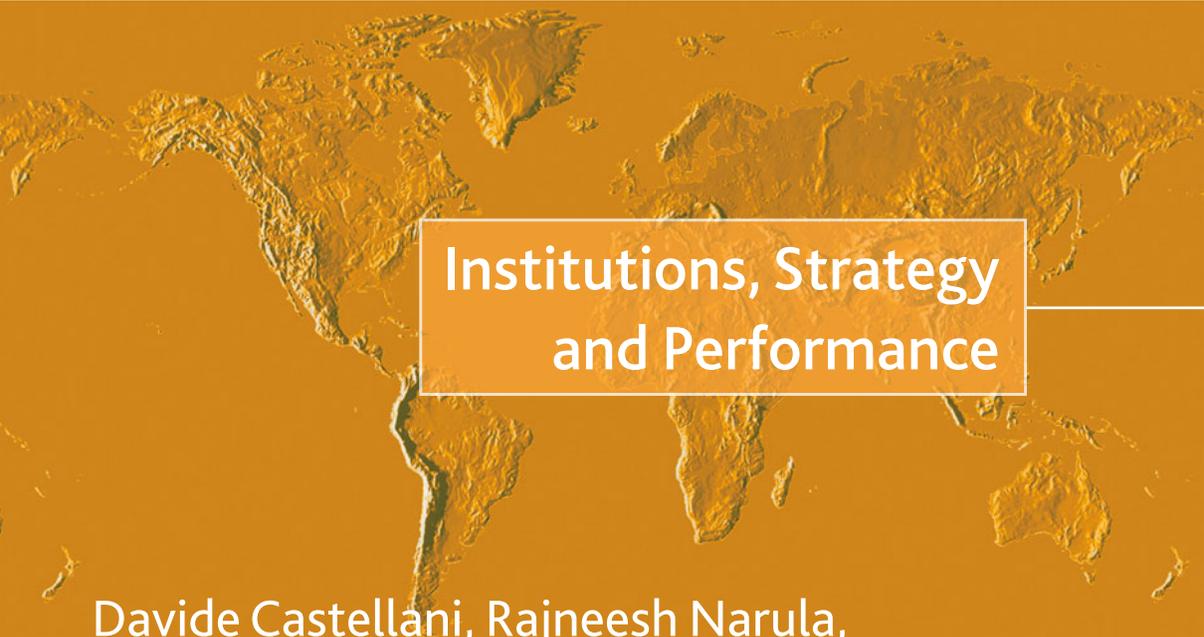


Contemporary Issues in International Business



Institutions, Strategy
and Performance

Davide Castellani, Rajneesh Narula,
Quyen T. K. Nguyen, Irina Surdu
and James T. Walker



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Quyen T. K. Nguyen · Irina Surdu
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Contemporary Issues in International Business

Institutions, Strategy and Performance

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It is also the only place where the strait-jacketed and turgid writing style preferred by academics can be ignored. As a few of you who will read these acknowledgements with any degree of care will have noted, we have used an exclamation mark! And look, here is another!

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September 2017

Davide Castellani
Rajneesh Narula
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Irina Surdu
James T. Walker

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1

No Longer at Ease in the Old Dispensation: Reappraising the Role of International Business in the World Economy

Davide Castellani, Rajneesh Narula, Quyen T. K. Nguyen,
Irina Surdu and James T. Walker

The Background to This Volume

This volume is derived from the 44th Annual Conference of the Academy of International Business (UK and Ireland Chapter) organised jointly with the 6th Reading Conference, held at the Henley Business School, the University of Reading from 6 April 2017 to 8 April 2017. The conference was composed of engaging panel discussions as well as more thematically designed parallel sessions of conference papers. We have sought to compile a selection of papers from the conference.

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The theme for the conference was *Contemporary Issues in International Business: Are we seeing the tail-end of globalisation?* The panel discussions looked to examine substantive issues relating to this critical question. During the last few years, we have been faced with growing economic uncertainty and socio-economic challenges that suggest we may be seeing the tail end of globalisation. Societies have become intolerant to immigration. Populist movements that emphasise nationalism are gaining influence, which pushes back against global cooperation. By way of examples, we have Brexit and the rise of Donald Trump, with the UK seeking to withdraw from the EU, and the USA looking to renegotiate NAFTA by reversing 23 years of supply chain integration. Our panellists emphasised that the rise of economic nationalism is part of a broader process of polarisation of societal values, which are negatively associated with socio-economic outcomes. Furthermore, it was highlighted that the current trend is partially the result of the breakdown of the so-called Embedded Liberalism Bargain, which (especially in Europe) over the last few decades is compensating the “losers” from globalisation. Paralleled by a reduction in public resources, these trends have led to an increasing demand for protectionism and contributed to the rise of economic nationalism.

Many commentators have asked: How far will this backlash go? Will we return to the days when sovereignty and nationalism ruled the day? Or is this a brief hiccup? We (the editors of this volume) believe that globalisation is an unstoppable force, but it can be slowed down by this need to look inwards and backwards, towards what are often referred to as “the good old days”. Our society has collectively underestimated the costs of rapid change and the fact that there are social, political and economic costs of maintaining the momentum of globalisation. Further, we appear to be more and more inertial in accepting the new realities that come with globalisation: less control over the “domestic” economy, widespread use of international transfer pricing, the free(r) movement of people, growing inequality. These issues are related to and span other fields such as sociology, anthropology, economics and politics.

Mankind has a deep-seated fear of change, and this is exacerbated by rapidly changing societal inequalities. Politicians and civil society wrest with their consciences, and contemplate how to make sense of the new dispensation, yet are sufficiently aware that, to paraphrase T. S. Eliot, we are also “no longer at ease in the old dispensation”.¹

¹Journey of the magi, from *Collected Poems 1909–1962* (Faber, 1974).

As the focus of the conference was on the international business aspect, we asked ourselves: To what extent is the MNE complicit? Indeed, we sell the myth that MNEs promote development. But is this true? Does promoting MNE activity really help reduce poverty and sustain development? Does more internationalisation make for more happiness?

On the one hand, our panellists argued that multinational enterprises invariably contribute to wage and wealth inequality. Rising tides do not raise all ships, and it was for governments to consider regulation as the only practical means to minimise the downside. However, developing country governments are often too weak to regulate. Left to their own devices, MNEs end up increasing the level of inequality, and their efforts in the form of corporate social responsibility programmes are insufficient. On the other hand, it was said that countries such as India were certainly worse off prior to globalisation, and thus, inequality was a small price to pay for sustainable development. The growth of the Indian IT sector, in particular, was directly linked to these large multinational firms. Furthermore, the new world order with the new geographies of production and consumption mainly due to the growth of South–South trade and Southern markets would, on balance, also be the contributing factors towards reducing inequality. The discussion that followed suggested that for poor countries, inequality was a natural and expected outcome, but a growing middle class also signalled that inequality was better than the alternative, which for such countries would mean massive unemployment.

Ultimately, the tensions caused by growing inequalities within and between countries, coupled with a rapidly changing global business environment, beg important questions regarding the role of institutions in affecting international business strategies, particularly in terms of how firms can effectively operate their internal structures while being cognisant of how best to position themselves in different institutional contexts. In a world where globalisation is under fire, and consequently where MNE's margins are potentially under pressure, firms will need to be smarter in the decisions they make, and in how they engage with varied national entities. Beyond the broader context of the panel discussions, this volume seeks to provide a series of important contributions to some of the most current debates in IB. In doing so, the volume aims to provide a richer understanding of MNE activities and how they are being impacted by the complex institutional settings in which they operate. Questions about how MNEs use (and abuse) the concept of CSR across national boundaries; their ability to manage the complexity of remote decision-making to achieve sustainable success between headquarters and subsidiaries; how they are able to absorb, analyse

and respond to institutional shifts and pressures, and the extent to which MNEs are able to exploit their location decisions to optimise performance are all put under the spotlight.

Contributions to This Volume

The chapters in this volume are a selection of 14 out of 197 papers presented in 35 parallel sessions at the 44th Annual Conference of the Academy of International Business (UK and Ireland Chapter) organised jointly with the 6th Reading Conference. They are broad in their coverage, yet collectively demonstrate a certain intellectual continuity, and are organised into relatively homogeneous sections around the themes emerging in the discussion above. In particular, the papers included in this volume address the role of *institutions* in international business *strategy* and their links with the *performance* of firms and countries. Part I delves into the issues of how institutions and business strategies are intertwined, with special emphasis on socially (ir)responsible activities and corporate wrongdoing. Part II instead looks at the links between institutions and the economic performance of both firms and countries, especially in emerging market contexts. Part III investigates MNE subsidiary strategies and their role in host country economic development. Finally, the group of contributions that make up Part IV concentrates on aspects such as the degree and direction of multinationality and its subsequent effects on firm performance.

Institutions and International Business Strategy

Part I begins with a conceptual framework developed by Jöran Wrana and Javier Revilla Diez, on how MNEs may become institutional entrepreneurs in host regions of transition economies through their CSR strategies. Their chapter, titled “*Multinationals, Corporate Social Responsibility and Regional Industrial Change in Transition Economies*” explains how MNEs’ CSR activities, when supported by regional state authorities, can contribute to favourable institutional changes in the transition economies in which they operate. The main argument is that regional state authorities can create institutional pressure on local firms to adopt global CSR certificates leading to improved buyer–supplier relationships between the MNEs and the local firms.

Further, CSR projects in the education sector may link public institutions (such as universities) with MNEs, which can be valuable as a means to promote local CSR projects in certain regions of transition economies. The diffusion of global CSR certificates and continuous development of local CSR projects is expected to trigger institutional change and foster regional upgrading.

In the same vein, Federica Nieri and Elisa Giuliani recognise that MNEs can generate both positive and negative impacts on the host regions they invest in. In the second chapter of this section titled “*International Business and Corporate Wrongdoing: A Review and Research Agenda*”, Nieri and Giuliani study the literature on the relationship between MNEs’ international expansion choices and acts of corporate wrongdoing and corporate social irresponsibility. Following their systematic review of the literature, the authors found that current studies have identified two coexisting conditions that are required to curb MNE involvement in acts of irresponsibility, namely the adoption of explicit CSR policies and increased freedom of the press in the host country. Even so, few studies conceptualise corporate irresponsibility at the international or global level, with most scholars still focusing on national CSR activities. The authors passionately argue against this trend in the IB literature since MNEs operate across many different countries, institutions and cultures.

Following from the previous chapters, the last chapter in this section focuses on how we should measure the involvement of multinational firms in socially responsible activities. In their empirical study titled “*The internationalisation of ventures: The roles of a nation’s institutions and the venture’s value orientation*”, Jie Chen, Kaisu Puumalainen and Sami Saarenketo investigated the factors that influence the likelihood of internationalisation for socially oriented entrepreneurial ventures compared to profit-oriented entrepreneurial ventures. The authors are confident that this distinction is important, as MNEs and smaller ventures alike are evaluated based on their financial performance in conjunction with their broader contribution to society, through their social and environmental impacts. Interestingly, their results show that the socially oriented ventures are, in fact, more likely to become international than profit-oriented ventures. The authors point to the gap between the importance of the phenomenon of the internationalisation of socially oriented ventures and the lack of relevant research on this phenomenon in the IB literature.

Institutions, Emerging Markets and Economic Performance

Part II offers a collection of three chapters which focus significantly on the key external, mainly institutional, factors that may threaten the performance and competitiveness of an international country or region. To kick-start Part II, Luis Dau, Elizabeth Marie Moore and Max Abrahms point to the surprisingly scant empirical or theoretical work on the outcomes of external shocks such as acts of terrorism in their chapter titled “*Global security risks, emerging markets, and firm responses: Assessing the impact of terrorism*”. The authors explain how such external events may have negative ramifications not only on the performance of MNEs operating in the affected areas but also on the economic development and advancement of those areas. Further, they propose that emerging market MNEs may be better equipped to survive and remain profitable after a terrorist event than advanced market MNEs, because the former have more substantive experience of operating amidst contexts characterised by chaos and institutional voids. Using a case example of Grupo Carso headquartered in Mexico, the authors illustrate how an emerging market MNE has developed resiliency strategies in the face of acts of terrorism.

Next, Roseline Wanjiru and Karla Prime focus on institutions as key determinants of economic growth in their chapter titled “*Institutions, economic growth and international competitiveness: A regional study*”. The starting point of their research is that decisions about how resources are allocated may be impacted more by political and economic institutions than by a country’s factor endowments. According to Wanjiru and Prime, institutions matter and more so, they propose that home market institutions have differing effects on the economic performance of the Caribbean region. The authors found that market-legitimising and market-regulating institutions constrained market inefficiencies and positively impacted productivity. In turn, market-stabilising institutions reached a market growth-maximising level beyond which increased bureaucracy reduced the incentive for investment and productivity. These findings suggest that strengthening market-legitimising and market-regulating institutions is important for the developing Caribbean economies to promote economic growth and competitiveness.

In the last chapter in Part II (but most certainly not least), Pavida Pananond and Alvaro Cuervo-Cazurra address a topical debate within both the IB literature and IB practice, which relates to whether and how home-country

governments should support outward foreign direct investment. In a chapter titled “*The Complementarity of Foreign and Domestic Investment by Emerging Market Multinationals*”, the authors examine the impact of outward FDI on domestic investment based on a sample of emerging market firms from Thailand. A key finding of their empirical endeavour is that emerging market firms’ foreign expansion complements rather than substitutes their domestic investment because outward direct investment enables these firms to increase their levels of efficiency and improve their value chain positioning. Hence, Thai MNEs obtained strategic benefits from expanding internationally by taking advantage of economies of scale and regulatory differences among host countries. Domestic investment also increased as foreign investors needed to further expand their domestic capacity to serve the new host markets entered.

Headquarter-Subsidiaries Relations

The papers in this section pay attention to the roles of MNE subsidiaries in host country economic development, the intra-organisational perception gaps in decision-making between headquarters (HQs) and subsidiaries, strategy creativity of MNE subsidiaries and the impact of subsidiary CEO entrepreneurial self-efficacy, and subsidiary combinative capability for knowledge creation as a co-evolutionary development process.

Robert Pearce in his chapter entitled “*The dynamics of differentiation: the resource bases of development and the roles of MNE subsidiaries*” investigates the roles of MNEs in national economic development. The interaction between MNEs and development involves multidimensional and contingent interdependencies. Countries pursue sustainable and deepening national development while MNEs seek to adjust their global competitive networks. For the country, this can build on, and perhaps evolve through, three levels of resources that can generate new competitive possibilities: non-renewable primary resources, standardised but improvable inputs, and creative knowledge and resources. Pearce traces the implications of the ways MNEs’ commitment to an economy can evolve. Two indications are drawn for development policy. Firstly, policy makers should have a clear perspective on the differentiation of the economy’s resource base towards higher value and more internationally competitive capacities. Secondly, in assessing the scope for MNE participation, governments need to fully understand the objectives of the MNEs, and their dynamic impulses.

Shasha Zhao, Marina Papanastassiou, Yiannis Bassiakos, Evis Sinani and Robert Pearce offer a thoughtful contribution to the chapter “*Unfolding the Intra-organisational Perception Gap in Decision-making*”. These relationship between headquarters and subsidiaries in terms of their perceptions of decision-making loci and associated organisational structure. By comparing the responses of parents of Greek MNEs and their subsidiaries, they find evidence in favour of a perception gap in terms of decision-making between headquarters and subsidiaries. They argue that future research needs to carefully consider and account for the perception gap and point out the importance of the role of MNE managers in removing such barriers in order to achieve effective decision-making.

Dónal O’Brien, Pamela Sharkey Scott and Ulf Andersson examine strategy creativity at the subsidiary level in the chapter “*Strategy Creativity in Multinational Subsidiaries*”. They suggest that tensions between the headquarters and subsidiary perspectives demand a greater focus on the micro-foundations of strategy development in multinational subsidiaries. In a time when subsidiaries are coming under increasing pressure to meet the conflicting demands of innovation and integration in complex MNEs, this chapter contributes by uncovering the drivers of strategy creativity in subsidiaries and the mediating effect of an entrepreneurial subsidiary CEO. This chapter focuses on the attributes of the most senior manager in the subsidiary, the subsidiary CEO, and highlights how the entrepreneurial self-efficacy of these managers impacts the propensity for subsidiaries to be creative in their strategic approach.

The chapter “*Subsidiary combinative capability for knowledge creation as a co-evolutionary development process*” by Johanna Clancy, Paul Ryan, Ulf Andersson and Majella Giblin enhances our understanding how the subsidiary develops a knowledge creating role while operating in a dual context of an internal corporate environment and external local network. These scholars discuss the need for the subsidiary to develop a combinative capability of managing relations in both contexts. To explore this combinative capability, they argue for a much-needed co-evolutionary perspective of the subsidiary in its host location and internal context. As such, this chapter adds to theory on subsidiary role evolution. A conceptual framework for future research is developed in the chapter, which uses a co-evolutionary lens. It is advocated that process studies of longitudinal forms should be undertaken in future research, which takes a rich in-depth empirical investigation of dynamic processes over time.

Location Decisions and MNEs Performance

The papers in this section delve into the issues of the degree and direction of multinationality and its effects on performance.

Louis Brennan, Lisa Spencer and Jim Stewart in their paper entitled “*Establishing How MNCs are Defined: A response to the Regional/Global Debate*” take a firm-level perspective and investigate the degree of internationalisation (DOI) of firms over time. Their objective is to assess classification methods that are used to define MNCs and advance the area of research that explores whether firms are more regional or global. Based on a longitudinal data set of a sample of 88 firms from the Fortune 500 for the period 1990–2010, their findings reveal that different models used to measure DOI of firms result in the same firm being classified in different ways as a consequence of different definitions of firm multinationality. The implication is that regionalisation and other classifications of firms are a function of the nature of the classification system.

The chapter on “*Outward FDI from South Korea: The Relationship between investment position and location choice*” by Jae-Yeon Kim, Nigel Driffield and Jim Love takes a country-level perspective to the analysis of the degree and direction of multinationality. In particular, they model the evolution of South Korean outward FDI by extending the Investment Development Cycle perspective to include evolving FDI motivations. They differentiate between two changing paths of outward FDI: (1) FDI to developed countries, with a change from technology-seeking FDI to market-seeking FDI and (2) FDI to developing countries from efficiency-seeking FDI to market-seeking FDI, while accounting for South Korea’s own investment position within the investment cycle. The analysis exploits a long time series of South Korean FDI data from 1980 to 2014.

The chapter “*Does it pay to be international? Evidence from industrial district firms*” by Marco Bettiol, Chiara Burlina, Maria Chiarvesio and Eleonora Di Maria moves our lens towards the relationship between multinationality and performance. In particular, they explore the extent to which the location of manufacturing activities at home or abroad is associated with better (or worse) firm performance. The chapter relates to current research on backshoring to highlight that domestic control of manufacturing activities may be crucial for firm competitiveness. Using a sample of approximately 260 Italian firms located in industrial districts, they show that the international production of components is not associated with higher profitability for high-quality goods (as measured by return on assets), but could be a profitable strategy for low-quality goods.

Finally, Jinlong Gu, Yong Yang and Roger Strange, in their chapter on “*Firm Diversification and Financial Performance: Evidence from Manufacturing Firms Worldwide*”, place the multinational strategy into the broader context of diversification strategies and compare the joint relationships of international and product diversifications with firm performance. Drawing on over 13,000 manufacturing firms in the period of 2004–2013, they find that this joint effect is negative and tends to become stronger for firms in high-tech sectors, relative to firms in low-tech sectors. In addition, they found that this negative effect is weaker for developed country firms, compared to firms in emerging countries.