Academy of International Business

INSIGHTS

Vol. 6, No. 3, 2006

Comments from the Editor

Tamir Agmon, Editor

The AIB meeting in Beijing last June was an exciting event. The excitement was the outcome of choosing one of the most relevant countries for international business today as the site for the Meeting, a great academic and organizational effort, and a feeling of the many participants that they are taking part in a meaningful and relevant activity.

The current issue of AIB Insights reflects some of the issues that were discussed in the meeting. Kirt Butler discusses the need to reintroduce finance into international business. There is no question that finance plays an important role in the practice of international business. Every transaction, and most actions by multinational enterprises and other participants in international business have a financial dimension. Yet, as Butler shows in his article, this feature of international business is not translated into international business research. Butler suggests some ways to remedy this problem. Recent developments in financial economics like financial contracting theory, and the reexamination of the major conceptual building blocks of what is known as Modern Finance Theory, and the immense growth of private equity as a source of financing make the reintroduction of financial economics to international business research both necessary and feasible.

In 2005 there has been a dramatic increase in private equity funds directed at emerging markets in general and in China and India in particular. The increase in private equity funds that were raised for investment in China brings up a new form in foreign direct investment (FDI) that can be thought of as financial foreign direct investment (FFDI). Some of these private equity funds can be invested in acquiring already existing investments in China and in investment in expansion of FDI projects. The article by Xue, Luo, Luo, and Zhu examines the patterns of second stage investment by foreign MNEs in China. Combining the evidence provided by Professor Xue and his colleagues with the development of Chinese companies who are moving from being suppliers to foreign companies into a multidimensional MNEs shows an interesting process of developing the internal market in China for FDI based companies, and the external market for Chinese companies all as a part of the process of globalization in China.

An important way to implement what we as researchers in international business do in our research are by teaching programs and other ways of communication with the business and the professional community. The last article in this issue of Insights, the Global Footprint, written by Ilan Alon and Craig McAllaster, discusses how this is done.

One reason for the great success of the AIB Meeting in Beijing was the congruency between the site of the Meeting, the topics discussed, and the multinational composition of the participants. In a small way this is reflected in this issue of Insights where a mix of research methods, contributors, and topics create the complex, hard to define reality of international business.

Insights provides an outlet for short, topical, stimulating, and provocative articles. Please submit materials for consideration to the editor—Tamir Agmon at AgmonT@st.colman.ac.il. Submissions are reviewed by the Advisory Board.

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AIB Insights is jointly published with the *AIB Newsletter* by the Academy of International Business Secretariat. For more information, please contact: **G. Tomas M. Hult**, AIB Executive Director, or **Tunga Kiyak**, Managing Director, 7 Eppley Center, Michigan State University, East Lansing, MI 48824-1121

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We look forward to your comments and submissions.

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Finance and the Search for the "Big" Question in International Business[1]

"The notes I handle no better than many pianists, but the pauses between the notes—ah, that is where the art resides!"

Arthur Schnabel

In a recent article, Peter Buckley (2002) questions whether the IB research agenda is running out of steam. Buckley asks the IB community to reassess what IB provides that is distinct from other business disciplines. In particular, he asks "Does IB research need a 'big' question?" JIBS has published several candidates for Buckley's 'big' question including globalization (Buckley and Ghauri, 2004), internalization (Buckley and Lessard, 2005), the determinants of firms' international success or failure (Peng, 2004), and a focus on an integrative/synergetic combination of local and global knowledge (Shenkar, 2004).

A periodic reassessment of IB's place in the intellectual galaxy is a healthy process that is driven by advances in IB, as well as in other business disciplines. One of the most important of these advances is an increasing ability and willingness on the part of both IB and other business academics to integrate their efforts across disciplinary boundaries. The pursuit of integrative, inter-disciplinary knowledge is the very soul of international business education and research, and one would hope that the increase in cross-functional integration is at least partially attributable to the efforts of IB teachers and researchers. Buckley's challenge is to reassess IB's comparative advantage in this increasingly inter-disciplinary research environment.

Despite our success in promoting inter-disciplinary research, advances in other business disciplines have largely been driven by discipline-specific research and not by findings published in general business journals such as *JIBS* or *HBR*. An important role of general business journals is the interpretation and integration of discipline-specific advances into general business education and research. IB similarly strives to integrate discipline-specific knowledge, as well as to develop and apply discipline-transcending knowledge to IB education and research. IB is distinct from general business and from other business disciplines in its primary focus on the MNE and its competitive position in the international marketplace.

International management strategy scholar Mike Peng is fond of saying that 'IB' includes two essential parts; 'international' and 'business.' It is certainly true that IB sometimes chooses to emphasize the 'international' and neglect the 'business.' Yet it is also true that IB's distinctive and sustainable advantage over general management scholarship will always lie in the international component of business. Our IB research agenda must be focused

continued on page 4

continued from page 3
first and foremost on international issues, yet without neglecting the business aspects of those issues.

The Relation of Finance to International Business

Biehl, Kim and Wade (2006) examine the interaction of the top business journals using directed graphs that reveal the flow of citations from one business journal to another. Not surprisingly, these authors find that business academics tend to publish in relatively distinct, non-overlapping disciplines. Accounting in particular is clearly distinct from other business disciplines, with relatively few cross-discipline citations. Finance and economics also form a distinct cluster, with a good deal of interaction between the top journals in these fields but relatively little interaction with other disciplines. Relatively more interaction occurs between HR/OB, marketing, strategic management, and (to a lesser extent) OR/MS, although these fields also tend to work in silos.

These authors also find that general business journals are seldom referenced by the top discipline-specific journals, such as the *Journal of Finance*. Despite some exceptions (e.g. Oviatt and McDougall's 1994 *JIBS* article on international entrepreneurship), this lack of recognition by other business disciplines for IB and general management research is a long-standing concern of *JIBS* and is one reason we are searching for a 'big' question.

Despite these silos, in a comparison of the 1985-1991 and 1995-2001 periods Biehl et al find that research in finance and economics is increasingly influencing research in other business disciplines.[2] This is a compliment to the content and quality of research in financial economics, as well as a testament to the ability and willingness of researchers in IB and general management to recognize the contributions of financial economics. What is becoming clear is that financial economics has a great deal to say about IB and general business, and that the tools used by financial economists are increasingly being adopted by other disciplines.

Classical financial economics typically begins with the perfect market assumptions (rational investors in frictionless markets with equal access to information and prices) and then gradually relaxes these assumptions to develop the consequences of market imperfections for the behaviors of individuals and asset prices (e.g. Modigliani and Miller, 1958, 1963). This approach has proven useful in the study of financial markets because imperfections in these markets are less important than in markets for non-financial assets. The approach lends itself to analytical tractability, but forces a level of abstraction that is objectionable to the IB theorist. The approach is not unknown in other fields of inquiry. For example, Daniel Kahneman's 2002 Nobel Prize in Economics was similarly based on his comparisons of human behavior to the assumptions of rationality in neo-classical economics. As Einstein said, "It is the theory that decides what can be observed."

In contrast, the economic foundations of international business begin with market imperfections or market failure as a pre-condition for the MNE and develop testable hypotheses about the MNE and its markets from this starting point. This approach has the advantage of being closer to economic reality for the MNE's non-financial assets and liabilities, which are poorly characterized by the perfect market assumptions. Although the IB approach lays the foundation for competitive advantage and the theory of the MNE, it can result in collections of stylized facts (e.g. the eclectic paradigm) rather than true economic theory.

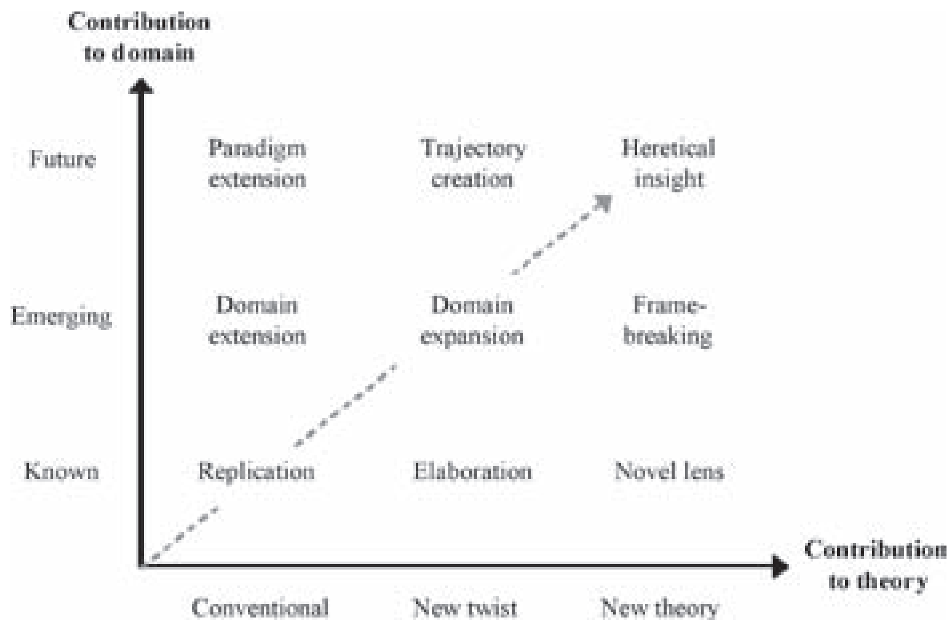
Although the financial economics and IB approaches might appear to be diametrically opposed, I prefer to view them as complementary ways of identifying the important elements of our messy, imperfect world. IB views the world as a cup that is half empty; financial economics views the world as a cup that is half full. The cup holds the same amount of water regardless, and the two approaches necessarily meet in managerial reality. Each approach can yield insights into the nature of the MNE and its activities. As international markets for goods and services become increasingly integrated across national boundaries, it is my belief that the tools of financial economics are likely to become more—not less—useful in analyzing the sources of value in international transactions.

Finance and IB's 'Big' Question

My own efforts to identify a single, all-consuming 'big' question for international business—or even for the financial dimension of IB—have only served to emphasize the complexity of the issues. Certainly, 'big' issues such as globalization, internalization, MNE success/failure, and global/local interactions are essential elements of IB. And the effort to identify a 'big' question is a legitimate and useful pursuit because it forces us to look to the future of IB. Yet each of these proposed 'big' questions emphasizes some elements of IB at the expense of others, and will prove unsatisfactory to at least a part of the IB community of scholars. Indeed, each of them appeals to a part of me, and yet leaves another part of me unsatisfied.

Mike Peng has suggested a useful categorization of our research efforts according to their contributions to the domain and the theory of international business (see Figure 1). As one moves away from the origin in Figure 1, research efforts are increasingly ambitious in expanding one or both of these dimensions. The research that each of us would like to create is of course in the nature of a

Figure 1. Categorization of Research Efforts in International Business



Source: Mike Peng's presentation at the CIBER Globalization Research Workshop, University of Memphis, June 2006.

heretical insight that ultimately becomes a part of the received wisdom of international business (preferably within our lifetime). Yet this elusive goal is necessarily achieved only by a select few. Examples of Nobel Prize-winning scholars that have had a profound influence on both finance and IB include Coase (theory of the firm), Nash (game theory), and Kahneman (behavioral psychology). At the opposite extreme are replications of existing studies, which are useful and legitimate but fail to stir one's blood. While we labor for that career-making insight or the conception of a new research trajectory, most of our research efforts tend to be extensions or elaborations of existing domains or theories.

Rather than try to identify a unifying 'big' theme for the financial dimension of international business, in this section I suggest ten important financial issues with implications for international business education, research, and practice. As with topics studied by other business disciplines, the flow of information is more likely to be from Finance to IB rather than from IB to Finance. In the absence of a heretical insight that spans the business disciplines, IB is likely to serve its traditional role of integrating and disseminating discipline-specific research in these areas into the international arena. I note in passing that these Finance-&-IB issues are neither exhaustive nor mutually exclusive.

Small steps: Domain extensions and theory elaborations

My first five Finance-&-IB issues roughly fall into the realm of domain extension or theory elaboration in Peng's taxonomy. I provide references to recent *JIBS* articles to emphasize the existing linkages between finance and IB, and note in passing that the intellectual ownership of many of these *JIBS* articles is shared with other business disciplines.

1. **Financial market integration.** Financial market integration will continue to be of interest to finance and IB scholars because of its influence on economic growth, employment, investment, asset prices, and capital costs (particularly during financial crises). In the short term, segmented national markets will retain their peculiar local flavor and studies of market liberalizations will continue to be interesting and necessary (e.g. Baggs and Brander, 2006). In the long term, these studies are likely to run out of steam and the field will need to reinvent itself as financial markets become increasingly integrated across national borders. Evolution in this field of academic inquiry thus mirrors the challenges facing IB as a whole.

2. **Country risks.** Country risks will continue to play an important role in the financial dimension of IB, including financial, political and cultural sources of risk and their interactions (Beaulieu et al, 2005; Click, 2005; Vaaler et al, 2005). On-going globalization in the markets for financial services provides an example of how political and cultural risks in emerging markets affect the internalization of these financial service markets (Cantwell and Narula, 2003). There is clearly value in internalizing segmented national markets in commercial banking, investment banking, in-

continued on page 6

continued from page 5

surance, and brokerage services. However, political and cultural barriers raise the costs and risks of tapping these latent markets. These important business issues are yet to be resolved in the marketplace, and are fruitful areas for research in finance and international business.

3. **International financial risks and risk management.** Financial risks and financial risk management will continue to be a fruitful area of research in finance and IB for both developed (Faff, 2005) and emerging (Weiner, 2005; Carrieri and Majerbi, 2006) markets. Other disciplines are increasing aware of the influence of these risk exposures and risk management techniques on corporate decisions. For example, FX risk management can have profound effects on the MNE's logistics, supply chain management, financial accounting, AIS, HR/OB, business law, and marketing functions because of its influence on management contracts (Oxelheim and Randøy, 2005). Dispersion of knowledge about financial risk management techniques will continue apace, and IB journals serve a key role in disseminating and integrating this knowledge across the business disciplines.

4. **International portfolio diversification and cost of capital.** The finance literature spends a great deal of energy on these topics and IB will continue to benefit from this inquiry. Finance is particularly concerned with the characteristics of international financial returns—means, volatilities (Beaulieu et al, 2005), and comovements—because these characteristics impact firms' strategic decisions through the costs of capital in domestic and international markets. These issues impact MNEs' market values (Doukas and Kan, 2006) and hence the way in which they deploy their financial and non-financial assets (Barry and Kearney, 2006) and liabilities.

5. **The international market for corporate control.** The world's myriad systems of corporate governance and control are of enduring interest to many business disciplines, including finance, IB, and management strategy. Specific topics of interest include the existence and effects of cross-border differences in ownership (Fernández and Nieto, 2006; Madhok, 2006), stakeholder rights (Hagedoorn, Cloodt, and van Kranenburg, 2005; Buck and Shahrim, 2005), executive turnover, and management compensation (Oxelheim and Randøy, 2005).

More ambitious studies: New trajectories and frame-breaking theories

My next five Finance-&-IB issues fall into the realm of new trajectories or frame-breaking theory in Peng's taxonomy. Like the theory-domain extensions, these issues include many social science aspects (as opposed to technical financial issues) and thus have consequences for other disciplines including management strategy, psychology, and law. General management journals such as *JIBS* will be important in leading changes in how we approach these issues, particularly if we can achieve one of Peng's "heretical insights."

1. **Behavioral influences.** Behavioral finance studies the impact of psychological factors on investor behaviors and asset prices, and has its foundation in the psychology literature (Kahneman and Tversky, 1979). In the IB context, these elements manifest themselves in cross-cultural differences in risk preferences (Covrig, Lau and Ng, 2006), national financial systems (Kwok and Tadesse, 2006), and portfolio allocations such as home bias. One of the challenges of this approach is that there is no single model of investor irrationality. Instead, we have a plethora of observations about human behaviors in the presence of uncertainty (e.g., heuristics, framing, pricing anomalies; see Shefrin, 2002) that are inconsistent with the assumption of rationality in neoclassical economics. Behavioral issues are inherently inter-disciplinary and impact all areas of IB education and research, and are of interest to anyone that wishes to challenge the prevailing wisdom.

2. **Real options analysis.** Traditional discounted cash flow methods have a difficult time valuing managerial flexibility over the size, timing, and form of investment. A real options approach to the investment decision incorporates managerial flexibility into the valuation process by viewing the act of investing as the exercise of a real option; that is, an option on a real (non-financial) asset. This approach brings to bear all of the power—and all of the limitations—of the extensive option pricing literature. Real options analysis is not a panacea, as the approach can quickly become cumbersome for real-world investments that have multiple sources of uncertainty (rainbow options), or whose exercise brings additional options (compound options) or information about the value of the underlying asset (endogenous uncertainty). Nevertheless, this approach is an exciting area of research in finance and IB because it provides a way to explicitly model managerial control over the investment decision.

3. **Sources of value in productive assets.** Despite progress in understanding the valuation of financial assets, we still have little idea of the sources of value in firms' productive assets and in how firms make their investment decisions. This issue is related to the real options literature because much of an asset's value arises from the way in which it is managed. This is true for tangible (physical) assets, as well as for intangible assets such as human capital (e.g. managerial expertise, personal networks) and intellectual property rights (e.g. patents, proprietary processes). Financial markets provide an empirical scorecard of the value-creation process through corporate mergers and acquisitions (Ruckman, 2005), divestitures (Meschi, 2005), direct foreign investment (Click, 2005), and related accounting and financial issues such as transfer pricing (Eden, Valdez, and Li, 2005). IB's proposed 'big' questions should help us extend economic and management theory into an international context.

4. **Agency theory and contracting.** For much of the 1970s and 1980s, advances in finance were based on an assumption of perfect and complete markets. More recently, finance has begun to grapple with the issues of imperfect and incomplete markets using contract theory. Contract theory is yet another topic that falls in the interstices between economics, finance, and management, and hence has important implications for international business conducted in a world with differing cultures, values, and objectives.

5. **The growth of international private equity.** Private equity refers to any form of equity investment that is not publicly traded, including venture capital (start-ups) and non-venture capital investments (e.g., leveraged buyouts, mezzanine capital). In the US, many private equity investments are in the form of limited partnerships with a general partner serving a set of limited partners that can include pension funds, financial institutions, or wealthy individuals. Although still relatively small, this is an exciting growth industry in international investments. Research into international private equity may be able to leverage Oviatt and McDougall's (1994, 2005) path-breaking work on international entrepreneurship.

Real-world issues often span several of these categories, and are related to other business disciplines as well. An example of a Finance-&-IB topic that spans several of these research areas is home asset bias—the tendency of investors to over-invest in local assets. Traditional explanations of home bias that rely on classic portfolio diversification arguments with rational utility-maximizing investors facing a barrier to international investment can explain only a part of the puzzle. More recent explanations focused on behavioral influences such as informational asymmetries and investor psychology have proven more satisfactory, but remain incomplete. The issue is further confounded by the fact that the extent of home bias is a moving target. Home bias is thus an area that is at the intersection of finance, international business, and psychology.

Two Summary Articles That I Would Like to See Published in *JIBS*

In my opinion, research into the first two of these new trajectories and frame-breaking theories—behavioral finance and real options analysis—has advanced to the point where a summary article that defines the field and illustrates its relation to international business would greatly benefit the IB community.

1. **Behavioral finance and its consequences for IB.** IB is ripe for a meta-analysis of the finance literature that documents the shared and the culture-specific behaviors of the world's investors and their consequences for international asset prices and corporate decision-making.

2. **Real options analysis and its uses in IB.** Most articles on real options are either informal descriptions of real options (common in the general business literature) or formal models of highly stylized situations (in the financial economics literature). Several authors have attempted to make the formal real options literature accessible to the mainstream of IB and management strategy, with limited success (e.g. Buckley, 2002; Butler, 2004). I believe it is time for an erudite summary of real options analysis in an IB journal that summarizes its advantages and disadvantages and shows where it can be applied in IB education, research, and practice. The challenge for the author of this article is to strike the right balance between technical brilliance and managerial relevance. As Einstein said: "Everything should be made as simple as possible, but not simpler."

These two topics have consequences for international business beyond the narrow confines of finance, and summary *JIBS* articles on these topics would disseminate important concepts from the finance literature throughout the IB realm.

continued on page 8

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Endnotes

[1] I thank Raj Aggarwal (Sullivan Professor of International Business and Finance at the University of Akron, and *JIBS'* Department Editor for Finance and Governance) and Mike Peng (Provost's Distinguished Professor of Global Strategy at the University of Texas at Dallas) for their gracious and helpful comments. The views expressed herein are nevertheless my own.

[2] The study of financial markets is often called financial economics because its intellectual roots are in economics. Its domain covers any transaction that has money or value on at least one side.

Subsequent FDI Investment in the Chinese Mainland [1]

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Introduction

According to world investment report (2002) issued by the World Bank, by 2002, China has been the largest and fastest-growing foreign direct investment (FDI) recipient. A considerable number of MNEs already pick up or are to pick up their paces to invest in China (Luo, 1999; Guillen 2003). Most of them increasingly look for new strategies to establish competitive advantages in the China market. The behaviors of the MNCs in subsequent investment may be significantly different from first or early entries. Studies on subsequent investments will contribute to enriching the present knowledge on FDI. On the practice side, as China has a quite different economic system and business environment from those developed countries and other emerging economies, factors that influence MNE's subsequent investment may differ from those in other economies. Studies to identify these factors can be also helpful for the later entrants in making mimetic decisions.

As China is an economy in a transitional and fast growing process, investment environment changed dramatically in the past decades. The determinants of entry mode choice in initial investment may be no longer effective in subsequent investment. New factors, such as experience of investment and location choice, need to be reconsidered when MNEs make the entry intensity choice in subsequent investment. Moreover, because foreign direct investment takes on unique characteristics in China as a result of its unique institution and social background (Beamish 1993), it is not appropriate to introduce into the results developed from subsequent foreign investment in other countries. It is necessary to study subsequent entry intensity choice based on Chinese specific characteristics.

Hypotheses

According to previous studies on subsequent investment and the situations of Chinese economy, we make appreciate hypotheses:

Hypothesis 1: The earlier a MNE entered China, and the larger the quantity of past subsequent investment a MNE has invested in China, the higher proportion of subsequent investment it will likely choose.

Hypothesis 2: The higher level equity a MNE chose when it entered the host country, the higher proportion of subsequent investment it will also tend to choose.

Hypothesis 3: The higher the proportion of foreign employee in a project a MNE chose when it entered China market, the higher proportion of subsequent investment it will adopt.

Hypothesis 4: capital requirement shows negative relationship to subsequent investment, while contracted duration shows positive relationship to subsequent investment.

Hypothesis 5: Subsequent investment is more intensive in earlier open regions than that in later open regions.

Hypothesis 6: MNEs from neighbor country or zone with higher trust will prefer moderate control right and so choose moderate subsequent investment. MNEs from neighbor country or zone but with low trust will prefer high control right and accordingly choose more intensive subsequent investment. MNEs from non-neighbor country with higher trust will prefer low control right and then choose low subsequent investment. MNEs from non-neighbor country with low trust will prefer low or high control right and thus, the subsequent investment decision is uncertain.

3 Data and empirical methodology

3.1 Source of data

Data of MNEs in China can be obtained from the 2003 Chinese industrial census, which was conducted by the State Statistical Bureau of China. In China, all firms, local or foreign are required by law to complete the census survey. For each firm, the database contains the following information: identity code, the name of foreign party, the contracted duration, age, number and structure of employees, amount and form of registered capital, fixed assets, current assets, revenues, profit, geographic location and product sector, exports and cumulative subsequent investment before 2002 and subsequent investment in 2002. Due to the lack of complete set of variables in the early period, our sample just covers 2002. Several studies published in top journals used this database1995 (e.g., Pan, 1999) and the reliability of the information provide by the State Statistical Bureau had been checked by previous users (Chow, 1993). There were 133,327 registered foreign firms in the 2003 census, among of them are there 19,366 firms with the subsequent investment in 2002. We further eliminate those firms out of operation and with other important data unavailable involved in the empirical analysis, then get a sample including 1,943 firms.

3.2 Measurement

3.2.1 The dependent variable: Share of Subsequent Foreign Direct Investment (SSFDI)

The development variable, SSFDI, is the intensity that foreigners adapt their control rights. It is similar to definition of the level of foreign ownership, but not same. It is a dynamic conception and we can view it as a continuous variable. Here we define it as the proportion contributed by the foreign partner to the total subsequent investment in the year of 2002.

3.2.2 The explanatory varibles

Share of Entry Investment (SEI)

This can be defined in two Ways. Hu and Chen (1993) and Pan (1996) distinguish minority and majority shareholders by using a categorical variable where firms with less than and more than 50% of equity ownership are categorized as minority and majority shareholders, respectively. Those with 50/50% ownership are categorized as equal partners. The second definition for share of ownership is the proportion contributed by the foreign partner to the total cost of the project. In order to keep consistent with the definition of the dependent variable, we follow the later definition method.

Locations (LOCs)

Different locations mean different business environment in which JVs operate, so do the subsequent investment behaviors. Neither the level of economic development nor the systemic reform process is even across China (Shan,1991).Although China initiated economic reforms and open-door policy since around 1979,there exists a large gap in the pace of change between fist open cities and regions, southern and eastern costal provinces, and the rest of the country. The tendency towards regionalism as a result of the decentralization of economic decision making amplifies the intra-economy heterogeneity (Bei and Holton,1989). For the purposes of investigating the effects of legal and policy frameworks and institutional arrangements on the subsequent investment decision making, we introduce here three dummy location variables:LOC1,as the earlier open areas, including five SEZs and fourteen coastal cities, in addition, as a metropolitan city, Beijing having been the prime locations for foreign investment for many years (Beanmish and Wang,1989), so is classified into this group; LOC2, as the early open areas including seven eastern and southern coastal provinces excluding those earlier open cities; LOC3, as the latest open region, including the rest of China.

Source countries (SOURCEs)

In order to capture the cultural and geographic dissimilarity between origin countries, researchers often use source country as a surrogate for socio-cultural distance (Ueno and Sekaran, 1992). In this paper, we follow the previous research and introduce such surrogate to capture the source country effect. Without loss of generalization, three regional categories that together account for approximately 70% of all subsequent FDI undertaken in China in 2002 are applied to capture the source country effect. The first group (SOURCE1) mainly consists of three kin regions of China-Hong Kong, Macao, and Formosa with approximately 40% of subsequent FDI in 2002.The second group (SOURCE2) consists of two neighbor countries--Korea and Japan with about 14% of the total amount of subsequent investment in 2002. The third group (SOURCE3) includes U.S.A. and Canada .these two

continued on page 12

continued from page 11

countries together account for about 12% of the total amount. Countries excluded in the three regions accounting for 35% of all subsequent FDI are classified into a fourth category (SOURCE4).

Contractual Duration (CDUR)

Contractual duration is always an important factor when researchers study the economic problem of developing countries (Shan, 1991; Beamish, 1993). Though the length of the duration of the project is predetermined in the first entry negotiation, it will keep continuous effects, especially on bargaining position and the value of experience. Contractual duration also indicates the strategic importance. We use the unit of year to measure the length of contractual duration.

Project Operating Age (POA)

Project operating age is a variable to measure how long a MNE has been operating the project in China. It is a surrogate of cumulative experience of foreigners and can be attained through simple calculation. Before foreigners' making subsequent investment in 2002, the last day the projects operating in China are all the same, definitely to be December 31, 2001. For each project, we subtract the date with the date of putting into production and then convert the difference into years to get project operating age.

Project Size (PS)

Previous research has shown that foreign firms usually seek a smaller share of equity in entering into markets when capital requirement is higher Anderson and Gatignon, 1986; Pan,1996 . For purpose of investigating whether subsequent FDI observes similar rule, we introduce the variable too and expect to find similar evidence.

Entry Investment Undertaken by Foreigners (EIUF)

Previous studies often focus on the share of equity that foreigners choose and neglect the amount that they invest. In fact, the entry investment, as initial chip, has an important and different effect on the following investment decision. According to the discussion before, higher control rights means lower possibility that asset is eroded. It is worth gaining higher control rights if possible through subsequent investment to protect large amount of investment from eroding. So we expect the variable will have a positive effect on subsequent FDI.

The Proportion of Foreign Employee (PFE)

We get the variable by the number of foreign employee divided by total number of employee in each project.

The Quantity of Past Subsequent Investment (QPSI)

We measure the variable with accumulative subsequent investment before 2002 scaled by Register capital.

3.3 Model Specification

Following the discussion above, the share of subsequent foreign direct investment in China is specified as:

$$\mathrm{SSFDI} = \alpha + \delta_1(\mathrm{LOC1}) + \delta_2(\mathrm{LOC2}) + \gamma_1(\mathrm{SOURCE1}) + \gamma_2(\mathrm{SOURCE2}) + \gamma_3(\mathrm{SOURCE3})$$

$$+ \beta_1(\mathrm{CDUR}) + \beta_2(\mathrm{POA}) + \beta_3(\mathrm{B}\ \ ) + \beta_4(\mathrm{EIUF}) + \beta_5(\mathrm{PFE}) + \beta_6(\mathrm{QPSI}) + \beta_7(\mathrm{SEI}) + \varepsilon$$

LOC1 is 1 if the project is located in five SEZs, fourteen coastal cities or Beijing and o if otherwise; LOC2 is 1 if the project is located in the eastern or southern coastal province excluding cities involved in LOC1 and o if otherwise; SOURCE1 is 1 if the foreign partner is from Hong Kong, Macao and o if otherwise; SOURCE2 is 1 if the foreign partner is from Korea or Japan and 0 if otherwise; SOURCE3 is 1 it the foreign partner is from U.S.A or Canada and o if otherwise. $\alpha, \delta, \gamma, \beta$ are the regression coefficients to be estimated. Following the dummy variable rule, where there are n categories, only n-1 dummy variables should be included (Gujarati, 1988), so we omit LOC3 and SOURCE4.

Table 1
Summary of Pearson correlation coefficient

Variables	LOC1	LOC2	SOURCE1	SOURCE2	SOURCE3	CDUR	POA	PS	EIUF	PFE	QPSI	SEI
LOC1	1.000											
LOC2	-0.302*	1.000										
SOURCE1	-0.132*	0.093*	1.00									
SOURCE2	-0.089*	0.139*	-0.327*	1.00								
SOURCE3	0.115*	-0.098*	-0.305*	-0.173*	1.00							
CDUR	0.019	-0.007	-0.099*	0.026	0.011	1.00						
POA	-0.135*	0.140*	0.164*	-0.027	-0.054*	0.024	1.00					
PS	-0.001	-0.017	-0.008	-0.047*	-0.009	0.071*	0.079*	1.00				
EIUF	-0.003	-0.013	-0.004	-0.044	-0.013	0.091*	0.105*	0.467*	1.00			
PFE	0.139*	-0.118*	-0.082*	0.038	-0.006	0.058*	0.019	0.002	0.017	1.00		
QPSI	0.058*	-0.001	0.005	0.015	-0.036	0.008	0.017	-0.041	-0.021	0.067*	1.00	
SEI	0.139*	-0.055*	-0.028	0.111*	-0.074*	0.138*	-0.022	-0.029	0.539*	0.131*	0.869*	1.00

A multiple linear regression is used to estimate the effects on subsequent investment; we use SAS REG to perform these tasks. Before we perform the regression, we have checked the level of correlation between the independent variables to detect for any serious multicollinearity. The result is shown in table1, the variable SEI has higher correlation coefficients with variables EIUF and QPSI, so we omit the variable. In fact, PS and EIUF can be combined to investigate the genetic effect.

Heterogeneity is another possible serious problem existing in econometric analysis using cross-section data set. We sort the observers by the variable PS, omit 1/3 middle observers, and divide the left 1,290 observers into two groups. The results of test [F(645,645)=1.0 and p-value=0.6628] indicate that null hypothesis is accepted and no heterogeneity exists in the regression.

continued on page 14

continued from page 13

4 Empirical Results

Table 2 shows the regression results.

Table 2

Results of the OLS regression on the share of subsequent FDI (n=1,943, r-square=19.3%)

Dependent variable	Share of subsequent foreign direct investment (SSFDI)		
The independent variables		Regression results	
		Parameter estimates	P-values
Intercept		0.6231	<.0001
LOC1	FDI location dummy variable: earlier open region	0.0809	<.0001
LOC2	FDI location dummy variable: early open region	0.0660	0.0002
SOURCE1	FDI origin dummy variable: kin zones	0.0185	0.1455
SOURCE2	FDI origin dummy variable: Neighbor countries	0.0608	0.0002
SOURCE3	FDI origin dummy variable: non-neighbor countries	-0.0182	0.2738
CDUR	Contractual Duration	0.0010	<.0001
POA	Project Operating Age	0.0065	0.0199
PS	Project Size	-0.0001	<.0001
EIUF	Entry Investment Undertaken by Foreigners	0.0002	<.0001
PFE	the Proportion of Foreign Employee	0.1022	0.0017
QPSI	The Quantity of Past Subsequent Investment	0.1869	<.0001

Hypothesis 1 is accepted decisively because POA and QPSI are both statistically significantly different from zero in the regression, and as expected, the parameter estimates both are positive, indicating that the time that a MNE has operated in china and the quality that it has investment are both helpful to experience learning.

In order to avoid multi-collinearity, we omit the direct surrogate SEI, But the explanatory variables PS and EIUF can be used together to investigate the genetic effect of initial equity level choice. PS has a negative and significant coefficient in the regression, while EIUF has an opposite significant effect on subsequent FDI. So we can conclude that the higher initial equity level the higher proportion of subsequent FDI., Thus Hypothesis 2 is also accepted.

The proportion of foreign employee in the model also shows a strong explanatory power with the parameter 0.1022 and p-value 0.0017. These results illuminate that we cannot reject Hypothesis 3.

Project size is a surrogate to capital requirement associated with foreign direct investment, while contracted duration is used to indicate the strategic span in the time dimension. The parameter of PS is significantly negative, telling that MNEs become more and more conservative in making subsequent investment decision with the increasing the scale of the project. By contraries, contracted duration has positive and statistically significant relationship to subsequent FDI. So we accept Hypothesis 4.

As an important explanatory variable in the recent studies on initial FDI decision making, location show equally important in the studies about subsequent investment. Two location dummies involved are both statistically significant and the proportion of subsequent FDI tends to be higher in earlier open regions, just as Hypothesis 5 tells.

Three of the five original country variables used in this paper are not statistically significant but one in explaining the share of subsequent FDI. Thus we cannot surely tell whether hypothesis6 is true or not from the regression results. However we find that the results are consistent with our theories indicated in Hypothesis 6 in certain degree. Korea and Japan are China neighbor countries but with relatively low trust, so they choose a statistically significant higher share of subsequent FDI. Hong Kong, Macao and Formosa is kin zones with higher trust, they choose moderate share of subsequently accordingly. But unfortunately we do not find enough evidence.

5 Conclusion and future research

This study offers an empirical analysis on sequential foreign direct investments in China. Previous research into FDI has typically concentrated on first entry, but omitted subsequent FDI. Unlike previous studies, this study regards foreign direct investment as a sequential process, where former investments affect the nature and the behaviors of subsequent investment. In order to identify the determinants of sequential investment mode choices over time, this study develop a generic model of sequential investment mode choices with a cross-section data set. The subsequent entry strategies will reflect the firm's strategic intentions more largely than the first entry does because most of firms regard the first entry as the trial expansion in the new foreign market. Consistent with the evolutionary theory and knowledge-based theory, this study shows former entries will have impacts on the behavior of subsequent entries. Having undertaken a higher equity of entry investment makes it more likely to choose higher proportion of equity in subsequent investment. Thus we see that foreign investment decisions are shaped by the MNC's capacities as an adaptive learning organization.

This study examined subsequent foreign direct investment into one host country only, China. Our database therefore does not include a company's prior experiences in other similar countries. Our database does not allow us to see previous subsequent investment, either. Whereas this study provides an important contribution by showing the effects of experience and other determinants across China, we have not been able to capture these effects sequentially. And it will be a bit simple that the study only takes the years and the quantity of accumulative foreign investments as the measurement of the firm's experiences in FDI. Thus it would be important for future research to find more appreciate surrogate variables and see the effects of those determinants time serially. Future studies should show whether these effects for a single JV are various with the ages that MNEs operate in China.

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Endnote

[1] Programme of the National Scientific Fund of China(No. 70472022)

The Global Footprint[1]

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A business school must examine six essential components of its program to create an effective—and ongoing—globalization strategy.

Many business schools have added the words "global" to their course catalogs and brochures, but how many business schools have actually developed and implemented a comprehensive global approach to education? And how many are taking a true measure to see how global they really are?

Perhaps far too few, as we found in a survey we recently conducted at the Rollins College Crummer Graduate School of Business in Winter Park, Florida. The survey queried school administrators at MBA programs worldwide about the curricula, students, and faculty in their MBA programs.

Most of the 67 schools that responded to our survey indicated that globalization is a major influence on their programs. They touted the importance of global business education and stressed the importance of graduating global business leaders. Even so, some also admitted to shortcomings in their current models of global education. Many acknowledged that they were hindered by unsystematic and incomplete reviews of their schools' globalization efforts; a narrow focus on a single dimension, such as curriculum, exchange programs, or student recruitment; and no overarching globalization strategy.

We recognize that even our own survey was limited in its global scope. We were pleased that the 67 MBA programs in our survey represented 19 countries and five continents. However, more than half of the programs, 36, were from AACSB-accredited public universities in the U.S. Even so, we view this survey as a first step in measuring the collective global footprint of business schools. Moreover, the results of this survey can serve as a place to start in developing best practices for globalizing business education.

Drawing on results from this survey, we have established a model to help business schools develop more clear-cut strategies and more effective practices to globalize their programs. We call this multidimensional model the "global footprint." It includes six primary dimensions of the b-school program: the core curriculum, language study, student and faculty diversity, and student and faculty global experience. By assessing and addressing each of these dimensions, a business school can construct a global strategy that serves its students, suits its mission, and helps it establish a competitive position among international peers.

Curriculum

One of our fundamental questions centered on how survey participants had chosen to integrate international topics and global business into their curricula. We provided space for respondents to provide examples of how they have adopted international business—whether they added a core course; created new electives, major concentrations, or degree programs; infused the subject throughout every course; or opened a center of study.

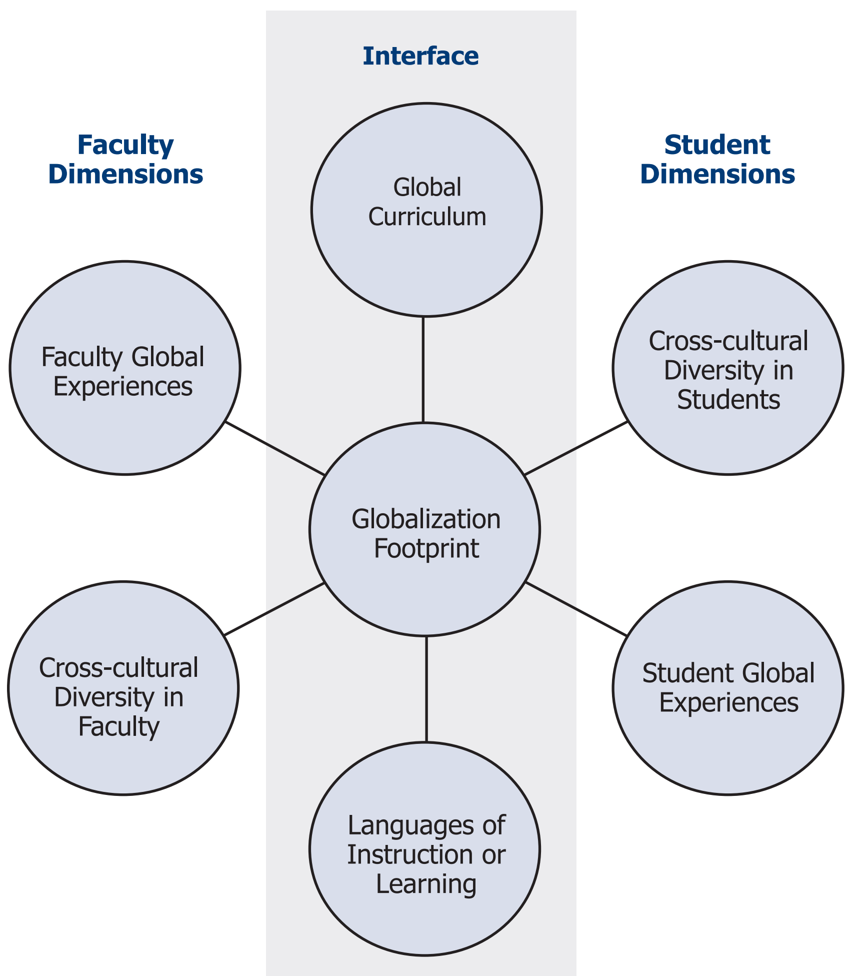
Their responses indicated great variation in how schools are integrating global subjects into the core curriculum. Rather than start a course on globalization, for example,

continued on page 18

continued from page 17
the China Europe International Business School (CEIBS) in Shanghai has integrated a global focus into every part of its core curriculum. Its contention is that is faculty cannot teach subjects such as marketing, finance, or economics without using globalization as a central component. Our own school, the Crummer Graduate School of Business at Rollins College in Winter Park, Florida, requires students to take two courses in international business, one of which may be a study abroad experience.

A school with the resources to "do it all"—that is establish electives, launch degree programs, open a center, and infuse a broad worldview of business throughout all courses—can be said to be comprehensively global. But few schools have that kind of funding at their disposal. Even so, the process required thorough and thoughtful discussion among administrators, faculty, and students. Through that discussion, a business school can set priorities and determine which options work best within its individual budget and objectives.

GLOBAL FOOTPRINT FRAMEWORK – Our model of a school's "global footprint" includes six dimensions: core curriculum, language study, student and faculty diversity, and student and faculty global experience.



Language Study

Respondents were asked whether or not they require their students to learn a language other than their own. Most schools rely on the fact that English is currently the *lingua franca* of international business, and that English proficiency automatically provides students with an international capability.

In fact, 57 of the 67 schools in our sample offer classes exclusively in English. The MIB School of Management in Trieste, Italy, for example, is the first MBA in Italy to provide its program in English only. Very few schools in our survey provide more than one language of instruction, although some do place an emphasis on multilingual ability. HEC Montreal in Canada, for instance, instructs its MBA students in English, Spanish, and French.

Student Diversity

Admitting a diverse student body is still a challenge for many schools in our sample. For example, one reported that the nationality of its student body was completely homogeneous. Other schools are doing better, if only a little. Thirty-one of the 67 schools reported that fewer than 20 percent of their students came from another country. Fourteen reported that 20 percent to 39 percent of their students were international. Eighteen schools reported that 40 percent to 60 percent of their students were international, and three schools reported that no single nationality dominated their student populations.

Students' Global Experience

We also wanted to know how many business schools required their MBA students to supplement their coursework through study or consulting projects in other countries. While 38 schools offered students the opportunity to take international study trips ranging from one to three weeks, only 11 schools in our sample made international study a requirement.

At 38 schools, international internships and work experience are not offered. International student consulting projects are even more of a rarity; 44 of the 67 schools do not make international consulting opportunities available.

Faculty Diversity

We asked our survey participants to describe the cultural makeup of their faculties, as well as the experiential backgrounds of their faculty members. Most schools—about 50 percent—reported that between 1 and 39 percent of their faculty have been recruited from outside the school's home country.

Creating an ethnically diverse faculty is yet another challenge among survey respondents. Among the 67 respondents, all report that a majority of their faculty share a single nationality. Ethnic minorities make up fewer than 20 percent of the faculty at 43 of the schools in our survey.

Faculty International Experience

Finally, we asked survey participants about the international experience of their faculties. Most business schools want to offer their students an international perspective; but if their own faculty members rarely travel, they are essentially asking their students to "do as they say, not as they do." Such a discrepancy may send the wrong message, especially if a business school wants to present a global character, not only to students, but to peer schools.

Although faculty at most of the 67 business schools in our survey travel internationally for conferences or presentations, not nearly as many make efforts to travel and teach abroad. That is, few volunteer to lead international student trips, teach at partner schools, or consult for international companies. Among our sample, 51 of 66 schools reported that fewer than 20 percent of their faculty regularly lead international trips. In addition, 38 of 66 reported that fewer than 20 percent of their faculty regularly teach or consult abroad.

Moving Toward Best Practices

Of course, business schools that post high marks in all six of these dimensions can

continued on page 20

continued from page 19

confidently claim a large and comprehensive global footprint. However, 100 percent success in all six dimensions is not necessarily the desired objective for an individual business school. The level of internationalization within each dimension depends on a school's strategy, budget, human resources, competitive environment, institutional context, and student demographic.

While one size won't fit all, respondent schools generously shared their best practices for adopting and integrating globalization into their programs. For example, a few schools, such as the Georgia Institute of Technology in Atlanta, have appointed "czars of internationalization" to oversee their university's globalization efforts. Such positions not only formalize the globalization process, but also assign someone direct responsibility for implementing best practices and evaluating the results. Other schools have launched initiatives that include:

- Developing and leveraging international partnerships to create new opportunities and extend reputation.
- Creating MBAs targeted specifically to international students.
- Integrating a thematic core curriculum involving teams of faculty.
- Requiring students to achieve proficiency in multiple languages.
- Establishing a center for the development of international research, courses, and training.
- Participating in faculty and student exchanges.
- Creating joint programs with organizations such as the Peace Corps or the World Bank.
- Requiring students to create international business plans for companies.
- Requiring students to travel overseas.
- Integrating cultures in the classroom.
- Involving students in joint programs with business students in other countries.
- Encouraging students to complete part of their studies at a school in another country.
- Actively recruiting international faculty.
- Providing sufficient funds for faculty to travel to other countries.
- Encouraging faculty exchanges with international schools.
- Including international study trips, consultations, and research in faculty development.
- Assigning an administrator to track, evaluate, and adopt global best practices.

As our survey shows, even though globalization is labeled a priority at many schools, it often still does not receive the same strategic attention as other aspects of the business program. By assessing the six dimensions of its global footprint, a business school can devise mission-based objectives more wisely, allocate funding more effectively, and integrate global topics into its curriculum to its best advantage. Only then can a school know if its global footprint is sufficient for its purposes—or far too faint to make a mark in the global business education market.

Endnote

[1] This article originally appeared in the May/June 2006 issue of BizEd. Reprinted with permission from BizEd, published by AACSB International—The Association to Advance Collegiate Schools of Business