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**Special Issue on the 2016 Peter J. Buckley and Mark Casson AIB Dissertation Award**



# Editorial Commentary

**With this issue of *AIB Insights*,** we publish the fourth consecutive annual special issue on the Peter J. Buckley and Mark Casson AIB Dissertation Award, a focused issue series that we started in 2013. This series has continued its great momentum in the AIB community as it contributes to a timely dissemination of the latest, state-of-the-art dissertation research in international business.

As in the three previous years, this special issue publishes the extended dissertation abstracts of this year's award-winning and award-nominated dissertations. For the first time in this annual series, we have asked each author to summarize their dissertation research in one "BIG" question.

*Award-winning dissertation:*

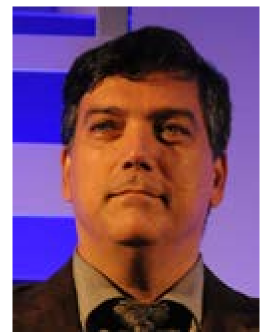
"Heterogeneous Implementation of CSR in an MNE: The Role of Subsidiaries' Institutional Contexts and Behaviors" by Anne Jacqueminet (Ph.D. awarded by HEC Paris, France)
***BIG Question:*** "Beyond their diverse institutional contexts, why do we observe such heterogeneity in the way the subsidiaries of an MNE implement corporate social responsibility practices?"

*Award-nominated dissertations (in alphabetical order):*

"Influence of Institutional and Geographical Factors on the Openness and Dispersion of Knowledge-Sourcing Practices" by Marcelo Cano-Kollmann (Ph.D. awarded by Temple University, USA)
***BIG Question:*** "How do firms adapt their innovation activities to the constraints imposed by the location and the institutional environment in which they operate?"

"Influences on Transfer Effectiveness: An Exploratory Study of Headquarters Transfer of Capabilities to Subunits in the MNC" by Olof Lindahl (Ph.D. awarded by Uppsala University, Sweden)
***BIG Question:*** "Why does the effectiveness of headquarters-driven transfers of capabilities vary between subunits in the MNC?"


Daniel Rottig, *Editor*
Lutgert College of Business
Florida Gulf Coast University, USA


John Mezias, *Associate Editor*
School of Business Administration
University of Miami, USA


"Language Strategies in Multinational Corporations: A Cross-Sector Study of Financial Service Companies and Manufacturing Companies" by Guro R. Sanden (Ph.D. awarded by Copenhagen Business School, Denmark)
***BIG Question:*** "Do industry sectors matter for corporate language management?"

The chair of this year's award selection committee, Anupama (Anu) Phene, in her article titled "Introduction to the 2016 Peter J. Buckley and Mark Casson AIB Dissertation Award", reflects on this year's award selection process and sketches out three suggestions for future dissertation award aspirants. On behalf of the AIB community, we would like to thank Anu for her great service and leadership and also would like to acknowledge the great work of her fellow AIB Dissertation Award selection committee members: Sumit Kundu (Florida International University, USA), Shige Makino (Chinese University of Hong Kong, Hong Kong, SAR-PRC), and Rebecca Piekkari (Aalto University, Finland).

On page 22 in this issue, we also provide an overview of all previous winners of this prestigious award, starting with the award's founding year of 1968.

Congratulations to the 2016 AIB dissertation awardee and finalists for their significant accomplishments!

## Featured Article

In the previous issue of *AIB Insights* (Volume 16, Issue 2), we started a new series of lead articles that raise insightful and thought-provoking questions in an attempt to engage the AIB community in fruitful conversations that we hope will advance our field. AIB Fellow Jean Boddewyn contributed the first article to this series, titled "Is Your 'IB' Research Truly 'International'?"

In the current issue, we feature an article by AIB Fellow Pankaj Ghemawat on a very current, interesting, and controversial topic: the recent vote of the United Kingdom of Great Britain and Northern Ireland to leave the European Union, commonly known as Brexit. Titled "Beyond Brexit: An Initial Analysis and Questions for the AIB Community", the article explores the implications of Britain's recent vote based on the laws of globalization, and also discusses business applications. The article concludes with a set of insightful and thought-provoking questions to the AIB community, which we hope will fuel the interactive nature of *AIB Insights*. We invite you to respond to these questions via our interactive "Comments" feature on the *AIB Insights* website at https://aib.msu.edu/publications/insights.

Featured Article

# Beyond Brexit: An Initial Analysis and Questions for the AIB Community

Pankaj Ghemawat, NYU Stern, USA, and IESE Business School, Spain*

## Introduction

The United Kingdom voted to leave the European Union the week before the 2016 AIB Annual Meeting. It occurred to me that it would be a shame if the meetings afforded no opportunity to discuss one of the most shocking international policy developments of the last few years—or decades. (Ian Bremmer of the Eurasia Group promptly tweeted a characterization of Brexit as "the most significant political risk the world has experienced since the Cuban Missile Crisis.") I suggested as much to the Program Chair, Charles Dhanaraj, who helpfully organized a townhall session with Peter Buckley, Jeremy Clegg, and Yves Doz as speakers and me moderating. Since it was still in the early days of the Brexit vote, much of the session was devoted to decrying the outcome of the vote and discussing why it had come about. There was less discussion of the consequences of Brexit but some sense that many of them would remain unknown for some time given multi-year lags in defining the terms of (any) separation and then enacting them.

Although I limited my role at the townhall to directing the flow of the conversation, I had been thinking about Brexit as well, but more in the context of a panel earlier the same day that I had organized with my coauthors, Steven Altman, Geoffrey Jones, and Sebastian Reiche, around my forthcoming book, The Laws of Globalization and Business Applications. A friend teased me after that first panel: had British voters just broken my two laws of globalization?

## The "Legality" of Brexit

Instead of being controverted by Brexit, the laws of globalization—the law of semiglobalization, which deals with the depth of globalization, and the law of distance, which deals with the breadth of globalization—help clarify some of Brexit's implications.

### *The Law of Semiglobalization*

The law of semiglobalization asserts that international interactions, while non-negligible, are significantly less intense than domestic interactions. The UK is an illustration: flows across its borders (particularly of inbound migrants but also of trade and capital) were large enough to provoke a backlash, yet still fall far short of what one would expect if borders had ceased to matter. Thus, the UK's (gross) exports account for about one-third of its GDP, about the same as the world as a whole and far below a zero-border effect benchmark of 96% (100% minus the UK's share of world GDP). And first-generation immigrants comprise 13% of the UK's population, although Britons think—as reported across three different surveys—that 24–31% of the country's population was born abroad.[1] In this and other respects, the UK illustrates not only the law of semiglobalization but also what I refer to as globaloney—a strong tendency to exaggerate actual levels of globalization.

Specificity about magnitudes also sheds light on fears that Brexit might significantly hurt global trade. Since the UK's exports account for approximately 1% of global GDP, under the assumption that they will be no worse than decimated, the implied drop in global exports is 0.1% of global GDP. So Brexit seems unlikely to sink global trade unless it has knock-on effects. Which is why the blog I posted on Harvard Business Review just before the townhall stressed the criticality of keeping the rest of the EU together.[2]

I would even add that the law of semiglobalization seems essential to the possibility of Brexit being consequential. If globalization were so weak that cross-border interactions didn't matter much, neither would Brexit nor any other international realignment. And if globalization were so strong that the world was close to completely integrated, the adverse consequences of leaving the EU (and snapping back to WTO arrangements as a worst case scenario) would be limited as well.

### *The Law of Distance*

Turning to the second of my two laws, the law of distance asserts that international interactions are dampened by distance along cultural, administrative, and geographic dimensions and are often affected by economic distance as well. On this score, my book assembles evidence that the same handful of variables related to distance versus proximity—a common official language, a colony-colonizer link (in the past), a trade agreement or common membership in a regional bloc, physical distance, a common land border, and per capita income disparity—do a good job of explaining variations in intensity of interactions along a slew of dimensions—not just trade and FDI but also other kinds of capital flows, information flows and people flows. The variables are the standard ones that are employed in gravity modeling of merchandise

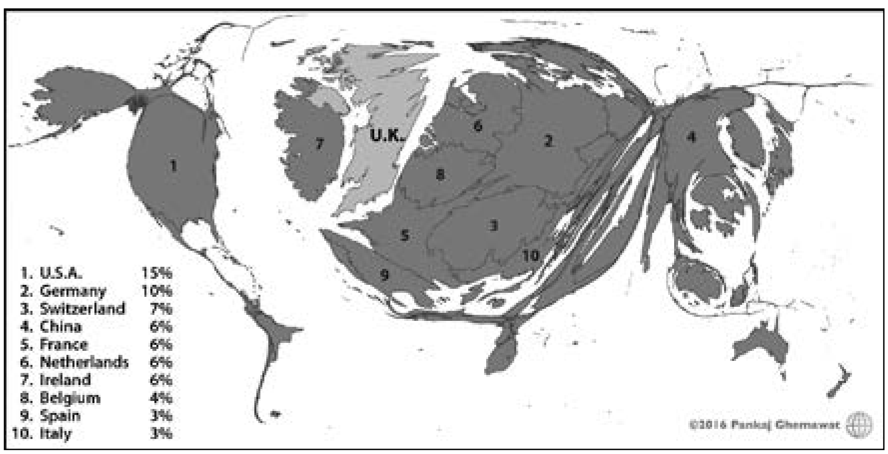
* The author would like to thank Steven A. Altman, Phillip Bastian, and Erica Ng for their help with the research behind this article and the Center for the Globalization of Education and Management at NYU Stern and the Division of Research at IESE Business School for their financial support.

trade (Head & Mayer, 2014), except that I have swapped in (for reasons discussed in the book) per capita income disparity versus similarity for common currency. What is remarkable is that without any further adjustment, the variables emphasized in analyses of merchandise trade work as well as they do for other international interactions as well.

Running UK-focused gravity models suggests that the UK does conform to the law of distance. The biggest difference—in both the equations for merchandise exports and outbound FDI—is that sensitivity to physical distance is considerably lower for the UK-focused regressions than that for the world as a whole. This conclusion is backstopped by the observation in the 2014 edition of the DHL Global Connectedness Index (Ghemawat & Altman, 2014),[3] that the UK ranks second among 140 countries in the breadth of its trade interactions and first overall when other kinds of interactions are accounted for as well. The UK's international interactions mirror the global distributions of those interactions more closely than do those of any other country.

The UK's lead on breadth, however, does not mean that it could separate itself from the EU without severe consequences. In 2014, 43% of the UK's total exports and 53% of its total imports—and 39% of outbound FDI stocks and 49% of inbound FDI stocks—involved the EU. And the more recent data that are available do not change that picture: see the cartogram (Figure 1) below in which countries other than the UK are sized in proportion to its merchandise exports to them in 2015. The UK is still far more connected to Europe than to any other part of the world.

**Figure 1. The UK's Merchandise Exports, in 2015**




**Source: IMF Direction of Trade Statistics (2016)**

Consistent with these numbers, when the IMF cut its global growth forecast due to Brexit, it predicted that the worst of the effects would be concentrated in the UK (where the 2017 growth forecasts was slashed from 2.2% to 1.3%) and in the rest of the EU (the Eurozone's growth forecast was reduced from 1.6% to 1.4%) (IMF News, 2016). Growth projections for 2017 remained unchanged for the US and for Asian emerging markets.

## Business Applications

That Brexit does not falsify the laws of globalization is helpful, but it would be even better if the laws could be applied to reduce the penumbra of uncertainty around it. Two such applications are proposed here, one at the country level and the other at the company level.

### *A Country-level Application*

At the country level, to the extent that the Brexiteers see anything good in globalization, they want to unshackle their country from a slow-growth EU and connect it more intensively to its former empire and to faster growing emerging economies. Do these hopes stand up to scrutiny? While gravity models affirm that the cultural and administrative/institutional commonalities that the UK shares with the Commonwealth do ease trade and FDI, so do the geographic proximity and economic similarity that link the UK to the EU. So, one needs to actually run the numbers to estimate whether it is a wise choice to pursue seemingly greener pastures in more distant parts of the world.

The rest of the EU is 1.8 times as large in GDP terms as is the rest of the Commonwealth, and is also less than one-eighth as physically distant from the UK on a GDP-weighted basis: 1,072 km versus 9,026 km.[4] Given the estimated distance exponent for merchandise exports (-1.51),[5] geographic and economic considerations imply that the market opportunity in the rest of the EU is 45 times as large as in the rest of the Commonwealth! Correcting for the estimated effects of a common official language (estimated to boost trade to 2.15 times what it otherwise would be) and of a colony-colonizer link (boosting trade another 2.05 times), both of which Commonwealth countries are much more likely to share with the UK, makes the Commonwealth opportunity look comparatively larger, but it is still only a fraction as large as that in the rest of the EU.

As a check, even if one works with the lower sensitivity to physical distance estimated from the UK-specific regressions—along with the lower estimated sensitivity to a common official language and colony-colonizer links—the opportunity in the rest of the Commonwealth remains smaller than the opportunity in the EU. And the notion that the UK's EU membership is getting in the way of its pursuit of other opportunities is rendered less rather than more plausible by the lower physical distance-sensitivity and world-topping breadth calculated for the UK.

### *A Company-level Application*

For a more micro application, consider—more briefly—the implications of Brexit for companies considering what to do about their operations in the UK. As noted during the AIB townhall session, the commercial implications of Brexit are very uncertain because it is still unclear whether it will happen and, if so, on what terms. In addition, there is the fact that the only previous vote to leave the EU (or actually, its predecessor, the European Economic Community), by Greenland in 1985, is not much of a guide because Greenland has less than 60,000 inhabitants, mostly just exports fish and continues to be associated with the EU by virtue of its relationship with Denmark (Ghemawat, June 2016b).[6]

Given these multiple sources of uncertainty, academics have generally refrained from making predictions about the company-level implications of Brexit. Consultants, however, have rushed into the breach by, for instance, suggesting elaborate scenario-based approaches for dealing with the current situation (Reeves & Carlsson-Szlezak, June 2016). This makes some sense, but surely there are some first-order implications at both the industry and firm-level that stand out above the weeds of proliferating scenarios.

If Brexit happens, what is likely to change the most, in terms of underlying structural parameters, is the administrative distance between the UK and its former partners in the EU. This suggests that industries with a high degree of a sensitivity to administrative distance—industries that are heavily regulated or subject to state ownership or involve selling to governments, to cite some examples—are likely to be affected more than others.[7] Unless, of course, the provisions under which UK-based operations can access EU markets happen to be eased the most for such industries—which, at least from an EU perspective, looks implausible. No wonder some financial services firms are thinking of reconfiguring their operations in the UK if the rest of the EU is important to them—whether they are headquartered in the UK or not.

And at the company level, the pressures to reconfigure operations are more likely to be felt by companies whose operations do involve significant cross-border mandates that are likely to be stretched by post-Brexit increases in administrative distance between the UK and the EU. Auto companies with plants in the UK are a prime example. But it is important, once again, to avoid globaloney in this regard. The median affiliate of a US multinational ships nothing to the rest of the corporation (Ramondo, Rappoport, & Ruhl, 2016).

## Concluding Questions for the AIB Community

Brexit by itself does not look as if it is going to break the world, but nobody who spoke up at the AIB townhall session thought that it was good news. The analyses presented in this short essay help buttress this sense. But what should give us pause is that quite a bit of analysis along these lines was available before the Brexit vote. Thus, the UK Treasury's 200-page April 2016 report, blandly titled "The Long-Term Economic Impact of EU Membership and the Alternatives," predicted that Brexit would significantly reduce the UK's GDP largely on the basis of gravity modeling of the sort discussed above.

As one (UK-based) participant in the AIB townhall plaintively put it, "We have so many studies that help answer the question of whether or not Britain should leave the EU—but they just don't seem to have affected what happens." The importance of this plaint is magnified by the fact that we are seeing a wave of sentiment in advanced Western economies for undoing some of the cross-border integration of the post-war period. At the EU level, Brexit has encouraged similar rumblings in other member states. At an intranational level, Catalonia, where I live part of the year and can testify about from personal experience, is desperately seeking a divorce from Spain, and similar movements can be identified within at least a dozen other EU members. And splittism is not confined to Europe: the US is in the midst of a political campaign in which one of the major party candidates is threatening to rip NAFTA apart and the other has repositioned to an anti-trade stance as far as the two major pending items of business, the transoceanic TTP and TTIP, are concerned.

The AIB should, as an intellectual community, be at the heart of these issues—but I daresay it is not. What is to be done? Both our Executive of the Year, Indra Nooyi, and our Educator of the Year, Joseph Aoun, seemed to suggest that AIB members needed to step out more as "public intellectuals." I naturally found myself in sympathy with their message since that is how I spend some of my own time, but more specifics about how to influence the public discourse, beyond simply being involved in it, would be helpful. And important questions loom regarding our traditional constituencies as well.

As far as research is concerned, Brexit and the like raise multidisciplinary, messy issues that are clearly hard to publish in refereed journals. Thus, when I was interested in exploring multidimensional concerns about globalization in the wake of the financial crisis, I eschewed journal publication and instead wrote a book, World 3.0: Global Prosperity and How to Achieve It. But is this the only option to be pursued—especially given that book publishing is subject to its own limitations?

And on the educational side, another globalization-related challenge relates to the fact that business schools and the business community in general are much more pro-globalization than society at large. Consider some casual evidence from two important groups that I polled in 2009, shortly after the onset of the global financial crisis: 400 business school deans during a plenary presentation at the AACSB Dean's Conference and 600 strategic management academics during the opening keynote at the Strategic Management Society Annual Meeting. Asked whether the effects of globalization had been basically good, bad or mixed, less than 1% of each group, by my count, characterized globalization as basically bad or mixed! While I am—with caveats suggested by the writing of World 3.0—a pro-globalizer as well, I do worry that we do not do a very good job of equipping our students to deal with the issues that globalization raises "out there," where it is much more contested. What can we do to improve on this front?

Of course, if you also think that nothing new or different needs to or can be done by the AIB or its members, it would be good to hear your reasoning as well!

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## Endnotes

1 See the 2014 and 2015 editions of the Ipsos MORI "Perils of Perception" surveys as well as the 2013 edition of the German Marshall Fund of the United States "Transatlantic Trends" survey.

2 Refer to my Harvard Business Review blog post, *The EU Needs to Make Sure Continental Countries Don't Exit* (Ghemawat, 2016a).

3 The 2016 edition of the GCI will be released in November 2016.

4 Calculated using population-weighted distances between major cities from CEPII and IMF World Economic Outlook, April 2016.

5 This estimate as well as those that follow are drawn from the baseline model reported in Chapter 5 of my book, *The Laws of Globalization and Business Applications*.

6 For more discussion of why previous instances of dissolution of administrative relationships offer limited guidance, see my Fortune blog post, *What the World Will Learn from Brexit's Market Mess* (Ghemawat, 2016b).

7 Chapter 2 of my 2007 book, *Redefining Global Strategy*, contains more discussion of the determinants of sensitivity to administrative distance, and Chapter 6 of *The Laws of Globalization* presents new results on such distance-sensitivity at the industry and company level.

**Pankaj Ghemawat** (pghemawat@iese.edu) is Global Professor of Management and Strategy and Director of the Center for the Globalization of Education and Management at the Stern School of Business at New York University, and the Anselmo Rubiralta Professor of Global Strategy at IESE Business School. He is a fellow of the Academy of International Business and the Strategic Management Society, and winner of the Academy of Management International Management Division's Booz Eminent Scholar Award.

# Introduction to the 2016 Peter J. Buckley and Mark Casson AIB Dissertation Award

Anupama Phene, George Washington University, USA

**This year's submissions** to the Peter J. Buckley and Mark Casson AIB Dissertation Award offered an exciting look at the thoughtful, innovative, and interesting manner in which doctoral students are exploring and extending the international business literature. Submissions were invited from doctoral students who successfully defended their dissertations during 2015 on a topic that contributes to international business. As the award has evolved, it has recognized the seminal contributions made by its eponymous scholars. Previously known as the Richard N. Farmer Dissertation Award, it emphasizes past AIB President Richard Farmer's holistic approach to understanding the environment of international business. In 2013, with new sponsorship, the award recognizes Peter J. Buckley and Mark Casson for their pioneering work on internalization theory and the existence of the multinational enterprise. Consequently, the call for submissions highlights the joint importance of the environment of international business and the nature of the multinational enterprise. All of the finalist dissertations incorporate both of these aspects.

## Selection Process

A total of 29 submissions were received and diligently evaluated by a knowledgeable committee including Sumit Kundu, Shige Makino, Rebecca Piekkari, and chaired by myself. The submissions encompassed a broad spectrum in terms of theoretical approaches, empirical contexts, and international business questions and phenomena explored. In a fitting representation of the field of international business, the geographic dispersion of the candidates' affiliations represented a wide variety of locations across the globe, including Australia, Bangladesh, Belgium, Chile, China (and Hong Kong), Denmark, Finland, France, India, Italy, Norway, Sweden, UAE, UK, and the US.

The quality of submissions received made the selection process challenging. The committee used the following criteria to determine the finalists as well as the eventual award winner: relevance and contribution to the field of international business, quality of the theoretical framing and the methodology, and quality of the empirical work (where relevant). Each committee member used her/his judgement to assess the initial submissions on these criteria and selected a ranked set of the top ten submissions. We then compiled the rankings on the basis of both the total score received as well as the average score received by candidates ranked by three or more committee members. Both of these methods resulted in the identification of three submissions with the highest scores. For the fourth position, the methods resulted in the identification of three more submissions with scores that were similar to each other. Each committee member then re-assessed these three submissions and ranked them to identify a fourth finalist. These finalists were as follows (listed in alphabetical order, with the award winning dissertation mentioned first):

*Hetereogenous implementation of CSR in an MNE: The role of subsidiaries' institutional contexts and behaviors* by Anne Servantie Jacqueminet, Bocconi University (Ph.D. awarded by Ecole des Hautes Etudes Commercials de Paris)

*Influence of institutional and geographical factors on the openness and dispersion of knowledge- sourcing practices* by Marcelo Fabian Cano-Kollman, Ohio University (Ph.D. awarded by Temple University)

*Influences on transfer effectiveness: An exploratory study of headquarters transfer of capabilities to subunits in the multinational corporation* by Olof Lindahl, Uppsala University (Ph.D. awarded by Uppsala University

*Language strategies in multinational corporations: A cross-sector study of financial service companies and manufacturing companies* by Guro R. Sanden, Copenhagen Business School (Ph.D. awarded by Copenhagen Business School)

The dissertations continue to reflect the broadening of the scope of international business, encompassing topics related to corporate social responsibility, language strategy, connectivity of peripheral economies, and exploration of the role of headquarters in the multinational firm, supporting the trends observed by Rugman (2013) and Buckley (2014). These finalists were invited to submit complete dissertations that were then read and ranked by the entire committee using the criteria indicated earlier. The winner, Anne Jacqueminet, was selected based on the compiled rankings. The committee's work was admirably supported by the AIB administration, notably Tunga Kiyak's assistance was much appreciated.

## Takeaways for Future Aspirants

After participating in evaluating dissertation submissions over the last few years, these are some of my thoughts on what makes a good dissertation. For new students embarking on their doctoral programs, I hope they are helpful in creating a foundation for a strong research portfolio.

### *Ask interesting and innovative questions that extend our understanding of international business*

Each of this year's finalists demonstrates this trait in their work, exploring distinctive phenomena by asking innovative questions. Jacqueminet explores what makes MNE subsidiaries implement CSR practices that are consistent with headquarters (HQ) policy, while Lindahl examines how HQ can facilitate the transfer of a common innovation capability across the firm's R&D subsidiaries. Cano-Kollman considers how national policies and support influence firm innovation, and Sanden evaluates how language management tools are implemented in multinational firms across industry sectors. Posing the right questions allows students to conduct pioneering work in new creative fields (Buckley, 2014) and engage in novel research that will support long term ambition and a long lived career (Casson, 2015).

### *Root these questions in strong theory*

The finalists posed innovative questions and they also explored these questions while anchoring them in robust theoretical foundations. Without theoretical support, a dissertation can become phenomenon-driven and pose greater challenges to publish, in the long term. Anchoring phenomena in theory requires a good understanding of existing theories since it also involves questioning them or integrating different theories. Identifying exceptions to theoretical predictions by considering boundary conditions or reconciling the differing implications of theories are good ways to think about how international business theory can be extended. Use the doctoral years to hone understanding of the different theories so that it is possible to contribute to extending them.

### *Use unique data or use archival data creatively in conjunction with sophisticated empirical analysis*

Several of the finalists demonstrated efforts to collect unique data through interviews and case studies. Others combined archival data in creative ways to explore their questions. All finalists utilized cutting edge empirical techniques to test their hypotheses. This is in keeping with the trend in international business research, with more rigorous methods becoming the norm. As a doctoral student, invest the time in data collection efforts and learning new methodologies.

## Conclusion

As evidenced by the excellent quality of the finalist dissertations, it is clear that the bar to become a finalist for the Buckley and Casson award is extremely high. Congratulations to the winner and all the finalists! On behalf of the committee, I wish you the very best in your research endeavors. We hope to read more of your impactful work as you expand the horizons of international business.

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**Anupama (Anu) Phene** (anuphene@gwu.edu) is a Professor of International Business and Phillip Grub Distinguished Scholar at the George Washington University School of Business. Her research focuses on multinational firm and subsidiary innovation, knowledge transfer within and across firms, mechanisms to transfer knowledge and the geographic boundaries of knowledge. She has published articles in *Administrative Science Quarterly*, *Strategic Management Journal*, *Organization Science*, *Journal of International Business Studies*, *Management International Review*, and the *Journal of Management*.

# Heterogeneous Implementation of CSR in an MNE: The Role of Subsidiaries' Institutional Contexts and Behaviors

Anne Jacqueminet
Ph.D. awarded by HEC Paris, France (June 2015)

## BIG Question:

***"Beyond their diverse institutional contexts, why do we observe such heterogeneity in the way the subsidiaries of an MNE implement corporate social responsibility practices?"***

## Introduction

Mounting pressures to meet corporate social responsibility (CSR) requirements urge organizations to adopt new practices and elaborate responses. Theorizing the role of external demands and organizational responses to such normative pressures is at the heart of neo-institutional theory, but further effort is needed to better understand the complex case of MNEs (Kostova, Roth & Dacin, 2008). Indeed, conformity to external norms or lack thereof in MNEs is not a fully intended and coordinated strategic response (Crilly, Zollo & Hansen, 2012). MNEs are not monolithic, and conformity levels are neither homogeneous across the MNE's entities nor stable over time. Some works have looked at institutional demands influencing subsidiaries' decisions, but they have paid rather limited attention to the dynamic dimension of conformity processes and to the strategic role of subsidiaries whose behavior is often reduced to mere isomorphism. Overall, the conceptualization of conformity needs to be further adapted to the case of MNEs, since: (1) within an MNE, conformity is heterogeneous because not only pressures but also responses vary across subsidiaries, (2) subsidiary conformity is an intra-organizational matter, and (3) practice implementation is a dynamic process.

Since the MNE is not monolithic, the right level of analysis to study institutional pressures is not the organization's context, but rather the subsidiaries' contexts. In fact, on top of their industry, the subsidiaries are embedded in two other fields: the local institutional field and the intra-organizational institutional field. This typology of institutional fields is consistent with international business (IB) literature according to which MNEs need to address both global integration and local responsiveness. Each subsidiary is torn between pressures for consistency within the MNE and isomorphic pressures from the differentiated local environments. Several international strategy scholars extended institutional arguments to the case of MNEs' subsidiaries. These works include studies of "legitimacy spillovers" within MNEs (Kostova & Zaheer, 1999) and "institutional duality" (Hillman & Wan, 2005; Kostova & Roth, 2002) and emphasize the isomorphic pressures subsidiaries undergo. By contrast, I argue that an MNE's subsidiaries can react strategically to new normative demands and go beyond passive isomorphism. In particular, subsidiaries can devote more or less attention (Ocasio, 1997) to their internal and local constituents' demands, which results in varying implementation levels. There is a need to better conceptualize subsidiaries' attention and to understand why attention levels vary within MNEs.

The potential for decoupling practices from discourse within MNEs is particularly high as MNEs produce a lot of legitimizing discourse. However, works on such decoupling or conformity within MNEs remain scarce. A noticeable exception is the article by Crilly, Zollo and Hansen (2012), in which the authors conclude that decoupling is not necessarily a "calculated deception" from the headquarters because managers have discretion at all levels of the organization. In MNEs, decoupling is the misalignment between the commitments of the headquarters and the actions of the subsidiaries. Hence, decoupling occurs between various entities of the organization and there is variety in conformity levels across entities. Therefore, we need to understand the subsidiaries' conformity motivations to better explain intra-organizational heterogeneity. This dissertation aims to better articulate the role of the headquarters, subsidiaries and the way the subsidiaries perceive the policy considered.

In the MNE context, I argue that the level of implementation of practices varies over time, from one subsidiary to the next and from one practice to the next. Again, an MNE's subsidiaries are embedded in several fields simultaneously: the parent organization, the industry and the country. As a result, a given subsidiary is pressed to implement practices that each are diversely institutionalized in its various fields. We do not know much about how this complex institutional setting influences over time the implementation mechanisms within MNEs. In addition, empirical research on decoupling and conformity mechanisms has focused on single practices (e.g., TQM, LTIP, accountability). As a result, research on conformity has overlooked the role of the practices' idiosyncratic differences in explaining varying and evolving levels of implementation.

## Summary of the Dissertation Research

To address the gaps described above, this dissertation, which consists of three essays, focuses on CSR practices within one large MNE (over 200,000 employees in 2012) headquartered in Europe and operating in gas and energy production, energy services and environmental services. It relies on a rich set of data (3 rounds of surveys among over 400 top managers of the subsidiaries, interviews, and archival data) on the implementation of CSR practices by up to 101 of the MNE's subsidiaries located in 30 countries. In particular, the surveys conducted in 2012, 2013, and 2014 cover the implementation level of 25 practices, attention to stakeholders' demands, relationships with the headquarters as well as other subsidiaries, level of autonomy, and perception of the CSR issues in terms of their impact of the subsidiary's performance, their consistency with the subsidiary's values, and their complexity. The CSR issues considered are environmental biodiversity, gender equality, and occupational health and safety, as those are among the MNE's priorities, apply to all subsidiaries regardless of their activity, display varying levels of maturity in the MNE and relate to very different CSR domains.

In terms of methods, depending on both the research question and the nature of the outcome of interest, various analyzing techniques were used, including linear regressions with mediating and moderating effects, simultaneous equation modeling, and Fuzzy Set qualitative comparative analysis (FsQCA).

The first essay of this dissertation improves our understanding of why MNEs' subsidiaries heterogeneously implement practices. It reveals the strategic nature of subsidiaries' responses to institutional demands, both by shedding light on the role of subsidiaries' attention to the demands of their internal and external constituents and by showing that peers' norm-conforming behavior influences the level of attention these demands receive. I find that while the conformity of external peers—i.e., local rivals—to the CSR norm directs the attention of the subsidiaries toward the demands of external constituents at the expense of those from the MNE headquarters, the conformity of internal peers—i.e., close subsidiaries within the MNE—increases subsidiaries' attention to both external constituents' and headquarters' demands, resulting in varying levels of practice implementation (see also: Durand & Jacqueminet, 2015).

The second essay of my dissertation provides a model for subsidiary conformity through which formal policies are implemented into concrete practices in MNEs. I find that subsidiary conformity results from the combination of compliance to headquarters' guidelines, internal mimicry, and internalization mechanisms. More specifically, the pressures from the headquarters related to a given CSR issue as well as the conformity of other subsidiaries increase a subsidiary's level of conformity. And the consistency of the headquarters' policy with the subsidiary's values, because it triggers policy internalization, increases the subsidiary's level of conformity, and conditions the positive effects of both peers' conformity and pressures from the headquarters. These results point to the need to better articulate compliance, conformity, and internalization within complex organizations.

The third essay explains the variation in practice implementation level over time given the practices' specific characteristics. Three attributes of the practices—complexity, consistency with subsidiaries' values and performance advantage—as well as the various levels of institutionalization of the practices influence the conformity paths they follow. The results of the FsQCA analysis show that (1) periods of conformity and decoupling more often alternate than endure, (2) the institutionalization of an issue in both the subsidiary's country and its industry is crucial for sustained implementation, and (3) practices' lack of consistency with subsidiaries' values is the main driver of enduring decoupling.

## Contributions for Research and Practice

Previous works have underlined the unique situation of an MNE's subsidiaries that have to address demands from their headquarters and from their local environment simultaneously (Rosenzweig & Sinh, 1991; Hillman & Wan, 2005; Kostova & Roth, 2002). But their responses are often depicted as passive. In this dissertation, I argue that subsidiaries conform to corporate policies in a strategic way. Thus, this dissertation contributes to research on subsidiaries' strategies by defining concepts such as subsidiaries' attention, conformity, and policy internalization.

In the international management context, the role of attention (Ocasio, 1997) has mostly been study at the headquarters' level: international attention (Bouquet, Morrison & Birkinshaw, 2009) and attention to the subsidiaries (Ambos, Andersson & Birkinshaw, 2010; Bouquet & Birkinshaw, 2008). In the first essay of this dissertation, I shift the focus from headquarters' attention to the subsidiaries' attention as a strategic process which is instrumental in the implementation of corporate policies within MNEs. I define subsidiaries' attention to demands as comprising their noticing of these demands, their focusing of time and effort on understanding them, and their elaborating a response strategy. Thus, I advance our understanding of how subsidiaries strategically address their dual embeddedness in the MNE and in their local environment.

Most recent works on organizational conformity present it as a strategic behavior, but the potential for an MNE's subsidiaries to strategically design their conformity to corporate policy has received little attention so far. In the second essay of this dissertation, I propose a model for subsidiary conformity defined as the extent to which the subsidiary implements practices that are consistent with the corporate policy. This definition emphasizes the strategic role the subsidiaries play in MNEs' conformity. In addition, my findings suggest that subsidiary conformity does not solely depend on the demands from the headquarters, but also on the behavior of their peers and on the subsidiary's perception of the policy.

Previous works in the international management context have studied policy internalization as an outcome (Björkman, Ehrnrooth, Smale & John, 2011; Kostova & Roth, 2002) and defined typologies of subsidiaries based on their level of policy internalization and implementation. My dissertation contributes to this body of literature by looking at the complex relationship between internalization and conformity. I define subsidiaries' internalization of a policy as the mechanism through which the subsidiaries get committed to the policy because of its consistency with their values. My results show that internalization is core to the understanding of intra-organizational conformity as it not only increases subsidiaries' conformity but also influences the way they process intra-organizational pressures.

In the third essay of this dissertation, I find that the implementation of practices over time depends on (1) the level of institutionalization of the practices in the MNE, the subsidiaries' industry, and their country and (2) the way the subsidiaries perceive the practices. The findings of this essay therefore talk to research on the diffusion of innovations in MNEs (e.g., Lin & Ho, 2011). Previous work focuses on technological innovations and on the innovations' attributes that favored their adoption. But I find that, for normative innovations, the inner attributes of the practices are not the sole explanation for their adoption as their institutionalization levels also matter.

My dissertation also has practical managerial implications as it helps an MNE's headquarters understand why conformity levels vary across the MNE's subsidiaries and how they evolve over time. More specifically, my work suggests that subsidiary conformity—which is desirable for the MNE's top managers—is not achieved through top down enforcement of policies only. The CSR example shows that the initiatives that emerge locally from the demands of external constituents can improve the subsidiaries' conformity and thus the MNE's conformity as a whole. This means that such initiatives should be encouraged and the MNE could benefit from the experience and knowledge accumulated locally by its subsidiaries, should it be shared. In addition, the pressure headquarters put on their subsidiaries might prove counter-productive in certain situations as it has limited—if any—impact on conformity for subsidiaries with low internalization of the policy. MNE's managers should consider granting subsidiaries some leeway in the implementation of CSR practices, depending on how much they internalize the policy. Communication and monitoring efforts should be concentrated toward subsidiaries that do not perceive the policy favorably. Moreover, intra-organizational emulation appears favorable for the implementation of practices and subsidiaries' conformity. Managing the subsidiaries' conformity strategies through a strategic allocation of resources should therefore be a major concern for the headquarters' when attempting to diffuse a new policy. A few central subsidiaries in each industry or country could act as champions of the corporate policy and foster its diffusion among their network of peer subsidiaries. However, this dissertation also suggests that CSR implementation varies over time. The top managers of MNEs should therefore monitor their non-financial reporting very carefully on a regular basis and combine performance indicators with indicators that track the implementation of desired practices. Finally, as far as subsidiaries' managers are concerned, they can take away that CSR conformity through the faithful implementation of group policies as well as implementation of unique and innovative initiatives can help them gain attention from the headquarters and power vis-à-vis their counterparts, probably beyond CSR issues.

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**Anne Jacqueminet** (anne.jacqueminet@unibocconi.it) is Assistant Professor of Management at Bocconi University, Milan. She received her PhD in strategy from HEC Paris. Her research seeks to explain conformity within multinational enterprises and subsidiaries' implementation of practices and she focuses on relational as well as strategic drivers. She is particularly interested in sustainability issues, corporate social responsibility, and ethics.

# Influence of Institutional and Geographical Factors on the Openness and Dispersion of Knowledge-Sourcing Practices

Marcelo Cano-Kollmann
Ph.D. awarded by Temple University, USA (July 2015)

## BIG Question:

***"How do firms adapt their innovation activities to the constraints imposed by the location and the institutional environment in which they operate?"***

## Introduction

Organizations do not operate in a vacuum. They are embedded in specific geographic locations and are subject to institutional frameworks that constrain and shape the way they conduct business (Cano-Kollmann, Cantwell, Hannigan, Mudambi, & Song, 2016). While this per se is not news, a perspective that incorporates both institutional and geographical factors still offers ample room to explore uncharted research questions. Furthermore, those questions hold big implications not only for academics but also for an array of stakeholders, from managers to policymakers.

It would be impossible to incorporate all, or even the majority, of those questions into one dissertation. I chose, instead, to explore three specific questions within this broader perspective, and simply point out that these areas are fertile ground for novel research. My dissertation consists of three essays examining the influence of contextual factors on the patterns of knowledge-sourcing of firms. I argue that both the geographical location and the institutional framework exert an influence in the way firms search for innovative knowledge outside of their own boundaries and across geographical distances. The first essay focuses on the geographical aspect and explores the influence of location in a peripheral region on the patterns of collaboration for innovation. The second essay focuses on the institutional aspect, exploring the effect of specific public policies on the characteristics of innovation practices. The third essay combines both aspects and studies the changes in the patterns of innovation, both in terms of technological breadth and geographical footprint, after a change of ownership produced by the privatization of formerly state-owned companies.

## Essay 1: The Geographical Dispersion of Inventor Networks in Peripheral Economies

The first essay focuses on the influence of geographical factors (in particular the location in a peripheral economy) on patterns of knowledge sourcing. The concept of a "peripheral" economy fills an intermediate category (Molero, 1995) in the rigid "developed vs. developing/emerging" economies dichotomy. Peripheral economies are technically considered developed but lack certain characteristics of the "core" regions of Europe in terms of innovation and economic activity, such as level of interdependence, levels of foreign investment and MNE activity, shallow knowledge pools, and low innovative activity (Benito & Narula, 2008, Narula & Guimón, 2010). While the literature about these peripheral economies is growing, little is known about the patterns of innovation activity and international connectivity in these settings. Fine-slicing and international dispersion of global value networks provides opportunities for non-core locations to participate in the high knowledge components of global value chains. Further, since peripheral economies are likely to lag the core in terms of innovation capabilities in almost all sectors, connectivity is likely to have particularly strong effects for them.

Using patent data, I examine the dispersion of inventor networks in two countries located in the periphery of Europe: Portugal and Greece. I find that in these settings, the disaggregation of innovation across national borders will depend on a combination of location, multinationality of the firm, knowledge tacitness, and organizational capabilities in innovation. With respect to location, inventors in core areas tend to be connected to more dispersed innovation networks than inventors in peripheral areas. Consistent with theory, when inventors are engaged in tacit knowledge creation, their innovative activities tend to be co-located. However, when the orchestrator of the innovation is a highly innovative company, innovation involving tacit knowledge tends to be more geographically dispersed than in less innovative companies, confirming empirically (for the first time) the propositions of Cantwell and Santangelo (1999, 2000).

## Essay 2: Public Support for Innovation and the Openness of Firms' Innovation Activities

The second essay explores whether publicly-funded schemes for innovation are related to an increase in the "openness" of firms' innovation practices. This piece of work combines two streams of research that had not been connected before. The first is the literature on open innovation (Chesbrough, 2006), and the second is the literature on the effects of public support for innovation. The overarching motivation of this paper is to shed light on how schemes to support innovation at the macro level, whether through direct monetary support (e.g., subsidies for innovation, financing for new projects, tax breaks for R&D)

or non-monetary support (e.g., information, facilitation of collaboration), can affect firms' micro level innovation activities. At the macro level, governments design schemes to foster innovation in general. At the micro level, firms pursue innovation in order to gain a competitive advantage; those who engage in open innovation activities can improve their innovative performance, but they also need to commit resources to build and manage these collaborative relationships. It follows that, if public support plays a role in supplying part of those resources, firms can potentially undertake more open innovation, which in turn can have a positive effect on their aggregated innovation production. There is a clear connection between these macro and micro levels of analysis, but in spite of its topical relevance for both managers and governments, prior research has paid limited attention to this potentially relevant area of inquiry.

The empirical analysis is based on survey data from more than 5,000 firms in 29 countries. I find that both monetary and non-monetary support policies for innovation are related to an increase in the degree of openness of individual firms. This openness is expressed both in terms of the number of external partners with whom they collaborate (from none to a maximum of four types of partners) and the number of open innovation activities they perform (from none to a maximum of seven types of open innovation activities). However, the relationship between the extent of public support and openness seems to be negatively moderated by the existence of previous innovative activity within the firm. Public support has more impact on less innovative firms and less influence when the firm is already innovative, which implies that it is important to target such supports in order to maximize their impact. Additionally, I find that non-monetary support is more critical than financial support in increasing openness. For policymakers facing salient financial constraints, this implies that institutions and government policies can play an important role in fostering open innovation.

Other interesting conclusions can be drawn from the empirical results. Internal innovation and innovation expenditures are related to a larger number of open innovation activities, but not so clearly to a larger number of partners. This implies that firms that innovate more internally also tend to have more open innovation activities, but not necessarily more external partners. This may be due in part to the fact that the firms that have the most powerful incentive to build ties with external partners are those that have an internal weakness as innovators; they may be the ones that seek external collaborations to compensate for their shallow knowledge foundation. The relationship with internal search scope (i.e., the number of functional areas involved in the innovation process) is positive and significant in all models, indicating that firms that search broadly for internal knowledge tend to be more open as well. This suggests that some of the capabilities needed to search internally across different areas of the company to manage cross-functional integration (Love & Roper, 2009), are also enablers of open innovation. As expected, firm size is a positive determinant of openness, but only for activities and not for partners. However, multinationals seem to be more likely to work with external partners, but not necessarily to undertake more open innovation activities. Newer firms appear to be more open in terms of partnerships than older firms; this may be explained by the need new firms have to search externally for partners that can provide the knowledge they haven't been able to generate internally yet. Finally, the role of contextual factors shows some interesting results. I find that intellectual property (IP) doesn't have a significant relationship with openness, meaning that policies that ensure high protection of IP rights do not necessarily encourage more openness. This is counterintuitive, since one of the risks of being open is to lose secrets and knowledge to potential competitors; therefore, logically more protection of IP rights should encourage greater knowledge sharing. A possible explanation is that in these more mature institutional environments, firms have greater absorptive capacity and hence greater ability to absorb competitors' knowledge, so firms in general may be more protective. It has been documented that, in weak institutional environments, firms may conduct significant innovation and still protect themselves from the loss of knowledge through alternative mechanisms. In terms of national levels of innovation, R&D intensity is positive and significant, consistent with the notion that a context of high-innovation activity will provide more opportunities for collaboration.

## Essay 3: The Effect of Privatization on the Characteristics of Innovation

The third essay explores the patterns of knowledge sourcing of firms before and after privatization. Privatization of state-owned enterprises generates the adoption of new management practices and changes in the companies' objectives. While the literature has abundantly explored the consequences of privatization over different aspects of firm performance (Boubakri & Cosset, 1998, Megginson, Nash, & Van Randenborgh, 1994), its effects on innovation have been scarcely explored. While some studies suggest that privatization produces a subsequent reduction in the amount of R&D investment, little else is known about specific changes in the patterns of innovation of privatized firms. The importance of exploring the effects of privatization on innovation is that more efficient innovation management may be an overlooked driver of performance in privatized firms. We know that concentration of ownership, hard budget constraints, focus on value maximization and better hiring practices tend to increase performance in privatized firms vis-à-vis state-owned ones. We know nothing, however, about the role innovation management plays in this context.

I used patent data from a set of privatized firms to compare the innovative activity before and after privatization. In order to compare the change in innovation patterns before vs. after privatization, I analyzed it in two ways. The first one is a direct comparison between all the patents filed before the privatization date vs. the patents filed after. There are at least two potential issues with this approach. The first one is that patent filings are the result of a relatively long previous R&D process, which may take years to complete. This means that patents filed sometime after the privatization date may be reflecting innovation efforts that took place before the privatization. The second issue is that firms that are to be privatized sometimes change their management practices before the privatization, because governments make a deliberate effort to restructure the companies to make them more attractive to potential buyers. This means that patents filed a short time before or after the privatization may potentially be misleading indicators. For this reason I created two windows of three years each one, one starting five years (1825 days) before privatization and ending two years (730 days) before it. For comparison, I created a similar window after the privatization which starts 730 days after the privatization date and finishes 1825 (5 years) after it. This eliminates the potential issues with patents filed near the privatization date and provides with two comparable windows of equal length, but obviously reduces the sample size.

I find that privatized firms tend to focus on a narrower set of technologies as a response to increased pressure for profitability and short-term results. This is an important result that highlights the more efficient use of technology portfolios in privatized firms. I also analyze the competing arguments regarding the privatized firms' willingness to engage in collaborations with other firms and to disperse their innovation activities internationally. I find that collaboration and geographic dispersion of knowledge sourcing may be dependent on firm-specific factors, increasing in some cases after privatization, but not uniformly. What this study shows, overall, is that privatized firms show different patterns of knowledge sourcing and knowledge creation before and after the privatization event. This is a first but important exploratory step toward a more fine-grained understanding of the relationship between privatization and innovation practices, in order to complete the list of pillars that sustain the performance of privatized firms.

## Concluding Remarks

This dissertation is an attempt to tap into the broad question of the relationship between a firm and its context. There are many areas to explore and many mechanisms still unknown that future research should unveil. My goal is to underline the solid motivations to pursue this line of inquiry. The main one is the importance of the implications for a broad array of stakeholders. First, for managers and firms, understanding the role of location and the effect of institutional frameworks and public policies is fundamental to make the right location decisions, to search for places that offer comparative advantages, and to design the best ways to orchestrate knowledge sourcing across multiple locations. For governments, more effective public policies and better allocation of resources for economic development will result in more innovative and dynamic economies, ultimately fostering job creation and growth. Last but not least, for academics, this intersection of distinct research strands offers a rich field full of uncharted questions with plenty of real-world implications. The door is now open.

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**Marcelo Cano-Kollmann** (canokoll@ohio.edu) is an Assistant Professor of Strategy and International Business at the Ohio University College of Business. He earned his Ph.D. from Temple University. His research is interdisciplinary in nature, lying at the intersection of international business, economic geography and innovation. Before entering academia, he worked in different positions in accounting, finance and general management, both in Argentina and the United States.

# Influences on Transfer Effectiveness: An Exploratory Study of Headquarters Transfer of Capabilities to Subunits in the MNC

Olof Lindahl
Ph.D. awarded by Uppsala University, Sweden (May 2015)

## BIG Question:

***"Why does the effectiveness of headquarters-driven transfers of capabilities vary between subunits in the MNC?"***

## Introduction

This dissertation explores the influences on effectiveness in headquarters–subunit transfer of capabilities, a phenomenon that has been the focus of little empirical investigation in cases where headquarters involves itself as the active sender. Using an exploratory multiple-case study, it investigates influences on effectiveness in headquarters' transfer of the same capability to 18 innovation projects located in Asia, Europe and the US. On the basis of 100 interviews with headquarters managers responsible for the transfers, and innovation project teams that receive the transferred capability, a number of novel influences to transfer effectiveness are identified and unpacked. Key findings include the importance of headquarters' transfer management efforts in influencing the ability and commitment of receiving project teams to adopt the transferred capability. The findings also show how the receivers of the transfers were not limited to the innovation projects, but also included internal and external supporting networks of engineering firms and functions that were found to critically influence transfer effectiveness. On the back of these findings, this dissertation suggests an important yet neglected role of headquarters in actively managing transfers of capabilities to subunits, and adds an interesting alternative to viewing transfers as occurring in isolated sender–receiver dyads by suggesting that the receiver may sometimes be a network.

## Background

Empirically, this study explores the attempts by headquarters to standardize the ways in which subunits innovate in the multinational corporation (MNC) by transferring common capabilities to subunit innovation projects. This standardization aims to establish commonalities that allow for increased cooperation and coordination between subsidiary innovation projects to increase the competitiveness of the MNC.

Initiatives such as these become relevant as MNCs add new subunits that serve different geographical and product markets, and their internal organization gradually becomes more complex, i.e., more dispersed and differentiated. Although such complexity can be advantageous for an MNC, it can also make coordination of, and cooperation between, subunits difficult. Headquarters has an important role to play in reducing this complexity within the MNC, and one way of doing so (in relation to innovation projects) is by transferring common capabilities to subunits. However, capabilities are particularly complicated to transfer effectively (i.e., to fully implement), and an increased understanding of the determinants of effectiveness in transfers of capabilities is much needed.

The importance of acknowledging the differences between headquarters–subunit, and subunit–subunit, transfers in MNCs, such as the authority and motivation of the sender, have been much argued (Gupta & Govindarajan, 2000; Mudambi, 2002; Tran et al., 2010). Despite this, little in-depth research has been conducted to gain a richer understanding of the determinants of effectiveness in headquarters-driven transfers of capabilities to subunits in the complex organizational environment of MNCs. In the research that has been done the role of headquarters has either been that of supervising transfers between subunits (e.g. Ciabuschi et al., 2011; Yamin et al., 2011) or as a sender where there is nothing to indicate that the single most powerful unit in the MNC is involved (e.g., Kostova & Roth, 2002; Minbaeva, 2007; Jensen & Szulanski, 2007). While it is hard to say, it is possible that in the latter case headquarters is not found to be a unique kind of sender because the measurements used do not allow capturing this. However, empirical research on strategy implementation lend support to arguments that headquarters–subunit transfers are different by identifying how headquarters may affect subunit propensity to implement (Schleimer et al., 2014; Schleimer & Pedersen, 2014). Together with the theoretical reasoning of Gupta and Govindarajan (2000) and Mudambi (2002), these empirical findings suggest a gap in the literature concerning influences on effectiveness in headquarters-driven transfers of capabilities to subunits in the MNC. This study argues that an exploratory investigation to unpack how the complex organizational context of MNCs may influence effectiveness in headquarters-driven transfers of capabilities to subunits is valuable for attaining in-depth understanding of this phenomenon. It thereby explores why the effectiveness of headquarters-driven transfers of capabilities varies between subunits in the MNC.

## Summary of Studies

Headquarters varying success in transferring a common capability across its globally dispersed subunits makes VCE—a global industrial firm—an excellent laboratory for an in-depth multiple-case study of transfer effectiveness (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). This study is based on 100 personal interviews on two organizational levels; with managers at headquarters responsible for transfers on the one hand, and with members of 18 receiving innovation projects on the other. These projects were based at six subunits in Asia, Europe, and the US and all received the same capability transferred by headquarters. Innovation projects were sampled in equal numbers of high and low effectiveness transfer cases while also holding most project characteristics constant to be better able to compare the projects in exploring the determinants of transfer effectiveness. The transcribed interviews were inductively coded and then compared and contrasted first within projects, then between projects of the same high or low transfer effectiveness. Finally, the high-effectiveness group was compared to the low-effectiveness group of cases to identify differences that could be linked to the resulting transfer effectiveness. By contrasting the transfer situation facing nine innovation projects with high transfer effectiveness with that facing nine innovation projects with low transfer effectiveness, the findings of this study reveal a number of influences to transfer effectiveness not previously highlighted in existing research. Two of these influences to transfer effectiveness will be elaborated on below.

First, the study identifies how the active transfer management efforts of headquarters, in terms of providing transfer training and support that aimed to fulfill the corresponding needs in the projects, were seen as critically important by both headquarters and the receiving project teams. However, providing the needed training and support to the receiving organizations was also found to be particularly challenging for headquarters to achieve. The transfer management activities of headquarters were found influential in affecting the ability of projects to implement the transferred capability in several ways. However, the problems that headquarters sometimes faced in providing the right training and support also negatively affected the receiving projects' commitment to implement, suggesting a not only important but also sensitive role of headquarters in managing transfers. More specifically, the difficulty of providing the right kind of training, in the right amount, and at the right time to best match the projects needs were found to be a challenge. Moreover, to supply the right kind of support, be it in the form of capability experts, additional funds to cover costly side effects of the transfer, or leadership to help resolve conflicts caused by the new capability, was also found to be a challenge for headquarters in several cases.

Second, highlighting the importance of the recipient context to transfer effectiveness, this study identifies the "fit" between the requirements of the new capability on the one hand, and the ability and capacity of the innovation projects' internal and external supporting engineering networks to strongly influence transfer effectiveness. The reliance of receiving innovation projects on internal and external functions complicated the transfer as the sources of possible mismatches between the requirements of the new capability on the one hand, and the corresponding ability of the receiving organization on the other. For example, the capacity of the supporting networks in terms of their scale and scope of expertise, as well as their ability to coordinate their dispersed functions in accordance with the new capability, were found to negatively influence transfer effectiveness. This, in turn, varied between projects and was found to be particularly difficult for headquarters to handle in managing the transfer.

## Implications for Theory and Managerial Practice

The exploratory research design has allowed this study to contribute to theory and managerial practice with novel insights into influences on effectiveness in headquarters transfer of capabilities to subunits in the MNC. These contributions pertain to: (1) the role of headquarters in actively managing transfers and (2) the finding that the receiver sometimes is not so much the targeted innovation project in isolation as an interdependent network of internal and external functions. The findings of this study have important theoretical implications for the standardization of innovation activities in firms with a global footprint. Beyond the field of international business, the influences on transfer effectiveness identified in this study are argued to be relevant for all multi-business organizations seeking to establish common capabilities among innovating subunits. In exploring influences on effectiveness in headquarters-driven transfers of capabilities to subunits, this study answers the call for research by van Wijk et al. (2008) who found that the effects of headquarters on the outcome of transfers has scarcely been covered in extant literature. The finding of this study make the following contributions to international business theory and managerial practice.

First, this study contributes to theory by introducing the active role of headquarters as a facilitator of the transfer, and does so in an organizational setting that has been found to be particularly complex. This suggests that the role of headquarters in managing transfers can support transfer effectiveness, but also challenge it if the transfer management effort results in lowered recipient commitment as the difficulties facing headquarters in managing the transfer frustrates also the attempts of the receiving units. This indicates a need for further problematizing the active role of headquarters in managing transfer of capabilities to subunits to an extent that is currently absent in the literature. It more specifically suggests that headquarters may not only enjoy advantages derived from its hierarchical position, but also may suffer disadvantages stemming from this position. Such disadvantages may, for example, result from headquarters not being part of, and thereby sometimes less familiar with, the local operational environment of distant subunits. This study argues that understanding the role of headquarters in managing capability transfers in MNCs requires taking into account the special conditions that apply to transfer processes where the sender is both highly motivated and a unit of great authority in the corporation.

From a managerial standpoint, the difficulty of accurately assessing the need for transfer training and support in the receiving projects can be seen as requiring headquarters to predict what challenges projects and their supporting networks are likely to face in the transfers and to take measures to help them overcome these challenges. This will require the involvement of key people who are knowledgeable about both the general capability being transferred and the specific organizational contexts it is transferred to. This role of headquarters in managing transfers is found critically important to transfer effectiveness also in terms of influencing recipient commitment, suggesting that the actions of headquarters are closely followed by subunits.

A second implication of this study concerns how research on effectiveness in headquarters–subunit transfers of capabilities has traditionally almost exclusively focused on the dyad of a sender and a receiver. This is an intuitive focus, considering how the phenomenon is characterized as comprising one sending and one receiving unit. However, this study indicates that supporting networks can influence transfers in and of themselves. The findings of this study thereby suggest that it is necessary to question the common tendency in research on effectiveness in headquarters-subunit transfer of capabilities to focus on the sender-receiver dyad. It moreover implies that influences on effectiveness may emanate not only from outside the transfer process, but also from outside the organizational boundaries of the MNC. The managerial challenges posed by the findings of how internal and external networks can influence transfer effectiveness blurs the boundaries of capability transfers. This, in turn, makes the active role of headquarters as a sender more complex as it requires taking the extent to which supporting networks are involved with the capability, and whether they can provide what is needed to handle the requirements of this involvement, into account at an early stage.

In conclusion the managerial implications of the findings of this study revolve around the increased necessity of an active headquarters sender to forecast what the main challenges to a transfer's effectiveness are likely to be. This involves how different challenges can be expected to affect the receiving projects as well as their internal and external supporting functions. It furthermore involves what headquarters can do to overcome these challenges by providing training and support. However, in performing an active role, headquarters need also to be aware that the credibility of the transfer and the commitment of the organization may hinge on how this role is conducted and perceived.

Regarding the theoretical implications, the findings of this exploratory study together suggest an alternative perspective on effectiveness in headquarters–subunit transfers of capabilities. This perspective views transfers not as isolated transfers of general capabilities in simple sender–receiver dyads, but as transfers of specific capabilities with specific requirements between active, authoritative senders and complex recipient systems – the boundaries of which essentially rely on the capability being transferred. This perspective on transfer effectiveness in MNCs provides considerable richness to theoretical understanding of transfer effectiveness, and in doing so, opens up several interesting avenues for future research.

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**Olof Lindahl** (olof.lindahl@fek.uu.se) teaches and does research as part of the IB Group at the Department of Business Studies, Uppsala University, in Sweden. His research is primarily concerned with intra-MNC capability transfers, reshoring, and the role of headquarters in value-creation and innovation in the MNC.

# Language Strategies in Multinational Corporations: A Cross-Sector Study of Financial Service Companies and Manufacturing Companies

Guro R. Sanden
Ph.D. awarded by Copenhagen Business School, Denmark (September 2015)

## BIG Question:

***"Do industry sectors matter for corporate language management?"***

## Introduction

As the existence of a common language is a precondition for most types of communication, the question of how multinational corporations (MNCs) manage language and linguistic diversity is something that scholars from different academic disciplines have taken an interest in. Almost two decades have passed since Marschan, Welch and Welch published their 1997 paper titled "Language: The forgotten factor in multinational management", a paper which marks the beginning of a string of language-sensitive research in international business and management. Over the, years a number of studies have examined language and communication in a variety of different organizations and contextual frameworks (see Brannen, Piekkari & Tietze, 2014; Piekkari & Tietze, 2011; Piekkari & Zander, 2005). Indeed, with the increasing focus on language in recent years, one could even argue that as far as international business and management research goes, language is the new culture.

However, the majority of previous studies have been conducted at the level of the firm, thereby paying little attention to how sector-specific differences affect language use and language management practices within firms belonging to different sectors. Situated at the intersection of sociolinguistics and international business and management studies, this thesis focuses on language management in two different industry sectors, namely the financial service sector and the manufacturing sector. Employing a multiple case study design consisting of two matched pair cases, the study examines the means by which language is managed, i.e., language management tools, in four MNCs headquartered in Scandinavia; the two financial service companies Nordea and Saxo Bank and the two manufacturing companies Grundfos and ECCO. The main contribution of this thesis lies in capturing the effect of industry sectors on corporate language management—a level of analysis which has largely been overlooked in previous research.

Financial services and manufacturing are two sectors where sector-specific characteristics could be expected to have an impact on corporate language management. Previous studies have found blue-collar employees to have lower foreign language skills than white-collar employees, which create pressure for multilingual communication in manufacturing companies (Barner-Rasmussen & Aarnio, 2011). Financial services, on the other hand, are likely to experience a greater external pressure for local language communication, as these companies sell information as part of the service encounter. The interactive customer–company relationship therefore complicates the implementation of a single common corporate language in financial service companies (Luo & Shenkar, 2006).

The dissertation is guided by two overall research questions. Firstly, how is the context reflected in the way language is managed in the two financial service companies and the two manufacturing companies? Secondly, which language management tools are implemented and why in the two financial service companies and the two manufacturing companies? I answer these questions through a comparative discussion based on document data from the four case companies including e.g., language policies and strategy documents, as well as 46 interviews with managers and employees working with language-related issues in the case companies.

## Language Management Tools – An Overview

The dissertation provides a processual perspective on language strategies by giving emphasis to how these strategies are implemented in practice through various language management tools. Based on a review of the existing literature, the thesis offers a taxonomy of language management tools which presents an overview of the various initiatives the management of a firm may deploy in order to satisfy the company's language needs. These language management tools may be summarised as follows:

***Common corporate language:*** The use of a lingua franca for internal communicative purposes. Can be based on a formal language policy mandate or without a formal language policy.

***Multiple corporate languages:*** The use of multiple languages for internal communicative purposes. Can be based on a formal language policy mandate or without a formal language policy.

***Company-specific language:*** Various ways to control the language of the company either through hard mechanisms such as imposed restrictions on vocabulary or syntax rules, or milder mechanisms such as company dictionaries or preferred writing standards.

***Language needs analyses:*** Methodologies to help firms identify the strengths and weaknesses of their organization in terms of foreign language communication.

***Interpretation/translation:*** The use of translation and interpretation services, either through arrangements with external agents or through the establishment of an internal in-house department, or other alternative solutions.

***Technological solutions:*** The use of computer-based technologies to translate text or voice from one language into another.

***Language training:*** Company-funded training programmes to improve the language skills of employees.

***Selective recruitment and staffing:*** Recruitment of language skilled personnel, either full-time, part-time or for a specific period of time, to fill identified language gaps in the company.

***Language intermediates:*** Strategic use of employees who perform a bridging function by virtue of their language competencies, either as part of, or in addition to, their normal job description, or in formal or informal language networks.

## The Explanatory Power of Industry Sectors

Findings from the study reveal that a number of sector-specific factors influence language management at the company level of the four case companies, and that these factors clearly have an impact in terms of which language management tools the companies choose to make use of in their language strategies. In particular, the two financial service companies and the manufacturing companies were found to have three sector-level factors in common, though with somewhat different outcomes. *Economic geography* increases the use of English for corporate level functions in the two financial service companies owing to the companies' presence in international financial centres. On the other hand, in the two manufacturing companies, this factor increases the need for multiple corporate languages and translation into the mother tongue spoken by the production workers in the industrial locations where English language skills tend to be scarce. In manufacturing, economic geography was also found to lead to the use of language intermediates as mediums of communication. In all case companies, *global integration* (Prahalad & Doz, 1987) increases cross-border communication and the use of English for corporate level functions, which also increases selective recruitment of English-skilled employees in both sectors. *Industry speak* is found to be closely related to company-specific language in all case companies regardless of sector, and technological solutions are implemented in order to manage large term databases in both sectors.

In addition to these factors, the following three sector-specific factors were found in the two financial service companies only: *local responsiveness* (Bartlett & Ghoshal, 1989), in particular with regard to the companies' retail banking operations, enhances the need for local language communication resulting in the use of multiple corporate languages. Local responsiveness also enhances both the use of translation and selective recruitment, while at the same time imposing restrictions on the provision of language training. *Age structure* of the employees, especially in the retail banking area, creates a need for multiple corporate languages and translation, while reducing the use of language training as a language management tool. *Regulatory compliance* results in the use of multiple corporate languages and company-specific language, and increases the use of translation and selective recruitment of employees with local language skills.

The following four sector-specific findings were found in the two manufacturing companies only: *work environment* of production units limits access to technological language management solutions and restricts the amount of language training provided for production workers. *Communication mode* implies restrictions on the possibility of using written-medium communication directed at production workers with limited literal skills, thereby creating a need to translate information into visual and oral-medium communication. *Risk of organizational isolation* arises due to few or no direct communication channels between headquarters and foreign subsidiaries, where the use of language intermediates may present a threat to organizational inclusion. Finally, modest to low *educational level* of production workers increases the need for multiple corporate languages and local language communication through translation, while reducing the provision of language training for this group.

## Contributions

This thesis contributes to the emerging language-sensitive research stream in international business and management by focusing on a level of analysis that is rarely discussed in the existing literature. The thesis demonstrates that industry sector matters: characteristics pertinent to the different sectors clearly hold strong explanatory power when examining in what way the case companies approach language management. The main contribution of this work therefore lies in generating knowledge about sector effects as an important layer of context in the study of corporate language management.

Another contribution of this thesis lies in conceptualising language management through language management tools. Language management tools are defined as the means by which language is managed, i.e., the tools used to address aspects of a company's internal language and communication practices. By placing language management tools next to other forms of management tools, the study shows that it is possible to treat the management of language in the same way as international business and management scholars treat any other aspect of MNC management. The taxonomy of tools provides a framework for operationalizing language management in the management of multinationals.

At the same time, this thesis also emphasizes that industry sector characteristics affect the companies' use of different language management tools. Clearly, many aspects of a company's context may have an impact on the implementation of such tools, yet, as a cross-sector study, this discussion has focused primarily on how and why the sector matters when it comes to the ways in which companies choose to execute their language management. A contribution of the study therefore lies in calling attention to the strategic considerations that may be explained by sector-specific factors in terms of the selection of different language management tools at company level. This thesis underscores the need to recognize the dynamics of sector effects on corporate language management when examining language management strategically – that is, knowledge and understanding of the sector provides a stronger basis for strategic language management. Thus, in a day-of-age where the study of language has gained momentum in international business and management literature, the present study contributes to make the case for strategic language management as the next frontier in language management research.

In line with what Piekkari, Welch and Welch (2014) describe as "the multilingual reality of global business expansion", the findings show that manufacturing, which is often described as a global industry (e.g., Bartlett & Ghoshal, 1989), and financial services, which have become increasingly global in the past decades with regard to international trade and investment, are also in need of local-language communication for company-internal reasons. This observation contributes to raise awareness of the role of local languages in global and transnational corporations, where uniform English language policies may be seen as the highway to global efficiency (Neeley, 2011). Global industries, like all other industries, must address a number of factors – including but not limited to the sector-specific factors discussed in this thesis – when managing their internal multilingualism. As a human resource skill, employees' language skills (or lack thereof) create internal pressure for language management and the implementation of language management tools, in particular corporate measures. A strategic approach to language management requires corporate language managers and corporate language management researchers to consider how the language needs of the particular organization can be met in the most efficient manner. The present study thus emphasizes the human resource aspect attached to the management of language.

Furthermore, the dissertation offers rich, in-depth within case analyses of four case companies, two of which have chosen to approach language though detailed language regulation in the form of formalized language policy documents. The thesis offers a processual perspective on how these policies came about, which represents a form of analysis rarely found in language-sensitive research in international business and management. Rather than presenting a picture of how the companies manage language today, the study presents the full story by also considering the development of the language policies as events that offer contextual insight into the companies' current language management practices. The combination of interview data, especially from key informants who took part in developing the companies' language policy documents, combined with the policy documents and other relevant company-specific documents made it possible to examine the different considerations that were made at the time the policies were developed and compare these to the present-day situation.

This study also brings insight into a relationship that has been widely debated in the sociolinguistic literature, namely the relationship between language policy and planning activities at the national (macro) level and at the corporate (meso) level. In line with Kaplan and Baldauf's (1997) theory of linguistic eco-systems, the present study demonstrates that business organizations can be seen as linguistic eco-systems of their own, with multiple company and sector-level forces at work. The implementation of corporate English language policies in countries where English is not an official language, e.g., Scandinavian countries, is occasionally portrayed as a "domain loss" where the national language is perceived to be under threat by increased use of English in business and commerce. However, data from the four case companies show that the introduction of English language policies does not necessarily degrade the status of the national language(s) at the macro (societal) level, given the widespread use of parallel languages, i.e., English via-a-vis the local language(s).

Finally, a number of findings from this study have direct practical applicability to multilingual organizations. Rather than addressing language and communication-related issues as trivial matters, this study calls for a more strategic approach where managers responsible for language management activities acknowledge the potential of multilingual management. The use of one language management tools does for example not limit the benefits of others. Rather, several language management tools appear to be interconnected and can easily be combined dependent on the company's situation with regard to language and communication practices. What this implies is that the implementation of one language management tool is often insufficient to meet all language needs at all organizational levels. For example, the adoption of an English language policy is likely to trigger the need for follow-up initiatives, such as translation, language training or selective recruitment of language competent personnel. The appropriateness of the various tools is largely dependent on factors pertinent to the company and the company's context, including sector-specific characteristics.

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**Guro Refsum Sanden** (grs.ibc@cbs.dk) is a Postdoctoral Researcher at the Department of International Business Communication at Copenhagen Business School. Her research focuses on the role of corporate language strategies in multinational corporations and the relationship between national language policies and corporate law in Scandinavia. Before entering academia, she held various industry positions, including management trainee in the Danish insurance company Tryg.

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Academy of International Business
G. Tomas M. Hult, Executive Director
Michigan State University
Eppley Center
645 N Shaw Ln Rm 7
East Lansing, MI 48824 USA

Tel: +1-517-432-1452
Fax: +1-517-432-1009
Email: aib@aib.msu.edu