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## A new Zeitgeist for international business activity and scholarship

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**Abstract:** This paper suggests that International Business (IB) scholarship is at a watershed in its evolution. It sets out the reasons for this contention, and then goes on to trace the main changes in the physical and human environment which are fashioning the global activities of Multinational Enterprises (MNEs). The paper concludes by suggesting that IB scholars need to reconfigure their research methodologies if they are to successfully understand and explain the increasingly important role of institutions in determining the strategies of MNEs, and their impact on the locational competitiveness of countries.

**Keywords:** Zeitgeist; international business research; multinational enterprises; physical environment; institutional environments; scholarly methodology.

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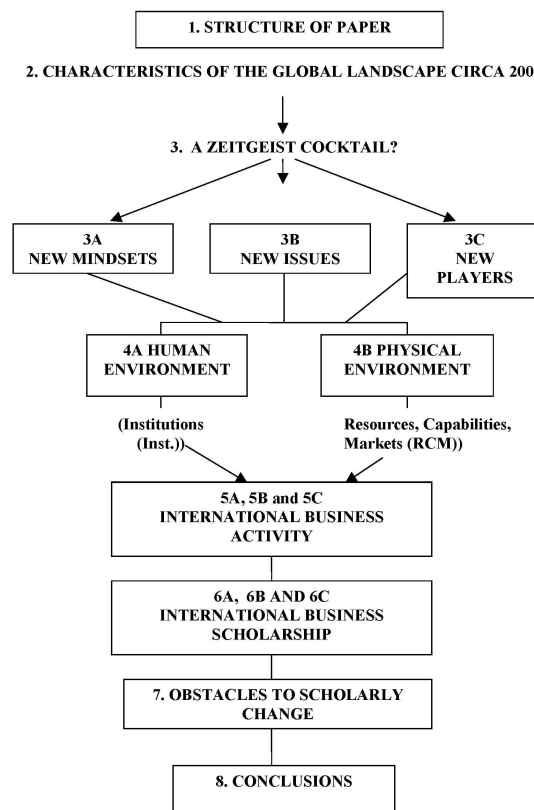
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### 1 Introduction

In this paper we will suggest that International Business (IB) activity is in the midst of a new Zeitgeist – a new spirit of the age – in which the attitudes towards, motives for, and the behaviour of MNEs are being increasingly questioned and reappraised. We shall further assert that, no less required, is a new Zeitgeist in IB scholarship, in respect of both the issues addressed and the research methodologies pursued.<sup>1</sup> The structure of our paper is set out in Figure 1. Because of space constraints, we shall set out our arguments in bullet form without much elaboration. However, we should, at the outset, state that we have no easy answers to the questions posed. Also some of our diagnoses and

prescriptions are likely to be controversial. But one feature of any new Zeitgeist is that it seeks to promote more dialogue and understanding of the subject discussed, and, in this case, to identify the scholarly implications of any new trajectory of thought and action.

**Figure 1** Structure of paper



## 2 The global scenario (CIRCA 2007)

First, let us identify what we regard as some of the critical characteristics of the global scenario in 2007.

- We live in a world characterised by the geographical spread of *market based economic systems*, tempered by the intervention of national and supranational regimes to promote or enhance extra-market political, cultural or social objectives.
- We live in a world in which *there is increasing cross-border interconnectivity between human beings and organisations*. *Inter alia*, such interconnectivity is shown by the huge increase in all forms of international commerce, of travel, and of the migration of peoples of all social groups. While such interdependence offers an unrivalled potential for economic progress and social intercourse among the peoples of the world, it is frequently uneven in its intent, content and outcome, and can sometimes lead to more, rather than less, fractious and unstable human relationships.

- We live in a world of *economic and political turbulence*; where change, volatility, insecurity and complexity are among its endemic features.
- We live in a world in which the *capability to access, create and utilise knowledge* is one of (if not the) most important competitive advantage of firms (Nonaka et al., 2000); and one in which *falling communication costs* are dramatically reconfiguring our economic landscape and the fabric of our daily lives.
- We live in a world in which *the sustainability of natural resources* e.g., especially fossil fuels, is being increasingly called into question. We also live in a world in which global climate change is challenging our perceptions about the deployment and/or replacement of such resources.
- We live in a world replete with *paradoxes and tensions*. Globalisation brings with it its own ‘yang’ and ‘yin’: where convergence and divergence, uniformity and diversity, competition and cooperation, centralisation and decentralisation, and individualism and communitarianism go hand in hand; where false choices abound; where progress and backlashes are common bedfellows.
- We live in a world in which the *intent and content of human development are being constantly appraised*. Compared with the past, more attention is now being paid to the social, cultural and ideological wellbeing of individuals and communities, and also to the moral dimension of economic progress.
- We live in a world in which the *global competitiveness of corporations and the prosperity of countries* is increasingly dependent on their success in forming, and learning from, cross-border cooperative ventures, and of being part of a network of related activities.
- We live in a world in which the content and quality of *incentive structures and belief systems* – including religious perspectives – are increasingly influencing societal attitudes and policies towards globalisation, and to the social responsibilities of both firms and governments.
- We live in a world in which the *content and significance of legitimacy of the main constituents of global capitalism* (and especially that of MNEs) is being increasingly questioned.
- In short, we live in a world in which the *human and physical* global environment underpinning the intentions of individuals, wealth-creating activities of firms, and the policies of national governments, is rapidly and radically changing. And, we believe, it is the firms and governments which are best able to respond to and benefit from these changes, and which are best equipped to minimise or counteract their disruptive effects, that are the most likely to prosper in today’s hugely competitive global village.

### 3 The Zeitgeist cocktail

What do these characteristics add up to? Do they point to a cocktail of happenings which, between them, make up a new Zeitgeist? Or is it more a case of ‘old wine in new

bottles' – at least in part – as we move out of the euphoria of the most recent phase of globalisation (reminiscent of the 1960s) into a backlash (reminiscent of the 1970s, Sauvant, 2006). Our judgement is that, on balance, it is the first, but, in the short run, there are features of the second – as is being currently voiced by many of the critics of globalisation, and is being demonstrated by the emerging pattern of IB activity.

What then might be the ingredients of the new Zeitgeist? We would suggest three – which affect both IB activity and IB scholarship.<sup>2</sup> These are *new issues, new mindsets and new actors*, each of which, of course, closely interacts with the other two. Some indirectly affect the content and structure of globalisation: others are the direct cause or consequence of it. Let us deal with each ingredient in turn.

### 3.1 *New issues*

First, some new issues – or if not new – an increased attention given to, or reprioritisation, of existing issues. The *big picture* for IB practitioners, governments, and the IB community in general (IBC for short) is as it always has been. *How can one best maximise the net benefits of the regionalisation and globalisation of economic activity while retaining the desired and legitimate social and cultural values, specific to local communities?* However, the focus and the Zeitgeist of this objective is changing. The opportunities and challenges of both globalisation and localisation are more multidimensional, involve more constituents, and embrace more complex and value laden issues than once they did. The role of institutions is given more prominence (Djelic and Quack, 2003). In short, the contemporary spirit of the big picture requires a more holistic and multifaceted, yet more balanced, contextual and human approach to the causes and impact of globalisation.

Within the big picture, the following are some which deserve more attention by the international business community.

- *The interface between different sources of knowledge creation and application.* One example is that between science and technology as seen e.g., in nano-technology and stem cell research. Another is the application of the latest generation of advances of computer technology to neuro-science research. A third is the growing interface between fibre optic materials technology and broadband internet connectivity (Mann and Gotz, 2006).
- The heightened emphasis on *development issues* and *especially poverty reduction*, as exemplified, for example, by the Millennium Development Goals, and the reconfiguration of World Bank lending initiatives which now encourage a shared ownership of any projects financed by them.
- A renewed focus on the sustainability of *natural resources*; and, particularly, their relevance for environmental protection, energy conservation and global climate change.
- *Security issues* are also now upfront on the international agenda, especially with respect to trade in 'bads' e.g., arms, drugs, terrorism, etc. and also as a result of the heightening of religious/ethnic divisions. More attention is also being paid to the implications for risk management and the intervention strategies of MNEs in response to violent conflict in the countries in which they operate (Detzel et al., 2007).

- *Health matters* have been also brought to the fore, partly as a result of the scourge of HIV and AIDS; but, more generally, because of the easier spread of infectious diseases (e.g., Asian flu), and of a greater awareness of huge differences in the provision of health care across national boundaries. New challenges are also being posed by an ageing population in several parts of the world, (one notable exception is India), and of the growing percentage of GDP allocated to medical treatment (Birkinshaw and Hood, 1998; Birkinshaw, 2001).

What about new issues specific to IB? We might identify four of these.

First the *widening geography of IB activity*. The emergence of South and East Asian developing countries as global players is a case in point. Between 1990 and 2005, these countries increased their combined inward and outward foreign direct investment (FDI) stock by 9.3 times compared with 5.8 times in the case of all countries (UNCTAD, 2006).

Second a host of *new forms of FDI*. These range from equity management investment (estimated to have accounted for a quarter of the cross border M&As in 2004–2005 (UNCTAD, 2006) to born global ‘start up’ companies, to stand-alone family businesses (especially in Asia and China), and to a new array of non-equity collaborative and networking arrangements. *Inter alia* these developments not only point to an increased blurring of the boundaries of firms; but the fact that FDI data are becoming a less reliable indicator of the extent, form and likely impact of global MNE activity.

Third, a combination of shared technologies and business standards is helping to refocus the process of corporate globalisation from *products* to *production*. In the words of the President and Chief Executive of IBM

“the emerging globally integrated enterprise is a company that fashions its strategy, its management and its aspirations in pursuit of a new goal: the integration of production and value delivery worldwide.” (Palmisano, 2006, p.129)

Fourth, the increasing importance of *asset augmenting IB activity*, e.g., through the formation of new alliances, networks and other modalities, for tapping into, and learning from, foreign sources of resources, capabilities, markets and institutions. In short, IB is no longer best thought of as an amalgam of exports, FDI and collaborative ventures; but of a system of interconnected cross-border value-creating and value-exploiting activities.

### 3.2 A new mindset

But do these issues – important as they are – signify a *Zeitgeist* for IB activity and IB scholarship? Probably not. So let us turn to our second ingredient of change. This suggests that, owing *inter alia* to the evolving characteristics of the world scenario earlier described, both the *intentions* and *choices* of individuals and organisations, and their *perceptions* of the ways in which these might best be advanced, have undergone a fundamental change. These aspects of the new *Zeitgeist* we refer to as a new *mindset*.

The key *rationale* for this new mindset arises from the advent and impact of globalisation, the character and complexity of technological advances and the multicultural composition of the new players. Each in its way brings more uncertainty, insecurity, and volatility. Each leads to a questioning of the appropriateness of existing mindsets, particularly in respect of those of decision takers in large and integrated MNEs.<sup>3</sup> Each too, challenges the ability of extant institutions to cope with the demands of emerging global markets. In particular, attitudes towards the purposes and ingredients

of wealth creation, and the role of extra-market entities viz. national governments, NGOs and supranational entities have softened over the past two decades.

At the same time, the objectives and values of individuals and organisations have changed or have been reprioritised. Improvements in living standards have led to more choice. Personal intentions and aspirations have become multi-dimensional, and frequently include the provision of goods and service which the market (by itself) cannot or will not provide. In a recently published monograph, Benjamin Friedman has argued that the wellbeing of communities should best be measured by the extent to which the majority of their population benefits from a rise in GDP (Friedman, 2006). Belief systems, as they affect risk taking, the work ethic, corporate social responsibility and the role of civil society are also under scrutiny.

The demise of communism, the marketisation of the Chinese economy, a better appreciation of differences in the different behavioural patterns of ethnic and religious groups, and the rise of libertarianism in the West, are leading to a clearer distinction between institutions favouring an individualistic and those preferring a collectivist (or communitarian) approach to the wealth creating process. Again the choice between the two options is often a false one. Each has a role to play, but exactly what this role is – is not easy to identify – particularly, as it is continuously changing!

Lastly the motives, cognition and behaviour of managers of global corporations, together with the role of social and ethical capital as a competitive advantage of countries, are inducing a new spirit towards the ingredients of wealth creation and the manner of its achievement (Donaldson, 2001). Each of these triggers a mindset change that is being continually refashioned by world economic and social events (Levy et al., 2007). Why is this, and how?

First there is the ‘awareness’ or ‘consciousness’ factor, made possible by travel, the media, and the internet, which has provided information about different intentions, attitudes and ethical perspectives towards the means and ends of wealth creation and usage. Second, the mingling of different mindsets and belief systems can lead, and is leading, to a reappraisal of some traditional social mores and institutions. And third, while some long cherished cultural or religious ideologies are hardening and becoming more distinctive, in others, there is an appreciation of the need for a global mindset e.g., with respect to human rights and working conditions (the so called hypernorms identified by Donaldson and Dufee, 1999).

In short, our contemporary landscape, and particularly the interconnectivity forged by globalisation and the uncertainties and complexities of technological change, is bringing about a reconfiguration of the composition of *Zeitgeist*. Most particularly this reconfiguration is shown in the paradox between the kind of mindsets and incentive structures which globalisation demands, and those which protect the distinctive cultures and belief systems of people and organisations in particular locations. This paradox produces a conflict of intentions and values (rather similar to Isaiah Berlin’s conflict of virtues: Berlin, 1991) which is yet another aspect of our contemporary *Zeitgeist*.

### *3.3 New actors on the world stage*

Yet there is one other component of the spirit of the age which is worth identifying. Again it both influences and is influenced by the other two. We refer to this as *New Actors on the World Stage*. Up to the early 1990s, there were three dominant wealth creating entities viz. firms, national governments and supranational agencies. Since then,

not only have these entities been joined by others – notably those comprising civil society – but their attitudes and actions have been increasingly influenced by constituents outside their immediate sphere of governance.

Nowhere is this more clearly seen than in the increasing activism of consumer and investor groups, and that of the stewardship voice, in influencing the objectives and behaviour of firms. At the same time, as exemplified by regional integration schemes and the reconfiguration of the Bretton Woods organisations and the UN, supranational entities are also undergoing their own institutional soul searching (Stiglitz, 2002).

Yet, we would suggest the metamorphosis is even more marked in the domain of IB activity. First, as we have already seen, a variety of new types of foreign direct investors are emerging, e.g., born global, equity fund managers, migrating small businesses. Second, the form of FDI is changing, with acquisitions and mergers A&Ms (relative to greenfield ventures) playing a more important role. Third, within MNEs, and particularly within globally integrated MNEs, there is more subsidiarity in decision taking (Birkinshaw and Hood, 1998). Fourth, the competitiveness of MNEs is being increasingly influenced by the alliances they conclude with foreign firms, and the networks and/or industrial clusters in which they participate. As Doz et al. (2001) have observed, the range of MNEs has widened from the very small and regional, to the very large and global. This latter group of firms they identify as *metanationals* whose competitive or ownership specific advantages primarily rest in their willingness and ability to identify, access or create different kinds of income generating assets from across the globe, and orchestrate these in a way that advances their own particular global strategies.

In short, the actors now engaged in IB activity have become more varied, more multipurpose and more multifaceted. This, we would aver, points to the need for a new and deeper *Zeitgeist* of the institutional symmetry and cooperation among and between the constituents of cross-border value-creating activities, if the benefits of such activities are to be fully and effectively captured.

#### **4 The environment for IB activity and scholarship**

Our conclusion then is that, between them, the new issues, new mindsets and new actors identified make up something approaching a new *Zeitgeist* for IB activity and scholarship. But exactly what *are* the implications of this *Zeitgeist* for the main actors and researchers?

Here, we think it useful to distinguish between the two main attributes of the global landscape underpinning and fashioning IB activity.

The first is the *Physical Environment* (PE) and the second is the *Human Environment* (HE) faced by them. Essentially, the former is concerned with *the extent to which and ways in which firms create and deploy the scarce resources and capabilities available to them, and their seeking out and exploitation of the appropriate input and output markets (RCM)*. Most neoclassical studies of the wealth creating process either take the HE as given, or drastically simplify its contents (Matthews, 1986). But, in addition, we would underline the importance of the HE, which embraces *all the formal and informal incentive structures and enforcement mechanisms affecting the cognition, intentions, strategies and behaviour of individuals and organisations*. We would further hypothesise that, as a direct result of globalisation, the content and quality of the HE has become a relatively more important determinant of the economic success of countries and firms.

Tables 1 and 2 identify some of the key characteristics of today's PE and HE. Some of these attributes have been identified earlier in this paper. However, we would also suggest that, as a package, they portray a PE and HE which supports the idea of a new Zeitgeist. The contents of both tables are, for the most part, self evident. In the case of the PE, we would pinpoint the first four of those listed as being probably the most significant in the early 2000s. Yet in future decades, the sustainability/replacement of natural resources, especially energy, and efforts directed to coping or alleviating the effects of global warming are likely to move up the agenda.

Globalisation and technological advances are markedly affecting the PE, both by reducing (physical) distance costs, and by enabling cross-border product and process specialisation to better exploit the particular RCMs of different countries. If much about the PE is relatively well known, this is not generally the case in respect of the HE – at least not until fairly recently. Exceptions in the IB literature, which we will acknowledge later, include *cultural studies*, *human resource management*, *internalisation* and *organisational theory*. However, increasingly, in the last two decades, there has been a burgeoning of scholarly research on institutions. At the same time, ideas and definitions about their precise scope and content vary across the disciplinary spectrum (Williamson, 2000). For our purposes, we shall adopt the Northian interpretation of institutions as the “*humanly devised constraints that structure human interaction*” (North, 1994, p.360).

**Table 1** The physical environment (CIRCA 2007)

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<i>General</i>
Knowledge the critical ingredient: but are technological innovations of last decade now entering period of consolidation and integration?
Technologically often complex (e.g., all forms of R&D, production functions and supply chains)
Convergence/fusion of scientific discoveries and technologies, and between different stages of value chains
Computers and microprocessors: genetic engineering
R&D and production (along value chains)
More integration between innovation and shared standards
Reduction in transportation and communication costs
Renewed focus on access to non renewable resources, and their sustainability, efficient deployment, or replacement
Importance of (global) brands
Global collaborative ventures designed to upgrade technical efficiency of MNEs, and leverage expertise and skills of external partners
Competitive pressures
<i>IB specific</i>
When the IB dimension is added to these attributes they become more intense, albeit they may be of varying significance to different countries. <i>The effect</i> , however, is to foster the international specialisation of value adding activities. Generally it is becoming <i>comparatively</i> more easy to leverage or transfer ingredients of PE across national boundaries

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**Table 2** The human environment (CIRCA 2007)

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<i>General</i>
More volatility/insecurity/complexity in a world in which future events are becoming increasingly unpredictable
Need for more/different extra market institutions to contain or reduce transaction costs
Changing intentions, values, belief systems of individuals and organisations
Formal/informal incentive structures and enforcement mechanisms
The role of institutions in legitimising corporate behaviour: institutional relatedness
Bottom up → top down institutions
Why institutions are often resistant or slow to change: the issue of path dependence
<i>IB specific</i>
HEs of particular countries less easy to transfer outside their home territories
Harmonising multiple cross-border human environments
Coping with different customs, ideologies, incentive structures, raise transaction costs
Transnational institutional building and governance systems
Implications of global integration of production systems for mindsets of managers of MNEs (and their subsidiaries)
Widening the sphere(s) of global governance

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These institutions may be formal (e.g., constitutions, law and regulations); or informal (e.g., tradition, custom, voluntary codes or conduct). They may perform an informative, guiding, constraining or enabling function. They may affect both the intentions and values of decision takers. They may be national or multinational in origin and/or scope. They may take the form of *top down* instruments (e.g., governments requiring firms to be more transparent in their financial reporting) or *bottom up* instruments (e.g., consumers boycotting purchasing from firms they believe are behaving unethically). Institutional *change* may result from a reconfiguration of either formal rules or informal norms – or, more likely, from a combination of each. Likewise, enforcement mechanisms may range from self-imposed codes of behaviour, the ability (and likely willingness) of those adversely affected to retaliate, and penalties, sanctions, (sticks) or tax et al. incentives (carrots) imposed by governments (North, 1990, 1994, 1999, 2005).

“If culture is the mother, institutions are the children”, wrote Etounga-Manguelle (2002, p.75); and North himself accepts that the culture of a society comprises the “structure of rules and beliefs it inherits from the past, shape our present and influence our future”, (North, 1999, p.15). Certainly institutional artefacts are the main instruments by which the processes of value creation and value capture are legitimised and determined. Markets can only perform their true function if they abide by a set of rules or guidelines which either the market participants or extra-market governance entities, or both, may set. Thus the managers of firms may be constrained in any profit maximising strategy by shareholders insisting that they conduct their activities in a socially responsible manner. Democratic governments, for their part, may be held responsible, by their electorates, for the incentive structures they design and implement. Supranational entities often find their market facilitating strategies thwarted by the advocacy of, or action by, particular interest groups. Each and every one of these examples sets the

incentives offered by, or constraints imposed on, the constituents of global capitalism, in their participation in the PE. The end product of their activities will depend on their willingness and ability to tap into and effectively exploit *both* the PE and the HE.

What then are some ingredients of the contemporary HE and its institutions? Some of these are set out in Table 2. Again, we believe that it is the international dimension which is particularly challenging. Within a country, the HE and the institutions and belief systems moulding it, are likely to be fairly homogeneous – although the growth of multicultural societies may well challenge this assertion. As we shall be demonstrating later in this contribution, economists are increasingly accepting that the quality and content of a country's institutions are a critical determinant of its economic growth. It then follows that, as the HE becomes more complex, uncertain, and volatile, and as more human interaction takes place between different cultures, the task of institutions in containing or lowering the costs of economic activity – and particularly transaction costs – is becoming more critical. As values become more embedded into the motives and strategies of firms, and as the intentions of individuals are increasingly shaped in conditions of unknown and/or unpredictable future events, so the basic assumptions underlying rational behaviour are no longer valid.<sup>4</sup>

Do these elements make up a new Zeitgeist of the HE? We believe they do – and this is primarily because of the increased attention given to its (changing) contents by each of the main stakeholders in contemporary capitalism. We shall describe these contents shortly: but it is difficult to conceive of a full understanding of the traditional challenges and opportunities faced by firms, without fully taking cognisance of the global human scenario and its institutional contents. In particular, we would argue that while most analyses of the benefits of globalisation have been couched in terms of the PE, those relating to localisation have primarily emphasised country-specific differences in the HE.

Why is it, then, while economists are recognising the importance of institutions as a determinant of the economic prosperity and growth of countries (Rodrik et al., 2004; Fagerberg and Srholec, 2005), that with a few notable exceptions, IB scholars have yet to give serious attention to their contribution to the intent, performance and growth of MNEs?

## **5 The changing environment for IB activity**

We now examine some of the implications of our contemporary PE and HE, and particularly the interface between institutions and the wealth creation process in the global economy, for our understanding of IB activity and for IB (and IM) scholarship.

First IB activity. Table 3 offers some fairly well known stylised facts – some of which we have already identified – about the evolving Zeitgeist of international production. These facts simply demonstrate that MNEs are becoming even more important shapers of the international division of labour than they have been in the past; and that only by taking a systemic view of their impact on, and response to the HEs and PEs in which they operate can their strategies be properly understood.

**Table 3** Recent changes in content, structure and strategy of IB activity

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Inbound/outbound FDI more geographically dispersed
Growth of FDI in resource based and service activities
Growth in (i) A&Ms, (ii) asset augmenting FDI, (iii) round tripping, (iv) cooperative ventures/networks, (v) equity managed FDI
Growth in offshore outsourcing (including R&D)
Institutional variables becoming more important in
Attracting FDI
Being affected by FDI
More subsidiarity/flexibility in decision taking
MNEs as systems of accessing/orchestrating dispersed competitive advantages
Need for more matching strategies in multiple PEs and HEs
More emphasis on the ethical imperatives and consequences of corporate decision taking

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Let us now turn to Tables 4 and 5 which detail the main competitive advantages of firms and countries in our contemporary PE and HE. In discussing these we use our own framework of the eclectic (OLI) paradigm of the (economic) determinants of IB activity (Dunning, 2002).<sup>5</sup>

**Table 4** IB activity and the changing physical environment (Resources, Capabilities and Markets (RCM))

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<i>At the firm level (O)</i>	<i>At the country level (L)</i>	<i>At the firm level (I)</i>
Knowledge creating/using capabilities	Reduced physical distance	Length and complexity of value chains
Knowledge of global markets	Geographical spread of knowledge capital	More crossborder specialisation/outsourcing
Mobilising geographically dispersed competences/assets	Physical infrastructure e.g., telecommunication, transport facilities	Collaborative intra-inter firm production functions
Specialisation advantages	Technological convergence/interface	Learning about/from different PEs
Brand names		Systemic advantages
Relational capital*		
Coping with new kinds of risk/uncertainty		

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\*Also relevant to HE.

**Table 5** IB activity and the changing human environment (Institutions (INST))

<i>At the firm level (0)</i>	<i>At the country level (L)</i>	<i>At the firm level (I)</i>
Institutional assets as a competitive advantage	Social capital	Collaborative ventures (to make better use of HE)
Meta-globalisation	Macro institutions (market cf extra market)	Networking
Exposure to multiple (foreign) institutions and mindsets	Micro institutions	Outsourcing (the human dimension)
Attitudes to change/risk/uncertainty	Formal → informal: specific types <sup>1</sup>	Coordinating global institutional assets
Stewardship responsibilities	Institutional comparative advantage	Increased focus on minimising systemic transaction costs
Reappraising corporate legitimacy	Influence of new actors (e.g., NGOs)	Changes in intentions of firms and the entrepreneurial content of decision taking
Increasing contribution of foreign subsidiaries to institution building of global companies	Institutional distance	

<sup>1</sup>Including those designed to strengthen entrepreneurial development and economic motivation, protect private property, set out rules for guiding commercial behaviour, promote competition, encourage innovation and knowledge development, and ensure social equity and adequate safety nets.

In Table 4 we set out some of the variables, specific to the PE in which they are housed, which the extant literature would suggest are most likely to influence the competitiveness of firms and the locational attractions of countries. We would particularly emphasise four of these influences:

- the importance to both firms and countries of the extent and quality of all forms of *knowledge*, and its supporting (physical) infrastructure
- the widening context of internalisation (transaction cost lowering) advantages (to embrace aspects of *value creation* as well as *value capture*)
- the role of distance reducing technologies, as they make for the easier access of firms to global assets and competences, and a widening of their locational choices
- the exposure of both firms and countries to a more heterogeneous mix of institutions and governance systems in the global economy (Rondinelli and Behrman, 2000; Xu and Shenkar, 2002; Ozawa, 2003; Griffiths and Zammuto, 2005).

Taken together, we believe that these developments represent a new Zeitgeist – or at least a reconfiguration and extension of the earlier Zeitgeist – of PE.<sup>6</sup>

We regard the contents of Table 5 as the core of the new Zeitgeist of the HE. While these may be familiar to many IB scholars, we do not think they have been fully incorporated into the *mainstream* body of knowledge. The table sets out (what in our view are) some of the critical ingredients of the contemporary HE, which underpin and

influence the access, creation and deployment of the RSMs under the governance of private and public wealth creating entities. Foremost of these are changing ingredients of the intention of firms in an unpredictable and volatile global environment; the recognition of the importance of their incentive structures and fostering their relational assets; the advantages of operating in multiple institutional environments (Xu and Shenkar, 2002); a focus on minimising the systemic costs of MNE activity; and a reappraisal of the nature of entrepreneurship in decision taking (Korine and Gomez, 2002).<sup>7</sup> To countries, the new Zeitgeist of HR is directed towards upgrading both their domestic macro and micro institutional assets, and to reducing cross-border institutional distance. In the case of supranational entities, institutional values and systems including those of the dominant personalities within the organisations can be quite critical (Stiglitz, 2002). Both James Wolfenson of the World Bank and Kofi Annan of the UN have, by inculcating their own particular values and ideologies, effected major change in the institutional profiles of their respective organisations, notably towards poverty alleviation and human rights.

What then is the empirical evidence about the new Zeitgeist of the H&PEs in IB activity? The answer is very little – primarily because the ‘new spirit’ is in its early stages. Here we would repeat an observation made earlier – that while economists are now fully engaged in evaluating the role of institutions as a determinant of economic growth, there is little evidence that, with two exceptions to be identified in the next paragraph, mainstream IB scholars are doing the same as far as the evolutionary path or prosperity of firms is concerned. This, in no way under-values the contribution of scholars researching into culture and human resource management. Quite the reverse. Indeed, we believe this contribution should be better acknowledged, and be given a more prominent position in mainstream economic, management and organisational studies.

Turning to the two exceptions, the first refers to the work of internalisation scholars,<sup>8</sup> whose main attention, since the time of Coase (1937, 1992),<sup>9</sup> has been directed to explaining the mode of exploiting the RCMs of MNEs. However, even here, not only are the choices assumed to be rational and deterministic, but little attention is paid to how the content of each of the modes is perceived. The second exception is a growing appreciation by strategic management scholars of the need to better integrate the resource based view of the firm with that of institutional theory (Oliver, 1997; Peng, 2001; Lu, 2006). Lu in particular argues for a co-evolution framework of institutional relatedness and strategic assets to explain the scope and performance of firms.

A cursory review of the literature suggests that, up to now, most scholarly empirical research has focused on how the content and quality of the institutions of countries have affected the locational decisions of inward foreign investors. The answer is quite a lot, particularly in the case of the transition economies, and in respect of the quality and effectiveness of its democratic institutions, property rights legislation and innovating systems (Grosse and Trevino, 2005; Grosse, 2005; Jensen, 2006; Dunning, 2007).<sup>10</sup> But there have been only sporadic attempts to evaluate the importance of country specific institutional assets as a competitive advantage for firms, although recent work by IB scholars on institutional relatedness and corporate diversification is throwing up some interesting propositions. Neither do we know much about *which* institutional assets are most likely to affect the modality of exploiting or accessing the ownership specific advantages of firms in their decisions of what, and where, to produce.

## 6 International business scholarship

We now turn to consider some of the possible consequences of the new Zeitgeist for IB scholarship. Here, again because of space constraints, we can only offer a few bullet points relating to the paradigms and theories we offer to explain the determinants of IB activity; and the methodologies we pursue to formulate and test them. We shall first deal with these from the perspective of the PE, and, second, from that of the HE. In particular, we shall focus on the modifications to our traditional perceptions and research techniques which we believe the new Zeitgeist demands.

We refer to Table 6. As we have already stated, we believe the main emphasis of (most) mainstream IB scholars – and according to Ghoshal (2003) of IM scholars as well – has been directed to explaining the interface between IB and its PE; and that when the HE is involved, the intentions of the decision takers are assumed to be unidimensional, rational and consistent. The dominant paradigm guiding scholarship in business schools and economics departments has

- assumed *homo economicus* as the dominant economic agent
- been static and ergodic in its approach
- limited the intentionality of decision takers to profit on utility maximisation
- deployed an ontology of logical positivism (of an A then B variety), which has been largely derived from the physical and biological sciences
- assumed the primacy (not to mention the superiority) of the free market as an institution
- taken, as its mantra, the shareholder/agency theory of the firm
- perhaps most important of all, implicitly subsumed all the attributes of the HE under the rubric of the PE.<sup>11</sup>

**Table 6** IB scholarship: the physical environment

<i>The dominant interest and methodology for IB scholars</i>
Is designed to understand/explain IB within context or PE (RCM)
Assumes rationality. Single and consistent intent: <i>homo economicus</i>
Employs largely static and linear models
Favoured especially by economics and finance; and also some aspects of marketing, organisational theory and strategic management
Uses primarily functional and causal methodologies (of the if A then B variety) derived from physical and/or biological sciences
Is market oriented: extra-market institutions considered as second best; NGOs largely ignored
Embraces shareholder/agency theory of firm
Its quality of scholarship largely judged by technical content and level of manipulative expertise
US methodology/ontology tends to dominate
HE and its institutions implicitly subsumed within RCM

Accepting the merits of this paradigm, the intellectual contribution of scholars has been (and still is) judged mainly by the content, relevance and sophistication of the research methodology they use, and their ability to skilfully manipulate it.

Table 7 sets out the contents of the HE which, we believe, should be, incorporated into mainstream IB research. The observations are largely self-evident. They reflect our contention that the evolving global environment demands a new (or complementary) *Zeitgeist* of scholarship; and one which more explicitly incorporates the role of institutions, and poses challenges for the logical positivism embraced by most researchers, economists and many management scholars (Ghoshal, 2003). Let us briefly expand upon this latter point.

**Table 7** IB scholarship: the human environment

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Up to early 2000s HE largely subsumed in PE paradigm
But earlier work by Veblen and Commons, and later by Simon, Coase, North and Williamson has focused on HE
But institutions largely marginalised by <i>main stream</i> IB disciplines
Today it is better recognised that institutions are important for understanding and explaining determinants and impact of IB activity
Exceptions
Internalisation/transaction cost theory – but this largely assumes rationality of intent and ergodicity
Organisational theory
Yet still only limited attention is given to cross border market failures (e.g., institutional distance): approach is static: and IB models tend to ignore intentions of decision takers, and consider only limited institutional options
Critique by Ghoshal, and by Sullivan and Daniels
A stages/dynamic approach to a <i>Zeitgeist</i> in scholarship
No dominant paradigm of methodology
Value of interdisciplinary research

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We have already argued that trends in the global economic scenario are associated with, or are leading to, the unpredictability of many future events; and where past events and observations have a zero probability of recurring (North, 2005). Unexpected technological change, new uninsurable risks, natural disasters, increased insecurity, unanticipated shifts in ideologies and political volatility, each point to a *Zeitgeist*, where received scholarly wisdom and mainstream methodologies are of limited use in guiding either business managers or policy makers in their future actions. Essentially such unpredictability arises for two reasons. The first is that the goals and intentions of decision takers are becoming less stable, more multifarious and increasingly non-rational. Partly this reflects their greater freedom of choice. While some changes may be foreseen and can be built into existing paradigms, others such as technological breakthroughs, e.g., stem cell research, and unexpected changes in the HE, e.g., as fashioned by terrorism, require a reappraisal of existing models of intent.

The second aspect of unpredictability concerns sudden and totally unforeseen changes in the HE or PE. Taking the locational attractions of the UK as an example, it may be possible *ex post* to identify the key variables which the investing firms took into account

when making their decisions. These may be a useful guide to (say) UK investment promotion agencies, but only as long as

- their expectations of the likely net benefits of inbound FDI remain (relatively) constant
- there are no unforeseen changes in the values of the explanatory variables.

But, suppose – out of the blue – a terrorism attack on the UK property of a foreign MNE takes place. This would require a major shift in both the modelling of FDI and in the policies of government and the strategies of firms based on that modelling.

Economists have long recognised that the presence of non-ergodicity makes any scientific modelling of causal relationships difficult, if not impossible. Several years ago both Kenneth Arrow and Robert Lucas observed that economic theorising in conditions of complete uncertainty was impossible, as past observations and events may have little relevance for understanding the present and the future. For Paul Samuelson however, the ergodic hypothesis was essential for scientific economics (Samuelson, 1969). Robert Solow (1985, p.830) went even further when HE stated that “the best and the brightest in the (economics) profession proceed as if economics is the physics of society” (quoted by North, 2005, p.19).

Are changes in the HE likely to be more unpredictable than those in PE? The answer is in one sense ‘No’ – in as much as history suggests the HE is likely to be more path dependent than the PE; but in another sense it is ‘Yes’ – simply because, on occasions, human intentions are likely to be both unexpectedly capricious and non-rational. Of course, some innovations and events are completely novel and may have far reaching consequences (the current wave of advances in genetic engineering is an example); but others are part of an evolutionary process, and their likely consequences can be largely predicted by tried and tested research tools. The social sciences can draw upon these only in so far as human intentions remain rational and unchanging. But we are suggesting that the new *Zeitgeist* – aided and abetted by globalisation – makes this assumption increasingly less likely. Consequently, there is a need for a new (or at least reconstituted) epistemological approach to IB research.

What, then, is the scholarly community to do? If one takes the view of Douglass North *à propos* the causes of economic growth, and the criticisms of Sumantra Ghoshal about management theory currently taught in many business schools, it is first behoven on scholars to *understand* the phenomenon one is seeking to explain, before any systematic modelling of it. It is our belief that we are at this stage in our scholarly understanding of the ways in which global HE is affecting IB activity.

Let us suggest just five courses of action which IB and IM scholarship might take.

- A more concentrated and systematic study of the content and quality of institutions in explaining the determinants and impact of IB activity. Such a study should both recognise, and seek to evaluate, the contextual (e.g., country, activity and firm specific) characteristics of different kinds of institutions. This alone is a powerful agenda.
- A better understanding of that part of the human and physical landscape which is non-ergodic; the most likely circumstances in which it is likely to occur; and how it might best be tackled. How far, for example, and in what ways, are MNEs responding to the unpredictability of international terrorism as opposed to that of an ageing population?



- An acceptance that functional and causal explanatory paradigms and theories, drawn from the physical and biological sciences, need to be complemented by other paradigms and theories more appropriate to the social sciences and IB; that the ontologies implicit in these need more careful examination; and that the merit of research of this kind – which also, by definition, is more experimental and less empirical – needs to be more fully acknowledged.
- An acknowledgement that IB is in an excellent position to pursue such scholarship. Indeed the explicit incorporation of institutions into mainstream IB should be one of the unique contributions of the discipline. Partly this is because its field of studies embraces production and transactional activities in situations where institutional related transaction costs are the highest, and where the HE is likely to be the most complex and unpredictable. IB is also uniquely well placed to embrace an interdisciplinary approach; and to build upon and coordinate the excellent work being done on cross cultural institutions, comparative human resource management, varying parts of organisational and management studies, internalisation theory, international political economy, sociology and spatial economics.
- In evaluating the determinants of the success of international firms, more explicit attention needs to be given to the origin and deployment of firm specific intentions and incentive structures. For example, we are not aware of any studies on the comparative profitability or growth of MNEs (e.g., of different nationality) in which institutions are explicitly considered; while the impact of the cross-border transfer of institutional practices both on the transferring firms and the recipient countries we believe are likely to command increasing attention by IB scholars over the next decade or more (Ozawa, 2003, 2005).

## **7 Obstacles to changes in IB scholarship**

Implementing even some of our suggestions about the future course of IB (and IM) scholarship will not be easy. However, we think that, in contemporary monographs, books and journal papers, there is increasing awareness that, in today's global HE, the interface between different institutions and belief systems is (at the moment, at least) increasing the transaction costs of cross-border economic activity; and that only by a better acknowledgement and appreciation of the nature of these differences, and how they may best be overcome (without lowering the benefits of globalisation), can the appropriate strategies of MNEs in responding to the challenges of change and complexity be identified and successfully implemented. The main problem here, we sense, is lack of data, and the temptation of much IB scholarship to run before it can walk i.e., by seeking to empirically test a particular paradigm or theory before it is capable of yielding meaningful results. But we suspect a more challenging obstacle lies in the reluctance of many scholars to abandon received methodologies and research tools, and their somewhat myopic attitude to tackling issues which they cannot satisfactorily deal with, either because of data constraints or because of the non-ergodic nature of the phenomena to be investigated. Some other challenges to IB scholarship are set out in Table 8.

**Table 8** Obstacles to change in scholarly thinking/methodology

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<i>Data/measurement limitations</i>
I implicitly assumed into RCM. Why separate I?
A fuller understanding of the ingredients of HE and of their institutional content
Coping with unpredictable and complex events
Belief that non-scientific studies are less rigorous
Reluctance to embrace new methodologies; and to abandon rationality assumptions/optimisation goals
Pluralistic approach to IB scholarship is needed. But is a unified model possible/desirable?
Publication/reputational issues
<i>But</i>
The beginning of any 'new Zeitgeist requires new vision, more understanding, more diagnostic research, more experimental methods, and more empirical evidence before it is possible to design and test new theories', e.g., as has happened in the case of economic models embracing institutional variables

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Here some interesting recent thinking by Sullivan and Daniels (2005, 2007), building on earlier work of Toyne and Nigh (1997), deserves careful consideration. In particular, they plea for a multiple epistemological perspective in studying the varying components of IB activity, and at different times. They go on to identify the current repertory of IB scholarship as embracing

- a scientific ontology that champions the principles of rationality and optimisation and uses functional or causal explanatory models
- a humanist ontology that endorses the ideas of culture, relativity, people and values
- a combination of the two.

Each, they assert, is useful for a particular kind of problem solving, but none is a basis for a coherent, cohesive and unified methodology, which IB, as a body of knowledge, demands. They suggest that chaos ontology might be worthy of consideration, as it is explicitly designed to situations in which everything is part of an interconnected and interdependent system of things, nothing is in equilibrium, and change is difficult to predict (Buckley and Casson, 2003; Safarian, 2003).<sup>12</sup>

In part, such chaos ontology would seem well suited to analysing IB related issues in a complex interdependent and volatile world. But we are still concerned about how it can embrace completely novel events, particularly with respect to the institutional changes such events might require. Neither do we see the non-rational intentions and the ethical dimension being easily incorporated into its approach. Here we think we are at the stage of what Sumantra Ghoshal has referred to as 'relegitimising pluralism' in IB international business and management research and the need for a "the scholarship of commonsense and disciplined imagination".

## 8 Conclusions

In conclusion we set out some bullet points in Table 9. These we present without comment. As can be seen there are great opportunities and daunting challenges facing international business and management researchers for the foreseeable future; and we have probably only identified the tip of the intellectual iceberg. In particular, we have given only superficial attention to the proposition that the content and quality of a firm's belief systems, institutions and collective learning, and how these might adjust to the external economic and social challenges with which they are now being faced, are key determinants of their performance. Neither have we examined the likely impact of future world scenarios on the PE and HE (Perlmutter, 2007).<sup>13</sup> Certainly the IB agenda is running out of steam! On the contrary, its prospects as a highly relevant, integrated and interdisciplinary body of knowledge are as exciting as they have ever been. It is up to us to ensure that we do not let the forefathers of our discipline – such as John Fayerweather, Richard Robinson and Herbert Simon, nor, indeed, future generations of scholars – down.

**Table 9** Conclusions

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Contemporary global events are giving rise to a new <i>Zeitgeist</i> on the extent, pattern and ownership of IB activity; and of our scholarly understanding and explanation of it
Between them, these events and their implications are producing a new <i>Zeitgeist</i> of the <i>human</i> and <i>physical</i> environment, and of how each interacts with the other
This is affecting the characteristics, legitimacy and governance of IB activity, and the influence exerted by the main interest groups in the global economy
The new <i>Zeitgeist</i> also requires a more institutional based approach to our understanding the motivation and behaviour of firms and governments in creating and organising RCMs: and to interpreting and evaluating the performance of firms
The increasing role of institutions and the growth of unpredictable events suggests that the dominant research epistemologies of IB may need to be modified, or at least complemented by, those most suited to an understanding of IB activity
But, we are still at the early stages of understanding the dramatic changes occurring in the international human environment. In view of this the possible application of chaos or complexity theory and/or less quantifiable non causal/function and common sense scholarly approach to understanding the phenomena before trying to rigorously measure its significance is needed
There is also need for the IB profession to better appreciate this latter kind of approach in the scholarly endeavour of its constituents
We are too entering a new era which will challenge the upgrading of both the PE and HE environment (e.g., impact of global warming and conflicts among belief systems)
International business has a unique role to play in understanding and assessing the importance of the interface between multiple HEs and PEs as they affect
(a) globalisation in general
(b) the determinants and consequences of MNE activity
(c) the performance of MNEs

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## Notes

<sup>1</sup>A good deal of the contents and recommendations of this paper is also applicable to international management although it is primarily concerned with some of the broader issues of, and challenges posed by IB activity.

<sup>2</sup>And, indeed, IM scholarship.

<sup>3</sup>A theme explored at some length by Levy et al. (2007), in their attempts to identify the constructs underpinning the concept and practice, of a global mindset. After a useful review of the cultural, strategic and multinational aspects of the global mindset of managers they go on to present an integrative theoretical framework which embraces both its cognitive complexity and the cosmopolitan attributes.

<sup>4</sup>In his recent book, North (2005) refers to a non-ergodic world in which the future cannot be predicted on the probability that past events may reoccur. He goes on to assert that the fundamental assumptions and methodology of neoclassical economics rests on the validity of the ergodic hypothesis – as, indeed, do those of the physical and biological science. In this paper we shall eschew this particular language and instead refer to unforeseeable or unpredictable future events.

<sup>5</sup>In short, this hypothesises that the amount, form or geography of the foreign value-added activities of firms will be dependent on (a) the extent and quality of the competitive or ownership (O) advantages, (b) the relative location (L) attractions of particular countries in which they are contemplating an FDI and (c) the extent to which they find it desirable to access or exploit their O advantages themselves rather than sell the right to do so to other firms (their I advantages).

<sup>6</sup>Although not included in Table 4, the influences of supranational entities, e.g., the European Union, NAFTA, the World Bank, the UN and a host of private interest organisations (e.g., NGOs) on the content and exploitation of resources, capabilities and markets by particular firms and countries can be considerable and extensive. The World Bank and IFC, for example, are both major suppliers of finance for developing countries.

<sup>7</sup>To these authors the management of globalisation and the changing human environment is an entrepreneurial challenge, the success of which is dependent on vision, will and daring as much as on carefully crafted strategy.

<sup>8</sup>Such as Peter Buckley and Mark Casson, Jean Francois Hennart and Alan Rugman.

<sup>9</sup>It is interesting that Coase entitled his Nobel Laureate Lecture in 1991 *The Institutional Structure of Production* (Coase, 1992).

<sup>10</sup>See, for example, Grosse and Trevino (2005) and several essays in Grosse (2005), Jensen (2006) and Dunning and Lin (2007).

<sup>11</sup>The implicit incorporation of institutions into the resource based theory of the firm is a case in point.

<sup>12</sup>This thrust for a new research agenda which embraces the volatility and complexity of the IB environment was also recommended by Buckley and Casson (2003) and Safarian (2003).

<sup>13</sup>An attempt to do just this is contained in a number of visionary and all encompassing papers by Howard Perlmutter, the main contents of which are summarised, and are worthy of serious consideration, in Perlmutter (2007).

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