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Perspective Article

The (COVID-19) pandemic and the new world (dis)order

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ABSTRACT

The COVID-19 pandemic produced a significant environmental jolt that has altered the trajectories of economies and institutions and the strategies of MNEs. We examine the pandemic effects on countries’ political and regulatory institutions, the interplay between their formal and informal institutions and the resulting environmental uncertainty. These changes are transforming the global landscape, MNEs’ raison d’être and their international strategies. MNEs are having to change or develop new country- and firm-specific advantages, refashion their FDI, focus supply chain networks, and emphasize regional strategies and localization. Although these strategies may help them to bound uncertainty, they produce other forms of risk. A new economic order is likely to arise along with transformed MNEs.

“The institutions created following the Second World War—The United Nations, the International Monetary Fund...no longer serve us well enough to protect multilateralism and international law. That is what the crisis of COVID-19 has shown, beyond a shadow of doubt, that things have to change...The most troubling realization is that the COVID-19 pandemic is not even the biggest threat facing the world...The world is in crisis and things are about to get much worse unless we change.” (Justin Trudeau’s address to the United Nations, September 25, 2020)

1. Introduction

Since the beginning of the twenty-first century, the world has increasingly experienced technological, sociopolitical, and institutional changes (Ahlstrom et al., 2020) that collectively are leading toward a new economic order. In the midst of these changes, a cataclysmic disruption occurred in the form of the COVID-19 pandemic, which produced economic upheaval, altered the trajectories of industries, exceeded the capabilities of experienced managers to respond, and tested the resiliency of firms, states, and institutions. Scholars working on much longer time horizons than in management, as in history, have highlighted that pandemics are a major part of the big picture of historical and societal change and development (Snowden, 2019) and unfortunately have become regular occurrences (e.g., MERS, SARS, Swine flu, and Ebola since 2000). Some bleak predictions, envisioning the current pandemic as a “dress-rehearsal” for the next one (see Snowden, 2019), make it even more important to examine and thoroughly analyze their effects. Even if the immediacy and extent of these changes have been extreme, they are common outcomes of environmental jolts that affect multinational enterprises (MNEs) and shape their international strategies (Meyer, Brooks, & Goes, 1990). These changes have coursed through most countries in the world, leaving almost no organization or individual untouched. In his recent book, Zakaria (2020, p.4) referenced a statement attributed to a famous historical figure suggesting that “There are decades when nothing happens, and then there are weeks when decades happen.” He concluded that “As the worst passes, we emerge into the ‘dead cold light of tomorrow’...” (Zakaria, 2020, p.3). Our purpose is to examine the COVID-19 pandemic’s effects on countries’ political and regulatory institutions, the resulting transformation of the global landscape, and implications of these changes for MNEs and their international strategies.

With millions contracting the virus and more than two million having already died from it by early 2021, countries and pharmaceutical firms invested substantial resources to discover a vaccine that prevents the virus’s ill effects. Now with vaccines proven to be successful in building immunity against the virus, our interest is to understand the potential longer-term effects of the pandemic even after the vaccines are distributed and administered. Prior to the significant economic and...
social disruption caused by the pandemic, Ahlstrom et al. (2020) suggested that changes were creating a New Normal environment. Hitt, Arregle, and Holmes (2021), building on North’s (1999) insights, suggested that we live and operate in a non-ergodic world in which a dynamic equilibrium emerges after major disruptions but continue to change thereafter, leading to an ongoing loop of dynamic equilibrium states that alter the boundary conditions of current theories and increasing the importance of strategic flexibility and stakeholder relationships.

Justin Trudeau’s address to the United Nations suggests that the world is in a crisis, and the pandemic has contributed to it (Trudeau, 2020). In fact, the pandemic has likely exacerbated the effects of other changes that are occurring, such as concerns about climate change and social justice. This essay explores the likely post-pandemic economic landscape with a special focus on the changing institutional environments and international strategies employed by MNEs, as shown in Table 1.

2. Changing institutional environments

Country institutional environments play an important role in the selection and implementation of firm strategies. Research has shown that country institutional environments affect firms’ resource profiles and the degree of uncertainty in industries, which in turn influence firms’ willingness to undertake risky strategies (Hitt, Sirmon et al., 2021), as well as the financial consequences of such strategies (Vanacker, Zahra, & Holmes, 2020). Likewise, a recent review of prior research demonstrated that institutions have a major influence on the international strategies that firms employ (Xu, Hitt, Brock, Pisano, & Huang, 2020). For example, there is evidence that formal and informal host country institutions affect the foreign direct investments made by firms (Holmes, Miller, Hitt, & Salmador, 2013), and a large meta-analysis demonstrated that firms’ home country institutions affect their ability to extract positive returns from their international strategies (Marano, Arregle, Hitt, Spadafora, & van Essen, 2016). Because institutions are important, MNEs devote considerable resources to monitoring and influencing the domestic and foreign institutional environments they confront (Holmes, Zahra, Hoskisson, DeGhetto, & Sutton, 2016; Sutton, Devine, Lamont, & Holmes, 2021). Thus, one would expect institutional changes triggered by the pandemic to have a strong influence on the development, implementation, and consequences of firms’ international strategies.

### 2.1. Political and regulatory institutions

In recent years, the political policy positions in several countries (e.g., U.S., U.K.) became more nationalistic, changing the institutional landscapes that MNEs confront. To some degree, this shift has been a reaction to several outcomes of globalization, following the 2008 Financial Crisis, that some in society view less positively, such as the offshoring of manufacturing and supply chain functions, which produced domestic job losses in several industries in many advanced economies. Nationalistic policy foci often result in protectionist trade regulations and other regulatory actions that are unfavorable to globalization. These regulations commonly are designed to restrict and discourage the flow of foreign goods into domestic economies to protect and encourage the production of domestic goods and services.

The pandemic has heightened many of the concerns about globalization and may lead to more nationalistic regulatory policies in the future. First, the pandemic has had severe negative effects on many countries’ economies, producing rapid increases in unemployment and significantly lower or negative economic growth. For example, the European Union’s (EU’s) GDP declined by 4% in the first quarter of 2020 and by an additional 12% during the second quarter. Although third-quarter GDP increased by 13%, the EU’s GDP remains well below its pre-pandemic levels (Eurostat, 2020a). Additionally, economies are expected to continue to rebound to some degree, but many of the job losses may be permanent. Indeed, it is estimated that at least four million of the U.S. jobs lost during the pandemic may be permanent (Mutiikai, 2020).

Politicians are urged to have short-term and visible responses to their citizens suffering from these unforeseen and dramatic changes, sometimes to the detriment of more long-term and efficient decisions. The short-term (urgent) goals of many governments are to avoid the collapse of their country’s economic system and social fabric and do what is necessary to overcome the many problems created by the pandemic. Against this backdrop, nation states’ sphere of intervention and power also has been increasing. For example, the pandemic has facilitated a larger role of government in the economy, as demonstrated in the large grants paid by the EU and the U.S. government to facilitate developing and/or producing and distributing products and services (e.g., testing kits and drugs) to combat the pandemic (Abrams, 2020; EU, 2020; HHS, 2021). In the future, we probably can expect more institutional changes to protect domestic economic interests and domestic jobs. Yet, such institutional foci also have costs. Protectionist policies can provoke regulatory responses from countries whose firms and goods are affected. They also may lower domestic firms’ financial flexibility in the future. Such policies may curtail domestic firms’ access to foreign resources and their ability to sell goods in foreign markets, including those from the country that originated trade regulations, thereby harming the firms they were trying to protect (or those in other domestic industries). Moreover, government funding for private businesses often removes financial resources from the private sector (e.g., via increased taxation), and a larger role of government in the economy also increases the potential for cronyism (Holmes et al., 2016). Furthermore, the large economic stimuli in many countries might constrain those countries’ financial flexibility in the future.

Second, the pandemic has highlighted the need to control access to certain goods. Many countries were unprepared for the severity of the pandemic and thus experienced shortages of medical supplies. These events, often emphasized by the news media in different countries, have had a vivid impact on public opinions that is unlikely to dissipate. In some cases, these supplies were manufactured in other countries—with few domestic suppliers of certain drugs and medical equipment needed.
to combat the pandemic. For example, even after U.S. firms ramped up their production of the fabric used in masks to combat the pandemic, Chinese firms continued to produce fifteen times the amount of this fabric that U.S. firms did. By the end of the first half of 2020, several large economies—including France and Germany—produced insufficient volumes of masks for their populations and were forced to rely heavily on imports, typically from China (Eurostat, 2020b). For these reasons, the pandemic demonstrated some of the drawbacks of global supply chains and offshoring. Moreover, the actions taken by some countries to secure needed supplies often were at the expense of other countries (i.e., countries competed for a limited supply of medicines and personal protective equipment). The nationalistic approach inherent in these actions works against the multilateralism referred to by Justin Trudeau and might trigger additional or retaliatory nationalistic actions from governments and MNEs located in countries that initially suffered from these behaviors.

Third, the pandemic has shed new light on the differences between democratic and autocratic political institutions and their effectiveness in responding to the crises emanating from the pandemic. Governments with greater autocratic and centralized control are able to act more quickly and take actions that might be less popular with the populace (e.g., lockdowns). Yet, acting quickly is only positive if appropriate actions are taken and if the existing centralized bureaucratic structure is effective. For example, China’s eventual success at reducing the spread of COVID-19 within its borders illustrates the benefits of centralized power structures, while its ineffectiveness at dealing with weak signals across its regions in the early stages of the pandemic, illustrates the limits of such structures. Alternatively, democratic structures may take longer to respond but often use a more decentralized approach. This approach allows governments to experiment with different solutions in order to identify the most effective ones to implement more broadly (Gambardella, 2020; Holmes et al., 2013). The differences between these two types of political systems, harbored by the weakening of international institutions and the growing prevalence of cybernation (i.e., information collection, combination, manipulation, and data sharing (Etzioni, 2015)), could lead to what Petricic and Teece (2019: 1489) called a “bifurcated” world with two opposing camps on the world stage. For instance, they argued that whereas “rule-of-law countries” build innovation capacity on the basis of international intellectual property protection, other more autocratic countries tend to do it by voluntarily circumventing this protection and thriving on international technology access or acquisition by any means possible. This competition can have domino effects with broad international implications, as when the U.S. passes laws or imposes embargos on technologies of Chinese firms, and China responds in kind. Of course, the pandemic did not cause differences between democratic and autocratic political institutions, but it has brought these differences into sharper focus and perhaps exacerbated tensions that already existed prior to the pandemic.

Fourth, and relatedly, the pandemic has highlighted the importance of effective political leadership in government, whatever the nature of the political institutions. Among countries with more centralized power structures, some were more effective at containing the effects of the virus than others (e.g., Singapore versus Iran). We find a similar pattern with the need to promote or ensure public health and welfare. And the manner in which the need or desire for economic growth is balanced against the need to promote or ensure public health and welfare. And the decisions and actions by government leaders to manage the economic and health effects of the pandemic can have a major influence on the strategies employed by domestic firms and MNEs operating in those countries.

2.2. Formal and informal institutions

Above, we discussed some of the changes that have occurred primarily in certain political institutions and extensions thereof (e.g., regulations based on formal institutions). Although some of these changes are related to trade between countries (e.g., U.S. and China), their implementation often has effects on firms whose goods are sold in other markets. Firms that are harmed by tariffs or other restrictive policies can respond in several ways to these changes. Though they lack the formal authority and sovereignty of government institutions, they can engage in nonmarket strategies to try to influence legislative leaders and policy makers either to change regulations or their implementation, either to be less harmful to the firm’s operations or to provide financial support (e.g., economic stimulus and bailouts) to reduce the impacts of economic shocks. Firms also may encourage their industry associations to lobby the government leaders for changes because such associations carry the force of more firms and potentially create more pressure and incentives for government leaders to “listen” and act on their concerns (Holmes et al., 2016). Similarly, firms and their managers can act as institutional entrepreneurs to encourage and help design formal institutions to combat specific problems (Greenwood & Suddaby, 2006; Maguire, Hardy, & Lawrence, 2004).

In addition, informal institutions often supplement or substitute for formal institutions. Typically, informal institutions change more slowly than formal institutions (Holmes et al., 2013). However, when major environmental changes disrupt or possibly negate the ability of country or international formal institutions to elicit desired behaviors, informal (and more local) institutions may help firms deal with problems created by the disruption and resulting formal institutional voids (Webb, Khoury & Hitt, 2019). For instance, social norms related to wearing a mask and social distancing emerged in many communities located in U.S., where formal state-level institutions did not enforce such practices. Alternatively, firms within industries may develop informal institutions that help those firms work around formal institutional constraints. For example, firms in an industry may build relationships with major stakeholders in other supportive industries to help them manage the challenges (and risk) created by the uncertainty (Hitt, Sirmon et al., 2021). Similarly, the Business Roundtable members’ commitment to prioritize the needs of non-shareholder stakeholders, which might take on added importance due to the pandemic’s harmful effects on employees and customers (e.g., Hitt, Arregle et al., 2021), is a recent example of informal institutions substituting for formal institutional voids.

Moreover, it is important to study the confluence of these institutions in dealing with the pandemic. Each country has formal and informal institutions that originate from multiple (poly) rule-setting centers (e.g., governments, associations, and communities (Ostrom, 2010)), leading to different kinds of institutional polycentrism (i.e., the manner in which these multiple and independent institutional actors make mutual adjustments to order their relations within a general framework of rules and norms (Ostrom, 2005)). Economic actors in some countries can take advantage of this polycentrism to address the pandemic’s challenges, while in others they are irremediably constrained. It is important to study the confluence of these multiple formal and informal institutions, which can have different effects than a single institution or several separate institutions (Batjargal et al., 2012).

In addition, Devinney and Hartwell (2020) argued that formal institutions often cannot be divorced from the key people who implement them. They suggested this concern is especially evident in more authoritarian regimes such as in China and Russia, but also can be observed in more democratic countries. Indeed, significant policy shifts such as the Brexit deal in the U.K. and the “America First” agenda in the U.S. were products of the popular support for specific leaders and their
ideas in certain segments of society. Thus, focusing on institutional regimes, while neglecting the influence of individual leaders, social movements, and public opinion, may not always provide adequate explanations for institutional outcomes, especially when the leaders try to achieve political end goals in their implementation of institutions or in creating new ones. Surprisingly, even old and iconic democratic regimes do not appear immune from such influences.

Firms seek strategies and actions to help them navigate their institutional environments, for example in their supply chain strategies. Informal institutions may be especially important with regard to firms’ global supply chains and foreign operations, due to the uncertainties, weaknesses, and variation in formal institutions across and within many countries. Reflecting these different concerns, the pandemic is affecting the traditional drivers at the core of MNEs’ raison d’être.

3. MNEs’ Raison d’Être

A central mechanism in MNEs’ strategies is their potential to have firm-specific advantages (FSA) combined with country-specific advantages (CSA) in host-markets, as is evident in Dunning’s (1988) eclectic paradigm. The pandemic might affect this mechanism in several ways. First, the sharp economic contraction and increased uncertainties due to the pandemic creates a dilemma for many MNEs. If they reduce their activities in their home country or in their foreign operations, they risk losing some resources or capabilities that contribute to their FSA or CSA. If they do not, they take a financial risk, which can affect the survival of the firm. FSA and CSA often derive from organizational routines or processes that are tacit, complex, and based on experiential learning, as illustrated by the knowledge-based view of MNEs (Kogut & Zander, 1992; 1993). They cannot be placed in hibernation and easily reactivated when firms will need them in the post-pandemic period. The risk is that, by reducing or closing down certain activities and/or laying off employees (e.g., personnel or executives in the home or host countries), some of these FSA or CSA might be eroded or lost, thereby jeopardizing future recovery and expansion in the post-pandemic period. This problem is acute when unique technological innovations and knowledge, spread across multiple worldwide subsidiaries and suppliers, are at the core of the success of MNEs. Usually, these resources or competences are based on years of organizational practices and cooperation and on flows of resources accumulated over time (Diericks & Cool, 1989), but the rapid and severe economic downturn and the resulting uncertainties are threatening their preservation.

Second, economic and/or political changes due to the pandemic in the home or host countries can disrupt institutional environments and undermine MNEs’ existing or future FSA or CSA. Such changes can reduce economic growth and demand, disrupt cash flows, displace workers, limit the immigration of needed human resources, and lead to rapid and disruptive shifts in government policy that cause inefficiencies in MNEs’ strategies and structures. For instance, the unanticipated changes created by the pandemic have directed more attention to MNEs’ decisions about international outsourcing and contracting for products that were seen as commodities (e.g., no asset specificity and small number bargaining) and were available easily from diverse foreign suppliers (e.g., masks and drugs). Many IB theories emphasize economics-based strategies and decisions, and many of these earlier decisions were consistent with transaction cost economics (TCE) (e.g., Williamson, 1985) and internalization theory (e.g., Buckley & Casson, 1976). However, some of the previous “make vs. buy” decisions within MNEs became ineffective when the international environment and countries’ institutional environments changed suddenly and caused the unexpected and exceptional increase in the demand for certain products.

Considering the unique nature and scale of the shock created by the pandemic, it was difficult for managers to anticipate these events and the level of ensuing uncertainty. Likewise, although strong country institutions increase predictability, the pandemic has transformed many strategic decisions for MNEs from risky to uncertain, meaning that managers have less knowledge and understanding about future potential outcomes (Langlois & Cegole, 1993). The economic and institutional uncertainty and other dynamics created by the pandemic—such as possible institutional changes driven by nationalism—have forced many MNE managers to reexamine how they exercise judgment in making strategic decisions, while also making their strategic decisions about FSA and CSA more complex. Thus, the pandemic is complicating and reshaping the mechanisms that constitute the raison d’être of MNEs.

Third, contextual factors such as the need for travel (Boeh & Beamish, 2012) or health risks hinder some knowledge creation needed to develop and support FSA and CSA (Rugman, 1981). For instance, Schotter and Beamish (2013) defined the concept of Hasse factor to summarize non-economic variables that affect location choice. These variables include contextual (exogenous) dimensions at the country level, such as safety risk, that matter to managers personally and affect FDI decisions at the firm level (DeGhetto, Lamont, & Holmes, 2020). More generally, in addition to usual economics-based location choice criteria (e.g., investment potential), “foreign location decisions in MNEs are influenced by how troublesome it is for managers to travel to or live in certain places” (Schotter & Beamish, 2013: 521). Obviously, the pandemic has reinforced the importance of health risks, the availability of advanced medical care, and other Hassle factors. It also is likely the pandemic will lead to new Hassle factors, such as vaccine availability across multiple countries and localities within countries. Thus, this Hassle factor, possibly with new components, will likely become more important as non-economic factors that shape MNEs’ location choices both during the pandemic and after it subsides.

Fourth, the map of countries’ proximity to the global distribution of knowledge, markets, and resources is likely to change due to the pandemic. Nachum, Zaheer, and Gross (2008) found that geographic proximity of countries to the rest of the world has a positive impact on MNEs’ propensity to make foreign investments in those countries. More specifically, they found that proximity to the world’s knowledge and markets was a stronger driver of location choice than was proximity to the world’s resources, though larger MNEs were able to benefit more from remote locations than smaller firms were. The pandemic may reshuffle positions in this world map, with lasting effects for future MNEs’ strategies. For instance, more remote locations that handled the pandemic better might become more attractive for future MNE investments, either because their pandemic responses strengthened MNE managers’ confidence in their institutions or because their economies suffered less damage from the pandemic.

Finally, even if technological resources for online interactions have developed significantly and become more commonplace during the pandemic, knowledge creation derived from headquarters-subsidiary and between-subsidiary interactions still requires some level of social interactions or embeddedness between different entities (e.g., Dellesstrand & Kappen, 2012). For example, successful new product development may require close cooperation between a R&D center in one country, subsidiaries in other countries or regions that are responsible for future sales and commercialization, and manufacturing units in additional locations that are responsible for production, mixing CSA (and location-bound) in different countries. Again, the major disruptions created by the pandemic are likely to upend such processes. For example, the implications of reduced travel and face-to-face interactions during the pandemic for trust development and coordination processes remain unclear. Research suggests trust development slowly in virtual teams (Wilson, Straus, & McEvily, 2006), especially when they are globally dispersed (Kirkman, Rosen, Gibson, Tsih, & McPherson, 2002). Effective leadership (Joshi, Lazarova, & Liao, 2009) and altered training regimes (Gilson, Maynard, Young, Varttainen, & Hakonen, 2015) may be necessary to overcome these challenges. All of these effects concurrently trigger major changes in MNEs’ networks of subsidiaries (i.e., configuration and nature of the linkages) but, even if some of their implications are visible, some changes will probably take time to unfold and come to full fruition, having lasting impacts on MNEs.
4. Changing international strategies

Beyond affecting the development of FSAs and CSAs that constitute the raison d’etre of MNEs, the global pandemic and other complexities are changing the international strategies of multinational firms. We focus on a few of them: MNEs’ supply chain strategies, foreign direct investments (FDI), and location choices (focus).

4.1. Supply chain strategy

Many MNEs have developed global supply chains to source physical inputs, conduct value chain activities, and generate and leverage knowledge from other organizations, often across multiple countries. Developing and maintaining cost advantages (or cost parity), accessing valuable resources and capabilities, and gaining a better understanding of foreign customers, are three of the major reasons for global supply chains. These advantages help MNEs build and enhance their competitive advantages to compete more effectively in both their domestic markets and international markets. Though these are admirable goals and many MNEs have been well-served by global supply chain strategies, the pandemic has made these supply networks more challenging to manage due to the economic downturns, travel restrictions and reduced willingness to travel, and nationalist and protectionist policies and institutions.

Verbeke (2020) suggested that the pandemic was likely to have several effects on global supply chains. Clearly, the pandemic has made the economic and institutional environments more volatile and uncertain. And the uncertainty is even greater when the home country institutions are more distinct from those in the suppliers’ countries (higher institutional distance). As such, Verbeke (2020) suggested that, in the uncertainty created by the pandemic, sourcing MNEs will make greater investments in intelligence to better understand their suppliers and the likely institutional environments under which they must operate. The institutional conflicts between certain countries heighten the risk, and the multilateral institutions (e.g., United Nations, World Health Organization, World Trade Organization) established to help manage such conflicts and facilitate coordination have been further fractured by the pandemic and governments’ responses to it. In turn, Verbeke argued that MNEs will reduce their irreversible investments in dispersed foreign locations to manage these enhanced risks more effectively in the future.

These actions likely will lead to smaller and tighter-knit supply chain networks, stronger relationships among supply partners with the purpose of building and maintaining trust, and a smaller geographic footprint in the network. In so doing, firms’ supply chains are likely to become more regionally oriented (The Economist, 2019), perhaps increasing the roles and importance of regional economic and political integration for MNEs’ strategies (as long as these regions survive the centrifugal political forces created by the pandemic). For instance, the 27 countries in the European Union probably have a unique potential to fulfill this role in Europe. Additionally, MNEs’ traditional goal of optimizing their supply chain could be attenuated (or redefined) to deal with existing and future potential pandemic shocks, perhaps placing the cost and efficiency optimization into perspective by accepting some redundancies, slack, or a more loosely coupled system, in an MNE’s supply chain network. These outcomes may help manage the uncertainty and risk inherent in these cross-country supply networks while maintaining as many of the advantages of such networks as feasible.

4.2. Types of FDI

According to Dunning (1993), there are three types of (motives for) FDI: market seeking, resource seeking, and non-market seeking (e.g., with the recent focus on efficiency seeking). Large MNEs often have engaged in all three types of FDI, sometimes simultaneously. If we expect that all three types of FDI will remain, however, the use of the different types of FDI may be more selective in the post-pandemic period. At least in the near term, we expect efficiency seeking FDI to be the least important motive, especially because withdrawing from such investments may allow MNEs to reclaim certain work for domestic operations with the intent of responding to nationalistic policies and attempting to placate political leaders. Yet, in the post-pandemic period, there may be special opportunities to secure resources and capture markets vacated by weakened rivals or those that did not survive the economic disruption. However, even where these special opportunities exist, many firms may proceed cautiously to manage the level of uncertainty and risk they are likely to encounter. For instance, the prevalence of remote work during the pandemic, and the accompanying advances in the technologies used, may allow MNEs to access specific types of human capital globally without engaging in FDI (EYQ, 2020).

There are multiple ways in which firms can manage their risk or uncertainty when engaging in FDI, but one major way is through the location(s) chosen. For example, for market-seeking FDI, MNEs might choose to enter countries which were less affected by the pandemic. Earlier, we noted that some government leaders were able to design and implement policies that lessened the number of serious illnesses from the virus or achieved a faster pace of vaccinating their citizens. As a result, these countries suffered less economic disruption and might be among the earliest to return to economic growth and prosperity. MNEs investing in these markets may have more economic opportunities and experience lower risk. Other countries may present opportunities for resource-seeking FDI. For example, developing and some emerging economy countries may be less connected to the global economy, thereby experiencing lower economic disruption. Also, the lack of global connections may have buffered these countries because of lower exposure to the virus. Many of these countries, such as in Sub-Saharan Africa, remain rich in natural resources that may be accessed through FDI. Yet, care must be taken to ensure that these countries are advantaged by the FDI as well. Additionally, the pandemic might shape resource-seeking FDI in different ways compared with the other types of FDI. For instance, exogenous forces such as weaker worldwide demand for some resources (e.g., oil)—rather than problems related to the creation and exploitation of FSA and CSA that may depend importantly on internal operations—could be more important for resource-seeking FDI.

Of course, location has been a major factor in MNE internationalization decisions for some time (Dunning, 2000). Next, we consider the focus of location in internationalization.

4.3. Location and regional strategy

Earlier, we noted the trend toward deglobalization, perhaps partly motivated by non-economic considerations and institutional pressures. However, recent work by Cuervo-Cazurra, Doz, and Gaur. (2020) suggests that the new regulations designed to discourage globalization have had little effect on cross-border economic flows. They argue that MNEs have realized value from the global supply chains, have invested greater effort to localize global operations (gaining local legitimacy), and engaged in lobbying to enhance institutional support for their international strategies. Although these attributes and actions may have offset many deglobalization pressures, those pressures have been greatly multiplied by the pandemic. As acknowledged by Trudeau (2020) in his address to the United Nations, many of the multilateral institutions established to support global economic development and political coordination (e.g., The World Bank and World Trade Organization) have become less effective in recent years, especially in light of the pandemic.

We expect that firms will continue engaging in cross-border trade but do so more cautiously in the post-pandemic period. The inward focus of many country political institutions, the heightened volatility, uncertainty, risk, and failures of government and multilateral institutions may lead many firms to reconsider or refocus their internationalization efforts. Rugman (2005) argued that many MNEs have focused their internationalization efforts on regions for some time, and Enderwick and Buckley (2020) predicted that the pandemic will strengthen this focus.
Although countries located in a similar geographic region often have comparable or related institutional profiles, Arregle, Miller, Hitt, and Beamish (2013) found that firms engaged in arbitrage, comparing regions and then countries within a region, to identify the best locations and sets of institutions to support their business activities. The international turmoil created by the aforementioned and possible future political changes resulting from the pandemic may destabilize the existing institutional profiles of regions, perhaps compromising the development of some countries within these regions, even if they make no changes. Countries that do not dramatically modify their political or economic environment, for example, may be affected by the changes made by other countries in the region. As a result, even if countries can act unilaterally to overcome the pandemic, their success also depends on the actions of other countries in their respective regions due the growing regional perspectives adopted by many MNEs and supra-national institutions, such as the EU and various intraregional free-trade organizations. Similarly, one country’s actions might harm the attractiveness of the region for MNE investments.

Enderwick and Buckley (2020) also argued that the pandemic will likely lead to a regionally based global economy. A regionally based economy, they argue, can achieve a more effective balance between national and international interests and more efficiency in the supply chains, because regionally based supply chains may be easier to manage and coordinate than globally dispersed supply chains. Regionally based MNE strategies, which often entail shorter geographic distance from the home country and more geographic concentration, also generally confront fewer or less severe institutional differences and might lower uncertainty. However, this approach is not a panacea because without effective multilateral mega-institutions, there may be more political and economic conflicts between and within the regions. Additionally, these conflicts can be difficult to reconcile because of the confluence of both country-level and regional-level interests. Such conflicts may further constrain firms’ foreign investments outside of their home region except for highly promising resource-seeking FDI. Therefore, it is unclear if these regionally based strategies are relatively temporary in response to the pandemic or are longer-term consequences of the pandemic due to multilateral institutional constraints and the difficulties (e.g., adjustments costs) that MNEs could experience trying reverse such strategies.

5. Conclusions: MNEs in the post-pandemic new world

Westney (2021) argued that there have been multiple challenges—such as populism, trade tensions, and the pandemic most recently—in the global operations of MNEs. Nationalistic policies create expectations for extreme localization by MNEs, making the integration of subsidiary operations across country borders seemingly less relevant and more difficult to achieve. Historically, although MNEs understand the value of localization, they also have found that value is created by effectively integrating their various international operations. Yet, nationalistic policies often place restrictions (e.g., tariffs) on the flow of goods and people across country borders, thereby increasing the complexity and challenges for MNEs to create value in this way. Although it is not yet clear which of these changes will be permanent (i.e., after the pandemic subsides), we know that the pandemic has fueled or exacerbated disruptions in countries’ institutions and in the world order more generally. These disruptions have different temporal dynamics. Some of them probably are easy to reverse while others might structure the next decades. These dynamics are context dependent and might vary across MNEs, industries, countries, regions, and (polycentric) institutions, making it difficult to predict specific outcomes.

Even before the pandemic, Kobrin (2017) predicted a prolonged period of political instability and economic uncertainty, partly as a result of globalization and its perceived negative implications for certain stakeholders, and the pandemic has heightened these concerns. Although MNEs seek to manage or reduce the instability and uncertainty, some political, economic and institutional changes have constrained the strategic actions that MNEs can take. MNEs may respond by developing smaller and more tight-knit supply chains, engaging in more focused market-seeking and resource-seeking FDI, and developing and implementing more regionally based strategies.

Because these strategies also carry risk, Verbeke (2020) suggested that MNEs may increase their level of product diversification. Such diversification reduces the product market risk within geographic markets, though perhaps not across markets and thus, this approach may be less common than regional strategies. Likewise, a more focused geographic footprint reduces some risk but may increase other types of risk. If firms use a regionally based strategy, they could be subject to political and/or economic risk in the region (e.g., Asian Financial Crisis).

As Trudeau suggested in his talk to the United Nations, the pandemic may not be the worst problem countries and MNEs have to face in the coming years. Westney (2021) argued that continuing climate change and its possible consequences—including more frequent wildfires, catastrophic storms, and droughts—might have substantial effects on MNEs’ supply chains and markets in the coming years. She also suggests that large established MNEs will be expected to help address the problems caused by environmental degradation and help develop a more sustainable environment. The pandemic has focused even more attention on climate change and its consequences, as financial resources have become scarce and reduced travel has lowered carbon emissions (which many believe are largely responsible for climate change). Likewise, the potentially severe economic consequences of climate change may become more salient when added to the negative economic consequences of the pandemic. Zakaria (2020) argued that the sudden and massive seizures are experienced about every 10 years (three since 2000—9/11/2001, 2008 Financial Crisis, and the current pandemic) and future ones are likely to have cascading effects. He noted that globalization is not dead, but we are living in a new age of globalization with countries becoming more parochial, ongoing changes in the economic power distribution, and an increasingly borderless digital world. Still, as emphasized by historians, elements of imagination and ingenuity also emerge during such difficult times, perhaps leading to significant improvements over the long term. Hopefully, some of the effects we have described will also lead to such future positive changes. One outcome may be MNEs engaging in institutional entrepreneurship to help shape revisions to existing institutions, or the development of new institutions, to better prepare for and reduce the negative effects of future pandemics and other major disruptions that might occur.

Thus, the complex problems caused by the changing institutional and economic environment, the global pandemic, and its implications for other potential disruptions (e.g., climate change) likely will require managers to respond in ways that demand new capabilities. MNEs may face dynamic equilibria because their environments are in a continual state of change. As a result, they must be able to design and implement strategic change regularly. In fact, Hitt, Arregle et al. (2021) argued that managers (e.g., in headquarters and subsidiaries) will need to develop supra-dynamic capabilities. That is, they need to build the capability to develop new capabilities (Helfat & Peteraf, 2015) within complex and dynamic contexts, to tailor those capabilities to the needs of the local environments, and to alter these capabilities quickly and with increasing frequency. These managers must be resilient in the face of daunting challenges and changes, build hybrid and agile organizations that integrate multiple strategies, logics, and structures, and attend to diverse stakeholders’ (including governments) interests more effectively. Such changes, along with imagination and ingenuity may be needed to design innovative strategies (domestic and international) and implement them rapidly to compete in the pandemic and post-pandemic world (dis) order.

References

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