11th Iberian International Business Conference

Book of Proceedings

October 2-3, 2015
Porto, Portugal

Iberian diaspora and internationalization processes

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Title: Iberian Diaspora and internationalization processes

October 2015

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ISBN: 978-972-99847-5-4

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21. Critical realist case studies of foreign subsidiary development

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Abstract
In this methodological paper, I explore the potential of critical realist case studies for research on foreign subsidiary development. For that purpose, I begin with a review of the ontological, epistemological, and methodological assumptions of critical realism. Ontologically, reality is assumed to be stratified and emergent; epistemologically, knowledge is assumed to be transitive, but objective; and methodologically, research is expected to be highly contextual. In addition, I review the implications of such assumptions for causation, explanation, and generalization. In particular, causation is regarded as the manifestation of mechanisms rather than variables; explanation is based on retroduction rather than induction or deduction; and generalization is assumed to be transfactual rather than analytical or statistical. Critical realist case studies can thus be distinguished from other types of case studies for their emphasis on contextual explanation. In order to illustrate the potential for such case studies in international business research, I conclude with an application to foreign subsidiary development.

Keywords: critical realism, case studies, foreign subsidiary development

Introduction

In the last forty years, Critical Realism (CR) established itself as a legitimate alternative ontology and epistemology to other philosophical stances such as positivism, constructivism, critical theory, and conventional realism (Morais, 2010). In Elger's words (2010, p. 256), CR 'opposes the traditional dichotomies of positivist and constructionist epistemologies and the associated polarization of quantitative and qualitative methods'.

As a methodology, however, CR has failed to provide clear guidelines to those willing to conduct a critical realist research project in general (e.g. O'Mahoney and Vincent, 2014) and in international business (IB) in particular (Morais, 2011; Welch et al., 2011). Elger (2010, p. 256), for instance, claims that the implications of CR 'for a distinctively critical realist conception of case study research remain underdeveloped and are only now being discussed'. Roy Bhaskar (2014, p. v), the founder of CR, equally acknowledges that "if CR is to be 'serious', it must be applicable".

In the particular case of multinational corporations, Doz (2004) similarly claims a traditional dichotomy between economic and managerial theory. Economic theory is based on quantitative methods and focused on contextual factors that explain the existence of multinational corporations. Managerial theory, by contrast, is based on qualitative methods and focused on managers and processes of multinational corporations. Economic theory has Anglo-Saxon origins, whereas managerial theory has Nordic roots, especially in Sweden and in Finland.

In the context of managerial theory, the focus has evolved from the management of the multinational corporations to the management of the subsidiaries (Birkinshaw, 1996; Paterson and Brock, 2002; Doz, 2004). In the specific case of subsidiary development, it is assumed that such a process is influenced by numerous factors at several levels of analysis such as the mandate given by the headquarters, the subsidiary choices, and the local environment (Birkinshaw and Hood, 1998). It appears consensual, however, that an extensive explanation of subsidiary development will only be possible with longitudinal case studies (Chidlow et al., 2015).

More generally, it has been recently acknowledged that new philosophical stances are needed in IB research (Devinney et al., 2013). In particular, it is assumed that the influence of economic theory in IB research may have limited its plurality in terms of ontological, epistemological, and methodological assumptions. Qualitative methods in general and case studies in particular are therefore increasingly welcome in IB research (Birkinshaw et al., 2011; Doz, 2011).

According to Welch et al. (2011), the most promising and least practiced type of case study in IB research is the critical realist case study. The main virtue of such a type of study is the ability to explain historically a process in a certain context, complementing the quantitative results of economic theory with contextual explanations from managerial theory. The purpose of this methodological paper is therefore to review the specificities of critical realist case studies for research on IB in general and subsidiary development in particular.

The next section thus reviews the ontological, epistemological, and methodological assumptions of CR. The third section discusses the implications of such assumptions for causation, explanation, and generalization. The fourth section reviews current prescriptions on how to conduct a critical realist case study. The fifth section illustrates the potential of such case studies in IB with the case of subsidiary development. The sixth and concluding section summarizes the main contributions of this paper.

Assumptions of critical realism

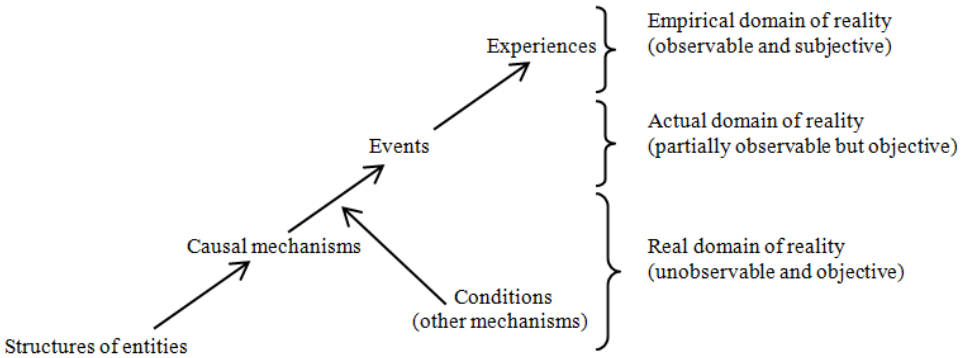
Over the last thirty years, CR has gained prominence as a philosophical stance (Blundel, 2007). Harré (1972) and Bhaskar (1975) established the basis of 'transcendental realism' as an ontological and epistemological stance in the natural sciences which challenges conventional realist ontology by proposing that reality is stratified into three domains (Bhaskar, 1975, p. 56), not all of which are observable. Such a stance was then extended into the social sciences as 'critical naturalism' (Bhaskar, 1979), but with the acknowledgment of differences between natural and social phenomena. Specifically, 'critical naturalism' proposed a unity of method between the natural and social sciences while acknowledging that social phenomena are characterized by non-natural features such as the intentionality of human action, the emergence of autonomous and inherently meaningful social structures, and the interplay between social structure and human agency (Blundel, 2007, p. 54). The term 'critical realism' is thus a synthesis of 'transcendental realism' and 'critical naturalism'.

In terms of ontology, critical realists share the assumption of positivists that 'the world exists independently of our knowledge of it' (Sayer 1992, p. 5). They differ, however, on the critical realist assumption that the world consists of more than events and our experience of them. In particular, critical realists posit a stratified world that comprises a real, an actual and an empirical domain (Bhaskar, 1979; Harré and Madden, 1975; Harré and Secord, 1972; Outhwaite, 1987).

As depicted in Figure 1, the 'real' domain consists of causal mechanisms; that is, processes by which structured entities with causal powers and liabilities act and generate events in the actual domain. Thus, the real is 'the realm of objects, their structures and powers' (Sayer 2000, p. 11). The real domain is unobservable but objective since critical realist ontology assumes reality to be independent of our knowledge of it.

The actual domain, on the other hand, consists of equally objective but partially observable events, since scientific means such as the microscope and statistical treatment of data may allow events that are unobservable to human senses to become observable. The empirical domain, by contrast, consists of subjective but observable experiences. Events are, therefore, only observable by human senses as experiences in the empirical domain, and may be out of synch with the causal mechanisms that create them.

Figure 1. Critical realist view of reality (adapted from Sayer, 2000, p. 15, Figure 1.2)



In terms of epistemology, critical realists believe, as do constructivists, that knowledge can only be produced in terms of available descriptions or discourses (Sayer, 2000). In other words, scientific theories and discourse are transitive, but the world they address is intransitive. A critical realist perspective thus views social phenomena as dependent on the social meaning ascribed to them and the production of knowledge as a social practice, which influences its content (Sayer, 1992). This is not to say that social phenomena exist exclusively as interpretations of researchers nor that knowledge is exclusively linguistic, but rather that such influences must be accounted for in the

evaluation of scientific knowledge. In particular, social scientists need to engage in a so-called 'double hermeneutic'; that is, interpret the theories of their own scientific community, as well as that of 'knowing' social phenomena (Blundel, 2007, p. 55). In Blundel's (2007, p. 54) words, 'realists have been unwilling to stop their search at the level of meaning, but prefer to see its interpretation as merely the starting point for the pursuit of deeper causal explanations'.

In terms of methodology, Sayer (2000, p. 19) claims that "critical realism endorses or is compatible with a relatively wide range of research methods". The author distinguishes, however, between extensive research on formal relations of similarity based on a priori taxonomic groups, and intensive research on substantial relations of connection based on causal groups. Extensive research begins with the identification of a population and the definition of taxonomic groups "often based on bad or incoherent abstractions" (Sayer, 2000, p. 19) to seek quantitative relations among variables. Intensive research, by contrast, begins with particular individuals and then traces their main causal relationships to elicit causal groups that may not be possible to define at the outset of the research. Extensive research thus "ignores or does not directly address the causal groups in which particular individuals (persons, institutions, etc) are actually involved, that is the groups or networks of specific people, institutions, discourses and things with which they interact" (Sayer, 2000, p.20).

In similar fashion, Reed (2009, pp. 439-440) suggests that CR implies the adoption of an intensive research design with certain characteristics. First, research questions should be context-specific and aimed at explaining why a certain change was produced in a particular situation for a particular group of entities. Second, the answer to such questions should require a combination of ethnographic, textual, historical, and structural data. Third, such a combination of phenomenological, discursive, interpretative, and material data should facilitate the identification of substantive relations and the underlying generative mechanisms that produced them. Fourth, there should be iteration between empirical detail and theoretical analysis. Finally, the causal explanations that account for observed outcomes in terms of generative mechanisms should be corroborated by iteration between specific cases.

More recently, Ackroyd and Karlsson (2014) distinguish between eight distinctive research designs based on two dimensions: whether the research is intensive or extensive; and whether the researcher is detached or involved. They claim, however, that "chief among these are the ordinary case study and the comparative case study"

(Ackroyd and Karlsson, 2014, p. 23), which they consider intensive and detached to discover causal mechanisms and their interaction with their context.

Nevertheless, Ackroyd and Karlsson (2014, p. 45) acknowledge that “there is a serious lack of appealing and accessible material on CR-informed methodology to set those new to these ideas off on a path to accomplish interesting and insightful research”. More importantly, the authors acknowledge that “supplanting the positivist paradigm with one which has limited capacity to produce objective knowledge can hardly be considered an advance”. The following section thus discusses the implications of critical realist ontological, epistemological, and methodological assumptions for causation, explanation, and generalization.

Causation, explanation, and generalization

Mechanism-centred theorizing reflects a critical realist approach to case study research, whereas variable-centred theorizing is typical of conventional realist and positivist research (Morais, 2011). As Easton (2010, p. 120) points out, the concept of entities with causal powers whose effects depend on contingent relationships is fundamentally opposed to variables, and thought to offer a more powerful explanation since ‘variables can only register (quantifiable) change, not its cause’ (Sayer, 1992, p. 180).

Central to such a debate is the claim that realism has a greater focus on context, given that positivism relies on fewer analytical variables (McGrath, 1982; Ragin, 1987), and in its pursuit of generalizable laws seeks to abstract away from context. A hypothesis, for instance, includes two analytical variables only. Therefore, it can be regarded as an under-contextualized simplification of reality. Conventional realist models, by contrast, tend to include more analytical variables in order to prevent under-contextualization, but are not mechanism-centred as critical realist models.

A mechanism-centred approach to research is focused on the ways in which structures of necessarily related entities cause events to occur. When two entities are necessarily related and thus have their identity mutually constituted (e.g., a manager and a subordinate who can only be defined in relation to the other), they form a structure (Sayer, 1992). Conversely, entities are externally or contingently related if either entity can exist without the other (Sayer, 1992). Ultimately, what is necessary or contingent can come down to one’s viewpoint, since ‘the theoretical framework chosen governs the difference between necessary and contingent’ (Easton, 2010, p. 121).

Whether a causal power is activated or not depends on intrinsic conditions, which preserve the nature of the entity, and on extrinsic conditions, which are external to the entity (Sayer, 1992). A regular generation of events is achieved when both intrinsic and extrinsic conditions are met, but such control of all interfering variables is only possible in closed systems (Bhaskar, 1979; Harré and Madden, 1975), such as laboratory-style experiments. In the social sciences (and indeed, much of the natural sciences) such conditions of closure are virtually unattainable due to: a) individual capacity for learning and self-change, which violates intrinsic conditions; and b) modification of social systems by human action, which violates extrinsic conditions (Sayer, 1992).

According to Sayer (2000, p. 23), “a realist approach assumes open systems and a generative model of causation in which the outcomes of the activation of mechanisms (e.g. crime prevention programmes) always depend on specific contexts”. By contrast, the orthodox ‘successionist’ theory of causation assumes the social world to be a closed system in which events are expected to regularly cause certain effects. In other words, positivism and conventional realism do not consider the emergence of unexpected actions of interpretation and implementation of mechanisms, which violate intrinsic conditions, or unexpected reactions from their context, which violate extrinsic conditions. In other words, only critical realism assumes social systems to be emergent to the point of questioning regularities and causal laws.

According to Elger (2010, p. 254), a critical realist explanation thus requires a theoretically guided analysis of relationships among mechanisms (processes by which entities with particular causal powers cause events), contexts (other entities which may trigger, mediate, or contradict those powers), and outcomes (caused effects or events). Explanation does not proceed through either induction or deduction, since both remain at the level of partially observable events (i.e., the actual domain). Rather, in order to understanding how mechanisms and structures impact on observable behaviour, critical realists have suggested a mode of inference they have termed ‘retroduction’. Retroduction refers to the move from the observable experience in the empirical domain of an event in the actual domain to its causal mechanisms in the real domain (Blundel, 2007; Bhaskar, 2014).

Retroduction addresses an important question regarding the feasibility of critical realist explanation: if causal mechanisms are unobservable, how can they be accessible to social scientists? According to critical realists, an explanatory effort starts with actors’ own accounts of what has caused the phenomenon (Danermark et al., 2002). Retroduction thus implies a retrospective inference of unobservable causal mechanisms

in the real domain of reality from actors' accounts (i.e., stated reasons) of observable experiences in the empirical domain of reality. Researchers take the descriptive accounts of actors and 'redescribe' them using available theoretical perspectives and causal language (Easton, 2010, p. 199).

Critical realists regard retroduction logic (cf. Sayer 1992, pp. 169-174) as being fundamentally different from deductive sampling logic and inductive replication logic. It is not the case that 'mechanisms are postulated then data collected', or that mechanisms are 'induced' from data (Easton, 2010, p. 124). While induction and deduction are variable-centred approaches which circumscribe explanation to the actual domain of reality, CR focuses on mechanism-centred theorizing which extends explanation to the real domain of reality.

In line with its alternative view of causation and explanation, CR offers a fresh conceptualization of generalization: transfactual generalization. The term 'transfactual' implies that causal mechanisms in the real domain of reality can be generalized in spite of not manifesting themselves in the empirical domain of reality. In Blundel's (2007, pp. 55-56) words, "retroduction involves a type of scientific generalization that is concerned with the isolation of fundamental structures whose powers can be said to act 'transfactually' (i.e. continuing to exist, even though their operations may not be manifested at the level of events or observations)".

More specifically, Easton (2010, p.121) relates the issue of critical realist generalization to that of necessary and contingent relations between entities since 'if all relations were contingent then each explanation would be unique and incapable of contributing towards anything by way of generalization'. As a result, 'researchers do not postulate ironclad laws, but tendencies, which may or may not manifest themselves in the empirical domain' (Tsoukas, 1989, p. 558).

Transfactual generalization (see also Danermark et al., 2002, p. 77) is regarded as an alternative to statistical and analytical generalization (e.g., Bonoma, 1985; Brewer and Hunt 1989), since causal mechanisms may be generalized in the real domain of reality despite not exhibiting statistical or analytical external validity in the actual domain.

Critical realist case studies

CR is primarily ontological and epistemological, not methodological (e.g. Reed, 2009). A strong bridge between the philosophical and the applied is yet to be forged, and there are very few examples of critical realist case studies to be found (e.g., Ackroyd, 2009;

Welch et al., 2011). There is no doubt, however, that case study research is regarded as essential to generating causal explanations in the critical realist tradition (Ackroyd and Karlsson, 2014).

Given the diversity of case study research, the question remains as to what sort of case study design is consistent with a critical realist approach. In general, case studies may be objectivist or subjectivist depending on whether they address facts or values, respectively. Stake (2000), for instance, distinguishes between 'instrumental' and 'intrinsic' case studies. In 'instrumental' case studies the case (sampling unit) is of secondary interest, but it facilitates the understanding of a phenomenon (Stake, 2000, p. 437). In 'intrinsic' case studies 'the purpose is not to come to understand some abstract construct or generic phenomenon', but the particular features of the case (sampling unit). In other words, instrumental case studies address facts whereas intrinsic case studies address values.

The literature does provide some suggestions as to how to design a critical realist case study, even though such studies remain rare in practice. Danermark et al. (2002, pp. 103-105), for instance, recommend the selection of 'extreme' or 'pathological' cases as well as comparative cases for the purpose of identifying causal mechanisms. Ackroyd (2009) suggests four different case study research designs, along two dimensions: causal mechanisms and contexts. Intensive single case studies allow the understanding of a specific causal mechanism in one context, whereas intensive multiple case studies allow the understanding of that specific causal mechanism in various contexts. On the other hand, extensive single case studies allow the understanding of interacting causal mechanisms in one context, whereas extensive multiple case studies allow the understanding of those interacting causal mechanisms in various contexts.

More generally, Easton (2010, pp. 123-124) proposes six steps in order to conduct a critical realist case study. First, the phenomenon to be studied should be complex, dynamic and relatively clearly bounded. Second, the research question should be of the form 'what caused the events associated with the phenomenon to occur'. Third, the objects or entities which characterize the phenomenon should be identified, taking into account necessary as well as contingent relations among them. Fourth, data should be collected through several collection techniques, with a particular focus on plausible causal mechanisms. Fifth, data should be interpreted through retroductive logic and taking into account the double hermeneutic (interpreting knowledge in the scientific community as well as in the phenomenon under study). Finally, alternative explanations

should be compared through 'judgemental rationality' (reasoned, provisional and public discussion of alternative judgements about reality).

More recently, Welch et al. (2011) suggest of typology of case studies based on two dimensions: contextualisation and causal explanation. The authors claim that critical realist case studies are the only type of case study that emphasizes contextualization and causal explanation simultaneously by focusing on contextualised explanations. By contrast, positivist (empiricist) case studies (e.g. Eisenhardt, 1989) deemphasize both contextualization and causal explanation by focusing on inductive theory building. Interpretive/constructionist case studies (e.g. Stake, 1995), on the other hand, emphasize contextualization at the expense of causal explanation by focusing on interpretive sensemaking. Finally, positivist (falsificationist) case studies (e.g. Yin, 2009) emphasize causal explanation at the expense of contextualization by focusing on natural experiments.

Welch et al. (2011, p. 747) claim, in particular, that "the philosophical foundation for contextualised explanation is distinct from the other methods of theorising, as it lies in critical realism". They acknowledge, however, that in their content analysis of 199 case-based research articles published between 1999 and 2008, in Academy of Management Journal, Journal of International Business studies, and Journal of Management Studies, only three articles take a critical realist perspective and none is focused on IB. Welch et al. (2011, p. 756), thus conclude "that greater application of contextualised explanation would benefit the IB field". More recently, Saka-Helmhout (2014, p. 185), cites Morais (2011) to justify "a practical application of critical realism in IB research, in particular in cross-national transfer of knowledge, to show its potential use in causation, explanation, and generalization".

The adoption of critical realist case studies in IB research is thus welcome and increasingly recommended. There are, however, pros and cons in their application. On the one hand, case studies are the most popular qualitative research strategy in IB studies (Andersen and Skaates, 2004; Piekkari et al., 2009) and the field is prone to debates on philosophy of science (e.g., Devinney et al., 2013). On the other hand, however, IB researchers tend to avoid risky methodological choices given their psychic distance towards research subjects (Hurmerinta-Peltomäki and Nummela, 2004) and the low rate of publication of qualitative research in IB journals (e.g., Pauwels and Matthyssens, 2004). The following section thus attempts to illustrate the potential for critical realist case studies in IB with an application to foreign subsidiary development.

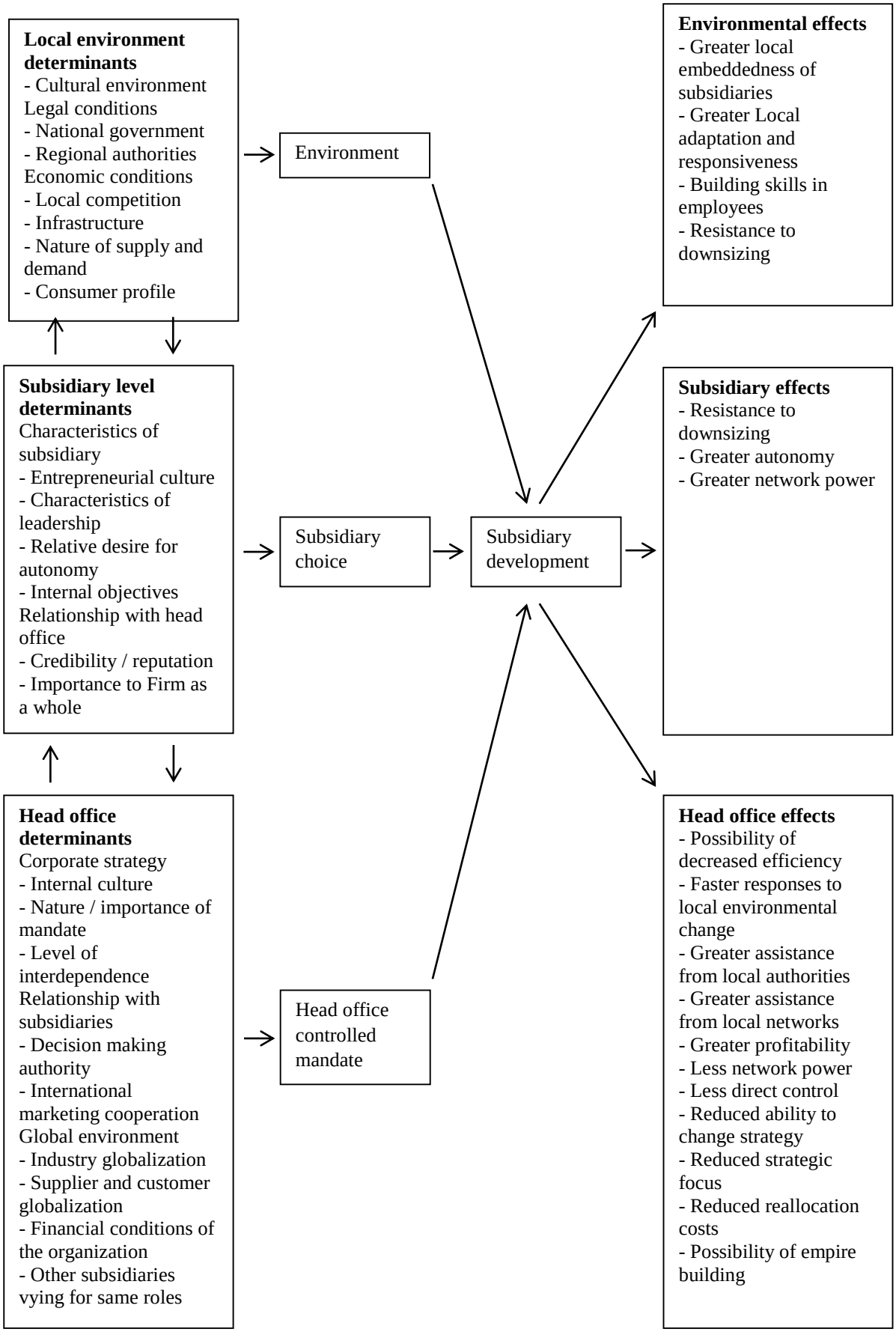
Foreign subsidiary development

In a review of subsidiary-management research, Paterson and Brock (2002) subdivide the field in four research streams: uniform top-down design of strategy and structure by headquarters; heterogeneous and bilateral headquarters-subsidiary relationships; typologies of subsidiary roles including world product mandates and centres of excellence; and subsidiary development. The latter topic of research is justified with the importance of continuous investment in subsidiaries from the point of view of the host country, including local managers, government and other stakeholders.

In particular, subsidiary development is regarded as a process of changing roles (Cavanagh and Freeman, 2012). In addition, it is conceptualized as a cyclical process of action and reaction in which three basic mechanisms interact: the mandate given by the headquarters, subsidiary choices, and the local environment (Birkinshaw and Hood, 1998). Such three main drivers of subsidiary development are related, in turn, with several factors at several levels of analysis resulting in a complex theoretical framework. Paterson and Brock (2002, p. 149), for instance, depict a model (Figure 2) which they call “subsidiary development: causes and effects” including forty variables at the level of headquarters, subsidiary, and local environment.

Such a proliferation of variables is one of the criticisms targeted at positivist research (Morais, 2011), especially when the phenomenon under study is dynamic such as subsidiary development. In the particular case of Figure 2, the dynamics of subsidiary development are only implicit in the arrows connecting taxonomic groups such as local environment, subsidiary, and head office. It is not clear, however, whether such taxonomic groups are causal groups at all and which causal mechanisms explain their interaction.

Figure 2. Subsidiary development: causes and effects (adapted from Paterson and Brock, 2002, p. 149, Figure 4)



As an antidote to such proliferation of variables in IB research, I have previously recommended mechanism-centred theorizing based on critical realist case studies (Morais, 2011). From that perspective, it would be possible to explain subsidiary development as an outcome of causal mechanisms underlying the interaction of causal groups. Such causal groups could be other than local environment, subsidiary, and head office. In addition, it would be possible to specify the contexts in which such causal mechanisms are activated.

In similar fashion, recent research on subsidiary development claims that "future research could gain from adopting a longitudinal approach in order to demonstrate a subsidiary's development over time" (Chidlow et al., 2015, p. 8). Such a recommendation does not take, however, a critical realist point of view.

Such a research gap in the study of subsidiary development thus could be addressed by critical realist case studies. In particular, researchers could trace the process behind subsidiary development with a particular emphasis on necessarily related entities (persons or institutions) and their causal powers. From that initial approach to detailed case study data, researchers could elicit substantial relations of connection, that is, causal groups that suggest unobservable but plausible causal mechanisms. As a result, the causal mechanisms of subsidiary development could be postulated, albeit tentatively, for subsequent peer review through judgemental rationality (Easton, 2010).

Such research findings would contrast with the current proliferation of variables in the study of subsidiary development (Paterson and Brock, 2002). Moreover, instead of assuming taxonomic groups such as headquarters, subsidiary, and local environment (Birkinshaw and Hood, 1998), researchers would be open to conceptualise new causal groups (Sayer, 2000). A promising avenue in that direction is the suggestion by Cavanagh and Freeman (2012) that subsidiary development is a process of changing roles, thus emphasizing its emergent nature (Sayer, 2000).

Conclusion

CR is increasingly acknowledged as a new philosophical stance, but its methodological implications are still controversial. This paper contributes to such a debate by reviewing the ontological, epistemological, and methodological assumptions of CR and its implications for causation, explanation, and generalisation. In particular, reality is assumed to be stratified and emergent; knowledge is assumed to be transitive, but objective; and research is assumed to be highly contextual. As a result, causation is regarded as the manifestation of mechanisms rather than variables; explanation is based

on retroduction rather than induction or deduction; and generalization is assumed to be transfactual rather than analytical or statistical. Critical realist case studies can thus be distinguished from other types of case studies for their emphasis on contextual explanation. The field of IB research is particularly prone to the adoption of critical realist case studies due to the widespread use of case study research and interest in philosophy of science. An example of the potential application of CR in IB research is the study of subsidiary development given its characterisation as a process of changing roles.

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