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Research on the strategy of multinational enterprises: Key approaches and new avenues

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Abstract Over decades, research on multinational enterprises’ (MNEs) strategies has been anchored in internalization theory. Strongly grounded in transaction cost economics to explain foreign market entry, it hardly explains how MNEs can build and sustain a competitive advantage.

Thus, this paper aims at understanding how the nature of strategic thinking has influenced the research in the field of MNEs’ strategy. A content analysis of 1116 papers was conducted. The intellectual structure and dynamics of research to date are provided, without losing sight of the key foundations of strategy and strategic management.

The links between human capital and knowledge are the factors on which to underpin the explanation of the MNEs’ strategies and support the coevolving theory. This theory is a promising avenue of research under the umbrella of RBV and KBV approaches. The context-dependency of strategy implies that different contexts require different approaches. Accordingly, we provide insights for future research by combining main schools of strategy thought.

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Introduction

The current global economic environment has brought to fore internationalization as a key corporate strategy for most firms (Furrer, 2011; Buckley and Ghauri, 2004). The globalization of both markets and competition compels firms to move into the global arena and to become multinational enterprises (MNEs). MNEs can be defined as firms that own and control significant business activities in two or more countries (Buckley and Casson, 2009; Bartlett and Beamish, 2010). This trend toward increasing internationalization brings new challenges to scholars studying MNEs strategies, especially to those concerned with how MNEs implement their strategy to achieve and sustain a competitive advantage (Madhok and Liu, 2006).

To date, transaction cost economics (TCE), as incorporated in Dunning’s eclectic theory (1977, 1988, 1993), has been one of the main approaches to explain the existence
of MNEs. TCE extensions are also part of the internalization theory, and it is also present in the research on MNEs’ location strategies and foreign market entry modes (Buckley and Casson, 1976, 2009). More recently, MNEs’ strategy research moved its focus from the reasons of the existence of MNEs to the explanation of heterogeneity of MNEs’ performance (Kogut and Zander, 1993). To this aim, Barney’s (1991) resource-based theory of competitive advantage has been used as a key approach to explain this heterogeneity (Peng, 2001). In addition, as highlighted by Verbeke and Brugman (2009), the relationship between multinationality and MNEs’ performance also depends on both environmental and firms’ specific characteristics, which calls for integrated and contingent approaches. Both of these latter approaches have recently been adopted by scholars who have begun to investigate how MNEs could achieve and sustain a competitive advantage over time based on the co-evolution of firms and their environments (e.g., Madhok and Phene, 2001; Madhok, 2002; Madhok and Liu, 2006).

As this paper shows, several approaches have been used to explain MNEs’ strategy and their performance consequences, such as transaction cost economics (TCE), agency theory (AT), the resource-based view (RBV), the knowledge-based view (KBV), game theory (GT), and institutional theory. However, despite several attempts to merge the operative concepts of these approaches, research on MNEs’ strategy remains fragmented (Li, 1994). It is, therefore, necessary to map the field and highlight similarities and differences among these approaches, in order to be able to combine them efficiently into the eclectic approach of co-evolving theory.

Strategy is context-dependent in nature, thereby creating an on-going need for firms to fit and adapt to changing environmental conditions (Barney, 1991). In addition, theories are affected by both the time and circumstances under which they were born (Dunning, 1993; Buckley and Hashai, 2004), and by the responses offered by evolving managerial practices and research approaches (Furrer et al., 2008). Therefore, there is an interest in disclosing the intellectual structure of research on MNEs’ strategy to date. Scholars will find this structure meaningful when developing their theories about how MNEs compete and change depending on both local and global contexts. Meanwhile, practitioners will find it useful to adapt the MNE’s strategy according to those increasingly changing conditions either at the local or global levels. All in all, combinations of different approaches may be required to face the challenges stemming from different contexts.

Similar investigations have been conducted in general related fields, and strategic management, in particular. For example, content analyses of the strategic management field and its evolution over time uncovered that the interaction between initial circumstances and emerging factors caused a pendulum swing between internally and externally focused approaches (Furrer et al., 2008; Hoskisson et al., 1999). A recent analysis of the strategy field has also provided insights about the changes in the structure and meaning of the concept of ‘strategy,’ as well as about how those changes have shaped the evolution of the strategic management field (Ronda-Pupo and Guerras-Martin, 2012). This evolution fostered the emergence of new research topics during the development of the strategic management discipline. In a similar vein, we aim at finding new research issues on MNE’s strategy in this paper, while trying to seek appropriate answers to new challenges, such as globalization, knowledge management in large organizations, building local capabilities which also function globally, or how to adapt the strategy to local conditions in transitional economies, among many others. To date, no extensive study of the content of the MNEs’ strategy literature has ever been conducted to identify the idiosyncratic characteristics of this field. Therefore, this study aims at filling this gap.

In doing so, this study contributes to the MNEs literature by an in-depth investigation of the structure and content of the MNEs’ strategy research in order to identify and map gaps in this field and to propose directions for future research. To do so, a multiple correspondence analysis was conducted of 1116 papers published by 336 authors in 95 journals concerning MNEs and strategy, published between 1975 and 2012. As a result, this study offers a map of the intellectual structure of MNE’s strategy, as well as changes in that structure.

The remainder of the paper is organized as follows. First, the theoretical background that has guided this approach on MNEs’ strategy is introduced. In the next section, the rationale for the methods used is provided. Then, the intellectual structure and dynamics of research on MNEs’ strategy to date are presented. Finally, it is concluded that there is a need for combined approaches to deal with MNE’s strategy. Accordingly, several avenues for future research are proposed, by combining the emerging eclectic approach of the co-evolutionary theory with other key approaches.

An overview of research on MNEs and strategy

The examination of the historical roots of MNEs’ strategy research is relevant to understand the structure of the field. The foundations of the theory of the MNE are twofold: on one hand, theories seeking to explain the existence of MNEs stem from foreign investment theory (Hymer, 1976), which included the theorems of Heckscher–Ohlin (Heckscher, 1919; Ohlin, 1933). On the other hand, Buckley and Casson’s (1976) internalization theory explains why firms internalize some foreign operations rather than exporting or using local partners. The former is rooted in Ricardian determinants of trade and builds on the work of the effect of foreign trade on the distribution income of Heckscher (1919) and the work of Ohlin (1933). As noticed by Quyen (2011), until Hymer’s work, there was a lack of attention drawn to foreign direct investments as a specific phenomenon of strategy. In subsequent periods, the combination of the Coasian tradition (Coase, 1937) with the Hymer assumptions leads to an important stream of research seeking to explain why firms engage in foreign production instead of selling their advantages to foreign local competitors (Buckley and Casson, 1976). This research stream is labeled as the “internalization” theory of MNEs’ strategic behavior and was the dominant approach during the first period of research on MNE’s strategy.

Two dominant economic approaches span the latter research period on MNEs’ strategy: industrial organization (IO) economics and the RBV (Foss, 1999; Kraaijenbrink et al., 2010). These two approaches are built on the idea that strategy is about the pursuit of economic rents (Foss, 1999)
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