

Special Issue on the 2015 Peter J. Buckley and Mark Casson AIB Dissertation Award

**The Buckley and Casson Prize:
Some Reflections**

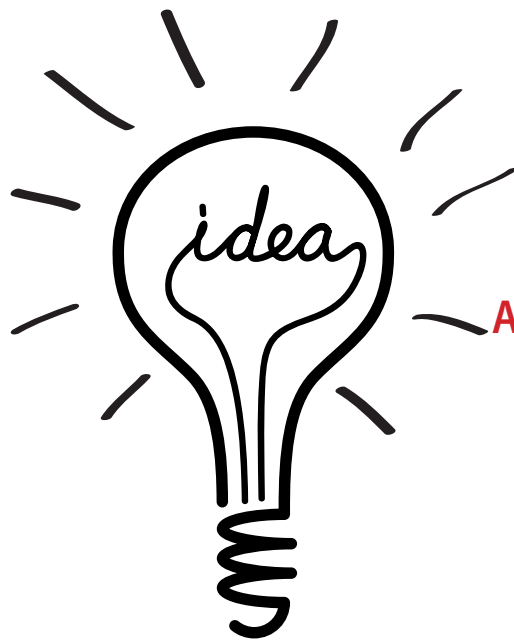
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THIS AIB INSIGHTS ISSUE CONSTITUTES the third annual special issue on the AIB Dissertation Award, a focused issue series that we started with Vol. 13, Issue 3, in 2013, and which has built great momentum in the AIB community. With our inaugural issue of this focused issue series, we attempted to “stimulate a fresh and fruitful conversation on the respective dissertation topics” selected for the final round of the award competition in that year (Littrell and Rottig, 2013: 2). With our second focused issue in this series, we aimed “to continue encouraging and facilitating such a conversation by drawing attention to the dissertations that were selected as finalists for the 2014 Peter J. Buckley and Mark Casson AIB Dissertation Award” (Littrell and Rottig, 2014: 2).

With this current issue, we seek to fuel the great momentum of this annual focused issue series by publishing the dissertation summaries of this year’s AIB award-winning and award-nominated dissertations. We further provide, for the first time, an overview of all previous winners of this prestigious award, starting with the award’s founding year of 1968, nearly half a century ago (see pages 17–18 in this issue).

Mark Casson, whom the current award is named after (together with Peter Buckley) and who chaired this year’s award selection committee, starts this special issue with some reflections on this year’s award selection process and a thought-provoking discussion on what constitutes a “good dissertation” and “good research.” In so doing, he discusses the importance and value of, as well as challenges and difficulties when developing and publishing “high-risk” (as opposed to “low-risk”) research and so promises to stimulate a fruitful conversation on this topic.

The next article provides an overview of this year’s award-winning dissertation by Michael A. Sartor (Ph.D. awarded by Ivey Business School, Western University, Canada), titled “Host Market Corruption and Multinational Enterprise Strategy”. The following articles introduce the dissertations of the four award finalists, listed in alphabetical order: Perttu Kähäri (Ph.D. awarded by Aalto University, Finland), Heeyon Kim (Ph.D. awarded by the University of Michigan, United States), Catherine Magelssen (Ph.D. awarded by Rutgers University, United States) and Carlos Adrian Rodriguez (Ph.D. awarded by McGill University, Canada).

Interestingly, similar to last year’s award, the majority of this year’s five selected finalist dissertations were from non-US universities, and all five finalists are now affiliated with universities outside the United States. This again reflects the truly international nature of the annual AIB Dissertation Award, which considers dissertations in the field of international business from the leading business schools and universities from around the world.

We would like to acknowledge the great work of this year’s AIB Dissertation Award selection committee, which, in addition to the aforementioned committee chair Mark Casson (University of Reading, United Kingdom), comprised Anupama Phene (George Washington University, United States) and Rebecca Piekkari (Aalto University, Finland)—all three of whom were also judges on last year’s selection committee—and Sumit Kundu, (Florida International University, United States), who joined the award selection committee this year and who also serves as a member of the AIB Executive Board as a Vice President of Administration.

Congratulations to the 2015 AIB dissertation awardee and finalists for their significant accomplishments!

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The Buckley and Casson Prize: Some Reflections

Mark Casson, University of Reading, UK

THE HIGH QUALITY OF WORK SUBMITTED for the Peter J. Buckley and Mark Casson AIB Dissertation Award affirms the vitality of IB research, and the importance of doctoral research to the scholarly community in general. Previously known as the Richard N. Farmer Dissertation Award, it is awarded to the best Ph.D. dissertation in IB completed in the previous year. I have been a member of the judges' panel for the past four years, and was chair this year. I am now standing down, and so it is an appropriate time for me to reflect on my experience as a judge.

The "best dissertation" is, of course, the best dissertation in the opinion of the judges. As you would expect, different judges have different opinions, and so these opinions need to be aggregated in order to arrive at a collective decision. There are many possible rules for aggregation, and different people prefer different rules. This year the committee drew up a short list of five from thirty submissions. The short-listing was done on the basis of abstracts and supervisors' recommendations only. The four judges then each read all of the short-listed dissertations in full. Each judge ranked the dissertations from one (top) to five (bottom) with no equal ranks. No judge (including the chair) knew the other judges' rankings at the time they decided their rankings. The chair calculated the sums of the ranks, and this year the criterion identified a provisional winner. Precedent dictated an additional requirement; namely that the winner was the first choice of at least one judge, which was indeed the case. The first and second-ranked candidates were very close, however. After further consultation, it was decided, by majority vote, that the prize should not be shared, and the provisional winner was thereby confirmed. Throughout this process the panel received outstanding support from the AIB Secretariat.

Why do I tell you all this? Firstly, people have a right to know, in my opinion. Secondly, it illustrates an important methodological point. It shows that decisions are made by individuals, not by committees. Committee procedures simply make it possible to aggregate decisions. All committee members are then morally implicated in the resultant decision, unless they resign or publicly disassociate themselves from it. Finally, it shows that, while information can be shared within a committee, sharing information can be bad as well as good. If one judge knows how other judges have voted, for example, they can vote strategically by giving the lowest rank to the closest competitor of their favoured candidate. We may therefore conclude that no committee, or any organisation composed of committees (such as a firm), has a "mind" of its own. Someone, such as the chairman or CEO, may well make the rules, but only if they are an autocrat can they guarantee to make the decisions themselves. Regulating communication is no bad thing under certain circumstances; it may hold the key to producing a fair outcome. It can be seen that the awarding of the Buckley and Casson AIB Dissertation Award involves exactly the same sort of strategic issues that govern the organisational structure of a modern corporation.

There are more strategic issues to consider. In my opinion there are two main kinds of theses that make it to the Buckley and Casson AIB Dissertation Award

short-list. I call them the "high-risk" and "low-risk" varieties. The high-risk thesis is radically novel; it investigates an issue on which there is little or no existing literature, or uses a data source that no one else has used before. The low-risk thesis, by contrast, makes an important contribution to an existing field of literature; its dataset is original, but the source of the data is one that has been used before. I naturally incline to the high-risk thesis—I like my research to be exciting. When you are driven by curiosity, as I am, you have to take risks. Those who incline to the low-risk thesis favour soundness and reliability. When I consider the IB profession, I have to say that I think that high-risk people like myself are in a minority. As regards the Award Committee itself, I would say that, on average, the membership has been evenly balanced in the past. I still see a problem though. Low-risk judges seem to be more intolerant than high-risk judges; high-risk theses that get top grades from risk-lovers seem to get bottom grades from risk-avoiders, whereas high-risk people can generally see merit in low-risk theses too. Where it has been a close call in the past, therefore, it has generally been the low-risk thesis that has won. But, as they say, no system is perfect, and where the call is close it is unreasonable for anyone to dissent from the most straight-forward decision.

I worry, however, about the career prospects of these high-risk researchers. If the Buckley and Casson AIB Dissertation Award committee is mildly conservative in the type of work it rewards, I think the IB profession is positively reactionary on this issue. IB journals—including the very top journals—are full of safe, low-risk research. Statistical theory distinguishes between Type I and Type II errors. If we take the null hypothesis as "This paper contains no errors" then a Type I error involves wrongly rejecting the null (accepting a flawed paper) whilst a Type II error involves wrongly accepting the null (rejecting a paper that contains no error). Many journal editors are obsessed with Type I errors; they aim to not publish papers that contain any errors. In the process they are willing to sacrifice other papers as victims of Type II errors.

Novel papers are deemed more likely to contain errors than unoriginal papers, and so unoriginal papers are preferred by risk-avoiders. But the idea that papers published in leading journals contain no errors is absurd. It is generally admitted that until recently numerous IB articles were published with common variance problems, or with regressions that involved endogeneity biases, or even both. In my view human fallibility almost guarantees that every published paper contains an error somewhere, even if it never comes to light. Errors are a consequence of uncritical reliance on secondary literature, utilising other people's dodgy data, unwarranted leaps in logic, and so on. Journal reputation affords no immunity against error. If more editors would admit this, we might have more interesting journals to read, and our short-listed candidates would get their work published more quickly.

The natural format in which to publish a thesis is a book—namely the traditional academic monograph. Slicing up a major piece of research like a Ph.D. dissertation into bite-size chunks of 8,000 words and publishing them in different journals is hardly a good recipe for communicating a big idea. Yet books, we are told, don't count. It is said that books aren't properly refereed.

In my experience this is incorrect. But even if it were correct, it should not be overlooked that books are reviewed—unlike confidential referee reports, the comments and criticisms of reviewers are highly public. If you read through Alan Rugman's book of IB book reviews, you will see the risks that book authors ran when Alan was on the loose.

We're also told that people don't read books anymore. But e-books, read on laptops or kindles, are changing all that. Books used to be expensive, but e-books are quite cheap, and sales of academic e-books are booming. I hope that our Buckley and Casson AIB Dissertation Award finalists will consider publishing their theses as books, and not just as articles. As Alan Rugman

“*There's got to be a better way to organise IB studies if the IB profession is to nurture new talent rather than just alienate it. But what is this better way, and how do we achieve it?*”

noted, Stephen Hymer, John Dunning, Peter Buckley, Alan, myself and many others all built their early reputations through books rather than articles. Of course, producing a book requires a bit of effort—the literature review needs to be streamlined, the theory expressed more concisely, the context explained better, and so on. But revising a thesis to produce a book can be much more rewarding intellectually than dismembering a thesis into a series of unrelated articles. Showing how everything hangs together is intellectually more stimulating than examining how far everything can be pulled apart.

The Buckley and Casson Award finalists, despite of their magnificent achievements, are faced with daunting hurdles in building their careers. Many will become probationary employees of large institutions that set their faculty unrealistic publications targets, requiring them to endlessly revise and resubmit to journals whose editors are proud of their rejection rates. How do we explain in rational terms why new entrants to the profession are given such a gruelling time? It seems to be the same old story—the senior academics make the rules in the interests of—guess who?—the senior academics. Unrealistic publication targets make line management easier for Deans; they ensure that almost everyone is doomed to fail—junior staff can therefore be hired or fired on the basis of personal preferences rather than actual merit. The same thing applies with journals. By protecting referees with anonymity and condoning their condescension (and sometimes downright rudeness), editors can ensure that every paper when submitted has something wrong with it. The editor can then tell the author how to put it right—in some cases virtually dictating the content of the paper to them. Of course, there are exceptions; the problem is that the “good guys” (male or female) are the exception rather than the rule.

So what will happen to our finalists? Most will undoubtedly succeed in their academic careers. But when they achieve success, will they simply step into the shoes of their oppressors? Will they become the target-setters and rejectionists of the future? I sincerely hope not. There's got to be a better way to organise IB studies if the IB profession is to nurture new talent rather than just alienate it. But what is this better way, and how do we achieve it?

I began by analysing the Buckley and Casson Award as an exercise in applied organizational studies. Why not do the same to the IB profession as a whole?

What are the objectives of the profession? What are the resource constraints on achieving those objectives? How many different models are there for organizing professional activities, and which is the best model, given the objectives and the constraints? In practice the IB profession, like most other professions, uses mixed modes of organization. There are non-profit membership organizations like AIB; non-profit employers like universities and their business schools; and for-profit businesses like private publishing houses producing books and journals. These organizations operate in markets for specialist knowledge-based activities such as education, research, and consultancy. Problems can arise from the market environment, from imbalances between the different

types of organization, and from problems internal to organizations themselves. Some of these potential problem areas are under the control of the IB community and some are not.

Many of my IB colleagues seem to believe that the IB profession is not in control of its own destiny. They lament the way that young researchers have missed out on the “golden age” of IB research, when big ideas were matched only by big expense accounts and when business schools were still quite small. They don't blame the IB community for running out of ideas; they just blame market forces instead. Market forces are certainly more hostile now than they used to be; in many universities expansion has given way to cost-cutting, and the value and impact of research is increasingly questioned. Changes in contracts of employment and in intellectual property rights mean that faculty have less discretion over where they publish and even, in some cases, what they can say. But the irony is that many of the problems facing young researchers—and in particular the lack of support for high-risk research—appear to lie, not with external forces, but with forces that are under the control of the profession—namely the behaviour of senior IB scholars as journal editors, referees, publishers' advisors, line managers, and so on.

I have taken great pride in my role as a judge for the Buckley and Casson AIB Dissertation Award. The award rewards not only the winner, but all the finalists, who have a wonderful opportunity to showcase their work. It is disappointing for those who did not get short-listed, but they know that they have the confidence of the supervisors who nominated them and who will support them throughout their careers. But the Buckley and Casson Award, however admirable, is not, by itself, enough. In my view the IB community needs more follow-up initiatives to support the entrants and finalists in their early careers, and indeed to support early-career researchers in general too. Conference organizers already do a great job in encouraging young scholars through paper development workshops and networking events. But I see a certain irony in the fact that so many paper development workshops necessarily concentrate on the purely tactical aspects of publication rather than the intellectual challenge of high-risk research. Too much energy is dissipated in compensating for shortcomings elsewhere in the system. Organizational analysis suggests that the most effective approach to tackling a problem is to tackle it at its source. That problem, in my view, lies, at least in part, with IB journals and their aversion to high-risk research.

Aversion to high-risk research is not unique to IB studies, of course, but I think it is worse in IB than in some other fields. Most of our finalists this year were working at the interface of IB studies with another field. This is probably no accident. Interacting with diverse literatures is intellectually stimulating, as it challenges the scholar to reconcile the different perspectives involved. It may be worthwhile for our finalists to publish in these other fields as well. Deans sometimes consider that faculty publishing outside their designated field are wasting their time, but this merely reflects the short-term instrumentalist perspective that I mentioned above. Young researchers need to recognize that their career may last for 40 years or more, and so they need to take a long-term view. Of course they need a short-term survival strategy, but this should not eclipse long-term ambition. Depending on their specific subject, high-risk IB scholars have an opportunity to publish in fields outside mainstream business and management studies. For example, some of this year's finalists could publish in business economics, business history, innovation studies, economic geography, international political economy, and development studies. Such publications might well have limited impact in passing probation and gaining tenure, but they can have a big impact later when applying for chairs. Chair committees often look for evidence of high-risk outputs in a variety of fields because they recognize this as a sign of leadership potential. There is a serious shortage of high-risk researchers at professorial level because so many academics become low-risk researchers in early career as part of their survival strategy. Once you become a low-risk researcher, it is almost impossible to reverse the process.

If our young high-risk researchers “keep the faith,” and continue to broaden their intellectual horizons, then they may mature into senior academics with real leadership potential. They can take on the responsibilities of mentoring, editorship and faculty administration, and re-introduce a culture of high-risk research into IB. Who knows? One day they may become members of the Buckley and Casson AIB Dissertation Award judges panel themselves.

Mark Casson is Professor of Economics and Director of the Centre for Institutional Performance at the University of Reading. His recent publications include *Markets and Market Institutions: Their Origins and Evolution* (edited, 2011); *The Entrepreneur in History* (with Catherine Casson, 2013) and *Large Databases in Economic History* (edited with Nigar Hashimzade, 2013). He currently researches international business theory, the history of entrepreneurship, the impact of railroads on local population growth, and medieval property markets.

Host Market Corruption and Multinational Enterprise Strategy

Michael A. Sartor

Ph.D. awarded by Western University, Canada (August 2014)

Introduction

In July 2000, the United Nations launched the Global Compact, an initiative designed to promote the adoption of socially responsible and sustainable business practices by corporations. The Compact's framework was originally constituted by nine principles that were organized under three broad categories—human rights, labor and the environment. However, in an effort to garner greater transparency in both the public and private sectors, academics, non-governmental organizations and industry executives began to petition for the recognition of “the missing tenth principle”, in reference to the institution of corruption (Waddock, 2004: 318). Their concerns were well-founded. Research by the World Bank has estimated that global expenditures on bribery totaled approximately one trillion dollars per year, an amount equal to roughly three percent of global gross domestic product (Svensson, 2005). Consequently, by 2004, advocacy efforts culminated in the creation of the tenth canon of the Global Compact—*Businesses should work against corruption in all its forms, including extortion and bribery*.

Subsequent to the expansion of the Global Compact's purview, institutional scholars have directed their attention towards the development of theory that could be used to facilitate corruption-based inquiry (Lambsdorff, Taube, & Schramm, 2005). Moreover, international business strategy researchers have also emphasized the need to develop theory, frameworks, measures and methods within the domain of corruption-oriented international business scholarship (Rodriguez, Siegel, Hillman, & Eden, 2006). Notwithstanding the overlap between these research agendas, we continue to lack a comprehensive, theoretically-grounded and empirically-validated understanding of how host market corruption affects the subsidiary-level strategic behavior of multinational enterprises (MNEs) in foreign markets. I contend that two factors have precipitated this theoretical impasse. First, the literature pertaining to the relationship between MNE strategy and host market corruption has focused primarily on the interrelationship between global foreign direct investment flows and the degree of perceived corruption in host markets. Second, researchers who have focused on the impact of host market corruption on subsidiary-level strategy have adopted an overly broad conceptualization of the corruption phenomenon. As such, the dissertation is guided by three broad research questions. First, how do different types of host market corruption impact the market entry strategies implemented by MNEs with respect to their foreign subsidiary investments? Second, does host market corruption increase the likelihood of market exit? Third, can MNEs implement strategies which reduce the likelihood of market exit under conditions of more pervasive host market corruption?

Historically, the corruption-oriented international business strategy research agenda has been primarily constituted by a rich body of macro-level studies that have focused on the role of host market corruption as a factor influencing the international flow of foreign direct investment (FDI). While the

insights garnered by these studies have advanced comprehension of the corruption phenomenon, more recently, international strategy scholars have begun to focus attention on the impact of host market corruption on subsidiary-level strategies. This smaller body of work serves as the starting point for this dissertation and it informs the associated theory-building efforts at the phenomenological level. Seminal conceptual work by Rodriguez et al. (2005: 385) has characterized corruption in terms of its pervasiveness or, “the likelihood of encountering corruption in normal interactions with state officials.” In testing this theory, Uhlenbruck et al. (2006) found that as the pervasiveness of corruption increases, foreign investing firms are more likely to prefer nonequity modes of entry over equity modes. This observation has been supported by Luo (2011) who found that an increase in the pervasiveness of host market corruption decreased the likelihood that MNEs would engage in subsidiary investments in emerging markets and increased the likelihood that they would adopt an export market orientation. However, Uhlenbruck et al. (2006) also found that corruption pervasiveness was not a significant predictor of an MNE's equity-based investment decisions (i.e., JV versus WOS). As such, Rodriguez et al.'s (2005) conceptual work has provided a strong theoretical foundation for scholars to advance corruption-oriented international business strategy research. However, the qualified empirical support for its propositions suggests the need for further conceptual effort in order to refine the theory's precepts. Consistent with this position, Uhlenbruck et al. (2006: 411) have suggested that “there may be underlying constructs behind pervasiveness that have conflicting effects”, as well as advocating in favor of “further exploration of the institutional underpinnings of the pervasiveness of corruption.”

Overview of the Research

In this dissertation, I contend that the traditionally-employed conceptualization of corruption is overly broad and, as a consequence, has inhibited progress in advancing comprehension of the relationship between host market corruption and the subsidiary-level strategies of foreign-investing MNEs. In this regard, my work draws from Rodriguez et al. (2006: 739), who argue that the domain of corruption-based research would benefit from more attention being given to defining and conceptualizing the phenomenon. Settling upon a comprehensive definition of corruption has proven to be a challenging exercise for academics, policy-makers and business executives alike. While Argandoña (2003: 255) has acknowledged that corruption is “a varied and shifting phenomenon that is difficult to define in terms that are clear”, the chair of Transparency International's Board of Directors has lamented that “[The boundaries] of corruption are becoming harder to define, despite the best efforts of high profile international treaties and initiatives” (Labelle, 2010: 109).

As such, this dissertation builds on Rodriguez et al.'s (2005: 385) extant

conceptualization of host market corruption in terms of its pervasiveness. I propose that the concept of pervasiveness provides an appropriate foundation upon which we should continue to unpack more robust and theoretically-rich conceptualizations of the phenomenon. To elaborate my theory, I further dimensionalize the phenomenon according to the host market sector within which it occurs, and according to the origins of the norms that permit or prohibit the existence of corrupt transactions in the public sector of foreign markets. In doing so, my theoretically-grounded efforts extend the scope of the pervasiveness construct, as well as establish boundary conditions within and around the construct. The dissertation employs these more nuanced conceptualizations of the phenomenon in order to investigate the impact of host market corruption upon several strategies, including foreign entry strategy and partnering strategy, as well as exploring the longer-term implications of corruption upon the subsidiary's continued existence.

Organized as a collection of integrated essays, the dissertation theoretically disaggregates host market corruption into a wide range of manifestations, including grand, public, petty and private corruption. Notably, in addition to the theoretical relevance of the dimensions that are proposed in this dissertation, a review of both executive surveys pertaining to corruption and international legal compacts that have been designed to combat corruption reveals that these dimensions are also relevant in practice. Synthesizing institutional theory with tenets from bargaining power, resource dependence and integrative social contracts theories, I detail the theoretical mechanisms through which I expect that the multiple varieties of corruption will impact upon the foreign entry strategy of MNEs, in addition to investigating the relationship between host market corruption, firm strategy and the likelihood of subsidiary exit. Notably, my results replicate the findings presented in Uhlenbruck et al.'s (2006) test of Rodriguez et al.'s (2005) foundational theory pertaining to an MNE's preference for non-equity entry under conditions of more pervasive host market corruption. However, my findings also reveal that each type of corruption exerts a distinct range of impacts upon the entry mode and partnering strategies of MNEs, in addition to illustrating that these impacts can vary according to the host market's status as either a developed or emerging market. Taken together, these empirical findings and the associated theory facilitate the linkage between the concept of informal institutions and the notion of pluralism. In this regard, my work is consistent with prior conceptual work that has advocated efforts to pursue theoretical contributions that could emerge from the investigation of pluralistic phenomena, notwithstanding scholars' general preference for parsimony and generalizability in theory-construction (Glynn, Barr, & Dacin, 2000).

This dissertation also leverages the different types of corruption elaborated in my research to investigate whether host market corruption increases the likelihood of market exit and whether MNEs can implement strategies which reduce the likelihood of market exit. The research theoretically categorizes the choice of strategies that MNEs implement in terms of geographic orientation. In doing so, I focus on the MNE's pursuit of external legitimacy

and the survival implications associated with various strategic initiatives that are implemented at the subsidiary level to secure legitimacy in increasingly corrupt host market environments. The nuanced results reveal a complex relationship which is contingent upon the type of corruption, the geographic-orientation of the localization strategies employed by the MNE and the degree of economic development in the host market environment.

Implications for Research and Practice

As a whole, the essays constituting the dissertation collectively make several conceptual and empirical contributions. In addition to providing empirical and theoretical support for the foundational theory of host market corruption in international business strategy research (Rodriguez, Uhlenbruck, & Eden, 2005), my work also extends the conceptualization of host market corruption in terms of its normative origins and in terms of its sectoral origins. My efforts to advance theory with respect to the relationship between host market corruption and the subsidiary-level strategies of MNEs contributes new tenets to institutional theory by introducing the concepts of informal institutional pluralism, proximal and distal localization. Notwithstanding these contributions, I concede that corruption is challenging to research because

“*Ultimately, institutional theory is employed as the base theoretical foundation in this dissertation, and it is the theoretical tradition to which I seek to contribute.*”

“...the parties involved have every reason to keep the data hidden” (Klitgaard, 1991: 30). This predicament has grown even more imposing over time. In fact, Webster (2008: 807) notes that “Ten years ago, corruption was considered incidental to doing business internationally and, for better or worse, an inescapable reality. Today, corruption is considered to be...an enemy that must be defeated. Accordingly, the international community is focused, like never before, on efforts to reduce corruption.”

Despite the obstacles associated with pursuing scholarship pertaining to the phenomenon of corruption, institutional scholars have made considerable advances. Notably, both institutional economists and institutional sociologists have contributed to this research imperative. Accordingly, this dissertation has leveraged tenets from both of these theoretical perspectives, an approach advocated by Lambsdorf (2005: 1-3), who suggests that “the task is too complex to rely on a single theoretical tradition...only an interdisciplinary approach is likely to be successful...approaching corruption from an institutional economic perspective, as well as from a sociological one, can enrich our understanding.” Ultimately, institutional theory is employed as the base theoretical foundation in this dissertation, and it is the theoretical tradition to which I seek to contribute for a combination of practical and philosophical reasons. First, the conceptual work upon which I build my theoretical and empirical contributions has been broadly grounded in institutional theory (cf. Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003, Lambsdorff, Taube, & Schramm, 2005, Lambsdorff, 2007, Rodriguez, Uhlenbruck, & Eden, 2005, Uhlenbruck, Rodriguez, Doh, & Eden, 2006). Second, embedded in my

research is a belief in the utility of institutional theory to predict and provide explanations for the behavior of foreign-investing MNEs. This commitment traces its roots to my background as a lawyer and my ten years of executive-level experience in industry. My involvement in both domestic and cross-border business activity has made me acutely aware of the routine impact of institutions upon strategic and operational decision-making.

This dissertation research was initially motivated by a theoretical gap which I believe has important practical consequences from the perspectives of both international strategy scholars and international business ethicists. Absent sufficiently precise theory, scholars are not able to formulate theoretically-grounded predictions with respect to the strategic behavior of MNEs under conditions of heightened host market corruption, nor are they able to recommend strategic configurations that will enhance the likelihood of achieving positive investment outcomes. Moreover, without a theoretically-based understanding of the interrelationship between host market corruption and subsidiary-level strategy in foreign markets, it becomes more difficult to prescribe how MNEs can effectively integrate the Global Compact's tenth principle into the business strategies, operations and structures of their foreign subsidiaries. Notably, in developing a framework designed to secure corporate commitment to the Global Compact's principles, the United Nations has suggested that the engagement of worldwide subsidiary operations is one of the most important avenues through which MNEs can scale-up corporate responsibility efforts (Kell, 2012). Although this dissertation research has been principally motivated by my commitment to bolstering MNEs' comprehension of the strategic impact of corruption in foreign markets, my efforts to advance understanding with respect to the phenomenon of host market corruption do not preclude the possibility that normative insights might also emerge from this work. More specifically, it is my hope that the theory and empirical findings associated with this dissertation will also be of interest to executives, policy makers and business ethicists, particularly given that "understanding corruption...is vital to any effort to limit corruption" (Rodriguez, Siegel, Hillman, & Eden, 2006: 739).

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Why Do Regional Headquarters Live and Die?

Perttu Kähäri

Ph.D. awarded by Aalto University School of Business, Finland (December 2014)

Introduction

Across the globe, multinational companies' headquarters employ thousands, if not millions, of managers, who have a constant pressure to manage better their complex and ever-changing organizations. For many years I was one of those managers, contemplating the same issues. That in-depth experience provides a background for my dissertation, which investigates regional headquarters (RHQ) and their dynamism in the context of the organizational structures of multinational companies (MNCs).

MNCs face the dual challenge of managing their operations in a globalizing world and answering a simultaneous need for local responsiveness (Prahalad & Doz, 1987). MNCs often respond to these challenges by adopting increasingly complex organizations (Ghoshal & Westney, 1993). *Regional* organization structure is a model where a layer of regions is introduced between the corporate headquarters and the country subsidiaries (Heenan & Perlmutter, 1979).

Regional structures have received increasing attention recently (Rugman & Verbeke, 2004, Piekkari et al., 2010), and the first of my four essays uncovers what we currently know of the RHQ phenomenon and what remains unknown. Using systematic literature review, covering a period from 1967 to 2014, the analysis served as a foundation to develop a framework for an enhanced understanding of the RHQ phenomenon. The prior research on RHQ has focused predominantly on the roles that RHQ perform and the location selection and relocation of RHQ. This dissertation focuses on the largely uncharted area of RHQ dynamism, i.e., how and why RHQ changes and evolves over time. Such changes can relate to the role, location, or geographic scope of RHQ, but more fundamentally, dynamism also includes the birth and death of RHQs (Lasserre, 1996). The focus is on the factors and processes that affect the evolution of RHQ within the MNC organizational structure. Following from the discussion above, in my dissertation I address a simple, yet fundamental research question: *Why do regional headquarters live and die?*

The Real Survival Game of Regional Headquarters: Add Value or Die

Regional headquarters will continue to live only if it adds value to its parent, to its subsidiaries or to both. RHQ will survive if it provides a cost effective alternative in comparison to other structural options available in the MNC. Furthermore, RHQ seem to be flexible structures that are able to adapt to different needs in the multinational organization, thus increasing their chances of survival.

How do RHQ may then lose its mandate over time? My longitudinal study shows that while RHQ may evolve through a life cycle, it is most likely to lose its mandate due to a disruptive change in the MNC or due to external developments. These reasons account for two thirds of the mandate losses in the data, while natural death remains in a clear minority. Such natural death is

most often caused by the parent losing its trust on the RHQ or by the simple fact that it is no longer adding enough value to cover its cost.

The empirical analysis in my three empirical essays is based on a unique, longitudinal data set of RHQ in Finland. The first round of data collection was made in 1998-99, when 375 RHQ were identified. In 2010 our research team followed them up, and with an excellent response rate, we were able to track 97 % of these firms. As a number of the subsidiaries were no longer there due to ownership changes, ended operations, or other reasons, we interviewed 224 subsidiaries, of which 131 still were RHQ and 93 had lost that status over the 12 year period. In the third phase, we interviewed and examined nine RHQ more thoroughly in order to capture especially revealing stories of their evolution.

The second of the four essays in my dissertation, is a multiple case analysis which explains when RHQ adds value to MNC management. This essay applies parenting theory (Campbell et al. 1995) in building the notion of added value and in constructing a process framework. The process outputs are characterized in terms of delivered parenting value, perceived parenting value, and required parenting value, hence including the effect of MNC management's perception in the model. The evolution of parenting values typically follows one of four evolutionary patterns, which then may lead to mandate retention or to either abrupt or gradual mandate loss.

The third essay presents a quantitative study on what explains the survival or demise of a RHQ within an MNC. This essay draws on agency theory (Jensen and Meckling 1976) to consider RHQ units as involved in principal-agent relationships with both CHQ (as agents) and subsidiaries (as principals). The study reveals that in order to sustain its mandate over longer periods of time, the RHQ must enjoy trust from its parent (CHQ) and have a short geographic, cultural, administrative, and economic distance to the units within its geographic scope. Intermediate HQ will survive if the combined agency costs of the relationships between the CHQ and the intermediate HQ and the intermediate HQ and the subunits are lower than the agency costs that would have been incurred had the CHQ controlled the subsidiaries directly.

Finally, the fourth essay takes another perspective looking at an entire population of RHQ embedded in three environments, namely host and home country and MNC environments. The ecological analysis shows that the processes of variation, selection, and retention played a pivotal role in the evolution of the RHQ population from its inception to ultimate decline. Since RHQ are facing forces from three different environments, they are therefore especially prone to change.

Contributions

A key theoretical contribution of my dissertation is to integrate previous research into an analytical framework and offer an overarching definition of RHQ, based on both theoretical and empirical findings.

The new definition of RHQ positions it as “an intermediate organizational unit with a mandated role, geographic scope, and location, which is triple-embedded, terminable, and sensitive to change.” This trichotomic construct (see Figure 1) interlinks the key attributes of RHQ in a novel way and also takes into account the geographic scope, which has previously been ignored despite its high practical relevance (Ambos & Schlegelmilch, 2010). Furthermore, this novel definition grasps much of the dynamism of RHQ, through the identification of the four characteristic attributes of RHQ, namely intermediacy, terminability, triple-embeddedness, and sensitivity to change, which together distinguish RHQ from other types of organizational units and provide its unique features.

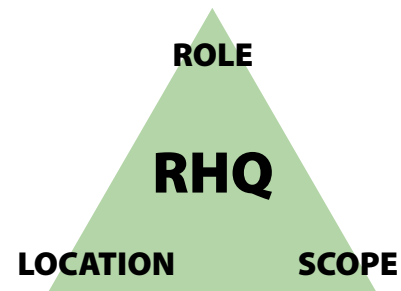
Another key contribution is the longitudinal field study which covers a complete set of RHQ in a given country, Finland. This unique dataset is one of the largest ever collected in the context of RHQ and the only large dataset with longitudinal data. Research on RHQ is short on quantitative studies and this dissertation provides an important addition to the field in that respect.

The dissertation also contributes by suggesting a future research agenda drawn from the systematic literature review and the empirical studies. The future research could take better benefit of the special characteristics of RHQ in order to generate theories from the headquarters dynamism. Moreover, such topics as geographic scope of RHQ, inherent dynamism of intermediate headquarters, and the role of people in headquarters merit more attention. This would support us in meeting two key goals, namely generating more relevant organizational theories with the help of the unique phenomenon of complex MNC organizations, and providing more relevant knowledge for the MNC managers with their daily management challenges.

Having been one of those MNC managers myself, I see my research having important implications also for the business practice. Following my framework, such implications could be seen from the eyes of a CHQ manager, a RHQ manager, and a subsidiary manager. For example, a CHQ manager could apply my framework to create an organizational design that best fits the firm’s needs, taking benefit of the capabilities they have in various locations and matching those with the roles given to each headquarters unit and assigning them a suitable geographic mandate. For a RHQ manager, my findings would highlight the importance of trust in the relationships with both the CHQ managers and the subsidiary managers. The more trust the RHQ manager can build in these relationships, the more likely her RHQ will be to survive in the long run. Subsidiary managers, on the other hand, could get a better understanding of the role and the processes RHQ apply to add value to the subsidiary operation.

Finally, my research makes contributions also towards policy makers. In fact, much of previous literature on RHQ location characteristics is due to the policy makers’ needs to attract headquarters into their cities and countries. MNCs govern a significant amount of economic activity in today’s world and hosting RHQs within its national borders will help any government to benefit from this economic activity. With the increased complexity of MNC organizations and introduction of RHQ mandates and sub-RHQ, practically any country can host a RHQ as long as the location-specific characteristics meet the firm-specific needs. Therefore, any government should ask themselves, what they can do to attract more such headquarters.

Figure 1. Conceptualization of RHQ



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Perttu Kähäri has 20 years of managerial experience in multinational companies. He has held roles at corporate headquarters, regional headquarters and country subsidiary management. Having defended in October 2014, his work has been nominated for various international and national awards and has attracted exceptional media attention in Finland. While currently pursuing a business venture, Kähäri remains affiliated with Aalto University School of Business. His research focuses on MNC organizational design, headquarters and international entrepreneurship.

Should Birds of a Feather Flock Together? Agglomeration by Nationality as a Constraint in International Expansion

Heeyon Kim

Ph.D. awarded by University of Michigan, USA (July 2014)

Introduction

National identity is an important magnetic force that draws individuals and organizations to co-locate in the same geographic areas in foreign countries, thus providing a fertile socio-economic context for relationship formation and other social exchanges. Whether the focus is on individuals such as Chinese immigrants in Metropolitan cities (Zhou & Logan, 1989) or organizations such as Korean firms in China (Guillén, 2002), numerous studies have examined the factors that result in agglomeration by nationality (Henisz & Delios, 2001) and its consequences (Hernandez, 2014). Most research on nationality-based agglomeration of individuals highlight that shared cultural backgrounds and languages provide immigrants with a familiar and comfortable environment like that of their home country when they relocate overseas (Edin, Fredriksson, & Åslund, 2003). Similarly, most research on firms agglomerated by nationality highlights the positive consequences of co-location such as the social capital and local knowledge residing in co-national immigrant communities (Hernandez, 2014) and easier communication and knowledge sharing among co-national firms (Miller, Thomas, Eden, & Hitt, 2008). Moving beyond the positive consequences of nationality-based agglomeration for firms in foreign markets, my dissertation emphasizes the negative consequences as well and shows that agglomeration by nationality, paradoxically, both enables and constrains the innovation activities of firms in foreign markets.

Summary of Dissertation Research

By facilitating knowledge transfer across firm boundaries and creating collaborative opportunities, the clustering of firms in similar industries has long been highlighted as a facilitator of innovation (Porter, 1998; Saxenian, 1994). Agglomeration of firms by their nationality, however, may not always facilitate innovation, but can instead hinder innovation. Distinguishing between exploitative and explorative innovations (March, 1991), the main argument of this study is that agglomeration by nationality can pose a trade-off by facilitating exploitative innovation, while simultaneously hindering explorative innovation. First, agglomerating with same-nationality firms entails widely shared social structures, procedures and cultural norms that can be translated into refining and extending existing competencies, and therefore enhance exploitative innovation (Benner & Tushman, 2003). The same social structures and cultural norms that facilitate exploitative innovation may, however, hinder access to new knowledge bases and experimentation that are necessary for explorative innovation (Levinthal & March, 1993). To further explore the important trade-off between exploitative and explorative innovation caused by agglomeration by nationality, I identify and test three important mechanisms—employee recruitment, alliance partnering, and

innovation strategy—that account for both the positive effects of agglomeration by nationality on exploitative innovation and the negative effects on explorative innovation. In other words, this study extends our prior understanding of agglomeration and innovation by showing that agglomeration by nationality can have both positive and negative consequences on innovation, and by further unpacking the behavioral mechanisms that account for the trade-off of agglomeration by nationality on exploitative and explorative innovations.

I study the consequences of agglomeration by nationality in an international setting in which firms expand to a foreign market to obtain new knowledge and enhance their innovation capabilities. I use a sample of non-US pharmaceutical firms that locate their R&D facilities in various US locations from 1980 to 2006 and examine how these firms may face a trade-off in terms of exploitative and explorative innovation by agglomerating with other same-nationality pharmaceutical firms. To further explore the mechanisms by which agglomeration by nationality impacts innovation outcomes, I examine the nationality of the employees, the nationality of the alliance partners and the imitation of technological trajectories of same-nationality firms in the focal foreign location. The results largely confirmed the theoretical arguments: First, co-locating with more firms from the same home country leads to an increase in the number of exploitative non-NME (new molecule entity) patents generated in the focal foreign location but a decrease in the number of explorative NME patents. Second, the results also showed support for two of the proposed behavioral mechanisms explaining the trade-off: Having a higher composition of same-nationality employees and imitating technological trajectories mediate the impact of agglomeration by nationality on exploitative and explorative innovation performance.

Contributions

My dissertation offers important theoretical contributions to research. First, not many studies examine how the consequences of agglomeration may differ depending on the characteristics of individual firms and the characteristics of the cluster. Most research on the negative externalities of agglomeration focus on the increased competition for limited resources or unintended knowledge leakage (Baum & Mezias, 1992). By emphasizing that national identity is an important factor explaining firm behavior within clusters, my study adds that negative externalities of agglomerating above and beyond simply increasing competition exist. More related, few studies have argued that firms actually incorporate a balanced view of both the gains from others' knowledge spillovers and the losses from their own knowledge leakages and, depending on their technological capabilities, make different location decisions (Shaver & Flyer, 2000). By emphasizing both the positive and

negative outcomes of agglomeration, my study recognizes that agglomeration implies important trade-offs, thus showing that a nuanced approach is necessary in agglomeration research to understand the dynamics within clusters.

Second, this study contributes both theoretically and empirically to research on the impact of nationality on foreign market entry by theorizing and empirically testing effects of agglomeration by nationality after the initial entry. Prior research on foreign market entry has highlighted the imitative behavior of other firms from the same home country when choosing locations in foreign markets (Henisz & Delios, 2001). I shift the attention from the entry stage location choices and focus on firm behavior and performance after the initial entry to show the consequences of agglomerating by nationality. The findings emphasize the importance of taking a long-term perspective in foreign location choice given that the benefits at initial entry may not always translate into positive performance outcomes but sometimes hinder full exploration of the new opportunities in foreign locations.

This study has important implications for managers and policy makers as well. Research on ethnic enclaves has highlighted the benefits of agglomerating in foreign markets and shown that individuals that participate in ethnic enclaves have, on average, higher earnings than those who do not (Edin et al., 2003; Portes, 2010; Zhou & Logan, 1989). Often times, when firms are setting up foreign subsidiaries, employees from the home country are sent to the foreign location as expatriates. These individuals, as pointed out in ethnic enclave studies, tend to gravitate towards co-ethnic communities. The expatriate families that work in New York, for example, have sorted into expatriate communities in Westchester—the French in Larchmont, Germans in White Plains, Japanese in Scarsdale, and so on (Foderaro, 2000). By highlighting the trade-off of agglomeration by nationality for organizations, this study points to an important tension for firms when choosing locations in terms of balancing the social life of expatriates while taking advantage of the diverse knowledge pool for innovation at the firm-level. Fortunately, my focus on the mechanisms behind the innovation trade-off also points to manageable solutions including emphasizing national diversity in employee recruitment to limit the identified downsides of agglomeration by nationality.

Overall, my dissertation develops a nuanced and rigorous account of how national identity, a neglected aspect of agglomeration literature, affects the behavior of firms and their subsequent innovation performance in foreign markets.

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Property Rights Theory and Ownership of Firm-Specific Advantages: The Implications of Contracting and Licensing within the Multinational Firm

Catherine Magelssen
Ph.D. awarded by Rutgers University, USA (October 2014)

Introduction

The management of intangible assets such as technologies, brands, manufacturing processes, expertise, and know-how is a central part of firm strategy. Intangible assets, referred to as firm-specific advantages (FSAs), provide the firm with a competitive advantage—they are the proprietary assets that set firms apart from their competitors and enable them to earn above normal returns. Although it is generally assumed that FSAs are a public good that can be leveraged freely within the firm (e.g., Ethier, 1986), multinational firms (MNEs) allocate ownership rights to their FSAs within the firm. The entities (parent and/or subsidiaries) that hold economic ownership rights to the FSAs (FSA owners) internally contract other entities (FSA users) within the firm to perform activities such as research and development, manufacturing, and distribution. The FSA owners pay the FSA users a guaranteed normal return for their activities. Subsidiaries with ownership rights maintain control over the FSAs, make strategic decisions regarding the FSAs, and receive the income from the FSAs. The internal allocation of property rights to FSAs is a formal means of delegating control and affects the distribution of power, incentives, and resource allocation within the firm. While many researchers have studied the external licensing and contracting relationships, the internal licensing and contracting relationships have thus far been unexplored. The lack of research in this area is no doubt due to the lack of available data.

A natural question arises as to whether internal FSA ownership and the contracting relationships that ensue are simply an artifact of tax avoidance. Recent US Senate hearings on Apple and UK Parliamentary hearings on Starbucks, Amazon, and Google have captured the public's attention and highlighted the role of shifting ownership of FSAs offshore as a means of avoiding taxes (Levin & McCain, 2013; Bergin, 2012; Thompson, 2012). In my research, I observe large differences in MNE FSA ownership strategies. While some MNEs have FSA-owning subsidiaries located in high tax jurisdictions that perform research and development, manufacturing, or distribution activities, others have FSA-owning subsidiaries located in tax haven countries that are no more than a mailbox. Clearly, tax avoidance plays a role in FSA ownership structures. However, very little is known about FSA ownership outside of what is reported in the media because of tax avoidance.

My dissertation examines three questions related to MNE internal FSA ownership. First, how do MNEs internally organize ownership of their FSAs? Second, how do FSA characteristics affect MNE choice of FSA ownership structure? Third, how does FSA ownership affect subsidiary innovation? I also explore the role of tax haven FSA ownership.

For this research, I hand-collected a unique, confidential panel dataset on the internal transactions of 102 MNEs and their subsidiaries from 1997-2012 from transfer pricing reports and intra-firm contracts. The dataset includes detailed data on the internal economic ownership of FSAs, contracts between the FSA owners and users that clearly delineate the rights and responsibilities of each party, M&As, changes in ownership structure, tax haven ownership, financials, and product flows. I combined this data with data from the United States Patent Trademark Office and used the combined data to construct MNE-level and subsidiary-level datasets. The following provides a brief summary of each study.

Summary of Studies

A large stream of research studies the choice between markets, hybrids, and hierarchies as *external versus internal* ownership decisions by firms. In reality, the same types of decisions occur routinely *within* MNEs. I identify four mutually-exclusive types of FSA ownership structures that MNEs use: (1) sole ownership, where one entity within the MNE owns the rights to all of the MNE's FSAs; (2) shared ownership, where two or more entities co-own all of the MNE's FSAs; (3) separate ownership, where two or more entities within the MNE own different FSAs; and (4) mixed ownership, where two or more entities within the MNE share ownership of at least one FSA and at least one entity within the MNE owns a separate and distinct FSA. The structures trade off market-like incentives with coordination and control.

The next study investigates how the characteristics of the FSAs owned by the MNE are correlated with the choice of ownership structure. Because FSAs are often costly to develop and maintain, firms have an interest in creating internal structures that provide high-powered incentives for subsidiaries to invest in FSAs. Property rights theory suggests that in an exchange relationship, the party whose contribution to the creation and maintenance of the asset should have control rights to the asset (e.g., Grossman & Hart, 1986; Hart & Moore, 1990). However, MNEs must balance these considerations against other potential advantages such as reduced administrative and monitoring costs, reduced bargaining problems, tax minimization, and greater internal knowledge flows. The findings indicate that MNEs with independent and easily codifiable FSAs, such as trademarks, are more likely to use internal FSA ownership structures that provide market-like incentives. In contrast, MNEs with complimentary or tacit FSAs, such as product innovation, are more likely to use internal FSA ownership structures that facilitate knowledge sharing and coordination within the firm. The results suggest that the choice of having a tax haven FSA owner is not important to the firm's choice of internal FSA ownership structure.

The final study investigates the effects of FSA ownership on subsidiary innovation. For example, I examine whether firms that transfer FSA ownership away from R&D subsidiaries to tax haven subsidiaries create incentive problems with regard to future innovative activity. The contractual relationships between FSA owners and FSA users reveal the formal network of intra-firm exchange relationships, centered around the FSA owners. I study the effects of two aspects of the MNE network on subsidiary innovation: (1) the roles of the subsidiaries, in particular whether or not the subsidiary is a FSA owner; and (2) the contractual relationships, which form network linkages amongst the entities. Through the ability to appropriate income from the asset and the ability to control the asset and its strategic future development, ownership incentivizes investing in the creation and maintenance of the asset (Grossman & Hart, 1986; Hart & Moore, 1990). I find that subsidiaries that own the rights to FSAs are significantly more likely to produce technological innovations. Furthermore, transferring ownership away from a subsidiary significantly reduces its innovative outcomes. I also study the contracting relationships and whether it matters with which entity another contracts. When subsidiaries contract with pure tax haven FSA owners, subsidiary innovative output declines. In contrast, innovative output is not adversely affected when subsidiaries contract with parent FSA owners. The results suggest that when ownership is granted to pure tax haven subsidiaries, MNEs are challenged not only by the normal complexities of managing innovation, but also by the negative incentive effects that stem from assigning FSA ownership to non-value-generating units within the firm.

Contributions

This research makes several significant contributions to our understanding of the internal organization and management of MNEs. First, I contribute to the theory of the MNE by shedding new light on how FSAs are internally organized, developed, and managed within MNEs. Due to data limitations, previous empirical research in economics and strategy has not been able to open up the black box of internalized transactions. Although a great deal of research has examined the importance of firm FSAs, little is known about the ownership of FSAs *within* the MNE. Second, I extend property rights theory to inside the firm and identify four ways in which MNEs structure ownership of their FSAs. The four modes have different implications for control, coordination, incentives, and knowledge sharing within the MNE. Third, this research deepens our understanding of the internal organization and network structure of the MNE. FSA owners, as the entities that contract and license FSAs to other entities within the firm, are centrally positioned in the MNE internal network of financial, knowledge, and product flows. The internal allocation of property rights to FSAs determines subsidiary access to resources and control over key assets. Fourth, by investigating how subsidiary ownership of FSAs affects innovation, this research enhances our understanding of the relationship between internal governance of FSAs and the generation of future FSAs. Finally, this work extends the literature on transfer pricing, which has focused on prices of transactions, profit shifting, and tax avoidance by examining the operational consequences of tax havens.

“ Understanding the ways in which firms internally organize and manage their FSAs is important for scholars, practitioners, and policy makers alike. ”

Understanding the ways in which firms internally organize and manage their FSAs is important for scholars, practitioners, and policy makers alike. For policymakers, internal FSA ownership and contract and licensing arrangements have been the subject of much scrutiny by governments around the globe. FSA ownership has a significant effect on government revenues. Understanding the factors that drive the selection of FSA ownership structures can provide insight into the types of policies that can attract MNEs to

locate FSA ownership within a country. For practitioners, the findings suggest that there can be significant operational ramifications for removing ownership rights away from value creating subsidiaries. It also provides evidence of important ramifications of tax avoidance strategies—namely that giving tax haven subsidiaries ownership of key strategic assets can adversely affect the *real* operations of the firm.

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Global Subunit Specialization: An Organizational Perspective

Carlos Adrian Rodriguez
Ph.D awarded by McGill University, Canada (August 2014)

Introduction

The last 25 years have seen significant changes in the organization of firms' value chain. Fostered by technological innovation and institutional changes, companies are increasingly reconfiguring their global footprint to improve their access to specialization and location advantages. This phenomenon has significant implications to the research and practice of international business, as the fine-slicing of value chain activities is creating fundamental modifications to the way that firms compete (Lewin & Peeters, 2006).

A large body of knowledge has been developed to understand offshoring/outsourcing decisions and their firm-level implications (see Hätönen & Eriksson, 2009; Schmeisser, 2013, for reviews); however, much less research has explored value chain disaggregation as an organizational process, in particular, the design choices involved as new subunits form and expand. My thesis seeks to contribute to this area by analyzing the formation and evolution of fine-slicing initiatives, as well as the role of architectural mechanisms in fostering the emergence of capabilities for the firm.

Fine-slicing refers to the disaggregation and dispersion of a firm's value chain into its constituent sub-activities and processes (Contractor, Kumar, Kundu, & Pedersen, 2010). By increasing the level of modularity and globalization of their operations, firms can leverage the specialization and standardization of their activities, concentrate operations (in locations where comparative advantages to perform those activities exist) and adopt ownership structures according to their skills and focus areas (Buckley & Ghauri, 2004). Despite these advantages, managing disaggregated and dispersed operations has proven difficult for organizations adopting fine-slicing (e.g., Aron & Singh, 2005).

In order to understand the organizational challenges of fine-slicing operations, I focus on the development trajectory of the resulting "specialized" subunits. The first paper of the dissertation investigates how the selection of an initial activity and locational scope affects the subunit's performance. The second paper analyzes the effect of attaining performance expectations over the subunit's expansion trajectory. Finally, the third paper implements a qualitative exploration of how changes in the subunit's organizational architecture affect its capability development process. In addition, throughout the dissertation, I devote significant attention to the impact that ownership mode (either in-house or outsourced) has on the process.

The papers in my dissertation utilize data on the offshoring of administrative and technical services (A&T) collected by the Offshoring Research Network

(ORN), which I combine with other information sources. Several reasons support the selection of A&T ORN data for studying the development trajectories of fine-slicing units. First, fine-grained data at the firm, project and location levels provided the unmatched ability to perform quantitative analyses and a qualitative exploration on the initial establishment and development trajectories of the fine-slicing initiatives. Second, the period covered in the analysis (1995-2012) covers the most relevant stages of this activity, which allows for more reliable inferences of causality from the observed empirical associations.

Summary of Studies

My first study examines the impact of the subunit scope (functional and geographical breadth) over the project's efficiency. Fine-slicing projects can start by little "toe-in-the-water" approaches, or can follow a larger adoption scheme that incorporates multiple functions, areas of expertise and countries. Yet, no exploration in the literature exists as to how this choice affects the project's efficiency. I examine this issue by comparing the level of savings achieved by firms that have started offshoring either by locating an activity in multiple locations or by locating multiple activities in a single country, against the efficiency attained by firms that are starting by implementing single projects in single locations. I find four scope effects on subunit efficiency: (1) geographical scope effects, which reduce efficiency when dispersed activities are related; (2) functional scope effects, which increase efficiency the larger the number of functions is in a given location; (3) structural complexity effects, which decrease efficiency the larger and more intricate the subunit becomes; and (4) ownership mode effects, which moderate geographical and functional linkages in outsourced subunits.

This study makes three contributions to the international business literature. First, it is the first analysis that quantitatively tests the relation between a subunit's scope and its efficiency. Second, it separates the influences of different dimensions—geographic scope, functional scope, and structural complexity—thus providing a fine-grained exploration of the distinct mechanisms affecting activity efficiency in fine-slicing activities. Third, it suggests aggregated configurations, depending on the ownership structure of the fine-slicing unit: fully owned settings are likely to benefit more from an initial establishment within the boundaries of a country, while outsourced settings are better suited to exploit resource advantages in multiple locations.

My second study analyzes the role of experience in shaping a firm's value

chain internationalization. Scholars have argued for experiential learning effects guiding offshoring (e.g., Maskell, Pedersen, Petersen, & Dick-Nielsen, 2007); however, no models have yet been proposed to describe how experience affects the expansion trajectories of fine-slicing initiatives. To create such a model, I analyze patterns of across-country and within-country expansion of fine-slicing initiatives and find that expansion trajectories are linked to the attainment of a certain level of aspirations in the previously executed projects. In particular, while financial aspiration fulfillment is linked to the decision of expanding existing activities across countries, I find that it is the achievement of operational expectations that explains the aggregation of new activities in an existing country.

The results of this second study present a significant contribution to the literature on the internationalization of value chain activities. It presents a model that describes how experiential learning affects the definition of expansion trajectories and advances specific insights on performance rubrics influencing the process: financial performance rules guide geographical expansion in a given activity, and operational performance rules guide functional expansion within a given country.

My third study explores how changes in the organizational architecture of a fine-slicing project affect capability development. The existing literature describes the role of organizational traits in capability creation; however, a detailed account of how changes in a firm's architecture enable the development of capabilities has not yet been explored (Felin, Foss, Heimeriks, & Madsen, 2012). Drawing on two in-depth case studies developed in the context of business service offshoring, this paper contributes to the literature on capability evolution in three ways. First, it theorizes that narrow scope roles and performance metrics are the fundamental channels used to guide capability emergence in the initial stage of offshoring in both in-house and outsourced centers. Second, it suggests that incipient capability emergence creates a push for increases in functional integration with other firms' units, regardless of whether the firm adopts in-house or outsourced offshoring methodologies. Third, it theorizes that advanced stages of offshoring show a larger dispersion of organizational architecture tools in in-house or outsourced offshoring settings; indeed, such tools are selected to tie the leveraging of already developed capabilities to support the firm at large.

Implications for Theory and Managerial Practice

Overall, this dissertation offers a new perspective on the process of disaggregation and dispersion of a firm's activities. By centering on the formation and evolution of the subunits resulting from fine-slicing processes, this dissertation contributes in four distinctive ways to the IB literature: (1) by illuminating the particular mechanisms affecting the relation between initial scope and efficiency; (2) by clarifying the role of experience and the learning rules guiding internationalization sequences on value chain activities; (3) by exploring the type of organizational design interventions that can contribute to the capability development process and; (4) by offering a detailed account of how the in-house/outsourced decision affects other organizational choices.

The empirical goal of this dissertation is to guide managers to see fine-slicing not as a one-time strategic decision, but rather one that is sensitive to architectural variables (e.g., functional scope, geographical scope, and attention mechanisms) and learning processes (about contracts, providers,

locations, and architectural changes). This dissertation suggests an active role of managers not only in managing complexity (cf. Larsen, 2014), but also in developing proactive adjustments in the organizational structure to facilitate the capability development process, and progressively leverage those capabilities across the firm.

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