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Re-examining regional borders and the multinational enterprise

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Abstract

Purpose – The purpose of this paper is to critically assess the theoretical underpinnings and extant progress of the research on regional multi-national enterprises (MNEs) and offer a blueprint for future research by re-conceptualizing how (regional) boundaries relate to the international diversification of MNEs.

Design/methodology/approach – The paper integrates key insights from the theory of the regional MNE and economic geography to re-orient the treatment of regional borders within international business (IB) literature.

Findings – The paper suggests that the (L) component within the ownership location and internalization (OLI) paradigm should be disaggregated into continuous “distance effects” and discrete “border effects”. Within this rubric, regional borders represent discrete border effects that generate discontinuities that are permeable, fluid and firm specific. Such reconceptualization opens up avenues for future research and more tightly integrates the research on regional MNEs with other research streams.

Research limitations/implications – IB scholars need to make concerted effort to think of regions as one among several parameters in studying the strategy and structure of MNEs. A stronger focus on internal processes and mechanisms elucidating the main drivers of MNEs strategies is needed.

Originality/value – The paper offers innovative ways in which future research can advance the study of how regions matter in the internationalization strategy of MNEs.

Keywords Global strategy, Regions, Internalization theory, Regionalization, Borders, Economic geography

Paper type Conceptual paper

Introduction

At a time when many touted the *death of distance* (Cairncross, 1997) and the imminent arrival of the *flat world* (Friedman, 2005), the iconoclastic works of Professor Alan Rugman and his colleagues demonstrated that the majority of multi-national enterprises

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(MNEs) limit their geographic scope to their respective home region and that only a small fraction of MNEs in fact operate on a genuinely global basis (Rugman and Girod, 2003; Rugman, 2003, 2005; Rugman and Verbeke, 2004). These outcomes were surprising in light of the then prevalent discussions on *global strategy* (Levitt, 1983; Yip, 1989), *triad power* (Ohmae, 1985) and *transnational solution* (Bartlett and Ghoshal, 1989), which portray MNEs as capable of following a growth imperative of operating across all major markets in the world. Indeed, Rugman's ideas offered a compelling case to rethink our understanding on the global involvement of MNEs and revive the discussion on the role that regions – supranational groupings of related and proximate countries (Flores *et al.*, 2013) – play in shaping the contemporary global economy. As Osegowitsch and Sammartino (2007, p. 46) observe, these studies established a need for scholars to “confront the question why, in an age of purported globalization, many of the world's largest firms [...] have barely ventured beyond the confines of their home region”.

This call has been well heeded with relevant research growing substantially over the past decade in terms of both volume and intellectual diversity. Constructive exchanges have clarified the value of building a research program at the nexus between regions and MNEs (Dunning *et al.*, 2007; Rugman and Verbeke, 2007; Osegowitsch and Sammartino, 2008; Rugman and Verbeke, 2008). Follow-up studies further affirmed that MNEs across a variety of national and industry contexts largely operate on a regional basis in terms of their geographic scope (Elango, 2004; Filippaios and Rama, 2008; Oh and Rugman, 2006; Rugman and Oh, 2008; Rugman *et al.*, 2009). To be clear, these studies do not suggest that regions are impenetrable boundaries that unilaterally confine *all* MNEs within their respective home region. Rather, these studies suggest that regions, along with countries and sub-national spaces (e.g. states, cities), constitute an important yet relatively neglected dimension that international business (IB) scholars should consider in investigating the drivers of MNE strategy and structure. The normative message for IB scholars is that the conventional focus on the nexus between firm and countries within IB should be complemented with an equal attention toward that between firm and regions (Rugman and Oh, 2012).

Building on this insight, the research on regional MNEs has branched out into a wide array of topics germane to MNEs, such as foreign location choice (Flores and Aguilera, 2007; Lopez *et al.*, 2008), subsidiary evolution (De la Torre *et al.*, 2011), geographic scope (Banalieva and Dhanaraj, 2013; Banalieva *et al.*, 2012), knowledge spillover (Driffield *et al.*, 2014) and performance implications of internationalization (Elango and Wieland, 2014; Qian *et al.*, 2008). Relatedly, the theory of the regional MNE became better integrated with other established theories, such as organizational learning theory (Arregle *et al.*, 2009; Barkema and Drogendijk, 2007; Kim and Aguilera, 2015), institutional theory (Arregle *et al.*, 2013) and information processing theory (Piekkari *et al.*, 2010; Wolf *et al.*, 2012). These efforts have successfully shifted the discussion from *whether* to *how* regions matter and established the research on regional MNEs as a key agenda within IB research, just a decade after the foundational works of Rugman and his colleagues.

In light of this progress, the time is ripe to take a critical look at the past, present and the future of the research focused on regional MNEs by outlining the general contours of the research stream and establishing a solid blueprint for future research. This seems particularly germane given the significant growth in both volume and intellectual

diversity in a relatively short period. In preview, the current article suggests that a common insight that emerges from the accumulated research is that borders between regions constitute points of *discrete discontinuities* that MNEs manage by incorporating regional components within their strategy and structure. In fully incorporating this insight, this article offers the following possibilities when reconsidering how scholars can move forward our collective understanding of how regional borders relate to international strategy.

First, a re-conceptualization of regional borders as discrete discontinuities provides a general logic to integrate the research on regional MNEs with the wider effort at the intersection between IB and economic geography (EG). This integration enables scholars to analyze MNEs as border-crossing enterprises operating across multiple locations and incorporates a more sophisticated view of (L) within the OLI triumvirate (Beugelsdijk *et al.*, 2010; Beugelsdijk and Mudambi, 2013).

Second, regional borders should be studied as being permeable, fluid and firm specific (Asmussen and Goerzen, 2013; Aguilera *et al.*, 2007; Sammartino and Osegowitsch, 2013). Permeability, fluidness and firm-specific nature of regional borders are consistent with the principles underpinning the theory of the regional MNE (Rugman and Verbeke, 2005; Verbeke and Kano, 2012) and empirical findings from more recent studies (Asmussen and Goerzen, 2013; Banalieva and Dhanaraj, 2013; Berrill, 2015). Building on this logic, we propose four distinct avenues for future research:

- (1) the performance consequences of liability of interregional foreignness;
- (2) firm- and individual-level sources and/or mechanisms for the successful deployment of FSAs across regional borders;
- (3) exploring in more detail the “extreme cases” that defy the constraints of regional borders and pursue genuinely global strategies; and
- (4) the implications of different definitions of what constitutes regions.

More generally, while discontinuities between home and host regions generate barriers for internationalizing firms, the extent to which regional borders confine MNEs and affect their performance depends greatly on contingencies at various levels that have not been fully explored. Future studies that map out these contingencies in more detail would significantly advance the research on regional MNEs and connect its core insight with a wider range of bodies within IB and allied disciplines.

The rest of the article is structured as follows: the first section re-visits the theory of the regional MNE and discusses its main features to set the background. The next section presents a blueprint for future research by re-establishing the conceptual underpinnings of regions and regional borders. The penultimate section elaborates on new research avenues implied by the serious consideration of regions and regional borders as being permeable, fluid and firm specific. Finally, general implications are discussed in the concluding section.

Re-visiting the theory of the regional MNE

The theory of the regional MNE builds on internalization theory which sees the internalization of imperfect markets as the unifying concept to theoretically explain the existence and behavior of MNEs (Buckley, 2014; Buckley and Casson, 1976). Internalization theory starts from the premise that firms are owners of rent-yielding

firm-specific advantages (FSAs) which can be transferred and combined with immobile country-specific assets (CSAs) in foreign locations for the purpose of profit maximization (Rugman, 1981). Firms become MNEs – firms that own and control value-added activities in more than one national market (Hymer, 1976 [1960]) – when their FSAs cannot be transferred efficiently via the price system and decide to internalize the cross-border market imperfections arising from bounded rationality and uncertainty. Following this principle, MNEs set their boundaries where the marginal cost of internalization equals the benefits, and this general principle explains various aspects pertinent to the MNE, such as entry mode and location decisions.

Where the theory of the regional MNE departs from conventional internalization theory concerns the issue of geographic scope, which is essentially an accumulation of individual location decisions leading to the geographic distribution of value-added activities (Asmussen, 2012; Hennart, 2011). To elaborate, FSAs are implicitly non-location bound in conventional internalization theory, and location decisions are interpreted as a process in which MNEs simply select “the least-cost location for each activity, taking its linkages with other activities into account” (Buckley and Casson, 2009, p. 1564). Therefore, location decisions – hence geographic-scope decisions – reflect transaction-cost-minimizing outcomes, wherein MNEs select a particular location out of several alternatives after assessing the exogenous attributes of their CSAs. The theory of the regional MNE, in contrast, argues that the value of CSA is partially endogenous as location decisions depend not only on the exogenous attributes of the CSA but also on the MNE’s ability to successfully combine CSAs and FSAs (Rugman and Verbeke, 2005; Verbeke and Kano, 2012). This is because FSAs incur location specificities or location-specific *combining costs* when being deployed in foreign markets, and the magnitude of these costs depends on the individual MNE’s ability to transform generic CSAs into something of value (Zaheer and Nachum, 2011). In addition, such costs are irremediable, as once FSAs are deployed to a particular location, they cannot be dislodged and transferred to alternate locations without incurring additional costs (Ghemawat, 2003).

The emphasis on location specificities associated with FSAs debunks two popular myths regarding MNEs and globalization: first, at the macro level, the view of globalization as a unilateral progress toward a borderless *flat world* neglects the fact that cross-border integration is an uneven, partial and even reversible process which has generated pockets of relatively well-integrated markets floating on a sea of fragmented and disconnected spaces, a condition referred to as *semiglobalization* (Ghemawat, 2003, 2007). In particular, economic integration has progressed more rapidly and effectively at the regional than at the global level (Frankel and Rose, 2002; Fratianni and Oh, 2009), with the majority of the so-called *global* economic integration achieved over the past few decades actually being *intra-regional* in nature (Sideri, 1997). Second, at the micro (firm) level, the notion of the ideal MNE as a firm that can freely exploit its FSAs in all major markets of the world is misleading, as it ignores the selectivity issue arising from the location boundedness of FSAs. Rather, carefully deciding where and where not to expand, given the attributes of the FSAs, is a critical aspect of international business strategy, and regions emerge as a key spatial unit in resolving this selectivity issue (Ghemawat, 2003; Rugman, 2005).

Following this logic, the widespread home regionalization of MNEs is interpreted as a transaction-cost-economizing outcome with regard to firm-level geographic scope

decisions, rather than being indicative of failure by MNEs to execute a genuinely global strategy (Rugman, 2005; Rugman and Verbeke, 2005). This is an application of the *discriminating alignment hypothesis* (Williamson, 1985) – transactions that are better aligned with governance structures generate comparatively more efficient outcomes – to the issue of geographic scope. Hence, most MNEs confine their activities within their respective home region because home regionalization enables MNEs to benefit from operating across a relatively well-integrated group of proximate markets and yet avoid the high cost of doing business abroad involved with deploying FSAs across regional borders. Similarly, relative dearth of MNEs that operate on a global basis reflects the fact that only a few MNEs can and should overcome the often prohibitive cost involved in expanding beyond the home region and reconfiguring their FSAs to the demands of the host regions.

Liability of inter-regional foreignness: regional borders as discrete discontinuities

In their overview of the research on regional MNEs, Rugman and Verbeke (2007, p. 201) point out that the central mechanism driving the widespread home regionalization of MNEs is the *liability of inter-regional foreignness* which refers to the reality that:

[...] the liability of intra-regional expansion appears to be much lower than the liability of interregional expansion (since) FSAs can often easily be augmented so as to become deployable in the entire home region.

On the other hand, MNEs operating outside the home region incur substantial costs involved in reconfiguring the FSAs to the requirements of the foreign region (Qian *et al.*, 2013). Indeed, LRF is the driving force facilitating most phenomena pertinent to the regional MNE, in that MNEs incorporate regional elements within their strategy and structure to effectively cope with the challenges and opportunities arising from LRF. For instance, the increasing prominence of regional strategy (Ghemawat, 2005; Nguyen, 2014) and regional governance structure (e.g. regional HQ) (Enright, 2005; Piekkari *et al.*, 2010) represent efforts to effectively manage LRF when operating in multiple regions. Relatedly, several studies find that MNEs derive lower performance outcomes (Collinson and Rugman, 2008; Qian *et al.*, 2010) and experience steeper learning curves when establishing their presence outside the home region (Barkema and Drogendijk, 2007; Kim and Aguilera, 2015) due to the higher resource commitment required in managing LRF.

The essential point is that expanding beyond the home region and dealing with LRF is clearly not the same as having to manage additional *distance* that MNEs incur when increasing their geographic scope (Asmussen, 2012). Rather, it is more accurate to think of LRF as a type of border effect (McCallum, 1995), as regional borders constitute points of *discrete discontinuities*, wherein the cost of doing business abroad (Hymer, 1976 [1960]) increases in a discontinuous manner. Incorporating both distance and border effects is central to recent efforts to integrate EG and IB research and disaggregate the (L) component within the OLI triumvirate to infuse a more sophisticated analysis of space within the study of MNEs. Specifically, MNEs, as border-crossing organizations, encounter space as not only distances between locations but also qualitative disjuncture, wherein spatial heterogeneity shifts abruptly at particular points (Beugelsdijk and Mudambi, 2013; Iammarino and McCann, 2013). This is also consistent with

Shenkar *et al.*'s (2008) point that *frictions* rather than distance more accurately captures the nature of the spatial heterogeneity that MNEs face when crossing national and regional borders.

To make this point more concrete, consider a typical US manufacturing MNE expanding into China. Initially, the US MNE would establish its administrative and sales offices in one of China's global cities, such as Beijing, Shanghai or Hong Kong, where the US MNE can easily connect with firms that provide advanced supplier services (e.g. legal consulting, accounting) and enjoy the benefit of convenient connectivity to the rest of the major cities around the world (Sassen, 2001; Schotter and Beamish, 2013). The next step would be to establish production plants in special industrial districts configured to the specific needs of the foreign firms (e.g. Shenzhen or the Pearl River Delta). Within these districts, US MNEs can benefit from special administrative support as well as agglomeration economies inherent from having similar firms clustered in specific spaces (Fujita and Thisse, 2002).

Operationalizing these various spatial effects that the US MNE encounters based on cross-national distance constructs (e.g. cultural distance) is overly coarse grained. Instead, a better way to account for spatial effects that internationalizing firms encounter would be to incorporate three types of distinct spatial effects, namely:

- (1) *Distance effects*: Continuous and gradual increase in spatial heterogeneity stemming from cultural, institutional, geographic and economic differences between locations (Berry *et al.*, 2010; Kogut and Singh, 1988). Note that distance effects are not confined to international expansion, as purely domestic multi-unit firms also incur substantial distance effects in the course of their growth (Chakrabarti and Mitchell, 2013 for example); by extension, MNEs executing additional expansion within a foreign country with prior presence would also incur further distance effects.
- (2) *National border effects*: The discontinuous spike in cost of doing business that arises when firms cross national borders – that is, liability of foreignness (LOF) (Zaheer, 1995). Indeed, the concept of discontinuity rather than distance is closer to the spirit of Hymer's (1976 [1960]) view on additional costs of doing business abroad. This is also consistent with border effects studied in international trade literature, where scholars have consistently shown that borders between countries generate substantial and discontinuous decrease in trade flows, even after controlling for relevant trade-inducing locational parameters, such as distance, gross domestic product (GDP) and population size (Anderson and van Wincoop, 2003; McCallum, 1995).
- (3) *Regional border effects*: The spike in cost of doing business arises when firms cross regional borders – that is liability of inter-regional foreignness (LRF) (Qian *et al.*, 2013; Rugman and Verbeke, 2007). Regional border effects work in tandem with distance and national border effects to generate points of discontinuity or disjuncture that MNEs expanding across regional boundaries encounter. This discontinuity generates heightened spatial transaction costs and the need for MNEs to incorporate a regional component within their strategy and structure (e.g. regional strategy, regional HQ, home regionalization).

Figure 1 illustrates how the three spatial effects relate to the expansion of firms across sub-national, national and supranational spaces, and Figure 2 describes the shift in aggregate spatial transaction cost (Y axis) with the increase in geographic scope (X axis). First, a firm typically starts its geographic diversification process within its home country and becomes a purely domestic multi-unit firm and incurs (intra-national) distance effects from expanding across sub-national geographies (Line (a) in Figure 1). Spatial transaction costs increase in a continuous and gradual manner, as represented by Line (a) of Figure 2. Next, the firm decides to move beyond its home country (Country (A) in Figure 1) and establishes its presence in a foreign country within its home region (Country (B) and Region X in Figure 1). Here, the firm – now a home-regional MNE – incurs additional distance effects (Line (b) in Figure 1) and national border effects – that is LOF – as represented by Line (c) in Figure 1. Accordingly, the aggregate spatial transaction cost jumps discontinuously due to the aggregate impact of (c) and (d) (Figure 2). In the final stage, the MNE expands into a foreign country in a foreign region (Country C and Region Y, respectively, in Figure 1) and incurs additional distance effects (Line (d) in Figure 1), national border effects (Line (e) in Figure 1) and regional border effects – that is LRF – (Line (f) in Figure 1). Note that this framework reflects points made by prior studies (Asmussen, 2012), which assert that the magnitude of (d) is much larger than that of (c) and (b), given that crossing into a particular country in a foreign region generally requires MNEs to incur a higher degree of distance – be it geographic, institutional or economic – than expanding intra-regionally. But the current framework adds that on top of this added distance effect, the MNE incurs national-border and regional-border effects which magnify the spatial discontinuity (hence, the jump in aggregate transaction costs) generated at the regional borders[1]. Empirically, it would be quite difficult to parse out what portion of the increase in aggregate spatial transaction costs that arises from crossing regional borders is due to (d), (e) or (f);

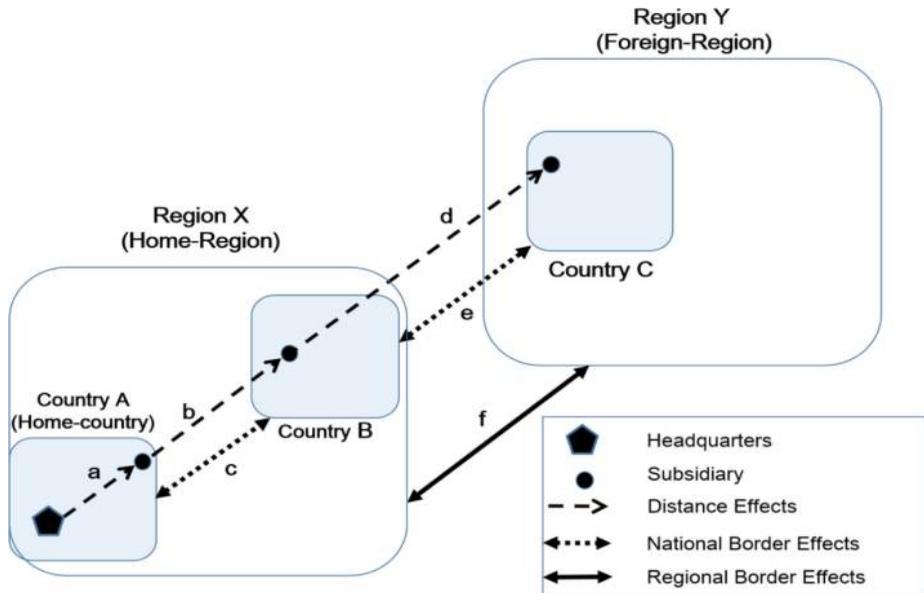


Figure 1. Distance and border effects

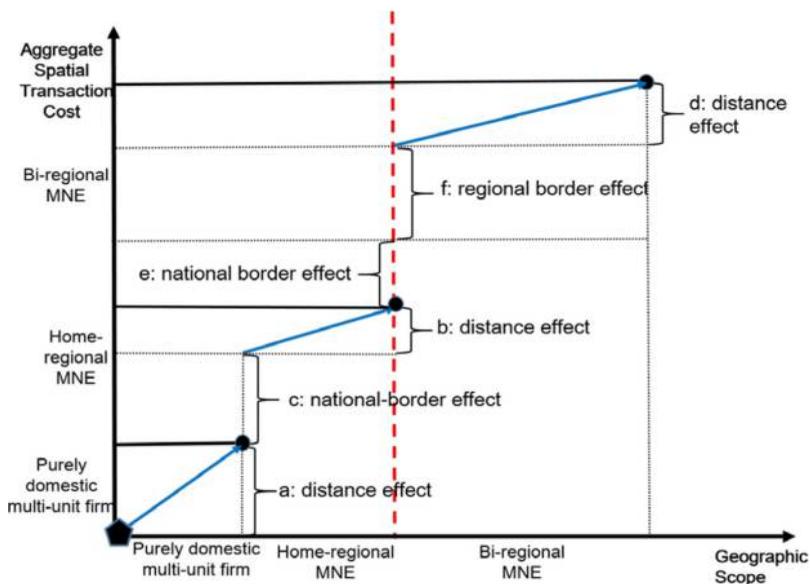


Figure 2. Distance, border effects, geographic scope and spatial transaction cost

however, the end result is the same in that MNEs, in general, incur discontinuous increases in aggregate spatial transaction costs when crossing regional borders.

More generally, we claim that three types of spatial effects – distance effects, national border effects (LOF) and regional border effects (LRF) – work in tandem at different points and at varying levels in the course of an MNE's growth cycle as the firm evolves from a purely domestic multi-unit firm to a home-regional MNE and, finally, to a bi-regional MNE. This dynamic shift in spatial effects that MNEs encounter increases the aggregate spatial transaction costs that MNEs incur in a discontinuous manner, and the magnitude of this shift depends on the specific composition of the spatial effects that arise at each stage. Accordingly, as visualized in Figures 1 and 2, it is important for IB scholars to adopt a more layered and sophisticated view of spatial effects in understanding the challenges and opportunities MNEs face as border-crossing organizations operating across multi-level spaces (Beugelsdijk and Mudambi, 2013; Meyer *et al.*, 2011), and regional borders should be an integral component within this wider effort (Asmussen, 2012).

It is also relevant to stress that the three spatial effects illustrated in Figures 1 and 2 are not exogenous from the firm but are, at least partially, endogenous to the firm (Rugman and Verbeke, 2005; Verbeke and Kano, 2012; Zaheer and Nachum, 2011). That is, whether, to what extent and how these three spatial effects affect the behavior of MNEs depends very much on the attributes of the MNEs, rather than the exogenous attributes of the spatial parameters of interest. Indeed, the fact that the spatial effects in Figures 1 and 2 are partially endogenous to the firm plays a critical role in understanding how locations should be incorporated in future studies intending to incorporate a more sophisticated view of space into their analysis of the MNEs. We explore this point in more detail in the ensuing section.

Regional borders: permeable[2], fluid and firm specific

LRF, as discussed in previous sections, plays a key role within the research on regional MNEs. However, following Rugman's lead in questioning taken-for-granted paradigms, interested scholars should seriously consider whether LRF is as insurmountable an effect as often thought of in most of the early works on the regional MNE. Indeed, considering this possibility might be less radical than it may appear if one ponders the full extent of the original evidence presented by Rugman and his colleagues as well as other pieces of evidence uncovered since. For instance, [Rugman and Verbeke's \(2004\)](#) flagship study[3] revealed nine cases of genuinely *global* MNEs that somehow have coped with the LRF, perhaps by relying on the globally deployable knowledge held by these nine firms. In other words, although a minority, at least these nine firms may deserve further attention from scholars interested in the international strategies of all MNEs. Indubitably, a few years later when assessing a completely different set of companies (a sample of 64 Japanese firms from the Fortune 500 list), [Collinson and Rugman \(2008\)](#) revealed that three firms within this sample were pursuing genuinely global strategies. Finally, [Berrill \(2015\)](#), based on the assessment of the strategies of 1,289 firms from Group of Seven (G7) countries, casts some doubts regarding whether the proportion of firms pursuing global strategies is as low as that presented in previous literature. Her study concluded that up to 55 per cent of MNEs can be classified as pursuing a global strategy, depending on the classification scheme. The general point here is that the existence of firms that do not fit the theoretically prescribed pattern of home regionalization require additional research that explains why this is so[4].

Of course, the mere existence of firms pursuing global strategies does not negate the main tenets of the research on regional MNEs. Indeed, Rugman himself would quickly acknowledge that the general tendency for MNEs to follow home-regional strategies does not necessarily preclude some MNEs from escaping the constraints of LRF and engaging in full-fledged global expansions. In a similar vein, Rugman would have reminded us that there is nothing preventing firms from extending their geographical scope beyond the point where the resulting economic value is truly enhanced. He would further point out that destroying economic value is a situation difficult to sustain in the long run; thus, these imprudent geographical overstretches will eventually need to be reconsidered by the MNEs' top management teams (TMTs) or perhaps by other decision-makers appointed by the new owners of these economically failing firms trying to correct those economic imbalances.

The general point here is that regardless of whether these outliers are truly unique in some still unknown way or simply a transitory state and in need for urgent correction, simply treating their existence as epiphenomenal does not truly contribute to a more complete understanding of the strategies of all MNEs, a goal that researchers within this stream and the readers surely share. In embracing the challenge of seriously considering the existence of these *outlier cases*, the following sub-sections discuss three possible venues for additional research that can further advance our knowledge on how regional borders relate to the MNE.

Exploring the performance consequences of LRF

Several papers demonstrated that MNEs incur negative performance when they stretch their geographic scope beyond the home region ([Oh et al., 2015](#); [Qian et al., 2010, 2013](#)). The general theme binding this body of research is that MNEs incur negative

performance consequences when crossing regional borders because of the cost involved in managing the discontinuous spike in spatial transaction costs that arises at the regional border, as captured by points (d), (e) and (f) in Figures 1 and 2. If this negative performance persists following the expansion of geographic scope across regional borders, then these companies can be expected to suffer persistent negative performance results as long as they maintain such an *unwise* – that is over-extended – geographic footprint. No research, however, has explored whether firms are initially aware and, thus, follow up closely this type of performance risks, while planning and implementing their international strategy over an appropriate time span[5]. Accordingly, exploring how firms engage in forecast calculations to evaluate their overall and marginal performance for each potential international locational configuration would be an interesting avenue for further research.

Relatedly, the process of assessing whether to cross a particular regional boundary before deciding to engage in these types of international investments or, alternatively, simply implementing these strategies and later evaluating them as part of their regularly scheduled financial assessments of the company has not been explored empirically. If the latter approach is the one adopted by “outlier firms”, then researchers could further explore whether and how firms cope with the negative performance implications of their overstretched locational strategy. These types of investigations exploring at the same time performance and geographical expansion beyond the home region could also bring about important integration opportunities between the home-regionalization ideas and the multinationality–performance (MP) literature (Oh and Contractor, 2012; Hennart, 2011). In particular, extending Verbeke and Brugman, (2009) and Verbeke and Forootan (2012) to longitudinally explore firm performance and the evolution of FSAs as the firm adopts a more globally extended footprint could offer important insights into further understanding the nature of the MP relationship.

Another possible explanation for the existence of firms pursuing global strategies is that the expected negative performance consequences might only be transitory. This explanation would certainly fit with arguments highlighting the potential of MNEs to learn how to deploy their FSAs across previously unknown host regions, an argument linked to organizational learning mechanisms uncovered by Jonsson and Foss (2011) and Lord and Ranft (2000), among others. Similarly, as Zhou and Guillen (2014) demonstrate, what constitutes a home base evolves over time depending on the content of the organizational learning that MNEs experience in the course of their international growth (see Kim and Aguilera, 2015 for a conceptual analysis).

More generally, going back to Figures 1 and 2, how and to what extent each of the spatial effects from (a) through (f) relate to the MNE should shift over time as the MNE moves from being purely domestic, home regional and bi-regional. Thus, it is entirely possible that MNEs can reconfigure their FSAs to the demands of the foreign region and operate extensively across the foreign region just like it did in the home region. Accordingly, it is reasonable to hypothesize that the performance consequences with regard to the increasing geographic scope would shift quite significantly as the MNE evolves throughout its growth cycle. Of course, pursuing such process-based research necessarily entails continuing access over a long period to internal financial figures of one or more MNEs, a significant test for any scholar who might be interested in investigating these firm-level processes (Andersen, 1993 for more details). But given its critical implication for IB research, the question of how some firms engage in these types

of strategies and successfully overcome LRF merits more attention from IB scholars if the underlying theoretical mechanisms are to be accurately measured and tested.

Exploring the firm- and individual-level sources and/or mechanisms for the successful deployment of FSAs across regional borders

Scholars could also take the above discussion one step further and assume that these firms have found a way to avoid altogether the negative performance consequences associated with managing LRF. Building on this assumption, several new possibilities regarding the regional MNE open up depending on the theoretical predispositions. Notably, if certain groups or classes of MNEs have somehow avoided the negative performance consequences associated with LRF altogether, then one could speculate that these firms may:

- have some type of endowment that differentiates them from others;
- they do something significantly different and/or better than other MNEs; and
- they do similar things better than other MNEs.

Indeed, building on mainstream IB and strategic management ideas, one could posit that these outlier firms must possess certain resources and/or capabilities allowing them to somehow effectively deploy their FSAs across (host) regional borders.

One possible explanation would be that these firms have developed a type of dynamic capability that other MNEs have been unable to cultivate. Recent work, which has focused on routine micro processes (Prashantham and Floyd, 2012) or proactive learning (Gnizy *et al.*, 2014), might be especially relevant if this avenue is explored. Or, in line with Kim (2013, 2015), extensive geographic scope itself can function as an isolating mechanism – barriers to knowledge flow between firms that prevents inter-firm imitation and enable firms to generate a stable stream of rents (Mahoney and Pandian, 1992) – and generate firm-level heterogeneity in terms of the ability to appropriate value. Finally, it could be that these firms possess unique capabilities in deploying FSAs across regions rather than in the nature or scope of FSAs themselves (Sapienza *et al.*, 2006).

Next, scholars with expertise and interests in more micro-level analysis of the MNE could build on a rich body of work from organizational studies (Barkema and Shvyrkov, 2007), which suggests that the attributes of specific groups (TMT) or even individuals (CEO, founder, others) play a significant role in crafting firms' internationalization processes. It seems warranted, thus, to explore whether the TMT or other influential individuals within these firms can explain the performance differential associated with internationalizing across geographies. For instance, these individuals might be the roots of the effective deployment of FSA across regional borders by bringing in different mental models and cognitive processes; alternatively, they may be contributing uniquely to install and execute novel and effective ways to operate across regional borders in host regions. Research highlighting the role of cognitive and decision-making processes (Bingham and Eisenhardt, 2011; Maitland and Sammartino, 2014, 2015) before and during the implementation of (global) internationalization processes could be useful starting points for this type of research.

Another related possibility worth exploring refers to the contribution of individuals to FSAs via their personal experiences/capital and developed/deployed (intercultural) competences across the world (Caligiuri and Tarique, 2012) as well as

their global mindset (Levy *et al.*, 2007). Incorporating these dimensions with the issue of regional MNEs could bring some new insights on whether a *cognitive barrier* within these key decision-makers can be as influential as some of the physical, cultural or any other barriers that firms face during their internationalization process. Examining this line of research might be particularly meaningful and impactful for those of us working on the formal training and development of future MNE leaders around the world.

Finally, future scholars should explore not only how firms (e.g. via their decision-makers) perceive the borders and distance effects illustrated in Figures 1 and 2 but also how they engage with them. In other words, previous research has not done enough in terms of understanding how firms cope with these different types of borders and barriers, from relying on a menu of different strategies based on their previous experiences or some type of economic evaluations, innovating and adapting to newer types of barriers they have not faced before or simply relying on some industry-specific scripts (Ghemawat, 2005). Several potential integration opportunities with the literature on regional headquarters (Heenan, 1979; Lasserre, 1996; Laamanen *et al.*, 2012) are possible if this route is to be explored seriously.

More generally, the above research avenues essentially build on the proposition that how MNEs experience and manage space ultimately depends on the attribute of the MNEs and the decision-makers that run them. That is, more studies on these avenues would significantly refine and extend the basic insight underlying the theory of the regional MNE which sees various spatial effects – as illustrated in Figures 1 and 2 – to be firm specific rather than location specific and that the appropriate management of these spatial effects through implementation of effective international business strategy should generate superior performance than otherwise (Ghemawat, 2003, 2007).

Exploring other “extreme cases” that might bring new insights into the existence of firms pursuing global strategies

Extreme cases refer to MNEs that seem to have largely avoided the constraints associated with the myriad of spatial effects described in Figures 1 and 2. In reality, of course, these cases are extremely rare, and to differing extents, most MNEs incur some degree of constraints when expanding their geographic scope across national and regional borders. However, increasing numbers of relatively young, small and high-technology (e.g. Web-based or application developers) firms are able to do what their largest and internationally most experienced counterparts have taken years to do. Indeed, there seems to be ample evidence that some firms – that is born-global firms (McKinsey and Co, 1993; Rennie, 1993) – might follow a unique process in terms of their international engagement and strategy implementation. Although the geographical scope of many of these firms might not be as extensive as their moniker might suggest (Lopez *et al.*, 2008), the fact that a few of them appear to be enacting truly global strategies is inherently interesting. Their success is especially puzzling considering their likely lack of equivalent resources, capabilities and experiences *vis-à-vis* the largest firms usually studied by home-regional scholars. A recent study by Banalieva and Dhanaraj (2013) might provide significant clues on how these firms might be able to do what their larger and more experienced counterparts struggle to accomplish. In their analysis, Banalieva and

Dhanaraj (2013) found a significant *positive increasing returns* mechanism that lead to escalations in the geographical scopes of MNEs as their technological advantages increase. It would be especially insightful to learn, for instance, the details of the firm-level processes behind these mechanisms allowing these companies to effectively deploy their FSAs across host-regional boundaries.

Other explanations and mechanisms could also open up untapped links between the home-regionalization literature and the literature focusing on the internationalization of small- and medium-sized enterprises (SME). For example, investigating how some of these firms internationalize so effectively could offer new mechanisms rooted in their environment (industry, networks of suppliers and customers), rather than in the companies themselves, as hinted by some recent work by the pioneers of the Uppsala tradition (Johanson and Vahlne, 2009). These potentially transformational avenues for future research are unlikely to be explored without a more open and critical assessment of all the possible research questions that lie behind the seemingly impenetrable wall of LRF.

Another and perhaps more fundamental issue pertains to the measures used in assessing the geographic scope of MNEs. Most studies on the regional MNE use geographic distribution of sales (assets) to operationalize geographic as a higher concentration of sales (assets) within the home region which represents a higher degree of *home regionalization*, while dispersion of sales (assets) across regional boundaries represents *bi-regional* or even *global* strategic orientations (see Rugman and Oh, 2012 for more details). However, such measures remain too crude to precisely parse out how much border and distance effects a particular MNE has incurred over the course of its expansion. It is not really known whether these firms categorized as *global* actually are geographically more stretched than their counterparts or that their categorization is simply a result of the use of other vehicles (exports, franchising, etc.) to engage with distant locations. Thus, it would be worthwhile to explore, for instance, how many additional borders they have crossed and/or to assess whether these borders, in quantity and type, as a whole, are significantly different to the corresponding whole set of borders for their bi-regional counterparts. It is entirely possible that these so-called *extreme cases* with high geographic distribution of sales (assets) may actually have traversed less distance and encountered less border effects than their home-regional or bi-regional counterparts. Studies applying a more processual view of MNE geographic scope through more granular measures to capture the diverse spatial effects described in Figures 1 and 2 could resolve this issue greatly.

Of course, focusing on extreme cases to reveal new insights runs the risk of lacking external validity. One may simply dismiss these cases as outliers that have somehow managed to break free from the spatial constraints that most others have. But that *somehow* is not trivial; in fact, it is, in some aspects, central to the mission of IB and allied disciplines to derive normative insights that can help managers outperform competitors, and analyzing outliers can be critical in achieving this goal. To give an analogy, if a biologist finds a talking pig, then he or she will be relatively unconcerned about the external validity of this talking pig; rather, the focus would be on how this pig has come to acquire the capability to speak and on the possibility of other pigs to emulate this feat. In parallel, the focus on MNEs that have somehow managed to successfully overcome the constraints of spatial effects – whether

regional, national and/or distance – and derive the benefits of operating across national and regional borders without incurring significant costs would provide valuable insights for researchers and practitioners despite its lack of generalizability.

Exploring the fluid nature of regional borders

All our previous discussions have implicitly assumed that what constitutes regional borders are the same for all firms and static; however, this assumption needs to be questioned as the definition of region can be firm specific and fluid (Aguilera *et al.*, 2007). Investigating this possibility would move closer to understanding how companies and decision-makers actually conceptualize their world and, thus, their international business strategies. Anecdotal evidence suggests that some firms see a larger and coarser regional grouping, such as Asia, Middleeast and Africa (AMEA), while other firms see Europe and Africa as completely different assemblages. Exploring firm-level variance in perception on what constitutes regions and its impact on decision-making processes as well as organizational structure and strategy is a pending task for scholars. Some scholars have elaborated on different definitions of regions and its implications for the research on regional MNEs (Asmussen and Goerzen, 2013; Flores *et al.*, 2013) but much more work is needed to fully uncover how the nature of regional borders might be much more fluid than what is conceptualized so far. Consider Australian companies which, according to the oft used extended Triad classification, should have Asia-Pacific as their home region. However, due to Australia's commonwealth heritage, Australian firms have deep ties with other commonwealth countries, such as South Africa and Great Britain. Furthermore, such tendency to be *biased* toward commonwealth countries is magnified for certain types of industries, firms and product types.

The fluidity of regional borders is in line with the general spirit of the regional MNE, which sees the attributes of the spatial effects to be endogenous – that is firm-specific – rather than exogenous. Furthermore, from an open systems perspective, as internationalizing firms evolve from purely domestic to bi-regional firms and shift their strategies and structure to manage the various spatial effects illustrated in Figures 1 and 2, the boundaries of regional groupings should also shift over time depending on their respective growth trajectory. Hence, analyzing the precise points at which the discontinuous jumps in spatial transactions occur for particular firms and how regional classification evolves over time would be an interesting avenue to advance our understanding on how regions matter in relation to the strategy and structure of MNEs. In pursuing this task, the basic principles of the theory of the regional MNE and the framework forwarded in this article (as illustrated in Figures 1 and 2) should offer a solid starting point.

Concluding remarks

Professor Alan Rugman is, and will continue to be, a towering figure within the field of IB and related fields engaged in the study of MNEs. His influence is enduring in multiple research areas, none bigger perhaps than the study of the geographical diversification of MNEs and their strategies. This article focuses on one of his major contributions, namely, the research on regional MNEs. The main message of the article is a call for IB scholars to embrace Rugman's legacy not only on its *letter* – the copious amount of

insightful contributions he offered throughout his illustrious career – but also on its *spirit* by challenging current taken-for-granted ideas within the research on regional MNEs and, more generally, international strategy.

Without working diligently on both aspects of Rugman's legacy, our own bequest as IB researchers, knowledge disseminators and teachers of the next generation of MNE leaders will be significantly diminished. Improving upon the current coarse-grained understanding of how regions influence MNEs is a pending challenging task that can only be achieved by an open-minded, daring and diverse set of scholarly efforts. The current article aimed to offer a blueprint to redirect future investigations toward this direction. Professor Rugman would be proud of us if we take on that challenge.

Notes

1. Given the conceptual nature of this manuscript and the scope of the special issue in highlighting the legacy of Professor Rugman, we have not discussed here how these ideas might be translated to specific operationalization in large-scale studies. We hope that other scholars in future extensions of this framework address this important task.
2. [Sammartino and Osegowitsch \(2013\)](#) introduced the idea of permeable regional borders, but here, we significantly extend the analysis in terms of its nature and scope.
3. This and later empirical papers within this stream have been criticized by multiple scholars on a multitude of dimensions. However, discussing those criticisms would distract us from the primary aim of this section regarding the need to start seriously explaining the existence of these “difficult-to-explain” occurrences (i.e. firms who actually pursue a global strategy) as well as the firm-level (and others) processes that might explain the potential sustainability of these strategies over time. However, readers who are not aware of the multiple contentious issues related to the empirical choices supporting the classification as regional or global would be well advised to review the following articles: [Asmussen \(2009\)](#); [Osegowitsch and Sammartino \(2008\)](#); [Sammartino and Osegowitsch \(2013\)](#).
4. The cases highlighted here (nine and three firms pursuing a global strategy) are themselves extremely conservative estimations, given all the arguably controversial choices by the authors of the investigations singled out. If other assumptions, calculations and analyses are considered (see for instance [Asmussen, 2009](#); [Osegowitsch and Sammartino, 2008](#)), then the number of firms pursuing global strategies might increase significantly.
5. Although we cannot certainly offer a definitive appropriate time span, it seems unlikely that performance implications of such magnitude in such complex organizations crystallize within a couple of years (a common time frame for many research projects).

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