

## RESEARCH AND INTERNATIONAL BUSINESS

By

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### Abstract

This article addresses issues of relevant research by differentiating research from intelligence-gathering, by presenting classical approach to develop criteria for selecting research topic, by indicating the importance of research validity and limitations, and by taking eclectic paradigm as an example of research in international business.

Key words: international business, eclectic paradigm, foreign direct investment, interesting research, and validation and limitation of a research.

### Introduction

Different schools of thought and different ways to conduct a research in management are among a variety of factors that contribute to the controversy of management. This controversy is seen from the starting point of conducting a research, the definition of a topic. According to Gill and Johnson (1991), the definition of a topic is often not systematically tackled. In the arena of international business a variety of disciplines has been used to develop theories in explaining foreign direct investment. This gives a wide range of possibilities to define a research topic in international business and the way to conduct this research. Examples of classical theories addressing international business include the product cycle (Vernon, 1966), the concept of the industry technology cycle (Magee, 1977), the risk diversification hypothesis (Agmon and Lessard, 1977 and Rugman 1975, 1980), extension of portfolio capital theory to incorporate market failure (Aliber, 1970). Similarities and controversies exist among these theories. Eclectic paradigm (Dunning, 1993, 2002, 2003) tries to integrate theories of foreign direct investment to present explanations for the motives and the determinants of companies to enter into a global market.

In identifying the characteristics of relevant research in general and in the international business field in particular, the remainder of the article is organized as follows: the following section deals with differentiating research from intelligence-gathering. The third section discusses different sets of criteria a researcher usually follow in selecting the research topic. In the fourth section, research process, validity and limitations are discussed. Eclectic paradigm (discussed in section five) is taken as an example to apply the previous sections. Summary and conclusions are given in the sixth section.

### **Differentiating Research from Intelligence-Gathering**

Phillips and Pugh (1996) define research as “finding out something you do not know”. This includes so many activities that are not identified as research. On the other hand a lot of research is concerned with “finding that you do not know something”. Phillips and Pugh (1996) differentiate between what is called an “Intelligence-gathering” activity and a research activity, stating that many things that may exist and we do not know about it, can be found through human activities. Adequate definitions, unbiased information collection, statistical treatment and careful summarizing bring a balanced description of the situation. Unlike the intelligence-gathering activity, research goes beyond this process. It looks for justifications, explanation, relationships, comparisons, prediction, generalization and theories. In international business management, for example, describing and gathering data related to foreign direct investment of several countries is not considered as a research per se. However, for example, building a model to justify and explain why companies adopt to build subsidiaries in foreign countries and share research and development with their subsidiaries represent a research in accordance to Phillips and Pugh's definition of research.

There are three distinct but interrelated characteristics that differentiate the research activity from other activities (Phillips and Pugh, 1996).

- “There are no hidden agendas, no closed systems”. This refers to the continual process of testing, reviewing and criticizing others’ work is an important way in which thinking develops. Researchers are entitled not to assume absolute or correct assumptions and every thing may change over the time. Several theories concerning multinational companies such as eclectic paradigm (Dunning 1993) attempts to use a variety of variables to explain foreign direct investment that include location, internationalization, and ownership.

- For researchers examining data critically is an important issue differentiating a research activity from other activities. Researchers critically examine data and the sources of data, not for the purpose to agree or disagree but to obtain evidence with respect to the objective of the research. Also, researchers are entitled not to influence the research by their opinion. The verification of internationalization theories by many researchers is an example of the severe verifications that are taking place in recent years.
- Applying and understanding a wide-variety of appropriate situation is achieved by obtaining valid generalizations from the research. This generalization can be established through the development of explanatory theory, and the application of theory turns intelligence gathering into research. However, since all generalizations are inappropriate so the concept refers to “limits of the generalization”, that is, where it applies and where it does not apply. Moreover, the limits must be continually tested. For example, the theory of the determinants of multinational company’s activities seeks to explain both the location of value-adding activities, and the ownership and organization of these activities. It needs to integrate the theory of international resource allocation and the theory of economic organization (concerned with ownership) (Huang, 2002).

### **Classical Approach to Develop Criteria for Selecting a Research Topic**

According to Gill and Johnson (1991) the classical factors that should be verified against each topic proposed include “access”, “achievable in the time available”, “symmetry of potential outcomes”, “student's capabilities and interest”, “financial support and value and the scope of the research”. This is called the feasibility criteria. Davis (1971) considers “worthiness to study” as the main selection criterion among theories. This is expected in the way the contribution modifies the audience’s expectations and, significantly, their assumptions. Davis (1971) points out that the theory has to deny certain assumptions held by the audience. If all assumptions are denied, then the theory will be seen as unbelievable or irrelevant, otherwise, assumptions are denied, the theory will be seen as obvious. Hence, “the theory must be in the middle” (Campbell et al. 1982, p. 93). The theory must differ moderately from the readers' assumptions in order to surprise and intrigue. Summarizing Davis points, people seem to find a proposition interesting not because it tells them some truth they did not already know, but because it tells them some truth they

thought they already knew was wrong, and underneath all of these considerations lies the dilemma that what will be interesting to one will be obvious to the other.

Davis concluded that the variety of interesting propositions fell into twelve logical categories. These are generalization, organization, causation, opposition, co-variation, co-existence, co-relation, function, abstraction, composition, evaluation, and stabilization. The idea of the twelve categories is the same, for example Davis explains stabilization criteria stating that what seems to be unchanging (stable) does change; what seems to be changing (unstable) is unchanging (stable). In the other hand Davis stated that non-interesting theories could be categorized into:

- the obvious theories that completely affirm the audience assumption ground;
- the irrelevant theories that do not relate to their assumption ground;
- the absurd theories that completely deny their assumption ground.

Campbell et al. (1982) ask how a researcher may become engaged in significant research. By comparing directly significant and not-so-significant research along a number of specific dimensions, they develop criteria for predicting significant research in advance (what should a researcher look for when choosing a research project in order to enhance the probability that it will make a significant contribution to the knowledge). According to Campbell et.al., the criteria for significant research or project:

- is an outcome of researcher involvement in the physical and social world;
- is an outcome of investigator interest, resolve, and effort;
- is a selection that is based on intuition. That is, feeling about the project is an accurate indicator of future significance and the researcher should 'feel' good about the project;
- is an outcome of intellectual rigor. A study will be probably not significant if the theory is not thought out and adequate research must be applied, theoretical, rigorous, and relevant all at the same time;
- reaches into the uncertain world (of organizations) and returns with something clear, tangible, and well understood. Campbell et al. point out that a good topic takes a problem that is not clear, is in dispute or out of focus (and brings in into resolution). Significant research begins with disorder, but ends with order where

also logic and certainty should not be important. Logic and certainty do not begin the process (but are an outcome of the process);

- focuses on real problems (does not simply build abstract concepts onto a purely academic structure). In this context, the “relevance” or “useful knowledge” is the criteria that should be used to justify research rather than whether it is applied or theoretical;
- is concerned with theory, with a desire for understanding, and with explanation. Curiosity and the excitement associated with understanding and discovery is very important for a significant research.

### **Research Process, Validity and Limitations**

According to Bygrave (1989), a “classic dissertation” consists of definition of a topic, literature survey, limited field research, theory development, propositions, hypotheses, questionnaire, data base, statistical tests, and conclusions. Howard and Sharp (1983) summaries a seven-stage research sequence in the following order: identify broad area; select topic; decide approach; formulate plan; collect information; analyze data; present findings. Although considering all the steps in this research sequence as of equal importance, in general, researchers do not devote much time and attention while defining a research topic. This could raise problems in later stage. Any research work is incomplete or even impossible to work on if it does not have a topic. Research topic gives a sense of direction to researchers and it gives a sense of understanding to the readers about the context of the particular research work.

According to Yin (1989), four tests are crucial to measure the validity and reliability for research, namely: construct validity, internal validity, external validity, and reliability. Construct validity determine the adequate operational measures for the concepts of the research. This can be measured by the use of multiple sources of evidence, establishing chain of evidence and having key informants review draft case study reports. The constructive validity is crucial in the data collection stage. Internal validity establishes causal relationships between the variable studied by using pattern matching, explanation building and time series analysis techniques. Internal validity is crucial in the data analysis stage. External validity determines the sphere in which findings of a research can be generalized, mainly by using the replication logic in multiple case studies. External validity is important in the research design stage. Reliability assures that other researcher using the

same data source and research procedure can repeat the research findings. The reliability is essential in the data collection stage.

Shipman (1988) highlights some of the limitations of social research that include conceptual, technical, organizational, and political limitations. In studying human behavior and organization, the concept of the complexity of human condition is an important factor and therefore, there is a difference in searching for laws of observed behavior to searchers for the meaning that individuals give to events. The technical difficulties rise, for example, from data collection that includes the lack of which applies to the researcher as well as the used techniques. The researcher interest and the environment are factors that affect the research and this affects the degree of the research validity.

### **The eclectic paradigm**

Foreign direct investment theories try to explain the motives and determinants of multinational companies based on market imperfections (Alfaro, 2002). The eclectic paradigm (Dunning, 1993, 2000, 2003) seeks to offer a general framework for determining the extent and patterns of both foreign owned production undertaken by a country's own enterprises and also that of domestic production owned by foreign enterprises. Because eclectic theory defines a broad area of research, it is not a theory of multinational companies per se, but rather of the activity of companies engaging in cross border value adding activities. Neither is a theory of foreign direct investment in Alber sense of word, as it concerned with the foreign-owned output of firms rather than the way that output is financed. Dunning argues that eclectic paradigm is related to positive rather than normative issues. It intends to explain "what is" rather than "what should be" the level and structure of foreign value activities of enterprises. It accepts much of traditional trade theory in explaining the spatial distribution of some kinds of output (which might be termed Hecksher-Ohlin-Samuelson (H-O-S) output).

In denying certain assumptions held by the audience, the eclectic theory relies on two kinds of market imperfections (failure). The first is that the structural market failure which discriminates between firms in their ability to gain and sustain control over property rights or to govern multiple geographically dispersed value-added activities. The second is that of the failure of intermediate product markets to transact goods and services at a lower net cost than those which a hierarchy might have to incur. Dunning states that the assumption

of the existence of perfect markets contributes to the failure of the factor endowment approach to explain international production (completely or partially). In neo-classical trade theory, this leads to all sorts of restrictive assumptions, such as atomistic competition, equality of production functions, the absence of risk and uncertainty and implicitly at least, that technology is a free and instantaneously transferable good between firms and countries.

Three reasons reflect the inability of the market to organize transaction in optimal way: the buyers and sellers do not enter the market with complete (or symmetrical) information or perfect certainty about the consequences of the transactions they are undertaking. The market cannot take account of the benefits and costs that arise as a result of a particular transaction, but which are external to that transaction. The demand of a particular product, while infinitely elastic, is insufficiently large to enable the producing firm fully to capture the economies of size, scope and geographical diversification. There is inevitable tradeoff between the overall costs of a set of value-added activities and the opportunity they offer for synergistic economies (Galbraith and Kay, 1986). The theory of market failure helps to explain the organization and ownership of production independently of the location. The precise character and pattern of the resulting international production will depend on the configuration of the ownership assets of firms and the location assets of countries, as well as on the extent to which firms perceive that they (rather than market) possess net internationalization advantages in organizing these ownership and location assets. Given these variables, it will also depend upon the strategic options open to firms and how they evaluate the consequences of these options.

### **Conclusions**

The selection of a research topic cannot be result of single criteria, not a single act or decision. Campbell et al. point out that it is a process, an attitude, a way of thinking, motivated by curiosity, by the desire to discover and understand. Significant research is often characterized by uncertainty, fuzziness, and ambiguity in the initial stages. If we are to acquire genuinely new knowledge, then we will not know the answer in advance. We will not even be sure that there is an answer. The only requirement is that we end up with some level of certainty.

The researcher must begin with uncertainty, even build uncertainty in his research, may be the key, for example in classical economic sense, it is argued that the principal objective of private enterprises in undertaking foreign production is to advance their long-term profitability from foreign affiliate. Therefore, maximizing the net present value of the multinational companies by engaging in foreign direct investment makes it necessary to consider both the effects of foreign direct investment on the net present value of foreign affiliate and that on the rest of the multinational company's operations. In considering a variety of factors, the eclectic paradigm considers three variables: location, internationalization, and ownership to explain the determinants of companies to enter into foreign direct investments. The eclectic paradigm has new and testable consequences that lead to the prediction of issues that are not so far been observed. Therefore, eclectic paradigm could be conducted by analyzing the old and new theories logically. Also, the eclectic paradigm can be tested empirically (e.g. case studies). As the theory has some new and severe tests, the eclectic paradigm is successful in some new predicts, and it was validated using multiple source of evidence that include several firms, industries, and countries. The main limitation of the eclectic paradigm is that it incorporates several variables to explain foreign direct investment. This makes the theory unfocused and not concentrated on a few variables.

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