Including the Bottom of the Pyramid Countries: 
Redefining the Global Triad as Business Systems and Institutions

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ABSTRACT

Two seminal works have illustrated the importance of including developing economies in international business research. First, Prahalad and Hart’s (2002) work on strategies for countries at the bottom of the pyramid have shown the economic and business potential of the world’s low income countries. Second, Rugman’s (2000) work on regionalization has major implications not only for international business research but for economic growth in developing economies. MNCs are major sources of finance, technology and knowledge for developing economies; regionalization means that developing economies do not have access to these crucial resources owned by MNCs. This paper advocates that, for international business researchers to include base of the pyramid countries, a fundamental re-definition of the global triad (Ohmae, 1985) is required. The new definition is one based on business systems and institutions, which includes bottom of the pyramid countries as one type of business system.
Including the Bottom of the Pyramid Countries: Redefining the Global Triad as Business Systems and Institutions

Introduction

Two seminal works have shown the importance of including developing economies into international business research. First, Prahalad and Hart (2002) have analysed the importance of including the bottom of the pyramid countries in international business research. The concept of linking developing economies, or bottom of the pyramid countries, to MNCs’ global strategy was first analysed by Prahalad and Lieberthal (1998). Low income countries provide an untapped business and economic potential for today’s MNCs (Prahalad and Hart, 2002). The importance of including developing economies, or bottom of the pyramid countries, into international business research was recently highlighted by Lewin (2003). His analysis of the need for new research paradigms in international business, a theme
also echoed by Buckley (2002) in a recent analysis of the future research agenda of international business, has pointed out the importance of analyzing new actors in the international business environment.

Second, Rugman’s (2000) pathbreaking work on the end of globalization (or the realities of regionalization) has implications for another research area that has not been traditionally closely connected to international business research – that of economic growth in developing economies. MNCs are major sources of finance, technology and knowledge. The scarcity of MNCs in developing or non-triad economies (Rugman, 2000; Ghemawat, 2003; Rugman and Verbeke, 2003; Choi, et al. 1999; Lam, 2003) means that this could be a major factor explaining the continuing economic divergence between developed and developing economies (Sachs, 2003; Rodrik, 2003; Child and Tse, 2001; Keim, 2003).

Bottom of the pyramid (Prahalad and Hart, 2002) countries of course have been a well researched topic for economic growth and economic development researchers. The research in social sciences on economic growth in developing economies has reached a consensus on the crucial role played by “institutions” (North, 1990; Olson, 1982; Ostrom, 1990) in economic growth. The transplanting of foreign institutions or the adjustment of local institutions (Boddewyn and Brewer, 1994; Boddewyn and Iyer, 1999; Keohane, 1988) requires the involvement of local knowledge and local participation. Similar issues have also been raised by Boddewyn and Iyer’s (1999) review of international business research and the need for more diverse, interdisciplinary and comparative analysis. In their recent book, Toyne and Nigh (1998) call for international business researchers to look more directly at the behavioural and social sciences such as psychology, sociology and less at mainstream...
Anglo Saxon economies, which tends to separate business processes from society (Toyne and Nigh, 1997, 1998; O’Riain, 2000).

This paper advocates that in order to include developing economies, or bottom of the pyramid countries, in international business research requires a definition of the traditional, global triad (Ohmae, 1985), which began as the United States, Western Europe and Japan, and over time expanded into North American, European Union and Asia. We believe that international business research needs to include a triad based on national business systems. Researchers in social sciences and in international business such as Kogut (1991), Orru, et al. (1997), and Bartholomew (1997) have taken into account the importance of national institutional context for various aspects of national business systems, especially in innovation and technology areas. These works develop further the traditional social science based research on institutions such as Crozier (1964), Parsons (1960). Related research on national business system (Whitley, 1992) shows the sociological connections and networks among economic and non-economic actors within a national business systems (Foss, 1999; Casson and Lundan, 1999; Thomsen and Pedersen, 1999). Although political economists and economic historians such as Olson (1982, 1992) and North (1990) helped to pioneer the importance of national economic systems, Whitley’s (1992) sociological approach is more relevant for international business research, and especially in the context of the micro-linkages that facilitate knowledge transfer and institutional interactions within a national business system.

This paper is set out as follows. First, we analyse the traditional global triad (Ohmae, 1985) and how it deters research from including developing economies, or countries at the base of the pyramid. Second, we introduce the idea of a triad comprised of three national business systems, relying heavily on the comparative
research on corporate governance that has been done in the 1990’s (Albert, 1991; Roe, 1994; Peng, 2003; Thomsen and Pedersen, 1999). In addition to the well known difference between Anglo-Saxon business system and the more collective or communitarian business system, we advocate the inclusion of a third category of developing economies, or bottom of the pyramid countries as a third business system. Third, developing the institutional analysis of North (1990) and Olson (1992), we show the importance of informality within the developing economies, and how such informality is a characteristic of their business systems.

**Traditional global triad in international business research**

The bottom of the pyramid economies (Prahalad and Hart, 2002) of the world, such as India, provide a potentially important area of research for international business in terms of the rapid development of institutions and organizations. As these emerging societies, which operate under greater uncertainty and fewer institutional and legal structures, become more mature and developed, it is important to see the differences between these developing markets and the traditional or mature markets of the world such as Western Europe and North America.

Although research in international business has continued to develop rapidly, the fundamental focus of research has been on the “mature” or traditional markets of the world. This has made sense for various reasons. First, it is much easier to gather data and conduct research in mature markets or on mature market corporations. Second, these mature markets provide the largest and most sophisticated corporations. Third, the various rules of international business, including the nature of MNC activities (Rugman, 200) such as joint ventures and technology transfer, mostly
originated from again the traditional global triad (Vernon, 1971; Ohmae, 1985) markets of Western Europe, United States and Japan (Rugman and Verbeke, 2003).

*Shareholder and Stakeholder Systems*

Recent comparative business systems and social sciences research such as Foss (1999), Danis (2002), Andreff (2002), Choi, et al. (1999), O’Sullivan (2000), Putnam (1996) and Chui (2002) have taken into account the importance of national institutional context for various aspects of national business systems, especially in innovation, financial and technology areas. These works develop further the tradition of continental European social science based research on institutions such as Crozier (1964) and Levi-Strauss (1964). However, these past works have tended to categorise countries separately or together in terms of income or gross national product criteria such as the developed economies.

We believe that international business research needs to differentiate between shareholder and stakeholder business systems (Albert, 1991; Freeman, 1984; Andreff, 2002; Lenway and Murtha, 1994; Lazonick and O’Sullivan, 2000; Chui, 2002). The growing academic debate on shareholder research has focused on comparative corporate governance research. Recent works such as Pedersen and Thomsen (1999), Lazonick & O’Sullivan (2000) and Roe (1994), which compare the legalistic, stock market driven approaches of the Anglo-Saxon countries such as the United States and the United Kingdom with the more informal cross share holding system adopted in Japan and Germany. Legal contracts with ultimate redress to courts is fundamental to the operation of Anglo-Saxon business culture (Roe, 1994; Barzel, 1997). In contrast, in countries such as Japan and Germany, and most of continental Europe, major banks and insurance companies act as external stakeholders by holding major shares in
firms, and exercise governance and control over internal management through a more informal, relationship based exchange.

As discussed by Simon (1991), the shareholder based system of free market exchange assumes that exchange occurs with very little knowledge and identification of the other exchange partner, assuming a formality of relations as well as the possibility of legal actions (Roe, 1994; O’Riain 2000; Andreff, 2002). Whereas in reality, exchange needs to take into account such identification and shared values. Thus, the relatively less researched (Albert 1991; Freeman 1984; Donaldson and Preston, 1995) stakeholder systems have a far greater overlap in organisations and institutions, and where exchange across organisations such as banking, government and financial markets resembles more the close exchange found within departments of an organisation in a shareholder, market driven business system (North 1994; Simon 1991; Olson 1992; Chui, 2002). The acceptance of this diversity in relations among organisations and institutions (North 1994; Simon 1991), and between shareholder and stakeholder, has been analysed in depth through papers such as Foss (1999), and Casson and Lundan (1999).

Low Income Economies

Past research on shareholder versus stakeholder business systems has shown the importance of comparative business systems research in international business. How important to research are inclusions of low income countries such as China and India (Prahalad and Stuart, 2002) can we create generalizable frameworks to define the nature of business in these low income, bottom of the pyramid (Prahalad and Lieberthal, 1998) countries. The traditional definition of global triad competition has tended to lump together Western Europe, United States and Japan as the three pillars
of the global economic triad. These three representatives of regions in turn were seen to drive global competition, international business strategies through standardized products, sophisticated and high income consumers. This framework has been used in the majority of research in international business including the works by Ohmae (1985); Prahalad and Doz (1987); Bartlett and Ghoshal (1989); Thurow (1992, 1996). The rest of the non-triad world were seen as either developing, or third world countries with relatively smaller, less developed markets producing no major corporations in global competition. This traditional framework is shown below in figure 1:

There are at least two fundamental problems with this traditional framework in terms of its application in the international business environment of the 21st century. First, it is quite clear that the consumers of Western Europe, Japan and the United States and not highly standardized to global products; in turn, corporations from these regions also seem to behave under different rules, logic and strategies. Even within Western Europe, there is a clear difference in the business behaviour of British versus continental European, such as French or Swedish corporations (Lowenberg, 1999; Westney, 1999; Ottaway, 2001; O’Sullivan, 2000; Thomsen and Pedersen, 1999).

Second, there is a problem that many of the successful newcomers to the international trading and business environment such as India have a very different institutional tradition from those of these mature markets. Because of their recent emergence on the world stage, they have not had the time to necessarily digest or
follow all the present rules of international trade, business and management. But
given their increased economic and business role, it is important to ask what these
differences mean for international business research.

Redefining the global triad

We believe that international business research needs to include a triad based
on national business systems. Past research on national business systems includes the
sociological connections and networks among economic and non-economic actors
within a national business systems (Foss, 1999; Casson and Lundan, 1999; Thomsen
and Pedersen, 1999; Morgan, Sharpe, Kelly and Whitley, 2003), and how these
sociological connections and networks affect institutional knowledge transfer.
Although political economists and economic historians such as Olson (1982, 1992)
and North (1990) helped to pioneer the importance of national economic systems,
Whitley’s (1992) sociological approach is more relevant for international business
research, and especially in the context of the micro-linkages that facilitate knowledge
transfer within a national business system.

Comparative research on corporate governance undertaken in the 1990’s have
shown the clear distinctions between two types of mature business systems: the
Anglo-Saxon system, and the system of continental Europe and Japan (Roe, 1994;
Albert, 1991; Thomsen and Pedersen, 1999). Our framework, which tries to divide
the global environment in the following way, is based on the factors that influence
and constrain the behaviour of corporations in their approach to international
business. There may be a global economic triad, and it is divided among Anglo-
Saxon countries such as the United Kingdom, United States; the non Anglo-Saxon
major economies of continental Europe and Japan; and the developing regions of the
world, or the bottom of the pyramid economies (Prahalad and Lieberthal, 1998). This is what we call our “international business systems” approach.

This approach allows us to see the diversity even among the mature, most developed countries in North America and Western Europe. For example, a major constraint on behaviour of North American firms is their ability to create profits and to be accountable to the financial markets. In contrast, in most of continental Europe, in countries such as Germany, the major corporations are constrained and need to be accountable to the banking sector. The acceptance of this diversity among the various successful business systems of the world, in turn, accommodates the potential diversity and differences among the emerging business systems of the world such as those in Asia and in Eastern Europe (Peng, 2001, 2003). Our focus on international business systems has similarities to past research on institutional aspects of organizational analysis such as DiMaggio and Powell (1983); Zucker (1987) and Whitley (1992). The difference in our approach is that we are comparing such systems in terms of global competition, and also the constraints that influence their behaviour and strategy to international business.

The key distinction being made here is that rather than grouping countries and regions together as the traditional economic triad definition does by general income levels, technology and consumer sophistication, this definition is based on the “business system” or the type of “capitalism” that exists in the country, region and society. In our definition, this means that countries such as the United Kingdom, which were traditionally seen as part of the Western European block of the economic triad due to geography and economic levels, should be seen more as part of the Anglo-Saxon block, which includes the United States, Canada, United Kingdom and
Australia. This new global triad based on business systems is show in the figure below.

As the bottom of the pyramid economies (Prahalad and Hart, 2002) develop economically, they can be seen as entering the emerging business system. The emerging market business system refers to certain regions of the world that seem to be rapidly entering the world business system and includes most of the Asian countries, some of the Eastern European countries such as Hungary, Czech Republic, and some of the Latin American countries such as Mexico, Chile and Brazil, and within Africa, perhaps South Africa and Egypt. In this sense, the nature of emergence can be seen as relatively general, and not specific to any particular national or regional culture. These emerging countries in turn have to be distinguished from the developing countries of the world. A few decades ago, it may have been appropriate to lump these groups together as developing, but in today’s world, there are clear distinctions between the dynamics of capitalism in these emerging markets, and the lack of economic and business success in the developing countries of the world. Listed below are some of the characteristics of emerging market countries, and in turn, how they differ from developing countries:

- National government set economic growth and develop as their top economic and social priority;

- Non-market forces, such as the banking sector or government ministries play a key role in industry strategies;

- Close coordination among banking, industry and government;

- Selection of strategic industries to help overall national development.
In this sense, we are trying to show the fundamental differences between the mature, developed business environments of Western Europe and North America and the rapidly changing business environments of other parts of the world. Due to their phenomenal economic growth, large populations, and increasing corporate success in the global environment, the emerging markets have become a key focus for personal and institutional investors as well as for international corporations; economies at the bottom of the pyramid (Prahalad and Hart, 2002) have the potential to rapidly become such emerging markets. At the same time, the nature of society, business exchange, legal systems, consumer demand and public policy in these emerging markets, which are often very different from the more mature economies, have provided difficult dilemmas for Western governments and corporations.

Anglo-Saxon, Communitarian, Emerging, Developing

As we discussed above, our definition of the new global triad is based on the “business system” (Whitley, 1992; Foss, 1999; Casson and Lunden, 1999; Thomsen and Pedersen, 1999) or the various economic, political, social, and business issues that constrain and influence the behavior of corporations from these systems, issues that have been analysed in works such as Danis (2002), Andreff (2002), Choi, et al. (1999), O’Sullivan (2000), Putnam (1996) and Chui (2002). Business systems can thus form the foundations of a new global triad definition, that can more easily incorporate bottom of the pyramid economies (Prahalad and Lieberthal, 1998). The Figure 3 below summarises some of the key distinctions within our definition of the global economic triad.

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Despite the differences between Anglo-Saxon and Communitarian capitalism, the distinctive features has been the political, legal and social institutions that have evolved to enshrine liberal democracies in them. At its core, the system is characterised by pluralistic participation, a system of accountability governed by checks and balances between the legislature, executive, and the judiciary, despite the rhetoric, ideological consensus amongst the ruling elite. On the other hand, emerging markets, especially Asia’s emerging market countries, have embraced the capitalist mode of production, but have either rejected the need for democratic participation or have not succeeded in their attempt to institutionalise the democratic features of western societies. Countries such as Japan which has emerged completely; Korea, and Taiwan have had strong government intervention, especially a role played by the government ministries rather than by the political process. The newly emerging China follows a business system, where the political elite at the national, provincial and local level feel that they are above the law, and it is difficult to discern the balance of power in the system without appreciating the allegiance of party officials to various patrons within the party hierarchy.

One general factor across most emerging market business systems is that the market works along with other forces, such as the state (Murtha and Lenway, 1994; Boddewyn and Brewer, 1994). Rather than the market coordinating economic and business efficiency, as in the Anglo-Saxon business system, in the emerging market system, there is coordination among the banking, industry and government that often replaces the market forces. But this contrast between emerging market and the Anglo-Saxon business systems is not surprising. The use of non-market mechanisms for
coordination is also a characteristic of Communitarian business system countries such as Germany, Sweden, France (Thomsen and Pedersen, 1999; Albert, 1991).

**CONCLUSIONS AND FURTHER RESEARCH**

Toyne and Nigh (1997) in their comprehensive book on international business have advocated the importance of a more multidisciplinary approach to international business research. Arpan (1997) in an AIB Presidential address has also raised the issue of international business research that broadens its scope of topics, geographies and methodologies. The need for international business research to open new research areas has also been more recently emphasised by Buckely (2002) and Lewin (2003). International business research has overlapped with social science research in recent years on research on comparative business systems. Our conceptual analysis advances earlier research such as Boddewyn and Brewer (1994) and Toyne (1989) that have advocated a more interdisciplinary approach to international business research.

Two seminal works have shown the importance of including developing economies into international business research, a major avenue of research. First, Rugman’s (2000) pathbreaking work on the end of globalization, or the realities of regionalization, has implications for another research area that has not been traditionally closely connected to international business research – that of economic growth in developing economies. MNCs are major sources of finance, technology and knowledge; the scarcity of MNCs in developing or non-triad economies (Rugman, 2000; Ghemawat, 2003; Rugman and Verbeke, 2003) means that this could help explain the continuing economic divergence between developed and developing economies (Sachs, 2003; Rodrik, 2003).
Second, Prahalad and Hart (2002) have analysed the importance of including the bottom of the pyramid countries in international business research. The concept of linking developing economies, or bottom of the pyramid countries, to MNCs’ global strategy was first analysed by Prahalad and Lieberthal (1998). Low income countries provide an untapped business and economic potential for today’s MNCs (Prahalad and Hart, 2002).

This paper has advocated that the traditional definition of the global triad (Ohmae, 1985) neglects the inclusion of developing economies, or countries at the bottom of the pyramid (Prahalad and Lieberthal, 1998; Prahalad and Hart, 2002). We introduced the idea of a new global triad based on business systems. Two areas warrant further research. First, empirical work that analyse the linkages among the countries of the new global triad of business systems, for example similarities in key industries, approaches to trade and regulation. Second, more theoretical work on the implications for international business research that takes into account a new global triad of business systems, and how to better include the existence of developing economies, countries at the bottom of the pyramid (Prahalad and Hart, 2002).
Figure 1:
Traditional definition of the global triad

US
Developing
Europe
Japan
Figure 2: A new global triad of business systems – Including bottom of the pyramid/developing economies
Figure 3: 
The new global triad of business systems

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<thead>
<tr>
<th>Type of business system</th>
<th>Key characteristics</th>
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<tr>
<td>ANGLO-SAXON BUSINESS SYSTEM</td>
<td>Strong legal system, reliance on contracts; importance of the individual; belief in free markets and trade; support of major innovations and entrepreneurship; separation of financial markets from banking and industries</td>
</tr>
<tr>
<td>COMMUNITARIAN BUSINESS SYSTEM</td>
<td>Importance of social groups and laws for communities; importance of banking relative to financial markets; government intervention in industry; managed trade rather than free trade; overlap among banking, industry and financial markets</td>
</tr>
<tr>
<td>EMERGING MARKET SYSTEM</td>
<td>High levels of uncertainty in business environment; volatility and rapid developments in consumer demand; not always stable political systems; legal systems relatively weak; important role of social networks in exchange.</td>
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