

Introduction: Impact of International Business: Challenges and Solutions for Policy and Practice

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Over the last several decades the international operations and activities of firms have evolved immeasurably in scale, scope, reach and form. In addition to, inter alia, the heightening of complex international interconnectivity between firms, institutions and economies at national and sub-national levels, new or nontraditional sources of international investment and trade, such as state-owned multinational enterprises (MNEs) and small and medium-sized enterprises (SMEs), are becoming increasingly important. At the same time, the international community is confronted with a new set of challenges, the scale and complexity of which are virtually unprecedented, such as ongoing economic crisis with prolonged and lacklustre return to growth and profitability in the aftermath of the worst financial crisis since the Great Depression; unsustainable economic and social developments; and heightened security threats. The impact of these challenges on firms, governments, international organisations and civil society, invites the research community to intensify its efforts to supply useful insights, answers and innovative ideas.

Research in the field of international business (IB) over the past decade or so would appear to offer a wealth of guidance on these issues. Questions nevertheless remain. Notably, how relevant has IB research been to decision makers in the 'boardroom' and 'corridors of power'? Has research in this discipline been overly isolated from practical applications, and, if so, how can it be orientated towards greater use outside the 'ivory tower' to offer solutions for 'real world' problems? Indeed, the question of relevance has become a general concern in business and management research, reflected inter alia by the current international demand of research-funding councils, national research assessment exercises and business school accreditation bodies to assess the impact and benefit of research beyond academia.

These issues relate directly to the wider controversy on the 'rigour-relevance gap' in management research. On the one hand, there is the assertion that the

twin requirement for academic rigour and practical relevance is fundamentally unbridgeable because researchers and research users inhabit separate social systems (Kieser and Leiner, 2009). On the other hand, there are numerous counter-illustrations where current management and business research generates knowledge that is both socially useful and academically rigorous, as well as being of practical relevance to managers of firms and organisations and/or policymakers in government (Hodgkinson and Rousseau, 2009). Notwithstanding, there are heightened demands for IB research to provide guidance to decision makers on how to solve actual problems faced by the international business community.

Current IB research has been criticised for not addressing sufficiently those issues that are relevant and interesting for practitioners today, and despite being theoretically and empirically relevant, not explaining properly the practical relevance for managers and government officials (Cuervo-Cazurra et al., 2013; Oesterle and Wolf, 2011). For IB research to provide answers to current challenges and problems faced by the international community and to bridge the gap between academic rigour and relevance for the research user communities, this may require among other things: (1) stronger links between academic research and practice and policy, and involvement of stakeholders in the conceptual phase of research projects; (2) stronger links to major international and national policy programmes and initiatives (e.g. *EU 2020 Entrepreneurship Action Plan* [European Commission, 2013], *New High-Tech Strategy – Innovations for Germany* [Federal Ministry for Economic Affairs, 2014], *Investment for Development* [UNCTAD, 2014]); (3) questioning of conventional wisdom and re-consideration of classical IB issues; (4) a greater emphasis of variables that can be influenced by practitioners; (5) locating the focus on particular questions within the context of the ‘bigger picture’; (6) a greater willingness of IB researchers to take a stance on bigger politically sensitive issues (e.g. discrimination, ethics, human rights, poverty alleviation issues); (7) more systematic multidisciplinary approaches to offer solutions that reflect the multi-faceted and complex issues we face at sub-national, national, regional, bilateral and multilateral levels, necessitating among other things that IB research draw upon and incorporate related disciplines (e.g. economic geography, institutionalism, entrepreneurship, and international political economy). For a detailed discussion see e.g. Oesterle and Wolf, 2011; Schmid 2010; UNCTAD, 2014. Importantly, IB research needs to move beyond operating in ‘response mode’ in order to inform and provide guidance to management and policymakers on current issues and problems, to also drive the future agendas in the research user communities.

The aim of this book is to address the issues and challenges raised above and to provide both academically rigorous as well as practical relevant contributions on a number of important IB issues. This volume contains selected

papers with particular relevance to the theme *International Business Research: For the bookshelf or the boardroom and corridors of power?* of the 42nd Academy of International Business (UK & Ireland Chapter) Conference, held at Manchester Metropolitan University in April 2015. As well as advancing IB research and providing fresh empirical and conceptual insights, a unifying attribute of all chapters in this book is their relevance for policy and practice. This book provides exemplars of successful collaborative research between academia and research users that bridge the rigour–relevance gap. It contains chapters that revisit classical IB issues in light of new realities, advance theoretical and conceptual issues of importance for both academia and practice, tackle current issues and problems faced by firms and organisations, and incorporate insights of other related disciplines into IB research in search of solutions in a complex and multi-faceted contemporary IB context.

Part 1: Impact of locations, institutions and governments

Papers in this part focus on the importance and impact of national and regional location aspects, institutional developments and governance structures on IB activities.

In Chapter 1, Chen examines the effects of geographic, institutional and linguistic regions on return on investment in foreign subsidiaries of UK multinational enterprises (MNEs) using a large panel dataset consisting of 55,726 subsidiaries over the period 1996–2005. The results show significant regional differences in the profitability of foreign direct investment (FDI) locations. For UK firms, FDI into EU member countries is likely to be more profitable compared to FDI into other countries. Secondly, FDI in the United States, Canada, Australia and New Zealand is more profitable compared with the rest of the world, excluding Europe. Thirdly, the effect of EU membership on subsidiary performance is greater than the effect of geographic distance, which in turn is greater than the effect of English language.

In Chapter 2, Smith examines the regional level impact of corruption and crime on multinational and domestic firms. She investigates the assumptions that investment should be unprofitable in the environments with ‘bad institutions’: foreign firms are likely to avoid places where negative growth of domestic firms is also expected. Using data of regions in Russia in 1995–2011, this chapter investigates these assumptions by quantifying the relationship between MNEs and domestic firms SMEs on the one hand, and corruption and crime on the other. While a significantly negative impact of corruption on MNEs is detected, such an impact is positive in the case of SMEs. When it comes to crime, however, despite the adverse effect of the current levels on foreign and domestic businesses, the (one year) lagged effect is positive. Smith suggests that there may be ‘an adjustment’ mechanism that kicks in

as businesses ‘settle’ across the country – that is, as they get familiar with the environment they begin to take advantage of ‘bad institutions’.

In Chapter 3 Nguyen examines the determinants of reinvested earnings of the multinational subsidiary. This chapter draws upon internalisation theory to develop hypotheses and empirically test them using original primary survey data from British multinational subsidiaries in six emerging economies in the ASEAN region. This study provides three new findings that have important implications for subsidiary managers and policymakers. First, reinvested earnings are a type of firm-specific advantage (FSA) in financial management of the subsidiary. Second, the perceptions and assessment on host country location factors by subsidiary managers influence reinvestment decisions. The two most important location variables are access to customers and the reliability and quality of local infrastructures. Third, the duration of operation of the subsidiary has a significant positive effect on reinvested earnings.

In Chapter 4 Brandl, Darendeli, Hamilton and Mudambi investigate the impact of actors, such as foreign MNEs and local firms, and the influence of time on global intellectual property (IP) protection standards exhibiting institutional change processes in developing country contexts. As such, 60 developing countries that became part of the Trade Related Intellectual Property Standards (TRIPS) agreement by the World Trade Organization (WTO) and their compliance with IP protection standards are studied. The authors argue and show that pressures by foreign MNEs and domestic firms influence institutional change processes and the pace of these processes. Countries with a high composition of foreign MNEs comply much faster to TRIPS than countries with a high composition of domestic firms. This study highlights the benefits for policy and practice from detailed insights on actors that impact policies and how their pressures impact institutional changes.

Part 2: International entrepreneurship and innovation: contexts and outcomes

Papers in this part examine important international entrepreneurship issues and outcomes in the context of high-tech industries and business strategies, as well as the impact of FDI on innovation in domestic firms, including SMEs.

In Chapter 5 Ketolainen, Nummela and Kalinic develop the concept of affordable loss in the context of decision-making in entrepreneurial internationalisation and offer both an in-depth conceptual analysis and practical application in the biotechnology sector. Their findings highlight that affordable loss seems to be connected to short-term, operative decisions, but is less applicable for long-term, strategic decisions. Furthermore, the use of the affordable loss principle appears to be more common in decisions involving a single decision maker than in shared decision-making. However, their findings

challenge the premise of effectuation theory, as affordable loss and expected reward do not seem to present alternative elements when viewing decision-making in the context of entrepreneurial internationalisation. Instead, they are used in parallel, indicating that making a single decision may include the use of both causation and effectuation-based logic.

In Chapter 6 Torkkeli, Saarenketo, Kuivalainen and Puumalainen examine the influence of business strategies in internationalisation outcomes of SMEs. They highlight that business strategies focused on unique products development and quality have been found to determine the international success of rapidly internationalising firms known as 'born-globals'. However, it remains unclear if these strategies are also applicable in the context of internationalising SMEs in general. They apply a cross-sectional sample of 119 Finnish SMEs and examine how the two business strategies determine internationalisation outcomes among SMEs. The main findings are: (1) unique products development is a differentiating factor between born-globals and other SMEs, and is linked to increased turnover growth at the start of internationalisation; (2) the quality focus has no such effects; and (3) neither of the focal strategies is linked to increased international performance.

In Chapter 7 Ha examines the extent to which the impact of FDI on indigenous firms' innovation varies according to environmental features such as levels of dynamism. The study explores unobserved contingency factors in terms of indigenous firms' task environments to propose the specific conditions under which the impact of FDI on indigenous firms is likely to be positive. It focusses on the influence of environmental dynamism. Based on Korean Innovation Survey data, Ha shows that indigenous firms' innovation performance is likely to be affected positively by horizontal FDI spillovers in a stable environment and by backward FDI spillovers in a dynamic environment. This study extends recent research by showing how the impact of FDI depends on dynamic features of the environmental setting in the host country.

Part 3: Strategy and management: ownership modes, networks and people

The papers in this part consider strategy and management issues at country, industry and firm level with particular reference to modes of ownership, value creation and networks and human resource management issues.

In Chapter 8 Wang, Larimo and Nguyen analyse the determinants of the ownership mode strategies of multinationals in China at three levels: country, industry and firm levels. Their study is based on a sample of 402 manufacturing investments made by Nordic firms in China from 1987 to 2012. The findings indicate that the ownership mode strategy of Nordic firms is determined by factors at multiple levels. Furthermore, country-specific determinants

(regional institutional advancement) significantly interact with firm-level variables (international experience and degree of product diversification). They highlight the implications of their findings for managers of firms originating from small open economies.

In Chapter 9 Degbey and Hassett examine the issue of creating value in cross-border merger and acquisitions (M&As) through strategic networks. Their study views M&As in their context, that is, the network in which the focal firms are embedded. The purpose of this chapter is: first, to study a focal firm's network position in the external environment of the industry; and, second, to analyse how the dissolution of acquired firm customers' network may influence a focal actor's ability to reduce its excess capacity. The empirical research is based on a case study of a European stainless steel company. The main findings suggest that the embeddedness of a focal actor in networks of external relationships with other actors may help shape its network position and network structure for superior value creation. Degbey and Hassett suggest that business relations are a strong antecedent for gaining preferred network position, and that the dissolution of acquired firm's customer networks may impact the acquirer's ability to reduce its excess capacity.

In Chapter 10 Sofikitis, Manolopoulos and Dimitratos shed light on determinants of professional career paths in MNC subsidiaries. Contemporary theoretical approaches on career choice have gained extensive credence in the career research stream. However, earlier contributions that favour more traditional career shapes have lately been revisited. Their study considers this career choice theme in the context of knowledge professionals' career preferences over a single or a hybrid career path. Research evidence based on a large-scale study of 921 professionals employed in 70 R&D units of MNC subsidiaries in Greece suggests that the type of R&D unit, employee age and marital status stand out as significant predictors of knowledge professionals' career choice over either a single or a hybrid path.

Part 4: Rigour and relevance: some roadmaps for internationalisation research

Papers in this part provide exemplars of successful engaged scholarship research in bridging rigour and relevance in IB research as well as conceptual papers addressing future avenues for academic research that addresses issues that are relevant and useful for practitioners.

In Chapter 11 Fletcher, Young and Dimitratos address calls for more policy-relevant academic research. They utilise an engaged scholarship approach to study an innovative evaluation and research (E&R) study of the Scottish Enterprise Global Companies Development Programme (GCDP). The latter was a public policy initiative to support the internationalisation

of small- and medium-sized enterprises (SMEs) in Scotland. The study was undertaken by academics and included a combined formal evaluation and research study; a follow-up workshop and group interviews; and policy-maker reflections. The findings suggest that researchers and policymakers produced excellent results when they worked cooperatively over a longtime period, so that stakeholder groups acquired ownership of the outputs of their cooperation.

In Chapter 12 Cao, Criscuolo and Erkkö develop a roadmap of future research areas for the exploration of the mechanisms that influence the SME internationalisation process and subsequent firm performance. They argue that small and medium-sized enterprises (SMEs) internationalisation is an entrepreneurial strategy that shapes these companies' future business development. The process of internationalisation allows SMEs to survive and thrive through deployment of unique resources and the building of local capabilities. Resource elements, strategic dispositions and firm growth strategy constitute important determinants of the SME internationalisation process and subsequent firm performance. This chapter provides a comprehensive examination of the research in this stream and, more importantly, identifies the inadequate theoretical arguments and empirical evidences that need to be addressed to advance the understanding of the field. Based on their findings, they develop a roadmap of future research in this area.

In Chapter 13 Yamin and Kurt demonstrate how specific features of social network analysis (SNA) can enhance our understanding on firm internationalisation, particularly in the context of the liability of outsidership (LOO) perspective. The arguments are developed with specific reference to the revised Uppsala model in which internationalisation is regarded as overcoming LOO and building insidership in relevant networks. SNA is proposed as an analytical research tool through which structural and positional attributes of networks, which affect the process of overcoming LOO, can be deeply and systematically investigated. The chapter contributes to the greater appreciation of the value of SNA in deepening our knowledge on the process of overcoming LOO in internationalisation research.

Conclusions

While certainly not exhaustive, this book examines various contemporary IB issues from various viewpoints, draws on research conducted in different countries, examines IB issues in both developed and emerging country contexts, offers various theoretical perspectives and different methodologies. It provides both rigorous empirical and conceptual advances and insights that are useful and relevant for managers and policymakers in their search for solutions in face of current challenges posed by the international environment.

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