Chapter 8.13
National Intellectual Capital Stocks and Organizational Cultures:
A Comparison of Lebanon and Iran

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ABSTRACT

Using a set of macro-level socio-economic indicators, we first explore whether two Middle Eastern countries (Lebanon and Iran) provide the foundation for organizations to develop their intellectual capital (IC). Then, we investigate the role of micro-level organizational characteristics that might support or hinder the development of IC management processes within organizations. The insight gained through our comparison will shed light on some important organizational attributes that foster the management of IC for wealth creation. The analysis has important implications for multinational corporations (MNCs) that have operations in the Middle East, are contemplating business involvement in the Middle East, or that have employees with Middle Eastern origin.

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INTRODUCTION

The Middle Eastern countries are generally perceived as hotbeds for political upheaval rather than as serious business investment considerations. In spite of this perception, many multinational companies (MNCs) are looking for opportunities in this region and view the Middle East as a growing, lucrative marketplace. The Middle East has great potential for becoming a significant international economic force because it contains vast natural and human resources. Its strategic geographical position places it at the center of the global stage, making it an arena for competing global powers. As trade between the industrialized world and Middle Eastern countries continues to grow, the importance of gaining an understanding of the region's complex and diverse people will become more apparent to MNCs operating in developed nations.

Spurred by the desire to gain access to untapped markets and resources, MNCs have been a major force in increasing the volume of international trade worldwide. As a result of the increased pace of globalization, MNCs in developed countries are continuing to expand their operations to countries very different from their own in regard to business environment and practices, economic stability, level of economic development, and cultural characteristics. Because of this diversity, one popular means of entering new territories has been through the formation of strategic alliances called international joint ventures (IJVs). As host countries desire to maintain some control over the operations of MNCs, in some settings an IJV is the only entry option available to foreign investors. As well, an IJV arrangement helps to ensure that local stakeholders share in the economic and social benefits. From the entry options granted by the Iranian government to foreign firms, the IJV is the only possibility for establishing a long-term presence. The buy-back scheme where a foreign firm supplies plants and machinery in exchange for the goods that will be produced by means of such facilities is more of a financing instrument and a compromise solution for foreign investment in the short-run. The build-operate-transfer (BOT) arrangement allows foreign firms to invest in projects that are operated for a certain period of time by the foreign investor before being fully transferred to the Iranian government. For these reasons, IJVs are the only entry option for investment by foreign companies seeking to establish a long-term presence in Iran. The high level of political instability in Lebanon has made the IJV arrangement very popular as a means of entry for foreign companies. By having a local partner, a foreign firm can reduce the risks of operating in a highly uncertain business environment and minimize the losses resulting from potential disruptions to operations.

The prevalence of IJVs in the globalization of business activities has been the subject of numerous studies (Cyr, 1995; Geringer & Hebert, 1991; Harrigan, 1985; Killing, 1983), many of which investigate the human resource practices of MNCs that pertain to their local operations (Bjorkman & Lu, 1999; Lu & Bjorkman, 1997, 1998; Tayeb, 1998; Wang & Satow, 1994; Wasti, 1998). The question that arises is if human resource practices should follow the established policies of the MNCs or those of the local partner (Beechler & Yang, 1994; Hannon, Huang, & Jaw, 1995; Lu & Bjorkman, 1997, 1998; Monks, 1996; Rosenzweig & Nohria, 1994). In this regard, firms have a continuum of options in trying to operate effectively. At one extreme is a policy of standardization of human resource practices across all international operations. At the other end is a policy of complete customization to local practices. In between these two extremes are many combinations of blending standardization with local responsiveness (Doz & Prahalad, 1981; Hannon et al., 1995; Lu & Bjorkman, 1997; Prahalad & Doz, 1987; Schuler, Dowling, & De Cieri, 1993; Taylor, Beechler, & Napier, 1996).

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