



저작자표시-비영리-변경금지 2.0 대한민국

이용자는 아래의 조건을 따르는 경우에 한하여 자유롭게

- 이 저작물을 복제, 배포, 전송, 전시, 공연 및 방송할 수 있습니다.

다음과 같은 조건을 따라야 합니다:



저작자표시. 귀하는 원저작자를 표시하여야 합니다.



비영리. 귀하는 이 저작물을 영리 목적으로 이용할 수 없습니다.



변경금지. 귀하는 이 저작물을 개작, 변형 또는 가공할 수 없습니다.

- 귀하는, 이 저작물의 재이용이나 배포의 경우, 이 저작물에 적용된 이용허락조건을 명확하게 나타내어야 합니다.
- 저작권자로부터 별도의 허가를 받으면 이러한 조건들은 적용되지 않습니다.

저작권법에 따른 이용자의 권리는 위의 내용에 의하여 영향을 받지 않습니다.

이것은 [이용허락규약\(Legal Code\)](#)을 이해하기 쉽게 요약한 것입니다.

[Disclaimer](#)

**Doctoral Dissertation**

**Institutional Factors, Firm-specific Capabilities,**

**Internationalization and Performance**

- A Test Based on Chinese Manufacturing Firms

**February 2016**

**JIA SHEN**

**College of Business Administration**

**The Graduate School**

**Seoul National University**

# **ABSTRACT**

## **Institutional Factors, Firm-specific Capabilities, Internationalization and Performance**

- A Test Based on Chinese Manufacturing Firms

JIA SHEN

College of Business Administration  
The Graduate School  
Seoul National University

The relationship between internationalization and performance is one of the most important and fundamental issues within the IB literature. However, in spite of the efforts and large amount of studies carried out during the past few decades, a limited consensus has been reached, and mixed findings have been reported. Related research is largely based on developed economies using an asset-exploiting perspective, which assumes the possession of competitive firm-specific advantages is a prerequisite condition for firm internationalization. Few studies have integrated institutional contexts into the internationalization-performance framework.

In this study, we argue that the relationship formed between internationalization and performance in an emerging-economy context is different from the conventional

wisdom used by the asset-exploration perspective. The unique idiosyncrasies of emerging economies, especially institutional factors should be taken into consideration.

This study makes an attempt to examine the relationship between internationalization and performance based on emerging economy enterprises (EMEs), which provides a unique research setting and sheds new light on this relationship. The results, based on a longitudinal sample of manufacturing firms in China during the period 2007~2013, reveals a U-shaped relationship between internationalization and performance. In other words, Chinese manufacturing firms initially suffer from performance degradation when expanding into international markets up to a certain point, and recover with a higher degree of internationalization leading to benefits and a superior performance.

In addition, we also tested the moderating effects of firm-specific capabilities and institutional factors on the relationship. Unlike firms from developed economies, we found that firm-specific capabilities (R&D and marketing capabilities) have no significant, or even a negative moderating effect on the internationalization-performance relationship. The high context-dependent nature of marketing knowledge, immature global strategy, and relative incompetence of EMEs are possible explanations. On the other hand, our results provide evidence that the institutional context plays an important role on the internationalization and

performance relationship. The results show that the internationalization-performance relationship varies greatly depending on the governance structure. State-owned enterprise (SOEs) and firms with relatively dispersed ownership tend to perform better from internationalization.

Findings in this paper also indicate that the effects of internationalization on performance are stronger in Eastern regions within a given nation, where the degree of marketization is higher and institutional environment is well-developed. Furthermore, the results show strong support for the positive moderating effect of an industrial-specific policy, suggesting that firms in industries with a supportive policy perform better than firms in other industries. This again emphasizes the role governments play in firms' internationalization strategies. The incentives and special treatment largely enhances the competitive advantage of EMEs in global markets.

In sum, the findings of this research provide support that firms from emerging economies such as China are different from those of developed countries. It also, highlights the important role of institutional factors play in driving EMEs to be profitable during internationalization.

**Keywords:** internationalization, firm performance, institutional factor, firm-specific capability, governance structure, emerging-market firm

**Student Number: 2011-31276**

# TABLE OF CONTENTS

<b>INTRODUCTION</b> .....	1
<b>1.1 Research Background and Motivation</b> .....	1
<b>1.2 Research Objective and Contribution</b> .....	4
<b>1.3 Overview of Chinese Firm Going Global</b> .....	7
<b>1.4 Research Organization</b> .....	10
<b>LITERATURE REVIEW</b> .....	12
<b>2.1 Theories of International Diversification</b> .....	12
<b>2.1.1 Monopolistic Advantage Theory</b> .....	12
<b>2.1.2 Internalization Theory</b> .....	13
<b>2.1.3 The Eclectic Paradigm</b> .....	15
<b>2.2 Theoretical Approaches</b> .....	17
<b>2.2.1 The Benefit and Cost of Internationalization</b> .....	17
<b>2.2.2 Asset-exploitation &amp; Resource-based Perspective</b> .....	18
<b>2.2.3 Asset-exploration &amp; Organizational Learning Perspective</b> ...	20
<b>2.2.4 Incremental vs Accelerated Internationalization</b> .....	22
<b>2.2.5 Institutional-based Perspective on Internationalization</b> .....	26
<b>2.3 Internationalization of Firms in Emerging Countries</b> .....	27
<b>2.4 Debate on the Internationalization-performance Relationship</b> .....	30
<b>HYPOTHESIS DEVELOPMENT</b> .....	39
<b>3.1 Internationalization and Performance in China’s Context</b> .....	39
<b>3.2 The Moderating Effect of Firm-specific Capabilities</b> .....	42

3.2.1 Investment in Research and Development .....	44
3.2.2 Investment in Marketing.....	46
3.3 The Moderating Effect of Institutional Factors .....	49
3.3.1 State Ownership .....	50
3.3.2 Ownership Concentration .....	54
3.3.2 Location-specific Institutional Variation .....	57
3.3.3 Industry-specific Policy .....	60
<b>DATA AND METHODS .....</b>	<b>63</b>
4.1 Data and Sample.....	63
4.2 Variables and Methods .....	66
4.2.1 Dependent Variable .....	66
4.2.2 Independent Variables .....	66
4.2.3 Control Variables .....	70
4.3 Model Specification.....	72
<b>RESULTS.....</b>	<b>74</b>
5.1 Descriptive Statistics.....	74
5.2 Regression Results.....	75
5.3 Moderating Effect Analysis .....	82
5.4 Robustness Tests .....	90
<b>DISCUSSION .....</b>	<b>92</b>
6.1 Findings and Analysis .....	92
6.2 Reverse Causality .....	98

<b>CONCLUSION</b> .....	100
<b>7.1 Summary and Contributions</b> .....	100
<b>7.2 Managerial and Practical Implications</b> .....	103
<b>7.3 Limitation and Future Research</b> .....	104
<b>REFERENCES</b> .....	107
<b>국문초록</b> .....	121

## LIST OF TABLES

Table 1. The Differences between Emerging Multinational Enterprises and Conventional Multinationals.....	30
Table 2. Summary of Representative Past Internationalization-performance Empirical Studies .....	35
Table 3. Regional Development Index in China .....	59
Table 4. Details of Industries Included in the Analysis.....	65
Table 5. Descriptions of Variables and Measurement .....	71
Table 6. The Mean Difference in ROS between High- and Low-Internationalization Groups (t-test) .....	78
Table 7. Descriptive Statistics and Correlations.....	79
Table 8. Results of Estimates for the Effect of Internationalization on Firm Performance.....	80
Table 9. Comparison of Hausman-Taylor and Radom Effects Estimators.....	91
Table 10. Granger Causality Tests .....	99

## LIST OF FIGURES

Figure 1. An Integrated Model of Internationalization and Performance of EMEs.....	11
Figure 2. A U-shape Hypothesis on Internationalization-performance Relationship.....	41
Figure 3. Regional OFDI in China (2007~2013) (Unit: %).....	58
Figure 4. The U-shaped Relationship between Internationalization and Performance.....	76
Figure 5. Moderating Effect of Marketing Intensity on the Relationship between Internationalization and Performance .....	84
Figure 6. Moderating Effect of Ownership Structure on the Relationship between Internationalization and Performance .....	85
Figure 7. Moderating Effect of Ownership Concentration on the Relationship between Internationalization and Performance .....	86
Figure 8. Moderating Effect of Region Effect on the Relationship between Internationalization and Performance .....	88
Figure 9. Moderating Effect of Industrial-specific Policy on the Relationship between Internationalization and Performance .....	89

# CHAPTER I

## INTRODUCTION

### 1.1 Research Background and Motivation

The relationship between internationalization and performance (I-P relationship) is one of the most important and fundamental issues in the IB literature. During the past few decades, it has drawn the attention of numerous scholars and generated a great number of empirical studies. However, in spite of these efforts and large amount of studies, a limited consensus has been reached both theoretically and empirically. Results brought by extant research were mixed and contradictory. Whether there is a systematic relationship between internationalization and performance is under severe debate (Glaum & Oesterle, 2007; Hennart, 2007). The arguments of a positive linear relationship (Grant, 1987; Jung, 1991; Riahi-Belkaoui, 1996; Vernon, 1971), negative linear relationship (Collins, 1990; Michel & Shaked, 1986), and no relationship (Haar, 1989; Sambharya, 1995) have been co-existent in prior studies. In addition, non-linear relationships such as an inverted “U” curve (Brock et al., 2006; Daniels & Bracker, 1989; Geringer et al., 1989), and multiple “S” curves (Contractor et al., 2003; Lu & Beamish, 2004) were also observed by many scholars.

It has been argued that (1) an inadequate measurement of the construct multinationality; and (2) model misspecifications (e.g. unaccounted for contextual factors, sampling bias etc.) are major reasons leading to such inconsistencies (Li, 2007). It was especially pointed out that there are obvious sampling biases in terms of firm size, industry composition and country of origin. Past research has historically focused on large firms in manufacturing industries from developed economies, in particular, the United States, United Kingdom, Japan and Germany. However, recently the IB environment has experienced unprecedented changes, and emerging market firms are becoming a new globalization force. Although as later-comers, firms from emerging countries, particularly China, are continuously catching up and expanding their business globally at quite a rapid speed. Governments in emerging economies have increasingly provided incentives for firms to actively go international and seek opportunities (Luo et al., 2010). Firms from emerging economies are increasingly diversifying their sales and operations internationally and making a contribution to the rapid growth of global economy.

Despite the remarkable steps made by emerging economies, the relevant research of the performance implications of internationalization remains insufficient (Contractor et al., 2007; Thomas, 2006). Although the increasing importance of emerging-economy firms has attracted higher attention to research, empirical studies are quite limited. This represents a significant gap in international research. Considering the idiosyncrasies of the unique contexts portrayed by emerging

countries, the results obtained from prior studies (conventional wisdom) may not be suitable for firms from emerging countries such as China. Considering the fact that many firms in emerging economies are relatively young and lack experience, the internationalization strategies they are carrying can be quite different, and the outcomes of their internationalization efforts may vary. Therefore, the arguments and assumptions from past studies, which have been drawn based on large MNCs of developed economies, may not coincide with the empirical reality of emerging economies.

More importantly, most extant studies merely focus on the relationship between internationalization and performance itself, instead of taking other important moderating factors (both internal and external) into consideration. Wagner and Ruigrok (2004) suggest that not only internal factors such as a company's capabilities, but also external factors such as nationality, and institutions moderate the I-P relationship. The omission of these moderating factors may have led to conflicts in the extant amount of empirical researches that has previously been carried out (Li, 2007). Although some scholars have made efforts to incorporate moderating variables in studying the I-P relationship, most of them have only focused on the internal aspect (e.g. R&D intensity, internationalization strategies) (Annavarjula et al., 2006; Kotabe et al., 2002). The role of institutional factors, a crucial part which may affect the I-P relationship has been overlooked until very recently. Grounded on an institutional-based view, Peng et al (2008) suggested that the home country

institutions and local institutional contexts of emerging economies influence a firm's characteristics, which has a great impact both on the firm's strategic decision to internationalize and on their abilities to make profit in international markets. However, most prior studies merely assumed institutional factors as background, and under-estimated their theoretical importance. This is quite problematic as institutions in emerging economies differ drastically from those in developed economies (Peng et al., 2008; Wright et al., 2005). It seems impossible to explore the performance of an emerging-economy firm's internationalization without understanding of how institutions affect their strategic choices and abilities (Xiao et al., 2013). There is a need to integrate internationalization into an institutional context to examine the internationalization-performance relationship.

## **1.2 Research Objective and Contribution**

Motivated by this research gap, conflicting arguments, and increasing need to re-examine the conventional wisdom of the I-P relationship, this study aims to investigate the relationship between internationalization and performance from a different angle and attempts to provide a more comprehensive conceptual framework by integrating both the resource-based view and institution-based view. Thus we address the following specific research questions:

(1) Is the existing framework applicable and suitable for emerging economies such as China? What is the form of the relationship between internationalization and performance for emerging-economy enterprises?

(2) Are there any unique idiosyncrasies of emerging economies that may influence this mechanism? What are the roles home country institutional factors may have on the internationalization-performance relationship?

This study aims to make contributions in the following ways. First, we seek to fill the theoretical gaps by extending the prior research on internationalization into emerging economy contexts, to test whether the extant findings and results can also be applied to emerging countries or not. Second, this research extends the prior research on internationalization to a different sample, which is rarely investigated. The empirical analysis in this study is based on the most recent firm-level panel data on Chinese firms from 2007 ~ 2013, which differentiate this study from its previous counterparts.

Third, we incorporated the moderating effects of not only capability-related variables, but also institutional variables in the research model. By combining the internationalization literature and resource-based view as well as the institutional-based perspective, our approach provides a unique lens to understand the I-P relationship in emerging economies, especially in China.

Fourth, although recent research recognized that institutional heterogeneity across sub-national regions within a given country shapes internationalization decisions (Hong et al., 2015), little research has investigated the extent to which subnational regional effects and industry effects, rather than country effects, can explain variations in internationalization performance.

Lastly, although it is noticed that the governance structure can play an important role in driving the international expansion of firms, little empirical research has attempted to examine whether state ownership helps Chinese firms benefit from internationalization, and how ownership concentration matters.

This paper tested the internationalization-performance relationships as moderated by firm-specific capabilities and institutional related variables by using a longitudinal sample of manufacturing firms in China. In order to trace the internationalization pattern of firms in China over time, a longitudinal data set of 7 years has been selected. Because most data sets in previous studies on China were limited to a single year or relatively old time period due to data limitation (Axinn et al., 2001), this study will provide implications which reflect the most recent trends. The manufacturing industry was selected because it is a major sector of export and outward FDI in China. It was also selected in order to maintain consistency with previous research.

The main findings in the current study are (1) the I-P relationship following a U-shaped pattern in China's context. Due to the lack of experience and capabilities, costs and barriers in initial international expansion cause a negative slope for the link between internationalization and performance. With further expansion, incremental benefits become greater, which generates a positive association between internationalization and performance. (2) Firm capabilities, which are one of the core factors positively moderating the I-P relationship in conventional studies (in developed country contexts) turns out to have no significant moderating effect or even a negative moderating effect on Chinese firms. (3) The governance structure moderates the internationalization-performance relationship in a way such that increased profitability through internationalization is more likely for state-owned enterprises, as well as firms with less concentrated ownership than for their counterparts. (4) The location moderates the I-P relationship, such that firms headquartered in Eastern regions gain greater performance benefits from their internationalization efforts than those headquartered in other regions. (5) The industrial specific policy moderates the I-P relationship such that firms belonging to those 'encouraged' industries tend to perform better than their counterparts.

### **1.3 Overview of Chinese Firm Going Global**

China, as one of the largest emerging markets, provides a unique and valuable research setting for theory development and testing. First, China's business activities

are becoming increasingly integrated with the global economy in a remarkable and unprecedented pace. Its OFDI expanded significantly in recent years. From an annual average of below \$3 billion before 2005, OFDI flows grew to more than \$50 billion by 2008. By the end of 2013, China's total global OFDI stock hit \$107.8 billion, and more than 15 thousand firms have established their overseas subsidiaries around 184 countries, making China one of the world's top 10 exporters of direct investment (UNCTAD, 2014). Chinese MNCs aggressive activities are gathering attention from all over the world. Meanwhile, China's total exports reached \$2.21 trillion in 2013, which is nearly 3 times more than 2005 (\$0.76 trillion) (National Bureau of Statistics of China).

Other than the startling scale and speed of internationalization, Chinese firms show some notable characteristics that make them distinct. With a relative short history of adopting the modern enterprise system (since 1993), Chinese firms are still undergoing corporate reforms, restructuring and privatization. The legacy of the central planning economy remains while management capabilities and experience are quite limited. Due to regional polarization, firms from coastal cities face increasing market demand and competition, while firms from inner-land areas have to deal with a less marketized and inefficient institutional environment.

There are also many unique aspects of emerging multinationals from China when they go abroad. As a country under transformation from a centrally planned economy

to a market oriented one, the central government still plays a leading role on the process of internationalization. The private firms were legally prohibited and excluded from investing abroad until 2003 (Buckley et al., 2007). Although recently with relaxed administrative controls, private firms have accelerated their entry into international markets, State-owned enterprises (SOEs) continue to account for the majority of China's ODI (share of SOE's non-financial sectors investments is 62.7% in 2011).

Evidence suggests that Chinese firms prefer M&A as their mode of entry, and contrary to traditional theories, more and more firms turn their eyes to developed countries. Nearly half of China's outward FDI is via aggressive M&A with the motivation of acquiring strategic assets (Deng, 2009). Although classical motivations such as market-seeking still play a key role for Chinese firms to invest abroad with export being their predominant mode of internationalization, the motivation of many Chinese firms are asset-seeking, aiming at acquiring intangible and immobile strategic assets such as advanced proprietary technology, to improve their overall competitiveness. The acquisition of foreign technologies and brands is often regarded as a short cut to establishing a company in an international market (Deng, 2004; Zeng et al., 2012).

Given the aforementioned sharp difference between firms from China and advanced countries into consideration, we believe this empirical setting will provide

a better understanding of the internationalization-performance theoretic framework in an emerging country context.

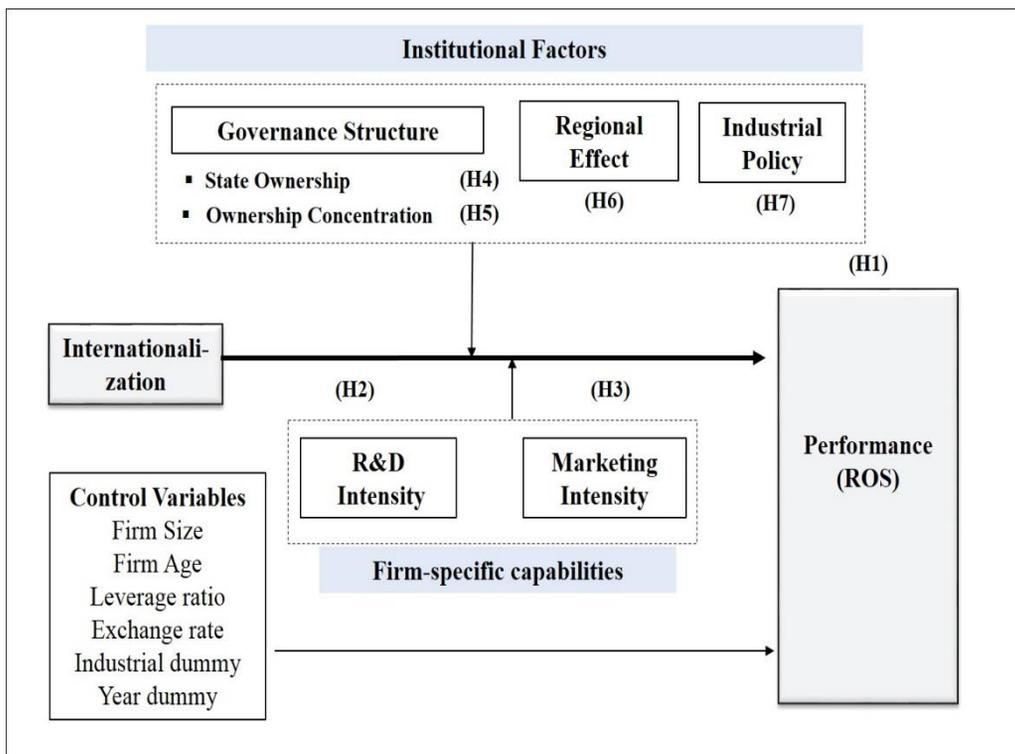
## **1.4 Research Organization**

We argue that an integrative perspective through that combination of the resource based- and institutional based views will enhance our understanding of the internationalization and performance relationship of EMEs for 2 reasons. First, although resource based and institutional based views have contributed tremendously to the development of the internationalization theory (Meyer et al., 2009b), each perspective provides only partial aspects of international expansion. Second, the two perspectives are interdependent. Institutional factors may enrich a firm's resources and assets, and in turn, superior resources may enable firms to exploit institutional advantages more effectively (Wang et al., 2012). In the present study, we propose an integrated model of internationalization and performance, as summarized in Figure 1.

The rest of this dissertation is structured as follows. After introducing the research background, purpose and research questions in Chapter1, Chapter 2 provides a literature review on the traditional and representative internationalization-related theories, in addition to some important theoretical approaches of firm international expansion. A brief introduction and overview of extant studies related

to internationalization and performance will also be conducted. Chapter 3 develops hypotheses in the context of China by integrating the resource- and institution-based views, establishing a research framework. Chapter 4 includes the empirical testing of hypotheses on a sample of Chinese firms. Discussion about the results is presented in Chapter 5 and Chapter 6 respectively. Finally, after explaining findings, theoretical and practical implications will be provided in Chapter 7.

**Figure 1. An Integrated Model of Internationalization and Performance of EMEs**



# **CHAPTER II**

## **LITERATURE REVIEW**

### **2.1 Theories of International Diversification**

Internationalization, defined as a process by which firms increase their involvement in operation across borders, and expansion into different geographic locations (Hitt et al., 1997; Welch & Luostarinen, 1988), is a crucial competitive strategy for a firm to enhance its comparative advantage through obtaining market opportunities and complementary resources. Several theories which are built up by different school of thought, tend to interpret the motivation (driving forces), determinants and dynamic process and patterns of internationalization. The traditional mainstream theories are reviewed as following.

#### **2.1.1 Monopolistic Advantage Theory**

Hymer (1976) argues that the possession of unique asset or so-called monopolistic advantage, such as differentiated products, advanced management know-how, is the cause of internationalization. He also identifies imperfections in factors and good markets, “such as monopoly control of raw materials or managerial and research skills, any one of which has led to the development of a firm-specific advantages”.

When a firm enters a foreign market, it is supposed to face an unfavorable environment comparing to local firms. There are many market barriers such as lack of knowledge of local market, unfamiliar with the local culture, and discriminatory policy of host government. In order to successfully carry on the operational activities overseas, a firms should have certain ownership advantage to offset extra cost, also named as “foreign liabilities”(Zaheer, 1995). Also, the advantages have to be large enough to overcome the disadvantages and let the firm to be profitable. Accordingly, unequal and superior ability of firms is a sufficient and necessary condition for international operations.

On the other hand, it is argued that the particular combination of monopolistic advantages decides the extent of foreign involvement, and the transferability of those advantages determines the form of foreign investment (Lall, 1980). If the advantages are very easy to be transferred to abroad, firms tend to choose setting factories overseas, and export will be preferred if the advantages are more “tied” to the home country or headquarter due to institutional or cultural reasons.

### **2.1.2 Internalization Theory**

Originated from the research of Coase (1937), based on the transaction cost theory by Williamson (1979), this theory is systematically developed by several British economists represented by Buckley and Casson (1976). Integrated elements from industrial organization and international economics, this theory mainly

suggests that it is more efficient for a firm to create and use an internal market due to the existence of transaction costs and market failure. The typical activities of internalization include assignment of property rights to a firm, and control the use of certain intangible firm-specific advantage through an internal market (Rugman, 1982).

This approach was extended into international dimension. From this perspective, MNEs emerge because it is more effective to possess ownership advantages by internalizing them. Many regulations between nations also encourage a firm to make an internal market (Rugman, 1981). Internalization theory regards MNE as an organization that uses its internal market to produce and distribute products more efficiently when market imperfection occurs. This enables MNEs increase overall profitability from optimize resource utilization. However, since operating an internal market also generates transaction cost, a firm expands internationally only if the benefits excess the cost, and its growth will be constraint accordingly.

Internalizing through FDI can be divided into 3 types. MNEs will respond to the imperfect market for knowledge and technology by engaging in horizontal integration, on the other hand, market failure in intermediate goods often leads to vertical integration, and conglomerate integration will be selected when capital market internalization is needed (Rugman, 2002).

Rugman (1980) highly evaluated the internalization theory as a general theory of foreign direct investment not only because it explained most of reasons and industrial structures of FDI, but also because it provides evidence to predict the situations in which firms choose to internalize foreign market (Dunning 1993). However, this theory also has many limitations. First of all, it fails to distinguish the different motivations and types of firms. Second, it is incomplete and static because it only considered firms as passive respondents to exogenous market imperfections, but neglected the possibility that firms may also create market failure. Besides, it only focuses on how firms allocate and use existing asset, but overlooks the fact that they may also create new assets.

### **2.1.3 The Eclectic Paradigm**

The eclectic (OLI) paradigm, proposed by Dunning (1977), is one of the most widely applied and dominant analytical frameworks to explain international business activities and phenomena for past several decades. Dunning (1977, 1981) seeks to combine internalization theory with firm ownership specific advantage and other determinant variables such as location-specific advantage, and build up a more integrated and comprehensive view towards MNEs. The contents is basically composed by three key elements. The “O” represents the ownership specific advantages. It is argued that the possibility and capability of a firm to engage in foreign investment is highly positively related to the competitive advantages of the

firm. Besides, the “L” refers to “locational attractions of alternative countries or regions for undertaking the value added activities of MNEs”(Dunning, 2000). The logic behind it is that if there are immobile endowments in a certain foreign location that complementary and necessary to a firm, it will drive the firm to engage in FDI to enhance and exploit its ownership advantages. Finally, as the third leg of the tripod framework, the “I” means internalization advantages, which originally emerged from the internalization theory. Its assertion is that the more benefit a firm can get by generating and exploiting core competencies through internalizing cross-border rather than selling or acquiring those through the open market, the more likely the firm will engage in foreign production.

Combining many other theories into a unified framework, the eclectic paradigm is just like an “envelop”, contains many theories that are complementary to each other. However, there are some criticisms brought up by scholars. It is pointed out that too many explanatory variables identified by the paradigm may reduce the predict value. Also, the interdependence among components of the paradigm (OLI variables) are supposed to be problematic. Moreover, it is claimed that the eclectic paradigm is a static approach, which offers limited implication for the dynamic internationalization process of a firm (Dunning, 2001).

In order to respond to those criticisms and let the paradigm fit better into the reality, Dunning extended and reconfigured the eclectic paradigm to be more dynamic.

## **2.2 Theoretical Approaches**

### **2.2.1 The Benefit and Cost of Internationalization**

Just like a double-edged sword, internationalization has been found to have both positive and negative effect on firms (Aulakh, 2009; Chen et al., 2014). Earlier theories in IB literature often emphasize the advantages and benefits that result from international diversification. By geographical diversification, positive consequences such as economies of scale and scope are expected, which may increase firms' market power (Hitt et al., 1997; Hymer, 1976). Greater geographic size of the market means more consumers, and firms thus can achieve higher production volumes and profitability. By entering local markets, firms can respond to customers, and meet their needs easier and more efficiently (Chen et al., 2014). Moreover, Firms also can reduce their production costs by accessing to cheaper and idiosyncratic resources available in foreign markets, and enhance their competitive advantages by obtaining complementary strategic assets (Wang et al., 2012). Internationalization also provides numerous opportunities of experiential learning (Tallman et al., 2004), and is helpful for firms to spread operational risks (Rugman, 1981). Besides, exploitation of its own superior firm-specific advantages in international markets will boost firm growth, and a broader market will stimulate firms to develop various capabilities.

On the other hand, internationalization is also known for its negative aspects. When the scale of overseas operations gets expanded, managing cross-border business becomes more difficult and complicate. The transaction cost, coordination and administrative cost increase, and governance problems occur when dealing with the demands of multiple institutional environments (Contractor et al., 2003). Besides, problems such as knowledge leakage and ineffectiveness of inter-firm knowledge transfer are also expected during internationalization (Chen et al., 2014).

### **2.2.2 Asset-exploitation & Resource-based Perspective**

Asset-exploitation perspective focuses on the firm's intention and ability to exploit home-based firm-specific advantages. It is assumed that possessing certain types of proprietary resources is the pre-requisite of foreign investment, and the firm-specific resource itself is regarded as a key of success during international diversification (Makino et al., 2002). To some extent, it can be said that the asset-exploitation perspective is rooted from the Hyme's monopolistic advantage theory, and is in line with resource-based view.

The main difference between monopolistic advantage theory and RBV is the latter elaborates emphasis on the mechanisms of how resources and capabilities are generated, accumulated and deployed (Bürgel & Fier, 2004). RBV argues that firm is a bundle of assets, including physical and intangible resources such as brand names,

unique processes and even organizational culture. It is the intangible resources which is rare, value-creating and non-substitutable that determine firm's core competitiveness and performance (Barney, 1991).

Resource-based view believes that international performance is determined by the resources and capabilities that a firm possesses, which help it overcome the initial costs of competing in host countries. Similarly, under asset-exploitation perspective, many researchers argue that FDI is the process of transferring a firms' proprietary assets across borders. Makino (2002) assumes that "firms should possess certain forms of rent-yielding resources when investing in a host country". Such rent-yielding resources included the abilities to acquire factors of production at lower cost, better distribution facilities and differentiated products (Hymer, 1976). Also, technological and marketing knowledge and knowhow can be viewed as major sources of a firm's monopolistic advantage (Caves, 1971) .

In this case, what are the advantages of the EMEs (emerging economy enterprises) that enable them to get profits overseas? Regarding to this question, one of the possible answers is that EMEs are good at making small scale, labor intensive, and flexible processes and products to the LDC markets (Makino et al., 2002; Wells, 1983). Also, they may have competitive advantages in countries with weak institutions. Since EMEs are experienced in relatively opaque and difficult business environments, the similarity and familiarity of institutional system will make them

more capable to adapt challenging and harsh institutional environment (Kolstad & Wiig, 2012). However, asset-exploration perspective cannot explain why EMEs intend to invest into developed countries.

### **2.2.3 Asset-exploration & Organizational Learning Perspective**

In contrast to conventional views, asset-exploration approach identifies and emphasizes another motivation of internationalization which has been long overlooked. Firms enter foreign market not only as knowledge owners but also as knowledge seekers. Rather than transferring the existing knowledge to overseas, acquiring necessary strategic assets and building new knowledge in host country can be more critical for some international investors (Li, 2010; Luo & Tung, 2007; Ruigrok & Wagner, 2003). The motivation of internationalization largely underlies the nature of enterprises and their behaviors. Different motivations require different strategies, and are associated with different capabilities (Nachum & Zaheer, 2005). The asset-seeking motivation is especially applicable to resource-poor emerging-market enterprises (EMEs).

With the rise of MNEs from the developing countries, the validity of extant MNE theories including OLI model have been doubted, and many recent studies suggest that firms intend to create and enhance competitive advantages through international expansion. Li (2007) argues that the OLI model primarily focuses on

“the exploitation of ex ante advantages”, rather than “the exploration of ex post new advantages” through internationalization. For MNEs from the emerging economies, FDI is commonly regarded as a means to acquiring the necessary strategic assets abroad in order to overcome their existing deficiencies and disadvantages. Similarly, Luo and Tung (2007) presented a springboard concept to describe and explain the internationalization of EMEs. This view argues that ownership advantage may be a strategic motivation or a goal to achieve rather than a precondition to invest overseas. It claims that EMEs use internationalization as a springboard not only to alleviate their latecomer inferiority, but also to compensate for their competitive disadvantages through experiential learning. Accordingly, EMEs are triggered mainly by asset-seeking and opportunity-seeking motive, and they have a strong propensity to acquire competences from overseas to upgrade and catch up.

Furthermore, some researches link the asset-seeking perspective to organizational learning perspective, and the perspectives have been found to have quite similar dimensions in term of knowledge-based view (KBV) of the firm (Kogut & Zander, 1993). According to the KBV, firm-specific knowledge is the most fundamental and critical strategic resource of competitive advantage. The core idea is that the multinational enterprise is made as an organizational vehicle to transfer knowledge across borders efficiently (Wang & Suh, 2009). Since knowledge can be transferred between subsidiaries and headquarters, firms do not need to possess proprietary ownership advantage before going aboard. Instead, international strategy and

performance is determined by firms' ability to acquire, internalize and integrate strategic assets from external sources and their absorptive capabilities to facilitate knowledge transferring and development (Makino et al., 2002; Zhu et al., 2006).

This perspective has been supported by a growing amount of literatures. Li (2010) even proposed a so called "Linkage-Leverage-Learning" model for MNE latecomers, in which the cross-border learning is broken down into 4 dimensions (exploitative and exploratory learning as well as unilateral and bilateral learning). Ruijgrok and Wagner (2003) emphasized the dynamic nature of internationalization, and argue that internationalization-performance relationship is determined by organizational learning process based on empirical evidence. International expansion makes firms feel an imbalance between external environments and internal competencies, which will stimulate the effort of reconfiguring internal systems to match global environment. Makino (2002) also found in the case of NIE firms' location choice, asset-seeking aspects of investments are predictive. It is suggested that many NIE firms invested in developed countries have got access to resources such as brand names, distribution channels and advanced technology.

#### **2.2.4 Incremental vs Accelerated Internationalization**

Based on the empirical observations of Swedish MNEs, Uppsala model made an attempt to explain the pattern of the firm's internationalization process. It proposes that firms often develop their international operations in an incremental

pattern and follow certain time sequence. Specifically, firms tend to start by exporting via an agent to geographically proximate countries, and gradually increasing market commitment as their experience accumulates: first expanding their operation in more distant countries, later establishing foreign sales subsidiaries, and finally setting up production subunits in foreign markets (Johanson & Vahlne, 1977).

The aforementioned development pattern shows that the Uppsala model is largely in line with the knowledge-based and organizational learning perspective. Uppsala model views internationalization as a gradual and path-dependent learning process, and argues that firms' behavior is determined by their past knowledge base and related experience. Here "development of knowledge" and "increasing market commitment" are two core elements that interplay in an incremental way. International expansion leads to greater development of knowledge about international operation, and the enriched knowledge again leads to further increasing in market commitment (Elango & Pattnaik, 2007).

The Uppsala model contains elements of both asset-exploitation and asset-exploration (Wang & Suh, 2009). In the initial stage, firms exploit their firm-specific advantages in countries with relative homogeneous business environment (short geographic and culture distance). At the same time, they try to acquire and accumulate new knowledge and capabilities, which will become the stepping-stone for new investments in more remote and unfamiliar market later on.

However, Wang and Suh (2009) also reveals that there are differences between the Uppsala model and asset-exploration approach. While in the Uppsala model, the knowledge accumulated is mostly used to better serve the host market, the purpose of knowledge acquiring under asset-exploration perspective is often to enhance the firms' overall competitive advantage. Also, while the Uppsala model emphasizes building knowledge in an incremental manner, the asset-exploration perspective stresses the rapid access and integration of knowledge.

According to the logic of incremental perspective, the internationalization has an inverted U-curve relationship with firm performance (Geringer et al., 1989; Gomes & Ramaswamy, 1999). In the initial stage of international expansion, firms enter relatively homogeneous markets where benefits such as economic of scale highly outweigh the liability of internationalization. However, as the firms further enter more heterogeneous and complicated markets later on, administrative costs caused by organizational complexity escalate and eventually cost of internationalization will exceed the benefits, and the firm performance begin to decrease (Li, 2007).

The Uppsala model also have several shortcomings (Elango & Pattnaik, 2007). First, this model mainly focuses on the early stages of internationalization; Second, it is critiqued for failing to explain where and how the internationalization process begins; Third, the reactive approach it adopts to experiential learning is too

deterministic; and the shortcoming we would like to highlight is that it overlooks proactive and risk-taking aspects of firms, and has not taken account of the possibility of leap-frogging development and path-breaking strategic choices that leads to accelerated internationalization. (Weerawardena et al., 2007; Zhou et al., 2007).

The accelerated internationalization is one of the unique features of emerging economy firms that set them apart from their developed counterparts (Deng, 2012). As latecomers with relatively weak internal resources, the EMEs have a more urgent need to attain critical external asset to achieve quick catch-up. Deng (2012) identified the driven forces behind the accelerated internationalization as firm-specific advantages and domestic institutional contexts. From internal aspect, relational asset, which refers to the ability to manage in difficult institutional environment and build close business-government ties, learning capabilities, corporate entrepreneurship as well as business groups and network relations serve as important drivers for the rapid international expansion. From external aspect, the active government role and supportive government policies stimulate EMEs to undertake overseas investment quickly. Weerawardena (2007) derived a conceptualization of accelerated internationalization from a dynamic capabilities perspective. According to him, it is the cutting-edge knowledge intensive products lead to accelerated market entry, which cannot be achieved without a set of dynamic capabilities built by internationally-oriented entrepreneurial founders. From a different perspective,

Goldstein (2006) and Mathew (2006) argues that it is not the technological innovations, but the organizational and strategic innovations that enable EMEs to achieve accelerated internationalization.

### **2.2.5 Institutional-based Perspective on Internationalization**

It is now widely realized that institutions are much more than background conditions of internationalization (Meyer et al., 2009a). Firm performance is driven not only by industrial conditions, but also by the governance quality of the country in which firms are embedded. (Nguyen et al., 2015). Institutional factors can not only determine the ability of domestic firms to invest abroad (Buckley et al., 2007), but also influence both the determinants as well as the outcomes of internationalization activity (Dunning & Lundan, 2008). Many scholars posited that institutions are the "rules of the game" that influence the way business will be conducted, and defined it as "regulative, normative and cognitive structures that provide meaning to social behavior" (Scott, 1995).

There are only a few studies try to identify the linkage between institution and internationalization. It is identified that the internationalization of firms are driven by the desire to conform to institutional isomorphic pressure (Li & Ding, 2013), Tsukanova & Shirokova (2012) found that institutional hostility has a negative impact on internationalization tendency. Volchek (2013) also provided evidence

that regulation, normative, cognitive factors are associated with the institutional challenges for SME internationalization. However, there is still limited knowledge about institutional influence on emerging firm's internationalization practices.

Recent institutional transitions in emerging economies present an institutional framework that is "qualitatively different" from Western firms (Xiao et al., 2013). Emerging economies, especially China, are undergoing dramatically rapid political, economic and market-oriented institutional changes toward marketization and privatization (Wright et al., 2005). Central government still plays a leading role on the process of internationalization, which makes the government policy a key determinant to firm performance. Also, regional polarization in China causes some firms located in well-developed institutional environment while others are not (Axinn et al., 2001). Besides, unlike their developed counterpart, who tend to exploit asset to seek market expansion, Resource-seeking is an important motivation of Chinese firms. Such uniqueness of institutional environment can have considerable influence on international strategy and performance.

### **2.3 Internationalization of Firms in Emerging Countries**

Recent years, the world has witnessed an unprecedented rise in overseas investment from emerging economies (Gammeltoft et al., 2010). Although there are various definitions for the phrase "emerging economies", it commonly refers to

“low-income, rapid-growth countries using economic liberalization as their primary engine of growth”(Deng, 2012; Hoskisson et al., 2000). Emerging economies should be fast followers with a rapid pace of economic development, favorable government policies for economic liberation and a free-market system (Arnold & Quelch, 1998; Hoskisson et al., 2000). BRICs countries are served as typical example of this term. According to official statistics of UNCTAD (2015), outward FDI flows from emerging economies reached more than \$ 527 billion in 2014, and more than 30 cross-border acquisitions of advanced MNCs were conducted by EMEs during 2006 to 2011. Multinationals such as China’s Huawei Technologies and Lenove, Brazil’s AmBev, India’s Tata Group and NIIT are becoming leading players in the world marketplace.

Although the so-called “second wave firms”(Mathews, 2006) are heterogeneous rather than being an identifiable group, they are definitely possessing some distinctive characteristics compare to conventional multinationals. Past studies identified some key differences and important features as follows: above all, EMEs are embracing accelerated internationalization through organizational and strategic innovations (Mathews, 2006). Secondly, central and local government play a more important and active role in the economy, and firms tend to be more cooperate and subordinated to government preferences. Government has larger influential power and provide firms with various support. Meanwhile, the less sophisticated economic institutional environments have great impact on the governance structure of EMEs

(i.e. have greater propensity of horizontal and vertical integration). Besides, EMEs are more dependent on relational assets (i.e. social networks with ethnic), and have higher tendency to operate in more mature industries (Gammeltoft et al., 2010). They often use “dual path expansion” strategy, which means entering into developed and developing countries simultaneously (Guillén & Garcia-Canal, 2009).

Furthermore, unlike firms from developed economies, previous studies suggest EMEs typically suffer from a number of “*liability of emergingness*” (Xiao, 2011) during process of internationalization. First, most of EMEs are relatively smaller and younger or recently privatized, with weaker brand power, less developed managerial capabilities, decision-making processes, and other strategic assets (Contractor et al., 2003). Second, a majority of EMEs are still in the early stages of internationalization process, with exporting being the dominant model of their international market participation. Therefore, it makes most of them difficult to enjoy the benefits of having overseas subsidiaries and implementing a standardized marketing strategy (Aulakh et al., 2000). Lastly, since there is a great difference between international markets and home markets that EMEs are operating in, it is difficult for them to directly use their existing domestic advantages and experience (i.e. marketing, distribution and government relationships) (Xiao, 2011). Table 1 summarized the key features of the multinationals enterprises from emerging economies.

**Table 1. The Differences between Emerging Multinational Enterprises and Conventional Multinationals**

	<b>EMEs</b>	<b>Conventional MNEs</b>
<b>Speed of internationalization</b>	Accelerated	Incremental
<b>Expansion path</b>	Dual path (enter developed and developing countries simultaneously)	Simple path : from geographically and culturally close countries to distant ones
<b>Firm-specific advantages</b>	Insufficient resources and less developed capabilities	Stronger managerial and technological capabilities
<b>Preferred entry modes</b>	Alliances and rapid acquisitions	Wholly owned subsidiaries
<b>Government control</b>	Strong	Weak
<b>Home institutional environment</b>	Less sophisticated	Well developed
<b>Relation asset</b>	Highly dependent	Less dependent

Note: Rewrite based on Guillen and Carcia-Canal (2009)

## **2.4 Debate on the Internationalization-performance Relationship**

The literature provided several theoretical explanations of the nature of the I-P relationship. These perspectives are different from each other in terms of research focuses, theoretical backgrounds and fundamental arguments. They can be broadly divided into 2 categories: The perspectives stemmed from economics and focus on the economic rationale of internationalization, which view the relation in a relative static way, arguing that the relation is a linear function. On the other hand, the perspectives with a theoretical background of the incremental internationalization

and organizational evolution tend to focus on the dynamic aspect of internationalization process, and suggest the non-linear relationship between the internationalization and performance (Li, 2007).

As mentioned earlier, the traditional theories of FDI provided a foundation for explaining the patterns of international expansion, and believe that going aboard has a positive impact on firms' performance. The core argument of internationalization theory is that firms go aboard usually possess comparative advantage better than their counterparts in host countries (Hymer, 1976). These advantages may arise from the firm's privileged ownership of a set of income-generating assets, or the ability to co-ordinate these assets across national boundaries (Dunning, 1980). It is firm-specific intangible assets drive the firm's international expansion when they are facing natural and structural market imperfections (i.e. lack of market space, government intervention etc.). Also, it is those specific assets help the firm overcome liability of foreignness and generate benefits during the internationalization process. (Dunning, 2001; Rugman, 1981). The traditional internationalization theory is quite isomorphic to a resource-based or knowledge-based view because it essentially put highlight on firm-specific intangible assets (Capar & Kotabe, 2003).

On the other hand, scholars who found evidence for a negative relationship put essential emphasis on the liability and cost aspect of internationalization, which is relatively under-explored (Collins, 1990; Michel & Shaked, 1986). When going

aboard, firms will face considerable risks and barriers, such as liability of foreignness which caused by lack of local information, unfamiliarity with local culture, and discriminatory treatment of host governments (Zaheer, 1995). Also, establishing facilities, management systems and business network as well as recruiting staffs will result liability of newness (Lu & Beamish, 2004). As firms further broaden and deepen their internationalization, internal coordination cost will increase, so does the complexity of operation due to foreign exchange fluctuations and uncertainty of multiple host institutions (Guisinger, 2001; Kostova & Zaheer, 1999). In addition, the argument rooted in agency theory was brought up, suggesting that managers inclined to adopt and keep international diversification strategies which are value-reducing even if doing so impairs shareholders' wealth (Denis et al., 2002; Li, 2007). That is to say managers' self-interest seeking tendency and managerial hubris may also bring substantial costs during internationalization (Kim & Mauborgne, 1993).

As time goes by, another stream of research has found that there is a curvilinear (inverted-U) I-P relationship because internationalization is a gradual and path-dependent process instead of being static and flat. From the dynamic perspective, performance is determined by the "combined effects of international benefits and costs". In some period, a firm will show an expansionary growth when benefits exceed costs, and a turn down vice versa (Gomes & Ramaswamy, 1999; Li, 2007). The Uppsala model typically proposes the perspective of incremental

internationalization. As mentioned before, the pattern of the firm behavior is determined by its past experience and knowledge base (Eriksson et al., 2000). Firms would benefit from economies of scale when they undertake their initial international expansion in a relatively homogeneous business environment. As the firms enter relatively remote and heterogeneous markets later on, the environmental complexity causes high administrative cost. Finally the marginal costs of internationalization will exceed the benefits, which impedes firms' performance. The finding suggests that the function follows the law of diminishing returns. Therefore, there is likely to exist an *optimal degree* of internationalization (Li, 2007).

More recently, a new unified three-stage theory of international expansion, which reflects the dynamic interplays between internationalization benefits and costs has found evidence for a horizontal S-shape I-P relationship (Contractor et al., 2003; Lu & Beamish, 2004). Sullivan (1994) argues that it is an evolutionary upward S curve that accurately describes the relationship between internationalization and firm performance. According to him, it reflects a cycle of "convergence, decline, re-orientation and convergence" which is similar to an organizational evolutionary process (Li, 2007). Internationalization process was viewed as a natural stage of firm development from organizational evolution perspective. Internationalization tends to cause a firm misfit with its new environment in a short initial period, which will lower performance. However, it will on the other hand, triggers the effort of re-adapt and re-achieving fit, which leads to enhance performance for the next certain period

of time. Contractor et al (2003) divided the internationalization into 3 stages, and demonstrated that stage 1 shows a negative slope because firms have to pay large learning cost, and the slope turns to positive when benefits of international expansion are gradually realized. However, when the international expansion is beyond an optimal level, increasing transaction and governance cost again will lower the performance.

As summaries in Table 2, although there are various findings in previous studies, most of them are focused on developed country, and there is few findings related to emerging countries until very recently. As firms from emerging economies expand internationally in an unprecedented speed, some scholars turned their eyes to this circumstances, and their findings shed additional light on the I-P relationship theory. Contractor, Kumar and Kundu (2007) conducted an empirical test on India firms and found a U-shape curve depicting the I-P relationship. According to them, most of the emerging market firms tend to be much smaller, and have a tiny local market compared to advanced economies, which give them high incentives to expand abroad. Moreover, many successful MNCs in the emerging countries belong to diversified business groups, which provide support and easy access to needed capital and resources when entering into foreign markets. Thomas (2006) examined the I-P relationship by using a longitudinal sample of Mexican firms, and argued that Mexican firms initially experience negative performance due to the liability of foreignness, however through gaining experience and organizational learning, they

eventually reap the positive benefit from international expansion, which means there is a U-shaped curvilinear relationship. Li (2001) also tested and found an upward curvilinear I-P relationship by using 1684 firms in China as sample. However due to data limitation, only data of 1996 was applied for this test.

**Table 2. Summary of Representative Past Internationalization-performance Empirical Studies**

Author(s)	Year	Sample	Key Moderator (or Control)	Results
Vernon	1971	187 Large US manufacturing firms	None	Positive
Severn & Laurence	1974	132 US firms	R&D intensity	Not significant
Siddharthan & Lall	1982	132 US manufacturing firms	R&D/Advertising	Negative
Dunning	1985	188 UK MNEs	None	Not significant
Michel & Shaked	1986	101 US firms	None	Negative
Shaked	1986	58 US MNEs and 43 non-MNEs	None	Negative
Grant	1987	304 British manufacturing firms	Industrial effects	Positive
Daniels & Bracker	1989	116 US firms in Forbes	Industrial effects	Inverted J curve
Haar	1989	US, Europe, Japan	None	Not significant
Geringer et al.	1989	100 largest MNEs (US and Europe)	None	Inverted J curve
Collins	1990	133 US firms from Fortune 500	None	Negative
Jung	1991	401 US firms	None	Positive
Kim et al.	1993	125 largest US MNEs	Industrial effects	Positive
Sullivan	1994	75 US manufacturing firms	None	Horizontal S
Sambharya	1995	53 US MNCs	None	Not significant

Riahi-Belkaoui	1996	31 French MNEs	None	Positive
Tallman & Li	1996	192 US manufacturing firms	Product diversity	Positive
Hitt et al.	1997	295 US manufacturing firms	Product diversification	Inverted U
Han et al.	1998	2643 firms in G-7 countries	None	Positive
Qian	1998	164 US industrial firms	Firm size, industrial effect	Positive
Riahi-Belkaoui	1998	100 US firms (Forbes)	None	Horizontal S
Delios & Beamish	1999	399 Japanese manufacturing firms	Product diversity, R&D/ advertising intensity, industrial effect	Positive
Gomes & Ramaswamy	1999	95 US manufacturing firms	None	Inverted U
Zahra et al.	2000	321 US new ventures	International experience, entry mode	Positive
Lu and Beamish	2001	164 small size Japanese firms	R&D, product diversity	U shape curve
Qian	2002	71 US small & medium firms	R&D, advertise intensity, product diversification	Positive
Capar & Kotabe	2003	81 major German service firms	industrial effect	U shape curve
Contractor et al.	2003	103 largest service companies	industrial effect	Horizontal S
Ruigrok & Wagner	2003	84 Largest German manufacturing firms	industrial effect	ROA: U curve OCTS: inverted-U
Li and Qian	2005	167 largest US firms	R&D intensity	Inverted U
Lu and Beamish	2004	1489 Japanese firms	R&D/advertising	Horizontal S
Nachum	2004	345 EM firms	None	Positive
Thomas& Eden	2004	151 US manufacturing firms	R&D intensity, administrative costs	Mixture of non-linear results
Chiang & Yu	2005	119 Taiwan SMEs	None	Inverted S-shape
Li	2005	574 US service firms	Business diversity	Horizontal S
Brock et al.	2006	89 global law firms (US, UK)	Country of origin	Inverted U-shape

Chiao et al.	2006	1419 Taiwanese SMEs	R&D, AD intensity	Inverted U-shape
Thomas	2006	500 Mexican firms	Geographic distance	U-shape curve
Elango	2006	719 EM firms	Governance	Manufacturing: +/- Service: +
Chang & Wang	2007	2402 US firms	Product diversification	Horizontal S
Contractor et al.	2007	269 Indian firms	None	U-shape curve
Ruigrok et al	2007	87 Swiss manufacturing MNCs	None	Horizontal S
Li & Yue	2008	435 firms in 13 developed countries	Market size, legal institution	Inverted U-shape
Kumar&Singh	2008	75 Indian pharmaceutical firms	None	Horizontal S
Lahiri	2010	100 semiconductor global firms	R&D intensity	Inverted U-shape
Chao & Kumar	2010	Fortune 500 companies (Y2004)	Institutional distance	Inverted U-shape
Chen and Hsu	2010	224 Taiwanese firms	R&D, marketing intensity	U shape curve
Chelliah et al.	2010	77 Malaysian manufacturing SMEs	None	Positive
Kim et al.	2010	140 Korean manufacturing MNCs	Business group affiliation	Negative
Pan et al.	2010	51 firms (281 subsidiaries)	Regional diversification	Inverted U-shape
Banalieva E.R	2011	623 MNEs from 14 EMs	Trade Liberalization	Electronics: +/- Non-electronics: +
Lin et al.	2011	179 high-tech Taiwan firms	Firm's behavior	
Ramsey et al.	2012	41 Brazilian firms	None	Positive
Chen & Tan	2012	887 listed Chinese firms	Region effect	Weakly negative
Xiao et al.	2013	Chinese manufacturing firms	Governance structure	Horizontal S
Singla & George	2013	237 Indian firms	Organizational characteristics	Export: + FDI: -
Jong & Houten	2014	568 European MNEs	None	Cultural similar: + Cultural diverse: -
Gaur & Delios	2015	5,000 listed Indian firms	Ownership structure Business group affiliation	Negative

To sum up, despite the fact that the numerous empirical investigations have attempted to figure out the relationship between internationalization and firm performance, there are still more questions than answers due to mixed arguments and inconsistent findings. It can be observed that comparing to earlier literatures, recent studies are including more dynamic elements, moderating variables and wider variety of samples in order to grasp the overall picture of the I-P relationship. However, we still need to know more about this issue in the context of emerging countries, especially China.

# **CHAPTER III**

## **HYPOTHESIS DEVELOPMENT**

### **3.1 Internationalization and Performance in China's Context**

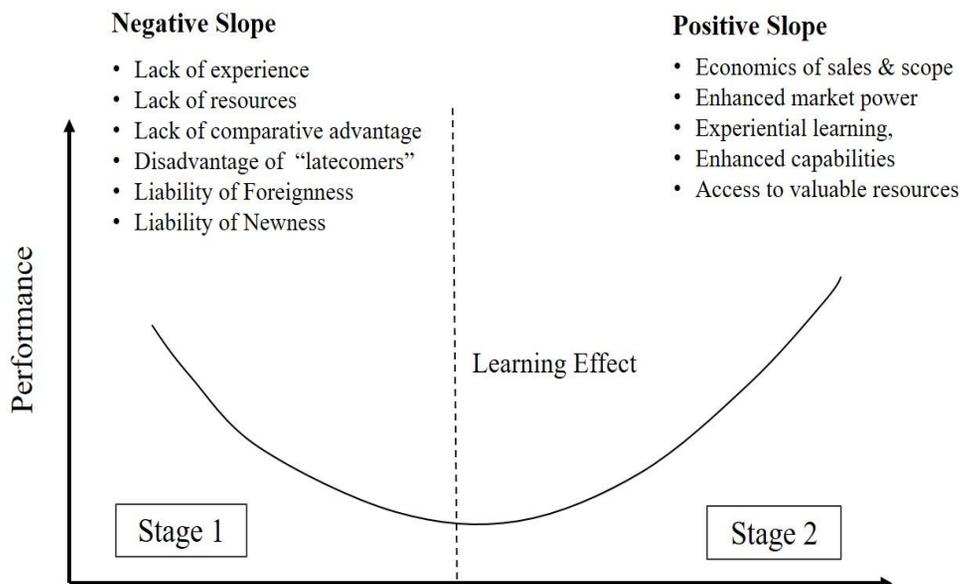
Since the motivations as well as global strategies of firms in emerging countries are quite different from their counterpart in developed economies, the I-P relationship may show a different pattern at different levels of internationalization. First, internationalization of emerging economy firms can be viewed through the lens of “organizational learning” (Aulakh, 2009). Unlike most of firms in advanced countries, firms in China as latecomers, lack firm-specific competitive advantages in the initial stage of internationalization (Goldstein et al., 2006). The conventional OLI theory views ownership advantage as a precondition for going abroad. However, the validity of those theories in the context of emerging countries is questioned by many scholars (Coviello, 2006). Because while OLI's primary focus is on the application of existing internal advantages in foreign markets (asset-exploitation), firms in emerging countries often consider internationalization as a means to overcome their existing disadvantages by acquiring the necessary advantages overseas (asset-exploration) (Li, 2003). Instead of possessing certain capabilities, most of those firms use international expansion as a springboard to acquire strategic resources (Luo & Tung, 2007). Thus, participating in foreign markets can be seen as a learning

mechanism, and firms can access to various ideas and resources that are unavailable in domestic market. During international expansion, firms are confronted with a misalignment between external environments and internal capabilities, which may result in deterioration of performance. Under pressure, firms begin to reconfigure internal systems in order to fit in the new global environment (Ruigrok & Wagner, 2003), which will lead to positive performance development.

Second, from the cost-benefit perspective, emerging market firms are typically resource-deficient compared to firms in developed countries. Most of the emerging market firms tend to be relatively young or recently privatized, which means their management capabilities are not fully developed, and the international experience is relatively limited (Contractor et al., 2007). Most firms in China achieve initial internationalization mainly by exporting with a low-price strategy, which has been proven to be a strategy that undermines firm performance (Brouthers, 2002). In general, Chinese firms have little experience, insufficient international market knowledge, lack of competitive technologies and management knowhow. Consequently, when Chinese firms encounter liability of newness and foreignness in the initial stage of internationalization, they will pay more "tuition" in the form of reduced profits than firms from developed nations, and the marginal costs are likely to exceed the marginal benefits.

However, increasing international expansion may allow Chinese firms to gain economic benefits in several aspects, such as getting economies of scale through geographic market expansion and enhancing market power through diversifying global markets (Grant et al., 1988). While the Chinese market is often considered gigantic, in fact, the regional protectionism and regulations limit the size of domestic markets, leading to a widespread chronic under-utilization of capacity. Internationalization will help the Chinese firms adapt to global standards, and gain greater resource efficiency and managerial effectiveness, which enable firms to develop their competitive advantages and lead to better organizational performance (Axinn et al., 2001). Therefore, the marginal benefits may exceed the marginal costs after a threshold degree of internationalization.

**Figure 2. A U-shape Hypothesis on Internationalization-performance Relationship**



In sum, considering the characteristic of Chinese firms, we argue that there is a U-shape relationship between internationalization and firm performance. The framework and the rationale of hypothesis are described in Figure 2. The curvilinear relationship assumes that Chinese firms suffer from performance degradation at first, and achieve international diversification premium later on.

***Hypothesis 1. Internationalization and firm performance have a U-shape relationship for manufacture firms in China, with performance declining at lower levels of internationalization, but increasing at higher level of internationalization.***

### **3.2 The Moderating Effect of Firm-specific Capabilities**

Many previous studies included moderating variables and examined the moderating effects on the I-P relationship. Those moderators can be divided into two categories: external factors and internal (firm-level) factors. Researchers suggested that external factors such as *company nationality*, *geographic scope* and *industrial characteristics*, as well as internal factors such as *internationalization pace* and *rhythm*, moderate the I-P relationship (Li, 2007; Ruigrok & Wagner, 2004). The omissions of these contextual factors may have caused inconsistency in the extant empirical research (Li, 2007). The prior literatures seem to mainly focus on internal (firm-level) factors, including product diversification (Hitt et al., 1997), firm resources and capabilities/competencies (Kotabe et al., 2002; Li & Qian, 2005; Lu

& Beamish, 2004), firm size and firm age (Bausch & Krist, 2007), and the theoretical base lies on the resource-based perspective. According to the resource-based view, firms are bundles of resources and capabilities (Barney, 1991). Only when these resources are unique, valuable, rare and inimitable, deployment of these resources allows firms to achieve sustainable competitive advantage. The implication of RBV is used to understand the benefits of international expansion (Tallman & Li, 1996) from two main aspects. First, foreign expansion demands more resources to buffer costs and risks incurred overseas. Second, since RBV highlights the impact of the firm's resource heterogeneity on its competitive position, the fact that some firms are superior to others in global market is ascribable to their possession of unique resource (Barney, 1991; Tseng et al., 2007). In this sense, it is believed that firms with unique and superior internal capabilities will apply these in foreign markets to achieve higher profitability (Bartlett Christopher & Ghoshal, 1989; Hitt et al., 1997)

Among various internal resource and capabilities, technological capability and marketing capability are widely viewed as the basis for generating competitive advantages in traditional FDI literatures, and are most common variables tested in many empirical studies. It is argued that innovativeness, as reflected in R&D intensity, allows firm to achieve efficiency and maximize the multinational advantages. Meanwhile, marketing capability which reflects the ability to differentiate products from competitors and build successful brands raise the possibility of a firm to succeed in foreign markets. .

At the external (macro) level, researchers have examined variables including the speed of expansion (Vermeulen & Barkema, 2002), market size (Li & Yue, 2008), institutional change (Kim et al., 2010), institutional distance (Chao & Kumar, 2010), region effect (Chen & Tan, 2012) and country of origin (Bausch & Krist, 2007) . Monopoly power is also proved to be relevant to the I-P relationship, and if a firm is characterized by high levels of monopoly power, higher degree of multinationality leads to better firm performance (Annavarjula et al., 2006).

In the following section, we focus on testing the moderating effect of firm-specific capabilities (technological and marketing) and institutional factors (governance structure, sub-national region effect, and industrial-specific policy) on the I-P relationship in the context of China

### **3.2.1 Investment in Research and Development**

Difference in resource availability causes variations in international involvement and achievement (Tseng et al., 2007). Therefore, the international-performance relationship is influenced by the resource and capabilities contained within the firm (Kotabe et al., 2002; Lu & Beamish, 2004). As one of intangible assets, technological knowledge is considered as a source of sustained competitive advantage from the resource-based view (Barney & Clark, 2007). Many studies have provided evidence indicating that there is a positive relationship between R&D

intensity and firm performance (Delios & Beamish, 2001; Kotabe et al., 2002; Yu-Ching et al., 2006). Also, there is extensive empirical support that firms with higher levels of technological capability have higher propensity to carry out internationalization strategy (Swedenborg, 1979; Yiu et al., 2007). Innovativeness, usually measured as R&D intensity, allows firms to achieve efficiency in operations (Hitt et al., 1994). It is argued that when a firm expands into international market, the innovativeness becomes very important because (a) it can charge premium prices for its innovative products; (b) it can further lower production cost by applying its manufacturing processes (Porter, 1986). Nassimbeni (2001) found that innovative activities play a positive role in stimulating export performance. Similarly, Kotabe (2002) argued that the more innovative firms are, the better they will be at leveraging the multinationality advantage. Moreover, technological capabilities can help the knowledge integration and improve absorptive capacity. Through a meta-analytic review, Kirca (2011) found that multinationality provides an efficient organizational form that enables firms to transfer their strategic resource, such as technology capabilities across country borders within the firms, and enables these transfers to have a positive impact on firm performance.

The emerging economy firms are not the exception. According to Lall (1983), the competitive advantages realized by developing economy firms are mainly based on widely-diffused technologies from advanced countries, but catching-up based merely on acquisition of foreign technology is sub-optimal (Bell & Albu, 1999). Yu-

Ching (2006) found that a significant number of Taiwanese firms as manufacturers for foreign clients (i.e. OEMs and ODMs) are conducting “R&D investment for process innovation”, which leads to beneficial results such as cost reduction, improved quality and development of standard operating procedures.

Based on our discussion above, we expect R&D investment to have a positive effect on firm performance in the internationalization process.

***Hypothesis 2. There will be positive moderating effect of R&D capability on the relationship between internationalization and performance for Chinese firms.***

### **3.2.2 Investment in Marketing**

Market capability of a firm refers to the ability to analyze markets, differentiate products, build successful brands and develop effective selling strategies (Fang et al., 2007). Therefore, a firm that spends money on marketing (promotion, advertising, brand management, sales management etc.) can increase sales both by expanding the product category and by getting customers to switch their brand (Capar & Kotabe, 2003). Prior studies suggest that firms with positive brand image can charge premium prices in foreign markets to enhance their profitability, and firms that conduct aggressive advertising and promotion activities for product differentiation are more likely to succeed in a multitude of various markets than those that do not

(Helsen et al., 1993; Kotabe et al., 2002). Since the worldwide marketplace is getting homogenized rapidly, when a brand owner expand his business overseas, the favorable reputation of the brand may spill over to foreign markets in a short time (Tseng et al., 2007). Firms with strong market capabilities can not only have a better fit and targeting to customer needs (Kotabe et al., 2002), but also can have better bargaining power with both distributors and consumers (Levitt, 1983).

However, the validity of extant literatures is doubtful in the case of manufacturing firms from emerging economies for several reasons. First, according to previous studies, firms may suffer from so-called “location-specific disadvantage” in international expansion, which means they may face difficulty in replicating firm knowledge and knowhow in different context settings (Madhok, 1997; Tseng et al., 2007). Unlike technological resources, marketing resources is highly context dependent, more immobile and more confined to local factors including consumer characteristics and distribution channels (Fang et al., 2007). Therefore international application and transfer of marketing resource will especially be limited due to “location disadvantage”. In other words, being a type of location specific knowledge, the value of marketing knowledge cannot be easily transferred across-borders without modification. Marketing-based assets built up in a firm’s home country might become less valuable in a new geographic market because of the differences in consumer markets and institutional environment. A firm has to modify its market knowledge in order to fit it in a new country setting (Delios & Beamish, 2001; Fang

et al., 2007), but it will be especially hard and time-consuming for firms in emerging economies who lack capabilities and experience of internationalization and localization.

Second, Tseng (2007) pointed out that a highly differentiated product or a remarkably strong brand name is often closely aligned with the national identity (or image) of a firm's home country, which does not always contribute to the product image in a positive way. When entering a foreign market that maintains a hostile relationship with a firm's home country, or has prejudice against products from the home country, excessive use of marketing resource will be ineffective, and even cause unfavorable consumer response. In the case of China, Chinese firms often face to so-called "China discount" caused by the low perception of quality by other countries. Most of Chinese manufacturers do not have their own brands, but operating in an OEM/ODM market. Due to the bias against products that are "made in china", many firms have no choice but to offer cut-rate prices in order to survive in the foreign market. It was reported that a Chinese-brand automobile has to be 30% cheaper than rivals in the same segment to succeed in American market (Automotive ventures, 2015). In addition, brand building in new geographic markets is a time consuming process and most of Chinese firms have no strong brands even in local market, not to mention applying it to global markets. Therefore massive spending on marketing might not contribute to the firm international performance, at least in the

current stage. Instead, it might increase the burden on the international business.

Based on above analysis we state the hypothesis as follows:

***Hypothesis 3. There will be a negative moderating effect of marketing capability on the relationship between internationalization and performance as for Chinese firms.***

### **3.3 The Moderating Effect of Institutional Factors**

As noted earlier, we argue that institutional contexts in emerging economies may moderate the relationship between internationalization and firm performance. More specifically, we focus on governance structure, location-specific and industrial-specific institutional variations.

Chinese firms operate in a unique institutional environment. First, China has taken a different path toward economic development, and established a transitional economy so-called “socialism with Chinese characteristics” (or socialist market economy), that does not exist in any other county. Second, most firms in China are still in the reforming stage with a quite unique governance structure. The ownership reform through reconstruction and privatization started in the early 2000’s is still under way. Changes in institutions can have significant influence on international strategy and performance (Hoskisson et al., 2000), so that institutional contexts

may contribute more to a firm's strategic decisions in an emerging country with a rapid pace of institutional transformation (Xiao et al., 2013).

### **2.3.1 State Ownership**

State ownership is one of the pivotal institutional-related factors that have impact on the I-P relationship. Ownership attribute is relevant and insightful because it can moderate environment-strategy configurations (Tan & Li, 1996), and will influence firms' strategic orientation as well as their ability to adapt to environment change (Gedajlovic, 1993). Many scholars have found changes in strategic activities and organizational performance after ownership changes in many countries (Djankov & Murrell, 2002; Peng et al., 2004).

State ownership in a given firm reflects the degree of government involvement and interference. In a country with quasi-market economy such as China, the home government still plays a leading role in business through regulations and ownership. It can affect the strategic decision and performance through various channels, including appointment of executives, introducing regulation and providing financial subsidies (Gu & Reed, 2013). The role of home government is especially important in the early stage of internationalization (Dunning, 2001). Ozawa (1996) has proved the critical role of Japanese government in influencing the ability of Japanese firms to generate competitive advantages. There is dynamic and complicated interaction

between business and government, and such interdependent is especially strong in China (Wei et al., 2015).

Although the increasing role of Chinese private firms in global market is quite impressive, the state-owned enterprises still predominate in many key areas. The literature concerned with state-ownership and performance presents controversial arguments. Some researchers suggested that governmental interference may affect firm operation in a negative way. SOEs need to balance political acceptability and market requirements, which may lead to inefficient resource allocation (Wang et al., 2012). The internationalization decisions of state-owners are driven partly by the need to accommodate political objectives instead of seeking profit-maximization. Besides, overdependence on state and monopolistic environment may decrease the effectiveness of market-oriented governance mechanism and management autonomy (Ramamurti, 2001).

However, the state-owned enterprises possess significant advantages and benefits which is vitally important to internationalizing. First, subsidized capital can help SOEs obtain price competitiveness compared to their private competitors (Vernon, 1979). Moreover, it is much easier to get financial loans from banks with the help of state, which enable them to successfully conduct large-scale M&As. Government can even offer exemptions from regulations, and help firms overcome constraints of existing resources by favorable treatment. State ownership also

provides firms with privileged access to insider information, raw material, more secure property rights and market protection, which effectively enhance firms' competitive advantage and offset foreign liabilities(Chen et al., 2015). Through in-depth multiple-case study, Wei (2015) suggests Chinese government involvement through financial support and regulatory privilege is the dominant force in facilitating the internationalization of SOEs. It is those supports and advantages that compensate for the lack of firm-specific capabilities of SOEs during internationalization.

Meanwhile, close ties with government create business-government network, which is a determinant key for success in global market. The managers of SOEs are often former government officials, and the inter-person network with the state is especially important in emerging countries where the control power of government is still very high (Li et al., 2006). It increases the possibility of accessing new resource as well as privileged information about foreign markets, helping firms get more opportunities and reduce marketing costs (Wang et al., 2012).

Besides, SOEs have greater security about their position in the domestic market. The dominant incumbent position at home and expectable governmental support enable SOEs to bear short-term losses, and accordingly, they will have a greater willingness to invest for the long-run (Vernon, 1979), with a broader set of objectives during international diversification.

On the contrary, non-SOEs, especially privately-owned enterprises in China face different business and economic conditions. They are less able to access external resources through nonmarket channels, and therefore are dependent on self-generated resources. Constrained by limited capital, many of them choose to put their investment in tax havens to overcome financial shortcomings. Also, unlike SOEs, some privately-owned firms have suffered from discriminatory policies in the home market, including access to loans and strategic resources. While strategic assets seeking is an important motivation for SOEs, internationalization of some private firms may partly be driven by institutional escapism (Wei et al., 2015). Provided with sufficient resources, Chinese SOEs tend to engage in acquisitions at an early stage, and rapidly learn during the process of internationalization. Conversely, non-SOEs tend to pursue internationalization cautiously and incrementally (Wei et al., 2015).

After intensive economic reforms since mid-1990s, autonomy of managers in SOEs has been highly increased, and profitability has been included as one of the important criteria of firm evaluation. All of those improved decision making efficiency and flexibility in state-owned firms. Therefore, we propose the following hypothesis:

***Hypothesis 4. State ownership moderates the relationship between internationalization and firm performance such that SOEs are more likely to increase profitability through internationalization than non-SOEs.***

### **3.3.2 Ownership Concentration**

As an antecedent factor to international diversification, ownership structure has a great impact on a firm's profitability of internationalization (Oesterle et al., 2013). As a major topic in ownership structure, the relationship between ownership concentration and firm performance continues to attract research interest, and innumerable conflicting arguments and empirical results were presented (Weiss & Hilger, 2012). Nevertheless, the linkage of ownership concentration and internationalization is largely overlooked, and related research lags behind when investigating the effects of different ownership structures on firms international strategy and their outcome (Wang & Shailer, 2015).

The ownership concentration can be a 'double-edged sword' for firm performance. It will benefits firms in several aspects: First, concentrated ownership is supposed to alleviate agency problem between shareholders and managers by decreasing monitoring costs (Shleifer & Vishny, 1997). The agency theory assumes that managers' self-interest driven behaviors increase the costs to firms. Compare to firms with dispersed ownership, it will be easier to monitor and control managers under concentrated ownership. Improvement in the efficiency of decision making process also can be expected when owners' stake increases. In addition, concentrated ownership can act as a substitute for weak legal and institutional environments and protect shareholders' interest in most of emerging countries (Wang & Shailer, 2015).

However, many empirical tests suggest that ownership concentration could be harmful in some aspects. First, if equity concentration is very high, concentrated ownership may cause interest conflicts between controlling and minority shareholders, and lead to '*principal-principal*' agency problems. It is easier for dominant shareholders to extract private benefits at the expense of minority shareholders in corporations with concentrated ownership. Large shareholders may have the motive of taking advantage of their powers and controlling position to seek their own interest. Under-developed external institutional environment may exacerbate such risk and worsen principal-principal agency problem (Gaur & Delios, 2015; Wang et al., 2011).

Second, higher degree of ownership concentration is supposed to result in less degree of manager's strategic freedom (Filatotchev et al., 2007; Shleifer & Vishny, 1997). Filatotchev (2007) suggested that the extent of managers' strategic independence is negatively associated with ownership concentration. Dominant owners may choose to impose suboptimal strategies on managers, and place less emphasis on the performance-enhancing strategies that may benefit minority shareholders. Dominant owners are also likely to conduct inefficient business activities especially in emerging markets where external control mechanisms are weak and less developed (La Porta et al., 1999; Wang & Shailer, 2015). In the case of internationalization of Chinese firms, controlling state-owners might enforce the

firm to maximize market share in a host country out of concerns for political purpose instead of pursuing profit-maximization.

Third, concentrated ownership will make a firm be dependent on internally generated funds, which might negatively influence its risk managing and capital raising ability (Carney & Gedajlovic, 2002). Also, ownership concentration may reduce portfolio diversification of controlling shareholders and efficiency in risk bearing, which may increase the risk of adverse strategic behavior (Carney & Gedajlovic, 2002; Wang & Shailer, 2015).

In addition, in a firm with concentrated ownership, the monitoring effectiveness of board of directors and external institutions, such as institutional investors and foreign investors, may be impaired. Also, external market disciplines might be weakened because controlling shareholders tend to let themselves or relatives occupy management position. This might cause negative impacts on corporate governance mechanisms (Wang & Shailer, 2015).

In the case of China, well known for its immature legal system, the phenomenon of single-large shareholder or high shareholding proportion of top large shareholders is quite common. It may result in the absolute control on strategic decision and lead to authoritarianism. Wang (2015) also found that ownership concentration has negative relationship with firm performance across countries through a meta-regression analysis.

*Hypothesis 5. Ownership concentration negatively moderates the relationship between internationalization and firm performance in the way that firms with lower ownership concentration are more likely to increase profitability through internationalization.*

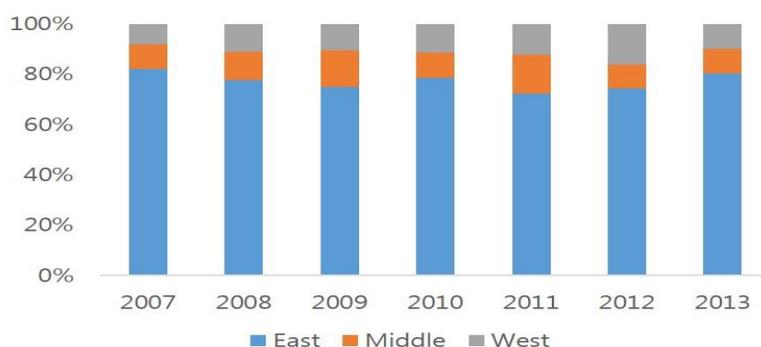
### **3.3.3 Location-specific Institutional Variation**

Different from most prior literature that assumes institutional homogeneity within a given nation, Chinese firms show a great deal of heterogeneity across sub-national region (Hong et al., 2015). We argue that degree of market development and economic openness vary across different regions within China. The reason that causes such difference is uneven pace of economic reform and market liberalization.

As a geographically huge country, China has adopted a progressive development strategy starting from a part of selected regions, which caused regionally unbalanced economic growth. Historically, the economic reform initiated in 1978 permitted more market-oriented governance mechanics first in the Eastern coastal areas such as Guangdong, Shanghai, Zhejiang and Jiangsu (Tan & Li, 1996). Those areas have historically been richer in entrepreneurship than other areas, and firms in this region as early movers, enjoyed benefit from economic reform and spillover effects from inward foreign direct investment. Although Chinese government launched ‘*Western Development Program*’, ‘*The Rise of Central China*

*Program*' in year 2000 and 2004 respectively, there are still huge gaps between Eastern, Central and Western areas in addition to the degree of market development or business institutional quality. For example, as shown in Figure 3 and Table 3, according to the Chinese government, the regional development index of Eastern, Central and Western areas are 80.25, 9.71, and 10.04 each in year 2013. While the percentage of OFDI in Eastern area accounts for 80.3% of the whole country, Central area is only 9.71%. Moreover, data indicates that the average marketization index of Eastern area is 9.38, much higher than that of Central (7.39) and Western area (6.34) (Fan et al., 2011). Therefore, it is highly likely that this kind of significant within-country environmental and institutional variation affect the firms' inclination and ability to internationalize (Axinn et al., 2001). In other words, the relationship between internationalization and performance may vary across China's regions.

**Figure 3. Regional OFDI in China (2007~2013) (Unit: %)**



**Table 3. Regional Development Index in China**

<b>Region</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
East	82.04	77.59	74.81	78.56	72.13	74.41	80.25
Middle	9.69	11.31	14.73	10.00	15.45	9.43	9.71
West	8.27	11.10	10.46	11.44	12.42	16.16	10.04

Source: Statistical Bulletin of China's Outward Foreign Direct Investment (2014)

In regions where the degree of marketization is higher, intermediary institutions and factor markets are relatively well developed, information asymmetry is reduced, and contract enforcement is easier. Moreover, higher marketization also implies lower uncertainty and transaction costs. This kind of environmental characteristics will possibly help the firms whose headquarters are located in open regions to benefit more from internationalization. Although many firms carry out business in various regions, the location of headquarter is crucial. As a unit responsible for strategic planning, value creation and administration, headquarters play a pivotal role within the organization, providing resources and knowledge to subsidiaries (Ciabuschi et al., 2012; Shen et al., 2015).

Well-functioning and market-oriented external environment is also important for firms to enhance their absorptive capacity, facilitate utilization of the learning benefit of internationalization. Especially when firms expand into developed markets, if they possess similar organizational structures, systems and mechanisms, it will be easier for them to adapt into the international setting (Chen et al., 2015). On the

contrary, firms with headquarters located in regions of China with insufficient intermediary institutions, under-developed factor markets, and central planning mentality may not practice effective experiential learning even during international diversification (Axinn et al., 2001). In sum, we argue that headquarters being located in the regions with well-marketized and more open environment will enable firms to benefit more from their internationalization effort.

*Hypothesis 6. Sub-national region effect moderates the relationship between internationalization and performance such that firms whose headquarters are located in the Eastern area are more likely to increase profitability through internationalization than those in the Central and Western area of China.*

### **3.3.4 Industry-specific Policy**

There are considerable differences among industries in emerging economies as to their nature and the amount of support that they receive from the government. Each industry is coordinated by a unique configuration of institutional arrangements (Hong et al., 2015).

The government policy has played a crucial role in shaping the structure of China's outward investment. In 1999, the Chinese government launched its "Go Global" policy (Gu & Reed, 2013), loosening controls on OFDI, and encouraging strong Chinese enterprises to invest more overseas in order to improve their

competitiveness and secure an international business presence. One of the most important ways it sponsors overseas expansion is by providing low interest loans to fund the acquisition of foreign companies from state-owned financial institutions (Child, 2013). However, not OFDI from every industry can receive policy support. In July 2004, the Ministry of Commerce along with the Ministry of Foreign Affairs provided a '*Guidance List*' of preferred industries for outward investment. Additional support has come in the form of preferential treatment for outward-investing Chinese firms, including direct grants, funding, tax benefits, low- or no-interest loans and access to foreign exchange (Apoteker, 2012). It can be regarded as a voluntary policy by which firms are incentivized to pursue opportunities that align with national strategic goals (Gu & Reed, 2013).

The government is taking an active role in shaping internationalization activities and improving firms' capabilities to be profitable. Thus, firms that belong to preferred industries in the 'Guideline list' can benefit from institutional supports through reduced political risk and transaction costs along with improved financial leverages and resources (Luo, 2009). Since their objectives of internationalization are consistent with those of government, firms in these industries gain legitimacy by implementing their international strategies. This may lead to synergistic effects between institutional policies and firm's strategic planning. The process of getting government approval will be simplified and less time consuming (Hong et al., 2015). All of the above will increase firms' relative competitiveness in foreign market

comparing with firms in other industries. Therefore, the following hypothesis can be considered:

*Hypothesis 7. Industry-specific policy moderates the relationship between internationalization and firm performance such that firms in industries that receive favorable policies are more likely to increase profitability through internationalization than those in other industries.*

# **CHAPTER IV.**

## **DATA AND METHODS**

### **4.1 Data and Sample**

The current dissertation is based on a selection of 512 manufacturing listed firms in China that have international revenues. The data were drawn from WIND database, which is a leading integrated provider of financial data in China. It serves more than 90% of the financial enterprises in Chinese market, and the information it provides is widely used in various research reports and academic thesis. This study focuses on firms in China's manufacturing industry in order to be consist with previous studies.

Among more than 2,000 listed manufacturing companies, we excluded ST companies (companies under special treatment because of their problematic business performance), foreign capital firms and those that provide uncompleted international revenue data. In China, manufacturing firms with employees less than 1,000 are regarded as small and medium-sized enterprises. Since they may have different motivations and business behaviors from ordinary firms due to the firm size (e.g. tax evasion through round tripping, regulation-bypassing) and to be consistent with most of previous studies that used large firms as samples (Grant et al, 1987; Contactor et al., 2003; Ruigrok and Wagner, 2003), we limited our sample to firms with more than

1,000 employees. Meanwhile, we also excluded firms went public after year 2007, and subordinated sectors that include less than 5 firms.

We obtained panel data for the period from 2007 to 2013 for this empirical analysis to provide results reflect more current trends. China's OFDI flow accelerated and began to surge at the year of 2007, along with the launching of more encouraging and supportive policies on 'going aboard'. As firm performance could vary across industries and also over time, panel data analysis can capture both of these variations simultaneously (Dielman, 1983; Kotabe et al., 2002). The industries are categorized according to CSRC (China Securities Regulatory Commission) industry code, which is the most widely used classification standard in China.

This dissertation has not employed the criterion of having at least 10% of foreign sales that had been used in many previous studies (Geringer et al., 1989; Gomes & Ramaswamy, 1999). As has pointed out by Capar and Kotabe (2003), including only firms with the ratio of foreign sales to total sales (FSTS) at least 10% would lead to considerable left-censoring of the data. It could lead to underestimation of the effect of internationalization on performance especially because the average foreign sales ratio of emerging-economy firms is expected to be much lower than those from developed countries. Therefore, this study included firms with less than 10% FSTS. In addition, in order to eliminate the possible effect of extreme value in the sample, we use *winsorization technique* at top and bottom of 1% of FSTS

variable to control outlier problem. Winsorization converts the non-missing values of a variable in such a way so that the highest and lowest values are replaced by the next value counting inwards from the extremes (Hossain, 2014).

Following these procedures, we obtained a balanced panel of 512 enterprises (7-year time period) in 18 different industries (sectors). The details of the industries and observations used are provided in Table 4.

**Table 4. Details of Industries Included in the Analysis**

Description of the Industry	Firm Number	Employee Number	Description of the Industry	Firm Number	Employee Number
Computer, telecom, electronic equipment	88	6823	Medical and pharmaceutical products	33	6317
Automobile related products	30	6468	Electric apparatus and facilities	54	6694
Metal products	26	6736	Specialized equipment	46	6459
Agricultural and processing food products	6	6110	Paper industry	8	6314
Clothes and garment	12	4939	Transportation facilities (Railway etc.)	15	6088
Textile industry	20	6081	General purpose equipment	41	6392
Non-metal mineral products	20	6785	Chemical fiber	10	5409
Rubber, latex and plastic	17	5947	Chemical raw material and products	50	6226
Nonferrous metal smelting and processing industry	20	5886	Ferrous metals smelting and processing industry	17	6210

Note: According to CSRC industry classification

## **4.2 Variables and Methods**

### **4.2.1 Dependent Variable**

In this dissertation, the dependent variable, *firm performance*, is measured by return on sales (ROS), which is the most common measure and have been widely used in previous researches (Chiao et al., 2006; Tallman & Li, 1996; Thomas, 2006). Although some operational performance indicators (e.g. sales growth, product quality) and market-based (e.g. Tobin's q, excess value) financial indicators have also been used in a number of studies, the relevant literature has shown that there has been a predominant use of accounting-based (e.g. ROS, ROA, ROE) indicators in the earlier studies. Since ROE may be affected by firms' equity and liabilities, and ROA tends to be influenced by changes in accounting policies, I chose ROS as the performance proxy because it is not only closely related to ROA and ROE, but also less susceptible to variation in accounting procedures (Zhang, 2005). More importantly, it provides insight of a company's operational efficiency.

### **4.2.2 Independent Variables**

#### **4.2.2.1 Internationalization**

*Internationalization* is defined as “a strategy in which firm expands the sales of its goods and services across the borders into different geographical locations or markets” (Hitt et al., 2006) . Since the internationalization is multidimensional and complex phenomenon, there is no consensus has been reached for the measurement

(Sullivan, 1994). The existing literature contains various measures to capture the *degree(depth) of internationalization*, such as the ratio of foreign sales over total sales (FSTS) (operational performance), ratio of foreign assets over total assets (FATA) (operational structure), Other studies have focused on the '*breadth*' of *internationalization* by examining the number of geographical dispersion of operations across borders (Contractor et al., 2003), and the number of countries in which a firm runs business (Gomes & Ramaswamy, 1999). Recently, the speed of internationalization has also drawn the attention of scholars and measured by the number of foreign subsidiaries divided by the number of years, and number of years since the firm's first foreign expansion (Vermeulen & Barkema, 2002). Sullivan (1994) attempted to make a break through by creating a composite index based on a number of indicators, including top management's international orientation (attitudinal attributes), and the percentage of common equity owned by foreign companies (stock ownership). However, the content validity is questioned by other scholars (Ramaswamy et al., 1996), and the composite index is criticized for little explanation on why a particular indicator was chosen (Verbeke & Forootan, 2012).

Indeed, the majority of studies focus on the operational performance dimension, that is, the ratio of foreign sales to total sales (FSTS) as the single proxy to measure the degree of internationalization (Li, 2007). Since Chinese firms were still in the early stages of internationalization, and exporting was the dominant mode of international participation (Buckley et al., 2007; Xiao et al., 2013). Based on this

situation and the availability of appropriate data, we use the international sales ratio, which is including both income from exporting and overseas subsidiaries, to measure the level of internationalization of Chinese firms.

#### **4.2.2.2 R&D and Market Capabilities**

Consistent with earlier studies (Kotabe et al., 2002; Mansfield, 1981), we used *R&D intensity*, which is the ratio of R&D expense in total sales to measure firms' R&D capabilities. In the case of market capability, although most previous studies take advertising expenditure ratio as the measure, the longitudinal data of this indicator in China is not currently available (statistics before 2010 contains too many missing data). In addition, because most Chinese firms do not use advertisement as the major way to expand market in foreign countries, we use *the ratio of total marketing expenditures in total sales* as the measure for market capabilities.

#### **4.2.2.3 Governance Structure**

In the case of ownership structure, consistent with the official classification in China, the WIND database classified the ownership type into the following ones: SOEs (central government), local SOEs, collectives, private firms, foreign-invested enterprises, and other firms based on owners' equity ratio. Since only single-year based data is available (the most current year), we used dummy variables according

to this classification, and set central and local SOEs as baseline to compare with firms with other ownership types. In our samples, there are 1,435 SOEs which is 40% of the total samples.

In the case of ownership concentration, we used the shareholding proportion of the top five largest shareholders as the indicator for measurement.

#### **4.2.2.4 Sub-national Region Effect**

This study used a dummy variable to capture this effect. Since the development level of market-based mechanisms vary across regions, the dummy variable is coded 1 for firms whose headquarters are located in the Eastern area, where marketization level is high and institutional environment is well-established. According to National Bureau of Statistics in China, the Eastern area includes following provinces and cities: Guangdong, Fujian, Shanghai, Zhejiang, Shandong, Jiangsu, Beijing, Tianjin, and Liaoning. These regions were allowed to experiment with the first open door and benefit more from economic reform policy than the other areas, and have higher marketization level (Axinn et al., 2001). Furthermore, these regions are ranked top of all along a measure of attractiveness for foreign investments.

Similarly, we coded 2 for firms whose headquarters are located in Central areas, which including Shanxi, Anhui, Jiangxi, Henan, Hubei and Hunan. And code 3 represents for the firms with headquarters operating in Western areas, which is

Guangxi, Sichuan, Chongqing, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, and Inner Mongolia.

#### **4.2.2.5 Industrial-specific Policy**

Firms in encouraged industries receive more institutional support and incentives than counterparts in other sectors (Wang et al., 2012). So we constructed a dummy variable equal to 1 if the firm operates in an industry which is supported and encouraged by Chinese government. Data indicating which industries are ‘encouraged’ was collected from the document entitle “Industrial Policy to Guide Outward Foreign Direct Investment (2008)”, issued by China’s Ministry of Commerce. This official document lists ‘encouraged industries’ and ‘prohibited industries’ with respect to Chinese firms’ OFDI.

#### **4.2.3 Control Variables**

Consistent with prior studies, we employed the following control variables: firm size, firm age, leverage ratio, China’s GDP growth rate, dummies for industry, and dummies for year. First, *firm size* is generally known as a basic variable related to firm performance (Contractor et al., 2003; Kotabe et al., 2002), and was measured by the nature logarithm of total assets. *Firm age*, as a variable that reflects firm characteristics, is related to the managerial competencies and experience that a firm

has during international diversification(Qian, 2002). It was captured by the number of years the firm has been in operation. *Firm leverage ratio* was measured as the ratio of total debt to total assets. It was included because the debt ratio may affect a firm’s ability to expand and impact its performance (Hsu et al., 2013). In addition, annual *GDP growth rate* was included to control for the domestic economic impact on firm’s performance. Also, we included *industry dummies* to control for industrial effect, and *year dummies* to control for the change in the economic environment, effect of the business cycle and time-related contemporaneous correlation. The variables and measurement are listed in Table 5.

**Table 5. Descriptions of Variables and Measurement**

<b>Variables</b>	<b>Measurement</b>
Firm performance	Return on sales (ROS)
Internationalization	Ratio of foreign sales to total sales (FSTS)
R&D intensity	R&D expenditures as a percentage of total sales
Marketing intensity	Marketing expenditures as a percentage of total sales
Ownership Structure	Dummy variables: SOEs=1, non-SOEs=0
Ownership Concentration	Shareholding proportion of the top five largest shareholders
Sub-national Region	Three dummy variables for Eastern, Central and Western area, using Eastern area as the baseline
Industrial-specific Policy	Firms in encouraged industries =1, otherwise=0

Firm size	Natural logarithm of total assets
Firm age	Years since starting operation
Leverage ratio	Ratio of debt to total assets
Domestic economic situation	China's annually GDP growth rate

### 4.3 Model Specification

Internationalization in reality is a very comprehensive process, therefore the impact it has on firm performance will appear only after certain period of time. Hence, a longitudinal approach would be appropriate to test the relationship empirically (Glaum & Oesterle, 2007). We used cross-sectional and time series firm-level data to capture both dynamic information of time and cross-sections in this paper. However, since the existence of heteroscedasticity (some unobserved heterogeneity that may be correlated with independent variables), OLS is not appropriate method for panel data. So we used generalized least squares (GLS) to conduct a panel data analysis (Wooldridge, 1995). In order to decide whether fixed effect model or random effect model is suitable, we ran through Hausman Test, and found out that fixed effect will be the better way. However, in a fixed effects regression, several important time-invariant independent variables (e.g. policy dummy, location dummy and ownership type dummy variables) will be dropped out and omitted, which keeps us from getting meaningful finding from our research

model. Therefore, finally we use random effects model to test our hypotheses. The analyses were conducted using the STATA 12.0 statistical package.

To test the hypothesis that the impact of internationalization is moderated by both inner capabilities and external institutional factors, we estimated the following equation:

$$\begin{aligned}
 Y_{it} = & \beta_0 + \beta_1 X_{2it} + \beta_2 (X_{2it})^2 + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 D_{1i} + \beta_6 X_{5it} + \beta_7 D_{2i} + \beta_8 D_{3i} \\
 & + \beta_9 (X_{2it} * X_{3it}) + \beta_{10} (X_{2it} * X_{4it}) + \beta_{11} (X_{2it} * D_{1i}) + \beta_{12} (X_{2it} \\
 & * X_{5it}) + \beta_{13} (X_{2it} * D_{2i}) + \beta_{14} (X_{2it} * D_{3i}) + \mu_{it}
 \end{aligned}$$

- Where:
- $Y_{it}$  = performance of firm  $i$  in time period  $t$  (ROS)
  - $X_{2it}$  = internationalization of firm  $i$  in time period  $t$  (INT)
  - $X_{3it}$  = R&D intensity of firm  $i$  in time period  $t$  (RD)
  - $X_{4it}$  = marketing intensity of firm  $i$  in time period  $t$  (MK)
  - $X_{5it}$  = ownership concentration of firm  $i$  in time period  $t$  (OC)
  - $D_{1i}$  = ownership type dummy of firm  $i$
  - $D_{2i}$  = regional dummy of firm  $i$
  - $D_{3i}$  = policy dummy of firm  $i$
  - $\mu_{it}$  = random error of firm  $i$  in time period  $t$

# **CHAPTER V.**

## **RESULTS**

This chapter presents the results of the study. First, descriptive statistics regarding the variables of the present study are provided, followed by summarized regression results and correspondence analysis for each of the proposed hypotheses. The illustration of moderating effects is also presented.

### **5.1 Descriptive Statistics**

Table 7 presents the descriptive statistics and correlation for the study's variables. As Table 6 shows, the average ROS of the sample is 6.85%, the average firm age is 18.12 years and the average of firm size measured by the natural logarithm of total asset was 21.69 (721 million RMB). The descriptive statistics in Table 7 also shows that an average level of internationalization for the sample firms is 25.53%, which is still a quite low degree compared with other developed countries. For example, Gomes (1999) used a sample of US firms with a 42% internationalization level, and Ruigrok (2007) used a sample of Swiss firms with a 61.36% internationalization level.

The dependent variable ROS is significantly and negatively correlated with the independent variable—internationalization. The correlations among the variables

presents no problem of multicollinearity. To further check for a potential problem of multicollinearity, we conducted variance inflation factor (VIF) tests, and found the mean VIF is 1.5. The analysis shows that multicollinearity does not appear to be a major concern, since most of the variables entered in the regression have VIF below the 10 criterion (Chatterjee et al., 2000).

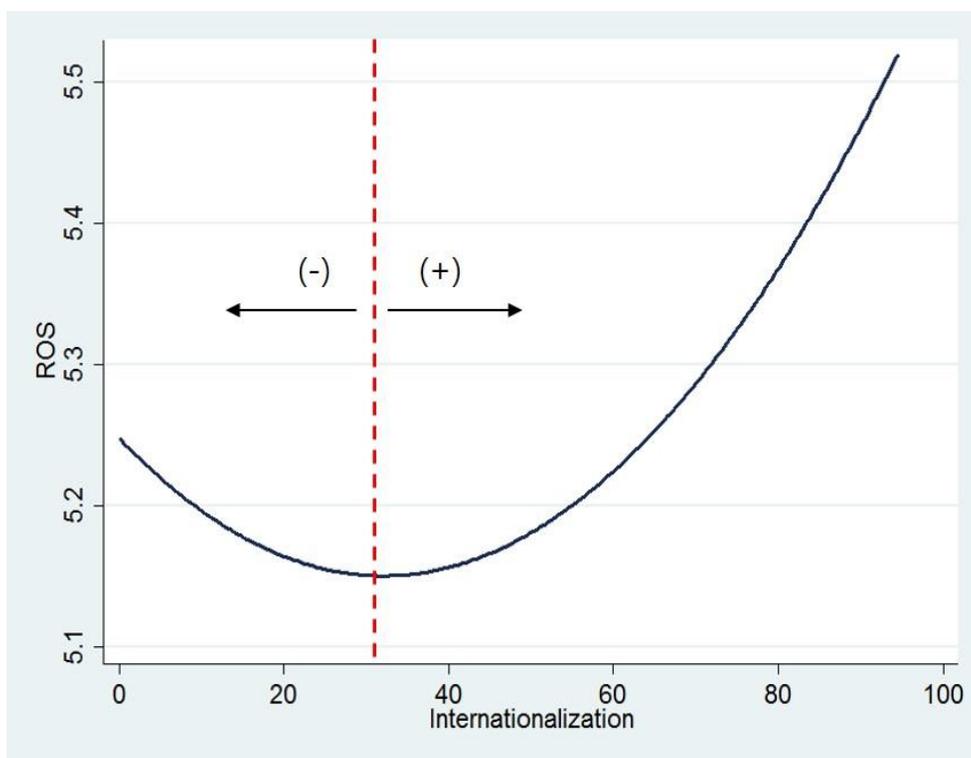
## **5.2 Regression Results**

The result of regressions are presented in Table 8. We can see all of the models have a statistically significant p-value with a relatively high adjusted R-square. Model 1 is the baseline model that includes only control variables. Among the control variables, firm size was statistically significant and had a positive slope coefficient, which means the larger the firm size, the higher the firm performance. On the other hand, firm age, leverage ratio had negative influences on firm performance. In other words, older firms and firms with higher leverage ratio tend to have relatively lower international performance.

Next, in order to test hypothesis 1, we used model (2) in Table 8, in which we built the test of non-linear relationship by adding the linear term of international diversification and its squared term into the equations. As can be seen, both the coefficient of the squared internationalization term and the overall model are statistically significant. The sign of the linear effect was negative whereas the sign of the curvilinear effect was positive, indicating a U-shape relationship between

internationalization and firm performance. Thus, hypothesis 1 was strongly supported: firm performance was negatively related to the linear term of internationalization, and positively related to the square term of internationalization.

**Figure 4. The U-shaped Relationship between Internationalization and Performance**



Based on the result of model (2) in Table 8, we drew a diagram (Figure 4) to illustrate and visualize the nonlinear U-shaped relationship between internationalization and performance in terms of ROS. The figure depicts a

relationship that is initially negative and then positive as internationalization increases, which suggests that when Chinese manufacturing firms initially enter foreign markets, they are likely to experience a performance downturn at lower levels of internationalization. However, when the level of internationalization is above a certain point, the performance will get improved as the level of internationalization increases.

In order to describe the impact of internationalization on firm performance more specifically, we derived the estimated regression equation for the curvilinear model (model 2) by ruling out the effect of other independent variables, which is detailed in equation (1).

$$(1) \text{ ROS} = 52.48 - 0.0607\text{INT} + 0.000946\text{INT}^2$$

To answer the question from where the marginal benefit exceed the cost of internationalization, we have to identify the “critical point” from the curvilinear model. The partial derivative of ROS with respect to INT (internationalization) is given in equation (2).

$$(2) \frac{\partial(\text{ROS})}{\partial(\text{INT})} = -0.0607 + 0.001892\text{INT}, \text{ which will be 0, if } \text{INT} = 32.082$$

The above partial derivative in equation (2) will be positive if INT exceeds 32.08% where ROS was the dependent variable. That is to say, other factors being

constant, the level of internationalization (foreign sales ratio) is required to be beyond 32.082% so that its marginal impact on firm performance will be positive. In other words, only when firms' internationalization (FSTS) reaches this threshold level, internationalization is expected to improve firm performance.

Same as previous studies (Contractor et al., 2003), we conducted t-test to see if there is a significant group difference in ROS between firms with internationalization level below and above 32.08% threshold level. As presented in Table 6, the difference is highly significant at the 0.001 level, with the low (INT<32.08%) and high (INT>32.08%) internationalization groups of firms having a mean ROS of 7.19% and 6.06% respectively. This finding suggests that the group of firms with high internationalization may have a slightly lower mean ROS than the group of firms with low internationalization. If a linear relationship was analytically forced on the data, we would expect INT to be negatively related to ROS. This result is also consistent with research of Xiao (2011).

**Table 6. The Mean Difference in ROS between High- and Low- Internationalization Groups (t-test)**

Group	Obs	Mean	Std. Dev.	t-Value
INT<32.082	2518	7.189	12.497	4.2377(p<0.001)***
INT>32.082	1066	6.059	30.817	

\*\*\*P<0.01

**Table 7. Descriptive Statistics and Correlations**

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
ROS	6.85	19.81	1.000											
Firm age	18.12	4.28	-0.098	1.000										
Firm size <sup>a</sup>	21.69	1.25	0.237	0.135	1.000									
Leverage ratio	47.40	20.77	-0.463	0.173	0.466	1.000								
Chinese GDP (%)	9.74	2.03	0.058	0.057	-0.168	-0.023	1.000							
Internationalization	25.53	24.04	-0.073	-0.023	-0.189	-0.115	0.011	1.000						
R&D intensity	3.03	2.90	0.381	-0.151	-0.122	-0.270	-0.076	-0.153	1.000					
Marketing intensity	5.86	5.64	0.624	0.104	-0.118	-0.152	-0.012	-0.021	-0.232	1.000				
Ownership concentration	53.65	15.98	0.107	-0.291	0.009	-0.143	-0.126	0.066	0.092	0.041	1.000			
SOE <sup>b</sup>	0.39	0.49	-0.254	0.101	0.338	0.325	0.122	0.043	-0.242	-0.168	-0.112	1.000		
Location <sup>b</sup>	1.38	0.69	-0.102	0.002	0.114	0.118	0.091	0.009	-0.173	-0.100	-0.028	-0.076	1.000	
Policy <sup>b</sup>	0.48	0.50	0.132	0.055	-0.006	-0.085	-0.009	-0.008	0.050	0.082	0.098	-0.085	-0.014	1.000

a. Logarithm

b. Dummy variables

**Table 8. Results of Estimates for the Effect of Internationalization on Firm Performance**

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Constant	51.53*** (4.831)	52.48*** (4.820)	49.81*** (5.326)	45.67*** (4.079)	49.55*** (4.858)	44.86*** (5.652)	53.17*** (4.807)	51.59*** (4.830)	21.15*** (5.489)
Firm age	-0.199** (0.0961)	-0.190** (0.0948)	-0.146 (0.0923)	-0.347*** (0.0670)	-0.158* (0.0942)	-0.0812 (0.0983)	-0.204** (0.094)	-0.201** (0.094)	-0.226*** (0.069)
Firm size	0.643*** (0.194)	0.673*** (0.194)	0.626*** (0.216)	0.495*** (0.168)	0.476** (0.197)	0.606*** (0.232)	0.658*** (0.194)	0.686*** (0.193)	0.403* (0.233)
Leverage ratio	-0.0563*** (0.00659)	-0.0557*** (0.00659)	-0.0707*** (0.00770)	-0.0579*** (0.00611)	-0.0536*** (0.00659)	-0.0674*** (0.00830)	-0.0559*** (0.00659)	-0.0550*** (0.00659)	-0.105*** (0.00970)
Chinese GDP %	0.0865 (0.0544)	0.0772 (0.0544)	0.222*** (0.0663)	0.203*** (0.0508)	0.108** (0.0547)	0.0222 (0.06)	0.077 (0.0545)	0.0766 (0.0544)	0.340*** (0.0712)
Internationalization (INT)		-0.0607*** (0.0214)	-0.0885*** (0.0251)	-0.0115*** (0.0214)	-0.0979*** (0.0238)	-0.0352 (0.0311)	-0.116*** (0.0279)	-0.0784*** (0.0224)	-0.128*** (0.0425)
Internationalization squared		0.000946*** (0.000239)	0.00109*** (0.000267)	0.000805*** (0.000223)	0.00114*** (0.000246)	0.000981*** (0.000269)	0.00100*** (0.000240)	0.000906*** (0.000240)	0.00122*** (0.000288)
R&D intensity			0.408*** (0.0735)						0.201*** (0.0751)
Ownership concentration						0.0786*** (0.0183)			0.0636*** (0.017)
Marketing intensity				1.081*** (0.0394)					1.091*** (0.0456)
SOEs					-5.248*** (0.944)				-4.111*** (0.765)

**Table 8 (Continued)**

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Region (Central)							-2.415** (1.172)		-1.187 (0.864)
Region (Western)							-1.125* (1.37)		-1.16 (1.048)
Industrial policy								1.959** (0.919)	0.512* (0.722)
INT*R&D intensity			-0.00108 (0.00245)						0.00101 (0.00257)
INT*marketing intensity				-0.00714*** (0.00146)					-0.00444** (0.00189)
INT*SOEs					0.0573*** (0.0185)				0.0753*** (0.0206)
INT*ownership concentration						-0.00574* (0.00416)			-0.00766* (0.00419)
INT*Region							0.0376*** (0.0126)		0.0403*** (0.013)
INT*Policy								0.0384** (0.0164)	0.0472*** (0.0171)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included	Included
Year dummies	Included	Included	Included	Included	Included	Included	Included	Included	Included
Observations	3584	3584	2883	3584	3584	3144	3584	3584	2463
Number of firms	512	512	505	512	512	512	512	512	505
R-square	0.2602	0.2608	0.3531	0.5934	0.2812	0.2623	0.2726	0.2616	0.6447

Note: standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

### **5.3 Moderating Effect Analysis**

In hypothesis 2, we assume that the level of a firm's R&D intensity (technological capabilities) will have positive moderating effects on the internationalization-performance relationship. Model (3) tested this hypothesis by incorporating the interaction of R&D intensity with internationalization. The result shows that the R&D intensity does have a significant and positive impact on firm performance. However, quite unexpectedly, although the interaction between internationalization and R&D intensity is positively signed, it fails to be statistically significant, which means hypothesis 2 is unsupported.

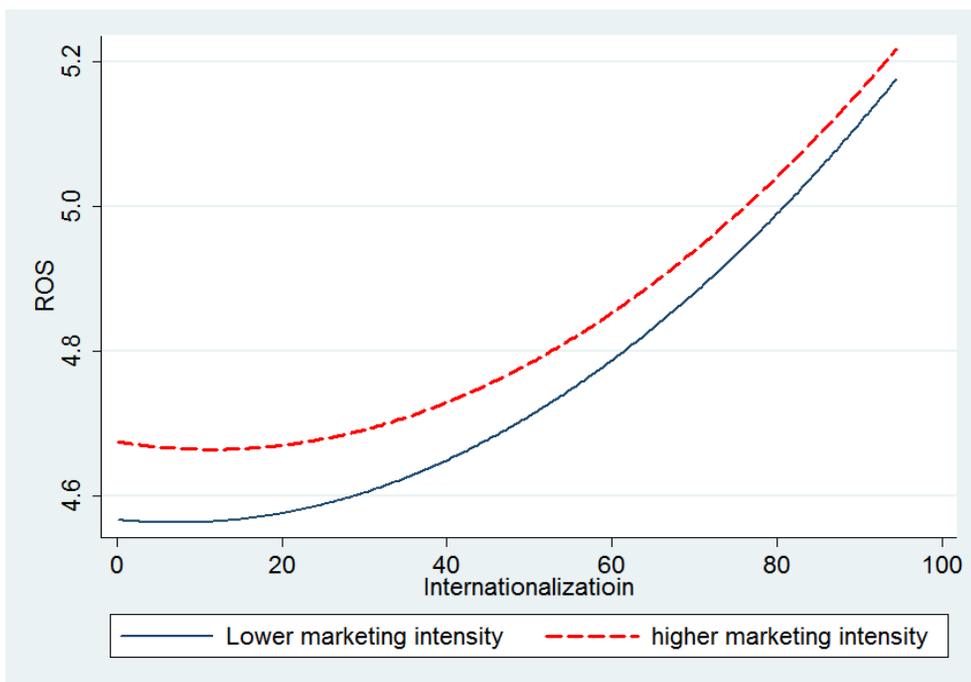
Similarly, hypothesis 3 predicts that the level of Chinese firms' marketing intensity will have a negative moderating impact on the I-P relationship due to some particularity of firms from emerging markets. Model (4) tested this argument using the interaction of internationalization with marketing intensity, and the result shows that hypothesis 3 is supported as the interaction term in Model 4 is negative and statistically significant. At the same time, the 'main effects' between internationalization and firm performance remained robust when interaction terms were included.

Drawing a diagram based on the result of Model (4), we can make a comparison of the difference between different levels of marketing intensity. Assuming away the effect of other independent variables, Figure 5 illustrates the moderating impact of

marketing intensity which is negative and significant. However, we interestingly found from Figure 5 that although marketing intensity has been proved to affect the I-P relationship negatively, firms with higher marketing intensity still have overall higher performance during international expansion. But when the level of internationalization increases, we can see the firms with higher marketing intensity showing a slower improvement in performance comparing with firms with lower marketing intensity. For example, for firms with a degree of internationalization of 30%, and with a level of marketing intensity of *one standard deviations above the mean*, the ROS is expected to be 0.087 percent point higher than that for firms with the same level of internationalization but with the level of *marketing intensity of the mean*. But in the case of firms with a degree of internationalization of 70%, the difference reduces to only 0.058 percent point

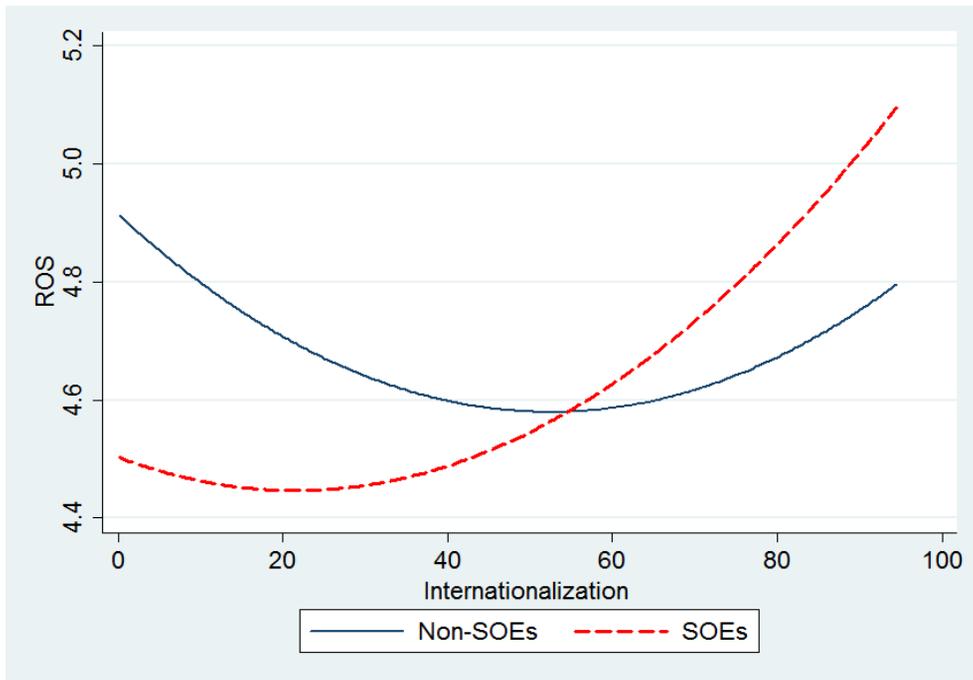
Subsequently, we examined Hypothesis 4~7, which proposes the moderating role of institutional factors on the relationship between internationalization and performance. Hypothesis 4 posits that SOEs are more likely to increase profitability through internationalization than non-SOEs (private firms etc.). Model (5) in Table 8 shows the results. As mentioned earlier, we made a dummy variable with the SOE ownership type as the baseline. The state-owned governance structure turns out to have a significant and positive influence on internationalization-performance relationship, providing support for Hypothesis 4.

**Figure 5. Moderating Effect of Marketing Intensity on the Relationship between Internationalization and Performance**



The shape of plots illustrated in Figure 6 clearly shows the difference of the I-P relationship between SOEs and non-SOEs. We can see from the following Figure 6 that although SOEs have a lower performance at initial stage, the internationalization boosts their profitability much more than that of non-SOEs. For example, in Figure 6, with a degree of internationalization of 60%, the ROS of SOEs is expected to be appropriately 0.04 percentage point higher than that of non-SOEs with the same level of internationalization.

**Figure 6. Moderating Effect of Ownership Structure on the Relationship between Internationalization and Performance**

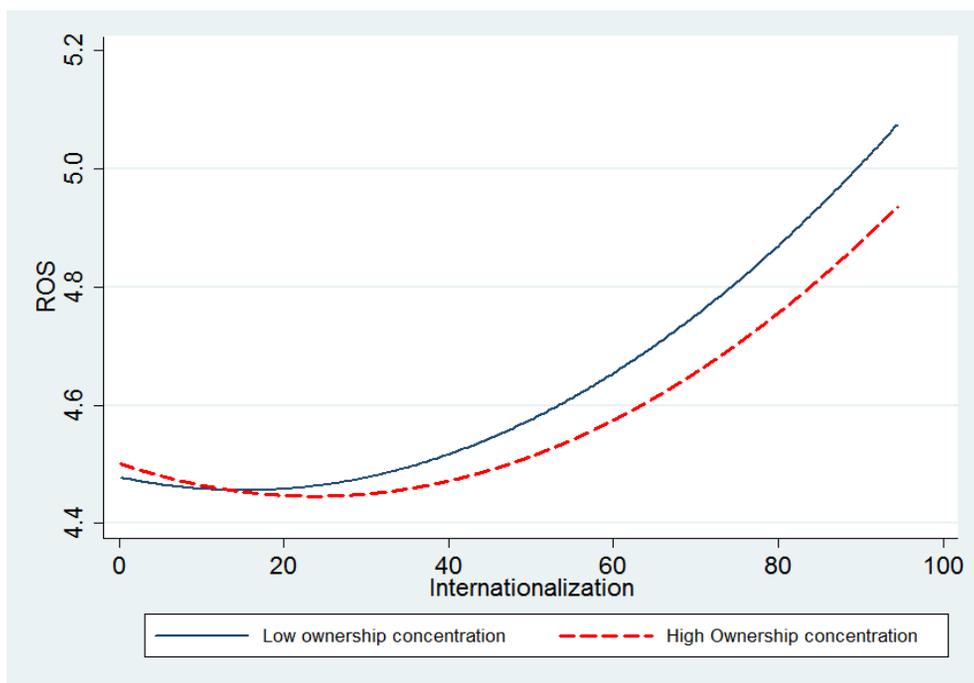


Next, Model (6) in Table 8 shows the interaction term between internationalization and ownership concentration was negative and significant at 0.1% level, which proves the theoretical argument that firms with lower ownership concentration tend to outperform firms with highly concentrated ownership during internationalization. Therefore, Hypothesis 5 is proved to be true.

This moderating effect is graphically described in Figure 7 for easier understanding. The relationship plotted in Figure 7 provides supporting evidence for our prediction. However, it also reveals the fact that in the initial stage of

internationalization, firms with highly concentrated ownership possess slightly better performance than their counterparts, but the superiority gradually diminishes as the level of internationalization increases. By calculating based on the regression equation, we can know that with a degree of internationalization of 60%, the ROS of firms with low ownership concentration is expected to be appropriately 0.08 percentage point higher than that of firms with high ownership concentration.

**Figure 7. Moderating Effect of Ownership Concentration on the Relationship between Internationalization and Performance**



Then we examined Hypothesis 6, which claims that sub-national region where the firm's headquarter is located moderates the relationship between

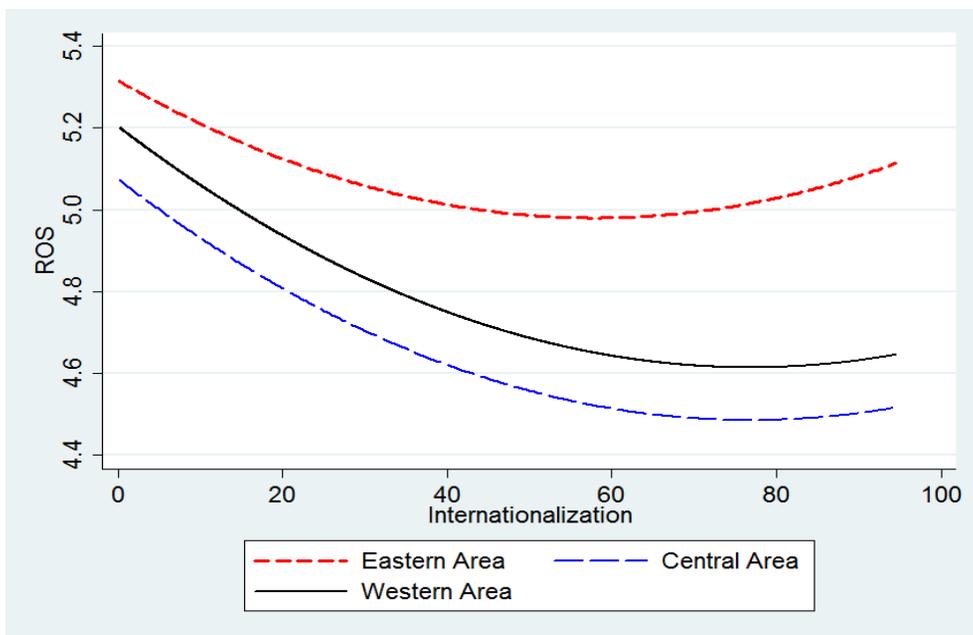
internationalization and performance. More specifically, it suggests that firms with their headquarters in Chinese eastern area may outperform those whose headquarters are in Central and Western areas. From Model (7) we see the interaction term between internationalization and dummy variable of region was positive and significant. Since we set Eastern area as the baseline, that means firms operating in eastern area tend to perform better through internationalization than others. Therefore, Hypothesis 6 is also supported by empirical evidence.

Similarly, we depicted and visualized the moderating effect of region on the international-performance relationship based on the result of Model (7). As shown in Figure 8, with international expanding continues, firms whose headquarters are located in Eastern area tend to achieve more profit and improve their performance earlier than firms whose headquarters are in other locations. For example, by calculating based on the regression equation, we can know that with a degree of internationalization of 60%, the ROS of firms whose headquarter are in eastern area is expected to be appropriately 0.467 and 0.338 percentage point higher than that of firms with headquarters in central and western area respectively.

Finally, Model (8) in Table 8 shows that the interaction term between the internationalization and industrial policy is positive and strongly significant. This result indicates that hypothesis 7, which assumed a positive moderating effect of favorable industrial policy on the relationship between internationalization and firm

performance, is supported. Firms operating in ‘encouraged’ industries and receiving favorable policies tend to perform better through internationalization than those operating in industries without government support.

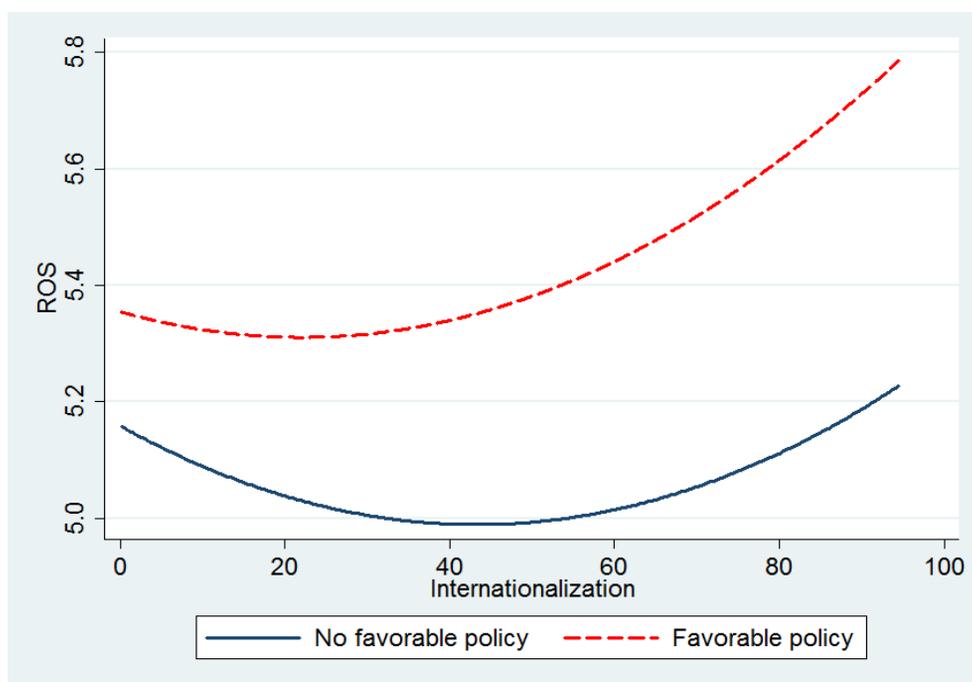
**Figure 8. Moderating Effect of Region Effect on the Relationship between Internationalization and Performance**



Again, we made a plot based upon the result of Model (8). Figure 9 illustrates this moderating effect of governmental policy. The curves show a significantly positive impact of favorable industrial policy. For firms that operate in ‘encouraged’ industries, the performance is much more pronounced than those in other industries. By calculating based on the regression equation, we can know that with a degree of

internationalization of 60%, the ROS of firms in an ‘encouraged’ industry, will be 0.426 percent point higher than firms in other industries.

**Figure 9. Moderating Effect of Industrial-specific Policy on the Relationship between Internationalization and Performance**



In addition, full Model (9) in Table 8, which includes all the variables in the regression analysis, remained robust and significant, and the R2 improves from 0.2602 percent in Model (1) to 0.6447 in Model (9).

## 5.4 Robustness Tests

We further conducted robustness evaluation in several ways. First, we tested the stability of results by using alternative key variables. Since we use ROS as the single indicator to measure firm performance, our measure might not capture all aspects of firm financial performance. Therefore, it is necessary to check whether other proxy of performance such as return on asset (ROA) will lead to the similar results. We tested hypotheses using ROA as the dependent variable. The overall models remain significant and consistent, and the I-P relationship turns out to be U-shaped.

Second, the I-P relationship is quite complicate, in which either firm-specific capabilities or institutional factors could be endogenous. While the random effects model (REM) assumes all the regressors are exogenous, Hausman-Taylor model based on instrumental variables (IV) is a common solution to handle endogeneity issues in REMs where some of the covariates are correlated with unobserved individual-level random effect (Baltagi et al., 2003; Mitze, 2009). Hence, we carried out a Hausman-Taylor regression to retest for the models, and the estimators are listed in Table 9. Comparing to Hausman-Taylor estimators, we can see that not only the U-shape relationship between internationalization and performance remains robust, the sign and significance of the moderating effects are also consistent with those from REM analysis.

**Table 9. Comparison of Hausman-Taylor and Radom Effects Estimators**

	Hausman-Taylor	REM
INT	-0.148***	-0.128***
INT squared	0.00161***	0.00122***
INT*R&D intensity	0.00304	0.00101
INT*Marketing intensity	-0.00519***	-0.00444**
INT*SOEs <sup>d</sup>	0.0724***	0.0753***
INT*Ownership concentration	-0.00991**	-0.00766*
INT*Region <sup>d</sup>	0.0343**	0.0403***
INT*Policy <sup>d</sup>	0.0623***	0.0472***

Note: 'internationalization' is conducted as endogenous variable

Third, we conducted further analysis on interaction effects between internationalization-squared term and moderators, to capture the changes of moderating effect at higher levels of internationalization. Most of results remain consistent, but the interaction term between R&D intensity and internationalization-squared term turns to be statistically significant and positive, which implies that at higher levels of internationalization the R&D investment would enhance the Chinese firms' technological capabilities and eventually leads to superior performance through internationalization. In addition, we also imposed 1 year lag time analysis and obtained similar results.

# **CHAPTER VI.**

## **DISCUSSION**

### **6.1 Findings and Analysis**

Recent studies reveal that a common understanding of the impact of internationalization on firm performance has not been reached. Also, the unprecedented growth in international participations from emerging countries highlights the need for a novel conceptualization and rethinking of the conventional wisdom. Therefore, this study endeavors to re-examine the relationship between internationalization and performance in China's context by integrating both resource-based and institutional-based view into the framework. We highlight the idea that internationalization of EMEs is largely asset-exploration motivated, and the earlier theoretical rationale needs to be modified to take account of the different features of emerging economy firms. Based on more than 500 Chinese manufacturing listed firms, this study investigated the shape of relationship between internationalization and performance, as well as the impact of firm-specific capabilities, ownership types, location of headquarters, and industrial policy on it. The proposed hypotheses were generally supported. The analyses of empirical results are summarized as follows.

First, in contrast to a positive linear or an inverse U-shape relationship between the internationalization and performance, which has been predominant in earlier studies, we found a U-shaped curvilinear relationship for Chinese firms by testing on data of Chinese manufacturing listed firms. The different pattern is caused by the unique characteristics of Chinese firms. Contrary to firms from advanced countries, Chinese firms are likely to face declining performance in the earlier stage of internationalization for several reasons: (1) Lack of experience and competitive resource make it inevitable for them to suffer more from the liability of foreignness; (2) Most Chinese firms compete based on price rather than brand and product differentiation; (3) The problem of insufficient global management capabilities, talent deficiencies, inflexibility and inadaptability to foreign markets, and underestimation of risks; (4) The strategic decisions of some SOEs are driven by political objectives, which leads to deviation from profit-maximizing behavior. However, the empirical finding indicates that at higher levels of internationalization, they are able to gain benefits and improve their performance. This is because they accumulate experience and obtain knowledge over time in the process of internationalization. The result is in line with asset-exploration and learning perspective of internationalization.

Moreover, the results of this study also suggest that internationalization-performance relationship is moderated both by firm-specific capabilities and institutional factors. The findings concerning R&D and marketing intensity is

unusual and differ from previous studies based on advanced countries. The R&D intensity, which represents for firm's technological capabilities, shows positive sign but failed to be significant in regression models. This may be related to the current business model and strategies of Chinese manufacturing firms, and the fact that most firms are in their initial stage of internationalization

As being pointed out, the moderating effects of firm-specific assets on internationalization-performance relationship are supposed to be stronger in the case that the characteristics of firm-specific assets are matched to country and industry contexts (Kirca et al., 2011). Particularly, R&D assets are supposed to have stronger impact on the I-P relationship in higher technology-based industries, and the moderating effects of R&D assets will provide stronger explanatory power for firms from advanced economies than for those from developing economies. According to Kirca (2011), firms from developed countries may generate higher returns from intangible assets (e.g. technological capabilities) than their counterparts from developing countries because they possess higher level of those assets, and have higher tendency to internalize them.

In the case of firms from emerging economies, studies have shown that they are good at appropriating, adapting, and transforming secondary technologies (Pananond & Zeithaml, 1998). Firms from emerging economies use internationalization to explore and acquire new patterns of innovation and upgrade

their capabilities, rather than exploiting their firm-specific assets on it (Guillén & Garcia-Canal, 2009). Although the emerging firms have made many efforts on improving their technological capability, the technology gap is still so large that Chinese firms still have no comparative advantage to competing despite their efforts to narrow the gap (Hitt et al., 2000). For example, in pharmaceutical industry, more than 90% of products are merely imitation of foreign ones.

R&D expenditure and investment may be an effective means of new product development and product differentiation for manufacturers (Chauvin & Hirschey, 1993). However, gaining knowledge through R&D involves lengthy projects requiring long-term commitment and investment (Teece, 1986). In the current stage of internationalization, most Chinese firms are still focusing on exporting and low-price strategies. A great number of Chinese firms serve as OEM suppliers or as subcontractors to MNCs, thus, product innovation is less likely to be the focus of R&D activities. Besides, the levels of R&D intensity for Chinese firms are still quite low (2.45% for IT sector and 1.08% for textile sector in our sample). In line with this discussion, we conjecture that the impact of R&D intensity to the I-P relationship might be more limited for developing economy firms. However, as mentioned in robustness check part, we also found that the interaction term between R&D intensity and internationalization (squared term) is positive and significant, which implies that there might be a time lag, and firms' technological capability would eventually have positive impact on the I-P relationship at higher levels of internationalization.

Meanwhile, in contrast with previous studies (Chang, 1996; Kotabe et al., 2002), our findings show that marketing intensity negatively affect the I-P relationship in China's context. As mentioned earlier, due to context specificity and low mobility of market knowledge, it is difficult and time-consuming for firms with little international experience to transfer it across borders, and modify it to fit in the foreign market. Also, it is hard for them to overcome the "location-specific disadvantage" and "China discount" at current stage. Expenditures on marketing may impede the cost efficiency and thus pull down the firm performance.

Furthermore, this study also examined the possible moderating effects of home country based institutional factors. The result shows that the I-P relationship greatly varies with the ownership types, and SOEs perform better from internationalization. This is because state ownership provides firms with financial support, privileged access to resource and close tie with government. On the other hand, result also indicates that firms with relatively dispersed ownership tend to be more profitable in overseas markets because a less concentrated ownership is helpful to prevent the absolute control on strategic decision and authoritarianism.

To further extend the research, we checked the possibility that the moderating effect of ownership concentration may be vary according to the ownership type. We thus divided our sample into 2 groups, and tested the impact of ownership concentration respectively. The results show that ownership concentration negatively

affects the I-P relationship for non-SOEs, which is consistent with our original hypothesis. However, as for SOEs, the higher ownership concentration positively contributes to the performance in international process (significant at 0.05% level). The possible reasons might be as follows: (1) SOEs have stronger mutual interests and consensus among shareholders (Wang et al., 2011), which reduces the possibility of controlling shareholder agency problem. (2) Managers' strategic independence and the monitoring effectiveness of board matters more in non-SOEs than SOEs.

Findings in this paper also indicate that the effects of internationalization on performance are stronger in Eastern regions of China, where marketization degree is higher and institutional environment is relatively well-developed. This finding suggests that internationalization may not have an independent and homogeneous influence on firm performance across subnational regions of a country. Firms whose headquarters are located in regions with more inward FDI and intense competition are more likely to enhance their competitive advantage, acquire knowledge, and benefit more from spillover effect.

Finally, the result shows strong support for the positive moderating effect of industrial-specific policy, suggesting that firms in industries with supportive policy perform better in international markets than firms in other industries. This again emphasizes and provides evidence for the role of government in Chinese firms'

internationalization. The incentives and special treatment largely enhance the competitive advantage of firms in global markets.

## **6.2 Reverse Causality**

Reverse causality is an important issue that has been neglected in most previous studies. According to Verbeke (2012), a statistical linkage between two variables is not enough to prove the direction of causality. In other words, it could be the *prior performance* that causes the statistically significant I-P relationship. For example, superior performance in home market may trigger further international expansion. Therefore, we used Granger causality method to examine if changes in performance also cause changes in internationalization degree. The notion of Granger causality is as follows: “if lagged values of X help predict current values of Y in a forecast formed from lagged values of both X and Y, then X is said to Granger cause Y”(Thurman & Fisher, 1988). We implement this by regressing internationalization (INT) on lagged INT and lagged ROS (one to three lags). If the coefficients on lagged ROS are significant, then ROS causes INT, and vice versa. The results of test are presented in Table 10. We can conclude that in the case of Chinese manufacturing listed firms, internationalization does cause the firm performance, but the reverse is also true.

**Table 10. Granger Causality Tests**

---

**Part 1: Do the performance cause the degree of internationalization?**

---

The following equation was estimated by GLS:

$$INT_t = \mu + \sum_{i=0}^L \alpha_i INT_{t-1} + \sum_{i=0}^L \beta_i ROS_{t-1} + \epsilon_t$$

$H_0: \beta_1 = \dots = \beta_L = 0$ , (ROS do not Granger cause Internationalization)

L= no. of lags	F-statistic	P-value
L=1	0.0419	0.000
L=2	0.0492	0.006
L=3	0.0818	0.055

---



---

**Part 2: Do the degree of internationalization cause performance?**

---

The following equation was estimated by GLS:

$$ROS_t = \mu + \sum_{i=0}^L \alpha_i ROS_{t-1} + \sum_{i=0}^L \beta_i INT_{t-1} + \epsilon_t$$

$H_0: \beta_1 = \dots = \beta_L = 0$ , (Internationalization do not Granger cause ROS)

L= no. of lags	F-statistic	P-value
L=1	-0.129	0.002
L=2	0.0195	0.088
L=3	0.0109	0.401

---

## **CHAPTER VII.**

### **CONCLUSION**

#### **7.1 Summary and Contributions**

Using a panel data set of Chinese manufacturing listed firms, this dissertation provides a re-examination of relationship between internationalization and performance, and explores the moderating role of firm-specific capabilities and home-based institutional factors in the internationalization process. The findings provide supporting evidence for our argument that difference exists in the way internationalization affects performance of developed-economy firms vs. emerging economy firms. The study also highlights the importance of the role of institutional factors in driving emerging economy firms to be profitable through internationalization. Our efforts contribute to the literature in the following ways:

First, this study extends the analysis focus of the internationalization-performance relationship to emerging country context which is under researched. In contrast to the conventional rationale that highlights the asset-exploitation aspects of internationalization, our results are in line with asset-exploration perspective which assume firms would go through a learning process during internationalization. The U-shaped internationalization-performance relationship revealed by empirical test shed light on the different features of emerging-economies firms.

Second, we used most recent updated firm-level panel data for more than 500 listed firms during 7 years in this study. Comparing to prior studies (Axinn et al., 2001; Xiao et al., 2013), this study applies larger sample size, longer research period, and more current data set, allowing us to capture the latest trends and ensure the findings reflecting the current status of Chinese firms.

Third, we revealed interesting and significant findings on the moderating effect of firm-specific capabilities, which present a different view from Chinese firms' perspective. Our empirical results indicate R&D intensity and marketing intensity have no or even negative effect on firm performance in foreign market, which challenges the conventional wisdom. We assume that the resource deficiency, low internationalization level of Chinese firms, and their strategic approach in foreign market may be the possible reasons. In other words, although firm-specific capabilities are crucial for firms' competitive advantage, they do not meaningfully contribute to Chinese firms' performance in the current stage of internationalization. Those unique findings again highlight the specificity of emerging-economy firms, and provide a base upon which future research can build.

Fourth, this study provides a more integrated conceptual framework by incorporating an institutional dimension into the analysis. It is highly meaningful because institutions matter more in emerging economies, especially those are under substantial institutional reform (Peng et al., 2008). We evaluated the institutional

impacts through both internal governance structure and external business environment. As far as my knowledge, this study would be the first attempt to examine the moderating effect of “ownership concentration”, “sub-national location” and “government policy” on the I-P relationship in an emerging country context. These institutional factors will further enrich the literature and provide insights into a more complete understanding of the relationship between internationalization and performance.

Fifth, this study challenged the notion of “institutional homogeneity” by demonstrating that institutions vary in different regions within the same country. The findings complement the international business literature by showing the sub-national region to be an important unit of analysis.

In sum, we believe this study have made significant progress in demonstrating the shape of internationalization-performance relationship in China’s context, assessing the moderating role of institutional factors, and further identifying several conditions under which emerging-economy firms can achieve higher performance. This study expands the boundary and scope of literature by combining two complementary theoretical perspectives.

## **7.2 Managerial and Practical Implications**

From a practical point of view, this study provides important implications for Chinese managers attempting to improve firm performance through international expansion. First, the U-shaped relationship we found suggests that ‘going aboard’ is not always beneficial. Firms may face high risks and difficulties in the initial stage, which leads to the downturn of performance. Therefore, firms should be fully prepared by gathering information, conducting market evaluation and developing strategic plan. Second, managers from China need to understand the importance of institutional context, and develop capabilities that enable them to handle institutional idiosyncrasies. Moreover, firms should actively internalize state-related benefits and industry-specific institutional advantages. Third, our findings suggest that Chinese firms can achieve better performance through internationalization by exploiting subnational region-specific institutional advantage. Therefore, Chinese managers should make location choices in home country very carefully. Nevertheless, although our findings show that firm-specific capabilities have no positive contribution to performance at current stage, it does not mean that they can be ignored. On one hand, firms need to enhance their absorptive capacity in order to acquire knowledge through internationalization. On the other hand, while taking advantage of external institutional environment, Chinese firms need to develop their own internal capabilities to succeed in the long run.

This study also carries important implications for policy makers. First, the findings show that regions with higher degree of market liberalization and industries with government support are important external institutional environment, which may assist firms to improve their performance in internationalization process. Thus, it is imperative for policy makers in China to further develop and improve the institutional environment, carrying on continuous economic reform and marketization especially in Central and Western areas. Also, our findings emphasize the needs for the Chinese government to alleviate regional polarization, and maintain its current policy to encourage firms to internationalize.

### **7.3 Limitation and Future Research**

Despite the important findings and contributions, this dissertation is subject to several limitations. First, due to data availability constraints, we used single measure for some main variables, which might not be sufficient to capture all aspects of the I-P relationship. Specifically, instead of using composite index, we chose ROS as the only indicator for performance, and the ratio of foreign sales in total sales (FSTS) as the only proxy to measure the degree of internationalization. Since the foreign sales here includes the revenue from both exports and business activities of overseas subsidiaries, the difference in motivation to internationalize between the two groups seems to be overlooked. Given the fact that FSTS is a commonly used proxy in related previous studies, and considering the paucity of data on emerging-market

firms, this study still provides some implications. However, it is hard to deny that measurement could be further improved. We could not distinguish export from foreign direct investment or try other measures due to data limitation. Thus, further research can try to use different measurement by separating and comparing the exports and foreign direct investments.

Second, this study used a one-dimensional approach to analyze internationalization. As a multi-dimensional concept, internationalization can be examined from aspects of depth, width and speed. This study only focused on the depth dimension of internationalization, but the other two dimensions such as the geographic diversification as well as time interval of overseas investment should be equally explored in order to gain proper insight. Future studies should incorporate these aspects into a comprehensive theoretical framework.

Third, this study mainly examined moderating effects of four home country based institutional factors, without considering the context of the host country. Host country institutions provide opportunities and impose constraints on firms (Pattnaik et al., 2015). For example, the institutional quality of host country will influence the strategic choice, and the differences in institutional environment between home and host countries will be barriers that hamper firms' resource transferring, knowledge acquiring and exploitation of firm-specific capabilities. Further research needs to fill in the incompleteness by integrating the effect of host country institutional context.

Besides, other organizational factors such as top management team diversity, entrepreneurship, and organizational design may also be relevant moderators that need to be further explored.

Fourth, there might be sample bias since our study include listed manufacturing firms with at least 1000 employees. Therefore the findings may not hold true for unlisted, relatively small firms, or firms in other industries. Also, our focus on Chinese firms could cause the problem of generalizability. Since the emerging economy firms are not homogeneous, our findings may be country-specific and may not equally apply to other emerging countries.

Finally, although we limited our samples to manufacturing industry, we realize that there is quite significant variance across sectors. For example, labor-intensive sectors and knowledge-intensive sectors, B2B sectors and B2C sectors may be different in many respects such as strategic choice and core competitiveness. Therefore, it is necessary for future studies to examine the shape of the I-P relationship and moderating effects for specific sectors.

## REFERENCES

- Annavarjula, M., Beldona, S., et al. (2006), "Corporate performance implications of multinationality: The role of firm specific moderators", *Journal of Transnational Management*, 10(4), 5-33.
- Apoteker, T. (2012), *Chinese investment in the greater Europe zone*, London.
- Arnold, D. J., & Quelch, J. A. (1998), "New strategies in emerging markets", *Sloan management*.
- Aulakh, P. S. (2009), "Revisiting the Internationalization - Performance Relationship: Implications for Emerging Economy Firms", *Decision (0304-0941)*, 36(2), 25-39.
- Aulakh, P. S., Rotate, M., et al. (2000), "Export strategies and performance of firms from emerging economies: Evidence from Brazil, Chile, and Mexico", *Academy of management Journal*, 43(3), 342-361.
- Axinn, C. N., Matthyssens, P., et al. (2001), *Firm internationalization and economic performance: A conceptual synthesis and an empirical assessment of the Chinese experience*, Reassessing the Internationalization of the Firm: 179-196: Emerald Group Publishing Limited.
- Bürgel, O., & Fier, A. (2004), *The Internationalisation of Young High-Tech Firms: An Empirical Analysis in Germany and the United Kingdom; with 54 Tables*, Springer Science & Business Media.
- Baltagi, B. H., Bresson, G., et al. (2003), "Fixed effects, random effects or Hausman–Taylor?: A pretest estimator", *Economics letters*, 79(3), 361-369.
- Banalieva, E. R., & Sarathy, R. (2011), "A Contingency Theory of Internationalization: Performance for Emerging Market Multinational Enterprises", *Management International Review*, 51(5), 593-634.
- Barney, J. (1991), "Firm resources and sustained competitive advantage", *Journal of management*, 17(1), 99-120.
- Barney, J. B., & Clark, D. N. (2007), *Resource-based theory: Creating and sustaining competitive advantage*, Oxford University Press Oxford.
- Bartlett Christopher, A., & Ghoshal, S. (1989), "Managing Across Borders—The Transnational Solution", *Harvard Business School Press, Boston, MA*.
- Bausch, A., & Krist, M. (2007), "The effect of context-related moderators on the internationalization-performance relationship: Evidence from meta-analysis", *Management International Review*, 47(3), 319-347.

- Bell, M., & Albu, M. (1999), "Knowledge systems and technological dynamism in industrial clusters in developing countries", *World development*, 27(9), 1715-1734.
- Brock, D. M., Yaffe, T., et al. (2006), "International diversification and performance: A study of global law firms", *Journal of International Management*, 12(4), 473-489.
- Brouthers, K. D. (2002), "Institutional, cultural and transaction cost influences on entry mode choice and performance", *Journal of international business studies*, 33(2), 203-221.
- Buckley, P. J., Clegg, L. J., et al. (2007), "The determinants of Chinese outward foreign direct investment", *Journal of International Business Studies*, 38(4), 499-518.
- Capar, N., & Kotabe, M. (2003), "The relationship between international diversification and performance in service firms", *Journal of International Business Studies*, 34(4), 345.
- Carney, M., & Gedajlovic, E. (2002), "The co-evolution of institutional environments and organizational strategies: The rise of family business groups in the ASEAN region", *Organization Studies*, 23(1), 1-29.
- Caves, R. E. (1971), "International corporations: The industrial economics of foreign investment", *Economica*, 1-27.
- Chang, S.-C., & Wang, C.-F. (2007), "The effect of product diversification strategies on the relationship between international diversification and firm performance", *Journal of World Business*, 42(1), 61-79.
- Chang, T.-I. (1996), "Cultivating global experience curve advantage on technology and marketing capabilities", *International Marketing Review*, 13(6), 22-42.
- Chao, M. C.-H., & Kumar, V. (2010), "The impact of institutional distance on the international diversity–performance relationship", *Journal of World Business*, 45(1), 93-103.
- Chatterjee, S., Hadi, A., et al. 2000. *The use of regression analysis by example: John Wiley & Sons.*
- Chauvin, K. W., & Hirschey, M. (1993), "Advertising, R&D expenditures and the market value of the firm", *Financial management*, 128-140.
- Chelliah, S., Sulaiman, M., et al. (2010), "Internationalization and performance: Small and medium enterprises (SMEs) in Malaysia", *International Journal of Business and Management*, 5(6), p27.

- Chen, H., & Hsu, C. W. (2010), "Internationalization, resource allocation and firm performance", *Industrial Marketing Management*, 39(7), 1103-1110.
- Chen, S., & Tan, H. (2012), "Region effects in the internationalization–performance relationship in Chinese firms", *Journal of world business*, 47(1), 73-80.
- Chen, Y., Jiang, Y. W., et al. (2014), "How do resources and diversification strategy explain the performance consequences of internationalization?", *Management Decision*, 52(5), 897-915.
- Chen, Y., Zhai, R. R., et al. (2015), "Home institutions, internationalization and firm performance Evidence from listed Chinese firms", *Management Decision*, 53(1), 160-178.
- Chiang, Y.-C., & Yu, T.-H. (2005), "The relationship between multinationality and the performance of Taiwan firms", *Journal of American Academy of Business*, 6(1), 130-134.
- Chiao, Y.-C., Yang, K.-P., et al. (2006), "Performance, internationalization, and firm-specific advantages of SMEs in a newly-industrialized economy", *Small Business Economics*, 26(5), 475-492.
- Ciabuschi, F., Dellestrand, H., et al. (2012), "The role of headquarters in the contemporary MNC", *Journal of International Management*, 18(3), 213-223.
- Collins, J. M. (1990), "A market performance comparison of US firms active in domestic, developed and developing countries", *Journal of International business studies*, 271-287.
- Contractor, F. J., Kumar, V., et al. (2007), "Nature of the relationship between international expansion and performance: The case of emerging market firms", *Journal of World Business*, 42(4), 401-417.
- Contractor, F. J., Kundu, S. K., et al. (2003), "A three-stage theory of international expansion: The link between multinationality and performance in the service sector", *Journal of International Business Studies*, 34(1), 5-18.
- Coviello, N. E. (2006), "The network dynamics of international new ventures", *Journal of International Business Studies*, 37(5), 713-731.
- Daniels, J. D., & Bracker, J. (1989), "Profit performance: do foreign operations make a difference?", *Management International Review*, 46-56.
- de Jong, G., & van Houten, J. (2014), "The impact of MNE cultural diversity on the internationalization-performance relationship Theory and evidence from European multinational enterprises", *International Business Review*, 23(1), 313-326.

- Delios, A., & Beamish, P. W. (2001), "Survival and profitability: The roles of experience and intangible assets in foreign subsidiary performance", *Academy of Management journal*, 44(5), 1028-1038.
- Deng, P. (2004), "Outward investment by Chinese MNCs: Motivations and implications", *Business Horizons*, 47(3), 8-16.
- Deng, P. (2009), "Why do Chinese firms tend to acquire strategic assets in international expansion?", *Journal of World Business*, 44(1), 74-84.
- Deng, P. (2012), "Accelerated internationalization by MNCs from emerging economies: Determinants and implications", *Organizational Dynamics*, 41(4), 318-326.
- Denis, D. J., Denis, D. K., et al. (2002), "Global diversification, industrial diversification, and firm value", *The Journal of Finance*, 57(5), 1951-1979.
- Dielman, T. E. (1983), "Pooled cross-sectional and time series data: A survey of current statistical methodology", *The American Statistician*, 37(2), 111-122.
- Djankov, S., & Murrell, P. (2002), "Enterprise restructuring in transition: A quantitative survey", *Journal of economic literature*, 739-792.
- Dunning, J. H. (1980), "Towards an eclectic theory of international production: some empirical tests", *Journal of international business studies*, 11(1), 9-31.
- Dunning, J. H. (1985), *Multinational enterprises, economic structure, and international competitiveness*, John Wiley & Sons Inc.
- Dunning, J. H. (2000), "The eclectic paradigm as an envelope for economic and business theories of MNE activity", *International business review*, 9(2), 163-190.
- Dunning, J. H. (2001), "The eclectic (OLI) paradigm of international production: past, present and future", *International journal of the economics of business*, 8(2), 173-190.
- Dunning, J. H., & Lundan, S. M. (2008), "Institutions and the OLI paradigm of the multinational enterprise", *Asia Pacific Journal of Management*, 25(4), 573-593.
- Elango, B. (2006), "An Empirical analysis of the internationalization-performance relationship across emerging market firms", *Multinational Business Review*, 14(1), 21-44.
- Elango, B., & Pattnaik, C. (2007), "Building capabilities for international operations through networks: a study of Indian firms", *Journal of International Business Studies*, 38(4), 541-555.

- Eriksson, K., Majkgård, A., et al. (2000), "Path dependence and knowledge development in the internationalization process", *MIR: Management International Review*, 307-328.
- Fan, G., Wang, X., et al. (2011), "The marketization index of China: The process of regional marketization report 2011", *Beijing: Press of Economic Science [in Chinese]*.
- Fang, Y., Wade, M., et al. (2007), "International diversification, subsidiary performance, and the mobility of knowledge resources", *Strategic Management Journal*, 28(10), 1053-1064.
- Filatovchev, I., Isachenkova, N., et al. (2007), "Corporate governance, managers' independence, exporting, and performance of firms in transition economies", *Emerging Markets Finance and Trade*, 43(5), 62-77.
- Gammeltoft, P., Barnard, H., et al. (2010), "Emerging multinationals, emerging theory: Macro-and micro-level perspectives", *Journal of International Management*, 16(2), 95-101.
- Gaur, A., & Delios, A. (2015), "International Diversification of Emerging Market Firms: The Role of Ownership Structure and Group Affiliation", *Management International Review*, 55(2), 235-253.
- Gedajlovic, E. (1993), "Ownership, strategy and performance: is the dichotomy sufficient?", *Organization studies*, 14(5), 731-752.
- Geringer, J., Beamish, P. W., et al. (1989), "Diversification strategy and internationalization: Implications for mne performance", *Strategic Management Journal*, 10(2), 109-119.
- Glaum, M., & Oesterle, M.-J. (2007), "40 years of research on internationalization and firm performance: More questions than answers?", *Management International Review*, 47(3), 307-317.
- Goldstein, A., Bonaglia, F., et al. (2006), "Accelerated internationalization by emerging multinationals: the case of white goods", *Journal of International Business Studies*, 42, 369-383.
- Gomes, L., & Ramaswamy, K. (1999), "An empirical examination of the form of the relationship between multinationality and performance", *Journal of International Business Studies*, 30(1), 173-188.
- Grant, R. M. (1987), "Multinationality and performance among British manufacturing companies", *Journal of International Business Studies*, 79-89.

- Grant, R. M., Jammine, A. P., et al. (1988), "Diversity, diversification, and profitability among British manufacturing companies, 1972–1984", *Academy of Management Journal*, 31(4), 771-801.
- Gu, L., & Reed, W. R. (2013), "Chinese overseas M&A performance and the Go Global policy", *Economics of Transition*, 21(1), 157-192.
- Guillén, M. F., & Garcia-Canal, E. (2009), "The American model of the multinational firm and the “new” multinationals from emerging economies", *The Academy of Management Perspectives*, 23(2), 23-35.
- Guisinger, S. (2001), "From OLI to OLMA: incorporating higher levels of environmental and structural complexity into the eclectic paradigm", *International Journal of the Economics of Business*, 8(2), 257-272.
- Haar, J. (1989), "A comparative analysis of the profitability performance of the largest US, European and Japanese multinational enterprises", *Management International Review*, 5-18.
- Han, K. C., Lee, S. H., et al. (1998), "Multinationality and firm performance", *Multinational Business Review*, 6(2), 63.
- Helsen, K., Jedidi, K., et al. (1993), "A new approach to country segmentation utilizing multinational diffusion patterns", *The Journal of marketing*, 60-71.
- Hennart, J.-F. (2007), "The theoretical rationale for a multinationality-performance relationship", *Management International Review*, 47(3), 423-452.
- Hitt, M. A., Dacin, M. T., et al. (2000), "Partner selection in emerging and developed market contexts: Resource-based and organizational learning perspectives", *Academy of Management journal*, 43(3), 449-467.
- Hitt, M. A., Hoskisson, R. E., et al. (1994), "A mid-range theory of the interactive effects of international and product diversification on innovation and performance", *Journal of management*, 20(2), 297-326.
- Hitt, M. A., Hoskisson, R. E., et al. (1997), "International diversification: Effects on innovation and firm performance in product-diversified firms", *Academy of Management journal*, 40(4), 767-798.
- Hitt, M. A., Tihanyi, L., et al. (2006), "International diversification: Antecedents, outcomes, and moderators", *Journal of Management*, 32(6), 831-867.
- Hong, J., Wang, C., et al. (2015), "The role of the state in explaining the internationalization of emerging market enterprises", *British Journal of Management*, 26(1), 45-62.
- Hoskisson, R. E., Eden, L., et al. (2000), "Strategy in emerging economies", *Academy of management journal*, 43(3), 249-267.

- Hossain, D. (2014), "Differential Impacts of Foreign Capital and Remittance Inflows on Domestic Savings in Developing Countries: A Dynamic Heterogeneous Panel Analysis", *Economic Record*, 90(s1), 102-126.
- Hsu, W. T., Chen, H. L., et al. (2013), "Internationalization and firm performance of SMEs: The moderating effects of CEO attributes", *Journal of World Business*, 48(1), 1-12.
- Hymer, S. H. (1976), *The international operations of national firms: A study of direct foreign investment*, MIT press Cambridge, MA.
- Johanson, J., & Vahlne, J.-E. (1977), "The internationalization process of the firm-a model of knowledge development and increasing foreign market commitments", *Journal of international business studies*, 23-32.
- Jung, Y. (1991), "Multinationality and profitability", *Journal of Business Research*, 23(2), 179-187.
- Kim, H., Kim, H., et al. (2010), "Does market-oriented institutional change in an emerging economy make business-group-affiliated multinationals perform better? An institution-based view", *Journal of International Business Studies*, 41(7), 1141-1160.
- Kim, W. C., & Mauborgne, R. A. (1993), "Procedural justice, attitudes, and subsidiary top management compliance with multinationals' corporate strategic decisions", *Academy of management journal*, 36(3), 502-526.
- Kirca, A. H., Hult, G. T. M., et al. (2011), "Firm-specific assets, multinationality, and financial performance: A meta-analytic review and theoretical integration", *Academy of Management Journal*, 54(1), 47-72.
- Kogut, B., & Zander, U. (1993), "Knowledge of the firm and the evolutionary theory of the multinational corporation", *Journal of international business studies*, 625-645.
- Kolstad, I., & Wiig, A. (2012), "What determines Chinese outward FDI?", *Journal of World Business*, 47(1), 26-34.
- Kostova, T., & Zaheer, S. (1999), "Organizational legitimacy under conditions of complexity: The case of the multinational enterprise", *Academy of Management review*, 24(1), 64-81.
- Kotabe, M., Srinivasan, S. S., et al. (2002), "Multinationality and firm performance: The moderating role of R&D and marketing capabilities", *Journal of International Business Studies*, 33(1), 79-97.
- Kumar, V., & Singh, N. (2008), "Internationalization and performance of Indian pharmaceutical firms", *Thunderbird International Business Review*, 50(5), 321-330.

- La Porta, R., Lopez-de-Silanes, F., et al. (1999), "The quality of government", *Journal of Law, Economics, and organization*, 15(1), 222-279.
- Lahiri, N. (2010), "Geographic distribution of R&D activity: how does it affect innovation quality?", *Academy of Management Journal*, 53(5), 1194-1209.
- Lall, S. (1980), "Monopolistic advantages and foreign investment by US manufacturing industries", *Oxford Economic Papers*, 32(1).
- Levitt, T. (1983), "After the sale is over", *Harvard Business Review*, 61(5), 87-93.
- Li, F., & Ding, D. Z. (2013), "The effect of institutional isomorphic pressure on the internationalization of firms in an emerging economy: evidence from China", *Asia Pacific Business Review*, 19(4), 506-525.
- Li, J., & Yue, D. R. (2008), "Market size, legal institutions, and international diversification strategies: implications for the performance of multinational firms", *Management International Review*, 48(6), 667-688.
- Li, L. (2007), "Multinationality and performance: A synthetic review and research agenda", *International Journal of Management Reviews*, 9(2), 117-139.
- Li, L., & Qian, G. (2005), "Dimensions of international diversification: Their joint effects on firm performance", *Journal of Global Marketing*, 18(3-4), 7-35.
- Li, P. P. (2003), "Toward a geocentric theory of multinational evolution: The implications from the Asian MNEs as latecomers", *Asia Pacific Journal of Management*, 20(2), 217-242.
- Li, P. P. (2010), "Toward a learning-based view of internationalization: The accelerated trajectories of cross-border learning for latecomers", *Journal of International Management*, 16(1), 43-59.
- Li, Y., Sun, Y., et al. (2006), "An empirical study of SOEs' market orientation in transitional China", *Asia Pacific Journal of Management*, 23(1), 93-113.
- Lin, W. T., Liu, Y. S., et al. (2011), "The internationalization and performance of a firm: Moderating effect of a firm's behavior", *Journal of International Management*, 17(1), 83-95.
- Lu, J. W., & Beamish, P. W. (2004), "International diversification and firm performance: The S-curve hypothesis", *Academy of management journal*, 47(4), 598-609.
- Luo, Y., & Tung, R. L. (2007), "International expansion of emerging market enterprises: A springboard perspective", *Journal of International Business Studies*, 38(4), 481-498.

- Luo, Y., Xue, Q., et al. (2010), "How emerging market governments promote outward FDI: Experience from China", *Journal of World Business*, 45(1), 68-79.
- Madhok, A. (1997), "Cost, value and foreign market entry mode: The transaction and the firm", *Strategic management journal*, 18(1), 39-61.
- Makino, S., Lau, C.-M., et al. (2002), "Asset-exploitation versus asset-seeking: Implications for location choice of foreign direct investment from newly industrialized economies", *Journal of international business studies*, 403-421.
- Mansfield, E. (1981), "Composition of R and D expenditures: relationship to size of firm, concentration, and innovative output", *The Review of Economics and Statistics*, 610-615.
- Mathews, J. A. (2006), "Dragon multinationals: New players in 21 st century globalization", *Asia Pacific journal of management*, 23(1), 5-27.
- Meyer, K. E., Estrin, S., et al. (2009a), "Institutions, resources, and entry strategies in emerging economies", *Strategic management journal*, 30(1), 61-80.
- Meyer, K. E., Wright, M., et al. (2009b), "Research notes and commentaries managing knowledge in foreign entry strategies: A resource-based analysis", *Strategic management journal*, 30(6), 557-574.
- Michel, A., & Shaked, I. (1986), "Multinational corporations vs. domestic corporations: Financial performance and characteristics", *Journal of International Business Studies*, 89-100.
- Mitze, T. (2009), "Endogeneity in panel data models with time-varying and time-fixed regressors: to IV or not IV?", *Ruhr Economic Paper*(83).
- Nachum, L. (2004), "Geographic and Industrial Diversification of Developing Country Firms\*", *Journal of Management Studies*, 41(2), 273-294.
- Nachum, L., & Zaheer, S. (2005), "The persistence of distance? The impact of technology on MNE motivations for foreign investment", *Strategic Management Journal*, 26(8), 747-767.
- Nguyen, T., Locke, S., et al. (2015), "Ownership concentration and corporate performance from a dynamic perspective: Does national governance quality matter?", *International Review of Financial Analysis*, 41, 148-161.
- Oesterle, M. J., Richta, H. N., et al. (2013), "The influence of ownership structure on internationalization", *International Business Review*, 22(1), 187-201.

- Pan, W. H., Tsai, W. C., et al. (2010), "Internationalization and firm performance: Exploring the moderating effects of regional diversification", *African Journal of Business Management*, 4(18), 4049-4056.
- Pananond, P., & Zeithaml, C. P. (1998), "The international expansion process of MNEs from developing countries: a case study of Thailand's CP Group", *Asia Pacific Journal of Management*, 15(2), 163-184.
- Pattnaik, C., Choe, S., et al. (2015), "Impact of host country institutional context on subsidiary performance", *Management Decision*, 53(1), 198-220.
- Peng, M. W., Tan, J., et al. (2004), "Ownership types and strategic groups in an emerging economy\*", *Journal of Management Studies*, 41(7), 1105-1129.
- Peng, M. W., Wang, D. Y., et al. (2008), "An institution-based view of international business strategy: A focus on emerging economies", *Journal of international business studies*, 39(5), 920-936.
- Porter, M. E. (1986), *Competition in global industries*, Harvard Business Press.
- Qian, G. (2002), "Multinationality, product diversification, and profitability of emerging US small-and medium-sized enterprises", *Journal of Business Venturing*, 17(6), 611-633.
- Ramamurti, R. (2001), "The obsolescing 'Bargaining Model'? MNC-host developing country relations revisited", *Journal of International Business Studies*, 23-39.
- Ramaswamy, K., Kroeck, K. G., et al. (1996), "Measuring the degree of internationalization of a firm: A comment", *Journal of International Business Studies*, 27(1), 167.
- Ramsey, J. R., Barakat, L. L., et al. (2012), "Internationalization and its possible impact on subjective and objective performance: Evidence from Brazilian TNCs", *Transnational Corporations*, 21(2), 21-46.
- Riahi-Belkaoui, A. (1996), "Internationalization, diversification strategy and ownership structure: implications for French MNE performance", *International Business Review*, 5(4), 367-376.
- Rugman, A. M. (1981), *Inside the multinationals: The economics of internal markets*, Columbia University Press New York.
- Rugman, A. M. (1982), "New Theories of the Multinational Enterprise, New York: St", *Martin's Press. Rugman New Theories of the Multinational Enterprise 1982*.
- Rugman, A. M. (2002), *International Business: Strategic management of multinationals*, Taylor & Francis.

- Ruigrok, W., Amann, W., et al. (2007), "The internationalization-performance relationship at Swiss firms: A test of the S-shape and extreme degrees of internationalization", *Management International Review*, 47(3), 349-368.
- Ruigrok, W., & Wagner, H. (2003), "Internationalization and performance: An organizational learning perspective", *MIR: Management International Review*, 63-83.
- Ruigrok, W., & Wagner, H. (2004). *Internationalization and firm performance: Meta-analytic review and future research directions*. Paper presented at the annual meeting of the Academy of International Business, Stockholm, Sweden.
- Sambharya, R. B. (1995), "The combined effect of international diversification and product diversification strategies on the performance of US-based multinational corporations", *MIR: Management International Review*, 197-218.
- Scott, W. R. (1995), *Institutions and organizations*, Sage Thousand Oaks, CA.
- Severn, A. K., & Laurence, M. M. (1974), "Direct investment, research intensity, and profitability", *Journal of Financial and Quantitative Analysis*, 9(02), 181-190.
- Shaked, I. (1986), "Are multinational corporations safer?", *Journal of International Business Studies*, 83-106.
- Shen, Jia, et al. (2015), "The Role of Home Country Institutional Effects on the Relationship between Internationalization and Performance ", *International Business Review*, 19(3), 197-221.
- Shleifer, A., & Vishny, R. W. (1997), "A survey of corporate governance", *The journal of finance*, 52(2), 737-783.
- Siddharthan, N. S., & Lall, S. (1982), "THE RECENT GROWTH OF THE LARGEST US MULTINATIONALS\*", *Oxford Bulletin of Economics and Statistics*, 44(1), 1-13.
- Singla, C., & George, R. (2013), "Internationalization and performance: A contextual analysis of Indian firms", *Journal of Business Research*, 66(12), 2500-2506.
- Sullivan, D. (1994), "Measuring the degree of internationalization of a firm", *Journal of International Business Studies*, 25(2), 325.
- Swedenborg, B. (1979), *The multinational operations of Swedish firms: An analysis of determinants and effects*, Industrial inst. for economic and social research [Industriens utredningsinst.].

- Tallman, S., Jenkins, M., et al. (2004), "Knowledge, clusters, and competitive advantage", *Academy of management review*, 29(2), 258-271.
- Tallman, S., & Li, J. (1996), "Effects of international diversity and product diversity on the performance of multinational firms", *Academy of Management journal*, 39(1), 179-196.
- Tan, J. J., & Li, M. (1996), "Effects of ownership types on environment-strategy configuration in China's emerging transitional economy", *Advances in International Comparative Management*, 11, 21 27-250.
- Teece, D. J. (1986), "Profiting from technological innovation: Implications for integration, collaboration, licensing and public policy", *Research policy*, 15(6), 285-305.
- Thomas, D. E. (2006), "International diversification and firm performance in Mexican firms: a curvilinear relationship?", *Journal of Business Research*, 59(4), 501-507.
- Thomas, D. E., & Eden, L. (2004), "What is the shape of the multinationality-performance relationship?", *Multinational Business Review*, 12(1), 89-110.
- Thurman, W. N., & Fisher, M. E. (1988), "Chickens, eggs, and causality, or which came first", *American Journal of Agricultural Economics*, 70(2), 237-238.
- Tseng, C.-H., Tansuhaj, P., et al. (2007), "Effects of firm resources on growth in multinationality", *Journal of International Business Studies*, 38(6), 961-974.
- Verbeke, A., & Forootan, M. Z. (2012), "How Good are Multinationality-Performance (M-P) Empirical Studies?", *Global Strategy Journal*, 2(4), 332-344.
- Vermeulen, F., & Barkema, H. (2002), "Pace, rhythm, and scope: Process dependence in building a profitable multinational corporation", *Strategic Management Journal*, 23(7), 637-653.
- Vernon, R. (1971), "Sovereignty at bay: The multinational spread of US enterprises", *The International Executive*, 13(4), 1-3.
- Vernon, R. (1979), "The international aspects of state-owned enterprises", *Journal of International Business Studies*, 7-15.
- Wang, C., Hong, J., et al. (2012), "Exploring the role of government involvement in outward FDI from emerging economies", *Journal of International Business Studies*, 43(7), 655-676.

- Wang, K., & Shailer, G. (2015), "Ownership concentration and firm performance in emerging markets: A meta-analysis", *Journal of Economic Surveys*, 29(2), 199-229.
- Wang, Y., & Suh, C.-S. (2009), "Towards a re-conceptualization of firm internationalization: Heterogeneous process, subsidiary roles and knowledge flow", *Journal of International Management*, 15(4), 447-459.
- Wang, Z. Y., Su, L., et al. (2011). *Ownership Concentration degree and corporate performance - From the empirical evidence of Chinese listed companies*. Paper presented at the International Conference on Management and Service Science, MASS 2011.
- Weerawardena, J., Mort, G. S., et al. (2007), "Conceptualizing accelerated internationalization in the born global firm: A dynamic capabilities perspective", *Journal of World Business*, 42(3), 294-306.
- Wei, T., Clegg, J., et al. (2015), "The conscious and unconscious facilitating role of the Chinese government in shaping the internationalization of Chinese MNCs", *International Business Review*, 24(2), 331-343.
- Weiss, C., & Hilger, S. (2012), "Ownership concentration beyond good and evil: Is there an effect on corporate performance?", *Journal of Management and Governance*, 16(4), 727-752.
- Welch, L. S., & Luostarinen, R. (1988), "Internationalization: evolution of a concept", *The Internationalization of the firm*, 14, 83-98.
- Wells, L. T. (1983), "Third world multinationals: The rise of foreign investments from developing countries", *MIT Press Books*, 1.
- Wooldridge, J. M. (1995), "Selection corrections for panel data models under conditional mean independence assumptions", *Journal of econometrics*, 68(1), 115-132.
- Wright, M., Filatotchev, I., et al. (2005), "Strategy research in emerging economies: Challenging the conventional wisdom\*", *Journal of management studies*, 42(1), 1-33.
- Xiao. 2011. *International diversification and performance of emerging economy firms*. Graduate School, Korea University, Seoul.
- Xiao, S. S., Jeong, I., et al. (2013), "Internationalization and performance of firms in China: Moderating effects of governance structure and the degree of centralized control", *Journal of International Management*, 19(2), 118-137.
- Yiu, D. W., Lau, C., et al. (2007), "International venturing by emerging economy firms: the effects of firm capabilities, home country networks, and corporate

- entrepreneurship", *Journal of International Business Studies*, 38(4), 519-540.
- Yu-Ching, C., Kuo-Pin, Y., et al. (2006), "Performance, Internationalization, and Firm-specific Advantages of SMEs in a Newly-Industrialized Economy", *Small Business Economics*, 26(5), 475-492.
- Zaheer, S. (1995), "Overcoming the liability of foreignness", *Academy of Management journal*, 38(2), 341-363.
- Zeng, R., Zeng, S., et al. (2012), "What motivates firms from emerging economies to go internationalization?", *Technological & Economic Development of Economy*, 18(2), 280-298.
- Zhang, M. J. (2005), "Information systems, strategic flexibility and firm performance: an empirical investigation", *Journal of Engineering and Technology Management*, 22(3), 163-184.
- Zhou, L., Wu, W.-p., et al. (2007), "Internationalization and the performance of born-global SMEs: the mediating role of social networks", *Journal of International Business Studies*, 38(4), 673-690.
- Zhu, H., Hitt, M. A., et al. (2006), "The internationalization of SMEs in emerging economies: institutional embeddedness and absorptive capacities", *Journal of Small Business Strategy*, 17(2), 1.

## 국문초록

# 중국기업의 국제화와 기업성과에 대한 실증연구:

기업 특정적 역량과 본국 제도적 요인의 조절효과를 중심으로

선 지 아 (沈佳)

서울대학교 대학원

경영학과 경영학 전공

기업의 국제화와 성과간의 관계에 대한 연구는 지난 수십 년 동안 끊임없이 진행되어 왔음에도 불구하고 여전히 서로 상충된 주장들이 혼재되고 있다. 대부분의 기존연구들은 지역, 산업 등 맥락적 요인(contextual factor)을 간과한 채, 선진국의 제조업 대기업들을 대상으로 이뤄져 왔다. 하지만 최근 신흥국 기업들의 해외진출이 가속화되면서 과연 기존 연구들의 주장을 신흥국 기업들에 그대로 적용할 수 있는지에 대한 의문이 제기되고 있다. 본 연구는 신흥국의 대표주자인 중국을 주목하여 중국 제조업 상장기업들의 국제화와 기업 성과간의 관계를 살펴보고, 더 나아가 기업 특정적 역량과 본국의 제도적인 요인들이 이 관계에 어떤 조절효과가 있는지를 검증하였다. 500여개 중국 제조기업들의 2007년부터 2013년까지의 해외매출비중 자료를 통해 그들의 성과가 국제화 초기단계에서 소폭 하락하다가 다시 증가하는 모습을 보인 것을 확인할 수 있었다. 이처럼 "U"자 형태로 나타난 것은 신흥국

기업으로서 해외진출 경험과 자원이 부족한데다, 해외진출의 목적이 보유자원의 활용(asset-exploitation) 보다 새로운 자원의 개발(asset-exploration) 및 학습을 하는 데 있다는 점과 관련이 있다고 판단된다. 그리고 선진국 기업을 대상으로 이뤄진 연구의 결과들과는 달리, 기술개발 강도와 마케팅 역량이 중국 제조업 기업들의 국제화와 성과간의 관계에 통계적으로 유의한 조절효과를 가지고 있지 않거나 부정적인 조절효과를 가지고 있음을 나타냈다. 이러한 결과들은 신흥국 기업들이 선진국 기업들과 비교할 때 국제화 패턴과 특징들이 모두 다르다는 것을 시사하고 있다.

본 연구는 또한 본국의 제도적 요인의 중요성을 밝히기 위해 기업지배구조, 지역적 효과, 정부의 산업정책 등의 조절효과를 확인한 결과, 국유기업이 다른 형태의 기업보다 국제화 수준 상승에 따른 성과 개선이 더 빠른 것으로 나타났다. 또한 소유자본 집중도가 높을 수록 국제화 과정에서 수익성을 높이는 데 부정적인 효과가 있음을 알게 되었다. 아울러, 시장화 수준이 높고 경제개방도가 높은 동부 지역에 위치한 기업과 정부의 지원정책이 적용된 산업에 속한 기업의 경우, 국제화가 성과에 더 긍정적인 영향을 미친 것을 확인하였다. 본 연구는 중국 기업의 국제화와 성과간의 관계를 규명하고, 기업 특정적 역량과 본국의 제도적 요인들의 조절효과를 확인함으로써 중요한 시사점을 제공할 수 있을 것으로 기대된다.

**주제어:** 국제화, 기업성과, 제도적 요인, 기업 특정적 역량, 지배구조, 신흥국 기업

**학번:** 2011-31276