ARTICLE 1

Meyer, K. (2004)
Perspectives on multinational enterprises in emerging economies

Journal of International Business Studies, 35(4): 259-276
http://www.palgrave-journals.com/jibs/journal/v35/n4/abs/8400084a.html

Guideline answers

Part A: Grasping key points

1. *What positive and negative impacts on host-country industries are highlighted by the article?*
   Positive spillovers:
   - Local entrepreneurs may be encouraged to imitate FDI initiatives.
   - MNEs typically train local employees, who may use the skills to start up their own businesses. Note, however, that local firms need a level of 'absorptive capacity' to recognize and benefit from new knowledge.
   - Inter-industry spillovers can be positive, as domestic suppliers can enjoy benefits.
   - Supplier relations can be built up in industrial clusters.

   Negative spillovers:
   - If local firms are far behind in technology (the technology gap), they may be unable to benefit.
   - There is a risk that local firms lose market share to foreign competitors, thus inhibiting the growth of local firms.
   - There is also the risk that a local firm which develops its own technology and brands will be acquired by the foreign investor, diminishing the gains to the domestically-owned sector.

2. *Impacts of MNE operations on the natural environment can be categorized as a 'pollution halo' or 'pollution haven'. Define these terms, and summarize the article's points on existing and future research.*
   The 'pollution halo' effect improves environmental standards in the host country, and the 'pollution haven' effect occurs when MNEs transfer outdated or less environmentally-friendly technology to the host country.

   MNEs may choose to transfer advanced technology for the benefits gained in global production standards, scale economies and enhanced reputation. Note local community pressure and the role of NGOs in encouraging these positive outcomes. The author notes that using a single indicator as an independent variable in research is 'problematic' for analysing complex impacts. A case-study approach can give a fuller picture.

3. *What points does the author make on the relevance of local institutions to FDI?*
   Emerging economies, the author notes, often have less developed institutions than developed economies. Local institutions interact with foreign investors, local firms and communities. Local informal institutions may be influenced by the

experience of businesses from different cultures in their midst. Similarly, governments may be influenced by FDI considerations, seeking to offer incentives to foreign investors. Note the list of relationships on p. 271: labour markets, capital market institutions, environmental regulation, competition rules, education system and special economic zones (see Chapter 6).

Part B: Building skills in critical thinking

1. *In what ways does this article contribute to formulating criteria for assessing the role of MNEs in societies?*

   The article
   - Looks beyond economic development criteria, to social, institutional and environmental impacts. The latter can be less susceptible to quantitative measures.
   - Urges assessing both positive and negative spillover effects in local economies, to obtain a full picture.
   - Stresses the importance of 'absorptive capacity' in analysing spillover effects.
   - Highlights the role of local entrepreneurs in emerging economies, in relation to MNE activities.
   - Stresses the interdependence of MNEs and local institutions, both formal and informal. This is becoming increasingly relevant as many countries now take a more critical view of foreign investors' impacts (see CF 2.2 on India).

2. *How does this article contribute to the debate on the pros and cons of globalization?*

   The MNE and FDI have been drivers of globalization. Economic benefits of globalized production have been enjoyed by emerging economies, which have been seen as attractive to foreign investors. International business research has tended to take the MNE perspective, looking at ways of achieving greater efficiencies, while impacts on host societies have received less attention. The article addresses the range of impacts of MNEs and globalized production on societies.

3. *What are the practical implications of the article for international managers?*

   Implications for international managers:
   - The opportunities for building on positive spillover effects in host countries. This increasingly focuses on R&D and other high-value activities, which benefit both host countries and the MNE.
   - The need for building relationships/networks in local operations and communities, including governments, regulatory authorities and NGOs.
   - The need for awareness of stakeholder issues, such as labour standards and environment.

ARTICLE 2

Morck, R., Yeung, B., and Zhao, M. (2008)
Perspectives on China's outward foreign investment

Journal of International Business Studies, 39(3): 337-350.
http://www.palgrave-journals.com/jibs/journal/v39/n3/abs/8400366a.html

Guideline answers

Part A: Grasping key points

1. *Describe the types of firm which are most likely to pursue outward FDI and their main destinations.*
   - *Types of firm* – Large listed state-owned enterprises (SOEs) are responsible for most Chinese outward FDI. They enjoy officially-sanctioned monopoly status in key industries, such as natural resources and telecommunications.
   - *Destinations of FDI* – The most popular destinations are South and East Asia, especially Hong Kong, and countries offering tax-haven status, such as the Cayman Islands in the Caribbean. Africa is also attracting Chinese FDI. Hong Kong and tax havens offer confidentiality and possible private benefits to SOE insiders. Hong Kong offers trade and financing possibilities for mainland companies in their outward expansion.

2. *Identify the three aspects of the macroeconomic environment highlighted by the authors, which help to explain the nature of Chinese outward FDI, and explain how they impact on FDI.*
   - *High savings rates.* This applies to both personal savings and enterprise savings, whereby firms retain earnings rather than distribute dividends. The accumulation of funds internally provides the means for engaging in FDI projects.
   - *Weak corporate governance.* Many large SOEs are listed companies, but ownership is dominated by non-tradable shares (owned by the state). The state also controls many tradable shares, for example, cross-shareholdings by other SOEs. The state appoints the board, and the firm's Party Committee appoints executives, who report to the Party, rather than shareholders. Although these are listed companies, their corporate structures and high-level decision-making are dominated by state and Communist Party authorities, rather than shareholder concerns. Corporate decision-making in this context is influenced by political concerns, national strategic policies and the perceived need for FDI to be used to foster national prestige abroad.
   - *Distorted capital allocation.* The state-controlled banks are major sources of capital, and SOEs receive the bulk of commercial loans, despite their lack of efficiency compared to private-sector companies. This imbalance tends to encourage wasteful investments, including FDI projects.

3. *Why are China's private-sector firms, despite their economic success, slower than SOEs to invest abroad?*
   China's private-sector firms have less access to financing than state-controlled counterparts. These firms are still young, emerging only in the years following the opening of the economy in the 1980s. The most successful enjoy large domestic markets for their products, and have also become successful exporters. Many are manufacturers producing products for western brand owners. They are gradually developing their own brands.

Part B: Building skills in critical thinking

1. *How do the authors argue that internalization theory be modified and applied to Chinese outward FDI? Do you agree with this argument?*
   Internalization theory typically envisages a western firm which owns technology, brands or other firm-specific assets, seeking to control the manufacturing of its products. (See section on internalization, Chapter 2.) In the case of China, firm-specific advantages possessed by its outward investors are their experience in dealing with weak institutions, burdensome regulation and political interference. As these characteristics typify many developing countries, Chinese firms may be at an advantage. Asian and African countries targeted by China are examples that can be cited.

2. *In what ways do the authors see a 'role reversal' taking place in the traditional FDI rationale whereby the owner of technology (often from a developed country) invests in manufacturing capacity abroad?*
   As products become standardized, manufacturing excellence – including efficiency and quality concerns – become more important than R&D and ownership of technology. In this respect, there can be said to be role reversal which benefits Chinese companies. The commoditization of PCs is an example, indicated by IBM's desire to sell its PC unit.

3. *Is international experience likely to change Chinese companies, and how?*
   This depends on the type of firm. SOEs have benefited from abundant funds to pursue FDI, lack of pressures to improve efficiency and the absence of accountability to shareholders. Most investments have been in developing countries with weak institutional and governance frameworks. Investing in developed countries could pose new learning situations, where multiple stakeholders are involved, and greater transparency is needed. For China's private-sector companies, a more market-oriented culture is a benefit, and many are now being lured by investment opportunities closer to large western markets. The example of DVD manufacturing is cited in the article. These companies are becoming attuned to different consumer markets and also differing organizational cultures.

ARTICLE 3

Johnson, J., Lenartowicz, T. and Apud, S. (2006)
Cross-cultural competence in international business: Toward a definition and a model

Journal of International Business Studies, 37(4): 525-543.
http://www.palgrave-journals.com/jibs/journal/v37/n4/abs/8400205a.html

Guideline answers

Part A: Grasping key points

1. *What are the three antecedents to cross-cultural competence identified by the authors, and how does the authors' definition of cross-cultural competence build on them?*
   The three antecedents are: knowledge, including specific, general, tacit; skills, such as language skills; and personal attributes, such as leadership qualities. The authors' definition stresses building on these antecedents to work effectively with people from different cultures. Their stress is on performance rather than on the possession of appropriate knowledge, skills and personal attributes.

2. *In what ways do institutional ethnocentrism and cultural distance act as negative external moderating factors?*
   Institutional ethnocentrism refers to the home-country focus of the organization, which determines the way of doing things both at home and in subsidiaries, wherever the location. The authors highlight US companies as examples. The greater the cultural distance between the home culture and the foreign location, the greater the cultural difference. The authors also stress that other aspects of the foreign country environment, such as economic and political values, are also likely to be very different from home.

3. *What are the weaknesses of cultural training programmes as highlighted by the authors?*
   Cross-cultural training tends to place too much emphasis on culture-specific knowledge, rather than general learning. Tacit knowledge is not as easily tested as factual material, which lends itself to standardized objective tests. The authors refer to the gap between knowing and doing as a challenge in designing training programmes. For cross-cultural competence, performance is key.

Part B: Building skills in critical thinking

1. *In what ways does the authors' model represent an advance on existing ideas, definitions and conceptual tools?*
   The model classifies earlier definitions as representing antecedents of cross-cultural competence, which, though important in helping to identify relevant knowledge and skills, are merely the groundwork on which cross-cultural competence is built. They seek a model which has more direct practical applications: helping firms to select the people for international assignments;

helping to assess strengths and weaknesses in the individual's cross-cultural competence; and helping to appraise expatriate performance.

2. *How can the model contribute in practice to reducing the risks of failure in international ventures?*

   In the section 'Implications for researchers', the authors discuss how their ideas can be implemented. Many cross-cultural training measures assess skills, knowledge and attitudes, but assessing performance is more challenging. A potential issue is how to define performance or success, as performance should be assessed across several dimensions, both in organizational and social contexts. They suggest that acquisition of tacit knowledge can be tested by the 'triangulation method', using written scenarios and inviting responses: in these situations, there are no 'right' or 'wrong' answers, but cultural intelligence comes into play. A scoring system can be used to assess degrees of cross-cultural competence.

3. *The authors highlight poor understanding of the foreign environment (including economic, legal, technological) as causes for failure of international ventures (see Figure 2). Does their model address these issues, or are there deeper educational roots which should also be addressed?*

   It could be argued that the article remains focused on the role of cross-cultural training, underestimating the influence of an ethnocentric national culture generally. Transmitted through the education system, national culture is crucial in the early formation of attitudes, values and beliefs. The article highlights 'institutional' ethnocentrism of large companies, particularly American ones, as inhibiting the development of cross-cultural competence by enforcing the company way of doing things. However, this is arguably only one manifestation of ethnocentrism, which is associated with America's national culture generally. An understanding of foreign economic, social and political systems is arguably more a matter of education than training. If the national culture bias is well established in national institutions, it is difficult to design training to compensate for inherent ethnocentrism.

ARTICLE 4

Capelleras, J.-L., Mole, K., Greene, F., and Storey, D. (2008)

Do more heavily regulated economies have poorer performing new ventures? Evidence from Britain and Spain

Journal of International Business Studies, 39(4): 688-704
http://www.palgrave-journals.com/jibs/journal/v39/n4/abs/8400340a.html

Guideline answers

Part A: Grasping key points

1. *What points emerge from existing research on the relationship between heavy regulation and entrepreneurial activity?*

   Most of the prior research has found that heavy regulation has both discouraged start-ups and hampered their growth. This is the Djankov perspective. High set-up costs and regulatory burdens tend to reduce the potential productive outcomes. Much empirical research on particular countries (such as that on retailers in France) supports this view.

   The second perspective, the research by Baumol, distinguished between formal and informal contexts, which differ widely between countries. In heavily regulated economies, entrepreneurs were still likely to emerge, but not be registered officially. Their activities were not as productive of social benefits as those in the formal sector. Separate research (by De Soto) also showed that heavy regulation led potential entrepreneurs to stay away from the 'official' economy, but this reduced their access to capital, and led to weaker growth and fewer spillover effects in the country's economy.

2. *In what ways do the authors' aims and methodology research differ from previous research in the area?*

   The authors aim to compare start-up size and subsequent growth in two markedly different economies, Britain and Spain. They point out that a macroeconomic approach has been prevalent. Research in the Djankov vein tends to rely on official data from government-based business registers. Research in the Baumol vein draws on the World Bank ease-of-doing-business rankings and the GEM research (referred to in Chapter 1 of the text). The present research aims to use microeconomic data, acquired through questionnaires of entrepreneurs in both countries, including both those in official statistics and those outside official registers.

3. *In what ways do the results of this research differ from those of previous research?*

   On the Djankov view, researchers would have expected to find that registered firms in heavily regulated economies start larger and grow more slowly than in lightly regulated economies. On the Baumol view, there would be no differences in start-up size and subsequent growth when all new firms, including unregistered ones, are taken into account. Present results showed:

- Registered Spanish firms were larger than registered English counterparts at start-up, but the English firms grew more quickly. When all firms were taken into account, there were no significant differences in size at start-up and growth, reinforcing the Baumol view.
- Three variables showed similar results for Spanish and British firms: firms with prior managerial experience were likely to start larger than those without; firms registered as companies with limited liability were likely to be larger in both countries; and individuals with a business plan were more likely to start bigger businesses in both countries (particularly in Spain).
- Brüderl and Preisendörfer's classification for firm growth since start-up (decliners, statics, slow growers and fast growers) was also applied. English registered firms had faster post-start growth, whereas when all firms were taken into account, there were no differences. For both countries, the largest firms at start-up were decliners. The second largest group was the fast growers, and the third largest, the slow growers. The firms smallest at the start were statics.

Part B: Building skills in critical thinking

1. *What methodological challenges were faced by the researchers, and how were they overcome?*
   The major challenge was conducting surveys in both countries to identify appropriate firms, including both in official statistics and those which were below the threshold for registration. Specific regions of Britain and Spain were selected, on the basis of comparable start-up rates. Researchers constructed databases based on British Telecom directories in Britain, and, in Spain, lists of firms for local tax payments and official new enterprise lists were used. The researchers went through these lists, excluding subsidiaries, not-for-profit firms and those that were not trading.

   Devising suitable questionnaires was a further challenge. Although they started with identical questionnaires, they found they had to make changes to accommodate differences between the countries.

2. *Assess the selected pre-start variables and at-start variables in terms of the researchers' aims.*
   Pre-start variables concern characteristics of the individual entrepreneur, and access to resources. They are: age, gender, education, managerial experience, prior employment, external sources of support, whether they had a business plan, and sources of initial capital. At-start variables relate to the firm, including location, legal status and industry sector. These variables can reveal differences in entrepreneurs and their businesses between the two countries. New English firms were likely to be started by older, qualified males, with managerial experience. English firms were more likely to have received support, such as from the public sector, while Spanish firms were more likely to have received bank loans. Data were analysed for firms registered for VAT (R) and for all firms (A). The results present a richer picture of entrepreneurial activity than previous research, and also a more detailed picture than the authors' initial aims suggested. The results show that the background and skills of the entrepreneur are more relevant than regulatory environment.

3. *What are the political implications for governments and legislators which emerge from this research?*

Despite the fact that businesses in Britain are more lightly regulated than in most other countries, British businesspeople often complain of regulatory burdens (both actual and potential) stifling enterprise. The picture presented here is more complex. Making it easier and cheaper to start up a business and reducing regulation for existing businesses are recognized ways of encouraging entrepreneurship, but the evidence here suggests policymakers are likely to be disappointed if they assume that these measures will automatically lead to an increase in entrepreneurial activity. Many aspects of the business environment, including social networks and access to finance, are influential in starting a business. These may be present in economies that are relatively heavily regulated.

Also influential are characteristics of entrepreneurs themselves, including skills and managerial experience. The implication is that there is a need for a multi-pronged approach by governments, whether in heavily or lightly regulated countries. Investing in education and training, and providing support for entrepreneurs, is likely to be more fruitful than looking narrowly at reducing the amount of regulation. Indeed, government support schemes are themselves a type of enabling regulation which has positive benefits for new businesses. Entrepreneurs clearly adapt to the regulatory environment in which they operate. In economies which are heavily regulated, the informal route is often preferred. In these countries, reducing regulation could result in more businesses taking the registered route.

ARTICLE 5

Jackson, G. and Deeg, R. (2008)
Comparing capitalisms: Understanding institutional diversity and its implications for international business

Journal of International Business Studies, 39(4): 540-561
http://www.palgrave-journals.com/jibs/journal/v39/n4/abs/8400375a.html

Guideline answers

Part A: Grasping key points

1. *Describe the main characteristics of the IB approach and the comparative capitalisms approach to institutional diversity.*

   The IB approach tends to focus on MNE strategy and see institutions as variables that act as constraints on firms. In particular, this literature highlights transaction costs, differing resource environments, and institutional distance between the home and host country. Each of these is seen as a variable which can be measured from high to low. MNEs can thus 'fit' their strategy to the institutional environment, for example, adapting strategy and structure in the face of large distances between home and host institutions.

2. *What are the main approaches within the comparative capitalism literature?*

   The comparative capitalisms approach examines how institutions function across several functions, to form a distinct national configuration or national 'case'. It stresses that firms and other economic actors are socially embedded, interacting with institutions to produce diverse patterns of coordination and governance in differing countries.

   The comparative capitalisms literature has several strands: (a) types or varieties of capitalism; (b) national business systems; and (c) governance approach. All share certain basic elements: the view of institutions as means of non-market forms of coordination; the view of institutional configurations as national cases; a theory of comparative institutional advantage for different types of economic activity; and a notion of institutional path dependence.

3. *How do liberal market economies differ from coordinated market economies in their implications for MNE strategy?*

   In liberal market economies (such as the US and UK), the market is the main coordinator of economic behaviour, and the state 'remains an arm's length enforcer of contracts' (p. 546). The role of the market is evident across 4 domains: short-term orientation of corporate finance; deregulated (that is, relatively open) labour markets; general education; strong inter-firm competition. An institutional advantage is radical forms of innovation.

   In the coordinated market economy (such as Germany and Sweden), non-market mechanisms play an important coordinating role. In the 4 domains, we see: long-term finance; co-operative industrial relations; high levels of vocational and firm-specific training; and co-operation in technology development. This institutional structure promotes incremental forms of innovation.

MNE strategies can exploit institutional strengths in specific countries. Whereas the IB literature tends to emphasize degrees of difference between home and host countries, this approach sees a variety of home and host country interactions that can help to shape strategy. Institutional complementarities may enhance competitive advantage. An example cited (p. 553) is that strong employment protection, which is usually perceived as raising costs for business, could have different impacts on HR strategies in the context of a country's complementary institutions. A country which invests in industry-specific skills through government training programmes benefits firms in providing skilled labour and enhancing competitiveness. In a country without such programmes, high employment protection can lead to widespread use of casual labour and declining competitiveness.

Part B: Building skills in critical thinking

1. *On what grounds do the authors criticize the view of institutions in IB literature? (p. 545)*
   Four criticisms are presented:
   1) The IB approach to institutions is 'thin', that is, viewing institutions simply as constraining strategic choice. Firms are viewed as unitary, self-interested actors. Interactions with a range of stakeholders are thus under-emphasized, despite their impacts on strategy formation.
   2) The approach based on indicators and variables sees institutions in isolation, neglecting interactions between diverse institutions.
   3) The approach adopts a narrow notion of 'fit' between firm strategy and institutional environment.
   4) The IB literature pays little attention to theory or change in institutions, an understanding of which would aid in strategy formation.

2. *How can the comparative capitalisms approach overcome the weaknesses referred to in the previous question?*
   The comparative capitalisms literature provides frameworks for understanding national systems as complex configurations of institutions. Institutional interdependence and coordination are taken into account. A more fine grained explanation of different systems is therefore possible. Note Whitley's systematic approach to national business systems. His eight comparative dimensions cover ownership and internal relationships of the firm; production chains and external relationships, including alliances with other firms. Internal firm relations are thus linked with national institutional environments. This approach relies on a notion of path dependency, and may tend to underestimate how institutions change over time. Hence, the last of the weaknesses is possibly shared by the two approaches.

3. *The authors urge that a more flexible view of how institutions influence MNE strategies can help in understanding the world's emerging and transition economies. Do you agree and why?*
   The authors suggest that understanding new types of capitalist economy which are emerging is one of the current challenges. Specifically, transition economies, such as China and economies in Central and Eastern Europe, have grown in an era of

MNE expansion, and their institutions have been influenced by the presence of MNEs, impliedly *foreign* MNEs. Understanding institutional change has thus risen on the agenda for both IB and comparative capitalism scholars. The latter are perhaps better placed to assess institutional diversity in these countries, where new capitalist forms are mingling with national institutions shaped in earlier eras. IB scholars' emphasis on firm-level IB strategy, as in globalized production chains, reminds us of the importance of location-specific advantages. However, a weakness has been a tendency to see capitalist market institutions as evolving in similar ways everywhere. Certainly the formal systems may look similar in emerging markets (stock exchanges are an example), but their institutional context differs considerably from western models. The comparative capitalisms approach offers conceptual tools to analyse these developments.

ARTICLE 6

Buckley, P. and Ghauri, P. (2004)
Globalisation, economic geography and the strategy of multinational enterprises

Journal of International Business Studies, 35(2): 81-98
http://www.palgrave-journals.com/jibs/journal/v35/n2/abs/8400076a.html

Guideline answers

Part A: Grasping key points

1. *In what ways are there clashes between globalizing markets and national policies?*

The authors look at three levels of markets: financial markets, markets in goods and services, and labour markets. These become globally integrated at differing rates, and national factors, such as protectionist policies, remain influential.

- Financial globalization has moved quickly. Although national markets have lost some autonomy, there have been huge economic benefits in the opening of national financial markets.
- Markets for goods and services experience both global and local characteristics. In consumption, local factors remain important.
- Labour markets, however, function separately at national level. Large MNEs are in a position to exploit differences between countries in all levels of markets. Domestic markets still determine prices and wages.

The authors cite research which shows policy barriers, differing local cultures and geography contribute to differences. They state that the contrasting paradigms of self-contained national economies and a borderless world are both flawed. MNEs are faced with complex situations, in which both global and local factors remain important. Regional integration is another factor which affects national autonomy.

2. *What are the main points the authors make about the impact of globalization on MNE strategies?*

They highlight location and ownership strategies. Their main points are:

- The vertically integrated company proved costly and inflexible. As globalization progressed, firms saw the benefits of subcontracting production, which allowed for greater flexibility.
- Networks represent challenges to the traditional company. The growth of networks and clusters allowed for flexible management. Networks have even become 'virtual'.
- The use of the joint venture has combined the benefits of the network with the retention of some proprietary control over new technologies.
- Modern sourcing strategies depend on both location factors and knowledge management.
- Outsourcing is a major development linked with globalization. Contract manufacturers have become supply chain managers themselves, gaining specialist expertise.

- Mass customization reconciles scale and differentiation, and is associated with lean retailing.
- The global factory – These are the flexible factories of the future, which are able to shift to different products in the firm's portfolio. They can be located near to the customer, able to respond to consumer demand. This is the antithesis of the large-scale plant with high fixed costs. The brand owner can control design, engineering and marketing, while the production is outsourced.

3. *What has been the contribution of economic geography to the analysis of globalization?*
Economic geography has long pointed out the links between physical geography and economic development. The authors highlight climate, coastline, river transport, soil quality and terrain, all which impact on economic activities. These factors influence MNE strategy, and geographical models can aid MNEs in their strategy formulation. The authors point to Michael Porter, who stressed a strong spatial element in competitive advantage. Clusters or industrial districts are examples. Foreign MNEs are able to tap into these clusters, and theories of innovation rely on both national systems of innovation and clusters of innovation.

Part B: Building skills in critical thinking

1. *To what extent are flexibility and volatility important considerations in market entry strategies?*
These two concepts are linked. Flexibility implies the ability to respond quickly to changing markets, and volatility refers to changes taking place rapidly, which are difficult to anticipate. The authors point to the 'hub and spoke' model for reconciling global and local factors. A regional hub can offer flexibility. It is relatively near to each separate market, which is advantageous in terms of transport costs and information gathering. At the same time, because it serves several markets, it is not exclusively dedicated to any single one of them. If one suffers a setback, the company can shift to another. This is assuming the setback in the national market is free-standing. The authors go on to point out that this strategy can be successfully implemented via a joint venture. This allows flexibility, in that a company can expand in tandem with the joint venture partner, or withdraw from the market by selling out to the partner.
Flexibility and volatility are considerations in expansion strategy, and also in a low-growth environment. If production is subcontracted and demand falls, the MNE is better placed than would be the case where it owns production facilities itself. These considerations are relevant in the current environment, although the authors would not have anticipated that falling demand would affect all markets, as happened in 2008-9.

2. *What developments are leading to the global division of labour?*
The globalization of production by MNEs has combined with changing ownership policies. The authors highlight three approaches:
- *The new international division of labour* – The MNE breaks down the production process into segments, each of which can be carried out in the most favourable location. A result is that higher value activities are carried out in the advanced countries, and lower value activities in less developed countries.

- *Global commodity chains* – These are production networks which are typically driven by large buyers or large producers.
- *Regional networks* – Regional integration is associated with regional production networks, as in Asia.

As MNEs become more adept at dividing their activities among differing locations, the spatial division of labour becomes more complex.

3. *What are the challenges to market capitalism highlighted by the authors? Are they being addressed in today's global economy?*

A list of complaints against globalization appears on p. 92. These complaints were raised at the turbulent WTO meeting in Seattle in 1999. Although dating from some years ago, this list raises central issues which continue to challenge policy makers. Many of these issues represent challenges to capitalism itself, as the authors point out. These include job insecurity (which can arise from the changing geography of production and also from technological changes) and income inequalities. The authors stress that low-wage workers in developing countries have benefited greatly from capitalism. However, they also point out problems linked to negative externalities such as environmental damage. They express concern that underlying capitalism is 'selfish profit-seeking behaviour' (p. 93), an issue which has recently captured much public attention in an environment of economic downturn. Statutory regulation operates at national level, but at international level, there would need to be considerable inter-governmental co-operation, which can cause tension among sovereign states. MNEs have become adept at seeking advantageous locations for financial arrangements as well as production, and onerous national regulation in an MNE's home country can be bypassed, as the book has highlighted. The authors point out that relying on individuals' sense of self-regulation is perhaps unrealistic, as the 'moral infrastructure' must exist. This is unlikely in the low-trust culture in which capitalism thrives.

In today's world, ethical issues have risen up the agenda. Excessive executive pay, currently attracting extensive media attention, is an example. Other issues mentioned by the authors are unethical marketing practices (p. 94). These issues are being addressed, albeit in piecemeal ways. Government policy makers are currently looking at greater regulation of corporate finance, including excessive executive pay. However, they have in the past been reluctant to legislate in this area, due largely to the prevailing capitalist view that governments should keep intervention in markets to a minimum. Market capitalism is now under the spotlight, and we would probably agree with the authors that moral weakness, as much as regulatory shortcomings, are issues to be addressed. They do not suggest that CSR could provide the ethical and legal framework to deal with these issues, but this would surely be arguable.

ARTICLE 7

Chen, S. (2005)
Extending internalization theory: a new perspective on international technology transfer and its generalization

Journal of International Business Studies, 36(2): 231-245
http://www.palgrave-journals.com/jibs/journal/v36/n2/abs/8400124a.html

Guideline answers

Part A: Grasping key points

1. *What is the difference between 'arm's length' and 'contractual' co-marketing? In what situations are they appropriate?*

   The technology owner and the (indigenous) product manufacturer can each market to end consumers, emphasizing the benefits which they contribute. The author uses the example of DuPont, which makes non-stick coatings, and Tefal, which manufactures pans coated in DuPont's Teflon coatings. The two companies can organize their marketing separately, in arm's length co-marketing. In this case, DuPont transfers its coating technology to Tefal for a market price, and Tefal sets its prices according to what customers are willing to pay. Each operates separately: there are no licensing contracts governing the developer-manufacturer relationship. Arm's length co-marketing depends on the ability of the end consumers to assess the value of each of the complementary assets separately. In many cases, however, this is not possible. This situation may give rise to 'positive performance inseparability', in which the consumer does not know whether it is the superior coating or the excellent production process of the pans which is responsible for good performance. Similarly, in 'negative performance inseparability', where the end product fails, consumers do not know who to blame – the coating or the pan. Therefore, the final products market alone will not give the separate parties incentives to improve the value of the co-marketed product. In these situations, contractual co-marketing is a solution.

   Contractual co-marketing involves contractual restraints to control the behaviour of each partner. DuPont can specify the essential manufacturing procedures, and Tefal can specify the quality standards of the non-stick coating. When these terms are breached, the other party can be compelled to reimburse the party responsible for the failure. This arrangement is based on the fact that there is an intermediate input market, as there is a market for the technology and a market for the manufacture.

2. *In what circumstances is licensing advantageous?*

   Note the weaknesses of licensing, described from the bottom of the second column on p. 233. It is difficult for MNEs to price their technology; the transfer of tacit knowledge is problematic, and there is a risk that the indigenous firm might leak the technology, especially in an environment of weak IP rights enforcement. Licensing is discussed on p. 236. MNEs sell the right to exploit their technology to indigenous firms, which use the technology to manufacture products. The final product and the price represent the efforts of the two partners. In this case, DuPont would take full responsibility for the quality of the technology, but the marketing of the product (which is the technology-cum-manufacture bundle) lies with the indigenous manufacturer.

Licensing can solve the quality-cheating problem identified in negative performance inseparability. Tefal, which bears full responsibility for the marketing, will be motivated to maintain the quality of coating procedures. DuPont, which is anonymous in the final products market, need not worry that Tefal might shirk, as Tefal will be motivated to invest in improved processes, to garner the full reputational value. The author notes, however, the risks highlighted above. Licensing is the optimal solution where the market for technology is efficient, and the market for manufacture is inefficient.

3. *What are the benefits of OEM to the MNE and to the indigenous firm?*

This arrangement relies on the fact that there are two markets which MNEs and indigenous firms can use. The MNE can contract with an indigenous firm to have a product manufactured, which is based on the MNE's technology and for which the MNE accepts the full marketing role. The MNE is able to enter new markets, building brand recognition, while the manufacturing arrangements are in the hands of the local firm. There are cost advantages for the MNE, especially if manufacturing takes place in a low-cost country. This is the basis of OEM. Traditionally, MNEs use licensing to serve the host economy, and OEM to outsource production of products for its home market. However, from a conceptual perspective, these arrangements could be the other way around. In OEM, which is a mirror image of licensing, the local manufacturer is anonymous in the final products market. The full marketing right rests with the MNE, which is motivated to control the quality and enhance the product's performance. The MNE also has strong incentives to improve its technology. A disadvantage, however, is that the indigenous firm may lack incentives to improve its production processes, as it sees to benefit in the final products market.

A benefit of OEM for indigenous firms is the availability of design and technology of the MNE, often for free. The MNE must be careful to impose terms which restrain these firms from misusing the technology. In cost terms, OEM represents the situation where the cost of using the market for manufacture is low (the market is efficient), but the market for technology is high. For the indigenous firm, OEM offers a route to expand into international markets, and to build technological capacity, often in industrializing countries. A benefit stressed by the author is that OEM allows both the MNE and the indigenous firm to avoid the high costs of using the market for technology. It also allows the MNE to avoid the high costs of FDI. The author notes the prevalence of OEM in consumer goods industries, such as clothing, and the prevalence of licensing in medicines.

Part B: Building skills in critical thinking

1. *What are the limitations in internalization theory as perceived by the author, and how does this new model overcome them?*

   Internalization theory focuses on the relative efficiency of hierarchy in contrast to external markets. The author addresses the investment *vs* licensing trade-off as the cornerstone of internalization theory. The limitations of this focus are:

   - It overlooks the use of market institutions in situations where technologies developed in one country can be more efficiently exploited in another.
   - It takes a unilateral perspective, assuming that the MNE either licenses its technology to the local product manufacturer or invests in production (which internalizes the exploitation of the technology, as through wholly-owned subsidiaries). This overlooks the fact that the final product consists of two elements: the technology development and the manufacturing.
   - It assumes a one-dimensional continuum which concentrates on the efficiency of the technology market.

   This new model:

   - Extends internalization theory to two dimensions, bringing in the efficiency of the manufacturing market. It thus looks at the relative efficiency of two markets, technology and manufacturing.
   - Opens up an analysis of the relative costs and benefits of alternative manufacturing arrangements.
   - Offers five structures which can govern international technology transfer (shown in Figure 2).

2. *What is the significance of the three implications for transaction cost economics research highlighted by the author?*

   These implications are on p. 243. The three implications:

   1) Co-marketing can apply to separately identifiable elements. Inter-firm co-operation can apply through arm's length market transactions.
   2) Arm's length co-marketing will fail where there is performance inseparability.
   3) The two specialists can agree who should market their joint output. This economizes on the cost of business-to-business transactions. The author recommends that the party best suited to serve the final products market should take on this task, buying out the value created by the other party.

   The significance of these implications is in extending internationalization theory beyond the licensing *vs* investment trade-off. The new theory offers a transaction cost explanation for OEM.

3. *How does this analysis aid management decision-making for an MNE which owns technology?*

   This analysis clarifies the roles of the two partners in cross-border technology transfer and manufacturing. It enables them to reach a satisfactory governance structure, taking into account the technology market and the manufacturing market, to agree on a division of labour between them. The MNE gains from OEM, as a solution to rising production costs at home, but there are risks that the local manufacturer may one day become technologically strong enough to constitute a formidable competitor. For the local manufacturer with an OEM business, the situation can be somewhat frustrating. The firm relies on the MNE for the technology, and licensing deals may be too costly to contemplate in practice. Still, these companies do successfully make the transition to become forces in their own right, although conflicts with the MNE are likely along the way.

ARTICLE 8

Mathews, J. and Zander, I. (2007)
The international entrepreneurial dynamics of accelerated internationalisation

Journal of International Business Studies, 38 (3): 387-403
http://www.palgrave-journals.com/jibs/journal/v38/n3/abs/8400271a.html

Guideline answers

Part A: Grasping key points

1. *What are the new types of MNEs which the authors discuss, and what are their key characteristics?*

   The authors refer to a 'new species of MNEs' (p. 390). Born globals and international new ventures are highlighted. Many SMEs from advanced economies embark on accelerated internationalization from the outset. The authors also refer to 'latecomer MNEs', which originate from later developing economies, such as the Asian tiger economies. Many of these companies have rapidly become global, shaking up established MNEs in a number of markets.

   The characteristics of these firms include:

   - Accelerated internationalization
   - Greater geographical mobility than established MNEs
   - Willingness to seize new opportunities anywhere in the global economy
   - Ability to harness internationally dispersed knowledge and resources

2. *How does the IED framework explain the creation and development of these new entrepreneurial firms?*

   The IED framework focuses on the very early stages of entrepreneurial initiatives, when individuals are exploring business opportunities. These activities will begin before they have formed a company as a legal entity, and can involve forays into diverse geographical locations, examining opportunities and potential resources. The theory distinguishes three aspects (or milestones) of this wide-ranging process: the discovery of opportunities, deployment of resources and engagement with international competitors. The authors argue that, while internationalization theory has tended to focus on 'push' factors which drive the firm to pursue competitive advantage in outward expansion, this new theory focuses on 'pull' factors. New possible resources and opportunities attract these widely travelled entrepreneurs, who are likely to pursue networking strategies to gain competitive advantage. These firms can thus become quickly integrated into the global economy.

3. *What are the three organizing principles of the internationalization process highlighted by the authors?*

   The three organizing principles:

   1) *Discovery of opportunities* – This covers innovation in a broad sense. The

individual entrepreneur can match a variety of resources to differing customer needs. The firm can also take existing business concepts and apply them in new contexts. The authors refer to a disequilibrium setting, in which the entrepreneur is able to shake up existing markets, spotting new opportunities unseen by others. The international context is crucial in this theory: the fact that the entrepreneur is widely travelled and acquainted with different locations means that he/she can bring together geographically dispersed skills, knowledge and resources.

2) *Resource deployment* – This refers to the actions taken to pursue the opportunity which the entrepreneur has identified. The geographical movements, network contacts and business contacts will influence the type of organization formed and its strategy. Both internal and external resources and activities are involved. In this respect, the new firm diverges from the established MNE in that the new firm will seek to use international co-operative agreements more, including partnerships, alliances and joint ventures, to tap into resource capabilities of others.
3) *Engagement with international competitors* – Competitive interaction differs according to the specific ways in which firms perceive and develop their potential, in terms of skills and resources.

Part B: Building skills in critical thinking

1. *In what ways does the IED framework differ from the OLI paradigm, and to what extent is it an improvement?*

The OLI or eclectic paradigm, devised by Dunning, has been highly influential since the 1970s. It stresses ownership, location and internalization advantages of the MNE. Mathews and Zander argue that the OLI paradigm focuses on the large company, already well established in its home country, which has acquired ownership advantages in that context. It does not consider the new firm early in its development process. This latter type of firm seeks to build its competitive position internationally from the beginning, and may have little in the way of ownership advantages linked to a strong position in its home market. It is likely to build its competitive position through the use of networks and collaborative agreements. The network approach is captured in the new theory, and contrasts with the traditional view of ownership and location in the OLI paradigm. As for the third element, internalization, the authors argue that this is rather a static approach, with origins in transaction cost economics. Comparing relative transaction costs is only one consideration for the firm, and the new MNEs have multiple motivations and pathways, as well as various sources of competitive advantage.

The ability of firms to derive competitive advantage from building international networks rather than from exploiting internalized resources is a distinguishing feature of the IED theory. This could be said to be an improvement on the OLI paradigm, and to accommodate the emergence of the new born-global MNEs.

2. *How can the IED theory aid our understanding of internationalization in the new and uncertain environments of today's world?*

The discovery of new ideas and opportunities takes place in a global environment which has become highly diverse, and in which knowledge is highly dispersed. As new ideas can emerge from anywhere, there is underlying uncertainty as to what innovations will emerge, and from where. Entrepreneurial discovery has thus become internationalized, and the authors stress the fact that the new entrepreneurial firms are able to bring together resources and knowledge from a variety of international sources to develop their strategies. Business opportunities emerge in a setting of disequilibrium, where some individuals are able to see opportunities where others do not. For new and established MNEs alike, strategy must be formulated in a context of uncertainty.

The theory is presented as an aid to strategizing in an uncertain environment. It illuminates the role of networks, the processes of recognizing opportunities and differing pathways in the deployment of resources. It also addresses the new competitive landscape, in which competitive interaction takes place among a wide variety of organizational forms. The issue of the boundaries of the MNE, which is also highlighted, is discussed in the context of dynamic processes.

3. *As new firms grow older and become established, will this theory cease to apply to them? What are the implications for MNEs and internationalization theory in general?*

The authors state (p. 393) that the IED framework is less relevant in mature industry conditions. They thus seem to see their theory as relevant only to early-stage entrepreneurial processes, although they suggest that entrepreneurship and adaptation are relevant to *all* firms (p. 393). We might suggest that their claims about its relevance are rather understated. It is arguable that the IED framework, while directly applicable to new MNEs, does contribute to internationalization theory in relation to all MNEs. Global competitive pressures are now likely to be driven by the types of firm which the authors cite in their examples, such as Acer. This article was published in 2007, and we could probably now add Lenovo and Asus (founded by engineers who had worked for Acer) as further examples. Established MNEs must now respond, and are finding these new companies formidable competitors.

It could be concluded that the IED framework marks a shift in internationalization theory from the concepts and assumptions associated with the OLI paradigm to a more strategic approach. The authors point out the opportunities for further theoretical contributions and empirical research in entrepreneurial dynamics with an international dimension.

ARTICLE 9

Elango, B. and Pattnaik, C. (2007)
Building capabilities for international operations through networks: a study of Indian firms

Journal of International Business Studies, 38(4): 541-555
http://www.palgrave-journals.com/jibs/journal/v38/n4/abs/8400280a.html

Guideline answers

Part A: Grasping key points

1. *Explain the Uppsala model of internationalization used in this research, and why the authors chose it.*

   The Uppsala model holds that the firm internationalizes gradually, increasing its international involvement as it gains knowledge and experience in foreign markets. The current authors stress two core aspects: the development of knowledge of international operations and the increasing inclination of firms to undertake these operations. Relevant knowledge consists of objective knowledge and also experiential knowledge.

   The authors chose this model for the following reasons: It applies to any size of firm and to firms which are in the early stages of internationalization. Most emerging market firms are smaller than the large MNEs from developed countries. They lack experience internationally and are in the early stages of international expansion. These firms often lack the resources and technologies of established firms in developed countries.

2. *In what ways does the parental network aid in internationalization for Indian firms?*

   These firms use the resources, knowledge and experience of parental networks to help them build capabilities to operate in foreign markets. Internationalization knowledge will exist among the various members of the network, and can be acquired by other firms linked in the network. The networking approach thus blends with the Uppsala approach, in that learning through network contacts is part of the process of gaining in internationalization knowledge. In India, as in other emerging markets, the business group performs key functions for member firms, in resource sharing, information sharing and relational ties through which experience can be shared. The network can also provide the contacts which firms need to facilitate market entry and operations. Note the summary on p. 546, which highlights reductions in search costs, transaction costs, contracting costs, etc. These benefits can help to make up for the institutional weaknesses typical in developing countries, in relation to markets, regulation and the legal environment.

3. *Why do firms from emerging markets choose a cost-based strategy?*

   Firms from emerging economies typically lack the competitive advantages of leading technology and product differentiation. Partly this is due to the environment in their home countries, in which policies of market protection and limited incentives to develop new technologies for the domestic market were key features. The firms which are the focus of this research are manufacturing firms. They tend to focus on low-cost products, and therefore are more likely to succeed using a cost-based strategy when embarking on internationalization. Liberalization in the firms' home countries has introduced greater market competition from foreign entrants, especially developed-country MNEs. Many domestic manufacturers now seek market opportunities abroad, in which cost-based advantages are critical.

Part B: Building skills in critical thinking

1. *In what ways does the Indian environmental context make it suitable for generalizing about other emerging markets, and in which ways is it distinctive?*

   The authors see two distinct phases in Indian economic history. The post-independence phase lasted from 1947 to 1991. This period was characterized by a rather statist approach to modernization and industrialization. Self-sufficiency was promoted through state-guided development, in which state-owned companies were the drivers. Protectionism and subsidies benefited local firms, and small firms were able to benefit. Foreign firms were restricted in the sectors they could operate in. A result was that local firms faced limited competition, having a large captive market for their products. They were not incentivized to develop new products and technologies. The liberalization phase, from 1991 onwards, has opened up the country, reducing restrictions on foreign firms. The emphasis shifted from import substitution to export-led growth.

   In these respects, India is similar to other emerging markets. However, India is distinctive in some respects:

   - For much of the liberalization phase, India's policymakers have seen software and outsourcing as the drivers of growth, rather than manufacturing. Manufacturing has been a focus only in the last several years.
   - India has developed technological expertise in various areas, such as pharmaceuticals and engineering. Its firms aspire to competitive advantage based on competencies, not simply on lower costs.
   - India's institutional environment has been distinctive. It has had a democratic government, civil society institutions and a developed legal system since independence, unlike many developing countries which have had more authoritarian legacies (such as Asian and Eastern European countries).

2. *Explain which hypotheses were confirmed by the research, and which were not.*

   Key findings were as follows:

   - *Hypothesis 1* was confirmed, in that marketing and research intensity were found to have insignificant bearing on these firms' internationalization.
   - *Hypotheses 2a* and *2b* were upheld, confirming the importance of cost-based advantages.
   - *Hypothesis 3*, suggesting the importance of international experience of the parental network, was confirmed.

- *Hypothesis 4* suggested a positive relationship between network scope and internationalization. In fact, a negative relationship was found. Further analysis showed partial support for Hypothesis 4 if group size is taken into account: network scope has a positive effect for small and mid-sized groups, and a negative effect for large groups.
- *Hypothesis 5*, on the positive effects of foreign partner ties, was confirmed in that foreign partners were found to be important to firms lacking market power.

3. *What are the implications of the research for managers from emerging markets?*

These are summarized on p. 552, and students can be expected to expand on these with further comment. The four main implications:

- These firms' lack of R&D and marketing resources affects their approaches to internationalization, but does not create as much of a handicap as previous internationalization research might suggest. For these firms, the authors feel that incremental internationalization is the key strategy. Entering other emerging markets in the early stages is an opportunity for learning, although the focus would be on lower-cost sectors. Based on this experience, firms could move on to more developed markets.
- Firms from emerging markets need to integrate their own resources with those of business groups to which they belong. This will help to reduce the liability of foreignness.
- For firms lacking the support of a network group, they can seek foreign partners with requisite resources. The foreign partner can help them tap into new markets.
- Managers in large groups do not necessarily benefit from the network scope of the group in their own internationalization. These managers are advised to adapt their organizational structures to expand internationally. This seems a rather vague recommendation, which can be explored in further discussion. As smaller groups are better for increasing foreign exposure, the firm might seek foreign partners or choose to enter markets where the size of the group will bring positive benefits.

ARTICLE 10

Kolk, A., and Pinkse, J. (2008)

A perspective on multinational enterprises and climate change: Learning from "an inconvenient truth"

Journal of International Business Studies, 39(8): 1359-1378
http://www.palgrave-journals.com/jibs/journal/v39/n8/abs/jibs200861a.html

Guideline answers

Part A: Grasping key points

1. *What are the alternative patterns highlighted in the framework on the nature and development of climate change induced FSAs?*

   The authors cite the terms used by Lavie (2006), in respect of capability reconfiguration mechanisms. These are evolution, transformation and substitution.

   In the case of capability evolution, existing FSAs are retained, and the firm builds on them and modifies them. The second mechanism is capability transformation, in which existing FSAs are not discarded, but changes are made as new knowledge and skills are acquired. This is a more forward-looking approach. The MNE might, for example, embark on new R&D activities that could lead to alterations in the production process. The third mechanism is capability substitution. In this scenario, competence-destroying technological changes make the firm's FSAs worthless. It must acquire a whole new set of FSAs.

   The framework presented in Figure 1 looks at FSAs in different stages of the value chain. The impacts on upstream and downstream activities are quite different. The MNE might focus on developing FSAs in its upstream activities if climate change is impacting on its production processes. Changes in downstream activities which would affect it arise from customers, for example, green marketing. Each cell in Figure 1 represents a different type of development. Cell 1 represents minimal change: FSA evolution impacting on downstream activities. The launch of a fuel cell for motor manufacturers would be positioned in Cell 4: upstream and transformational.

2. *What are the main factors which determine climate change CSAs?*

   Government, geographical, societal and market factors are involved. The MNE is strongly affected in its home country, which might influence it to pursue climate-induced FSAs, but it is also affected by the CSAs in the countries in which it operates. The authors refer to the MNE as needing to 'optimize their FSA-CSA configurations' (p. 1368).

   Some of the CSAs generally highlighted:

   - Availability of natural resources
   - Access to markets for products and services
   - Costs of labour, capital and land
   - Technological assets

Other CSAs directly relevant to climate change:

- Government policy and regulation – This differs from country to country. The EU has taken a lead in regulation, supporting the Kyoto Protocol, whereas the US has not. The election of a new president in 2008 in the US, however, is expected to lead the way for new policies focused on climate change.
- Subsidies to stimulate new investment.
- Consumer awareness of climate change.
- An emissions trading scheme.

It should be noted that, as climate change is a global issue, the MNE might perceive that global strategies are appropriate, stemming from the MNE's headquarters. On the other hand, the authors note that climate change policies are quite fragmented. If a climate change issue is specific to a single country, the MNE is unlikely to respond unless it can transfer any FSAs to other locations.

3. *In what respects does the oil and gas industry provide examples of climate-induced changes in FSAs?*

Oil and gas industry MNEs fall in Cells 5 and 6. They will have to totally change their FSAs in both upstream and downstream activities. The new technologies are not yet clear. All the major companies are investing in renewable energy sources. These resources are very different from their existing businesses. Although oil companies are investing in wind power, the main FSAs are in companies such as GE, which produce wind turbines. In downstream activities, renewable energy emphasizes decentralized distribution, while the key FSA of the oil industry is in centralized energy distribution. The authors find that most oil companies see renewable technologies as marginal for them. However, transition technologies are attracting interest from these companies. These fall in the category of competence-enhancing technologies, representing an evolutionary path. Transition technologies can build on the production of natural gas (which is clean burning). Companies (such as BHP Billiton) which are large coal producers are investing in clean coal technology. Statoil and BP have invested in carbon capture and storage co-operatively, thus spreading the risk.

Part B: Building skills in critical thinking

1. *In what circumstances and why will firms develop climate-induced FSAs?*

Firms gain competitive advantage through FSAs. The authors assume that firms develop FSAs (and modify or abandon them) on business grounds. The business context is constantly changing, and firms change their FSAs accordingly. However, firms differ in the extent to which they are willing to go in tackling climate change, and the extent to which they perceive this will bring competitive advantage.

Some points which emerge in the article:

- Regulation by governments can render a firm's FSAs obsolete, implying that they must change. Regulation, however, is mainly on a country basis (or regional basis, such as the EU), and a firm which has invested in old technology can shift to a country in which it is still relevant.
- Climate change offers opportunities for innovation. However, investment

in R&D is costly, and the results may not lead to commercially exploitable products or services which yield competitive advantages.

- If MNEs can adapt and develop both upstream and downstream FSAs, this will lead to competitive advantage which is likely to be sustainable, as competitors will have difficulty imitating them.
- MNEs need market signals to change their FSAs towards climate-induced FSAs. Most efforts are still evolutionary. Many focus on downstream activities, such as green marketing.
- Bolder steps towards upstream transformation carry greater risks, as shown in the car industry, where MNEs want to maintain flexibility in their FSAs, rather than commit totally to new technology. There are uncertainties about the viability of new technologies as well as regulatory changes.

2. *Why are radical, competence-destroying FSAs limited to only a few industries and only over the long term, although climate change is an urgent issue?*

Climate change as a source of competitive advantage is most likely in firms directly affected by climate, that is, in which climate change affects their main source of profits. In only a few industries is radical FSA reconfiguration likely. The oil and gas and automotive industries are examples, but even here, change will come only slowly. This is partly because of lack of consensus on what new technologies will win out. The firms in these industries are investing in transition technologies, which rest on their existing FSAs.

Apart from firms which make specialized products that help to mitigate climate change or meet public policy needs, for most firms climate change is not directly a source of profits.

3. *In your view, would a CSR strategy help to reconfigure FSAs to promote more urgent responses to climate change?*

Climate change is a global issue with environmental, ethical, legal and stakeholder dimensions. Most MNEs (including the ones cited in this article) state that climate change responses are part of their CSR strategy. The authors, however, do not mention CSR, even as a consideration which they could then give reasons for rejecting. Furthermore, CSR is the first research/teaching/publication interest of the first-named author. In the absence of a CSR strategy, the two frameworks presented here are rather reactive in strategic perspective on climate change, and focus almost entirely on economic considerations. The authors state that the two frameworks are aimed at aiding firms in 'exercising *leadership* [my emphasis] that reckons with strategic and societal concerns' (p. 1374). However, a recurring theme is MNE unwillingness to commit resources to changes in an environment of regulatory uncertainty in the future. A CSR strategy would arguably supply such incentives and encourage leadership.