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International diversification of the emerging-market enterprises: A multi-level examination

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ABSTRACT

This study develops a cross-level research model based on insights from the capabilities view and institutional theory. We examine the drivers of international diversification for firms from emerging economies, specifically how top managers' prior experiences and a favorable institutional environment for human capital affects the international diversification of emerging-market enterprises (EMEs). This research demonstrates that firm- and country-level factors collectively influence the international diversification of EMEs. We find that an EME whose top managers have global managerial and technological experiences is more likely to venture into international markets when a favorable institutional environment provides globally competitive, highly skilled human capital. This study demonstrates that for a multidimensional phenomenon such as EMEs' international diversification, a more complete picture emerges given a theoretical framework that builds on diverse perspectives which are empirically tested across levels.

1. Introduction

Over the last three decades, the prevalence of economic liberalization has led to the internationalization of enterprises in emerging economies, which has become a phenomenon with important consequences for the global economy (Ramamurti, 2009; Yang, Jiang, Kang, & Ke, 2009). On one hand, the rise of emerging-market enterprises (EMEs) from select emerging economies reflects individual firm efforts toward developing resources and capabilities; on the other hand, this phenomenon underscores the role of institutional support in providing a favorable environment for growth and internationalization (Peng, Wang, & Jiang, 2008; Ramamurti, 2009).

In the 1970s and 1980s, less-developed countries (LDCs) geared their institutions into playing an enabling role so that their firms could meet future global aspirations (Peng et al., 2008; UNCTAD, 2009). They did so by creating an environment that allowed firms to compete and grow in the global marketplace rather than shackling them to bureaucratically regulated growth within domestic markets (Gelbuda, Meyer, & Delios, 2008). For their part, firms made a major shift toward competing in the global marketplace by exploiting institutionally nurtured firm resources and capabilities. Thus, EMEs and supporting institutions began to focus on internationalization through exports and foreign direct investments (FDI) (Luo, Zhao, Wang, & Xi, 2011).

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Over time, development of capabilities and institutional support have allowed the transition of select LDCs of yesteryears (e.g., the BRICS group—Brazil, Russia, India, China, and South Africa) to become major emerging economies in the first decade of the twenty-first century (Mathews, 2006; Ramamurti, 2009). Firms like Embraer, Haier, Huawei, Tata, and Infosys could successfully develop their competencies with institutional support and attain competitive advantage in the global markets (Khanna & Palepu, 2010; Ramamurti, 2009). Their followers from emerging economies, though not as visible, are also on the rise and by 2050 may emerge as key players in their own sectors if the growth rate projected by Wilson and Purushothaman (2003) holds and conditions remain stable.

In general, EMEs are fast becoming notable players on the global stage, evidenced by the dynamic growth rate of outward FDI, averaging 82% from 2003 to 2008 and resulting in an outward foreign investment of approximately US$351 billion by 2008 (Sauvant, Wolfgang, & McAllister, 2010, p. 5). Consistent with the growth in FDI of emerging-market multinationals, there are around 23,000 multinationals from developing countries (Sauvant et al., 2010, p. 6; UNCTAD, 2009).

Given the growing importance of this phenomenon, scholars have called for greater attention to the issues relating to international diversification of EMEs. As Peng et al. (2008) state, "We currently know very little about how firms from emerging economies internationalize. . ..if the field aspires to remain globally relevant, it seems imperative that more research be devoted to these critical strategic issues". Ramamurti (2009) echoes this statement, claiming that EME internationalization issues have been the "least studied [and] neglect(ed) . . . situations that extant international business theory fails to explain well".

This was supported when our primary search revealed that none of the extant studies has focused on the role of managerial experience and favorable institutional environment as the potential drivers of internationalization.[2] Results of this search are presented in Table 1.

Indeed, firms from the developed triad of the U.S., Europe, and Japan have traditionally garnered most of the attention in the internationalization literature (Luo, 2003; Ohmae, 2005; Peng et al., 2008). Extant research has paid attention to foreign entry decisions by firms in developed countries as they enter emerging economies (Mathews, 2006; Yiu, Lau, & Bruton, 2007). As a result, there is scant literature on the drivers of internationalization for EMEs as well as the conditions that motivate EMEs to internationalize (Ramamurti, 2009; Wright, Filatotchev, Hoskisson, & Peng, 2005; Yiu et al., 2007). In view of numerous calls by scholars to address issues related to EMEs (e.g., Peng et al., 2008; Ramamurti, 2009; Yiu et al., 2007; Wright et al., 2005), we believe it is time for a nuanced exploration of EME strategies, antecedents, and consequences.

We begin with the premise that factors such as top management experience, capabilities, and institutions play an important role in the diversification of EMEs; and investigate key drivers of international diversification for firms from emerging economies. Consistent with Hitt, Tihanyi, Miller, and Connelly (2006), we believe that "labels as internationalization, geographic diversification, international expansion, globalization, and multinationality tend to refer to the same strategic management construct (i.e., *international diversification*)" (emphasis added), and use these terms interchangeably. This construct focuses on the strategy by which a firm expands sales of goods or services into different geographic locations or markets. We draw upon resource- and capability-based views and institutional theory to present a complementary view from the side of emerging economies. Specifically, we discuss the role of capabilities combined with an institutional environment for the internationalization of EMEs, applying an interactionist perspective that asserts that a combination of drivers at the firm and institutional levels will motivate geographic diversification (Griffiths & Zammuto, 2005; Hitt et al., 2006; Ingram & Silverman, 2002; Rugman & Verbeke, 1992).

We have developed a multi-level theoretical model to examine the interactions between country-level institutional environment and firm-level resources. There have been numerous calls for multi-level theory in organization science and given the multidimensional nature of internationalization, scholars have called for reviewing the dependence on a unilevel approach and supplementing it with multilevel analysis (e.g., Bruton, Ahlstrom, & Obloj, 2008; Gupta, Tesluk, & Taylor, 2007; Ramamurti, 2009). The literature review summary table (Table 1) also shows that issues related to EME internationalization are usually examined using a unilevel analysis (Bruton et al., 2008).

Although unilevel studies at firm- or country-levels have made notable contributions, we propose that a more complete picture of the phenomenon will emerge when these effects are considered in combination. This is because of the following issues associated with the unilevel research approach: First, focusing only on one level of analysis assumes that most *heterogeneity is located at the chosen level* (e.g., firm level) with an assumption that alternate levels of analysis (e.g., institutional or country-levels) are more or less homogeneous (Gupta et al., 2007; Rothaermel & Hess, 2007). Second, by considering only one level of analysis, researchers presume that the focal level of analysis is basically *independent of interaction* with other levels of analysis (Klein, Dansereau, & Hall, 1994). For example, firm-level heterogeneity (e.g., a variation in technological and human capital within firms across countries) is assumed to be relatively independent of the institutional environment that affects firms operating in different contexts. Overall, the use of a single level of analysis implies homogeneity in and independence of alternate levels of analysis that could render spurious empirical findings

[2] Using the EBSCO database, we focused on articles published in premier general management and international business journals such as *Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Strategic Management Journal, Organization Science, Journal of International Business Studies, International Business Review, Journal of International Management*, and *Management International Review*. We used a broad search strategy to find *all the variations* and diverse combinations of the keywords 'firms from emerging economies' and 'internationalization.