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Strategic entry or strategic exit? International presence by emerging economy enterprises

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ABSTRACT

By proposing an integrated strategic choice framework, we theorize the distinctive dynamics of international expansion by emerging economy enterprises. Specifically, we explicate how these firms build international presence based on *combined* strategic entry (i.e., prompted by internal capabilities such as innovation and diversification) and strategic exit (i.e., pushed out by external handicaps at home such as institutional obstacles and market competition). Further, a firm's cooperative ties with foreign multinationals in the former's home country fortify the strategic entry intent, while ties with home government institutions weaken the strategic exit intent. We also demonstrate that building international presence helps bolster firm performance, highlighting the economic catch-up consequence of international expansion. Analyses of a two-year imbalanced panel data of 2136 firms statistically support our hypotheses.

1. Introduction

The changing global economic landscape has witnessed emerging economy enterprises (EEEs) engaged as increasingly important contenders on the global scene. Accordingly, there has been heated discussion regarding distinctive dynamics of international presence by these firms. One strand of literature suggests that EEEs, like any other multinationals, expand abroad because they possess certain unique capabilities or proprietary resources (e.g., Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Elango & Pattnaik, 2007). Having served institutionally complex and competitively dynamic in their home countries for years, EEEs have developed distinctive capabilities that may help them compete successfully elsewhere. This literature, consistent with Dunning's ownership-specific advantage logic (1980, 1988) or firm-specific advantage logic more broadly (Rugman & Verbeke, 2003), views EEEs' international expansion as a strategic entry into foreign markets where they can leverage ownership-specific advantages to exploit greater market opportunities.

Another strand of the literature concentrates on external factors affecting EEEs' international expansion. The literature reveals that EEEs invest abroad to escape from institutional hardships in home countries (e.g., Witt & Lewin, 2007; Yamakawa, Peng, & Deeds, 2008), and/or to avoid fierce competition in their domestic market, often prompted by amplified market liberalization and inward internationalization (Luo & Wang, 2012). Thus, EEEs are motivated to invest abroad in seeking for more favorable institutions (e.g., better law enforcement and greater regulatory transparency or stability) and more lucrative or suitable markets outside of their home country.

In light of recent debates on, and interest in, the topic of international presence by EEEs, this study aims to enrich the literature by deriving an integrated analysis of the causes (from both internal and external angles), contingencies, and consequences of international presence by EEEs. Building on the strategic choice theory (Child, 1972; Child, 1997; Hitt and Tyler, 1991), we submit that EEEs expand abroad to pursue *both* strategic entry into foreign markets *and* strategic exit from the home country (thereafter, strategic entry and strategic exit). Through the strategic entry to foreign countries, EEEs deploy and leverage their internal distinctive capabilities for a competitive edge abroad and generate higher returns than otherwise staying at home. A good number of EEEs have possessed a unique set of capabilities and have dominated their home markets before expanding abroad (Child & Rodriguez, 2005). Behind strategic entry, thereby, are EEEs' idiosyncratic capabilities that help neutralize their liabilities of foreignness and capture market opportunities overseas.

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Meanwhile, EEEs, through strategic exit, attempt to circumvent external deterrence in institutional and/or industrial environments at home. EEEs expand abroad because institutional hurdles at home are so momentous to immensely augment the costs of doing business domestically, and/or industrial competition at home is escalating to impede further growth. Strategic entry and strategic exit co-exist and are mutually pervasive. Strategic entry explains why and how EEEs can establish a strong offshore foothold and develop unique competitive advantages vis-à-vis foreign rivals, while strategic exit captures how distinctive emerging economy environments shape EEEs' strategic choice to expand abroad. To a large extent, strategic exit without considering strategic entry makes EEEs' international presence vulnerable and unsustainable, and strategic entry without thinking strategic exit would fail to account for emerging economy peculiar conditions that affect EEEs' international expansion.

We further argue that both strategic entry and strategic exit are contextually embedded so that cooperative ties with key actors can be enabling or constraining for such strategic choices. We propose that two emerging economy specific contingencies afford unique moderating paths deviating EEEs' international expansion from advanced country MNEs. First, inward internationalization in their home country allows EEEs to foster cooperative ties with foreign multinationals prior to their overseas expansion (Buckley, Clegg, and Wang, 2002; Ramamurti & Singh, 2009). Thus, cooperative ties with foreign MNEs buttress EEEs' strategic entry intent by fastening the speed and efficiency in learning, transferring, and combining necessary knowledge for operating abroad. Second, operating in institutionally complex and uncertain home markets, EEEs need to maintain ties with home government institutions (Peng, 2003). An EEE with stronger cooperative ties with home government enjoys privileged access to resources and opportunities at home, thus is less likely to be pushed out. Finally, to provide a nuanced understanding of EEEs' catch-up process, we empirically validate that EEEs are able to advance their domestic and foreign performance through international presence.

This study applies the strategic choice theory to cross-border strategic decision-making (i.e., whether to invest abroad or not) by integrating the co-existence of strategic entry and strategic exit for EEEs who become increasingly important players in global competition. By examining the interactions between cooperative ties and strategic intent, this study also sheds some light on the paths through which the above strategic choices will result in better performance (domestic and foreign). This study underscores double co-alignments of the strategic choice logic: (1) building international presence as a strategic choice in alignment to internal, external, and contingent forces and (2) achieving catch-up in alignment to the implementation of the strategy choice. Empirically, this study is based on analyzing a two-year imbalanced panel data of 2136 EEEs in Central and Eastern Europe countries, which are important players with regard to both FDI inflows and outflows in recent years (UNCTAD, 2017).

2. Theory and hypotheses

2.1. International presence as combined strategic intent

The strategic choice theory concentrates on how firms proactively make strategic decisions by evaluating key internal and external factors (Andrews, 1971; Child, 1972; Hitt & Tyler, 1991). The theory bridges environmental determinism and agent determinism views and has been applied to various areas of strategic formulation and implementation. We extend the strategic choice perspective to the literature of international management by theorizing firms' international presence as a strategic intent – a combined strategic entry and strategic exit. We view an EEE's strategic entry into foreign markets as a *capability arbitrage* and strategic exit from the home country as an *environment arbitrage*. Capability arbitrage in general captures a firm's pursuit of efficient use of distinctive resources and capabilities developed at home in a new, foreign market it enters.[1] Firms' existing endowment of competitive capabilities will generate greater returns when deployed and leveraged in a broader market (Hamel & Prahald, 2005). This pursuit belongs to a strategic intent as the firm seeks strategic interests by examining domestic and foreign market conditions and deploying their critical resources and capabilities accordingly (Hitt & Tyler, 1991; Porter, 1991). Leveraging existing capabilities that can produce certain competitive advantages in a foreign market is imperative for all firms in search of global success, according to the conventional wisdom of ownership advantage (e.g., Caves, 1982; Dunning, 1980, 1988) and liability of foreignness (e.g., Zaheer, 1995). To the extent that EEEs often suffer from liabilities of negative image or stereotype (e.g., untrustworthy behavior, problematic governance, poor brand awareness, and lack of business ethics) in the eyes of global demanding stakeholders, possessing certain capability arbitrage is even more important for EEEs to counterbalance such extra liabilities than for firms from advanced countries. In addition, to survive and prosper in unique macro and micro contexts in home countries (e.g., low-income consumer, poor infrastructure), EEEs have developed and deployed capabilities different from the traditional literature focuses on, highlighting the value of investigating internationalization from a more strategic and managerially relevant angle.

The environment arbitrage, containing institutional and industrial dimensions, concerns how external parameters propel firms' strategic choice to venture abroad by exploiting comparative advantages of operating in different jurisdictional and task environments. This arbitrage emphasizes alignment or congruence between unique attributes of environment and strategy-making behavior. This arbitrage perceives EEEs as seeking out environment capable of better supporting their operations and long-term growth through international expansion (Boisot & Meyer, 2008). In emerging economies, persistent institutional voids (e.g., lacking financing systems, intellectual property protection, and professional intermediaries) present big challenges for efficient business operations. Other institutional hardships such as regulatory uncertainty, government interference, political costs, and corrupted court system in emerging economies contribute to the additional costs of operating at home (Hoskisson, Eden, Law, & Wright, 2000). Meanwhile, continuing market liberalization and greater foreign entry have created fierce competition in emerging economies, forcing domestic firms to reduce price and making their operations at home less profitable (Luo & Wang, 2012). To navigate the unique challenges of emerging economies, EEEs have to buffer themselves from institutional and industrial pressures, and adopt an escape strategy when such pressures are hard to cope and handle (Oliver, 1991). By establishing their footprint overseas, EEEs can reduce their exposure to all sources of institutional hurdles and fierce competition at home. Moreover, from a foreign base, they may enjoy an advantage in their domestic market that they were never able to exploit when they were purely domestic. For example, international presence allows them to change their identity from domestic to "foreign" investors who are sometimes provided with institutional and regulatory privileges unavailable to domestic firms (Boisot & Meyer, 2008).

2.2. Strategic entry by leveraging internal capabilities

We emphasize two specific capabilities – *innovation* and *diversification* – that are emerging economy specific and related to EEEs' international expansion. Despite the overall inferiority in original

[1] Capability arbitrage in international expansion entails two forms for EEEs: leveraging existing capabilities and seeking new critical capabilities (e.g., brands, technology, distribution channels, and consumer base) that compensate the firm's competitive disadvantages via acquisitions or alliances (Child & Rodriguez, 2005; Luo & Tung,2007). This study, however, focuses on the first form because in our empirical context – Central and Eastern Europe countries – green field investments outweight M & As, suggesting that the majority of overseas investment is to leverage existing capabilities (UNCTAD, 2017).

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