

How Multinational Companies Are Adjusting their Strategies and Operations in Response to a Turbulent IB Environment

International Business Review Special Issue.

Submission Deadline: 31 March 2024

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Background: The Increased Risks and Pressures on International Companies

The past few years have witnessed significant rises in both the complexity and the risks of international business stemming from (a) more assertive nationalism, protectionism and screening or scrutiny on foreign firms, with government policies increasingly skewed in favor of the host nation; (b) the realization that the extreme optimization of global value chains (GVC) has gone too far and more resilient redesigns of GVCs are called for; (c) globalized or transborder mandates and pressures increasing on multinational enterprises (MNEs), on issues ranging from climate change, environmental, social and governance (ESG), sustainable development goals (SDG), and international tax avoidance; and (d) macroeconomic changes or volatility occurring in interest rates, commodity prices and exchange rates.

A more assertive nationalism and protectionism

While the welcome mat for inward FDI is still rolled out, the exuberance with which countries welcomed FDI with incentives seems to be diminishing. UNCTAD's Investment Policy Monitor (UNCTAD, 2022) reports that the ratio of worldwide regulatory changes that opened the door wider for incoming FDI divided by the number of regulatory changes that restricted FDI inflows, shrank from a liberal 7:1 ratio at the turn of the millennium, to a still liberal 4:1 ratio in 2005, but with a narrowing to only a 1.40 : 1 ratio in 2021. The governance of international economic relations is partially regressing towards more assertive and self-interested policies (Zhan, 2021). Technological rivalry has sharpened, although it is nowhere near the disengagement scenarios envisaged by observers such as Petricevic & Teece (2019). Beginning in the mid-2010 decade, countries started using competition law and M&A scrutiny to tilt the scales in favor of local interests (Ikejiaku & Dayao, 2021), and by 2022 nations were not shy to announce targeted subsidies, for example those offered only for local production of electric vehicles (Sherman, 2023). From the EU to the US Committee on Foreign Investment in the US (CFIUS) and also in several developing countries, governments have expanded their bureaucracies to screen 'sensitive' FDI and trade, and occasionally block proposals or impose sanctions (Danzman & Meunier, 2021).

A burst of recent subsidies have been announced by the former exponents of free markets such as the US and EU. The 'green' subsidies (\$ 270 billion over ten years) legislated in the US as part of the so-called Inflation Reduction Act, were matched in February 2023 by the EU countering with a € 250 billion package.

How are MNEs coping with the above changes and adjusting their strategies and global operations?

The retreat from extreme optimization and cost-minimization in global value chains

"Resilience" is a multifaceted concept where MNEs reconsider their operations with efficiency, governance design and national security concerns in mind (Gereffi, Pananond & Pedersen, 2022). Until 2019, the design of GVCs was mainly driven by a search for extreme efficiency (cost-reduction) in international supply chains. By "extreme" is meant the relentless search for reduced costs in overall sourcing by (i) slicing the value chain into as many small fragments as

organizationally and economically feasible, with the objective to find the cheapest overall supply source configurations worldwide (Contractor et al, 2010), and then (ii) placing orders, often time-bound or with just-in-time (JIT) delivery pressures (Monden, 2012). So finely tuned were some of these arrangements that the assembly plant carried only a few days' worth of inventory on a component, but with penalties sometimes so severe as to put enormous pressure on the GVC supplier. In the new volatile environment, such extreme configurations are less likely to be sustained in the event of a perturbation, disruption or pandemic.

The retreat from such extreme GVC configurations has begun, reflected in actions such as (i) increasing the number of suppliers for the same item; (ii) geographic diversification, often guided by geopolitical considerations; (iii) reducing the geographical distance between supplier and assembly point; and (iv) increasing inventory levels (Contractor, 2022). Gereffi (2023) emphasizes that this needs to be accompanied by greater investment in human capital, strategic partnership relationship-building, and government support.

The higher costs of increasing the degree of resilience in GVCs, and a lowering of risk, could *ceteris paribus* be partially offset by recent digital technologies such as blockchains, predictive artificial intelligence that forecasts the impact of adverse events on international deliveries, digital remote surveillance hardware, and greater integration of buyer and supplier computer systems for greater transparency of order statuses (Contractor, 2022).

But greater resilience, redundancy and the introduction of digital technologies inevitably means higher overall procurement costs for components and for the finished product or service. How do MNEs assess the tradeoffs between more resilient (less risk-prone) supply chains and higher costs? Is there empirical evidence and calculations of the tradeoffs? Organizationally, how are such tradeoffs assessed, and by which entities or subsidiaries in the company? How do MNEs incorporate perceptions and predictions of geopolitical tensions in reconfiguring their GVCs? What are the constraints on reducing dependence on supplies from companies or countries that control "choke points" in supply chains because of underground resources, embedded knowledge clusters or oligopoly power?

Globalized or transborder mandates and increased pressures on MNEs

MNEs are facing increasing global pressures based on issues ranging from climate change, environmental, social and governance (ESG) expectations, sustainable development goals (SDG) (Zhan & Santos-Paulino, 2021), and international tax avoidance, with over a hundred nations already cooperating on base erosion and profit shifting (BEPS). This increase in corporate accountability, with monitoring by global institutions, increases reputational and financial compliance risks faced by MNEs (Zhan, 2021).

The responses by multinational companies to the above pressures are likely to involve changes in FDI subsidiary location decisions, shifts in decision-making authority from subsidiaries to headquarters or vice versa (Liou & Rao-Nicholson, 2021). The ongoing BEPS negotiations, apart from proposing a 15% minimum tax, represents a fundamental conceptual shift from taxing entities in countries where the MNE siphons off and aggregates global profits (Contractor, 2016) to taxing entities in each country where incremental value is added.

In general, the new environment facing MNEs involves heightened scrutiny. An increase in cross-border listings of company stocks, has been accompanied by growth in the exchange of information between securities regulators in different nations (Silvers, 2020), and an increase in research entities and think tanks that engage in remote forensic investigations of foreign companies.

The increased scrutiny on MNE operations, aided by 4.2 billion social media users, is also seen in reputation risk. A few MNEs are squeezed between their desire for sustainability and ethical standards, which may elicit opposition from social media publics or concerned governments. The increase in job titles such as "Chief Compliance Officer" and "Chief Risk Manager" are manifestations of the above trends.

The rise in underlying systemic instability

A major reason for a more risk-conscious environment has been a rise in complexity in the international business system. Rapid technological changes, as well as more frequent macroeconomic perturbations have increased the complexity of

strategic decision-making complexity. An increase in knowledge complexity has spurred greater knowledge sharing across organizations and over space, which at least in the realm of new value creation has become a potential source of new innovative dynamism and business opportunities (Cantwell & Salmon, 2019). Yet the increased risk associated with greater complexity in the international business system can also be understood as a need for MNEs and policy actors to insure against a greater likelihood of catastrophic events (Siegenfeld & Bar-Yam, 2020). Thus, while in the short run the greater cross-border interconnections of GVCs may often appear to be more stable, if the response to the outbreak of a crisis addresses only the proximate causes, any continuing underlying longer term systemic instabilities may lead to other kinds of difficulties later on. However, from an evolutionary perspective it may be that increased uncertainty, by requiring greater and more varied kinds of adaptability to the more complex and changing international business environment, may have some potentially beneficial effects - for firms and for society - but conversely it is also possible that inadequate cooperation between the different parts of the international business system could become problematic.

The Focus of this Special Issue

The principal focus of this special issue is how traders and MNEs are reassessing and reconfiguring their strategies, and international operations, in response to an environment that has made international firms more subject to risks and external pressures. We welcome papers that are broad-ranging (covering multiple risks and mandates, especially if such papers analyze the interaction between various risk factors and pressures), as well as papers that delve deeply into specific risks or mandates. But overall preference will be given to papers that detail how companies are reacting or readjusting their international operations and strategies, in response to the greater turbulence in the global economy.

The coming years will affect where MNEs choose to locate which type of activities, component sourcing or target markets; how they distribute value added, tangible and intangible assets over their networks; how they react to new techno-national regulations including screening of inward and outward FDI; and how they transmit practices, including environmental, social and governance norms, to actors along their value chains. Global patterns of trade and investment will change consequently, as will their potential impacts on economic growth, employment creation and sustainable development.

Potential Topics for Submissions

This Special Issue welcomes both theoretical and empirical manuscripts. Appropriate topics for submissions include, but are not limited to, the following:

- How can greater complexity and risk sometimes be accompanied by business opportunities?
- How do MNEs assess their global operations' risk profile? What approaches or methodologies do they use?
- How have different industries or sectors responded to heightened risk after 2022?
- From a government or national perspective, what are the national security aspects of GVC dependence?
- How is "corporate diplomacy" practiced in order to reduce risk by cultivating better relationships with governments?
- How do MNEs assess the positive (and the risks of) negative or unintended knowledge spillovers – especially in an era of more strident techno-nationalism?
- What do governments want from MNEs? What are their bargaining positions?
- When do minimum economies of scale (MES) preclude or deter diversification of supply sources?
- What host government policies attract or repel FDI in GVCs, or FDI?
- What are the risks of having State-owned enterprises (SOEs) as international partners?
- Do MNEs assess the costs/benefits of retreating from extreme supply chain optimization?
- How do MNEs formally calculate the benefits of lowering risk, versus the higher costs of resilience from (i) increasing the number of suppliers, (ii) geographic diversification, (iii) propinquity of sources and (iv) increased inventory levels?
- To what extent have recent digital technologies (such as blockchain, AI-based predictive analytics, and allowing mutual access to the suppliers' computer systems) reduced risk in the strategic thinking of MNEs?
- Overdoing "resilience" or being too cautious, can also be a danger (Contractor, 2022; Economist, 2022). An important research question is to what extent should an MNE undertake restructuring?

- How do MNEs strategize and handle supply “chokepoints” in selected technology products or materials?
- How do MNEs choose between country locations in deciding where to locate part of their supply chain?
- Reshoring pros and cons. How much reshoring has really occurred?
- What internal considerations or calculations go into the decision to redesign supply chains so as to re-shore or near-shore an activity?
- What are the constraints on withdrawing from an existing supply chain location?
- How do MNEs help to build stronger relationships with their suppliers and sub-suppliers? This undoubtedly means higher transaction and governance costs. How are tradeoffs assessed between the higher costs of building stronger relationships *versus* the benefits in terms of lowering risk and increasing joint benefits?
- How do MNEs assess the tradeoffs between more resilient (less risk-prone) supply chains and higher costs? Is there empirical evidence and calculations of the tradeoffs?
- Organizationally, how are such tradeoffs assessed, and by which entities or subsidiaries in the company? How do MNEs incorporate perceptions and predictions of geopolitical tensions in reconfiguring their GVCs?
- How do MNEs adjust their strategies, responding to currency devaluations or revaluations, caused by conflicts, inflation or sanctions (Malsin, 2022) or interest rate rises, particularly in hard-hit emerging nations (Honig, 2019)? In turn, how do the overvaluation or undervaluation of currencies subsequently affect MNEs’ FDI and trade decisions?

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