Corporate Governance and International Business

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Abstract

This article sets out a framework for the analysis of corporate governance and international business. We take a broad perspective on corporate governance mechanisms and consider possible synergies between corporate governance and international business (IB) research. We summarize the papers included in this Focused Issue, and draw out their main contributions to the literature. We compare and contrast four theoretical perspectives concerning corporate governance and IB: transaction cost economics (TCE), the resource-based view (RBV), agency theory (AT), and institutional theory (IT). We highlight five research themes (international diversification, business groups, entry modes, subsidiary mandates, and new international ownership structures) where future work explicitly addressing governance issues may prove fruitful.

Introduction

Corporate governance theory is exerting an increasing influence upon research in a wide variety of disciplines (Keasey, Thompson and Wright, 1997, 2005). In a broad sense, corporate governance is about how firms should be governed so that they are run effectively and efficiently. Good corporate governance ensures that additional resources are allocated sufficiently productively to keep all stakeholders satisfied. By the same token, when resources must be reduced, good governance achieves adequate cost reductions. Whatever the national and international economic conditions, efficient governance enables firms to survive and generate returns that are sufficient to retain the commitment of salient stakeholders.

The perspective of traditional Anglo-American agency theory emphasizes the role of corporate governance as ensuring that the firm operates in the interests of shareholders (Fama and Jensen, 1983; Keasey and Wright, 1993). Corporate governance focuses on accountability, in order to minimize downside risks to shareholders, and on enabling management to exercise enterprise in order to assure that shareholders benefit from the upside potential of firms (Filatotchev and Wright, 2005).

In some jurisdictions the shareholder view may be seen as overly narrow since it does not take account of other stakeholders who may have different interests. The firm may also be viewed as an independent entity, where the role of corporate governance mechanisms is to support what is best for the firm *per se*. The varieties of capitalism literature (Hall and Gingerich, 2001), property rights theory (Alchian and Demsetz, 1972), team production theory (Blair and Stout, 1998) and the strategy literature (Pfeffer and Salancik, 1978; Barney 1991; Filatotchev and Wright, 2005) provide insights in these contexts.

We take a broad perspective on corporate governance mechanisms. In terms of shareholders, we embrace the nature and role of owners, boards of directors and the role of outside directors, separation of CEOs and Board Chairs, executive remuneration, financial reporting, and the market for corporate control. Managers’ and shareholders’ interests are more likely to be aligned the greater is the overlap between ownership and management, although high managerial equity ownership can lead to entrenchment behavior. Concentrated ownership can avoid the free-riding problems associated with monitoring in corporations with diffuse shareholdings, but may convey private benefits of control that are not in the interests of shareholders as a whole. Boards of directors are responsible for representing the interests of shareholders in the running of the firm through the hiring, monitoring and replacement of management. Single tier boards, typically a feature of Anglo-American environments, contain both executive and non-executive (outside) directors and raise the problem that if insiders are a majority, monitoring by outside directors may be ineffective. The separation of the roles of CEO and Board Chair is argued to resolve the duality problem where the board is dominated by an insider. Boards set executive remuneration and a key governance objective is to ensure that this is sensitive to performance in such a way that managers' and shareholders' interests are aligned. Financial reporting regimes are especially important for two reasons. On the one hand, they provide the basis for the disclosure of reliable information on which to base governance actions. On the other hand, the increasing involvement of institutional investors and other sources of finance capital mean that firms are increasingly obliged to meet targets for a range of accounting measures, and this has an impact upon firm strategy (Andersson et al., 2008). Finally, the market for corporate control arguably provides an external governance mechanism involving the threat or actuality of takeover if managers' behavior diverges too far from shareholders' interests.

Beyond shareholders as a subset of stakeholders as a whole, dual tier boards distinguish between supervisory and executive boards, the former representing a range of stakeholders, e.g. employees and banks. Interlocked directorships may effectively combine firms without formal takeover. Besides share ownership and board representation, stakeholders may influence important firm decisions through a variety of channels, including strikes, political influence and use of the media. The state may effectively exercise corporate governance through a range of administrative devices, subsidies, permits, etc.

There is extensive evidence relating to the relationship between corporate governance mechanisms and firm performance across a variety of institutional contexts. It is not the purpose of this paper to review this literature (for extensive reviews see e.g., Shleifer and Vishny, 1997; Keasey, Thompson and Wright, 2005) but a brief overview will set the scene for our more focused examination of the IB context. Evidence from various countries shows that boards with more outside directors are more likely to dismiss top management and that there is a negative relationship between board size and performance (Denis and McConnell, 2005). While there is considerable evidence from the United States and the United Kingdom in particular on the typically weak relationship between executive pay and performance, this has only become available in some other countries only recently (e.g. Buck, Liu and Skovoroda, 2008).

There is mixed evidence from the United States on the relationship between ownership concentration (blockholders) and firm performance. Worldwide evidence on the influence of blockholders on performance varies both by country and the nature of the blockholder but in general is more positive than in the United States. Shareholders may gain private benefits from control rights that exceed the proportion of shares they own, such as through pyramid structures, *keiretsus*, *chaebols*, cross-holdings, dual class shares, etc. These mechanisms are widespread outside the United States (Claessens et al.., 2000; Faccio and Lang, 2002). The international evidence suggests that the accumulation of control rights in excess of cash flow rights reduces the market value of firms. Research has also examined the impact of regulatory and legal issues on corporate governance across countries and indicates that concentrated ownership is a rational response in contexts where minority investors are not protected.

In this Introduction, we first consider the possible synergies between corporate governance and international business (IB) research. We then summarize the five papers included in this Focused Issue, and draw out their main contributions to the literature. The five papers use a variety of theoretical perspectives - notably transaction cost economics (TCE), the resource-based view (RBV), agency theory (AT), and institutional theory (IT) – and several integrate more than one theoretical perspective. We next compare and contrast these four theoretical perspectives, and emphasize the complementarities between them. In the penultimate section, we highlight five research themes (international diversification, business groups, entry modes, subsidiary mandates, and new international ownership structures) where future work explicitly addressing governance issues may prove fruitful. The final section concludes.

Corporate Governance and International Business Research

As yet, there has been little work on how different governance components impact firms' strategic decisions, such as whether, when, where and how to internationalize, and upon how firms organize and manage their activities across national boundaries[1]. IB research has typically focused on the strategies of MNEs for global expansion in diverse regions and countries, with an emphasis on corporate and business level strategies. Furthermore, although there has been considerable work in the IB literature on the internal governance of MNEs, this has drawn principally upon the RBV of the firm, TCE, and its close relation, internalization theory (Buckley and Casson, 1976).

We premise this Focused Issue on the notion that an appreciation of corporate governance mechanisms can enrich insights into international business. First, corporate governance institutions in a particular country influence its attractiveness for international

[1] An exception is Strange and Jackson (2008).

investment. These institutions may influence the nature of foreign market entry modes since different corporate governance institutions likely have different implications for the most appropriate and feasible form of control of foreign activities. They may also influence the extent to which the form of market entry can facilitate the transfer of resources from the foreign entrant or its access to new resources. Second, the power, influence, and expertise of different stakeholders within corporate governance have a strong influence on strategic decision-making, in general, and internationalization strategies, in particular. The institutions of corporate governance in a particular home country may influence the firm's ability to relocate operations, or the pattern of competitive advantage of the firm. Host country corporate governance institutions may also erect a barrier to some types of business practices, such as due to differences in the protection of investors or the participation of employees in strategic decisions. This may also have implications for the control of complex organizational forms such as business groups, subsidiaries of MNEs and alliances. Third, internationalization and the activities of MNEs impact corporate governance, by exposing firms to diverse sets of institutions and stakeholder pressures. Internationalization may bring pressures from foreign investors for greater shareholder value or changes in regulation toward international standards.

As a result of its international nature, IB research can also enrich corporate governance research. First, many of the studies in the corporate governance literature have largely focused on firms within one particular country environment, although there is a second generation of research examining the effects of different legal systems between countries on the nature of governance (Denis and McConnell, 2005). Corporate governance codes are also developing in many different countries (Mallin, 2006). By providing comparisons between national institutional contexts, IB research may facilitate a contingent perspective on corporate governance mechanisms in different environments. Second, the behavior of MNEs in different markets may create a mechanism to facilitate convergence of different institutional and governance systems. These activities may facilitate an international contextualization for the traditional, context-free AT perspective, the dominant paradigm in corporate governance.

The Papers in the Focused Issue

Following a general call for papers, we received 24 submissions. We first sifted the papers for fit with the scope of the Focused Issue, and desk rejected those that did not fit. The remaining papers were subject to double blind review according to MIR conventions. As a result of this process, we accepted five papers for publication in the Focused Issue. We thank the editors of *Management International Review* for providing us with the opportunity to edit this Focused Issue, and also the reviewers who provided very helpful and constructive comments that enabled us to develop the five papers presented here. Table 1 contains a summary of these five papers.

Insert Table 1 About Here

For each paper, Table 1 lists a key research question, the theoretical framework, the data and analytical methods, and the main findings. The first two papers, by Tihanyi, Hoskisson, Johnson and Wan and by Strange, Filatotchev, Piesse and Lien, both focus on how corporate governance components impact upon firms' foreign direct investment (FDI) strategies. Tihanyi et al. argue that international diversification is a means by which firms can extend and exploit their technological capabilities, but that diversification is often associated with increased hazards and risks. The greater the technological intensity of the firm, the more severe will be these hazards and risks, and hence the greater the potential for agency problems. Tihanyi et al. further contend that contingent pay (stock options and bonuses) helps to focus managers' attention on the long-term, whilst non-contingent pay (cash compensation) encourages managerial interest in the short-term. Thus they hypothesize that high levels of contingent pay provide an incentive for managers to extend their firms' technological competence internationally. In contrast, high levels of non-contingent pay tend to make managers more loss-averse and more aware of the risks involved in international diversification, and thus less willing to extend their firms' technological competence internationally.

In a similar vein, Strange et al. consider how firms' ownership structures may impact their FDI location decisions within host economies. They argue that alternative locations not only differ in terms of traditional attributes such as labor costs, infrastructure etc., but also in terms of risk and that this is even more the case in emerging markets where institutions are weak and capital markets are immature. Further, they contend that different types of shareholders (family, institutions etc.) are likely to have different attitudes towards risk, with some (e.g. family shareholders) being more risk-averse than well-diversified investors (e.g. foreign institutional shareholders). Thus, they hypothesize that the ownership structure of the firm will be an important determinant of the FDI location choice.

The next two papers, by Lu, Xu and Liu and by Cuervo-Cazurra and Dau, both focus on how corporate governance factors impact upon firms' exporting strategies, and how this impact is moderated by the firms' institutional environment. Lu et al. assert that higher levels of exporting increase both the information-processing demands on firms' top management teams and the information asymmetries between shareholders and managers, and this is particularly the case in emerging economies. They suggest that outside directors and higher CEO shareholdings can alleviate the potential agency problems, and thus give rise to higher levels of export intensity, whilst the relationship between concentrated ownership and export intensity is non-linear because of the offsetting effects of better monitoring and the pursuit of private benefits. Further, they argue that these effects depend upon the firms' institutional environment, and that more developed institutional environments help reduce firms' transaction and agency costs in the exporting process.

Cuervo-Cazurra and Dau also address firms' export strategies, but focus on how firms with different ownership structures react in different ways in response to structural reforms in their home economies. They argue that structural reform has two broad dimensions: economic liberalization, and governance improvements involving the repositioning of the home country government as the facilitator of transactions. On the one hand, price liberalization, market deregulation, and privatization all increase firms' opportunities and encourages improvements in efficiency and competitiveness, thus facilitating export growth. On the other hand, governance improvements help reduce transaction costs and improve efficiency both through the reduction and improvement of rules and regulations, and through the better implementation of those rules and regulations, again with consequent benefits for export growth. Cuervo-Cazurra and Dau further argue that the transaction and agency costs vary across different types of firms, and that subsidiaries of foreign firms are the main beneficiaries of structural reform, followed by domestic private firms and, finally, by domestic state-owned firms.

The final paper, by Ragozzino, adopts a different perspective, and suggests that the equity shareholding taken by parent companies in their cross-border acquisitions will depend upon the geographic distance between the home and the host economies. He argues that the information asymmetries between the parties in the acquisition will be greater the larger is the geographic distance that separates them, and that these asymmetries lead to a parent company preference for a partial ownership solution. Further, he suggests that cultural distance and political risk both raise the *ex post* transaction costs for foreign firms, but that these costs will be lower in full acquisitions than in partial acquisitions because of the greater degree of control implied.

Theoretical Perspectives

The papers cover a variety of IB environments including both developed and emerging markets. The five papers use a variety of theoretical perspectives, notably TCE, the RBV, AT and IT. Interestingly, several studies integrate more than one theoretical perspective. This is particularly the case in respect of the papers dealing with emerging markets, and reflects the arguments of Wright et al. (2005) that doing so may yield important insights. Importantly, given earlier comments about the difficulties in accessing data in emerging markets (Hoskisson, et al., 2000), some of the studies involve longitudinal research designs and panel data analysis techniques.

The four theoretical perspectives highlighted above are in many ways complementary[2]. Coase (1937) noted that there were transaction costs in effecting exchanges through the market, and that the firm would emerge if the costs of organizing these exchanges within an internal hierarchy were lower. Subsequent work by Williamson (1975, 1985) and Klein et al. (1978) focused on how transactions differ in terms of attributes such as asset specificity, uncertainty and frequency. TCE rests on three behavioral assumptions, namely bounded rationality, opportunism, and risk neutrality. The parties to a transaction will choose a governance structure that minimizes the expected combined production and transaction costs. TCE provides a general theory of the firm, but does not address explicitly the existence of the MNE though several authors (notably Teece, 1985, 1986; Madhok, 1997) have extended the analysis with this in mind. TCE is thus primarily concerned with the determinants of organizational boundaries, in the sense of providing an explanation of which activities are brought under hierarchical control within the MNE and which activities are coordinated through the market.

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[2] See Strange and Buckley (2009) for a more extensive comparison of the resource-based view, agency theory, internalization theory and transaction cost economics.

In contrast, the RBV (Lippman and Rumelt, 1982; Rumelt, 1984; Wernerfelt, 1984; Barney, 1986, 1991; Dierickx and Cool, 1989; Peteraf, 1993; Teece *et al.*, 1997) is preoccupied with explaining performance differentials between firms. The objective of the firm is above-normal returns from the heterogeneous bundle of (valuable, rare, costly-to-imitate, non-substitutable and non-tradable) resources that it has at its disposal. These above-normal returns are viewed by the RBV as rents accruing from the skill or good fortune of the firm in adopting strategies that acquire, deploy and manage these resources effectively. These resources may form the basis of a sustainable competitive advantage if the rents can be protected from *ex post* dissipation by 'isolating mechanisms' (Rumelt, 1984). The greater the protection afforded the firm by any or all of these mechanisms, the more it will be able to resist the appropriation of its rents. More recent work within the RBV tradition has emphasized the potential for augmenting the firm's asset base through international operations (Meyer et al., 2008), rather than just the exploitation of existing resources.

There are clear differences in emphasis between TCE and the RBV of the firm, yet both are similar in that they emphasize efficiency and assume that the objective of the firm is above-normal returns through the exploitation of its firm-specific assets. Little or no attention is paid to possible conflicts of interest between different stakeholders within the firm. Yet different managers within the same firm often have different objectives, the interests of managers and shareholders in listed companies are unlikely to be perfectly aligned and partners within joint ventures and/or business groups will typically have different goals. These differences are likely to be even more prevalent within MNEs, which operate in many different countries with different systems of corporate governance. Both TCE and the RBV have little to say about the implications of the conflicting strategic objectives of these different groups of stakeholders, and this is where AT can offer a complementary perspective. AT is concerned both with the standard principal-agent relationship, in which one party (the principal) delegates work to another (the agent), and with the principal-principal relationship (Young et al., 2008). In both cases, the parties within the relationship are engaged in cooperative behavior, but are assumed to have different goals and attitudes towards risk.

Notwithstanding their different concerns, both TCE and the RBV have a number of commonalities with AT (Williamson, 1988; Eisenhardt, 1989). All three share similar behavioral assumptions; all three acknowledge the importance of uncertainty and information asymmetries. Such asymmetries are fundamental to the valuation of assets in TCE. In AT, these asymmetries result from the division of labor between the various parties, and the consequent uncertainties regarding self-interested behavior that lie at the heart of the agency relationship. And all three focus on the firm, and ‘adopt an efficient-contracting orientation to economic organization’ (Williamson, 1988: 569).

In contrast, IT (North, 1981; 1990; 2007) is primarily concerned with how national institutions (here broadly defined as the rules of the game in a society that structure incentives in human exchange) affect national economic performance, though there are implications for how firm behavior is influenced by the environment in which it operates. Institutions determine the costs of acting in various ways in different economic (and political) contexts. Different societies create and support different institutions to facilitate business transactions: some institutions are more effective than others, and all tend to evolve over time. Some societies are characterized by ‘institutional voids’ (Khanna and Palepu, 2000) which lead to the emergence of specialized organizational forms (e.g. business groups) to replace the missing institutions. In contrast to the emphasis on efficiency in TCE, the RBV and AT, IT is not a deterministic theory. As North (1990: 6) points out, ‘the major role of institutions in a society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction.’ Similar challenges are expected to be met in different ways by similar firms operating in different environments, or in the same environment at different points in time. Such considerations are particularly important in the IB context for MNEs which must operate in several different institutional environments at the same time.

Emerging Research Areas

The papers presented in this Focused Issue begin to provide new insights into the relationships between corporate governance and international business. Many further research challenges remain. In this section, we outline five research themes which appear promising, and we summarize a future research agenda in Table 2 in relation to each of the five themes and the four theoretical perspectives discussed in detail above.

International Diversification

The traditional view of international diversification, as articulated by research based on TCE and the RBV, is that firms engage in FDI with the intention of both exploiting and augmenting its resources in overseas markets. Further research can also consider the role of dynamic capabilities and changes in firm boundaries on international diversification.

AT provides a different perspective on the issue. A number of studies have identified two types of associations between environmental dynamism, governance, content and context of business strategy (Filatotchev et al.., 2007; Sanders and Carpenter, 1998). First, multi-point competition associated with international diversification increases both specialist knowledge within top management teams and the ambiguity surrounding managers' actions. This leads to a classic principal-agency problem between investors and management of the subsidiary, when outside shareholders are not able to observe and evaluate managers' strategic decisions and their outcomes. Second, from the information-processing perspective, economic and institutional transitions increase the complexity of transactions and affect the ways in which managers process information when developing corporate strategy (Hoskisson et al.., 2000). This may lead to strategic errors even when the interests of managers and shareholders are aligned (Hendry, 2002). These researchers argue that these strategic errors are particularly harmful when investors use local firms as an important base for exporting to international customers or as suppliers to their global production networks.

Both perspectives suggest that general governance factors such as ownership structure and investors' direct involvement in the decision-making process should have important impacts on the strategic decisions of subsidiaries. For example, Filatotchev et al.. (2008) provide evidence that internationalization decisions of MNC subsidiaries in transition economies are positively associated with both parent's ownership in the affiliate and its extent of control over the affiliate's strategic decisions. However, Tien and Chuang (2008) find mixed support for an AT perspective of the relationship between CEO compensation schemes and internationalization. They find that short-term, long-term and total pay are negatively related to internationalization. CEO duality and tenure positively moderate effect of CEO pay and performance. Further research from an AT perspective is still needed on the role of different ownership configurations and governance structures on international diversification, particularly the role of boards. The influence of other stakeholders on international diversification has also not been widely considered. Similarly, although there has been some attention to the importance of institutional environments and changes in these environments, research remains partial in its coverage of the range of institutional contexts identified in Hoskisson et al. (2000).

Business Groups

Business groups are agglomerations of private-sector firms, and are common in most emerging markets (Yiu et al., 2008). From the perspective of TCE and the RBV, business groups provide an organizational solution to the high transaction costs caused by institutional voids (Khanna and Palepu, 2000) and the associated market imperfections, and by the need for domestic firms to access key resources. Thus the influence of business groups is generally perceived as beneficial, although the research on the stability of these configurations is limited.

AT provides a different perspective. Analysis of the governance roles of the differing ownership arrangements in these groups is especially key in the emerging market context. In emerging markets, there is typically inadequate disclosure, weak securities regulations and other problems that give rise to institutional voids and suggest that improved governance is achieved through membership of business groups (Khanna and Palepu, 2000). But, business groups may create agency problems through their pyramidal structures of inter-group blockholdings that entrench controlling shareholders, usually wealthy families, who run their groups to maximize their utility rather than maximizing wealth for all shareholders. As a result, traditional principal-agent problems may be replaced by a separate set of agency problems associated with principal-principal goal incongruence (Dharwadkar et al., 2000).

These problems may especially arise in non-Anglo-American contexts. For example, there may be a severe mismatch between foreign joint venture partners from an Anglo-American environment and their counterparts elsewhere. Controlling shareholders in business groups may divert resources from joint ventures to other firms they control. Perkins et al. (2008) examine these issues in the context of Brazil and find that joint ventures between Brazilian telecoms firms and partners from countries where business groups are rarer have significantly elevated failure rates. In contrast, they show that joint ventures with foreign partners from countries where pyramidal groups are more common are more likely to succeed. Further research could usefully examine the impact on international business strategy of these mismatches in different environments. More generally, research is needed on the processes of governance in different forms of business groups and in different institutional contexts.

Entry Modes

There is a considerable IB literature on what determines whether a foreign MNE will opt for a wholly-owned subsidiary when it decides to invest in a host economy, or whether it will choose to establish a joint venture with a local partner. Such studies draw primarily upon TCE and the RBV, and suggest *inter alia* that the MNE will opt for the joint venture entry mode when the prospective partner possesses complementary resources, when the collaboration offers learning opportunities, when fast market access is important, and when the MNE wishes to reduce its resource commitment and to share risk. It has also been shown that institutional factors such as the cultural distance between the MNE home country and the host country will also have an influence.

But there is increasing recognition that agency hazards may also have an impact upon the entry mode decision (Reuer and Ragozzino, 2006). Foreign institutional investors with globally diversified portfolios and superior monitoring abilities are more likely to encourage high-risk, high-commitment FDI decisions by firms in emerging markets, whereas domestic institutions are more likely to form a coalition with risk-averse family block-holders and insiders in the parent company, supporting a low commitment entry mode (Douma et al., 2006; Filatotchev, et al., 2005, 2007). Yet both foreign and domestic investors may be heterogeneous. As such, firms with different ownership and governance structures may have different approaches to entry as they have different objectives from foreign entry.

The specific national corporate governance context may also be important. Luo et al. (2008) examine the impact of national corporate governance models on inward foreign direct investment (FDI) in emerging economies. Specifically, they examine how family ownership and control in large group-affiliated firms in Taiwan affect joint venture investment from US and Japanese firms during the period 1988–1998. Their findings that home-country corporate governance models are likely to shape foreign firms' choice of local partners support a neo-institutional perspective of FDI. More generally, there is a need to consider the relationships between different institutional environments and configurations of entry modes for control versus resource access or transfer.

Subsidiary Mandates

MNEs may establish overseas subsidiaries with various strategic “mandates” relating to their decision-making processes and strategy. These mandates may be determined by the MNE’s overall strategy, but the subsidiary may develop its own resources and capabilities that enable it to become more autonomous in pursuing its own (international) entrepreneurial activities that the parent could not foresee (Birkinshaw, 1997; Roth and Morrison, 1992). However, in these circumstances, foreign MNEs face particular risks associated with securing and enforcing contracts (Mudambi, 1999). There is thus a need for research that considers the appropriate configuration of subsidiary mandates for resource versus control objectives.

Changes in institutional environments may exacerbate problems where they increase the specialist knowledge of subsidiary managers and ambiguity surrounding their actions if MNE parents are typically unable to observe their decisions, leading to principal-agency problems. Strategic errors may also arise when changing institutional contexts increase the complexity of information processing; this can be especially problematical when investors use local subsidiaries as a base for exporting or as suppliers to their global production networks. Governance mechanisms such as ownership and MNEs’ involvement in the subsidiaries’ decision-making processes may be able to offset these problems (Filatotchev et al., 2008). However, evidence as yet remains limited on the circumstances under which different governance mechanisms work to achieve a balance between permitting subsidiary discretion and ensuring the interests of the parent are pursued. Further studies are needed. For example, we know little about the role and composition of subsidiary boards in different markets with different subsidiary mandates. Differences in terms of foreign versus local representatives may be one important dimension of the variation in board composition.

New International Ownership Structures

The principal foci of corporate governance and IB research has been on the activities of manufacturing and, more recently, service sector firms. Corporate governance research has focused on the role and effectiveness of the corporate governance mechanisms in these firms, while IB research has focused on their internal control configurations and resource issues. However, a set of cross-border owners with different governance characteristics is gaining prominence which, through their acquisition of traditional manufacturing and service organizations, have major implications for future developments in corporate governance and IB. These cross-border owners include private equity (PE) firms, sovereign wealth funds (SWFs) and hedge funds.

The second wave of private equity backed buyouts that peaked in the middle of 2007 drew considerable attention for a number of reasons (Cumming et al., 2007; Wright et al., 2007; Kaplan and Stromberg, 2008). Amongst the aspects attracting attention was the role of foreign private equity firms. For example, using data on the population of UK private equity backed buyouts over the period 1985-2007, Wright (2008) shows that over this period, the number of non-UK private equity backed deals in the United Kingdom had risen almost threefold to 57 in 2007, while deal value rose tenfold to some £18 billion.. Non-UK private equity firms generally have slightly higher shares of debt but larger equity ownership stakes. Non-UK private equity firms have, on average, shorter holding periods for investments than do UK private equity firms.

Cross-border venture capital (VC) and private equity investment raises important governance issues relating to the monitoring of transactions. Syndication with local partners provides a mechanism for foreign VC and PE firms to select better deals and spread risk as well as enabling better access to information and involvement for monitoring purposes. Much of this literature has focused on the earlier stage venture capital end of the market (Mäkelä and Maula, 2006). Such analysis is absent from the PE literature, which is surprising given that cross-border syndication in the buyout end of the PE market is extensive (Wright et al., 2007). Further research might usefully analyze the governance differences between foreign-local and domestic-domestic VC and PE syndicates. There is also a need to examine differences in terms of ownership stakes, use of leverage as a governance device, board presence, board composition and reporting requirements between foreign and domestic VC and PE firms.

While recent theoretical development has contrasted the internal governance (TCE) and resource accessing (RBV) rationales for different foreign entry modes in general (Meyer et al., 2008), empirical work has not examined these issues in the PE context. Moreover, while the coordination problems of VC syndicates have been recognized in relation to investee monitoring (Wright and Lockett, 2003), this has not been examined in a cross-border context. Different distress regimes between countries (Armour and Cumming, 2006) may impact distress costs in failing foreign PE investments and how the restructuring process is governed. Further research is needed in this area.

SWFs represent a second new type of international investor and which, because of their size, rapid growth and lack of transparency have raised concerns about their governance impact. Specifically concerns have arisen because of the argument that they may invest for strategic rather than economic reasons. Fotak et al. (2008) examine investment patterns exhibited by SWFs in 620 equity investments and find that, contrary to perceptions, SWFs generally purchase minority stakes directly from target companies, and that SWFs are typically long-term investors who, due to both political pressures and size of holdings, are often unwilling to quickly unwind their positions. However, their evidence on negative two-year abnormal returns of SWFs suggests that these acquisitions are followed on average by deteriorating firm performance. However, research is lacking on the effects of SWFs on the strategies of the firms in which they invest, including internationalization aspects, that may contribute to this performance change.

Hedge funds have also grown rapidly as international investors. They typically face less regulation than mutual funds and PE funds, although it has been suggested that hedge fund managers pursuing strategies with potentially more pronounced agency problems systematically select jurisdictions with less stringent regulations (Cumming and Johan, 2008). Teo (2008) finds that hedge funds with a physical presence, and hence a local information advantage, in their investment region outperform other hedge funds especially in emerging markets. However, distant funds are able to raise more capital, charge higher fees, and set longer redemption periods, despite their underperformance relative to local funds. Further research is necessary to understand the impact of foreign hedge funds on the strategies of firms in which they invest. Additional comparative research might consider differences in the behavior of hedge funds, private equity funds and SWFs.

Conclusions

It has been explained that corporate governance structures represent the main channel through which a firm's major decisions may be influenced by its national and international environment. As such, it seems inevitable that corporate governance must have a prominent role in IB research. Without effective governance, a firm may not allocate additional resources efficiently, and may not achieve needed retrenchment and restructuring of resources. It should not be surprising, therefore, that research, including papers in this Special Issue, are now exploiting the synergy between research in governance and IB.

Of course, the very notion of combining IB and governance research seems hopelessly optimistic. It was noted above that governance research, even within a single national context (often the USA) has yielded confusing results, after decades of intense effort (Daily et al., 2003). This may not be surprising when one appreciates all the contextual variations between different firms within the same country - they all face variations in formal and informal institutions at a local and regional level, different forms of product market competition and many other subtle differences. As a result, no consistent governance-strategy-performance relationships have yet been established.

In addition, a variety of theoretical perspectives have been deployed, including the five reviewed above, and causation is often difficult to identify. For example, governance may influence executive pay structures, executive pay may influence strategic decisions and firm risk. Levels of firm risk in turn affect the impact of executive pay and even governance structures themselves.

IB considerations inevitably introduce even more complications and circularities. In addition to within-nation variations, firms in different countries face variations in geography, climate, language, culture, as well as clearly-identified institutional variations. With so many variations in national and infra-national environments, how can empirical and theoretical progress be achieved?

We would argue that the papers presented in this Special Issue represent sensible progress. Each presents an IB/governance study in a different institutional context, synthesizing at least two theoretical perspectives. Each implicitly respects the uniqueness of international firms and the contextual variations they face. This eclectic approach must produce incremental theoretical advance that corresponds with casual observation.

For example, within the single industry of motor vehicle manufacturing, a wide diversity of different governance structures and strategies in different national contexts has each achieved survival on international product markets. Ford and Porsche/VW are both family-dominated, while Toyota is part of a business group, and GM is a widely-held company on the stylized US pattern. Until recently at least, each has been able to achieve satisfactory rates of return that have satisfied shareholders and other stakeholders.

At the time of writing in 2008, however, the state of the global motor industry presents new challenges for firms and for IB/governance research. While different governance structures and strategies have each been successful in different institutional contexts, how successful will they prove in an economic downturn, when the emphasis is on the need to reduce output, manning levels and costs?

In terms of the papers in this Special Issue, the new research focus could be on de-diversification, the closure of regional facilities, export reductions and equity disposals. In turn, the emerging research areas identified could similarly involve de-diversification, the contraction of business groups, and new ownership structures and sources of finance in the context of financial collapse. Whatever the international economic situation however, the importance of managerial entrepreneurship remains and may be enhanced.

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Table 1: Summary of Papers in the Focused Issue

Authors	Research Question	Theory	Data	Method	Findings
Tihanyi, Hoskisson, Johnson and Wan	Impact of managerial incentives on firms' international diversification	AT; RBV	156 US firms from SandP500 in 2002	OLS	Managerial contingent pay (stock options and bonuses) has direct impact on international diversification. Both contingent and non-contingent (cash compensation) pay have a moderating effect on the relationship between technical competence and international diversification.
Strange, Filatotchev, Piesse and Lien	Impact of ownership structure on FDI location decisions	AT; IB and strategy perspectives	121 Taiwanese listed companies with 285 FRI projects in China, 1999-2003	Multinomial logit analysis	Shareholdings of controlling family, and of non-family insiders, in parent company, and parent shareholding in Chinese affiliate, have significant effects on FDI location.
Lu, Xu and Liu	Impact of Board characteristics and ownership structure on firms' export behaviour.	AT; IT	779 listed Chinese manufacturing firms, 2002-5. Unbalanced panel with 2637 firm-year observations	Logit and conditional logistic models for export propensity Tobit and GMM models for export intensity	Ownership concentration, the proportion of outside directors, and CEO shareholding all have a positive impact upon both export propensity and export performance, but the relationship is moderated by the level of institutional development of the firms' home location.
Cuervo-Cazurra and Dau	Impact of structural reform on firms' export behaviour.	IT; RBV; AT	500 Latin American firms, 1990-2005. Unbalanced panel of 5782 firm-year observations.	Random-effects panel logit model for export propensity Random-effects panel tobit model for export intensity	The impact of structural reform on the export strategy of firms varies with the ownership of the firms. Subsidiaries of foreign firms are more likely to become exporters and to increase their exports, followed by domestic private firms. Domestic state-owned firms are not more likely to become exporters and are more likely to decrease their exports, relative to subsidiaries of foreign firms.
Ragozzino	Impact of geographic distance on the equity shareholding taken by parent companies in foreign acquisitions	TCE; information economics	608 acquisitions by US firms overseas, 1993-2004	Tobit analysis	US acquirers seek lower equity stakes in distant targets, and higher stakes in proximate targets, but effects are moderated by both cultural distance and political risk.

Table 2: A Future Research Agenda

Theory	International Diversification	Entry Modes	Business Groups	Subsidiary Mandates	New International Ownership Structures
RBV, TCE	How do firm dynamic capabilities impact international diversification strategy? How do ICT developments impact firm international diversification strategies? What are the implications for firm boundaries? Do ICT developments facilitate vertical integration across national boundaries, or lead to greater externalisation of production?	What is the balance between corporate governance mechanisms for control purposes and corporate governance to bring access to resources? How does the governance of international JVs and alliances differ according to the nature of the partners?	How stable are the corporate governance mechanisms in business groups?	What is the appropriate configuration of subsidiary mandates to obtain control and resource objectives?	What impact do PE, VC, SWFs and hedge funds have upon firm strategy?
AT	What effects do different ownership structures have upon firms' international diversification? What effects does the involvement of various non-equity stakeholders (e.g. labour unions, NGOs) have upon international diversification? Do firms with different ownership structures favour different internationalisation strategies (exporting, FDI, alliances etc.)? How do such changes in ownership impact upon internationalisation strategies? How do internal control mechanisms such as the size and composition of the Board of Directors, and executive compensation and	How does corporate governance of the focal company define the choice of entry mode? What are the special governance issues in family-owned firms, cooperatives etc., and how do they impact upon internationalisation strategies? How do we control for opportunism of alliance partners?	What are the processes of corporate governance/boards and IB? How do these differ between countries?	What is the composition of boards in terms of foreign members?	How are PE, VC, SWFs and hedge funds represented on Boards? To what extent has firm strategy become financialized?

	share ownership schemes, affect the formulation of international strategy?				
IT	How do differences between international regulatory environments (including approaches to corporate governance) affect IB strategy? What impact do institutional transitions have upon firms' strategic choices?	How do differences in the institutional environment affect the appropriate configuration of entry modes in terms of control and resource access/transfer? How do we address the 'innocents abroad' problem of different nature of alliance partners?	How does economic development fill institutional voids and affect the potency of business groups?	How does board composition vary between types of market? How are subsidiary boards constructed and operated in different IB environments?	How do new forms of ownership [e.g. private equity firms, sovereign wealth funds] affect the nature of corporate governance across borders?