

Future Directions for Business Research in Emerging Economies

Adjunct Professor Inaugural Lecture
Copenhagen Business School
March 2008

Klaus E. Meyer
University of Bath
www.klausmeyer.co.uk

Why Study Business in Emerging Economies?

- Understand how to do business there

→ Advise businesses

→ Advise policy makers

For Example:

→ Meyer, 2001

(Oxford Handbook of IB)

→ Meyer, Tran & Nguyen, 2006

"Doing Business in Vietnam"

Not much valued in the (mainstream) scholarly community

www.klausmeyer.co.uk

Why Study Business in Emerging Economies?

Engage with broader scholarly debates

- Testing theory in a different context
 - Verifying general validity of existing theories
- Developing new theories
 - Business reaction to radical change in the environment
 - Business activity under different, and changing, institutional settings
 - The impact of contextual variables on any aspect of business

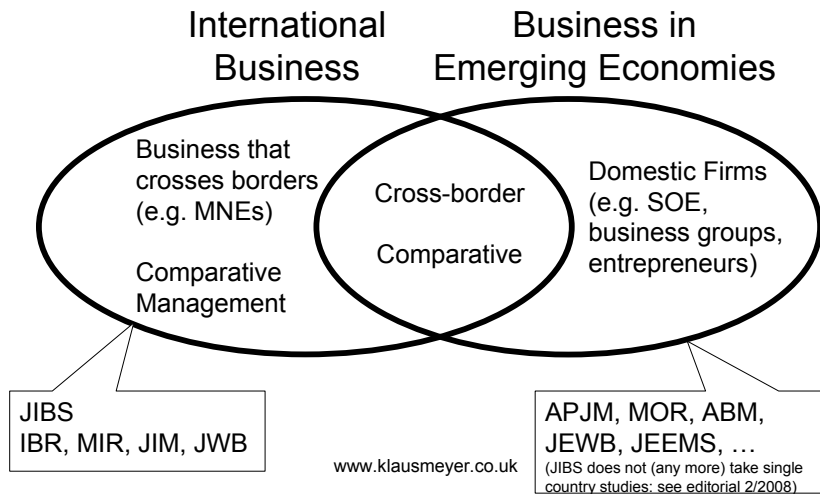
... and publish in international top journals

Do we need new Theories to emerging economies?

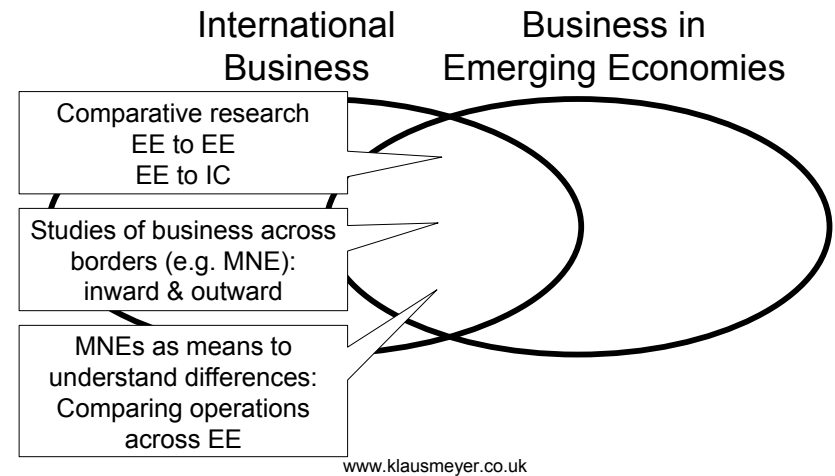
- "... scholars primarily utilize existing management theories – whose substance is based on Western firms ... It appears that original theorizing on Chinese business organizations and management is still in a primitive stage, especially in the behavioral areas" (Tsui et al., 2004, p. 137).
 - "Chinese firms ... display enough surface similarities to Western firms to allow Western theories to be tested and perhaps amended but rarely appended."
 - "Especially worrisome at this juncture is that young Chinese scholars who are strongly encouraged to publish in top Western journals will force Western management theories to fit Chinese firms, rather than searching for new concepts and theories ..." (Tsui et al., 2004, p. 141)

www.klausmeyer.co.uk

The fields of “International Business” and “Business in Emerging Economies”



The fields of “*International Business*” and “*Business in Emerging Economies*”



How and why does ‘Context’ matter?

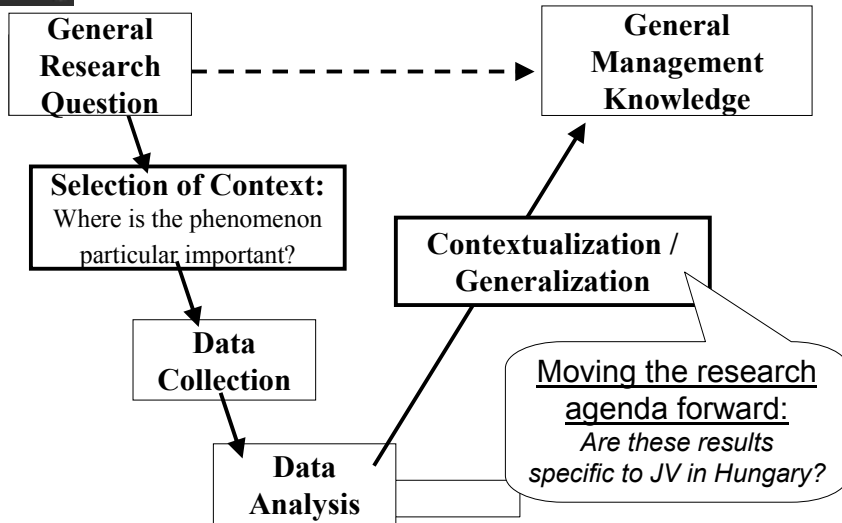
- For business ... obvious
- For theorists ... ?



Case Study: Lyles and Salk 1996

- An award winning paper (for good reason)!
- Yet, what have we really learned about knowledge acquisition?

Case Study: Lyles and Salk 1996



Can we generalize from Lyles and Salk 1996?

- The types of knowledge sought by the local partners were different.
 - Hungarian firms were seeking managerial knowledge that would be fairly general from the perspective of the foreign partner firms.
- Hungarian society has been eager to shed the socialist legacy, and (at that time), had a very high appreciation for things ‘Western’.
 - The ‘not-invented-here syndrome’ may have been unusually weak in Hungary in the early 1990s.
- A huge gap between actual and required knowledge inhibited the recipients understanding of the knowledge they would need.
 - Foreign partners with an interest in the prosperity of the local organization, namely as co-owners, were to some extent also entrusted the agenda and content of the knowledge that was to be acquired.
- The transition created organizational structures that in themselves were highly unusual.
 - Many of the “JV” were presumably ‘partial acquisitions’ (or staged acquisitions), and subject to the privatization process.

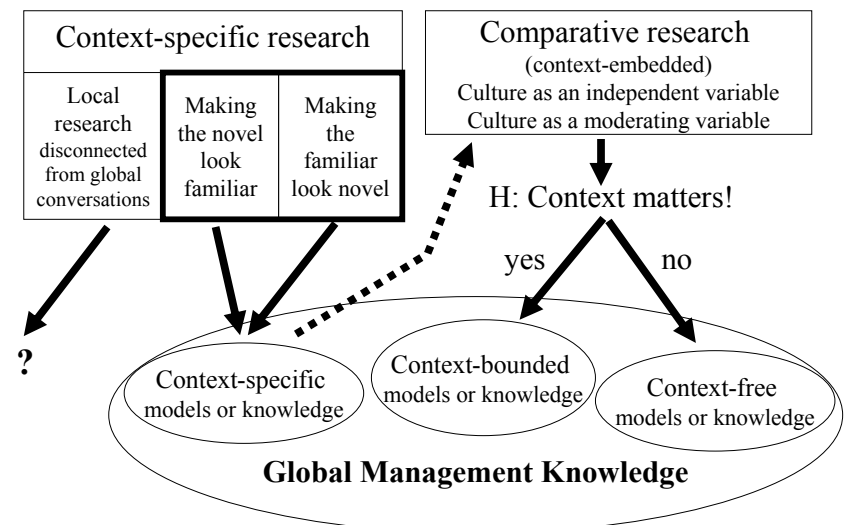
www.klausmeyer.co.uk

Establishing a common terminology...

- Context-free knowledge
 - What we know to be true everywhere
 - Theorists are often driven by the desire to create context-free knowledge
- Context-bound knowledge
 - What we know to apply in one context but not (or differently) in another context
- Context-specific knowledge
 - What we know to apply in a particular context, but we don’t (yet) know if this knowledge is transferable

Many authors fail to properly account for the “where/when/who” of their theories, and thus claim (often implicitly) general or context-free validity, but actually they generate context-specific knowledge.

Contributing to Global Management Knowledge



[Source: Tsui APJM, 2004; Meyer APJM 2006]

Exploring the Sources of Contextual Variation: Challenges for Comparative Business Research

Single Country Studies

- Indigenous Research

Is this relevant beyond the context you are analyzing?

Multiple Country Studies

- Comparative studies
- Replication studies

Which of the many context differences actually explains the behaviour differences observed?

Many Country Studies

- Large cross country datasets
- Meta-Analysis

Can the crucial phenomenon actually be measured equivalently in all these countries?

www.klausmeyer.co.uk

Contextualization in Indigenous Research

→ "Making the Familiar Appear Novel"

- Take concepts or models developed in the literature,
- **and** adapt them to the local context by adding dimensions to concepts, or variables to models,
- Example: *The concept 'organizational citizenship behaviour' was found to apply in Taiwan after 3 new dimensions were added (to the transferred dimensions), and for only a subgroup defined using a locally relevant construct (Farh et al., 1997).*

→ "Making the Novel Appear Familiar"

- Discover new phenomena, concepts, or relationships that are important in certain contexts,
- **and** discuss them in light of the existing literature on related phenomena.
- Inductive approaches & grounded theory building.
- Examples: *Criteria for selection into professional and administrative positions (Walder 1995); Career prospects and earning potential of cadres and entrepreneurs (Nee 1996, 1999).*

www.klausmeyer.co.uk

[Source: Tsui, 2004]

Contextualization in Indigenous Research

- Local research (especially that published in local languages) is often context specific. But
 - Context is often implicit as scholars do not reflect over (or analyze) the contextual influences, and they do not communicate to/with scholars outside.
 - Contribution to global management knowledge, however requires
 - to contribute to 'scholarly conversation' with scholars elsewhere.
 - to connect to the existing 'global' knowledge base (ie English language publications) through explicit contextualization
 - to contextualize the entire theory and research process.
- Context specific research with global impact requires a) deep knowledge of the local context **and** b) up to date knowledge of the literature
 - Potential for collaboration between 'local' and 'global' scholars.

www.klausmeyer.co.uk

[Source: Tsui, 2004]

Contextualization in Context-embedded (=Context sensitive) Research

- National context as the main independent variable
 - Conceptual extension of the theory as a function of unique characteristics of the context.
- National context as a moderating variable
 - National level attributes (e.g. individualism) as moderators rather than as main effect
 - Example: *Individualism/Collectivism moderates the relationship between employees' group membership and their individual performance (Chen 1995)*
- "Extending context specific knowledge"
 - thus, contributing to the creation of context-bounded knowledge
- Constrained by the initial theory guiding the research
 - thus, this research would not identify and analyze phenomena that are important in certain contexts, but have not been analyzed in 'Western' research.

www.klausmeyer.co.uk

[Source: Tsui, 2004]

Context-embedded Research using Replication Studies

Purpose:

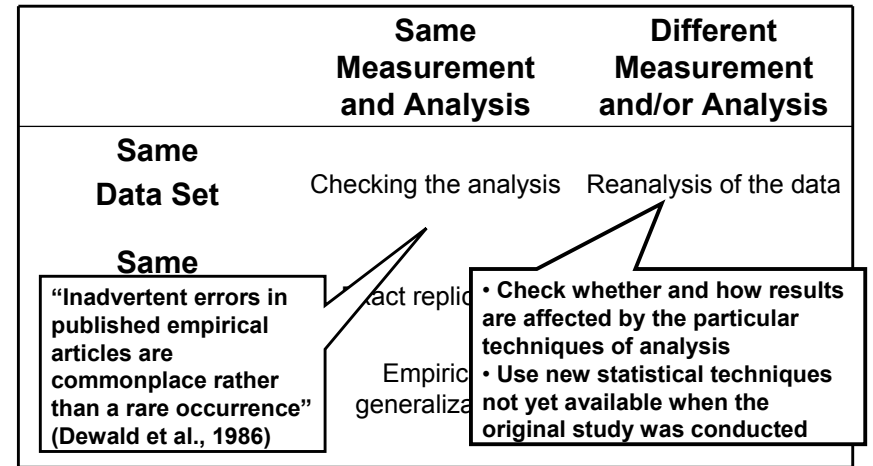
- "Only by ... repetition can we convince ourselves that we are not dealing with a mere isolated 'coincidence', but with events which, ... are in principle inter-subjectively testable" (Popper, 1959: 45).
- Replications often generate results that conflict with, or at best partially support, the original findings (Tsang and Kwan, 1999: 759).

Why are there so few replication studies?

- Originality and creativity are most highly valued in (most fields of) social sciences.
- Editors of (most) top management journals always look for 'original contribution to theory'.

JIBS does not publish replication studies ☹
Editorial 2/2008, Footnote

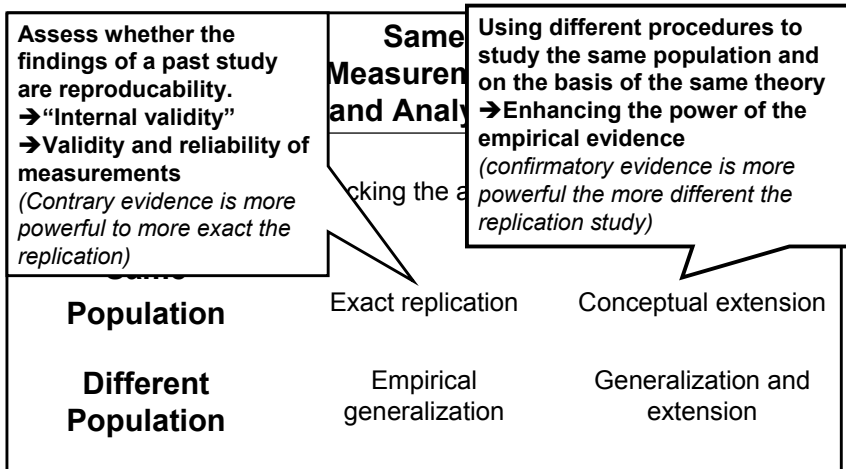
Types of Replication



www.klausmeyer.co.uk

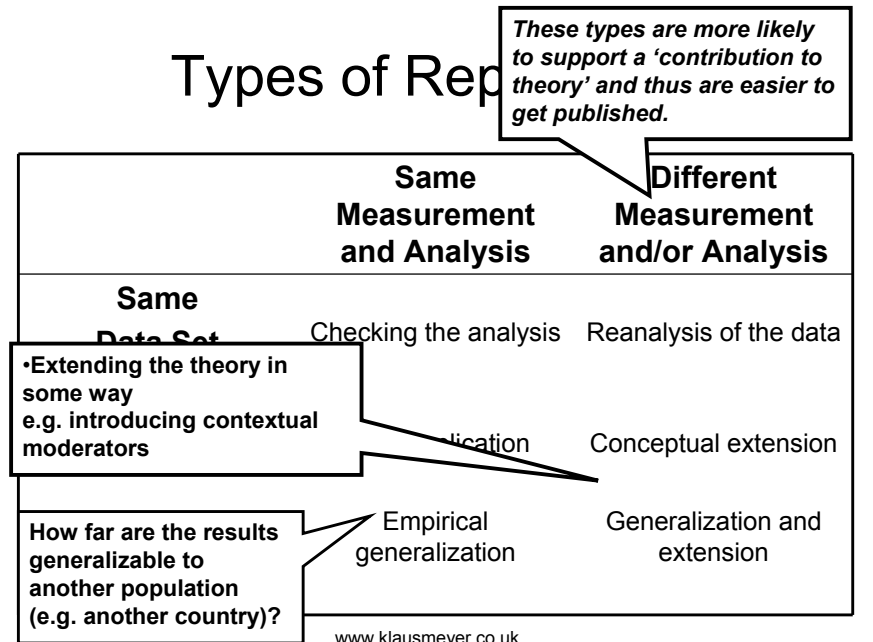
[Source: Tsang and Kwan, 1999, p.766]

Types of Replication



www.klausmeyer.co.uk

Types of Replication



www.klausmeyer.co.uk

Multi-Country Studies

- **Empirical analysis of large scale archival databases**
 - Pro: Large variation for the crucial contextual variables
 - Con: Rarely contain good measures of the theoretical construct of interest
- **Empirical analysis of enterprise surveys**
 - Pro: Firm/individual-level measures of interest
 - Con 1: VERY expensive (human & financial r.)
 - Con 2: Equivalence issues (conceptual, measurement, sampling, linguistic)
- **Meta analysis**
 - Pro: Data-points based on solid scholarly work
 - Con: Need for lots of studies using aggregatable empirical test (which are rare, given the discouragement of replication studies)



Meyer & Sinani
To be presented
Wednesday

www.klausmeyer.co.uk

Theoretical Perspectives in Emerging Economy Research

- **Organizational Economics**
 - Agency theory (esp. on corporate governance)
 - Transaction cost economics
- **Resource based theories**
 - Organizational learning theories (Lyles ...)
 - Resource-based view (Barney)
 - Evolutionary theories (Kogut & Zander)
- **Institutional theories**
 - Institutional economics (North, Williamson)
 - Institutional theory in sociology (Scott)
 - Theories exploring 'culture'

www.klausmeyer.co.uk

[Source: Meyer & Peng, 2005]

Transaction Costs Theory

A fundamental challenge for businesses in emerging economies:

Extensive information asymmetries, high uncertainty and opportunistic behaviour

- increasing transaction costs
 - opportunities for abuse by insiders
 - ...
- Market failure

- *Firms stay out of certain markets*
- *Firms internalize certain markets*

www.klausmeyer.co.uk

Challenges for TCE/Agency Theories

Challenge to theory	Implications	Methodological challenges
TC are very high due to “weak” institutions and high uncertainty	TC are even harder to measure, which lowers predictive power of the theory	Need for better direct and/or indirect measures, i.e., what contextual influences drive up TC?
TC vary across markets, in different ways than in mature market economies	Need to identify which TC are of particular concern to which types of business transactions	
Agency relationships are complex and vaguely defined	Relationships are hard to model and predictive power of conventional models is weak	Need to capture both formal and informal sources of power governing principal-agent relationships

Resource-based Theories

- Resources as drivers of firm growth (Penrose, 1959)
- Organizational learning as process supporting strategic decisions (Lyles & Salk, 1996; Barkema & Vermeulen, 1998)
- Resources as the source of competitive advantage (Barney, 1994)
- Dynamic capabilities as source of long-term (sustainable) advantages (...)

In other countries:

- ‘Valuable’ resources may no longer be ‘valuable’ → ?
- Local resource endowments vary → ?

www.klausmeyer.co.uk

Challenges for Resource-based Theories

Challenge to theory

Contextual conditions influence which resources provide competitive advantage.

Contextual conditions moderate processes of developing, transferring, and exploiting resources.

Change of context and of resources are co-evolutionary processes and thus often gradual and interdependent, but occasionally radical and discontinuous

Foreigners (investors, scholars) may face obstacles in recognizing the qualities and importance of resources important in the context

Implications

Capabilities such as strategic flexibility and context-specific resources may be more important, while certain traditional resources are non-transferable.

Acquisition of tacit knowledge from other organizations such foreign partners, catch-up, organizational learning, ‘unlearning’ old routines

Change processes such as combination of resources are hard to fine-tune and may lead to unexpected outcomes

Lack of understanding of the context inhibits the analysis of resources and may lead to spurious perceptions of organizational fit may be spurious.

Methodological challenges

Identification of resources that provide competitive advantage in the given context, and new measures for them. Proxies used in Western research may not be transferable

Need for new models and theories to capture these processes under consideration of contextual variables

Understanding and modeling of incidences of radical and discontinuous change within evolutionary processes

Assessment of resources needs to incorporate the context.

Institutional Theories

- Institutions = Rules and Regulation (formal and informal) that govern interaction between economic agents
- Economics v Sociological Perspectives
→ see Gelbuda, Meyer & Delios, 2008
- Key contextual variable differentiating national contexts
- Major challenge for business
- “Institutions” is itself a complex construct that may be dis-entangled in cross-national research

www.klausmeyer.co.uk

Challenges for Institutional Theories

Challenge to theory

Institutions, esp. informal ones, are highly idiosyncratic

Institutions are in constant change, creating a highly volatile environment and uncertainty

Cultural change under foreign influence, and emergence of subcultures

Rapid institutional change interacts with organizational change

Implications

Businesses need to adapt to each institutional context

Organizational forms of both local and foreign businesses have to be designed for flexibility, and be frequently readjusted.

Contrary to what is often assumed, culture may not be a constant

Rapid co-evolutionary change between institutions and organizations

Methodological challenges

Need for good constructs and measures to capture countries’ informal institutions.

Identifying and measuring the changes and impact over time of both formal and informal institutions.

Assessments of culture need to be regularly updated, and the change processes as such be studied

Need to observe, record, and model the interdependent change processes

Institutions →

Transaction costs!
(Institutional Economics: North,
Williamson ..., Meyer, Peng,
Brouthers & Brouthers)

Legitimacy, isomorphic
pressures, path-dependencies
(Institutional Theory in Sociology and
Org Studies: Scott, Dacin et al., ...)

Political
risk!
(Henisz)

Relational
networks!
(Peng &
Heath, ...)

Risk
Perceptions!
(Makhija &
Stewart)

Sets of
permissible
strategies!

Bargaining
power!
(Ramamurti)

Moderating processes of
resource accumulation &
exploitation and creating
competitive advantage

Any other mechanism?

→ Business Strategies

www.klausmeyer.co.uk

Research Questions that I am currently working with

- *Entry Package*: How do different aspects of entry strategy, such as timing, mode and location, interact?
- *Global Strategy*: How do companies utilize the diversity of the world to attain strategic advantages? Globalfocusing and Ghemawat's AAA
- *Contextualization*: How and why do MNEs vary their entry & subsidiary strategies across contexts?

www.klausmeyer.co.uk

This presentation draws on the following papers

- **Gelbuda, M., Meyer, K.E. and Delios, A. 2008.** International Business and Institutional Development in Central and Eastern Europe, *Journal of International Management*, 14 (1), 1-12.
- **Meyer, K.E. 2006.** Asian management research needs more selfconfidence, *Asia Pacific Journal of Management* 23: 119-127.
- **Meyer, K.E. 2007.** Contextualizing organizational learning: Lyles and Salk in the context or their research, *Journal of International Business Studies* 38(1) .
- **Meyer, K.E. 2007.** Asian Contexts and the Search for General Theory in Management Research: A Rejoinder, *APJM* 24 (4):524-537.
- **Meyer, K.E. & Peng, M.W. 2005.** 'Probing theoretically into Central and Eastern Europe: Transactions, resources, and institutions', *Journal of International Business Studies* 36: 600-621.
- **Rosenzweig, P.M. 1994.** When Can Management Science Research Be Generalized Internationally? *Management Science* 40 (1): 28-39.
- **Tsang, E.W.K. and Kwan, K.-M. 1999.** Replication and Theory Development in Organization Science: A Critical Realist Perspective, *AMR* 24: 759-780.
- **Tsui, A.S. 2004.** Contributing to global management knowledge: A case for high quality indigenous research, *APJM* 21: 491-513.
- **Tsui, A.S. 2006.** "From the editor: Contextualization in Chinese management research", *Management and Organization Review*, 2: 1-13.

www.klausmeyer.co.uk