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CULTURE’S IMPACT ON STRATEGIC FLEXIBILITY: ARE FIRMS FROM CERTAIN CULTURES MORE STRATEGICALLY FLEXIBLE THAN FIRMS FROM OTHER CULTURES?

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ABSTRACT

Strategic flexibility has been defined as the ability of a firm to change course based on new information that may be different than previous information. Culture has been defined as a shared set of values and beliefs of a group which are distinct from the values and beliefs of another group. This paper develops a model of the antecedents and causes of strategic flexibility and then offers propositions on how culture (based on Hofstede’s five cultural dimensions) influences strategic flexibility of firms from different cultures.

Keywords: Strategic Flexibility, Hofstede’s Cultural Dimensions, Uncertainty Avoidance, Collectivism/Individualism, Power Distance, Long/Short term Orientation, Masculinity/Femininity.

INTRODUCTION

The concept of strategic flexibility has been around for quite some time, however, there is no comprehensive study that investigates all of the factors (the antecedents) that influence the strategic flexibility of firms, and consequently, the results (the consequences) of these antecedents on strategic flexibility. There a number of factors that influence the strategic flexibility of a firm, and a firm can be strategically flexible on one or all of its functional areas in order to gain competitive advantage (consequence) in the marketplace.

This paper first provides a comprehensive review of the literature on strategic flexibility and one of the factors that affect the strategic flexibility (culture) of a firm. The paper uses Hofstede’s five cultural dimensions (that have been used to represent culture in a global context) and offers five propositions on how these five cultural dimensions affect strategic flexibility. The paper then proposes a model of the antecedents and consequences of strategic flexibility.

The following section contains the literature review on strategic flexibility and culture, and is divided into two parts. The first part is a review of the studies that have been conducted on the issue of strategic flexibility. The second part is a review of the studies that have been conducted on culture’s influence on consumption and managerial decision making (in relation to strategic flexibility) in different cultures (countries).

LITERATURE REVIEW

Strategic flexibility

Strategic flexibility is the ability of a firm to identify major shifts in its external environment and change courses by reallocating resources to meet the challenges of these changes – even halt or reverse course if need be. Firms that are strategically flexible are prepared for a future they cannot predict. On the other hand, strategically committed firms pursue a strategy based on a
single view of the future (Shimizu & Hitt, 2004). Firms should be flexible and focus on doing something other than originally intended (Roberts & Stockport, 2009) as a competitive priority (Narain et. al., 2000) to fend off competition (Yusuf et. al., 2003) and precipitate strategic changes (Evans, 1991; Harrigan, 1985) in order to maintain competitive advantage (Hitt, 1998; Hitt et al., 1998).

Firms that are strategically flexible are capable of rapidly responding to changes in the external environment (Aaker & Mascarenhas, 1984; Bahrami, 1992; Evans, 1991; Buckley, 1997; Matusik, 1998; Johnson et al., 2003). Such firms should be able to continuously rethink their current strategies and resource allocation (Slack, 1983) to unexpected consequences of predictable changes (Lei et al., 1996). In the European environment, TQM companies were found to have greater flexibility and were able to adjust much better to their environment than non-TQM companies (Gomez-Gras & Verdu-Jover, 2005). Strategic flexibility has a positive relationship with profitability and labor productivity when there is a high degree of uncertainty and the environment is changing (Zhang, 2006). However, strategic flexibility also has some disadvantages like cost, stress, and the lack of focus (Das & Elango, 1995).

Strategic flexibility has been shown to affect firm performance in different industries (Abbott & Banerji, 2003; Ginn & Lee, 2006; Grewal & Tansuhaj, 2001; Javalgi et al., 2005; Nadkarni & Narayanan, 2007; Worren et al., 2002). A firm’s productivity is significantly affected by the flexibility of a firm’s buyers and suppliers (Young et. al., 2003), and a firm’s relationships with its network affects its competitive position in an ever changing environment (Achrol & Etzel, 2003; Beverland, 2005). The strategic flexibility of a firm, and ultimately its performance is positively affected by logistics and marketing activity (Abrahamson, et al., 2003).

Nadkarni and Herrmann (2010) investigate the relationship between CEO personality, strategic flexibility and firm performance and find that a CEO’s personality either encourages or discourages strategic flexibility, ultimately affecting performance. The two scholars theorize, “that psychological attributes of CEOs serve as lenses through which CEOs subjectively view strategic situations and decide on appropriate responses, by shaping their fields of vision, their selective perception, and their interpretation of perceived cues”, (Nadkarni & Herrmann, 2010, pp. 1051).

Leadership agility and knowledge management have been considered as necessary conditions for strategic flexibility (Lakshman, 2007; Uhlenbruck, 2003). Managers have psychological and organizational biases that may prevent them from recognizing problems and changing courses (Shimuzu & Hitt, 2004). Some managers think that the secret to success is being committed to a course of action until it is successful. Managers who believe this feel that frequent changes in strategies waste resources and ultimately fail. However, being overly committed, especially in a changing environment, will definitely lead to failure (Shimuzu & Hitt, 2004). Shimizu and Hitt (2004) recommend three steps in maintaining strategic flexibility: (1) paying attention to negative feedback (2) collecting and assessing negative data in an unbiased and objective fashion, and (3) initiating and completing changes in a timely manner.

Matthyssens et al., (2005) conceptualize strategic flexibility as dynamic capability and absorptive capacity. Dynamic capability is when a firm reconfigures its resources and adapts itself to a changing environment (Eisenhardt & Martin, 2000), while absorptive capacity is when
a firm is able to create knowledge and use it to enhance its ability to be competitive in the marketplace (Zahra & George, 2002). Decision making that is decentralized is positively related with strategic flexibility, and a creative organizational culture is also positively related with strategic flexibility (Bock et al., 2012). Combe and Greenley (2004) develop a theoretical cognitive content framework that shows the relationship between the differing thought processes of managers and their capability of generating different types of strategic flexibility. A real options approach is proposed by Ford et al., (2002) for being strategically flexible in construction projects.

Managers’ psychological attributes like openness to change affects their ability to be strategically flexible (Datta et al., 2003). Psychological attribute like the propensity to take risk also affects strategic flexibility (Finkelstein & Hambrick, 1996). Managers with levels of dependability do not like to take actions that are not compatible with their past experience (Miller & Droge, 1986). Conscientious managers have a strong need to reduce uncertainty, and long range planning is key in their decision making process, and they are thus not very flexible in their strategic planning (Bogner & Barr, 2000; Judge et al., 2002; Lepine et al., 2001). Managers with compliant, conflict avoiding and excessive agreeableness personality tend to be less flexible since they conform to what people may think of them (Nadkarni & Herrmann, 2010). Experienced managers typically develop a mindset when making decisions and ideas and actions that are far removed than current routines are not considered legitimate (Shimizu & Hitt, 2004). CEOs of firms that have strategies that are flexible have better performance and higher pay than their counterparts who do not (Gopalan et al., 2010).

Organizations that are older and larger become set in their ways when approaching a problem and early signs of changes in external environment usually get ignored. This tends to happen more so when success is rewarded and mistakes are punished which leads organizations and their managers to be very cautious and not deviate from the routine. Strategic stability often makes firms commit and lock resources into products and processes that may be outdated, leading to poor performance (Nerkar & Roberts, 2004). However, firms that are strategically flexible can become more profitable by taking advantage of opportunities offered by a market that is continuously changing.

Scholars have found a positive relationship between strategic flexibility and technology (Celuch et al., 2007; Evans, 1991; Sanchez 1995; Worren et al., 2002), resources (Harrigan, 1985; Young-Ybarra & Wiersema, 1999; Zhang, 2005), entrepreneurship (Timmons & Spinelli, 2004), manufacturing strategies (Beach et al., 2000; Claycomb et. al., 2005; Gerwin, 1993; Lau, 1996; Price et al., 1998; Tsubone et. al., 2002; Van Hoek, 2001), product innovation (Zhou & Wu, 2010), process innovation (Kotabe et al., 2007), purchasing/supply chain (Giunipero et. al., 2005), relationship quality (Ivens, 2005), commitment to employees and performance (Roca-Puig et al., 2005), and network structure (Young-Ybarra & Wiersema, 1999). Intra- and inter-firm flexibility affects performance in a business-to-business environment Fredericks (2005).

Culture’s Influence on Consumers and Managers

Culture is a shared set of values and beliefs (Hofstede, 1980) which is common to members of the group (Hall, 1966) and it separates one group from another group (Hofstede, 1997). These cultural values play a dominant role in defining the values, self and personality of people in
different cultures (countries), and ultimately their behavior (Hofstede, 1980, 2001a, 2007; Markus & Kitayama, 1991).

Culture’s influence on a variety of factors has been studied by a number of scholars. For instance, culture affects a firm’s foreign ownership decisions (Krishna, 1996), international joint venture decision (Barkema & Vermeulen, 1997), diffusion of new products (Dwyer et al., 2005), acceptance of new products (Yeniurt & Townsend, 2003), attitudes toward global and local products (Steenkamp & Jong, 2010), consumption decisions (Chui & Kwok, 2008), branding (de Mooij, 2010), advertising (de Mooij & Hofstede, 2010), innovation (Tellis et al., 2003), entrepreneurship (Morris et al., 1993), tourism (Money & Crotts, 2005), and organizational behavior (Hofstede, 1983).

THE PROPOSED MODEL

The following is a model of the antecedents and consequences of strategic flexibility. The model shows that the strategic flexibility of a firm is influenced by cultural variables, organizational variables, CEO personal variables, and finally environmental variables. A firm can be strategically flexible in any one or all of its functional areas – manufacturing, marketing, finance, human resources, information systems, and supply chain. Being strategically flexible gives a firm competitive advantage in the marketplace through higher productivity and higher profits.

![Figure 1 – The Proposed Model of the Antecedents (determinants) and Consequences of Strategic Flexibility](image-url)
As stated earlier, there are four antecedents to strategic flexibility. Organizational factors are those that are internal to an organization. There are a few studies that have investigated the effect of some of these organizational variables on strategic flexibility – specifically the size, age and the degree of centralization in the organization. The next factor that affects strategic flexibility is CEO-specific. There are studies that have investigated the effect of such variables as CEO’s psychological makeup and their business experience in the field on strategic flexibility. The third factor is environmental. Even though strategic flexibility has been defined as a firm’s ability to change its strategy based on new information, there is no study that investigates whether changes in the information about the environment force all firms (or only some firms) to be strategically flexible. For instance, can a firm be forced to be strategically flexible if its competitors are being flexible and are successful, or if the economy has gone into a recession?? Finally, do cultural factors affect the strategic flexibility of a firm, i.e., given the same information, will firms (managers) from different cultures (countries) vary in their strategic flexibility?? This has also not been studied by scholars.

Even though this paper proposes a model of the antecedents and consequences of strategic flexibility, the goal of the paper is not to develop such a comprehensive model. The focus of the paper is the relationship between the five cultural dimensions and their effect on strategic flexibility. The following section develops five propositions on how these cultural dimensions affect strategic flexibility.

RESEARCH PROPOSITIONS

Hofstede and Hofstede (2005), and Hofstede (2001b) proposed five dimensions of cultural values: power distance (low vs. high), uncertainty avoidance (low vs. high), individualism (vs. collectivism), masculinity (vs. femininity), and long term (vs. short term). Cultures with high power distance index have a lot of inequality between superiors and subordinates, and it is accepted by followers and leaders of the society. Cultures with high uncertainty avoidance index have a society where people avoid uncertainty and ambiguity and prefer security and safety in everyday life. Cultures that rank high in the individualism index have societies that promote self interest rather than the interest of the group. Finally, cultures that score high on the masculinity index have societies where the societal and status gap between men and women is very wide, and men are treated better and differently than women. The following is a review of the literature on the different cultural dimensions and its influence on people in different cultures.

Uncertainty Avoidance (High vs. Low)

Uncertainty avoidance is defined as, “the extent to which people feel threatened by uncertainty and ambiguity and try to avoid these situations” (De Mooij & Hofstede, 2010, pp. 89). Uncertainty accepting cultures do not demand high levels of documentation and formal plans and projections before making decisions and they have greater tolerance for different ideas and prefer autonomy (Hofstede, 1980), have less formal organizations (Hofstede, 1997), and less regulations and high codes of conduct(Rodrigues & Kaplan, 1998).

Uncertainty avoidance affects advertising appeals (Albers-Miller & Gelb, 1996), innovativeness of consumers (Steenkamp et al., 1999), country-of-origin effects (Lee et al., 2007), involvement (Broderick, 2007) and service evaluations (Voss et al., 2004). Uncertainty avoiding societies
may be less innovative than societies that accept uncertainty (Hoffman & Hegarty, 1993; Kedia et al., 1992; Shane et al., 1995; Steenkamp et al., 1999). In business-to-business dealings, customers from cultures with higher uncertainty avoidance index were less satisfied with service defects than customers from cultures with lower uncertainty avoidance index (Reimann et al., 2008). Tourists from countries with different uncertainty avoidance indexes behave differently when traveling overseas (Money & Crotts 2003, Litvin et al., 2004).

Uncertainty avoidance moderates the effect that scarcity has on purchase intention (Jung & Kellaris, 2004). Managers from cultures with higher uncertainty avoidance were far more sensitive to controllability in perceiving strategic issues than their counterparts from lower uncertainty avoidance index countries (Barr & Glynn, 2004). When collecting and comparing online information, consumers from Japan (high uncertainty avoidance) showed drastic change in behavior in comparison to those from Germany and the U.S. (Vishwanath, 2003). Consumers from lower uncertainty avoidance cultures have higher internet shopping rates than their counterparts from higher uncertainty avoidance cultures (Lim et al., 2004). In recent years, countries with low uncertainty avoidance showed a higher rate of entrepreneurship than countries with a higher uncertainty avoidance index (Wennekers et al., 2007). Firms have also used uncertainty avoidance index to determine entry mode strategies (Brouthers & Brouthers, 2001). Uncertainty avoiding and cooperative societies showed a very strong relationship with forming technology and equity alliances (Steensma et al., 2000). Based on the above, it is easy to assume that managers from different cultures have different appetites for risk, thus, the following is proposed:

P1: Managers of firms from cultures with lower uncertainty avoidance index will be more strategically flexible than managers of firms from cultures with higher uncertainty avoidance index.

**Power Distance (High vs. Low)**

Power distance is the degree to which a society accepts and expects power to be distributed unequally amongst members of the society, i.e., inequality in society is accepted by followers and leaders of the society (Hofstede, 1991). Cultures with low power distance index prefer to consult with and depend on other individuals/groups that differ from them in status or power while cultures with high power distance index place a lot of importance on social and professional standing, reputation and self image (Hofstede, 2001), and people from these cultures are under a lot of societal pressure to meet their expectation and maintain ‘face’ (Hu et al., 2008). Cultures that have low power distance index have less inequality in social status and privilege in comparison to cultures with high power distance index that emphasize prestige, wealth, power hierarchy and even discrimination (Yoo & Donthu, 2005). Power distance also affects consumers’ preference for luxury status brands (Kim & Zhang, 2011).

Countries with high power distance index have lower innovation in comparison to countries with lower power distance index (Shane et al., 1995, Van Der Vegt et al., 2007). On the other hand, people from countries with high power distance index rely on autocratic rule and usually don’t trust each other (Hofstede, 1991, 2001), and ideas coming from lower status employees are usually ignored and discounted (Silver et al., 1994). People from lower power distance cultures
react positively to transformational leaders than do people from higher power distance cultures (Kirkman et al., 2009).

In a study involving bank customers in India and Canada, power distance moderated the effect of interdependence and relationship quality (Dash et al., 2006). In a high power distance index country like China, Humborstad et al., (2008) found a positive relationship between empowerment and higher service willingness by employees. Consumers from cultures with higher power distance index display less impulsive buying behavior than consumers from cultures with lower power distance (Zhang et al., 2010). Consumers from higher power distance cultures evaluate service quality differently than consumers from lower power distance cultures (Dash et al., 2009). Firms operating in lower power distance countries are very likely going to make decisions based on economic and transaction-cost issues in comparison to firms in higher power distance countries (Steenkamp & Geyskens, 2012).

Cultures (managers) that are high in power distance are much more rigid and set in their ways and have a hierarchical structure that is difficult to break, and will thus not be strategically flexible. Managers will adopt a strategy and stick to it and expect others to follow these strategies. Based on this conclusion, the following is proposed:

P2: Managers of firms from cultures with lower power distance index will be more strategically flexible than managers of firms from cultures with higher power distance index.

Collectivism (vs. Individualism)

In an individualistic society everyone is expected to look after himself/herself, while in a collective society people are very dependent on each other as a group (Hofstede, 2001). Individualistic societies value power, achievement, and hedonism while collective societies value benevolence, tradition, and conformity (Schwartz et al., 2001). Individualistic societies act independently and have a strong self-concept and a sense of freedom for personal achievement while collectivist societies give priority to the goals of the group before their own (Oyserman et al., 2002). Researchers have studied the impact of individualism on the values and lifestyles of consumers (Dutta-Bergman & Wells, 2002), values and attitudes (Gregory et al., 2002), ethics (Yoo & Donthu 2002; Smith & Hume, 2005), propensity to voice complaints (Chelminski & Coulter, 2007a), self confidence (Chelminski & Coulter, 2007b) and corporate entrepreneurship (Morris et al., 1994). Consumers from individualistic countries also have higher internet shopping rates than consumers from collectivist cultures (Lim et al., 2004).

Managers from cultures with low collectivism (high individualism) will be very flexible since they do not need to have group consensus (which tends to be very time consuming and rigid) before making a decision and changing the strategic direction of a firm. Individuals can change much more rapidly than groups. There is also a very high correlation between cultures that are high in power distance index and cultures that are high in collectivism. Based on the above, the following is proposed:

P3: Managers of firms from cultures with low collectivism (high individualism) index will be much more strategically flexible than managers of firms from cultures with high collectivism (low individualism index).
Long Term (vs. Short Term) Orientation

This describes a society’s “time horizon” and how important they think the future is in comparison to the present and past. Societies that are long term oriented are thrifty and have perseverance in order to attain future rewards (Hofstede & Hofstede, 2005), while short term oriented societies value normative statements, respect for tradition and focus on the past or the present and do not give a lot of importance to the future (Yoo & Donthu, 2002). However, lately Bearden et al., (2006b) take a different view and state that respect for tradition (i.e., the past and the future) is also a long term value. Long term societies typically have traits of Confucianism ethics, and are hard workers, pragmatic, thrifty, benevolent, moral, non-materialistic, and socially conscious while short term oriented societies have been associated with western cultures that focus on immediate gratification and do not have the patience to wait for rewards in the future (Hofstede, 2001).

Consumers from long-term oriented cultures prefer reputable national or international brands since they seek a long term relationship with the brands while consumers from short-term oriented cultures prefer private labels since it has the immediate benefit of lower prices (de Mooij & Hofstede, 2002). Consumers from long term oriented cultures have a lower usage of credit cards and save more and they also tend to be more loyal (Soares et al., 2007) and are more innovative (Van Everdingen & Waarts, 2003) than their counterparts in short term oriented cultures. Reaction to service failure is influenced by long term orientation (Hui & Au, 2001), so is customer complaint (Poon et al., 2004).

Long term oriented cultures like Japan and other Asian countries are dynamic in their thought process, accept constant changes and have been very successful with their hard work and perseverance, and this may explain the reasons for their success (Franke et al., 1991). Long term orientation should be considered as a combination of tradition and prudence (Sharma, 2010). According to Bond (1988), cultures that emphasize tradition (heritage) also respect traditional values, encourage hard work, promote non materialism, social consciousness and morality. Similarly, cultures that rate high on prudence will encourage its people to plan for the future, persevere with their goals, and to be thrifty (Puri, 1996).

This leads one to conclude that managers from cultures that are long term oriented plan and strategize for the future and will pursue and stick to that plan. However, societies that are short term oriented are characterized as cultures that are very flexible and change rapidly and adjust to the ever evolving environment. Based on the above analysis, the following is proposed:

P4: Managers of firms from cultures with higher long term orientation (higher short term orientation) will be less strategically flexible than managers of firms from cultures with higher long term orientation (lower short term orientation).

Masculinity (vs. Femininity)

Masculine cultures place a very high value to being competitive, assertive, ambitious, the acquisition of money and things and do not care for others, the quality of life or people, while feminine societies place more value to relationships, modesty, nurturing, caring for others and
quality of life (Hofstede, 2001). Masculine cultures also emphasize independence and gender roles that are different while feminine cultures focus on interdependence and fluid gender roles. Initially it was thought that masculinity and femininity are at the two ends of a continuum. However, this view has changed lately. It is now thought that an individual or a society can be masculinity as well as feminine, i.e., the two can coexist (Spence, 1993; Stern et al., 1987; Stern & Resnik, 1991), and cultures that advocate gender equality perceive women to be equal to men in society, with equal rights and responsibilities (Schwartz & Rubel-Lifschitz, 2009).

Masculine societies also value self-ego and consumption that may be status based and symbolic in nature (De Mooij & Hofstede, 2002), for emotional and hedonic reasons (Tsikriktsis, 2002), and are engaged in conspicuous consumption to demonstrate success (Steenkamp et al., 1998). The masculinity/femininity of a culture dictates how sex roles are portrayed in advertising (Milner & Collins, 1998). Masculine cultures respond differently to advertisements images using utilitarian and image appeals than do cultures that are feminine or androgynous (Chang, 2006). A study by An and Kim (2007) found that a feminine culture like Korea preferred ads that featured relationship themes with women in family or recreational settings. The masculinity or femininity of a culture also influences consumer innovativeness in that culture (Van Everdingen & Waarts, 2003), involvement (Broderick, 2007), and service evaluations (Birgelen et al., 2002). Masculine cultures also favor information related to product performance (Tai & Chan, 2001). The choice of media is also influenced by whether the culture is feminine or masculine (Hofstede, 2001).

This leads one to believe that since masculine cultures are competitive and assertive, and they do not seek group consensus and the need to please others (like feminine cultures) and will thus change direction based on available information.

P5: Managers of firms from masculine cultures will be more strategically flexible than managers of firms from feminine cultures.

The following table summarizes the propositions given above:

**TABLE 1. SUMMARY AND EXPECTATIONS OF THE FIVE PROPOSITIONS**

<table>
<thead>
<tr>
<th>Hofstede’s Cultural Dimensions</th>
<th>Strategically Flexible Cultures (generally western cultures)</th>
<th>Not Strategically Flexible Cultures (generally eastern cultures)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Distance</td>
<td>Higher PD</td>
<td>Lower PD</td>
</tr>
<tr>
<td>Individualism/Collectivism</td>
<td>Higher Individualism</td>
<td>Higher Collectivism</td>
</tr>
<tr>
<td>Uncertainty Avoidance</td>
<td>Lower Uncertainty Avoidance</td>
<td>Higher Uncertainty Avoidance</td>
</tr>
<tr>
<td>Long/Short Term Orientation</td>
<td>Short Term Orientated</td>
<td>Long Term Oriented</td>
</tr>
<tr>
<td>Masculinity/Femininity</td>
<td>Masculine</td>
<td>Feminine</td>
</tr>
</tbody>
</table>
DISCUSSION AND CONCLUSION

This paper investigates how Hofstede’s five cultural dimensions affect strategic flexibility in different cultures and since managers are responsible for the strategic flexibility (changing directions) of their firms, their inclination to change or not change is strongly affected by the culture in which they were raised. Firms venturing into foreign countries should take a hard look at the cultural differences between the home country and the host country. Unfortunately, this is usually not done and firms assume that executives in foreign markets will behave like executives in the domestic market. Culture affects consumers and managers and a firm should adapt to such cultural differences.

Even though the goal of this paper was not to develop a model of the antecedents and consequences of strategic flexibility, it attempted to develop such a model based on studies that have been done in the past. The proposed model is not comprehensive by any means. The relationships between only some of these factors and strategic flexibility have been studied in the past. The model needs to be developed further by scholars in the future.

The focus of the paper was to offer propositions on the effect the five cultural dimensions have on strategic flexibility, i.e., will managers from a culture interpret the same information differently and will thus be more (or less) strategically flexible than managers from another culture. These propositions can also be tested empirically to see whether these relationships are supported by data from different cultures (countries).

REFERENCES


THE VALUE OF CASES AND COMPUTER-BASED SIMULATIONS AS TEACHING METHODS FOR INTERNATIONAL BUSINESS STUDIES

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ABSTRACT

The use of cases in the teaching of international business has long been a tradition. However, how cases and computer-based simulations are used today to maximize learning varies across the spectrum of disciplines and institutions. As a follow-up to an earlier paper, the authors utilized a pilot survey, face-to-face interviews and a review of the literature to ascertain how faculty use textbook cases, computer-based simulations, real-life/current event (heavy media coverage) cases, and face-to-face real world (usually local companies) cases as methods to enhance the teaching/learning experience. It is important to find ways to prepare students for their roles in global business. This pilot survey suggests preliminary findings and provides the foundation for a future survey across a number of institutions with the expectations that the results will help improve the international teaching experience.

Keywords: Business cases, CB-Sim, current event cases.

INTRODUCTION

The changing global environment and rapidly changing technological tools have presented international business faculty with a wider range of choices and challenges as they seek ways of enhancing the teaching/learning experience. Cases have long been part of the teaching tradition. Cases are a method to maximize learning, but how do faculty define and utilize cases? There are many choices, including both extensive and short textbook cases, computer-based simulations (CB-Sim), current event (heavy media coverage) cases and face-to-face real world (usually local companies) cases.

It is true that for many years the traditional textbook cases have been the old standby for faculty. Textbook cases permitted the instructor to teach analytical, decision making and strategic thinking skills. Today, faculty members have a broader array of tools at their disposal. The question is will faculty avail themselves of these tools, and if so, which tools are best in what teaching situation?
This particular paper is an extension of earlier work by the authors who explored previous research on alternative teaching styles. Based on those earlier efforts, the authors crafted a pilot faculty survey which included face-to-face interviews. A future step is to construct a formal survey that can be used on Zoomerang and submitted to faculty at three other universities with business schools in the United States and then extend the study to other countries for comparison.

It should be noted that although our intent is to understand better the case teaching methods that may be applied in international business, the pilot itself reached out to faculty in a cross-section of disciplines. Our goal is to grasp why and how faculty choose a particular case methodology.

**REVIEW OF LITERATURE**

In our earlier published paper we covered extensively the use of the case study method. Here we will highlight a few of these references and add several up-to-date research findings. Harvard Business School cases have been used for many years across most disciplines, including international business (Andres and Noel, 1986). The cases were usually complex with the expectations that students would analyze data, identify problems, issues or opportunities and provide alternative solutions. This process usually requires an extensive amount of class time (Chapman, 1992).

In 1999, Schullery described five specific criteria for selecting a case method. First, given student backgrounds, cases should be applicable to all students in your class. This becomes more challenging with the greater diversity of students in our classes. Second, cases should be complex enough to provoke questions and lead students to develop alternatives. Third, cases should lead to a range of solutions. Fourth, cases should be able to be covered and processed in the allotted class time. Fifth, the case should be sufficiently complex to be challenging but not discouraging to the students. Schullery’s findings leads us to questions regarding how appropriate are cases in the classroom. Cases may require considerable effort from the instructor and students. This effort becomes more important and demanding as the number of international students in classes increases. Instructors must develop appropriate teaching styles to use this tool (Hackney, McMaster & Harris, 2011). But first the question of defining what in meant by a “case” must be addressed.

In their *E-Handbook of Teaching with Business Cases*, Ganglewski and Helm (2010) interview faculty and students to solicit definitions across disciplines and identified a number of common threads in the responses in including:

- Cases should tell a story and describe action characters;
- There should be a problem with facts, issues and background;
- The case must have workable outcomes and usually more than one;
- It needs to be authentic. Students prefer real-world experiences with the potential for real-life decision making;
- The case should test critical thinking skills in students;
- For international business, cross-cultural learning opportunities should be present; and
Cases should enable students to connect theory to practice.

Leonard and Cook (2010) comment that “…the case method has proven to be a successful pedagogical approach because it reflects a democratic type of teacher-student… relationship… it enables the college professor to become closely involved with students in the classroom and yet maintain his or her professional role. A teacher’s status with students rests upon scholarly knowledge, on ability to teach, and (shows) interest in students as individuals” (p.101).

Computer based simulations (CB-Sim) have become popular worldwide in recent years as a teaching tool. Students are more comfortable today with computers and gaming in general (Bobot, 2010). Experiential learning or “Learning by doing” is the phrase being heard on more campuses today (Martin, 2005). However, a distinction between different CB-Sims must be recognized. There exist distinct learning differences that turn-based simulations provide when compared to interactive simulations. Interactive simulations have been shown to be a valuable and effective approach to teaching operations management as a problem-based learning tool (Leger et. al, 2012). Simulations have been used to extend theory, test hypotheses, and provide good practice for critical thinking exercises. However, some courses, core courses in particular, may not lend themselves to simulation applications (Antonoaie & Antonoaie, 2010).

Real Life/current event cases, usually incorporating heavy media coverage, present another opportunity for faculty. Most of the time these cases deal with large MNCs. The research in this area is limited. Questions in our pilot survey point to some of the challenges and opportunities in using this approach. A variation of the current event approach can be designed by a faculty member developing his or her own case and fictional company around a current issue (Bowers, 2010). An example of this would be the concept of corporate social responsibility (CSR) and issues relating to the impact global companies have on resources in developing countries. Using this approach, international current event CSR topics focused on real companies can be addressed creating a fictional company in that selected industry. Students would then apply their analysis skills to the fictional firms as a player among real companies in the focused industry. A possible shortcoming remains in that students prefer real cases over fictionalized versions.

A more common approach is the face-to-face real world case usually conducted with local companies. Schick (1997) describes a public relations course where student teams worked to help a client resolve issues. One of this paper’s authors has utilized international small- and medium-sized enterprises (SMEs) in two ways. The first way involves having company officials visit the class, present internal and external information, followed by student teams working on the stipulated issue or issues, as presented by the companies. A variation of this approach is to have the class receive as much information as possible about the company and the issue at hand (e.g. entering a new country). At the end of the semester, all class teams go to the company and present their findings and recommendations to the CEO and other members of management. Feedback is immediate.

An additional benefit of real world local companies cases is presented by Pitt and Watson (2011) who proffer that cases can be a valuable teaching tool for students in emerging economies because it provides those students the necessary (local) realism to make it a valuable learning experience.
Regarding the use of cases and the teaching of business ethics, there are questions centered around whether or not true learning takes place (Cahn & Glass, 2011). Students may show a high level of ethical integrity when analyzing a business-ethics issue in a current event or textbook case, however, that attitude changes when the ethical issues become more personal and has a direct financial impact on the student. As these do become more personal, the first priority shifts to financial rather than ethical criteria. The lasting effects of cases as learning tools in the teaching of business ethics is brought into question.

Pennell and Miles (2009) advocate problem-based learning (PBL) as an approach that merits consideration. Rather than teaching the concepts first, and then presenting a problem/case, the situation is presented first. In order to analyze and present alternatives for the problem/case, students must ask “What do we know?” “What do we need to know?” and “How will we learn it?”. Student teams, on their own must use the text and outside sources to identify the concepts that are involved in a particular problem/case. This inverted instructional sequence has proven to move effectively implant an understanding of the course concepts.

The case approach is not an easy path for an instructor to follow. As a result of their study, Parent, Newfeld, and Gallupe (2002, p.9) suggest “The case method is at once one of the most difficult and most rewarding of pedagogies. For instructors to successfully use it as a central part of their curriculum implies a willingness to forego some of the control and rigidity associated with lecture-based approaches…”

**RESEARCH QUESTIONS**

As referenced in the abstract and introduction, the research questions are as follows:

1. Which case approach does faculty use?

2. Which case approach is actually preferred by faculty?

3. Which case approach is more effective in achieving course goals?

**PILOT SURVEY**

**Survey Construction and Administration**

A pilot survey was conducted at a Midwestern university’s school of business. Sixteen faculty members out of a total of twenty-nine were randomly selected. The survey collected information about various case teaching methods used by the faculty. The survey was paper-based with an added face-to-face interview, and the respondents were encouraged to analyze critically the survey and suggest any improvements. The pilot survey was divided into three sections. The first section collected data related to demographics, the second section related to teaching methods
using closed-ended questions and the final section collected additional information related to teaching methods using open-ended questions. The results of this survey and the feedback from the respondents will be used to develop an online survey which will be circulated to a wider range of institutions for the purpose of collecting data related to faculty case teaching methods.

**Respondent Demographic Information**

The first survey section collected information related to gender, rank, highest degree earned, experience in years (in academic teaching, nonacademic teaching and professional experience) and teaching area.

Thirteen males and three females filled out the survey; the ranks of the respondents were one instructor/lecturer, three assistant professors, seven associate professors and five professors. Eleven of the respondents had earned a PhD along with two MBAs, one MCPA, one Ed.D and one JD.

Academic teaching experience of the respondents ranged from 1-2 years (one respondent), 3-5 years (two respondents), 6-10 years (two respondents), 11-15 years (three respondents), over 16 years (five respondents) and two respondents did not provide an answer. As far as nonacademic teaching experience (e.g., corporate training) is concerned: no experience (three respondents), 1-2 years (one respondent), 3-5 years (three respondents), 11-15 years (one respondent) and six respondents did not provide any answer. Professional (nonacademic) experience of the respondents was: no experience (one respondent), 1-2 years (one respondent), 3-5 years (one respondent), 11-15 years (two respondents), over 16 years (three respondents). Five respondents did not provide any answer.

As far as teaching area of the respondents is concerned, four of the respondents teach courses related to Accounting; two, related to Economics; one, Finance; two, Information Systems; three, Marketing; one, Law; and three in Management.

**Information related to teaching methods**

Survey information collected is related to use of the four teaching methods, faculty preference for teaching methods, effectiveness of teaching methods related to various goals such as critical thinking, mastering discipline related knowledge, preparing students for employment after college and understanding basic operation of business, interrelatedness of business processes and the importance of decision making. Also, for some of the questions in this section, respondents were asked to think of a particular course and answer questions related to percentage of total course points allotted, percentage of total class period spent and optimal class size for each of the four teaching methods. The final question in this section was about the frequency of discussion related to various teaching methods amongst colleagues and the faculty and graduate students.

**The second survey section relates to the four basic case teaching methods.**

Textbooks Cases refer to cases that are typically at the end of a textbook chapter, contain some information about a situation a company is facing and also provide some discussion questions that the students can use to analyze them. Real Life Cases include cases based on current news
events (e.g. BP oil spill). The instructor provides some guidelines on the issues to be discussed related to the company in the news. Real World Cases are based on local companies a firm geographically close to the faculty’s university. The instructor provides some guidelines on the issues to be discussed related to the real-world company. Finally, Simulations (CB-Sim) refer to running a virtual company in head-to-head competition against companies managed by other class members. The instructor provides guidelines on the objectives of the game.

RESULTS

Survey results for this pilot study were analyzed according to frequency for five key closed-ended questions and according to responses for open-ended questions related to faculty likes and dislikes regarding the four case methods.

Use of Teaching Methods

Textbook cases were used in: none of the course (one respondent), some of the course (eight respondents), most of the course (four respondents), all of the course (two respondents) and one respondent did not answer this question. Real Life (local company) cases were used in: none of the course (three respondents), some of the course (eight respondents), most of the course (one respondent), all of the course (three respondents) and one respondent did not answer this question. Real World (current event) cases were used in: none of the course (five respondents), some of the course (seven respondents), all of the course (three respondents) and one respondent did not answer this question. Simulations (CB-Sim) were used in: none of the course (eleven respondents), some of the course (three respondents), most of the course (one respondent) and one respondent did not answer this question.

The pilot survey data suggests that majority of the respondents used Textbook cases (eight respondents), Real Life cases (eight respondents) and Real World cases (seven respondents) in some of the courses, whereas Simulations (CB-Sim) were not used by majority of the respondents (eleven).

Ranking of Teaching Methods

Preferred teaching method The Real Life case was rated as the most preferred (five respondents), followed by Real World cases (three respondents), Simulation (two respondents) and Textbook cases were given the highest ranking only by one respondent. Also, Textbook cases was rated least favored (seven respondents), closely followed by Simulation (five respondents) and Real Life cases (one respondent).

Most effective teaching method Along similar lines, the Real Life case was rated as the most effective (five respondents), followed by Real World cases (four respondents), Simulation (two respondents) and none of the respondents indicated that Textbook cases were the most effective. Also, the Textbook case was rated least effective (seven respondents), closely followed by Simulation (three respondents) and Real Life cases (one respondent).
Effectiveness of Teaching Methods in Achieving Certain Goals

Critical thinking Both Real Life cases and Real World cases were rated as the most effective (five respondents) in terms of helping students think critically, followed by Simulation (three respondents) and Textbook cases were given the highest ranking with respect to achieving this goal by only one respondent.

Mastering discipline related knowledge In terms of helping students master discipline-related knowledge, Real Life cases were rated as the most effective (four respondents), followed by Real World cases (two respondents), Simulation (one respondent) and none of the respondents felt that Textbook cases were the most effective in achieving this goal.

Preparing students for employment after college Both Real Life cases and Real World cases were rated as the most effective (four respondents each) in terms of preparing students for employment after college, followed by Simulation (three respondents) and none of the respondents felt that Textbook cases were the most effective in achieving this goal.

Understanding basic operation of business The questions in this section were designed to see which of the teaching methods would be most effective in helping students understand the basic operation of business. Except for Textbook cases (no respondents) the other three methods Real Life cases, Real World cases and Simulation (three respondents each) were reported as the most effective in achieving this goal.

Understanding interrelatedness of business processes Simulation was rated (four respondents) as the most effective method in this regard, followed by Real Life cases and Real World cases (two respondents each) and Textbook cases were given the highest ranking with respect to achieving this goal by only one respondent.

Understanding the importance of decision making Real Life cases was rated (six respondents) as the most effective method in this regard, followed by Simulation (four respondents), Real World cases (three respondents) and Textbook cases were given the highest ranking with respect to achieving this goal by only one respondent.

Specific Course Related Questions
Respondents were asked to think of a specific course in which they used one or more of the four teaching methods and provide the approximate values for each method

Percentage of total course points allotted The majority of respondents allocated less than 10% of the course points to Textbook cases (eight respondents), Real Life cases (six respondents), and Simulation (four respondents), whereas for Real World cases respondents were split between allocating between less than 10% to between 31% to 40% (three respondents each).

Percentage of total class period spent Majority of respondents spent less than 10% of the class period on Textbook cases (seven respondents) and Real Life cases (four respondents). There were no clear trends for this variable for both Real World cases and Simulation.
Optimal class size For this variable a class size between 11-20 was the most preferred class size - Real Life cases and Real World cases (five respondents each) and Simulation (four respondents). A slightly larger class size between 21-30 was the most preferred class size for Textbook cases (six respondents).

Discussing Teaching Techniques

In this portion of the survey respondents were asked to indicate how often they discussed their teaching techniques with

Colleagues: The teaching method that encourages the most communication between colleagues seems to be Real World cases (six respondents) with discussion occurring 1-3 times a month, followed by Real Life cases (eight respondents) and Textbook cases (five respondents), being discussed 1-3 times a semester. Also both Textbook cases and Simulation (five respondents each) were not discussed amongst colleagues.

Graduate students: The survey indicated that various teaching method were rarely discussed with graduate students.

Additional information

This section contained opened-ended questions aimed at finding out what the respondents liked, disliked and any other comments about the various teaching methods.

Textbook Cases

a) Likes- Respondents indicated that they liked the following about Textbook cases: Applicable to chapter; short description and covers main points; can be tailored to suit requirements; demands critical thinking; stimulate good, relevant discussion; provides important decisions typically; good information given in the case; already developed; simple to use; can use for class discussion; mostly students are familiar with the firms and good for discussion as specific topics are covered; I'm ok with the textbooks cases; the cases give the students some exposure to the real world; these allow engaged students to practice on real problems with fairly available information; I can tie the team presentation to appropriate topics and often can extract additional thought from peers not presenting so that vicarious learning takes place; these cases are typically designed to address one or more specific components that are taught in the course; have been selected to illustrate specific and discrete issues, which can be helpful in understanding more issues.

b) Dislikes- Some of the dislikes for the Textbook cases were: too simplistic; questions are heavier than the content; limited content and scope; students need additional context or learning from outside class; dated (too old) (5 comments); too much detail; lose sight of the objective; sometimes too short or too long; variable quality; must solve carefully; even if the instructor explain the usefulness of studying an "old" case, students typically are not very motivated; insufficient depth; too prescriptive for development of analytical skills; can find answers on internet; students often have access to the solutions manual and have the answers and some questions seem to be, generally, too early; another problem is that the case situation is too "removed" from the student’s life and that makes it hard (sometimes) to make a connection (2 comments); there is a cultural shift from being willing to read. This makes it difficult to get
students to fully engage in the case; the ones in my textbook are not very suitable; getting current material from newspapers and Wall Street Journal is far more appropriate; there really is no case book or collection of cases for the class I teach.

c) Additional comments- Additional comments about the Textbook cases were that the students gain knowledge about the companies stated in the cases. They also can develop the critical thinking skills when they analyze the cases.

Real Life Cases (Current Event)

a) Likes - Respondents indicated that they liked the following about Real Life cases: Possible to illustrate a certain teaching content element with a news story; helps to understand concepts better than theoretical or fictional cases; students relate to these better (2 comments); usually more controversial than textbook cases; spawns more discussion; more complex than textbook cases; current issues & better for job preparation; evolving; practical; stimulate good, relevant discussion (2 comments); keep the students up-to-date; important organizational decision, the student can see/feel the importance; timely information can be used; allows the opportunity to do research; great when they happen and not deal with media biases and can use current material in class; I use these as current events that directly tie to the topics in the lesson; I don't really try to develop them as an ongoing formal endeavor because of the vagaries of the media coverage and the often incomplete nature of the information; students often stumble upon relevant information in their daily grind so I can almost always get some response.

b) Dislikes - Some of the dislikes for the Real Life cases were: take additional time; events don't always fit in with a particular subject matter that is discussed; can be too complex for specific legal principles we are learning; difficult to find; missing components; does not relate to current course issues; some cases are not close to the life of the students and too unpredictable; many of the mediums that faculty use differ from those used by the students; this presents a problem in that the coverage is spotty (on both sides of this); they may have an entirely disparate view form mine.

c) Additional comments – Additional comments about the Real Life cases were: Students love the Real Life cases and they (students) always want to know what's going on around them; it is surprising how often those stories contain inaccuracies, language, and often inappropriate or unhelpful information.

Real World Cases (Face-to-Face usually Local Companies)

a) Likes - Respondents indicated that they liked the following about Real World cases: Very beneficial; face to face interactions; students learn a lot from these cases; helpful in developing critical thinking skills; students can see more closely how the real decisions are made in a company and this gives them a sense of hands-on learning; resume builder--almost like an internship; provide great structure for in depth analysis, creativity; allows for assessment of communication skills and team work skills; not canned and has real potential to make a difference for the client the class is serving; increases student engagement for the more involved students over a cut-and-dried casebook example and since it doesn't involve media vagaries, isn't subject to the hit-or-miss of exposure; it serves to build the University's reputation and ties us to the community; they're "squishy," not easily conformable problems that are, by their very nature, realistic. There is a real sense of accomplishment for all (most of time); real World/"close to home" type of issues; real world problem for students; relative feedback from company and
students connect easily with the firm and become motivated; instructor can design assignment to cover several aspects matching the curriculum.

b) Dislikes - Some of the dislikes for the Real World cases were: high maintenance for instructor; time consuming for the instructor; extremely hard to find; missing components; sometimes it's hard to get hold of the "clients"; lack of structure; difficult to recruit companies and implement the learning processes; grading; time-wise, these are an almost bottomless pit; they're squishy; students are afraid to dig in to the mess because they don't have a clear path in their viewpoints; this increases their perceived risk; for those who don't fully engage, the increased risk and the lack of tangible reward limits their sense of achievement.

c) Additional comments – Additional comments about the Real World cases were: I almost never run this; not opposed to it, just more good stuff in other categories; it has been a great learning experience for the students; I always ask the students to work as a teacher; during the process they have learned how to work as a teacher; at the same time, they have developed interpersonal skills, time management skills and communication skills; requires an instructor who can manage multiple projects.

Simulation (CB-Sim)

a) Like - Respondents indicated that they liked the following about Simulation: encourages critical thinking; firsthand experience; hands on; practical; helps in understanding group coordination; visual actions; requires students to analyze using what they've learned in other classes; students are intensely engaged; good structure; the interdependence of various business decision can be built into the game; real exposure to the system; allows for planning between periods; allows for analysis of approach and results; as someone who has written simulations in the distant past and who has worked with commercial simulations leading to professional certifications and career advances, I like a well running, realistic simulation; they can induce the stresses that a live encounter can induce; the students that are able to deal with these things in more-or-less real time and survive succeed; they allow someone to train in an environment that they might never encounter as a junior employee and see impact of their good, or bad, decisions; provides realistic challenges to students; it is possible to model many different situations and explain theoretical concepts; it is very difficult to find a case that addresses all the points discussed in theory, and simulations are particularly suitable for these situations.

b) Dislike - Some of the dislikes for the Simulation were: difficult to develop; preparation time is higher; learning curve; very time consuming if it is done right; should be 50%-100% of the entire course; besides the fact that the game is not "real" (not a real-life company); it is possible the game produces the training whose focus is on the "money"; the larger picture (the firm's relationship with the society and long-term customer value) is lost; randomness; some variable do not react reliably; the majority of simulations that I've seen/used/participated in as an educator are a) unrealistic; b) random in input/outcome relationships; c) overly simplified (or overly complex); and d) too unstable, too buggy to be of real use to the student and a real hair-pulling, reputation breaking pain for the instructor. They induce bad behaviors because of the random nature of outcomes (well, I pushed this button and got a banana pellet, let's push it 500 more times); they're subject to "gaming" by the participants (What'd you do? We did this ...); often, students come into other faculty members' classes and talk about "the bogus" simulations that are
running and how they're just "playing the game" ... learning may be taking place but not of the nature intended by the faculty; also, training time for students, dependent on software.
c) Additional comments – Additional comments about the Simulation were: simulate work environment (not necessarily head to head competition; I haven't used any simulation in my classes yet; actually I haven't found a "perfect" game for the classes; simulations are not real world situations and should not be used instead of real world/life cases; they should be used along with cases.

DISCUSSION

Value of Pilot
The use of cases will continue to grow in importance in the teaching of international business. This pilot survey including written and face-to-face interviews of sixteen faculty members across seven business disciplines provided an excellent opportunity to explore further the use of cases as part of a teaching methodology. This pilot will serve as a foundation upon which to build an effective and efficient online survey to be circulated to a wider range of institutions.

The pilot survey was useful in two specific ways. First, it enabled the researchers to identify ambiguities and cumbersome aspects of the question format. Second, the actual responses identified subject matter regarding the four case methods that would permit the authors to better design the next survey in a more focused manner to help ensure the integrity and quantity of responses.

Findings
Although this was a limited survey (sixteen respondents) and was meant to serve as an exploratory study where statistical analysis other than frequencies could not be applies, there were several interesting preliminary findings. First, Textbook cases are easier to use (for the instructor) and can be plugged into the course more efficiently. It is also true that the older the Textbook cases were the less valuable they were perceived to be in the eyes of students. In general, faculty felt Textbook cases were least effective for teaching relative to the other case methods. With regard to international business cases in Textbooks, the implication is that cases should be as current as possible in order to keep the student interest at a high level.

Real World (local companies) and Real Life (current event) cases appear to be considered more effective teaching tools, especially in preparing students for employment after college. This same finding was true for critical thinking skills, mastering discipline related knowledge, understanding basic business operations, understanding business processes interrelatedness and understanding the importance of decision making. Real world local and international companies would appear to present a greater challenge in the time and energy for faculty to develop. International business faculty will have to become more involved with companies in their regions. Developing Real Life MNC (current event) cases should be less of a problem.

Simulations (CB-Sim) ranked above all other approaches (including Real World and Real Life) when it comes to understanding business processes interrelatedness. We are slowly seeing more international business simulations being made available for the classroom.
At the heart of these questions and subsequent responses seems to be that although faculty know which approaches might be more effective on multiple fronts, they are constrained by the economic reality of time and money. Smaller classes are not likely solution, given budget considerations today.

**Future Study**

Given the information gleaned from this pilot survey and corresponding interviews, the researchers will develop a more streamlined and targeted survey to be administered to school of business faculty at other Midwestern universities in the United States. There is also the possibility of extending the survey range to universities in Europe and China.

Cases are and will continue to be a valuable tool in the teaching of international business. Faculty time, energy, and resources will be important factors to consider if schools of business are to design ways to enhance and increase the use of these cases in the future.

**REFERENCES**


THE EFFECTS OF MANAGERIAL CONCERNS ON MODE OF OFFSHORING: A STUDY OF LARGE US CORPORATIONS

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ABSTRACT
This study explores the effects of managerial concerns on the selection of mode of offshoring of large US corporations. Firms can offshore services through a wide spectrum of modes ranging from i) complete internalization (foreign subsidiary), to ii) complete externalization (arm’s length transactions), or iii) intermediate cooperative modes (such as licensing, joint venture etc.). Managerial concerns over data security/privacy, intellectual property rights, host country political or economic uncertainty, cultural difference between host and home country and lack of partners/vendors in the host country are proposed to affect the selection of offshoring modes available to the firm in a particular country location.

Keywords: Offshoring, mode of offshoring, managerial concerns

INTRODUCTION
According to US Bureau of Economic Analysis (BEA) (2011), ‘offshoring’ of services is the relocation of production of services from the US to a foreign location. Sourcing, global sourcing and international sourcing are some other terms used to refer to the phenomena of offshoring. Mode of offshoring is the method by which a firm procures/produces services from/in a foreign location. The terms ‘mode of offshoring’, ‘offshoring mode’, ‘mode of sourcing’ and ‘sourcing mode’ mean the same thing and are used interchangeably in this study.

Academicians have started exploring various aspects of offshoring such as effects of offshoring on domestic workforce (Hill, 2007; Poole, 2004), relationship between the firms and their foreign vendors (Lavie, 2006), performance of offshoring firms (Bengtsson & von Hartman, 2005; Farrell, 2005; Gianelle & Tattara, 2007; Kotabe, Murray, & Javalgi, 1998; Kotabe & Murray, 2004), offshoring location preferences (Blinder, 2006; Bunyaratavej, Hahn, & Doh, 2007; Contractor & Mudambi, 2008; Doh, Bunyaratavej, & Hahn, 2009) and various other aspects of offshoring. However, not much attention has been paid to ‘how to source’ (mode of offshoring) in the field of International Business (IB) and Management.

As mode of offshoring is an important factor affecting firm’s offshoring performance (especially financial performance) the author feels that mode of offshoring is an important area of research that needs to be studied in order to better understand the concept of offshoring.
Scope of this study

This study explores the effects of managerial concerns (over data security/privacy, intellectual property rights, host country political or economic uncertainty, cultural difference between host and home country and lack of partners/vendors in the host country) on the choice of mode of offshoring of large US corporations. Small Business Administration (SBA) classifies US firms with more than five hundred employees as large firms. This study focuses on the offshoring (of services) practices of large US corporations, as large firms have the necessary resources to take advantage of various modes of offshoring. Small and Medium Enterprises (SME) have limited resources, and because of this (lack of resources) are more likely to form joint ventures (Contractor & Lorange, 1988; Fayerweather, 1982; Stopford & Wells, 1972).

The remainder of this paper is organized as follows. The next section discusses the effects of various managerial concerns on mode of offshoring. This is followed by research methodology and ways for testing the propositions. Finally the conclusion, implications and limitations of the study are discussed.

MANAGERIAL CONCERNS AND MODE OF OFFSHORING

Data Security/Privacy concerns and offshoring mode

Online fraud is on the rise and firms are increasingly becoming concerned about the security and privacy of financial and other sensitive data. Data security and privacy concerns are one of the top concerns indicated by various surveys. Ventoro Consulting’s, 2005 survey, which involved 5231 executives across Europe and North America, reported that 81% of the firms were concerned about security issues. Also, another survey conducted by Duke University CIBER/Archstone Consulting in March 2005, which involved more than 100 largest US firms, reported that 45% of the firms and 70% of service providers were concerned about data security and privacy.

Furthermore, a survey conducted by Information Week in June 2008, which involved 372 business technology professionals from 272 companies, also reported data security as number one disadvantage of business process offshoring (Information Week, 2008). A number of surveys have similarly reported managerial concerns over data security/privacy in offshoring of services.

This concern over data security/privacy would make firms reluctant to handover sensitive data to vendors or partners and hence firms would prefer to internalize the production/performance of the service.

P1: The higher the concern over data security/privacy, the higher is the likelihood of the firm opting for an internal mode of offshoring over either a cooperative or an external mode; and a preference for a cooperative mode over an external mode.

Intellectual Property Protection concerns and offshoring mode

Dissemination or misuse of proprietary knowledge is difficult to monitor and control (Agarwal & Ramaswami, 1992). For services, it is even more difficult to protect (patent, copyright, etc.) the proprietary knowledge as it is derived from intangible assets (Erramilli & Rao, 1993). With increase in uncertainty over protection of proprietary assets, the cost of contracting and/or a joint
venture increases because of the increased risk of leakage or unwanted dissemination of proprietary assets (Williamson, 1996).

Even though services are protected by copyright laws, enforcing copyright laws in foreign countries may not always be possible as intellectual property laws are not uniform throughout the world; and in some countries intellectual property laws may not be enforced for products/services of foreign origin (Rosenbaum, 1995; Spector, 1995).

In the absence of laws/enforceability of laws regarding intellectual property firms would prefer to internalize sourcing of services in order to minimize threat of imitation by local vendors.

**P2: The higher the concern over the presence and enforceability of laws respecting intellectual property rights in the host country, the greater the preference for an internal mode of offshoring over either a cooperative or an external mode; and a preference for a cooperative mode over an external mode.**

**Host Country Risk and offshoring mode**

Host country risk is “the uncertainty over the continuation of present economic and political conditions and government policies which are critical to the survival and profitability of a firm’s operations in that country.” (Agarwal & Ramaswami, 1992, pp. 5). In other words host country risk firstly, decreases firms profitability either by changes in the macroeconomic environment such as currency fluctuations, inflation, price controls or other governmental interventions and secondly may make it difficult for firms to repatriate earnings and in extreme cases, the firms may also risk losing their assets because of expropriation by government (Root, 1987). In entry mode literature host country risk is also referred to as environmental uncertainty or external uncertainty.

According to Williamson (1979) in volatile or unstable environments, firms should avoid ownership and shift risk to outsiders, as this gives firms flexibility and minimizes risk. On similar lines, Anderson and Gatignon (1986) argue that under high environmental uncertainty, firms may be better off selecting non-equity, low-investment entry modes, as this avoids resource commitment and frees entrants to change partners or renegotiate contract terms and working arrangements relatively easily as circumstances develop and change. Several researchers (Gatignon & Anderson, 1988; Goodnow & Hansz, 1972; Mascarenhas, 1982) recommend the use of shared-control arrangements under high country risk. Also, firms can reduce the host country risk and incur lower transaction cost by utilizing lower ownership modes (Hennart, 1988; Hill et. al., 1990)

**P3: Increase in managerial perception of the host country risk will lead to increase in preference for an external mode of offshoring over either a cooperative or an internal mode; and a preference for a cooperative mode over an internal mode.**

**Cultural Distance and offshoring mode**

Differences in language, work ethic, social structure, ideology and so on between the home country and the host country collectively encompass cultural distance (Goodnow, 1985). Cultural distance has a significant influence in failure rate of service industry subsidiaries abroad (Li &
Guisinger, 1991), also cultural distance can create problems with quality control and feedback that may hurt a service firm’s market performance (Kotabe et. al., 1998). Increase in cultural distance reduces preference for sole ownership (Ekeledo & Sivakumar, 1998; Kogut & Singh, 1988; Erramilli & Rao, 1993; Fladmo-Lindquist & Jacque, 1995).

Johanson and Vahlne (1977) argue that more economic activity occurs between socio-culturally similar countries than those which are dissimilar. Socio-culturally similar countries share similar business practices, similar language, and comparable educational levels and cultural characteristics (Johanson & Vahlne, 1977; Kogut & Singh, 1988). This socio-cultural similarity reduces the cultural distance between the two countries. The lower the cultural distance, the lower is the cost involved in transferring proven business model from the home country to the host country and hence higher is the preference for sole venture. Root (1994) argues that cultural similarity between US and Canada is one of the major factors, for preference for sole venture by US firms when entering Canada.

On similar lines, researchers (Alpander, 1976; Davidson, 1980; Richman & Copen, 1972) argue that cultural distance increases the difficulty of transferring marketing, technology, human resources and home management techniques and values. Various studies (Agarwal, 1994; Gatignon & Anderson, 1988; Kogut & Singh, 1988; Stopford & Haberich, 1978; Erramlli & Rao, 1993) have found that increase in cultural distance leads to an increase in preference for joint venture, as according to Root (1983), a local partner can lessen the difficulty and cost associated with transferring firm specific knowledge from home country to the host country.

According to Transaction Cost Analysis (TCA) increase in cultural distance (uncertainty) leads to decrease in desire for control, as firms retain flexibility and avoid high levels of ownership (Williamson, 1975). Also, Johanson and Vahlne (1977), argue that perceptions of significant cultural distance between the home country and the host country results in lower resource commitment. On similar lines, Gatignon and Anderson (1988) argue that propensity to integrate (internalize) decreases with increase in host country’s socio-cultural distance from the US.

In addition, if the cultural distance between the home country and host country is high, the organization may not have managers/executives capable of managing operations in a culturally distant environment, so the organization would start off by using cooperative sourcing or external sourcing for global sourcing of services.

P4: The greater the managerial perception of the cultural distance between a firm’s host country and home country the higher would be the likelihood of the firm using cooperative sourcing or external sourcing for global sourcing of services.

Concerns over lack of reliable partners/vendors and offshoring mode

High supplier competition decreases the potential for opportunistic behavior (Williamson, 1975), which reduces the transaction cost and hence increases likelihood of buying (externalizing) over making (internalizing). Number of suppliers influences intensity of competition and the bargaining power of buyers. Also, availability of alternate suppliers increases with increase in number of vendors providing the service (Porter 1990). Kotabe et. al. (1998) found that the extent of foreign sourcing increases with increase in availability of services from independent suppliers. According to (Contractor & Kundu, 1998b; Erramilli, Agarwal & Dev, 2002;
Dunning, 1988) preference for management service contracts (non equity mode) in the host country increases with increase in qualified and trustworthy partners with complementary capabilities.

TCA refers to lack of partners/vendors as small numbers bargaining. Lack of competition between existing suppliers may results in opportunistic behavior by some of the existing suppliers. Transaction costs may be minimized through internalization of production, under conditions of limited supplier competition (Williamson, 1988). Various studies (Caves & Bradburd, 1988; Levy, 1985; McDonald, 1985; Pisano, 1990) have found support for internalization as a result of limited number of exchange partners.

Therefore, as the number of partners/vendors providing the service (needed by the firm) increases, the firm would have more choices and would be less concerned about opportunistic behavior (by the partners/vendors) and the firm would also have higher bargaining power, hence the firm would be more inclined to use outside partners/vendors to procure that service. But when there is scarcity of reliable partners/vendors in the host country, the firm will have no choice but to internalize the offshoring operation or cooperate with a local vendor to produce/perform the service.

P5: The higher the concern over lack of partners/vendors providing the service in the host country, the greater the preference for an internal mode of offshoring over either a cooperative or an external mode; and a preference for a cooperative mode over an external mode.

RESEARCH METHODOLOGY

Sample

The propositions in this paper could be tested by collecting data from senior executive of large US firms. Senior executives in a firm are in a position to understand their firm’s strategy, have information regarding firm’s offshoring activities and are more likely to be involved in the offshoring decision making process. Various studies (Agarwal & Ramaswami, 1992; Erramilli & Rao, 1990; 1993; Kotabe et al., 1998; Murray & Kotabe, 1999) have obtained similar kinds of information (information related to entry mode choice of the firm) from top executives.

Dun & Bradstreet’s Million Dollar Database, Hoover’s (a Dun & Bradstreet company) and various company websites could be used to collect email addresses of top executives of various firms in order to send them a questionnaire/invitation to an on-line survey. Data from online surveys are very efficient and cost effective means of gathering perceptual data. Guidelines suggested by Dillman (2000) will be used to create the survey and also to collect data through the survey.

Unit of Analysis

Previous studies (Kotabe et al., 1998; Murray & Kotabe, 1999) in sourcing of services have either used the entire firm, or a subsidiary or a business unit as the unit of analysis. However, since each firm is involved with several projects or functions – each with different strategic drivers, characteristics, motivations and concerns – a more appropriate unit of analysis would be
just one service function offshored by the firm. Another drawback of using the entire firm as unit of analysis is that the person responding to the survey may not have complete knowledge of the different offshoring activities of the entire firm. Moreover, the same firm may be using multiple modes of offshoring to offshore different functions along the value chain, which may not be accurately reflected in aggregate firm level data. Hence, one service function will be used as the unit of analysis in this research.

Operationalization of variables

Dependent Variable - Mode of Offshoring. Mode of Offshoring has not been used as a dependent variable in IB and management, but a similar concept ‘mode of entry’ has been widely researched. Previous studies (Brouthers, 2002; Brouthers & Brouthers 2003; Erramilli & Rao, 1993; Kwon & Konopa, 1993; Murray & Kotabe, 1999; Sanchez-Peinado, Pla-Barber, & Hebert, 2007) have conceptualized the mode of entry as a dichotomous variable. Meyer (2001) used four values for mode of entry (trade, contractual arrangement, joint ventures and wholly owned subsidiary). Ekeledo and Sivkumar (1998) also used four values for entry modes (franchising/licensing, exporting, joint ventures and wholly owned operations). On the other hand, Lacity and Willcocks (1998) came up with three sourcing modes; total insourcing, total outsourcing and mixed sourcing. On similar lines, in this study mode of offshoring will be operationalized as a nominal/ordinal variable with three possible values: Mode of Offshoring = 1 for External sourcing or externalization, = 2 for Cooperative sourcing and = 3 for Internal sourcing or internalization.

Independent Variables

Data on independent variables will be collected using a 5-point Likert scale. Data Security/Privacy concerns: Data security/privacy concerns has also not been used as an independent variable in IB and management literature. It measures the degree of managerial concern over security/privacy of data in the host nation.

Intellectual Property Protection: Delios and Beamish (1999) used this variable, but used secondary data (World Competitiveness Report – the data reported by this report are based on hard data (country level data) and survey data (managerial perceptions)). The researcher believes that concern over intellectual property protection is a straightforward variable trying to understand managerial concern over intellectual property protection in the host country and hence could be measured using a single-item measure.

Host Country Risk: Entry mode studies have used risk variables from secondary data using various factors such as economic risk and political risk. However, managerial perceptions of host country risk may be more appropriate. The offshoring decision makers are influenced by their perceptions of a country (that may vary from secondary data rankings), their own experience with the host country, cultural background and the manager’s risk aversion.

Cultural Distance: Various studies (Erramilli & Rao, 1993; Goodnow, 1985; Hofstede, 1983; Kogut & Singh, 1988) have used Hofstede’s cultural index to measure cultural distance. But the researcher feels that the manager’s perception of the cultural distance between the home country and the host country, would be influenced by variety of factors (not limited to Hofstede’s cultural measures), such as his own experience with the host country, his own cultural
background and his willingness to take risk. Manager’s perception of the cultural distance would ultimately supercede a measure such as Hostede’s cultural index. On similar lines Buckley and Chapman (1997) argue that different managers perceive, weigh and judge things differently and it is reflected in the differences in the firm structures.

Cultural distance could be measured by making a list of all the variables affecting managerial perceptions of the cultural distance. A researcher would need a fairly long list of items to measure this variable and still might miss something. Hence the researcher believes that a single-item to measure would be more appropriate to measure this variable.

Lack of reliable partners/vendors: Kotabe et. al., (1998) used this variable as part of an item in a scale; this item was measured using 5-point Likert scale. This is a straight forward variable and a single-item Likert scale is sufficient to capture this variable.

**Pilot Survey**

The pilot online survey will be previewed by five professors and five managers (who are involved in the decision making process of offshoring of services). Modifications to the survey will be made based on their feedback. The professors would provide content validity and the managers would provide face validity to the survey.

**CONCLUSION, IMPLICATIONS AND LIMITATIONS**

The purpose of this study is to develop and test a conceptual framework to test the effects of the managerial concerns over data security/privacy, intellectual property rights, host country political or economic uncertainty, cultural difference between host and home country and lack of partners/vendors in the host country on the mode of offshoring of services.

This study plans to covers various industries so that it will be of interest to a wide spectrum of strategists. Moreover, the factors (influencing the mode of offshoring) considered in this study are very generic and easily applicable to most industries.

**Limitations of this study**

A limitation of this study is that it explores only the effects of managerial concerns over data security/privacy, intellectual property rights, host country political or economic uncertainty, cultural difference between host and home country and lack of partners/vendors in the host country on the mode of offshoring of services. In addition to these factors, there are numerous factors related to the firm, partner/vendor, host country, home country and others factors that can influence the mode of offshoring of services. Although this is a valid limitation, it is not practical for one study to look at all the possible factors affecting mode of offshoring.
REFERENCES


INTERNATIONAL ASSIGNMENTS AND EXPATRIATE PREPARATION

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ABSTRACT

The role of expatriates continues to increase as companies expand into global markets. However, research indicates a lack of cross-cultural skills as one of the main reasons for failure in international assignments. A related factor overseas is experiencing culture shock and an inability to communicate with the locals effectively. Culture shock affects not only the expatriate but also the family members. This paper examines the role of international human resource management in preparing expatriates to succeed in international assignments. Recommendations are made with implications for practice and research for expatriate training and organizational development.

Key words: human resource management, expatriates, cross-cultural training, international assignments

INTRODUCTION

The importance of expatriates in the complexity of multinational operations has been widely recognized. It is argued that, in many multinational companies, international experience has become the requisite for higher level management positions, but there is a lack of competently experienced multinational company managers, and training has thus become an important issue (Kabst, 2004). Cross-cultural training is essential for the success of expatriates in an international assignment to ensure success in meeting business objectives. Multinational Corporations may also assess local staff and use expatriate managers to effectively train host country natives in order to contribute to the development of the local operation, the career advancement of local talent, and the diversity of the parent business.

Traditional forms of international staffing have their particular advantages; however, there are many disadvantages as well, including high coordination costs for headquarters, dual career implications and reintegration problems (Baumgarten, 1995). As a result, new alternatives of staffing such as short-term delegations as well as virtual assignments are becoming more popular which also require cross-cultural training. The scope of expatriate assignments includes many unknown situations including learning and adjusting to the foreign country’s culture, language, and social differences. There are several reasons for an expatriate to be the preferred manager compared to a local manager in the host country. However, studies show that there are many factors that can make it difficult for expatriates to function effectively in the foreign environment. Therefore, it is important to conduct pre-departure orientation and training to help expatriates and their families prepare appropriately for the experience of living and working in the foreign country.
LITERATURE REVIEW

The impact of cross-cultural differences on training has created a lot of attention. The cross-cultural training of expatriates has been under extensive study for over a decade (Black, Mendenhall, & Oddou, 1991). It is believed that the competence and skills of expatriates may not be applied in various cultural environments without adjustment. Black et al., (1991) note that cross-cultural adjustment should focus on three issues: adjustment to work, adjustment to interacting with host nationals and adjustment to the general environment. Previous cross-cultural training for expatriates has tended to concentrate more effort on the training of adjustment to work rather than on the role of pre-departure and cross-cultural training.

Expatriate training has been found useful in preparing people for overseas assignments. However, the specific training program used depends on the needs of the expatriates and the complexity of the overseas assignment (Hodgetts & Luthans 2000). Expatriates who are unfamiliar with the host culture may experience many problems in their assignments (Kabst). Depending on the needs of the expatriates, cross-cultural training programs should be offered to enable them to increase communication and interpersonal skills with the overseas workforce and to deal with the related high degrees of stress (Tung, 1982). Expatriates who do not appreciate the host culture and have difficulties adapting to it can present various problems, including diminished work performance, substance abuse, workaholism as well as psychological and infidelity problems (Webb, 1996).

Hodgetts and Luthans found that the greater the difference in culture between the parent country and host country, the higher levels of effort are required for training. This implies that expatriates that have overseas assignments in a country with a culture that is significantly different from their parent country require higher levels of training. A contingency fit between the teaching modes of the instructor, the learning style of the student and the perceived cultural differences between parent country and host country may significantly influence the effectiveness of expatriate training (Vance and Paik, 2002). In addition to cross-cultural training, job-related training and on-site training have been regarded as critical issues to promote expatriate competence (Solmon, 1995). Vance and Paik contend that on-site training through long-term planning of expatriate assignments could be an important way to promote expatriate competence. Cross-cultural training was found effective in developing important cross-cultural skills, in facilitating cross-cultural adjustment, and in enhancing job performance (Black et al., 1991). Cross-cultural training, language training, and job-related training were found to facilitate cross-cultural interaction, which also indicated higher confidence and higher expatriate satisfaction with the assignment (Hodgetts & Luthans).

Through conducting investigational surveys and regression analysis, Puck, Kittler, and Wright (2008) arrived to three main conclusions. First, if the expatriates’ perceived need for training was higher, there tended to be higher levels of training effectiveness. Second, if an expatriate perceived that his or her learning style was consistent with the instructor’s teaching method, and simultaneously perceived higher need for expatriation training, they could achieve a higher level for training effectiveness. Last, if expatriates perceived that the cross-cultural difference between home country and host country was high, and their demand for expatriation training was also high, these expatriates tended to achieve a high level of training effectiveness.
Overall, pre-departure expatriate training does have a positive impact on the adjustment and performance of the expatriate while enduring an overseas project.

DETERMINANTS OF EXPATRIATE ADJUSTMENT

Research indicates that international adjustment is the process of making changes in oneself or in one’s environment to meet fairly well the demands of working and living in a foreign environment. More specifically, international adjustment includes a cross-cultural adjustment that requires learning new skills, behaviors, and competencies to be able to effectively function in the foreign environment through exercising sensitivity, cross-cultural understanding, cross-cultural adaptation, and cross-cultural interactions with the host country environment. Living and working in a foreign country for an extended time requires a significant adjustment in the conceptual, physical, social, and emotional level of an individual’s understanding and coping with the foreign environment (Konyu-Fogel, 1997, 1999, 2011).

There are a variety of characteristics that may contribute to expatriate adjustment. Figure 1 outlines five important factors in expatriate adjustment.

Figure 1. Determinants of Expatriate Adjustment
Perceptual Abilities

The expatriate’s ability to understand why host nationals behave and think the way they do, and to make correct interpretation as to the motives behind these behaviors, could result in effective relationships with host country nationals and the local workforce. Knowing the reasons and motives allows the expatriate to feel comfortable working with host country nationals. Most importantly, the ability not to be judgmental when faced with confusing situations can help the manager in an international assignment work with local employees more effectively. The ability to differentiate and integrate complex information, cross-cultural sensitivity, cross-cultural understanding, and cross-cultural adaptability were found to increase global mindset competency that seems to improve leadership behavior in global business (Konyu-Fogel, 2011).

Self-Efficacy

Self-Efficacy constitutes the confidence in one’s abilities. As expatriates have to deal with unexpected cross-cultural challenges, a sense of self-efficacy, a belief in one’s own ability to deal with these challenges, also called optimism, is important to effective adjustment. Self-efficacy can be assessed by behavioral testing such as the Meyers-Brigg five-type personality test. Open-minded, high-energy, and optimistic attitudes were found as characteristics of high self-efficacy abilities. The attributes of being open-minded, flexible, and sensitive to differences were components of a Global Mindset and Leadership Behavior (GMLB) instrument (tested high on validity and strong on reliability) which was used to examine the effects of global mindset on leadership behavior indicating that high global mindset tends to significantly improve leadership behavior in global business (Konyu-Fogel, 2011).

Stress Management

Expatriates often are confronted with high uncertainty, social differences, conflicting norms and behaviors and may experience extreme difficulties in conforming to their new environment, differences in housing, climate, cuisine, or experiencing loneliness; all of which can be very stressful. Therefore, it is important to provide stress reduction training programs to reduce some of the stress factors that are often part of an international assignment. Some activities that could be helpful in managing stress include mediation, writing a diary, physical activity, hobbies, religious worship, or other personal interests such as sports, art, culture, or entertainment.

Family-Spouse Adjustment

The expatriate may have excellent cross-cultural skills and could be performing well on the job. However, research shows that when the expatriate’s spouse and family members have trouble adjusting, the expatriate will have problems that could lead to an early departure from the assignment. Particularly difficult is a dual career situation, as the international assignment may cause a loss of family income and opportunity for the accompanying spouse. Organizational support may help alleviate the difficulties in assisting the spouse and family to find alternative opportunities based on their qualifications and career goals.
Ongoing Organizational Support

Ongoing organizational support is crucial for an effective international adjustment. The support of the home office as well as local organizations and networks are instrumental in assuring that the expatriate and his/her family can feel comfortable and equipped to handle the many differences of the foreign assignment and living in a new environment. Beyond initial adjustment assistance, support may come from local mentors who can provide task-related guidance or psychological and social support.

INTERNATIONAL ADJUSTMENT

The international adjustment may be described as a multi-stage process or cycle that begins with excitement of the pre-departure anticipation and extends through arrival at the international assignment. The effectiveness of the international adjustment depends on the ability of the individual to achieve a psychological comfort, a sense of efficacy, with being able to live and work successfully in the new environment. Figure 2 shows the stages of the international adjustment process and how these are related to international adjustment and assuring success for expatriates.

Stage 1: Tourist/Honeymoon

At the beginning of the experience of an international assignment, generally there is a lot of excitement and new adventure that often fascinate and capture the employee’s attention and the family’s experience in adjusting to the new living environment, including getting children enrolled in school, finding appropriate transportation, trying new food, shopping, and entertainment, meeting new people, sightseeing, and finding lot of attractions in the city and foreign country environment. Some of these experiences are absorbed by individuals as positive and interesting. However, the excitement of the newness usually subsides after a few months or in some cases after a few weeks, when the differences in every day routines and the loss of familiarity with the home country environment begin to hit in the reality of loneliness, being away from friends and coworkers in the home country, often causing a psychological discomfort also known as culture shock.

Stage 2: Culture Shock

After the initial period of support by the home office, the expatriate and family are left to themselves. That’s when what seemed as exotic or exciting often becomes frustrating or confusing. At this point, homesickness may cause a culture shock making the individual and his/her family experience increased discomfort and difficulty with being able to meet the host country’s demands and differences in living and working conditions. This stage may last for several months and can be particularly difficult for the spouse and family. The expatriate during the culture shock stage must be able to find ways to adjust to the new work conditions and demands of the job as well as make general adjustments to the local environment, requiring accommodating differences in communication and culture of the local workforce and
psychological adjustment to the new work and living environment. The spouse and family have more difficult daily tasks to accomplish and thus may encounter more of the challenges. Some people may never adjust fully, and can even suffer depression or psychological trauma. The expatriates are the ones who end up being described as failures.

**Figure 2. Stages of International Adjustment**

![Graph showing stages of international adjustment](image)

**Stage 3: Adjustment**

Adjustment occurs when the expatriate begins to learn the norms and ways of getting things done in the foreign culture and on the job. This is a gradual adaptation and occurs usually from about the ninth month on. However, the time frame for international adjustment may vary greatly by individual circumstances and situational factors. In addition, the degree of difference between the home and host country’s culture (cultural distance) also influences the international adjustment process and time requirements for effective functioning in the host country. Other factors influencing the adjustment process may include the nature of the job/assignment in the host country, local conditions, and the response and willingness of the local workforce, relationships between host country managers and the expatriate, and the home office. The expatriate’s performance will start improving when he/she is able to effectively adjust to the new environment. This includes developing new skills and an ability to cope effectively with the host country environment.
Stage 4: International Mastery

At this stage of the adjustment, the expatriate is able to understand the why differences exist between the home and host country and how to address these differences in an integrative fashion that includes working effectively with locals and the home country office. The employee’s performance improves and he/she develops an appreciation for the differences and learns to live among the locals and even enjoy the cross-cultural experience of sharing more than one culture. By reaching an international mastery, the assignee not only may become more valuable to the parent company but he/she can rise up in the career ladder to higher levels when global understanding is necessary in the organization.

PRE-DEPARTURE CROSS-CULTURAL TRAINING

Physical, cultural and interpersonal adjustments to the new host environment have been identified as being indicative of expatriate success (Baumgarten). The cross cultural training (CCT) programs should accordingly focus on developing the expatriate’s knowledge, skills and abilities needed for the adjustment to the host country’s environment and cultural differences. Eschbach, Parker, and Stoeberl (2001) argue that culture shock and fatigue are the important indicators of an expatriate failing to make the required cross-cultural adjustment. Increasing an expatriate’s ability to adjust to the host culture can increase his or her productivity (Dowling, Festing, & Engle, 2008). Therefore, CCT undertaken before cultural ambiguity sets in may help to lessen the severity and duration of culture shock.

With increasing economic internationalization and globalization, effective and efficient international human resource management (IHRM) is recognized as providing competitive advantages for a business. If CCT is to be effective, it needs to be well planned and tailored to the needs of multinational enterprises (MNEs) and individual expatriates (Adler & Bartholomew, 1992).

According to the research, it is important to develop orientation trips and short-term assignments as the major forms of CCT for expatriate candidates who do not have prior overseas experience. Based on my experience as Director of Programs of Global Leadership Center at a Midwest University, the cross-cultural training programs for international assignments must include cross-cultural awareness training to the employee and the family. Language training can be helpful in understanding local social and cultural differences. Expatriates must be required to complete training for language and cultural competencies prior to any foreign placement.

Expatriate assignments can be very expensive and may carry the risk of assignment failure that could result in a premature return of the assignee and his/her family. Other difficulties in international assignments may relate to the not being able to accomplish the assigned tasks in the foreign country as expected by the home office or failure to achieve the organizational goals effectively. HR managers should be careful in the selection of an expatriate for an extended foreign assignment. Critical HR activities should focus on pre-departure orientation and training, supporting the expatriate and his/her family’s adjustment to the foreign
country and assignment experience, and repatriation to assure the individual employee and the company’s success of the expatriate assignment investment.

Human resource managers should conduct individual consultation, provide films and readings on the foreign country’s cultural, social, legal, and economic environment, and when necessary, offer mentoring and on-going assistance to both the employee and family members. The pre-departure orientation should include important practical aspects of everyday living in the country of assignment.

RECOMMENDATIONS AND IMPLICATIONS

In order to help employees better understand, adapt, and perform well in international assignments, human resource managers must assist host country management in assessing the needs of the host-country workers to devise training programs that enable expatriates successfully achieve their work objectives, whether in manufacturing, marketing, sales, after-sales services, or business processes such as accounting or records management.

The primary objective of the Preparation and Training for International Assignments should be to increase the expatriates’ effectiveness abroad to assist them achieve the expected company goals which may include increasing company performance, employee productivity, and overall effectiveness in global operations. There are many skills and competencies that are required from employees when they work in international assignments.

The pre-departure preparation and training must focus on the developing desirable skills and competencies to assure that expatriates will have sufficient knowledge and understanding of the foreign country’s political, legal, social, and cultural environment as well as an ability to function effectively in the host country by adapting to cultural and social differences through their cross-cultural sensitivity, flexibility, language skills, and global mindset competencies that require a high level of ability to differentiate and integrate complex and often ambiguous information to make decisions effectively in a global context (Konyu-Fogel, 2012).

Language and cross-cultural training programs have been found quite beneficial in preparing expatriates and their families prior to going on for an international assignment (Konyu-Fogel, 2011). Language skills and cross-cultural understanding and adaptability can allow the expatriates to communicate and share information with host country employees, suppliers, customers, government officials and local organizations more effectively. Interpersonal and social skills, self-reference criterion, reduction in ethnocentric orientation and global mindset competencies were found to increase the likelihood of success of expatriates and global leaders operating in a foreign environment.

Figure 3 shows a proposed Model for Preparation and Training for International Assignments. According to the model, there are three main areas that must be evaluated and considered in developing preparation and training for international assignments:
1. Identifying the desirable qualities that expatriates must possess.

2. Determining the emphasis of the preparation and training program.

3. Selecting and developing the training methods for achieving program goals.

The pre-departure training should aim to help employees avoid possessing a self-reference criterion, a tendency to view other cultures through the lens of one’s own culture. It is important to not only conduct cognitive training on the differences of the host and home countries cultural, political, social, legal, economic, and business environments and management practices but also conduct behavioral training for cross-cultural sensitivity, critical incident analysis, simulations, case studies, and role-playing experiential learning of the host country’s management practices and differences in workforce behavior.

The preparation and training should include multiple methods for providing a balance between the degree of knowledge and interaction required in the international work environment and the cultural distance between the employee’s native country and the host country’s cultural and business environment.

The pre-departure preparation should also be provided to the accompanying family members, including describing expectations about the conditions of living and working in the foreign country and networks for support and assistance to adapt to differences between the home and host country environments.

Critical information in pre-departure preparation should include personal details involved in relocation, factors of adjustment to cultural, political, legal, social, and economic differences that can help cross-cultural understanding and sensitivity to cope with uncertainties and differences in living and working environments. Family members should be asked to make personal arrangements. In addition, there must be sufficient time allotted for preparing the employee and his/her family to learn cross-cultural skills, understand the expectations, difficulties, opportunities, and uncertainties involved in the foreign assignment.
In addition to formal training on the host country’s language, history, and culture, it is recommended to engage in informal conversations with the assignee and his/her family members to share helpful tips and advice through company gatherings and other social events, informal networking with former expatriates and employees and their families from the foreign country. Informal meetings could be arranged with former expatriates and other parent company nationals (PCNs) who have recent experience traveling, working or living in the host country. Furthermore, mentors or coaches from the home country could provide assistance and regular contact during the assignment through telephone and e-mail.

CONCLUSION

This paper examined the importance of training expatriates who are embarking on an overseas assignment. It has been shown that there are numerous benefits for both the expatriate
and the multinational corporation when expatriate training is offered. It is important to provide an appropriate cross cultural training program to ensure success regarding effective communication in the foreign country of the assignment. It is also beneficial for multinational corporations to invest the time in training locals when appropriate, in order to save the cost of an expatriate in the long run.

Cross-cultural training is noted to help achieve higher adjustment of expatriates and their families in international assignments. Effective international adjustment is likely to result in higher involvement in the local host country culture and employee engagement that further seems to lead to better performance during the expatriate assignment. Cross-cultural training is likely to enhance the expatriate’s motivation to learn about the differences in the host country’s business environment and managing better employee relations. Understanding and adjusting to the foreign country’s environment effectively can help the expatriate interact with local employees and transfer knowledge and learning to the employees of the host company that eventually may enhance the success of the expatriate’s international assignment and the overall performance both the parent and host company.

There is a great need for future research on discovering a successful model for training and preparing expatriates and their families for international assignments. However, all organizations understand the need for pre-departure preparation and cross-cultural training due to the costs involved and the high failure rates for overseas assignments. Human resource management’s involvement in the development of planning and training is essential.

To assure success in expatriate assignments, it is important that the expatriates understand clearly their role and responsibilities before going on the assignment. The expatriates must also learn as much as possible about the host country environment, including understanding the political, economic, legal, social, cultural, and ethical differences and developing cultural awareness and sensitivity to help adjust to the host country’s management practices, working with local employees, being able to conduct business transactions, everyday living, and family transition effectively. With careful planning and training, the expatriate experience can be a successful one for all stakeholders involved including the organization, employee, and the expatriate’s family.

Future research may examine the relationship between factors that are likely to contribute to the international adjustment process and the types of training and preparation needed to assist the expatriate success and organizational effectiveness.

REFERENCE


AN INSTITUTIONAL MODEL OF INTERNATIONAL FIRST-MOVER ADVANTAGES

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ABSTRACT
Research on first mover advantages has been extensive and undertaken in different disciplines (such as economics, entrepreneurship, marketing, and strategy). However, the examination of first-mover advantages based on theoretical arguments from the resource-based view of the firm, transaction cost economics, resource-dependency, network externalities, and regulatory framework has tended to be domestic in focus. We use an institutional lens to extend the theory of first-mover advantages to the international arena. We develop propositions about the sources of first-mover advantages when mimetic, normative, and coercive processes operate alone or in combination.

Keywords: first mover advantages, international entry, institutional theory, normative, mimetic, coercive

INTRODUCTION
The increasing internationalization of business has been identified as one of the key reasons why institutional perspectives have gained importance (Ingram & Silverman, 2002). Country environments embody different institutional contexts, providing both opportunities and challenges to firms doing business in the international arena. Of these firms, the set of firms that expand internationally as ‘first-movers’ are of particular interest, since these firms often initiate the first processes of interaction between foreign firms, and different host institutional contexts. Institutional scholars have suggested that firm responses to the institutional environment are more strategic, than reactionary (Oliver, 1991; Scott, 2001). In keeping with this trend, researchers have shown that institutional environments affect firm action and strategy, (e.g. Das

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& Van de Ven 2000; Ramaswamy et al., 2002; Tihanyi et al., 2003), firm structure and organization (Kostova & Roth, 2002), and firm evolution and change (Barnett & Hanses, 1996; Baum & Haveman, 1997), particularly in the context of institutional differences in economies.

In this paper we focus on the less-explored question of how firms can strategically maximize international first-mover advantages (FMA), using an institutional perspective. We examine how firms operating in a first-mover capacity in new international markets can leverage on the different country environments, based on the mimetic, normative and coercive processes that operate in the country. We propose that firms can benefit from first-mover advantages by creating specific types of barriers to entry for later entrants.

LITERATURE REVIEW OF FIRST MOVER ADVANTAGES (FMA)

Comprehensive reviews on the topic of FMA (Kerin et al., 1992; Lieberman & Montgomery, 1998 and 2012) show this to be a well-researched area in terms of theoretical and empirical studies. Some studies have shown a positive relationship between pioneering and performance after controlling for managerial skills (Murthi et al., 1996) indicating an important role for environmental factors.

There have been studies about the timing of entry into international markets (Mascarenhas, 1992; Shaver et al., 1997), into emerging economies (Nakata & Sivakumar, 1997), and into specific emerging economies such as China (Gaba et al., 2002; Isobe et al., 2000; Johnson & Tellis, 2007; Luo, 1998; Luo & Peng, 1998) and India (Johnson & Tellis, 2007; Rahman & Bhattacharya, 2003). The issue of first-movers, particularly, has been explored in the context of differences between firms, classified on the basis of their order of entry, and the directly imputable consequences thereof. While, no doubt, this perspective has served to enhance our understanding of what contributes to first-mover performance in general, it fails to address the issue of how firms can create first-mover advantages by interacting with the unique institutional processes that operate in the country which they enter. We therefore apply findings by institutional researchers (Das & Van de Ven 2000; Ramaswamy et al., 2002; Tihanyi et al., 2003) that firms can strategically respond to and interact with their institutional environments, towards enhancing the current understanding of first-mover strategy and performance.

Briefly, the consensus in extant first-mover literature is as follows: First-movers and immediate followers show better performance than late follower firms (Bond & Lean, 1977; Parry & Bass, 1990; Robinson, 1988; Whitten, 1979). Early followers have higher market shares than late followers (Lambkin, 1988; Robinson & Fornell, 1985), but the difference in market shares between the first-mover and the early followers is much smaller (Robinson & Fornell, 1985; Robinson et al., 1992). Longer lead times increase the first-mover’s advantage, but, over time immediate followers who offer sustained competition catch up, though later entrants still trail behind (Huff & Robinson, 1994). While first-movers and immediate followers, when compared to late entrants, have been found to have advantages under some conditions (rapid technology evolution – Suarez & Lanzollo, 2007, lead markets – Cleff & Rennings, 2012), these conditions are not effective in explaining the differences in international FMA. For instance, Johnson & Tellis (2007) found that there was significant difference in FMA between India and China, though both are emerging markets with similar technology and market characteristics.
Though timing of entry broadly includes the decision of when to enter a new or existing market (Green et al., 1995) through new products, processes, brands or businesses (Kerin et al., 1992), we focus on international first movers, those firms that are the first to enter an international market with a product or service that is not similar to those available in that country in terms of features and/or price-performance ratio (Rahman & Bhattacharyya, 2003). We propose that the use of an institutional perspective is of relevance to international first-movers because such firms deal with distinctly identified, varying, institutional environments, at the country level. Such a perspective is not likely to be relevant for firms that enter domestic markets. The institutional perspective allows for an understanding of first-mover performance by contextualizing the firm amidst the institutional processes of the country which it enters.

Researchers have explored the role of external factors, such as industry and market conditions (see Ketchen, Snow & Hoover, 2004, for a review), as well as dimensions and characteristics of the country environment, for example regulation (Cleffs & Remmings, 2012; Nehrt, 1998; Sarkar et al., 1999). Our paper offers a unique contribution to the domain of FMA by looking at the effect of interaction of a firm with the institutional processes of the international environment.

**AN INSTITUTIONAL MODEL OF FIRST-MOVER ADVANTAGES**

**Sources of FMA**

There are several classifications of the sources of FMA. Lieberman & Montgomery (1998, 1988) classify the sources of FMA as technological leadership, switching costs, and resource pre-emption, while Kerin et al. (1992) group them as technological, economic, pre-emptive action, and behavioral advantages. Makadok (1998) offers the concept of industry-specific ‘resource position barriers’ (at. p.394) to distinguish between barriers that prevent follower entry into a market, and barriers that allow entry, but prevent followers from enjoying the same levels of performance as incumbents. Other authors have suggested scale economies and marketing cost asymmetries, translation of technology gaps into competitive advantages (Porter, 1983), cost asymmetry in factor inputs and geographic and segment preemption (Lieberman & Montgomery, 1988), and behavioral factors such as switching costs (Porter, 1985) lead to FMA. Despite some differences, all the authors attribute FMA to the creation of what could broadly be termed ‘barriers of entry’ by which first movers are able to enjoy higher performance for a longer period of time. We use the sources of FMA discussed by Lieberman & Montgomery (1998, 1988) because they are widely used, encompass rather succinctly the various FMA sources identified by other researchers, and the authors have recently presented further validation of their arguments (Lieberman & Montgomery, 2012).

Briefly, FMA arises from technological leadership, buyer switching costs / choices under uncertainty, and preemption of scarce resources. Firms that are technological leaders, move ahead on the learning curve, and in patent & R&D races. For such firms, FMA arises from falling costs with cumulative output and knowledge advances arise from R&D expenditures respectively. FMA may accrue due to buyers making their decisions amidst uncertainty. In an uncertain environment, buyers incur learning costs to find out about the products of the first mover, and transaction costs to purchase these products. They enter into contracts with first mover firms to get good deals, and develop brand loyalty for the products of first mover firms.
The learning and transaction costs, contractual obligations, and brand loyalty make it difficult for later entrants to persuade these buyers to switch to their products. A third source of FMA is the preemption of scarce resource and it works in three ways – first mover firms avail of critical input factors so later entrants can’t get them, occupy premium geographic and product feature space, and invest in plant and equipment to deter entry by later entrants.

Irrespective of the sources of FMA, all researchers are unanimous in their conclusion that first movers do incur tremendous costs. The high costs associated with being the first-mover often set-off the advantages gained (Boulding & Christen, 2001), and such advantages may accrue only given the presence of moderating conditions, such as strong patent protection and limited consumer learning (Boulding & Christen, 2003). In fact, follower firms may acquire the same technology or resources at lower costs, leading to free-rider effects (Golder & Tellis, 1993; Guasch & Weiss, 1980; Lieberman & Montgomery, 1988). So far, researchers have examined the characteristics of the environment and not the processes. Institutional researchers (DiMaggio, 1988; Oliver, 1992) suggest that firms may need to pay heed to the institutional processes that prevail in their environment.

**Institutional processes affecting FMA**

DiMaggio & Powell (1983) identify three types of institutional processes: coercive, mimetic, and normative. We draw on Scott’s (2001) arguments that institutional influences may operate at different levels, or may be “layered”, to suggest that at any given point of time, in a given institutional context, one or two of the processes – coercive, mimetic, or normative – may be in operation. Given the likely contradictory effect of these processes, we think it is unlikely that all three institutional processes are likely to be in operation at the same time in any country. Each of these institutional processes occurs with particular characteristics of the country environment. Coercive processes arise from formal and informal pressures on organizations in a country. Mimetic processes operate when organizations are in an uncertain environment, while normative processes occur when establishing legitimacy is important.

**Coercive processes.** A country where there is a high degree of regulation and effective implementation is likely to have greater coercive processes, whereby all firms (first movers, early entrants, and late followers) that operate in this context have to abide by the well-laid out rules and procedures. Environments which can be classified as dominantly coercive may often offer greater clarity and availability of information, due to the higher levels of institutionalization, in such environments. The higher quality of regulation in such environments, and consequently, the importance of legally mandated corporate procedures, could also serve to reduce informational advantages that first-movers may have.

In such environments, the advantages available to first-movers would tend to be based on technological leadership. First-mover firms, which enter such environments, can undertake large technological investments because they are assured of high R&D appropriability (Kim & Lee, 2011). They can benefit from both economies of scale, as well as greater market share. Doh (2000) outlines the advantages enjoyed by telecom firms, in different Latin American countries from entry before privatization. In the dominantly coercive, government-controlled, telecommunications industry, prior to its privatization, international first movers benefitted from technological investments that locked-in the customers of the country to a particular provider.
Proposition 1: In countries with predominantly coercive institutional processes, international first-mover advantages arise from technology leadership.

Mimetic processes. First-mover firms in dominantly mimetic environments, which have high uncertainty, cannot rely on technology leadership. FMA cannot arise from technology leadership if legal protection is not available. A dominantly mimetic environment is based on three broad conditions: a) imitative behavior is relatively unfettered by law, b) informational asymmetry may be high and c) imitative behavior is seen as a means of competition. To enjoy FMA, first mover firms will need to focus on increasing buyer switching costs. When firms first enter a country where there is high uncertainty (Henisz & Delios, 2001), they can focus on teaching buyers about their products, building brand loyalty, and entering into contracts with buyers. The time and money buyers have spent in learning about the products of the first mover, buying and trying out the products of the first mover, as well as the terms of the contract signed between the buyers and the first mover are the components of the buyer switching costs. Buyer switching costs may be increased due to the initial transaction costs, learning costs, and uncertainty about the products of later firms. When Electrolux AB of Sweden entered India in the early 1980s and introduced the Indian consumer to products such as vacuum cleaners, and water purifiers (Rahman & Bhattacharya, 2003), they had to educate their customers about the very concept of the product category in addition to the means of using the product. The higher the buyer switching costs, the more the FMA because in an uncertain environment follower firms would tend to replicate first-mover strategies that have been successful and imitate first mover products that have been adopted by customers.

Proposition 2: In countries with predominantly mimetic institutional processes, international first-mover advantages arise from buyer switching costs.

Normative processes. Strong normative effects may be likely in environments where firms come under the influence of business associations, and professional and trade bodies. Scott (2001) identifies “social obligation” as the basis for such compliance, achieved through normative influences. Social sanctions can have a strong persuasive force, particularly in the form of accreditation for certain practices, or social demand. Consumer and investor satisfaction can be highly dependent on the legitimacy that a firm gains from paying heed to social demands (Hooghiemstra, 2000). DiMaggio & Powell (1983) identify that normative influences are built out of professional association over time. This can lead to the eventual setting of industry standards or business practices.

Firms in such an environment can hope to benefit from the normative prescriptions therein, by ensuring that resource suppliers, including raw material suppliers and infrastructure providers, be tied-in to the first-mover firm through social sanction and routine. Similar tie-ins can be created with distributors, thereby securing distribution space and consumer access (Kerin et al., 1992; Lieberman & Montgomery, 1988). Once institutional costs are incurred towards building relationships with resource providers, these relationships can act as entry barriers to follower firms. Later entrants will also have a less attractive position, in terms of the market, distribution and perceptual space available (Hauser & Shugan, 1983), if a first-mover is able to capitalize on preemptive factors, which restrict later entrants’ access to resources. For example, early movers in China have benefitted from their collaboration with the government, whereas later entrants have not. A particular example is that of Volkswagen, which operates as a key player in
the market, whereas later entrants such as Ford, Mercedes-Benz and General Motors found it comparatively more difficult to secure government approvals (Luo & Peng, 1998).

**Proposition 3:** In countries with predominantly normative institutional processes, international first-mover advantages arise from preemption of scarce resources.

**Coercive and Mimetic processes.** More than one of the institutional processes may operate in a country. In a country where there is a high level of regulation but weak implementation, both coercive and mimetic processes are in operation. There may be legal protection for technological products but uncertainty prevails about the procedures and their implementation.

First-mover firms may have formal laws to protect their intellectual property and innovations, but there may uncertainty about how they can seek legal help to punish violators. Technology lock-in by adapting technology to the country increases buyer switching costs. The integration of suppliers and manufacturers through supply chain software, where a manufacturer (or supplier) would benefit from adopting the technology that most suppliers (or manufacturers) have already installed. Buyer-supplier relationships therefore, may continue to the exclusion of follower firms. Further, the availability of complementary goods positively influences customer adoption of such a technology (Schilling, 2002), and positive network externalities from the installed base of technologies (Katz & Shapiro, 1986; Arthur, 1989) also contributes to the success of a product (Brynjolfsson & Kemerer, 1996). Suzuki, a Japanese car manufacturer, entered India in 1983. It retains market leadership with not just the quality of its cars but also its extensive network of service centers all over India that have specialized equipment, personnel and detailed manuals for repairing cars adapted for the Indian market, which increases buyer switching costs and makes it difficult for follower firms to take away its FMA (Rahman & Bhattacharyya, 2003).

**Proposition 4:** In countries with coercive and mimetic institutional processes, international first-mover advantage arise from technology adapted to increase buyer switching costs.

**Coercive and Normative processes.** When a country has a high level of regulation and laws, but legitimacy is important for implementation, then coercive and normative institutional processes are in operation. Such environments are also more supportive of the advantages gained from ‘prototypicality’ (Kerin et al., 1992). First-movers can, through marketing efforts, establish their products as a standard against which followers’ product offering would be compared (Carpenter & Nakamoto, 1989, 1990). Normative environments are characterized by the emphasis on standards and accepted normative judgments. In such an environment setting up a product to be a standard, and a basis for comparison, could provide the first-mover firms, which set such standards, with a clear advantage over followers. Buyers prefer to purchase products that are accepted as standards or deemed to be acceptable by professional organizations. This could help explain the first mover advantage enjoyed by Toyota’s environmentally friendly Prius car which was introduced in the US in 2000, a country with well established regulations that was amidst a movement towards environmentally friendly products in that country (Tuttle, 2012).
Proposition 5: In countries with coercive and normative institutional processes, international first-mover advantage arise from technology that adheres to norms of legitimacy.

Mimetic and Normative processes. In countries that are characterized by high uncertainty and information asymmetry arising from varying sources of legitimacy, it is prudent for first mover firms to have switching costs based on norms of legitimacy determined by professional organizations such as supplier associations or legal bodies.

First mover firms can focus on infrastructure related or business support technologies such as Customer Relationship Management or Supply Chain software, or they may have also invested in further specialized assets with restricted technological compatibilities, such as operating systems. For example, in China, American firms such as LSI Logic and On2 Technologies, which met the new technological standards particular to the Chinese environment, benefited from obtaining intellectual property rights to such inventions (Association of Patent Law Firms, 2003), whereas companies such as Intel faced delays and restrictions in entering the market, on the same issue, despite their size and market power. Frynas et al. (2006) provide several case studies of firms enjoying FMA from managing the political legitimacy in the country they entered.

Proposition 6: In countries with mimetic and normative institutional processes, international first-mover advantage arise from increasing buyer switching costs based on norms of legitimacy.

In summary, we have developed propositions about the sources of FMA when international first mover firms enter a country based on the type of institutional processes that are in operation in that country.

CONTRIBUTIONS, LIMITATIONS, AND IMPLICATIONS FOR RESEARCH AND PRACTICE

In this paper we use an institutional perspective on entry into international markets, to offer propositions on the nature of barriers to entry that can be created by first-mover firms, across various environments. Our paper makes, in our opinion, two important contributions to literature. First we extend the applicability of institutional perspectives, from the mainstream literature on international management, to the specific issue of international first-movers. While institutional tenets have strongly guided much of the international business literature, particularly research on the mode of entry of firms into various country environments, our paper represents, to the best of our knowledge, the first attempt to link mimetic, normative and coercive processes to the timing, or order of entry. We thereby open new vistas for alternate epistemological perspectives in the study of international first-mover strategy. Secondly, by doing so, we have offered additional explanations for why and how first-movers enjoy certain advantages.
The theoretical model we offer is affected by industry and firm-specific characteristics. The nature of the industry may determine the imitability of key resources, which then has implications for the sustenance of first-mover advantages (Makadok, 1998). Certain barriers to entry, notably those in dominantly normative environments, are based on intangible resources such as endorsement and business relationships, the importance of which can vary significantly from industry to industry. Furthermore, firm-specific features, such as market positioning and advertising expenditure (Urban et al., 1986), attributes of the innovative product introduced by first-movers (Robinson, 1990), and life-cycle stage of the firm (Lester et al., 2003), are relevant to determining first-mover performance. The size of a firm and the nature of its competition may also influence firm decisions to exploit first-mover advantages (Wernerfelt & Karnani, 1987).

The findings on the most advantageous order of entry are also affected by the debate on the empirical methods used (Golder & Tellis, 1993), including issues of survivor bias (VanderWerf & Mahon, 1997). Indeed, the exclusion of firm-specific variables from our propositions is a limitation of this paper. Our attempt to provide innovative and more general explanations from an institutional perspective has necessitated the exclusion of important micro-explanations, such as role of the industry, and specific firm initiatives in branding and marketing.

An immediate extension of this work lies in the direction of empirical testing. Measures of institutional environment such as those used by Glaeser et al., (2001) and Wan & Hoskisson, (2003), suggest that identifying environments as dominantly mimetic, normative or coercive is a well-founded extension of current literature. By using such measures, it would be possible to empirically validate our model, a task we are currently embarking on. Further exploration of the characteristics of the host country may also add value. For example, the degree to which local producers have a presence in the market may moderate the applicability of the barriers to entry we propose. Another research project that could be carried out is to build on our model by including firm- and industry-level variables, developing hypotheses and carrying out empirical tests. Such a study would require careful collection of data on not just the time of entry of firms into international markets, and the institutional processes operating in that country, but also details about firm characteristics and industry features.

Our paper provides insights that could be useful for managers. Instead of focusing on just the timing of entry into an international market, managers could attempt to understand the institutional processes that are in operation when they are planning to enter an international market. The predominance of coercive, mimetic, or normative processes, or their combination would imply different actions by managers in order to capture FMA. Managers could move from creating general barriers to entry to directing their attention to erecting specific types of barriers to entry that are aligned with the institutional processes in operation in the particular country at the time that they are planning to enter the market there. A finer-grained understanding of the institutional processes operating in a country could help firms convert the concept of first mover advantages into a reality.
REFERENCES


FIGURE 1: INSTITUTIONAL MODEL OF INTERNATIONAL FIRST MOVER ADVANTAGES

<table>
<thead>
<tr>
<th>Characteristics of the institutional environment (in bold)</th>
<th>Source of first-mover advantage from the literature (in italics)</th>
<th>Modified sources of first-mover advantages (in italics and underlined)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coercive High regulation with effective implementation</td>
<td>High regulation, but with uncertainty about implementation</td>
<td>High regulation but legitimacy important for implementation</td>
</tr>
<tr>
<td>Mimetic High uncertainty, and information asymmetry</td>
<td>High uncertainty and information asymmetry due to varying sources of legitimacy</td>
<td></td>
</tr>
<tr>
<td>Normative Legitimacy is based on “social obligation”</td>
<td>Resource pre-emption</td>
<td></td>
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</tbody>
</table>

**Table: Characteristics of the institutional environment**

- Coercive
  - High regulation with effective implementation
    - Technology leadership
  - Adapted technology switching costs
- Mimetic
  - High uncertainty, and information asymmetry
    - Buyer switching costs
- Normative
  - Legitimacy is based on “social obligation”
THE INFLUENCE OF INDUSTRY STRUCTURE AND FIRM LEVEL FACTORS ON THE RELATIONSHIP BETWEEN REGIONAL ORIENTATION AND FIRM PERFORMANCE

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ABSTRACT

The theory of regionalization is still in its infancy. Previous research has shown that most firms are regional, as opposed to global in nature. This paper examines the relationship between the adoption of a regional strategy and firm performance and develops theoretical propositions. We use the main external drivers of performance i.e. market structure and insights from the adaptation/standardization approach and propose them as the main drivers that will help explain the relationship between regionalization and firm performance. Theoretical propositions are developed to further understanding of the relationship.

Keywords  
Regionalization, Standardization/Adaptation, Liability of Foreignness, Industry Concentration, Firm Performance

INTRODUCTION

The theory of a regional firm is still in its infancy because firms were previously assumed to be global by virtue of a presence in multiple foreign countries. (Rugman & Verbeke, 2004) Rugman and Verbeke (2004) defined a global firm as a firm with 50% of its sales in its home region of the broad triad of the European Union, the NAFTA zone and Asia, and a minimum 20% sale in each of the two other regions. This criterion led the authors to find only 9 truly global firms
among the Fortune 500. The bulk of the firms were found to have concentrated sales within their home region.

Theories that have been used to explain why firms experience spatial limitations include transaction cost theory (Williamson, 1985) and the Resource Based View (Barney, 1991). Rugman and Verbeke (2007) argue that Firm specific advantages (FSA) decay over space such that outside their home region they are less useful. The authors characterized the type of firm specific advantages that decay over space as the more upstream and value added activities. Liability of foreignness (Zaheer, 1995) is also used to explain why firms are reluctant to expand beyond their home region because of differences in institutions and culture.

**Relationship between Regional Strategy and Firm Performance**

The adoption of a regional strategy has an impact on performance. Empirical results have been mixed (Lee & Marvel, 2009; Elango, 2004). Lee and Marvel (2009) found a moderating effect of regional orientation on international SME performance when they used low cost or differentiation strategies whereas Elango (2004) did not find any significant link between regional orientation and performance. Banalieva and Santoro (2009) studied emerging market MNEs from 28 countries and found that regional strategies improve performance of firms that had a local orientation compared to industry rivals. Elango (2004) used 130 firms in a sample dominated by European firms with a smaller number of MNEs from North America and Japan.

The conflicting results could be a result of the context of the research, for example in Lee and Marvel (2009) regional orientation is a moderating variable but Elango (2004) uses it as an independent variable. The research could be reconciled by adopting a multi-level analysis of firm performance. The multilevel analysis should be at the firm, country and industry level. Firm performance is affected by a number of factors both external and internal to the firm.

While the decay of FSA advantages is used to explain the limitations to the expansion of firms outside the home region, an interplay between firm specific advantages (FSA) and country specific advantages (CSA) (Rugman, Oh & Lin, 2012) in addition to specific industry factors will help explain the performance of firms that adopt a regional strategy.

**INDUSTRY LEVEL FACTORS**

Resource based theories and the Industrial Organization (IO) approach have been used to explain firm performance. The resource based view (Barney, 1991) focuses on heterogeneity of firm resources as the main determinant of performance whereas the IO approach focuses on strategic positioning by firms in their industries. In the resource based view of the firm, the nature of the firm resources i.e. non inimitability and non-substitutability explain firm differentials in performance.

We adopt the IO school of thought to explain inter industry differentials in firm performance. Specifically we adopt the Structure-Conduct-Performance paradigm to examine what makes some industries more profitable than others and by extension explain why firm profitability also differs by industry. In general the structure of an industry is expected to affect performance such
that more concentrated industries i.e. those dominated by a few firms have higher profit margins (Lee & Mahmood, 2009; Shaik et al, 2009). Market structure relationship to profitability is channeled through distribution of market share, product differentiation, barriers to entry, growth rate of market demand, and barriers to exit (Delorme, 2002; Lee & Mahmood, 2009).

Industry concentration is an important aspect of the market structure element that affects performance. Empirical evidence supports the general form of the concentration performance relationship across different sectors and countries (Shaik et al, 2009; Caloghirou et al, 2004; Delorme, 2002). We chose industry concentration because we believe it is the most relevant in analyzing MNEs, including regional focused MNEs. Most companies face some form of global competition and competitors who are likely to have considerable market power through their brand recognition among other things.

Qian et al (2008) found a relationship between industry effects and firm performance in a study of regionally diversified multinationals. In following the conventional approach, the study used the Standard Industrial Classification to group the various firms; this method however does not explicate the specific industry dynamics that affect performance. We are left to speculate as to how the general industry effects as identified by the authors affect firm performance. Therefore, we use industry effects as a moderating variable instead of a control variable as it is used in previous research (Qian et al, 2008).

Other researchers have used more product market factors such as product diversification and industrial diversification (Elango, 2004; Banalieva & Santoro, 2009; Li & Qian, 2005). These factors significantly explain the relationship between regional orientation and firm performance such that increased product diversity in well diversified firms reduces firm performance. We believe product diversity and industry or sector diversification are a result of industry factors. Market structure factors such as buyer concentration and sellers concentration affects the strategy chosen by firms, for instance in very competitive markets there is likely to be a greater need for product diversity in order to stand out from competitors. We therefore adopt industry concentration as a proxy for the product and industry effects used in previous research.

**FIRM LEVEL FACTORS**

The issue of standardization versus adaptation has been prominent in the international marketing literature. The main driving force of the debate is the globalization of business activities that leads companies to make a choice between standardization of marketing activities across several markets or adaptation to suit a particular market.

The literature is not settled on which approach is more favorable but issues such as cost savings (Alashban, Hayes, Zinkhan, & Balazas, 2002; Szymanski, Bharadway, & Varadarajan, 1993) are seen to be a key driver for standardization. The concept of semi-globalization (Firat, 1997; Ghemawat, 2003; Douglas & Craig, 2011) is also a likely explanatory factor because some researchers have observed that the world is not fully globalized which calls for an international business strategy that takes this fact into account. Douglas and Craig (2011) identify five clusters (developed markets, global and regional segments, country-centric elements, rural markets and urban poor and country clusters) and suggest appropriate marketing strategy for each of the
segments. The lack of complete integration of global markets suggests that the optimal strategy or decision between adaptation and standardization will be driven by both external and internal factors.

The key internal driver for regional strategies identified by Rugman, Oh, and Lim (2012) is the interplay between firm specific advantages (FSA) and country specific advantages (CSA). Specifically, the authors looked at the ability of firms to transfer their FSA’s from the domestic base to a home region or foreign region based on its existing capabilities. This suggests that some activities are not home region bound (Rugman et al, 2012). From the perspective of the regionalization approach, the key driver of adoption of regional strategy is the link between the location based advantages in a foreign region with the appropriate FSA that a firm possesses. This approach implies the need for a fit between the existing internal capabilities with external attractiveness.

The regionalization approach does not take into account some contextual factors such as the nature of the product market as well as the competitive structure of the industry the firm is competing in. The transferability of marketing based FSA identified by Rugman et al (2012) is contingent upon factors that are also well beyond the firm’s control. The standardization/adaptation literature will complement the question of transferability of FSAs. O’Donell and Jeong (2000) found that in global industries such as high tech and industrial products, global standardization is positively related to performance. Alashban et al (2002) show that market structure factors like competitive, buyer, and distribution intensity are significant drivers for the decision to adapt or standardize brand names. We can logically make a connection between an adoption of a global (adapted) brand and the adoption of a commensurate strategy.

Figure 1 here.

The conceptual model shows the relationship between the adoption of regional strategies and firm performance. The two broad intervening factors are the industry level factors and the firm level factors. These factors affect the profitability of the firm because of competitive dynamics with an industry and the internal firm resources at its disposal. The role of country level factors and institutions affect the ease of firms to enter a foreign region. The country level factors such as similarity in institutions will likely make it easy for foreign firms to enter a foreign market or region. The industry level driver will likely drive certain firms towards globalization at the expense of regionalization. In global industries or industries that have common product features not subject to taste the regionalization strategy is unlikely to be profitable compared to a fully globalized strategy.

**PROPOSITION DEVELOPMENT**

The choice of strategy by a multi-national firm contains a cost element particularly with regards to coordination costs of a firm. A strategy with regional headquarters is more likely to be costly compared to a global strategy because the overheads, R&D costs and fixed costs of headquarters cannot be spread among many countries (Contractor, Kundu & Hsu, 2003). We expect the driver of strategic choice to be both cost driven as well as profit seeking, this may distinguish the relationship between the main drivers of strategic choice and the outcome of those choices.
Transaction cost theory suggests that diversification of firms into international markets imposes coordination costs, market entry costs and information processing costs (Williamson, 1985). However there is an overriding aim of gaining market share that firms possess like seeking different markets (Dunning 1993). Firms with products that are made to suit local conditions are able to gain more market share than firms with products not tailored for the market because they can be more responsive to local demand.

Industry concentration affects strategy due to market share considerations as a result of an entrenched market structure. The dominant firms in a concentrated industry are capable of defending their market share because of their size such that the non-dominant firms face difficulties in expanding market share beyond that which dominant firms are not targeting. The dominance of an industry by a few players means that there are limits for expansion for the non dominant firms and those firms may have to carefully target which markets to sell their products. Belderbos and Sleuwagen (2005) found that plant configuration was driven by firm and industry competitive drivers. Specifically dominant Japanese firms in a product market with weak foreign competition chose a global plant configuration. Home region bound configuration was associated with weaker firms with standardized manufacturing technologies.

The choice of a strategy should take into account both external and internal influences. The external influence of interest in this study is industry structure and how it affects strategy choice. According to Hawawini et al (2002) firm specific assets for firms that are outliers in performance terms are more significant explanatory variable than industry factors. This means that industry factors will be significant factor affecting choice of strategy.

The firms in highly concentrated industry will choose the regional strategy because they have to expand within the limits of the market share not accounted for by the dominant firms. The firms in less concentrated industries don’t have the same restrictions in potential market share and might face less pressure to expand beyond its national boundary and may choose to remain local.

Less concentrated industries whilst competitive because of a lack of a clear market leader will not need the adoption of a regional strategy for a firm to be competitive. If there are no dominant groups of firms accounting for a large share of the market they may be a significant market to capture. In order to capture market share firms in less concentrated industries may be more prone to target a larger global market than concentrate on a few regional markets.

Proposition 1: A firm in a highly concentrated industry will choose a regional strategy over a global strategy.
Proposition 2: A firm in a less concentrated industry will be less inclined to expand outside its home boundary.

The choice of a regional strategy affects firm performance (Lee & Marvel 2009) and the performance outcome can be moderated by the influence of industry factors. Regional diversification affects firm performance in a curvilinear manner (Qian, Li, Li, & Qian 2008; Li & Qian, 2005). This suggests a threshold where continued regional diversification does not improve performance of a firm. The exact threshold is not determined in the research and increased
coordinating costs are the reasons given for the leveling off of performance outcomes (Hitt, Hoskiisssson, & Kim. 1997)

Qian et al (2008) and Li and Qian (2005) both found a positive relationship between industry effects and firm performance. The researchers used industry as a control variable based on their Standard Industrial Classification (SIC) but did not account for intra industry dynamics that determine profitability of a firm(Delorme et al, 2002). The use of industry concentration instead of the SIC will make comparisons easier because of use of a similar standard. In Li and Qian (2005) the researchers found a significant relationship for only 3 out of 13 industry groups studied using the SIC. Wiersema and Bowen(2008) concluded that a firm’s international diversification is influenced by the extent of foreign competition in its domestic market, specifically a firm operating in industries that have a high level of foreign competition is likely to have a high level of foreign sales.

Industry factors such as market structure, number of competitors and industry standards affect firm performance (Short et al 2007). Short et al (2007) concluded that industry factors account for 19% of firm performance using return on assets (ROA). Industry structure is therefore an important determinant of firm performance.

The performance of a firm will affect its strategy and it’s likely that firms that are not outliers in terms of performance will adopt similar organizational strategy because they don’t have the advantages possessed by the best practice firms nor the deficiencies by the weaker firms, Hawawini et al (2002).

The industrial and competitive structure will determine performance from a profitability perspective. Industry concentration is associated with a high level of R&D and advertising expenditure and product diversification (Lee & Mahmood,2009), following the IO approach the high level of product diversity is used as a market closing activity first suggested by Bain (1951).Firms in oligopolistic industry will have market closing power that enables them to ensure returns whereas firms in less concentrated industry will have a more competitive market that may reduce their margins and profitability Industries that are not highly concentrated do not have market share dominated by few firms and are likely to be competitive. In such a scenario companies may need to differentiate their products in order to gain market share and ensure profitability.

Firms with high product diversity are able to perform better when they internationalize than firms with less product diversity, in other words the more diverse the product line the easier it is for firms to internationalize and perform better (Hitt et al 1997).The liability of regional foreignness(Rugman & Verbeke, 2007) can potentially be overcome using product diversity. However, the literature suggests that increasing product diversity interacts with regional diversity in a curvilinear manner such that increased product diversity negatively affects more regionally diversified firms. Therefore, firms that expand into more regions tend to perform poorly. Highly concentrated industries are associated with product diversity and we expect that industry effects will be captured by the level of product diversity such that:
Proposition 3: Firms in less concentrated industries with a global strategy will perform better than similar firms with a regional strategy.

Proposition 4: Firms in highly concentrated industries with a regional strategy will perform better than similar firms with a global strategy.

Regional trade agreements are an important driving force shaping trade issues (Fratianni & Oh, 2009). The relative ease of doing business within a home region is driven by similarities in institutions and culture. Boeh and Beamish (2012) suggest that low internal monitoring costs driven by a small geographic distance between the foreign market and the firm is significantly associated with a high control mode as opposed to a shared control mode. Firms will find it easier to monitor a subsidiary that is closer to them than one that is distant from their home base. According to Boeh and Beamish (2012) in the intermediate range, increased heterogeneity through expanding members will reduce not only trade bias but also external openness. Firms outside the home region in this case will find it difficult to enter an expanding foreign region.

Proposition 5: Regional openness is associated with a home region bias and thus a regional strategy.

Some industries are more standardized than others as a result of the product architecture of the nature of the industry itself (O’Donell & Jeong, 1999) whilst others are heavily determined by local taste such as food (Cleveland et al, 2009; Alashban et al, 2002) and maybe less culturally bound. Global industries will foster a form of uniform tastes across different countries and products are less likely to be adapted to different countries.

Proposition 6: Globalized industries are likely to be associated with adoption of a global strategy.

Proposition 7: Non-globalized industries are likely to be associated with the adoption of a regional strategy.

CONCLUSION

The regionalization perspective has provided scholars with a new way of viewing globalization. Globalization held the promise of a boundary less world but this has not been the observed situation. The semi-globalization reality calls for new ways of viewing old questions such as the relationship between multinationality and firm performance. Empirical evidence is still not settled on this question and it is important for scholars to broadly examine all possible influences of such firm performance.
REFERENCES


Figure 1: Conceptual Model

- Industry Structure → Regional Strategy
- Industry Concentration → Degree of Standardization → Firm Performance
- Regional Openness

Foreign Subsidiary Divestment Decision Process: A Descriptive Model Based on the Multiple Case Studies of Puerto Rico Pharmaceutical Industry

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Abstract.
This study seeks to use divestment activities of foreign subsidiaries in the pharmaceutical industry to create an outline of the phases of the decision process followed by multinational companies. First, executives of subsidiaries are active in all stages of the decision process. Second, the process begins with an analysis of changes and restructuring to do in their global operations. They then move on to the analysis of foreign plants to be included. Third, executives’ defense struggled to keep plants open. Finally, executive was in charge of several activities subsequent to dispose manufacturing plant, the reopening of operations or abandon the structures.

Keywords Divestment decision process, subsidiary divestiture, pharmaceutical manufacturing, production networks, relocation decisions.

INTRODUCTION

Foreign subsidiary divestment decisions are an important component of the current multinational corporation restructuring phenomenon. Although the vast majority of multinational companies continuously make restructuring, adjustments and downsize production structure in production structures, presently there is not much written that addresses the decision process to divest business units, specifically of foreign manufacturing plants.

The purpose of our paper is to explore the decision process used to divest manufacturing plants in the pharmaceutical industry. Through 17 case studies regarding the divestment experiences of Caribbean pharmaceutical subsidiary executives, we will contribute to the literature by defining new concepts that are observable in the stages (steps) of the decision process for the divestment of foreign subsidiaries. The approach of our paper was selected on the basis of two important observations. First, there is a limited amount of research that addresses the decision process in specific stages and foreign activities in the decision to divest manufacturing plants of multinational companies where executives of the subsidiaries are involved (see Griffin, 2003; Belderbos and Zou, 2006; Simões, 2005, others). Second, it was observed through a review of previously published articles that most studies addressed divestiture decision-making topics using primary sources of information on the experiences of executives of the parent companies, mainly U.S. and European companies (e.g., Sachdev, 1976;

The paper is structured as follows. In the second section, we state two research questions to explore empirically. The third section discusses the insight of relevant literature that integrates international divestment seminal research, specifying the unresolved issues it holds. The fourth section addresses the study framework, participant selection, data collection and data analysis. The fifth section represents the main body of the paper and describes the results of 17 case studies from an empirical analysis of pharmaceutical plant divestment experiences in Puerto Rico. Finally, it presents a discussion of key issues emerging from the study, and the conclusions drawn. At the end, implications for theory, corroborations and refutations about some literature on the divestment decision process are established.

**RESEARCH QUESTIONS**

Given the lack of data on the experiences of foreign subsidiary executives in manufacturing affiliates in the divestment decision process, this qualitative article tries to answer the following to ensure an open dialogue that might provide significant insights into the issue of divestment decision models. Two questions were asked: First, what are the steps or stages in the divestment decisions process followed by high-tech pharmaceutical subsidiaries? The second question, what were the managers’ perceptions about subsidiary divestment decisions realized in Puerto Rico between 1990 and 2008?

**RELEVANT LITERATURE AND CONCEPTUAL FOUNDATIONS**

**Divestment Decision Process**

There has been a profound evolution in thinking about international divestiture studies during the past few years, but a limited number of models of the divestment decisions process have been developed, including Gilmour (1973), Ness (1979) Duhaime (1981) and Bodewyn (1977, 1979 and 1983), according to Duhaime and Schwenk (1985). Traditionally, academic models assumed that HQ had extensive control of all activities followed for the divestment of foreign subsidiaries. An empirical study by Bettauer (1967) identified three stages in the process of divestment: decision, planning and implementation. Another study realized by Gilmour (1973) established that the decision process starts with the discrepancies in results, poor performance and problems faced by parent companies, such as a lack of financial liquidity. By merging the findings of previous studies mentioned above and the gap in specific areas, Ness (1981) identified four scenarios that occur during the decision process: the identification of situations, development of solutions, solution selection and implementation of the divestment decision. According to her, the process begins with the recognition and identification by executives in the parent company that something is not performing according to their plans; the comprehensive search of information for a greater understanding of what is happening and the design of a team composed primarily of executives from the parent companies. This resulted in the creation of decision models where the information came only from executives in the parent companies, indicating that executives of the subsidiaries had negative attitudes, endeavored to obstruct and sought to block and limit the decisional making process.
As previously stated, divestment decisions are made quickly by eliminating operations with loss to avoid distracting their executives (Sachdev, 1976), without rigorous analysis (Gilmour, 1973), to remove corporations from a painful process (Boddewyn, 1979) and to avoid a negative impact on the financial performance of operations in the stock market (Duhaime, 1984). A body of previous studies (Gilmour, 1973; Tornenden, 1975; and Boddewyn, 1979) concluded that it is a necessary impetus of a person within senior management to initiate and move the idea of divestment for acceptance and sanctioned by the boards of directors of multinational companies. In accordance with this, Ness (1979) established that the process of divestment includes the appointment of a coordinator chosen by the parent company to organize the activities necessary to accomplish it. Ness (1979) contended that divestment decisions are initiated when management has lost either all confidence or any interest in the decision.

The contribution of extent literature however, falls short in at least two points. The first is the absence of studies about the different phases or stages to divest a manufacturing plant. Second, there is insufficient consideration of subsidiary characteristics, specifically those of pharmaceutical plants. In particular, none of the research reviewed adopted a typology of foreign executives’ roles and participation in the divestment decision process.

**Theoretical Framework for Foreign Subsidiary Divestment Decision Process**

The literature has long witnessed a gap regarding the role of foreign local managers during the decision process to divest their subsidiaries and their participation during the analysis of factors that triggered the decision to divest their operations. We proposed that most of the previous studies attempt to evaluate the decision process to divest foreign subsidiaries, assuming that subsidiary executives have limited participation in the divestment decision process.

The framework developed in this study builds on the three major perspectives, each of which allows consideration of different aspects of the divestment decision process: the role and the participation of the subsidiary in the decision process, the behavior exhibited by the executives of foreign affiliates in different stages of decision-making, and the relationship that existed between the executives of the parent companies and manufacturing plants in different stages of the process of disinvestment.

Figure 1 depicts the divestment decision process model and the specific subsidiary executives focus of the research. According, the conceptual framework presented in Figure 1 this research will evaluate if the initiation of the divestment process will depend only on parent company management decisions as Nees (1981) concludes in his empirical research. We can argue according to previous studies, domestic executives and subsidiary managers feel more closely associated with the survival of the plant, and they know more than anyone else about the factors and situations established during the divestment decision process. An integral part of the theoretical framework is the stages of the divestment decision process. In this study we want to evaluate previous academic conclusions by Ness (1981) that concludes that division manager, in our study subsidiary executives are in charge to carried out the implementation of divestiture decision.
In each stage of the decision process, narratives presented by executives in the interviews are integrated, allowing the researcher to develop a model to be updated that is suitable for the present operations of international companies. While retaining the titles presented by the
original model of Ness (1979 and 1981), our model in Figure 2 has substantially restructured components analyzed at each stage of the decision process. This model assumes, similarly to Ghertman (1988) that the relationship between actors change as the process goes through the different stages of the decision process. Our argument is that the flow of information and process moves substantially controlled by headquarters in the initial stages toward a shared monitoring between the parent companies and subsidiaries, in the intermediate stages up to total control of information and decisions in the subsidiary at the final stage and the implementation (execution) of the divestiture decision.

**Figure 2  Steps on the Subsidiaries Divestment Decision Process**

<table>
<thead>
<tr>
<th>Previous</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivating Environment</td>
<td>Identification</td>
<td>Solution</td>
<td>Development</td>
<td>Selection of Alternatives</td>
<td>Implementation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>After Epilogue</td>
</tr>
</tbody>
</table>

Source: Adapted from original divestment decision process by Ness (1979)

**RESEARCH DESIGN AND METHODOLOGY**

In terms of theoretical studies in the field of international divestiture, some of the most cited previous research recently published (*e.g.* Three US companies in Gilmour, 1973; fourteen Belgians cases in Ness, 1976 and 1981; three US, Canadian and French companies in Ghertman, 1988; one Irish company in Griffin, 2003) have used specific cases in their countries or regions to develop their theory. This study undertakes a case-study-based analysis of the phenomenon from the viewpoint of local manufacturing plant executives and is an attempt to clarify the divestiture decisions and activities realized by pharmaceutical corporations based on their Puerto Rico experiences.

**Case Participants**

The setting for this case study is among executives from the pharmaceutical manufacturing subsidiaries located in Puerto Rico and divested between 1990 to 2008. Participants in this case study were purposefully selected based on their lived experience with the studied subject: all are pharmaceutical industry executives who participated in the decision process for the divestment of pharmaceutical manufacturing plants located in Puerto Rico. The number of executive interviewed in this multiple case, 17 in total, gave us an appropriate amount of experience to obtain the point of saturation to collect information. The investigator concentrated on participants of this study within the following positions: General Manager of Puerto Rico Operations, Plant Managers, Production Managers, President of Pharmaceutical Operations in Puerto Rico, Human Resources Manager, QC Manager and Supervisor. (See Table 2)

**Data Gathering Procedure**

Face to face interviews were chosen as the primary method of data collection because they allowed probing questions for more in-depth information, given that little data was found in written documentation to fully address the research questions. All interviews were conducted by the same researcher. The interview process evolved into a relatively unstructured exploration of each executive’s experiences in the divestment decision process. The entire process took more than 14 months (from February 2010 to April 2011) to complete. The participants were
interviewed with the questions templates that collected data about their personal perceptions and feelings regarding the divestment decision process faced in their pharmaceutical companies. (See Appendix 1)

Data Analysis

The names of all the participants have been changed and quotes are attributed to them by identifying the place they occupied in the order of the interviews. The interviews were digitally recorded using a micro recorder, with each interview lasting approximately 90 minutes. The interpretation of the data in this multiple case was done following the pattern matching techniques that involve the development of themes and subthemes from the data and the matching of data to the themes and subthemes. The content analysis of the qualitative data was performed through an interpretive approach of moving between data, decisions stages and literature to identify a chain of analysis and develop a coherent explanatory framework to the decisions process. First, each executive experience case in the research was treated as a single case. Once a full account of each divestment experience was obtained through the in-depth interviews, a cross case comparison was then developed.

EMPIRICAL STUDY RESULTS

Based on the comparative case analysis, we have generated a structure that captures the theoretical insights that emerged in each stage of the divestiture decision process during the qualitative study. This case study was inductive in nature, further reorganized the numerous themes that resulted from the triangulation process. Reorganizing the many themes into smaller related groups helped to increase data manageability and significance and thus added substantive meaning to the study. The themes and subthemes that emerged from the interviews, observations, and review of documents were then examined to elicit several main patterns of learning strategy outcomes from the data. (See Table 1)

| Table 1 Major Themes |
|---------------------|-----------------|
| **Stages**          | **Themes in Order of Stages** |
| (Motivating Environment) | Analysis of competitive environment |
| Environmental Screening | Evaluation of MNC’s situation, Overcome resistance |
| Identification       | Analysis of productive structure, determination of future possibilities, establishment of strategic avenues |
| Solution Developments | Participation in executives meetings, communication of solutions to parent company, subsidiary executive power |
| Selection of Alternatives | Coalitions creations, alternatives pipelines, presentation of alternatives for survival, announcement final decisions |
| Implementation       | Planning Activities |

Divestment plan design, budgets estimates for plant disposal, reduction of operations, external and internal communication, process and product transfers, search of potential buyers
Execution Activities
*Teamwork* selection, *confidentiality* of the process, notice to the workforce, *host* potential buyers, *workforce reduction* process

After Epilogue *Representation* of headquarters, document Management, *disposal* of the affiliate, plant sale “*as it*”, *demolition*, *abandonment* of the plant

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Title</th>
<th>Position</th>
<th>Year of Divestment Activity</th>
<th>Subsidiary Functions</th>
<th>Type of Divestment</th>
<th>Stages of Divestment Process in which Interviewees Participated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Financial Manager</td>
<td></td>
<td>1996</td>
<td>Pharma/Drugs</td>
<td>Plant Closeout</td>
<td>Environmental Screening</td>
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<td>2006</td>
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<td>Plant Closeout</td>
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<td>2001</td>
<td>Pharma/Drugs</td>
<td>Closeout &amp; Sales</td>
<td>X</td>
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<td>1996</td>
<td>Pharma/Drugs</td>
<td>Closeout &amp; Sale</td>
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<td>Capital Project</td>
<td></td>
<td>2007</td>
<td>Pharma/Drugs</td>
<td>Plant Closeout</td>
<td>X</td>
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<td>6</td>
<td>Public Affair</td>
<td>Director</td>
<td>1996, 2004</td>
<td>Pharma/Drugs</td>
<td>Closeout &amp; Sale</td>
<td>X</td>
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<td>1999</td>
<td>Medical Devices</td>
<td>Closeout &amp; Demolition</td>
<td>X</td>
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<td>8</td>
<td>Production Sup.</td>
<td></td>
<td>2007</td>
<td>Pharma/Drugs</td>
<td>Plant Closeout</td>
<td>X</td>
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<tr>
<td>9</td>
<td>General Manager</td>
<td></td>
<td>2001</td>
<td>Medical Devices</td>
<td>Spin-off</td>
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<tr>
<td>10</td>
<td>Plant Manager</td>
<td></td>
<td>2008</td>
<td>Pharma/Drugs</td>
<td>Closeout</td>
<td>X</td>
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<tr>
<td>11</td>
<td>Financial Officer</td>
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<td>2005</td>
<td>Medical Devices</td>
<td>Spin-off</td>
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<td>Closeout</td>
<td>X</td>
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<td>Closeout</td>
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<td>15</td>
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<td>16</td>
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<td>17</td>
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<td></td>
<td>2007</td>
<td>Medical Devices</td>
<td>Closeout</td>
<td>X</td>
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</tbody>
</table>
STAGES ON THE DIVESTMENT DECISION PROCESS – EVIDENCES FROM PUERTO RICO PHARMACEUTICAL INDUSTRY

PREVIOUS STAGE - MOTIVATING ENVIRONMENT

This first node describes several situations in the external business environment faced by multinational enterprises, in the context of the global economy, which are motivating the beginning of the decision process for the divestiture of subsidiaries. At this early stage we cannot conclude that the decision to divest subsidiaries has been established. The three common themes echoed for the participants were analysis of competitive environment, evaluation of multinational corporations’ situation and the resistance faced in the organization.

Analysis of Competitive Environment

One of the first activities to be carried out continuously in the normal course of operations is to monitor the external environment globally. The majority of executives, (76% or 13 out of 17 cases) mentioned that among their duties while managing the operations of the subsidiaries was the assessment of the overall situation of the products manufactured by plants in order to identify challenges, constraints, and opportunities that could be exploited for the financial benefit of the multinational corporation.

Evaluation of MNC’s Situation

A second activity that takes place in this analysis prior to the formal launch of the steps for disinvestment of subsidiaries is the analysis of the anticipated impact on the operations of the subsidiaries that the potential changes and emerging situation have in the external environment. The immense majority of executive commented responses (88% or 15 out of 17) showed that in several cases, financial and operational problems of the parent company were presented as initiators of the process of disinvestment.

Overcome Resistance

The resistance to overcome at this stage includes the difficulties in obtaining information from executives outside the corporation, and the use of rumors to create false impressions and ideas in business forecasts. The existence of an integrated global network of lymph production of multinational companies has significantly decreased the resistance sources that do not allow it to begin the analysis process for the divestment of affiliated outsiders.

STAGE 1 IDENTIFICATION

This second node describes the activities of subsidiaries executives during the initial phase of identifying the need for the divestiture in the global supply chain of multinational companies. While previous studies (eg. Ness 1979; Duhaime, 1984; Hayes, 1997, etc.) relate this phase of identification with the identification of the units to be divested, our findings show that the current international operations identification phase refers to a macro assessment of all subsidiaries for deciding whether to make changes or restructure. The three common themes
echoed for the participants were *analysis of the productive structure, determination of future possibilities, and establishment of strategic avenues.*

**Analysis of Productive Structure**

All of middle level executives interviewed (76% or 13 out of 17) indicated that they annually participated in meetings coordinated by the parent companies that included top executives of global subsidiaries with operations in major global production centers in USA, Canada, Puerto Rico, Singapore, Europe and Japan. These meetings presented the strategic plans of multinational corporations and international operating performance in different global production sites, allowing managers to define the level of robustness of their operations in regards to domestic competitors.

An important aspect of the evaluation of production operations is directed by the parents, but the executives of the subsidiaries have the opportunity to obtain information in order to compare their operations to other subsidiaries within the productive structure. One finding of the interviews was that they do not have to be in a crisis to evaluate the desirability of maintaining the operations of subsidiaries. The question to answer was: *should we or should we not boost the divestment of subsidiaries?*

**Determination of Future Possibilities**

Interestingly, in several cases where divestiture was considered, executives indicated that foreign plants have to demonstrate how their operations comply and contribute to the future plans of the parent company. An interesting finding is that managers performed the analysis did not report (kept secret) to low level management about activities in which they had participated.

**Establishment of Strategic Avenues**

It was confirmed in only a few cases that executives participated in the evaluation of alternatives by providing information to the parent companies without an active participation in decision-making stages. *Must we divest plants?* If this question is answered, a new phase begins involving a more detailed analysis of operations. At this stage the highest level management learns of corporate plans and internal secrets and starts its own levels of subsidiary plans to respond to upcoming changes in manufacturing operations.

**STAGE 2 SOLUTION DEVELOPMENTS**

This third node describes the challenges faced by the executives of the subsidiaries in the process of developing solutions for the divestiture decision. This section is very important in this study because it addresses the question of *which solutions are available to adjust to the global operations?* The three common themes echoed for the participants were *participation in HQ meetings, communication of solutions to parent offices and executive power.*

At this stage, formal teams are structured to decide what adjustments, changes and reductions will be made in manufacturing operations that result in the divestiture of some plants worldwide. In disagreement with previous studies about the alternative evaluation stage, the goal is not whether or not to divest. At this stage, the alternatives are evaluated to decide which subsidiaries will be in the process of disinvestment.
Participation of the Subsidiary Executives in Meetings
At this stage it is the responsibility of top management of foreign operations involved in the process of developing solutions to meet the plans of the parent company. In several cases interviewees stressed that the meetings and the presentation of solutions was confidential and strategic information was not disclosed to plant level and local operations.

Communication of Solutions to Parent Company
In several cases, the executives interviewed indicated that the identification of the subsidiaries that would be under analysis for closure selection was made in these meetings and all major plant managers had the opportunity to contribute ideas, defend their arguments and struggle to keep their operations open if they were being evaluated for closure. It is important to note that elements outside of the divisional managers and staff from head offices are almost never aware of the information.

Subsidiary Executives Power
The executives indicated that at meetings held at the stage of defining the solutions to the division they used the power they had for the nature and extent of their processes in the global production structure. In 82% of cases, 14 of out 17 executive interviewees said that they had to fight to be heard in the decision structure of the company. According to them, the importance of the plants, the level of sophistication of operations and the impact on earnings of manufactured products gave them the power to be included in all meetings held and to present alternatives.

STAGE 3 ALTERNATIVE SELECTIONS
This fourth node describes the evaluation and fighting force relationships facing managers of subsidiaries in the negotiations for the final selection of the subsidiaries that will be part of the final divestiture process. The themes that emerge in this stage arise from the interviews and have gone directly to the questions posed as executives assessed subsidiaries that were closed or sold. This section is very significant in this study because it demonstrates the struggles faced by executives of the subsidiaries to ensure the survival of their operations in the production chain. The following topics will be addressed in the analysis of evaluations: coalition building, the pipelines of alternatives available for selection and alternatives with their own subsidiaries for survival.

At this stage of the decision process, in all of the case interviewees (17 out of 17) found that the parent companies had the final say about choosing the subsidiaries to be included in the divestiture process. This is the stage where it is decided whether or not to continue operating subsidiaries or to start implementing the final divestiture of operations. This phase also takes place with great confidentiality and secrecy as not to disclose strategic information such as the divestment of a foreign affiliate. In this phase, the headquarters executives will communicate which plants have been selected to be part of the divestment plan.

An important aspect of the study is that managers increased their participation in decision-making activities because they knew that at that stage they were fighting for the survival of their plants. Until now operational levels of the plants only heard rumors of what happens at the parent office but had no official communication of the final stage of this process. In 6 of the 17 cases, executives indicated that they were responsible demonstrate and justified
why their plants and operations should not be included in the divestiture process. In accordance with information provided by most executives, the assessment of alternatives becomes a gory and fierce competition from all global operations for the survival of their operations.

**Coalitions Creations**

This rumble phase begins the decision process where there is a struggle between all global operations not to be included in the divestiture. One of the first activities implemented by most of the executives was to establish coalitions with key people in the parent company to have support within the board. In several cases, (7 of 17) the middle level executives interviewed indicated that they sought to obtain the support of executives with the power of opinion in the decision processes that took place in the parent companies, to ensure that their proposals were heard and supported.

**Alternatives Pipeline**

Since high-tech plants have to maintain a high level of use of their productive capacities, executives acknowledged that the difficulty in finding products to replace those that have lost patent protection or require a massive production capacity would result in losses that increased operational costs from affiliates. In several of the cases studies, the executives proposed alternative products, called for the arrival of new products and processes and its subsidiaries, made changes to increase efficiency in their operations and asked for help from local governments to improve the operational conditions of their plants.

**Presentation of Alternatives for the Survival of Subsidiary**

The analysis of the cases studies showed that in 41% of the cases (7 out of 17) middle managements of local subsidiaries sought to develop innovative alternatives to present to the parent company for the survival of their operations. In all cases, the executives indicated that a final decision about the arrival of new products and processes to foreign plants was at the complete discretion of the executive head offices. In 29% of the cases, respondents reported that managers of local operation plants had the opportunity to make written submissions of cost analysis, efficiency, and productive capacity that were compared against the proposals presented by the other plants within the production chain that had an interest in obtaining the transfer of products and processes that could be drawn from the plants considered for divestment.

**Announcement Final Decision of Global Corporate Divestment Decision**

Once the parent has finished an analysis of its international operations, it then identifies the plants that are to be included in its divestiture plans. Most cases studied included divestiture announcements for several plants in different parts of the world and reduced the workforce of employees globally. This final stage of selection of alternatives is tempered by the announcement of the estimated future date the plant will cease operations, in a number of cases reported between one and three years after the announcement at a global level.
STAGE 4 IMPLEMENTATION

This node describes the final stage of the decision process for the divestiture of the subsidiaries in which executives of the manufacturing plants had a major role in the design of closure activities for the termination of operations in these subsidiaries. In these following two stages, we present an analysis of stages identified by several of the executives in the procedure to divest their own affiliate plants. These sections are important conceptualization for the activities of foreign subsidiaries because, according to the previously reviewed empirical, the divestiture of articles which identifies the activities that take place in the divestment of manufacturing plants does not exist.

The steps or activities that are defined in the interviews were grouped into two main areas in order to facilitate analysis of this paper. First, we define the activities related to planning the final divestment process of the plant and second, we detail the execution activities of the final divestiture of the subsidiary. Now, the executives of foreign affiliates act as coordinators of the implementation process of final release of the subsidiaries in the productive chain of the multinational corporation.

Planning Activities

The common themes echoed for the participants were divestment design plan, budget estimate, reduction of operations, product transfers and search of potential buyers.

Divestment Plan Design

To demonstrate the magnitude of the level of delegation, in several of the cases studied, (5 out of 17) the executives said they did not receive any guidance or corporate guidelines that indicate a process to follow to implement the closure or sale of the plant. Contributing to the final process that must occur with foreign manufacturing plants, executives are responsible for conducting cost-benefit analysis to choose between closing for future sale or immediate demolition of the plant, drawing up plans for demolition of structures, and evaluating the potential environmental costs and remediation of environmental damage caused by contamination of plant operations in several years.

Budget Estimates for Plant Disposal

One of the first projects for executives of foreign plants is to determine and document a budget that is required to complete the divestment process of plants. This budget should include aspects such as financial responsibilities to employees, the costs of the transfer of products and processes, and the resources needed to meet production projects that must be met before closing the production lines. We can say that for most of all executives interviewed a very important aspect that should be included in the budget is the costs of the “worst scenario”, which means that is destroying the structures to return the land to its natural state in case of a failure to sell the plants.

External and Internal Communication

Communication with management team occurred in two main phases: first, communication with a selected team of executives who participated in the design of the plan, followed by a final confidential release of the manufacturing plant. In most cases studied, the executives devised a plan of communication where employees were gathered in a spacious cafeteria to be informed of
the decision that it would take six to 18 months to complete. The executive was present, along with the management team, support staff in crisis situations and personal envoy of the parent company to show the employees that they were there to support them.

**Reductions of Operations**

An important aspect of the executives in charge of foreign plants was to design a plan for reducing the manufacturing operations of the plants that would not affect the obligations of production. In several cases (29% or 5 out of 17), the executives indicated that they had to meet and coordinate plans for the transfer of specialized machinery and highly sophisticated processes to other plants in Europe, Asia and America. The coordination of the transfer not only included the processes and products but also staff with expertise, management of validation documentation processes and the training of employees at other plants in the process prior to divestiture.

**Process and Products Transfers**

Once the plant decides on the process to transfer products, meetings are held with technical teams with the intention of planning the transfer stages. A recommendation made in one case (17) was to prevent visits by technicians from the production plants before the closure or sale of the plant was announced to employees. It is important to note that the decision to choose destinations for transferring the products and processes is taken by executives of the parent companies, but the decision process of the implementation of the transfer is made together with executives of divested subsidiaries. For some executives, transfer processes were difficult because many of the employees who would lose their jobs were responsible for training employees of the plants where the products were going.

**Search of Potential Buyers**

One of the most important findings of this research differ from Figure 1 Ness’ Traditional Model in which he states that the executives of foreign plants have the responsibility to receive potential buyers. In several cases, (7 out of 17 cases) executives of foreign plants had the primary responsibility to seek alternatives for the possible sale "as is". In one case the executive had the authority to visit China, Japan, Europe and Australia looking for potential buyers of the plants. Among the strategies mentioned by executives includes placing ads in newspapers of countries to report the availability of plants.

**Execution Activities**

The common themes echoed for the participants were **teamwork selection, confidentiality, host potential buyers and workforce reduction.**

**Teamwork Selection**

The team for the implementation of the divestiture decision included executives from quality, manufacturing operations, technical services, human resources and finance departments. Once members have signed confidentiality forms planning begin for manufacturing projects needed before the closure or sale, the communication plan, and reporting dates and meetings.
with the legal group of the plant to develop a plan to comply with all legal obligations of the plant at the termination of its operations on the island.

Confidentiality of the Process

In three cases studied, executives indicated that it was required signature of informed consent to require confidentiality consent to all members of the planning team. This aspect confirms previous literature (Gilmour, 1973; Boddewyn, 1976; Ness, 1979; Ghertman, 1998; others) that concluded that divestment decisions are viewed by executives as an integral part of future business strategies and should not be disclosed to prevent employees from becoming discouraged, as this, could undermine operations and alerting the competition of the next steps in the company. This confirms that decisions are kept secret until the implementation plans are designed.

D-DAY Notice to the Workforce

Under the plan developed by one of the executives interviewed management must be prepared to inform employees and the community of the impending closure or sale of the subsidiary plants. In 7 of 17 cases, the announcement was made on a Friday, and management said they planned to give employees the weekend to digest the news. Once back in production employees are informed of the impending closure or sale of the plant production by supervisors who had the responsibility to ensure production levels and the level of support to employees and between employees.

Host Potential Buyers

Reaffirming the traditional activities of the executives, in many cases they of the plants were hosts of potential foreign buyers. In 18% or 3 out of the 17 cases of executives reported presentations that were given on the capabilities of plants to potential buyers from Japan, Singapore, China, Europe and the U.S.

Workforce Reduction Process

No previous study of divestment of foreign subsidiaries has addressed the steps and activities undertaken within the plant to decrease planned human resources engaged in production processes. In the case of high-tech plants where employees have high levels of expertise and technical education, it’s the responsibility of executives to determine which plant personnel is essential to perform all activities of investment until the end.

STAGE 5 EPILOGUE

This node describes the responsibilities and activities of the executives of the subsidiaries after the final cessation of plant operations. The literature review only supported Ness (1979 and 1981) who discussed the activities that occur when the end of the operations of a divested business unit is reached. There are no corroborations between the narrative and previous studies for these themes. The three common themes echoed for the participant were representation of headquarters, document management and disposal of plant.
Representation of Headquarters

In 5 out of 17 cases or 29% the executive responsibilities varied according to the responsibilities incurred after subsidiaries were divested. A very important finding, is responsibilities assumed by the executives of the divested plants included maintaining the production capabilities and certifications of the plant to offer it to potential buyers. In other cases, the executives said they assumed the responsibility of being available to return to the plants for potential buyers requiring explanations during visits for the potential acquisition to the closed facilities.

Document Management

One of the main responsibilities of the former executives of the closed, sold, or separated affiliates is to respond to the reports submitted to governmental entities and regulatory agencies, government agencies and interest groups. In accordance with information provided by interviewed (7 out of 17) executives not only were responsible for the secure storage of operational documents but had to respond to any situation related to closed or abandoned plants for several years.

Disposal of the Plant

A responsibility that some executives said was voluntarily was taking prospective buyers to find closed plants before deterioration and vandalism made them unusable. In 29% of cases, 5 of out 17 executive interviewees said that after many months, they had the ability to find buyers for the plants while facilities remained in good condition and certified for immediate use was a door of hope to attract jobs for their subordinates who were unemployed as a result of the divestiture.

Plant Sale "As it"

A very important finding, which goes against previous studies, is that in several cases, after closing the plant the executive had to search for a potential buyer of operations and was responsible for maintaining all operational processes at the plant.

Demolition of Manufacturing Facilities

An important aspect of the study is that several executives (3 of 17 cases) indicated that the divestiture of an unsold pharmaceutical plant involved the investment of approximately $40 million for the demolition of the structures and to leave the land in its original state. In other cases, the executive considered the demolition of the facilities to be the "worst case scenario."

Abandonment of the plant

The interviewees indicated that in 7 in out of 17 cases, indicated that the plants are at present abandoned because after a while they ran out of the money allocated to pay the high costs of maintain a structure that no longer produced anything. At this stage, once the facility was removed from the productive structure of the corporation and met the divestment process there was never any concern by the parents about what happened to these facilities if they were not able to sell.
CONCLUSIONS

The analysis of the qualitative survey of executives in Puerto Rico showed that most of executives interviewed played an important part in decision-making to divest plants that were under their authority in the Caribbean region. Compared to the literature, (Gilmour, 1973; Sachdev, 1976; Boddewyn, 1979; Ness, 1979 and 1981; Duhaime, 1981; Duhaime and Grant, 1984; Ghertman, 1988; others) traditional perspective always gave the impression that the positions held by executives of the subsidiaries were of minor decisional power and hierarchy within corporations.

None of the previous studies (eg. Gilmour, 1973; Boddewyn 1977, Ness 1979, 198; Duhaime, 1984; Duhaime and Grant, 1984; Duhaime and Baird, 1987; Hayes, 1997; Griffin, 2003; Ketkar, 2006, etc.) had entered the inner details of what happens inside the plants. They all had only said local executives were in charge implementing the decision. Several cases studied suggest activities taking place inside the affiliate that include the definition of a budget, the selection of the execution team, the design of product transfer plans, the design of closing announcements to employees, creating a layoff plan and decreased strength employment, the training of employees in plants where they are transferred to the products, and designing a plan to keep the plant operating to achieve their sales after the end use for production, others.

Implications for Theory

The findings of this research, corroborate and refute some of the literature on the foreign subsidiary divestment decision process. These findings fully corroborate Ness (1979 and 1981) by indicating that the executives of the subsidiaries are in charge of the implementation process of the divestment decision. The research also extended the assertion by Boddewyn, (1979), Ghertman (1988) and Hayes (1997) that established that communication processes and decision control moves between the executive head offices and foreign subsidiaries. Our findings added that in the initial stages of decision-making control is in the parent companies and subsidiaries are participants receiving information, but once the plant has decided to divest, all control of the planning and execution of the decision is eventually transferred to the executives of the plants. To demonstrate this change in the decision process, many of the executives indicated that they took the initiative to design plans to divest their plants in the absence of structured plans from head offices.

An important finding that impacts the theories of international trade on the decision process for the divestment of foreign subsidiaries is the initiation of decision-making processes at the level of international corporations at the assessments that make those of all plants and international operations. The first thing to decide is who should make changes in international production operations, then move the detailed analysis of each of the plants to see how they can defend their place in the overall structure.

The findings from this qualitative survey did not support the construct established by Ness (1979 and 1981) which indicated that process reached the final decision on implementing the decision. Our evidence provides a very significant finding in international business literature, showing that there are a number of activities that executives do after the divestment of plants. First, they look for buyers for the plants. Second, they keep the plants in operating condition to
increase the likelihood of being sold. Third, represent the divested operations in cases of complaints or to provide information on operations already ceased.

Another finding that refutes the literature upon which the model was developed shows that in the early stages there is no active involvement of the executives of the subsidiaries beyond that of mere information providers. According to Ness (1981), "the beginning of the process depends only on corporate management in the parent company."

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What was Wal-Mart’s Role in the Mexican Corruption Scandal?

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ABSTRACT

This paper explores the role of Wal-Mart, the world’s largest retailer, in the Mexican marketplace and the charges of corruption that has been leveled against the company. The paper traces Wal-Mart back to its roots in Arkansas and follows the company into the international marketplace where the first country to have Wal-Mart stores outside of the United States was Mexico. The Foreign Corrupt Practices Act was examined as a basis for any corruption charges against Wal-Mart. The concept of corruption in business was also explored with an emphasis on causes and effects. The paper explores what Wal-Mart did and how it could impact the business in the long run.

INTRODUCTION

Wal-Mart History and Strategy

Wal-Mart has its roots to Sam Walton buying a store from Luther E. Harrison in Bentonville, Arkansas in 1950. That store became Walton’s 5 & 10. Thus, the Ozark Mountain town of 2,900 residents would become the headquarters for the world’s largest retailer (Wikipedia, 2012). On July 2, 1962, Sam Walton opened the first Wal-Mart Store in Rogers, Arkansas (Wal-Mart, 2012). The company became international in 1991 with expansion into Mexico and now has operation in 27 countries from Argentina to Zambia in five continents (Wal-Mart, 2012).

Wal-Mart Stores, Inc. is presently the leading retail corporation in the world with over $444 billion in annual sales in 2010 and 2.2 million employees spread among its 10,390 stores (Wal-Mart, 2012). Wal-Mart has dominated the retail or mass merchandizing area for more than a decade. Its emphasis on discount retailing and the “everyday low price” slogan has attracted millions of repeat customers all over the world. Slater (2003) states that the company’s founder,
Sam Walton, was a merchandiser who believed that price reductions led to increase in sales volume. His business strategy was based on the philosophy of well-developed highly efficient distribution systems. Wal-Mart works to dominate each market by offering an a broad merchandising mix that promotes sales volume. Its saturation strategy method locates stores in profitable markets with the goal of maximizing market penetration. Markets are considered saturated if the number and size of retail establishments satisfy the needs and demands of the population and any new entrants can only succeed only at the expense of existing stores (Hornbeck, 1994).

The purpose of this paper is to describe, examine and explain the case of Wal-Mart as a possible perpetrator and victim of international corruption. The paper is organized as follows. In the first section we discuss Wal-Mart generally and as an international business in Mexico. Then we outline the ideas related to corruption and how it affects companies, employees, management and the society as a whole in a developing nation. Next, we discuss the causes of corruption. After that we present the types of corruption, the case of Wal-Mart and its impact. Finally, we end the paper with our conclusions and our thoughts on the managerial implications.

Wal-Mart Mexico

In 1991, Wal-Mart entered into a joint venture with Cifra with the opening of Sam’s Club in Mexico City, the first market in Wal-Mart’s International Division. In 1997, Wal-Mart acquired a majority position in Cifra, and in February 2000 the name changed to Wal-Mart do Mexico (WALMEX). In 2006, Wal-Mart de Mexico received a license from Mexico’s Finance Ministry to organize and operate a bank in the country Wal-Mart, 2012). This marked the first international venture by Wal-Mart after 29 successful years in the United States. Currently, Wal-Mart has 2,197 retail units in Mexico under the names of Wal-Mart Supercenter, Sam’s Club, Bodega Aurrera, Mi Bodega Aurrera, Bodego Aurrera Express, Superama, Suburbia, VIPS Restaurants, El Porton, Ragazzi, and Farmacia Wal-Mart (Wal-Mart, 2012). Recently, Wal-Mart, the world’s largest retailer and most profitable company in the world are reported to have been involved in corruption in Mexico. Allegedly, the Wal-Mart organization was establishing a business structure in Mexico and had been attempting to obtain an official approval to move forward on the project. After a lengthy wait, Wal-Mart supposedly became frustrated with the prolonged bureaucratic process and hired someone to accelerate the process. Knowingly or unknowingly, the parties involved became involved in a major bribery scandal that has put the Wal-Mart Corporation on the front pages of major newspapers. The Sunday New York Times of April 22, 2012 ran a major story entitled: “Vast Mexico Bribery Case Hushed up by Wal-Mart After Top-Level Struggle”. It appears that the thoughts and actions of Wal-Mart management had been involved with this activity since 2005. Now it has been exposed and Wal-Mart is scrambling to save it name, and its reputation.

The Foreign Corrupt Practices Act and Corruption

In 1977, Congress passed The Foreign Corrupt Practices Act to address what United States multinational corporations perceived as open and flagrant participation in the corruption of foreign governments. This law makes it a violation of United States law to bribe a foreign
government official in order to obtain or maintain business over which that foreign official has authority, and requires all publically traded companies (whether or not they are involved in international trade) to keep records that are detailed enough to allow someone reviewing the records to determine whether a violation of the Act has occurred (Stackhouse, 1993).

The United States is unique in having this kind of law, and unfortunately, in many countries where corruption is prevalent, the Act has made it difficult for the United States companies to compete. In fact, some executives have reportedly complained that many of the activities that the Act prohibits as “corrupt practices” are, in some countries, standard operation procedure (Stackhouse, 1993).

Corruption is a pervasive problem among companies and countries around the world. No matter where a business locates there is always some element of corruption that exists. The industrialized nations seem to have less corruption than developing nations (DCs), or at least corruption is not reported as much as it is in the DCs. Those who travel to developing countries are many times exposed to the actual transaction of corruption or at least read about its occurrence in the local newspaper or periodicals. Everywhere there seems to be an article in some newspaper about a particular corruptive act that has occurred somewhere in the world. The Internet is full of official stories and blogs relating stories of corruptive practices that have occurred or are being investigated among government officials, corporate executives/managers or all of them collectively.

**Literature Review**

‘Corruption is a global phenomenon that exists whether we like it or not. It is a permanent reality that exists in every country and in almost all domains of living activities. It is a harmful practice that injures the individual, the company/organization(s) involved and the society where it is located. While there seems not to be a direct cure for corruption, the study and understanding of the concept has helped firms and authorities find solutions to rid society of some of its practices and negative externalities (Pakdel, 2012). This is important because corruption has a negative impact on the social political and economic dimensions of everyone’s’ life. As in anything else, there is no free lunch where corruption occurs. Some one pays for the cost of damage, loss or disruption that corruption causes (Pakdel, 2012). In very simple terms, corruption can be defined as “efforts to secure wealth or power through illegal means for private gain at public expense, or misuse of public power for private benefit”, (Pakdel, 2012, p.194). Many think that corruption is caused by weakness in a country’s political, social, legal and economic system. While this would seem logical, it is not totally accurate because even where governments and societal institutions are strong, corruption exists i.e. United States. We could qualify this by saying that while corruption exists all over the world the severity of corruption activity varies from country to country (Pakdel, 2012).

**Ideas of Corruption**

There are different ideas about corruption. Some have been rolled into substantive theories. The common theory among all theories is the abuse of power and trust that was given to any elected or appointed individual(s) (Pakdel, 2012).
One interesting dimension that is quite commonly used in explaining corruption relates to the notion of “the culture of bribery”, (Pakdel, 2012, p. 196). This point of view could mean that within a government or an organization there is a value structure that promotes or allows corruption practices to occur i.e. the Nixon Administration Watergate, 1973-74. Or the company that allows certain corrupts activities to occur that are hidden from the public but have a major impact on the individual and society as a whole, i.e. Enron Corporation, in the 1990s. Either way, government or private corporate corruption is morally, ethically, and socially wrong but it is economically wrong because it disadvantages societal members who are playing by the rules. If we are going to be a world, country, or society, which continuously legislates rules to safeguard the well being of all people, then the laws and regulations have to be applicable to everyone (Pakdel, 2012). There is a huge cost both economically and humanly when corruption continues to exist unabated.

Causes of Corruption:

There are a variety of understood and not understood reasons for corruption. One author, Leslie Holmes, (1993), has established three major categories of corruption: a.) Cultural, b.) Psychological, or c.) System-related. These three corruption typologies seem to characterize the most common ways in which corruption takes place in the world today. A short overview of these causes of corruption will provide the reader with a context for understanding corruption in various countries around the world. Specifically:

a.) Cultural cause- this is typically described as emanating from tradition and consists of types of corruption that are more or less acceptable in a traditional or political sense. They are part of the family or kinship relationships that exist in countries. Additionally, they generally emerge from weak laws or a low level of respect for laws. Such corruption practices exist in Africa, Latin America, Asia and some parts of Europe (Yerevan, 2000);

b.) Psychological cause – this can be explained through the power of peer pressure or peer comparison. When one sees people around him/her benefiting from corruption then they may want to get benefit from the same practices. Human weakness being what it is, is a big component of this motivation to participate in corruption (Yerevan, 2000);

c.) System-related cause – this relates to how people trans act business in certain environments where for a very long period of time, a dominant force has controlled their lives. For example the communist system. This was a corrupt system to the core and when it was disassembled and converted to a free market oriented system, it provided opportunities for more corruption to happen. The change from state owned enterprises to private market oriented enterprises gave people opportunities to get involved but in many cases the involvement meant bribes and corruptive acts to take advantage of the opportunities (Yerevan, 2000).

d.) A bad apple theory – organization or business or agency has a person or group of people with bad moral character. They/h/she have a predisposition to criminal activity.

e.) Organizational culture theory – culture and structure of business is conducive to corruption. It is where the agent is working.
f.) Clashing moral value theory – values and norms of society directly influence human behavior (Olantunde, 2011).

Weak institutional structures in any economy have pushed individuals and corporate businesses to explore opportunities for bribery. Corruption is a critical obstacle to social development. It has contributed to capital flight. It impedes business growth, lowers greatly public services.

One way to look at the corruption concept is through a pictorial approach. Figure 1 below provides a summary of examples of various forms of corruption and their interaction with public and private entities:

**Figure 1 Various forms of Corruption**

There can be great pressure to engage in corrupt practices. Unfortunately, corruption continues to be a normal pattern of business rather than an exception. Realistically from a sheer business point of view engaging in corruption becomes a strategic decision to disregard or follow the corruption norms. In the long run, corruption influences businesses regular operations along with its reputation and its performance. The bottom line is that accepting and participating in corruption has strategic implications.

Research has demonstrated that when the qualities of corruption are so institutionalized that they become fundamental components of a country’s institutional environment companies have to develop new and more effective strategies to not only counter the pressures but to do business successfully without the intervention of corruption. Pressure to engage in corruption varies depending on how the elements of corruption are institutionalization in the host and home country’s organizational infrastructure. The institutional pressure to follow the societal practices and expectations can state in three (3) ways:

a.) Coercive - pressure imposed by an authority
b.) Normative – pressure by established paradigms of society
c.) Mimetic – pressure from firm to imitate processes reflect pressure for firm to imitate successful organizations in their field (Spencer, 2011).

This leads us to the recent Wal-Mart Case. According to the published evidence they chose to engage in the corruptive activities in order to expedite the construction and development of their retail business across Mexico. The subsequent section outlines a summary of the case and how it evolved.

The Case of Wal-Mart

In 2005 a Wal-Mart lawyer received an email from a former executive who managed the company’s Wal-Mart de Mexico. In this email the former executive disclosed that Wal-Mart had had been involved in an operation of bribery to achieve market dominance in Mexico. Because Wal-Mart had a burning desire to quickly build stores all over Mexico, it allegedly paid bribes to secure permits to build stores throughout Mexico (Barstow, 2012). This informing former executive was quite comprehensive in his assertions by giving names, dates and amounts of the bribes. This informant was so knowledgeable because he was the lawyer in charge of getting the permits for Wal-Mart de Mexico.

The Wal-Mart central office was astounded with disbelief and hence sent its own investigative team to Mexico to find out the facts and determine what was really going on. The investigative team’s findings clearly indicated that there was extensive evidence of bribery. More specifically, the team discovered a paper trail leading to $24,000,000 in payments. Additionally, they learned that executives in Wal-Mart de Mexico were knowledgeable of the bribes and tried to hide the evidence from Wal-Mart Central in Bentonville (Barstow, 2012). There was a struggle within Wal-Mart management suggesting two directions. One recommendation was to expand the investigation the other was to terminate it all together. This struggle at the highest levels of management seemed to be prolonged and difficult because historically Wal-Mart has had a
serious commitment to high moral and ethical standards even though its vision and actions promoted non-stop growth. This consternation and indecision exacerbated the problem (Barstow, 2012). It is interesting that neither the Mexican nor the U.S. authorities were notified or informed about this major scandal. This problem has become a huge distraction from Wal-Mart’s main mission of providing superior retail management and distribution of low cost goods to its customers.

Impact

Some experts believe that this scandal will have major impact on Wal-Mart’s share value, its reputation and its ability to do business in other international locations. It also may be difficult for Wal-Mart to recruit or attract management talent that is needed in its international operations. Additionally, a major management change could negatively affect the company’s ability to be effective in the international environments (Cox, 2012).

Other consequences of Wal-Mart’s actions could be the levying of heavy penalties and the loss of major contractors that Wal-Mart needs to do business effectively in Mexico. One of Wal-Mart Central’s big worries is whether it violated the U.S. Foreign Corrupt Practices Act (FCPA). An investigative group internal to Wal-Mart is doing research on FCPA compliance. This is an important investigation and will help Wal-Mart determine its culpability in the entire affair. Some anti-Wal-Mart voices have been saying that this event is just another example of the company’s “bribery, scheming and corruption among a litany of other despicable business practices” (Clark, 2012, p. 2). Some of these critics have stated that they do not want this type of business in their communities.

When one looks at this entire corruption case, it is evident that doing business in foreign lands raises the risk of making mistakes that may begin to haunt the company in its future. How to stop corruption is the unanswered question. Even with the FCPA on the books, it is almost impossible to monitor and enforce this law without having a very large police force and lots of espionage of millions of daily business transactions. One of the major issues that companies doing business in the global arena is the engagement of third party or agents to assist foreign companies in their business transaction in national and local environments. A company could be well intentioned when entering a business deal attempting to make the correct decisions and then being betrayed by the third party agent that the company employed to help transact business in the country. These are major risk points that multi-national companies need to analyze and evaluate as they enter major foreign markets (Tsikoudakis, 2012). Multinationals (MNC) need to develop contingency plans and solutions that are effective in meeting the FCPA guidelines. To do this, MNCs need to:

a. institute internal controls;
b. develop formal compliance programs
c. training and understanding about the nature and importance of creating “arms length transaction” by the agents that the MNC’s employ;
d. MNCs should use independent FCPA experts to help them design strategies to address any risk that may exist in transacting business in any foreign country;
e. MNCs need to supervise, monitor and audit agents they use in doing country work. (Tsikoudakis, 2012).
This scandal could cost Wal-Mart $4.5 billion dollars. This is a tremendous financial hit and could create other collateral problems in future negotiations of business in Mexico and elsewhere around the world (Brown, 2012).

The entry into a foreign market presents risks that are many times unknowable by the MNC or anybody else. They are like land mines that need special devices to detect in order to avoid them. This means that MNCs need to focus on risk assessment more extensively and more diligently than in the past. These MNCs need to consider the host country’s culture, its history and the experience of other MNCs during their tenure of doing business in the country. Methods must be established within the company management systems to mitigate the risk of corruption. While it will increase the cost of doing business, the alternatives are much more costly in the long run. While Wal-Mart is a powerhouse in the retail sector, this power can be easily dissipated when continuous problems emerge with its corruption scandals. Wal-Mart needs to really focus on transparency and controls to not only avoid but also significantly minimize the chance of any corruption scandal happening. Wal-Mart’s credibility is on the line and its success in international business is critical to their overall business. Its international operations present a major competitive difference between Wal-Mart and other United States’ companies. They cannot blow it now that would be a huge disaster (Edelson, 2012).

**Conclusion:**

Wal-Mart has been charged with bribery in the Mexican market. It appears that Wal-Mart violated the Foreign Corrupt Practices Act. The question quickly becomes what will be the impact of this on Wal-Mart worldwide. It may well be that Wal-Mart has used these tactics elsewhere in the world or this could be an isolated incident. It any event, it will be interesting to see what impact this has on Wal-Mart as an international retailer.

Another issue that arises in this discussion of corruption is the extent to which United States’ companies engage in bribery to get business in other countries. In many countries, bribery is a natural part of doing business and not bribing an official will also surely mean losing the business deal. The extent of bribery by foreign companies doing business in the United States may prove to be an interesting topic for future research.

**Managerial Implications**

There are always risks of doing business in a developing or emerging nation. There is potential for loss or various adverse risks to operations or profitability due to unforeseen issues. Some of these issues are uncontrollable and others are not. By and large, avoiding corruption is possible and necessary. Nothing of value is gained by engaging in bribery or corruption. In fact, corruption is bad for the companies, for the cities, for the employees and for the country residents. As such, abiding by the Foreign Corrupt Practices Act (FCPA) is critical and its statutes must be adhered to closely. While there have been complaints by some CEOs that the law prevents them from being competitive since many other local firms do not have to obey the law, it is important that businesses adhere to the law so that their reputations and social
responsibility positions are not jeopardized. To this end, businesses need to have training programs and human resource expertise that gives employees the necessary competencies to deal with corruption, implement transparency and honestly do business in host countries. They must create an environment of “no toleration” for corruption of any kind.

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Sustaining and Extending Corporate Social Responsibility in China: One Company Initiative

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ABSTRACT

This research is based on the author’s six year field work in China (2006-2011). It is designed to examine the perceptions of thirty Chinese executives from twenty different foreign corporations about their corporate social responsibility programs in China and explore the changes after Sichuan earthquake in 2008 and the international financial crises in 2010. Only the rescue work after Sichuan earthquake made one of the twenty companies’ values of caring visible. This company added substantive support to the government’s capacity in dealing with natural disasters.

Keywords: corporate social responsibility, sustainability, caring, foreign multinational enterprises in China

INTRODUCTION

Many Chinese subsidiaries of foreign multinational enterprises (MNEs) were found in the elementary stage of corporate citizenships and needed substantial investment from their headquarters if they needed to incorporate corporate social responsibility (CSR) as their main corporate culture (Lam, 2007; 2011a). The Chinese government increasingly expect foreign MNEs to approach economic growth, social progress, and environmental protection in a “holistic and integrated manner” (China Entrepreneurs’ Survey System, 2007; National Development and Reform Commission of China, 2009; Syntao, 2010). The international non-government organizations and scholars keep on demanding international foreign enterprises to be transparent and accountable in China (Lam, 2011b; Organization for Economic Co-operation and Development, OECD, 2011; Sum & Ngai, 2005; United Nations Global Compact, 2011; SACOM report, 2010a; 2010b). The Chinese citizens increasingly request foreign MNEs to be sensitive to the needs of communities and to take disaster relief as the core corporate social responsibility (Wang and Chaudhri, 2009). During 2008, the Chinese citizens boycotted some MNEs when their donations for the disaster relief in the Sichuan earthquake did not coincide with the presence in the Chinese market (McGinnis et al., 2009).

In this study, only one out of twenty foreign multinational enterprises in China transformed its relationships with the local community, government, and corporations through corporate volunteer work in the Sichuan earthquake and provided on-going care to the communities for more than three years and defiled non compliance with the normative corporate social responsibility practices in China. In this article, the author will describe the institutional environment in which this exemplary company operates and then how the company identifies its structural limitations in China and develops innovative volunteer programs in its corporate social responsibility programs.
METHODOLOGY

This article is based on the author’s extensive literature review, six years’ field work in China, Japan, and the U.S., and personal reflections (Lam, 2000). She uses the process model of organizational sensemaking explaining how Chinese managers, who are working for foreign multinational enterprises in China think, discuss, and act with their key stakeholders and the world (Basu and Palazzo, 2008). During her six years of field work in China, she interviewed thirty Chinese executives from twenty different foreign multinational enterprises which are classified as global corporate citizens (Logdson & Wood, 2005). Research was conducted in Beijing (2006, 2008, 2009, 2010); Shanghai (2006, 2010); Hangzhou (2007, 2010), Guangzhou (2011), and Chongqing (2006, 2007, 2009). The data for the perception of the corporate social responsibility practices of foreign multinational enterprises in China by Chinese executives were collected through semi-structured, in-depth personal interviews during 2006—2011. Several interviewees were interviewed twice during these six year periods.

Each interview was conducted in the interviewee’s native tongue and lasted from one to three hours. The data was interpreted and validated by the interviewee’s corporate reports, their American and Japanese headquarters’ interviews, published Chinese documents, articles, and Chinese students’ dissertations about corporate social responsibility and multinational enterprises (Huberman & Miles, 1984; Glaser & Strauss, 1967). In addition, the author’s field work in various cities in China during the last six years afforded her an opportunity to see the changing power relationships between the Chinese government and foreign multinational enterprises before and after financial crisis. The author also validated her findings through presentations and the listening to participants’ feedback in various professional conferences in the U.S. and China (Lam, 2006; 2007; 2008; 2009; 2010; 2011; 2012).

FINDINGS ABOUT THE INSTITUTIONAL ENVIRONMENT

The institutional environment includes the social norms shared by the interviewees in this study. These norms can provide legitimacy, reward, or punishment to companies’ corporate social responsibility programs in China. Companies can choose acquiesce, compromise, avoid, defy, and manipulate strategies to react to institutional norms (Oliver, 1991). Their choices range from passive compliance to proactive manipulations. Their choices also show us the future trend of corporate social responsibility and possible ways of sustaining and extending it in China. In the author’s six years study, many companies tended to superficially comply with the Chinese government’s CSR guidelines. Many interviewees were not sure of their CSR performance even though their companies had received several CSR awards from the Chinese government. Many did not know their companies’ CSR strategies and just wanted to maintain good relationships with the local Chinese government. It seems that the CSR activities are mainly to gain legitimacy from the powerful stakeholder, the local government (Lam, 2010).

Perceptions of thirty Chinese executives about their corporate social responsibility programs in China: What are the legitimate corporate social responsibility practices in China? Many interviewees perceived that corporate social responsibility practices were related to internal
operational efficiency and charity. Corporate social responsibility programs of foreign companies were used to complement the corporate political activities in China and in the international arena. Sixteen out of thirty (53%) interviewees perceived that the goal of their subsidiary was making profits rather than solving social problems. They accepted the fact that many foreign firms were operating in China primarily to obtain inexpensive labor and to gain access to local markets. The subsidiary’s responsibility was to make profits and to pay taxes. Many interviewees expected the government, not foreign companies, to address social and environmental problems. These interviewees saw social and external environmental responsibility programs as adding to the operational cost of their enterprises and thereby reducing profit. Some CSR managers complained to the author that their insights about CSR practices were not integrated into their corporate strategies and structures. Many executives in functional areas, such as marketing and sales, tended to have an apathetic attitude toward CSR. They changed their attitude toward CSR when they were transferred to CSR positions.

A normative response to Sichuan earthquake in May 2008: Sichuan, China was struck by an earthquake with a magnitude of more than 7.0 on the Richter scale on April 20, 2013 and May 12, 2008. The 2008 earthquake caused at least 87000 people to be dead or missing and left five million homeless. It was the first time the public demanded foreign corporations’ donations to be comparable to the local Chinese companies’ contributions. Companies were ranked in the social media according to their donations in China. Several well-known multinational enterprises, such as Nokia and Coca Cola, responded to the harsh public critique and quickly tripled their donations from May 14 to May 17, 2008. White & Lang (2012) commented the motive of American companies’ donations in the 2008 Sichuan earthquake as commercial rather than humanitarian concerns:

American-based companies competing to make humanitarian donations, and in the process hoping to leverage brand recognition and customer market bases in China. Given the Chinese government did not necessarily require external assistance, corporate donations for this disaster are viewed to have been widely driven by commercial calculation rather than by acute humanitarian concerns.... The Business Roundtable and the U.S.-China Business Council functioned as the primary platforms for consolidating and aggregating the bulk of corporate donations (White & Lang, pp.9)

In this study, all participating foreign companies donated money to the victims and confirmed the social norm of being good corporate citizens in the Chinese media. Some participants used the opportunities to increase their visibility and contacts with the Chinese government officers through public service and public forum. They clearly articulated their contributions in the Sichuan earthquake relief programs in China in their corporate social responsibility reports and even set benchmarks about the best practices of public relations in reporting corporate philanthropic responses in China. Many local Chinese companies were also advised to follow these foreign companies’ rhetoric in their corporate social responsibility reports (Sun, 2010). Some foreign companies with strong financial resources and a local Chinese market can easily frame their disaster relief programs after Sichuan earthquake as long-term commitment in China even though their corporate social responsibility programs are not embedded in their organizational culture and strategy.
Normative practices rationalized after a financial crisis: There was an international financial crisis and numerous corruption scandals done by expatriates in China during 2009. After the international financial crisis, the power of the Chinese government increased. The Chinese media and the state-funded corporate social responsibility centers tend to attribute the corruption problems to the foreign corporations and ask foreign corporations to take more responsibility. Many foreign corporations did not participate in the next earthquake which occurred in the ethnic dispute areas in China in 2009. Sadly, the public also did not demand corporations to donate money to their neighbors that are denounced by the Chinese government.

Now foreign corporations are more sensitive to their relationships with the local Chinese government. Indeed, many foreign companies tend to use their corporate social responsibility programs (CSR) to please the Chinese government without incorporating these programs seriously in their core business and strategic plans because the Chinese government holds excessive power over local stakeholders. Many foreign companies rely on the local government to protect their economic interest and disregard any negative criticism from the local non-government organizations (Lam, Lam, Lam, 2010). Many corporations sustain their CSR programs as complementary to their political activities in China (Lam, 2010).

During the 2010 and 2011 field work in China, the author found the working conditions of corporate social responsibility officers of foreign multinational enterprises were more restrained than after the financial crisis occurred. Some CSR officers keep their jobs by focusing on reducing the operational costs inside their companies and working with the colleagues for internal operational efficiency. Many do not like to develop practical collaboration work with local non-government organizations for the interest of communities as this causes more distrust from their existing employers in China. Faced with increasing pricing pressure and increasing scrutiny from international non-government organizations in the international market, foreign corporations must find many alternatives to cut costs and document their practices in China to fulfill international corporate social responsibility standards. The common practice is to compartmentalize these activities and make the CSR officers not to be responsible for the conditions of local manufacturing or supply-chain management.

**ONE EXEMPLARY**

Although the environment for foreign MNEs to sustain their existing corporate social responsibility programs in China is not positive, one out of twenty companies in the study initiated to provide long-term growth for the community following the Sichuan Earthquake in May of 2008 through its company’s four-year volunteer service model and microfinancing programs. In a four-phase volunteer and care program, the company managed a group of company employees as volunteers and worked with three local non-government organizations and three local district governments to reconstruct the community. In Phase 1, the company immediately matched employees’ cash donations and sent many medical devices to the affected community. In Phase 2, the company supported the education of young people in the community and enabled the students to go back to their respective schools. In Phase 3, the company launched its volunteer program at the end of August, 2008. More than 100 corporate volunteers contributed their skills and talents for a week in the earthquake-stricken area. Many volunteers had to cover a significant amount of their travel costs. A permanent staff was assigned for a year to support its corporate volunteers and facilitate their contributions of talents and skills to
reconstruct the community. After one-year of work in the Sichuan area, the company launched its phase 4 program that introduced a four-year program which helped affected communities to access loans to develop small businesses and to learn how to plan and live in healthy conditions.

There is no corporate social responsibility in the company’s headquarters. All corporate social responsibilities in China were handled by the corporate social responsibility office in China. The capacity of the Chinese office is systematically increased when more and more staff support the corporate social responsibility in their daily operations. The new four-year volunteer service model, led by the Chinese government, coordinated by non-government organizations, supported by the exemplary company, emerged as new organization dynamics to the process of helping the earthquake-stricken company. At the same time, the exemplary also trained the Chinese officials in the rural areas and non-government organizations to learn some new technologies and managerial skills. The implementation of corporate social responsibility programs of this exemplary is an on-going learning process. The two leaders of corporate social responsibility programs of the exemplary were committed to the community development in China. Internally, they knew how to persuade their corporate lawyers and finance officers to support their corporate social responsibility programs in the framework of the existing “caring” corporate culture. These two leaders facilitated their corporate volunteer programs to be visible, transparent and innovative in the Chinese and international media. Through this innovative governance structure, the exemplary enabled the local government to have a sense of ownership and trained the officials to assess their accomplishments. The company also provided public service and added substantially to the government’s capacity in dealing with natural disasters, and learned how to facilitate employees’ internalization process of its company’s corporate social responsibility program. The staff also learned how to sell and customize its product and service to the Chinese government. It also brought business opportunities through innovative corporate social responsibility practices. The CSR programs are sustained and extended through innovative volunteer programs.

IMPLICATIONS

The exemplary has started to incorporate its corporate social responsibility in the daily operations in China through community works and committed leaderships before the disaster relief programs in Sichuan. The exemplary knows how to organize its compassion activities for four years and increase its organizational capability in generating and coordinating resources to implement corporate social responsibility programs. The company also increases its competitiveness through its innovative corporate social responsibility programs. Its strategic initiatives, organization culture, and leadership sustain and extend corporate social responsibility beyond the legitimate norms (Lyon, 2004; Vaill, 2007; Zadek, 2004). When corporate social responsibility (CSR) activities are integrated with existing business operations, CSR will be valuable to corporations and will not diminish when the external economic situation is poor. The cost of the corporate social responsibility program has been paid-off in the exemplary!

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A CASE STUDY OF THE CHALLENGES OF SUSTAINABLE BUSINESS DEVELOPMENT IN CHINA

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ABSTRACT

This case study concerns about the sustainable development of a Chinese private enterprise in the green industry. The data was collected through personal interviews and field work in China in 2012. The practices of the company are interpreted in the institutional context in China and the author’s seven year (2006-2012) field work in 11 cities in China. The company became shareholder-oriented when it was acquired by a state-owned public listed company in 2011 and moved away from its community practices.

Keywords: sustainability, Chinese private enterprises, biotechnology, leaders’ commitment.

INTRODUCTION

Approaching economic growth, social progress, and environmental protection in a “holistic and integrated manner” is the key for Chinese enterprises to be sustainable in the future! (China’s twelfth five year plan, 2011). However, many local Chinese enterprises in the green industry cannot access capital and are frustrated with Chinese bureaucratic practices. For example, some privately-owned Chinese companies supported the Chinese government’s decision to adopt clean production programs in Changzhou and Nantong, Jiangsu Province; they were denied the privilege to access bank loans easier or apply technological innovation funds organized by the Chinese environmental agency (Oliver & Ortolano, 2006). From analysis of the author’s seven year fieldwork in China, many Chinese companies are highly restricted by their accessibility to capital markets to finance their businesses and some even chose to be jailed or even commit suicide when they failed to get suitable finance for their businesses. They frequently expect the Chinese government to support them to be leaders in the industry and subsidize their international activities. The main objective of internationalization is to be worthy of a positive reputation in their domestic circles (Williamson, 2012). Since 2010, the number of corporate social responsibility reports produced by Chinese enterprises supersedes those foreign multinational enterprises. However, these reports produced by Chinese enterprises are evaluated to be very superficial (Syntao, 2010). Many reports were largely symbolic! Many Chinese enterprises just want to fulfill international audit requirements and produce standardized corporate social responsibility reports without much learning in the process of producing the report. Many practice “sustainability-washing” activities and reports to increase their visibility and credibility (Lam, 2013; Syntao 2010).

Given all institutional impediments of implementation of sustainability solutions in many cities in China and the capital constraints of many Chinese enterprises in the green industry, what
productive lessons should Chinese firms learn if they would like to achieve corporate sustainability in China? How should Chinese enterprises enhance their capabilities, designs, strategies and actions for multi-generational development? This paper will describe how one Chinese pro-environmental enterprise changes into another direction from sustainability after being acquired by a state-owned public listed company. It will recommend some strategies for other Chinese enterprises to link with, leverage on, and learn from a network of internal and external organization actors in their journey toward sustainability. The author will use the literature about the stages of development of sustainability and corporate social responsibility (Baumgartner & Ebner, 2010; Lyon, 2004; Mirvis & Googins, 2006; Nidumolu et. al., 2009; Vaill, 2007; Zadek, 2004) to recommend strategies for Chinese enterprises to be sustainable.

METHODOLOGY

This article is an inductive study. It is about the change of a sustainable Chinese enterprise in the biotechnology industry to a shareholder-oriented company after it was acquired by a state-owned public listed company. The insights of this case is grounded on the author’s seven years’ field work in eleven cities in China, extensive literature review, and personal reflections (Lam, 2000, 2007, 2008, 2009, 2010, 2011, 2012, 2013). The Chinese enterprise was visited in 2012. She used the process model of organizational sense-making which explains how Chinese managers thought, discussed, and acted with their key stakeholders and the world (Basu and Palazzo, 2008). During her seven years of field work in China, she interviewed thirty Chinese executives from twenty different foreign multinational enterprises and two Chinese executives from one Chinese pro-environment enterprise.

She conducted her research in various cities with different levels of economic development. These included the most advanced ones along the east coast of People’s Republic of China: Beijing (2006, 2008, 2009, 2010); Dalian (2006), Shanghai (2006, 2010); Hangzhou (2007, 2010); Guangdong (2011), Tianjin (2009), Qingdao (2007), Nanjing (2007). The western city is Chongqing (2006, 2007, 2009). The central city is Wuhan (2012). She also visited her home town, Hong Kong (2006—2012) to analyze the increasing investment from Chinese enterprises in Hong Kong and political power of the Chinese government in the international business arena. The data for the perception of these Chinese executives about their corporations’ sustainability practices were collected through semi-structured, in-depth personal interviews during 2006—2012. Each interview was conducted in the interviewee’s native tongue and lasted from one to three hours. The interview instrument included four major parts: personal experience, internal organization practices, impact of the companies’ sustainable programs, and the expectations and recommended changes in their companies’ sustainable programs. She also validated the data and her interpretations by evaluating the interviewees’ corporate reports, their American and Japanese headquarters’ interviews, published Chinese documents, articles, and Chinese students’ dissertations about corporate social responsibility and multinational enterprises (Huberman & Miles, 1984; Glaser & Strauss, 1967). She also used feedback from different professional communities such as the International Center for Corporate Accountability, Corporate Responsibility Officers, and the Academy of Management. In addition, her field work in various cities in China during the last seven years afforded the author an opportunity to talk with more
than 100 Chinese citizens and employees about their expectations regarding the role of business enterprises in China.

A CASE STUDY OF A CHINESE ENTERPRISE IN THE JOURNEY OF SUSTAINABILITY

In 1999, a privately-owned Chinese biotechnology company was established to be aligned with the Chinese government’s environmental policy. The company was surrounded by many university biotechnology scientists and focused on the production of organic fertilizers in the middle part of China. It had 60 talented staff members in the area of biotechnology. During 1999-2003, the company focused on exporting and earned international recognition through exporting its products to nations with higher environmental standards. Later, the company leveraged on this reputation and launched the products to the local customers, including the local government. It received numerous local and national awards for its innovative bio-products and bio-mimic production processes. It was a prototype and pioneer in the “green economic” industry. The founder was persistent and adopted an operating standard that was much higher than the local government’s requirements. The company advocated its sustainable process of making these organic fertilizers in China and many international forums. During 1999-2006, the company invested in projects of community work and farmers’ education. “It seemed that the company was running a community, rather than an enterprise” (one interviewee’s comment). The founder was proud of being environmentally friendly and truthful to its corporate missions. He was even teased by his subordinates not to earn quick money in real-estate markets. After years of hard work, in 2008 the company was chosen by the local Chinese government as the “dragon head” of the entire industry because of the company’s commitment to bio-mimic production with technological innovations. Once the company received the endorsement from the Chinese government, it experienced its first profit during 2009-2010.

However the company still encountered many challenges. There was a weak legal enforcement system in China. The company even had to be accountable for the damages done by the counterfeited products produced by its competitors. “The market was immature, no institutionalized practices” (one interviewee’s comment). The interviewee hoped the Chinese government used its strong political power to divest itself of controversial members in the industry. During 2011, when there was increasingly stringent international food safety standards and a poor economy in developed countries, the company focused entirely on the local market. It was acquired by a state-owned public listed enterprise. The focus was the interest of shareholders, not community. The state-owned company needed to have a higher return on investment quickly to justify the fee of acquisition of this privately-owned enterprise. It quickly externalized the cost without much accountability to local constituents when the local demand of organic fertilizers in China was high and the information about the quality of the product was not transparent. The company easily obtained the national government’s approval of products which did not fulfill the requirements from European Unions and the U.S. through its endowed relationships with the Chinese government. It was very easy for this company to bypass the local environmental standards in China and be sustainable by selling its products to government organizations. The company was not accountable when the Chinese customers did not follow the right approaches in a particular weather condition. The ambiguities in the power of Chinese government officials and the effectiveness of the product created many opportunities for the
company to sell those products in China that were not accepted by international food safety standards.

On the other hand, the state also subsidized international activities of the company and increased its international networking. The state also enabled the company to compete on an economics of scale and earned a competitive advantage when the state legalized particular norms and practices in the entire industry in favor of this company. The company expected to be similar to other well-known international drug companies. It also depleted the growth and innovative activities of small and medium private enterprises in China in the biotechnology industry.

Thus, the state-owned Chinese enterprise is now more oriented to seeking lower costs and production efficiency. The company can easily bypass many social and environmental responsibilities in China in which there is a weak legal enforcement system and an unconcerned civil society. It also can circumvent many evasive national standards and is not accountable to the safety and health of its local customers, including the local legislators and farmers. Ironically, the company can embellish it image of sustainability in the green industry through being present in many international exhibitions.

WHAT PRODUCTIVE LESSONS SHOULD CHINESE ENTERPRISES LEARN IN THE JOURNEY TOWARD SUSTAINABILITY?

How can Chinese enterprises achieve the objectives of sustainability in contested financial and political areas with many bureaucratic decision processes? The author believes that some leaders of Chinese enterprises need to take the initiative and develop their capacities of being sustainable for multi-generations. The changes must start from personal commitment and individual choices. The persistence and commitment of the founder of the previously mentioned Chinese enterprise is a good illustration. Why did the Chinese enterprise move away from sustainability after being acquired by the state-owned public-listed company? Many good Chinese enterprises need to learn how to reduce their dependence on the government and use their social and monetary skills to make these state-owned enterprises be accountable to social and environmental costs in China. Good Chinese enterprises may consider five simple rules to become sustainable (Nidumolu et al., 2009): 1. Don’t start from the present; 2. Ensure that learning precedes investments; 3. Stay wedded to the goal while constantly adjust tactics; 4. Build collaborate capacity; 5. Use a global presence to experiment. Leaders of Chinese enterprises must ask what their desired future is and examine whether they are moving in the right direction. Then they should start to experiment on a small scale the best practices such as investing $2 training per worker each year or having open house for their factories to the local community. They gradually learn how to develop better practices. They are willing to practice and continually make many tactical changes. They also learn how to identify the moments of mounting emotions among workers and manifest the culture of care through volunteer programs or institutionalized compassion programs. They learn how to collaborate with external stakeholders, government and non-government organizations, in the process of implementing corporate-caring programs. They can also use their experiences in China to civilly know how to introduce sustainable products and processes to the less fortunate in the world. Gradually, they know how to develop new business models which generate new revenues and enhance their collaborative capacity.
From the author’s twenty years’ working experience in China, she believes that the missing part of many Chinese enterprises in the journey toward sustainability is the embrace of sustainability as “the possibility that human and other life will flourish on the planet forever” (Ehrenfeld, 2008, pp.6). Many interviewees told the author that human dignity was not respected in China. If companies really want to start the journey of sustainability, the idea of embracing the realization of human potentialities in Chinese enterprises needs to be seriously discussed and internalized because sustainability is a part of our spirituality (Pruzan, 2008; Vaill, 2007, 1989) and social connectedness (Young, 2008). The Chinese enterprises need to strengthen their internal culture of sustainability through increasing the awareness and commitment of the individual worker’s dignity in daily operations. The development of a sustainability culture will also include rewarding and recognition, managing learning and change, being aware and involved, questioning culture and flexibility underpinned by mutual respect (Lyon, 2004). The top management must initiate and support sustainability programs so that its corporate employees are engaged and well-equipped to incorporate sustainability in their professional careers.

Many Chinese enterprises need to use their industrial associations as platforms for public and private collaboration and advocate for better practices that are higher than current legal standards (Davis & Thompson, 2004; Deng & Kennedy, 2010; Kostova & Roth, 2002; Kostova & Zaheer, 1999; McAdam &Scott, 2005; McAdam et al., 1996). Through the sharing of best practices and corporate data for higher common good, these companies can lobby the Chinese government for better operating environments through their industrial associations. Later, they can also nurture the capacities of selected suppliers to fulfill higher standards through more training and development between their companies and supply chain partners in China (Vaill, 2007; Wood & Kaufman, 2007; Zadek, 2004). The followers, according to institutional theory, may conform to higher standards in the sustainability practices and be influenced by the social skills of innovators (DiMaggio & Powell, 1983; Fligsten, 1997; Oliver, 1991). These new industry standards might inspire other companies to increase their contributions in environmental and social sustainable programs in China (Gilbert & Rasche, 2007; Kanter, 2009; Logsdon &Wood, 2005).

Chinese enterprises must learn how to adopt a strategic approach of corporate sustainability (Burke & Logsdon, 1996; Porter & Kramer, 2006; Husted & Allen, 2007). They need to discern how to add values to their stakeholders and their competitiveness in their sustainability programs. These sustainability programs will give them opportunities to help the local government to solve many employment, social, environmental, and economic problems. The relationships can help Chinese enterprises to have more innovations and overseers in the local community. The Chinese enterprises must learn how to address the societal and environmental issues in their core management processes before they can integrate with their core business strategies and promote new environmental benchmarks in their own industries (Zadek, 2004). They must maintain relationships “with the broad matrix of society where there are net benefits flowing from socially responsible action in the long run, as well as in the short term” (Quazi & O’Brien 2000, pp.36). When sustainable activities are integrated with existing business operations, new strategic business models for solving social and environmental problems will be implemented (Husted & Allen, 2007).
The above recommended strategies will follow the five stages of development of sustainability: viewing compliance as opportunity, making value chains sustainable, designing sustainable products and service, developing new business models, and creating next-practice platforms (Nidumolu et al., 2009). Chinese enterprises are recommended to make organizational cultural change in the process of developing adequate sustainable strategies (Lyon, 2004; Mirvis & Googins, 2006; Zadek, 2004). Gradually, the concept of “holistic and integrative” approach of sustainable development will be part of the corporate culture. Corporate employees become engaged and equipped to incorporate sustainability in their daily operations when they are respected. Chinese enterprises can transfer their insights, from their sustainable experiments in China and the global supply chain to other members. The exchange process in the global market economy may encourage more companies to move from their “risk averse approaches to visionary practices” in their corporate sustainable strategies when they are becoming more mature in their journey of sustainability (Baumartner & Ebner, 2010).

CONCLUSION

Chinese enterprises can develop their best practices. They start to increase their capacities for multigenerational development in China through small-scale experiments with their internal and external stakeholders. Some leaders of these Chinese enterprises will examine if their companies are moving toward sustainability and mobilizing their employees, suppliers, and partners to be committed to pursue economic growth, social progress, and environmental protection in a “holistic and integrated manner” through social skills in the contested Chinese operating environment. They may bring their learning from good partners in sustainable global supply chains to their local businesses and strengthen their companies’ innovative capacity and competitiveness through adopting better social and environmental programs. When Chinese enterprises are committed to develop an internal culture of sustainability, they will empower their Chinese employees to develop collaborative work with local stakeholders without being afraid of losing control of their organizations. Sustainability will emerge when corporations start to learn to know how to link with, leverage on, and learn from a network of internal and external organization actors to manage environmental and social issues in the journey of sustainability. Each step each company and each employee takes is that much closer to the realization of accountability for one’s organization and each participant. Both the group and the individuals will garner an intangible spiritual internally and a tangible materialistic externally.

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THE IMPACT OF FIT BETWEEN ANTICIPATED AND ACTUAL ENTRY MODE SELECTION ON FIRM PERFORMANCE: EVIDENCE FROM CHINA

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ABSTRACT

International business researchers have extensively studied entry mode choice, but only a very few studies have examined whether anticipated entry modes by determinants would lead to higher firm performance. By analyzing approximately 17,000 foreign entries in seven industries into China from 1979 to 2004 we test the impact of determinants, such as host countries’ experience, cultural distance, industry asset intensity, resource commitment and location on entry modes choices into China. Furthermore, we examine how the fit between anticipated and actual entry modes selection affects firm performance. Findings indicate that firms who choose entry modes based on cultural distance and location advantages theories outperform other firms.

Keywords: Determinants, Entry Modes, Performance, Fit, China

INTRODUCTION

Previous research studies (Nakata and Sivakumar, 1997; Alon and Banai, 2000; Claver and Quer; 2005; Kouznetsov, 2009) have demonstrated that economic, legal, political, socio-cultural, and technological conditions in emerging markets can have complex positive and negative influences on all components of firm’s entry strategy. A substantial area of research within international business involves entry mode choice and how that entry mode choice can have an impact on firm performance. Yet how the fit between predicted mode of entry and actual entry mode impacts firm performance is a relatively unexplored area of research. Furthermore, research efforts in the area of entry mode selection have neglected certain entry modes such as contractual joint ventures (CJVs) and joint stock companies (JSCs). Choices among broad modes such as exporting, licensing, and foreign direct investment (Agarwal and Ramaswami, 1992; Kim and Hwang, 1992); or narrow modes such as wholly owned enterprises (WOEs) and equity
joint ventures (EJVs) (Brouthers, 2002; Hennart & Larimo, 1998), or between green-field investment and acquisitions (Chang & Rosenzweig, 2001) have been widely studied. However, recently scholars such as Wei, Liu and Liu (2005) have argued that although modes of CJVs and JSCs are “specified by the law and regulations of China, both modes signify ownership and control by foreign partners and are officially recorded as foreign direct investment (FDI) by both China authorities and world organizations such as the United Nations” (p.1495). Wei et al (2005) were among the first to examine how various factors influenced choices between CJVs and JSCs, as well as WOEs and EJVs.

We focus on three research questions. One, what are the antecedents of entry mode choice? We empirically test the predictions of transaction cost theory, institutional theory, culture and portions of the Dunning’s (1988) eclectic paradigm. Two, is there a model of entry mode choice that is a better predictor of actual entry mode selection? Three, what is the ultimate impact of entry mode fit on firm performance? We make a contribution to the literature on entry mode choice in several areas. First, we set the study in a Chinese context. Second, we test the influence of various factors on the choice of entry modes including WOEs, EJVs, CJVs and JSCs by using more current dataset based on Wei et al. (2005). Finally, we test the normative implications of the model by examining the performance implication of fit between predicted and actual entry mode choice and firm performance. We argue that if firms choose entry modes predicted by our model, they will have better firm performance.

The rest of this paper is organized as follows. In the subsequent sections, we review the literature on entry mode choice and performance; and develop our hypotheses. Following that, we empirically test our hypotheses using 2004 Chinese foreign direct investment data. This empirical part includes two studies: the first study is to test the influence of entry mode determinants (factors) on entry mode choice. The second study is to test the performance implications. The last section will present the discussions and conclusions of our study with future research directions.

ENTRY MODE THEORIES

While international business research has traditionally been focused primarily on multinational enterprises (MNEs) from developed nations (Buckley and Lessard, 2005), there is an increasing amount of trade being conducted in Asia and developing economies (Ahearne et al., 2003; Maneepong and Wu, 2004; Hipsher, 2008). Entry mode choice has been extensively studied from many perspectives, including the nature of entry mode, determinants of entry mode choices and the relationship between entry mode and performance. In this section, we will review literature and advance our hypotheses.

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3 Host country’s experience is the experience of host country in dealing with foreign investors. It is different from the frequently used concept—“Host country experience”, which means the experience of foreign investors doing business in the host country.
Types of Entry Modes

The international business literature has mainly focused on equity joint ventures and excluded other forms of partnerships. Wei et al. (2005) defined that an EJV as a limited liability company where resource commitment, profit distribution, risk sharing, and the control and management is based on equity shares between foreign and local partners. A contractual joint venture (CJV), which is only seen in China, is similar to EJV except that each party’s rights and obligations are set out in contracts, which may or may not be in proportion to the party’s investment. Compared to EJVs, CJVs are more flexible in that the partners can structure the organization in whatever way they think appropriate (Wei et al., 2005).

Another entry mode only seen in China—a joint stock company (JSC), is defined as a company with the status of a legal person that divides its share capital into equal shares with a par value, usually RMB 1.00. Certificates of ownership or stocks are issued by a company in exchange for each contribution. Thus, JSCs can be owned by a large number of people compared to a limited number of owners of EJVs (Wei et al., 2005). In summary, EJVs, CJVs and JSCs are all joint ventures where in EJVs and JSCs, ownership and control are determined by equity shares, and CJVs, by contract. The common feature of WOEs, EJVs and JSCs is that they are all equity-based entry modes.

Previous literature compares entry modes in terms of risk, cost of implementation, or level of control (e.g. Hill, Hwang and Kim, 1990, Woodcock et al., 1994). In addition, Wei et al. (2005) note that MNEs tend to make entry mode choices based on creating or maintaining firm-specific advantages and/or location-specific advantages (Dunning, 1981). One mode of entry is not necessarily better than another.

Theories of Entry Mode Choices

In this paper, we build on numerous theoretical foundations to develop our model of the determinants of entry mode choice including transaction cost theory, institutional theory, culture, OLI-factors (Ownership advantages, Locational advantages and Internalization advantages), and resource based view (RBV). Research efforts in the choice between WOEs and EJVs tend to focus on transaction cost explanations (Hennart and Larimo, 1998, Anderson and Gatignon, 1986). Transaction cost theory compares the costs of integrating an operation within the firm with the costs of using an external party to act for the firm (Williamson, 1985). Typical transaction costs consist of searching for and negotiating with potential partners and as well as the costs of monitoring their actions (Williamson, 1985, Gatignon and Anderson, 1988). Thus, many researchers have found that transaction costs can influence entry mode choice (Agarwal and Ramaswami, 1992, Erramilli and Rao, 1993, Hennart, 1991, Hill, 1990, Williamson, 1985). A firm will try to choose the entry mode that minimizes firm’s transaction costs. Scholars have found that when transactions costs are low, firms tend to make use of market based modes since a firm can benefit from the scale economies of the marketplace (Williamson, 1985). If transaction costs increase, for instance, when the firm has firm-specific technology, higher transaction costs may be involved to safeguard its technology and lead firms to choose more hierarchical modes, such as WOEs (Erramilli and Rao, 1993, Hennart, 1991, Gatignon and Anderson, 1988, Anderson and Gatignon, 1986).
Institutional theory and the impact of culture are two theoretical frameworks used to explain entry mode choice (Kogut and Singh, 1988; North, 1990; Brouthers, 2002). North (1990) defined the institution as one who has to follow the “rules of the game”, which includes the laws and regulations in the host country. When institutions see that formal rules exist in target countries, market-based entry modes can be considered by firms as a viable entry mode because of the higher potential of contract enforcement (North, 1990; Williamson, 1985). Brouthers and Brouthers (2000) suggest that culture via cultural distance can influence managerial uncertainty, evaluation, and further ultimately lead to increases in transaction costs in a host country.

Other theories have been used by scholars to explain entry mode choice. The Eclectic framework (also known as the OLI), advanced by Dunning (1988), suggests that entry mode choices are based on multiple factors in an effort to gain Ownership, Location and Internalization (OLI) advantages. In addition, the resource based view (Barney, 1991) suggests that the driving force underlying a firm’s entry mode choice be determined by the need to develop and deploy the firm’s capabilities (Madhok, 1997). This paper amalgamates these theories to examine our research framework and analysis.

**RESEARCH FRAMEWORK AND HYPOTHESES**

Our review of literature suggest that multiple factors can influence entry mode decisions including national characteristics (like host country market, legal systems and market potential), cultural characteristics (like cultural distance), industry characteristics (like industry concentration) and firm characteristics (like product type, firm size and experience). We examine these factors below.

**Host Country Experience**

Many studies have noted the role of host countries in entry mode choice (Tse, Pan & Au, 1997; Pan & Tse, 2000; Luo, 2001). The experience of the host country in working with foreign investors can play a powerful role in entry mode choice. Wei et al. (2005) argue that emerging countries, like China, are enormously difficult to perform (foreign-based) business activities and functions due to extensive government intervention in business operations, lack of established institutional regimes to enforce contracts, lack of reliable information to support business operations, and lack of experience in economic liberalization especially during the early stages of opening up to the outside world. The lack of established institutional regimes makes transactions less efficient, and from an investor’s perspective, creates a significant amount of uncertainty and increases transaction costs (Wei et al., 2005).

With more experience, a host country can learn how to create an attractive and stable investment environment (Zhan, 1993). During its process of economic reforms and operations in the past 30 years or so, China has gained much experience and has been progressively liberalizing its investment regime. As Beamish (1993) stated, China has followed evolutionary thinking from “requiring JVs→permitting WOEs→encouraging WOEs”. According to Xia, Tan and Tan (2008), EJVs dominated the entry modes into China until 1997 and then WOEs slowly began to exceed EJVs. Experience and policy efforts can reduce environmental uncertainty and improve the efficiency of business transactions.
A host country’s experience in attracting FDI can facilitate MNE’s adoption of more equity-based entry modes to non-equity based entry modes (Tse, Pan and Au, 1997). The less experience a host country has, the more likely a foreign investor will choose a non-equity entry mode of entry. Conversely, the more experience the host country acquires, the more equity modes investors will choose. Wei et al. (2005) found empirical support that the more experience the host country gained in attracting FDI, the more likely it is that a foreign investor would choose a WOE entry strategy over an EJV or JSC, and the less likely they would be to choose a CJV entry mode. Thus,

**Hypothesis 1:** The more experience a host country has in attracting FDI, the more likely foreign investors will adopt WOEs over EJVs and JSCs, and the less likely they will select CJVs.

**Cultural Distance**

Cultural distance has been studied extensively in entry mode choice (e.g. Hennart & Larimo, 1998). Hennart and Larimo (1998) discussed two schools of thought about cultural distance. One school suggests that countries vary systematically in cultural characteristics, and, thus, increase the complexity of doing business. Scholars argue that in countries with high cultural distance, MNEs prefer full ownership modes of entry in order to avoid communicating with foreign partners. Another school argues that local partners are crucial to a successful operation, as foreign investors have different cultural backgrounds. The higher the cultural distance, the more the firms need to learn, and the more assistance they need to get from their local partners. Thus, a joint venture will be more a suitable mode of entry than will a wholly owned enterprise (WOE).

Using transaction cost logic, we argue that cultural distance impacts mode of entry decisions and lead investors with high levels of cultural distance to select joint venture modes of entry. In China, there are two types of investors: ethnic Chinese and investors from all other countries. First, Wei et al. (2005) argues that the ethnic Chinese (Chinese from Hong Kong, Taiwan and Macao) share language, cultural traits, and ethics with mainland Chinese. They know how to do business in mainland China. They know how to sign contracts and how to build relationship networks. In addition, it is easier for ethnic Chinese investors to gain the trust of their partners. From this logic, we argue that these characteristics give ethnic Chinese investors more confidence to do business alone. In addition, it is easier for them to handle the complexity of contracts than other foreign investors. Using transaction cost theory, we posit that transaction costs for ethnic Chinese investors are lower than for other foreign investors. Furthermore, Wei et al. (2005) found evidence that low cultural distance of ethnic Chinese led ethnic Chinese investors to prefer CJVs and WOEs. On the contrary, foreign investors face high levels of cultural distance and are more likely to favor EJVs. In addition, we posit that cultural distance has no impact on the selection of JSCs. Specifically,

**Hypothesis 2a:** Low cultural distance for ethnic Chinese investors is positively associated with a preference for the CJV and WOE mode of entry.

**Hypothesis 2b:** Other foreign investors are more likely to favor EJVs over other entry modes.

**Hypothesis 2c:** Cultural factors have no influence on the choice of JSC.
Industry Asset Intensity

Asset intensity is defined as the level of fixed assets needed to conduct business. For example, a newspaper publishing company is a high fixed asset business as the printing presses that are needed to print newspapers run in the hundreds of millions of dollars. Industry-level factors such as asset intensity can affect entry mode selection (e.g., Chen and Hu, 2002). There are two schools of thought about the influence of asset intensity (Wei et al., 2005). One school argues that firms in industries with large capital investments would be more likely to choose a full ownership mode of entry such as a WOE as ownership facilitates the recovery of their sustained investment. Additionally, ownership in such industries has had few risks since large capital requirements minimized the threat of new entrants (Porter, 1980) and preserved competitive advantage (Barney, 1990), enabling these firms to experience monopolistic or oligopolistic profits over the long run. The second school argues that large capital investment translates to large amounts of risk, so companies in high asset intensity industries should find partners to diversify the risk (Chen and Hu, 2002). Both schools have experienced some empirical support (e.g., Luo, 2001; Erramilli and Rao, 1993).

China is experiencing fast growth and returns in intensive capital industries are especially high. Thus, most investors do not want to share their returns with another partner, even when high risk is involved. Considering Chinese practice and building on Porter’s (1980) theory of competition and the resource-based view (Barney, 1991), we argue that asset intensity will drive entry mode choice in that foreign investors in high asset intensity industries are more likely to select WOE’s over other types of entry modes. Hence,

*Hypothesis 3: Asset intensity of a Chinese industry is positively associated with foreign investors choosing WOE modes of entry over EJVs, CJVs or JSCs.*

Resource Commitment

Entry mode choice is affected by resource commitment (Larimo, 1993; Hennart & Larimo, 1998). High investment usually brings high nominal profit. If foreign investors make a large amount of investments, they will be less willing to share the profit (Larimo, 1993), so they prefer high control and high return entry modes like WOE’s that facilitate the return of sustained investment. Other researchers argue that large capital investment translates to large levels of risk and firms should find partners to share the risk (Chen & Hu, 2002). Taylor, Zhou and Osland (2000) found evidence that Japanese MNEs tend to select low control modes when resource commitment was high. Wei et al. (2005) also found Chinese firms prefer high control modes under this situation. Again, building on logic from the RBV, if large investments provide the opportunity for sustained competitive advantage and high profits, a firm will be more likely to choose a WOE over any other type of entry mode. Thus,

*Hypothesis 4: Foreign firms making large investments prefer WOE’s over EJVs, CJVs, or JSCs.*
Specific Location

Dunning (1998), via the eclectic paradigm, posits that location specific advantages can drive FDI into a country. Some scholars have found evidence that location is related to foreign firm performance in China, because some areas have better infrastructure (Li, 2004), a more open business environment and better contacts with the outside world (Pan & Tse, 2000). China has set up special economic zones and open cities to attract FDI. In these areas, foreign investors have priority making it easier and less risky to do business there. Investors are more likely to choose equity modes in locations that provide better protection of equity (Zhang, 1994). Thus, location advantages help firms make entry mode choices between equity and non-equity entry modes. Building on OLI theory, we posit that location can provide foreign investors with advantages that affect entry mode choice. Specifically,

Hypothesis 5: A preferable specific location encourages foreign investors to choose WOEs, EJVs, and JSCs over CJVs.

Entry Mode, Fit and Performance

Early literature on the relationship between entry mode and firm performance highlight the differences in firm performance due to entry mode choice. Woodcock, Beamish and Makino (1994) compare joint ventures with new ventures and acquisitions and conclude that on average, joint ventures perform worse than new ventures, but better than acquisitions. Similarly, Nitsch, Beamish and Makino (1996) found evidence that joint ventures perform worse than Greenfield ventures yet better than acquisitions. For Chinese firms, Pan, Li and Tse (1999) found that EJVs and WOEs had higher market share than CJVs, and EJVs had higher profitability than CJVs.

More recently, literature has addressed the link between factors that influence entry, the actual entry mode choice, and firm performance. Brouthers and his colleagues (Brouthers, 2002, Brouthers, Brouthers and Werner, 2003, Brouthers and Nakos, 2004) argue that institutional factors, cultural distance and transaction costs would influence entry mode choices. They found evidence that if entry modes could be predicted by transaction costs, institutional factors, and cultural distance, firms performed better. Specifically, scholars have argued that entry modes selected based on the transaction cost theory logic enable firms to minimize costs and maximize efficiency leading to better firm performance (Williamson, 1985, Shrader, 2001). Shrader (2001) and Hill (1990) thought that transaction cost based mode of entry decisions should consider not only transaction costs incurred as a result of the transaction itself but also the costs of internal coordination and control. On the other hand, Dyer (1997) and Zajac and Olsen (1993) suggested that transaction cost based mode of entry choices that focus on cost minimization tend to ignore value enhancement. Brouthers (2002) argues that these concerns about value enhancement can be addressed by adding value enhancement variables such as location specific and cultural context variables. While cultural context is a variable that focuses on the market potential of investment and location specific costs, institutional variables examine the ability of a firm to enhance its competitive advantage. Based on these arguments, Brouthers and his colleagues (Brouthers, 2002, Brouthers, Brouthers and Werner, 2003, Brouthers and Nakos, 2004) found evidence that if modes of entry can be predicted by these variables, a firm would perform better. However, researchers did not separate the fit between each variable and entry modes. In their studies, Brouthers and his colleagues (Brouthers, 2002, Brouthers, Brouthers and Werner, 2003,
Brouthers and Nakos, 2004) calculated one “fit” between determinants and the actual entry mode selection. The problem is, if transaction cost logic suggests the choice of a WOE, and institutional variables direct an investor to choose a EJV, which entry mode should the firm choose? The Brouthers studies (Brouthers, 2002, Brouthers, Brouthers and Werner, 2003, Brouthers and Nakos, 2004) examined only a small group of institutional, cultural and transaction cost variables. Among this small number of variables, the transaction cost variables, institutional variables and cultural variables had consistent suggestions, so that all the Brouthers studies could calculate one measure “fit”. However, when the situation becomes more complex and more variables are included in the analysis, and there are more entry mode choices, variables may point to conflicting entry modes. When these entry mode options contradict each other, how will managers make their entry mode decisions? Thus, this paper aims at five fits based on the following five variables reviewed earlier: experience of the host country, cultural distance, asset intensity, resource commitment, and location. Thus, if existing theory guides firms to choose one type of entry mode, and if the firm does choose this entry mode, we called this “fit”. If there is fit, we hypothesize that the firm will perform better. This leads to our next hypothesis.

**Hypothesis 6:** Entry mode choices that fit with the prediction (based on the model developed above) will have better firm performance than those entry modes that do not fit the model.

**RESEARCH METHODOLOGY**

We collected data from the 2004 Chinese Industrial Census, which is conducted by the Statistical Bureau of China. The census includes all manufacturing firms except extremely small family-run businesses. The total number of firms (both foreign and local) in the data set for 2004 is 279,092. For each firm, the database contains the following information: identity code, ownership type, year of founding, number of employees, fixed assets, current assets, revenues, profit, geographic location, and product sector. In China, all firms, local or foreign, are required by law to complete the census conducted by the State Statistical Bureau.

There are 57,284 foreign firms in the 2004 census. These include all foreign firms who have entered into China, some as early as 1920s. Since China opened its door to economic liberalization in 1978 and began to adopt a market-based economy, we excluded those foreign firms entering China prior to 1978. We follow Wei et al. (2005) and chose a sample from seven 2-digit industries: food manufacturing, garment, pharmaceuticals, general machinery, transport equipment, electrical goods and electronics products. Our final sample consisted of 17,233 foreign firms each uses one of the following modes of entry: EJV, CJV, WOE or JSC. The sample distribution is shown in Panel A in Table 1. The major entry modes into China are WOE and EJV, with 55.0% and 40.0% of the total, respectively. The percentages of CJV and JSC shares are very small at 3.9% and 1.1% respectively.

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**Table 1**

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In this paper, we have two dependent variables: entry mode choice and firm performance. For this reason, we separate our analysis into two studies – entry mode decision study and entry mode fit and firm performance study.
Study I - Entry Mode Decision Study

Entry mode decision study examines the relationship between antecedents of entry mode choice and actual entry modes (those shown in Hypotheses 1-5). The four entry modes (EJV, CJV, WOE, and JSC) are dependent variables. We coded EJV as 1, CJV as 2 and WOE as 3 and JSC as 4. In this study, we have five independent variables. The first is host country’s experience (EXPER). Because China began its process of economic reform and opened to the outside world in 1978, we use that year as the base. For instance, if a foreign investor entered into the Chinese market in 2004, then the observation for the host country experience is 2004-1978=26. Thus, the maximum amount of experience China has with managing foreign firms is 26-years. The second independent variable is cultural distance (CULTU). Many researchers use Hofstede’s (1980) measures of culture. However, our data set does not include the home country of the foreign investor; it only distinguishes foreign investors from Hong Kong, Taiwan and Macao with those from other foreign countries. As we have stated before, Hong Kong, Taiwan and Macao are ethnic Chinese and share language and culture with mainland China. Thus, the cultural distance between ethnic Chinese and mainland Chinese is closer than that between other foreign countries and mainland of China. Thus, we use a dummy variable to measure cultural distance, with 0 indicating investors from Hong Kong, Taiwan and Macao and 1 from other foreign countries.

The third independent variable is industry asset intensity (IAI). Following Wei et al. (2005), we define industry asset intensity as the average level of fixed assets in the industry in terms of the 2-digit Chinese industry classification (CIC) code.

The fourth independent variable is financial resource commitment (FORINV). One limitation of our dataset is that is does not include any information about the foreign parent. We have no data on firm size, R&D, technological capabilities, or international experience of the parent firms. However, as Wei et al. (2005) argued, the amount of investment into their affiliates can reflect the parent firm’s financial resource commitment. Thus, we follow Wei et al (2005) and use foreign investment as a proxy for the resource commitment of the parent firm.

The last independent variable is Specific location (LOCAT). Firm location in China can positively affect foreign firm performance. Li (2004) developed a location index by summing three infrastructure measures to create a continuous measure for location advantages. This continuous measure can better describe location advantage than a dichotomous dummy variable. In general, coastal areas provide more location advantages than inner lying areas. However, since we want to compare our study with Wei et al.’s (2005), we follow their methodology and use a dummy variable, with 0 indicating the inner areas and 1 the coastal areas.

Following Wei et al (2005), we control for industry by creating six industry controls for the following seven industries: food manufacturing, garment, pharmaceuticals, general machinery, transport equipment, electrical goods and electronic products.

Panel B in Table 1 provides the descriptive statistics. The average host country’s experience is 20.1, indicating that the average foreign firm entered into China in 1998. The average cultural distance is 0.52, which shows almost half of these firms are from Hong Kong, Taiwan and Macao and another half of them are from other foreign countries. The industry asset intensity and
foreign investment averages are 36.15 and 19.28, respectively. In addition, most of these firms, (90%) are located in coastal areas, which provides more location advantages.

Since this is a choice among four entry modes: EJV (1), CJV (2), WOE (3) and JSC (4), we have four potential outcomes for our dependent variable leading us to choose multinomial logistic regression. We put the four entry modes as the dependent variable and five determinants as the independent variables, and we controlled industry effect using six dummy variables. Table 2 shows the analysis results. In both Panel A and Panel B, Model 1 includes all four types of entry modes. In Model 2, we removed JSCs because the sample size is small compared to the other three. Nonetheless, the corresponding results in Model 2 are very similar to those in Model 1. Panel A shows the effects of the explanatory variables on the marginal utility of the entry mode compared to the reference WOE. Thus, significant estimates with a positive sign imply less preference to the reference mode of entry, WOE. In contrast, significant estimates with a negative sign indicate a preference to the reference mode WOE. In Panel B, the reference mode of entry is CJV. Similarly, positive signs imply less preference to CJV, and negative signs indicate preference to the CJV.

Table 2 here

Hypothesis 1 argued that the more experience the host country has, the more likely investors would choose WOEs over EJVs, JSCs, and CJVs. In Panel A of Table 2, all the coefficients of the host country’s experience are negative and statistically significant, which indicates that in host countries with more experience, investors are more likely to choose WOE over EJV, JSC and CJV. In Panel B, all the coefficients of the host country experience are positive and statistically significant, which suggests investors are less likely to choose CJV into host countries with more experience. Thus, Hypothesis 1 is supported.

Hypothesis 2a states that ethnic Chinese investors with lower levels of cultural distance are more likely to choose CJVs or WOEs over EJVs. Hypothesis 2b posited that the higher cultural distance of foreign investors would lead them to choose an EJV mode of entry. Finally, hypothesis 2c states that cultural distance will have no impact on the choice of JSC. In Panel A of Table 2, all the coefficients of cultural distance are positive and statistically significant suggesting that when cultural distance is low, investors are more likely to choose WOEs. Thus, Hypothesis 2a is supported. In Panel B, the estimate of cultural distance in EJV is positive and significant, and in WOEs is negative and significant suggesting that investors with high levels of cultural distance are more likely to choose EJV and are less likely to choose WOE. Thus, Hypothesis 2b is supported. Finally, we find that there is no preference for JSC compared to CJV when cultural distance is low. Thus, hypothesis 2c is supported as well. In summary, Hypotheses 2a, 2b and 2c are largely supported.

Hypothesis 3 suggests that when industry asset intensity is high, investors are more likely to choose WOEs over EJVs, CJVs or JSCs. In Panel A, all the coefficients of asset intensity are negative and significant suggesting that when an industry has high asset intensity, foreign investors are more likely to choose WOE. Thus, Hypothesis 3 is supported.

Hypothesis 4 posits that when the level foreign investment is high, investors are more likely to choose WOEs over EJVs, CJVs or JSCs. In Panel A, the coefficients of investment level in EJVs and CJVs are negative and significant, and in JSCs are zero and insignificant, which suggests investors are more likely to choose WOE than EJV and CJVs and has no difference between JSCs and WOE. Thus, hypothesis 4 is supported.
Hypothesis 5 posits that location advantages would make investors prefer WOEs, EJVs, JSCs over CJVs. In Panel B of Table 2, the estimates of coastal locations for EJVs and JSCs are negative and significant, and that for WOEs, is positive and insignificant. These results imply that for investors in coastal locations, investors are more likely to choose WOEs and CJVs, over EJVs and JSCs. Thus, Hypothesis 5 is partially supported. From these analyses, we find an empirical support that transaction cost theory, institutional theory, RBV, culture, and OLI help in determining entry mode choice in the context of China.

**Study II - Entry Mode Fit and Firm Performance Study**

Entry mode fit and firm performance study examines the relationship between entry mode fit and firm performance (Hypothesis 6). The dependent variable is firm performance, which is measured by return on assets (ROA). We have five independent variables describe the degree of fit between predicted and actual: experience fit, culture fit, industry asset intensity fit, foreign investment fit and location fit. We divide each of the five variables into high and low based on the median value as the split. All fit variables are constructed as dummy variables taking on 0/1 values. We code 1 if the actual investment fits the hypothesized entry mode and 0 if the actual investment does not match the predicted entry mode for each determinant of entry mode choice.

**Experience fit (EXPERfit).** In Hypothesis 1, we argue that in host countries with more experience, investors were more likely to choose WOEs over EJVs or JSCs and less likely to choose CJVs. Based on this argument, we divide the host country’s experience into high and low groups in terms of its median 21.0. When the host country experience is greater than the mean 21.0 years, investors are more likely to choose WOEs over EJVs or JSCs. When host country experience is less than 21.0 years, investors are more likely choose CJVs. EXPERfit is a dummy variable coded 1 when the actual investment fits the hypothesized entry mode; otherwise it is coded as 0.

**Cultural distance fit (CULTUfit).** In Hypothesis 2, we argue in situations of low cultural distance, investors are more likely to choose CJVs or WOEs over EJVs and that cultural distance had no influence on entry mode choice of JSCs. Similarly, if cultural distance is high and is set equals to 1, investors are more likely to choose CJV, WOEs or JSCs. Last if the cultural distance equals to 0 (i.e. is low) and investors choose EJVs or JSCs. Again, if the predicted entry mode choice is the actual entry mode choice, CULTUfit is coded 1, otherwise, it is coded as 0.

**Asset intensity fitness (IAIfit).** Hypothesis 3 argued that in industries with high asset intensity, investors are more likely to choose WOEs. Panel B of Table 1 shows that industry asset intensity is highly skewed. Thus, we divide asset intensity into two groups, high and low, in terms of its median 23.8. If in high asset intensity group, investors choose WOEs, or in low assets intensity group, investors choose EJVs, CJVs, or JSCs, IAIfit is coded 1; otherwise, it is coded as 0.

**Foreign investment fit (FORINVfit).** Hypothesis 4 argues that the larger the investment, the more likely the investor to choose a WOE mode of entry. Similarly, we divide foreign investment into two groups, high and low, with the median 5.6 as the dividing line. Thus when investors make large investments and choose WOE, or if they make small investments, they choose EJVs, CJVs, or JSCs; IAIfit is coded 1. Otherwise, it is coded 0.
Location fit (LOCATfit). Hypothesis 5 argued that in coastal areas, investors have an additional location advantage, leading investors would be more likely to choose EJVs, WOEs and JSCs. So, when the firms choose locations in coastal areas and investors choose EJVs, WOEs or JSCs, or when the firms choose locations inner areas and investors choose CJVs; LOCATfit is coded as 1. Otherwise, it is coded as 0.

We create a series of control variables for this analysis. First, we controlled for industry effect with six dummies standing in for seven industries. Second, we controlled the firm level effects including firm experience, firm size, firm fixed capital and working capital. Firm experience is calculated as the difference between 2004 and their founding year. Firm size is measured by the log of the number of employees. Firm fixed capital and working capital are measured as the log of total fixed or working capital over total number of employees, respectively. Third, we controlled for the effect of entry modes. Three dummies were included to measure four types of entry modes with JSCs as the base.

Table 3 shows descriptive statistics of all these dependent variables, independent variables and control variables. The average ROA of these firms is 5.15%. The five measures of fit are .76, .81, .56, .68 and .90 for culture, asset intensity, level of investment, location, and experience, respectively. These fit numbers show that more than half of firms choose modes of entry as the theories posited. Because of missing data, our sample size reduces to 16,981. The correlation matrix shows that the highest correlation (0.567) is between Log (working capital) and Log (fixed capital). Our VIF test results show no concern about multicollinearity.

For this analysis, we use OLS regression to analyze the data. The results are shown in Table 4. The dependent variable is firm performance as measured by ROA. All five coefficients of fit are statistically significant, and two of them are positively related. Specifically, entry modes that predicted by cultural distance and specific location variables will perform better. The fit between industry asset intensity, foreign investment and host country’s experience is negatively associated with firm performance, which is not consistent with our hypotheses. Thus, Hypothesis 6 is partially supported. Thinking about the industry asset intensity, foreign investment and the host country’s experience variables, their effect on entry mode choice may be inter-dependent; suggesting that the “fit” of one variable may lead to “unfit” in another variable. We believe that the negative effects are the results of trade-offs.

In the third column of Table 4, we provide the standardized coefficients, which can approximate the relative importance of these coefficients. Among these five variables, the variables with positive fit effects have relatively higher importance than variables with negative fit effects (except for host country’s experience), which proves again that their effects are neutralized. For future research, we can explore more about this fit effect.

We controlled for entry modes in this regression by using three dummy variables for EJV, CJV and WOE with the intercept capturing the influence of the base JSC. All EJV, CJV and WOE modes of entry are negative and significant indicating that these three modes perform worse than JSCs, even though they have a greater share than JSCs. Some other control variables have significant and expected signs.
RESEARCH IMPLICATIONS

This paper tested the relationship between determinants, entry modes choices and the impact of fit on firm performance, based on a sample of approximately 17,000 foreign firms in China between 1979 and 2004. We conclude that the host country’s experience, cultural distance, foreign investment and location specification can have an impact on the choice of the four types of entry modes. Thus, transaction cost theory, culture, the resource based view, and the eclectic paradigm all contribute towards explaining a firm’s entry mode decisions. Furthermore, firms that choose entry modes based on the cultural distance and location advantages outperformed other firms.

This paper contributed to the literature by connecting determinants, entry modes and performance, and by making systematic choices among WOEs, EJVs, CJVs and JSCs. However, it has some limitations. First, the R-square is low in our second entry mode fit and firm performance study. It has very low explanatory power. This paper is attempting to explore and prove the relationship between fit and firm performance. We are not seeking to explain what factors lead to good (better) performance in these foreign firms. From this perspective, the low R-square does not affect our conclusion. Second, we only have one firm performance measure, which is not systematic to compare performance implication, since performance has many dimensions, such as growth rate, market share, and market price. Third, our first entry mode decision study replicated the Wei et al. (2005) study. All hypotheses were supported in Wei et al. (2005) study; but in our study, some hypotheses were only supported partially, even though we used the same seven industries that they did. We suspect that the environment for FDI in China has evolved very rapidly. Some variables may have changing influence on entry modes choices. Nonetheless, we believe that this study makes a valuable contribution to the entry mode literature. One practical implication is that managers of MNE’s have empirical evidence that culture and location variables in entry mode decisions are crucially important and that making entry mode choices based on these two variables will lead to the highest firm performance.

For Chinese policy makers effecting FDI and smoothing the process for foreign firms doing business in China, this study provides evidence that policy can drive MNE entry mode behavior and that both firms and the nation of China can benefit by continuing to set up special economic zones and open cities to attract FDI. In addition, China can work to lessen the cultural barriers to make it easier for foreign investors to do business in China.

CONCLUSION

The research examines the impact of fit between determinants of entry mode choice and actual entry mode selection on firm performance. We investigated the impact of determinants, such as a host country’s experience, cultural distance, industry asset intensity, resource commitment, and location; and how they affect the following entry modes choices: wholly owned enterprises, equity joint ventures, contractual joint ventures and joint stock companies. The research has strong theoretical and practical implications. We utilized Chinese evidence to provide basis to our framework and hypotheses. We hope we have generated new insights into entry mode strategies in the context of China and that future research will continue to explore new issues around entry mode antecedents and effects.
REFERENCES


*Journal of International Business Studies*, 30(1), 81-104


*Quarterly Journal of Economics*, 80(2), 190-207


Table 1

Descriptive statistics of variables in Study I

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<tr>
<th>Panel A: Entry mode distribution</th>
<th>EJV</th>
<th>CJV</th>
<th>WOE</th>
<th>JSC</th>
<th>Total</th>
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<td>Percent</td>
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<table>
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<th>Panel B: Descriptive statistics</th>
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<th>EXPER</th>
<th>CULTU</th>
<th>IAI</th>
<th>FORINV</th>
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<td>.080***</td>
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<td>.030</td>
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<td>-.065***</td>
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* if p < 0.1; ** if p < 0.01; *** if p < 0.001.
Table 2  
Multinomial logistic regression estimates  
Panel A: Multinomial logistic regression estimates: comparison with WOE

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<td>CJV</td>
<td>JSC</td>
<td>EJV</td>
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<td>1.794*** (.490)</td>
<td>1.717** (.636)</td>
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<td>-.131*** (.009)</td>
<td>-.082*** (.017)</td>
<td>-.061*** (.004)</td>
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<tr>
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<td>.209** (.083)</td>
<td>.386*** (.152)</td>
<td>.351*** (.034)</td>
</tr>
<tr>
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<td>-.028*** (.007)</td>
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<tr>
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<td>-.005*** (.001)</td>
<td>.000 (.000)</td>
<td>-.003*** (.000)</td>
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<td>-.455 (.284)</td>
<td>-1.152** (.363)</td>
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</tr>
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<td>-.001 (.165)</td>
<td>-.727*** (.042)</td>
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Standard error is in the parenthesis. * If p < 0.1; ** if p < 0.05; *** if p < 0.001.
### Table 2 (continued)

**Multinomial logistic regression estimates**

**Panel B: Multinomial logistic regression estimates: comparison with CJV**

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<td>JSC</td>
<td>EJV</td>
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<td>Nagelkerke R-Square</td>
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<td>12%</td>
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Standard error is in the parenthesis. * If p < 0.1; ** if p < 0.05; *** if p < 0.001.
Table 3: Descriptive statistics of variables in Study II

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Table 4
OLS regression results in Study II

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<td>.036</td>
<td>.328</td>
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<td>IAAfit</td>
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<td>.229</td>
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<td>FORINVfit</td>
<td>-.413*</td>
<td>-.014</td>
<td>.243</td>
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<td>LOCATfit</td>
<td>1.489***</td>
<td>.031</td>
<td>.396</td>
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<td>EXPERfit</td>
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<td>N</td>
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<td>F-value</td>
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* If p < 0.1; ** if p < 0.05; *** if p < 0.001.
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