Journal of World Business 51 (2016) 58–73

Contents lists available at ScienceDirect

Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

International strategy: From local to global and beyond

Michael A. Hitt [a,b], Dan Li [c,*], Kai Xu [d]

[a] Department of Management, Mays Business School, Texas A&M University, College Station, TX 77843-4221, USA
[b] Texas Christian University, Ft. Worth, TX 76129, USA
[c] Department of Management & Entrepreneurship, Kelley School of Business, Indiana University, Bloomington, IN 47405, USA
[d] Department of Management, College of Business, University of Texas at San Antonio San Antonio, TX 78249, USA

ARTICLE INFO

Article history:
Available online 6 September 2015

Keywords:
Globalization
International strategy
Multinational enterprises
International diversification
Foreign direct investment
Institutional theory

ABSTRACT

To survive and thrive, multinational enterprises (MNEs) have had to adapt to dramatic changes and increasing complexity in the global competitive landscape over the past 50 years. MNEs' international strategies and the academic research on the various attributes and outcomes of these strategies have evolved accordingly. This work reviews the evolution of international strategy research over the past five decades. In particular, the research on international diversification and the timing and speed of entering international markets is closely examined. In recent years, the influence of formal and informal institutions on international strategy has become a central research topic. Furthermore, MNEs' strategies often seek to explore and exploit critical capabilities to build advantages in international markets. Finally, emerging research themes, such as institutional complexity, business sustainability, emerging economy firms and international new ventures are highlighted.

1. Introduction

> Perhaps the most profound business phenomenon of the 20th century was the internationalization of large, small, established, and new venture firms (Sapienza, Autio, George, & Zahra, 2006). Accordingly, the development of multinational enterprises (MNEs) eventually led to a global economy with an increasingly interrelated set of national economies and financial markets. (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006: 1137)

As the above quote suggests, internationalization has had profound effects on the development of multinational enterprises (MNEs), as well as on a global economy now based increasingly on an interdependent set of financial markets and national economies. As such, research on MNEs and their international strategies has burgeoned (e.g., Arregle, Miller, Hitt, & Beamish, 2013; He, Eden, & Hitt, 2015). Indeed, back in 1985, the theme of the special issue of the 20th Anniversary of the *Journal of World Business* (*JWB*)[1] was: "*The world is truly becoming more interdependent with the result that there is no place to hide* [from internationalization]." Thirty years later, in celebrating *JWB*'s 50th Anniversary in 2015, we review the development of international strategy research accompanying the evolution of MNE activities over the past five decades. MNEs and international strategy researchers reflected attitudes that have changed over time from having "*no place to hide*" to *embracing changes* in the global economy, politics and technology. Accordingly, MNEs revise their strategies over time to achieve higher financial and social[2] performance.

The world has been changing dramatically in the past 50 years (Ahlstrom, 2010; Hitt, Keats, & DeMarie, 1998). Fifty years ago, businesses were largely localized and served more stable markets, while today advances in communications and transportation have not only facilitated the acceleration of MNEs' expansion but also spurred more intense competition and economic growth (David, 1969; Hitt, 2000). Fifty years ago, only (or mainly) large

* Corresponding author.
E-mail addresses: mhitt@mays.tamu.edu (M.A. Hitt), lid@indiana.edu (D. Li), kai.xu@utsa.edu (K. Xu).

[1] *JWB* was called *The Columbia Journal of World Business* up to 1997.

[2] While financial performance remains the primary goal of for-profit organizations (Jensen, 2001), social performance has become increasingly important as a result of stakeholder demand, competitive pressures, and institutional expectations, in both home and host countries. For instance, social performance of organizations has become a hot topic in China following the release of the smog documentary "*Under the dome*" in early 2015. In less than 24 h after its release, the online documentary racked up more than 100 million views. For more information about the documentary, please see *Particulates matter: An online video whips up public debate about smog* published in The Economist (2015).

http://dx.doi.org/10.1016/j.jwb.2015.08.016
1090-9516/

multinationals had the capability to participate in international trade and investments, while today new ventures and born-globals have become new players in the global economy (Kiss, Danis, & Cavusgil, 2012). Fifty years ago, business decisions and core competencies were largely located at the MNE headquarters, but the emphasis on customer needs and the increased competition in the current landscape have required MNEs to increasingly localize most of their products and seek strategically important resources in host countries. In addition, over these fifty years, the environment has changed from having MNEs primarily from developed countries, to global markets in which MNEs from emerging economies represent an increasingly powerful force (Yamakawa, Khavul, Peng, & Deeds, 2013). To survive and succeed, MNEs must contribute and respond to these dramatic changes and the increasing complexity of international business environment. International strategies by MNEs, and the academic research on various attributes and outcomes of MNEs' international strategies, have evolved accordingly.

We review the development of international strategy research over the past half-century, with a particular emphasis on the past three decades (i.e., since *JWB*'s 20th anniversary issue). We use a simplified framework to organize our discussion (i.e., international strategy-diversification and speed, cultural and formal institutional environment, and exploiting and exploring critical capabilities). As some topics are covered in other articles of this special issue (e.g., knowledge and technology by Andersson, Dasi, Mudambi, and Pedersen (2015), entry mode by Knight and Liesch (2015), cooperative strategies by Beamish and Lupton (2015), we focus on the core issues of international strategic management and the overarching connection of these different issues.

2. International strategy: Diversification and speed

Two initial and important areas of research for international strategy are (1) antecedents of international diversification (expansion) and implications thereof and (2) how to enter foreign markets. In this section, we review the advancement of research on international diversification and the shift in focus from entry mode to entry timing and speed.

2.1. Advancement in international diversification research

The motivations for and antecedents of international expansion into individual host countries (resulting in international diversification/diversity), such as location advantages (of market, labor, resources and policy) and executive characteristics, have been explored extensively in prior research (e.g., Cui, Meyer, & Hu, 2014; Hitt, Tihanyi, Miller, & Connelly, 2006). Specific to firms' intentional development of international diversification, two perspectives are particularly relevant and often employed—risk diversification (costs of risks) and real options (benefits of risks). Based on the costs of risks, a portfolio investment in multiple host countries of varying economic cycles and market conditions can benefit firms with more stable earnings than maintaining a focus on domestic markets (e.g., Hisey & Caves, 1985; Rugman, 1976). MNEs can manage their risk exposure and market demand by proactively reconfiguring their portfolios of foreign subsidiaries through investment and/or divestment (e.g., Barkema, Bell, & Pennings, 1996; Benito & Welch, 1997; Boddewyn, 1979).

Based on the benefits of taking risks, a real options perspective considers international diversification to offer the flexibility of managing value chain activities across subsidiaries exposed to different levels of uncertainties (Luehrman, 1998). That is, MNEs of greater international diversification can shift their operations across national boundaries in response to changes in environmental risks and opportunities (Allen & Pantzalis, 1996; Chung, Lee, Beamish, & Isobe, 2010; Kogut, 1985; Tang & Tikoo, 1999). Chung, Lee, Beamish, Southam, and Nam (2013) examined international diversification from both real option and risk diversification perspectives; their empirical findings were consistent with the real option perspective that MNEs with higher international diversification are less likely to divest their subsidiaries from host countries experiencing economic crisis.

Implications of international diversification have been examined through various lenses, and reported mixed findings. Some research has reported a positive relationship between international diversification on firm performance (e.g., Dess, Gupta, Hennart, & Hill, 1995; Hennart, Kim, & Zeng, 1998; Luo, 2002). For example, Dastidar (2009) showed that international diversification brought value to MNEs even after controlling for the endogeneity of international diversification decisions. Hitt et al. (2006a) identified a positive effect of international diversification on firm performance by taking advantage of the firm's critical resources (e.g., human capital). Fang, Wade, Delios, and Beamish (2013) found that market relatedness (cultural, political, and economic) between the MNE parent and its subsidiaries produced higher subsidiary performance. Other research, however, reported a negative, curvilinear, or even no relationship (e.g., Capar & Kotabe, 2003; Geringer, Tallman, & Olsen, 2000; Gomes & Ramaswamy, 1999; Michel & Shaked, 1986). Hitt, Hoskisson, and Kim (1997) reported that, while international diversification can enhance MNE performance initially, the effect eventually leveled off and became negative. They also showed that product diversification moderated these relationships. Similarly, Chang and Wang (2007) showed that related product diversification strengthened the positive relationship between international diversification and firm performance, whereas unrelated product diversification weakened the relationship. Alternatively, Chao and Kumar (2010) found an inverted-U shaped relationship between international diversification and firm performance and further demonstrated that institutional distance moderated the relationship. Lampel and Giachetti (2013) also reported an inverted-U shaped relationship between a firms' international diversification of production operations and financial performance. However, some scholars have found empirical support for an S-shaped relationship between international diversification and performance (e.g., Contractor, Kundu, & Hsu, 2003; Lu & Beamish, 2004). Scholars seem to agree on the importance of considering contingencies when examining the performance implications of firms' international diversification. Yet, additional research is in great need to consolidate the fragmented findings on various contingencies ranging from firm specific features to temporal variance. In addition, improving empirical measurement of international diversification and the robustness of estimation can help to integrate findings from different studies and thus advance our understanding of the significance of international diversification for firm performance.

In addition to its effect on financial performance, international diversification can provide benefits in the form of knowledge transfer and innovation. For example, Hitt et al. (1997) found that international diversification enhanced MNEs' innovation. Similarly, Zahra, Ireland, and Hitt (2000) found that firms' international diversity (including number of countries, technological diversity, cultural diversity, geographic diversity, and foreign market segments) enriched technological learning (breadth, depth and speed), which in turn had positive effects on financial performance. Yet Wu (2013) reported an inverted U-shaped relationship between the institutional diversity of a firm's foreign markets and its product innovation success. Sambharya and Lee (2014) further advanced the research on international diversification and innovation by studying MNEs' renewal of dynamic capabilities. They found that MNEs' initial innovative capabilities contributed