

Current debates in global strategy

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Debates help drive research forward. This paper is unique in its review of four current debates in the global strategy arena: (1) cultural vs institutional distance; (2) global vs regional geographic diversification; (3) convergence vs divergence in corporate governance; and (4) domestic vs overseas corporate social responsibility. For each debate, the history is tracked and the emerging tension highlighted. By introducing both sides of four lively and timely debates, the paper provides an innovative way of reviewing the literature and helping to advance the field. It is argued that an underlying theme connecting these four diverse debates is the institution-based view of global strategy.

Introduction

At the intersection between strategic management and international business, global strategy has emerged as one of the frontier disciplines within business schools (Peng 2006, 2007, 2009). The development of the global strategy field has passed through a number of bumps and turns, yet has relentlessly progressed (Segal-Horn 2007). The bumpy road has been one rife with debates. In both research and practice, debates help drive the field forward (Meyer 2007; Peng 2004a, 2007). What are some of the current debates in global strategy that will keep the field energized and focused in the years to come?

This paper, distinct from a typical review article, provides an overview of four current debates within the global strategy field: (1) cultural vs institutional distance; (2) global vs regional geographic diversification; (3)

convergence vs divergence in corporate governance, and (4) domestic vs overseas corporate social responsibility (CSR). We focus on these four debates for three reasons. First, to review an ample range of global strategy research, it is important to pick debates that are fairly distinct from one another. These four debates meet this criterion in that, while each is associated with the broadly defined global strategy audience, each one speaks specifically to different groups of researchers. By incorporating such a diverse set of debates, we are able to review a more encompassing range of research and highlight some of the leading issues within global strategy research. Our second criterion is based on a historical aspect. In the literature, there are a number of debates that have a long history (i.e. internationalization and firm performance). We have attempted to identify debates with varying timelines. For example, the cultural vs institutional distance debate, dating back to Kogut

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and Singh (1988), is arguably the oldest standing debate reviewed here. However, we identify it as a leading debate because of the recent surge of activity within this realm (Hofstede 2007; Singh 2007), which may be partially attributed to the rise of the institution-based view of global strategy research. The other three debates also have historical roots. However, much of the discourse has been more recent. This leads us to our third criterion, identifying debates that have not been systematically reviewed. For example, although CSR in general has often been a source of debate, the specific debate on domestic vs overseas CSR is an element that has not received as much direct attention. By identifying and defining more specific debates, we are able to set boundaries and review a set of diverse debates in one article.²

We begin with a discussion of what global strategy entails. Second, we suggest that the institution-based view of global strategy is an underlying theme that works to connect the four debates reviewed. Third, for each debate, we highlight the emerging tension in the field by discussing both sides of the present debate. In reviewing each debate in this way, we identify and propose directions for future research. Lastly, we readdress and discuss the institution-based view as the underlying theme connecting these four diverse debates.

Defining 'Global Strategy'

Although we have no intention of debating it in this paper, the 'global strategy' label can be a debate in itself. In general, there are three views on 'global strategy'. First, global strategy is one particular form of multinational enterprise (MNE) strategy that treats countries around the world as a common, global marketplace (Levitt, 1983; Yip 2003). The other MNE strategies are typically known as international (or export-driven), multidomestic and transnational (Bartlett and Ghoshal 1989). However, this strategy appears to be an ideal form that hardly exists among real-world MNEs (Rugman and Verbeke 2004). The few brave

MNEs that experiment with it end up in disasters (Ghemawat 2007).

The second view treats global strategy as 'international strategic management' (Bruton *et al.* 2004; Inkpen and Ramaswamy 2006; Lu 2003). Obviously, international strategic management is broader than 'global strategy' as defined by the first view.

The third view defines global strategy in even broader terms: the strategy of firms around the globe, which is firms' theory about how to compete successfully (Peng 2006). This definition explicitly incorporates both international (cross-border) and non-international (domestic) firm strategy, building on the argument that what is international and what is domestic may become increasingly blurred.

In this paper, we follow the third definition by treating global strategy as the strategy of firms around the globe (Peng 2006). In other words, we are neither embracing the first, narrow definition that is increasingly irrelevant, nor equating global strategy with international strategic management. While it is true that our first two debates focus explicitly on the international aspects, our last two debates, on corporate governance and CSR, feature significant domestic components. Overall, we view 'global strategy' as a field at the intersection between strategic management and international business.

While we can certainly debate the appropriateness of this (or any) definition of global strategy, it appears that 'global strategy' is a popular book title, as evidenced by recent examples:

- Gupta and Govindarajan (2004), *Global Strategy and Organization*
- Peng (2006), *Global Strategy*
- Inkpen and Ramaswamy (2006), *Global Strategy: Creating and Sustaining Advantage Across Borders*
- Ghemawat (2007), *Redefining Global Strategy*
- Spulber (2007), *Global Competitive Strategy*

Interestingly, none of these important books advocates the Yip (2003) type of 'total global strategy' and, in fact, all emphasize the *non-total*

nature of the strategy described by their authors (see especially Ghemawat 2007; Peng 2006). Nevertheless, the 'global strategy' label persists. Thus, we believe that using this label is justified, as long as we clearly define it.

Theoretical Underpinning: Institution-based View

For decades, international business scholars have labored on issues associated with the environment, such as context, culture and political risk. It has been suggested that, to consolidate this literature and theorize further, all these works associated with the external environment can be labeled an institution-based perspective (Peng 2006). Broadly defined, institutions are the rules of the game (North 1990). International firms must know and be aware of the formal and informal rules governing those countries they are vested in. Moreover, the institution-based view suggests that firm strategies are enabled and constrained by the different rules of the game around the world (Peng 2003; Peng *et al.* 2008).

Each of the four diverse debates highlighted in the remainder of this paper has obvious and interesting features that connect them with the institution-based view. The debate between cultural vs institutional distance engages both the informal and formal components of the institutional environment, directly connecting it to the roots of the institution-based view. While cultural distance finds a basis in the informal aspects of the institution-based view, institutional distance is able to grapple with both the formal and informal components of the institution-based view. The debate between global vs regional geographic diversification is (among others) a political and cultural environmental debate. The rationale to define regions based on political, cultural and historical commonality due to common (or at least similar) rules of the games within a region is at the heart of the institution-based view. The debate between convergence and divergence in corporate governance addresses the governing systems in place globally. An institution-based

view suggests two competing propositions: (1) the formal institutions may appear to be converging, as common legislation or governing systems are adopted; however, (2) the informal institutions at work may not actually implement these convergence mechanisms (Khanna *et al.* 2006). In connecting the debate between domestic vs overseas CSR to the institution-based view, there is an element of competing institutional environments that a firm has to cope with. Although there is theoretically a global institutional environment, firms still operate in environments with drastically different rules and expectations (Ghemawat 2007). Active CSR engagement overseas is now increasingly expected of MNEs (Kline 2003). Multinational enterprises that fail to do so are often criticized by non-governmental organizations (NGOs). However, to whom is an MNE ultimately responsible? Overall, the institution-based view – because it encompasses so many aspects of the external environment – has the ability to connect and engage these four diverse debates in global strategy. Next, we discuss each of these debates.

Cultural vs Institutional Distance

While culture has long been a part of international business research (Kogut and Singh 1988; Shenkar 2001; Tihanyi *et al.* 2005), it has not formed a part of the core research underpinning global strategy – culture tends to be more micro, while strategy is typically viewed as more 'macro' (Singh 2007). In the last decade or so, a new, institution-based view of global strategy has emerged (Lee *et al.* 2007; Meyer and Peng 2005; Peng 2002, 2003, 2007; Peng and Khoury 2008; Peng *et al.* 2008; Wright *et al.* 2005). This view argues that global strategy is fundamentally shaped (at least in part) by the formal and informal institutions commonly known as the rules of the game (North 1990). An interesting debate thus centers on: What is the role of culture in an institution-based view of global strategy? Between culture and institution, which is a more comprehensive construct? How do culture and institution differ?

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Since the publication of Hofstede's (1980) classification of national cultures, the role of culture within the global environment has been debated.³ Broadly defined, culture is a cumulative of societal values, beliefs, norms and behavioral patterns (Hofstede 1980). International (cross-border) business transactions involve interactions between different societal value systems; therefore, culture is a part of every business transaction. Wilkinson (1996) first addressed the issue of cultural vs institutional explanations in his review of the development of East Asian 'miracle' economies, as approached through a 'culturalist' and 'institutionalist' lens. Which lens has better predicting and explanatory power of differences in economic and business development? Interestingly, both national culture and institutional heritage have been used as variables impacting major business activities, from capital structure (Chui *et al.* 2002) to entrepreneurial foundations (Djankov *et al.* 2002) to internationalization (Guillen 2002).

One of the current debates stemming from the broad debate of culture vs institution is whether cultural distance or institutional distance is a better measurement. Cultural distance involves the study of principal differences in national cultures between the home countries of MNEs and the host countries of their operations (Johanson and Vahlne 1977; Kogut and Singh 1988). Institutional distance encompasses cultural differences as well as additional factors, such as regulatory differences, normative pressures and cognitive identification (Xu and Shenkar 2002). Many of the influences attributed to culture can also be explained by the stage of institutional development and sociopolitical and market factors (Hamilton and Biggart 1988; North 1990; Peng 2002; Singh 2007).

Studies examining the role of cultural distance typically theorize that, as the cultural differences between the home country and the host market of an MNE increase, the underlying ability of the MNE to operate effectively in the host market decreases (Gomez-Mejia and Palich 1997; Hennart and Larimo 1998). When

cultural distance is great, achieving efficiency in current operations is difficult. Hence, increased cultural distance may lead to higher levels of complexity and uncertainty for managerial decision-making (Shane *et al.* 1995), which increases managerial risk. Overall, cultural distance has been used to explain a wide range of MNE strategies and organizational characteristics (Tihanyi *et al.* 2005). For example, cultural distance has been used to explain why joint ventures between different countries are typically shorter lived than those between firms from the same country (Hennart and Zeng 2002; Thompson 1996). It also has been used to explain why firms gradually enter culturally similar countries before entering countries that are culturally distant (Johanson and Vahlne 1977; Kogut and Singh 1988), as well as MNE entry mode choice (Barkema *et al.* 1996), international diversification (Grosse and Trevino 1996) and MNE performance (Gomez-Mejia and Palich 1997; Morosini *et al.* 1998).

Despite these findings, cultural distance has its critics. First, there are a number of findings inconsistent with the hypothesis that joint ventures between local firms outperform those between a local firm and a foreign firm (Li *et al.* 2001). There are also inconsistent findings with regard to the relationship between cultural distance and MNE performance, with some studies finding a *negative* relationship (O'Grady and Lane 1996; Luo and Peng 1999) and others finding a *positive* effect (Morosini *et al.* 1998). Second, the view exists that cultural distance is just one of many factors to consider when firms go abroad (Evans and Mavondo 2002). In addition, while cultural distance is important initially, its importance declines as relationships develop (Marshall and Boush 2001). Third, a meta-analysis (based on 66 empirical studies) performed by Tihanyi and colleagues (2005) found a *near zero* relationship between cultural distance and three variables: entry mode choice, international diversification and MNE performance. Finally, these critics generally look beyond the Hofstede dimensions towards an institutional

construct with the argument that cultural distance can be complemented by institutional distance (Brouthers and Brouthers 2001; Busenitz *et al.* 2000; Calori *et al.* 1997; Delios and Henisz 2003; Lau and Ngo 2001).

Institutional distance broadly encompasses cultural differences through its incorporation of regulative, normative and cultural–cognitive aspects of institutional environment (Scott 1995); thus the relationship between institutions and culture is bound to be debatable. In determining the relationship between cultures and institutions, Hofstede *et al.* (2002, 800) suggested that ‘institutions are the crystallizations of culture, and culture is the substratum of institutional arrangements’. They believe that claiming a causality link between institutions and cultures is useless hairsplitting, and we agree. The real issue at hand is when each measure is appropriate. Do institutional or cultural explanations provide a more comprehensive explanation of actual and potential variance in firm characteristics and performance? Recent research (Chakrabarti *et al.* 2007; Gauer *et al.* 2007; Lee *et al.* 2007; Peng *et al.* 2008; Rangan and Drummond 2002; Singh 2007) suggests that institutional measures may prove more effective in providing comprehensive explanations of firm behavior and performance. However, more empirical tests are needed before conclusions can be drawn. Apart from further refinement on these measures, we suggest that a fruitful avenue for further research is in the application of these measures in various and contrasting contexts. Only then will we truly be able to evaluate and identify when each measure is appropriate. Additionally, further clarification is necessary as to what measure has more explanatory power in what context.

Global vs Regional Geographic Diversification

The geographic scope of the firm is an important dimension in global strategy (Peng and Delios 2006). Determining the ‘global-ness’ of a firm is not a new ambition. Perlmutter (1969) attempted to tackle a similar challenge

40 years ago, when he looked at the *multinationality* of a multinational firm. At that time, being multinational was seen as prestigious – just as being considered a ‘global’ firm is today. Interestingly, Perlmutter found that the ‘difficulty in defining the degree of multinationality comes from the variety of parameters along which a firm doing business overseas can be described’ (1969, 11). Rather than focusing on the locations of subsidiaries, headquarters or location of sales in addressing the issue of multinationality, Perlmutter built on his three concepts that international business scholars are now very familiar with – ethnocentric, polycentric and geocentric – by turning inward and examining the internal attributes of the firm that may attribute to its classification as a multinational.

In part thanks to Levitt (1983), the term ‘global’ became mainstream in the 1980s, as firms were encouraged to ‘go global’ by both media and academics. However, in 1985, Hamel and Prahalad noted that the perspective on global competition and globalization of markets was incomplete and misleading. Hamel and Prahalad (1985) found that neither executives nor analysts fully understood what global competition entailed, and they subsequently developed a global competitive framework.⁴

Recent debate centers on an interesting and somewhat surprising finding first presented by Rugman and Verbeke (2004). They found that even among the largest Fortune Global 500 MNEs, few are truly ‘global’. In their study, Rugman and Verbeke found only nine MNEs to be ‘global’ and only 25 to be ‘bi-regional’.⁵ The majority of the remaining MNEs in the Fortune Global 500 are actually home region oriented (or in essence ‘regional’) – signaling the mislabeling of ‘global’ attributed to these firms.

Having established that many ‘regional’ MNEs are incorrectly labeled ‘global’, the empirical evidence for regionalization suggests two important implications. First, much of the international activity of MNEs is conducted at the intra-regional rather than the inter-regional (in other words, ‘global’) level (Rugman and Verbeke 2008; Schlegelmilch 2007). Second,

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many MNE operations are organized at the regional level as opposed to the global level (Rugman and Verbeke 2007). Guided by the fact that liability of foreignness (Zaheer 1995) does exist, one of the main reasons we see more activity at the intra-regional level is due to the lower liability of foreignness within a region than between regions (Rugman and Verbeke 2004). Additionally, one of the reasons international operations continue to organize regionally is due to the difficulty in managing an internal network spanning more than one region – the cultural and/or institutional distance remains substantial (Rugman and Verbeke 2007). Supporting this view, a recent study on regional diversification and firm performance suggests that firms that are regionally focused are more likely to maximize their performance (Qian *et al.* 2008). While Rugman and Verbeke's (2004) findings are based on a global sample of MNEs based in all three regions of the Triad, supportive evidence on the regional character of Asia-based MNEs is reported by Collinson and Rugman (2007, 2008) and Oh and Rugman (2007).

However, despite the widespread acknowledgement and interest in these findings, the Rugman and Verbeke perspective is not without critics. Critics make two points. First, while overall, Dunning *et al.* (2007) supported Rugman and Verbeke's (2004) findings, Dunning *et al.* found that the regional concentration of MNE activity is more reflective of GDP and trade than of a distinctive MNE strategy. Additionally, Osegowitsch and Sammartino (2008) called into question the classification criteria used by Rugman and Verbeke (2004) and in an empirical study demonstrate that, in using different schema, a significant proportion of firms attain global status. Thus, the main criticism seems to be one of measurement and taxonomy. Second, the data supporting the 'regional' view only capture a snapshot in time (Osegowitsch and Sammartino 2008). Considering this, while it is true that most MNEs may be more correctly labeled 'regional' as opposed to 'global', how do we correctly classify MNE international

strategies? Is it a relative measure? If we look at it longitudinally, are there different levels of regional diversification? Moreover, how do we define a region? There are multiple ways to define a region. While Rugman and Verbeke (2004, 2007) stand by their use of the broad-Triad (Asia, EU and NAFTA), which is fairly geographic in nature, regions can also be defined through cultural or institutional similarities or through the World Value Survey. In discussing the global economy, recent research suggests a lingering trend towards forms of interregionalism (Aggarwal and Fogarty 2004). Specifically, these authors identify a rise of bilateralism, regional agreement, sectoral accords and interregionalism taking place across the globe. Given the political realities of the world, it is plausible to support the argument that MNEs compete within a multiplex of regions, most of which are not integrated (Ghemawat 2007). Of course, there is an issue as to whether the definition of a region is economically, politically or culturally driven.⁶ For example, in considering a politically defined region, it may be the case that MNEs are able to take advantage of and use political resources that rest between the home and host country, despite a large cultural or institutional distance (Frynas *et al.* 2006). Therefore, regions defined politically may provide a different explanation in understanding the geographical patterns of diversification of MNEs. Interestingly, since this debate arose due to the increased pace of globalization, it has reopened the debate on globalization and how poorly it is understood. This leads us to the next ongoing debate: whether we are witnessing convergence or divergence in corporate governance.

Convergence vs Divergence in Corporate Governance

Researchers have searched for similarities in consumption patterns and culture-specific beliefs and attitudes (Leung *et al.* 2005) since the publication of *Industrialism and Industrial Man* by Kerr *et al.* (1960). The underlying issue behind this debate is whether economic

ideology or national culture drives societal values. Those who believe that economic ideology drives values tend to follow the convergence perspective, whereas those who argue that national culture drives values often follow the divergence perspective (Ralston *et al.* 1997). While this debate has been around for some time, we are no closer to an answer. In fact, there seems to be an ever-widening gap between the two schools of thought.

A lively debate within the corporate governance literature questions whether corporate governance is converging or diverging globally. In this realm, convergence advocates argue that globalization unleashes a 'survival-of-the-fittest' process by which firms will be forced to adopt globally best (essentially Anglo-American) practices (Rubach and Sebora 1998; Witt 2004). Much of the recent governance codes, enacted in numerous countries around the world, draw largely from core Anglo-American concepts. This may be attributed to the fact that global investors are willing to pay a premium for stock in firms that follow Anglo-American-style governance procedures (Hebb and Wojcik 2005; Young *et al.* 2004). Owing to this trend towards conformity, shareholder activism – an unheard of phenomenon in many parts of the world – is becoming more visible (Dharwadkar *et al.* 2000; Sarkar and Sarkar 2000). The main argument driving this side of the debate is that market forces enhance cross-national convergence on international standards. However, Chey (2007) suggests and finds support for the enactment of a diverse set of pressures (market, nation-state and foreign state) that has led to an increase in firms' voluntarily adopting international standards. Perhaps surprising, is the fact that market pressures were not found to be the main driver of such conformity. Instead, adoption was found to be driven mainly by a nation-state's regulatory authorities' concern about the potential risk of foreign market closure to non-compliant firms. Thus, voluntary adoption of key international standards comes from the inherent threat of market compliance pressures.

Another example convergence advocates often cite is the phenomenon of cross-listing – listing shares on foreign stock exchanges.⁷ The primary reason for a firm to cross-list is its desire to tap into larger pools of capital (Coffee 2002; Doidge *et al.* 2003). However, before a foreign firm may cross-list in the US or UK, it must comply with securities laws and adopt Anglo-American corporate governance norms. Thus, convergence advocates have a fairly strong foothold when we consider that Japanese firms listed in New York and London, compared with those listed at home, are relatively more concerned about shareholder value (Yoshikawa and Gedajlovic 2002). Additionally, a US or UK listing can be viewed as a signal of the firm's commitment to strengthen shareholder value, thus resulting in higher valuations (Vaaler and Schrage 2006). Overall, cross-listed firms are often viewed as carriers of Anglo-American corporate governance norms and values around the world.

On the other side of the debate, critics contend that governance practices will continue to diverge throughout the world (Aguilera and Jackson 2003; McCarthy and Puffer 2003). Corporate governance concerns 'the structure of rights and responsibilities among the parties with a stake in the firm' (Aoki 2000, 11), yet according to Aguilera and Jackson (2003, 447), the diversity of practices around the world 'nearly defies a common definition'. Aguilera and Jackson (2003) suggested that the two models (Anglo-American and Continental European) used to classify countries only partially fit the majority of countries. Divergence advocates use the following scenario to reiterate their stance (cf. Peng 2006, 470). In US and UK firms, promoting more concentrated ownership and control is often recommended as a solution to combat principal-agent conflicts. However, making the same recommendation to reform firms in continental Europe, Asia and Latin America may be counterproductive, because often the main problem in these countries is controlling shareholders, who typically already have too much ownership and control (Young *et al.*

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2008). Instead, the solution may lie in how to *reduce* the concentration of ownership and control. A recent study by Crossland and Hambrick (2007) provides another example of how differences in the macro-environment influence corporate governance. Their findings suggested that some national systems (particularly the US) allow CEOs more latitude of action than other national systems.

Divergence advocates make two points concerning the case of cross-listed firms. First, compared with US firms, these foreign firms have significantly larger boards, more inside directors, lower institutional ownership and more concentrated ownership (Davis and Marquis 2003). In other words, cross-listed foreign firms do not necessarily adopt US governance practices before or after listing. Second, despite the popular belief that US and UK securities laws apply to cross-listed foreign firms, in practice, these laws have rarely been effectively enforced against those firms (Siegel 2005).

While convergence advocates note the similarity of governance regulations being implemented around the globe, divergence advocates maintain that, while it is possible to export formal US/UK-style regulations to other countries, it is much more difficult to transplant the informal norms, values and traditions around the world without changing the underlying structure of concentrated ownership and control (Bruton *et al.* 2003; Carney and Gedajlovic 2001). Overall, in a global economy, complete divergence is probably unrealistic, especially for large firms in search of capital from global investors. However, complete convergence also seems unlikely (Yoshikawa and McGuire 2008). What is more likely is some sort of crossvergence, balancing the expectations of global investors and those of local stakeholders (Young *et al.* 2004, 2008).

While convergence and divergence identify polar extremes, crossvergence argues that neither of these views adequately explains the dynamic interaction at play (Ralston *et al.* 1997). Such a view is supported by Khanna *et al.* (2006), who examined the similarities in corporate governance across developed and

developing countries. In this study, the authors explicitly distinguish between and empirically test the differences of *de jure* and *de facto* convergence. Whereas *de jure* convergence is a convergence of legal rules and institutions through the adoption of similar corporate governance laws across countries, *de facto* convergence refers to the convergence and adaptation of actual practices (Khanna *et al.* 2006, 71). The findings suggest the support of *de jure* convergence among interacting countries; however, they fail to support convergence on the *de facto* level. Thus, a sort of crossvergence is taking place, where certain governance practices are adapted on a global scale, but not implemented locally. As this study was conducted at the country level of analysis, more fine-grained analysis needs to be done to determine how this is translated into actions of international firms.

Interestingly, the Organization for Economic Co-operation and Development (OECD), which has traditionally promoted the Anglo-American governance principles, recently revised its 'Principles of Corporate Governance' to reflect the experiences of both OECD countries as well as emerging and developing economies in an effort to maintain its relevance (Jesover and Kirkpatrick 2005). These principles have 'gained worldwide recognition as an international benchmark for sound corporate governance' and represent a particularly relevant example of crossvergence (Jesover and Kirkpatrick 2005, 127). Ralston *et al.* (1997) raised the question of whether crossvergence is a temporary, transitional state between convergence and divergence. If so, how long is the transition process? Moreover, at what level of analysis should we address the debate of convergence/divergence/crossvergence? According to McCarthy and Puffer (2008), whether firms converge towards 'global' governance practices may depend on its international strategy. Thus, should convergence be assessed at a country level? Or should we address this debate from a more micro level of analysis? These questions remain unanswered, and we feel that answers would provide a

firmer path towards resolving the debate of convergence vs divergence in corporate governance (Young *et al.* 2008).

Domestic vs Overseas Corporate Social Responsibility

Corporate social responsibility has been a continuous source of debate among scholars, practitioners and policy-makers (Aguilera *et al.* 2007; Campbell 2007; Mackey *et al.* 2007; Marquis *et al.* 2007). This debate stems from two viewpoints of the responsibility of the firm. First, managers should make decisions that maximize the wealth of the firm's equity holders (Friedman 1962). Second, because corporations draw resources from society, they have a duty to society that goes beyond simply maximizing the wealth of equity holders (Freeman 1984; Hinings and Greenwood 2002; Swanson 1999). While scholars have attempted to understand the relationship between a corporation's social performance and financial performance for over 30 years (Walsh *et al.* 2003), we still have no definitive conclusion (Margolis and Walsh 2003; Orlitzky *et al.* 2003). We concede that the debate on whether it is the obligation of an organization to engage in CSR will forever be a debate (Barnett 2007; Rowley and Berman 2000). From a global strategy perspective, here we focus on an increasingly important subset of the larger debate on CSR: How can firms balance the often conflicting demands between domestic and overseas CSR?

If we assume corporate resources to be limited, resources devoted to overseas CSR often mean fewer resources devoted to domestic CSR (Barnett 2007). Thus, this debate stems from identifying whose interests are more important – domestic employees and communities or overseas employees and communities? While it is easy to argue that both are important and that multinationals should be socially responsible to all their constituencies, the issue is: What is fair? How should resources be divided? And how responsible or liable is the multinational in overseas operations?

For an example, consider two primary stakeholder groups: domestic employees and communities (cf. Peng 2006, 506). Expanding overseas, especially towards emerging economies, not only increases corporate profits and shareholder returns, but also provides employment to host countries and develops those economies at the 'base of the pyramid' (BOP), all of which have noble CSR dimensions. However, this is often done at the expense of domestic employees and communities, presenting a dilemma for the multinational given the institutional pressures at the community and national levels (Teegen 2003). From 2000 to 2005, US MNEs cut more than two million jobs at home, while significantly growing their non-US presence and workforce (Mandel 2008, 41). While many studies have analyzed the role of MNEs in CSR (Dunning 2003; Hooker and Madsen 2004; Logsdon and Wood 2002; Snider *et al.* 2003), little attention has been paid to the CSR dualities that MNEs face.

When companies have enough resources, it would be preferable to take care of both domestic and overseas employees and communities. However, when confronted with relentless pressures for cost cutting and restructuring, managers have to prioritize (Sundaram and Inkpen 2004). Paradoxically, in this age of globalization, while the CSR movement is on the rise, the great migration of jobs away from developed economies is also accelerating. While people and countries at the BOP welcome such migration, domestic employees and communities in developed economies as well as unions and politicians frankly hate it. These complaints were highlighted during the public affairs forum at the Academy of Management meeting in Atlanta in 2006 and are presented in an exchange between Uchitelle *et al.* (2007)⁸ and Rousseau and Batt (2007). Rousseau and Batt described the emergent tensions as a 'perfect storm', commenting on the threat that globalization represents to American workers, which brings to point the responsibility of the MNE towards its domestic employees and communities. Given the lack of a clear solution,

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this politically explosive debate is likely to heat up in the years to come (Mandel 2008).

Around the world, more and more MNEs are not only involving themselves in overseas CSR practices, but are also reformulating strategies and working with NGOs, especially at the BOP (Chesbrough *et al.* 2006; Doh and Guay 2006; London and Hart 2004; Prahalad 2004; Prahalad and Hammond 2002; Teegen 2003). This has led to a developing literature within the strategy and international business domain (Chesbrough *et al.* 2006; London and Hart 2004; Prahalad and Hammond 2002) as well as creating new paths for future development. Given that developed markets are fairly well saturated, the BOP may provide an avenue for growth for both emerging and developed markets. Additionally, recent articles have examined activists (den Hong and de Bakker 2007), environmental groups (King 2007), community isomorphism (Marquis *et al.* 2007) and voluntary social initiatives (Terlaak 2007). Untangling the relationships among MNEs, NGOs, CSR and the BOP is an area that we find exciting and, given the enthusiasm of academics in this area, an area that we expect to see unfold rather quickly.

Contributions

This paper contributes to the global strategy literature by outlining the four debates that we believe to be frontier issues with which the field will engage in the years to come. At the intersection between strategic management and international business, 'global strategy' does not belong to any one discipline, nor does any of the debates discussed above. The cross-disciplinary aspects and approaches to these debates provide two insights. First, scholars from different disciplines bring different assumptions. For example, in the corporate governance debate, scholars with a finance background tend to believe strongly in the merits associated with convergence (Doidge *et al.* 2003), while scholars with a management background tend to be more skeptical about such convergence (Bruton *et al.* 2003, 2007; Young *et al.* 2008).

These different assumptions lead us to alternative – and at times competing – explanations of relationships. As scholars, we should embrace such occurrences, as they help to shape and define our research. Second, a cross-disciplinary approach may offer complementary theories, explanations and measures, or identify gaps that will drive the field forward. Perhaps one reason why these particular debates have received increased attention in recent years is due to their interdisciplinary nature.

Overall, Bruton *et al.*'s (2004) review of the evolving field of global strategy, which they called 'international strategic management', suggested that the boundaries of global strategy research are expanding. We concur, because our review indicates a similar pattern as each of these debates clarifies and extends our knowledge, while also pushing the frontier outwards.⁹

Future Research

The timeliness and unresolved nature of the four debates suggest a number of avenues for future research (Table 1). We believe that, as timely and dynamic topics, each of these four debates has potential to incorporate significant, time-related dynamic aspects to advance theory and research. In terms of the first debate, while cultural distance may be very hard to change, institutional distance has the possibility to change more quickly – especially the formal part. For example, as emerging economies continue to develop, adopting formal 'Western-style' regulations governing MNE entries and corporate governance can be done relatively quickly as, theoretically, it only requires the stroke of a pen to sign new rules into law. Changes in the informal institutions embodied in cultures, values and norms will obviously take longer. While cultural and institutional distance may show some correlation at one point in time, as regulatory factors change, how does it impact the relationship between institutional and cultural distance?

In terms of the second debate, addressing the regional vs global diversification issue

Table 1. Some questions for future research

	Discipline	
Debate	International business	Strategic management
Cultural vs Institutional Distance	<ul style="list-style-type: none"> • How are cultural and institutional distances complementary? In what context is each appropriate? 	<ul style="list-style-type: none"> • How does institutional distance interact with a firm's global strategy? • Does institutional and cultural distance change at the same rate?
Regional vs Global Geographic Diversification	<ul style="list-style-type: none"> • What role do institutional similarities/differences play in a MNEs global strategy? • Are 'global' value chains global or regional? 	<ul style="list-style-type: none"> • How do trade agreements affect MNE global strategy? • How do MNE strategies from emerging economies differ from those from developed economies?
Convergence vs Divergence in Corporate Governance	<ul style="list-style-type: none"> • As consumers' demand for traceability and accountability grows (i.e. within the food and beverage industries) are we witnessing convergence or divergence? • How prolific is cross-listing? Is it industry-specific or does it span certain types of industries? • Is crossvergence a transitory state? Considered as a dynamic force, how quickly or slowly does crossvergence take place? 	<ul style="list-style-type: none"> • What is the impact of cross-listing on firm performance? • How does convergence/divergence/crossvergence explain legal aspects and intellectual property issues?
Domestic vs Overseas CSR	<ul style="list-style-type: none"> • How do CSR and strategies for the BOP interact to affect performance? • How do NGOs influence and interact with corporations? • How do CSR programs that are internally motivated differ from those that are externally motivated? 	<ul style="list-style-type: none"> • Using the contingency perspective of CSR (Barnett 2007), how do CSR programs affect performance in various industries? Are there significant differences? • How do local communities influence global CSR strategy?

longitudinally may shed light on the different levels and aspects of regional (global) strategies, while a dynamic approach may be used to find how quickly MNEs increase (or decrease) their level of 'regionality'. Although geographic diversification strategy is already very complicated, most MNEs combine some elements of *both* product and geographic diversification when venturing abroad. Therefore, future research needs to probe into both dimensions of diversification and track how they evolve over time (Lee *et al.* 2008; Peng and Delios 2006).

In terms of the third debate, research on convergence vs divergence must be addressed with time in mind (Dharwadkar *et al.* 2000; Young *et al.* 2008). Over time, more and more countries adopt principles that call for the

aggressive firing of existing managers to be replaced with 'new blood' (Peng *et al.* 2003), appointment of outside directors (Peng 2004b) and the dismantling of CEO duality (Peng *et al.* 2007). Whether these practices, which on the surface appear to converge with global norms, indeed generate desirable benefits remains to be seen in future work. Recent work in China (Bruton *et al.* 2007; Peng 2004b; Peng *et al.* 2007) and Russia (Peng *et al.* 2003) casts some doubts on the performance benefits of such superficial 'convergence'.

Finally, the last debate of domestic vs overseas CSR would also be better addressed from a dynamic approach. As jobs increasingly shift from one country to another and MNEs increase their geographic scope, this becomes an increasingly important issue. How responsible

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are MNEs to the communities in which they operate? To address this question, researchers must further distinguish the relationships between competing stakeholders in the domestic, overseas and global environments (Husted and Allen 2006) where MNEs face CSR dualities.

Our intention for this paper is to provide a discussion on a few current debates in global strategy. It is not our intention to be all inclusive, as we recognize that there are a great number of debates that enrich our field (see Peng 2006, 2009). Perhaps most interesting is that, while each of these debates originated over 20 years ago, much of the literature surrounding these debates has been published in the last five years. We believe this signals the timeliness of this paper and highlights the increased awareness surrounding these particular debates.

Conclusion: Towards an Institution-based View of Global Strategy

While the four debates we have highlighted represent a diverse range of interests and topics within global strategy, their selection is not random. As indicated earlier, there is an underlying theme that connects these four debates: the institution-based view of global strategy (Peng *et al.* 2008; see also Dunning and Lundan 2008). The first debate can be regarded as a methodological debate within the institution-based view. The second debate also has a clear institutional dimension: The rules of the game governing competition in areas outside most MNEs' home region are so different that most MNEs are not comfortable about venturing out of their home region. The third debate, again, refers to how the rules of the game affect corporate governance choices and structures around the world. The last debate focuses more on the informal norms, values and social responsibilities that home and host countries of MNEs impose on these globe-trotting companies.

In global strategy research, the institution-based view has recently been advocated by Peng (2006) and Peng *et al.* (2008) as one

of the three leading perspectives – the other two being the more established industry- and resource-based views. Obviously, there is great potential to use this theoretical perspective in combination with others in future research. It is the combination of industry- and resource-based views together with the institution-based view that consists of a 'strategy tripod' (Peng 2006). To a great extent, much international business research already incorporates institutional elements; however, to build on and extend this research, it helps to have a common platform from which to extend. In conclusion, if there is one message that we want readers to take away from this paper, it is a sense of the broad connection that the institution-based view can make with a diverse range of cutting-edge debates and topics in global strategy.

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Notes

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- 2 Obviously, there are a larger number of debates in the global strategy field beyond the four reviewed here. The other practical rationale for excluding

many other debates in this paper is space constraints. Interested readers may consult Peng's (2006) *Global Strategy* textbook, where every chapter has a section on debates for a total of 45 debates.

- 3 One of the most recent rounds of this debate takes place in the 25th anniversary special issue of the *Asia Pacific Journal of Management*. This issue features two articles, by Hofstede (2007) and Singh (2007) – the title of the latter is ‘The limited relevance of culture to strategy’.
- 4 Hamel and Prahalad's (1985) global competitive framework was based on three types of strategies prevalent among global competitors: (1) building a global presence, (2) defending domestic dominance and (3) overcoming national fragmentation.
- 5 Rugman and Verbeke's (2004) study was based on the 500 largest companies in the world (ranked by sales) in 2001 (only 380 were included in the actual analysis due to data restrictions). Their classification schema was based on the following: (1) Home region oriented, where firms have at least 50% of their sales in their home region of the Triad; (2) Bi-regional, where firms have at least 20% of their sales in two regions, but less than 50% in any one region; (3) Host region oriented, where firms have more than 50% of their sales in a region other than their home region; and (4) Global, where firms have 20% (or more) of their sales in each region of the Triad, but less than 50% in any one region of the Triad.
- 6 Some of this discussion was taken from the Professional Development Workshop on Regional/Global Strategies Debate at the Academy of Management conference, Philadelphia, PA, August 2007. Due to the nature of the setting we are unable to cite specifically all the individuals involved in the discussion; however, we thank all who participated.
- 7 See Benos and Weisbach (2004) for a review on the private benefits firms receive by cross-listing in the US.
- 8 Uchitelle *et al.* (2007) is a compilation of the three presentations at the Academy of Management made by (1) Louis Uchitelle, author of *The Disposable American: Layoffs and Their Consequences*, (2) J. T. Battenberg III, former chairman and CEO of Delphi, and (3) Thomas Kochan, a management professor.
- 9 Reviewing a different literature, Pleggenkuhle-Miles *et al.* (2007) argued that Asian management research has reached its adolescence, characterized

by rapid expansion and unstable boundaries. A similar argument can be made that global strategy may also have reached its adolescence.

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