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Moderators on international diversification of advanced emerging market firms☆

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ABSTRACT

Firms from advanced emerging markets are becoming notable players in the global marketplace. This study seeks to examine how these firms expand to international markets successfully. Drawing on R&D intensity and learning capability, this study finds that an s-shaped relationship exists between firm internationalization and performance. The results also show that R&D intensity and learning capability significantly strengthen the impact of internationalization on firm performance. These results imply that R&D intensity and learning capability are the main drivers of success for firms from advanced emerging markets in foreign markets.

1. Introduction

This study investigates the relationship between internationalization and performance for multinational enterprises (MNEs) from advanced emerging markets (FTSE classification, 2012). While previous studies extensively examine this issue, they suffer from three main problems. First, there is no consensus on the shape of the relationship between a firm's internationalization and its performance. Past studies have proposed a linear relationship (Delios & Beamish, 1999; Tallman & Li, 1996), U-shaped (Lu & Beamish, 2001; Ruigrok & Wagner, 2003; Thomas, 2006), inverted U-shaped (Elango, 2006; Gomes & Ramaswamy, 1999) and S-shaped ones (Contractor, Kunda, & Hsu, 2003; Johnson, Yin, & Tsai, 2009; Lu & Beamish, 2004). Second, researchers have made little effort to identify the factors that play a critical role in moderating the relationship between internationalization and performance. While prior studies suggests that product diversity (Hitt, Hoskisson, & Ireland, 1994), innovation strategies (Kotabe, Srinivasan, & Aulakh, 2002), marketing and R&D intensity (Barsch & Krist, 2007; Lu & Beamish, 2004) are important moderators in the internationalization and performance relationship, this paper considers that other factors are also significant. Third, previous studies focus on MNE behavior from the triad economies in the context of emerging economies (Ramamurti, 2004), with only a few studies specifically examining this issue for firms from emerging markets (Contractor, Kunmar, & Kundu, 2007; Elango, 2006; Thomas, 2006). A better understanding of how such firms expand globally is vital for both academics and practitioners (London & Hart, 2004).

This paper attempts to fill gaps in the previous research by examining the internationalization–performance relationship of advanced emerging market firms. In particular, it addresses the following two questions: (1) what is the relationship between internationalization and performance for firms from advanced emerging markets? (2) What factors moderate this relationship in addition to those previously identified?

Using data from the top 200 firms from Taiwan, this paper finds that the internationalization–performance relationship is non-linear. A firm's R&D intensity and learning capability moderate the internationalization and performance relationship. In other words, a firm's mere presence in international markets does not automatically lead to superior performance, and its multinational efforts must be coupled with its strong learning ability to produce satisfactory economic outcomes.

The rest of this paper is structured as follows. First, this paper reviews the major findings of previous studies on the internationalization–performance relationship. Second, this paper develops a conceptual framework and presents the research hypotheses. Third, it discusses the research methods and provides the empirical results. Finally, it provides some conclusions along with managerial implications and suggestions for future research.

2. Literature review

One can articulate the research on the shape of the internationalization–performance relationship as five strands of findings: (1) the linear and positive approach (Grant, 1987; Grant, Jammine and Thomas, 1988; Tallman & Li, 1996; Delios & Beamish, 1999), (2) the linear and negative approach (Geringer, Tallman, & Olsen, 2000; Denis, Denis and Yost, 2002), (3) the U-shaped form Lu & Beamish, 2001; Ruigrok & Wagner, 2003; Capar & Kotabe, 2003; Thomas, 2006; Contractor et al., 2007), (4) the inverted U-shaped form (Geringer & Beamish, 1989; Hitt et al., 1994; Sullivan, 1994; Hitt, Hoskisson, & Kim, 1997;

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Gomes & Ramaswamy, 1999; Elango, 2006), and (5) the S-shaped model (Contractor et al., 2003; Johnson et al., 2009; Lu & Beamish, 2004; Thomas & Eden, 2004). The form of classification includes research in the context of developed and emerging markets.

The above literature provides an authorized understanding of the internationalization and performance relationship, but they are not a complete explanation of a firm's internationalization. Although many previous researchers discuss the advantages and disadvantages of internationalization, they rely on a simplistic assumption that the calculation of the costs and benefits in the process of internationalization derives the shape of the internationalization–performance relationship. This approach ignores the various intangible assets that exist with and among firms, which result in different shapes of internationalization–performance relationship. It is thus unsurprising that there appears to be no convergence regarding the shape of the internationalization–performance relationship in the literature.

Therefore, it is necessary to consider how a firm's distinctive capabilities and intangible assets affect the relationship between internationalization and performance. Several studies state that a firm's assets and capabilities, such as product diversity, marketing and R&D intensity, are critical in moderating the relationship between internationalization and performance relationship (Barsch & Krist, 2007). Researchers that focus on product diversity posit that the strength of this diversity can moderate the internationalization–performance relationship (Geringer et al., 2000; Hitt et al., 1997). Lu and Beamish (2004) also found that marketing intensity is critical in leveraging firm competence in the process of internationalization.

With regard to R&D intensity, several studies find that it has a positive relationship with firm performance (Capar & Kotabe, 2003). Research within this stream commonly also suggests that R&D ability is important in strengthening the relationship between internationalization and performance (Capar & Kotabe, 2003; Hitt et al., 1994). These studies are especially helpful in providing insights into the relationship between internationalization and performance, suggesting that a firm's intangible assets influence the impact of internationalization on firm performance.

Although the above literature shows that both firm capabilities and intangible assets are associated with superior firm performance in the process of internationalization, there is disagreement over what roles the various moderators play in the relationship. In addition, researchers have only focused on a few variables, such as product diversity, R&D and marketing intensity. Other assets and capabilities seem to attract little research attention.

Several important insights arise from a review of the literature. First, the findings of these studies suggest that the internationalization–performance relationship is far more complex than commonly assumed because the firms' capabilities differentiate this relationship. Studies that fail to incorporate a firm's intangible assets and capabilities can thus lead to a wrong understanding about the shape of the internationalization–performance relationship.

Second, there is a major problem embedded within theories about the shape of the internationalization–performance relationship and theories about the effect of moderators on this relationship. Within the dynamic global market, possessing static distinctive resources alone is insufficient to ensure long-term economic returns in the process of international expansion (Luo, 2000), and only firms with the ability to create sustainable competitive assets and advantages can achieve this goal. To truly capture the shape of the internationalization–performance relationship, this study incorporates the concept of 'learning capability' (Kogut & Zander, 1992), which refers to a firm's ability to continuously learn and develop new knowledge in geographic expansions, into the investigation of the relationship between internationalization and performance.

Thirdly, to the best of our knowledge, there are only a few studies that have examined the international performance of firms from emerging markets (Tsai & Eisingerich, 2010), and many of these focused on different aspects of this relationship to be considered here. For example, Aulakh, Kotabe and Teegen (2002) and Wan (1998) compared the differences in firm strategies in the context of developed and developing markets for firms from emerging markets. Other scholars focused on the external factors that influence the internationalization–performance relationship, such as social network (Zhou & Luo, 2007) and the quality of governance of the home country (Elango, 2006). There is thus a need for further research on the internal factors of a firm affecting the internationalization–performance relationship in the context of emerging markets.

To shed some light on these points, this study proposes a conceptual framework and research hypotheses in the next section.

3. Theory

Fig. 1 illustrates the conceptual framework used in this work, which comprises four theoretical links. Firm performance is shaped primarily by the degree of internationalization. With the degree of geographic expansion, firm performance can be shaped by the advantages and disadvantages of firm internationalization (H1). The relationship between internationalization and performance is also affected by R&D intensity (H2) and learning capability (H3) because these are believed to affect firm performance in the process of internationalization. Therefore, within this study, firm age is employed as a control variable. More theoretical constructs are presented as follows.

3.1. The S-shaped relationship

This study posits that there is an S-shaped relationship between internationalization and firm performance. As noted in the previous section, a firm needs some time to learn and develop its unique assets and capabilities and thus the returns of these assets and abilities will be postponed until a later stage of internationalization. R&D investments, for example, have a negative impact on short-run performance, because it takes some time to develop the advantages of R&D, and costs are often incurred well in advance of benefits in an early stage of internationalization, with the returns from investments in intangible assets being better captured in long-term performance (Thomas & Eden, 2004). This explains the negative performance that is often seen in the early stage of internationalization, and the positive performance at the medium levels of internationalization. However, over-expansion may harm firm performance again when the complexity of managing foreign operations increases with the degree of further internationalization (Contractor et al., 2003), as the costs of operating the enterprises

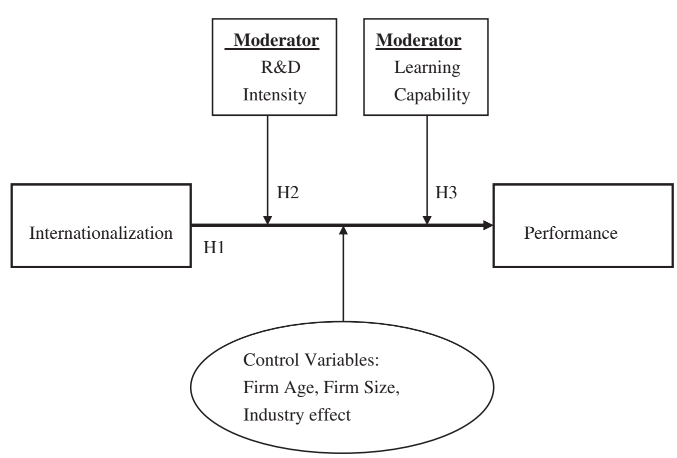

Fig. 1. Conceptual framework.