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Editorial

by Filip De Beule, University of Leuven, Belgium

Welcome to another exciting issue of EIBAzine. It is hard to believe that it has already been almost three years since Peter Buckley took over from Danny Van Den Bulcke as Chair of EIBA. The current issue starts off with Peter’s reflections on his tenure as Chair of EIBA. Roger Strange as President of EIBA, together with Pervez Ghauri, in turn welcome us to the University of Sussex for the 38th EIBA Annual Conference. The theme of the 2012 conference is International Business and Sustainable Development. Brighton is looking like another great conference.

Since I have taken over as editor of EIBAzine, I have attempted to take up three interesting short articles on award-winning papers or up-and-coming topics. This issue is no different. Anirvan Pant, one of the Hedlund award nominees, was kind enough to give back to the EIBA community in writing a stimulating article on the liability of origin. On the basis of his cutting edge research on emerging market multinationals, he brings us the best of his award-winning Ph.D. thesis and subsequent published articles. There is indeed a budding literature on the liability of origin, especially linked to multinationals from emerging economies.

The following article is written by Andreja Jaklič, based on her award-winning paper, together with her colleagues at the University of Ljubljana, “Forget about Uppsala.” On the basis of quantitative as well as qualitative research, the paper convincingly demonstrates the new export and investment patterns that Slovenian firms adopt in their internationalization strategies. Instead of an incremental internationalization process, successful Slovenian companies take a more daring approach to product and market internationalization. Andreja’s article shows the ways in which some of these firms go about exporting, collaborating and investing abroad.

The third article is written by Mo Yamin and Sougand Golesorkhi on the importance and impact of cultural distance and difference on the pattern of equity ownership structure in international joint ventures. There is currently a renewed interest in culture, so I hope this article will shed some new light on the subject.

The newsletter continues with the next issue of the EIBA book series published by Emerald, based on some of the best papers from last year’s annual conference. The 7th volume of the series Progress in International Business Research, edited by Rob Van Tulder, Alain Verbeke and Liviu Voinea, focuses on New Policy Challenges for European Multinationals.

EIBA has also just expanded into the world of social media and has started an IB group on LinkedIn. We hope this new virtual community will be a useful platform for exchange and networking for us all.

The newsletter ends with information about the EIBA association and membership benefits, including application/subscription and renewal details.

In order to help us reach and inform potential EIBA members, after reading this issue of EIBAzine, why not take a few moments to distribute this newsletter throughout your own networks? Your kind assistance with this collective effort to help expand the EIBA association and community is very much appreciated!

Let me end this editorial by again thanking all of the contributors to this issue – without whom, there would be no EIBAzine! And remember, I am always on the lookout for interesting articles and EIBA news bits. Do not hesitate to submit a contribution to the following email address: filip.debeule@kuleuven.be.®
Reflections on (nearly) three years as Chair of EIBA

by Peter J. Buckley, CIBUL, University of Leeds, UK

Doesn’t time fly when you are enjoying yourself? It is nearly three years since I took over from the legendary Danny Van Den Bulcke as Chair of EIBA. I remember Danny passing the baton to me, metaphorically – in actuality I think it was a gavel – towards the end of the General Assembly at Valencia. Since then, we have had two further outstanding conferences in Porto and Bucharest and we are all looking forward to an excellent conference at Brighton where the indications are that we will have a record attendance.

The major impression that I retain of these three years is of the fantastic dedication of the EIBA Board and, indeed, the members of EIBA who are passionate about their Academy. It is easy to forget that every academic who works for EIBA does so on an entirely voluntary basis. It therefore costs us all money to have the pleasure of running this extraordinary Academy. I would like to pay tribute to the Presidents, Past Presidents, Presidents Elect and Board members of EIBA who have made my job so easy over the past three years. This also extends to the Editor of EIBAzine and the people who are running our new ventures into social media.

My other, rather less serious impressions, include the amazing futuristic museum in Valencia, now made famous by the somewhat hilarious “EIBA dancing” sequence on YouTube, the fantastic location for the Gala Dinner in Porto (and of course tasting the port in the Bodega), the achievement of a great conference in Bucharest (and, for the Board, the unforgettable tour of the Delta in Romania) … and we still have Brighton to come.

What would I say were my achievements during these three years? First, it is important to remember that these were collective achievements and not to be attributed solely to the Chair – and this includes three very different but really enjoyable conferences. I would also like to think that we have improved the academic quality of the conferences, and I would be the first to acknowledge that there is much more to do here.

We have improved the communication with members through such improved vehicles as EIBAzine and we are continuing to do this through our new ventures in social media, including the new EIBA LinkedIn group.

More prosaically, there is now a system of succession planning for Chairs, Presidents and Conferences in a set of procedures that I believe have much more transparency and democracy. The Board has also nominated several new National Representatives as Board members in line with the Board’s belief that all substantial delegations to EIBA should be represented on the Board.

The EIBA Board has also endorsed, in a daring proposal, the decision to take the Conference to Rio in Brazil, and the next three conferences are firmly pencilled in, leading to less uncertainty and greater ability to plan for the future.

The membership has increased but this is modest and much more needs to be done here (if everyone who reads this missive could persuade one more person to join EIBA, all would be well).

EIBA now has a much better relationship with AIB and a strengthened relationship with EIASM which provides a superb administrative service. Of course, there have been challenges and the Chair position has taught me, again, how important it is to be sensitive when negotiating different cultures.
Of course, there is much still to do. My prescription amounts to “more of the same” – if I could think of radical improvements I would do so.

The problem of attracting more members and conference attendees from some of the larger European countries still remains with us, and the Board is seeking a series of informal alliances to try to penetrate these difficult markets.

The use of the Fellows in our Academy (just like AIB) is not optimal as yet and this is an issue to be worked on.

EIBA’s official journal (*International Business Review*) is a great asset but, despite the best efforts of its Editor Pervez Ghauri, is not perhaps providing the support that we require.

Finally, we are not yet at the end of a long process to refine the ethics statement that EIBA badly needs, but we are working with AIB to try to solve this problem.

The variety of places in Europe definitely impresses me and the Board’s side trips to the Delta in Romania and to Leeds Castle near Brighton (thoroughly recommended – its promotion as the “loveliest castle in the World” is not far from the mark) have also been highlights.

Finally, I hope my thanks to a fantastic Board have been clear in this piece but I would also like to thank Nicole Coopman of EIASM and particularly Ene Kannel, the current EIBA Executive Secretary, without whom this particular Chair would not have found this as rewarding and constructive a tenure as it has been.

I would like to wish the incoming Chair and the future Board the best of luck and to express the hope that they find the next three years as enjoyable as the past three have been for me.®

Peter Buckley presenting the EIBA Chair’s report at the 2010 General Assembly in Porto.
Letter from the EIBA President

by Roger Strange, University of Sussex, UK

It is my great honour and privilege to be able to invite you to the 38th EIBA Annual Conference (www.eiba2012.org), to be hosted by the Department of Business & Management at the University of Sussex, UK. The theme of the EIBA 2012 conference is: International Business and Sustainable Development.

The most widely-quoted definition of sustainable development is ‘development that meets the needs of the present, without compromising the ability of future generations to meet their own needs.’

In September 2005, the United Nations World Summit identified three interdependent and mutually-reinforcing components of sustainable development, namely economic development, social development, and environmental protection. Furthermore the Summit stressed the important role that foreign direct investment (FDI) could play in the development process, particularly in developing and emerging economies.

This conference seeks to address the issues of how international business contributes to this process. The greater integration of goods, factor and capital markets means that countries are even more interdependent. The impressive growth rates of many emerging economies, not just the BRICs but other countries in Asia, Eastern Europe and even Africa, are stimulating a new international economic order. Direct investments by MNEs and SMEs in developing and emerging economies are on the rise, but so too are investments in developed countries by firms from emerging economies. Consumer needs and expectations are evolving worldwide. Many firms are adjusting their supply chains to take advantage of these global developments, and the outsourcing and off-shoring of both manufacturing and service activities are increasingly important phenomena. At the same time, firms are increasingly being held responsible for their impact of their international activities upon people and upon the environment.

Pervez Ghauri (the 2012 conference co-chair) and I are delighted to report that we have been able to assemble an outstanding conference programme. There are two plenary sessions closely linked to the conference theme: the opening plenary features John Humphrey and Hubert Schmitz (Institute for Development Studies, Sussex) on the topic of the Global Green Economy: A Value Chain Perspective, whilst the Sunday plenary will feature Martin Wolf (Financial Times) on the Limits to Growth in the 21st Century. Both sessions should provide much fascinating material for all IB scholars.

In addition, there are seven special panel sessions featuring many of the leading IB scholars in Europe (and beyond): transnational private governance; critical perspectives on the international new venture literature; emerging market multinationals in advanced countries; FDI, regional value chains and sustainable development; cultural differences between and within countries; experimenting with alternative approaches to teaching IB online; and the brewery industry in a global context.

And, if that array of delights was not enough, we also have a Meet the Editors session featuring the editors of JIBS, JMG, IBR, IJoEM, JWB, MBR and MIR.
EIBA 2012 features sixteen parallel sessions of competitive and interactive papers. We received 431 paper submissions this year – a new record. There are 205 competitive papers in the programme (a 48% acceptance rate), and a further 151 interactive papers.

Last, but certainly not least, the 2012 Conference will host three events specifically aimed at doctoral students:

- the 26th John H. Dunning Doctoral Tutorial for International Business;
- the 3rd COST-EIBA Doctoral Think Tank, where the focus is on issues related to MNEs from emerging and transition economies;
- and, a new innovation for 2012, the EIBA Doctoral Symposium.

The aims of all three events are to provide PhD students with the opportunity to discuss their research with distinguished international faculty, and to allow the students to become acquainted with an international network of researchers in international business.

I would like to conclude with a few words about the Department of Business & Management at the University of Sussex. The University of Sussex was the first of the new wave of UK universities founded in the 1960s, receiving its Royal Charter in August 1961. The Department of Business & Management has a rather shorter history, having been established in August 2009 as part of a new School of Business, Management & Economics (BMEc). The School also includes the Department of Economics and SPRU – Science and Technology Policy Research.

The university campus is a few miles north of the city of Brighton, on the south coast of England. The campus is surrounded by the South Downs National Park, and combines award-winning architecture with green open spaces. The buildings that make up the heart of the campus were designed by Sir Basil Spence, and were given ‘listed building’ status in 1993. Brighton is a fantastic city, full of sights as well as bars, restaurants and clubs, and is lively at any time of the year.

We look forward to welcoming you all to the EIBA 2012 Conference in Sussex.®
The liabilities of origin: A perspective on location and legitimacy in international business

by Anirvan Pant, IIM Calcutta, India

INTRODUCTION

International business (IB) researchers have, traditionally, paid little attention to how location shapes the organizational legitimacy of the multinational enterprise (MNE). This inattention is particularly stark when we examine research on the competitive advantages and disadvantages of the MNE in a host country. More than fifty years ago, Hymer (1960: 6) observed that the inherent ‘barriers to international operations’ faced by a firm in foreign markets renders inescapable the ‘possession of advantage as a cause of international operations.’ Since then, the intimate coupling of advantage and disadvantage has been central to the conceptualization of the multinational enterprise (MNE) in IB research.

On the whole, however, IB scholars have focused their efforts on studying the nature and consequences of the MNE’s advantage, and have rather neglected the study of the MNE’s disadvantage, e.g., lack of an adequate level of legitimacy in a host country. Indeed, the ‘costs of doing business abroad’ were scarcely referred to, other than to motivate research on the ‘compensating’ advantage. This has changed in recent years. The notion of ‘liability of foreignness’, usually traced back to Zaheer (1995), drew researcher attention back to the study of the disadvantages of the MNE. Indeed, over the last decade and a half, a substantial literature has emerged on the incidence and consequences of, and strategies for, overcoming the liability of foreignness.

LIABILITIES OF ORIGIN

Unfortunately, researchers participating in the recent resurgence of interest in the disadvantage of the MNE have not, yet, leveraged the potential in emerging economy MNEs (EMNEs) to further this research stream. At the same time, researchers who do study EMNEs focus, perhaps excessively, on their unique advantages while glossing over the tremendous disadvantages these firms confront, particularly in demanding developed country markets. This is a pity, because the study of EMNEs can help expand our understanding of the nature of disadvantages of the MNE beyond what we know in terms of the concepts of costs of doing business abroad and the liability of foreignness. Indeed, one can argue that the study of the distinctive disadvantages of EMNEs can help us conceptualize about the liabilities of origin, over and above that of foreignness (Ramachandran and Pant, 2010). The distinctive challenges confronted by EMNEs in developed country markets, particularly, can shed light on how location (country of origin) can shape the legitimacy of MNEs in international markets.

Consider the disadvantages that may be borne by EMNEs in demanding developed country markets, over and above those borne by MNEs originating in other developed countries. These disadvantages may be classified into three clusters, depending on their incidence – the home country context, the host country context, and the organizational context. The first cluster of disadvantages faced by EMNEs in developed country markets are those that can be traced to underdeveloped home country institutional intermediaries. The financial system in emerging economies remains underdeveloped and inhibits the ability of EMNEs to access long-term capital for investing in international growth. This is often compounded by the high volatility and the high risk associated with emerging economies that makes capital more expensive in these countries. Furthermore, due to the recent vintage of outward-looking economic reforms in most of the emerging economies, the
skill development and control systems in these countries continue to be mostly inward-looking. The absence of skill development systems that can provide global managerial talent imposes high costs on emerging economy firms entering developed markets and slows the process of their internationalization.

EMNEs also find themselves subjected to discrimination by consumers, and even by governments, in developed country markets due to prevailing cultural-cognitive biases against goods and services associated with developing and emerging economies. Negative country and product-country images constitute a prominent source of competitive disadvantage and have been long acknowledged in the international marketing literature (e.g., Johansson, Ronkainen & Czinkota, 1994). Crucially, such adverse institutional attribution can be particularly debilitating when the firm has yet to build up its own reputational capital, as is usually the case with EMNEs seeking a foothold in developed country markets. EMNEs may also suffer as a result of the misgivings of host governments, whose officials may be reluctant to encourage EMNEs in their markets either due to geopolitical considerations, or simply because they lack confidence in their capabilities.

The third cluster of disadvantages faced by EMNEs in developed country markets corresponds to the cognitive maladjustment of EMNE managers in such markets. Cognitive maladjustment may emerge as a consequence of home country imprinting on the structures, processes, and routines of the EMNE organization. Firms in an emerging market, distant on cultural, administrative, geographic, and economic dimensions from developed economies, develop a contextual set of cognitive frames that may adversely affect their abilities to compete in developed economies. Indeed, compared to managers in developed economy firms, the strategic orientations and the implicit values and beliefs of EMNE managers may get shaped very differently, and they may look very differently at opportunities and risks. These differences may lead to two very different kinds of errors of judgment, when EMNE managers carry over these cognitive frames to their operations in developed country markets. On the one hand, EMNE managers may find themselves sceptical of the global potential of their product or service and may be rendered immobile by self-doubt (Bartlett & Ghoshal, 2000). On the other hand, limited understanding of the nature of competition in developed economies may fuel their ambition to such a degree that they leap into an ill-conceived internationalization program (Bartlett & Ghoshal, 2000).

It is important to note that the three clusters of EMNE disadvantages discussed above emanate because the country of origin of the EMNE is an emerging economy, not because the EMNE is merely foreign. This is an important distinction. The concept of liability of foreignness draws attention to the disadvantages that subsidiaries of foreign firms face in a host country by virtue of their outsider status. However, liability of foreignness as a concept cannot account for the disadvantage borne by MNEs in host countries as a consequence of their country of origin. This compels us to acknowledge the distinctive conceptual space for what may be called the liabilities of origin. Where liability of foreignness explicitly excludes home country influences, the conceptualization of the liabilities of origin should be such as to intentionally include home country influences. Put simply, while liability of foreignness explains disadvantages borne in host countries by MNEs as a consequence of where they are from (i.e., not from the host country), the liabilities of origin can attend those disadvantages of MNEs that emerge as a consequence of where they are from.
CONCLUSIONS

The liabilities of origin can make the MNE’s task of acquisition of legitimacy in the host country market far more arduous. Of the many dimensions of organizational legitimacy, researchers accept that it is the cultural-cognitive legitimacy of the MNE that is the most salient in the context of IB. The cultural-cognitive legitimacy of the MNE emerges from its ability to persuade audiences in the host country that its activities and outputs are appropriate and desirable as the frameworks of meanings prevalent in that institutional environment. Overcoming the liability of foreignness requires a two-way process of familiarization between the MNE and audiences in the host country. This essentially involves enhancing comprehensibility about the MNE among host country audiences on the one hand and learning about, and adapting to, the distinctive aspects of the host country institutional environment on the other. However, the challenge for MNEs confronted with the liabilities of origin is not that their activities are incomprehensible to host country audiences, but that they are misunderstood. This is so because adverse stereotypes about firms from a particular country may become taken-for-granted. The legitimation task for EMNEs, then, is not simply to be comprehensible to host country audiences but to gradually challenge the extant taken-for-granted understanding and then rebuild comprehensibility about their activities and outputs in the host country. The growth of the Indian software services industry in developed country markets, particularly the United States, provides an illustration of the legitimation strategies that may be undertaken by EMNEs confronted by the liabilities of origin (Pant and Ramachandran, 2012).

Although the incidence of the liabilities of origin may be fairly stark in the case of EMNEs, there need be little doubt that developed country MNEs too can suffer from the liabilities of origin. Arla Foods, a Danish dairy producer that had been in the Middle East for over 40 years saw its sales dropping to negligible levels in 2006 as customers undertook a boycott of Danish goods following the publication of controversial cartoons in a Danish newspaper. Further back in history, the experience of late nineteenth century American multinationals in Europe (Wilkins, 1970) is suggestive of the liabilities of origin.

Moving beyond the liability of foreignness to the liabilities of origin suggests that ‘where you are from’ (location) shapes ‘who you are’ (organizational identity) and, thereby, ‘how you will be appraised’ (organizational legitimacy) in international markets. An organization’s identity influences how societal actors in an institutional environment evaluate the organization and its activities and has, therefore, an intimate relationship with the organization’s legitimacy in that institutional environment. The formation of identity and the construction of legitimacy, as Pedersen and Dobbin (2006: 897) note, ‘are two sides of the same coin.’ For IB researchers, examining this relationship may well provide a critical plank for an exciting research agenda in the years to come.

I hope that this article, which draws upon the author’s Ph.D. dissertation and the following published articles: Ramachandran and Pant (2010) and Pant and Ramachandran (2012) has provided you with some interesting insights to move things forward.

REFERENCES


INTRODUCTION

What kind of internationalization strategies are currently the most successful? Have patterns of internationalization recently changed? How successful is an incremental, step by step approach (still widely taught in IB courses across Europe) for new players on the international scene? How do firms that succeeded in internationalization differ from those that did not? These are some of the questions that remain unanswered to this day and also lie at the heart of this analysis.

Internationalization has always been one of the most challenging projects for any firm, but the current economic crisis has made it even more challenging. On the one hand, the crisis has increased political uncertainty and macroeconomic instability, which may bring substantial unexpected costs, especially for the new players from emerging markets that are increasingly active around the globe. On the other hand, the demand crunch in developed countries spurred by the global economic crisis has forced firms to explore new markets. Limited financial resources and higher market uncertainty (which restrict all types of investment, not only foreign direct investment) has also spurred reconsiderations of entry modes, particularly export strategies. The search for new markets and fight for market shares are expected to get strengthened in the coming years, so the redesign of internationalization strategies will play a significant role in improving the exporters’ and investors’ performance and spreading their risks.

For large, established exporters the crisis might have been an incentive for rationalization and a reason to reduce the number of markets or


Double diversification and the “quicksilver enterprise”: New patterns of internationalization

by Andreja Jaklič, University of Ljubljana, Slovenia
optimize the product portfolio. Newly born exporters (or start-ups), on the other hand, face completely different challenges as they want to increase the volume and stability of exports. Foreign sales increase is a must, reached either by increased number of products/services sold in foreign markets (products/services diversification) or increased number of markets (market diversification). The gains of diversification versus losses from uncertainty have been identified theoretically, though the empirical findings are still inconclusive (Caves, 2007: 23-24, Ang, 2007: 17-18).

The essential diagnostic questions with regard to the why, how, where, and when to internationalize remain the same, yet the list of risks in the international business environment is getting longer and their volume larger. This changing business environment has forced new entrants to radically and rapidly change internationalization strategies and new patterns of internationalization have emerged in recent decade.

NEW STRATEGIES OF NEW EXPORTERS: DOUBLE DIVERSIFICATION

The question of how to increase exports and the share of exporting firms within the corporate sector motivated the recent study of newly born exporters in Slovenia (Jaklič, Burger and Kunčič, 2011). Changes in the internationalization patterns were identified by examining the differences between successful and unsuccessful new exporters. Companies were treated as successful exporters if they keep exporting continuously throughout the period and as unsuccessful if they have a span or more spans of a year or more of exporting and then drop out of exporting. Out of all the firms, 13.6% of firms are unsuccessful new exporters, and almost twice that (26.5%) are successful new exporters.

Firm-level data for the population of Slovenian exporters over the period 1994-2009 revealed significantly different entry behaviour between successful and unsuccessful new exporters. Successful new exporters also follow very different entry strategies from those identified for export (and investment) behaviour of Slovenian firms and firms from several other European countries in the 1990s (Jaklič & Svetličič, 2003).

Although no significant differences between the two groups were identified before they started to export, the differences increased after entering foreign markets by export. The successful ones grow faster, in terms of exports and total revenues as well as in terms of equity and physical capital. The sales of successful new exporters increase from less than 45% of the industry average a year before the exports start to roughly 75% above the average by the 6th year of exporting. Interestingly enough, there is basically no difference between the two groups when it comes to debt to assets. The most important difference that might explain the fact that evolution of sales in unsuccessful new exporters is much more subdued despite the almost similar starting-point has been linked to the diversification in internationalization, which was already identified in the first year of exporting and only intensified over the observed period. The majority of successful exporters entered 2 or more foreign markets and launched 3 or more products already in their first year of exports. Almost two thirds of the unsuccessful ones on the other hand entered only one foreign market and introduced only one product (40%) or two (13%) products in the first year of foreign entry. Unsuccessful new exporters did not change their export intensities in time, implying that their lack of intensity on the intensive margin is one of the reasons for not being successful in the long term. By the 9th year of exporting, unsuccessful new exporters that still manage to trade abroad export 7.4 varieties on average which is exactly the same number of average varieties successful new exporters begin with. On the other hand, successful new exporters almost triple the number of exported varieties to 21.4. The internationalization pattern is therefore
changing. Both geographical and product diversification, used to be very limited in previous incremental internationalization strategies, were recently approached simultaneously from the start, while increasing the probability of survival in export markets.

With simultaneous product and market diversification – which we will call double diversification – the liability of foreignness and the liability of newness (costs) decrease faster and the benefits of internationalization (due to higher exploitation along with higher exploration benefits) grow faster. Net gains of internationalization, which according to Lu and Beamish (2004) develop in an S shape relationship between diversification and performance, are thus received faster and newly born exporters enter the profitable stage of internationalization earlier.

Beside a larger number of markets, successful exporters more frequently entered also non-traditional, more distant markets. Non-regional international diversification seems to provide more benefits than regional international diversification, which has been identified for some other smaller economies as well (Ang, 2007).

Double diversification from scratch may bring synergies in learning that increases benefits from internationalization. When entering several markets or introducing several products simultaneously, experience gained in one market, can be transferred from one country to another. Testing the selected foreign entry mode (exports) for a number of different market situations can speed up the learning process, knowledge spillovers and by faster identification of problems offers the potential to reduce failures. Much of internationalization knowledge and experience are intangible assets with an expiration date (especially due to imitation), while the efficiency and return of their exploitation is greater when their scope of use is greater (Teece, 1986). Double diversification from scratch also means extending the knowledge to launch a product in a broad range of markets and vice versa using market knowledge for a portfolio of products.

**DIVERSIFICATION IN INVESTMENT BEHAVIOUR: THE QUICKSILVER PATTERN**

Similarly, on the basis of case study analysis, new patterns are seen also in foreign direct investment behaviour. Furthermore, a similar study as described above for new exporters is also under way on the population of firms.

Some newly established firms (start-ups) that have succeeded in growing internationally through international investment in a relatively short period of time have revealed very interesting new patterns. Let me give the example of the rapid growth of an undisclosed enterprise -let’s call it “the quicksilver enterprise”, that has become a multinational enterprise within a short period of six years. Similar to the Roman god Mercury, after which the chemical element Hg got its name, this quicksilver enterprise is known for speed and mobility.

The start-up company was created as a spin-off from a well-known Slovenian multinational firm, which was acquired by a foreign firm. The young firm with highly innovative product (based on international sourcing) mainly targeted the Slovenian market as the first (laboratory) selling market. Soon after the successful launch of the first product, the firm started to increase its product portfolio (the volume and varieties) to exploit the created marketing mix. Simultaneously, they were set up strategic partnerships with local firms in other Central and Eastern European markets. As a result a number of non-affiliated new enterprises were established abroad very quickly. Although the enterprises were formally non-affiliated, they operated as a flexible network covering the whole region (or at least the key centres of the region). The product and marketing strategy that was tested in the “domestic lab”
market quickly spread across a large number of countries with minor local adaptations as the non-affiliated firms spread and cooperated the way Hg does. The network of units allowed for learning - required to operate in a variety of foreign settings - to be compressed in time. Indeed the pattern is similar to liquid mercury poured on a flat surface, which forms distinct small beads that move around as if they were alive.

With increasing international expansion and experiential learning about how to establish a company efficiently in a host country, the team of managers reduced the costs associated with being new and foreign. Growing geographic diversification that enabled asset advantages (innovative products and marketing) to be exploited across a greater spread of markets before being imitated by competitors occurred alongside the development of new capabilities in international markets.

Six years after establishment, when the network of associated firms became more extensive, the product portfolio larger and the operations set in more and more countries, governance and coordination difficulties (costs) increased and subsequently lead to centralization into a single corporation, with a more formal organizational structure and the establishment of a holding company. As such, the increased costs of coordination can be compensated by tax advantages, centralization of business functions and their allocation in the best available location.

Although the above-mentioned story is based on a case study, similar internationalization patterns have been observed more often recently. In fact, the “Hg pattern” is only one variety of the born global pattern. Determinants of the born global literature are largely explained (Oviatt & McDougall, 1994, Madsen & Servais, 1997; 561, McDougall & Oviatt, 2000). Raising a quicksilver enterprise and keeping it alive requires complex capabilities and skills. Traditional business skills should be supported by recently updated technology and greater sensitivity for political, cultural and psychological risks. For instance, the increased risks in the business environment along with less reliable institutions in several Central and Eastern European countries (with falling economic freedom, quality of formal institutions and complexity of informal institutions) requires constant environmental scanning and international strategy updating. Although the level of risk to succeed may seem almost as toxic as ingestion or inhalation of the cinnabar dust from which quicksilver is obtained, capacities and assets are frequently developed in previous companies (even in a sequential way) and spin-offs can transfer strong networks with them, although the constant upgrading, creation and dissemination of knowledge still predicts success.

CONCLUSIONS

The identified patterns show us the increased relevance of diversification in internationalization strategy in more risky business environments. Diversification in internationalization seems valuable for a newly internationalizing firm, irrespective of its base level of internationalization.

Double, simultaneous product and market diversification may increase gains from internationalization, create synergies in learning, enhance exploration and exploitation benefits that result in scale effects and reduce the risks of imitation. This in turn can compensate potentially substantial costs resulting from any restructuring or reorientation of resources; management challenges related to structural complexity; new administrative structures; increased information processing; and the coordination, communications and motivation issues arising from cultural differences.

Incremental, step-by-step internationalization - as described by Johanson and Vahlne (1977) and the Uppsala model and still widely taught all over Europe and beyond-, influences managerial mind-
sets as well as the creation and audacity of internationalization strategies. It might influence also the fact that several new exporters and investors with innovative product and services fail to become successful exporters or to develop into multinational enterprises. Though often discussed in the literature, understanding the failure of foreign market entry remains a challenge for practitioners and researchers and the existing theory and empirical evidence offer little support to start-ups faced with the need to sell internationally to survive.

Plenty of challenges therefore remain, also for IB as a research and teaching discipline. Understanding the new patterns of internationalization and related difficulties is important both for researchers studying internationalization and for managers leading the expansion of their firms. Let’s hope and help that the spreading of new insights and findings about new internationalization patterns will follow the quicksilver pattern as well.

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Cultural distance and the pattern of equity ownership structure in international joint ventures

by Mo Yamin, University of Manchester, UK & Sougand Golesorkhi, Manchester Metropolitan University, UK

INTRODUCTION

Research by international business scholars has established that cultural distance has a robust influence on the modality of cross border business. Specifically the choice between wholly owned subsidiaries and international joint ventures (IJVs) and likewise the choice between IJVs and non-equity cross border alliances or partnership is partially but significantly a function of the degree of cultural differences between ‘home’ and ‘host’ countries. In our paper we have examined how cultural difference may influence the distribution of share ownership within the joint venture modality. Specifically the research question that motivated our paper was: how does cultural difference between the joint venture partners influence the share ownership between them?

To pursue this question we develop an approach that combines insights indicating a governance role for shared ownership in joint ventures with mainstream international business literature regarding the liability of foreignness.

THE THEORY BASE

Our research question requires a theoretical understanding of what the basic influences on the distribution of share ownership are. The theoretical frame we utilised is the measurement branch of the transaction cost. In the JV context, one relevant factor is the vulnerability each party perceives as arising from its dependence on the other party for the achievement of the objectives of the JV. Such vulnerability is a function of the level of costly monitoring and enforcement that each party may anticipate as being necessary, vis-à-vis the other party’s adherence to contractual obligations, in the operation of the JV (Alchian & Demsetz, 1972, Barzel, 1997, Barzel & Suen, 1992).

The anticipated level of monitoring/enforcement costs reflects the degree to which the assets, information set and context of the partner may be expected to give rise to relatively greater variability in the future performance of the JV. This line of reasoning suggests that the negotiated equity shareholding in collaborative ventures may be a significant governance instrument. By choosing to collaborate through a JV, each partner effectively receives a financial return that is proportional to its ownership share of the JV’s equity capital. As equity in a JV is a residual claim – the rights to which are foregone if the JV fails to attain profitability – it acts as collateral, guaranteeing the value enhancing contribution of the JV partner. As such, specifying a higher equity share in the JV partnership ex ante reduces the need to incur monitoring and enforcement costs ex post.

Thus, the partner in the JV whose contribution and subsequent behaviour has a greater impact on the variability of the joint performance will, by owning the larger share of the equity capital, provide a measure of performance guarantee to the other party. Effectively, by contracting ex ante to make a greater portion of his/her income dependent on the residual payoff from the venture, the incentives of this partner are aligned with that of the JV to a greater extent than would otherwise have been the case.

We reasoned that partners in IJVs encounter relatively higher levels of monitoring and enforcement costs and given the anticipated problems of managing across cultural boundaries in IJVs, we maintain that the role of equity shares as governance mechanism in IJVs is at least as important as domestic JVs.
HYPOTHESIS DEVELOPMENT

In order to develop hypotheses on how cultural distance influences the perception of partner vulnerability in IJVs and hence its influence on the partner shares, it is necessary to confine the analysis to contexts where the IJV is located in the home country of one of the partners (Home-Foreign IJVs). In cases where both parties operate outside their home country (the IJV is located in a third country) it is less straightforward to determine a structure of vulnerability. Thus, even though cultural distance may complicate inter-partner interactions and relationships generally, the existence of cultural distance between the partners per se does not indicate which partner may be more vulnerable. Thus, in cases where the IJV is located in a third country there is no a priori basis on grounds of cultural distance alone, for detecting a structure of vulnerability. Arguably, partner vulnerability may depend on how the cultural distance between the two partners, interacts with the ‘local’ culture of the third country where the IJV is located. Thus, the influence of culture distance on IJV structures becomes more intractable in the general, cross-border case.

FOREIGN PARTNER VULNERABILITY AND EQUITY SHARES IN ‘HOME–FOREIGN’ IJVS

In the context of ‘Home-Foreign’-IJVs the structure of vulnerability is clearly influenced by the ‘liability of foreignness’ for the foreign partner. A key element of the liability of foreignness is the extra costs incurred in doing business in the foreign country. There are multiple bases for the extra cost incurred of which cultural distance and lack of familiarity with the institutions of the ‘host’ country is a central element. In the IJV context, the foreign partner will encounter significant obstacles in interpreting partner behaviour stemming from its lack of understanding of the partner’s culture and its institutional context (Rangan, 2000). In addition, the foreign partner cannot fully acquire such knowledge ‘in advance’ by interpreting the information and clues emanating from their partner’s behaviour. Cultural and institutional knowledge contain a significant tacit dimension and can only be learned slowly and incrementally, usually as a by-product of operational experience (Johanson & Vahlne, 1977, O’Grady & Lane, 1996, Yamin & Sinkovics, 2006). While the home partner may likewise encounter cultural obstacles in understanding the foreign partner, it has the advantage of better appreciating the operating environment and of how the local culture and institutions may affect the performance of the IJV. Following Barkema et al. (1997) and Barkema and Vermeulen (1997), the foreign partner faces a ‘double-layered acculturation’ task in as much as their understanding of partner behaviour is complicated by relatively poor appreciation of the (foreign market) context of the partner. By comparison, the ‘home’ partner only faces a ‘single-layer’ acculturation task. Thus, the foreign partner will likely depend on the home partner more than vice versa in terms of managing the IJVs interactions with the institutional, business and regulatory networks in the host country. The above discussion suggests a negative relationship between the level of cultural distance and the share of equity held by the foreign partner in ‘home–foreign’ IJVs. Thus, the more culturally distant the foreign partner is from the home partner, the more likely it is that the foreign partner will own a lower share of the capital invested in the IJV. More, specifically the following hypothesis is warranted:

H1. In home-foreign IJVs, the foreign partner is likely to provide a smaller share of the equity capital as the cultural distance between home and the foreign partner increases.

Two further hypotheses were developed by applying the liability of foreignness reasoning but with specific reference to (a) the influence of the triad region to which IJV partners belonged and (b) whether IJV partners belonged to the same
cultural cluster. Thus Hypothesis 2 and 3 were worded as follows:

H2: In home-foreign IJVs, the foreign partner is likely to provide a smaller share of equity if it is not from the same triad region as the home partner.

H3. In home-foreign IJVs, the foreign partner is likely to provide a smaller share of equity capital if it does not belong to the same cultural cluster as the home country.

METHODOLOGY

The IJV data sample used in this paper includes IJVs consisting of two partners formed during the 1995–2000 period and based in the UK. The data were obtained from the SDC Platinum alliances/JVs database. Our sample contains three regional groupings: North America, Asia, and Europe. We adopt an ordered logistic regression specification to test H1–H3. The dependent variable is the foreign partner level of equity share ownership. In the specification of our dependent variable we distinguish between minority and majority equity share contributions through the use of a categorical dependent variable. The explanatory variables included: cultural distance; regional proximity; and cultural clusters. We also control for a number of firm level variables that may have affect the distribution of share ownership between partners.

FINDINGS

Our results indicate that –given an IJV has been selected as the appropriate organisational form—cultural distance can have an important effect on its governance arrangements, notably through the distribution of the equity capital contributed by the partners. In the ‘home-foreign’ IJV context, the foreign partner favours a lower level of equity ownership as the cultural distance between the source country and the host country increases (H1). Our result also highlights that there are significant differences across the three regional origins of the partners with respect to their equity ownership (H2). When other factors are held constant, the overall results suggest that on average the Asian partners hold the lowest share of equity capital, followed by the European partners. When a foreign partner is from a region outside that of the ‘home’ partner the vulnerability of foreign partner increases and this will increase the likelihood of a higher equity ownership from their home partner. However, with regard to North American partners, this hypothesis was not confirmed. It can be argued that of all the regions examined, the North American partners are closest to the UK in terms of their cultural similarity even though they do not belong to the same ‘region’.

Reflecting on cultural clusters (H3), the observed level of foreign equity shareholding falls when a foreign partner is located outside the cultural cluster of their ‘home’ partner. The further the foreign partner is from their home partner’s cultural cluster, the more likely that they will own a smaller share of the IJV’s equity.

FURTHER RESEARCH

Research is needed to better understand the role of cultural distance in IJVs beyond the home–foreign context. Progress on this front requires theory development to examine how cultural distance may influence the structure of vulnerability for partners; one interesting question is whether cultural distance is mainly a moderating variable interacting with other features of IJV vis-à-vis the ownership structure or whether it may have a direct effect.

Further research along the same line is called for, with specific reference to the relevance of risk perceptions as a cultural trait and investigation of other determinates of JVs share ownership.
REFERENCES


New Policy Challenges for European Multinationals

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**EIBA LinkedIn Group**

*by Dorota Piaskowska, University College Dublin, Ireland, & Ene Kannel, EIASM, Brussels, Belgium*

Have you seen us on LinkedIn yet? With the establishment of an open EIBA LinkedIn community, EIBA has just expanded into the world of social media! The EIBA Group is owned and managed by Board members Dorota Piaskowska, Ronaldo Parente, and Ene Kannel, while the everyday activity on this LinkedIn group’s site is moderated by EIBA member Kun (Michelle) Yang.

We are currently focusing on attracting new members to EIBA LinkedIn and wish to increase the group’s activities by launching thematic discussions on IB research, practice and teaching, as well as other topics such as good IB readings or stories. We would like to encourage you as an EIBA member to consider participating in this forum. We are also thinking about setting up a sub-group for doctoral consortia participants and any interested PhD students.

We hope this new LinkedIn virtual community will be a useful platform for the exchange of ideas and for networking in the world of International Business. It is an ‘open’ group – you do not have to be a current EIBA member to join. You are also welcome to invite anyone who you think might be interested in participating in and contributing to the group’s discussions and activities. Even non-members will thus have access to information about EIBA activities, upcoming deadlines, etc.

Please don’t hesitate to contact any one of the EIBA LinkedIn group’s management team members if you have any comments or feedback to share.

To join the EIBA LinkedIn group, please login to your LinkedIn account (or register and create an account if you don’t already have one). Once logged in, set the pull-down tab located on the left side of the search box (which is found on the top right corner of the LinkedIn Home page) to “Groups” – then key in ‘EIBA’. Once you find and highlight the EIBA group, simply click the ‘Join’ button and be welcome!

Do let us know if you have any suggestions regarding feasible and interesting activities which we can offer to make this LinkedIn networking platform and group as useful and worthwhile for participants as possible. In fact, if you wish to start a discussion or post relevant information on this topic, simply join the EIBA LinkedIn Group and go ahead – that’d be great! °

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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.

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