Abstract

From its very origins and key originators (Coase, Hymer and Dunning), most IB research has been more “universal” than “inter-national” in nature because either dependent and independent variables – or both – have not focused on phenomena that truly cross borders even when several countries were included in its design. True inter-national business research requires focusing on what is really “foreign” or “multi-national” about these variables. Some recent developments are promising in this regard but they will require more complex research design and empirical verification.

Keywords: IB Theory, foreign, multinational, international and universal

WHERE IS THE "I" IN IB RESEARCH?

When firms buy, sell, license, franchise, joint venture, set-up subsidiaries and/or engage in other business activities that "cross borders," they are engaging in international trade and/or investment as well as in their management. However, *do the studies of such activities always amount to international-business (IB) research*? The answer to this question may well be negative according to a classification devised and presented by the late Graham Astley at a workshop organized by the International Management Division of the Academy of Management at its August 1990 meeting in San Francisco (for an account of his presentation, see Boddewyn & Iyer, 1999: 173-181; Boddewyn 2008: 8-10).

"Universal" versus "International" Theories

Discussing the "theoretical uniqueness" of IB studies, Astley argued that the models and theories used in such research varied in the extent to which they are distinctly and uniquely "international" – the "**I**" in our title. His main point was that the inclusion of two or more countries in a study did not automatically amount to "**I**" research because this status depends on the nature of the investigated phenomena and of the variables used to express and measure their relationships. For that purpose, Astley relied on a fourfold classification:

1. *Universal theories applied to foreign samples rather than to domestic ones.* Classical examples are international-trade theory and transaction-cost economics whose propositions apply to *all* places and times – namely, that economic activities gravitate to where factors of production and markets are more favorable, and that firms internalize the market until the benefits of common governance are exhausted.

In the same vein, researchers may test such a proposition as: "The greater the cultural differences among countries, the greater the decentralization of decision-making." Here, the independent variable is superficially "international" because the testing requires data from several countries. However, this proposition is really derived from theories that are *universal* in nature since they could as well be tested between two U.S. states (e.g., California and Mississippi) in the same country but with different subcultures. Therefore, a “foreign” sample does not necessarily make a theory “international.”

2. *Theories whose dependent variable is distinctly international but whose independent variables are not*. Astley gave as an instance the structuring of international joint ventures (IJVs) between firms of different nationalities (the dependent international variable) being affected by technological intensity (the independent variable) – the latter again a “universal” type of variable whose impact on a joint venture could also be studied within a single country.

It is worth observing that these first two research instances are where IB researchers encounter their major competition from economists and strategists who have found it relatively easy to venture into “foreign waters” because they can rely on “domestic” research models – really “universal” ones – to extend their research to foreign settings. The next two situations, however, are where “true” IB researchers should find their domain because of their expected knowledge of foreign settings at once physical, economic, political, social and cultural.

3. *Theories with dependent and independent variables that are both distinctively international*. Astley’s example was foreign direct investment (FDI) being affected by transaction costs that are truly international (for example, those related to foreign culture and regulation). Thus, when an economy operates under very bureaucratic rules applying to FDI, there will be additional transaction costs uniquely due to this country’s regulatory system, which an investor would not face within a free-trade nation-state.

4. *Theories whose central propositions*[1] *are distinctively international* – for instance, that the existence, volume and forms of FDI depend on the permeabilities of sovereign states that accept, modify, reject or annul (e.g., through expropriation) such IB activities by *fiat* (e.g., Boddewyn & Brewer, 1994).

It is in these last two areas that real IB researchers do have and should have a competitive advantage because they require in-depth knowledge of the core conceptual foundations of IB and of foreign nation-states – with "nation" referring to the socio-economic dimensions of a country and "state" to its political ones.

From "Domestic" to "Universal"

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

> Because focal variables in closed systems do not interact with, and are not dependent on, any particular external conditions, they are valid across countries regardless of differences in the national environment. By contrast, open-systems theories may rely on particular features of the external environment, some of which vary among countries . . . Theories [involving closed technical systems] have external validity across countries, since they are affected neither by differences in social behavior, such as cultural differences, nor by differences in the external environment, such as different legal systems or social institutions. By contrast, open social systems . . . are severely restricted in their international generalizability, and are valid only as far as key relationships among focal variables obtain *and* essential elements of the external environment are present (Rosenzweig, 1994: 31-32).

What he called "international generalizability" is what we mean by "universal" on account of the invariant nature of the relationships between the dependent and independent variables while our "international" criterion focuses on cases where the value of these variables will vary from country to country. In a reverse fashion, one may inquire about the applicability of IB models and theories to domestic situations, thereby implicitly looking for "universal" ways of interpreting business situations whether located at home or abroad.

The Relativity of "International" Theories

Rosenzweig (1994) also remarked that theories which seem universally applicable may reflect national values such as low power-distance and high individualism (Hofstede, 1991). Thus, in the case of transaction-costs economics, its central concept that hierarchies arise when market mechanisms are not efficient on account of opportunism, information-impactedness and small-number bargaining does assume that the market is the theoretical point of departure while hierarchy is the fall-back position when markets fail. However, a French theorist raised in a country marked by high power-distance might take the existence of hierarchy as the base model and explain the existence of market mechanisms as the product of a failure of hierarchy (Rosenzweig, 1994: 36, quoting Hofstede, 1991: 149)! Therefore, we must make sure that even truly "international" studies apply theories with an accurate understanding of their applicability to cross-border phenomena.

The confusion between "international" and "universal" research has been exacerbated by the ambiguous meanings of such frequently used expressions as "state" (which can apply to both a national sovereignty and its parts, such as New York State in the United States), "region" (referring to both such congregation of sovereign states as the European Union and to the subparts of a country, such as Flanders in Belgium), "South" (meaning either the developing countries largely located below the equator or the bottom part of a country (e.g., the Southern U.S. states), "interstate" which can be applied to both cross-border trade and investment between two nation-states and the same activities carried between two within-country states (as with the "interstate commerce" clause of the U.S. Constitution, which controls trade among U.S. states), and "local" which can refer to either "domestic" or "foreign" locations, conditions and actors.

Our Research Purposes

With these *caveats* in mind, *which of our popular paradigms, theories, models and conceptual frameworks may be suspected of being "universal" rather than truly* *"international" in nature*? To what extent, for instance, are Coase- and Hymer-type theories of the multinational enterprise truly international explanations of its existence, operation and performance – or is there nothing "international" about them? To shed light on this existential question for international-business research, we purport to demonstrate the following challenging propositions:

1. *In the current conceptual foundations of IB, there is little that is specifically "**I**" in nature.* This observation applies to most FDI and MNE theories as well as to paradigms concerning international production – notably, the Ownership-Location-Internalization (OLI) one of John Dunning.

2. *IB strategic innovations that reflect an increase in the sophistication and complexity of MNE operations makes it more pressing for IB scholars to focus on what is distinctly **I**.*

THE ECONOMIC FOUNDATIONS OF IB RESEARCH – MORE "B" THAN "I"

IB as a separate field of scholarship is based on the economic theories of the firm (Coase, 1937) and of industrial organization (Hymer, 1960/1976; Horst, 1972) but other fields such as strategic management have benefited from similar cross-fertilization with economics. In the case of IB theory, its very genesis and much of the subsequent development of its core foundations are economics-based. In particular, Coase and Hymer developed original insights about the firm in general and the multinational enterprise in particular, that have fundamentally shaped IB theory. However, *their arguments have been essentially universal in nature and have therefore misguided the development of true international theories pertaining to FDI and the MNE so that most IB researchers that borrowed from their profound insights have failed to develop the "***I***" in IB theory*.

Ronald **Coase** (1937) demonstrated that the firm is an institution designed to minimize the information-gathering, negotiation and contracting costs of using transactions in external markets by organizing them through an inside hierarchy. MNEs exist, operate and perform only because of market failures which lead these firms to internalize the market institution by replacing cross-border transactions with lower-cost ones performed within a hierarchy (Buckley & Casson, 1976). However, *Coase's theory, as applied to MNEs and FDI, is really a universal one of Astley's type 2 because the independent variable – that is, market failures – exist everywhere.*

While early works on issues pertaining to international production, FDI and the MNE date of the 1950s (e.g., Penrose, 1956 and Dunning, 1958), it was the Canadian economist Stephen **Hymer** who helped found IB as a new field (Dunning and Rugman, 1985; Teece 1985). He claimed that the pursuit of profits by growing firms already established in developed nations eventually leads them to consider foreign operations such as exporting, licensing, franchising and FDI. All of these modalities have their own advantages and disadvantages but, on balance, FDI is superior in terms of the control it affords to MNEs. This superior control allow these firms to deal with international rivalry (**R**) (specifically, to reduce it) as well as to better exploit their monopolistic advantages (**A**) by leveraging them in-house instead of through the open market.

The benefits from this leveraging of advantages are related to market failures (e.g., the high cost of market transactions) as well as to such firm-specific advantages as the speed and efficiency of transferring intra-firm those advantages which have the characteristic of a "public good" and/or involve tacit knowledge (Dunning & Pitelis, 2008). FDI also offers the benefit of risk diversification (**D**) although, for Hymer, this is a lesser motive because it does not require control (Hymer, 1976: 25). Overall, the **RAD** benefits of FDI (from **R**ivalry reduction, **A**dvantage exploitation and Risk **D**iversification) explain both its existence and that of the MNE as well as why MNEs are able to compete with locally-based rivals in foreign countries despite some inherent disadvantages of being foreign (Hymer, 1976: 46).

Subsequent development in the theories of FDI and the MNE focused almost exclusively on the **A** part of Hymer's work. In particular, the now classic contributions of Buckley and Casson (1976), Teece (1977), Rugman (1980), Williamson (1981), Dunning (1998) and Kogut and Zander (1993) explored the various reasons why the intra-firm exploitation of advantages is preferable to an inter-firms one. Meanwhile, Hymer's **R** has been downgraded except in the works of Vernon (1966, 1979), Graham (1990) and Buckley and Casson (1998) and his **D** has not been very influential – partly due to the widespread view that shareholders can diversify risk by themselves so that there is no need for firms to do it (e.g., Porter, 1987). Nevertheless, a sub-area emerged within IB, exploring the impact of international risk diversification on firm performance (see Delios & Beamish, 1999, and Qian, Li, Li & Qian, 2008 for a recent account and new evidence). *However, these scholars have essentially developed theories equally applicable to domestic situations – for example, to a US multidivisional-form firm diversified in many US States* (Astley's type 1 or 2).

In terms of the explanandum, internalization scholars such as Rugman (1980) focused on explicating FDI and the MNE while Vernon's (1966, 1979) product-life-cycle approach and Dunning's OLI paradigm have had the wider objective of explaining international production. The latter two scholars reached beyond the internalization of advantages by including location (Dunning) and emphasizing inter-firm rivalry both intra-nationally and inter-nationally (Vernon). Besides, Vernon (1966, 1979) introduced a dynamic element as he aimed to explain the process of internationalization although this dynamism is mostly absent in internalization theories as well as in the early OLI paradigm.

Subsequently, Dunning (1982) aimed to rectify this problem by developing the concept of the investment development cycle (IDC) which is based on the idea that the inward and outward direct investments of different countries as well as their balance will depend upon their stage of economic development. In addition to the IDC, a stage approach was developed by the Scandinavian school (see Steen & Liesch, 2007 for a recent critical account) which explained the choice of location by MNEs partly in terms of familiarity and of the “psychic distance” among markets – a concept linked to Hymer’s “liability of foreignness” which has emerged more recently as an important sub-category of IB scholarship (e.g., Zaheer, 1995).

NO INTERNATIONAL THEORY SO FAR

Although the above developments are only part of the fascinating journey of IB scholarship over the past 50 years, one cannot claim that all of them amount to true IB research in terms of Astley’s classification. *In the case of Hymer’s canonical contribution, it is arguable that most of the major categories and ideas he developed and leveraged in order to explain FDI do not pass the Astley test of a true “international” theory*.

For example, rivalry reduction, advantage exploitation and risk diversification are universal categories equally applicable to expansion within one country such as the United States. A company operating in a particular state (say, Ohio) can develop advantages (such as an innovative new product) that can be leveraged in another state such as Louisiana. If this firm faces rivalry in its own state and the intra-firm exploitation of the innovation is perceived to be more profitable by the firm, it may decide to invest in Louisiana so as to capture value from its advantages and deal with rivalry (actual or potential) in both Ohio and Louisiana. *Nowhere in the above application of Hymer’s work is there anything that makes his theory uniquely international because it is applicable to both domestic and foreign situations alike*. For instance, if we replace Louisiana with France, we obtain a foreign rather than domestic investment but all we have is a “foreign sample” (Astley’s case No 1).

Ironically perhaps, Hymer’s least favored explanation for FDI is a step up on Astley’s ladder. While risk diversification itself is a universal concept, Hymer referred specifically to risk diversification derived from inter-national (not just intra-national) expansion.

Accordingly, while the dependent variable – that is, risk diversification – is universal, the independent variable (for example, the number of foreign countries in which a company operates) is inter-national so that this is a variant of Astley's case No. 2. Even in this case, account should be taken of the differential role of the independent variable – for example by including control variables such as the degree of intra-national diversification. Otherwise, it will not be possible to identify the differential impact of inter-national diversification versus intra-national one.

Depending on the case, Hymer's concept of the "liability of foreignness" belongs to the second category or possibly to Astley's category No. 3. In the former, we may have a make-or-buy decision (a universal dependent variable) explained in terms of an inter-national independent variable – namely the liability of foreignness (case No. 2). Alternatively, a foreign make-or-buy decision (a superficially international dependent variable) could be explained in terms of a genuinely international independent variable – that is, of the liability of foreignness. This case would be moving towards Astley's category 3 but not quite reaching it because the independent variable is not genuinely inter-national. Once again, one would require control variables for intra-national make-or-buy on the right-hand side of the equation. Alternatively, the left-hand side should reflect the difference between inter-national and intra-national make or buy.

The same charge of universalism applies even more so in the case of internalization theory as applied to FDI by Hymer (1968), Buckley and Casson (1976), Williamson (1981) and Kogut and Zander (1993). The "public good" nature of knowledge, the problems of asset specificity and opportunism and the notion of tacit knowledge developed by these scholars are universal in nature so that, when applied to an international sample, we only have models pertaining to Astley's category No. 1. When they involve a specifically inter-national dependent variable, such as FDI, these models move to category 2. For category 3 to apply, one would have to focus on the differential transaction costs arising from the various degrees of tacitness, public-good attribute, opportunism and asset specificity between similar investments located overseas rather than domestically. *To our knowledge, there is very little such research and, more disturbingly, none of the above theories goes anywhere near Astley's category 4!* Teece (1977: 225-226, emphasis added) is a noteworthy rare exception. As he observed:

> It is apparent that many of the characteristics of international technology transfer are also characteristic of the technology transfer that occurs within national borders, but there are differences. For instance, distance and communication costs very often differentiate international from domestic transfers. Although the communications revolution of the twentieth century has enormously reduced the barriers imposed by distance, the costs of international communication are often significant. Language differences can also add to communication costs, especially if the translation of engineering drawings is required. The experience of Polyspinners Ltd at Mogilev in the Soviet Union is ample testimony to the *extra costs* that can be encountered. International differences in units of measurements and engineering standards can compound the problems encountered. Additional sources of difficulty are rooted in the cultural and attitudinal differences between nations, as well as differences in the level of economic development and the attendant socioeconomic structure.

In order to identify the extra costs of technology transfer attributable exclusively to inter-nationality, Teece collected primary data by asking managers about them. While the results confirmed his view that inter-nationality matters, he also went on to conclude that: "Further analytic research and more extensive data collection are required if our understanding of international technology is to be improved" (Teece, 1977: 260). Unfortunately, his lead was not followed up, not least because of the severe difficulties pertaining to data collection of truly inter-national variables.

Similar objections apply to more general or "envelope" theories such as Dunning's OLI paradigm. His O (ownership), L (location) and I (internalization) work equally well at the national level as at the international one. To a lesser extent, the same is true of Vernon's (1966, 1979) theorization when a nation is large enough to exhibit inter-regional disparities, and it also applies to the "leveraging of subsidiary skills" concept in the case of M-form firms within a single nation, which leverage the skills of their intra-national business units.

To summarize, all three elements of Hymer's triad (**R**, **A** and **D**) apply equally well to diversified firms within a nation – and this is also true concerning Hymer's own explanation of FDI and regarding subsequent internalization-type theories. Equally, the models of Buckley and Casson, Williamson, and Kogut and Zander apply as well to intra-nationally diversified firms as to inter-nationally diversified ones so that there is little specifically "**I**" about them. Instead, one encounters mostly "**B**" in the sense of universal business behavior found both at home and abroad.

Our observation generalizes an earlier insight from Penrose (1976: 562) that Hymer and Coase-type theories about the MNE failed to distinguish it from domestic firms. Penrose went on to observe that "the same issue had early been raised with respect to international and interregional trade. Bertil Ohlin (1933) succinctly analyzed the nature and difference between interregional and international trade, stressing differences in the quality of productive factors in different countries, and the possibility of using entirely different technical processes. These are the same types of considerations that influence the investment of MNCs" (p. 563).

REINSTATING THE "I" IN INTERNATIONAL-BUSINESS RESEARCH

Genuinely "I" Research

What should be distinctive about FDI and the MNE are the "**F**" (foreign) and "**MN**" (multi-national) dimensions because only theories that account explicitly for unique factors that would *not* be relevant for "**non-F**" and "**non-MN**" phenomena are of added value in explaining international phenomena. What can be considered as true **F** and **MN** elements in this respect?

It is well understood that the concept of "international" is linked to the existence of national borders (some 200 of them, nowadays) crossed by trade and investment. However, *what is it that MNEs encounter in these "foreign" nation-states*? Grosse and Behrman (1992) and Boddewyn and Brewer (1994) emphasized political institutions represented by the sovereign state which has a monopoly of the exercise of power over its legal subjects and can therefore accept or reject by *fiat* goods and services as well as firms from other sovereignties. Therefore:

> Any theory of *international* business must be a theory of policies and activities of business *and* governments in conflict and cooperation . . . The fundamental distinction between domestic and international business is the existence of interventions by governments of the home and host countries in inter-country business activity, which lead to business reactions (Grosse & Behrman, 1992: 94).

In other words, assuming government as a "given" or unchanging phenomenon takes the "national" out of "inter-national" and leaves the analysis as a simple extension of universal firm and market theories (p. 97). Instead, a distinctive IB theory must offer explanations of market interventions and distortions by governments rather than of corporate policies (p. 96). Grosse and Behrman (1992: 113-116) went on to review seven theories (e.g., transaction-cost and internalization) which they labeled as being simply "extra-domestic" when applied to activities outside a particular country – a situation analogous to Astley's type 1.

Their proposed IB theory would explain the outcome of negotiations over the appropriation of the gains between MNEs and governments on the basis of wealth and power resources in a quasi "mercantilistic" manner (p. 120) – hence, their recommendation of using bargaining theory for research purpose (p. 93). However, their approach in only partly "international" to the extent that the independent variable – namely, the separate sovereignty of each host state – affects the outcome of this game, which is a universal dependent variable in a manner associated with Astley's mode 2.

To make Grosse and Behrman's theory fully inter-national (Astley's type 3 or 4) would require giving a multi-national (**MN**) dimension to the dependent variable resulting from the absence of "flatness" (Friedman, 2007) or the presence of "semi-integration" (Ghemawat, 2007) among states. For that purpose, the payoffs from each bargaining game would have to differ and reflect the different institutional characteristics of each country under consideration. In practice, each different country-MNE relationship would need to be set-up as a different bargaining game but this would tend to reduce the generalizability of the results.

Developing the "F" Element

As we stated at the outset of this analysis, the specific competences of IB researchers should lie in their knowing the relevant foundations of the field as well as foreign institutions, their national differences and their impact on cross-border trade and investment although there are problems connected with this institutional approach associated with North (1990; see also Dunning & Lundan, 2008 about institutional ownership advantages). More recently, Henisz and Swaminathan (2008, p.537) observed that: "International business research necessarily requires attention to the institutional characteristics that alter the costs of engaging in business activity of a given form in one nation as compared to another. These institutional characteristics span the regulative, normative and cognitive domains."

However, within most nation-states, there are internal differences which sometimes are as large as those found among countries (e.g., the Eastern, Western and Southern parts of the United States). *Are they differences of degree or nature* – in other words, are they only "greater" when comparing China and the United States than when contrasting New York, California and Mississippi? Or are there fundamental differences between Chinese and U.S. economies, polities, communities and cultures as suggested by Whitley's (2000) comparisons of "business systems" and Hall and Soskice's (2001) "varieties of capitalism?" We do not think that a clear answer has so far been given to this question so that the content of "**F**" remains unspecified. Importantly, such an answer can only be provided on the basis of empirical evidence and substantiation. We are therefore unlikely to obtain a convincing answer before the field itself starts undertaking genuinely **I** research.

Jackson and Deeg (2008) made a related point by suggesting that IB must take stronger account of country-specific configurations rather than resorting to broad generalizations about home-country and host-country effects without regard to the specific countries involved. In looking at particular cases or sets of cases in more detail, new methods are needed to better conceptualize and measure the combinations and interactions of institutions in different contexts – rather than using linear combinations of indices or traditional factor analysis. They suggested the potential importance of set-theoretical approaches that see organizations and institutions in terms of various “bundles” of traits, which would be consistent with the notion of “types” of capitalism or theories of institutional complementarity.

Besides, in an evolutionary perspective, economies may tend toward homogenization when untrammelled by regulation and taxation – for example, the net prices of goods and services across nations will tend to equalize under conditions of free trade. *However, there is no such automatic levelling tendency among political, social and cultural institutions, notwithstanding the assumed impact of globalization toward homogeneity among nation-states.* In other words, the **F** dimension may well tend to shrink among economies under appropriate policies while remaining strong in the case of polities, communities and cultures. Even so, we can take it for granted that economic differences will remain significant even when states have ceded part of their autonomy to a supra-national body – for example, for the determination of interest rates in the case of the European Union. Therefore, it is only if we assume that nation-states will remain different and independent that true “**F**” elements can be uncovered.

However, we still do not know how to systematically translate economic, social and cultural factors into truly "**F**" independent variables with as much confidence as we can in the case of political ones where the fact of sovereignty provides a fundamental difference among states. While the competence base of IB scholarship currently lies mostly in industrial organization, the theory of the firm and business strategy, more inputs will be required from international political economy, institutional theory, development and trade economics and even macro-economics to succeed in isolating true **F** factors (Hines, 1996).

Besides, to the extent that **F** relates to differential risks, financial economics also becomes important in dealing with the **D** (risk diversification) aspect of Hymer's **RAD** research triad – and so does work on the importance of the national business cycle on outward investment and of such national characteristics as currencies, taxes and differential risks in explicating FDI (Head & Meyer, 2003). Explaining differences in outward investment in terms of differences in national business cycles would be a rare example of Astley category 3 or 4 – in that both the dependent and independent variables are genuinely inter-national and the question itself is of an inter-national nature.

Moreover, in order to develop the **F** part as a determinant of FDI, the MNE and international production, more resources need to be leveraged on genuine **I** issues, such as diverse macro-economic, institutional and cultural regimes which are all underesearched (Jackson & Deeg, 2008). For example, the possibility of "decoupling" – that is, that emerging markets will gradually sever their linkages with developed markets and therefore manage to offset economic downturns in the developed world, such as the one we are experiencing right now (Akin and Kose, 2008) – was until the recent downturn extremely topical among financial economists, practitioners and journalists. However, we are unaware of econometric analyses of the impact of such decoupling on FDI flows (e.g., Paul & Wooster, 2008).

The impact of different regulatory contexts on FDI so far concerns economists more than IB scholars (e.g., Culem, 1988, and Wheeler & Mody, 1992) although work on the importance of institutional and cultural determinants of FDI is increasing (e.g., Dunning & Lundan, 2008 and the JIBS Special Issues on "Internationalization – Positions, Paths, and Processes," 2007, "Institutions and International Business," 2008, and "Conflict, Security and Political Risk," forthcoming). Still, much more work is needed on all these fronts to help delineate and sharpen the distinction between **B** and **IB**. Such work can build, among others, on the contributions of "the liability of foreignness" literature (Zaheer, 1995), uneven development (Eden, 1991), Bartlett and Ghoshal's (1993) global integration/national adaptation distinction, Dunning's work on the international development cycle, the risk diversification afforded by investing in different countries, and the literature on institutional, cultural and regulatory differences among nations (e.g., Hill, 2009).

Empirically speaking, IB scholars should follow the lead of Teece (1977) in collecting and employing the requisite data that would allow them to identify and test for the differential role of foreign versus national variables. His approach would at least help elevate their work to Astley's category 3. Together with a recognition of the issues discussed above, this endeavor would move the whole of IB to **I**, not just **B**.

In summary, *genuine IB scholarship should be more concerned with Astley's categories 3 and 4 types of research*. So far, in category 3, we are only aware of the single attempt by Teece (1977). Category 4 is in one sense easier to deal with, yet not within the extant competences and/or foci of IB scholars. Below, we suggest that some widely observed strategic innovations by MNEs add urgency to the need for genuine **I** research.

The Importance of Strategic Innovations by MNEs

The higher level of sophistication of MNE strategies in the past twenty years or so has increased the domain of, and strengthened the need for, truly **I** research. Such IB innovations include the adoption of a "portfolio and/or stages approach" by many MNEs whereby they combine FDI with franchising and/or international joint ventures and/or move from one to the other over time. Starbucks is a case in point. Other new research paths include the "open" approach to innovation (Teece, 2006; Chesbrough, 2003) and the emergence of "born-globals" and "meta-nationals" (Doz, Santos, & Williamson, 2001; Verbeke & Kenworthy, 2008). Could the differential need to acquire knowledge assets in a foreign country lead to different inter-national versus intra-national investments?

Externalization and outsourcing have acquired significance in the past fifteen years or so (Teece, 2006). There is nothing inevitable about growth through vertical and horizontal integration since firms can grow by combining the latter with disintegration, internalization with externalization, and specialization with diversification, (e.g., Kay, 1997) although we need a better appreciation of the role of "**F**" in this context. For example, could it be that increased global integration helps engender higher specialization by firms on their core activities alongside the outsourcing of their non-core activities – for example, by providing a wider menu of potential locations and firms to outsource to? Which activities do (should) firms externalize and which ones should (do) they keep in house? Importantly, where in the globe should they place their activities and on what basis (e.g., locational advantages)? Besides, is it better to externalise abroad rather than at home and why? Could the avoidance of domestic rivalry be part of the explanation? *Researching these topics would increase our knowledge of **F** and **MN** factors in a truly international manner*.

One major activity that firms and especially MNEs use to internalize is R&D. These days, many firms move to "open innovation" or combine "closed" with "open" innovation (Chesbrough, 2003). Often, this involves keeping sufficient in-house R&D to create the "absorptive capacity" needed to identify or even develop open-innovation opportunities created by others (such as universities) or in collaboration with them, that can be captured by

MNEs (Research Policy, 2006). Can IB scholarship help us understand this phenomenon better? In particular, does being an MNE help explicate the apparent move from closed to open innovation or their combined use? How does inter-nationality matter in this context? For example, can firm-size differentials help explain open innovation. Could it be that the size of firms is linked to the size of nations and thus helps explain open innovation by firms in more developed economies compared to firms in less-developed ones (as in the case of IT in India)?

In the cases of born-globals and meta-nationals, genuine IB scholarship should involve the capacity not only to explain *ex-post* but also to predict *ex-ante* why a firm like Skype could/should choose to place its headquarters in Estonia and not elsewhere. The very act of being born-globals involves being a meta-national – that is, a firm that tries to leverage global locational advantages – and IB scholars should study such advantages and be able to predict and even prescribe where a company should place its headquarters and/or subsidiaries so as to realize as fully as possible its global "productive opportunity" – that is, the relationship between its internal resources and capabilities and its external environment (Penrose, 1959). In this respect, the very notions of born-global and meta-national firms invites Astley's category 4-type research.

Strategic innovations by MNEs such as those described above are those where IB scholars should have a competitive niche because they relate to the very theory of the MNE and FDI and/or to the **F** dimension of business strategy. While the true internationalization of IB research is neither easy to complete nor is our conclusion comfortable for IB scholars, it seems to us that the time has come for IB research to address this essential issue that seems to have plagued it almost since its emergence.

IMPLICATIONS

We argued that a number of theories and sub-themes within the IB (e.g., "the liability – or asset – of foreignness" concept) exhibit an *implicit* understanding of the need to deal with **F** and **MN** but, so far, little progress has been made in making it *explicit*. The alternative is to accept the idea that IB is not a field in its own right but rather a subfield of **B**, that happens to focus on **I** elements – particularly, as far as **F** and **MN** ones are concerned. Clearly, this is not an unknown idea in business school circles which sometimes question the very *raison d'être* of a separate IB department and special IB courses (Eden, 2008). However, this assumption is neither fair nor the way forward for IB research (e.g., Tung and van Witteloostuijn, 2008). *What is it then that we need to achieve as far as true IB research is concerned?* Let us consider the form of Astley's type-3 or 4 equation:

True IB dependent variable = f (true IB independent variables)

Both true dependent and independent variables would be phenomena that cross borders into foreign economies, polities, communities and cultures but are not found in, or at least differ in nature from, those present in home nation-states. As we saw before, most of the so-called "international" phenomena – for example, joint ventures and the transfer of knowledge among the parts of a company – are also found at home. Simply saying that, instead of studying these phenomena when they happen between Louisiana and California, we will compare them between the United States and France, leaves unanswered the question about what "United States" and "France" stand for? To be sure, they are different "sovereignties" in a way unmatched by the limited ones of two U.S. states but in what aspects of sovereignty are we interested since governments assume many forms (e.g., a federal system versus a parliamentary democracy) and engage in multiple practices (e.g., ownership, , regulation, taxation and subsidies)?

To say, for example, that the taxation of corporate profits differs in the United States and France is insufficient because Louisiana and California also tax these profits differently. We would then have to identify features that are *not* significantly found within the United States – for example, the existence of state enterprises in the French aeronautic industry, which does not exist in the United States. At the very least, researchers should try to identify the differences in the variables under consideration that are attributable to internationalization, as was done by Teece (1977). Of course, this approach limits the scope of IB research because we would have to ferret out particular situations such as the different types (private and public) of ownership in the aeronautic industry rather than in all industries, and we would have to collect primary data but, at least, we would be moving in the right direction by focusing on "**F**" topics. *Consequently, IB researchers should have to justify the truly "international" nature of their research instead of simply saying that they will be covering several nation-states.*

This brings up the issue of what **MN** (multi-national) stands for if simply including two or more countries is not sufficient albeit necessary? We would argue that the researcher focusing – say, on the aeronautical industry – would have to justify the minimal number of sovereignties necessary to cover the spectrum of public versus private ownership of aeronautical firms, which is likely to include hybrid forms such as majority versus minority state ownership, consortia of public and private firms, and heavy government subsidization of private firms. *In other words, the researcher would have to prove that a sufficient number of countries are included to allow for variations in the impact of government intervention.*

The above example covers political differences but what similar variations would apply in the case of economic, social and cultural variables? Again, simplistic national differences such as high versus low per-capita income should be avoided since poverty also exists within the United States – and the same is true about Christian versus Islamic religions and individualistic versus collectivist orientations, which can also be found within the United States. *In other words, IB researchers would have to argue and prove that purely "domestic" research focused on such differences would be insufficient to measure the impact of these variables* ***and*** *that cross-border transactions (trade and investment) and relations (within and among firms) were affected by these variables*. This is a tall order but one necessary to prove that the research was not only about "**B**" but mainly about "**I**."

Progress will also require an extensive data collection process that captures differences between nations and even attempts to devise global maps that detail the advantages and disadvantages of inter-national locations for particular activities. We feel that such an effort is of the essence if the IB academia is serious about addressing the two existential dilemmas which we outlined at the outset and argued throughout this analysis of the travails of recent IB research.

NOTES

1. By using "propositions" rather than "variables" in his fourth category, Astley was elevating the discussion from "models" to "constructs" – that is, to more generalized statements of relationships between "approximated units" which, by their very nature cannot be observed directly (e.g., centralization or culture), compared to "observed units" which can be empirically operationalized by measurement (Bacharach, 1989: 498).

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