

Current Issues in International Business Research

Brian S. Silverman
J.R.S. Prichard and Ann Wilson Chair in Management
University of Toronto

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Current Issues in IB research

- Theory
- Methods
- Phenomena

Where Have We Been? JIBS 15 years ago

- Theory
 - None
 - Cultural differences
 - Eclectic paradigm (OLI)
- Methods
 - Difference of means tests
 - Cross sectional estimation (ordinary least squares)
 - Mostly surveys, some archival data
- Phenomena
 - FDI
 - Cross cultural effects
 - Organization of the MNC
 - National policy to improve international competitiveness

Where Are We Now? JIBS today

- Theory
 - The “eclectic framework” (OLI)
 - Transaction cost economics
 - Resource-based view, knowledge-based view, capabilities
- Methods
 - Cross-sectional estimation
 - Longitudinal estimation
 - Estimation that is better at yielding unbiased estimators
 - More sophisticated survey techniques; better archival data
- Phenomena
 - FDI
 - Cross cultural effects
 - Organization of the MNC
 - National policy to improve national competitiveness
 - Alliances
 - Clusters

Where Are We Going?

- Theory
 - Theory of international business
 - Theory in related disciplines (economics, political science, sociology)

- Methods
 - Statistical
 - Survey
 - Case studies
 - Measures

- Phenomena
 - FDI, Alliances, etc.

Where Are We Going?

- **Theory**
 - Theory of international business
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Where Are We Going? Theory of International Business

- OLI paradigm is so commonly accepted as to be uninteresting
- Debate over the theories that formalize aspects of OLI
 - Transaction cost economics is current dominant theory
 - Debate about RBV/KBV as alternate theory for internalization
 - So far, more heat than light
- Potential research direction
 - Studies that generate conflicting hypotheses from TCE and RBV, and test them rigorously
 - Studies that test hypotheses from TCE and RBV in new settings
 - to understand new phenomena
 - to understand the boundaries of TCE and RBV

Where Are We Going? Theory in Management

- Application of new theoretical developments in management to IB phenomena
 - Real options approaches
 - Social network theory
- Potential research directions
 - Studies of international alliances as real options
 - Example: Martin & Cuypers (2006)
 - Studies that explore social networks in cluster formation
 - Example: Sorenson (2000)
 - Studies of immigrant groups and their relation to home country
 - Example: Agrawal et al. (2006)
 - Note: the best of these studies will extend theory as much as they apply the theory to international business phenomena

Where Are We Going? Theory in Related Disciplines

- New Institutional Economics
 - Understand the path-dependence of institutions
 - Understand how people respond to incentives that institutions create
- Positive Political Theory
 - Understand how political decisions and policies are made
 - Understand how political processes operate and can be influenced
- Institutional Sociology
 - Understand how actions of other actors affect an actor's behavior
- Potential research directions
 - Applying these theories to understand why good or bad national economic policies are adopted, and why they persist
 - Applying these theories to understand and predict how actors will respond to policies

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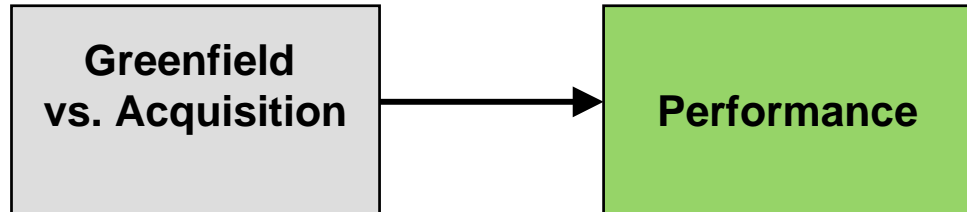
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Where Are We Going? Methods - Statistical

- Deeper appreciation of empirical challenges
 - Endogeneity
- Example: FDI mode and performance (Shaver 1998)
- Example: Does strength in domestic markets lead firms to increase exports (Salomon and Shaver 2005)

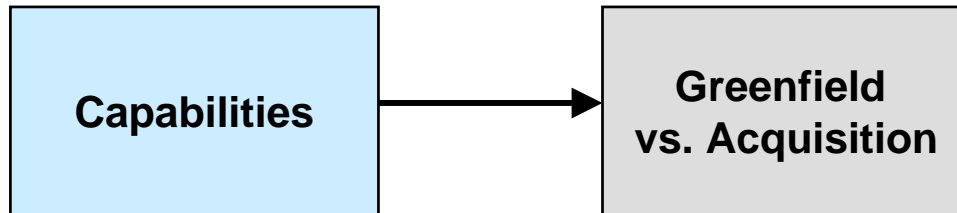
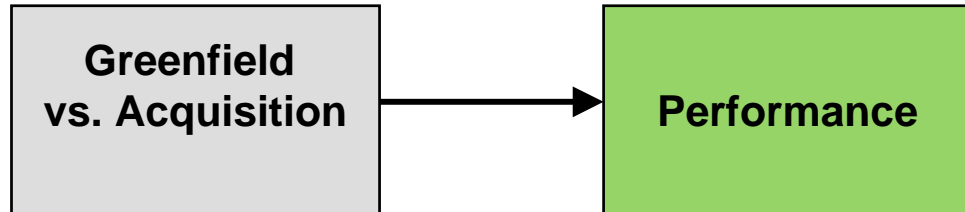
Where Are We Going? Methods - Statistical

Greenfield entries perform better than entries by acquisition



Where Are We Going? Methods - Statistical

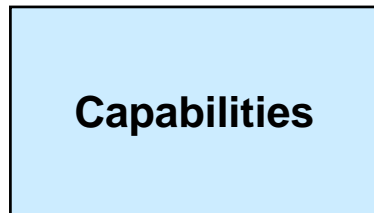
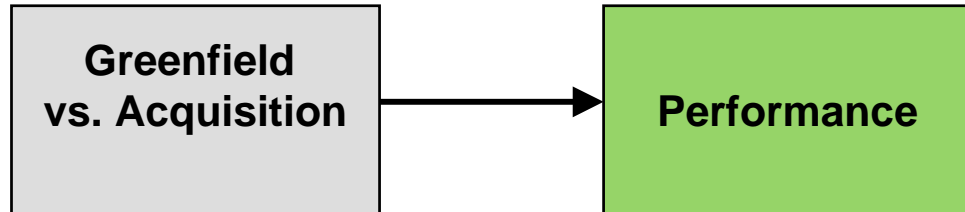
Greenfield entries perform better than entries by acquisition



Stronger firms are more likely to enter by greenfield

Where Are We Going? Methods - Statistical

Greenfield entries perform better than entries by acquisition



Stronger firms are more likely to enter by greenfield

Does greenfield entry lead to better performance, or do high-performing firms choose greenfield entry?



Where Are We Going? Methods - Statistical

- Empirical solution: two-stage least squares estimation with instrumental variable
 - Shaver 1998
 - Salomon and Shaver 2005
- Myles Shaver, *Management Science*, 1998
 - Points out this statistical problem
 - Replicates the Greenfield Entry effect using the usual method
 - Uses two-stage-least-squares method, and the Greenfield Entry effect goes away!
 - Interpretation: Managers are not making mistakes frequently – they choose the entry mode that is appropriate for their firm. And the prescription to enter by greenfield is not appropriate.
 - This is a HUGE advance!

Where Are We Going? Methods - Surveys

- Classic research question: does “X” affect performance?
 - Example: Does trust improve the performance of an IJV?
- Classic survey methodology: ask somebody about trust and about performance
 - Example:
 - On a scale of 1 to 7, where 1 means “not at all” and 7 means “absolutely,” how much do you trust your partner?
1 2 3 4 5 6 7
 - On a scale of 1 to 7, where 1 means “not at all” and 7 means “absolutely,” how satisfied are you with the performance of this IJV?
1 2 3 4 5 6 7

Where Are We Going? Methods - Surveys

- Classic analysis: regress IJV performance on trust, and find that trust has a positive and significant coefficient
 - Satisfaction with IJV = $\alpha + \beta \cdot \text{Degree of Trust}$
 - Interpretation: Trust improves the performance of an IJV
- The Problem: Mono-method bias
 - If an alliance has gone well, the respondent is more likely to see the partner as trustworthy. If the alliance has not performed well, then the respondent is more likely to complain about the partner.

Where Are We Going? Methods - Surveys

- Empirical solution: after conducting the survey
 - Diagnostic tests (i.e., Harmon single-factor test)
- Empirical solution: before conducting the survey
 - Multiple respondents (Luo and Park 2004)
 - Change the order of the questions
 - Multiple surveys of same respondent over time (Anderson & Jap 2002)
- Yadong Luo and Seung Ho Park, 2004
 - Performs the Harmon test
 - Also, has data from multiple respondents for subset
 - Checks for commonality in perceptions of partners
 - This allows for a more convincing interpretation that trust really matters, among other things
 - Golden opportunity of multiple respondents – study new questions!
 - What happens when partners have different perceptions about IJV?

Where Are We Going? Methods – Case Studies

- In the last decade, it has been difficult to publish case studies
 - Statistical studies appear more “rigorous”
 - Referees and editors more comfortable with statistical studies
- Today, there is more recognition that case studies are important and valuable
 - Can fill in the gaps of statistical research
 - Crucial for developing new theory (inductive research)
 - A core of referees and editors who can evaluate case research
- Recent case research has developed formats that persuade readers about findings
 - Multiple case studies (e.g., Eisenhardt)
 - Strict separation of facts and interpretation (e.g., Argyres)

Where Are We Going? Methods - Measures

- Cultural distance
 - Moving beyond Hofstede
- Performance
 - Financial market performance
 - Innovation performance
- Key theoretical measures
 - Asset-specificity
 - Knowledge
 - Routines
- Caveat – don't just measure more things without theory!
 - Better measurement is not good for its own sake...needs to be tied to theory

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Where Are We Going? Phenomena

- FDI
- Alliances
- Knowledge transfer
- Interaction between MNC and local firms
- Clusters
- Institutions and national policies
- Non-market strategy
- Transitional economies
- Diaspora communities

- Emphasis on performance consequences
- Difference in perceptions of partners (procedural justice)
- Role of subsidiary as window on local innovation
- Where do clusters/institutions come from?
- What is different in MNCs and in entrepreneurship from transitional economies?
- How do emigrants influence the transitional economy?

Implications of IB research for transitional economies

- What IB research can tell us about transitional economies
 - How can MNCs from developed economies best be harnessed to benefit the host country?
 - Understand the effect of MNCs on
 - Local workers
 - Local competitors
 - Local suppliers
 - Natural environment
 - Social issues
 - National and local institutions
 - Macroeconomy
 - How can firms substitute for the lack of strong institutions?
 - Understand the role of business groups in establishing
 - Internal capital markets
 - Internal labor markets
 - Credible commitments
 - How transitional economy can become fully developed economy?
 - Understand the role of strong institutions
 - Understand the limitations on national policy

Implications of transitional economies for IB research

- What emerging economies can tell us about IB theories
 - What are the boundaries of our theories?
 - Does TCE provide good predictions in all cultures?
 - Does the RBV make sense when the property rights for valuable resources are weak?
 - How important is path-dependence in our theories?
 - Can we just impose “best practice” institutions on any country and expect that this will yield good results?
 - How do we find the right path to good institutions, given a country’s unique background and context?
 - Which variation matters?
 - The key to all research is having variation
 - Transitional economies offer a wealth of variation for testing, refining, and building theory

You have a comparative advantage in performing research on transitional economies!

- Better understanding of the challenges in a transitional economy
- Better understanding of the context, language, etc.
- Connections to policy makers and managers
 - This does not mean that you should only do research on transitional economies.
 - It does mean that, if you choose to do so, you are well positioned to make real contributions to IB research.
 - The trick is to combine your advantage in understanding transitional economies with the current state-of-the-art in theory and empirical methods.
 - And to position your research as contributions to theory rather than just as “Country X is different.”

Making a Contribution to IB Research

- The best studies do four things
 - Start with an interesting research question about a phenomenon
 - Develop logical hypotheses from theory
 - And, ideally, extend the theory a little bit
 - Assemble good data and run reasonable empirical tests
 - Find results that leave the reader with new insight about the research question and about the theory
- There are many interesting research questions in IB and many of these relate to transitional economies
- Best of luck choosing your question and working on the other three things!