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INTERNATIONAL STRATEGY: FROM LOCAL TO GLOBAL AND BEYOND

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ABSTRACT

To survive and thrive, multinational enterprises (MNEs) have had to adapt to dramatic changes and increasing complexity in the global competitive landscape over the past 50 years. MNEs' international strategies and the academic research on the various attributes and outcomes of these strategies have evolved accordingly. This work reviews the evolution of international strategy research over the past five decades. In particular, the research on international diversification and the timing and speed of entering international markets is closely examined. In recent years, the influence of formal and informal institutions on international strategy has become a central research topic. Furthermore, MNEs' strategies often seek to explore and exploit critical capabilities to build advantages in international markets. Finally, emerging research themes, such as institutional complexity, business sustainability, emerging economy firms and international new ventures are highlighted.

Key words: Globalization; International strategy; Multinational enterprises; International diversification; Foreign direct investment; Institutional theory

1. Introduction

"Perhaps the most profound business phenomenon of the 20th century was the internationalization of large, small, established, and new venture firms (Sapienza, Autio, George, & Zahra, 2006). Accordingly, the development of multinational enterprises (MNEs) eventually led to a global economy with an increasingly interrelated set of national economies and financial markets." (Hitt, Bierman, Uhlenbruck & Shimizu, 2006: 1137)

As the above quote suggests, internationalization has had profound effects on the development of multinational enterprises (MNEs), as well as on a global economy now based increasingly on an interdependent set of financial markets and national economies. As such, research on MNEs and their international strategies has burgeoned (e.g., Arregle, Miller, Hitt & Beamish, 2013; He, Eden & Hitt, 2015). Indeed, back in 1985, the theme of the special issue of the 20th Anniversary of the *Journal of World Business* (*JWB*)[1] was: "*The world is truly becoming more interdependent with the result that there is no place to hide* [from internationalization]." Thirty years later, in celebrating *JWB*'s 50th Anniversary in 2015, we review the development of international strategy research accompanying the evolution of MNE activities over the past five decades. MNEs and international strategy researchers reflected attitudes that have changed over time from having "*no place to hide*" to *embracing changes* in the global economy, politics and technology. Accordingly, MNEs revise their strategies over time to achieve higher financial and social [2] performance.

[1] *JWB* was called *The Columbia Journal of World Business* up to 1997.

[2] While financial performance remains the primary goal of for-profit organizations (Jensen, 2001), social performance has become increasingly important as a result of stakeholder demand, competitive pressures, and institutional expectations, in both home and host countries. For instance, social performance of organizations has become a hot topic in China following the release of the smog documentary "*Under the dome*" in early 2015. In less than 24 hours after its release, the online documentary racked up more than 100 million views. For more information about the documentary, please see *Particulates matter: An online video whips up public debate about smog* published in *The Economist,* v414: p44.

The world has been changing dramatically in the past 50 years (Ahlstrom, 2010; Hitt, Keats & DeMarie, 1998). Fifty years ago, businesses were largely localized and served more stable markets, while today advances in communications and transportation have not only facilitated the acceleration of MNEs' expansion but also spurred more intense competition and economic growth (David, 1969; Hitt, 2000). Fifty years ago, only (or mainly) large multinationals had the capability to participate in international trade and investments, while today new ventures and born-globals have become new players in the global economy (Kiss, Danis & Cavusgil, 2012). Fifty years ago, business decisions and core competencies were largely located at the MNE headquarters, but the emphasis on customer needs and the increased competition in the current landscape have required MNEs to increasingly localize most of their products and seek strategically important resources in host countries. In addition, over these fifty years, the environment has changed from having MNEs primarily from developed countries, to global markets in which MNEs from emerging economies represent an increasingly powerful force (Yamakawa, Khavul, Peng & Deeds, 2013). To survive and succeed, MNEs must contribute and respond to these dramatic changes and the increasing complexity of international business environment. International strategies by MNEs, and the academic research on various attributes and outcomes of MNEs' international strategies, have evolved accordingly.

We review the development of international strategy research over the past half-century, with a particular emphasis on the past three decades (i.e., since *JWB*'s 20th anniversary issue). We use a simplified framework to organize our discussion (i.e., international strategy-diversification and speed, cultural and formal institutional environment, and exploiting and exploring critical capabilities). As some topics are covered in other articles of this special issue (e.g., knowledge and technology by Andersson *et al*. (2015), entry mode by Knight and Liesch

(2015), cooperative strategies by Beamish and Lupton (2015), we focus on the core issues of international strategic management and the overarching connection of these different issues.

2. International strategy: Diversification and speed

Two initial and important areas of research for international strategy are (1) antecedents of international diversification (expansion) and implications thereof and (2) how to enter foreign markets. In this section, we review the advancement of research on international diversification and the shift in focus from entry mode to entry timing and speed.

2.1. Advancement in international diversification research

The motivations for and antecedents of international expansion into individual host countries (resulting in international diversification/diversity), such as location advantages (of market, labor, resources and policy) and executive characteristics, have been explored extensively in prior research (e.g., Cui, Meyer, & Hu, 2014; Hitt, Tihanyi, Miller & Connelly, 2006). Specific to firms' intentional development of international diversification, two perspectives are particularly relevant and often employed – risk diversification (costs of risks) and real options (benefits of risks). Based on the costs of risks, a portfolio investment in multiple host countries of varying economic cycles and market conditions can benefit firms with more stable earnings than maintaining a focus on domestic markets (e.g., Hisey & Caves, 1985; Rugman, 1976). MNEs can manage their risk exposure and market demand by proactively reconfiguring their portfolios of foreign subsidiaries through investment and/or divestment (e.g., Barkema, Bell & Pennings, 1996; Benito & Welch, 1997; Boddewyn, 1979).

Based on the benefits of taking risks, a real options perspective considers international diversification to offer the flexibility of managing value chain activities across subsidiaries

exposed to different levels of uncertainties (Luehrman, 1998). That is, MNEs of greater international diversification can shift their operations across national boundaries in response to changes in environmental risks and opportunities (Allen & Panzalis, 1996; Chung, Lee, Beamish & Isobe, 2010; Kogut, 1985; Tang & Tikoo, 1999). Chung and colleagues (2013) examined international diversification from both real option and risk diversification perspectives; their empirical findings were consistent with the real option perspective that MNEs with higher international diversification are less likely to divest their subsidiaries from host countries experiencing economic crisis.

Implications of international diversification have been examined through various lenses, and reported mixed findings. Some research has reported a positive relationship between international diversification on firm performance (e.g., Dess, Gupta, Hennart, & Hill, 1995; Hennart, Kim & Zeng, 1998; Luo, 2002). For example, Dastidar (2009) showed that international diversification brought value to MNEs even after controlling for the endogeneity of international diversification decisions. Hitt, Bierman, Uhlenbruck, and Shimizu (2006) identified a positive effect of international diversification on firm performance by taking advantage of the firm's critical resources (e.g., human capital). Fang, Wade, Delios, and Beamish (2013) found that market relatedness (cultural, political, and economic) between the MNE parent and its subsidiaries produced higher subsidiary performance. Other research, however, reported a negative, curvilinear, or even no relationship (e.g., Capar & Kotabe, 2003; Geringer, Tallman & Olsen, 2000; Gomes & Ramaswamy, 1999; Michel & Shaked, 1986). Hitt, Hoskisson and Kim (1997) reported that, while international diversification can enhance MNE performance initially, the effect eventually leveled off and became negative. They also showed that product diversification moderated these relationships. Similarly, Chang and Wang (2007) showed that

related product diversification strengthened the positive relationship between international diversification and firm performance, whereas unrelated product diversification weakened the relationship. Alternatively, Chao and Kumar (2010) found an inverted-U shaped relationship between international diversification and firm performance and further demonstrated that institutional distance moderated the relationship. Lampel and Giachetti (2013) also reported an inverted-U shaped relationship between a firms' international diversification of production operations and financial performance. However, some scholars have found empirical support for an S-shaped relationship between international diversification and performance (e.g., Contractor, Kundu & Hsu, 2003; Lu & Beamish, 2004). Scholars seem to agree on the importance of considering contingencies when examining the performance implications of firms' international diversification. Yet, additional research is in great need to consolidate the fragmented findings on various contingencies ranging from firm specific features to temporal variance. In addition, improving empirical measurement of international diversification and the robustness of estimation can help to integrate findings from different studies and thus advance our understanding of the significance of international diversification for firm performance.

In addition to its effect on financial performance, international diversification can provide benefits in the form of knowledge transfer and innovation. For example, Hitt *et al*. (1997) found that international diversification enhanced MNEs' innovation. Similarly, Zahra, Ireland and Hitt (2000) found that firms' international diversity (including number of countries, technological diversity, cultural diversity, geographic diversity, and foreign market segments) enriched technological learning (breadth, depth and speed), which in turn had positive effects on financial performance. Yet Wu (2013) reported an inverted U-shaped relationship between the institutional diversity of a firm's foreign markets and its product innovation success. Sambharya

and Lee (2014) further advanced the research on international diversification and innovation by studying MNEs' renewal of dynamic capabilities. They found that MNEs' initial innovative capabilities contributed to international diversification which in turn benefited their future innovation performance in terms of number of patents and technological impact. Focusing on the type of firms, Tsao and Lien (2013) suggested that family firms enjoyed more positive benefits from international diversification in the form of technological innovation than do non-family firms.

Although the research suggests that international diversification affects several firm-level outcomes (e.g., financial performance and innovation), the influence of this strategy on these outcomes is affected by how it is implemented. Among the most important implementation decisions are how to enter a particular market and the timing of such entry.

2.2. Shifting focus from entry mode to entry timing/speed

Entry mode represents one of the most critical decisions for MNEs expanding overseas due to its implications for organizational control, resource commitments and investment risk exposure (Zhao, Luo & Suh, 2004). And, entry decisions entail the timing and speed of entering particular foreign markets. The temporal dimension of internationalization has long been considered an important concern (e.g., Buckley & Casson, 1981; Johanson & Valhne, 1977; Melin, 1992); yet, most research on internationalization has emphasized the mode of entry with perhaps only implicit consideration of time. However, more recently, there has been a shift in the focus from entry mode to entry timing and speed.

There are two closely related but distinct issues of timing/speed (Autio, Sapienza & Almeida, 2000) – one is the time lag between the founding of a firm and its initial international expansion (a sizeable portion of research focuses on international new ventures discussed in a

latter section); the other is the speed of a firm's subsequent international expansion. Regarding the speed with which a firm enters international markets, several factors have been shown to be influential, in particular, learning and the accumulation of experience (e,g., Casillas & Moreno-Menendez, 2014; Gaba, Pan & Ungson, 2002). Casillas and Moreno-Menendez (2014) differentiated the types of experiential learning from internationalization, and argued that depth of international activities can accelerate internationalization in the short run but, in the long run, it imposes constraints on rapid international expansion. However more diverse international activities have the opposite effects on international speed.

Further, firm, industry, and country attributes can influence entry timing. For instance, Powell (2014) found that firms in less-dominant home market positions equipped with sufficient resources entered foreign markets more quickly than firms in the more dominant positions. Additionally, Gaba and colleagues (2002) showed that large firm size, high level of internalization and scope economies, non-equity modes, competitors' behavior, and low levels of country risk encouraged early entries; along the similar vein, Popli and Sinha (2014) suggested that firm experience, size and business group association can influence the timing of cross-border mergers and acquisitions. Musteen, Francis and Datta (2010) reported that firms sharing the same language with partners in their international networks were able to internationalize faster than others. Garcia-Canal, Duarte, Criado, and Llaneza (2002) demonstrated that alliances can increase the speed of international expansion for firms with low levels of internationalization. Finally, Preece, Miles and Baetz (1998) suggested that firms in technology-intensive industries were more likely to engage in early internationalization than firms in other industries.

Despite the widely cited first-mover advantages (e.g. Lieberman & Montgomery, 1988; Reinganum, 1989), research on the performance effects of international entry timing and speed is

still fragmented (e.g., Chetty & Campbell-Hunt, 2003; Vermeulen & Barkema, 2002; Wagner, 2004); and most research in this category focuses on international new ventures, including born-globals. While Vermeulen and Barkema (2002) and Wagner (2004) found foreign market entries that were too fast were often detrimental to the firm's general performance, Chetty, Johanson, and Martin (2014) reported that speed benefited the *international* performance of firms. The benefits of speed are also conditional upon firm attributes such as strong brand equity, marketing know-how and financial slack (Chang & Rhee, 2011). In addition, the effects of speed depend on the type of performance examined. For example, Luo (1998) observed that, for foreign firms operating in China, early entrants performed better than late movers in market expansion and asset turnover; however, late movers performed better in risk reduction and accounting returns. Also, based on their examination of Japanese MNEs' entry and expansion in China in the 1980s and 1990s, Jiang, Beamish, and Makino (2014) found that speed of market entry was negatively related with subsidiary survival and also that early mover subsidiaries displayed lower profitability when established more rapidly.

The timing and speed of market entry, thus, can influence the effectiveness of that entry and/or the mode of entry used. The success of an entry is also affected by the institutions (formal and informal) in the country entered.

3. Cultural and Formal Institutional Environments

Years ago, the 20th anniversary issue of *JWB* stressed the uncertainties in the global economy caused by the fluctuating oil prices, evolving technologies linking businesses across countries, and the increasing importance of trade relationships with emerging economies such as China. The economic and political interdependencies have only increased in the last 30 years with the development of the network economy, highly sophisticated information technologies

and the transformation and growing influence of emerging economies. Thus, the current competitive landscape for MNEs has substantially changed in the last few decades. Liabilities of foreignness arise from MNEs' operation in foreign environments creating risks and enhancing costs. To better understand the liabilities of foreignness faced by MNEs, international strategy research has examined the institutional environments (both formal and informal), changes in and complexities of these institutions, and the effects of them on such strategic decisions as foreign market entry, entry modes, and management of foreign subsidiaries.

3.1. Institutions, institutional change and institutional complexity

3.1.1. Institutions

Understanding institutional environments is challenging in that there are multiple institutions. For example, the institutional environment entails both formal and informal institutions (Holmes, Miller, Hitt & Salmador, 2013). Institutions are multilevel; they emanate from multiple centers of power and thus they are polycentric (Ostrom, 2005). For example, formal institutions exist at the national level, regional level (e.g., province or state) and municipal level. Informal institutions (e.g., culture) also can be multilevel (Scott, 2014). As an example, culture exists at the national/societal level but there are often subcultures in different regions of a country, especially in large countries such as the United States (U.S.) and China (Chan, Makino, & Isobe, 2010).

Institutions and their effects are complex (Rodrik, Subramanian & Trebbi, 2004). When a company locates a foreign subsidiary in a particular country, that subsidiary must deal with the constraints of the national, provincial and municipal formal institutions (Hitt, Ahlstrom, Dacin, Levitas & Svobodina, 2004). That company must also understand and navigate within the national culture and regional subculture, that is, the informal institutions (Ahlstrom, Young, Nair

& Law, 2003). Although a particular institution may be quite important to a particular firm (e.g., intellectual property protection laws and regulations for high technology firms), a confluence or configuration of institutions affect firm decisions and actions (Batjargal, Hitt, Tsui, Arregle, Webb & Miller, 2013).

Much of the research on institutional environments examined the effects of home and host country institutional environments. The effects of the home/host country institutional environment on MNEs' strategies, such as which countries/markets to enter and the mode of entry, have been examined (e.g., Johnson, Arya & Mirchandani, 2013). Dunning (1993) suggested that specific types of country institutional environments offered better opportunities for certain activities and ownership advantages. For example, R&D centers are often established in countries such as the U.S. and Germany because of their technological advantages and more advanced regulatory regime for property protection. Yet, potential market advantages (perhaps due to economic institutions) might overcome intellectual property protection weaknesses such as in China where a large number of R&D centers have been established by foreign high technology firms. The institutional arbitrage/exploration for local institutional advantages has served as an important motivation for internationalization (e.g., Delios & Beamish, 2001; Luo, 2002). Trevino and Mixon (2004) analyzed the foreign direct investment (FDI) flow into seven Latin American countries and concluded that, as MNEs must conform to the institutional environment prevailing in the host country, government officials' must attend to making their institutions attractive for inward FDI.

The host institutional environment also affects MNEs' entry into markets (Holmes *et al.*, 2013) and is particularly influential in the entry modes chosen. For instance, Yiu and Makino (2002) showed that the restrictiveness of the host country's regulatory/normative domain was

positively related to MNEs' choice of joint venture over wholly owned subsidiary. MNEs can benefit from the spillover effect by partnering with local firms to achieve legitimacy and for local partners to serve as bridges to access local resources. Luo (2005) offered a detailed investigation of contractual governance for international joint ventures (IJV) in an institutionally underdeveloped country such as China. He found that contract term specificity and contractual obligations increased when the resources to be invested in the IJV were more proprietary or the host country's legal system was relatively weaker. The use of more contractual obligations was a function of economic exposure and environmental volatility. Luo concluded that, by aligning contractual dimensions with institutional environment characteristics, an IJV can better navigate through complex and volatile institutional environments.

A country's institutional environment also influences firms' choice of a competitive strategy, stakeholder management, and subsidiary performance. For example, Brockman, Rui, and Zou (2013) found that in countries with strong legal systems and/or low levels of corruption, politically connected firms underperformed unconnected ones. Yet, in countries with weak legal systems and/or high levels of corruption, politically connected firms outperformed unconnected ones. Also focusing on corruption in the institutional environment, Montiel, Husted, and Christmann (2012) reported that policy-specific corruption eroded trust in government efforts to regulate firms' conduct, thus increasing the signaling value of private certifications and heightening the likelihood of certification as well. However, widespread corruption in the general environment could extend distrust to private certification systems, which reduced the credibility and signaling value of those certifications.

Dhanaraj and Beamish (2009) examined the effect of the institutional environment (political openness and social openness) on the mortality of foreign subsidiaries and reported

that, while the stability of a wholly owned subsidiary could be expected in the U.S., the opposite was true in China because of limited social and political openness. These characteristics of the institutional environment affected the foreign subsidiary's ability to achieve legitimacy. Each foreign subsidiary must maintain legitimacy under two distinct sets of isomorphic pressures – one from the host country and one from the MNE parent. Kostova and Roth (2002) referred to this as "institutional duality." Davis, Desai and Francis (2000) found that strategic business units using wholly-owned entry-modes demonstrated high levels of internal (parent) isomorphism while the units using exporting, joint ventures, or licensing agreements demonstrated more external isomorphism. Alternatively, the units using multiple or mixed entry-modes demonstrated low levels of isomorphic pressures from either side because they can maintain a balance by using multiple means to enter markets. Chan and Makino (2007) examined MNEs' subsidiary ownership structure used to deal with the dual pressure of isomorphism and found that, when experiencing strong isomorphic pressures in the host country and local industry, firms were likely to take a lower ownership stake in exchange for external legitimacy. Firms were likely to take a higher ownership stake in response to strong internal isomorphic pressures to sustain their internal legitimacy with the corporate parents. Recent research has shown that foreign subsidiaries' divergence from a parent's practices can be the result of the joint effects of factors such as subsidiaries' role in their parent MNEs' networks (holding valuable technologies and knowledge as an example), performance, and parents' control of subsidiaries (e.g., Ambos & Birkinshaw, 2010; Kang & Li, 2009; Sargent & Matthews, 2006); and MNEs can benefit from subsidiary deinstitutionalization (e.g., subsidiary revises the parent's practices) in a changing institutional environment (e.g., Hamprecht & Schwarzkopf, 2014).

3.1.2. Institutional change and reform

Hoskisson, Eden, Lau and Wright (2000) highlighted the need to develop and test theories in contexts featured by institutional change/reform and the role of firms in changing their institutional environments. Much of the research has focused on how market-oriented institutional changes/pro-market reforms (e.g., market liberalization and corporate governance reform) affect firms' strategies and outcomes. For example, Nee (1992) argued that, while changes in the institutional environment stemming from the expanding markets and enhanced property rights increasingly favored private firms, the transition from state socialism to market orientation was nonlinear and required significant time to integrate.

Institutional change is a multi-stage process featuring different institutional environments and logics, as opposed to a static, discrete event as most research has assumed (Greenwood, Suddaby, & Hinings, 2002; Kim, Kim, & Hoskisson, 2010; Peng, 2003). Kim *et al*. (2010) suggested that there were two distinct periods of market-oriented institutional change – institutional friction and institutional convergence. In emerging economies, the early stage of institutional change is typically evolutionary, beginning with limited market liberalization and incremental introduction of market-supporting formal institutions (Kim *et al*., 2010; Roland, 2001). While the regulative, normative and cognitive pillars of an institutional environment are interconnected (Scott, 2014), normative and cognitive changes in the short run are often supported by changes in regulatory institutions because they are deeply rooted in a society (Hoffman, 1999). Tension can build between the established institutions and emergent pro-market institutions, and also arise from the inconsistency between formal institutions and informal institutions (Johnson, Smith, & Codling, 2000). Only after the frictions are resolved, an emerging economy experiences institutional convergence whereby pro-market institutional logics become the guiding principles for additional changes in the formal and informal

institutions (Johnson *et al*., 2000; Kim *et al*., 2010). Firms' activities and performance are inevitably affected by the process of institutional changes. Analyzing a large sample of Indian firms, Chari and Banalieva (2015) reported a U-shaped relationship between pro-market reform and firm profitability.

However, not all firms benefit equally from the institutional changes (Cuervo-Cazurra & Dau, 2009; Kim *et al*., 2010; Park & Kim, 2008). For instance, several studies have reported that group-affiliated firms benefit from diversification and outperform non-affiliated firms in a variety of emerging economies because conglomeration can assist affiliated firms in overcoming market imperfections (e.g., Khanna & Palepu, 2000; Yiu, Bruton & Lu, 2005). Yet, Lee, Peng and Lee (2008) suggested that, as institutional transitions unfolded in an emerging economy, corporate diversification premiums for group-affiliated firms were likely to dissipate and eventually become diversification discounts; it is because the group-affiliated firms gradually lost control of resources to the markets during the institutional transitions. Analyzing Russian business groups, Estrin, Poukliakova and Shapiro (2009) confirmed the benefits for firms to group in order to create internal markets and informal institutions to replace uncertain and inefficient external markets, and suggested the benefits for affiliated member firms decreased when the institutional transition was completed. The U-shaped relationship between pro-market reform and firm profitability as reported by Chari and Banalieva (2015) also varied across different type of firms; the U-shaped relationship was shallower for foreign firms and top business group firms relative to independent firms.

Alternatively, Oliver (1991) argued that firms not only passively adapted to their institutional environments but also actively developed strategic responses to change their institutional environments. Rosenzweig and Singh (1991) emphasized the role of MNEs for re-

conceptualizing organization-environment relations because they operated simultaneously in multiple nations. The dual institutional pressures on foreign subsidiaries can push them to introduce changes into the host country's environment. For instance, Kwok and Tadesse (2006) suggested three avenues through which the MNCs influenced their host country institutions (specifically, corruption) - regulatory pressure effect (from home country and parent firm), demonstration effect (of parent firm practice), and professionalization effect (associated with the often superior performance of MNEs).

3.1.3. Institutional complexity

Prior research on cultural and institutional environments has offered significant advancements in our understanding of MNE activities. However the complexity of institutional environments arising from their multidimensionality, diversity, and polycentrism suggests more intricate and challenging influences that must be understood and managed by MNCs. We discuss several emerging issues regarding the complexity of institutional environments, including interrelationship among major institutions, polycentrism, and intra-country heterogeneity.

In 1994, Greif asked the question of why societies fail to adopt the institutional structure of more economically successful ones. Through case studies of two pre-modern societies – one from the Muslim world and one from the Latin world, he concluded that belief differences from individualism/collectivism lead to societal differences in political, legal and economic institutions. From an historical perspective, both Reed (1996) and Redding (2005) suggested the importance and need for cultural support (informal) with respect to the development of formal institutions. The work by Holmes *et al*. (2013) represented one of the first efforts to theoretically explain and empirically test the effects of informal institutions (culture) on formal institutions (using a large sample of 50 countries). They argued and found that collectivism was positively

related to regulatory control and negatively related to democratic political institutions, and that future orientation was positively related to economic institutions. Furthermore, they found that these formal institutions (regulatory, political and economic) in the host country influenced inward FDI.

Using insights from the work by Nobel laureate Elinor Ostrom (2005, 2011) and others, Batjargal and colleagues (2013) examined the roles of institutional multiplicity (integration of mutual influences from multiple rules and norms) and institutional substitution (rise of alternative sets of rules/norms to compensate for the inefficient rules) for new venture growth in China, France, Russia and the U.S. Their findings showed that the confluence of formal institutions affected entrepreneurs' social networks which in turn influenced new venture growth. Greenwood, Reynard, Kodeih, Micelotta, and Louisburg (2011) also highlighted the pluralism of an institutional environment and the existence of inconsistency across different dimensions of the environment.

Moreover, Peng (2005) criticized much of the extant research because it often implicitly or explicitly considered country institutions as a single and constant context. Additionally, others have argued that there is subnational heterogeneity in institutions (e.g., Shenkar, 2012, 2001; Beugelsdijk & Mudambi, 2013). Recently, research has emphasized institutional variation within countries and across similar countries in a region (e.g., Ma, Tong, & Fitza, 2013; Meyer & Nguyen, 2005; Shi, Sun & Peng, 2012; Tan & Meyer, 2011). For instance, Ahlstrom, Levitas, Hitt, Dacin and Zhu (2014) addressed the partner selection preferences by firms in institutionally similar/diverse Greater China, specifically mainland China, Hong Kong and Taiwan. Liu, Lu and Chizema (2014) examined the influences of within-country institutional differences in product markets, factor markets and the legal system, on Chinese firms' outward FDI. Even in relatively

small economies such as Vietnam, within country institutional variance can play a significant role in the location of FDI and also the modes of investments used by MNEs (Meyer & Nguyen, 2005).

3.2. Effects of informal institutional distance (i.e., cultural distance/differences)

One of the constructs most often examined in the international business literature is cultural distance (e.g., Kogut & Singh, 1988). For example, earlier research found that firms are less likely to conduct direct investment in culturally distant markets (Davidson, 1980; Ozawa, 1979; Yoshino, 1976). The famous Uppsala process model developed by Johanson and Vahlne (1977) showed the progressive expansion of firms from home countries to host countries with gradually increasing cultural differences. However Dunning (1988), based on his well-known OLI framework (ownership-location-internalization), argued that greater cultural distance can motivate firms to engage in FDI in order to overcome transactional and market failures. The sequence of foreign market entry predicted by the Uppsala process model was challenged by Benito and Gripsrud (1992) and Sullivan and Bauerschmidt (1990); the gradual/experiential learning process of internationalization has been further challenged by research on new ventures and small firms (e.g., Oviatt & McDougall, 1994; Li, Li & Dalgic, 2004) and emerging economy firms (e.g., Child & Rodrigues, 2005; Lyles, Li & Yan, 2014). It appears that different processes of entry into foreign markets work for some firms but not others.

The aforementioned research notwithstanding, much of the literature suggested that cultural distance affects MNEs' entry mode choices and control of their subsidiaries. The Scandinavian school based on the Uppsala process model suggested an incrementally increasing commitment of investment moving from exports to wholly owned subsidiaries, based on the incremental learning needed to develop capabilities to enter culturally distant countries (e.g.,

Axelsson & Johanson, 1992; Welch & Luostarinen, 1988). In a similar vein, transaction costs scholars stressed that hierarchical control provides greater incentive alignment than other governance formats (Williamson, 1975, 1985). The greater the cultural distance between home and host countries, the more control firms need to deal with information asymmetries, uncertainty and risks associated with foreign operations (e.g., Boyacigiller, 1990; Erramilla & Rao, 1993; Hamilton & Kashlak, 1999; Hamilton, Taylor & Kashlak, 1996; Padmanabhan & Cho, 1996; Pan, 1996). For instance, Williamson (1975) claimed that "legal ordering" incentives such as shared ownership of specific investments can be used to restrain opportunism to safeguard future profits. However, scholars also recognized that, while equity joint ventures can offer "mutual hostage" positions to guarantee outcomes and limit opportunistic behavior (Hennart, 1982, 1991; Teece, 1986), equity investments are expensive and often hard to salvage if the venture fails.

However, theoretical predictions and empirical results regarding the impact of cultural distance on entry mode and control of subsidiaries are mixed. For instance, Boyacigiller (1990) reported that a greater cultural distance led to high MNE parent control of foreign subsidiaries. Griffith, Harmancioglu and Droge (2009) argued that cultural distance can impede goal congruence with and monitoring of local partners and therefore called for tight control of operations and restriction of partner involvement in new product development processes in host countries. Yet, both Kim and Hwang (1992) and Kogut and Singh (1988) found a negative relationship between cultural distance and the level of control used in entry foreign markets (i.e., greenfield joint venture vs. greenfield wholly owned subsidiaries and acquisition of a controlling stake). Supporting this view, Demirbag, Glaister and Tatoglu (2007) found that cultural distance

was positively related to the adoption of joint ventures or low-equity modes over wholly-owned subsidiaries for entering new markets.

In an effort to disentangle the mixed findings, a set of contingencies on the relationship between cultural distance and entry mode have been examined. For instance, Agarwal (1994) found that the positive relationship between cultural distance and control through the entry mode was moderated by both firm-specific factors such as size, multinationality and technological intensity and country-specific factors including country risks and market potential. We argue that the effects of cultural distance on means of market entry (mode and control) are complex and likely to have several contingencies that operate simultaneously. Thus, we call for future research that could possibly integrate various perspectives in examining the effects of cultural differences and means of foreign entry, including the joint effects of factors from multiple levels (e.g., executive cognitive capacity, project, subsidiary, parent firm, and host environment), and equally importantly, temporal dimensions. Moreover, with two prominent changes in the business world over the past three decades -- the rapid adoption and advancement of information technology in business practices and the increasing reliance of MNEs on their foreign subsidiaries for sustainable competitiveness (for both exploration and exploitation purposes), the role of cultural differences on means of foreign entry and operation has become even more complicated. MNEs, on the one hand, have more knowledge and tools to exert tighter control over their foreign subsidiaries and, on the other hand, need to release more authority to their subsidiaries to encourage initiatives. Thus, future research on the strategic usage of information technology in overcoming/utilizing cultural differences in order to strengthen an MNE's overall competitiveness offers promise.

Some scholars argued that cultural distance harms MNE performance (e.g., Chang, 1995; Luo & Peng, 1999) and subsidiary performance as well (e.g., Li & Guisinger, 1991). In support of these arguments, Barkema, Shenkar, Vermeulen and Bell (1997) found that greater cultural distance can lead to premature termination of ventures but an entry mode strategy of gradually increasing cultural distance over time (which allows the firm to learn how to manage the cultural differences) can reduce the likelihood of failure. Yet, there has also been research reporting no effect (Johnson, Cullen & Sakano, 1991) and even positive effects of cultural distance on venture performance (Park & Ungson, 1997). Park and Ungson (1997) showed that prior relationships between partnering firms counterbalanced the cultural differences; similar findings on the learning effects of prior entries have been reported by Harrigan (1988), Bleeke and Ernst (1993), and Barkema, Bell and Pennings (1996). Thus, if firms can learn how to manage cultural distance (e.g., through alliance partners or gradually increasing the distance over time), they may be able to earn positive returns from entering culturally distant markets.

Although some argued that cross-border acquisition performance would suffer if the distance between the acquiring firm's home culture and the acquired firm's home culture is high (e.g., Buono, Bowditch & Lewis, 1985; Stahl & Voigt, 2008), Morosini, Shane and Singh (1998) found a positive association between cultural distance and cross-border acquisition performance. Morosini *et al*. (1998) suggested that more culturally distant countries provided MNEs access to diverse routines and repertoires that can enhance the combined firm's performance. Chakrabarti, Gulpta-Mukherjee and Jayaraman (2009) found results supporting Morosini *et al*. (1998) arguments. To reconcile the conflicting findings, research has suggested the role of other factors either counterbalancing the pitfalls arising from cultural distance or contributing to acquisition performance (e.g., Reus, 2012; Reus & Lamont, 2009; Slangen, 2006). For instance, Reus and

Lamont (2009) argued for a double-edged effect of cultural distance on international acquisition performance. On the one hand, cultural distance has a negative effect on international acquisition performance because it taxes integration capabilities during acquisition; yet, on the other hand, cultural distance can provide more learning opportunities, thus elevating the positive association between integration capabilities and international acquisition performance. Dikova and Sahib (2013) suggested that the effect of cultural distance on cross-border acquisition performance depended on the level of international experience acquirers had gained; acquirers with more international experience were more likely to understand the risks and pitfalls of different cultures and more skilled at resolving conflicts.

While scholars agreed on the costs arising from operating in culturally distant countries and/or interacting with culturally distant partners, the effects of cultural distance on specific MNE activities and the outcomes thereof are inconclusive. Tihanyi, Griffith and Russell's (2005) meta-analysis on cultural distance found no evidence of relationships between cultural distance and entry mode, international diversification and MNE performance. Shenkar's award-winning article on cultural differences (2001) attributed at least part of the inconsistency in findings to the conceptual and/or methodological properties of cultural distance. He pointed out several mistaken assumptions behind cultural distance including conceptual illusions of *symmetry*, *stability*, *linearity*, *causality*, and *discordance*, and methodological illusions of *corporate homogeneity*, *spatial homogeneity*, and *equivalence*.

Shenkar in his retrospective article on the original criticism of cultural distance 10 years later (2012) acknowledged the lack of scholarly work to improve the measurement of cultural differences and re-emphasized the lens of friction instead of distance in studying cultural differences. For instance, Shenkar highlighted intra-country variation and called for research to

address the lack of homogeneity. In addition, Beugelsdijk and Mudambi (2013) in their *JIBS* editorial stressed the need for international business scholars to consider subnational heterogeneity. Recent research has focused on the heterogeneity in the host country culture (Gong, Chow, & Ahlstrom, 2011). For instance, Li, Tan, Cai, Zhu and Wang (2013) argued that regional cultural differences influenced leadership styles and employee performance in comparisons between Hong Kong and Shenzhen, two neighboring Chinese cities. Sasaki and Yoshikawa (2014) further stressed the need to jointly consider both intra-national culture and organizational culture as the interaction of these two can significantly affect MNE performance.

Similar to other international business constructs, the effects of cultural distance are likely more complex than originally suggested. There appear to be a number of environmental and firm-level contingencies that moderate (positively and negatively) the effects of cultural distance. Also important for international strategies and their outcomes is the institutional distance.

3.3. Effects of institutional distance

The importance of institutional distance was highlighted by the work of Kostova (1999) and Kostova and Zaheer (1999). In comparison to cultural distance, institutional distance captures more complexity in the cross-country differences (Xu & Shenkar, 2002). Rooted in institutional theory (DiMaggio & Powell, 1983, 1991; North, 1990; Scott, 2014), institutional distance refers to the differences/dissimilarities between the regulatory, cognitive and normative institutions of countries (Kostova & Zaheer, 1999; Xu & Shenkar, 2002). Formal (laws and regulations) and informal (norms, values and beliefs) institutions shape firm behaviors and performance (North, 1990; Scott, 2014). With higher institutional distance, effective transfer of

strategic routines from parent firm to subsidiaries and achievement of legitimacy in the new foreign market are more challenging (Kostova, 1999; Kostova & Zaheer, 1999).

High institutional distance often suggests lower familiarity with the new environment and thus increases the costs of doing business abroad (Cuervo-Cazurra & Genc, 2011; Henisz, 2000). For example, Benassy-Quere, Coupet and Mayer (2007) found that institutions affected FDI inflow independently of the host country's economy. Strong institutions almost always increase FDI received but institutional distance tends to reduce bilateral FDI. Xu and Shenkar (2002) further offered a detailed examination of MNEs' differential considerations of institutions, and suggested that MNEs with routine-based competitive advantages were more likely to enter markets that are normatively adjacent, whereas MNEs with host country-based competitive advantages were more likely to enter markets at a greater normative distance.

Institutional distance affects firms' foreign market entry mode. For example, non-equity entry modes are preferred over equity modes when firms enter institutionally challenging environments (Brouthers & Nakos, 2004; Nakos & Broughters, 2002). Xu and Shenkar (2002) argued that MNEs were more likely to enter via wholly owned subsidiaries or majority joint ventures when the regulative distance between home and host countries was small and via minority joint ventures when the regulative distance was large. Additionally, high equity control over joint ventures was preferred by MNE parents when normative distance was small and low equity control was preferred when normative distance was large.

Institutional distance affects two major types of costs: unfamiliarity hazards and relational hazards. The first type of cost arises from lack of information and knowledge about the host country and the second from difficulties in managing and monitoring subsidiaries and partnerships at a distance (Eden & Miller, 2004; Mezias, 2002). Similar to cultural distance, the

unfamiliarity hazards can potentially be remedied by involving local partners (Makino & Delios, 1996), although the selection of trustworthy partners (associated with relational hazards) can be challenging at a distance (Anderson & Gatignon, 1986; Gomes-Casseres, 1990). Abdi and Aulakh (2012) suggested that inter-firm relationships among partners from institutionally distant environments were subject to governance difficulties due to the paucity of shared cognitive and regulatory frameworks.

In order to transfer organizational practices from parent to foreign subsidiaries, homogeneity of organizational forms across MNE host countries is often required (Tempel & Walgenbach, 2007). Alternatively, MNE subsidiaries are more likely to imitate local firms (local isomorphism) with the higher levels of institutional distance (Salomon & Wu, 2012). Additionally, the survival rate of foreign subsidiaries is higher at low to medium levels of institutional distance but is lower when the institutional distance is high (Gaur & Lu, 2007).

While acknowledging the value of distance measures, Zaheer, Schomaker and Nachum (2012), based on Shenkar's criticism of cultural distance (2001, 2012), posited that the hidden assumptions (conceptual illusions of *symmetry*, *stability*, *linearity*, *causality*, and *discordance*, and methodological illusions of *corporate homogeneity*, *spatial homogeneity*, and *equivalence*) apply to institutional distance constructs as well. They further suggested that the concept of distance needs to be refined to ensure its accuracy and value by avoiding oversimplification of complex and multidimensional differences, testing (a)symmetry of distance for individual firms, integrating firm heterogeneity based on the research questions, and enriching the concept and measure of distance by drawing from multiple disciplines such as sociology, social psychology, and language. Xu and Shenkar (2002) also suggested separating institutional distance into

national and industry-specific distances. The extant literature has largely focused on only one level and primarily at the national level.

Thus, if one can correctly identify the institutional distance of the particular market a firm enters, its managers' capabilities to manage the differences between the home and host country are critical to the firm's success in that market. Thus, firms must not only be able to identify the institutional distance correctly and the important attributes of the new market, it must also build capabilities to effectively manage its subsidiary in that market. Thus, firms should continuously explore for capabilities and try to exploit them after they are developed and/or acquired.

4. Exploiting and Exploring Critical Capabilities

International strategy research has shifted its focus from MNEs' exploitation of parent ownership (often technological) advantages to exploration for new capabilities in host countries and learning managerial capabilities in order to effectively compete with global rivals.

4.1. Seeking new capabilities

International strategy research has traditionally attributed the existence and performance of MNEs to their effective deployment of specialized assets (resources) such as technology, knowledge, products, and practices from home to host countries (e.g., Buckley & Casson, 1976; Dunning, 1981, 1988; Hymer, 1976; Kogut & Zander, 1993; Zaheer, 1995). For instance, Teece (1982) posited that MNEs' possession of strategic assets enables them to exploit market opportunities. One of the three legs of Dunning's OLI framework (1988) is parent firm's *Ownership* advantage such as superior expertise in technology; another leg, *Internalization*, focuses on the MNE capability to internalize activities over markets. Both legs emphasize the exploitation of current capabilities.

Oftentimes, technological, product, and organizational practices need to be adapted to cultural and institutional requirements in the host country (e.g., Anand & Kogut, 1997; Bartlett & Ghosal, 1989; Prahalad & Doz, 1987). Important cultural and institutional concerns include local consumer preferences and needs (e.g., Cui & Liu, 2001; Onkvisit & Shaw, 1987), labor practices (e.g., Rosenzweig & Nohria, 1994), institutional legitimacy (e.g., Kostova & Zaheer, 1999), and working with government officials (Ahlstrom et al., 2003). Caused by location-based disadvantages in the host country, the deficiencies in MNEs' specialized assets and/or capabilities (tangible or intangible; firm or location specific) can be remedied by learning about markets from local firms (Makino & Delios, 1996). Thus, firms entering new markets must understand well the requirements in the host country before deciding what capabilities and practices can be transferred from the home country or how they must be adapted in order to be effective in the host country market (Jensen & Szulanski, 2004).

Because of intense international competition and different requirements in host institutional environments and markets, MNEs often must obtain new resources and develop new capabilities (Geringer, Beamish, & da Costa, 1989; Hitt, Hoskisson, & Kim, 1997). Luo (2000) pointed out that, for achieving global competitive advantages and long-term positive economic returns, MNEs need distinctive return-generating resources and also capabilities to continuously upgrade their resources. Teece, Pisano and Shuen (1997) referred to these as dynamic capabilities which entail the capability to develop new capabilities. Capability building by learning from external environments is critical for the evolution of MNEs' strategies (e.g., Kogut & Zander, 1992; Luo, 2000).

Alternatively, subsidiaries may have access to and control of resources and capabilities valuable to their parent and/or peer subsidiaries (e.g., Andersson, Forsgren, & Holm, 2002;

Astley & Zajac, 1990; Gupta & Govindarajan, 2000). For example, there has been an increasing amount of R&D activity located in foreign countries since 1990 (e.g., Cantwell & Vertova, 2004; Gerybadze & Reger, 1999; Guellec & van Pottelsberghe de la Potterie, 2001) and rapid growth of international R&D investments into non-traditional host countries such as newly industrialized countries and emerging and developing economies (UNCTAD, 2005). Analyzing large MNEs from developed countries, Sambharya and Lee (2014) found that many MNEs first exploited their existing innovative capability to enter foreign markets and then utilized their international diversification to develop new technological resources and skills (e.g., foreign R&D centers).

An increasingly important issue is that of "reverse knowledge transfer" (i.e., knowledge flow from foreign subsidiaries to parents) for enhancing MNEs' competitive advantages (e.g., Eden, 2009; Frost & Zhou, 2005; Gupta & Govindarajan, 2000). Interestingly, while subsidiaries can leverage local market potential to encourage their parent MNEs to transfer more firm-specific capabilities, their inclination to differentiate from the parents discourages the transfer (Chen, Chen & Ku, 2012). Similarly, the possession of strategic resources (knowledge and embedded relations) enhances subsidiaries' influence within their parent MNEs' internal networks; but the influence only exists when knowledge is actually transferred back to headquarters (Najafi-Tavani, Giroud & Andersson, 2014). Rabbiosi and Santangelo (2013) argued that reverse knowledge transfer from older subsidiaries was more beneficial to the parent firm than that from younger subsidiaries. Creation of a cooperative climate within MNE networks can reduce subsidiary opportunism (Kaufmann & Reossing, 2005).

Of course, MNEs often learn (build knowledge) from their experience. In fact, they need to make a conscious effort to learn from their experience and to integrate that knowledge to

develop knowledge stocks on which they can ensure competitive parity with rivals or build competitive advantages.

4.2. Internationalization experience and firm outcomes

Firm experience can mitigate liabilities of foreignness and location-based disadvantages. From experiences, firms learn and accumulate knowledge (Cohen & Levinthal, 1990; Lane & Lubatkin, 1998); similarly, experiential learning shapes firms' perceptions of international business opportunities and risks (e.g., Barkema & Vermeulen, 1998; Delios & Beamish, 1999). For example, Gaur, Kumar and Singh (2014) highlighted the learning that comes from exporting experience gained by emerging economy firms; they found that firms with greater levels of exporting experience were more likely to shift from exporting to FDI. Chetty, Eriksson and Lindbergh (2006) examined three types of firm experience (general international experience, specific host country experience, and ongoing business experience) and their effects on the perceived importance of institutional knowledge. Their findings highlighted that general international experience from multiple diverse host countries and ongoing business experience contributed to the perceived importance of institutional knowledge. Yet, past business experience within a country (computed as number of assignments) did not increase the perceived importance of institutional knowledge. In their post-hoc analyses using a dichotomous rather than continuous measure, Chetty *et al*. (2006) showed that firms learn what they need to know in the first assignment within a country although the first assignment often is longer than subsequent assignments.

Research has produced mixed results regarding the effects of MNEs' experience with control of their foreign subsidiaries; some research showed positive relationships between firm experience and higher control and equity investment (e.g., Agarwal & Ramaswami, 1992; Delios

& Beamish, 1999) while other research has found a negative relationship (e.g., Davidson & McFetridge, 1985; Erramilli, 1991), or no relationship (e.g., Brouthers, 2002; Somlev & Hoshino, 2005). Li and Meyer (2009) tried to sort out these results, arguing that international experience is beneficial for MNEs in certain contexts but not others. They found that general international experience encouraged subsidiary ownership in developed economies but not in emerging economies because the accumulated experience was more transferable across mature market economies featured by transparent and stable institutional environments. They also found that country-specific experience reduced subsidiary ownership in emerging economies but not in developed economies, attributing the differences to the difficulties of MNEs' transfer of established business practices to emerging economies. Ando (2012) further suggested that the general international experience complements specific experience in a host country to promote equity investment. Additionally, Nielsen and Nielsen (2011) showed that international experience of top executives enhances the likelihood of full-control entry modes over share-control entry modes because international work experience enhances executives' international market knowledge. While prior research has examined the contingent effects of experience type and application context, our understanding of the contingencies on the direct relationship between firms' international experience and their control of foreign subsidiaries is still limited and requires scholarly consideration of additional contingencies such as executive attention allocation and firm specific capacity constraints. For example, strategic decisions of foreign operations are rarely made by a single individual; rather, executive teams having members equipped with different levels and types of international experience often jointly make these decisions. Therefore, the dynamics of group decision making by an internationally diverse team is likely influential in determining how a firm utilizes prior experiences to manage foreign

subsidiaries. Also, an increasing number of emerging economy firms have begun to internationalize; to catch up quickly, the accumulation and application of international experiences by emerging economy firms are likely different from those gained by the developed economy MNEs.

Firm experience can also affect subsidiary survival and performance in host countries; (Delios & Beamish, 2001). Perkins (2014) found institutional experience that was highly similar to the target country's institutional environment contributed to subsidiary survival and performance. However, MNEs with prior experience from institutionally unrelated countries actually diseconomized learning and these firms were six times more likely to fail. As might be expected, Makino and Delios (1996) reported that host country experience from both parent MNE and other sibling subsidiaries (joint ventures) were beneficial to the subsidiary's performance.

Dikova, Sahib and Van Witteloostuijn (2010) found that the effects of formal and informal institutions on the likelihood of completing cross-border acquisitions and duration of deal-making were moderated by international experience. In institutionally similar environments, prior experience with completed cross-border acquisitions increased the likelihood of a subsequent completion of such an acquisition; in institutionally distant environments, past experience shortened the time needed to complete the acquisition. Ando (2012) found that, while Japanese firms were more likely to make low investments in ownership of foreign subsidiaries when institutional distance was high, international experience tended to alleviate the concerns associated with institutional differences and thereby boosted their investments in ownership.

Although the research on international strategy is extensive and has added to our knowledge and understanding about MNEs strategies and performance, more research is needed.

In some cases, research gaps have become more apparent through the extant research. Alternatively, it has identified additional research opportunities. Finally, changes have occurred in the global competitive landscape suggesting that our knowledge of international strategy must be dynamic and thus ongoing research is necessary.

5. Future Research Avenues

The international business literature has witnessed dramatic changes in the global business environment over the past 50 years (Tian & Slocum, 2015). The field has advanced significantly in both theoretical and practical understanding. However, new phenomena and practices encourage additional careful examination and the increasingly complex and integrated global environment leads us to several critical future research avenues.

5.1. Institutional complexity and business sustainability

There are ample opportunities for future research on institutional complexity. First, while there has been extensive research on formal and informal institutional environments, we have only limited understanding of the relationship between these two. The recent study by Holmes *et al*. (2013) demonstrated the potential influence of informal institutions on formal institutions. There is need for scholarly attention to the causal relationship between different formal and informal institutions and/or among the sub-dimensions of these institutions. Institutional polycentrism (Batjargal *et al*., 2013) offers a useful lens to advance the research on institutional environments. For example, there is need to understand the collective effects of formal institutions on MNC strategies. Additionally, understanding how national formal institutions affect lower level industry and provincial institutions and their eventual effects on firm strategies is critical for understanding not only which countries MNEs are likely to enter but where they

will locate their subsidiaries within those countries (which provinces/states) (along with the strategies their subsidiaries in those countries and regions are likely to employ).

Second, the co-evolution between MNEs and their institutional environments (both home and host) requires more research. Co-evolution implies reciprocal effects between firms and their environments (Lewin & Volberda, 1999). The literature has largely focused on how the institutional environment (more on host than home environment) can support and/or impose constraints on MNE activities. Yet, while some studies have noted that MNEs initiate institutional changes in emerging economies (e.g., Dunning, 2009), we still know little about the influences of MNEs, particularly large ones, on host and home countries' institutions. Marquis and Reynard (2015) argued that in the context of emerging economies, organizations engage in three specific and identifiable sets of institutional strategies: *relational*, *infrastructure-building*, and *socio-cultural bridging*. Cantwell, Dunning and Lundan (2010) simultaneously considered MNEs' reaction to institutions through technology and institutions' responses to complex forms of uncertainty arising from MNEs' activities (resulting global interconnectedness) with a focus on institutional entrepreneurship. The narrow literature on MNEs' political strategies (e.g., Bonardi, 2004; Hillman, Keim & Schuler, 2004; Hillman & Wan, 2005; Ma & Delios, 2010; Wan & Hillman, 2006) has shed light on MNEs' effort to respond to external political institutions. Yet, we know little regarding the types of political strategies used by MNEs in foreign countries in particular, and their interrelationship with competitive strategies and outcomes thereof.

Third, a limited yet increasing amount of research has focused on the sustainability of MNEs operating in specific institutional environments. For instance, there has been a fear and debate on whether, with the mobility of corporate investment, MNEs may "race to the bottom"

as they invest in countries with the weakest regulations on environmental protection (Madsen, 2009); however, the empirical evidence has been mixed (e.g., Bernauer & Caduff, 2004; Jaffe, Peterson, Portney, & Stavins, 1995; Levinson, 1997). Corporate social responsibility (CSR), including environmental protection, can be used in local markets for legitimacy-seeking purposes by MNEs and institutional distance can influence MNEs' engagement in social behaviors (e.g., Aguilera-Caracuel, Hurtado-Torres, Aragon-Correa & Rugman, 2013; Young & Makhija, 2014). Alternatively, Campbell, Eden and Miller (2012) found that cultural distance is negatively related to MNEs' engagement in CSR activities in their host countries. Julian and Ofori-dankwa (2013) confirmed these results finding a negative relationship between MNEs' financial resources and their CSR expenditures in Ghana; yet, Gifford, Kestler and Anand (2010) illustrated Newmont Mining's efforts to develop local legitimacy by making contributions to local communities in Peru. Focusing on the home country institutional environment, Surroca, Tribo and Zahra (2013) suggested that MNEs responded to their home stakeholders' expectations by transferring socially irresponsible practices to foreign subsidiaries. Additionally, Strike, Gao and Bansal (2006) empirically showed that MNEs can act responsibly to create value in host countries but at the same time act irresponsibly and destroy value. Future research is needed on MNEs' motivations for CSR, the relationship between various types of CSR activities and outcomes (direct and indirect outcomes on financial and non-financial performance), and the interrelationship between CSR and MNE competitive strategies and business models.

Bribery and corruption are relevant to both MNEs' operations and institutional development (see the recent work by Rodriguez, Siegel, Hillman & Eden, 2006). Despite a seemingly sizeable body of literature on corruption (e.g., Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003; Habib & Zurawicki, 2002; Judge, McNatt & Xu, 2011; Mauro, 1995; Robertson

& Watson, 2004; Rodriguez, Uhlenbruck & Eden, 2005; Rodriguez *et al*., 2006; Wei, 2000; Zhou, Han & Wang, 2013), many theoretical and empirical questions remain (Li, Yao & Ahlstrom, 2015). In an effort to better understand corruption's role in MNE investments, Petrou and Thanos (2014) argued that there was a curvilinear relationship between host country corruption and MNE capital investments. When a host country's corruption was at low to moderate levels, an increase in corruption deterred MNEs' investment in that country ("grabbing hand" effect); however, when the country's corruption was at high levels, an increase in corruption actually promoted investment ("helping hand" effect) because the "*bribing system is more organized and the 'rules of the game' are known*" (page 452). Cuervo-Cazurra and Genc (2008) interestingly argued that MNEs with high corruption in their home country can better deal with host country corruption; in a way, MNEs can develop capabilities for dealing with corruption by experience with home country corruption. Valid measures of corruption are needed to promote more empirical research as the popular corruption perceptions index (CPI) by Transparency International may no longer be sufficient. Corruption is complex and entails multiple dimensions and formats (for instance, bribing, nepotism, patronage, authority abuse, etc.); also, measures of within-country variance (in terms of region and industry) of corruption will offer valuable information on the multiplicity and diversity of the institutional environment.

Fourth, the effects of institutional shocks (for example, terrorism and civil war) and responses by MNEs have not received sufficient attention from international strategy scholars. Recent research by Dai, Eden and Beamish (2013) empirically showed that MNEs' exit-vs-stay decisions in conflict zones (subnational locations) were subject to the level of threats (both static and dynamic) and the relationship between subsidiaries located in these zones and their parent and other subsidiaries are important. Czinkota, Knight, Liesch and Steen (2010) examined the

new features of terrorism ("new terrorism") and importantly highlighted the need for future research on such topics as the overall effects of terrorism, organizational preparedness, company strategy, global supply chain/distribution, and performance implications.

5.2. Newcomers to the competitive landscape

Two important newcomers in the global competitive arena are emerging economy firms and international new ventures. MNEs from emerging economies have at least two features that differentiate them from those in developed economies. First, home institutional environments of emerging economy MNEs are typically characterized by dynamism, institutional weaknesses and resource constraints. Research has acknowledged the underdeveloped strategic factor markets for emerging economy MNEs due to their weak home institutional environment (e.g., Huang & Chi, 2014; Lyles, Li & Yan, 2014); yet some structural inefficiencies can present emerging economy firms (such as firms with strong political ties and firms with group affiliations) with difficult-to-replicate advantages (e.g., Li, Cui & Lu, 2014; Yiu, Lau & Bruton, 2007). Second, emerging economy MNEs share some motivations to engage in an internationalization strategy similar to their counterparts from developed economies. However, emerging economy firms also pursue internationalization to achieve unique goals such as learning new capabilities (e.g., technology, managerial skills, etc.) (Child & Rodrigues, 2005; Hsu, Lien & Chen, 2013; Lyles *et al.*, 2014; Ramasamy, Yeung & Laforet, 2012). They perhaps even start this process by partnering in alliances with foreign MNEs in the domestic market to develop the necessary capabilities in preparation for entering foreign markets (Hitt, Li & Worthington, 2005).

Current research has focused on trying to understand emerging economy MNEs' distinctive features and outcomes (e.g., Bonaglia, Goldstein & Mathews, 2007; Child & Rodrigues, 2005; Liang, Lu & Wang, 2012; Luo & Tung, 2007; Yamakawa, Peng & Deeds,

2008). For instance, Klossek, Linke and Nippa (2012) posited that due to their weak home institutions, Chinese MNEs lacked the knowledge to deal with hurdles of institutional environments even in developed countries. Hitt *et al*. (2004) reported that emerging economy firms placed more emphasis on financial assets, technical capabilities and intangible assets in selecting international alliance partners than do developed economy firms which valued more unique competencies and local market knowledge. Wang, Hong, Kafouros and Wright (2012) presented a detailed examination of the government's involvement in emerging economy firms' outward FDI. They argued that there were different types of government involvement: state ownership in which governments affect firm internationalization through governance control of the organization; and government affiliation in which governments influence firms' international trajectory through relationship building in the emerging economy; however, not all firms have the capability to internalize government-related advantages.

More research is needed on the distinctiveness of emerging economy MNEs, their internationalization strategies, paths and outcomes. Among the research needs are: (1) understanding the types, value and outcomes of FDI by emerging economy MNEs and the variances in the emerging economy MNEs' investments in developing vs. developed economies; (2) effects of home institutions on these firms' strategic behaviors, for instance, institutional fragmentation, and the interaction between government strategic planning and firms' internationalization strategy, firms' political strategy for internationalization purposes, etc.; (3) effects of emerging economy MNEs' learning through internationalization from their domestic market competition and competition in other country markets; and (4) effects of emerging economy MNEs' institutional knowledge learned from the evolution of their home institutional environment and application of such knowledge to foreign markets.

The second type of newcomers in the global competitive landscape is the international new venture. The field of international entrepreneurship came into existence in the late 1980s and early 1990s (e.g., McDougall, 1989; Oviatt & McDougall, 1994; Zahra, 1993), highlighting the terms of “born global” (Rennie, 1993) and “international new venture” (Oviatt & McDougall, 1994). Due to the newness of the ventures, entrepreneurs and top executives’ knowledge/insights, experience, social network, and risk orientation are influential in steering the development and international expansion of these ventures (e.g., Bloodgood, Sapienza, & Almeida, 1996; De Clercq, Sapienza, Yavuz & Zhou, 2012; Kaleka, 2012; Zolin & Schlosser, 2013). For instance, Zucchella, Palamara and Denicolai (2007) found that entrepreneurs’ previous international experience was a positive predictor of early internationalization; Ellis (2011) suggested that opportunity recognition for internationalization was highly subjective and this process was actually shaped by entrepreneurs’ existing ties with others. Also due to their newness, ventures typically lacked market legitimacy and were resource-constrained which presented unique challenges for their internationalization (e.g., Weerawardena, Mort, Liesch & Knight, 2007) along with the use of distinctive strategies and paths of international expansion (e.g., Gleason & Wiggenhorn 2007; Prashantham & Floyd, 2012; Oviatt & McDougall, 2005). Fernhaber and colleagues reported that collaborative relationships with internationalizing firms located geographically close to them can promote new ventures’ internationalization (Fernhaber, Gilbert & McDougall, 2008; Fernhaber & Li, 2013; Milanov & Fernhaber, 2014).

Although recent research has increased our understanding of international new ventures, much more research is needed to address the following topics: (1) roles of entrepreneurs - (a) cognitive aspects of the venture creation process by immigrant and transnational entrepreneurs and (b) returnees in emerging economies and their internationalization process. For instance, Liu,

Lu, Filatotchev, Buck and Wright (2010) examined the effects of returnee entrepreneurs on Chinese high-tech firms' innovation. We know little about how new ventures with these types of founders internationalize/grow. (2) Internationalization of virtual ventures – how online social capital can help or deter venture internationalization; (3) integration of issues such as, how new ventures deal with institutional transitions/institutional shocks occurring either in their home country or in their host countries, and (4) distinctive features and outcomes of international new ventures from emerging economies along with the implications for their internationalization and international strategy. For instance, Zhou and Wu (2014) examined the implications of early foreign entry for Chinese new ventures. They found that, while early internationalization contributed to Chinese ventures' sales growth at the beginning (but not innovation and profitability), the performance benefits became obsolete as younger ventures aged. A good example is jumeiyoupin.com which was listed on New York Stock Exchange only four years after its founding in 2010.

6. Conclusion

The world has witnessed dramatic changes in the past 50 years, many of which have been reflected in the international business research. We reviewed the evolution of international business field and discussed the advancement of international strategy research. We highlighted the shift from research on entry modes to market entry timing and speed and simultaneous consideration of capability exploitation and exploration. Our review identified important progress in the existing international strategy research that has provided greater understanding of MNE activities with the ultimate purpose of achieving superior performance. Yet, it also reveals that many areas of the international strategy literature remain fragmented with gaps in both theory and methodology, highlighting the need for future research and the directions thereof. In

addition, we highlighted the emerging research themes on institutional complexity, business sustainability, and two groups of newcomers into the global competitive landscape. With the intention to stimulate open conversations, we provide a range of suggestions for the future research. Thus, the research over the past 50 years has significantly advanced our knowledge of international strategy. Partly because of a more highly interconnected global economy and an increasingly dynamic global competitive landscape, the need for more research to provide an enhanced understanding of value-creating MNE strategies has never been more important.

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