THE REGIONAL CONTEXT OF IB RESEARCH

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Three key contexts in IB theory

1. Country: Global/ local contexts
2. MNE: Parent FSAs; home CSAs
3. Subsidiary: SSAs; host CSAs

- The units of analysis are:
  - Country CSAs
  - Firm FSAs; Subsidiary SSAs
- IB theory is about these recombinations.
Invalid units of analysis in IB

- IB theory does not need extra units of analysis for:
  - **Quasi Firms:** The entrepreneur; The head office; The top management team; The value chain; Joint ventures/Strategic alliances (subsets of FSAs)
  - **Others:** Outsourcing; Clusters; IBV; Location and the Global Factory; Expatriates (subsets of CSAs)
  - **Industry:** as we have a firm-level theory of the MNE

- Thus IB theory does CSA and FSA recombinations.
Past 50 years IB literature

1. Country level
   - Dunning (1958); Vernon (1966); Rugman (1980)

2. Firm level
   - FSAs: Hymer (1960)
   - Internalization theory (Buckley and Casson, 1976; Rugman, 1981; Hennart, 1982)
   - Internationalization theory/ Uppsala (Johanson and Vahne, 1977, Johnanson and Widersheim, 1975)

Recombinations arise from these TWO interactions

3. Subsidiary level
   - World product mandate: Rugman and Bennett (1982)

Recombinations arise from these THREE interactions
## Home CSAs/ Parent FSAs

### (PARENT) Firm-specific advantages (FSAs)

<table>
<thead>
<tr>
<th></th>
<th>Strong</th>
<th>Weak</th>
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<tbody>
<tr>
<td><strong>Strong</strong></td>
<td><strong>Weak</strong></td>
<td></td>
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<tr>
<td><strong>(HOME)</strong></td>
<td><strong>(PARENT)</strong></td>
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<tr>
<td><strong>Country-</strong></td>
<td><strong>Specific</strong></td>
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<tr>
<td><strong>advantages</strong></td>
<td><strong>advantages</strong></td>
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<tr>
<td><strong>(CSAs)</strong></td>
<td><strong>(FSAs)</strong></td>
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<th>1</th>
<th>3</th>
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<tbody>
<tr>
<td>Int’l economics</td>
<td>Internalization theory</td>
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<tr>
<td>Institutions (IBV)</td>
<td>(old and new)</td>
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<tr>
<td>Culture</td>
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<td>Global context</td>
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<th>2</th>
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<tr>
<td>Local context</td>
<td>RBV</td>
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Literature

- **CSAs: macro-level**

- **FSAs: micro-level**
  - **FSAs: Hymer** (1960)
  - ‘Old’ internalization theory: tacit knowledge (Buckley and Casson, 1976; Rugman, 1981; Hennart, 1982)
  - **RBV** (Wernerfelt, 1984; Reed and DeFillipi 1990; Barney, 1991; Mahoney and Pandian, 1992; Amit and Shoemaker, 1993; Grant, 1991; Peteraf, 1993)
  - **Dynamic capabilities** (Teece, Pisano and Shuen, 1997; Eisenhardt and Martin, 2000)
  - ‘New’ internalization theory: FSAs same as RBV, dynamic capabilities (Rugman and Verbeke, JIBS, 1992; 2002; 2003; Hennart, 2009)
## Host CSAs and Subsidiary SSAs

<table>
<thead>
<tr>
<th>(HOST) Country-specific advantages (CSAs)</th>
<th>(SUBSIDIARY) Subsidiary-specific advantages (SSAs)</th>
</tr>
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<tbody>
<tr>
<td>Weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Strong</td>
<td>1. No FSAs, only CSAs</td>
</tr>
<tr>
<td></td>
<td>Local embeddedness</td>
</tr>
<tr>
<td>Weak</td>
<td>2. No CSAs or FSAs</td>
</tr>
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<td>Subsidiary adaptation to host CSAs</td>
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</table>
IB theory across the 3 units of analysis

- **Tap into host CSAs (IBV):** not a recombination capability
  - Local embeddedness: Andersson, Forsgren and Holm (SMJ; 2002); Andersson, Forsgren and Holm (JIBS, 2007)
  - Competence creating subsidiaries: Cantwell and Mudambi (SMJ, 2005), but national innovation systems reflect CSAs, not FSAs.

- **The recombination literature**
  - LB FSAs/ NLB FSAs: Rugman and Verbeke (JIBS, 1992); Rugman and Verbeke (JIBS, 2003)
  - ‘Bundling’: Hennart (JIBS, 2009)
  - ‘Recombination capability’: Verbeke (2009)
  - ‘Compounded distance and recombinations’: Rugman, Verbeke & Nguyen (Management International Review, 2011)
  - ‘Value chain capabilities’: Rugman, Verbeke & Yuan (JMS, 2011)
The context of the home region

• Today theoretical work on IB theories needs to take into account the **empirical** reality that MNEs, SMEs and INVs do not operate ‘globally’.

• MNEs have the majority of their sales and assets (70%) in their home region of the broad triad of EU, NAFTA and Asia (Ghemawat, 2001, 2007); Rugman and Verbeke, 2004); Rugman, 2000, 2005).

• Spanish SMEs have 97% of their sales in the EU (Almodovar, MBR, 2011).

• “Born global” firms do not exist: most are exporters, not engaged in FDI, and/or are “born regional” (Lopez et al., 2008).
IB theory and the region

• The “region” is now replacing the country as a key unit of analysis.

• As the “home region” of the firm accounts for most of its sales and assets (Rugman & Verbeke, JIBS, 2004), some new theory is required to explain the liability of inter-regional foreignness/compounded distance.

• The Triad region is fully consistent with both global and local contexts: IB theory uses CSAs and FSAs unit of analysis. Thus:
  • Regional specific advantages (RSAs) replace CSAs.
  • FSAs and SSAs remain relevant for regional MNEs.
Is there a regional (Triad) culture?

- Ronen & Shenkar (JIBS, 44(9), 2013) find that there are 11 “global”/regional clusters from 96 countries.
- But performance and multinationality are regional.
  - Triad regions are the correct definition for IB.
  - As managers report their activities according to broad (Triad) geographic segments in compliance with international accounting standards (USGAAP: SFAS 131 by FASB; IFRS8).
  - Thus, the classification of Triad regions is based on management reporting and/or organizational structure.
  - Country culture is irrelevant for IB: Do regional culture.
Trends in Global Sales

Note: Sample of Fortune Global 500 Firms listed any year between 1999 and 2008.

Trends in Global Assets

F/T: 42%
R/T: 72%
Intra-region

Foreign Regions (28%)
Rest of Home Region (14%)
Domestic (58%)

Note: Sample of Fortune Global 500 Firms listed any year between 1999 and 2008.

Source: Oh and Rugman, (MBR, June 2014)
## Variance Component Estimates

<table>
<thead>
<tr>
<th>Factors</th>
<th>Scale Based Entropy Measures</th>
<th>Scope Based Entropy Measures</th>
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<tbody>
<tr>
<td></td>
<td>Sales (ENTRS)</td>
<td>Assets (ENTRA)</td>
</tr>
<tr>
<td>Region</td>
<td>81.04 (0.3682)</td>
<td>54.20 (0.1007)</td>
</tr>
<tr>
<td>Country</td>
<td>1.76 (0.0080)</td>
<td>5.97 (0.0111)</td>
</tr>
<tr>
<td>Industry</td>
<td>13.85 (0.0629)</td>
<td>33.03 (0.0614)</td>
</tr>
<tr>
<td>Firm</td>
<td>0.24 (0.0011)</td>
<td>0.60 (0.0011)</td>
</tr>
<tr>
<td>Year</td>
<td>1.04 (0.0047)</td>
<td>1.14 (0.0021)</td>
</tr>
<tr>
<td>Residual</td>
<td>2.07 (0.0094)</td>
<td>5.06 (0.0094)</td>
</tr>
<tr>
<td>Total</td>
<td>100.00 (0.4544)</td>
<td>100.00 (0.1858)</td>
</tr>
<tr>
<td>Number of Observations</td>
<td>4,165</td>
<td>3,512</td>
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Conclusions

• Local and global contexts need to be linked to IB theory.

• Good IB theory needs to be empirically robust.

• The key existing units of analysis in IB theory, namely, CSA and FSA, and their recombinations, are adequate in explaining local and global contexts.

• However, as the empirical evidence demonstrates that both MNEs and SMEs are now operating on a mainly home-region basis, it is apparent that there are theoretical challenges remaining for IB scholars.
• **Key references**

- Rugman, Verbeke & Nguyen (Management International Review, 2011)
- Rugman and Verbeke (JIBS, 2004)
- Rugman and Verbeke (SMJ, 2001)
- Oh & Rugman (BJM, 2014)
- Oh & Rugman (MBR, 2014)
- Almodovar (2011)
THANK YOU
FOR YOUR ATTENTION

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