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# 1

## Managerial Issues in International Business: Introduction

*Felicia M. Fai and Eleanor J. Morgan*

This 13th volume of the Academy of International Business (AIB) series, based on selected papers presented at the AIB UK 32nd annual conference, is organized around the theme of the managerial challenges that may face businesses as they internationalize. Within this theme, the nature of the contributions included in the book is diverse in many ways, not only in terms of the managerial issues discussed but also in terms of the theoretical perspectives, methodological approaches, levels of analysis and the industrial settings adopted in the research. This diversity reflects the variety and complexity of the challenges facing managers in today's global economy and well as the breadth and richness of the academic field of international business (IB).

One of the major issues addressed in IB has been how to explain the internationalization behaviour of the firm. Although there are a number of well-established theoretical frameworks, including stages models of incremental internationalization, transactions costs and network theories (among others), there is still a significant debate about their applicability and relevance. The established theories are recontextualized in the opening contribution by Carl Solberg and Vidar Askeland in which they demonstrate how the explanatory power of the different theoretical approaches may depend on particular conditions within the firm and its broader environment. They propose that the applicability of each theory depends on the firm's location in a framework with two dimensions: the level of the firm's preparedness for internationalization and the degree of globality in the firm's industry. In a multi-local industry setting, incremental internationalization theories are more relevant for firms with limited preparedness, whereas foreign direct investment theories based on transaction cost economics seem more appropriate for firms which are well prepared for internationalization. Network theory is seen as best suited to understand the behaviour of firms which are trying to compete in global

industries but need to access resources externally to increase their ability to face growing internal and external complexity. The possible explanations of behaviour of firms with extensive resources and experience and entrenched positions in global industries are reviewed and encapsulated in the term 'global management theory'. The authors' propositions about the relevance of different theories within the contingency framework are substantiated by empirical findings based on two highly internationalized firms, Norske Skog and ASK Proxima-Infocus. The case evidence suggests that these firms followed different trajectories through the framework and shows how the different streams of theory applied in different phases of their development. Although further empirical work is needed, the framework advanced in this chapter provides some indicators for managers evaluating strategic options at different phases in the firm's internationalization process.

In Chapter 3, Ursula Ott focuses on international joint ventures (IJVs) as a mode of internationalization. She highlights the problem of information asymmetries in this complex organizational form of market entry. Information asymmetries bring opportunities for hidden action by the participants after contracts have been signed and the extent to which managers are able to control 'cheating' may be an important determinant of the success or failure of an IJV. This chapter examines the possible types of cheating in this organizational setting and considers the design of appropriate incentive schemes to discourage such behaviour based on an analysis drawing on both economics and on cultural perspectives. First, the chapter examines culturally implied moral hazard problems in IJVs based on a typology showing the likelihood of different types of cheating according to the nature of the workplace and country. This is categorized into four groups and embedded in Geert Hofstede's cultural dimensions of power distance, individualism and masculinity to show how cheating behaviour may be related to the extent of hierarchical structure and rules in an organization and differs by country. Second, a modelling approach is adopted to analyse the moral hazard problem in IJVs more formally and to identify the types of incentives that may be appropriate to limit cheating – whether through shirking, embezzlement or sabotage – in different contexts. The findings highlight the importance of managers taking the likelihood of cheating into account in designing incentive schemes within IJVs and the need to tailor these according to the cultural and institutional context which affects the type of cheating most likely to be encountered.

Like the preceding chapter, Simon Harris and Chris Carr are also interested in the contribution that a consideration of national cultural traits can shed on managerial issues in IB. Their chapter, 'Managerial Perspectives on Business Purpose: Values, National Values and Institutions', provides a critical evaluation of the impact of culture and context on managerial attitudes. They develop propositions concerning the fundamental purposes that managers in different

countries might be expected to have for their firms and their perceptions of their stakeholders, their aims and their strategic time frames based on the 'national values' research of Geert Hofstede, Andre Laurent, Charles Hampden-Turner and Fons Trompenaars. These are explored through case studies of global firms in different countries in two contrasting institutional settings – large multinational firms (MNCs) and medium-sized, owner-managed international firms. The strategic aims of managers in different countries are as predicted by national values research in both institutional settings. In the large MNCs, they also find close congruence in the managers' perceptions of their stakeholders and the time frames adopted in decision-making, but the national values research (which was developed based on large public companies) gave misleading expectations as regards the owner managers of medium-sized firms. This work suggests that managers face significant dangers if they make assumptions about overseas firms based only on their nationality when trying to forge cross-border business relationships and it highlights the importance of taking ownership patterns into account.

In Chapter 5, Manuel Ferreira, William Hesterly and Ana Tavares provide a conceptual analysis of the parenting of spin-offs and their role in the creation of regional industrial clusters. At the heart of their work is the idea that a parent firm can create and develop its own cluster in which it becomes the hub through a process of 'mothering' entrepreneurial employees. Such employees exit parent firms to create their own business in the same geographic location but continue to be dependent on the parent to some extent because of the benefits they gain from maintaining social and business ties and leveraging the parent's existing network of relationships. Equally, the parent firm is likely to benefit through its progeny from enlarged technological, business and geographic reach, and enhanced reputation and visibility. The emergence and evolution of the cluster are thus bound by the family tree of parent and offspring firms. Embeddedness in the cluster is essential to a firm's ability to generate successful offspring so, while parent firms need not necessarily be multinationals, this is more likely if the MNE is already well established locally during the cluster's emergence, or if their presence in a specific region is the driving force behind the emergence of the local cluster. In the light of the potential benefits to the parent firm, the authors conclude that the promotion of clusters through a 'motherhood' model may, in time, become a deliberate managerial strategy.

While Ferreira et al. consider new motivations and methods for the formation of clusters, Naresh Pandit, Gary Cook and Pervez Ghauri present an industry case study which examines why firms might be attracted to established clusters – in this case the City of London financial services cluster, an agglomeration noted for its extraordinarily large MNE component. They examine the small but growing literature that suggests motives for MNEs locating in clusters and their

evidence reveals multiple motives among firms for locating in the City of London cluster. These relate to the complex nature of the production of certain financial services and encompass both conventional motives, such as access to labour, and less conventional motives such as reputation and prestige conveyed by the possession of a particular address. Indeed, firms tend not to locate all aspects of their complex activities in the cluster at the same time, but continually assess and reassess which activities to locate there. Their decision-making in this respect is influenced by the forces of deregulation in this sector, globalization and advances in information and communication technologies which enable them to coordinate activities across dispersed locations. The authors' analysis suggests that insights from economic geography can aid managers in such decisions.

The terms 'clusters' and 'networks' tend to be used interchangeably in many literatures, but while the previous two chapters demonstrate that networks can be formed within clusters, Chapter 7 by Dev Boojihawon shows that networks can also be formed outside clusters and can be a particularly effective way for small and medium-sized service firms to internationalize. Boojihawon examines entrepreneurship strategy and network dynamics in the international development of small and medium-sized enterprises in the UK advertising sector. Drawing on extant work on internationalization, international entrepreneurship and the internationalization of services, he proposes an integrative framework to investigate the international entrepreneurial behaviour and strategy process of three small advertising agencies (SMAs). It emerges that these SMAs were not forced to internationalize due to their inability to expand further in their domestic market but, rather, their internationalization was deliberate and entrepreneurial and they accelerated the internationalization of their activities by actively leveraging their network relationships. Such networks acted as bridges to new international clients. His findings show that while the process of internationalization for each SMA was different, they shared common characteristics – network relationships were dynamic, evolved continuously, and were shaped by organizational as well as industry characteristics. The findings emphasize the need for careful change management in the internationalization of entrepreneurial SMAs.

In Chapter 8, Susan Segal-Horn and Alison Dean continue the focus on service firms of the previous two chapters by examining the managerial issues arising from competitive change and innovation in the legal services industry – changes which have resulted in the creation of large cross-border legal service organizations. A combination of competitive and client expectations means that building an international network has become a strategic priority for larger law firms with corporate client-based activities. From their study of very large UK 'City' law firms, Segal-Horn and Dean identify the management issues these professional service firms face in responding to the demands placed upon

their existing organizational structures and internal processes by international expansion. These involve structural, cultural and organizational barriers to cross-border integration. They identify seven managerial challenges: a shift to a managed firm and a decline in professional autonomy; choice of appropriate acquisition targets and managing integration with acquired firms; HQ–subsidiary management issues; the identification of firm-wide value systems to underpin shared corporate culture; the creation of common technology platforms and systems practices; the adaptation of human resource management practices, and building professional trust and satisfactory cross-border intra-firm working relationships. Finally, Segal-Horn and Dean suggest that international law firms appear to be constructing old-fashioned centralized global hub operations rather than more flexible transnational structures that are the aim of the major global manufacturing companies. Their research adds to knowledge of the legal services industry, which is under-researched and further extends the global strategy literature into the services domain by exploring globalization in this context.

Chapter 9 by Susan McGrath-Champ and Xiaohua Yang also considers micromanagement issues, in particular those surrounding the performance management–training interface in Australian firms in China. This chapter resonates with the earlier chapter by Harris and Carr on cultures and values. Specifically, McGrath-Champ and Yang seek to understand how cross-cultural training and career development for expatriates are integrated into performance management in international Australian ventures. They suggest that while managers broadly appreciate that employee training and career development correlate with job satisfaction and performance, little attention is paid to whether, how and the extent to which training and career development in overseas assignments are integrated into performance management systems in foreign ventures. Through an exploratory qualitative study of four very different Australian firms operating in China, their chapter identifies deficiencies in the current literature and in contemporary business practices which overlook the importance of training and career development in the design of performance management systems. They found large variations in the presence and extent of performance management systems in these firms, ranging from formal, standardized performance management in more established and internationally experienced companies, to a complete lack of performance management systems in small, less globally experienced companies. However, none of the interviewees identified close linkages between performance management, assessment and training, even those in firms with relatively sophisticated performance management systems. A further surprising finding was that performance management did not appear to be strategically linked with compensation or remuneration. The evidence from this work highlights the need for improvements in global human resource management among international firms and the

need to adopt a more integrative framework of performance management as well as the need for IB scholars to address the paucity of literature in this area.

Doing business with and in China is one of the main contemporary foci for international business managers and scholars. Although there has been much previous work on the spillover effects of FDI on the host country, our understanding of how these occur at micro level and the managerial implications is limited. Within this broad area, knowledge transfer is of particular interest to inward-investing MNEs and Chinese firms alike. On the one hand, MNEs are concerned about the potential loss of proprietary knowledge in a crucial market with a reputation for paying little respect to property rights; the Chinese firms, on the other hand, are eager to receive knowledge to enable them to catch up on the global commercial stage. Chapter 10, which is derived from Jing-Lin Duanmu's forthcoming PhD and prize-winning contribution to the conference doctoral colloquium, contributes to the literature by providing a micro-level analysis of the knowledge transfers from US, EU and Japanese firms to their Chinese suppliers based on in-depth interview data covering 16 pairs of MNE–Chinese supplier relationships. Having found that the types of knowledge being transferred by MNEs is of low proprietary importance (with much of it related to management practices rather than firm-specific knowledge assets), she considers the issue of country of origin effects on knowledge transfers from MNE subsidiaries to their local Chinese suppliers. It appears that Japanese MNEs differ from US MNEs in their attitude to, intensity of, and rate of transferring knowledge to their indigenous Chinese suppliers. Moreover, by looking at this issue over various phases of their relationship development and identifying the changing dynamics within the supplier relationships, she resolves anomalies in existing related literatures about national behavioural differences between Japanese and Western firms. As a result, Duanmu draws a number of implications for managers of Chinese supplier firms as well as the managers of inward-investing MNEs in China about how best to transfer knowledge to this emerging economic giant.

Country of origin differences are also the focus of Dimitra Dimitropoulou and Robert Pearce's chapter. They analyse foreign direct investment (FDI) flows into an integrating Europe in the latter part of the twentieth century in order to identify the different strategic motives for MNEs' location decisions in this period. Using time series data for 1981–2001, their chapter analyses inward FDI to 15 European countries from three sources (US, Japan, intra-Europe). Their aim is to detect the ways in which MNEs' emerging strategic diversity is reflected in the motivations determining patterns of FDI location. Independent variables are adopted to depict three types of strategic motivation: market-seeking (which may decline with European integration), efficiency-seeking (which may have scope to increase with freer trade) and knowledge-seeking (reflecting MNEs' increased use of diverse sources for innovation and R&D). They also use

existing stocks of FDI in each country to detect responses to either potential agglomeration benefits or strategic inertia operating against the optimized pursuit of new locations. They find that it is the newer Japanese investments that show most signs of strategic heterogeneity with indications of both efficiency-seeking and knowledge-seeking behaviour. In contrast, although traditional market-seeking motives no longer seem to drive US or European FDI, there are fewer signals of the strong adoption of other motivations and it seems that strategic inertia may persist in US and intra-European FDI.

The final chapter presents a summary of the presentations at a plenary session on new directions for IB made by three outstanding scholars in the field: Peter Buckley, George Yip and John Dunning. This session, which was coordinated and reported by Simon Collinson, reflects on the content of IB and its evolution and then provides the participants' views on a number of critical areas regarding the development of IB scholarship in the next couple of decades. Peter Buckley maps out the complex domain of IB and emphasizes the importance of reaching a consensus regarding the 'theoretical rocks' of the subject. As part of this, he suggests the need to explore the relationships with other disciplines and functional areas and highlights the way in which IB can act as a bridge between disciplines. John Dunning stresses the need to adopt a 'responsible agenda' beyond a focus on wealth creation, in tune with the evolving perceptions and values of stakeholders as well as emerging political and economic trends, and he identifies a number of critical areas on which IB research should especially focus. The discussion is set against the dual challenge of rigour and relevance facing IB and other researchers. As part of the call for relevance, the potentially significant contribution that developments in the academic field of IB can play by identifying relevant trends or relationships and by providing insights into future patterns of change as an input to managerial decision-making is stressed, particularly by George Yip, for whom practising managers are the field's core constituency.

It is one thing to map out future directions for IB and another to stimulate its advance along these particular pathways. We were fortunate that our call for conference papers resulted in a significant number of submissions that develop the IB field through their contributions to contemporary issues and in emerging or under-researched areas. As is evident from the discussion above, the selection of work in this volume includes some that complements the more usual IB approaches by integrating insights from other disciplines. The different perspectives of stakeholders in different countries and the impact of this on managerial decision-making are among the themes to emerge in a number of chapters which stress the importance of the context in which managerial decisions are made. The title of the book reflects the emphasis on managerial issues within its covers and as well as shedding light on issues of interest to managers, we trust that the orientation of this volume will make a contribution

to stimulating further work by IB scholars on the concerns of management and their decision-making dilemmas.

We are pleased to acknowledge the help of the contributing authors who kindly agreed to their work being included in this collection and who have worked hard to meet the tight deadlines involved in its publication. We wish to thank the referees who participated in the blind review of conference submissions and provided the contributors with comments. Finally, our thanks go to the team at Palgrave Macmillan and to Jacky Kippenberger, in particular, for all their help in bringing this 13th volume in the AIB UK series to fruition.

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