1 Introduction: Internationalization, Firm Strategies and Management

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This volume of the Academy of International Business (AIB) series is organized broadly around the theme of internationalization and is based on a selection of the best papers presented at the 29th Academy of International Business UK Chapter Conference. The book is divided into four parts or sub-themes. Part One focuses on subsidiary location and performance and begins with the study that won the Best Paper Award at the conference. Part Two deals with internationalization and firm strategy and Part Three examines practices and policies associated with the internationalization of small and medium-sized enterprises. The contributions in Part Four focus on the role of the Internet and e-commerce in international business and internationalization.

PART ONE: SUBSIDIARY LOCATION AND PERFORMANCE

In Chapter 2, Chengqi Wang, Pamela Siler and Xiaming Liu compare the economic performance of UK and foreign-owned firms in UK manufacturing industry. Using a panel dataset covering 14,233 firms for the period 1992–96 they examine the influences of firm, industry and country-specific advantages on productivity. They find that the relative performance of foreign subsidiaries is jointly determined by both home and host-country conditions, consistent with the ‘double diamond model’, and that labour productivity is higher in foreign subsidiaries than in UK-owned firms. Foreign subsidiaries as a whole also employ higher levels of human capital and enjoy greater economies of scale than UK-owned firms.

While there are no significant differences in the productivity gap between foreign subsidiaries of different nationalities, the results show that the reasons for foreign superiority do vary across nationalities, indicating that the ownership advantage of foreign subsidiaries may take different forms. A further source of productivity advantage for US subsidiaries is their higher level of intangible assets, and for European and Japanese subsidiaries their higher level of capital intensity.

In Chapter 3, Pakfei Yeung and Roger Strange focus on the factors that affect the choice of location of Japanese-affiliated manufacturing firms, one of the most dynamic sources of new FDI within the United States in the last decade. They argue that, since 1973, FDI has had a significant impact on State economies in the
United States, yet very few rigorous statistical analyses have been undertaken of
the geographical dispersion of this investment. They use conditional logit analysis
to model the location choices of Japanese firms between nine ‘divisions’ of the
United States. The effects of the introduction of the North American Free Trade
Agreement (NAFTA) are also investigated by contrasting the location determinants
of those affiliates established prior to 1994 with those established after January of
that year. They conclude that the educational standard of the workforce, the size
of the local divisional market, and the state of the transportation infrastructure all
have highly significant positive effects upon location choice, whilst both taxation
and average labour costs have significant negative effects. The importance of
labour costs appears to diminish markedly after the introduction of NAFTA, and
this may perhaps reflect the relocation of labour-intensive Japanese manufacturing
investment away from the United States to Mexico. Although they caution that
such a conclusion is speculative and merits further study.

In Chapter 4, Grahame Fallon, Mark Cook and Arri Billimoria explore a range
of factors which influence the regional location of inbound foreign direct invest-
ment (FDI) in the West Midlands and Scotland. They examine official inward
investment agency publications in order to identify those factors which public
policy-makers believe attract FDI to each region. The influences on multinational
corporation (MNC) decision-makers’ FDI location decisions are also explored
by means of multiple regression analysis. Elasticity analysis is then used to explore
the sensitivity of FDI inflows with regard to a range of regional policy instruments.
The results show that MNCs are attracted to the West Midlands and Scotland
by different factors, and suggest that official inward investment agency thinking
does not give sufficient attention to the key factors which have determined MNCs’
direct investment location decisions. The authors conclude that central government,
inward investment agencies and regional development agencies may need to adapt
their thinking, their policies and their literature in order to address the main issues
which influence the regional distribution of FDI in the UK context. In particular,
central government should be flexible in its approach to inward investment policy,
allowing regional development agencies the autonomy to operate distinctive direct
investment strategies, related more strongly than at present to those differing
factors which in reality appear to be attracting FDI to their regions.

Heinz-Josef Tüselmann, Frank McDonald and Arne Heise examine in Chapter 5
whether nationality of ownership still matters in the shaping of employee
relations in German subsidiaries in the UK, or whether instead they adopt an
Anglo-Saxon model of employee relations. The study is based on a representative
survey of German subsidiaries in the UK, their parent companies and a compara-
tive analysis based on the Workplace Employee Relations Survey (WERS98). In
contrast with previous studies, this research reveals a pronounced country-of-
origin effect in employee relations approaches and style. Furthermore, there are
indications that employee relations in German subsidiaries increasingly reflect
the emerging new German employee relations approach; that is, a flexible
collective approach with a human resources management dimension, rather than
an individualistic Anglo-Saxon approach.