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Dear EIBAzine Readers

Philippe Gugler, EIBA Chair

The annual gathering of the EIBA community is fast approaching! I am delighted that many papers have been submitted for the upcoming EIBA Annual Conference in Bremen, Germany, 12-14 December 2013. Thanks to the tremendous efforts and involvement of the track chairs and reviewers, the conference programme will include high quality sessions involving young scholars as well as more established names of researchers in the field of International Business.

This year, we have been working hard to renew the corporate identity of EIBA. A new logo, a new EIBAzine layout, as well as a new website have recently been launched. We hope you will appreciate the results of these “renovations” to your Academy!

I am particularly pleased that our dear friend, Ana Teresa Tavares-Lehmann, was appointed and has accepted the post of the new Editor of the EIBAzine – and has prepared this issue to be in line with our new communication policy. I would also like to express my deep gratitude to Filip De Beule who has done an impeccable job as Editor of EIBAzine over the past 3 years.

Last spring, the EIBA Board discussed and approved a policy concerning junior scholars. The Academy has agreed to prioritise and promote junior scholars in IB, and to offer them the best opportunities to progress in their research as well as in their professional careers. Dorota Piaskowska and Claude Obadia have prepared an excellent policy proposal which will begin to be implemented as of next year.

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: Ana Teresa Tavares-Lehmann (Portugal), Enn Listra (Estonia), Liviu Voinea (Romania), and Tina Ambos (Austria). We will miss them on the Board; however, we look forward to keeping them in the “EIBA family” and I am confident that they will still be involved in various EIBA initiatives. New EIBA National Representatives will be appointed at the next General Assembly.

On behalf of EIBA, I take this opportunity to extend our congratulations to Past President and Conference Chair, Liviu Voinea, for his appointment earlier this year as Romania’s Minister of Finance. Many of us will remember Liviu’s efficient organisation of the EIBA 2011 conference in Bucharest. There is no doubt that Romania’s financial situation is in good hands!

I met Francesca Sanna-Randaccio – Dean of the EIBA Fellows – last June in Rome. Her support of EIBA Board activities is a great contribution, providing a two-way communication bridge between the Fellows and the Board Members. I would also like to pay tribute to our Fellows for their invaluable leadership and involvement in many of the major EIBA initiatives such as the doctoral events and panel sessions, among other Academy activities.

This past September, I visited the EIBA headquarters located in Brussels at the offices of the European Institute for Advanced Studies in Management (EIASM). Our operational activities rely heavily on the work, involvement, and commitment of the EIBA Secretariat and EIASM. Many thanks to the whole team, and in particular to our Executive Secretary, Ene Kannel.

I hope to meet many of you this coming December at EIBA 2013 in Bremen. We will again be able to enjoy the unique atmosphere of the “EIBA Family” – which is perhaps the greatest and most valuable benefit of belonging to our Academy. Looking forward to it!
Dear EIBAzine Readers,

It was with great pleasure that I recently embraced the challenge and the responsibility of becoming the next EIBAzine Editor. This is the first issue I am compiling in that capacity. In December 2013, I will be stepping down as Portugal’s National Representative and EIBA Board Member, so this is an excellent opportunity to remain in close contact with the EIBA Community, and of continuing to serve this great organisation.

Special thanks are owed to the EIBA Board, to the new EIBA Chair, Philippe Gugler, to former Chairs Peter Buckley and Danny Van Den Bulcke, to the EIBA Secretariat, in particular Ene Kannel, and last but certainly not least to Filip De Beule, the outgoing Editor. Filip is a hard act to follow. He has done an impeccable job during the last three years by modernizing the layout, upgrading the content and coming up with excellent solutions that greatly improved the Academy’s newsletter. I am also grateful for his invaluable help in this transition period.

In this new phase I will try to strike a healthy balance between continuity (as the former approach is very interesting and its key features will be maintained – e.g., the three contributions by authors in International Business) and innovation. In terms of new features, the layout will be adapted to the new communication policy of EIBA (which also includes a new website and a new logo).

Regarding content, we have decided to include in each issue an article by an emerging scholar (aiming to promote new researchers in the field), another by an established scholar, and a third one that may be by a leader of an institution related to International Business or another appropriate alliance (i.e., at least annually as one of the six articles published). Included in this plan, we will continue having articles on up-and-coming issues and award-winning papers. The explicit intention of including at least one article written by a leader or specialist at a leading organisation in International Business is aimed at building firm institutional bridges and deepening partnerships between our Academy and these institutions, which we hold in high repute and consider being of the utmost importance.

The first of these esteemed contributions has been kindly provided by James Zhan, Director of the Investment and Enterprise Division of UNCTAD. It is entitled “Capturing Value in the World Economy”, and deals with the issue of global value chains. We are also lucky to have received an article by Peter Buckley, former EIBA Chairman, on key issues for the International Business agenda. The young scholar’s paper is by Xavier Tinguely, on “Clusters, Competitiveness, and the New Geography of Innovation”.

You will also find the usual messages from the EIBA Chair, the EIBA President & Conference Chair, the Dean of the EIBA Fellows, an update on this year’s Progress in International Business Research (PIBR) volume, and general information on EIBA as well as relevant contact details.

I trust I will see most of you at this year’s EIBA Annual Conference (already the 39th) in Bremen. Sarianna Lundan and her team are putting together a very promising event.

May I end by warmly thanking all contributors to this (my first) EIBAzine issue, and to encourage all of you to send me your feedback and suggestions as well as submit articles to my email atavares@fep.up.pt. Remember, this is your newsletter, so please don’t hesitate to get in touch and be involved!
My Vision for EIBA
Francesca Sanna-Randaccio, Dean of EIBA Fellows

My election as Dean of the EIBA Fellows in 2012 has been a great honour and a major challenge. The academic standing, prestige and charisma of my predecessors are really impressive. Under the leadership of John Dunning, Klaus Macharzina and Danny Van Den Bulcke the Fellows played a crucial role in supporting EIBA and stimulating its development. I will try to take inspiration from my predecessors, knowing that they are very difficult to match.

EIBA should be forward looking, particularly by attracting and promoting junior scholars. It is of key importance that young scholars play a prominent role in the Academy. However, to achieve a long-lasting expansion we must at the same time build on the past to capitalise on EIBA’s achievements and to learn from mistakes we might have made.

The Fellows represent a considerable pool of ideas and energy, are central nodes in international research networks and embody the memory of the organisation. We shall build the Academy’s future by strengthening the interaction between the Fellows and the other members, particularly the young ones. The challenge is designing appropriate ways for tapping into this pool of ideas and energy and in using them to promote EIBA. In the past few months the Fellows have taken several initiatives in lines with this objective.

During the last meeting in Brighton, the Fellows organized their work around three Commissions. The first was formed to amend point VI.A. of the Fellows’ Constitution, which set the maximum number of Participating Members. As the maximum number of 20 Fellows has already been reached, the present rules create a barrier to new entries, making it impossible to offer an appropriate recognition of outstanding EIBA members.

The Commission has proposed an amendment which aims to reach a good balance between two important goals: on one hand providing a mechanism for a continuous stream of new blood to enrich the Fellows’ group, on the other ensuring that the Fellows’ group will not become too large. At present a vote is being taken for approval/rejection of the proposal. The Commission is chaired by Vitor Simões, and the other members are Peter Buckley, John Cantwell, Sarianna Lundan and Klaus Macharzina.

A second Commission, chaired by Danny Van Den Bulcke and formed also by Seev Hirsch, Krzysztof Obloj, Marjan Svetlicic, is mandated to provide suggestions on how to enhance the engagement of the Fellows within EIBA, making their contribution more effective. The work of the Commission is still in progress. I expect that the interesting suggestions which will result from this effort will help promoting the further consolidation and growth of EIBA.

A third Commission on EIBA visibility, chaired by Marina Papanastassiou and formed also by Pervez Ghauri and Lars Oxelheim, aims to offer suggestions on how to enhance the visibility of EIBA and strengthen the role of the Fellows in reaching out beyond academia. This too is a difficult task and requires coordination with other initiatives from the Board. I am looking forward to the results which will be presented at the next Fellows’ meeting in Bremen.

In my term as Dean I also hope to stimulate a discussion within the Fellows on two other important points. It would be useful to reflect upon ways of enhancing the benefits deriving from the multidisciplinarity which characterizes EIBA. Furthermore it would be fruitful to enlarge the discussion on the rigor-relevance gap in Management research, analyzed by Joachim Wolf and Timo Rosenberg in their 2012 paper (BuR – Business Research, vol 5 (2)). I hope that the Fellows
can be instrumental in opening up a debate within EIBA on these two points.

The Fellows’ major contribution to the Academy is (and will continue to be) the organisation of a plenary session at the Annual Conference, which addresses topical issues in a rigorous way. Last year’s speaker was Martin Wolf from the Financial Times who delivered a talk about “Limits to growth in the 21st century”. The session was one of the highlights of the Conference and very well attended.

Over the years EIBA has become an increasingly strong and independent interdisciplinary IB organisation. I will do my best for the Fellows to continue supporting this virtuous cycle.

Welcome to EIBA 2013 in Bremen
Sarianna Lundan, EIBA President

It is a great privilege for me to welcome you to the 39th EIBA Annual Conference in Bremen. The conference is hosted by the Faculty of Business Studies and Economics at the University of Bremen and the Centre for Transnational Studies (ZenTra), a joint endeavour between the Universities of Oldenburg and Bremen.

The theme of this year’s conference is ‘Transnational firms, markets and institutions’. Within this theme, we explore the different types of transnational linkages that are formed as a result of the cross-border activities of firms. Such linkages involve a range of different actors, including contractual business partners, governments at all levels, and various civil society organizations. We are particularly interested in the extent to which transnational linkages embody new forms of governance that combine public and private rulemaking to facilitate cross-border transactions. This is an interest that is shared by other social science fields, including political science, sociology and law. However, to us, as International Business (IB) scholars, the actor that is central to our investigations is the multinational enterprise (MNE), the many forms and structures it adopts, as well as the drivers and consequences of its transnational economic activity.

The conference begins with the Fellows’ plenary session at the historical Town Hall. After a very short welcome, we will present a panel discussing the most recent evidence and possible consequences of Chinese investment in Europe, with a special focus on Germany, which has become one of the favourite destinations for Chinese enterprises in Europe. The session concludes with a drinks reception hosted by the Senator for Education and Science of Bremen.

On Friday morning, we will have our second plenary, that continues the series of sessions established by Danny Van Den Bulcke, where the authors of influential contributions to the IB literature are invited to comment on their work, and to offer their thoughts on its significance and continued importance to the IB community. The contribution we are focusing on this year is the work by Pankaj Ghemawat on the topic of semiglobalization. We are very pleased that he has agreed to join us to engage in a discussion about how to measure the true extent of globalization, and the consequences this has for our thinking, whether from a policy or business point of view.

In addition to the plenaries, we have ten panel sessions covering an extremely interesting range of contributions. Among these, four panels explore different aspects of the dynamics of inward and outward investment from emerging markets, and its consequences.
for the home and host countries. We also have a panel focusing on the theory of dynamic capabilities, on MNE networks, the internationalization of family firms, as well as a panel related to teaching IB. Two panels follow an already established tradition of presenting the results of the latest World Investment Report published by UNCTAD, and a panel highlighting the contributions from the conference volume based on the 38th EIBA conference.

We are currently putting together an exciting conference program including 11 parallel sessions of competitive and interactive papers. As in previous years, inclusion in the competitive category was very selective, and only about a half of the papers submitted as competitive were accepted as such. In the interactive sessions, where most of the work is being presented, our aim is to have some of our most experienced and distinguished colleagues chairing these sessions to maximize the benefits from the personal interaction. At the same time, we will offer the opportunity to some of our more junior colleagues to chair the competitive sessions, where quite polished pieces of work are presented in a more conventional session structure.

In addition to the full conference program, we will be hosting three doctoral events. These are the 27th John H. Dunning Doctoral Tutorial, the fourth and final COST-EIBA Doctoral Think Tank, which is focused on issues relating to MNEs from emerging and transition economies, and the Doctoral Symposium, which was a very welcome innovation introduced last year in Sussex. All of these events are meant to reach out to the junior scholars in our community, and to offer them an opportunity to discuss their work with distinguished international faculty.

We hope that in addition to the intensive conference program, you will also have an opportunity to relax, and to see some of the city for yourself. Bremen is an old Hanseatic city state, and like the cities of Hamburg and Berlin, a self-governing part of the Federal states of Germany. The historical town centre offers many interesting places to visit, including a traditional German Christmas market. The university campus is located to the North of the city centre, and it is most easily accessible by tram or bicycle, although the latter is not to be recommended in December. We will conclude the conference with our gala dinner at the beautiful Park Hotel, overlooking the surrounding Bürgerpark.

We are very much looking forward to welcoming all of you to Bremen and to the 39th EIBA Annual Conference.

www.eiba2013.org
Value Capture in the Global Economy

James Zhan, Director, UNCTAD Investment and Enterprise Division

Today’s global economy is characterized by Global Value Chains (GVCs), in which intermediate goods and services are incorporated at various stages in the production process - accounting for about 60 per cent of global trade that today stands at more than $20 trillion annually. Given the importance of trade and investment to economic growth, and with the emergence of new data that provide insights into GVCs and international production, the field is increasingly of interest to the economics profession as well as the international business community. The table below compares two perspectives on GVCs, from that of the firm (international business) and the country (economics). In this article, I will outline some of the recent research that my organization - the United Nations Conference on Trade and Development (UNCTAD) - has undertaken, mainly from the country perspective. This research draws on new data revealing the extent of value added trade in the global economy and the implications for investment and production, particularly in developing economies where GVCs can play an important role in facilitating investment and boosting exports.

Table 1: Two perspectives on GVCs

<table>
<thead>
<tr>
<th>International Business “Firm perspective”</th>
<th>Economics “Country perspective”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defining concepts</td>
<td>GVCs are defined by fragmented supply chains, with internationally dispersed tasks and activities coordinated by a lead firm (a TNC).</td>
</tr>
<tr>
<td>Scope</td>
<td>GVCs are present predominantly in industries characterized by such supply chains, with typical examples including electronics, automotive and textiles (although the scope is widening to agriculture and food and offshore services, among others).</td>
</tr>
<tr>
<td>Role of investment and trade</td>
<td>Investment and trade are complementary but alternative modes of international operation for firms; i.e. a firm can access foreign markets or resources by establishing an affiliate or through trade.</td>
</tr>
<tr>
<td></td>
<td>GVCs explain how exports may incorporate imported inputs; i.e. how exports include foreign and domestically produced value added.</td>
</tr>
<tr>
<td></td>
<td>GVCs and value added trade, by design and by the necessities of statistical calculation, encompass all trade; i.e. all exports and imports are part of a value chain.</td>
</tr>
<tr>
<td></td>
<td>Investment is needed to build export capacity (i.e. it creates the factors of production required to generate value added exports); both investment and value added in exports are GDP contributors.</td>
</tr>
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</table>

Recent attempts to map value added trade, including UNCTAD’s own work in this area, reveals that GVCs lead to a significant amount of double counting in trade, as intermediates are counted several times in world exports but should be counted only once as “value added in trade”. Today, 28 per cent, or some $5 trillion of the $19 trillion in global gross exports (in 2010 figures) is double counted. Patterns of value added trade in GVCs determine the distribution of actual economic gains from trade to individual economies.

These figures differ significantly by country and by industry, with important policy implications: at the country level, foreign value added in exports measures the extent to which the GDP contribution of trade is absorbed by other countries upstream in the value chain, or the extent to which a country’s exports are dependent on imported content. It is also an indication of the level of vertical specialization of economies: the extent to which economic activities in a country focus on particular tasks and activities in GVCs.

At the industry level, the average foreign value added is a proxy for the extent to which industry value chains are segmented or “fine-sliced” into distinct tasks and activities that
generate trade, compounding the double-counting effect. This is important for policymakers in designing, for example, industrial development, trade and investment promotion policies.

Developed countries, as a whole, at 31 per cent have a higher share of foreign value added in exports than the global average (28 per cent); i.e. the import dependence of exports in those countries appears higher. However, this picture is distorted by the weight in global figures of internal trade within the highly integrated EU economy, which accounts for some 70 per cent of EU-originated exports. Japan and the United States show significantly lower shares of such “double counting”.

Thus, while developing countries (25 per cent) have a lower share of foreign value added than the world average, their foreign value added share is significantly higher than in the United States and Japan – or than in the EU, if only external trade is taken into account. Among developing economies, the highest shares of foreign value added in trade are found in East and South-East Asia and in Central America (including Mexico), where processing industries account for a significant part of exports. Foreign value added in exports is much lower in Africa, West Asia, South America and in the transition economies, where natural resources and commodities exports with little foreign inputs tend to play an important role. The lowest share of foreign value added in exports is found in South Asia, mainly due to the weight of services exports, which also use relatively fewer foreign inputs.

The average foreign value added share of exports and the degree of double counting in global exports of an industry provide a rough indication of the extent to which industries rely on internationally integrated production networks, as it proxies the extent to which intermediate goods and services cross borders until final consumption of the industry’s output.

Traditionally, a select number of manufacturing industries have been at the forefront of value chain segmentation and of associated trends such as outsourcing and offshoring. The electronics and automotive industries, where products can be broken down into discrete components that can be separately produced, easily transported and assembled in low-cost locations, have led the way in shaping GVCs and consequently rank highest by share of foreign value added in trade.

A number of industries that incorporate and process outputs from extractive industries and traded commodities (e.g. petroleum products, plastics, basic chemicals) follow closely behind. The extractive industries themselves naturally rank much lower as they require little imported content of exports apart from some services. Foreign value added in exports is thus not a fully-fledged indicator of the GVC complexity of industries; extractive industries are clearly a fundamental “starting point” of many GVCs, not because of their use of foreign value added, but because they constitute value added inputs in many other industries’ exports. Similarly, services industries – e.g. business services, finance, utilities – also rank low in terms of imported content of exports as they use fewer intermediate inputs and their involvement in GVCs typically occurs through value added incorporated in exported manufactured goods. However, while the share of services in gross exports worldwide is only about 20 per cent, almost half (46 per cent) of value added in exports is contributed by services-sector activities, as most manufacturing exports require services for their production.

Clearly, GVCs do not equate with industries. A value chain for a given product may incorporate value added produced by many different industries (e.g. manufactured products incorporate value added from services industries). The global average shares by industry of foreign value added ignore the fact that each industry may be part of and contribute to many different value chains.
Global industry averages also disguise significant differences by country or region. Foreign value added shares in the textile industry are much higher in developed than in developing countries, confirming that the latter provide much of the semi-finished inputs used by developed country exporters. Electronics is another industry in which developed countries import a greater share of the value added in their exports. In contrast, in machinery, chemicals and the automotive industry, developing countries tend to use more foreign inputs for the production of their exports. Because exports incorporate foreign produced value added, the share of domestic value added in exports by country can be quite different (figure 1).

The majority of developing countries are increasingly participating in GVCs. The developing-country share in global value added trade increased from 20 per cent in 1990 to 30 per cent in 2000 to over 40 per cent today. However, many poorer developing countries are still struggling to gain access to GVCs beyond natural resource exports.

TNC decisions on where to invest and with whom to partner are driven by GVC locational determinants that depend on the GVC segment, task or activity. Locational determinants for GVC segments are often different, and fewer, than those for vertically integrated industries – i.e. the determinants for electronics assembly activities are fewer than those for investment in the electronics industry as a whole. For many GVC segments, there are relatively few “make or break” locational determinants that act as preconditions for countries’ access to GVCs.

GVCs spread value added and employment to more locations, rather than hoarding them only in those locations that are capable of carrying out the most complex tasks. As such, they can accelerate the “catch-up” of
developing countries’ GDP and income levels and lead to greater convergence between economies. At the global level, that is the essential development contribution of GVCs. At the country level, domestic value added created from GVC trade can be very significant relative to the size of local economies.

In developing countries, value added trade contributes nearly 30 per cent to countries’ GDP on average, as compared with 18 per cent for developed countries. There is a positive correlation between participation in GVCs and GDP per capita growth rates. Economies with the fastest growing GVC participation have GDP per capita growth rates some 2 percentage points above the average. Furthermore, GVC participation tends to lead to job creation in developing countries and to higher employment growth, even if GVC participation depends on imported contents in exports.

But the experience of individual economies is more heterogeneous. The value added contribution of GVCs can be relatively small where imported contents of exports are high and where GVC participation is limited to lower-value parts of the chain. Also, a large part of GVC value added in developing economies is generated by affiliates of TNCs, which can lead to relatively low “value capture”, e.g. as a result of transfer pricing or income repatriation. However, even where exports are driven by TNCs, the value added contribution of local firms in GVCs is often very significant. And reinvestment of earnings by foreign affiliates is, on average, almost as significant as repatriation (figure 2).

Figure 2: Value capture in GVCs: value added trade shares by component, developing country average

As to employment gains, pressures on costs from global buyers often mean that GVC-related employment can be insecure and involve poor working conditions, with occupational safety and health a particular concern, as we have recently seen in the Rana Plaza building collapse in Bangladesh. Also, stability of employment in GVCs can be low as oscillations in demand are reinforced along value chains and GVC operations of TNCs can be footloose. However, GVCs can serve as a mechanism to transfer international best practices in social and environmental issues, e.g. through the use of CSR standards, although our research finds that the implementation of standards below the first tier of the supply chain remains a challenge. Longer-term, GVCs can be an important avenue for developing countries to build productive capacity, including through technology dissemination and skill building, opening up opportunities for industrial
upgrading. However, the potential long-term development benefits of GVCs are not automatic. GVC participation can cause a degree of dependency on a narrow technology base and on access to TNC coordinated value chains for limited value added activities.

At the firm level, the opportunities for local firms to increase productivity and upgrade to higher value added activities in GVCs depend on the nature of the GVCs in which they operate, the governance and power relationships in the chain, their absorptive capacities, and the business and institutional environment in the economy.

At the country level, successful GVC upgrading paths involve not only growing participation in GVCs but also higher domestic value added creation. At the same time, it involves gradual expansion of participation in GVCs of increasing technological sophistication, moving from resource-based exports to exports of manufactures and services of gradually increasing degrees of complexity.

At the institutional level, the intense trade and investment links in GVCs call for closer coordination between domestic trade and investment promotion agencies, as well as better targeting of specific segments of GVCs in line with host countries’ dynamic locational advantages. A number of objective criteria, based on a country’s GVC participation and positioning, can help determine the most appropriate institutional set-up for trade and investment promotion.

To read UNCTAD’s investigation into value added trade and GVCs, including data and detailed policy recommendations for governments and firms, please download Chapter IV of this year’s UNCTAD World Investment Report.

Key Issues for the International Business Research Agenda 2013

Peter J Buckley, Centre for International Business, University of Leeds

There have been frequent attempts to assess the success (or otherwise) of academic endeavours in international business, almost from the outset of the subject – in 1960, if Hymer is taken as the starting point, or 1958 if John Dunning’s classic work is utilized. (There is a strong case for looking at earlier work too (Buckley 2011)).

One of my earlier attempts to do this was “Is the International Business Research Agenda Running out of Steam?” (Buckley 2002) which identified the following successes:

(1) Explaining the flows of foreign direct investment.
(2) Explaining the existence, strategy and organization of multinational enterprises.
(3) Understanding internationalization, modes of doing business abroad, entry strategies and joint ventures.

The paper identified, as a partial success, the integration of “culture” and as a major challenge, identifying a new “big question”.

The question then became how to move the subject forward? “Regaining the Edge for International Business Research”, Buckley and Lessard (2005) looked at the issue of whether the impact of international business research on other subject disciplines is declining. It suggested that a successful subject domain links issues and theory. The role of international business theory was to intermediate between discipline-based theory and real-world issues and provide an “intermediate theory” that focused directly on key issues in the world economy. However,
the paper identified a decline in use of this intermediate theory suggesting that a “missing middle” had arisen between discipline based theory and the issues thrown up by real world events. International business risked being by-passed by researchers going directly from discipline based theories to issues.

The domain of international business is fascinating because it examines a variety of levels of analysis with lenses derived from a variety of core disciplines. (See Figure 1.)

A recursive view of research in international business suggests that both theory driven and issues-driven enquiries can be combined by a research process of observation → hypothesis creation → testing and generalisation which then leaves certain observations as unexplained or anomalous, leading to a further round of the research process, as shown in Figure 2. These processes work both at the individual researcher level or for the whole community. These papers suggest that these processes are most effective when undertaken by the whole academic community, leading to the suggestion that a ‘big research question’ can be effectively examined by many researchers using different lenses and theories, in cooperation and competition.

This leaves open the type of theory and methods to be used. International business most effectively uses the comparative method. An example is Coase’s (1937) comparison of the firm versus the market. The MNE is an ideal research focus because, whilst varying place and/or time, it holds “firm” constant, mimicking some aspects of scientific experimentation.

Method

The very word “International” implies a comparative method – across nations. Comparators imply theory and modeling that understand the roles of time, place and choice (agency). This is inevitably interdisciplinary but is agnostic as to technique – therefore encompassing both qualitative and quantitative methods. This is a large agenda with implications that research methods need improvement. Because “International” implies comparative, we can start with the three key comparators: (1) Historical comparison over time. (2) Geographical comparison across space. (3) The counterfactual comparison, a thought experiment where it is critical to specify the counterfactual as carefully as possible. Here we envisage alternative scenarios such as the “historical alternatives approach” that is currently debated in business history. It is argued that technological determinism has been taken too far and managers have more choices open to them \textit{ex ante} than is frequently realised from \textit{ex post} analyses.

The ideal research methods in International Business arise from a strong theoretical framework and interdisciplinarity. Here interdisciplinarity means not only social science also history, geography and the philosophy of science.

Current challenges

There are a number of current challenges facing the International Business research community. Some salient examples follow.

Theoretical Challenge:
- China and Emerging Market FDI as test of theory. This revolves around the question of how far EMNEs can be explained by existing theory. A sub-question is “Do emerging market MNEs need an “ownership advantage”? This challenges us to rethink the ‘eclectic paradigm’.

Empirical Challenge:
- The IB Impact of the Emerging Middle Class. This has wide ranging effects across the whole international business domain and theory set.

Conceptual Challenge:
- [International] Business Models. This rather ill-defined concept is now being widely used but it is not clear how it should be formalized and integrated with international business theory.
Change of Emphasis:
- From ‘methodological nationalism’ to a focus on more micro level, notably cities. Much of international business has been predicated on data collected at the level of the nation but decisions are taken on a sub-national level. An example is the location decision where regions and usually cities are the key focus for entrant multinationals.

Area of Controversy:
- Treatment of culture; emic versus etic; “measures of culture”. The integration of culture into international business theory has only been partially successful. It is usually classified as important and then confined to a separate part of the analysis, rather than being central. Several key fora (including JIBS) are currently addressing these issues.

Conclusion
International business research has made a great deal of progress. Theory and method have progressed together over the fifty-odd years of the subject’s existence. Because globalisation continues (often in an uneven and seemingly haphazard fashion), we should expect that new theoretical, empirical and conceptual issues will arise. The task is to ensure that our scholarly apparatus is equipped to deal with them.

Figure 1: The domain of international business

Source: Buckley and Lessard, 2005 pp 595-599.
Figure 2: A recursive view of research in international business

References:


Clusters, Competitiveness and the New Geography of Innovation

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The world has changed. And it did so at an absurd pace. While life evolved relatively slowly until the beginning of the 19th century, the last decades have witnessed tremendous advances. In less than three hundred years, people saw the plow or the stagecoach being replaced by hybrid cars, high-speed trains or airplanes, and carrier pigeons or the Morse code by the Internet, smartphones or iPads. Based on Schumpeter’s idea of innovation cycles (1939, p. 212ff.), Gordon (2012, p. 1-2) broke down this unique episode of growth in human history in three successive and cumulative industrial revolutions (IR): IR#1 (1750-1830) defined by the invention of steam engines, cotton spinning and railroads, IR#2 (1870-1900) marked by the invention of electricity, internal combustion engines and running water with indoor plumbing and IR#3 (initiated in the 1960s-on going) characterized by the advent of computers and Internet. The accumulated stock of knowledge and the various groundbreaking scientific discoveries generated over an especially short period of time did not only alter the way people travel and communicate but also directly impact the organization of society and how people work and interact.

Innovation has been the cornerstone of this evolution and the first economic thinkers quickly perceived that the tendency of men to constantly challenge their current condition would be the force that could disrupt any possible equilibrium or stationary state within the economy (Schumpeter, 1937/1989, p. 166). Although the study of innovation did not enter mainstream economics until the second half of the 20th century, it is now well established that technological change is the main engine of competitiveness and economic growth in the long run (i.a. Romer, 1990; Grossman and Helpman, 1991; Aghion and Howitt, 1992).

The inherent nature of the innovation process has nevertheless changed. On the one hand, the fast technological revolution, the emergence of new countries on the international economic stage or the sophistication of trade regulation tools has underlined a shift towards a globalization of the economy. Companies can now take advantage of the special characteristics of many different types of environments. It is for example relatively easy for a firm to establish a manufacturing plant in South East Asia in order to benefit from the low cost of the local workforce or to penetrate the world’s leading knowledge hubs by establishing a subsidiary or implement a joint venture in Silicon Valley in order to try to absorb knowledge spillovers created within the San Francisco Bay Area. However, on the other hand and at the same time, another trend towards a spatial concentration of economic and innovative activity has been identified (i.a. Krugman, 1991; Feldman, 1994; Porter, 1998; Dunning, 2008). Despite the widening of the geographical options offered by globalization, production and innovation still appear particularly concentrated in specific locations (Asheim and Gertler, 2005). Clusters, defined in their strictest sense by Porter (1998, p. 197-198) as “geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions in particular fields” are the ultimate representation of this regionalization stream. Interactions between cluster participants create a stimulating and dynamic environment conducive to productivity growth, innovation and new business formation that is difficult for firms based elsewhere to match (Delgado et al., 2010a, 2010b).

The evolution of the world economy has therefore set new challenges in the organization of the innovation process. On the one hand, the globalization of competition has strengthened the prominence of innovation. Companies, and especially those from innovation-driven economies, have to constantly innovate and introduce new products or processes to maintain a
competitive-edge. On the other hand, the rise of knowledge as the main source of competitive advantage has had a deep influence on the geography of innovation. Despite a greater integration of the world economy, economic and innovative activities still tend to be particularly unevenly distributed across locations. This growing importance of location in competitiveness has been reflected by clusters. To that extent, conducting strategic asset seeking investments in the world’s leading clusters seems to be a natural way for MNEs to improve their technological assets and remain competitive in today’s global economy. Surprisingly, still few studies have carefully assessed the role of clusters in the new geography of innovation (Mudambi and Swift, 2010, 2012).

Monitoring innovation activities is therefore particularly important both at a local and at a global level. It provides crucial insights for both policy makers and MNE managers to implement the right policies and the right strategies to reach high level of growth and competitiveness. Based on original databases of patent applications at the European Patent Office (EPO), this research answered three main sets of questions:

- What is the spatial distribution of inventive activities in Switzerland and what is the inventive performance of Swiss regions?

- What are the specialization patterns of inventive activities in Switzerland and what are the country’s most inventive clusters?

- How international is the inventive process of pharmaceutical MNEs located in the Basel pharmaceutical cluster and what is the role of clusters and cross-cluster relationships in their global innovation process?

After building a thorough theoretical construct on the intertwined relationship between innovation, clusters and firms in today’s economy and emphasizing the marked discrepancies in terms of inventive performance between Swiss regions as well as identifying the country’s main inventive clusters through statistical measures of concentration and specialization, this research offered new insights on the internationalization of the innovation process and evidences on the importance of foreign clusters as sources of new knowledge which are particularly interesting from an international business perspective. By focusing on the Basel pharmaceutical cluster – previously identified as Switzerland’s most vibrant inventive cluster – this research first evaluated the internationalization of the inventive process of pharmaceutical firms established in the Basel region by analyzing the origin of their pharmaceutical patents demanded at the EPO. Similar approaches were adopted by Cantwell (1992), Patel and Vega (1999), Le Bas and Sierra (2002) or Michel (2009).

As illustrated in Figure 1, this analysis unveiled a constant growth in the level of internationalization of the inventive process. While 62% of the inventors of pharmaceutical patents demanded at the EPO by applicants established in the Basel pharmaceutical cluster were still residing in Switzerland in 1985, this rate sank to some 43% in 1995 and only 28% in 2005. In other words, these patents were increasingly developed in foreign locations. Furthermore, while Switzerland remained the main source of invention until 1995, this tendency was even reversed in 2005 as the majority of inventors were located in the United States.

Note: Although the OECD REGPAT Database (June 2012) records patent applications until 2012, analyses were restrained to the period 1977-2008 because data for recent years were still incomplete at the time of writing.
A second goal of this research was to assess the importance of clusters in the global innovation strategy of MNEs by analyzing the geographical features of pharmaceutical patents demanded by applicants established in the Basel region. Each inventor of the identified patents was assigned to its region of residence. Based on this methodology, 96 regions were identified. Each European and US region (85 out of 96) has then been classified as either “pharmaceutical cluster region” or “non-pharmaceutical cluster region”. This classification has been made in accordance with the last update of two different sources: European regions were broken down on the basis of data from the European Cluster Observatory (2013) and US regions were classified according to the US cluster mapping undertaken by the Institute of Strategy and Competitiveness at the Harvard Business School (U.S. Cluster Mapping, 2013).

In order to rely on official data resulting from in-depth statistical analyses and as no similar formal cluster mapping projects was known at the time of writing, extra European and US regions have been classified as “non-pharmaceutical cluster”. As emphasized in Figure 2, almost 78% of the inventors were located in regions identified as “pharmaceutical cluster regions”. In other words, it means that less than 25% of inventors were residing in “non-pharmaceutical regions”. Regarding the inter-cluster distribution, 43% of inventors were established in the BioValley region (encompassing the Basel region in Switzerland, the Freiburg region in Germany and the Alsace region in France), 22% in California and New Jersey in the US and 6% in Oberbayern in Germany, which are all widely recognized as world’s leading pharmaceutical clusters (i.a. Zeller, 2001; Chiesa and Chiaroni, 2005; Cooke, 2006; European Cluster Observatory, 2013; U.S. Cluster Mapping, 2013). These evidences tend therefore to support the fact that pharmaceutical clusters play an important role in the global inventive process of pharmaceutical MNEs located in the Basel region. Executives of pharmaceutical firms also confirmed these results.

Two main points emerged from these discussions:
1. Pharmaceutical firms target clusters to get access to smart people and a qualified workforce. As every pharmaceutical firm possesses basically the same research infrastructure (laboratories, machines, robots, beakers, etc...) the only way to make a difference and come up with innovations is to have the right people.

2. As interactions are crucial in the innovation process, being located in the vibrant environment of a cluster is the perfect place to initiate collaborations with different types of partners such as universities, research centers, small biotech companies or individual scientists. Proximity is essential in that process and accessing tacit knowledge requires direct interactions.

Figure 2: Importance of clusters in the global innovation strategy of pharmaceutical MNEs established in the Basel pharmaceutical cluster, 2005

Source: Personal elaboration based on OECD REGPAT Database (June 2012)

* This article is a brief overview of an in-depth study on the new geography of innovation. Full reference: TINGUELY, X. (forthcoming, 2013), The New Geography of Innovation: Clusters, Competitiveness and Theory, Basingstoke (UK): Palgrave Macmillan. The volume can already be pre-ordered at a special rate on Amazon or directly on Palgrave Macmillan’s website.

References


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Progress in International Business Research, Volume 8: International Business and Sustainable Development

Editors: Rob van Tulder, Alain Verbeke, Roger Strange

This volume includes new texts of a number of leading scholars and opinion leaders in the area in which some of them comment on their own work and propose interesting additions. Other contributions develop new levels of analysis (in particular global value chains or the partnership strategies of firms) that present promising areas for new theoretical and empirical insights. Authors from leading international institutes are brought together in this volume, but some younger scholars with innovative ideas are also given room.

This volume shows that interesting approaches are developed at the moment, in particular those that combine different scientific disciplines, different levels of analysis and different actor perspectives. It is the aim of this research volume to take stock of the latest insights in this complex area along four lines:

1. New trends and concepts in international business and sustainable development
2. New corporate strategies for sustainable development
3. New forms and levels of cooperation for sustainable development
4. New public policies and governance challenges for sustainable development

Keywords: Sustainable development, CSR, global value chains, inclusive business, Emerging Market Multinationals, Millennium Development Goals.

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Sustainable development is arguably one of the prime issues in the world. It has social, ecological and economic dimensions, which makes it also a multi-faceted and complex problem. International Business scholars that have looked at the problem of sustainable development have stressed that the Multinational Enterprise should be considered perhaps the most important vehicle through which sustainable development specifically in developing countries occurs. But the actual study of the topic remains fraught with theoretical and empirical caveats.
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