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Editorial

by Filip De Beule, Lessius and Catholic University of Leuven, Belgium

Culture has been on the agenda of international business scholars for many decades. Although it seemed over its top in recent years, some new and cutting edge research is propelling culture back into the mix of things. This issue therefore brings you two award-winning papers that take a new and refreshing look at culture and how it can help to explain some unresolved research paradoxes. It also hints at the importance of interdisciplinary approaches to IB research.

The first article, by Ji and Dimitratos, is based upon the International Journal of Emerging Markets best paper award at the last annual conference in Porto. It focuses upon the importance of culture, in particular, Confucian dynamism in explaining the internationalization patterns of Chinese private firms. The inclusion of cultural values improves our understanding of the international activities of these firms. This study also reinforces the viewpoint that the adoption of multi-theoretical perspectives is essential in effectively predicting international entry mode choices.

The second article, by Yildiz, argues that we should go beyond cultural distance and create a systems view of culture. He, for instance, suggests that adding the status of partners in cross-border collaborations is useful in reliably predicting the success of international joint ventures, strategic alliances or mergers and acquisitions. Emre Yildiz was the winner of the Copenhagen prize at last year’s EIBA annual conference.

In an effort to further enhance the visibility of the award-winning articles at the EIBA annual conference, the third article treats the International Business Review prize-winning article, by Tomassen and Benito, on the costs of governance in multinationals. The study opens up the governance cost black box, by looking into bargaining, monitoring, adaptation and bonding costs of internalization. They demonstrate that governance costs between MNC headquarters and foreign subsidiaries are key determinants for the performance of those units. Hence, dealing with these costs must be an essential management task in MNCs.


The May 2011 newsletter continues with several calls for papers:

- The 37th EIBA Annual Conference in Bucharest, Romania, on ‘Taking International Business to the Next Level: Emerging Issues, Strategies and Economies’;
- The 25th John H. Dunning Doctoral Tutorial in International Business;
- The 2nd COST-EIBA Doctoral Think Tank on Emerging Multinationals;
- The Gunnar Hedlund Award for the best PhD thesis in the field of International Business.

The newsletter ends with some general information about the EIBA association and membership benefits, including application / subscription details. In order to help us reach and inform potential EIBA members, please take a few moments to distribute this newsletter throughout your own networks. Your kind assistance with this collective effort to expand the EIBA association is very much appreciated!

Let me end this editorial by again thanking all the contributors of this issue. And remember, I am always on the lookout for interesting articles and EIBA news bits. If you would like to submit an article, please get in touch with me at filip.debeule@lessius.eu.
Confucian dynamism and the OLI Framework: Strategic decision-making in Chinese firms

by Junzhe Ji, University of Glasgow, UK, & Pavlos Dimitratos, Athens University of Economics and Business, Greece

INTRODUCTION

There are two basic schools of thought on how ‘rational’ strategic decisions are made (Elbanna, 2006). Rationalism is based on normative decision theory suggesting that an optimal decision-making outcome is determined by the conciliation of firm resources to external environmental conditions (Hitt & Tyler, 1991). Therefore, the criterion of rationality makes the role of decision-makers negligible. The Carnegie school’s contributions focused on the perspective of incrementalism indicating that limitations of human beings hamper the achievement of absolute rationality (March & Simon, 1958). Therefore, the importance of cognitive limitations and perceptions of managers to decision-making outcomes has been also established in the literature.

Research of international entry mode choice has long been influenced by rationalism. For instance, the Ownership-Location-Internalization (OLI) framework (Dunning, 1980) tends to suggest that a systematic analysis of contextual, firm-specific, and transaction factors will automatically determine the outcome of the decision. This approach has an advantage of universal usefulness based on rational decision-making. Nevertheless, it apparently fails to address the potential impact of managerial preferences. Therefore, an OLI framework with a culture-related perspective (Confucian dynamism) is incorporated into this study to examine internationalized Chinese private enterprise activities. This is based on the idea that apart from rational thinking, managerial inherent cultural preference may also have an influence on international entry mode choice.

CONFUCIAN DYNAMISM

Chinese managers demonstrate substantial differences in decision-making from their western counterparts (Tse et al., 1988). The Chinese culture is considered to be a unique cultural system that has significant differences with western cultures (Ralston et al., 1997). Confucianism has played a major role in shaping the Chinese culture, and Confucian work values exert key influences on the modern Chinese business culture and management practices (Ralston et al., 1999). This is not surprising because Chinese people have been immersed in the Confucian traditions for over two thousand years. Confucian dynamism includes the essential values of (a) personal steadiness and respect for tradition, (b) thrift, (c) persistence, and (d) ordering relationship and reciprocation (Hofstede & Bond, 1988). In addition, a study of Chinese private firms’ international activities is important to complement extant studies. China was the second largest economy worldwide in 2010 and a leading outward investor among emerging economies. Compared with numerous studies that examine internationalization of large Chinese state-owned or collectively controlled firms, the international entry mode choice of Chinese private firms has been examined rather infrequently. Apart from this, private firms are the best candidates to examine the role of individual manager cultural characteristics inasmuch as management in these enterprises is an important driver to their internationalization (Wheeler et al., 2008).

ENTRY MODE CHOICE

Prior studies have identified the antecedents of entry mode choice in terms of considerations of risk, resource commitment, return and control.
Based on national culture studies, this study hypothesizes that values of Confucian dynamism may affect these individual factors. Specifically, personal steadiness and respect for tradition valuing situational stability, accountability and predictability are likely to be related to an attitude of risk avoidance (Hofstede & Bond, 1998). Thrift orientation discourages a large scale of resource commitment as it prefers frugality in doing things (Browaeys & Price, 2008). A strong value of persistence is likely to avoid short-term gains and lead to a step-by-step pattern of expansion in order to gain higher levels of returns from international activities incrementally. Ordering relationship and reciprocation have an unclear impact on the level of control, depending on the existence of reliable interpersonal relationships. Therefore, in a nutshell, this study suggests that Confucian dynamism decreases the likelihood for Chinese managers to choose equity modes.

A mail questionnaire survey was carried out in the regions of Yangtze Delta, namely Shanghai and Zhejiang province; as well as in the capital of China, namely Beijing. The statistical analysis indicates that besides the importance of effects of ownership advantages, Confucian dynamism is significantly and negatively related to the likelihood of adoption of an equity mode choice.

CONCLUSIONS

Therefore, consistent with the upper-echelon perspective (Hambrick & Mason, 1984), this research provides evidence that the outcome of this strategic decision can be partially predicted by managerial cultural values. These findings indicate that a fully rational decision accounting for a detailed analysis of ownership, location and internalization factors only partly predicts international entry mode choice. Consequently, the incorporation of the national culture perspective into the OLI framework is warranted. The evidence shows that both rationalism and incrementalism schools are valid to predict decision outcomes, but the combination of them would generate better explanatory power. With regard to international entry mode choice, this study reinforces the viewpoint that the adoption of multi-theoretical perspectives is essential in predicting effectively international entry mode choices.

However, this study is the first step to understand Chinese private firms’ international activities. The inclusion of other cultural and economic values may further improve the understanding of Chinese enterprise international activities. For instance, Leung (2008) posits that scholars can pay attention to the interplay between contemporary social forces such as materialism and traditional Chinese beliefs in order to comprehend management behavior. Moreover, prior literature suggests that Chinese private firms tend to rely on network ties to perform international activities. Little is known on how network relationships influence Chinese private enterprise entry mode choice in foreign markets, which is a gap that the current research did not attempt to address. This network aspect is likely to interfere with aspects of the Confucian dynamism variable because it seems that these ties diminish the tendency for control through trust; and, promote resource commitment through the decline of perceived uncertainty. Besides, the incorporation of network considerations is consistent with a more recent reformulation of the OLI framework to also include relational advantages in future studies of international entry mode choices of Chinese private firms.

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Going Beyond Cultural Differences: The Neglected Role of Relative Status in International Business Research

by Emre Yildiz, Stockholm School of Economics, Sweden

INTRODUCTION

International Business (IB) research is intrinsically interdisciplinary in nature, and it is this characteristic that makes it an interesting and dynamic field of inquiry. Perhaps one of the issues uniquely germane and indigenous to the nature and scope of IB is the multitude of cultural contexts within which multinational corporations (MNCs) operate, leading to some unique challenges and opportunities. Effectively benefitting from advances in cross-cultural psychology and anthropology, on the theoretical front, and from the compilation and refinement of large-scale/multi-country datasets, on the empirical front, IB scholars have been thoroughly examining the role of culture and cultural differences. The wide array of research areas wherein cultural differences are studied as key contingency factor ranges, inter alia, from the mode of entry choice to the success of inter-organizational collaborations and from the design and transfer of human resource management practices to work-related attitudes (for a meticulous review of the relevant literature see Kirkman et al., 2006).

Amid different areas in which culture occupies a central role, my research has been primarily focused on different forms of cross-border collaborations, like international joint ventures (JV), strategic alliances and mergers and acquisitions (M&A). International collaborative ventures are often more prone to culture related hazards, e.g. culture clashes due to different national and organizational cultures. Apart from culture being one of the most cited determinants of success in these phenomena, my inclination to examine cultural dynamics in cross-border collaborations has been by and large motivated by an incumbent empirical inconsistency yet to be resolved. To be more specific, the collective body of empirical work on the role of culture in collaborations has yielded equivocal and contradictory results. While some studies found a negative impact of cultural differences on performance and longevity of IJV and M&A, some others report either positive or non-significant effects. This inconsistent pattern of findings leaves the role of cultural differences between partners as an issue yet to be resolved.

Motivated by the curiosity to understand the reason(s) behind the ambiguous results of extant empirical literature, my starting point is first to unveil the mechanisms with which cultural differences have been theorized to have a bearing on the sociocultural dynamics in cross-border collaborations. My personal inquiry into the conceptual roots of the question, which I shall briefly expand on below, led me to the conclusion that IB literature needs to widen its theoretical gaze upon cultural differences and how these differences affect the ways with which parties to cross-border alliances interact and work with each other towards the financial and non-financial objectives. Specifically, I will try to make and substantiate the case that culture is one among many other dimensions that could influence and mould inter-personal and inter-group dynamics in cross-border alliances. Thus, accounting for complementary, yet hitherto omitted, dimensions could presumably shed light on why inconsistent results were reported in previous studies and how these inconsistencies can be straightened out. Furthermore, notwithstanding my foremost interest in cross-border alliances and collaborations, my research approach has also pointed to an alternative way of thinking about other cross-cultural phenomena, preliminary
implications of which I shall share at the latter part of this paper.

GOING BEYOND CULTURAL DISTANCE HYPOTHESIS

Scholars of cross-border alliances have long been examining cultural distance hypotheses and how differences in corporate and national cultures create feelings of “us-versus-them” and, therefore, hamper intended collaboration outcomes. This approach is also in line with the mainstream thinking in social psychology literature, which reports that individuals/groups are more likely to exhibit positive attitudes towards others with similar attributes and characteristics (Byrne et al., 1967). In addition to similarity, however, studies on intergroup relations within social-psychology literature have identified other important parameters that affect intergroup relations. One such factor is the relative status, which has been shown to affect interacting individuals’ and groups’ perceptions of each other’s skills, attractiveness, legitimacy, trustworthiness etc. (Berger et al., 1972).

Probing into different theoretical traditions in the social psychology literature is therefore valuable to foster interdisciplinary dialogue and cross-fertilization. To be more precise, this kind of dialogue would help understand and show the effects and implications of status heterogeneities among partners in cross-border collaborations, factors that have been largely neglected in IB research so far. This stands to reason that accounting for the quality of differences between merging firms can help reconcile equivocal findings on the role of culture in the success of international alliances, JV and M&A.

The added value of considering the role of status differences can be better understood by noting that sole focus on cultural distance can only help identify how different two entities/firms are from each other. This approach, however, does not answer as to whether one firm sees the other as a favorable (e.g. capable, trustworthy, reliable etc.) partner or not. On the other hand, as a complement to cultural differences, accounting for status characteristics of alliance partners enables to understand the extent to which collaborating firms perceive each other on positive vs. negative terms and the mechanisms with which these perceptions affect the longevity and success of the collaboration. Putting together cultural and status driven differences, thereby, makes it possible to uncover different types of deals that entail different challenges and opportunities (Figure 1).

IMPLICATIONS OF INCORPORATING THE DIMENSION OF RELATIVE STATUS

In an effort to emphasize the importance and value of considering the status dimension while studying cross-border collaborations and alliances, I shall hereby enlist four main theoretical implications and possible research agendas. To start with, by simultaneously taking into consideration the dual dimensions of similarity and status, we can get closer to solving the empirical puzzle over the role of cultural differences in the performance and longevity of IJV and M&A. Specifically, it is reasonable that some of the studies have found that cultural differences have a positive effect on the performance of since it is possible that these studies mostly examined collaborations where partners have equal status positions and cultural norms and values (e.g. lower-left corner of Figure 1), which facilitates the realization of synergies thanks to reduced misunderstandings. On the other hand, cultural differences could produce negative effects especially when these differences are accompanied by status heterogeneities (e.g. upper-right corner of Figure 1) and generate multiple sources of conflict and coordination problems. Lastly, it is possible that some studies reported non-significant effects of cultural differences since their analyses are based on either mixed types of collaborations (in which positive
and negative effects cancel each other out) or collaborations where advantages of similarity in one dimension is outweighed by the costs of difference in another (e.g. lower-right and upper-left corners of Figure 1).

Table 1. Dual Dimensions of Culture and Status in Cross-border Collaborations

<table>
<thead>
<tr>
<th></th>
<th>Risk-Prone Collaboration</th>
<th>Problematic Collaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Similar</td>
<td>Cultural similarities may lead to over-optimistic expectations, at the expense of overlooking possible unwillingness and lack of enthusiasm of the high-status partner.</td>
<td>Collaboration and acculturation process would be complicated due to dual problems of partner’s higher status position and differences in cultural values and norms.</td>
</tr>
<tr>
<td>Different</td>
<td>Smooth Collaboration</td>
<td>Promising Collaboration</td>
</tr>
<tr>
<td>Similar</td>
<td>Culturally similar partner with lower status would be open to demands of and initiatives coming from the focal firm. Thanks to cultural similarities, risks of collaboration are minimal, but the tradeoff is that there is little promise for value creation.</td>
<td>Low-status partner would be more open to the initiatives of the focal firm, which could offset possible culture related problems to. Plus, cultural differences could create complementarities and avenues for synergy creation.</td>
</tr>
<tr>
<td>Different</td>
<td></td>
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</tr>
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</table>

Aside from addressing aforementioned over-aggregation problems, incorporating status as a complementary dimension also comes to grips with the call of Drogendijk and Zander (2010) who lay stress on a systems view of culture through which “we learn to understand the larger factors that interact with culture when it influences people and organizations, and interactions between them in a multicultural setting.” (p. 200). In that regard, introduction of status shall not be interpreted as an exhaustive claim. Instead, my point is that the addition of status could be an astute first choice and step towards constructing a systems view of culture.

Beyond the specific context of cross-border collaborations and alliances, I argue that examining the dual roles of cultural differences and relative status positions could be useful for shedding light on other curious questions occupying the agenda of international business research. One such intriguing issue is the so-called psychic distance paradox, which indicates that MNCs’ operations in psychically close countries are more problematic to manage. It is possible to contend that the psychic distance paradox would especially be prevalent when a firm interacts with another firm that originates from a psychically close/similar country but perceives the focal firm to have inferior/unfavorable status position.
Last, but not the least, the integration of similarity and status dimensions still remains as a limited research area even in mainstream social psychology literature. Except a handful of experimental studies with student samples (e.g., Oldmeadow et al., 2003), effects of group membership (viz. in-group/similar vs. out-group/different) and status positions have been examined along parallel but non-intersecting lines of social psychology research. Therefore, there is still room and need for more research on the interactions of these two dimensions. As an applied domain of inquiry, international business offers unique opportunities to address this need across diverse settings and multicultural phenomena. Embracing this kind of a research program, I believe, would move IB research from being a mere benefactor of theoretical advances in other disciplines and put the field in a vanguard position in terms of testing, refining and improving extant theories as well as deriving brand new theories that could then be exported to other disciplines.

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Governance Costs in International Operations: Why Do They Still Concern Us?

by Sverre Tomassen, BI Norwegian Business School, Oslo, Norway

INTRODUCTION

Why do we have to concern our research community again with governance costs of international operations? That is the question we asked ourselves in our award winning IBR article (Tomassen and Benito, 2009). For decades, transaction cost economics (TCE) and internalization theory have been used as theoretical basis for much of IB research. Still, important gaps have to be explored.

First, according to TCE, the normative, and well accepted, ex ante solution when a market for intermediates is highly imperfect, has been to internalize this market so that governance costs are kept at a minimum level (i.e. internalizing the transactions creates less governance costs than executing the transactions across markets) (Williamson, 1975, 1985). Furthermore, there is a presumption that these costs may have an effect on firm performance, which also is clearly assumed in TCE with its normative orientation. However, with some few exceptions, the relationship between governance costs and performance seems to be almost neglected in empirical studies within the TCE paradigm. Therefore, the lack of knowledge about an important assumption within TCE needs to be reduced, both on empirical and theoretical grounds. Our article in IBR in May 2009 (Tomassen & Benito, 2009) was therefore a direct response to those who encouraged researchers to examine this relationship more in detail (Masten, 1993; Rindfleisch & Heide, 1997)

Second, most of the empirical and conceptual works within this tradition have been concerned about the governance costs that occur through inter-organizational relationships. Studies assessing the costs associated with internal organization are scarce even though this should be of great interest when the ex post (i.e. after the structure is set) evaluation of such organizational forms takes place. Because of the lack of focus on internally generated governance costs, there should be reasons for shrinking this theoretical gap by explicitly studying those governance costs that are generated within hierarchical solutions. This was the second objective of the research.

Third, few studies have tried to measure governance costs directly, instead the prevalence of governance costs has been related to observable characteristics of the transaction, and based on those observable features organizational forms have been predicted (Masten, et al., 1991). Hence, the paramount research theme within the TCE tradition has so far been the prediction of governance structures based upon governance costs assumptions. Williamson (1985, p. 22) claims that the problem with quantifying governance costs is somewhat mitigated due to the fact that they “always are assessed in a comparative institutional way”. It is the difference between these costs, rather than the absolute magnitude that is of interest. So, why bother?

Economists generally believe that market competition is the most effective mechanism for selecting survivors. Demsetz (1993, pp. 161-162) made a distinction between “management costs” and “transaction costs” since the latter often are used when describing the costs of organizing resources across markets and “management costs” when organizing resources within firms. He further, suggests that those who do not like this distinction can substitute the two expressions with “governance costs” – which I will do throughout this résumé. In the long run, imperfect governance choices will be outperformed. This role of the market as a selection mechanism has been
especially emphasized by transaction cost scholars who argue that even if governance costs may be hard to observe and measure, the efficiency (i.e. cost minimization) implications of choice and design of governance structures are such that competitive processes will drive out those companies that are inefficient (Anderson, 1988; Williamson, 1985). Hence, even though governance costs may generally receive little explicit attention in the sense that they are consciously taken into account in strategic decision-making, the solutions and choices that are likely to win over time are supposedly nevertheless those that, albeit implicitly, best reduce governance costs.

The above line of reasoning has in my opinion at least two significant flaws: first, while governance costs are expected to be at their highest in market failure situations, it is above all in those same situations that competitive market processes will be most inactive as a selection mechanism (Benito & Tomassen, 2003), second, the firm and the owners of the firm make decisions about governance structures that will and must have ex post short-term effects on the firm. While selection processes driven by competition work in the long run, firm owners tend to care little about the long run effects (in the way economists define them) – they care above all about current costs and revenues. Hence, the long run state with minimal (albeit perhaps not zero) governance costs are never realized in the “any point in time” perspective of the current owners. Given the existence of positive governance costs that affect governance choices, such costs have an immediate effect on actual performance and should hence be reckoned with by profit-seeking firm owners. Despite their apparent importance, our understanding of governance costs is still surprisingly not well developed. Therefore, how these costs can be conceptualized and measured ought to be improved significantly. The third, and perhaps most challenging aim, was consequently to develop our understanding of these costs by trying to measure them.

To explore the proposed three gaps in the literature, the empirical context for the study was the relationship between Norwegian MNCs and their foreign subsidiaries. Out of a target sample of 370 MNCs, 160 unique MNC-subsidiary relationships from just as many different MNCs were included in the final sample. The study relied on a single key informant technique for collecting the data, in which the informants answered a structured questionnaire that had been sent to them by post.

**Measurements**

The four types of governance cost variables were all measured by multi-item reflective scales and evaluated with regard to both reliability and unidimensionality. The following governance costs was identified and measured: Bargaining costs – expenses related to negotiations between parties, monitoring costs – expenditures related to controlling the fulfillment of contractual agreements, maladaptation costs – opportunity costs of not being able to respond effectively to changes in the environment, bonding costs – of activities that promote commitment in a relationship, i.e. a result of actions that bind a foreign unit closer to the MNC. The measures of these four types of governance costs were partly based on an empirical work by Dahlstrom and Nygaard (1999), and partly self developed. Performance was measured on the subsidiary level, using both perceptual multi-item scales and objective measures.

**What did we find?**

To cope with possible endogeneity problems, two-stage least squares (2SLS) estimations were mainly used in testing the hypothesis. Overall, the study
indicates that governance costs play a significant role in explaining the performance of foreign subsidiaries: close to 40 percent of the variation in subsidiary performance seems to be attributed to such costs. So far, very few studies have examined whether this relationship actually holds, and to the best of my knowledge, this study has been the first to test the relationships between governance costs and subsidiary performance in an international context. The data shows that there are significant and negative relationships between bargaining costs, monitoring costs, and maladaptation costs and subsidiary performance, respectively.

Developing a foreign subsidiary often generates unintended bargaining costs for the MNC. Business activities need to be developed, distribution channels must be established, and personnel from other cultures and with different languages may have to be hired. Such activities are associated with considerable amounts of uncertainty and hence exposed to risk of renegotiation, which in turn may generate bargaining costs for the MNC. Renegotiations are often needed to rectify underperforming activities, and hence something to be expected in the real world of business. While such activities would not be necessary given a perfect state of affairs, the findings of the study show, in line with the theoretical assumptions, that bargaining costs have a direct impact on performance of the subsidiary.

A similar kind of logic applies to monitoring costs. The need for monitoring activities arises from the likelihood of opportunistic behavior by agents in the foreign subsidiary. Monitoring can be necessary to prevent larger losses if no control initiatives are taken. However, such costs are undesirable for the MNC and should have a negative effect on subsidiary performance. Again, the findings of this study are consistent with that theoretical prediction. Still, one should not dismiss the possibility that monitoring costs could have a positive long-term effect on subsidiary performance. Monitoring could reduce opportunism and thereby improve performance over time. The relationship between monitoring costs and subsidiary performance could also be non-linear, and this would seem to be a promising line of investigation for future studies.

Maladaptation costs arise from communication and coordination failures between parties which in turn make them unable to react rapidly to changing conditions. They can be seen as the opportunity costs of ineffective and inappropriate responses. As such, a negative relationship between maladaptation costs and performance could be expected. This is confirmed in the study: Deficient information from the foreign subsidiary generates costs that are negatively associated with the performance of the foreign subsidiary.

The findings regarding bonding costs were in agreement with the hypothesis that bonding costs have a positive effect on subsidiary performance. This suggest that bonding activities have investment-like characteristics, and that at certain points in time extra costs may be better than less costs because the MNC thereby improves the value of the firm. This may be the situation in the present empirical setting since the subsidiaries in this research were relatively young firms and many MNCs were probably still in the phase of developing the relationship between headquarters and the foreign subsidiary, inter alia by initiating different bonding activities. Managers seem to evaluate such costs as necessary and as a direct consequence of inevitable, wanted, and important activities. As such, they can be assessed by the managers in the MNCs as being positive for the performance of the foreign subsidiary – accordingly they are not seen as “ordinary” costs.

In contrast, the three other types of governance costs are consequences of rather undesirable conditions in the foreign subsidiary. Even though bonding activities obviously generate costs that, in the short run, should have had negative effects on the economic results of the subsidiaries, they might rather be seen as (repeated) investments required for future success. Even though the results indicate a strong positive relationship, this
finding should not be interpreted as signifying that incurring more bonding costs always is better than less. Given the cross-sectional design of the study, it is obviously not possible to do a thorough analysis of how bonding costs may develop over time, although post-hoc tests indicated that the level of bonding costs decreased over time.

CONCLUSION

The findings generally suggest that governance costs that occur between MNC headquarters and foreign subsidiaries are key determinants for the performance of those units. Hence, dealing with these costs must be an essential management task in MNCs. The findings indicate that bonding efforts should be emphasized, especially in the initial phases of a cross-border relationship. Similarly, communication distortions lead to maladaptations between parties, which in turn affect subsidiary performance. Since the study indicates that monitoring costs harm the performance of the subsidiary, an implication is that it is important to reduce the needs for spending resources on designing, implementing and performing monitoring systems. While monitoring costs have a negative effect on subsidiary performance, one should not conclude that managers should desist control precautions. It just points to the benefits of avoiding those traits that make monitoring necessary in the first place. The raison d'être of control costs lies principally in the potential for opportunistic behavior, but such hazards can for example be reduced by more cooperation between the parties and, in turn, to the development of mutual goals (Anderson, 1988).

The study demonstrates that internalizing cross-border activities does not prevent the occurrence of governance costs. Even if these costs may be modest in magnitude, they have a significant influence on MNCs’ evaluation of the performance of their foreign subsidiaries; hence MNC decision-makers must pay attention to these costs when going abroad. In general, it is important to manage foreign subsidiaries in a way that helps keeping these costs at a minimum. Even though it was not a direct part of the study, the findings accentuate the importance of carefully selecting governance structures ex ante. Failing to do so increases the probability for misalignments and increased bargaining and monitoring costs ex post (Williamson, 1985). If companies make erroneous decisions, or are forced to enter a market through non-preferred modes of entry, they will most certainly have to adjust the way headquarters–subsidiary relations are governed, e.g. by increasing the level of control exercised over subsidiaries (Harzing, 2002). That entails extra costs, which would not have been necessary if a more appropriate entry mode had been chosen in the first place.

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Philippe Gugler inducted into the Hall of Fame

Philippe Gugler, Vice-Rector of the University of Fribourg (Switzerland) and Vice-Chair of the EIBA Board, was inducted into the Microeconomics of Competitiveness (MOC) Affiliate Network Hall of Fame of the Harvard Business School (HBS). Gugler is the Director of the Center for Competitiveness of the University of Fribourg. This center is linked to the Institute for Strategy and Competitiveness led by Prof. Michael Porter at the HBS. The certificate was awarded to Philippe Gugler by Michael Porter. In his laudation, Porter stressed Gugler’s contribution to research and education on competitiveness, and his involvement in projects on regional competitiveness in collaboration with private as well as public sector partners.
Book Review: Foreign Direct Investment from Emerging Markets: The Challenges Ahead

by Filip De Beule & Dieter Somers, Lessius
University College and Catholic University of Leuven, Belgium

The last decade has witnessed increased outward foreign direct investment (OFDI) from emerging economies, leading to much theoretical, empirical and policy-oriented research on the subject. This book, edited by Sauvant, McAllister and Maschek, comprises 23 papers written for the first Five Diamond International Conference, entitled Thinking Outward: Global Players from Emerging Markets, held in 2008 at Columbia University. The volume provides the reader with a large range of issues related to the key players in the process of OFDI from emerging markets: the companies, the home and the host countries.

The book is structured in five parts and ends with a concluding chapter. The first part starts with discussing the importance, diversity and scope of the operations of multinationals in the global economy. The authors, for the most part, focus on whether new theories are needed for the explanation of the internationalisation process of emerging markets multinational enterprises (EMMNEs). Apparently multinationals from emerging economies are quite different from those of developed economies. For instance, they appear to have different forms of entry, investment motivations and managerial approaches. The authors however agree that traditional theories can still be useful, although they require an update and a change in emphasis. For instance, they argue that there is a need for a more evolutionary and institution-based theory of international business. This part is also useful in explaining how the financial structure and transparency of emerging markets can be improved to reduce transaction costs and further increase FDI.

The second part provides the reader with an overview of the expansion of emerging market multinationals from the BRIC countries and Slovenia, while it ends with a paper on the subject of political risk insurance. Despite the acronym, the BRIC countries are not a homogeneous bloc. For instance, there appear to be large differences in the degree of transnationality of these countries and in the industrial pedigree of the multinationals from these countries, while different competitive advantages can be observed as well.

With regard to political risk, the book shows that political risks of FDI are on the rise, while it is obviously higher in emerging economies than in developed ones. As EMMNEs target developed as well as other emerging economies, they seem to be running a higher risk not only at home but also abroad. Although surveys show that emerging
market multinationals place a much lower emphasis on all kinds of political risk than multinationals from developed economies, their home governments and other institutions are trying to help mitigate these risks. More generally, MNEs from emerging markets appear to benefit from an important role of their home government. This role is, however, more pronounced in countries such as China and Russia, where many large MNEs are controlled by the State. State ownership can be advantageous because it offers a form of guarantee in the case of engaging in more high-risk projects or in times of crises. However, it can be disadvantageous as well when international political conflicts occur (as can be shown by the gas conflict between Russia and Ukraine). Moreover, the implementation of certain state policies can prove harmful to profitability.

These papers are backed with a large amount of data, case studies and surveys. These all help the reader in the interpretation of the internationalization process of emerging market multinationals. The book thereby also attempts to examine the impact of the financial crisis on the outward FDI of these emerging economies. It is, for instance, shown that Russian multinationals were affected the most by the crisis. However it is important to bear in mind that these papers only have data up to 2008, so they can only show the impact of the beginning of the financial crisis. Yet, the editors and authors have attempted to update the book as much as possible, and to tackle the impact of the financial and economic crisis.

Part three of the volume gives an overview and evolution of the policy landscape of both developed and emerging economies towards outward FDI. The economic gains to a country of attracting inward foreign direct investment are now largely uncontested. The benefits of outward FDI remain more contested, although most countries nowadays recognize that it can offer many benefits as well. Outward FDI is for instance said to be able to increase the competitiveness of indigenous firms and overcome domestic supply constraints. Furthermore, in a globalized world, companies can no longer merely count on their home markets as a relatively secure source of profits. For these firms, outward FDI is important to stay competitive and to integrate into the global economy.

These chapters provide an overview of the policy measures towards outward FDI in the developed economies as well as emerging economies. We have witnessed a shift from more restrictive policies towards more promotional policies in all developed economies. Although there still remain some limited controls, for instance, in specific industries, developed countries have removed most barriers to outward flows of direct investment before implementing promotional policies. Although promotional policies started later on in emerging countries, a clear trend towards these promotional policy measures can already be detected from these chapters, despite the fact that these countries still maintain control over OFDI flows.

Overall, this part is particularly relevant for policy makers wishing to introduce promotional OFDI policies as a large overview and comparison of OFDI policies is given, bearing in mind that policies need to take account of various idiosyncrasies. Policies should be tailored to be destination specific, industry specific, volume specific, or mode and motive specific, as FDI is not an undifferentiated phenomenon.

The fourth Part consists of three papers. The first two wonder whether the European Union and the United States are ready for foreign direct investment from emerging markets. Afterwards, this parts ends with a paper on the policy measures of the OECD to help to maintain the global markets open to investment. The chapter on the European Union states that several levels of analysis are required to understand the dynamics of the international investment climate in the EU. These levels include the individual member states’ behavior, the European authorities (mainly the
European Commission) and the changing international context. Although the European Union pursues a strategy of market liberalization and openness, there are delays in the liberalization process of particular industries, such as the energy market. National governments still seem to make use of nationally defined security interests to deter possible foreign direct investments of foreign countries, such as some controversial cases in which attempts by investors to enter the EU energy and other ‘strategic’ markets have failed (for example, the Gazprom and Endesa case).

The paper on the subject of the international investment climate of the U.S. wonders whether the U.S. is ready for FDI from Chinese companies, in particular. China receives particular attention because it can be considered as an important strategic opponent of the U.S. The paper shows that, although Chinese investors in the U.S. are offered protection against unwarranted actions by authorities by national and international investment laws, certain recent international investment agreements allow the U.S. government to intervene to protect its essential security interests. The chapter discusses some recent examples to show that the US government will not hesitate to use these exceptions. This paper is highly relevant for Chinese investors in the U.S. as it provides them with essential information about the U.S. institutions, while several strategies to improve their success of entry are provided.

Part five is on the subject of investment promotion challenges. This part consists of three papers. The first paper gives an overview of the evolution of investment promotion agencies (IPA) of both developed and emerging economies. Furthermore, information about the investment motives and specialization of some emerging economies is given. In addition, some important investment promotion challenges are addressed such as how to attract FDI from emerging markets, how to focus efforts on growth sectors in declining markets and how to benefit from the growth of sovereign wealth funds. The second paper examines in detail the challenges of emerging and developed economies as host countries and elaborates on the role of emerging markets as home countries. The last paper addresses some legal challenges. As stated earlier, political risk is said to be rising, while regulatory risk also seems to be rising in some developed economies. This can be derived from the finding that the investigations of national institutions responsible for foreign direct are becoming more frequent and stringent. It is logical that this leads to a rise of international investment disputes. Consequently, international law is developing at a rapid pace.

The edited volume has several strengths. First and foremost, it bundles a large amount of contributions and opinions of several respected scholars in the domain of international business. Furthermore, the book is very up to date and contains a lot of relevant data. Moreover, all these conference papers complement each other and offer the reader detailed information about the various aspects of outward FDI from emerging markets. This conference volume will appeal to all those researchers involved or interested in outward FDI from emerging markets, while the non-technical approach makes it also accessible to executives and government officials.
EIBA 2011:
Taking International Business to the Next Level: Emerging Issues, Strategies and Economies

Call For Papers: 37th EIBA Annual Conference, 8-10 December 2011

by Liviu Voinea, Academy of Economic Studies, Bucharest, Romania

The global economic crisis has challenged key discourses in international business practice. Yet, what does IB research have to contribute to these new discourses such as risk management, emerging multinationals, and limits to European integration? While fundamental IB topics related to theories, concepts, and approaches remain valid, on-going challenges have evolved regarding the operations, strategies, alliances and local impact of multinational enterprises. Furthermore, we must pay attention to diverse emerging issues in international business from climate change to state interventionism.

The 37th EIBA conference is hosted by the Faculty of International Business, Academy of Economic Studies in Bucharest, Romania. Romania is a new EU member state, and an emerging economy which is representative for the shifting West-East paradigm. Is Eastern Europe going to remain specialized in low cost products and cheap labor, or are there different patterns of specialization emerging? The conference will have one track on emerging markets in general and another track on specialization issues in Central, Eastern and South-eastern Europe. Submission deadline: 15 July 2011.

For more information, please consult the conference website at http://www.eiba2011.org/.

The following tracks are being offered to cater to the IB researchers’ wide range of topics.

1. IB theory and the boundaries of the firm (Chair: Alain Verbeke, University of Calgary)
2. Multinational enterprises’ strategies (Chair: Bjorn Ambos, Vienna University of Economics and Business Administration)
3. Internationalization of SMEs (Chair: Klaus Meyer, University of Bath)
4. International marketing (Chair: Jorma Larimo, University of Vaasa)
5. Foreign operation modes, offshoring and outsourcing (Chair: Torben Pedersen, Copenhagen Business School)
6. Effectiveness, Differentiation and Integration in International Strategic Alliances (Chair: OrlyYeheskel, Tel-Aviv Yaffo Academic College)
7. International human resource management and cross cultural aspects (Chair: Winfried Ruigrok, University St. Gallen)
8. International finance, accounting and corporate governance (Chair: Trond Randoy, University of Agder)
9. International trade and local/regional development (Chair: Pervez Ghauri, King’s College London)
10. Research, development and innovation: knowledge creation and transfer in multinational enterprises (Chair: Ulf Andersson, Copenhagen Business School)
11. Emerging economies in international business (Chair: Filip De Beule, Lessius & Catholic University Leuven)
12. Central, Eastern and Southeastern Europe: low cost for ever? (Chair: Matija Rojec, University of Ljubljana)
13. The day after tomorrow. Multinational enterprises in the post-crisis environment (Chair: Rob van Tulder, Erasmus University)
For the 25th consecutive year, a Doctoral Tutorial for International Business students will be organized in conjunction with the Annual Conference of the European International Business Academy (EIBA). The 2011 Doctoral Tutorial will take place in Bucharest, Romania on 8 December 2011, immediately before EIBA's Annual Conference, 8-10 December 2011.

The first objective of the Tutorial is to provide an opportunity to doctoral students in International Business to discuss their research plans and their work in progress both with a distinguished international faculty and their colleagues. The second purpose is to get them acquainted with the international EIBA-network of experts and colleagues working in the field of International Business. The core faculty for the Tutorial is composed of leading scholars in the field of International Business. The names of this year's faculty will be announced as soon as possible after the submission deadline.

The students who are selected to participate in the Tutorial will be requested to present a short paper about their thesis proposal. Participating students are required to also attend the EIBA Annual Conference, immediately following the Tutorial. There is a special registration fee for students. An award of 1000 EUR will be presented to the student with the most promising thesis proposal.

We are particularly keen to encourage applications from doctoral students who, although not yet being close to having completed their theses, have already developed a clear idea of the data they will use (or are in the process of collecting), and of their intended research design. That is, we welcome especially applications from doctoral candidates who are mid-way through the process of research for their thesis.

However, despite the above preference, we strive for a mix of students at different stages of thesis preparation. We are also keen to encourage applicants from schools that do not as yet have established IB faculty research groups, but with the aim of ensuring a reasonable mix of participants from different backgrounds for the Tutorial.

Since the number of participants is strictly limited, if you are interested in this event, you are urged to submit a three-page abstract of the doctoral research currently being undertaken and your CV. We recommend that applicants divide their 3-page abstracts into the following sections in roughly the proportions shown as a guideline:

(1) central research question addressed (to include a brief statement of the topic, and of the issue or problem that motivates the research) [10%];
(2) theory and literature review [20%];
(3) research design, data and methodology (to include hypotheses in the case of quantitative methods, and the methods of measurement and the generative questions that will guide grounded theory building in the case of those using qualitative methods) [30%];
(4) expected results and summary of the evidence of the study thus far (to include if applicable an outline of any preliminary findings) [20%];
(5) expected contribution and its significance to scholarship in the IB field [10%]; and
(6) conclusions, and remaining concerns or problems to be overcome [10%].

For more information or for submission (deadline: 1 September 2011), visit the event’s webpage http://www.eiasm.org/frontoffice/event_announcement.asp?event_id=826
2nd Doctoral Think Tank on the Emergence of Southern Multinationals

Chaired by Lucia Piscitello, Politecnico di Milano, Italy, & Danny Van Den Bulcke, University of Antwerp, Belgium

For the second time, a Doctoral Think Tank (DTT) for PhD students will be jointly organized by COST and EIBA. Unlike the regular annual Doctoral Tutorial organized by EIBA for international business students, the COST–EIBA Doctoral Think Tank will focus on the emergence of Southern Multinationals and its impact on Europe and its stakeholders.

The DTT is organized in conjunction with the Annual Conference of the European International Business Academy (EIBA). The 2011 DTT will take place in Bucharest, Romania on 8 December 2011, beginning with an intensive Think Tank meeting, and will be followed by paper sessions on December 9-10. For this latter purpose the participating students are expected to register for the conference. The students who are selected to participate in the DTT will be requested to present a short paper about their thesis proposal.

The first objective of the DTT is to provide an opportunity for doctoral students to discuss their research plans and their work in progress, both with a distinguished international faculty as well as their colleagues. The second purpose is to get them acquainted with an international network of experts and colleagues working in the field of International Business, with a focus on issues related to emerging and transition economies. The core faculty for the Tutorial is composed of leading scholars in the field of International Business who specialize in the theme of the Doctoral Think Tank. The names of the Faculty will be announced as soon as possible after the submission deadline.

COST-EIBA is particularly keen to encourage applications from doctoral students who, although not yet being close to having completed their thesis, have already developed a clear idea of the data they will use (or are in the process of collecting), and of their intended research design. That is why especially applications from doctoral candidates who are mid-way through the process of research for their thesis are welcomed.

However, despite the above preference, the organizers strive for a mix of students at different stages of thesis preparation. Therefore COST-EIBA is also keen to encourage applicants from schools that do not as yet have established IB faculty research groups, but again with the aim of ensuring a reasonable mix of participants from different backgrounds for the DTT.

Participation is limited to students from countries that are members of COST and whose country representatives participate in the COST Action research project ‘The Emergence of Southern Multinationals and their Impact on Europe’. Students from the following countries are therefore eligible: Belgium, Bosnia and Herzegovina, Croatia, Denmark, France, Germany, Hungary, Iceland, Ireland, Israel, Italy, Netherlands, Norway, Portugal, Romania, Slovenia, Spain, Switzerland, Turkey, and the United Kingdom. It is likely that some other countries may join this COST Action Project in the future.

Financial support will be offered to those students selected to participate. Since the number of DTT participants is strictly limited, if you are interested in this year’s event, you are urged to send a three-page abstract of the doctoral research currently being undertaken and a CV before September 1.

For more information or for submission (deadline: 1 September 2011), visit the event’s webpage http://www.eiasm.org/frontoffice/event_announcement.asp?event_id=827.
The Gunnar Hedlund Award

The Gunnar Hedlund Award is a prize for the best PhD thesis in the world in the field of International Business. The award is organized by the Stockholm School of Economics, in collaboration with The European International Business Academy (EIBA). The winner is announced at the Annual Meeting of the European International Business Academy in Bucharest.

To be eligible for the 2010/2011 Gunnar Hedlund Award, the doctoral dissertation (written in English) must have been completed within the time frame of 1 July 2009 - 30 June 2011. One full copy of the dissertation (one paper version and one digital version) and a 10-page anonymized abstract (digital version), following the format described below, must be submitted to the address below before 1 August 2011. The finalists will be asked to present their work at the EIBA annual conference in December 2011. A stipend will be awarded to each of the 3-4 finalists to partly cover travel expenses.

PRIZE CRITERIA AND SELECTION

The prize will be awarded to the work that in the opinion of the jury has the greatest potential to impact the field of international business in the future. Both theoretical and empirical contributions are appropriate. Emphasis will be put on creativity and originality. A jury of leading scholars in the field will decide on the winner.

REQUIREMENTS FOR THE ABSTRACT

The abstract should be maximum 10 pages, single-spaced, and anonymized, i.e. the first page should only contain the thesis title. In order for the application to be considered at all, the abstract must include the following:

- cover page with the name of the thesis only (1 page);
- summary of the problem addressed by the dissertation, including the detailed purpose (approx. 1 page);
- short overview of the relevant theoretical and empirical literature (approx. 2 pages);
- synopsis of the methodology used: research design, data, method of analysis (approx. 1-2 pages);
- the main findings and results (approx. 1-2 pages); and, most importantly,
- a statement of implications for research and practice (approx. 2-3 pages).

ENQUIRIES AND SUBMISSIONS

Professor Örjan Sölvell
Chair, Hedlund Award Committee
Stockholm School of Economics
P.O. Box 6501, SE-113 83 Stockholm, Sweden

For more information:

http://www.hhs.se/CSC/GunnarHedlundAward/Pages/default.aspx
European International Business Academy (EIBA)

The European International Business Academy (EIBA) was founded in 1974 under the auspices of the European Foundation for Management Development (EFMD) and in close cooperation with the European Institute for Advanced Studies in Management (EIASM). The Academy is a professional society for academics and practitioners with an interest in the growing field of International Business. It is distinct from many other associations in that members come from a wide variety of disciplines and functional backgrounds and share the common purpose of using the international context to cross the intellectual boundaries that so typically divide institutions of higher education.

The aim of EIBA is to serve as the core communication network for disseminating information and promoting international exchange in the field of International Business in Europe. Membership is open to individuals from Europe and elsewhere. At present, the Academy has more than 400 members from 40 different countries representing all five continents.

EIBA organizes an Annual Conference, which is hosted each year by a major European university. As a pre-conference activity, Doctoral Tutorials for PhD students are organized. A series of prestigious awards is presented during the EIBA Annual Conference, including (although not necessarily each year) the Gunnar Hedlund Award for best doctoral dissertation, the Copenhagen Prize for the best paper written by a young scholar in International Business, the IMR International Marketing Award, the IJoEM Best Paper on Emerging Markets Award, the IBR Best Paper of the Year Award, the Best Doctoral Thesis Award, the EIBA Fellows Research Award, and the Distinguished EIBA Honorary Fellows Award.

Among the many good reasons for joining EIBA are the following:

- EIBA members are part of a global network of people involved in international business research and teaching.
- EIBA members automatically receive the 6 yearly issues of the International Business Review (IBR), EIBA’s official journal.
- EIBA members can attend the EIBA Annual Conference at a special member rate.

The current EIBA membership fee is €110 per calendar year (€90 for PhD students with valid proof of status), including an annual personal print subscription to the International Business Review.

Note that the EIBA Annual Conference registration fee includes an annual EIBA membership and IBR journal subscription for the following year!

To find out more about your membership status or your subscription to IBR, please don’t hesitate to contact the EIBA Secretariat: eiba@eiasm.be

For more news and information on EIBA, or to renew your annual membership online, please visit the Academy’s website: www.eiba-online.org.