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Dear EIBazine Readers

Philippe Gugler, EIBA Chair

Soon the EIBA Community will gather in Uppsala, Sweden, for the 40th EIBA Annual Conference. Every student in IB learned the “Uppsala model” and all scholars in IB have used this model in their research. It is therefore a great honour to have the privilege of being invited to Uppsala for our 40th anniversary conference! I am convinced that the “Uppsala spirit” will inspire many of us. I would like to thank our President, Rian Drogendijk, and her team, for the organization of the 40th EIBA Annual Conference. I would also like to express my deep gratitude to the numerous people who are “behind” this important event as reviewers, authors, panellists, chairs, and organizers of the EIBA 2014 events such as the doctoral tutorial events, among others.



In December, we will lose some Board Members who have either completed their second term or who will be stepping down due to changed circumstances: Rian Drogendijk (Sweden), Grazia Santangelo (Italy), and Filip De Beule (Belgium). Their continuous engagement with EIBA has been very well appreciated. Rian is organizing the 2014 EIBA Conference in Uppsala, Grazia organized the 2007 EIBA Conference in Catania, and Filip was the EIBazine editor for three years (2010-2013). I have no doubt that they will continue serving EIBA with other contributions because they are important pillars of our Community. New EIBA National Representatives for these countries will be appointed at the next General Assembly.

With deep sorrow and grief we have lost another outstanding scholar in the IB field this year: Alan Rugman passed away last July. We will miss him deeply. On behalf of the EIBA Family I would like to express our heartfelt condolences to his wife Helen who often accompanied Alan to our annual conferences. Special commemorative events have been foreseen at the upcoming EIBA 2014 conference this December to honour the memories and legacies of Alan Rugman as well as those of Danny Van Den Bulcke who both sadly passed away this year. I have no doubt that their

“spirits” will be alive forever and that they will continue to inspire many IB scholars in the future. [Editor’s note: the May 2014 EIBazine was a special commemorative issue dedicated to Danny Van Den Bulcke.]

We are fortunate to be supported by the EIBA Fellows in many respects. Thanks to the leadership of Francesca Sanna-Randaccio – Dean of the EIBA Fellows – the EIBA Board benefits from the invaluable involvement of the Fellows regarding major EIBA initiatives organized at the Annual Conference, which add greatly to the conference experience.

I also would like to pay tribute to my colleagues on the EIBA Board. José Pla Barber is a very committed and efficient Vice Chair. Throughout the year, EIBA Board members are working – often behind-the-scenes – for the sake of EIBA. Without the dynamic involvement of our Executive Secretary, Ene Kannel, it wouldn’t be possible to keep up with all the duties and commitments related to the Association. Thanks to each of them!

The EIBA Board is grateful for the involvement of the future EIBA Presidents who have committed to organizing the EIBA Annual Conference; our agenda is already settled for the coming years: Rio de Janeiro (2015), Vienna (2016), Milan (2017), Poznań (2018), and Leeds (2019) – I bet you won’t find many associations with such an outstanding line-up of hosts and venues for the next five years!

EIBA is proud to have been an official partner of the World Investment Forum organized by UNCTAD in Geneva this past October. I would like to thank James Zhan and his team for this great opportunity offered to EIBA. I am convinced that EIBA members who attended the Forum enjoyed the quality and the diversity of the sessions.

I hope to meet many of you this coming December at the 40th EIBA Annual Conference in Uppsala! We are sure to enjoy a true Nordic Christmas atmosphere that will contrast nicely with the Rio de Janeiro spirit waiting for us in December 2015!



Dear EIBAzine Readers,

These are very special times for EIBA. This coming December, the EIBA 40th Annual Conference will take place – a truly noteworthy milestone!

To make the most of this anniversary event, we have decided to launch a Call for Contributions for the next EIBAzine issue (May 2015), in order to prepare a Special Issue celebrating these 40 years of promoting International Business. The Call can be found towards the end of this issue, before the general information about EIBA. Please send us your photos, short reports of your experience, and key facts regarding EIBA and its already long history. We cannot promise to publish everything, but we will consider all and assemble a good account of what EIBA has been and has meant since its foundation.

I would also like to invite you to contribute to a new feature on EIBA membership: if you have made an important job change, published a book or another publication of general interest to EIBAzine readers, received an important distinction, etc., please don't hesitate to send me the information and your story. We will have limited space for this feature (one page), but we certainly plan to include relevant contributions.

This year has been special in a less fortunate way. After sadly losing Danny Van Den Bulcke, "Mister EIBA", at the beginning of the year, we have also lost this past July another outstanding IB scholar: Alan Rugman; he will be sadly missed. In this issue, Alain Verbeke, one of his closest friends and co-author of many publications, pays a moving tribute to Alan and his prolific and influential career in IB.

This issue features, as is already becoming an established tradition of *EIBAzine – International Business Perspectives*, three stimulating contributions by IB scholars – as well as a fourth notable article by an EIBA Fellow – as follows:

1. We begin with an article by Pavidia Pananond on "What Rugman's Got to Do with It?:"

Emerging Market Multinationals", where the author delves into her area of expertise, also paying tribute to Alan Rugman by relating her theme to Alan's work.

2. We are honoured to have the collaboration of the Columbia Center on Sustainable Investment (CCSI), with a contribution by Lise Johnson (Head, Investment Law and Policy) on the topical theme, "International Investment Agreements: Are their policy aims served by their broad definitions of covered 'investors' and 'investments'?".
3. As usual, we include an article by an emerging IB scholar – this time, Marcelo Cano-Kollman, a very promising scholar from Temple University, on "The Connectivity of Inventor Networks in Peripheral Economies".
4. We are also privileged to be able to offer you an additional article by esteemed EIBA Fellow, Seev Hirsch, on the relevant theme "MNE Nationality Revisited".

We do hope you will enjoy these four engaging and thought-provoking scholarly articles.

You will further find relevant information about the upcoming 40th EIBA Annual Conference, taking place in Uppsala, Sweden, this December. It is impossible to imagine a better place to hold the 40th EIBA Annual Conference – in the cradle of the Uppsala Model of Internationalization! Conference Chair and EIBA President, Rian Drogendijk, along with her team, are preparing an exciting programme for all of us to enjoy.

This issue also includes the usual message from the EIBA Chair, an update on this year's *Progress in International Business Research* (PIBR), Volume 9 (dedicated to Danny Van Den Bulcke), information about various prizes and upcoming EIBA Annual Conferences, the already mentioned Call for Contributions for the next Issue on the 40th anniversary of EIBA, and some general information on the European Academy.

May I end by warmly thanking all contributors to this *EIBAzine* issue, and to encourage all of you to send your feedback, suggestions and articles to my e-mail atavares@fep.up.pt. Remember, this is *your* newsletter, so please do get in touch and do get involved!

Welcome to EIBA 2014 in Uppsala

Rian Drogendijk, EIBA President & Conference Chair



In 1977, one of the first EIBA Annual Conferences was held in Uppsala.

This year, the 40th EIBA Annual Conference will come back to Uppsala again, and I am very proud and happy to

welcome you all this coming December. The conference is hosted by the Department of Business Studies at Uppsala University, which is the home of a substantial group of IB researchers.

We have chosen as our conference theme “The Future of Global Organizing”. This theme opens up for reflections on the large changes with regard to the organization and structure of international firms since the 1970s, resulting in the great variety of organizational and geographic structures in multinational corporations (MNCs) that we see today. These structures, in turn, reflect the tensions between different organizational principles, such as, the MNC as a hierarchy or a network, internalizing or externalizing core business activities, and the relative importance of headquarters and subsidiaries in the value creation processes. We have also seen an increased interest in the interplay between the environment and the MNC. While earlier studies tended to concentrate on the impact of national and cross-national institutions on the organization of business, recent studies have also focused on the political role of MNCs and their possibility to shape the rules and regulations in different countries. Taking a more critical stance towards MNCs has raised questions of organizational politics and power, not only reacting to unethical behaviours and financial crises, but more fundamentally challenging our overall understanding of the MNC. We believe that these are some of the crucial issues for further research and the future development of our field of International Business.

The conference begins on Thursday evening with the Fellows' plenary session in the Auditorium of the Main University Building. After a short welcome, the EIBA Fellows will present a panel discussing the role of Uppsala and Uppsala-related researchers in IB research. Following this session, we are invited to a welcome reception hosted by the Vice-Chancellor of Uppsala University in the beautiful halls of the Main University Building.

On Friday, we will have our second plenary, which will be a commemorative session for Danny Van Den Bulcke, founding father of EIBA, who to our great regret passed away in January this year. We will pay tribute to Danny's academic work and his extensive contribution to the EIBA organization and the IB community.

On Saturday, we are proud to be able to integrate a lecture by the 2014 winner of the Nobel Prize in Economic Sciences, Jean Tirole, in the EIBA 2014 programme. The Nobel lecture is traditionally given on December 13, in the Centre of Economic Studies, where all our sessions on Friday and Saturday will take place, and conference participants are invited to join the lecture (in the same lecture hall, or a second hall with a live streaming).

In addition to the plenaries, we have as many as 12 panel sessions covering an extremely interesting and varied range of topics. There are also a limited number of special sessions and panels featured, amongst which are: the presentations by the 3 finalists nominated for the Gunnar Hedlund Award; the launch of the 9th volume of the Progress in International Business Research (PIBR) series – dedicated to the late Danny Van Den Bulcke; and the AIB-WE Chapter special panel commemorating Alan Rugman – our eminent colleague who sadly passed away in July of this year. For young scholars, there is the launch of the EIBA Early Career Network (ECN) initiative taking place on Friday evening as a special event.

Last but certainly not least, the conference programme includes up to 13 parallel sessions of competitive and interactive papers. As in previous years, inclusion in the competitive category was very selective, and less than half of the papers submitted as competitive were accepted as such. In the interactive sessions, where most of the work is presented, our aim is to have some of our most experienced and distinguished colleagues chairing these sessions to maximize the benefits of the personal interaction. As in previous years, no formal (PowerPoint) presentations will be made in these interactive sessions: the focus is on the discussion. The competitive sessions will have a more conventional session structure, as usual.

In addition to the full conference programme, the EIBA 2014 pre-conference programme on Thursday, December 11, includes two doctoral events: the 28th John H. Dunning Doctoral Tutorial and the 3rd EIBA Doctoral Symposium. We will also host two Paper Development Workshops organized with IBR and JIBS respectively, as well as a Qualitative Methods Workshop (for which special registration and payment of an additional fee are required).

Uppsala is a relatively small city with a picturesque historical centre, so we hope you will find an opportunity to explore it. The EIBA 2014 conference package will include a ticket to the University Museum, but the Uppsala Cathedral located in the historical part of the city is also worth a visit.

For EIBA's 40th jubilee Gala Dinner on Saturday, December 13 – which also happens to be the night of the Santa Lucia light festival – we invite you to higher spheres at Uppsala Castle, overlooking the city.

Uppsala is a great city for walking, and all conference venues are within walking distance of each other and the hotels, but they are also easily accessible through the extensive public bus network. When registering online for EIBA 2014, you have the possibility of acquiring public transport tickets for the duration of the conference, including tickets (optional) from and to the international airport Stockholm Arlanda (30-40 minutes from Uppsala).

I along with my colleagues and the entire EIBA 2014 team are very much looking forward to welcoming you to Uppsala and especially to the 40th EIBA Annual Conference!



For more and regularly updated information about the 40th EIBA Annual Conference, please visit the EIBA 2014 Uppsala website at: www.eiba2014.org.



www.eiba2014.org



Alan Rugman

(1945 – 2014)

The Essential Alan Rugman

Alain Verbeke, University of Calgary



Alan Rugman, a leading scholar and towering figure in the field of international business, died after a brief illness on the 7th of July 2014, at the age of 69.

Intellectual Trajectory

Alan was born in Bristol, UK, and studied at the universities of Leeds and London (SOAS – School of Oriental and African Studies). At the latter institution, Edith Penrose was one of his teachers. Alan earned a PhD at Simon Fraser University (SFU) in Canada, with a thesis on international diversification. German-born Herb Grubel was his supervisor. Herb Grubel had been a student of James Tobin at Yale.

Together with Harry Markowitz, Tobin had established the mean-variance perspective on portfolio diversification in a context of uncertainty. Alan's dissertation work was a product of this powerful intellectual lineage.

The defining moments of Alan's illustrious career were early visits at Reading University (1976-77) and Columbia Business School (1978-79). At the former, Alan interacted extensively with several key scholars, most notably John Dunning, Peter Buckley and Mark Casson. These experiences, as well as intellectual exchanges with David Teece and Jean-François Hennart, led him to become a prominent internalization theory scholar. At Columbia, Alan learned first-hand about the academic standards prevailing at Ivy League universities, where at the time, the power of

original ideas was ultimately more important than the directly observable outcome of publication games.

This educational background explains Alan's complex and sophisticated intellectual persona. However, Alan's role as Director of the Centre for International Business Studies (CIBS) at Dalhousie University in Halifax, Canada, from 1980-87, would add further breadth to his scholarly views. As CIBS Director, funded by grants from the Canadian government, Alan was pushed towards studying both the interactions between multinational firms and governments, and the various impacts of firm-level strategies. It is here that he explored the many facets of his now famous 2x2 matrix, linking firm-specific advantages (FSAs, weak or strong) and country-specific advantages (CSAs, weak or strong). This exploration led to highly original work on administrative protection in the United States and on a variety of other, critical public policy issues, including transfer pricing, international technology transfer, stimuli for investment attraction, double diamond thinking, shelter seeking strategies. After moving to the University of Toronto in 1987, Alan continued this work, which was directly relevant to business and public policy. He rapidly became recognized as Canada's leading scholar in international business and served as the only academic on the International Trade Advisory Committee (ITAC), composed mainly of CEOs of large companies, to advise the Canadian government on free trade and investment. Alan listened carefully to what the captains of industry had to say, but in public presentations he never boasted about his unique business contacts with CEOs, in contrast to some scholars at other institutions of great privilege.

After stints at Templeton College (Oxford) and at Indiana University, Alan Rugman returned to Reading, where he spent the last years of his career as Head of International Business and Strategy at the Henley Business School. Until his last days, he would extend prior work and craft new projects. Two of his new projects would appear especially important: to

update his oeuvre on regional multinationals and to develop New Internalization Theory, as the single unifying theory of the firm, integrating fully transaction cost economics, the resource-based view and modern entrepreneurship thinking.

Inspiration for other scholars

Beyond his extraordinary publication record and service, which included roles as President of the Academy of International Business (AIB) and Dean of the AIB Fellows, Alan had three admirable traits befitting any academic who aspires to be a true scholar.

The first trait is to be committed to the truth. In 1986, when Alan was teaching at Dalhousie, the media asked him to comment on a unionization drive in a local Michelin tire plant. In preparation for the interviews, Alan read the firm's yearly reports, the senior management statements and other company documents. After studying this material and reflecting upon it in light of his background knowledge, Alan concluded that successful unionization could lead to plant closure. Alan stated this conclusion publicly. As a result, he and his spouse Helen became the subjects of serious threats by disgruntled stakeholders. But Alan did not waver in his commitment to what he believed to be true.

A second example of Alan's commitment to the truth follows. In 1988, Alan studied the possible impacts of the proposed Canada-US Free Trade Agreement on Canada's national economy. Several University of Toronto scholars in various departments vehemently opposed Free Trade and Investment publicly, because they assumed such agreement would dismantle the Canadian economy and cause the Canadian market to be served by more scale-efficient, US-based plants. These scholars painted a multi-layered doom-scenario for Canada and Canadians.

Alan's appeared to be the sole voice on the University of Toronto campus claiming the opposite. Again, he based his view on analysis of numerous company documents and also, as

mentioned, on conversations with CEOs. Alan said that Canada had strong multinational enterprises in its own right, the position of which would improve further because of free trade and investment. Moreover, Alan claimed, Canada is the home of numerous foreign subsidiaries with FSAs in marketing and branding, which would specialize further after the Free Trade Act was passed and would likely cater to the entire North-American regional market. Of course, the passage of the Act and of time has shown that Alan was correct.

These two examples reveal what Alan represented in academia his entire life: *Alan's was a strong voice for truth derived from study.* No matter whether his conclusions were unpleasant, politically correct, or useful to his career, Alan remained faithful to the ideal of intellectual honesty. Alan's intellectual honesty, and the respect it ultimately earned him from colleagues, university administrators, politicians and business people alike, is inspiration to the next generation of scholars. Academics are called to herald evidence-based research outcomes, irrespective of the short-term costs that conveying such messages might bring.

Alan was not only a man of extraordinary intellectual courage, he was also someone who worked hard, almost every day of his life, even as he read novels, watched cricket (a game he enjoyed playing himself), and took pleasure in observing the natural beauty of the places he visited. His remarkable industry enabled him to publish dozens of books and hundreds of articles. But Alan was not interested in the games some academics play, in terms of positioning a cherished paper in the journal most beneficial to their careers. Alan's view was that good ideas should see the light of day as soon as possible, if not in a top journal, then at least in a serious refereed outlet or book. Consequently, he was always restlessly working on at least a dozen projects at any one time, and was usually willing to

contemplate working with new people who had an interest in his work irrespective of where they came from or what their background was. *Alan's second trait is what defines a genuine artist. Like the greatest visual artists, Alan could recombine his own colour palette with new shades and tones brought by other masters and even apprentices, to craft original work appreciated by the expert eye.*

Finally, Alan was a man of uncommon generosity. Visitors from around the world were treated as family, whether in Alan and Helen's home or in good restaurants. Alan typically proposed to pick up the bill, even when much wealthier people had shared the meal. He believed that caring well for a guest would enable the guest to be at his or her best as a seminar speaker or as the writer of an article or book chapter. Alan loved people. His happiest professional moments were at colleges such as Massey College in Toronto and Templeton College in Oxford, and at the beautiful Greenland Campus at Henley. He highly valued college life, where the intellectual exchange with visitors from around the world is spontaneous, effortless and genuine, and occurs in graceful surroundings meant to foster such exchange. *Alan's third trait was generosity, with this generosity being contagious especially in college-like surroundings, spawning both heightened intellectual performance and a deep sense of community.*

The essential Alan Rugman? An unwavering voice for truth; an impatient explorer of new ideas; an invariably generous spirit.

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NOTE: Condolences may be expressed to Alan Rugman's widow, Helen Rugman, at the e-mail wpg100@gmail.com.

What Rugman's Got to Do With It? Emerging Market Multinationals

Pavida Pananond, Thammasat Business School, Thammasat University



No tribute to honour Alan Rugman would be complete without recognising his myriad contributions to the burgeoning field of International Business. Indeed, the breadth and depth of his work speak volumes to IB scholarship. As we remember him in our own ways, I would like to pay tribute to the extent Professor Rugman's work has added to the literature on emerging market multinationals (EMNEs). Two issues that are salient in this context are: the evolving views on EMNEs, and global value chain as unit of analysis for EMNEs. These have been selected in view of their relevance to particular findings and views Professor Rugman has imparted.

From Iconoclasm to Mainstream?: The Evolving Views on Emerging Market Multinationals

The inspiration for this topic stems from a dinner conversation during the Reading-UNCTAD International Business Conference in 2013.¹ As one of the panelists, I was fortunate enough to be seated at the welcome dinner among many IB luminaries, with Alan Rugman at the centre. One topic he raised was how issues or people that were once considered 'iconoclast' in the IB field eventually became 'mainstream' as time passed. Although he did not elaborate much further, it was understood that he was referring to the transition of ideas that were once considered 'iconoclastic'—new and maverick, but later became 'mainstream' as they attracted more interest and became more widely known. Thinking back to that dinner, I recalled admiring how his long tenure in the IB scholarship allowed him to contribute to and be part of the incubation and

transformation of many ideas, from their iconoclastic days to mainstream status.

Reflecting today on his point about iconoclasm becoming mainstream, I could see some parallels from the development of the EMNEs literature. When academic interest in multinational firms from developing countries first emerged in the late 1970s and early 1980s, scholars who undertook this first wave of research on EMNEs were mostly those who were interested in development issues of the 'Third World' (e.g., Heenan and Keegan, 1979; Kumar and McLeod, 1981; Lall, 1983; Lecraw, 1977, 1981; Vernon-Wortzel and Wortzel, 1988; Wells, 1977, 1981, 1983). This first wave of literature considered multinational firms from developing countries as deviants from the 'mainstream'—those established multinational enterprises (MNEs) from advanced economies. Less sophisticated types of competitive advantages, derived mainly from lower costs, limited these firms' international activities mainly to other developing countries with similar conditions. Unlike the mainstream MNEs, these EMNEs were perceived to be a set of outsiders that were unlikely to make much of an impact in the world due to their lack of advanced firm-specific advantages that would allow them to venture beyond nearby developing countries.

Yet, things change and 'Third-World multinationals', more commonly referred to now as 'emerging market multinationals', have become in vogue as more and more firms from developing countries have made their impacts felt far and wide. Over 32 per cent of the world's total foreign direct investment (FDI) outflows originated from developing economies—an impressive growth given that the ratio was just around 12 percent at the beginning of the 2000s (UNCTAD, 2014). Research interest in the topic similarly grew during the same period. EMNEs has been a focus for special issues of many academic journals (see, for example, Aulakh, 2007; Gammeltoft, Barnard, and Madhok, 2010; Luo and Tung, 2007; Cuervo-

¹ This part benefited from a conversation with Rajneesh Narula. I thank him for his insightful comments on iconoclasm and mainstream.

Cazurra, 2012), and edited books (see, for example, Ramamurti and Singh, 2009; Sauvart, 2008; Williamson, Ramamurti, Fleury and Fleury, 2013; Cuervo-Cazurra and Ramamurti, 2014). In the popular and managerial press, the issue has received an equally broad coverage. For example, the Boston Consulting Group presents its list of 'global challengers' from developing economies (BCG, 2006, 2011, 2013) and *The Economist* features EMMNEs, either in general (e.g. *The Economist*, 2008, 2010, 2012a), or by focusing on specific ones from particular countries (e.g. *The Economist*, 2012b, c).

Academic perspectives on the existence and growth of EMNEs also changed. From the view prevalent in the first wave literature that these firms are outliers from the usual MNEs, IB scholars became more interested in exploring how and why they differed from established MNEs, and whether these differences warrant new sets of theoretical explanations. The pendulum of theoretical debate swings from the view that EMNEs are a set of different beasts, whose aggressive risk-taking and asset-augmenting behaviour justify new sets of theoretical explanations (e.g. Mathews, 2006; Luo and Tung, 2007), and one that sees these firms as infant MNEs whose different behaviour results mainly from their early stage of internationalisation and therefore can be explained within the realm of existing theories (Dunning, 2006; Narula, 2010, 2012).

I subscribe more to the third approach that points out how studies of EMNEs can be used to extend existing IB theories (Ramamurti 2009, 2012; Cuervo-Cazurra 2012). Proponents of this view suggest that the unique conditions of developing countries, and the early stage of internationalisation of EMMNEs, could offer fresh venues to extend well-known theoretical concepts. In particular, studies of EMNEs can clarify some assumptions inherent in the development of IB theories, especially with regards to how different conditions of the home country from which these firm emerge influence their subsequent internationalisation behaviour. In Rugman's realm, studies of EMNEs can be

used to further explore how firms balance firm-specific advantages (FSAs) with their country-specific advantages (CSAs). Reflecting upon Professor Rugman's point on iconoclasm, it is fascinating to note how studies of EMNEs made their way from the periphery into a core of the IB literature.

Global Value Chain as Unit of Analysis for EMNEs

Moving from reflection on past literature, I now discuss an area where studies on EMNEs can move further forward in reference to some of Professor Rugman's work. One topic Professor Rugman emphasized was how employing different units of analysis could further enhance our understanding of international business. In Rugman, Verbeke and Nguyen (2011), the authors argued that the core unit of analysis in the field of international business has shifted from the broader country level to the MNE, and now to network and subsidiary level. Beyond these 'big three' levels, there are nine other units of analysis prevalent in today's IB studies, one of which is value chain. Professor Rugman and his co-authors expressed their reservation on the concept of global value chain (GVC), arguing that it assumes away the difficulty associated with global sourcing. According to the authors, 'the so-called global factory maybe an illusion, and that reality may be more one of 'regional factories' (Rugman *et al.* 2011: 774). In fact, their scepticism did not target the concept of value chain per se, but more the 'global' nature of it. As we all know, Professor Rugman's most famous 'iconoclastic' view is that there are few and far 'global' firms. Most remain 'regional' in their operation due to the challenges of operating across geographical distance. The value chain remains a relevant unit of analysis that is considered a sub-set of studies at the firm level.

For studies on EMNEs, the value chain can indeed be a useful framework for analysis. In the IB literature, global (or regional!) value chain is predominantly viewed from the perspective of large and established MNEs

that are able to fine-slice their activities and relocate them through offshoring to different locations. Under this view, firms from developing economies are seen simply as local suppliers that are integrated into the value chain through various governance structures, ranging from complete outsourcing supplier relationship to wholly owned local subsidiaries. This view overlooks how local suppliers in developing countries can later evolve and become multinationals themselves (Pananond, *forthcoming*). Many EMNEs, especially those from countries that follow export-driven growth policy, have their early beginning as low-cost domestic suppliers to established MNEs. But not all local firms remain as MNEs' subordinates forever. To capture more value for their position, some domestic firms may pursue upgrading activities in order to move up to higher value positions along the global value chain. Others may expand their operations in domestic, regional and global value chains to perform different role in each chain (Navas-Aleman, 2011). Over time, some grew beyond their domestic borders, undertook international expansion and became a dominant firm in the value chain of that particular industry. A case in point is Thai Union Frozen, the Thai firm that started as a domestic canned-tuna contract manufacturer but later grew through international acquisitions of leading brands into the world's largest firm in the tuna industry (Pananond, 2013).

Using value chain as unit of analysis can extend our understanding on the rise of EMNEs in various ways. For example, we can analyse how pre-internationalisation development of EMNEs can affect their subsequent international expansion process. The nature of governance structure in global value chain is an important institutional context from which supplier firms in developing countries emerge. Understanding how this type of domestic firms upgrade and counteract the dominant power of established MNEs that control the global value chain through international expansion could certainly shed more light on the upgrading and internationalisation process of EMNEs.

Professor Rugman's scholarly legacy is immense, and there is no simple way to summarise the lasting insights he has left behind for the field of international business. These two issues are part of his work that has involved and inspired the growing research interest in EMNEs. The prominence of Professor Rugman's scholarship is how it has withstood the test of time and how it will inform and educate future generations of teachers and researchers in international business and beyond.

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International Investment Agreements: Are their policy aims served by their broad definitions of covered “investors” and “investments”?

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With negotiation of “mega-treaties” such as the 12-country Trans-Pacific Partnership (TPP) and investment treaties between the EU and other large economies such as Canada and the United States, international investment agreements (IIAs) are gaining fame and raising a host of important policy questions. Among those questions are who/what the treaties benefit and at what cost.

Throughout their history, which is often said to have begun with the signing of the first bilateral investment treaty between Germany and Pakistan in 1959, IIAs have been focused on safeguarding foreign investors and their investments from harms suffered as a result of conduct by their “host” states. IIAs give covered foreign investors a set of international law protections similar to those provided by political risk insurance, and if there is a breach, allow investors to bring claims directly against the host state via arbitration proceedings that are decided by a panel of (typically) three arbitrators appointed on an ad hoc basis by the disputing parties. The theory is that once investors are invested in the host country, they become subject to the host country’s whims and laws, and can face discrimination, expropriation and other abuses but can find it difficult to protect against or recover compensation for those harms. The direct benefits of the treaties thus flow to investors and investments whose international business activities become less risky when an international layer of investment protection is placed over the host state’s legal framework. And presumably the states signing the treaties and providing these enhanced rights and protections— both the home state of the investor and the host state

of the investment – do so on the basis that direct benefits given to investors and investments will produce indirect benefits within their jurisdictions.

Those indirect benefits into the host state can include the benefits often cited as arising from foreign direct investment (FDI) – namely creation of jobs, infusion of capital, and transfer of technology, skills and knowhow from the firm into the host country. Impacts on the home country have been less studied and so are less known. Nevertheless, to the extent FDI increases the competitiveness and profitability of the home-country-based firm, then those advantages gained by the firm can potentially translate into advantages in the home country through a strengthened domestic economy and tax base.

But, as is well known, not all FDI produces those positive benefits for the host and home country. (Sauvant et al. 2014). And, as explained below, tribunals have largely eschewed interpretations of the investment treaties that would make investment protection contingent on whether FDI actually has any economic benefit in the host economy or is tied in any meaningful way to the home country. Moreover, investment treaties cover much more than FDI.

The types of assets that tribunals have deemed covered by “investment” treaties include such things as portfolio investments, contracts for cross-border sales of goods or services, hedging contracts, and securities traded on international markets. Consequently, through investment treaties and the free political risk insurance they provide companies, both home and host states may be facilitating and encouraging certain transactions and activities that have no real or lasting presence in or indirect benefits for their economies.

(Ir)relevance of benefits for host economy

In terms of the relevance – or lack thereof – of benefits to the host country when determining whether any given asset is a covered “investment”, a few tribunals have required satisfaction of the so-called “*Salini*” test. That test, which is based on the premise international investment protection regime² and its system of investor-state arbitration was designed to promote international investment that advanced economic development in the host country, requires³ investments to have four characteristics:

- (1) entail a substantial commitment or contribution into the host state;
- (2) be of a certain duration;
- (3) involve an element of risk; and
- (4) contribute to the host state’s economic development.⁴

That test, first suggested in *Fedax v. Venezuela*⁵ and then described in *Salini v. Morocco*, has since been followed in other cases including *Joy Mining v. Egypt*,⁶ *Jan de Nul v. Egypt*,⁷ and *Bayindir v. Pakistan*.⁸ The

² When applied, this test is used to identify whether there is an investment under the “ICSID Convention”, the 1965 Convention on the Settlement of Investment Disputes between States and Nationals of Other States. Not all investor-state arbitrations under IIAs, however, are conducted under the ICSID Convention. For those that are not, the ICSID Convention’s test on whether something is a covered “investment” is not relevant.

³ Some tribunals have suggested that the *Salini* test sets forth required elements, while others note that they are indicative or hallmarks of investments, but not necessarily indispensable. See discussion in *Malaysian Historical Salvors v. Malaysia*.

⁴ *Salini Construttori SpA v. Kingdom of Morocco*, ICSID Case No. ARB/00/4, Decision on Jurisdiction, July 23, 2001, paras. 51-52. Some also describe the test as including a requirement of profit or return.

⁵ *Fedax N.V. v. Republic of Venezuela*, ICSID Case No. ARB/96/3, Decision of the Tribunal on Objections to Jurisdiction, July 11, 1997.

⁶ *Joy Mining v. Egypt*, ICSID Case No. ARB/03/11, Decision on Jurisdiction, August 6, 2004, para. 53.

⁷ *Jan de Nul N.V. Dredging International N.V. v. Egypt* (ICSID Case No. ARB/04/13).

tribunal in *Phoenix Action v. Czech Republic* further elaborated on the criteria, stating that they require consideration of various potentially overlapping elements, which are similar but not identical to the *Salini* test: “a contribution in money or other assets;” “a certain duration;” “an element risk;” “an operation made in order to develop an economic activity in the host State;” “assets invested in accordance with the laws of the host State;” and “assets invested bona fide.”⁹

A number of tribunals applying these tests have taken a narrower approach than advanced in *Salini* or *Phoenix* by discarding certain criteria. The tribunal in *Metal-Tech v. Uzbekistan*, for example, rejected the *Phoenix* tribunal’s conclusion that good faith and compliance with the host state’s law are necessary.¹⁰ Other tribunals have taken issue with and declined to apply the “economic development” criterion.¹¹

Yet significantly, a large number of tribunals do not apply these tests at all. Rather, they simply look to see whether the “investment” at issue can fall within the IIA’s typically illustrative list of covered assets and, if so, look no further to its impacts. Moreover, absent particularly egregious circumstances such as fraud or corruption in the making of the investment, tribunals have generally even allowed illegally acquired or maintained assets to qualify as covered “investments”. (Johnson 2014). As highlighted recently by one arbitrator, under these approaches, “it is possible to conceive of an entity which is systematically earning its wealth at the expense of the development of the host State. However, much that may collide with a prospect of development of the host State, it

⁸ *Bayindir Insaat Turizm Ticaret Ve Senayi A.S. v. Pakistan*, ICSID Case No. ARB/03/29.

⁹ *Phoenix Action Ltd. v. Czech Republic*, ICSID Case No. ARB/06/5, Award, April 15, 2009, para. 114.

¹⁰ *Metal-Tech Ltd. v. Uzbekistan*, ICSID Case No. ARB/10/3, Award, October 4, 2013, para. 127.

¹¹ See, e.g., *Victor Pey Casado and President Allende Foundation v. Chile*, ICSID Case No. ARB/98/2, Award, May 8, 2008, para. 232.

would not breach a condition” of establishing that there is a covered “investment”.¹²

Paradoxically, while many tribunals have declined to *narrow* the meaning of covered “investments” by applying an “economic development” criterion, they have applied a “benefits” test in order to *broaden* the meaning of the term “investment”. More specifically, IIAs typically indicate that an “investment” must be “in the territory of” the host country in order to be satisfied. A small but apparently growing number of tribunals, however, have effectively discarded that “territoriality” element, concluding that the requirement that an investment be made “in” the host country is satisfied if the investment is made *for the benefit of* the host country.

The decision of the majority in *Abaclat v. Argentina*,¹³ and the subsequent decision of the majority in *Deutsche Bank v. Sri Lanka*,¹⁴ are two examples of how tribunals have applied this “benefit” test. In *Abaclat*, the claimants – who numbered over 180,000 at the time the case was initiated – were Italian individuals and entities who held security entitlements in international sovereign bonds issued by Argentina in the 1990s. The issue was whether those securities, which were purchased by retail investors on secondary markets, denominated in foreign currency, and governed by foreign law,¹⁵ constituted investments *in* Argentina. A majority of the tribunal determined that they did.

¹² Malaysian Historical Salvors v. Malaysia, Dissenting Opinion to Decision on Annulment, April 16, 2009, para. 22.

¹³ *Abaclat v. Argentina*, Decision on Jurisdiction and Admissibility, August 4, 2011, paras. 343-387.

¹⁴ *Deutsche Bank AG v. Democratic Socialist Republic of Sri Lanka*, ICSID Case No ARB/09/2, Award, Oct. 31, 2012.

¹⁵ Cf. *Grand River Enterprises Six Nations, Ltd. et al. v. United States*, Award, para. 88, citing *Bayview*, Award on Jurisdiction, paras. 98-99 (“[A] salient characteristic of an investment covered by the protection of NAFTA Chapter Eleven would be that the investment is primarily regulated by the law of a state other than the state of the investor’s nationality, and that this law is created and applied by that state which is not the state which is not the state of the investor’s nationality.”).

The majority reasoned that the test for whether financial instruments are “in” the host country was different from the territoriality test that applied to other types of investments:

With regard to an investment of a purely financial nature, the relevant criteria cannot be the same as those applying to an investment consisting of business operations and/or involving manpower and property. With respect to investments of a purely financial nature, the relevant criteria should be where and/or for the benefit of whom the funds are ultimately used, and not the place where the funds were paid out or transferred. Thus, the relevant question is where the investment funds ultimately made available [sic] to the Host State and did they support the latter’s economic development?¹⁶

The majority then proceeded to answer that question, stating:

There is no doubt that the funds generated through the bonds issuance process were ultimately made available to Argentina, and served to finance Argentina’s economic development. Whether the funds were actually used to repay pre-existing debts of Argentina or whether they were used in government spending is irrelevant. In both cases it was used by Argentina to manage its finances, and as such must be considered to have contributed to Argentina’s economic development and thus to have been made in Argentina.¹⁷

¹⁶ *Abaclat v. Argentina*, Decision on Jurisdiction and Admissibility, para. 374.

¹⁷ *Id.* at para. 378.

In *Deutsche Bank v. Sri Lanka*, the majority adopted the test developed by the *Abaclat* majority and determined that an oil price hedging contract between Sri Lanka's state-owned oil company and Deutsche Bank was an investment by Deutsche Bank in Sri Lanka, notwithstanding the fact that the contract had been predominantly prepared by branches of Deutsche Bank outside Sri Lanka, was governed by English law, and selected English courts as the proper forum for dispute resolution. The tribunal concluded:

In the present case, it is undisputed that the funds paid by Deutsche Bank in execution of the Hedging Agreement were made available to Sri Lanka, were linked to an activity taking place in Sri Lanka and served to finance its economy which is oil dependent. The Tribunal therefore decides that the condition of a territorial nexus with Sri Lanka is satisfied.¹⁸

In reaching that finding, the tribunal rejected Sri Lanka's argument that the "purpose of the BIT was not to provide a method of enforcement for transnational debt claims but to protect foreign investment, i.e., inward investment, from regulatory abuse."¹⁹

These approaches produce broad readings of covered "investments" while discounting any real or in-depth analysis of those investments' ties to or development impacts in the host country. As a result, free political risk insurance coverage offered by IIAs is relatively easy for investors to obtain, and the obligations and potential liability of host states expansive and difficult to limit or ascertain. Curiously, these approaches also contrast with home-state-supported political risk facilities – such as those provided by the United States' Overseas Private Investment Corporation – that expressly make political risk insurance contingent on the insured's

commitment to and compliance with various criteria designed to ensure that the investments do have positive development impacts in the host (and home) country. This raises the question of whether home states are crowding out their own performance-contingent and development-oriented insurance programs by providing investors with similar but no-cost and strings-free protection under an IIA.

(Ir)relevance of benefits or ties to the home economy

It is an underexplored question of whether and what benefits home states and their economies get from securing IIAs to protect their firms abroad. As noted above, some theoretical benefits are that IIAs can help protect the competitiveness and profitability of home country firms; another theoretical benefit that is often cited is that, by giving its investors private rights of action, the home country can free itself from having to use diplomatic capital to resolve its investors' complaints.

Complicating any effort to tally these home country benefits, however, is the fact that the *real* home and the *investment treaty home* often differ. It is increasingly common for a company with its headquarters and management in one country (Country A) to route an investment into the host country (Country C) through another country (Country B) in order to secure the benefits of an IIA between Country B and Country C. The investor may do this when there is no IIA between Country A and Country C, or when the IIA between Country B and Country C is seen as offering better protections than the IIA between Country A and Country C. (Figure 1).

Similarly, tribunals have also allowed beneficial owners in Country A, with investments in host Country C, to bring claims under the Country A-Country C treaty even though the investment was routed through a company or companies in Country B. (Figure 2).

¹⁸ *Deutsche Bank v. Sri Lanka*, para. 292.

¹⁹ *Deutsche Bank v. Sri Lanka*, para. 224.

Figure 1

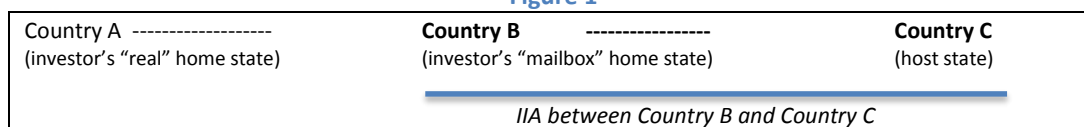
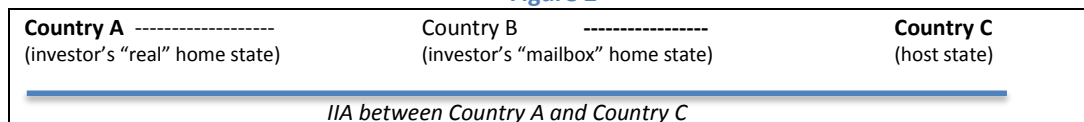


Figure 2



According to tribunals, there is no objection to companies using corporate form to engage in complex “treaty planning” similar to how they might engage in “tax planning”.²⁰ As the tribunal in *Sanum Investments Limited v. Laos* stated, for example, “The search for a convenient place of incorporation is common practice whether for fiscal reasons or for the network of investment treaties a country may have concluded. There is nothing wrong *per se* in this search.”²¹

Yet as a result of these practices, the benefits to the “real” home country become less clear: Because of the practice of treaty shopping, for example, the treaty network established by a home state likely loses relevance as a factor companies might consider when deciding whether to keep or locate their “real” activities in the home country’s territory. Another issue is that an investor aggrieved by the host country’s conduct can pursue an IIA claim as a “mailbox” national of one home country while still appealing to its “real” home country to place diplomatic pressure on the host country.²² In this sense, IIAs do not replace investor calls for diplomatic protection; they merely provide a

²⁰ Some states have begun expressly including language requiring that covered investors must have real and substantial business activities in the home country that is party to the IIA. Absent such language, however, tribunals have declined to interpret the treaties as including any such limits.

²¹ PCA Case No. 2013-13, Decision on Jurisdiction, December 13, 2013, p.ara. 309. The tribunal then added that an exception in which tribunals have considered such treaty shopping to be improper is when it is done *after* a dispute has arisen. *Id.* para. 311.

²² See, e.g., ADC Affiliate Ltd. v. Hungary, ICSID Case No. ARB/03/16, October 2, 2006.

complementary avenue for relief. A third issue is that if an award against the host state is subsequently secured by the “mailbox” affiliate, it is unclear whether and what powers the “real” home country (or the host country) will have to tax that award and how those taxation issues affect the cost-benefit calculation.

A more nuanced assessment of costs and benefits of investment treaties

What these trends in interpretation and application of IIAs appear to evidence is a relatively blunt approach to considering what constitutes a protected “investment” – one which fails to take into account the varying characteristics and policy considerations tied to different types of assets and different ways of engaging in international business. As the debates heat up around what to do with existing IIAs, whether to conclude new ones, and what IIAs should ideally do with respect to governance of international investment, it is crucial that the discussion involve a more nuanced consideration of the types of investments and investors that are and should be covered by these instruments, and the rationales for giving them enhanced treaty protections.

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The Connectivity of Inventor Networks in Peripheral Economies

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What determines the level of connectivity of a peripheral economy to global networks of inventors? As value chains are disaggregated across borders, countries are increasingly interconnected in global invention networks (Balconi et al., 2004; Breschi and Lissoni, 2009). Global innovation systems become increasingly complex and involve a wider range of locations. Locations outside core innovative regions try to attract firms to perform innovative activities in their territories and create linkages to these global innovation networks, with the goal of catching up technologically and economically.

Connectivity provides an economy with access to a wider variety of world-class pools of knowledge. However, the factors affecting the connectivity of peripheral economies are not well known.

Periphery is not a new concept. Its roots can be traced to early works on the foundations of capitalism (Wallerstein, 1974) and dependency theory (Prebisch, 1962). More recently, Molero (1998) and Benito and Narula (2008) defined peripheral economies as an intermediate group between "developed" and "emerging". This group of economies, though developed, displays less developed productive structures than the core, less internationalization via outward FDI and innovation systems marked by medium-low R&D effort and patenting. They are not significant destinations for MNE activity and they are weakly linked to global value chains and international innovation networks. While displaying these weaknesses, these are not emerging economies. They are relatively affluent, with per capita incomes significantly higher than emerging countries, but below the more affluent core economies. Peripheral economies are "peripheral to the core", while emerging economies are "peripheral to the world". A number of European countries are

good examples; Portugal, Greece, Slovenia, Slovakia and others, display most of the characteristics listed. It is important to talk about peripheral economies rather than peripheral countries, for the division between core and periphery does not coincide with national borders. Certain countries contain both peripheral and core regions. Italy, for instance, has a clear division between a peripheral south and a north that belongs to the core of Europe. Spain also shows a contrast between its peripheral regions (particularly the south and the west) combined with core areas (Madrid, Catalonia, the Basque Country).

The connectivity of a location is defined as the particular configuration of its global linkages combined with the specific network structure of these linkages (Lorenzen and Mudambi, 2013). Linkages between locations can arise either from organizations like MNEs or from individuals. In the literature, organization-based linkages have been referred to as "pipelines" (Bathelt et al, 2004) while those arising from individuals have been referred to as "personal relationships" (Lorenzen and Mudambi, 2013). Locations differ also in terms of the extent to which their linkages are concentrated in a few central actors. The geographical dispersion of inventor networks across national borders (i.e. the degree of collaboration between local and foreign inventors) is one indication of connectivity. Non-core locations have the most to gain from connectivity to global innovation systems (Abramovitz, 1986). In particular, these gains can be best leveraged by economies that have achieved some degree of maturity in terms of local innovative capabilities. "Peripheral economies" form a particularly important class of non-core economies.

In peripheral locations, where pools of knowledge are relatively "shallow", connectivity is crucial for technological and economic catch-up. Firms in peripheral regions benefit from searching knowledge

beyond the local milieu; linkages with non-local firms can increase local innovative performance (Boschma and Ter Wal, 2007). Too much reliance on local knowledge, on the other hand, can be harmful for innovative capacity and can lead to a “technology trap” (Giuliani, 2010).

In my research, I use patent data from both the U.S. Patent and Trademark Office (USPTO) and the European Patent Office (EPO) to identify the determinants of the geographical dispersion of inventor networks (one of the aspects of connectivity) in peripheral regions of Europe. The empirical evidence indicates that at least three aspects are relevant:

- 1) The location of the inventors
- 2) The presence of MNEs
- 3) The type of knowledge produced

The location of the inventor plays a role in the disaggregation of innovation across national borders. Organizations in peripheral economies seek knowledge from both local and non-local inventors, but they are likely to source the most complex, capability-driven, explorative knowledge (requiring the highest degree of collaboration) from core regions, given the shallow knowledge bases of peripheral milieus. This collaboration with core regions for explorative knowledge results in linkages with foreign inventors connected to richer networks, providing the peripheral economies with the benefits of connectivity. On the other hand, when innovative activity is focused mainly on exploitative work (the most common case in peripheral economies), inventors tend to be locally connected or at most, connected to a home economy subsidiary or to headquarters. Therefore, the challenge for peripheral economies is to stimulate collaboration with inventors in core regions. This requires creating conditions to move local innovative activity up the value creation curve, from basic exploitative innovation to more complex, explorative knowledge creation.

The second way to reduce peripherality is to attract and embed MNE R&D activity. Since MNEs form internationally integrated intra-

firm networks (Cantwell and Piscitello, 2000; McCann and Mudambi, 2005), more MNE activity is likely to increase the integration of the economy into global networks. The challenge for peripheral economies in this aspect is double. First, these economies are not very attractive locations for MNE R&D activities. Second, when MNEs do conduct innovation in the periphery, their subsidiaries tend to conduct “competence-exploiting”, demand-driven R&D activities due to their disadvantage in technological capabilities *vis-à-vis* the core (Cantwell and Mudambi, 2000; Narula and Guimón, 2010).

A third aspect affecting connectivity is the type of knowledge. Co-location of inventors tends to be more prevalent in innovation activities that depend upon tacit knowledge (Cantwell and Piscitello, 2000; Cantwell and Santangelo, 1999). However, activities involving tacit knowledge can be geographically dispersed in certain cases: (1) when the knowledge is locally embedded, unique and specialized or (2) when there are complex organizational networks in place. Point (2) implies that only leading innovating firms (usually MNEs) possess the capabilities to effectively conduct this type of R&D through geographically dispersed teams.

In summary, we in the context of peripheral economies, the disaggregation of inventor networks across national borders will depend on the combination of inventor location, MNE activity, knowledge tacitness and organizational capabilities in innovation. First, establishing collaboration with inventors in core regions provides access to more internationally dispersed inventor networks, providing economic actors based in peripheral economies with the potential benefits derived from this dispersion. Second, although innovative activity by domestic firms can play an important role, MNEs are still the main pipelines to catalyze international connectivity. This is due not only to their embeddedness in multiple regions, but also to their ability to orchestrate knowledge creation in a dispersed manner, even when tacit knowledge is involved.

I believe this work can open the way to explore a potentially very interesting area of academic inquiry; the role of peripheral economies in global innovation networks. For policy makers, on the other hand, it is valuable to understand the factors that affect connectivity of these regions. For economies that are striving to catch up with the core, one way to diminish the disadvantages of peripherality is to increase connectivity – by promoting the presence of locally based (domestic and foreign-owned) actors in international innovation and supply networks. Given that linkages and networks need time to develop, consistency and predictability of policies is a key factor.

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1. Introduction



In a seminal essay concerning the developing relationship between nation states and MNEs Stephen Kobrin (2001) concluded that:

"States will not disappear and will certainly continue to play a major, if not the major role in the international order. That, however, is not the same as saying that they will remain the supreme authority domestically or the only constituent units of the international system. This time around, sovereignty in terms of both domestic authority and mutually exclusive territoriality may really be 'at bay'."

Kobrin's prognosis was based on his analysis of recent technological and economic developments which have increased the extent of scale economies beyond the border of any single market, reduced the cost of communications and transportation and facilitated the migration of both markets and industries to cyberspace, thus promoting the globalization of which the MNE is not only a manifestation but a major cause. In this note we explore additional aspects of the interactions between the MNEs and the nation state which must, regardless of its diminishing status, continue to provide a territorial base to the ever more powerful MNEs.

In section 2 we review the concepts of MNE nationality, of home country and of MNE nationality change, and relate them to each other. In the following section we consider the effects of nationality change on the home country.

Public policy implications and options are discussed in section 4.

Section 5 concludes.

2. MNE Nationality, Home Country and, Nationality Change

The notion of MNE nationality appears at first glance to be an oxymoron, a contradiction in terms. How can a multinational entity have a nationality? What can it mean? And yet, few would dispute the assertion that General Motors and General Electric are American MNEs, that Toyota is Japanese and that Siemens is German, despite the fact that these companies and thousands like them, engage in production, marketing, R&D and other value adding activities in multiple territories.

The nationality of the MNE is unaffected by the location of its cross-border value-adding operations, by its composition or by its relative size. Neither is it determined by the location of its shareholders, the sources of capital it raises or by its legal address. Jones and Abrahams (2006) assert that it is determined by: "the location of the persons who decide where the new, globally integrated corporation will locate its functions to best fulfill its overall strategy, its long-term direction". These decisions, according to Jones and Abrahams (2006), are made by top management, which tends to be dominated by nationals of the home country.

The notion of home country in the present context is derived from the Uppsala model developed by Johansson and Vahlne (1977), which regards internationalization as a process which MNEs undergo over time, and which consists of several predictable stages. The home country is likely to be where the MNE originates, where it was first established as a local enterprise which, over time, has acquired control over value-adding affiliates in other countries, thus becoming an MNE.

Its nationality is unchanged as long as its strategic decision making locus remains in the home country. Nationality is changed according to Jones and Abrahams when, following a change of ownership, the locus of

strategic decision making moves to another home country. Thus, the nationality of IBM's personal computer business changed, when it was taken over by China based Lenovo. Similarly, Nokia's mobile telephone business changed its nationality from Finnish to US, when it was sold to Microsoft. And a third example: Pharmacia's nationality was changed, when the pharmaceutical company from Uppsala merged with US based Upjohn.

MNE nationality change and home country change are two terms describing the identical phenomenon: the changing relationship between two man-made entities which interact intensively, and which have both common and conflicting interests.

3. Effects of MNE Nationality Change

Viewed by the owners of the MNE, nationality change is a cross-border change of share ownership, a transaction between willing sellers and buyers, from which both parties presumably benefit. In term of balance of payments accounting of the home country, the transaction which gives rise to nationality change is recorded as an incoming FDI, a positive financial flow. Consequently, in most market economies, the change of status from home to host country which accompanies the cross-border transfer of corporate control and ownership is considered a private business transaction which has no public policy implications.

This view, which appears to be generally shared by international business scholars, overlooks some of the benefits inherent in being a home country to multinational enterprises. We claim that, *ceteris paribus*, being a home country is preferable to being a host country. This claim is based on the premise that home-country MNEs are, as asserted by Jones and Abrahams (2006), the locus of strategic decisions, whereas MNEs in host countries must follow the decisions taken in another country. Thus, home-country MNEs have a wider choice of strategic options than host-country MNEs. Consequently, the home

country benefits from an extended global reach which enables it to take better advantage of scale and scope economies, as well as improved access to foreign markets and sources of supply. It is also likely to benefit from a higher share of the rents generated by the firm specific advantages of its MNEs, specified by Dunning's Eclectic or OLI Paradigm (Dunning 2001). Moreover, the home country is likely to enjoy a stronger bargaining position vis-à-vis home based MNEs than vis-à-vis foreign MNEs over issues involving location, expansion, and contraction of existing or new business lines. On these and other issues, the home country can offer its MNEs a wider range of benefits than the host country.

Next we consider relative bargaining power. Kobrin's prognosis regarding the declining bargaining power of the nation state versus the MNEs which was mentioned above, does not distinguish between home and host countries. Comparisons between the two suggest that generally, the former have a superior bargaining power. Governments can present a wider range of both positive and negative inducements to home based than to foreign MNEs. Moreover, the threat of exit by a foreign MNE is more credible than a similar threat by a local MNE. Finally, if a dispute arises the foreign MNE is likely to enjoy governmental backing which is, by definition, not available to an MNE in conflict with its home government.

Nevertheless, we do not claim general validity to the claim that home-country status endows it with more benefits than host-country status. It is not difficult to think of specific examples where transfer of ownership abroad offers more benefits than continued home ownership.

Assessment of the implications of MNE nationality change for the home country requires answers to a wide range of questions: Does the change affect national income levels and/or distribution? Does it affect employment levels or its composition? Does it affect the competitive position of different industries, taxation levels, safety levels, health

and environmental standards, security issues, foreign relations, international economic or political standing, etc.?

Clearly, there is no general answer to these questions. The answer depends on the specific case under consideration. In many cases they involve complicated calculations based on disputed assumptions and unreliable data. Moreover, there is likely to be disagreement between different interest groups over the methodology, the outcome and the proper weight to be assigned to specific issues.

4. Public Policy Implications and Options

If MNE nationality change is considered undesirable by the home country it can be countered by government fiat as was the case in 2010, when the government of Canada blocked the bid of Australian BHP Billiton to gain control of the Saskatchewan based Potash Corporation. Three years later, a bid by the same Potash Corporation to take over Israel's potash manufacturer, "Israel Chemicals", was blocked by Israel's finance minister, despite the fact that the transaction was approved by the stockholders in both countries.

To deal with incoming cross-border FDI considered to have security implications, the US Congress established CFIUS, an inter-agency committee empowered to review foreign investment in U.S. companies or operations. CFIUS has approved the sale of IBM's personal computers and laptops business to LeNovo, a China-based MNE. On the other hand, it disallowed the purchase of P&O, a lessee and operator of terminals, mostly for container ships, in several ports, by Dubai's Ports World. CFIUS rulings, which must be approved by the president, are supposedly sought only when the transaction is considered to involve national security issues.

Other countries adopt more stringent criteria towards incoming investments. Australia's foreign investment law requires business

investors to seek prior approval for "substantial" investment in businesses valued at AU\$ 248 million or more. The foreign investment review board, which is authorized to approve foreign investment requests, is expected to base its decision on the criterion of public interest. The definition of public interest is left to the board.

Public interest is indeed difficult to define and to quantify since it involves the evaluation of costs and benefits attributable to different stakeholders aside from the shareholders. Stakeholders whose interests may well be affected include employees, who may lose their jobs, suppliers, who may be replaced, and the government, whose tax receipts may be curtailed. Public interest may also extend to foreign relations, environmental issues, safety consideration, health considerations, etc.

While evaluating the public policy options available to the nation state we must bear in mind that the choice of nationality is that of the MNE. The choice is one sided, unless the state decides to become an owner of corporate enterprises, an option few market economies have chosen to exercise, to date. Seeking to become either home or host countries, nation states have to pursue policies which make them attractive to MNEs, and to refrain from adopting policies which MNEs consider unacceptable. The MNEs have the option of exit, that is, of changing their nationality. It is this asymmetry which reinforces the view, voiced by Kobrin (2001) and by Vernon (1971, 1981) before him, about the diminishing power of the nation state. It may also explain why both governments and international business scholars are reluctant to put the issue of MNE nationality on their agenda.

5. Concluding Remarks

I conclude with the following observations:

The difficulties involved in assessing the costs and benefits associated with specific cross-

border transactions do not absolve the home-country government from its responsibility for considering specific cases, and when loss of home country status is considered to have overall adverse effects, decide on actions that take public interest in account.

The fact that even liberal market economies consider it their right and even their duty, to interfere in a growing range of international business decisions suggests that revisiting issues involving corporate nationality may yield interesting research questions for international business scholars.

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The Gunnar Hedlund Award

The **Gunnar Hedlund Award** is a coveted prize given for the best PhD thesis in the world in the field of International Business. The prize was first awarded in 1998, and is organized by the Stockholm School of Economics (SSE), in collaboration with the European International Business Academy (EIBA).

Eligibility for the 2012/2014 Gunnar Hedlund Award stipulated that doctoral dissertations (written in English) must have been completed within the time frame: July 1, 2011 to June 30, 2014. Submissions for this year's prize were to have been delivered to the Hedlund Award Committee at SSE by **August 1, 2014**.

The award winner will be announced at the **40th EIBA Annual Conference** gala dinner to be held in Uppsala, Sweden, December 13, 2014. The three finalists have been invited to present their work at a special session during the EIBA 2014 conference, and a stipend (towards covering travel expenses) will be awarded to each of the finalists.



For more details and information, please refer to the Gunnar Hedlund Award information posted on the SSE website.

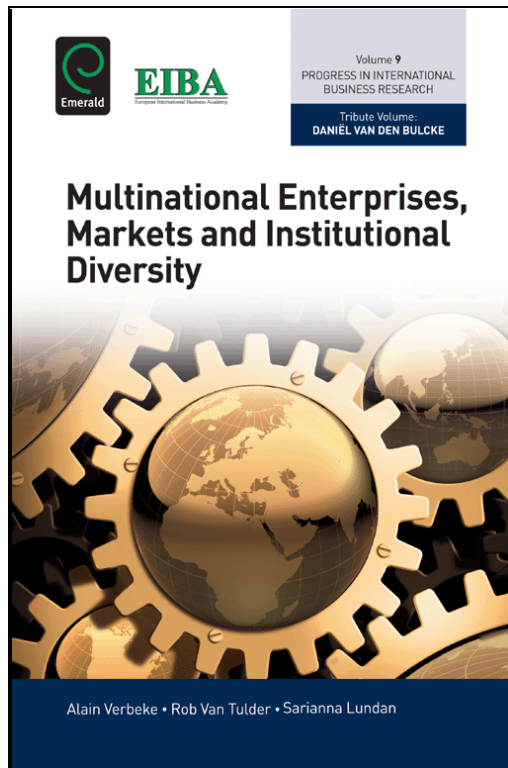
Further inquiries and future submissions should be directed to Marie Tsujita of SSE at the e-mail address: Marie.Tsujita@hhs.se

Past Gunnar Hedlund Award winners:

- 2010/2011 Lisa Gärber
- 2008/2009 Jesper Edman
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- 2006 Jon E. Lervik
- 2004/2005 Renata Kosova
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- 2002 Joseph Kogan
- 2001 Marian Beise
- 2000 Michelle Gittelman
- 1999 Jaeyong Song
- 1998 Anthony S. Frost

Progress in International Business Research, Volume 9: Multinational Enterprises, Markets and Institutional Diversity

Editors: Alain Verbeke, Rob van Tulder, Sarianna Lundan



PIBR, Volume 9 | Synopsis

Rob van Tulder, Sarianna Lundan and Alain Verbeke will present Volume 9 of the **Progress in International Business Research (PIBR) Series** at the EIBA 2014 Annual Conference in Uppsala, Sweden. This Volume has been dedicated to the late Danny Van Den Bulcke, one of EIBA's founding fathers. The title of the Volume is ***Multinational Enterprises, Markets and Institutional Diversity***. It includes an introduction to the life and accomplishments of Danny Van Den Bulcke, as well as his last paper, co-authored with his long-time associates Filip De Beule and Haiyan Zhang, on policies to promote outward FDI.

The Volume's 18 chapters, all related to themes that Danny worked on himself during his illustrious career, discuss various new streams in IB research that will have an important impact on IB studies in the years to come, both from a conceptual and a methodological perspective.

A sampling of the main findings includes the following:

- (1) MNE-centric empirical research studies should be avoided. Resource recombination typically requires taking into account the resource base and the strategies of at least two economic actors.
- (2) IB studies almost by definition need to take into account 'distance', but most prior empirical research has not done a particularly good job in including relevant distance parameters in a methodologically sound way to assess their impact on MNE strategy, operational functioning or performance.
- (3) Non-business institutions can be very helpful to promoting MNE expansion, but include 'dark side' institutions that (perhaps surprisingly) sometimes appear very effective in particular situational contexts.
- (4) Institutional diversity matters: it can make international knowledge transfers difficult; it can lead to discrimination against firms from specific nationalities; it certainly suggests that there is no generalizable multinationality – performance relationship; and it raises the question whether new theory is needed to accommodate previously neglected institutional contexts.

The book confirms that managing the international innovation chain in its entirety, is fraught with difficulties. MNE senior management must economize on bounded rationality (meaning: improving information quality and information processing) and bounded reliability (meaning: making sure that economic actors make good on open ended promises, whether implicit or explicit).

Any international business transaction by definition entails new resource recombination. Doing so effectively requires correct information, reliable partners and a recombination outcome that supports value creation for the MNE. Multiple, practice-driven puzzles in the IB context are proposed to the reader, and the outcomes are often unexpected.

PIBR Volume 9 will be presented at EIBA 2014 in Uppsala on Friday, December 12th from 13:30-14:30. Filip De Beule will deliver a

eulogy for Danny Van Den Bulcke, and various contributors to the volume will give a brief overview of their research results.

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Future EIBA Annual Conferences

EIBA 2015: 41st EIBA Annual Conference | Rio de Janeiro, Brazil | December 1-3, 2015

EIBA 2016: 42nd EIBA Annual Conference | Vienna, Austria | December 2-4, 2016

EIBA 2017: 43rd EIBA Annual Conference | Milan, Italy | December 14-16, 2017

EIBA 2018: 44th EIBA Annual Conference | Poznań, Poland | December 13-15, 2018

EIBA 2019: 45th EIBA Annual Conference | Leeds, United Kingdom | December 2019

ATTENTION! Important Announcement Concerning the **EIBA 2015 Conference in Rio de Janeiro!**

To allow participants to make their travel arrangements as soon as possible and benefit from cheaper flight fares and hotel rates as “early birds”, the submission deadline and other dates for next year’s EIBA Annual Conference in Rio de Janeiro, Brazil, will be earlier than usual.

- **Submission deadline: April 30, 2015**
- **Acceptance notifications: June 30, 2015**
- **Early-bird registration deadline: September 15, 2015**

Please note that the **EIBA 2015 Rio** conference dates are: **December 1-3, 2015**

→ **Conference website:** www.eiba2015.org

→ **Contact e-mail:** info@eiba2015.org

→ **Conference co-chairs:** *Jorge Carneiro* (PUC-Rio) & *Claude Obadia* (ESCE)

CALL FOR CONTRIBUTIONS

EIBAzine – International Business Perspectives

May 2015 issue

The next Issue of *EIBAzine – International Business Perspectives* will be a **special issue** celebrating the **40th Anniversary of EIBA**.

Please forward any photos or facts that you think may be of interest to EIBAzine readers to the e-mail address atavares@fep.up.pt by **March 30th 2015**.

While we cannot guarantee to publish all material received, we will carefully consider all submitted content in order to compile an interesting Special 40th Anniversary Issue to remind us of the history of this great Academy!

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 European Academy consists of more than 500 members from about 50 countries representing all five continents.

EIBA organizes an Annual Conference that is hosted each year by a major European or international university. In addition to the usual academic program of competitive and interactive papers there are featured panels and special sessions. Among the pre-conference activities are several doctoral events for registered PhD student delegates, as organized by esteemed IB faculty.

A series of prestigious awards is presented during the EIBA Annual Conference, including (although not necessarily awarded each year) the following: Danny Van Den Bulcke Prize, Gunnar Hedlund Award, Copenhagen Business School Prize, Best Doctoral Thesis in IB Award, IBR Best Journal Paper of the Year Award, and the Distinguished EIBA Honorary Fellowship Award.

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

- EIBA members are part of a global network of individuals involved in International Business (IB) research, teaching, and practice.
- EIBA members automatically receive six yearly issues of the *International Business Review (IBR)*, EIBA's official journal.
- EIBA members are kept informed of relevant Academy news and are invited to participate in the Annual Conference and General Assembly.

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

Note that the EIBA Annual Conference registration fee already 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, or for general enquiries about the Academy, please don't hesitate to contact the EIBA Secretariat at the e-mail: eiba@eiasm.be.

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

