Journal of World Business 46 (2011) 381–393

Contents lists available at ScienceDirect

Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

Ownership, strategic orientation and internationalization in emerging markets☆

Yi Liu [a,1], Yuan Li [a,*], Jiaqi Xue [b,2]

[a] Antai College of Economics & Management, Shanghai Jiaotong University, School of Management, Xi'an Jiaotong University, Xi'an 710049, Shaanxi, China
[b] International Business School, University of International Business & Economics, Beijing 100029, China

ARTICLE INFO

Article history:
Available online 31 August 2010

Keywords:
Internationalization
Ownership concentration
CEO ownership
Strategic orientation
Entrepreneurial orientation
Market orientation

ABSTRACT

For firms from emerging economies, market orientation and entrepreneurial orientation are two of the most important strategic orientations to consider when entering the global marketplace. This study explores how, in emerging markets, ownership structure affects these strategic orientations and their effectiveness in facilitating international business success. Our findings, based on survey data from Chinese firms, suggest that ownership structure, specifically ownership concentration and CEO ownership, can lead firms to choose different strategic orientations. Furthermore, we find that entrepreneurial orientation directly promotes a firm's internationalization activities, whereas market orientation has an inverse U-shaped relationship with internationalization activities.

1. Introduction

The past ten years have witnessed rapid growth of internationalization in firms from emerging markets. The World Investment Report (UNCTAD, 2006) suggests that, as a group, firms from emerging markets have emerged as significant outward investors, and scholars have therefore recently engaged in theoretical inquires into the phenomenon of internationalization by such firms. They argue that special institutional characteristics which the transformation of the economic system engenders drive these firms to pursue distinctive approaches to successful internationalization (Child & Rodrigues, 2005; Luo & Tung, 2007; Yamakawa, Peng, & Deeds, 2008). From this perspective, institutional factors and specific strategic orientations are the key triggers for achieving international goals in firms which operate in emerging markets.

At first, strategic patterns of firms from emerging markets, such as the former Soviet Union and China, followed centralized, state-planned business approaches that are not appropriate for success in a global economy which is characterized by a free market and intense competition (Boisot & Meyer, 2008; Yamakawa et al., 2008). As reform has been taking place in these economic systems, emerging economies have been experiencing massive and complex changes in institutions, including government, economic systems, and enterprise ownership structures (Child & Tse, 2001; Peng, Tan, & Tong, 2004). Privatization has encouraged more new entrants to come into the market as entrepreneurial startups (Peng, 2003). Firms which are inclined to pursue new opportunities, initiate changes and take risks have led to the prevalence of entrepreneurial activities in emerging markets. The open and free market has thus fostered a competitive business environment.

Many firms have realized that they must put more emphasis on customers' needs and satisfaction in order to remain viable and even to survive (Golden, Johnson, & Smith, 1995). Furthermore, an open door policy leads firms from emerging economies to enter international markets in order to obtain a competitive advantage in the global economy (Boisot & Meyer, 2008). These changes as well as the results they lead to have forced firms to recognize that successful internationalization cannot be achieved using the means and approaches of the old economic system, but instead require firms to learn new business approaches in a global market and adopt appropriate strategic orientations (Li, Liu, & Zhao, 2006; Mathews, 2006).

Previous studies suggest that entrepreneurial orientation (EO) and market orientation (MO) provide the foundations on which a firm can build its interactions with dynamic foreign markets. These orientations determine the firm's behavior and international performance (e.g., Knight & Cavusgil, 2004; Luo, Sivakumar, & Liu, 2005). Recently, research in strategy and marketing has shown that EO and MO are crucial for superior performance by firms from emerging markets (Lau & Busenitz, 2001; Li, Liu et al., 2006; Liu, Luo, & Shi, 2003; Subramanian & Gopalakrishna, 2001), and that EO is especially helpful for achieving success in foreign markets (Luo & Tung, 2007; Yamakawa et al., 2008; Zhou, 2007). However, until now research has not identified the different roles that EO and MO

☆ This study is supported by KPCEM (09JZD0030) and NSFC (70872090; 70741420172) and Program for Innovative Research Team in UIBE.
* Corresponding author. Tel.: +86 29 82665093; fax: +86 29 82668957.
E-mail addresses: liuyi@mail.xjtu.edu.cn (Y. Liu), liyuan@mail.xjtu.edu.cn (Y. Li), xuejiaqi@uibe.edu.cn (J. Xue).
[1] Tel.: +86 29 82665029; fax: +86 29 82668382.
[2] Tel.: +86 10 64493511.

1090-9516/$ – see front matter © 2010 Elsevier Inc. All rights reserved.
doi:10.1016/j.jwb.2010.07.012

play in a firm's internationalization, and has not explored the specific driving effects of EO and MO on a firm's internationalization behavior.

More importantly, the constant changes taking place in emerging markets have also caused institutional factors to become important drivers of a firm's choice of strategic postures (Hoskisson, Eden, Lau, & Wright, 2000). One especially important reform is that firms formerly owned only by the government in a centrally planned economy have been allowed to have other owners, including the CEOs (Filatotchev, Dyomina, Wright, & Buck, 2001; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Such changes in ownership structure may well influence the strategic posture of firms (Peng, 2003) and may also change the progress of their internationalization. However, precisely how these reforms in ownership structure differently affect strategic orientations such as EO and MO has been ignored in existing literature.

To fill these research gaps, this study attempts to address two questions: What are the roles of (i) ownership structure and (ii) particular strategic orientations, in the internationalization of firms from emerging markets? The main contributions of this study are the following.

From a theoretical viewpoint, by taking into account the different characteristics of EO and MO, this article explains the differences between the effects of ownership concentration and CEO ownership on both EO and MO, as well as the different effects of EO and MO on the internationalization activities of firms. We provide a theoretical explanation about how ownership concentration and CEO ownership affect the internationalization activities of firms from emerging markets through their choice of EO or MO.

From an empirical viewpoint, unlike existing studies which have been conducted in developed economies, we here shift the focus to the context of firms in emerging economies, and investigate the case of firms in China. China, as the largest emerging market in world, has a long history of a centrally planned economy and state ownership of enterprises. Yet today, China is changing from a centrally controlled society into a market-driven economy. Many Chinese MNEs are emerging and posing a major challenge to Western MNEs (Child & Tse, 2001; Young et al., 2008). During internationalization, these Chinese MNEs have to face not only complex and competitive foreign markets but also turbulent institutional and economic environments. Thus China represents a unique opportunity to test internationalization theory. By using data painstakingly collected through face-to-face interviews with senior executives in charge of 607 Chinese firms, we provide evidence to show that ownership concentration and CEO ownership have different effects on EO and MO. Further, this study examines the positive effect of EO on internationalization activities and the inverse U-shaped relationship between MO and internationalization activities.

2. Theoretical background and conceptual model

2.1. Internationalization

Internationalization, which is defined as a process of increasing involvement in international operations across borders (Welch & Luostarinen, 1988), comprises a wide variety of activities including exporting, licensing, OEM, and direct foreign investment. Here, we are interested in those substantive forms of outward internationalization associated with firms from emerging markets. Seeking and selling in foreign markets are the most common and important outward activities adopted by firms from emerging markets as they begin to internationalize (Child & Rodrigues, 2005; Filatotchev et al., 2001; Zhou, Wu, & Luo, 2007). A majority of these firms are still in the early stages of the internationalization process, with exporting being their dominant mode of foreign market participation (Aulakh, Kotable, & Teegen, 2000). FDI is another important form of outward activity. FDI outflow from emerging markets has increased from 3% of the world's total FDI outflow (1978–1980 average) to over 17% ($133 billion) in 2005, and is projected to grow even further (Yamakawa et al., 2008). Previous studies also suggest that FDI is the most effective way for firms from emerging markets to access and source strategic assets (Deng, 2009; Luo & Tung, 2007). Therefore, in this study, we view seeking and selling in foreign markets and FDI as the most important outward activities in the internationalization of firms from emerging markets.

The big progress toward internationalization by firms from emerging markets began after the reform of the economic system (Child & Tse, 2001; Mathews, 2006). Firms in the old economy followed centralized, state planning approaches which were not appropriate for success in a global economy characterized by a market-oriented system and intense competition (Boisot & Meyer, 2008; Yamakawa et al., 2008). As these economies reformed and became transitional, firms had to develop more sophisticated strategies and identify new approaches to make space for themselves in markets that were already crowded with very capable firms (Bonaglia, Goldstein, & Mathews, 2007; Wright, Filatotchev, Hoskisson, & Peng, 2005). Luo and Tung (2007) show that firms from emerging markets tend to use a series of aggressive and risk-taking measures to compensate for their competitive weaknesses in order to overcome their latecomer disadvantage on the global stage. Firms based in emerging markets therefore need to choose an effective strategic orientation for internationalization to overcome their relatively limited resources and to improve their performance (Mathews, 2006).

2.2. Strategic orientations of firms from emerging markets

The strategic orientation of firms is the deeply rooted set of values that guide their strategy-making (Gatignon & Xuereb, 1997). It creates proper behaviors to interact with the marketplace (Noble, Sinha, & Kumar, 2002), and provides a critical mindset for firms to survive and prosper in the competitive global market (Knight & Cavusgil, 2004). Existing literature has shown that MO and EO are important strategic orientations (Noble et al., 2002; Zhou, Yim, & Tse, 2005), because they provide firms with capabilities to achieve competitive advantages (Bhuian, Menguc, & Bell, 2005; Day, 1994), and success in internationalization (Knight & Cavusgil, 2004; Weerawardena, Mort, Liesch, & Knight, 2007; Zhou, 2007). From a resource-based view, distinctive resources or capabilities are firm specific, difficult to imitate, and they generate a competitive edge in the market, particularly in highly competitive or challenging environments, e.g. the global market (Barney, 1991; Grant, 1996; Teece, Pisano, & Shuen, 1997). These resources or capabilities can be used to drive subsequent strategies and fund continued development of new capabilities needed for international expansion (Luo, 2000). These capabilities can help firms identify opportunities and respond quickly to them in foreign markets. For firms based in emerging markets, resources and capabilities are critical to the success of internationalization. MO and EO build the firms' learning capabilities (Slater & Narver, 1995) and accumulate knowledge resources about international markets and operations (Autio, Sapienza, & Almeida, 2000). Since most firms from emerging markets are young and tend to lack substantial financial, human and physical resources, these intangible resources are especially critical in the entering new foreign markets. Furthermore, because these firms may deal with diverse environments across numerous foreign markets, they can, by themselves, replicate market-based knowledge and innovation capabilities which derive from MO and EO across varied markets (Luo, 2000). Making use of these capabilities offsets the weakness