

THE MULTIPLE DIMENSIONS
OF INSTITUTIONAL COMPLEXITY
IN INTERNATIONAL BUSINESS
RESEARCH

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VOLUME 15

THE MULTIPLE DIMENSIONS OF INSTITUTIONAL COMPLEXITY IN INTERNATIONAL BUSINESS RESEARCH

EDITED BY

ALAIN VERBEKE

*University of Reading, United Kingdom; Vrije Universiteit
Brussel, Belgium; University of Calgary, Canada*

ROB VAN TULDER

Erasmus University, The Netherlands

ELIZABETH L. ROSE

*University of Leeds, United Kingdom;
Indian Institute of Management Udaipur, India*

YINGQI WEI

University of Leeds, United Kingdom



United Kingdom – North America – Japan
India – Malaysia – China

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CONTENTS

<i>List of Figures</i>	<i>ix</i>
<i>List of Tables</i>	<i>xi</i>
<i>List of Contributors</i>	<i>xv</i>

INTRODUCTORY SECTION

D. Eleanor Westney: A Biography <i>Elizabeth L. Rose</i>	<i>xvii</i>
Chapter 1 Institutions 2.0: Which Institutions Matter in IB Research? <i>Alain Verbeke, Rob van Tulder, Elizabeth L. Rose and Yingqi Wei</i>	<i>1</i>

PART I

THE GREAT NEW CHALLENGES FOR IB RESEARCH – ESSAYS IN HONOR OF D. ELEANOR WESTNEY

Chapter 2 International Business and Multi-level Institutional Change: Looking Back and Facing Forward <i>D. Eleanor Westney</i>	<i>23</i>
Chapter 3 Global Strategic Analysis and Multi-level Institutional Change <i>Donald R. Lessard</i>	<i>45</i>
Chapter 4 Is a Networked World Economy Sustainable? <i>Stephen J. Kobrin</i>	<i>63</i>
Chapter 5 Network Effects and Multi-level Dynamics in the Internationalization of Digital Platforms: A Reflection <i>Mauro F. Guillén</i>	<i>71</i>

Chapter 6	Renewing the Relevance of IB: Can Some History Help?	
	<i>Geoffrey Jones</i>	77

PART II

HOME COUNTRY INSTITUTIONS AND INTERNATIONAL BUSINESS

Chapter 7	Managing Around Populism	
	<i>Timothy M. Devinney and Christopher A. Hartwell</i>	95

Chapter 8	Institutions, Corporate Governance, and Internationalization of State-owned Enterprises in a Varieties of Capitalism Framework	
	<i>Sergio Mariotti and Riccardo Marzano</i>	107

Chapter 9	Business Group Affiliation and Export Propensity in New Ventures	
	<i>Jonas Eduardsen, Svetla Marinova, Božidar Vlačić and Miguel González-Loureiro</i>	129

Chapter 10	Product and Process Innovations and the Institutional Context of Transition Economies: The Effects of External Knowledge	
	<i>Virginia Hernández, María Jesús Nieto and Alicia Rodríguez</i>	155

PART III

HOST COUNTRY INSTITUTIONS AND INTERNATIONAL BUSINESS

Chapter 11	Corporate Anti-corruption Policy, Investment Motives, and Foreign Location Choice	
	<i>Guoliang Frank Jiang and Michael A. Sartor</i>	173

Chapter 12	Host Government Intervention and FDI Inflow: An Empirical Investigation	
	<i>Gilbert Kofi Adarkwah</i>	193

Chapter 13	Stakeholder Responses and the Interplay Between MNE Post-entry Behavior and Host Country Informal Institutions	
	<i>Elina Pelto and Anna Karhu</i>	219

Chapter 14 Old Risks, New Reference Points? An Organizational Learning Perspective into the Foreign Market Exit and Re-entry Behavior of Firms	
<i>Irina Surdu and Edith Ipsmiller</i>	239
Chapter 15 Intangible Assets of MNE Foreign Subsidiaries: The Role of Internal Financial Resources and Host Country Institution	
<i>Quyen T. K. Nguyen</i>	263
Chapter 16 How Do SMEs Face Institutional Challenges in China?	
<i>Noémie Dominguez and Ulrike Mayrhofer</i>	287

PART IV

MULTI-COUNTRY AND BELOW-COUNTRY LEVEL INSTITUTIONS AND INTERNATIONAL BUSINESS

Chapter 17 International Services: The Interface between Service Characteristics, Policy, and Institutions	
<i>Kristin Brandl, Peter D. Ørberg Jensen, Andrew Jones and Patrik Ström</i>	299
Chapter 18 Creating a Typology of International Alliances with City-level Distance Measures	
<i>Juliane Engsig, Bo B. Nielsen, Paul Chiambaretto and Andry Ramaroson</i>	311
Chapter 19 Successful and Unsuccessful Radical Transformation of Multinational Mobile Telephony Companies: The Role of Institutional Context	
<i>Frank Elter, Paul N. Gooderham and Inger G. Stensaker</i>	339
Chapter 20 A Note on Changing Regulation in International Business: The World Intellectual Property Organization (WIPO) and Artificial Intelligence	
<i>Aldo Alvarez-Risco and Shyla Del-Aguila-Arcentales</i>	363

PART V

INSTITUTIONS AND SUSTAINABILITY STRATEGIES

Chapter 21 Environmental Sustainability Strategy and International Performance: A Review of Literature and a Conceptual Model

*Leonardo B. Barbosa, Jorge Carneiro, Camila Costa,
Filip De Beule, Rafael Goldszmidt and
T. Diana Macedo-Soares*

375

Chapter 22 Embeddedness and Interactions in New Public Environmental Management Governance: International and Intertemporal Evidence on Voluntary Standards

Marcus Wagner

399

Chapter 23 Environmental Concerns – Uniting Generations for a Global Cause in Turbulent Times

*Susana C. Silva, Paulo Duarte, Carla Martins and
Paulo Collaço*

417

Chapter 24 The Diffusion of Corporate Sustainability in Global Supply Networks: An Empirical Examination of the Global Automotive Industry

*Bruno Barreto de Góes, Masaaki Kotabe and
José Mauricio Galli Geleilate*

435

Index

459

LIST OF FIGURES

CHAPTER 3

Fig. 1.	Interconnected Levels of Analysis for Global Strategic Management (Lessard, 1998).	50
Fig. 2.	RAT Framework: Relevant, Appropriable, Transferable (Westney, 2017).	51
Fig. 3.	CAT Framework: Complementary, Appropriable, Transferable (Westney, 2017).	51
Fig. 4.	RATs in Relation to Key Strategic Activities (Thun & Samel, 2020).	52
Fig. 5.	Sources of Value from Going Global and Being Global (Lessard, 2016).	54
Fig. 6.	RATs/CATs and the Value of Internationalization (Lessard, 2016).	55
Fig. 7.	Multiple Layers of Institutions, Markets, and Technologies Affecting Global Manufacturing (Lessard, 2014).	56
Fig. 8.	Change Over Time of Multi-level International Business Contexts.	58

CHAPTER 7

Fig. 1.	Average Vote Share of Populist Parties in Europe, 1990–2018.	96
---------	--	----

CHAPTER 8

Fig. 1.	Joint Effect of Corporate Governance and Variety of Capitalism on the Internationalization of State-owned Enterprises.	120
---------	--	-----

CHAPTER 9

Fig. 1.	Average Marginal Effect of Business Group Affiliation at Various Firm Sizes.	143
---------	--	-----

CHAPTER 12

Fig. 1.	Growth of Investment Agreements and ICSID Cases 1972–2017.	195
Fig. 2.	Inverted U-shaped Relationship between Host Government Interference and FDI.	207
Fig. 3.	Inverted U-shaped Relationship between Host Government Interference and FDI by Income Group.	209

CHAPTER 13

Fig. 1.	The Role of Stakeholder Responses in the Interplay between an MNE and Informal Institutions in the Host Field.	224
Fig. 2.	Stakeholder Responses to Lidl's Entry into Finland and the Interplay between Company Activities and Informal Institutions.	232
Fig. 3.	Stakeholder Responses to Fazer's Entry into Russia and the Interplay between Company Activities and Informal Institutions.	233

CHAPTER 14

Fig. 1.	Foreign Market Entry–Exit–Re-entry Decision-making Map.	243
---------	---	-----

CHAPTER 18

Fig. 1.	Predicted Means of the Five Identified Classes at the City Level.	323
---------	---	-----

CHAPTER 19

Fig. 1.	An Overview of Telenor Group Holding (January 2020).	351
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CHAPTER 21

Fig. 1.	Descriptive Summary of Selected Studies for this Literature Review.	382
Fig. 2.	Generic Conceptual Model of the Determinants and Consequences of the Adoption of Environmentally Sustainable Strategies.	390

CHAPTER 24

Fig. 1.	Network-related Firm Attributes and Corporate Sustainability Diffusion.	440
Fig. 2.	Power Structures Within Buyer–Supplier Relationships Based on Resource Dependence Asymmetries.	441
Fig. 3.	Relative Network Position.	444
Fig. 4.	Network Data Structure.	446
Fig. 5.	Degree versus Eigenvector Centrality.	448

LIST OF TABLES

CHAPTER 3

Table 1	Eleanor Westney's Multi-level Framing of International Strategy (Westney, 2017).	53
---------	--	----

CHAPTER 9

Table 1	Variables Included in the Analysis.	140
Table 2	Correlations.	141
Table 3	Results from Logistic Regression (Baseline = Independent SMEs).	142

CHAPTER 10

Table 1.	Correlation Matrix and Descriptive Statistics.	163
Table 2.	Results – Product and Process Innovations.	165

CHAPTER 11

Table 1.	Descriptive Statistics and Bivariate Correlations.	183
Table 2.	Mixed Logit Models of Location Choices for Production Entries.	184

CHAPTER 12

Table 1.	Variables, Definitions, and Data Source.	200
Table 2.	Countries with the Most Frequent Number of HCDS Cases.	201
Table 3.	Descriptive Statistics and Correlations.	204
Table 4.	Results of 2SLS Regression of Host Government Intervention and FDI Inflow.	205
Table 5.	Results by Income Groups.	208
Table 6.	Estimation with Lagged Dependent Variable.	211

CHAPTER 14

Table 1.	Summary Statistics and Correlations.	252
Table 2.	Sample Key Characteristics.	253
Table 3.	OLS Regression Results for ALL Firms.	254
Table 4.	OLS Regression Results for LowEXP and HighEXP.	255

CHAPTER 15

Table 1. Descriptive Statistics and Pearson Correlations.	273
Table 2. Multiple Regression Results.	275
Table 3. Two-stage Least Square (2SLS) Regression Results.	277

CHAPTER 18

Table 1. Levels of ISA Predictors.	317
Table 2. Variable Presentation.	321
Table 3. Model Selection.	321
Table 4. Latent Class Marginal Probabilities.	322
Table 5. Typology of International Alliances with City-level Distance Measures.	327

CHAPTER 21

Table 1. Patterns of Conceptualization of Environmental Sustainability Strategies.	383
Table 2. External Factors Influencing the Adoption of Environmental Sustainability Strategies.	385
Table 3. Internal Factors Influencing the Adoption of Environmental Sustainability Strategies.	386
Table 4. Competitive Advantages Arising from the Adoption of Environmental Sustainability Strategies.	388
Table 5. Performance Indicators Most Used in Environmental Sustainability Strategy Studies.	389

CHAPTER 22

Table 1. Items Used for Calculation of the Dependent Variable.	404
Table 2. Pooled Estimation in Europe for 2001	407
Table 3. Estimations by Country in Europe for 2001	408
Table 4. Pooled Estimations in Germany for 2001–2016 and 2001/2011, respectively.	409
Table 5. Estimations by Year in Germany for 2001 and 2011	410

CHAPTER 23

Table 1. Hypotheses.	425
Table 2. Constructs and Items.	426
Table 3. Sample Characterization.	427
Table 4. Item and Scale Statistics.	428
Table 5. Hypothesis Analysis.	428

CHAPTER 24

Table 1. Ranking of Auto Manufacturers by Motor Vehicle Production (2014).	446
Table 2. OLS Regression Results: Effects of Resource Dominance, Resource Substitutability, and Network Centrality on Corporate Sustainability Diffusion Performance.	451

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LIST OF CONTRIBUTORS

<i>Gilbert Kofi Adarkwah</i>	BI Norwegian Business School, Norway
<i>Aldo Alvarez-Risco</i>	Universidad de Lima, Perú
<i>Leonardo B. Barbosa</i>	FGV EAESP Sao Paulo School of Business Administration, Brazil
<i>Kristin Brandl</i>	University of Victoria, Canada
<i>Jorge Carneiro</i>	FGV EAESP Sao Paulo School of Business Administration, Brazil
<i>Paul Chiambaretto</i>	Montpellier Business School/Ecole Polytechnique, France
<i>Paulo Collaço</i>	Universidade Católica Portuguesa, Portugal
<i>Camila Costa</i>	BNDES – Brazilian Development Bank, Brazil
<i>Filip De Beule</i>	University of Leuven, Belgium
<i>Bruno Barreto de Góes</i>	University of New Haven, USA
<i>Shyla Del-Aguila- Arcentales</i>	Escuela Nacional de Marina Mercante “Almirante Miguel Grau” and Universidad Nacional de la Amazonia Peruana, Perú
<i>Timothy M. Devinney</i>	University of Manchester, UK
<i>Noémie Dominguez</i>	University of Lyon, France
<i>Paulo Duarte</i>	Universidade da Beira Interior, Portugal
<i>Jonas Eduardsen</i>	Aalborg University, Denmark
<i>Frank Elter</i>	NHH Norwegian School of Economics, Norway
<i>Juliane Engsig</i>	Toulouse Business School, France
<i>José Mauricio Galli Geleilate</i>	University of Massachusetts – Lowell, USA
<i>Rafael Goldszmidt</i>	FGV EBAPE Brazilian School of Public and Business Administration, Brazil
<i>Miguel González-Loureiro</i>	University of Vigo, Spain and Politécnico do Porto, Portugal
<i>Paul Gooderham</i>	NHH Norwegian School of Economics, Norway
<i>Mauro F. Guillén</i>	University of Pennsylvania, USA
<i>Christopher A. Hartwell</i>	Bournemouth University, UK and Akademia Leona Koźmińskiego, Poland
<i>Virginia Hernández</i>	Universidad Carlos III de Madrid, Spain
<i>Edith Ipsmiller</i>	Vienna University of Economics and Business, Austria
<i>Peter D. Ørberg Jensen</i>	Copenhagen Business School, Denmark
<i>Guoliang Frank Jiang</i>	Carleton University, Canada
<i>Geoffrey Jones</i>	Harvard Business School, USA
<i>Andrew Jones</i>	City University of London, UK
<i>Anna Karhu</i>	University of Turku, Finland
<i>Stephen J. Kobrin</i>	University of Pennsylvania, USA
<i>Masaaki Kotabe</i>	Temple University, USA
<i>Donald R. Lessard</i>	Massachusetts Institute of Technology, USA

<i>Svetla Marinova</i>	Aalborg University, Denmark
<i>Sergio Mariotti</i>	Politecnico di Milano, Italy
<i>Carla Martins</i>	Universidade Católica Portuguesa, Portugal
<i>Riccardo Marzano</i>	Sapienza University of Rome, Italy
<i>Ulrike Mayrhofer</i>	Université Côte d'Azur, France
<i>Quyen T. K. Nguyen</i>	University of Reading, UK
<i>Bo B. Nielsen</i>	University of Sydney, Australia
<i>María Jesús Nieto</i>	Universidad Carlos III de Madrid, Spain
<i>Elina Peltó</i>	University of Turku, Finland
<i>Andry Ramaroson</i>	Centre Universitaire de Mayotte, France
<i>Alicia Rodríguez</i>	Universidad Carlos III de Madrid, Spain
<i>Elizabeth L. Rose</i>	University of Leeds, UK and Indian Institute of Management Udaipur, India
<i>Michael A. Sartor</i>	Queen's University, Canada
<i>Susana C. Silva</i>	Universidade Católica Portuguesa, Portugal
<i>T. Diana Macedo-Soares</i>	Pontifical Catholic University of Rio de Janeiro, Brazil
<i>Inger G. Stensaker</i>	NHH Norwegian School of Economics, Norway
<i>Patrik Ström</i>	University of Gothenburg, Sweden and Stockholm School of Economics, Sweden
<i>Irina Surdu</i>	The University of Warwick, UK
<i>Rob van Tulder</i>	Erasmus University, the Netherlands
<i>Alain Verbeke</i>	University of Reading, UK; Vrije Universiteit Brussel, Belgium; and University of Calgary, Canada
<i>Božidar Vlačić</i>	Universidade Católica Portuguesa, Portugal
<i>Marcus Wagner</i>	University of Augsburg, Germany
<i>Yingqi Wei</i>	University of Leeds, UK
<i>D. Eleanor Westney</i>	Massachusetts Institute of Technology, USA

D. ELEANOR WESTNEY: A BIOGRAPHY

Elizabeth L. Rose

This volume is in honor of Professor D. Eleanor Westney, who is Sloan Fellows Professor of Strategy and International Management Emerita at MIT Sloan School of Management (U.S.) and Professor Emerita at York University (Canada), where she was the Scotiabank Professor of International Business and Professor of Organization Studies at the Schulich School of Business at York University (Canada) from 2007 to 2014. It is my pleasure to provide a brief introduction to a scholar who is widely respected – and widely beloved – within the International Business (IB) community.

Like so many of the key contributors to IB, Eleanor entered the field as something of an “academic immigrant”. An organizational sociologist who had combined Sociology with Japanese Studies throughout her undergraduate, masters, and doctoral programs, she found that her knowledge of Japan provided a natural segue into IB in the early 1980s, at a time when academic and managerial interest in the success of Japanese multinational enterprises (MNEs), especially relative to U.S.-based companies, was very strong. Her sociological research on how Japanese organizations emulated western models in the Meiji period provided a useful base for addressing how western companies might then learn from Japan. She has gone on to make deep and lasting contributions to her adopted field, bringing a sociological perspective to various aspects of cross-border organizational learning, including the internationalization of research and development activities, with an emphasis on the evolutionary and institutional theoretical lenses for studying the MNE.

Although she has spent most of her adult life in the U.S., Eleanor is proudly and resolutely Canadian. She was raised on a dairy farm near Toronto. (This is a fact that I learned during a dinner when she and another person at the table – also with farming experience – were discussing silage. Having grown up in suburban New York, I finally had to ask, sheepishly, what on earth silage was.) She studied at the University of Toronto, earning a BA and an MA in Sociology and Japanese studies. After a stint working at the Canadian pavilion at Expo’70, the World’s Fair in Osaka (she learned Japanese as an undergraduate) she headed to the U.S. – specifically, Princeton University, where she earned a PhD in Sociology. Her first academic position was in the Department of Sociology at Yale University. She then shifted to MIT, which served as her academic home for most of her career, before returning to Canada to join the Schulich School of Business at

York University and be closer to her family. She has held visiting appointments at Hitotsubashi University, University of Tokyo, University of Michigan, and Aalto University.

Throughout her career, Eleanor has engaged deeply with the academic community, through a variety of organizations, with a strong focus on helping to develop the next generation of scholars. She served as Chair of the International Management Division of the Academy of Management, and was named the Division's Eminent Scholar in 2013. She was elected a Fellow of the Academy of International Business (AIB) in 1997, and served as Dean of the AIB Fellows from 2008 to 2011. Among her other honors, Eleanor has been awarded an honorary doctorate from the Stockholm School of Economics.

Eleanor is renowned for her remarkable ability to synthesize apparently disparate lines of discussion; this is informed by the fact that she is a voracious reader with extremely eclectic tastes. She is unfailingly generous with ideas and comments, and has a well-deserved reputation for being able to frame questions in ways that provide stunning clarity to students who are struggling with their research, while simultaneously offering a wealth of ideas for future research that have the potential to drive a full postdoctoral research agenda. I have lost count of the number of times that students have referred to suggestions that Eleanor had made to them years earlier; her impact on young researchers around the world is both vast and deep.

Perhaps the best way in which I can convey the esteem in which I hold Eleanor Westney is to share what I consider to be the best compliment that I have ever received in a professional context – being told that I have done something that reminds a colleague of Eleanor.

On behalf of my co-editors of this volume – Rob van Tulder, Alain Verbeke, and Yingqi Wei – it is a real pleasure to honor Eleanor with Volume 15 of the *Progress in International Business Research (PIBR)* series. Like the scholars to whom previous *PIBR* volumes have been dedicated (Danny Van Den Bulcke, Alan Rugman, Lou Wells, Rosalie Tung, Lorraine Eden, and Peter Buckley), Eleanor Westney has made – and she continues to make – an indelible mark on the field of International Business.

CHAPTER 1

INSTITUTIONS 2.0: WHICH INSTITUTIONS MATTER IN IB RESEARCH?

Alain Verbeke, Rob van Tulder, Elizabeth L. Rose and
Yingqi Wei

Analysis of institutions has been at the heart of international business (IB) research, ever since it became established as a credible field of scientific inquiry, starting in the late 1950s. Institutional complexity has been on the rise during the past six decades, thereby requiring new approaches to analyze them, a perspective we coin as “Institutions 2.0.” This research volume provides an overview of some of the most salient dimensions of the present institutional complexity facing managers and policy-makers, who are involved in IB transactions and in establishing institutional frameworks, respectively.

PART I

The first four chapters in this volume reflect today’s new globalization challenges, specifically the emergence of the digital economy and changing societal views on the benefits of globalization itself. In Chapter 2, “International Business and Multi-level Institutional Change: Looking Back and Facing Forward,” Westney, in whose honor we composed this volume, acknowledges the challenges facing MNEs (multinational enterprises) as a result of growing anti-globalization sentiment – challenges that have been amplified by the COVID-19 pandemic. While volatility and uncertainty make it difficult to predict specific outcomes, it is inevitable that current conditions will be the impetus for long-run institutional

changes. As IB scholars, it is incumbent upon us to develop – and share with societal stakeholders – reliable assessments of the main institutional trends and their possible impacts on internationally operating firms.

Despite today's emerging "new normal," Westney shows that the field of IB is well-positioned to rise to this challenge – given its past accomplishments and more recent research developments. She reminds us that global expansion actually ceased for a 15-year period in the not-so-distant past, beginning in 1970. During that time, a series of crises left both scholars and managers asking whether dramatic global changes were either temporary or indicative of a "new normal" – questions that ring familiar today. While the specific circumstances of the 1970s and 1980s differ from today's, she highlights similarities between past and present from which IB research can gain substantial insight.

Oddly familiar concerns, at that time, existed over US-European trade relations and declining international confidence in US leadership, paired with domestic unrest in a number of countries. MNEs found themselves the target of considerable opposition and discontent, due to their alleged power and perceived role in the ever-widening disparity between upper and lower economic classes. In response, many national governments shifted economic policies to favor domestic interests. These policies often targeted specific industries, thereby creating considerably more policy variation across nations. In response, MNEs recognized the growing importance of local knowledge, and shifted more power to subsidiaries while enhancing headquarters' role in planning and coordination.

The field of IB research also responded in a variety of ways. It was observed that crises "politicized" internationally operating value chains at two levels – that of national policy and that of international economic institutions. MNEs were found to have a dual role within their various institutional contexts, as both policy-compliers and policy-influencers. The IB field shifted from an internal organizational focus on areas such as firm-level structures and diversification to a more external orientation. The notion of "local responsiveness" can also be traced back to firm responses to government demands during this period, though the construct is conceptualized more broadly today. However, Westney argues that the IB field still discarded its prior emphasis on the collective impact of MNEs as it transitioned to a firm-level focus.

Now, like before, IB is experiencing not just one, but a series of deep crises. While COVID-19 is top of mind, it is only the most recent in a long series of significant changes – including the 2008 economic collapse, the rise of populism in the United States, and Brexit. Unlike before, the targets of discontent are more diffuse than in the past. Today's main target is typically "global elites," but Westney suggests that a focus on these social groups is sometimes linked to specific MNEs, particularly those operating in political salient industries.

After identifying similarities between the present and the past, Westney looks ahead to the future of IB research. She proposes that despite long lead times, it will become much harder to publish findings based solely on pre-crisis data. Research will become more context-specific, focusing on industries uniquely targeted by new regulations or societal discontent, such as those providing medical equipment, health care services, or information and communication technologies

(ICT). Case studies on specific firm-level responses will become more influential, offering an important and relevant contribution during this turbulent time.

Westney closes her chapter by outlining several gaps in extant IB research. She highlights under-explored industries, such as agribusiness and multinational investment management companies. There is also comparatively less research on how MNEs influence their institutional context versus how they comply with it. Emerging markets have been a prevalent research context for some time, but this crisis renders research in OECD countries equally relevant. She argues it may be the right moment to revisit what “local responsiveness” now means, not due to any error or oversight in the past, but because its meaning has been changing over time. Lastly, and consistent with the aim of this volume, she encourages IB scholars to embrace the institutional theory, in its fullest interdisciplinary sense, offering numerous illustrative examples from other fields to inspire future IB research.

In Chapter 3, “Global Strategic Analysis and Multi-level Institutional Change,” Lessard pays homage to his MIT colleague, Eleanor Westney. He revisits Westney’s research trajectory within the realm of institutions, describes her influence on his own scholarly work, and highlights her contributions to strategy analysis. In parallel, Lessard’s chapter also highlights the importance of an integrative, multi-level framework for strategy analysis in research and teaching. Levels can range from global society and global industries to nations, firms, and intra-firm activities. While in the past, these levels used to be reasonably well defined, for example, firms nested in industries, nested in nations, nested in institutions, complex inter-relationships, and layering within today’s global economy makes them less distinct. Lessard argues that the IB field has developed useful frameworks for each level, but their integration across levels has been more difficult – both for classroom usage and managerial practice. Yet, in today’s uncertain environment, both conventional strategy analysis *and* navigating the complexity of multiple institutional levels are critical to firm-level functioning.

Lessard argues that IB equates to “business in context,” whereby context “equates to institutions” – this volume’s key theme. Institutions are best represented as a trio of: (i) formal rules and laws; (ii) dominant narratives; and (iii) norms of what “should be.” All three dimensions are present within each level of a multi-level institutional framework, thereby adding to the complexity of any strategic analysis. Lessard reminds us that perceptions of institutions depend upon one’s vantage point. For example, managers and business scholars tend to view institutions as being located outside the firm, but other stakeholders will view firms as institutions in their own right.

Vital to integrating relevant strategy analysis frameworks across levels is the notion of value. Value creation, capture, and delivery are keys. Lessard offers his own integrative framework, “RATs/CATs,” which he calls an “internationally-grounded version of create, capture, and deliver.” It is a resource-based framework, rooted in perspectives such as Teece’s dynamic capabilities. He shows the relevance of this model for his own research and reflects on the influence of Westney in its development.

Within this framework, RAT reflects questions related to *Relevance*, *Appropriability*, and *Transferability* in a new location. *R* comes first, relating to

the level of the customer and a firm's customer value proposition. *A* operates at the level of competitors/institutions and reflects value capture, while *T* reflects capabilities and transaction costs. The RAT component of the model reflects the decision to *go* global, whereas the CAT aspect explores implications of *being* global, that is, whether the new home/host combination itself has Complementary resources and capabilities that are themselves *Appropriable* and *Transferable*.

Lessard closes his chapter with some reflections. He acknowledges that teaching multi-level strategy analysis can be challenging. A focus on value creation, at the customer level, is the ideal entry point into the model. From there, one can move up to strategy analysis at the industry/competitor levels, and then down to an analysis of the firm's capabilities and organizational structures that will best deliver that value. Lessard also reflects on the difficulty for scholars to stay up to date, arguing that most of them do not have a full command of strategy analysis at all levels. This makes it easy to lose touch with ongoing developments at neglected levels.

Making sense of the volatility in today's world requires complex, nested scenarios and a focus on the triple-bottom-line, but Lessard sees 2020 as an opportunity for rejuvenation. Long-held assumptions are being challenged and overturned. The time is ripe for research that explores emerging phenomena, using a variety of existing theories, and developing further the most relevant conceptual frameworks. However, doing so will require the IB field to acknowledge that there are many different ways to make sense of empirical phenomena, thereby suggesting that the field may become more diverse going forward.

In a world of growing nationalism, Chapter 4 offers an inquiry into the future of globalization, international organizing, and integrated supply chains. The chapter's highly respected author, Kobrin, poses the question: "Is a Networked World Economy Sustainable?" – a question that resonates stronger than ever amidst the current COVID-19 pandemic."

Early views on globalization predicted that it – along with technological change and the arrival of the digital economy – would blur the relevance of local, national, and regional boundaries. However, Kobrin challenges this view by observing that open international borders are currently being reassessed and questioned inside many nations. The origin of this line of questioning began neither with the arrival of COVID-19, nor with the recent adoption of nationalist policies in a number of nations, but rather with the Great Recession of 2008–2009.

Kobrin supports the view that globalization is cyclical. Globalization requires very specific conditions to be in place; these arguably no longer exist. Instead, globalization is now seen as threat – a threat to a nation's culture, economy, and, now, even the physical health of its citizens. Kobrin argues that this nationalism needs to be taken seriously. It cannot simply be written off as an irrational perspective. The need to feel part of a nation, the fear of the ubiquitous "other," and a heightened importance of a localized perspective are all very real; those actors adopting nationalist views may be acting rationally and in their own self-interest.

Some parallels can be drawn between this more recent, second wave of globalization and that of the first, a century ago, but Kobrin argues that this second wave differs greatly in terms of both the breadth and depth of globalization involved.

Have global supply chains really reached their limit? Have technological and economic conditions changed, such that it is impossible to go back and replicate what exists within national markets? For better or worse, we now find ourselves in a situation where these inconvenient questions must be raised.

Kobrin argues that only now we can fully consider the risks of operating concentrated, complex, global supply chains – whereby these should be assessed not just in terms of production efficiency, but also in terms of technological capability and agility. Globalization has taken us from markets and bureaucracies to organization via relational networks, where value is created through mutual dependence and one's relationship with the whole. Recent trade wars and COVID-19 illustrate the risk of such mutual dependence. Value creation in relational networks decreases the relevance of any single geography on its own, but nationalism prioritizes independence through a focus on a narrow geography – two perspectives that are clearly at odds with one another. These opposing forces suggest that attempts to revert to national markets may be achieved only with some simultaneous destruction of economic value. Technology may, perhaps paradoxically, strongly inhibit the unraveling of globalization. Societies and governments may push for independence, only to come up against a less-visible and less-understood reality – that of mutual interdependence. The opposing forces at play suggest that globalization efforts, integrated value chains, and more broadly international organizing, will face turbulent times ahead.

While Chapter 4 analyzes the complex, inter-firm relational networks that characterize today's global value chains, Chapter 5 (“Network Effects and Multi-level Dynamics in the Internationalization of Digital Platforms: A Reflection”) explores different intra-firm networks, specifically those that arise between users and providers of digital platforms.

In this chapter, Guillén reflects upon the fact that all digital platforms are not equivalent, and, therefore, are also not equivalent when it comes to internationalization. Foreign expansion decisions and the relative success thereof will depend not only on the type of network effects sought by the firm, but also on the degree of fit between those targeted network effects and the internationalization strategy chosen. While digitally oriented firms face many internationalization challenges similar to non-digital firms, they typically differ in their need for network effects to establish economies of scale.

This chapter offers a multi-level perspective that can be the starting point for building a conceptual framework on digital business within our field. Network effects for digital platforms can operate at three different levels: local, national, and global. Firms' internationalization strategies will vary by level. Local network effects require proximity, as in the case of Uber, with digital platforms expected to succeed in one city at a time. National network effects are conceptualized as simultaneous local networks operating within a nation, whereas global networks are those where physical proximity is less relevant.

Firms seeking global network effects need to operate in as many countries as they possibly can. There is thus more incentive for these firms to internationalize relative to those seeking local network effects. Successful sequencing and timing of internationalization moves by firms seeking local network effects can occur

almost randomly, but at higher levels of network effects, firms must sequence their foreign expansion moves in a more rapid fashion – and possibly do them all at once.

Digital platforms must decide on their strategic approach both for building a new customer base in a new region and for engaging with their new regulatory stakeholders. Some platforms may focus on customers and less on regulators, whereas others may adopt the opposite approach. The decision rests, *inter alia*, on the risk of being banned from specific locales. For some digital platforms, this will have less of an impact on the affected firms than for others.

Despite the well-documented rise of the digital economy, the significant impacts from COVID-19, and the growing prevalence of anti-globalization sentiment, Chapter 6 (“Renewing the Relevance of IB: Can Some History Help?”) challenges whether the field of IB will step up to take on these grand challenges in today’s “new normal.” As is the case in other management disciplines, the relevance of IB research has been put into question. Institutional pressures to publish and to write solely for scholarly audiences often outweigh incentives to improve the practice of management. While the aim of our field is to assess possible responses to the rapidly changing context of IB, Chapter 6 suggests that some of the answers we seek can be found by nurturing a better understanding of the past.

In this chapter, Jones argues that an historical research approach can help improve the relevance of IB scholarship and provide informed responses to grand challenges. While an historical approach is not the norm in our field, it accurately predicted the shift of activities using standardized labor to emerging markets and it made calls a long ago for a stronger focus on poverty, climate change, and pandemics – topics not only relevant but particularly critical today. Critiques of the limited relevance of IB research (and management research more broadly) are not new, but Jones offers the suggestion that historical explorations can both illustrate extant path dependencies of intellectual thought and help enhance our knowledge of contextual factors that contributed to key prior findings in our field.

Intellectual path dependency can constrain thinking. For example, Jones reminds us that old measures cannot capture new or changing phenomena. An emphasis on entry strategies, while neglecting exit, may simply reflect an enduring post-WWII growth paradigm. Unfortunately, the pendulum is now swinging in the opposite direction via the forces of populism and anti-globalization. Jones also highlights the paucity of research on the role of individual managers and argues that this lack of research may be a path-dependent symptom resulting from reliance on earlier economic theories that assume only anonymous rational actors. Set against the backdrop of turbulence in today’s environment, populism, and anti-globalization sentiment can be viewed as both the rational pursuit of self-interest and the irrational retaliation against the feared “other.” A deeper understanding of intellectual paths as they evolved over time can uncover implicit assumptions, which can then be (re)assessed in terms of relevance in the “new normal.”

Contextual intelligence implies research that is sensitive to differences across geographic locations and over time. Jones argues that the field of IB needs to address the world of today, not yesterday. This world consists of both evolving

formal institutions and social preferences. Given the urgency of the threat, Jones notes that environmental considerations are conspicuously absent in the field of IB. Prior research suggests that inappropriate regulations, not MNEs, are to blame for poor environmental outcomes, but it is equally clear that powerful MNEs have not been successful in effecting change at the level of disappointing institutions. Here, we should mention that Part V of this volume specifically includes chapters on environmental and sustainability strategies.

While Jones takes an arguably skeptical view of the benefits of MNE activities accruing to host countries, his chapter also highlights both scholarly opportunity and the moral imperative for IB research to address today's grand challenges. Historical analysis, with an emphasis on understanding trajectories of scholarly thought and host countries' development paths, can offer answers to grand challenges that include deep insight for research and practice.

Part I of this volume demonstrates that present IB activities and further attempts to globalize will face many challenges. These challenges stem from substantial changes in institutions, themselves driven by shifting societal sentiment, policy preferences, and technological advances.

PART II

The importance of changing institutions is explored further in subsequent parts of this volume. The next four chapters, comprising Part II (Chapters 7–10), explore home-country institutions and IB. Home-country institutions are explored through two lenses – informal and formal institutions. Chapters 7 and 10 examine the roles of informal institutions, such as populism and external knowledge acquisition, while Chapters 8 and 9 examine the roles of more formal institutions, such as state-owned enterprises (SOEs) and business groups.

In Chapter 7 (“Managing around Populism”), Devinney and Hartwell explore the political uncertainty created by populism and its impact on firm entry strategies. Populism's anti-trade, anti-globalization, anti-immigrant, and anti-elite preferences both increase uncertainty and decrease the incentives for firms to enter foreign markets. The authors remind us that populism is not new and can take four different forms: structural, economic, ideological, and political-institutional. Structural populism emphasizes local production in pursuit of national sovereignty, while economic populism exploits ingroup-outgroup dynamics with the aim of redistributing extant wealth toward less-privileged groups. Ideological populism goes deeper; its moral perspective on what is good versus evil involves judgments as to how societal evolution *should* unfold. Lastly, political-institutional populism mobilizes support from marginalized social groups for political and partisan gain.

Given the rise of populism, the authors highlight several impacts on firm entry into new foreign markets. Entry will likely entail more host-country specificity, be subject to more severe and immediate policy changes, experience more delays or bureaucracy, take the form of joint ventures, and require more re-visiting of the entry decision as time unfolds. None of these listed impacts are particularly new,

nor are they specific to populism. Instead, they reflect extant knowledge in the field of IB on emerging market entry. However, the authors point out three additional impacts, about which extant IB research has less to say and that future research should address. First, under populism, the role and power of the individual political leader goes up. Therefore, the role of individual managers in firms, and the nature of their relationships with political leaders, goes up too. Second, populism increases the uncertainty and liability not only in host countries, but home countries as well. For example, how easily can an MNE let go or convert its subsidiaries? How easily can it localize to cater to populist standards? Third, as populism increases the role of, and dependence upon, central leadership, firms are more likely to adopt a short-term focus. This could result in fewer new entries overall, but those firms that do enter new markets will only do so when they have a viable exit strategy as well.

Populism, both in home and host countries, partly expresses itself through changing informal institutions that will, no doubt, influence firm entry strategies going forward. However, formal institutions also matter. Governments are typically the most powerful formal institutions. Their influence is particularly relevant in SOEs when engaging in internationalization decisions.

In Chapter 8 (“Institutions, Corporate Governance, and Internationalization of State-Owned Enterprises in a Varieties of Capitalism Framework”), Mariotti and Maizano examine the internationalization of SOEs. They look at how involving the state, other relational investors, and home-country institutional context interact to influence SOE foreign entry decisions. Governing companies and governing economies are assumed to be closely intertwined. Therefore, the research question explored in this chapter is what form(s) of corporate governance and institutional context(s), in combination, are most likely to result in SOEs internationalizing.

Because prior research has led to equivocal findings on whether the state helps or hinders a firm’s internationalization efforts, the authors adopt a configurational approach. This approach assumes that capitalist systems will vary according to how multiple actors are linked with each other and coordinate their efforts. Capitalist systems, ranging from liberal to coordinated, to state-influenced are explored by assessing the extent to which they are likely to strengthen or weaken a firm’s “liability of stateness” and affect the benefits of having a “government as strategist.” Agency issues are also explored relative to the nature of state-ownership. The authors argue that transactional owners will be removed from actual firm-level decision-making, while relational owners will be much more involved – with greater agency concerns as a result.

The authors suggest that only two combinations of the above factors will support the internationalization of SOEs. First, when the state is the primary or sole owner, internationalization will be supported when SOEs can align with other private interests *and* find themselves in a proactive institutional context. Second, when the institutional context is weak, SOE internationalization will be supported only when owners have the power, capability, and commitment to generate and execute a foreign entry strategy.

Developing the power, capabilities, and commitment needed to craft a foreign entry strategy is no easy task for any firm, particularly those with little prior