Editorial

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Byung Il Park received his PhD from Bradford University School of Management (UK). He is currently a Professor in International Business at the College of Business, Hankuk University of Foreign Studies (South Korea). His research currently focuses on knowledge acquisition and performance in overseas subsidiaries. His research interests also include absorptive capacity, MNC strategy, and corporate social responsibility of MNCs. He has published in such journals as the *Journal of World Business*, *International Business Review*, *Management International Review*, *Journal of International Management*, *Corporate Governance: an International Review* and *Asia Pacific Journal of Management*. He is also Editor-in-Chief of the *International Journal of Multinational Corporation Strategy*.

1 Introduction

The guest editorial team for the role of multinational enterprises in local market developments is pleased to announce the publication of this special issue, containing three papers, each of which explores an important aspect of international business and management. The three papers that were accepted for publication after the double-blind review process were chosen from a total of 20 papers submitted, resulting in an acceptance rate of 15.0%. We believe that the acceptance rate indirectly confirms that the special issue includes only high-quality research papers, and that they make a substantial contribution to the theory of multinational enterprises (MNEs) and provide innovative avenues to direct future research on this important topic.

2 Special issue background

As globalisation intensifies and new middle classes emerge in most markets, MNEs have significantly increased their international business efforts. The recorded figure for 2010 revealed a more than triple increase of the worldwide foreign direct investment (FDI) activities since the year 2000, amounting to US$20.4 trillion (UNCTAD, 2011). The reason for the consistent expansion in MNEs' foreign operations is closely associated with the increased realisation that the presence of foreign firms is beneficial for both home and host countries. One view is that MNEs possessing sophisticated knowledge often function as a conduit for local firms to acquire foreign technology and know-how. In addition, MNEs also help in the creation of employment opportunities and an increase of exports strengthening the balance-of-payments position of the local economies (Park, 2011; Park and Ghauri, 2011). Likewise, home economies of MNEs achieve market expansion and learn about foreign markets.

However, some scholars (e.g., Chang, 2004; Ziegler, 2005) have shed light on the negative aspects of MNE operations, and even argue that MNEs are one of the primary obstacles inhibiting economic growth in developing countries. The explanations given by these scholars, proposing negative impacts are the following: often MNE activities are too vitalised and excessive, foreign firms attempt to dominate the market they enter and present a challenge to national sovereignty. Moreover, the aggravation of local competition against MNEs inevitably culls locally grown enterprises, which results in the deterioration of employment. In particular, MNEs re-invest only a fraction of their revenues in local economies and drain positive effects from both capital injections and the balance of payments. This leads to serious reductions in foreign exchange reserves, forces local governments to borrow more foreign debt and pushes the local economy into a vicious economic circle. These negative effects cause hardship for local governments and negatively influence their investments in infrastructure, education and technology development. In this vein, they suggest that MNE operations are not much different from the establishment of colonies.

A key problem is that it is perhaps hard to say that an unlimited open-door toward MNEs and limitless competition based on market principles is the only correct answer for economic growth. In other words, we cannot merely overlook the adverse aspects of MNEs, and need to practically assess the value of foreign investment. There is a consensus that the fundamental goals and aims of MNEs are to pursue corporate profits and increase organisational competitiveness in overseas markets, and thus such gloomy opinions about MNEs are unavoidable to some extent. In this vein, it is time to think about the ways to lessen the sceptical attitudes of FDI by identifying the role of MNEs in local market developments. We also suggest that the negative impression of FDI might be significantly reduced if MNEs engage in actions that go beyond their direct economic and financial interests, involve themselves in activities that are not required by the law but further social good and use their internal resources in ways to benefit local markets through committed participation as members of society.

3 The three papers included in this special issue

The first paper, by Hoque, Sinkovics and Sinkovics, explores international outsourcing relationships in which suppliers in the Bangladeshi garment industry make recurrent discrete transactions with the same buyers over a long period of time without the presence of any original legally binding written agreement. This article is based on interview data collected from three Bangladeshi garment manufacturing firms. The analysis revealed some key findings: First, the case firms only had access to buyers' explicit knowledge that they needed to smoothly perform the production function, such as, codified design instructions and published quality and labour standards. While it is not surprising that there is a limited transfer of tacit knowledge between MNE buyers and their suppliers, given the high degree of knowledge asymmetry, the absence of a formal, legally binding, contract seems to have intensified this asymmetric relationship even further. Second, the case firms had to develop relevant technological knowledge to maintain economic and other performance-oriented dimensions, which was a precursor to continue the relationship with the buyers and survive in the business. Third, all three firms had to gather marketing knowledge such as understanding buyers' product-related preferences and their ways of working. They had mainly developed such knowledge through experience during repeat transactions with specific buyers along with mistakes and problem-solving experiences over the course of the relationship. They also needed to collect information on buyers' contact details and to perform other liaison activities such as presenting to and negotiating with the buyers. Social networks, personal overseas visits and existing buyers' references were the major sources of contacting new buyers. The other means of acquiring buyers' information mentioned were searching web sources and attending meetings of the trade association. Fourth, the suppliers used additional sources to compensate for their lack of access to buyers' tacit knowledge. Although, over a period of time, they had learned to better satisfy specific buyer needs, new skills were rarely learned. Also, with their limited resources, the suppliers could only access information-oriented or publicly available explicit knowledge, which only enabled them to improve technocratic or output-oriented dimensions of process upgrading rather than in labour/skill-oriented ones. They were too resource constrained to access other, more effective sources of tacit knowledge such as investing in overseas training for employees, hiring foreign consultants, and recruiting knowledgeable expatriates.

The implication of the above findings for the suppliers remains that while it is necessary for them to make idiosyncratic and transaction-specific investments (e.g., new machinery, building new compliant factories, productivity enhancement processes to meet delivery targets) to stay in business, such investments are rarely sufficient to overcome existing knowledge asymmetries in a meaningful way. As a result, they may be able to progress to the periphery of technological upgrading, although pursuing economic upgrading of a higher level may not be possible for them without external institutional support. This also clearly reinforces the need for the Bangladeshi government to provide more support to small garment producers in order to facilitate upgrading.

The second paper, authored by Lew and Liu, investigates the role of inward foreign direct investment (IFDI) in creating regional innovations in the Chinese context. Drawing on the IFDI knowledge spillovers and innovation literature, the authors develop and validate patent production models regarding IFDI, regional disparity and capabilities, and innovation outcomes. The models conceptually separate potential from realised absorptive capacity from human capital and technology perspectives, and these capacities are used as a moderating variable. The focus of the study is on the 'region', thus the sample consists of 31 provinces/municipal cities in China, which are divided into 'coastal' and 'inland' regions to examine the effects of IFDI knowledge spillover on incremental and radical innovation at the regional level.

This article is topical and timely, which provides the readership of the *European Journal of International Management* with deep insights on the influences of IFDI knowledge spillover on the contemporary Chinese regional innovations for the following reasons. First, the size of IFDI towards China has grown explosively since 1978, and now is the second largest IFDI recipient in the world. Second, the 'market for technology' and 'Western region development' policies driven by the Chinese central government have facilitated technological innovation and economic development in inland regions. For instance, according to the World Intellectual Property Organization, over 652,000 patent applications were received by the China office in 2012. This figure is the largest number of patent applications, exceeding the applications from the USA, Japan, and South Korea.

Lew and Liu aver that innovation is an accumulative process. On the basis of this, to what extent China benefits from FDI-induced knowledge spillovers depends on the accumulated regional/local firms' capabilities, such as technological competences and superior human capital, and how these firms appropriate IFDI technological knowledge spillovers. The research findings indicate that the presence of IFDI exercises a crowding-out effect on regional firms' technological innovation, whilst absorptive capacity positively moderates the relationship between IFDI and regional innovations. Specifically, potential absorptive capacity affects the use of IFDI knowledge spillover and the promotion of regional innovation. So, the findings buttress the authors' argument, that is, regional innovations that benefitted from IFDI spillovers necessitate the presence of sufficient capabilities of regional/local firms. Otherwise, they cannot counterbalance the negative effect of the IFDI. In addition, the study findings suggest that these effects are more evident in coastal regions than inland areas in China. In all, the article empirically demonstrates that in order to maximise the knowledge spillover effect, developing 'regional' R&D systems and provincial-level institutional support for regional firms' innovation activities are of critical importance.

The third paper, by Park, Kim and Choi, examines intra-industry knowledge spillovers in the service sector in South Korea. Knowledge spillover refers to the transference of MNEs' knowledge to local firms without formal contracts of compensation. The benefits of these positive externalities generated by the presence of MNEs may be one of the main reasons why many governments often place a high priority on attracting FDI. Prior studies commonly strive to examine the positive impact of the presence of MNEs at the country or industry level, mostly in manufacturing sectors, based on the assumption that productivity growth should be the evidence of knowledge spillovers. In other words, as earlier studies have been focusing on the impact of MNEs on the productivity of local firms in aggregate rather than its mechanisms, knowledge spillover itself has been treated as a 'black box' (Görg and Strobl, 2005).

Park and his colleagues try to reveal, though not thoroughly, the inside of the 'black box'. The authors focus not only on the occurrence (i.e., whether-or-not) of horizontal knowledge spillovers, but also on the mechanisms (i.e., how) of the phenomena. Environmental changes in the market due to new foreign entrants put pressure on local firms to use existing resources and knowledge more efficiently as well as to search for new external knowledge to successfully cope with competition. Employing competitive dynamics as the theoretical lens, the authors link the channels and factors that affect the extent of knowledge spillovers to competitive actions and reactions exercised by the players in the same strategic group. The most common strategic choices for local firms to opt as conduits for knowledge absorption presented by existing literature include learning-by-observing (i.e., demonstration effect), hiring MNEs' employees (i.e., worker mobility) and investing in improving own capability of absorbing foreign knowledge (i.e., absorptive capacity). The authors predict a positive association between these channels and knowledge spillovers. In addition, they also posit a catalyst role of competitive pressure.

Based on survey data collected from a local supermarket chain and discount store in South Korea that has exhibited enormous changes in the landscape of the supermarket industry since major global retailers, including Walmart, Carrefour and TESCO, entered into the market in late 1990s, the authors confirm that the demonstration effect is the most effective channel. Their findings also indicate that worker mobility and local firms' absorptive capacity function as conduits of knowledge flows though the impact is somewhat marginal. On the contrary, with reference to competitive pressure, no significant association is discovered. However, the relationship is found to be totally mediated by the demonstration effect and absorptive capacity. Another plausible explanation presented by the authors is that the relationship could be an inverted U-shape in that although competition may create positive impact in the beginning, intensified prolonged competition will lower the profitability of local firms and subsequently lessen the intent to learn external knowledge. While this paper presents some practical implications for managers of MNEs and local firms, it would also serve as an exploratory study by suggesting avenues for future researchers.

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