The Role of the Institution-Based Theory and the Resource-Based Theory in the Evolution of Multi-national Enterprises or International Business in General

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Abstract. His paper's research inquiry pertains to the implications of the Institution-Based Theory (IBT) and the Resource-Based Theory (RBT) on Multi-National Enterprises (MNE) and International Business (IB). This study examines the impact of International Business Transactions (IBT) on Foreign Direct Investment (FDI) as well as Offshoring and Outsourcing (O/O) through the lens of both formal and informal institutions. This paper delves into the application of RBT by managers to foster the growth of MNEs, with a focus on human and technological resources. Further research is conducted to explore this topic. The findings suggest that an analysis of the role of International Business Teams (IBT) and Resource-Based Theory (RBT) can contribute to the partial facilitation of Multi-national Enterprises (MNEs) and International Businesses (IBs) development. The successful development of multinational enterprises (MNEs) may be facilitated by the establishment and efficacy of a comprehensive international trade organization system.

Keywords: IBT · RBT · Multi-national Enterprises · International Business

1 Introduction

Recent discussions regarding the influence of the Institution-Based Theory (IBT) and the Resource-Based Theory (RBT) on Multinational Enterprises (MNE) and International Business (IB) have attracted considerable public interest. The amount of foreign direct investment (FDI) and offshoring/outsourcing (O/O) by MNEs has increased significantly. It is important to explain some concepts because the area of Strategic Management is intricate, and people have different perspectives on it. IBT suggests that strategic management should focus on the institutional environment rather than the industry-specific environment. Managers in formal and informal institutional frameworks could govern their companies, make decisions, and pursue their interests [6]. The formal system, as described by Garridoa et al. [6], consists of legally binding agreements between parties, as well as the norms governing the government and the economy, and the market. In contrast, informal institutions, such as tradition, religion, and customs, may serve as moral

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and cultural constraints in society, thereby providing a framework for interpersonal relationships. One of the fundamental tenets of RBT is that organizations are comprised of a significant number of production resources [12]. FDI is commonly understood to mean equity mode, and Peng and Meyer [12] use it to refer to investments in, decisions regarding, and management of profit-generating activities on foreign markets. Due to the managerial diversity and environmental instability associated with international operations, the need for strategic options has increased significantly. This issue calls for IBT and RBT coordination. This essay will examine how IBT and RBT would significantly impact the evolution of MNEs and IB. First, the essay will demonstrate the influence of IBT on FDI and O/O from formal and informal institutions from two perspectives. Second, the paper will argue how managers can use RBT to promote the growth of MNEs in terms of human and technological resources.

It is worth noting that IBT management strategy decisions have important implications from both formal and informal institutional perspectives. In the process of management, enterprises would incur transaction costs which can be defined as costs associated with economic transactions or, the costs of doing business. Peng and Meyer [12] suggest that institutions direct companies and individuals to make culturally appropriate and policy-friendly decisions, and these decisions play an essential role in the operation of companies including reducing these transaction costs and combating opportunism [7]. In other words, an effective institution can promote IB or MNEs' economic development aiding contribution to research and solving institutional issues including laws (patent protection and avoidance of co of investment and financial trade) [6]. Witold rruption), effective regulations (freedom of business, labor, and money), and openness of the international market (free decisions [17] also contends that the main reason why MNEs fail or succeed in FDI or O/O is whether they satisfy the cultural and political environment of the countries in which they invest directly. Under this theory, the informal institutional environment needs managers' attention, which means that these cultural rules can guide managers to make decisions that benefit the MNE. MNEs will actively cater to the cultural institution of the host country when foreign investing, since cultural differences in foreign markets, can affect the profitability and performance of MNEs [12]. For example, commemorating different festivals is crucial in Chinese culture, and KFC in China shows this by giving meaningful gifts with Chinese festival designs such as celebrating the Mid-Autumn Festival. This marketing strategy has greatly boosted KFC's sales [9]. Furthermore, Flores and Aguilera [3] argue that the decision of offshoring location could be explained by the informal institution. In addition to actively catering to the host country's system, MNEs would like to choose countries which have similar cultures, since there is a good possibility that enterprises that have the same institutional environment are conducive to reducing the strange distance between customers and staff. Hence multinationals would have easy access to the home market. On the contrary, differences in corporate institutions make it difficult for their research to be extended to other countries [11]. Apart from that, IBT provides managers with the rules of formal institutions which can become an inspiration for strategic management to avoid political risks that might hinder the operation of FDI [12]. The choice of an institution that caters to policy is closely related to the economic benefits of MNEs because policies in different countries have different effects on transnational corporations, including encouragement and restriction. To quote from Garridoa et al. [6], managing the business of MNEs requires formal institutions to help firms overcome the difficulties of FDI and O/O. Jeffrey [8] shows an example of the change in the institutional environment for MNEs from China: new laws were promulgated by the Chinese government to appropriately reduce government restrictions on MNEs in 2002, which is helpful for MNEs to make profits through FDI.

As a consequence of the policy change, Starbucks opened its first store in China. Starbucks' foreign investment in China has been very effective due to the importance of this support in the earliest phases of FDI. According to statistics, China had more than 1800 stores in 2015 and is expected to have more than 4000 by 2020 [10]. However, formal institutional constraints, such as political risk, can also result in losses for multinational corporations' overseas direct investments [12]. Take Google as an example; when it entered China, Google occupied nearly a third of the Chinese internet market [1]. This company, however, has developed a degree of political disagreement with the Chinese government. Google, for example, refused the Chinese government's request to censor political information using search engines. Due to the conflict between formal institutions, Google's market share in China decreased significantly. Google's market share has decreased from nearly 40% in 2009 to less than 2% in 2016 [1] as Chinese Internet search engine companies have progressively entered the market. Aside from the matter of political conflict with the host country, the formal institution of the international trade organization can also influence the growth of MNEs. Early international business is not standardized, and there are numerous discrimination-related problems in the global market. Due to the skepticism of certain nations and administrations regarding trade equality, the international market is currently quite depressed. As a consequence, it is extremely unlikely for MNEs to profit from FDI or O/O in international business. The world trade organization (WTO) is a multilateral organization that establishes rules for international trade and arbitrates commercial disputes between nations. Through institutional provisions such as the non-discrimination principle, the World Trade Organisation was able to effectively resolve certain conflicts, resulting in a thriving international market. Therefore, the institutional environment of MNEs would be enhanced, resulting in the positive fact that MNEs have opportunities to generate profit, increase revenue, and stimulate economic development via FDI or O/O. China is a successful example of these methods. Before China joined the WTO in 2001, its trade organization was unique. China's import and export figures were primarily determined by the government's estimation of demand. Due to this institution, Chinese companies had few opportunities to partake in international business [17]. China has substantially increased FDI and the proportion of MNEs since joining the WTO. According to WTO data published in 2014 [16], China was the world's leading exporter of goods, accounting for nearly 12% of the global market. Globally, international trade organizations must provide equitable access and opportunities for all foreign firms, which means that equal and fair rules increase the allure of FDI. On the other hand, if the government fails to maintain institutional attractions such as policy restrictions and inconsistency, or if overcrowding of local firms leads to excessive competition, some MNEs tend to withdraw their foreign investments and move out of locations that were previously deemed advantageous.

Other than the point cited, RBT is also a crucial factor to influence FDI and O/O. Sanders and Carpenter [15] suggested that MNEs should have a better management system to cope with different institutions in different countries, which was based on IBT. However, Hillman et al. [4] emphasize that it is too simple to research the relationship between the institutional environment and management scale. What matters more is not the number of directors, but who they are and what they can do for the company, which is based on RBT. In terms of RBT, there are various resource categories including tangible and intangible assets, human resources, and financial resources. It is a fact that some resources, especially those that are expensive, scarce, in high demand, and irreplaceable, can make companies better at taking strategic action. In other words, the process of the deployment of resources would stimulate a firm's capabilities which can be used to achieve organizational goals [14]. Under the influence of RBT, MNEs are expected to access local resources and reduce costs for the reason that FDI could access needed resources at less than the actual cost available in the home country. It is worth noting that some of the resources are available in local markets such as human capital. There is no denying that foreign managers are often unable to effectively monitor multinationals because they are not familiar with the host country's policy, culture, and customs [11]. Garridoa et al. [6] also contend that MNEs should absorb more local talents to adjust their governance structure when faced with the challenge of international business, since local directors with international experience, compared with foreign directors, have a stronger relationship between the company internationalization and localization. For example, Romania attracts significant FDI from IT companies that capitalize on Romania's plentiful supply of IT graduates instead of graduates from home countries. Similarly, Ireland attracts FDI due to the incentives championed by the government and the supply of highly educated labor, which also provides MNEs with a large number of high-level talents. However, Witold et al. [17] state that the localization of MNEs management intensifies the inconsistency of the decisions between enterprise managers and investors, giving rise to higher transaction costs. Nevertheless, there is no denying that local human resources are transferable across borders, helping the MNE to get information about overseas, which is beneficial to gain competitive advantages abroad. Hence, MNE's brand could be expanded, which is possible to open a new regional headquarters. In other words, FDI serves as a crucial medium for MNE to form a system to produce better reports, by which potential markets can be developed. It is evident from the data that McDonald's has gone local in China, and most of its store managers are Chinese. This gracious localization of MNEs has built up the love and dependence of customers. Thus, a regional headquarter was successfully established in China, which has brought huge profits to McDonald's headquarters [13]. Furthermore, the MNE could gain access to knowledge about the host country, and tend to be benefited from the local technology, capital and management. Large companies have increasingly found the need to use international resources such as advanced technology and equipment through acquisitions and strategic alliances to promote research into their new products. This phenomenon has led to a large amount of FDI and O/O. David [2] shows an example that Pfizer, a big pharma, maintains its pipeline of drugs by investing in the innovative skills of foreign biotech firms. On the other hand, the evolution of the MNE or IB also has complex influences on some developing countries. It is true that foreign-invested enterprises indeed have resource endowments including professional skills, advanced technology, good reputation and patents [5]. So, these enterprises are a strong possibility to be more productive compared with local firms. To cope with the pressures of FDI, local enterprises must focus on those resources that could promote their productivity and competitiveness through association with other local companies or MNEs. Only in this way, the market share of local enterprises will not be squeezed by foreign enterprises. However, Peng and Myer [12] argue that the transfer of resources and jobs would harm the domestic economy; hence some modes of FDI are opposed. For example, the unemployment rate may tend to be high in the home country. Even the expansion of firms provides some jobs, these jobs require professional skills. Because of inadequate professional skills, many people cannot meet their employer's expectations. Therefore, income distribution would be adversely affected in the origin country by raising the demand for skilled workers and suppressing the demand for common workers.

2 Conclusion

In summary, through an examination of the functions of IBT and RBT, the advancement of MNEs and IB can be partially facilitated. Regarding IBT, MNEs leverage cultural homogeneity to enhance their revenue streams, while simultaneously mitigating policy risks associated with cross-border investments. In the context of RBT, MNEs capitalize on local human resources to optimize labor costs, and leverage indigenous technological advancements and equipment to augment productivity levels. Undoubtedly, the utilization of IBT by MNEs' management in their decision-making process regarding FDI or O/O could serve as a viable means of mitigating avoidable losses by prioritizing the institutional environment. Conversely, the adoption of RBT could heighten managers' awareness of resources, thereby preserving the MNEs' core competitiveness. Thus, managers must take into account these two theories while making decisions. MNEs tend to attain enduring and consistent advantages solely through this approach. The aforementioned instances of MNEs' evolution being rejected indicate that unfair competition in the realm of international business may negatively impact developing nations with weak institutional frameworks, thereby impeding trade development in such regions. Enhancing the business system, including international trade organizations, is imperative to combat issues such as discrimination, exploitation, and malicious competition. As a result, based on the studies of IBT and RBT, it can be inferred that the performance of MNEs may be optimized when the international trade organizations' system is fully developed and efficient.

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