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Internationalization and performance: The moderating effects of organizational learning

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Abstract

By proposing a conceptual outline for a general model that explains the internationalization–performance link, we test the moderating effects of organizational learning on the relationship between internationalization and performance empirically. Integrating two distinct literature streams from the organizational learning perspective and the resource-based view, we present an integrated, multidimensional framework for analyzing multinational enterprises' (MNEs') resources, internationalization, and organizational learning, as well as their associated impact on firm performance. Specifically, using a sample of 110 American MNEs, we find that while certain MNE resources motivate and precede internationalization, social and market learning (whereas technological learning does not) moderates the relationship between internationalization and performance. These findings extend prior research by establishing the importance of the relationships among MNE resources, internationalization, organizational learning, and firm performance.

Keywords: Organizational learning; Internationalization; Firm performance

1. Introduction

Experiential knowledge and organizational learning have become increasingly accepted in the international business literature as pivotal strategic tools that differentiate firm performance [1–4]. Most plausibly, an experiential learning effect arises because, by engaging in international business activities, multinational enterprises (MNEs) acquire knowledge about foreign markets and operations, which enables them to overcome the challenges of unfamiliarity with foreign markets and the potential liability of foreignness. In this context, the term "experiential knowledge" embraces all types of knowledge that MNEs accumulate through their activities in international markets and implies their ability to search for, analyze, and act on international issues in both their home and host markets [5]. As such, learning MNEs continuously strive to learn about international markets to achieve a competitive advantage in the global marketplace and, in turn, improve their performance.

Despite its importance, little or no research exists about how MNEs' organizational learning may affect the relationship between internationalization, or the extent to which MNEs conduct business activities beyond their national borders, and firm performance. As a result, little is known about how organizational learning influences the scope and deployment of internationalization

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and thereby differentiates firm performance. Because of continuing increase in international competition, an investigation of the role of organizational learning offers substantial value and importance to practitioners. Moreover, an investigation of the role of organizational learning may refine our conceptual understanding of the internationalization–performance link.

Although international business scholars have dedicated considerable effort to understand the internationalization–performance relationship, existing literature offers conflicting empirical findings about the performance implications of internationalization. These results include everything from linear (positive, negative, none) to nonlinear (U-shaped, inverted U-shaped, S-shaped) relationships (for a review, see [6]). Overall, the mixed results pertaining to this link suggest the need for a contingency perspective to explain the relationship. Two calls to resolve this inconclusiveness have attracted serious attention in the recent past. First, Delios and Beamish [7] and Tallman et al. [8] question whether internationalization is itself a source of performance difference or simply a consequential byproduct of other antecedents linked to firm-specific resources. Second, Ruigrok and Wagner [9] and Kotabe et al. [10] suggest that existing research examining the internationalization–performance link has overlooked potential moderating variables. To answer the first call, we test the internationalization–performance relationship in our model by considering internationalization as an intervening mechanism that aids in the translation of firm resources into performance. More specifically, resources drive internationalization and that, in turn, has a positive impact on firm performance. In response to the second call, this study investigates organizational learning as a moderator in the internationalization–performance relationship.

The objectives of this paper therefore are to (1) examine the link among resources, internationalization, and performance and (2) investigate the moderating role of organizational learning in the internationalization–performance link. We attempt to make three contributions. First, by studying the moderating role of organizational learning, we seek to extend knowledge about the role of organizational learning in influencing the effectiveness of a firm's international business activities. Second, this research addresses existing knowledge gaps by analyzing the influence of resource-based antecedents on internationalization. In other words, we consider the antecedents (e.g., product advantage, resources available for an international expansion) of internationalization and posit that they are core enablers (whereas organizational learning is a moderator) of the relationship between internationalization and firm performance. Third, in addition to testing theory, we offer useful guidelines for managers who are looking for theoretical explanations of the nature of the relationships among antecedents, internationalization, organizational learning, and performance.

The rest of the article is organized as follows: the next section briefly reviews the background literature. The third section develops a conceptual framework of the moderating role of organizational learning on the internationalization–performance link and derives several research hypotheses that are based on an integration of a wide array of literature. The fourth section describes the research methodology followed to test the hypotheses, and the fifth discusses the results of the data analyses. The article concludes with a delineation of the significance of the findings, managerial implications, and future research directions.

2. Theoretical background

Traditional theories from international business literature have laid a solid foundation to explain why firms engage in international business from two perspectives: economic (rational) and behavioral (organizational).

2.1. Rational decision perspective of internationalization

The economic-based internationalization literature focuses on environmental and firm-level factors and assumes that rational decision makers will choose the optimal solution on the basis of their rational analysis of institutional, industrial, and organizational factors. For example, international capital movement theory views international business activities as a function of international differences in the rates of return on capital [11], and liquidity theory explains international business expansion through the reinvestment of local profits [12]. If one were to draw on national currency arbitrage theory, the rationale for internationalization could be explained in terms of different currency areas [13]. Location theory uses supply and demand variables to determine the spatial distribution of production processes [14]. Another conceptualization, the market imperfection theory, identifies two essential factors that drive MNEs to invest and operate internationally: there must be some market imperfections that hinder MNEs from conducting exporting and licensing, and MNEs must have some advantages to overcome the disadvantages they face compared with local firms [15,16]. Using the central ideas of a transaction cost economy