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# Adaptation to the International Business Environment: A resource advantage perspective

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## **Adaptation to the International Business Environment: A resource advantage perspective**

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## **Adaptation to the International Business Environment: A resource advantage perspective**

### **ABSTRACT**

This paper discusses the importance of the adaptation of the firm to the International Business Environment. Using concepts from the literature on resource advantage, we posit that the firms' adaptation capability to different International Business Environments is a valuable, difficult to imitate, non-tradeable, rare but not scarce and path dependent resource. We further suggest that adaptation to International Business Environment is a non-substitutable core source of competitive advantage for the multinational enterprises, developed over time through the firms experiences and built into their routines. In line with this argument, some propositions are formulated. We conclude with a broad discussion and suggesting some avenues for future research.

**Keywords:** adaptation, international business environment

### **RESUMO**

Este artigo discute a importância da adaptação da empresa ao ambiente de negócios internacionais. Usando conceitos da literatura sobre vantagem de recursos, pressupomos que a capacidade de adaptação das empresas aos diferentes ambientes de negócios internacionais é um recurso valioso, difícil de imitar, não-comerciável, raro, mas não escasso, e dependente da trajetória. Também afirmamos que a adaptação ao ambiente de negócios internacionais é uma fonte essencial insubstituível de vantagem competitiva para as empresas multinacionais, desenvolvida ao longo do tempo, por meio das experiências das empresas, e integrada às suas rotinas. De acordo com esse argumento, algumas propostas são formuladas. Concluimos com uma discussão ampla e propomos algumas sugestões de futuras pesquisas.

**Palavras-chave:** adaptação, ambiente de negócios internacionais, estratégia competitiva, vantagem em recursos.

## 1. INTRODUCTION

*“Environmental conditions determine which systems survive and thrive: those best adapted are most likely to prosper.”* (Scott, 1998, p. 104)

Scholars have recognized that organizations must adapt to the environment to succeed. Scott (1998, p. 21) posited that “every organization exists in a specific physical, technological, cultural and social environment *to which it must adapt*” (emphasis added) and “[earlier scholars] tended to overlook or underestimate the importance of organizations-environmental linkages”. Acknowledging the complexity, importance and interdependence between the organizations and their environment, Scott (1998, p. 23) stated that “no organization can be understood in isolation from the larger environment” under the risk of missing the essence of the organization by focusing on a single characteristic to the exclusion of the others. In the case of the multinational corporations (MNCs), this is a larger challenge because they must adapt simultaneously to the different environments where they operate (GUISINGER, 2001).

In spite of the importance of understanding the environment for an MNC, there are few studies on the aggregate International Business Environment (IBE) in the literature, and consequently few studies on the adaptation of the firms to the IBE. For example, a simple search<sup>i</sup> of the word “adaptation” in the title and abstract of articles published in the Journal of International Business Studies (JIBS) and Management International Review (MIR), between 1985 and 2001, resulted in a mere 10 and 8 articles, respectively. Moreover, a brief content analysis of those articles revealed that they fail to fully address both the complexity of the IBE and the need to adapt to the IBE. That is, it is reasonable to put forward that while the environment is typically recognized as a critical determinant of an organization’s success, it is usually treated in a vague, non-precise, and non-operational manner. The researchers present the environment as the “factors that are all around”, uncontrollable, and restrict their analyses to partial dimensions of the environment (e.g., cultural differences, exchange rates differentials, government incentives, income

profile diversity, legal systems disparities, etc.). As important as these individual elements may be, they fall short of capturing the importance and complexity of the IBE; therefore, they miss the value that adaptation has as a core competitive advantage for MNCs. The IBE is thus presented as a broad factor that presents firms with challenges and opportunities.

In this paper, we explore the nature of the IBE and present firms' capability to adapt to the environment as a strategic resource, possibly a source of competitive advantage. In pursuing this approach, we expand international business research by moving beyond the study of single firm and/or industry variables loosely related to environmental factors. This paper incorporates four main issues to achieve this goal. First, the firms' adaptation to foreign business environment is examined from various theoretical perspectives and the IBE is described in its multi-dimensionality. Second, we briefly review the resource advantage theory and conceptualize adaptation ability as a resource and possible source of competitive advantage. In the third section, we explore whether adaptation has the potential to generate competitive advantage. Finally, we develop a set of theoretically driven propositions. In the discussion, we tentatively propose the extension of the traditional *structure - strategy - performance* paradigm to encompass the essential role of adaptation. Some avenues for future research precede the conclusions.

## **2. ADAPTATION TO INTERNATIONAL BUSINESS ENVIRONMENT**

### **2.1 Adaptation in general business**

Adaptation is the "adjustment to environmental conditions as (a) adjustment of a sense of organ to the intensity or quality of stimulation (b) modification of an organism or its parts that makes it more fit for existence under the conditions of its environment" (M-Webster dictionary). Three core elements emerge from this definition: first, adaptation is a process, and as such it is continuous, of adjusting to an environment; second, there is a correspondence between adaptation and better fit, from which adaptation results as a matter of degree more than a simple dichotomy adaptation-standardization, and third, the conditions of the environment are uncertain and complex.

Organizations are open systems with multiple interactions with their environments that constrain firm's ability to survive and prosper. The existence of pressure to adapt to local environments was noted, in institutional theory, by DiMaggio and Powell (1983), who defined isomorphism as the pressure exerted upon an organization to conform to existing firms in the same environment. Organizations then must comply with the rules, norms and behaviors set forth by the institutions in the places where they operate, to build their legitimacy (MEYER; ROWAN, 1977). Rosabeth Kanter (1997) argued that the institutional perspective focuses on the embeddedness of economic action in a social *milieu* that influences choices, and stated that firms' success is partially due to the environment surrounding them and how well they deal with or change that environment. Population ecology recognizes that forces exogenous to organizations likely to produce uniform configurations include environmental selection for competitive fitness within ecological niches (HANNAN; FREEMAN, 1989). In the Economics literature, Hayek (cited by WILLIAMSON, 1991, p. 277) also recognized the importance of adaptation, stating that "the economic problem of society is mainly one of rapid adaptation in the particular circumstances of time and place".

Firms' adaptation requires knowledge about the environmental dimensions and the actors (customers, suppliers, competitors, and agencies), which demands information. Information is the basis upon which knowledge is developed, although few organizations consistently monitor and scan their environment in an effort to gather information (SETHI; GUISSINGER, 2002). Information entails knowledge that has been recognized as an important strategic resource that fulfills the main conditions of the RBV: difficult to imitate, non-tradeable, non-substitutable and rare (BARNEY, 1986, 1991; WERNERFELT, 1984; PETERAF, 1993; HUNT, 1997B, 2000, 2000B; GRANT, 1991). As a tacit resource (BARNEY, 1991), knowledge is intangible, developed through experience, acquired in the routines, and incorporated in the human resources (GRANT, 1996b).

When firms enter business or geographical unfamiliar environments, they face unfamiliar contexts with rules defined by the political, social, legal and economic institutions with which they must comply. This drive for

legitimacy challenges the corporation to adapt. Two main and largely opposing pressures exist: one towards isomorphism as compliance to institutional pressures within the larger corporation, and other towards isomorphism as adaptation to local environment pressures. Internal pressures rest on taken-for-granted assumptions that are embedded in the firm's operations - built on past experiences, power relations, inertia, common beliefs and memories (DIMAGGIO; POWELL, 1983).

In sum, a wealth of research has acknowledged the importance of the adaptation of the firm to its environment. Henceforth, we develop our analyses within the context of the multinational corporations and the international environments.

## **2.2 Adaptation to international business environment (A-IBE)**

The MNC is exposed to a foreign environment which has the pervasive effect of generating a liability. Notwithstanding, the adaptation of the firm to the foreign environment has found but a minute echo in the IB literature. The IB research has been largely focused on the foreign entry modes (e.g. JOHANSON; VAHLNE, 1977; JOHANSON; WIEDERSHIEM-PAUL, 1975), location decisions (e.g., LI; GUISSINGER, 1992; RUGMAN; VERBEKE, 2001), new organizational models (BUCKLEY; CASSON, 1998), partnerships (LYLES; SALK, 1996, on joint ventures), cultural differences (HOFSTEDE, 1980; KOGUT; SINGH, 1988, PORNPITAKPAN, 1999), and the marketing variables (CAGUSVIL; ZOU; NAIDU, 1993). In some minor way they all incorporate a component of the IBE, in some instances cultural disparities and in other cases economic measures. Despite the increasing research effort in IB studies, the majority of the traditional research was economics-driven and saw the advantages of the firms as exogenously shaped<sup>ii</sup> (DUNNING, 2000). Only the last decade and a half has seen a shift of researchers' attention to more managerial aspects and theories.

One of the most notorious IB theories - the evolutionary entry mode and the internationalization model - originated in the Upsalla School (HILAL; HEMAIS, 2003) and developed in the seventies and eighties. This theory stipulates that firms adjust to the local market conditions. Adaptation entails a process of knowledge acquisition and experience that enables the

firms to evaluate the risks and opportunities. For instance, the concept of psychic distance (composed of cultural, economic and geographic or physical distances) illustrates the difference between the firms' home and host country (e.g., HALLEN; WIEDERSHIEM-PAUL, 1979). Firms internationalize their operations first to closer countries and only as they gain more experience do they seek farther countries and commit a larger pool of resources. The entry mode strategy thus is not decoupled from the local responsiveness (or market selection), hence evidencing a partial recognition of the complexity of the IBE.

A recent development on the analysis of firms' internationalization has focused on the enormous costs exerted by operating in a host business environment that differs from the home country of the firms – termed as *liability of foreignness* (e.g., ZAHEER, 1995; KOSTOVA; ZAHEER, 1999). Actually, the exploration of such costs can be traced back to Hymer's seminal work, in 1960. Indeed, Hymer's concept focuses on the costs of doing business abroad, which is a broad construct incorporating various costs emerging for firms operating in foreign market. To overcome this liability of foreignness, firms need to adapt to the local norms, rules and behaviors.

Although much research has been conducted in recent years, it delves around these core ideas and, whatever the lenses used, the extant research in IB tends to treat firms' unsatisfactory foreign performance as the outcome of inappropriate choices regarding location, transactional model adopted or foreign entry mode selected. Dunning's work (1981, 1993, 1998, 2000) has put forward the integration of these factors in the OLI paradigm (Ownership-location-internalization) and Guisinger (2001) proposed the Ownership- Location-Mode-Adjustment (OLMA), incorporating the adaptation to the IBE as a main dimension.

To understand what firms need to adapt to, we need to understand what comprises the IBE beyond general statements of external factors. That is, researchers need a framework that contains the IBE in its complexity and multi-dimensionality. However, the majority of the extant research seems to use Hofstede (1980) cultural typology to establish differences among

countries. This typology has supported researchers with quantitative and comparable measures of cultures across countries, thus permitting statistical and theoretical comparisons. Nonetheless, the differences are larger than only culture and a construct for the IBE needs to take an integrated view of all (or at least the majority) of the environment variables<sup>iii</sup>, i.e., the wider, more complex and multi-dimensional IBE that renders management of international operations distinct from the large scale domestic firms.

To adapt to the IBE, the multinational corporations need to engage in: (a) systematic collection of information on all environmental dimensions and the economic agents in the local markets; (b) processing this information to enhance environment knowledge; (c) identification of the more vulnerable internal areas and external opportunities towards a better environmental fit<sup>iv</sup>; and (d) implementation of the “best practices” more adjusted to the identified environment. In the following sections we will argue that firms’ ability to adapt to the environment is a resource, or a capability<sup>v</sup>, whose foundations lie in the human resources’ stock of knowledge and experiences that seek a better fit to promote better performance. Hence we argue that it is also a crucial source of competitive advantage in a competitive game that does not attain a neoclassical long-term equilibrium (HUNT, 1997A, 2000A, 2000B; HUNT; MORGAN, 1995, 1996).

### 3. RESOURCE ADVANTAGE THEORY

Faced with a potential liability of foreignness, the MNCs need to leverage their advantages. The resource advantage theory provides a view on the importance of the resources to potentially achieve a sustained competitive advantage. Hunt (1997b, 1997c, 2000b), and Hunt and Morgan (1995, 1996) advance an evolutionary theory of competition coined as “resource-advantage” (herein R-A) in opposition to the well-known neoclassical<sup>vi</sup> assumptions of perfect competition (see HUNT; MORGAN, 1995, p. 2; HUNT, 2000). In the R-A, competition is disequilibrium-provoking<sup>vii</sup>, innovation and organizational learning are endogenous, the market does not convey perfect and free information, and institutions influence performance (HUNT, 1997b). The firm’s objective is to obtain

superior financial performance, given that the resources are heterogeneous across firms and imperfectly mobile<sup>viii</sup>, and the behaviors are self-interest seeking constrained (HUNT, 1997A,B,C, 2000A,B; HUNT; MORGAN, 1995, 1996; BARNEY, 1986, 1991) - that is, the behaviors are socially bounded. The heterogeneous resources and demands across and within industries result in diversity<sup>ix</sup> of firms' size, performance and scopes (HUNT, 1997b, 2000b).

The R-A theory argues that the firms' resources are the main determinant of competitive advantage and firm profitability (WERNERFELT, 1984; BARNEY, 1986, 1991; MAHONEY; PANDIAN, 1992). Firms that have rare, valuable, difficult to imitate, non-tradeable and non-substitutable resources might have a sustained competitive advantage, given that these resources enhance the firms' ability to pursue opportunities and/or avoid threats (BARNEY, 1991). That is, contrary to other theories, such as the industrial economics, the R-A owes the difference in firm performance to firms' different endowment of resources and capabilities that allow them to earn above-normal rents. Two aspects in this argument are worth pointing out: first, the resource patterns that firms occupy differ; second, firms' abilities to earn profit differ due to the disparity in the resources they hold. According to Wernerfelt (1984; p. 172), these resources may include "anything that might be thought of as a strength or weakness" and are "tied semi permanently to the firm".

A firm that controls a rare resource has a potential source of competitive advantage if it is able to produce at lower cost or/and place a superior offer in the market. Strategy scholars agree that tacit resources are better sources of competitive advantage due to their invisible nature. Besides, these are typically causally ambiguous (SZULANSKI, 1996) because they are embedded in the organization's routines, are incorporated in the human resources, and satisfy the remaining conditions (rarity, non-tradeability, non-substitutability, and non-imitability). Those resources that are embedded in the firm's practices and culture, highly interconnected and tacit (BARNEY, 1991; HUNT, 1997A; GRANT, 1991) are more likely to have a longer life span and be sustainable.

Firms' competitive advantages are not eternal; instead, the durability and sustainability of the competitive advantage relies on the strategic resources and these may extinguish impinged by both internal and external factors to the firms. This may occur if the firm fails to reinvest in its pool of resources, if the managers fail to understand the relation between the resources and the competitive advantage (HUNT, 1997a, 2000b), and if inertial forces (HANNAN; FREEMAN, 1989) prevail and no further adjustments are made in the resources in response to environment changes, such as changes in the market preferences, government interventions and actions of other firms that neutralize the advantage.

Briefly reviewed the characteristics of the resources and the implications on firms and markets, we argue that the ability to adapt has the characteristics of a strategic resource that benefits MNCs in overcoming the liability of foreignness and leveraging their advantages.

#### **4. PROPOSITIONS**

Not only will firms that expand internationally face environmental challenges, but they will also need to modify their internal structures and organization to encompass the added complexity. A primary task in the internationalization process may be the acquisition of information pertaining all the IBE dimensions (SETHI; GUISSINGER, 2002), since holding information may determine a competitive advantage, and allows firms to act proactively. This involves information regarding consumer market shifts, currency devaluations, wages policies, public infrastructures investments, tariffs and/or quotas negotiations, issuing of new government legislation/laws, tax reforms, etc., but also information about competitors and government policies.

When subject to a disparate IBE, the firm needs to redraw its boundaries, roles and internal processes to take advantage of opportunities and face threats. Scott (1998, p. 90) posited that "in adapting to the external environment, open systems typically become more differentiated, more elaborate in structure" rendering that, as we expect, MNCs become more complex than domestic firms.

Hence a general proposition may be formulated as: the degree of environmental complexity increases dramatically when the firm is exposed to a foreign environment imposing increased information demand for potential adapting activities. Notwithstanding, while information may be a primary step in any attempt to adapt to the environment, it is not per se the foundation for a competitive advantage. Information may be obtained in the market, its source is not exclusive, is neither rare nor scarce, and as a result is easily imitable. What matters for the firm is not information, but the selection of information and, most important, how it impacts the manner in which information influences how firms adapt to the IBE - the use of information in the internal processes, routines and exploration of other embedded resources and capabilities.

#### **4.1 A-IBE as a resource**

The ability of the MNC to adapt to the IBE is, following the resource advantage view, a potential source of competitive advantage. Barney (1991, p. 101) defined resources as “all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable a firm to conceive of and implement strategies that improve its efficiency and effectiveness” and thus create a valuable market offering for some market segment. The authors also classified resources into three distinct groups: physical capital, human capital and organization capital. For a firm’s resource to become valuable, it must allow the firm to “exploit opportunities or neutralize threats” in the firm’s environment. Barney (1989) suggested that such non-tradeable resources as culture or reputation are in fact *meta-resources* that arise from the interactions between factors in the firm and over time. For example, reputation is valuable because it helps the firm win customers, charge premium prices, attract superior human resources, improve access to capital markets, attract investors, and gain access to other resources (FOMBRUN; SHANLEY, 1990; FOMBRUN, 1996). Reputation may be viewed as a strategic asset because it is a long-term asset, which makes it valuable, rare, imperfectly imitable and non-substitutable (BARNEY, 1991; BARNEY; HANSEN, 1994). Other intangible assets also fulfill the conditions set fourth by the resource-

based view. The firm's competencies (PRAHALAD; HAMEL, 1990) are also intangibles that enable the firm to outperform its competitors.

Barney (1991) suggested that firms should pay more attention to their resources rather than their competitive environments, since they cannot master the environments. But if to survive the firm must seek the best position, it seems reasonable to posit that at least some degree of environmental adaptation is required. To master the environment does not mean it must change it, but rather that it must adapt to it. As Rumelt (1974) noted, a firm's competitive position is defined by a bundle of unique resources and relationships.

**Proposition 1.** Valuable, non-substitutable, non-imitable and scarce, A-IBE is a critical resource for competitive advantage.

Dierickx and Cool (1989) argued that critical resources are accumulated rather than acquired in strategic factor markets, and particularly, the unique intangible assets whatever their origin (history or path-dependency) are not easily available (BARNEY, 1991). Tacit resources are skill-based and people-intensive (HART, 1995), are invisible, based on the learning-by-doing accumulated through experience, and complex (BARNEY, 1991). Besides, they are difficult to evaluate and their relation with the outcome is causally ambiguous. Conversely, tangible assets, such as physical or financial assets, may render a temporary advantage but can usually be acquired in the market by rivals.

While explicit resources are easy to transfer and contract, tacit resources cannot be easily codified and can only be learned through observation and practice (KOGUT; ZANDER, 1992; GRANT, 1996a) as they reside in the individuals. Tacit resources are therefore more valuable for a firm because they are difficult to appropriate and imitate directly. On the other hand, the characteristics of tacit knowledge may constrain the firm's ability to assess and respond to changing environments (LEVITT; MARCH, 1988). Winter (1987; p. 172) stated that "the failure to articulate what is articulable may be a more severe handicap for the transfer of knowledge than tacitness itself".

It is reasonable to suggest that adaptation is likely to be a reasonable predictor of success and recently Buckley and Casson (1998) claimed for increased flexibility as a means of surviving and prospering in the foreign market. Flexibility is based on the ability to adapt to changing conditions. As a tacit resource, it is difficult to imitate and is causally ambiguous, making it hard even to identify. It is a complex, intangible and highly interconnected resource that is difficult to neutralize by the competitors. In summary, adaptation holds the characteristics of a strategic resource. Resources have been considered those tangibles and intangibles that may consubstantiate a competitive advantage or a competency (PRAHALAD; HAMEL, 1990).

**Proposition 2.** As a tacit resource, A-IBE is a sustainable resource for competitive advantage.

#### 4.2 A-IBE and competitive advantage

Hunt (1997a) defines competition as an ongoing process of struggle among firms for a comparative advantage in resources that will ultimately yield superior financial performance. Therefore, markets do not reach a state of long-term equilibrium (HUNT; MORGAN, 1995, 1996; HUNT, 1997a, 2000b). Furthermore, neither the firms nor their environments are ever in a state of equilibrium (NOHRIA; GULATI, 2000). Strategy scholars have long recognized that competitive advantage results from the combination of firms' capabilities (or resources) and the external circumstances (environment) (CHANDLER, 1962; ANDREWS, 1971).

A highly adaptive firm enjoys a competitive advantage, given that it is able to choose its target markets more wisely than its competitors and better tailors its offer to the environment. The advantage is sustainable insofar as the firm recognizes the source of its advantage and does not fail to reinvest in its development. For the sustainability, it is also essential that the firm fully acknowledge the advantage source inhibiting possible causal ambiguity. On the other hand, knowing the other agents (competitors, clients, regulators), the firm may better act and define the strategies most suited to respond to any changes that may emerge.

**Proposition 3.** Firms with a higher level of A-IBE have a higher performance.

### **4.3 A-IBE is experiential**

The relation between the degree of adaptation and firm performance is not stable for different MNCs. The adaptation to international business environment is not costless, and to some extent, the adaptation is likely to even cost more than what a newly international firm may gain from the foreign market. However, more experienced firms may exhibit only a positive relation due to their accumulated knowledge, learning ability, more efficient environment-scanning-information gathering and their more developed adaptive schemas. It is not learning *per se* but adaptation to the environment that matters. Hence, a U-shaped relationship is more likely to emerge in newly internationalized firms given the extra resources (e.g., financial, marketing, human, technical) that need to be committed to the endeavor, but a linear relationship between adaptation and firm performance may emerge for more experienced firms.

**Proposition 4.** The relation between A-IBE and firm performance is subject to the multinational's accumulated internationalization experience. In other words, there is a U-shaped relation for newly international firms and a positive relation for more experienced multinationals.

Adaptation as a process is based on learning but in itself is not learning. Sustainable and consistent adaptation ability benefits from the mastery of the learning process of the environmental diversity. Indeed, competitive advantage does not have to be multi-resource based but competitive advantage based, and adaptation ability is likely to be reinforced by competencies in other fields (commercial, marketing, technical, technological, financial, etc.) or firm or employees' entrepreneurial capabilities. Similarly, Hunt and Morgan (1996) classified learning as a source of competitive advantage, noting that it is not learning *per se* that generates the advantage but the resources critical for success, as a firm that masters learning may still not generate superior financial performance. Adaptation is at the core of performance and survival. Firms learn through competition via their relative performance, *viz a viz* the

competitor's, their resource positioning and, as a consequence, their relative (dis)advantage.

Doz, Asakawa, Santos and Williamson (1997) have coined the term "*metanational*" corporation to refer to the type of MNC which harnesses resources and intellectual capabilities from throughout the world, and integrates them in the way that best advances its long-term strategic objectives. The metanational is that firm with extraordinary adaptation ability that has already become a-national<sup>x</sup>.

**Proposition 5.** Adaptation is endogenous and evolves from being essentially competitive (internal) to becoming legitimacy enhancing (external). Over time, the experienced firm becomes national sensitive and is readily adaptive to the new markets where it locates – that is, it becomes "metanational".

#### 4.4 A-IBE and the managers' role

Hunt and Morgan (1997) wrote that the main role of management in R-A theory is to "recognize, understand, create, select, implement, and modify strategies" (p. 76). The managers decide on the informational requirements (SETHI; GUISSINGER, 2002) and on the strategic choices and actions taken, namely in seeking a better fit to the host environments.

The identification of the environmental complexity that presides to the adaptation efforts is bounded in the cognitive ability of the decision makers – the managers. Williamson (1975) highlighted the bounded rationality of the agents, and Scott (1998, p. 68) wrote that "the most critical ingredient of successful organizations is the formation of a collective purpose that becomes morally binding on participants. Developing and imparting this mission is the distinctive function of the executive".

Managers have the ultimate responsibility for the information collected pertaining the IBE, the decisions made at the firm level, the design of the strategies to pursue, their implementation and control. Managers are thus at the core of the adaptation process. Recently Phelan (2001) traced to expectations on the future value of a resource the will to pursue it on the factors market or to invest in its development in-house. The managers have to discern whether the value of the resource, or the resource bundle, in

some future use exceeds its present value. Then, the managers' ability to appropriate this future value of the firms' resources and capabilities is essential. Besides, given the dynamic nature of competition, the assortment and configuration of the resources are likely to demand continuous adjustment to respond to new environmental changes.

**Proposition 6.** Managers' expectation of the future value of adaptation fosters or retracts the firm's adaptation to the IBE. Short-term performance measures play but a secondary role.

## 5. DISCUSSION AND CONCLUDING REMARKS

In this study we called attention to the importance of developing the study of the international business environment. We further intended to shift the orientation from a more economics view of the firm and its actions to a more business strategy-based view. To act strategically is to search for the better positions in the landscape, which requires a continuous evaluation and selection of those resources with the potential to generate a competitive advantage. For the multinational corporations, a better fit is only attained when the MNC adapts to the host environments and overcomes the hazards of foreignness.

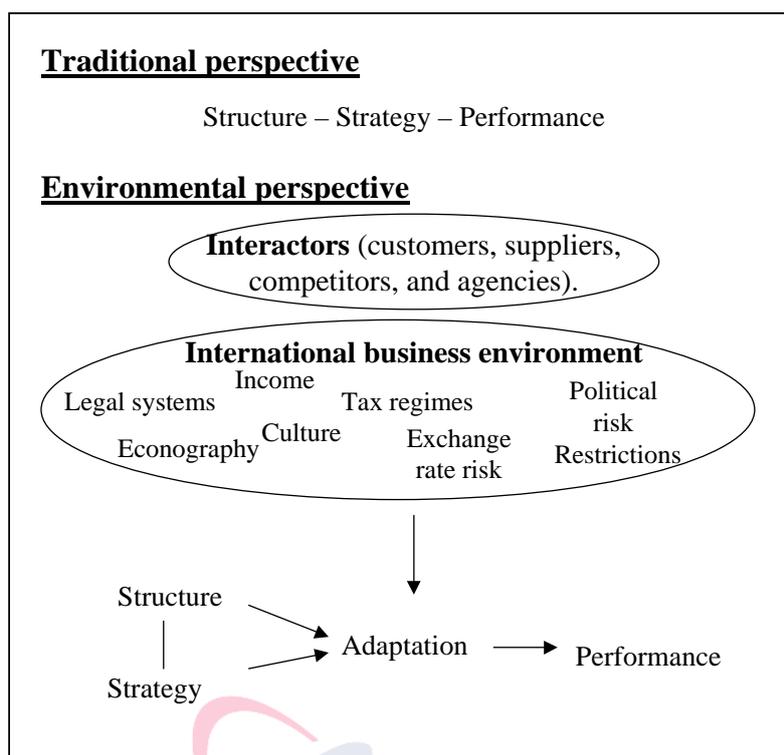
We argued that adaptation is a critical capability that fulfills all the requirements to be considered a strategic resource. Whether or not the MNC of the future is metanational, as Doz et al (1997) claim, requires further investigation. However, it will still have managers who, acting as decision-makers, are key actors in the play, imprinted with cognitive limitations and expectations.

From a resource advantage perspective, we examined firms' adaptation to the international business environments as a type of critical resource which can bring the MNCs benefits. However, firms' adaptation to the environment plays such an essential role that it can not be separated from other aspects of business operation. Peters and Waterman (1982) viewed organizations in terms of the seven dimensions: strategy, style, structure, systems, staff, shared values and skills, and the authors observed that the congruence among them had implications on the firms' "excellence". Adaptation bounds the structure of the firm and is bounded in

its scope by the internal capabilities. Adaptation shapes the strategy and is an integral part of the strategy. Strategy, as indicated by Direckx and Cool (1989), is about growing non-tradeable resources and acquiring resources in strategic factor markets. The mode of exploration of the firm's capabilities and resources in foreign markets is constructed in the interlinkages between the firm's resources and strategy, the forecasted role of the venture in the organization's overall operations, and the host market characteristics. The traditional structure-strategy-performance is implemented by decision makers/managers imprinted in their bounded rationality and expectations.

A possible avenue for future research may be based in empirical hypotheses testing to assess whether firms that reveal higher degree of adaptation have a superior performance. Moreover, it would be interesting to understand whether there is one environmental dimension to which adaptation results in higher performance. This finding could falsify our proposition that an integrated perspective of the environment is essential. Nonetheless, perhaps the most important research is that quantifying the IBE in a single or set of indicators – eventually following the geovalent taxonomy presented.

Throughout this paper we argued for the need to move towards a more unified environmental perspective. This is tentatively depicted in figure 1.

**Figure 1.** The environmental model

It seems probable that adaptation is a determinant factor for each of the three components of the S.S.P. (structure, strategy and performance), and both the interactors and the general IBE guide the adaptation needed and the most rational model of adaptation. Firm's performance is largely determined by its ability to monitor and respond to environmental changes.

The multinational corporation of the future is likely to be environmentally sensitive given its large international experience, the knowledge accumulated and value incorporated in its human resources. Then, the fundamental strategic resource of the aspiring to be MNC is the adaptation ability to a naturally complex IBE.

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<sup>i</sup> Using Texshare OVID.

<sup>ii</sup> The industrial organization view of the firm (BAIN, 1959; PORTER, 1980) notes that the external environment wholly determines a firm's success.

<sup>iii</sup> Prior literature offered the PEST model (Political, Economical, Sociological, and Technological) and more recently Stephen Guisinger (2001) advanced a taxonomy comprising eight environmental dimensions - Econography, Culture, Legal system, Income profile, Political risk, Tax system, Exchange rates, and Restrictions.

<sup>iv</sup> The fit refers to an environment and is used to indicate a state of better performance or increased odds of survival.

<sup>v</sup> Grant (1991) defined capabilities as the capacity to perform a task or activity involving complex patterns of coordination between people and other resources.

<sup>vi</sup> Neoclassical theory to represent theory of perfect competition. Some of the basic assumptions are that the agents are price takers, the demand is homogeneous, no single agent has the power to influence the market, information is freely and readily available and all agents possess complete information. Then, in such an environment "abnormal profits" are nonexistent.

<sup>vii</sup> A key premise of the R-A theory is that the market does not find a general long-term equilibrium, as competition is a permanent process where firms continually thrive to capture those resources that are potential sources of competitive advantage.

<sup>viii</sup> Relative immobility implies that resources are not easily bought and sold in the market and are not commonly transferred across firms.

<sup>ix</sup> Hunt and Morgan (1995, p. 9) go further to state that "each firm in an industry is a unique entity in time and space as a result of its history". Besides the obvious explanation to firm diversity emerging in a dynamically competitive environment the authors reinforce the path dependence factor for firm diversity.

<sup>x</sup> A-national means that the firm is not tied to any specific country and has developed the capability to adapt to the countries where it operates.