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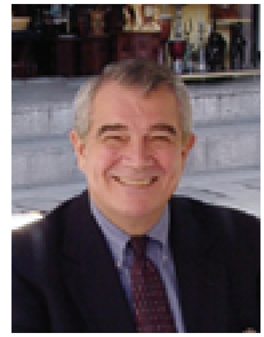
## Special Issue: AIB Dissertation Award



# Editorial Commentary



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**"Research means Conversation".** Academic scholars typically begin participating in, and contributing to, a conversation by crafting a comprehensive and in-depth treatise on a specific topic, widely referred to as a thesis or dissertation. The term *thesis* is derived from the Greek θέσις, which has the meaning of "something put forth", and *dissertation* comes from the Latin dissertātiō, which means "path". By delving into a specific topic and the related literature, young IB scholars have the exciting opportunity to become experts on this topic, build on and constructively criticize extant research, reveal new findings and develop new insights, and so "put forth" a "path" for a fresh conversation on the topic.

There are cross-country differences as to the type and nature of a thesis or dissertation. In the US and the UK, for example, the terms *thesis* and *dissertation* are used interchangeably. In France, a doctoral treatise is called a *thèse,* while the word *dissertation* is reserved for shorter, typically more generic academic treatises of less than 2,000 words. In Germany, a thesis is required to achieve an undergraduate or master's degree and a dissertation is called *Doktorarbeit*, which is typically followed by another, independently crafted dissertation called *Habilitationsschrift*, a requirement for the Habilitation (Latin: habilis) that also exists in other European and Central Asian countries, the Caucasus region as well as in parts of Brazil, where it is referred to as *Livre-docência*.

Doctoral dissertations or theses also differ in their length, most with hundreds of pages and an equal number of references but others being rather the size of a conference paper, such as the one crafted by John F. Nash, Jr. titled "Non-Cooperative Games" (1950, Princeton University). Nash's dissertation consists of 29 pages (including abstract and table of contents), builds on a total of two references (one of the two being a proceedings paper by John Nash himself) and is filled with handwritten equations, calculations and even handwritten editorial corrections of words misspelled by the typewriter. This short dissertation introduced the foundations for the "Nash equilibrium", a crucial concept in game theory for which Nash won the 1994 Nobel Memorial Prize in Economic Sciences.

As the aforementioned example also illustrates, it may take time until the contributions of a thesis or dissertation are recognized in a specific field of study. This may be related to the publication, and thus wide dissemination, of a thesis or dissertation. Some theses and dissertations are published in their entirety as books, e.g., in several European countries where books have a similar or higher standing than journal articles. In the US, publications in journal articles are typically more highly valued and dissertations or theses are often structured in a 3-essay format to more readily and quickly publish parts thereof in academic journals. Other dissertations are not published until years or decades later. For example, the dissertation by Stephen H. Hymer titled "The International Operations of National Firms: A Study of Direct Foreign Investment" was completed in 1960 but not published until 1976, when Charles P. Kindleberger, Hymer's doctoral advisor, published it posthumously due to Hymer's untimely, accidental death. Since then, Hymer's dissertation research has made a significant impact on the IB field.

Notwithstanding these cross-country differences in type, nature, page count and publication date of a thesis or dissertation, what matters most is the quality and contribution to a respective academic field of study. Starting in 1986, the Academy of International Business has honored the best dissertations in international business on an annual basis by awarding the AIB Dissertation Award. All dissertations in the field of IB written in a given year at universities around the world qualify for the award, and submitted dissertations are perused and evaluated by an AIB dissertation award committee that typically selects four (and starting with this year's award, five) finalists. Finalists are invited by the AIB to its annual conference to present their work to the award committee and conference participants in an open AIB dissertation award presentation session. The winner is announced at the conference-concluding annual AIB awards ceremony and business meeting. The AIB dissertation award was named after Richard N. Farmer for the past 26 years and, starting this year, has been named after Peter J. Buckley and Mark Casson.

With this first special AIB Insights issue dedicated to the AIB Dissertation Award, we aim to recognize the history of the award in more than a quarter century of existence and to draw attention to the innovative dissertation research of this year's award finalists. As a former AIB dissertation awardee, the associate editor of this journal is particularly excited about the great support of the AIB executive board for the initiative to publish this special issue and, on behalf of this year's as well as former awardees and award finalists, would like to thank the board, the founding and subsequent award committee members and sponsors for their great efforts and support of this award.

The special issue starts out with an article by Alan Rugman, who provides a brief history of the AIB dissertation award. Alan Rugman was elected to the AIB Board in 1989, served as AIB program chair in 1990 and joined the AIB Dissertation Award committee in 1992. He was Director of the Indiana University CIBER in 2002 when the AIB Executive Board requested sponsorship of the Richard N. Farmer Award. Due to Alan Rugman's support and leadership, Indiana University took over the sponsorship of the award in that year and continued to do so for a number of years. He also was instrumental in securing the funding for the newly named Peter J. Buckley and Mark Casson AIB Doctoral Dissertation Award from the University of Reading and the University of Leeds. The second article comprises a summary of this year's award-winning dissertation titled "Networks of Influence: Implementing Politically Sustainable Multinational Stakeholder Strategies" by Lite J. Nartey. The following articles include the dissertation summaries of the four award finalists: Hamid Akbari, Elena Kulchina, Quyen T.K. Nguyen and Sanjay Patnaik (who are listed in alphabetical order).

Research means conversation, and we hope that the publication of this special issue will facilitate fresh and fruitful conversations on the respective topics by drawing attention to the innovative and thought-provoking dissertation research of this year's award winner and finalists.

Congratulations to the 2013 awardee and finalists for their significant accomplishment!

## References

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# From the Richard N. Farmer to the Peter J. Buckley and Mark Casson AIB Dissertation Award

Alan Rugman, University of Reading, UK

## History of the AIB Dissertation Award

The minutes of the AIB "Board of Directors", April 4 to 5, 1986, item 7, report on the formal establishment of the "AIB Annual Doctoral Dissertation Contest." The Board accepted the report of an ad hoc committee established to set guidelines for this contest. The committee was chaired by Hal Mason, the then Executive Secretary of AIB; the other members were Raj Aggarwal, Jeffrey Arpan and Alan Rugman. It appears that previously awards were made by AIB for the best dissertations, with winners including Jose de la Torre, Jeff Arpan and John Daniels. These awards were now formalized.

The AIB Board established a minimum three-member awards committee with a new member replacing the retiring chair each year, as outlined in the current procedures on the AIB website. Eventually the committee was expanded to four members, as some members needed to recuse themselves from assessment of a dissertation from their own institution, or from one they had supervised.

The original, ad hoc committee indicated that all dissertations must deal with subjects directly related to international business including:

1. The theory of multinational enterprise.
2. Business activities which involve international transactions such as international trade and international investment.
3. Interrelationships among enterprise activities and international or foreign environments.
4. Studies of corporative business and management decision making in an international context including studies of the functional and organizational activities of the firm or groups of firms such as licensing, exporting and importing, and other contractual arrangements involving international business.
5. Institutional studies of modes of conducting international business and the disciplines of economics, sociology, political science, law, etc., are welcomed so long as they fit the criteria listed above.

This list of topics probably reflects the 1980s influence of faculty trained in economics, marketing, systems, political science and other cognate disciplines within AIB. The list does not specifically include management of organizations, strategy and entrepreneurship.

Clearly, the field of international business has evolved since 1986, as now the majority of dissertation submissions are in the latter three areas. For example, of the 22 dissertations submitted for the 2013 competition, around 15 used the institution based view (IBV) or some other aspect of "institutional studies", the catchall item 5 in the above list. In contrast, there was only one study specifically advancing the theory of the MNE or other contractual arrangements affecting international business.

The evolution of the field of international business, to include topics in management, organizations, strategy, institutions, etc. is reflected in more recent AIB doctoral dissertation submissions. The respective committee members each year read and evaluate the extended dissertation summaries submitted and select four finalists whose entire dissertations are perused and judged. AIB typically receives over 20 dissertation submissions for the award annually, but has received a significantly larger number of submissions in some years (e.g., 49 submissions in 2009).

> *"The evolution of the field of international business is reflected in more recent AIB doctoral dissertation submissions."*

There is no record of any dissertation being disqualified as not being on topic. Further, the membership of the AIB dissertation award committee has become increasingly pluralistic, reflecting the diversity of topics relevant in the international business field. The related definition of topics suitable for publication in JIBS has also evolved since 1986, and this probably reflects the best guideline as to topic areas relevant for doctoral dissertations and potential publication in JIBS.

The AIB Board subsequently named the AIB Dissertation Award in honor of Richard N. Farmer, a past president of AIB and one of its founders.

This occurred in 1987 following his untimely death. There were 26 years of the Farmer Award, from 1987 to 2012. In 2013 the AIB Board renamed the AIB Dissertation Award as the Peter J. Buckley and Mark C. Casson AIB Dissertation Award, as discussed later.

## The Richard N. Farmer Award

Richard N. Farmer was a member of the faculty of the Kelley School of Business at Indiana University for 23 years. An internationally known scholar and prolific author, he was considered to be among the founding fathers of international business in the United States. He was one of the founders of the AIB and served as president from 1977-78. After the original endowment was depleted, the AIB continued to fund the award until 2012 in his name with financial support from the Indiana University Center for International Business Education and Research until 2011 and the Michigan State University Center for International Business Education and Research in 2012.

Richard Farmer joined Indiana University in 1964 having completed his doctorate at UCLA. He succeeded Stefan Robock as Chair of the IB department in 1967 and continued in his post until his premature death in 1987. In the 1960s and 1970s Indiana University had as many as twelve IB doctoral fellowships a year and a vibrant program of doctoral education with such IB graduates as Jeff Arpan, Lee Radebaugh, David Ricks, Richard Wright, Kichiro Hiyashi, Paul Korsvold, Chris Korth, Fred Truitt, etc. Overall, some 50 doctoral students graduated and became known as "Farmer's Crop." Many of them were active in the development of AIB, JIBS and international business education at their own institutions.

The Farmer Award recognized both his personal leadership in pioneering doctoral education in international business and also the leadership role of Indiana University in building the world's first major dedicated international business department. More details appear in Rugman (2003), especially Part 1 with essays by Robock, Arpan, Daniels, Ricks and Siffin.

An earlier analysis of the Farmer Awards over the 1991 to 2000 period, by Aggarwal, Petrovic, Ryans and Zong (2008), found that all but two of the thirty-nine dissertation finalists that were selected by the award committees from all submitted dissertations in the 1990s (there were only three finalists in one year over this time period) came from North American universities and that virtually all supervisors were from North American institutions. They also found that the topic coverage largely ignored emerging economies and institutions. The topics were split between the two topic areas of, firstly, economics and finance, and secondly, organizations and management.

By 2013 much greater diversity was apparent. Over the last decade, there have been more international (i.e., non-North American) submissions. The winners for 2012, 2010, 2008, 2007, 2006, 2003 and 2002 have doctorates from European institutions. Previously, the only non-North American winners appear to be Paz Estrella e Tolentino from 1989 and Lena Zander from 1998.

There is also greater diversity in terms of area focus as is illustrated by the 2013 finalist dissertations (for the first time, the 2013 AIB Dissertation Award Committee selected five instead of the traditional four finalists from all submitted dissertations), which covered the following areas:

- Stakeholders in global gold mining firms (award-winning dissertation by Lite Nartey)
- Acquisitions by emerging economy firms in advanced Western economies (finalist dissertation by Hamid Akbari)
- Entrepreneurs and local managers in Russia (finalist dissertation by Elena Kulchina)
- The performance of UK subsidiaries in South East Asia (finalist dissertation by Quyen Nguyen)
- EU carbon credits traded by MNEs (finalist dissertation by Sanjay Patnaik)

This greater diversity of area focus reflects that AIB and JIBS are now truly international.

## The Buckley and Casson Award

In 2013 the AIB Executive Board sought new sponsorship and voted to re-name the AIB Richard N. Farmer Dissertation Award as the Peter J. Buckley and Mark C. Casson AIB Doctoral Dissertation Award. The Award recognizes Peter Buckley as a past president of AIB and his book with Mark Casson in 1976, *The Future of the Multinational Enterprise,* for its development of internalization theory, which served to bring the analysis of the firm into international business along with the more holistic institutional factors favored by Farmer. Thus, the Award now links firm and institutional factors across the domain of international business. The Award is now sponsored by the Henley Business School of the University of Reading (where Mark Casson is a faculty member) and the Centre for International Business at the University of Leeds (where Peter Buckley is the founding director).

## Conclusion

The Farmer Award was made on 26 occasions, over the 1987-2012 period. All previous AIB dissertation award winners are listed on the following page and a list including all finalists can be found on the AIB website. The winners include many, by now, famous scholars such as Arvind Parkhe, Sri Zaheer, Xavier Martin, Tatiana Kostova, Witold Henisz, Subi Rangan, and others. But the finalists have also produced such outstanding scholars as Julian Birkinshaw, Scott Shane, Miles Shaver, Joanne Oxley, Klaus Meyer, Jaeyong Song, Jennifer Spencer, and many others. We also need to remember that, with typically over 20 dissertations being submitted annually, and up to nearly 50 submissions in some years, there are many productive scholars who have published well, and advanced IB education, even though they were not finalists.

This is possibly because certain topics seem to go through periods of popularity; from the theory of the MNE, to multinationality and performance, to the IBV and now work on emerging economies.

As the Buckley and Casson award begins its life, with the first five finalists having their dissertation abstracts published along with this article, I am sure that all my colleagues in AIB will wish future generations all the career success which has been signified by the Farmer Award's more than a quarter century of achievement.

## References


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Aggarwal, R., Petrovic, V., Ryans, J. K., & Zang, S., 2008. Outstanding International Business Research: Nature of the Best International Business Dissertations. *Multinational Business Review*, 16(1); 1-19.



**Alan M. Rugman** is Professor of International Business and Head of the School of International Business and Strategy at Henley Business School, University of Reading, UK. Before moving to the UK he was at Indiana University, Oxford University, and other leading Universities in North America, Europe and Asia (the triad). From 2004-2006, Mr. Rugman served as President of the Academy of International Business (AIB). Currently he is Dean of the Fellows of AIB.


## Previous AIB Dissertation Award Winners

2012: Marc van Essen (Ph.D. awarded by Erasmus University)

2011: Prithwiraj Choudhury (Ph.D. awarded by Harvard Business School)

2010: Jesper Edman (Ph.D. awarded by Stockholm School of Economics)

2009: Daniel Rottig (Ph.D. awarded by Florida Atlantic University)

2008: Ajai Gaur (Ph.D. awarded by National University of Singapore)

2007: Rekha Krishnan (Ph.D. awarded by Tilburg University)

2006: Jon Erland Lervik (Ph.D. awarded by Norwegian School of Management)

2005: Renata Kosova (Ph.D. awarded by University of Michigan)

2004: Cyril Bouquet (Ph.D. awarded by University of Western Ontario)

2003: Camilla A. Noonan (Ph.D. awarded by University of Reading)

2002: Jeffrey E. Johnson (Ph.D. awarded by University of Strathclyde)

2001: Heather Berry (Ph.D. awarded by University of California, Los Angeles)

2000: Joan P. Mileski (Ph.D. awarded by University of Texas at Dallas)

1999: Witold Henisz (Ph.D. awarded by University of California, Berkeley)

1998: Lena Zander (Ph.D. awarded by Uppsala University)

1997: Tatiana Kostova (Ph.D. awarded by University of Minnesota)

1996: Xavier Martin (Ph.D. awarded by University of Michigan)

1995: Subramanian Rangan (Ph.D. awarded by Harvard University)

1994: Patricia Robinson (Ph.D. awarded by Massachusetts Institute of Technology)

1993: Scott Xianfang Liu (Ph.D. awarded by Pennsylvania State University)

1992: Srilata Zaheer (Ph.D. awarded by Massachusetts Institute of Technology)

1991: Eugene Salorio (Ph.D. awarded by Harvard University)

1990: Arvind Parkhe (Ph.D. awarded by Temple University)

1989: Paz Estrella e Tolentino (Ph.D. awarded by University of Reading)

1988: Ching-Sung Wu (Ph.D. awarded by University of California, Los Angeles)

1987: Fritz Rieger (Ph.D. awarded by McGill University)

1986: Kwang Chul Lee (Ph.D. awarded by University of South Carolina)

# Networks of Influence: Implementing Politically Sustainable Multinational Stakeholder Strategies

Lite J. Nartey

Ph.D. awarded by the University of Pennsylvania, The Wharton School, May 2012

**Navigating uncertainty in the nonmarket environment** (Baron, 1995; Baron & Diermeier, 2007) has been a long-standing focus of scholarship at the nexus of international business and multinational strategy as the nature of this environment has significant implications for a firm's reputation and ultimately, survival. Navigating the nonmarket environment—specifically, the "social, political, and legal arrangements that structure the firm's interactions outside of, and in conjunction with, markets" (Baron, 1995:49)—includes managing and influencing interactions with the public, stakeholders, government, the media, and public institutions (Baron, 1995:47) who shape the nature of the environment firms must operate within. Consider the example of two gold mining firms, one operating a mine in post-communist Romania and the other operating a mine in the post-civil war environment of the Democratic Republic of Congo, where both mines have similar gold ore quantities, similar geological and technical requirements for the extraction of the gold, and both mines are the single assets of two Canadian mining firms. Technical expertise would predict that both firms would reach production at the same time. However, as of 2012, after roughly 10 years of operations, only the mine in the Democratic Republic of Congo had reached production; the Romanian mine still does not have the license to operate! This difference in outcome is contingent on how these firms managed their nonmarket environments.

In this dissertation, I explore the firm's ability to manage the nonmarket environment, specifically, the political, social and economic actors who have a stake in their operations, i.e., their stakeholders (Freeman, 1984). Using the tools of network theory , as well as insights from the entrepreneurship , social psychology , and civic or political participation literatures , I present a stakeholder influence strategy for firms to navigate nonmarket uncertainty by engendering cooperative relations, increasing tie formation and minimizing conflict with their stakeholders. I explore this network-based influence strategy within an industry characterized by significant nonmarket uncertainty—the global gold mining industry—using a novel, hand-coded dataset of 51,754 stakeholder events linking 4,623 unique stakeholders of a population of 19 gold mining firms listed on the Toronto Stock Exchanges which operate 26 mines in 20 countries.

Within the global gold mining industry, nonmarket uncertainty ranges from hostile relations and adverse interventions by governments—such as, sudden stop-work orders, denial of security and work permits, adverse tax or regulatory changes, or outright expropriations of assets—to interventions orchestrated by actors from civil society—such as, sophisticated political strategies of nongovernmental coalitions, violent and nonviolent protests, employee strikes and walkouts, or acts of sabotage. These adverse interventions by both governments and civil society actors can have detrimental impacts on firm operations. They often result in closures, operational delays, and outright loss of assets and can cause irreparable damage to that firm's reputation, thus adversely affecting the firm's financial returns. For example, Newmont's loss of the $5 billion Conga gold and copper project in Peru due to adverse stakeholder action.

Understanding the need to engage stakeholders, and in a bid to "win the hearts and minds" of external stakeholders, firms operating in hostile nonmarket environments often engage in corporate philanthropy or corporate social responsibility activities. Examples of these activities include the building of hospitals, schools, libraries, town halls, as well as the more politically-motivated and controversial expenses such as the building of private residences and palaces for government officials, and the loan of private planes to strategic political actors. This strategy can result in significant outlays of financial and other resources—for example, firms in the extractive industries reportedly spent upwards of $500 million annually on corporate social activities and expenses (Wells, Perish, & Guimaraes, 2001). Shell alone spent $104million on social investment in 2004. These significant outlays of financial and other resources however often have uncertain financial and operational returns due to the fundamental disconnect between the financially-based exchange mechanism of firms and the sociological exchange mechanism of stakeholders.

While the financial mechanism of exchange for firms is largely rational with objective quantifiable costs, benefits and inputs and outputs, the socially-based exchange mechanism of stakeholders is not monetary nor quantifiable and is often not rational but rather based on subjective intangible factors such as trust, social capital, reputation, expectations and biases (Zandvliet, 2004). Often, business in nonmarket environments fraught with uncertainty is contingent on transforming perceptions of identity from foreign extractor to local community member. Such a focus leads to very different recommendations on which stakeholders to approach and how to engage with them. I seek to bridge the divide between the rational and social exchange perspectives not through a limited and often ineffective corporate social responsibility approach, but rather through a stakeholder influence strategy by which the firm's strategic formation of ties with stakeholders can protect and enhance the firm's reputation and cooperation with stakeholders, while minimizing or undermining conflictual stakeholder relations.

I use the concepts and tools of network theory, as well as insights from the entrepreneurship, social psychology, and civic or political participation literatures, to explore the links between the existing network structure of relationships between a foreign firm and stakeholders in the nonmarket environment, or the strategic choices made by the firm to alter that stakeholder network structure, and the subsequent development of the stakeholder network. The goal of this stakeholder influence strategy for firms is to strategically form cooperative ties while minimizing or undermining conflictual ties with stakeholders, which enhances the firm's reputation and has important financial and operational implications. This dissertation comprises three paper chapters (one theoretical and two empirical). The theory paper is the foundational article which outlines an integrated nonmarket stakeholder influence strategy for firms. I test the propositions of this foundational article in the two empirical papers.

*"The goal of this stakeholder influence strategy for firms is to strategically form cooperative ties while minimizing or undermining conflictual ties with stakeholders…"*

## Paper 1: Networks of Influence: Balancing Positional Benefits and Costs in Stakeholder Engagement Strategies

The first paper is a theory paper in which I develop a network-based theory of influence for firms to strategically form ties with stakeholders. This stakeholder influence strategy includes specific testable propositions that link firm, stakeholder or network characteristics to the degree of conflict and cooperation exhibited by stakeholders toward the focal firm or each other. This stakeholder influence strategy is positioned within the stakeholder, civic and political participation literatures and uses network theory and concepts to explore how the firm's strategic position within the network of stakeholders affords it positional benefits of information and reputation, while also highlighting the costs of exposure to pre-existing conflict and the fostering of conflict through asymmetric relations.

The goal of this paper is to outline a sociopolitical influence strategy for firms to navigate complex political environments and improve relations with stakeholders. I ground this influence strategy using three metaphors: (1) *networks as pipes* (Podolny, 2001), i.e., that the firm's position within the stakeholder network affords it information benefits and impacts the firm's subsequent relations with stakeholders, (2) *networks as prisms* (Podolny, 2001), i.e., that the stakeholder with whom the firm connects and the nature of the firm's engagement with stakeholders, affords it reputational benefits and impacts that firm's subsequent relations with stakeholders, and (3) *networks as structures* (Kahler, 2009), i.e., that because of the interdependencies and endogenous network evolutionary dynamics among stakeholders themselves, firms seeking to gain such information and reputation benefits should be wary of exposing themselves to preexisting conflict among stakeholders or fostering conflict by forming asymmetric relations with and among stakeholders.

This paper seeks to augment our understanding of how firms can strategically manage stakeholders and thus favorably shape their nonmarket environments. While scholars of nonmarket strategy and international business have employed market-based mechanisms to mitigate uncertainty in the nonmarket environment, scholars of stakeholder theory have sought to understand relations between firms and stakeholders from a largely normative position, and firms themselves in practice have sought to mitigate nonmarket uncertainty through acts of corporate social responsibility and philanthropy without a full understanding of *how* to engage with stakeholders. In this first paper, I use the literatures on civic and political participation, and the tools and concepts of network theory to identify non-market strategies that generate the greatest returns to firm corporate social responsibility activities and stakeholder engagement practices in terms of information and reputation benefits as well as garnering political and social support.

## Paper 2: Networks of influence: Pipes and Prisms of Political Influence

The second paper explores empirically how firms manage the two types of uncertainty within the nonmarket environment—egocentric uncertainty (where the focal firm is uncertain about the qualities of the stakeholders within the environment), and altercentric uncertainty (where stakeholders are uncertain about the qualities and products of the firm) (Podolny, 2001). I use tools and insights from network theory to build upon extant insights and understandings of how best to manage egocentric and altercentric uncertainty (Podolny, 2001) and I compare the efficacy of the *ex ante* strategies that the firm can use to manage both egocentric and altercentric uncertainty. I hypothesize that through strategic network positioning that affords it information, the firm can manage its egocentric uncertainty; and, by managing how it is perceived through its associations, the firm can also manage stakeholders' altercentric uncertainty. Of course, the management of both types of uncertainty is not without cost and therefore, an important issue is to understand which type of uncertainty should be the primary focus of firms in highly uncertain nonmarket environments. My findings suggest that the key determinant of an increase in cooperation and tie formation within the stakeholder network is the focal firm's ability to mitigate altercentric uncertainty by forming ties with high status, cooperative stakeholders and ensuring reciprocity in these relationships through joint activity.

This second paper builds upon extant work exploring factors that mitigate egocentric and altercentric uncertainty (Podolny, 2001) and empirically tests these factors within the global gold mining industry—an industry rife with political and social tension among firms and diverse stakeholders. Egocentric uncertainty is mitigated by access to information through structural holes while altercentric uncertainty is mitigated by high status (Podolny, 2001). I use a network lens to explore additional factors of the firm that afford it information benefits (structural holes and network range), and I also explore factors of the stakeholders with whom the firm is associated that may afford the firm reputational benefits of high quality (i.e., the degree of cooperation, status and reciprocation in joint activity of the stakeholders to whom the firm is connected). The dependent variables of interest in this paper are (1) the degree of conflict or cooperation between the focal firm and stakeholders and (2) the number of ties formed, and thus the level of analysis is at the level of the dyad. The insights from this paper contribute to extant work on strategies to mitigate egocentric and altercentric uncertainty by exploring network-based information and reputation mechanisms on the mitigation of these two types of uncertainty.

## Paper 3: Networks of Influence: Homophily and Triadic Closure in Stakeholder Networks

In the third paper I use insights from Simmelian (Simmel, 1950) and Balance (Cartwright & Harary, 1956, Heider, 1958) theories to explore empirically the relationship between dyadic structure and triadic closure among networks of actors in the sociopolitical context. For each triple of actors forming an open triad, I explore how the homophily (or similarity) of the structural characteristics of the three actors comprising a triad impact the likelihood of that triad closing. I outline hypotheses of the homophily of four characteristics of the actors in the triad—access to resources, status, likeability and number of ties (popularity)—on the likelihood of a tie forming that closes the open triad. These four characteristics differ on whether their derived benefits are contingent on the dependence between actors and are therefore zero-sum outcomes (i.e., access to resources and status) or are not contingent on dependence between actors and are therefore not zero-sum outcomes (i.e., likeability and popularity).

I hypothesize that triadic closure is more likely when the actors of a triad have a greater difference in the characteristics contingent on the dependence between actors (access to resources and status), and greater similarity or homophily in the characteristics that are not contingent on the dependence between actors (likeability and popularity). Holding constant the quality of existing ties (i.e., strength of the ties), symmetry of relations in the existing dyads, reciprocity of relations in the existing dyads, and the number of common others actors in existing dyads are connected to, I find that a link that closes an open directed triad is more likely when the actors of the triad have *different* access to resources, and *different* status, but that link is more likely when actors have *similar* numbers of ties to other actors. I also find that likeability among actors in the triad has no impact on the likelihood of closing that triad. By exploring how the characteristics of actors in a network affect network dynamics, the insights of this third paper exploring triadic mechanisms add to our understanding of the contingent factors and mechanisms that affect network evolutionary dynamics. The outcome I explore in this paper, triadic closure, is also an underexplored network outcome which is of strategic importance to firms seeking to understand and manage their relations with stakeholders and the dynamics among stakeholders themselves as a firm that does not understand evolutionary dynamics may find its attempts to influence specific stakeholders thwarted or undone by unexpected changes in the structure of ties.

My empirical papers test the relationships among firms and stakeholders in the global gold mining industry using a novel database of 51,754 stakeholder events linking 4,623 unique stakeholders of a population of 19 publicly traded gold mining firms listed on the Toronto Stock Exchanges (TSX) which operate 26 mines in 20 mostly emerging economies. The gold mining industry is a particularly salient context for this study because gold mining is widely considered one of the most socially irresponsible and environmentally rapacious industries (Humphreys, 2001). Therefore, stakeholders (e.g., multilateral agencies, multiple levels of governments, NGOs, cultural or religious groups and firms or individuals with an economic stake in the mine or the community) are relatively more active in their relations with firms. Thus, the impact of firm strategic network-building and stakeholder engagement strategies may be greater in this industry. While this study is conducted in the global gold mining industry, the theories underlying the strategies are garnered from a wide range of literatures and have been applied in

> *"The gold mining industry is a particularly salient context for this study because gold mining is widely considered one of the most socially irresponsible and environmentally rapacious industries."*

various contexts. I therefore argue that the findings of this dissertation are generalizable to both foreign and domestic firms whose operations are highly subject to stakeholder control and action, i.e., foreign and domestic firms operating in environments and industries characterized by high nonmarket uncertainty and risk.

### *Implications / Contributions*

While the network literature and network concepts are well-established, the networks I explore are conceivably and possibly structurally different from those used by network scholars. Extant work employing networks in the strategy literature primarily employ alliance data, while social network scholars often use email data, friendship data, and simulations to understand network dynamics. Conversely, the networks I explore in this dissertation are based on media-reported, dynamic, multiplex relations among diverse political, social and economic stakeholders within the global gold mining industry and are thus structurally different from the networks explored by alliance, strategy, and social network scholars. The application of network tools and concepts within this dynamic industry environment is an important means to explore the contingencies and antecedents of network concepts in highly uncertain nonmarket environments.

> *"Together these three papers create a theoretical and empirical base for strategic analysis of firms' interactions with stakeholder networks."*

Together these three papers create a theoretical and empirical base for strategic analysis of firms' interactions with stakeholder networks. They combine a firm-centered perspective of outreach to stakeholders with a structure-centered perspective of triads and balance together forming the building blocks of an understanding of how a firm can best improve its position in a dynamically evolving stakeholder network. The importance of such a strategic analysis of stakeholder networks and relations with firms is due to the important financial and operational implications of these strategies. By understanding who the stakeholders are and strategically forming ties to engender cooperation and reduce conflict with these stakeholders, the firm favorably shapes its nonmarket environment to facilitate market-based operations and benefits.

I contribute to the political risk and international business literatures by applying network tools to better define the political nonmarket environment for firms in terms of the political, social and economic stakeholders who can adversely impact, or benefit the firm and put forward and test hypotheses for firms to favorably manage their nonmarket environments. I contribute to the network literature by exploring established network tools and concepts in an understudied and novel network environment defined by complex and dynamic relations among a diverse set of actors. I contribute to the stakeholder literature by offering a network-based theoretical approach to instrumental stakeholder theory, and test this within a novel empirical industry setting. Further, through the use of this novel stakeholder relations dataset, I move from measuring at a corporate level whether a company is categorized as being more or less responsible according to some (self-reported) standards, principles or audits to a more objective measurement approach using event data at the stakeholder level on how stakeholders themselves perceive the firm.

This dissertation also has important implications for international business (IB) and strategy education, as well as for business practice and policy. The importance and relevance of the nonmarket environment and stakeholder engagement theories for firm strategy cannot be underscored, especially in the current global environment. This suggests a greater need for inclusion of these theories in general IB and strategy courses and materials at the undergraduate, MBA and Executive Education levels to furnish future and current managers with the tools necessary to effectively manage the nonmarket environment. Critically, while scholarly research on the nonmarket environment is not novel, the dynamic nature of the political, social and economic changes in the global environment offers a rich and fruitful area for future academic scholarship. Therefore, the inclusion of these theories and the necessary tools to enable deeper empirical and theoretical inquiry into courses at the doctoral level is essential to ensure research that is relevant to the current global business environment. For policy makers, insights garnered from research on firm-business-government and civil society interactions is important for shaping policies that create enabling and sustaining environments for firms, but is also critical for informing the creation of policies that protect social value for stakeholders.

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# Internationalization and Performance of Emerging Market Firms: Institutional Embeddedness in Advanced Economies

Hamid Akbari

Ph.D. awarded by York University, Schulich School of Business, June 2012

**The world is fascinated** with emerging market (EM) firms that are starting to establish a global presence. These are firms that have been able to survive and grow despite various "institutional voids" (Khanna & Palepu, 1997) in their home countries and have managed to attract the capital and talent necessary to start internationalizing. Nevertheless, they often lag behind global competitors in brand names, innovation processes, technology, and management systems. Many of these EM firms are searching for ways to catch up by making acquisitions in advanced economies (Madhok & Keyhani, 2012).

My research suggests that tapping into the benefits of superior institutional environments (Chan, Isobe, & Makino, 2008) may be a primary driver of international acquisitions, and that an EM firm's capacity to absorb learning from the more complex and developed institutional environment determines the performance outcomes. The results of this study indicate that EM firms that become embedded in advanced economies experience negative performance effects in the short run but realize positive performance outcomes in the long run. Contrary to the intuitively-appealing prediction of the theory of incremental internationalization (Johanson & Vahlne, 1977), the results suggest that EM firms realize greater performance benefits when they expand to more institutionally-distant advanced economies.

## Which country is an emerging economy?

Given that the literature does not offer a clear-cut list of emerging and advanced economies (Hoskisson, Eden, Lau, & Wright, 2000), I studied 59 countries that had enough impact on the global economy to be listed in the World Competitiveness Yearbooks and to be covered by international organizations such as the World Bank. I started with categorizing countries into emerging and advanced using: (a) the International Monetary Fund's list of advanced and emerging economies; (b) the Human Development Index; and (c) the GDP Growth. This analysis identified 24 advanced economies (such as France, Japan, New Zealand, and the USA) which consistently met all three criteria in the past 15 years. There are, however, a number of countries with mixed results. For example, South Korea and Singapore are listed as advanced economies in the IMF and are ranked very high on their HDI, but have experienced the rapid growth of typical emerging economies. I have identified this distinct group as countries in transition from emerging to advanced-economy status (Czech Republic, Estonia, Ireland, South Korea, Singapore, Slovak Republic, Slovenia, and Taiwan). Finally, 27 emerging economies (such as Brazil, China, India, Mexico, Poland, Russia, South Africa, and Turkey) were identified.

For these 27 emerging economies, I developed a dataset of public firms and then tracked each firm's past acquisitions using the SDC Platinum database provided by Thomson Reuters. These past acquisitions dated back to 1977 and included all domestic and international acquisitions. The final dataset was comprised of 9,699 distinct firms (in 78 different industry groups) that had a total of 71,522 acquisitions.

## What type of acquisitions can create more value for EM firms?

I found that EM firms that have made acquisitions in advanced economies experience higher firm performance (measured by return on total assets) vis-à-vis other EM firms (with no prior acquisition or with other types of acquisitions). To be able to compare the performance impact of international acquisitions in advanced economies with acquisitions in countries that ranked lower on the level of institutional development, each EM firm's past acquisitions were categorized into four groups: acquisitions in advanced economies, acquisitions in transitional economies, acquisitions in emerging economies, and domestic acquisitions. My analysis indicated that there was no significant relationship between firm performance and international acquisitions in transitional or other emerging economies. Similarly, there was no significant relationship between firm performance and past domestic acquisitions. There was, however, a significant positive relationship between firm performance and past acquisitions in advanced economies. Therefore, on average, EM firms with past acquisitions in advanced economies have a higher performance than other EM firms.

## How does post-acquisition performance change over time?

One would argue that the stronger performance of EM firms with acquisitions in advanced economies might be attributable to their pre-acquisition strength, rather than post-acquisition performance enhancement. Hence, I conducted longitudinal analyses to understand how an EM firm's performance changed over time after an acquisition had been completed.

Findings revealed that EM firms' acquisitions in advanced economies were associated with negative performance effects in the short term. This is likely due to overpayment for the acquisition, the liability of foreignness (Zaheer, 1995), the liability of newness in advanced economies (Madhok & Keyhani, 2012), and the gradual and incremental nature of learning required for a distant institutional environment. However, the expansion of EM firms into advanced economies led to positive financial outcomes in the long term.

## How does institutional gap affect performance outcomes?

I define an institutional gap as the positive or negative difference in the level of institutional development between the domestic (home) country and the foreign (host) country to which a firm expands. The institutional gap for internationalization from emerging economies to advanced economies is by and large positive, as advanced economies often enjoy a greater level of institutional development vis-à-vis emerging economies. To measure the level of institutional development within each country, 14 indicators were obtained from the World Competitiveness Yearbooks and used as proxies for the economic, political, and social institutions. Included in these 14 items are the Distribution Infrastructure, Financial Resources, the Educational System, Innovative Capacity, Intellectual Property, the Regulatory Framework, Corruption, and the Ease of Doing Business.

I found that a greater positive institutional gap in acquisitions is associated with better performance outcomes. EM firms that expand to advanced economies with significantly higher levels of institutional development gain access to knowledge, resources, and capabilities that are not available to them in their domestic environment. The cost of such expansion to institutionally distant countries is very high, as theories of internationalization correctly predict. But this distant expansion allows EM firms to learn new and diverse capabilities practiced in advanced economies, transfer them back home, and defend their domestic business against the presence of global leading firms that entered their liberalized, deregulated domestic markets. Hence, even the costly expansion of EM firms to very different advanced institutional environments can be associated with higher performance for the corporation and it is the performance of the corporation, rather than the subsidiary in the advanced economy, that should be optimized.

## Concluding Remarks

This study contributes to our understanding of "institutional distance" (Kostova, 1999, Xu & Shenkar, 2002). Previous research had not fully considered the direction of institutional distance (Zaheer, Schomaker, & Nachum, 2012); the results from this study show that distance is not direction-neutral and, in fact, the direction of international acquisitions matters greatly. For example, a Brazilian firm operating in the United States faces institutional obstacles that are different from those faced by an American firm operating in Brazil. Indeed, this research suggests that a positive institutional gap is beneficial for performance over the long term.

As incremental internationalization theory implies, a wide institutional gap may lead to a large liability of foreignness and poor performance outcomes in the short run. In the long run, however, a wider institutional gap may be a substantial source of learning and value creation, leading to capability development and ultimately greater performance benefits from international expansion. Thus, it is important to distinguish between short term and long term performance outcomes of internationalization because after entry to a foreign market, the negative impact due to the liability of foreignness may attenuate over time, whereas learning benefits may increase.

My analysis suggests that it may take EM firms as long as 18 years to realize a positive performance for their acquisitions in advanced economies. In this particular form of acquisition, the challenges can extend beyond the internal processes of post-acquisition integration and implementation to learning how to navigate and operate in a very complex, different institutional environment.

The results of this study also indicated that a greater level of unabsorbed slack resources (Tan & Peng, 2003), for example lower debt-to-equity ratio, improved the performance outcomes of internationalization. EM firms with a higher absorptive capacity (measured by R&D intensity) gained more from expansion into advanced economies. Furthermore, expansion into related industries at a lower expansion pace was associated with greater benefits. Taken together, this research suggests that expanding into advanced economies can help EM firms to build capabilities, but learning to navigate in advanced economies is a slow process and EM firms will need unabsorbed slack resources to leverage capability development. Further, a wider institutional gap between the emerging economy (home) and the advanced economy (host) may lead to better performance results, underscoring potential benefits of accessing an advanced economy institutional environment for EM firms.

> *"...it may take EM firms as long as 18 years to realize a positive performance for their acquisitions in advanced economies."*

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# Three Essays on Foreign Entrepreneurs

Elena Kulchina

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**TODAY, GLOBAL EXPANSION IS OFTEN** seen as a necessary prerequisite for success, but the road to global success is often long and difficult. Strategic issues become particularly complex for foreign entrepreneurs, who in addition to the liabilities of foreignness suffer from a lack of international experience. Despite being faced with unique trade-offs, however, foreign entrepreneurs have received little consideration in the research literature. In my dissertation, I address this gap by examining how foreign entrepreneurs make some of their strategic choices and how these choices influence firm performance.

Foreign entrepreneurs, individuals who establish firms outside of their native countries, are an important phenomenon. In the United States, for example, foreign entrepreneurs own 18% of small businesses, employing 4.7 million people (Fiscal Policy Institute, 2012). Despite the ubiquity of foreign entrepreneurs, academic work in this area is still relatively sparse: the three most closely related literatures—international entrepreneurship (e.g., Oviatt & McDougall, 1994), transnational entrepreneurship (e.g., Portes et al., 2002), and immigrant entrepreneurship (e.g., Wilson & Portes, 1980)—primarily focus on the decisions to become an entrepreneur and to extend operations abroad, whereas other strategic decisions of foreign entrepreneurs remain largely unexplored.

My dissertation comprises three papers exploring different aspects of foreign entrepreneurship. The first paper asks whether foreign entrepreneurial firms perform better with a foreign owner-manager or a hired domestic manager. The second paper investigates how foreign entrepreneurs' personal relocation preferences may affect their decisions to manage their own firms and draws out implications for venture performance. In the final paper, I explore how media coverage of a city affects location choices of foreign firms and how this effect varies for investors with little private information, such as foreign entrepreneurs.

Each of my dissertation papers examines a unique aspect of foreign entrepreneurship, but all share a common empirical context: foreign firms in Russia between 1997 and 2008. This setting has several attractive features: first, the Ruslana database—a private database comprised of information from Russian government agencies—provides detailed financial, ownership, top management and location data on a comprehensive sample of foreign firms, including private startups. Second, policy changes in Russia between 1997 and 2008 allow me to more reliably infer causality from the observed empirical relationships.

## Study I: *Do It Yourself or Hire a Manager? Foreign Entrepreneurs and Firm Performance*

My first study examines the impact of the choice of CEO on the performance of foreign entrepreneurial firms. When starting a firm, an entrepreneur must decide whether to manage it personally or hire a local manager. Yet little is known of how this choice affects firm performance. The theoretical predictions from the existing literature are contradictory: the international business literature suggests that foreign owner-managers would underperform hired domestic managers because of the liability of foreignness (e.g., Zaheer & Mosakowski, 1997). The agency literature implies the opposite: owner-managers should exert higher effort because they directly benefit from the firm profit (e.g., Jensen & Meckling, 1976). I examine this question using a visa policy change as an instrument for the owner-manager choice. I find that manager type significantly affects firm performance: exogenous assignment of a local manager in place of a foreign owner-manager significantly reduces firm profit. I also demonstrate that, in addition to the reduced agency costs, there is a new mechanism in the international setting: foreign owner-managers benefit their firms by hiring cheap home-country labor.

> *"… manager type significantly affects firm performance: exogenous assignment of a local manager in place of a foreign owner-manager significantly reduces firm profit."*

This study makes several contributions to the international business literature. First, it is one of the very first studies thus far to examine the performance consequences of the choice between a foreign owner-manager and a hired domestic manager. Moreover, while the research in the domestic context frequently attributes the positive owner-manager's effect solely to the reduced agency costs, I show that in the international setting, a significant part of the positive effect comes from entrepreneurs' ability to access home-country resources, such as cheap labor. Furthermore, while the international business literature often finds foreignness to be a liability, I emphasize that foreignness can be beneficial if personal ties outside the region provide access to cheap and mobile resources.

## Study II: *Private Benefits and Entrepreneurs' Choice of Manager*

In the second study, I focus on the determinants of the choice between an owner-manager and a hired manager. The existing literature has primarily ignored the complexity of this choice and assumed that entrepreneurs always manage their firms themselves (e.g., Nanda & Sorensen, 2010). As a result, we know very little about what motivates an entrepreneur to manage a firm personally or hire an agent and what are the motivating roles of financial and nonfinancial benefits. I use an example of foreign entrepreneurs who, in order to manage their firms abroad, need to relocate to a host country and, thus, experience non-pecuniary benefits and costs of relocation associated with personally managing the firm. I show that foreign entrepreneurs with high benefits of relocation are more likely to become owner-managers and seem willing to substitute private benefits of relocation for some firm profit.

This paper represents one of the very first attempts to examine the determinants of the entrepreneur's choice to manage a firm personally in an international setting. With caution, my findings can also be extended to other types of international entrepreneurs, returnee-entrepreneurs, and diaspora-entrepreneurs as well as have implications to the choice of manager in multinational corporations, suggesting that expatriate managers' compensation may be contingent on the location attractiveness.

## Study III: *Media Coverage and Location Choice*

The third study examines the impact of media coverage of a city on the location choices of foreign firms. Emphasizing the importance of informed strategic choice, international business research has examined how private information about locations affects foreign direct investment (FDI) (e.g., Henisz & Delios, 2001). Publicly available media information has received little attention, however, perhaps because its impact on location choice is expected to be trivial. My study challenges this expectation: Using a new instrument for media coverage (a major anniversary of a city's establishment date), I show that extensive foreign media coverage of a city attracts more foreign firms. This effect is stronger for firms with less private information about Russian cities, i.e., more socially and geographically distant firms and foreign entrepreneurs.

This study explores a previously neglected link between publicly available media information and FDI. While prior research has mainly focused on the impact of private information on location decisions, this study points to the important role of public information. This paper also demonstrates different sensitivity of foreign firms to media coverage in the presence of private signals, which may partially explain the discrepancies in the location choices of international entrepreneurs and multinational corporations, or foreign and domestic firms. Shaver (1998), for example, has found surprisingly different location patterns of foreign and domestic firms in the U.S. My findings suggest that this discrepancy may be partially explained by the different sensitivity of foreign and domestic firms to media signals.

## Conclusion

In summary, this dissertation contributes to the international business literature in several ways: First, it improves our understanding of foreign entrepreneurs—a widespread but understudied phenomenon—by examining their behavior from the social capital and agency perspectives. Second, it examines the antecedents and consequences of important strategic choices, the choices of manager and location, in the international arena. It also extends our understanding of the behavior of foreign firms that could not be explained by the existing theories. For example, it examines the relationship between media signals and FDI and identifies new benefits of owner-management in the international context that have been largely ignored by the existing research.

In addition, this study contributes to the emerging transnational entrepreneurship literature, which examines how foreign entrepreneurs benefit from leveraging their home-country connections. My study suggests how transnational entrepreneurs may benefit from the ties to home-country resources and takes the transnational entrepreneurship literature a step further by suggesting that home-country networks are not equally beneficial for all foreign entrepreneurial firms, but may more strongly benefit firms with foreign owner-managers.

Finally, my findings may also contribute to the international business, entrepreneurship, and strategy education. Traditional curricula and textbooks spend little time on the strategic decisions of foreign entrepreneurs, but may consider including the issues relevant to new international ventures and foreign entrepreneurs. Today, many undergraduate and MBA students come from outside of the United States or Europe and often plan to open their own businesses in the host country after graduation. They would strongly benefit from further discussion of such issues as manager choice or location choice in a young foreign venture.

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# British Multinationals in South East Asia: Strategy, Subsidiaries and Performance

Quyen T.K. Nguyen

Ph.D. awarded by the University of Reading, Henley Business School, July 2012

**This dissertation aims to contribute** to the theoretical and empirical literature of the multinational subsidiary strategy and performance. First, this study adopts an innovative approach to theory development by integrating internalization theory (Buckley & Casson, 1976; Hennart, 1982; Rugman, 1981) in the international business literature with the pecking order theory on capital structure and financing sources in the finance literature (Myers & Majluf, 1984). Second, the focus on testing the performance of subsidiaries has led this research to advance on the theoretical concept of subsidiary-specific advantages (SSAs) as developed by Birkinshaw (1997) and by Rugman and Verbeke (2001). These concepts have not been tested in any systematic way for emerging economies. Third, this research focuses on the recombination capability which is the highest-order firm-specific advantages (FSAs) in economic value creation in an international environment (Verbeke, 2009; Rugman, Verbeke & Nguyen, 2011). Specifically, this dissertation has three empirical studies:

1. Subsidiary-specific advantages (SSAs), governance and performance
2. Host country market attractiveness, subsidiary-specific advantages (SSAs) and performance
3. Multinational subsidiaries as flagship firms and the fast moving consumer goods sectors: Unilever in South East Asia

Drawing upon the economic theories of the multinational enterprise (MNE) which are internalization theory (Buckley & Casson, 1976; Hennart, 1982; Rugman, 1981), Dunning's Ownership, Internalization and Location (OLI) framework and his four foreign direct investment (FDI) motives (Dunning, 1998) to maximize the net present value (NPV) of firm-specific advantages (FSAs) by optimal operations of the dispersed network of subsidiaries, I develop a conceptual framework and then test a set of hypotheses.

The hypotheses were tested using a unique primary dataset collected by a questionnaire survey with 101 British MNE subsidiaries across six emerging economies in the South East Asian region (Malaysia, Indonesia, the Philippines, Singapore, Thailand and Vietnam) over five-year period (2003-2007). Managerial insights were obtained through interviews with subsidiary managers, in direct observations of the daily operations of subsidiaries during the pilot test period and follow-up e-mail interactions with subsidiary managers during data collection. The findings of the survey were communicated to participating subsidiary managers. The report received strong interests, feedback and comments from subsidiary managers. Survey data has been supplemented with secondary data of annual reports of parent firms.

The survey was based on principles of modern international business theories which were translated into managerial concepts such that managers could identify the mechanism by which they undertook recombination of firm-specific advantages (FSAs) with host country-specific advantages (host CSAs). Additionally, international accounting standards (IAS24 related party disclosure and IFRS8 operating segments) were incorporated in the questionnaire design. Thus, I discovered the nature and the extent of subsidiary sales across three new dimensions: first, by markets (domestic sales and exports); second, by geographic areas (sales to the Asia Pacific region and sales to rest of the world); and third by customer types (sales to external customers and intra-firm sales).

## Subsidiary-specific advantages (SSAs), governance and performance

SSAs include internal financing, subsidiary general management and marketing capabilities. Governance refers to the parent-subsidiary relationship, namely, subsidiary autonomy, subsidiary level of national responsiveness by offering regionally and/or locally customized products and services, ownership and control through wholly owned foreign subsidiaries (WOFSs) versus joint venture (JVs). Subsidiary performance is evaluated using subsidiary managers' perception on financial and non-financial criteria of actual performance against budget of sales growth, profit growth, return on capital employed (ROCE) and market share growth compared to competitors.

The main theoretical contribution of this study is to establish that internal financing is a type of firm-specific advantage (FSA), but one largely under-researched in the international business literature. This study also contributes to the theory of the MNE with its focus on the reality of the internal capital markets in financing foreign subsidiaries. There are three significant findings. First, internal financing acts as an FSA to enhance subsidiary performance. I find that 93 percent of financing sources in the British subsidiaries (including capital investment from parent firms) come from internal financing, which is fully consistent with the "pecking order theory." The two traditional SSAs and subsidiary level of national responsiveness by offering regionally and locally customized products and services have positive impacts on subsidiary performance. Second, governance in terms of subsidiary autonomy, ownership and control through wholly-owned foreign subsidiary (WOFS) versus joint venture (JV) does not affect subsidiary performance. This is somewhat surprising given the large literature on entry mode choice. This issue is investigated further by a comparative analysis of the characteristics and performance between wholly-owned foreign subsidiaries (WOFSs) and joint ventures (JVs) using a Kruskal Wallis test. Third, there are no significant differences between the two groups and they perform equally.

## Host country location, subsidiary-specific advantages (SSAs) and performance

This study examines the relationship of host country market attractiveness, subsidiary-specific advantages (SSAs), subsidiary sales and asset exploitation foreign direct investment (FDI) motives as they affect subsidiary performance. There are three significant findings. First, host country market attractiveness, export sales by a subsidiary besides servicing domestic markets, asset exploitation foreign direct investment (FDI) motives, and subsidiary-specific advantages (SSAs) have a statistically significant positive impact on performance of subsidiaries. Second, market-seeking is the predominant foreign direct investment (FDI) motive (66 percent). Third, these subsidiaries explicitly focus on sales to external customers where they generate on average 91percent of their total sales. Sales to the Asia Pacific region account for 95 percent of total sales. The contribution of domestic sales and exports are at 77 percent and 23 percent accordingly.

Because the direction of causality is hard to assess with certainty in the first two empirical studies, I examine the reverse effects of subsidiary profits on subsidiary-specific advantages (SSAs). I find that 84 percent of subsidiaries in the sample are profitable over the five-year period 2003–2007. A part of the profits has been reinvested into subsidiaries' business for subsequent expansion and growth through retained earnings. Thus, these subsidiaries can use the financial resources to continue enhancing their existing firm-specific advantages (FSAs) and developing new firm-specific advantages (FSAs). I find a positive relationship on the reverse effects. This is the first study which has empirically tested such reverse effects due to its new and innovative approach to apply accounting and financial reporting to international business.

## Multinational subsidiaries as flagship firms and the fast moving consumer goods sector: Unilever in South East Asia

This study conducts a major case study of Unilever's subsidiaries in Indonesia and Vietnam to establish the extent to which they generate new subsidiary-specific advantages (SSAs). I find evidence that subsidiary managers generate subsidiary-specific advantages (SSAs) by recombining the firm-specific advantages (FSAs) of their parent firm with newly developed firm-specific advantages (FSAs) by subsidiaries obtained in interacting with host country-specific advantages (CSAs). They do this principally through the development of 'flagship strategy' (Rugman & D'Cruz, 2000). This strategy aims to access complementary resources of external actors in the host countries through establishing network relationships with key partners in the value chains such as key suppliers, key distributors, selected key competitors and institutions in the non-business infrastructure. I find that flagship strategy is a type of network capabilities that can lead to firm-specific advantages (FSAs) for the multinational enterprise (MNE). It also contributes to the performance of the subsidiaries and help develop local networks of small and medium enterprises (SMEs) which enhance economic development.

## Contributions

This dissertation contributes to the literature of subsidiary strategy and performance in several new ways. First, this study is among the first to examine internal financing as a recombination capability which enhances the performance of the foreign subsidiaries of the MNE. Consistent with internalization theory, internal financing is conceptually just as valuable as other traditional firm-specific advantages (FSAs) in R&D, marketing and managerial skills. The firm-specific advantage (FSA) of internal financing, although driven by the parent firm (and its costs of capital due to the advantages of consolidated accounting returns) is one of most benefit to the subsidiary. This firm-specific advantage (FSA) (like all others) arises due to recombinations with country-specific advantages (CSAs).

Second, this study advances on the concept of subsidiary-specific advantages (SSAs) of the theory of the MNE. While Rugman & Verbeke (2001) have developed the concept by outlining how such FSAs are created by foreign subsidiaries, I test how they affect subsidiary performance. The three empirical studies provide strong evidence that subsidiary performance depends on subsidiary-specific advantages (SSAs). Thus, they support internalization theory.

*"The three empirical studies provide strong evidence that subsidiary performance depends on subsidiary-specific advantages (SSAs). Thus, they support internalization theory."*

Third, this research emphasizes the recombination capability of the subsidiary. The empirical results show that the subsidiary is the engine to recombine internationally transferable firm-specific advantages (FSAs) from parent firms with newly developed firm-specific advantages (FSAs) by subsidiaries and complementary resources of external actors in host countries.

Finally, this research provides important managerial implications. These include proactive strategies for long-term sustainable and profitable growth of foreign subsidiaries, such as using internal funds to finance subsidiary expansion, and subsidiary sales with strong focus on external customers in the broad Asia Pacific region.

The policy implications of this research reach beyond the business arena. This study provides insights to policy makers on the role of subsidiaries in facilitating economic and social development when the links between subsidiaries and local small and medium-sized enterprises (SMEs) in the flagship networks are examined.

The findings of this research contribute to the teaching philosophy of international business (IB) as an inter-disciplinary subject. By integrating IB with accounting and finance, this research demonstrates that the teaching and learning on the strategy and performance of the MNE and its foreign subsidiaries is based upon rigorous theories and relevant empirical evidence in real world business realities. Further, the ASEAN regional context (ASEAN: the Association of South East Asian Nations) is a dynamic business environment for research and teaching of IB. This research focuses on managerial approach with strong emphasis on factors which are under control of subsidiary mangers. Thus, it promotes the accessibility, practicality and development of lifelong learning skills for the benefits of management students.

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# Essays on International Non-market Strategy and the Political Economy of Environmental Regulation

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One of the largely underexplored research areas in International Business is how the international non-market environment of companies (e.g. regulators, politicians, non-governmental organizations, international organizations) influences firm strategy and performance and particularly how government regulations can enable firms to capture surplus rents. This holds especially true for new climate change regulations that are being introduced in a growing number of countries and regions around the world (e.g. the European Union, Australia, Canada and California). Despite the increasing importance of such regulations and the widely-held expectation that climate change will become one of the most pressing issues for companies, managers and policy makers in the coming decades, there is a lack of understanding of how these environmental programs affect the strategic actions of firms. For my dissertation, I combined my long-standing interest in the importance of the non-market environment for firm strategy with a deep-seated passion for studying the political economy of climate change regulations. Using the European Union Emissions Trading Scheme (EU ETS) as my empirical setting, I examined several unanswered research questions in international non-market strategy and political economy in three distinct dissertation chapters. The EU ETS as the world's largest regulatory program for greenhouse gases is a comprehensive, multinational regulatory experiment that provides the ideal context for my research. All dissertation chapters are empirical studies that use a variety of econometric methodologies and are strongly embedded within prior literature in non-market strategy (e.g. Baron 1995, De Figureido and Silverman 2006, Fisman 2001), international business and economics (e.g. Caves 2007, Kogut 1983, LaPorta et al. 1997) and political economy (e.g. Grossman and Helpman 1994, Mueller 2003, Mitchell and Munger 1991).

## The International Non-market Environment and Rent-seeking

One of the two main focal points of my dissertation is the role the non-market environment of a firm plays in its ability to gain a competitive advantage and capture value. While most of the traditional literature in strategy (e.g. McGahan and Porter 1997, Rumelt 1991) has focused on the immediate market environment of companies (e.g. competitors, suppliers, buyers), there is a growing recognition among scholars in international business and strategy that the non-market environment can similarly exert a large influence on firm strategy and performance. The notion that firms and interest groups (e.g. industry associations) engage in targeted efforts to secure rents from non-market actors such as regulators or politicians (i.e. they engage in rent-seeking) stems from previous work in the political economy literature (e.g. Mueller 2003). In my dissertation, I am using this foundation to evaluate how such rent-seeking behavior can allow firms to capture value from their international non-market environment, thereby combining and extending insights from multiple literatures and disciplines. In particular, I am examining the following research questions in the distinct chapters of my dissertation:

1. Can government regulations facilitate market imperfections that allow firms to capture surplus rents and which companies are more likely to exploit such opportunities?
2. What are the main determinants of the ability of firms to capture rents from their non-market environment: country-, industry-, or firm-affiliation?
3. How do country-specific institutional and political characteristics influence the size of rents industry groups can extract from government regulators?

In order to study these questions, I gathered comprehensive data on industrial plants, firms and industries covered by the EU Emissions Trading Scheme (EU ETS).

## Climate Change and the EU ETS

For my research, I decided to focus on the EU ETS as a newly introduced regulatory program for greenhouses gases for several reasons. First, the multinational nature of the program—as it covers all EU member countries—provides the ideal setting for a research study focused on international business and multinational companies. Second, the EU ETS has created a substantial market for emissions permits (i.e. the right to emit 1 ton of $CO_2$), worth billions of Euros every year. These emissions permits are distributed by national regulators and represent substantial economic rents at a permit price above zero. As those rents can be captured by firms and interest groups, this type of regulation is well suited for studying my research questions. Finally, climate change regulations are being introduced at an increasing rate all around the world and can be expected to have a profound impact on firms and their strategies as they usually affect the whole cost structure for production and distribution. If the relevant price for $CO_2$ emissions created by these regulations is high enough, it provides incentives for the development of environmentally efficient technologies and increased innovation. Despite the growing salience of climate change regulations, however, little scholarly work has examined how those policies affect firm strategy and performance, particularly in an international context. By focusing on this type of government regulation, I seek to improve our understanding in this crucial area of research.

## Main insights from my dissertation research

In the following sections, I will provide an overview of some of the major findings from my dissertation. Due to space constraints, I will not go into details, but would be happy to discuss them further with any interested reader.

### *A firm's non-market environment provides clear opportunities to capture surplus rents*

My research shows that certain firms are appropriating surplus rents from the EU ETS through targeted rent-seeking efforts and deliberate strategic actions to comply with the program. I demonstrate that government regulations, which are part of a firm's non-market environment, can actually provide firms with strategic opportunities to capture value rather than impose additional costs on companies. Consequently, the traditionally posited, adversarial relationship between regulations and profits does not always have to hold. Firms that consider the compliance with regulatory programs such as the EU ETS as an opportunity and not solely as regulatory burdens are able to recognize them as possible sources for gaining a competitive advantage. One major implication of my findings is that managers who ignore the non-market environment in their strategic decision making will overlook possibilities to improve their firms' performance. Developing successful strategies, particularly on a multinational level, thus requires an integrated approach to strategy that incorporates careful analyses of both the market and non-market environment of a firm (as already theoretically postulated by Baron 1995).

### *Multinational companies outperform domestic firms in the non-market environment*

I show empirically that MNCs are capturing larger rents from the EU ETS than domestic firms as they are exploiting existing imperfections in the market for emissions permits to engage in arbitraging behavior. Their multinational presence provides them with a larger information network, an increased flexibility for complying with the regulatory program and it exposes them to a variety of different national EU ETS rules in various member countries. These factors – among others – allow MNCs to recognize and capitalize on strategic opportunities the non-market environment offers them more easily.

### *Industry-efforts and firm-specific capabilities both can increase rents captured from the non-market environment*

Firm-specific capabilities (needed for example to engage successfully in rent-seeking or to exploit existing arbitrage opportunities) play a substantial role in the ability of firms to capture rents from their non-market environment (i.e. their non-market performance). However, in addition to those capabilities, coordinated industry-wide rent-seeking efforts (e.g. through industry associations) can further increase those rents. These results demonstrate that industry- and firm-affiliation are complementary and not exclusionary with regard to non-market performance. This finding thereby sheds new light on the sources of performance differences among firms.

### *The political and institutional environment in a country affects rent-seeking processes*

Another result derived in my dissertation illustrates that country-specific institutional and political characteristics strongly affect the size of rents interest groups can capture within environmental regulation. This finding shows that the political economy of rent-seeking processes should be taken into account when designing and implementing international climate change regulatory regimes. Just as is the case with rent-seeking in more traditional settings (e.g. trade or agricultural policy), environmental policy is highly vulnerable to concerted efforts by interest groups to appropriate rents. Consequently, not accounting for those rent-seeking processes and failing to recognize country-specific factors that make regulators more susceptible to those processes, might undermine the efficacy of the proposed regulations.

## Outlook

My dissertation was a comprehensive first step within my broader research agenda to improve our understanding of the role the international non-market environment plays in firm strategy and firm performance. Due to my novel approach of examining climate change regulations, I expect to continue this research stream in the coming years, further expanding my analyses of greenhouse gas regulations in different national contexts and focusing on additional, different aspects of international non-market strategy and political economy.

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