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Striking a balance? Finance perspectives on international business research

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Abstract

Purpose – The purpose of this paper is to bridge the disciplinary divide between international finance and international business (IB) to realign academic research with business reality in which strategy and finance align to determine firms' success or failures.

Design/methodology/approach – The authors discuss theoretical differences between the fields of international finance and IB strategy that caused the fields to develop in isolation with little fertilization across disciplines. The authors review scarce interdisciplinary contributions between the fields. Finally, the authors identify complementarities that suggest fruitful avenues for future research.

Findings – The authors find a persistent disconnect between finance and strategy/IB literature that can be explained by fundamentally different aims and assumptions about the markets. While finance theory seeks to explain typical effects under functioning markets, strategy and IB theories focus inherently on exceptional effects and market inefficiencies.

Research limitations/implications – The fundamental theoretical differences that isolate finance and strategy/IB create avenues for interdisciplinary research that harness the complementarities of the two disciplines. These include strategic aspects of capital structure, internal capital market inefficiencies, corporate governance, capital market liability of foreignness and institutional aspects of financial management.

Practical implications – With this paper, the authors not only bring academic researchers in finance and strategy closer to corporate practice. The theoretical discussion also challenges the functional blind spots of practitioners and encourages more holistic decision-making.

Social implications – Challenging market functioning and recognizing market inefficiencies using strategy and IB foundations connects financial economics with non-market topics such as environment, society and governance or impact investing.

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Originality/value – The value and originality of the paper come from the qualitative, epistemological approach to study and analyse the divide between international finance and strategy/IB scholarship.

Keywords International business, Strategy, International finance

Paper type Viewpoint

Introduction

The international business (IB) perspective asserts that what firms seek to do strategically in the global market is a function of their internal resources and capabilities and of the cost of interactions in the market. Yet what firms can do, and how they value the opportunities that present themselves, is also largely a function of their balance sheets (Matsa, 2010; Teece *et al.*, 1997). The right side of the balance sheet, the source of capital, however, has long played a subordinate role in the IB literature (Lindner *et al.*, 2016).

The finance literature, which investigates the right side of firms' balance sheets, on the other hand, is largely disconnected from asset-focused IB research, even though it touches on topics in the international domain (Agmon, 2006; Chan *et al.*, 1992; Doidge *et al.*, 2013). Therefore, more research on the integration of finance and strategy research is called for (Puck and Filatotchev, 2020) to make use of the full scope of firm actions in deriving recommendations for firm strategy (Erel *et al.*, 2021).

The main objective of this paper is to build and suggest conceptual and empirical bridges between the two disciplines. Specifically, we highlight how contributions originating from the field of finance have influenced theory and research in the diverse areas of IB, including in the areas of corporate governance, risk management and strategic decision-making in the multinational enterprise (MNE). Further, we identify examples where attention by finance researchers to the IB literature has resulted in innovative research. We provide a summary of papers included in the special issue, which collectively showcase various opportunities for collaborative, inter-disciplinary research by building on the fundamental concepts and frameworks used in finance and IB. Based on our discussion of the state of mutual contributions between the disciplines, we also aim to suggest various specific areas where future research might benefit from an integration of IB and finance.

Not only does the IB literature need theoretical input from complementary finance perspectives; the finance literature will also benefit from insights from IB along several lines. Traditional topics of interest in international finance include currency risk management (e.g. hedging), international taxation, valuation of international investments and, as a consequence of that, international costs of capital and capital budgeting (Bekaert and Hodrick, 2017; Buckley, 2004; Foss *et al.*, 2019; Madura and Fox, 2020; Sercu, 2009). All these international finance decisions are inevitably connected to asset-side internationalization strategies. For example, the degree to which MNCs are exposed to different currency regimes through foreign direct investment (FDI) and/or export affects the intensity and type of foreign exchange rate exposure. In other words, the MNE's financial risk and its management are affected by antecedents that are firmly rooted in IB. At the same time, internationalization affects firms' opportunity set of potential investments and the cost of capital at which they can harvest such investments. Thus, financial resources are an important antecedent to internationalization. The finance and strategy, assets and liabilities and sides of companies are thus inevitably intertwined yet scientifically isolated from each other.

This is partly because the finance and IB disciplines have traditionally drawn on different basic theoretical assumptions. From a simplified viewpoint, finance scholarship tends to base its reasoning on efficient markets and rational actors, whereas IB focuses more on the elements that make markets (e.g. institutional differences) and actors' behaviours inefficient, especially in the context of comparative corporate governance (Biru *et al.*, 2023).

Whereas financial research strives to describe the fundamental or "typical" functioning of companies by theorizing away differences or by controlling for their idiosyncrasies and irrationalities, strategy and IB commonly hypothesize deviations from normalcy by focusing on such idiosyncrasies. In a very simplistic way, one could argue that finance focuses more on the standards or (financial) rules of business, whereas IB and strategy specialize much more in explaining exceptions to such rules.

The core theoretical concepts of the two disciplines, such as efficient markets, diversified and rational investors, on the one hand, and competitive advantage, unique resources and capabilities, on the other, reflect this difference in theoretical interests between the "typical" and the "exceptional". In line with this, finance tends to conceptualize the world as risky (i.e. measurable and potentially predictable), whereas strategy is more sceptical of our ability to predict the future and is thus more firmly grounded in the uncertainty paradigm.

Finally, these different theoretical priorities are also reflected in the most prominent variables and measures of interest in the two disciplines. The influential and important concept of beta, for example, is grounded, among other factors, on assumptions of diversified investors and functioning markets. As a measure of risk, it is enormously valuable to finance scholars and practitioners alike. At the same time, it is criticized for failing to capture unique company characteristics of strategic relevance. Vice-versa, core concepts of IB such as institutional distance, liability of foreignness or non-market strategy are intrinsically violations of the foundational assumptions of finance theory. Although they are very valuable in explaining firms' individual strategies and characteristics, they are highly context- (even company-) specific.

These fundamental differences have led to a state of academic isolation and a lack of cross-fertilization between the two practically inseparable domains. Although the aforementioned discussion related to the different foundations of IB and finance disciplines may be in danger of being over-generalized, it would be a gross over-simplification to state that these disciplines have evolved completely independently from each other. But just as simplifying and generalizing the above discussion about the theoretical foundations of the two disciplines is the assessment that there are no interdisciplinary contributions. Despite publication headwinds in both domains, some scholars have produced interdisciplinary contributions that uniquely combine the strengths of both fields. In the following sections, we provide some key examples of the mutual contributions of the three fields. Our intention is not to develop a comprehensive account of (actual or assumed) mutual influences but to explore how they can enrich each other and lower disciplinary barriers using various areas of overlapping research interests.

Finance contributions to international business research

Finance has contributed important theoretical and empirical innovations to IB. The 2,000 papers published most recently in the *Journal of International Business Studies* (*JIBS*) cite 55,973 sources. Of these, 1,970 (3.5%) come from *JIBS*, 1,463 (2.6%) from *SMJ* and 1,041 (1.9%) from the *Academy of Management Journal* (Table 1).

The *Journal of Financial Economics*, with 541 citations, is the most prominent finance journal in terms of citations in *JIBS*. The vast majority of these citations come from a handful of papers that have shaped both disciplines (Table 2). Most importantly, Jensen and Meckling's (1976) seminal work on the free cash flow hypothesis continues to form the basis of research in finance and IB. Similarly, the important contributions of Myers and Majluf (1984) and Myers (1977) on companies' capital structure; the "law and finance" perspectives of La Porta *et al.* (2000) ("LLSV"); and option pricing theory from Cox *et al.* (1979) have had substantial influence in IB research. The *Journal of Finance*, with 503 citations (0.9%), is the second most-popular source of finance citations in *JIBS*. Prominent articles include the fundamental theory of diversification from Markowitz (1952) and the capital asset pricing model from Sharpe (1964).

Table 1.
Overview of cited sources in the most recent 2,000 *JIBS* articles

Source title	Citations	%
Journal of International Business Studies	1,970	3.5
Strategic Management Journal	1,463	2.6
Academy of Management Journal	1,041	1.9
Academy of Management Review	665	1.2
Organization Science	665	1.2
Journal of World Business	626	1.1
International Business Review	572	1.0
Journal of Financial Economics	541	1.0
Journal of Management Studies	532	1.0
Management International Review	531	0.9
Journal of Finance	503	0.9
Journal of Management	483	0.9
Administrative Science Quarterly	479	0.9

Note: Table 1 was created by authors from the SCOPUS database

Finance research has inspired a productive stream of inquiry on corporate governance in IB. In contrast to finance work on the topic, however, much of this IB work has focused not on the agency problem *per se* but on international barriers to governance and inefficiencies in the market for corporate governance. Particularly, the LLSV contribution offers institutional, country-level explanations for barriers and inefficiencies to the global integration of markets. A second major contribution of the finance literature to IB research relates to portfolio theory and measurement that has informed, among other areas, IB research on the internationalization–performance relationship. As firms internationalize their activities, they can diversify certain risks while assuming others. Portfolio theory therein has offered a fundamental basis for much of the IB literature that examines MNCs as a portfolio of markets.

Borrowing from the finance literature, real options theory gave IB researchers a fresh and fruitful perspective on strategic decisions by MNEs, including foreign entry, subsidiary expansion and operational flexibility (for an embracing review, cf. Chi *et al.*, 2019). Contradicting the famous eclectic paradigm of foreign production (Dunning, 1980, 1993), real options theory led Rivoli and Salorio (1996) to posit that under uncertainty, the central constructs of this approach (ownership advantages and internalization advantages) are negative rather than positively associated with FDI.

In addition to these theory contributions, finance has also introduced methodological contributions to IB. Most notably, the event study methodology that originated in quantitative finance (Brown and Warner, 1985) has found its way into the IB field. IB researchers use event studies to investigate the effect of a number of relevant events (e.g. COVID-19 or economic sanctions) on firms and their international strategies (Eden *et al.*, 2022; El Ghoul *et al.*, 2023; Guedhami *et al.*, 2022; Puhr and Müllner, 2022).

Finally, it is interesting to see that the most-cited finance publications that IB research draws on were published before 2000. Right-censoring of citation counts plays some role in this. Naturally, more recent publications have had less time to be cited. However, the tendency in IB research towards citing older finance literature is also a consequence of increasing specialization in finance in terms of both (formal) theoretical models and empirical strategies. There has been a substantial increase in the specificity of theoretical models, such as stochastic models (Detemple *et al.*, 2003), that explain specific research questions in finance. IB researchers, who are not trained in these approaches, have difficulty integrating such specialized theoretical perspectives into their research. Similarly,

Authors	Title	Year	Source title
Jensen, M.C., Meckling, W. H.	Theory of the firm: managerial behavior, agency costs and ownership structure	1976	*Journal of Financial Economics*
Fama, E.F., French, K.R.	Common risk factors in the returns on stocks and bonds	1993	*Journal of Financial Economics*
Myers, S.C., Majluf, N.S.	Corporate financing and investment decisions when firms have information that investors do not have	1984	*Journal of Financial Economics*
Myers, S.C.	Determinants of corporate borrowing	1977	*Journal of Financial Economics*
Morck, R., Shleifer, A., Vishny, R.W.	Management ownership and market valuation. An empirical analysis	1988	*Journal of Financial Economics*
Brown, S.J., Warner, J.B.	Using daily stock returns. The case of event studies	1985	*Journal of Financial Economics*
Yermack, D.	Higher market valuation of companies with a small board of directors	1996	*Journal of Financial Economics*
La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R.	Investor protection and corporate governance	2000	*Journal of Financial Economics*
Cox, J.C., Ross, S.A., Rubinstein, M.	Option pricing: a simplified approach	1979	*Journal of Financial Economics*
Markowitz, H.	Portfolio selection	1952	*The Journal of Finance*
Fama, E.F.	Efficient capital markets: a review of theory and empirical work	1970	*The Journal of Finance*
Sharpe, W.F.	Capital asset prices: a theory of market equilibrium under conditions of risk	1964	*The Journal of Finance*
FAMA, E.F., FRENCH, K.R.	The cross-section of expected stock returns	1992	*The Journal of Finance*
Shleifer, A., Vishny, R.W.	A survey of corporate governance	1997	*The Journal of Finance*
Carhart, M.M.	On persistence in mutual fund performance	1997	*The Journal of Finance*
Altman, E.I.	Financial ratios, discriminant analysis and the prediction of corporate bankruptcy	1968	*The Journal of Finance*
La Porta, R., Lopez-de-Silanes, F., Shleifer, A.	Corporate ownership around the world	1999	*The Journal of Finance*
La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R.W.	Legal determinants of external finance	1997	*The Journal of Finance*

Note: Table 2 was created by authors from the SCOPUS database

Table 2. Top articles from finance cited in the *Journal of International Business Studies*

advancements in the measurement of core variables, such as portfolio skewness (Harvey and Siddique, 2000), make it difficult for interdisciplinary researchers in IB to use finance concepts in their research. Of course, an increase in the specialization of theories and measurements will generally increase the validity and reliability of a measure, but we need to be aware that it also hinders interdisciplinary cross-fertilization.

International business contributions to finance research

If we conduct the same bibliometric analysis for the prime publication outlet for mainstream finance, the *Journal of Finance*, a very different, more one-sided picture emerges (Table 3). Of the 36,043 references cited in the *Journal of Finance*, 7.35% (2,645) are from the *Journal of Finance.* This is followed by other finance sources like the *Journal of Financial Economics* (2,125 or 5.9%), *Review of Financial Studies* (1,532 or 4.25%) and renowned economics journals like the *American Economic Review* (1,132 or 3.14%) and the *Quarterly Journal of Economics* (569 or 1.58%).

Table 3. Overview of cited sources in the most recent 2,000 *Journal of Finance* articles

Source title	Citations	%
Journal of Finance	2,649	7.35
Journal of Financial Economics	2,125	5.90
Review of Financial Studies	1,532	4.25
American Economic Review	1,132	3.14
Working Paper	715	1.98
Journal of Financial and Quantitative Analysis	650	1.80
Quarterly Journal of Economics	569	1.58
Econometrica	567	1.57
Journal of Political Economy	552	1.53
Journal of Business	374	1.04
Review of Economic Studies	366	1.02
Journal of Banking and Finance	349	0.97
Journal of Monetary Economics	329	0.91
Journal of Accounting and Economics	268	0.74
Management Science	265	0.74

Note: Table 3 was created by authors from the SCOPUS database

To find a meaningful contribution of a management source, one must scroll down the list to rank 15, *Management Science*, with 265 citations (0.74%). This is mostly due to the seminal works of March and Shapira (1987), as well as Thaler and Johnson (1990) or Kahneman and Lovallo (1993) on managerial perspectives on risk and risk-taking, which have been cited prominently in behavioural finance.

When we compare the most-cited finance articles in *JIBS* and the most cited finance articles in the *Journal of Finance*, the differences highlight the fundamentally different theoretical paradigms in the two disciplines. Among the top ten finance articles in the *Journal of Finance*, we find three contributions by Eugene Fama and Kenneth French (Fama and French, 1992, 1993; Fama, 1970) that are not featured in the top ten list of finance contributions cited in IB. All four papers made major contributions to the market efficiency hypothesis, for which Fama received the Nobel Memorial Prize in Economics in 2013. In addition, the works of Sharpe (1964), introducing the capital asset pricing model and Carhart's (1997) four-factor model, play important roles in the finance literature. Both are based on or relate strongly to market efficiency assumptions, which IB journals tend to deviate from.

The first IB journal in the list of sources, the *JIBS*, is not even among the top 200 sources. With only 12 papers cited in the entire historical reference body of the *Journal of Finance* (Table 4), the citation contributions from IB to finance can be considered negligible. Examining the list of the selected few that made it into the finance arena and their topics, a clear pattern emerges: topics of political risk (Giambona *et al.*, 2017), distance (Boeh and Beamish, 2012), institutional and regulatory differences (Cumming and Walz, 2010) and informal institutional influences (Kwok and Tadesse, 2006) have been cited in the *Journal of Finance*. The few contributions that IB has made to finance scholarship all relate to the core theoretical strengths of IB: market inefficiencies resulting from distances, differences and institutional factors. However, these references in the *Journal of Finance* are typically tangential to the points made in the respective studies and provide little fundamental theoretical contribution. Recently, some interdisciplinary scholars have attempted to apply the core IB concept of liability of foreignness (Zaheer, 1995) to financial markets and, thereby, generate truly interdisciplinary research that builds on theories from IB within finance (Bell *et al.*, 2012; Gu *et al.*, 2018; Tupper *et al.*, 2018).

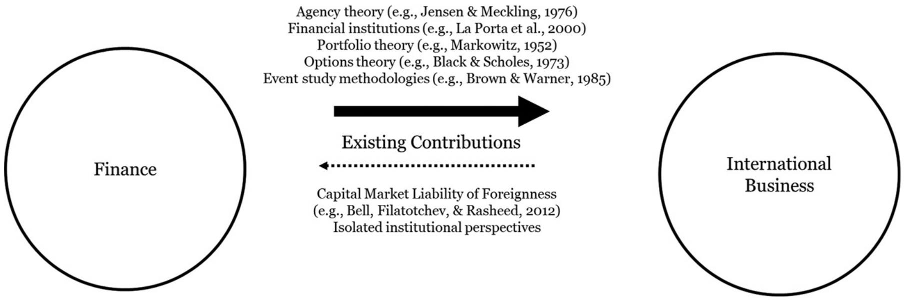
Authors	Title	Year
Giambona, E., Graham, J.R., Harvey, C.R.	The management of political risk	2017
Boeh, K.K., Beamish, P.W.	Travel time and the liability of distance in foreign direct investment: location choice and entry mode	2012
Cumming, D., Walz, U.	Private equity returns and disclosure around the world	2010
Kwok, C.C.Y., Tadesse, S.	The MNC as an agent of change for host-country institutions: FDI and corruption	2006
Pan, Y., Li, S., Tse, D.K.	The impact of order and mode of market entry on profitability and market share	1999
Yeh, R.-S., Lawrence, J.J.	Individualism and Confucian dynamism: a note on Hofstede's cultural root to economic growth	1995
Loree, D.W., Guisinger, S.E.	Policy and non-policy determinants of U.S. equity foreign direct investment	1995
Foerster, S.R., Karolyi, G.A.	International listings of stocks: the case of Canada and the U.S.	1993
Agarwal, S., Ramaswami, S.N.	Choice of foreign market entry mode: impact of ownership, location and internalization factors	1992
Saudagaran, S.M.	An empirical study of selected factors influencing the decision to list on foreign stock exchanges	1988
Mahajan, A., Fraser, D.R.	Dollar Eurobond and U.S. bond pricing	1986
Hekman, C.R.	A financial model of foreign exchange exposure	1985

Note: Table 4 was created by authors from the SCOPUS database

Table 4. Articles from the *Journal of International Business* cited in the *Journal of Finance*

While these citations offer some encouragement, the small number of citations that IB has contributed to finance, the minuscule attention that IB has generated in the discipline of finance – considering, at the same time, the immense body of knowledge it has accumulated on market inefficiencies and barriers to traditional finance – highlight a large research gap and ample opportunities for interdisciplinary research between finance and IB. Figure 1 illustrates the unbalanced cross-fertilization between the two disciplines.

The lack of interdisciplinarity and the imbalance between the two disciplines is unfortunate because the diverging theoretical premises and foci would complement each other. IB theories are ideally positioned to challenge assumptions of efficient markets and to conduct research on deviations from efficient market behaviour. At the same time, finance theories would challenge the pertaining illusion within IB and the strategy that "finance follows" (Forssbæck and Oxelheim, 2008). Without an acknowledgement of the financial fundamentals of companies, IB research risks omitted variable bias when studying how


Agency theory (e.g., Jensen & Meckling, 1976)
Financial institutions (e.g., La Porta et al., 2000)
Portfolio theory (e.g., Markowitz, 1952)
Options theory (e.g., Black & Scholes, 1973)
Event study methodologies (e.g., Brown & Warner, 1985)
Finance
Existing Contributions
International Business
Capital Market Liability of Foreignness
(e.g., Bell, Filatotchev, & Rasheed, 2012)
Isolated institutional perspectives

Source: Created by authors

Figure 1. Existing interdisciplinary contributions between finance and IB

companies internationalize, create and leverage competitive advantages. From both perspectives, the convergence of the two disciplines would align them better with corporate practice in which CFOs and CEOs generally work in close collaboration and coordination.

Future research directions

Below, we highlight some interdisciplinary research opportunities between IB, strategy and finance. Our analysis is by no means comprehensive, and it is based on our experience developing research across the disciplines. We see this as a good starting point for a productive collaboration between scholars that may generate more ideas for mutual enrichment moving forward.

International strategy and capital structure/cost of capital

Firms' capital structure and cost of capital determine their strategic degrees of freedom. Companies awash in cash and having access to cheap capital can pursue different strategies than companies that are constrained. At the same time, successful strategies, growth and internationalization determine a firm's access and cost of capital in a recursive way (Arborgast and Praveen, 2018). In the past, the IB and strategy research streams have, at best, controlled for financial antecedents and consequences. This lack of systematic theoretical and empirical inquiry has yielded mixed results regarding the foundational relationship between the disciplines of finance and IB. For example, the effects of internationalization on costs of external financing (equity and debt) and the availability of capital remain understudied.

Fatemi (1988), for example, finds that internationalization benefits firms through diversification, allowing them to acquire more debt. Reeb *et al.* (1998) and Mansi and Reeb (2002), on the other hand, find that internationalization adds further risks and inefficiencies (e.g. political risk, foreign exchange risk and information asymmetries) and forces firms to reduce debt. This example illustrates the consequences of the theoretical divide between the two disciplines. While Fatemi (1988) applies a financial theory of diversification that is firmly rooted in the financial paradigm of efficient financial markets, more IB-leaning scholars are aware of the limitations of markets in an international setting and have the empirical and theoretical tools to test these limitations, with potentially contradicting results. Lindner *et al.* (2018) bring together the two perspectives and add some institutional contingencies in a meta-analysis, but more research is needed to understand how the risk increase from liabilities of foreignness and the risk decrease from portfolio diversification trade off against each other when companies internationalize.

Beyond adding to the direct relationships between core financial variables and firm-level strategies, IB and strategy have developed scores of theories explaining the conditions under which some firms perform better than others and the characteristics that make some firms more competitive than others. This rich body of theory on institutional and industry environments offers valuable lenses for theorizing about the boundary conditions of the finance–strategy relationship. For example, Bruton *et al.* (2010), in their analysis of the performance of initial public offerings (IPOs), indicate that an IPO's stock market performance depends not only on the nature of its private equity backers (e.g. venture capitalists as opposed to business angels) but also on the institutional context associated with its market of listing.

Kwok and Reeb (2000) show that the effect of internationalization on firms' cost of capital is contingent on the target countries, specifically on whether they offer superior or inferior investment opportunities (upstream vs downstream). Similarly, Lindner *et al.* (2016) build a model of how institutional effects moderate the effect of firms' internationalization on their cost of capital. Mihov and Naranjo (2019) find that internationalization reduces the cost of equity for financially constrained firms but that this relationship is contingent on factors like target-country governance, cultural distance and financial market development. Most recently, Lindner *et al.* (2023) argue that it is country-specific differences in asymmetric risk preferences that, given formal institutional constraints, determine capital structure choice.

Country differences and distances and liability of foreignness are interesting and under-researched determinants of capital structure and cost of capital. Another boundary condition that does not lend itself well to efficient market hypotheses and has, consequently, been overlooked by finance scholarship is related to non-financial aspects. The environment, society and governance (ESG) has made a mark in financial practice both in companies and in banks (Caroline Flammer, 2015). Strategy scholarship can help advance scholarship on the ESG effect on capital structure. Most importantly, it is ideally positioned to study why the effects of ESG on capital structure or the cost of capital may differ from one country or company to another, solving some of the inconsistent findings of finance research.

Despite isolated advances, the relationships between core financial variables and IB concepts remain empirically understudied and theoretically fragmented. This is particularly true for the boundary conditions of these foundational relationships where the two fields, with their distinctive strengths, could leverage extensive complementarities.

International strategy and internal capital markets

The above research focuses distinctly on firms' external sources of finance (e.g. cost of equity and cost of capital) and their investment in (foreign) countries. In addition to such external capital markets, MNCs have access to an internal capital market (ICM). This ICM is, by definition, a function of the locations where MNCs operate and of the local financial environment and regulations. Thus, ICM activity, and its efficiency, are inevitably linked to firms' internal organization across country borders. Therein, IB offers a wide set of theories and concepts to explain the internal operations of MNCs (Kostova *et al.*, 2016; Oh and Oetzel, 2017) and why and when ICMs do not function rationally or efficiently. Again, such applications of IB to internal finance questions have the potential to solve some theory and empirical inconsistencies.

Theoretical views and empirical evidence regarding the effect of ICM on firms' performance are conflicting. On the one hand, traditional finance scholars argue that ICMs allow firms to overcome the information asymmetry of external financial markets (Williamson, 1970), identifying positive performance effects (Gopalan *et al.*, 2007; Khanna and Tice, 2001; Maksimovic and Phillips, 2002). Accordingly, firms internally have superior knowledge about potential investment projects and can forgo the higher transaction costs involved in obtaining capital externally.

On the other hand, more sceptical researchers highlight the negative effects of ICM on performance (Chen, 2006; Desai *et al.*, 2004; Doukas and Kan, 2008; Gertner *et al.*, 1994; Hill, 1988; Lamont, 1997; Lamont and Polk, 2002; Rajan *et al.*, 2000; Scharfstein and Stein, 2000; Shin and Stulz, 1998; Staglianò *et al.*, 2014) that result from a lack of external monitoring and from managerial empire-building (Cline *et al.*, 2014; Denis *et al.*, 2002; Doukas and Kan, 2008; Liebeskind, 2000).

In the absence of competing theoretical predictions and empirical findings, the question arises under which conditions and in which firms the negative effects of ICM would prevail (Alcácer *et al.*, 2018). Here IB, with its unrivalled experience of within-organization functioning (and malfunctioning), could provide a valuable resource for interdisciplinary scholars on both sides, which is, to date, not sufficiently used.

Corporate governance

Corporate governance studies problems associated with the separation between management and ownership. In other words, it regulates the relationship between those who finance a firm and those who manage it. It connects the aforementioned internal and external mechanisms related to the orchestration and usage of finance. Thus, corporate governance is, *de facto*, an interdisciplinary connecting field between finance and IB. This is evidenced in extensive cross-citation of agency theory in the field of finance (Acharya *et al.*, 2011; Géczy *et al.*, 2007; Goel and Thakor, 2008; Lemmon and Lins, 2003; Shleifer and Vishny, 1997; Williamson, 1988) and IB (Strange *et al.*, 2009; Cumming *et al.*, 2017).

This finance research has produced a remarkable repertoire of theoretical and empirical work and has pioneered empirical methods in the study of firms' governance that should inform IB research in the field. At the same time, IB has specialized in the challenges involved in contexts outside the USA (van Essen *et al.*, 2019), cross-border issues of governance (Aguilera *et al.*, 2019; Kang and Kim, 2010), the difference between governance environments (Bruton *et al.*, 2010; Strange *et al.*, 2009), stakeholder-oriented governance (Yoshikawa *et al.*, 2021) or the governance of complex subsidiary networks (Andersson *et al.*, 2002; Birkinshaw and Hood, 1998; Mudambi and Navarra, 2004). Most distinctive within IB governance scholarship is the topic of cross-border mobility of governance structures and the effects thereof (Cumming *et al.*, 2017; Ellis *et al.*, 2017). Here, IB scholarship can leverage its expertise in the transferability of firm strategies and the institutional environment in a way that finance research cannot. More generally, IB and management scholars increasingly draw attention to the role of context in corporate governance research and the need to move it away from the universalistic models developed historically by economics and finance scholars. Filatotchev *et al.* (2022), for example, provide an "open system" perspective on corporate governance that suggests that firm-level governance mechanisms are embedded in a firm's contextual environment, such as its industry, networks and macro-institutions that create important boundary conditions for the economic efficiency of firm-level governance.

Corporate governance research is a good example of the opportunities for truly interdisciplinary theory building driven by deeper integration of IB and finance frameworks. The IB studies are very much grounded within the principal-agent perspective and focus on behavioural aspects of resolving agency conflicts (e.g. managerial incentives, board monitoring, shareholder activism, etc.). Finance and accounting perspectives put more focus on a firm's contractual arrangements and its corporate information environment. Armstrong *et al.* (2010) argue that the notion that both aspects evolve together over time to resolve agency conflicts. As a result, one does not expect to see firms converging to a single dominant type of corporate governance structure, compensation contract, debt contract or financial reporting system. Instead, one expects to observe heterogeneity in these mechanisms that is a function of firms' characteristics and external environments. Therefore, future interdisciplinary research should integrate behavioural and contractual perspectives and clarify that there is no ideal or standard package of good governance but a variety of options that affect organizational outcomes, such as performance, internationalization and innovation, among others.

Finance and competitive advantage

In addition to financial constraints as antecedents of strategy, firms can also actively pursue financial strategies with the aim of obtaining a competitive advantage (Oxelheim *et al.*, 2001; Puck and Filatotchev, 2020). In this case, finance becomes a strategy in itself. Financial strength, *per se*, can be seen as a special form of economies of scale and scope of MNCs that have headquarters in countries with liquid financial markets (Dunning, 1980, 1993, 1998).

Beyond the mere availability of capital, some financial decisions have strategic implications that are relevant for IB and strategy. This is true, for example, for operational foreign exchange rate exposure, which essentially is a strategic risk with financial implications since the locations in which a firm operates determine how it is exposed to competitive pressure from competitors in different currency areas (Allayannis *et al.*, 2001). In addition, subsidiaries in other currency areas provide opportunities for natural hedging, transfer pricing and capital allocation (De Simone *et al.*, 2017).

Similarly, the capital sourcing decision, or the decision from which investor and location a company obtains capital, often involves strategic considerations (e.g. syndication, sovereign wealth funds, cross-listing, institutional investors and project finance). Bruton *et al.* (2010) also show that the outcome of financial decisions may depend on the strategic choice of a specific national capital market.

These strategic finance decisions often do not exclusively follow efficiency principles but combine a financial and long-term strategic rationale that blurs the line between finance and strategy. As a result, studying phenomena such as cross-listing (Bell *et al.*, 2012; Bell and Rasheed, 2016; Blass and Yafeh, 2001), syndication decisions (Dorobantu *et al.*, 2017; Dorobantu and Mullner, 2019; Müllner and Dorobantu, 2022), institutional ownership (Wang *et al.*, 2021; Kochhar and David, 1996; Kochhar and Hitt, 1998) and capital market location decision (Lindorfer *et al.*, 2016) lends itself to theory integration and interdisciplinary research.

Institutional aspects of corporate finance

Although finance has a highly productive stream of institutional literature (La Porta *et al.*, 1998), these contributions commonly focus on formal institutions such as creditor rights or investor protection. IB, on the other hand, has been much more inclusive in its definition of institutions and has developed theories and measures that also capture the effects of informal institutions such as culture (Tran, 2020). For example, Krause *et al.* (2021) examine 411 US-listed IPO firms operating in 73 countries and find that CEO power is positively associated with underpricing for firms selling to low-power-distance countries; this relationship weakens – and even reverses – as demand-side cultural power distance increases. The authors suggest that by considering informal institutions such as culture, researchers can challenge many taken-for-granted, fundamental inferences of the traditional finance research grounded within an agency perspective (Bell *et al.*, 2014). Some finance and accounting authors also make culture an integral part of their research frameworks (Kitching *et al.*, 2016).

Furthermore, institutional research in finance has focused on individual country-level institutions, but little recognized the complexity of the institutional environment of MNEs in which firms operate in multiple, contradicting institutional environments simultaneously (Kostova and Roth, 2002; Kostova *et al.*, 2008). Specifically, the supranational level (Hartmann *et al.*, 2022), which plays a major role in cross-border finance through organizations such as the Bank for International Settlements, the European Union or the International Monetary Fund, receives little attention in corporate finance.

For example, internationalization allows MNCs to borrow from different governance regimes. Firms must choose to transfer governance practices to host countries or adapt to local practices. This relates to formal institutions but also to informal ones that are rooted in shared values. The recent emerging phenomenon of ESG is a manifestation of how informal institutions can influence firms' financial decisions and how these institutions differ across countries and companies. While the finance literature has clearly struggled to integrate the concept of ESG in their efficient and rational markets theories (Lukomnik and Hawley, 2021), IB and management can draw on a rich history of research on CSR, as best evidenced by the seminal contributions to finance of the management scholar Caroline Flammer (2015) on CSR and financial performance.

Figure 2 summarizes promising interdisciplinary topics and complementarities between finance and IB. Again, we see these as some immediate opportunities to build on the relative strengths of the two perspectives. Below, we review papers in this SI that take advantage of these opportunities.

Contributions to the SI

This special issue of MBR makes inroads into integrating the finance and IB perspectives on topics concerning MNCs. The four papers featured highlight some of the divides and potential synergies described in the first part of this editorial and make inroads into investigating the research avenues we present above. They combine the asset and liabilities perspectives and investigate how asset-side variables prominent in IB interact with liabilities-side variables prominent in finance. Shao, Wang, Xie and Zhou, in this special issue, complement the asset-side focus prevalent in IB research with a liabilities-side explanation of FDI.

Xu and Drori, in the second research paper, similarly explore capital-market pressures on firms that may lead to FDI. Taking the opposite perspective of using a strategic variable to explain stock market effects, Tupper and Mehta suggest that the choice of founder versus external CEO drives IPO returns, given cultural characteristics. Finally, Cumming *et al.* (2017) bring together the two sides of the balance sheet by suggesting how fintech companies will challenge our current understanding of multinational business.

Paper 1 by Shao, Wang, Xie and Zhou borrows the concept of conditional capital shortfall – or a firm's loss of expected equity following the fall of the market under a given threshold – to explain Chinese motivations for outward FDI through cross-border acquisitions. While much of the FDI literature in IB is based on firms' asset-side characteristics (e.g. resources and capabilities), Shao *et al.* highlight the importance of financial issues in determining firms' strategies. They show that systemic risk and the resulting financial distress of domestic companies can be a push factor in the internationalization decision. In other words, financial constraints can be an antecedent to strategy formation that leads firms to make strategic acquisitions which (at least in traditional finance theory) may not be market efficient (i.e. strategic issues in finance).

Paper 2, by Xu and Drori, integrates finance knowledge on short-selling, a largely ignored financial disadvantage in IB and the resulting pressure on firms' decision makers with the core IB topic of FDI. The authors hypothesize and empirically show that CEOs pressured by short-sellers reduce FDI activity. Furthermore, they borrow from IB-related

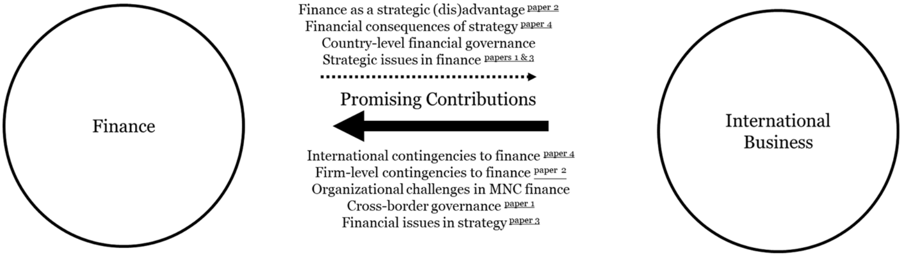

Finance
Finance as a strategic (dis)advantage paper 2
Financial consequences of strategy paper 4
Country-level financial governance
Strategic issues in finance papers 1 & 3
Promising Contributions
International contingencies to finance paper 4
Firm-level contingencies to finance paper 2
Organizational challenges in MNC finance
Cross-border governance paper 1
Financial issues in strategy paper 3
International Business

Figure 2. Promising interdisciplinary contributions between finance and IB (papers of this special issue in superscript)

Source: Created by authors

theories and literature (e.g. upper-echelon theory) to hypothesize how this pressure is moderated by the characteristics of the CEO in question. Specifically, they show that more senior CEOs and CEOs who are also board chairs are less threatened by short-selling.

Paper 3, co-authored by Tupper and Mehta, applies institutional perspectives from IB to explain variations in the IPO performance of firms with founder or external CEOs. Combining financial theories on IPO certification and the upper-echelon concept that IB and management researchers frequently build on, the authors theorize about the financial consequences of strategic decisions between the founder and external CEO. Testing it on classic finance measures like buy-hold-returns and IB measures of culture in empirics, they explain variation in this relationship by focusing on informal, cultural institutions.

Paper 4, by Cumming, Johan and Reardon, discusses the fintech phenomenon, which, in itself, bridges the divide between traditional finance and managerial topics of innovation and technology. In the paper, the authors discuss different business models under the umbrella of fintech from both a financial and a strategy perspective. They focus, in particular, on innovations in raising external capital (equity crowdfunding and peer-to-peer lending) that could confer strategic finance advantages on firms. Following our above call for greater recognition of market inefficiencies and the institutional environment (especially with regard to informal institutions), the authors then discuss international governance issues of the fintech revolution, going beyond market efficiency concerns. They conclude by spelling out an interdisciplinary research agenda for the phenomenon.

Taken together, this special issue of *MBR* brings together the theoretical and empirical discussions in finance and IB. Two papers in the SI take liabilities-side views on what IB research used to see (almost) exclusively from the asset side. The other two papers use an upper-echelon perspective to explain IPO returns and investigate how fintech companies will challenge the status quo separation between finance and non-finance companies.

Concluding remarks and the road ahead

Interdisciplinary research between finance and IB is scarce. In this editorial, we argue that integrating the two disciplines would offer unique complementarities because of their diverging theoretical ideologies. While finance offers generalizable theories and a rich empirical toolkit because of its efficiency assumptions, IB and strategy are uniquely positioned to explain firm-level idiosyncrasies that result from inefficiencies in cross-border business (IB) or competition (strategy).

Despite these complementarities, cross-fertilization between the two disciplines is limited, especially from IB to finance. Recent advances such as the recognition of the liability of capital markets and the cross-border governance in finance offer some hope for greater interdisciplinarity. We hope that the recent trend in financial practice towards non-market issues of ESG will further encourage finance scholars to borrow from the rich research in IB and strategy.

However, to bridge the remaining gap between the two fields, editors and reviewers in both disciplines must be more supportive of interdisciplinary research and work to remove some of the deeply rooted prejudices on both ends. From the perspective of finance, a stronger recognition of non-market phenomena, exceptions to the rules and the market inefficiencies that create them would be necessary to encourage greater interdisciplinarity. As we head into a future in which ESG issues become more influential in financial markets, frameworks that are based purely on financial efficiency may lose some of their predictive power within the finance domain. Here, IB and its rich toolkit of theories and empirical measures would provide valuable synergies.

From the perspective of IB, a coordinated effort to reduce dogmatism and increase acceptance of market efficiency arguments and measures is needed. Academic research in finance has provided unequivocal evidence that these arguments and measures have explanatory power, and finance practice is applying them daily, with real-life consequences for firms. Too often, reviewers and editors reject papers outright that involve theories with market efficiency assumptions or measures (e.g. beta and abnormal returns), citing the exceptions to the rule that are foundational to IB and strategy. It is important for IB to understand that applying market efficiency arguments – or any other theories, for that matter – does not imply that all market actors follow efficiency rules. Deviations from a theory, or exceptions to the rule, do not falsify the theory *per se*. They merely point to a (potentially interesting) boundary condition and avenue for interdisciplinary research. This special issue aims to encourage interdisciplinary research between finance and IB and features four papers that offer promising contributions. Connecting two disciplines that have developed in isolation for decades, however, will require much more systematic efforts in the form of workshops, interdisciplinary conference tracks, and, most importantly, editors and reviewers who recognize the strengths (and do not focus on the weaknesses) of the respective disciplinary theories, measures and methods.

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