Rapid internationalization and long-term performance: The knowledge link

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ABSTRACT

Drawing on the knowledge-based view and organizational learning theory, we develop and test a set of hypotheses to provide a first attempt at analyzing the effect of speed of internationalization on long-term performance. Using a panel-data sample of Spanish listed firms (1986–2010), we find that there is an inverted U-shaped relationship between speed of internationalization and long-term performance. We also find that whereas technological knowledge steepens this relationship, the diversity of prior international experience flattens it. Our results contribute to the existing IB literature on the performance of FDI, cross-country knowledge transferability, and nonsequential entry.

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1. Introduction

Given the growing importance of time-based competition in the international markets (Stalk & Hout, 1990), the interest in the speed at which firms internationalize has grown dramatically in the last two decades (e.g., Acedo & Jones, 2007; Chang, 2007; Coviello, 2015; Guilleñ & García-Canal, 2009; Jørgensen, 2014; Knight & Cavusgil, 2004; Knight & Liesch, 2016; Li, Qian, & Qian, 2015; Mohr & Batsakis, 2014; Oviant & McDougall, 2005; Vermeulen & Barkema, 2002; Zucchella, Palamara, & Denicolai, 2007). A large number of these studies have been devoted to the analysis of the relationship between speed of internationalization and performance. However, results are still far from being conclusive.

Consistent with the insights from the Uppsala school (e.g., Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), some scholars argued and provided evidence showing that firms should expand abroad slowly and gradually as they accumulate resources and international experience (Chang, 2007; Vermeulen & Barkema, 2002; Zeng, Shenkar, Lee, & Song, 2013). Building upon the concept of time-compression diseconomies (Dierickx & Cool, 1989), the rationale behind their findings lies in the existence of time restrictions in the process of building a resource base for international operations that leads to diminishing returns. In contrast, recent evidence shows that some firms are able to expand successfully at a higher speed of internationalization than what the conventional views suggest, as illustrated by the cases of the “born globals” (Li, Qian, & Qian, 2012; Zhou & Wu, 2014), “born-again globals” (Jantunen, Nummela, Puimalainen, & Saarenketo, 2008), and “latecomer” multinationals (Chang & Rhee, 2011). These somewhat conflicting findings can be reconciled into nonlinear patterns, as previously done by Hilmersson and Johanson (2016), Mohr and Batsakis (in press), Wagner (2004), or Yang, Lu, and Jiang (in press). However, the mere existence of a nonlinear relationship does not explain why some firms are able to speed up their internationalization process successfully while others are not. Therefore, there is a need for more studies that delve into the moderating factors of the relationship between speed of internationalization and performance.

To fill this gap, this study aims to provide a better understanding of the impact of speed of internationalization on long-term performance (i.e., Tobin’s q). For the purposes of this study, we understand speed as the average speed of internationalization through FDI, computed as the cumulative number of new countries that the firm has entered through FDI as of a given year divided by the number of years elapsed since it entered the first foreign country. We develop a theoretical framework that is grounded on the knowledge-based view (Grant, 1996; Kogut & Zander, 1993;
Martín & Salomon, 2003; Mudambi, 2002) and the organizational learning theory (Cohen & Levinthal, 1990; Huber, 1991; March, 1991; Nonaka & Takeuchi, 1995). We conceptualize internationalization as an iterative process of knowledge accumulation, transfer, and adaptation in which the firms have to learn how to combine their own knowledge base with additional knowledge gathered from foreign markets that could eventually be transferred to other countries. By adopting this framework, we are able to identify the knowledge-related factors that moderate the relationship between speed of internationalization and long-term performance.

We focus on two types of knowledge that are likely to influence the performance of a rapid expansion process: technological knowledge and experiential knowledge in international markets. The first one is related to the knowledge that multinationals aim to deploy in foreign markets, while the second one is related to the organizational assets and routines that multinationals require to effectively deploy that technological knowledge across borders (Narula, 2014, 2015). We predict that the multinationals’ level of technological knowledge will steepen the inverted U-shaped pattern, as its exploitation eventually suffers from time-compensation diseconomies. On the contrary, we expect that a diversified portfolio of international experience will flatten the relationship.

We tested and confirmed our hypotheses by using a panel-data sample from 1986 to 2010 that comprises all listed Spanish multinationals in 1990. One of the advantages of focusing on Spanish firms is that their international expansion is a recent phenomenon (Guillén & García-Canal, 2010). Consequently, this timeframe allows us to provide a complete picture of Spanish multinationals’ internationalization history. This is particularly valuable to fulfill the aim of our paper given our conceptualization of speed of internationalization. In order to account for a potential self-selection bias, we implemented Heckman’s two-step estimation method (1979).

Furthermore, we ran additional robustness checks to test the validity of our results.

We add above and beyond the insights of prior studies on the relationship between speed of internationalization and performance in several key ways. Theoretically, we extend former studies on the speed of the internationalization-performance link by identifying and explaining the pattern and knowledge-related moderating effects of the relationship between speed of internationalization and performance. Empirically, we add to this stream of research by focusing on the long-term effects of the speed of internationalization rather than relying on short-term profitability measures. Previous research has mainly focused on accounting measures of performance (e.g., ROA, ROIC, ROS), which introduces a bias in the results as these measures capture only the short-term performance consequences for the firm. For this reason, we use Tobin’s q to proxy long-term performance. Besides capturing the firms’ current profitability, Tobin’s q is also able to account for their growth prospects (Lang & Stulz, 1994). In addition, we contribute to the literature on cross-country knowledge transferability (e.g., Rugman & Verbeke, 1992, 2004, 2008) by showing that internationally transferable knowledge weakens the inverted U-shaped relationship between speed of internationalization and long-term performance. We also contribute to the literature on nonsequential internationalization models (Cuervo-Cazurra, 2011) by demonstrating that a diverse international experience helps offset the disadvantages associated with a rapid foreign expansion. Both theoretical and empirical contributions carry important managerial implications for multinationals.

2. Conceptual background

The nature of the relationship between speed of internationalization and performance has been an ongoing debate within the International Business literature for more than four decades (e.g., Chang & Rhee, 2011; Hörnell, Vahlne & Wiedersheim-Paul, 1972; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Trudgen & Freeman, 2014; Vermeulen & Barkema, 2002). However, few researchers have tested empirically the link between both variables and those who have tried have not reached an agreement yet regarding the pattern that this relationship displays.

Table 1 summarizes the main quantitative speed of internationalization-performance studies. It demonstrates that the current lack of consensus on the nature of this relationship is aggravated by the difficulty of conceptualizing both speed of internationalization and performance.

As displayed in the table, different views exist in relation to the definition of speed of internationalization (for a review please refer to Chetty, Johanson, & Martin Martin, 2014). Some studies understand it as the time elapsed until a firm begins to export or becomes a multinational (Hsu, Lien, & Chen, 2013; Jantunen et al., 2008; Khavul, Pérez-Nordtvedt, & Wood, 2010; Li et al., 2012; Zhou, Wu, & Barnes, 2012). Other studies, however, focus on the speed of establishment of foreign ventures once the firm has already started to invest abroad (Chang, 2007; Chang & Rhee, 2011; Hilmersson & Johanson, 2016; Jiang, Beamish, & Makino, 2014; Mohr & Batsakis, in press; Mohr, Fastoso, Wang, & Shirodak, 2014; Vermeulen & Barkema, 2002; Wagner, 2004; Yang et al., in press; Zeb, Heaven, & Rho, 2013; Zhou & Wu, 2014).

Consequently, it is evident that there is a need to make a further explicit distinction between these two closely related but fundamentally different issues to develop more rigorous studies (Casillas & Acero, 2013; Casillas & Moreno-Menéndez, 2014; Jones & Covelli, 2005). Tan and Mathews (2015) go one step further and claim that it is also critical to distinguish between a high speed of internationalization and an accelerated internationalization. In this vein, they propose that the key characteristic of an accelerated internationalization is the change in the “rapidity” of such internationalization.

Our definition of speed of internationalization stands in contrast to those related to the timing of first international entry, the degree of acceleration, and the speed of establishment of foreign ventures. As previously noted, we focus on the cumulative number of countries. We do so because we are interested in the adaptation efforts of multinationals to the characteristics of the host countries. As Tallman and Li (1996) stated, country-count measures are more accurate than subsidiary-count measures when addressing scope issues.

Measuring performance is also a challenging endeavor (Miller, Washburn, & Glick, 2013; Verbeke & Forootan, 2012). We can observe in Table 1 that there is a large heterogeneity in the performance measures used in papers attempting to analyze the link between speed of internationalization and performance. This table further illustrates the existence of a research gap regarding

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1 We chose the publication of the seminal paper by Vermeulen and Barkema (2002) as the starting point of our literature summary because it marks the beginning of the recent research stream focused on the quantitative analysis of the speed of internationalization-performance link. After deciding the timeline of our literature review (i.e., 2002–2016), we searched several academic databases (i.e., Web of Science, Scopus, Google Scholar, Wiley Online Library, and ScienceDirect) using “performance” and “speed of internationalization” as our search keywords. It must be noted that we ran two additional searches where we substituted “speed of internationalization” by “early internationalization” and “born global” to account as well for those papers analyzing the effect of early internationalization on performance. We looked for papers that contained our chosen keywords in their title and/already in the body of the text. We then screened them to select those quantitative studies that included in their analyses performance as the dependent variable and speed of internationalization as an independent, moderating, or mediating variable. Finally, to increase the robustness of our search, we looked for additional quantitative speed of internationalization-performance papers among the ones citing the studies that we had already found by using the above criteria.

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