

Is Your “IB” Research Truly “International”?

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IT IS RELATIVELY EASY TO DEFINE “international business” (IB) as those trading and investing activities—plus their management—that “cross borders.” However, *when is a piece of research truly “international”?*

If you replied, “When it covers two or more countries,” your answer would have been thought incorrect according to the criteria developed by the brilliant but late management scholar Graham Astley at a workshop organized by the International Division of the Academy of Management at its August 1990 meeting in San Francisco where he discussed “The Theoretical Uniqueness of IB Studies” (for an account of his presentation, see Boddewyn & Iyer, 1999: 173-181).

International versus Universal

Your answer would be incorrect because, according to Astley, the inclusion of two or more countries in a study does not automatically amount to “international” research; this status ultimately depends on the nature of the investigated phenomenon and of the variables being related to it. For that purpose, Astley relied on a fourfold classification of types of research.

1. Universal theories applied to foreign samples rather than to domestic ones

Classical examples are international trade theory and transaction cost economics, whose propositions apply to *all* places and times—namely, that economic activities gravitate to where factors of production and markets are more favorable, and that firms internalize the market until the benefits of common governance are exhausted. Such propositions can be tested by comparing Paris and Tokyo as well as France and Japan—this is what makes them “universal” because any two or more locations—whether neighborhoods, cities, counties, provinces, states, countries and regions—can provide the sites for such testing.

In the same vein, you may test such a proposition as: “The greater the cultural differences among countries, the greater the decentralization of decision making,” where the independent variable is “international” since the testing requires data from several countries. However, this proposition is really derived from theories that are *universal* in nature since they could be as well be tested between two U.S. states (e.g., California and Mississippi) located in the same country but with different sub-cultures.

In other words, it is not enough to include two or more countries to make a study “international.”

2. Theories whose dependent variable is distinctly international but whose independent variables are not

Astley gave as an instance the structuring of international joint ventures (IJVs) between firms of different nationalities (the dependent and truly international variable) being affected by technological intensity (the independent variable)—the latter again a “universal” type of variable whose impact on a joint venture could also be studied within a single country.

This misclassification applies to some of our basic creeds. For example, to what extent are Coase-type theories of the multinational enterprise (MNE) truly “international” explanations of its existence, operation, and performance? Coase (1937) demonstrated that MNEs exist, operate, and perform only because of market failures which lead these firms to internalize the market institution by replacing cross-border transactions with lower-cost ones performed within the MNE hierarchy. Yet, to think of it, Coase’s theorem, as applied to MNEs and FDI, is really a “universal” one of Astley’s second type because the independent variable—that is, market failures—can be found at every type of location, not just at the country level.

Even the work of Stephen Hymer (1960/1976), who helped found international business as a new research field (Dunning & Rugman, 1985; Teece, 1985), is questionably “international”! Hymer claimed that the pursuit of profits by growing firms already established in developed nations leads them to consider foreign operations such as exporting, licensing, franchising, and foreign direct investment (FDI). All of these modalities present advantages and disadvantages but, on balance, FDI is superior in terms of the control it affords to MNEs. This superior control allows these firms to deal with international rivalry—in order to reduce it as well as to better exploit their own monopolistic advantages by leveraging them in-house instead of through the open market (Pitelis & Boddewyn, 2009).

The benefits from this leveraging of advantages are related to market failures (e.g., the high cost of market transactions) as well as to such firm-specific advantages as the speed and efficiency of transferring intra-firm those advantages which have the characteristic of a “public good” and/or involve tacit knowledge (Dunning & Pitelis, 2008). FDI also offers

the benefit of risk diversification, although, for Hymer, this is a lesser motive because it does not require control (Hymer, 1976: 25). Overall, the benefits of FDI from rivalry reduction, advantage exploitation, and risk diversification explain both the existence of the MNE as well as why MNEs are able to compete with locally-based rivals in foreign countries despite some inherent disadvantages of being foreign on account of “the liability of foreignness” (Hymer, 1976: 46).

However, *it is arguable that most of the major categories which Hymer developed and leveraged in order to explain FDI do not pass the Astley test of a true “international” theory.* For example, rivalry reduction, advantage exploitation, and risk diversification are universal categories equally applicable to expansion within one country such as the United States. Thus, a company operating in a particular state (say, Ohio) can develop advantages (such as an innovative new product) that can be leveraged in another U.S. state (say, Louisiana). If this firm faces rivalry in its own state and the intra-firm exploitation of innovation is perceived to be more profitable by the firm, it may decide to invest in Louisiana so as to capture value from its advantages and deal with rivalry (actual or potential) in both Ohio and Louisiana. *Therefore, Hymer’s theory is not truly international because it is applicable to both domestic and foreign situations alike.* For example, if we replace Louisiana with France, we obtain a foreign rather than a domestic investment but all we have is a “foreign sample” (Astley’s case No. 1).

It is important to observe that the first two research instances identified by Astley are where IB researchers have encountered their major competition from economists and management strategists who have found it relatively easy to venture into foreign waters by extending their “domestic” research models—really “universal” ones—to foreign settings. The next two cases, however, are where IB researchers should find their true domain because of their hopefully greater knowledge of foreign settings at once physical, economic, political, social, and cultural.¹

3. Theories with dependent and independent variables that are both distinctly international

Astley’s example was foreign direct investment—the international dependent variable—being affected by transaction costs that are truly international—for example, those related to foreign culture and regulation. Thus, when a country’s economy operates under very bureaucratic rules applying to foreign direct investment (say, France), there will be additional transaction costs uniquely due to this country’s regulatory system which an investor would not encounter within a more “free-trade” nation (e.g., the United States)—hence, the truly “international” character of this independent variable.

4. Theories whose central propositions are distinctly international

For instance, the proposition² that the existence, volume, and forms of foreign direct investment (the international dependent variable) depend on the permeabilities of sovereign states that either accept,

modify, reject, or annul (e.g., through expropriation) such IB activities by *fiat*—the latter a truly “international” independent variable because only nation-states are fully sovereign (e.g., Boddewyn & Brewer, 1994). It is solely in these last two areas that IB researchers do have or should have a competitive advantage vis-à-vis domestic scholars because these projects require in-depth knowledge of foreign locales—not just secondary data available for several countries.

From “Domestic” to “Universal”

Independently from Astley, Rosenzweig (1994: 30) raised the related question of: *When can a theorized or observed relationship among variables in a “domestic” setting be generalized to “foreign” ones, and thus become “universal” because the relations among the focal variables are identical (i.e., “invariant”) across nation-states?* Under this perspective, truly international research focuses on variables whose relationships differ from country to country on account of differences among specific features of their external environments in the context of “open” social systems:

Theories [involving closed technical systems] have external validity across countries, since they are affected neither by differences in social behavior, such as cultural differences, nor by differences in the external environment, such as different legal systems or social institutions. By contrast, open social systems . . . are severely restricted in their international generalizability, and are valid only as far as key relationships among focal variables obtain *and* essential elements of the external environment are present. (Rosenzweig, 1994: 31-32)

What Rosenzweig called “international generalizability” is what Astley meant by “universal” on account of the invariant nature of the relationships between the dependent and independent variables. In a reverse fashion, one may inquire about the applicability of “IB” models and theories to “domestic” situations, thereby implicitly looking for “universal” ways of interpreting business situations whether located at home or abroad.

The Relativity of “International” Theories

Rosenzweig (1994) also remarked that theories which seem internationally or universally applicable may reflect *national* values of the types identified by Hofstede (1991). Thus, in the case of transaction cost economics, its central concept that hierarchies arise when market mechanisms are not efficient on account of opportunism, information-impactedness, and small-number bargaining does assume that the market is the theoretical point of departure while hierarchy is the fallback position when markets fail. However, a French theorist raised in a country marked by high power distance might take the existence of hierarchy as the base mode and therefore explain the use of market mechanisms as the product of a failure of hierarchy (Rosenzweig, 1994: 36, quoting Hofstede, 1991: 149)! Therefore, we must make sure that

even truly “international” studies do apply theories with a deep and accurate understanding of their applicability to different contexts.

Now, the big question: Do you agree with Astley’s arguments about what constitutes “true ‘international’ research”? Where does your current or recent IB research stand in rapport with his reasoning? Please submit your answers and relevant comments through the online commenting feature on the *AIB Insights* website at <https://aib.msu.edu/publications/insights> by June 30, 2016. I will respond through this commenting feature and we are also planning to publish the best comments and dialogues in a subsequent issue of *AIB Insights*.

Thank you very much for your interest in this question. We plan to offer other ones in future issues of *AIB Insights* about a variety of interesting IB problems to be generated by top IB scholars!

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Endnotes

- 1 Raymond Vernon (1994) thought that knowledge of “national business systems” was essential for significant IB research—compared to these studies that exude only a “slight foreign accent” (p. 217).
- 2 By using “propositions” rather than “variables” in this fourth category, Astley was elevating the discussion from “models” to “constructs,” that is, to more generalized statements of relationships between “approximated units” which, by their very nature cannot be observed directly (e.g., centralization or culture), compared to “observed units” which can be empirically operationalized by measurement (Bacharach, 1989: 498).

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