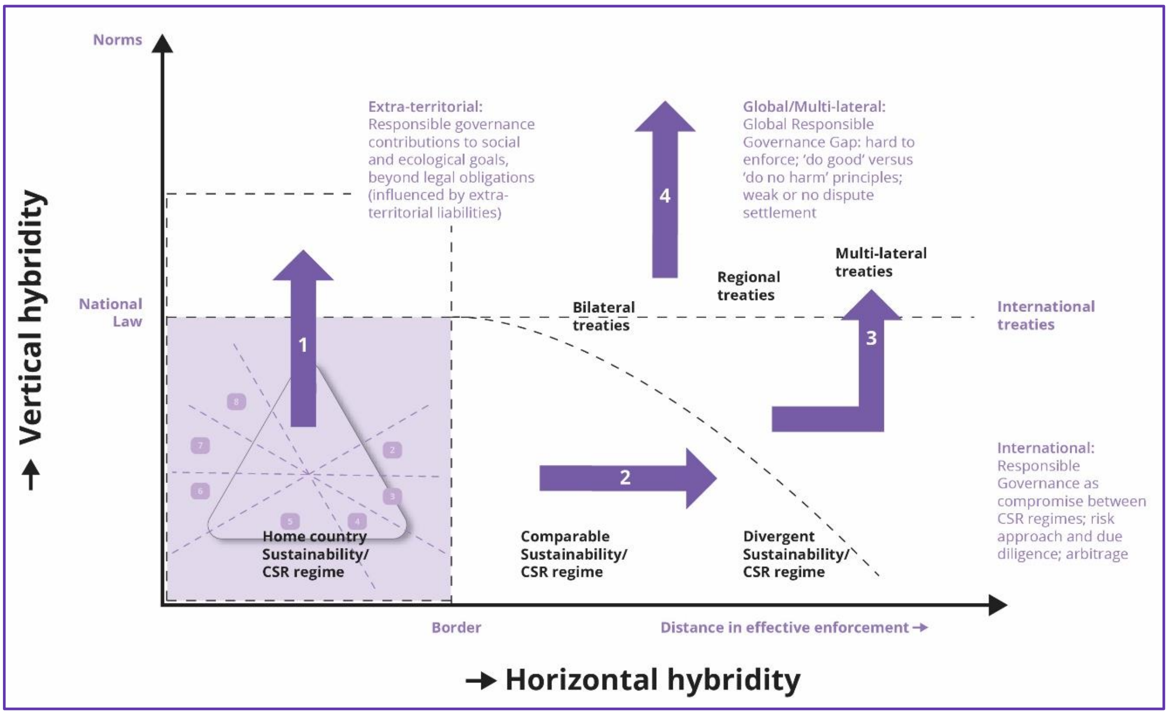
WHY INTERNATIONALIZATION STRATEGIES ARE STILL INFLUENCED BY NATIONAL AND GOVERNANCE ROOTS [1]

► Nationality matters: the sustained relevance of the 'country of origin'

Many of the world's most pressing issues are to be settled on the interface between (big) international business and society: environmental regulation, tax regimes, trade and investment regimes, tackling poverty, malnourishment and lack of education, countering terrorism, the adequate provision of public goods (water, safety, electricity), standardization and codes of conduct. **Chapter 6** of *Principles of Sustainable Business* discusses various '(hybrid) governance' challenges that organizations face when they move across borders. The below picture (Figure 6.5 in section 6.5 of the book) shows the 'international governance space' and the kind of strategic challenges attached to internationalization decisions.



[1] This text is based on Chapter 3 of the book 'International Business-Society Management: Linking Corporate Responsibility and Globalization' (Van Tulder with Van der Zwart, 2006, Routledge). More information can be found on: www.ib-sm.org, in particular under the button 'Int. Business'.

Patterns of realized internationalization strategies identifiable among leading multinationals display considerable 'country-of-origin' (CoE) effects. Although seemingly a contradiction in terms, it can still be valid to talk about 'American', 'Japanese', 'German', 'Chinese', 'Brazilian' or 'Dutch' multinationals:

- For the overwhelming majority of multinational enterprises as a group, home-country influences largely prevail over host-country influences. This is, in the first place, because the bulk of the sales and assets of only a very small group of the largest firms in the world is located outside the home country. Outside the home region (Europe, Central America, South-Asia, Middle-East, Southern Africa, North-America, etc.), the number is even smaller.
- In the course of many years, so-called 'country-of-origin' influences have declined only for a specific groups of multinationals: those with (a) a relatively small home base, that (b) engaged in early internationalization processes – leading to high 'Transnationality Index (TNI)' scores of above 80% [2] – or that (c) originate in smaller open economies. Nevertheless, country-of-origin influences still remain considerable even for these organizations, for instance due to strong bonds with national elites, policymakers or educational institutes.
- Multinationals, like all other 'non-governmental' organizations, still lack real international legal personality. This renders them only marginally subject to international law. As regards liability questions and in case of international disputes, multinational companies can still only be held responsible within the confines of national jurisdictions. Consider, for instance, the Brent Spar case in the 1990s in which Greenpeace and Shell clashed over an oil rig sited in international waters between the Netherlands and the UK. Or, in more recent times, all liability problems related to the 'plastic soup' in the world's oceans and the difficulties involved in effectively regulating internationally active platform companies in order to protect user rights and user privacy. In some instances, national judiciaries have facilitated *extra-territorial claims* on firms that are located within their territory. But, in general, it still proves very difficult for civil society or community representatives to file suite and address the international activities of firms inside a courtroom.
- Only in the case of some regional and bilateral agreements (the European Union, NAFTA, bilateral tax and investment agreements) have private parties – including firms and individuals – legal personality and access to, for instance, dispute settlement panels.
- The timing of internationalization decisions has been heavily influenced by (changing) relations with the home country. The backing of the home government in international diplomatic relations with specific (host) countries is an important strategic factor in explaining why organizations decided to invest (or not) in certain countries. Also internationalization decisions that involved the (re)location of the corporate headquarters to another county have been influenced by the relationship with the home

[2] An organization's degree of 'internationalization' is measured by the Transnationality Index (TNI), a weighted measure of the internationalization of sales, employment and assets – that is: (a) the ratio of foreign sales to total sales; (b) the ratio of foreign employment to total employment; (c) the ratio of foreign assets to total assets.

country, but in a negative way: changes in the home country's regulatory regime that were considered detrimental to the company, triggered threats of 'relocating' the headquarters to more forthcoming home bases. The decision and timing of actual relocation (or not) depended on the outcome of MNE-home country negotiations. The international business (IB) literature classifies this phenomenon under 'escape motives' (see below) or as 'obsolescing bargaining'.

- Sectoral effects have also been linked to national origins. The intrinsic motivations of firms to internationalize display specific sectoral patterns, yet the shape of the internationalization process is strongly affected by extrinsic factors – depending on the strategic nature of the sector. Industries like oil and gas, microprocessors or military equipment can hardly be considered independent of political motives or national industrial policy. Exactly which mechanisms apply and under what conditions, remains a question for further research in international business.

► Motivation matters as well

Internationalization decisions involve complex trade-offs, as does the effective and responsible management of 'distance' and 'country portfolios' in the stages thereafter (see **section 10.4.3** on international Key Decision-making Indicators (KDIs) attached to the various 'integration–coordination' challenges of effectively managing international presence). Three clusters of internationalization motives can be found in international business (IB), international political economy (IPE) and international management (IM) research: intrinsic, extrinsic and mixed motives (see Table 1). Together, these three types of motives represent the 'strategy tripod' (Peng et al., 2009): a resource-based view on internationalization drives intrinsic motives; an institution-based view drives extrinsic motives, and an industry-based view drives mixed motives:

- **Intrinsic motives** relate to the efficiency gains that can be achieved from operating internationally by harnessing 'locational advantages' and lowering transaction costs, through: (a) 'internalizing' markets across borders in a global economy characterized by considerable 'market failures'; (b) exploring resources where they are located and transferring them elsewhere; (c) coordinating asset-specific advantages of particular locations that are normally unrelated (e.g., research institutes); or (d) gaining in efficiency through the integration of closed markets around the world (e.g., labour markets). Intrinsic motives can be classified as efficiency-seeking, market-seeking, resource-seeking' or strategic asset-seeking considerations.

- **Extrinsic motives** refer to home and host-country effects. Generally, companies move activities abroad to diversify against the risks and uncertainties of the domestic business cycle. Companies may also be motivated to cross borders to, for instance, evade higher taxes, stricter environmental regulations, rising wage levels or unfriendly labour relations in the home country. 'Escape motives' have been used to influence the domestic institutional setting – using the 'threat to leave' as a bargaining chip. The process then takes on game-theoretical properties (see **section 10.3.3** of the book on the entry/exit power of multinational enterprises). Threats to move abroad in pursuit of lower wages, tax levels or less burdensome regulation might lead to more modest wages and certain tax arrangements at home which, in the end, could prevent the firm from moving abroad altogether.

Host-country policies provide the flip-side of organization's escape motives: taxation-, environmental- or wage-level induced 'industrial flight' from the home base is only feasible if taxation or pollution havens exist in the host country and if workers' rights there are less stringent enforced or labour relations more friendly. Host country policies also include regulatory *barriers*, however, such as export restraints, tariffs, discriminatory tax arrangements and local content regulation. Furthermore, perceived barriers – such as anticipated red tape, an environment conducive to corruption, or difficulties in enforcing contracts and property rights – can play a decisive role in investment considerations. As regards FDI regimes, most countries have engaged in considerable liberalization measures in the last two decades. As regards trading regimes, however, a large variety of non-trade barriers have been erected, whereas recent trade sanctions and legal, commercial, financial and technological restrictions imposed on states (e.g., Russia, Iran, North Korea, Syria, Venezuela) are significantly impacting transaction costs and may create substantive supply chain bottlenecks. Companies are confronted with changing host and home country regimes as well as global political-economic developments, which creates external turbulence and adds managerial complexity in assessing the right portfolio of countries. Volatility can thus significantly affect decisions to go or not go abroad – or to extend the portfolio of operating countries, or not – as it creates uncertainty beyond a company's sphere of influence.

- **Mixed motives** refer to the sectoral dynamics of internationalization and have also been dubbed as 'sector intrinsic motives'. Internationalization processes obviously differ from sector to sector. A mining company operating in a country with finite or depleted minerals is per definition forced to seek resources elsewhere. A pharmaceutical company investing in new medicines probably needs a larger market than its home market alone, in order to produce at sufficient scale and be able to reap a return on its investment. Sector dynamics also include strong psychological effects, known as bandwagon or herding effects. Such effects can be particularly relevant for oligopolistic sectors where a limited number of large firms dominate the landscape and closely monitor and copy each other's behavior. Bandwagon and herding effects can range from the adoption of product portfolios or corporate value propositions to the choice for a particular country. For example, choosing China as the chief recipient of foreign direct investments (FDI) in the 1990s initially revealed a major bandwagon effect: no large, self-respecting firm wanted to be left behind – although few managers could predict whether the investment would be profitable or not. Sector effects also explain why 'follow the client' motives are relevant for understanding internationalization in the banking sector, and for component suppliers in specific value chains with one dominant leading company. 'Follow the client' considerations represent a different motivational logic than market-seeking, as it is mostly driven by continuation of a relationship across borders – which is not necessarily intrinsically motivated nor based on markets, but rather aimed at preserving or improving one's position and competiveness.

Table 1: Strategic motivations of internationalization

Primary motivation	Drivers & approach	Internationalization motive	Entry repertoires
Intrinsic	***Resource based-view*** Transaction costs and efficiency approaches	▪ Market-seeking ▪ Efficiency-seeking ▪ Resource-seeking ▪ (Strategic) asset-seeking	▪ Greenfield investment ▪ Brownfield investment (acquisition) ▪ Majority/minority shareholding ▪ Joint venture ▪ Export affiliate; distribution contract ▪ Supply (sourcing) contract ▪ Strategic alliance ▪ Technology sharing agreement ▪ Auctions ▪ First-entry effects ▪ Wait-and-see
Mixed	***Co-evolution*** Competitiveness and positioning in sector	▪ Sector: bandwagon effects (e.g. in country selection); following the client; risk minimization (through country portfolio) ▪ Monopoly/oligopoly effects; follow the competitor	
Extrinsic	***Institution-based view*** Stakeholder approach, bargaining; corporate citizenship	▪ Home: escape motives from home country; strategic extension ▪ Host: high/low barriers to entry	

► Governance and societal positioning matter even more

The governance form and the societal positioning of an organization (see **section 6.3** in the book) both influence the internationalization strategy chosen, perhaps even more so than the nationality of the organization. Governance origins and the business model greatly affect the entry-strategy followed in the host country, the timing thereof, and the extent to which an organization actively pursues this internationalization objective. Table 2, on the next page, depicts seven of the eight archetypical organizational forms discussed in Chapter 6 and identifies several common features that can be witnessed in internationalization strategies of representative organizations in each category.

So far, research on internationalization strategies has been strongly concentrated on public companies (archetype 6 and hybrid archetype 5-6), thereby often neglecting to examine the exact impact of the ‘ownership dimension’ on internationalization decisions. In order to create a basis for comparison between governance form/societal position and the influence thereof on internationalization strategies, Table 2 gives an overview of relevant – albeit still tentative – mechanisms and strategic trade-offs in entry repertoires that these distinct organizational forms have to manage.

Table 2: Organizational form and internationalization strategy

Form	Strategic repertoire	Dominant logic and mechanisms
TYPE 8: State-owned/ controlled companies	***Dominant mode***: Export orientation and multi-domestic acquisition strategy (of other state owned companies) Average TNI*: 30%	▪ The deep pockets of (home) governments provide a substitute for capital markets as financial source for internationalization; ▪ Internationalization is hampered by host country opposition: (1) accusations of unfair competition; (2) fear of foreign domination; ▪ From domestic orientation to regionalism; ▪ Generations of multi-nationality: relative latecomers (depending on timing of privatisation abroad and at home); ▪ Extrinsically motivated.
TYPE 7: Public-private partnerships	***Dominant mode***: Multi-domestic; project-based organizations Average TNI*: low	▪ Examples include global construction and real estate companies engaging in international infrastructure constructions like the Channel tunnel; ▪ International firms that participate in a partnership will always have to adapt to local (public) circumstances; otherwise: strong bound with home government (as financier); ▪ Domestic company is often leader of the private consortium/conglomerate; ▪ Home region oriented; ▪ Extrinsically and risk-mitigation motivated.
TYPE 6: For profit – public companies	***Dominant mode***: Mergers and acquisitions Average TNI*: >50% (with major variations)	▪ Strong 'home-country' and 'host-country' effects (depending on the stock exchanges where the company is listed); ▪ Capital intensive; ▪ Rapid (de-)internationalization; ▪ Sectoral dynamics: resource and market-seeking ▪ Early internationalization; ▪ Global or bi-regional strategies prevail; ▪ Mixed and extrinsic motives prevail.
TYPE 5-6: Family controlled – public companies	***Dominant mode:*** Aimed at greenfield investments and/or acquiring distribution networks Average TNI*: 30%	▪ Interaction between family ownership and largest shareholders; ▪ Controlled and relatively slow internationalisation; ▪ Depending on stock exchange: moderate home-country effect ▪ Generations of multi-nationality: relative late-comer (in retail); ▪ Domestic region orientation; ▪ Mixed motives prevail.
TYPE 5: Family controlled – private companies	***Dominant mode***: Greenfields and multi-domestic	▪ Family ownership makes it difficult to internatio-nalize rapidly (no easy or risk taking capital), slow strategy; ▪ Less capital-intensive, more labour-intensive; strong orientation on retail; ▪ No major local embeddedness needed, so no global

	Average TNI*: varies	localization; ▪ Globalisation strategy possible, but strong home-country orientation; ▪ Early internationalization, depending on the line of trade or sector; ▪ Prevalence of intrinsic motivations.
TYPE 4: **Not-for-profit Co-operatives**	***Dominant mode***: Export-oriented or multi-domestic; Alliances, limited greenfield Average TNI*: 15%	▪ Cooperative structure makes it difficult to internationalize rapidly; ▪ Take-over of other cooperatives is also difficult; so alliances and international networks prevail; multi-domestic presence is important to establish strong local links; ▪ Relatively late internationalization; home region oriented; ▪ Strong home-country effects; ▪ Intrinsic motivations prevail.
TYPE 3: **Civil Society Organizations**	***Dominant mode***: International NGOs reveal various internationalization strategies (global, glocal, multi-domestic) Average TNI*: varies	▪ Most CSOs are very much rooted in the national and local context with very low levels of TNI; ▪ International NGOs (INGOs) materialized along a number of routes: ▪ Traditional social movements - in particular religious movements – have created a global presence; but trade-unions were still strongly rooted in the national context; ▪ New social movements – aimed at advocacy such as environment, human rights – immediately adopted global themes which required global organizational forms; ▪ Service-oriented development NGOs like Oxfam, Clean Clothes, Medicine sans Frontiers adopted more of an 'export-oriented' model, sponsored by a strong home base.
TYPE 2: **Not-for-profit Pension funds Islamic banks**	***Dominant mode:*** Export oriented (of capital); internationalization of shareholding Average TNI*: < 10%	▪ Internationalisation is directly linked to the domestic interests: pension funds invest global, operate local; ▪ Special position for company pension funds; ▪ Strong (domestic) regulation barriers to internationalize; no foreign stock quotations; ▪ Extrinsic and mixed motives.
TYPE 2: **Not-for profit Hospitals universities**	***Dominant mode***: Alliances, networks and semi-autonomous affiliates or franchises Average TNI*: low, but growing rapidly	▪ Idem as cooperatives; strong embeddedness in local regulatory environment; only commercial parts can internationalize, for instance through franchises; ▪ Host economies need to have comparable regulatory frameworks; hence home region oriented; ▪ Extrinsically motivated.

***** TNI assessments are based on relative internationalization degrees of ten largest organizations in that governance segment.