference**

Dunning, J. H. (1998) *Explaining International Production*. London: Unwin Hyman.