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EDITORIAL

Letter from the Editor-in-Chief: Time in international business

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Issue 40.4 consists of eight articles, seven of which were accepted for publication by former *JIBS* Editor-in-Chief Arie Y. Lewin and one under my watch. While each of the articles makes important contributions to our knowledge of international business (IB) studies, I would like to highlight those that are related to time.

TIME IN IB

Economists think of time in terms of statics, comparative statics and dynamics. Static analyses focus on equilibrium situations (e.g., the price where quantity demanded equals quantity supplied). Comparative statics focuses on pre- vs post-situations when an exogenous change affects behavior and outcomes (e.g., changes in income or tastes affect market price). Dynamic analyses trace the path or processes for beginnings, transitions and endings, whether alone or in a coevolutionary framework.

Much, and perhaps most, IB research either ignores time or focuses solely on the comparative statics of predicting how a change in the business environment (or government policies) at time "t" affects MNE strategies and performance at time "$t+1$." The dominant paradigms in IB research – the OLI paradigm and internalization theory – focus on the "why, where and how" of the MNE, with little attention to the "when."

There are key exceptions, of course. First, in terms of an overarching approach to time at the product level (birth through maturity to obsolescence and death), the oldest and best known work is Vernon's (1966) product life cycle theory. Vernon predicted that products, as they moved through their life cycle, would also move through different market modes (local sales, followed by exports, foreign direct investment (FDI) and eventually imports). Building on Vernon's idea of switching between entry modes, Hirsch (1976) and Buckley and Casson (1981) were perhaps the first to explore how timing could affect the firm's mode of entry decision. By assuming – and then varying – a combination of one-time setup costs and recurrent fixed and variable costs that were associated with different possible modes of entry, the authors were able to predict whether a cost-minimizing firm would pick exports or FDI, and when the firm would switch between modes. These early models have become much more technically sophisticated, but the underlying framework has not changed (see e.g., Buckley & Casson, 1998).

Second, when firms become multinationals, their first host-country location choice and their subsequent FDI location

decisions have also been an important IB topic for many years. Perhaps the best known early study is Johanson and Vahlne's (1977) model of incremental internationalization, whereby a firm takes "small steps" in its choices of foreign locations as the firm gradually and sequentially internationalizes. Other early pieces on sequential FDI were Kogut (1983), Erramilli (1991) and Chang (1995). These authors recognized that an MNE's FDI decisions should be seen as a series of decisions, with later choices being dependent on earlier choices. Vermeulen and Barkema (2002) later added the pace (frequency) and rhythm (bunching) of sequential FDI decisions as important timing considerations for successful overseas expansions.

Moreover, location and entry mode decisions are not independent of one another; Chang and Rosenzweig (2001) were perhaps the first to model entry mode choices for sequential FDI. An anomaly that has received much recent attention is the international new venture ("born global") that skips the sequential process of "getting one's feet wet" through exports, licensing and finally FDI, and instead starts its life as a *de novo* MNE (Oviatt & McDougall, 1994).

Product cycles, sequencing of FDI location decisions and switching between entry modes are not the only areas where time has played a central role in IB research. A third topic, related to sequencing but from a multi-firm and multi-market perspective, is the question of first movers, latecomers and followers. Research on first movers and latecomers at the country level dates back to Gerschenkron's (1962) study of developing countries, which Dunning (1981) later tied to FDI patterns in his theory of the investment development path. In terms of firms, latecomer MNEs were first studied as "Third World" MNEs (Wells, 1983) and now as "emerging market" MNEs (Luo & Tung, 2007). In terms of followers, Knickerbocker (1973) was perhaps the first to explore how firm rivalry at home could lead to bunching of FDI as firms followed the industry leader abroad. Since then, IB and strategy scholars have explored the roles of uncertainty, multi-market competition and institutional distance on MNE follower strategies such as clustering, isomorphic behavior, strategic alliances and knowledge transfers.

First movers, latecomers, sequencing, switching and bunching are all about *entry* decisions. At the other end of the life cycle are exit decisions. In terms of FDI flows, Boddewyn (1983) was the first to study foreign direct divestment theory. At the firm level, one of the most popular IB topics has been the instability/death of international joint ventures, first addressed in Kogut's (1988) life cycle of the joint venture. Other key early works on joint venture instability include Parkhe (1991), Madhok (1995) and Inkpen and Beamish (1997).

A fifth IB topic involving time has been the impact of uncertainty on MNE decision making using the real options approach. In addition to the pieces highlighted in my review of real options and IB in the Letter from the Editor-in-Chief in 40.3, an important contribution is Rivoli and Salorio's (1996) model of the implications of firm-specific advantages for the timing of FDI entry decisions in the context of exogenous uncertainty. The authors demonstrate that firm-specific advantages can discourage FDI, contrary to conventional thinking, because stronger ownership advantages allow delayability, while stronger internalization advantages make FDI less reversible. In such cases, the best decision may be to "wait and see," delaying FDI entry until the uncertain situation resolves itself.

TIME IN *JIBS* 40.4

This issue of *JIBS* contains five articles on time in IB: one on internationalization and sequencing ("getting to global"), two on mode switching ("licensing duration" and "legal systems") and two on exit ("divestments" and "residual state factors").

"Getting to global: An evolutionary perspective of brand expansion in international markets" by Townsend, Yeniyurt and Talay argues that the globalization of brands should be seen as an evolutionary process that depends on both environmental and firm-level variables. Going global as a brand involves moving brand scope from domestic to regional and from multiregional to global. The authors argue that brand architecture and position should follow the Johanson and Vahlne (1977) incremental internationalization process. The likelihood of a brand being introduced into a new country is also affected by environmental uncertainty, mimetic behavior and experiential learning. Their arguments are tested on the automotive industry. The authors find that auto MNEs are more likely to develop continental/regional brands, starting first in one country and moving elsewhere on the same continent. To accelerate "getting to global," the authors recommend launching a brand on all three continents and then expanding out regionally.

Jiang, Aulakh and Pan, in "Licensing duration in foreign markets: A real options perspective," see

licensing as an intermediate stage, an initial trial or "getting one's feet wet," prior to FDI, as argued in Buckley and Casson (1981). This suggests there should be an optimal duration for licensing. Using insights from real options theory, in particular from Rivoli and Salorio (1996), the authors argue that licensing can be considered as a European-style real option with a fixed holding period. The licensing option "confers opportunities to explore both the market and potential strategic partners and to develop capabilities for further actions." The duration of the license depends not only on balancing the costs of mistakes against the costs of delay but also on the need for flexibility under uncertainty and the threat of competitive pre-emption in the host country. Their results show that uncertainty and competitive threats shorten licensing duration, especially when irreversibility barriers are low.

Jandik and Kali, in "Legal systems, information asymmetry, and firm boundaries: Cross-border choices to diversify through mergers, joint ventures, or strategic alliances," take a very long run view, asking how changes in legal institutions and accounting systems over time are likely to affect firms' choices between markets and hierarchies. Switching modes in response to institutional changes builds on Buckley and Casson's (1981) early work on entry modes. When legal and accounting institutions are weak, the authors argue that firms are more likely to rely on hierarchies, but as institutions improve, firms should switch to arm's length transactions. Their hypotheses find support from a study of 17,442 business deals (joint ventures, alliances and mergers) between US firms and foreign partners from 42 countries.

"Real options and foreign affiliate divestments: A portfolio perspective" by Belderbos and Zou focuses on the MNE's exit decision, a topic first raised by Boddewyn (1983). When are MNEs more or less likely to divest from their foreign affiliates? Do bad times drive MNEs out of host countries? The authors argue that a key factor influencing divestment is the size of switching costs between modes of entry. The higher the switching/exit costs, the more likely hysteresis (inertia) will be. Moreover, the greater the degree of host country macroeconomic uncertainty, the more the MNE values the flexibility of the growth and switching options that foreign affiliates offer. Therefore, bad times should not drive MNEs out of host countries. Belderbos and Zou argue, however, that this result treats the divestment decision as stand-alone and ignores the MNE-as-a-network and coevolutionary arguments. When the MNE has multiple affiliates that do (or can) perform the same role(s) within the MNE network, each affiliate becomes more vulnerable, less protected by hysteresis and more likely to be divested. While the sequencing of exit decisions is not discussed in the article, the authors do hypothesize that synchronicity of macroeconomic conditions (e.g., the Asian currency crisis) should also reduce hysteresis and encourage divestment, since MNEs are less capable of shifting production and sales if multiple countries are suffering from the same shock. Their hypotheses find support from a dataset of 1095 manufacturing affiliates with 412 Japanese parents over the years 1995–1999.

The Belderbos and Zou article can be viewed as a nice extension of Rivoli and Salorio's (1996) paper on delayability of FDI's entry to address the additional question of delayability of FDI's exit. The Belderbos and Zou article suggests that, once inside a host country, "wait and see" is an appropriate strategy to exogenous uncertainty. However, when there are multiple similar affiliates, each offers less ownership advantages, and irreversibility is less of an exit barrier. As a result, the affiliate's firm-specific advantages are weaker, encouraging FDI divestment under negative host country uncertainty.

Divestment is also the subject of Vaaler and Schrage's "Residual state ownership, political stability and financial performance following strategic decisions by privatizing telecoms." This article asks what happens to firm performance when the state partially divests from state-owned enterprises. The common view is that privatization – when state ownership drops from majority/controlling to minority/noncontrolling – should improve firm performance because the goals of managers are more closely aligned with private shareholders. The authors, however, disagree. When a privatizing firm makes a strategic decision (e.g., an acquisition), they argue that higher residual state ownership, because it signals state support, positively affects financial performance, although the positive effect is weaker the more stable the government policy environment (i.e., the stronger the rule of law). A second factor influencing the performance impact of a policy change is the length of time since privatization. The performance effect is weaker the longer the time duration since privatization; this effect is stronger in stable policy environments. An event study of the cumulative abnormal returns associated with 196 investment announcments between 1986 and 2001 by 15

privatizing telecoms in 15 countries provides support for their arguments. Thus, partial but not complete exit by the state may be beneficial for the firm, especially in emerging economies where rule of law is weak.

OTHER HIGHLIGHTS OF *JIBS* 40.4

Three other articles in this issue add to our knowledge of IB studies. The first, "Offshoring and the global distribution of work: Implications for task interdependence theory and practice" by Kumar, van Fenema and von Glinow, uses a series of mini-cases on globally distributed work to explore inter-task interdependence when MNEs offshore parts of their operations. The authors argue that interdependence should be decomposed into integration interdependence, "hand-offs" and information "stickiness" to better proxy for the interactions and communication needs between sites.

"Interpersonal influence as an alternative channel communication behavior in emerging markets: The case of China," by Su, Yang, Zhuang, Zhou and Dou focuses on communications in supplier–retailer dyads in emerging markets. The authors explore the antecedents, moderators and consequences of interpersonal influence strategies.

The last article, "Opening the black box of the relationship between HRM practices and firm performance: A comparison of MNE subsidiaries in the USA, Finland, and Russia," by Fey, Morgulis-Yakushev, Park and Björkman compares human resource management practices across 241 wholly owned foreign subsidiaries located in the United States, Finland and Russia. The authors find that culture and instititutions affect the choice and effectiveness of different HR practices. Moreover, motivation and ability are important mediating variables between HR practices and subsidiary performance.

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