RESOURCES, INSTITUTIONS AND INTERNATIONALIZATION PROCESS OF EMERGING MARKET FIRMS

Vikas Kumar
Discipline of International Business
University of Sydney

(Ajai S. Gaur, Rutgers & Deeksha Singh, NUS)

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Synopsis

- **Research Question**
  - In the internationalization process, how do emerging market firms make a shift from exports to FDI?

- **Theoretical Framework**
  - Resource based view
  - Institutional perspective

- **Setting**

- **Findings**
  - Firms rich in both traditional as well as non-traditional resources find it easier to make a shift from exports to FDI.
Theory: Resource Based Explanations

Much of the theoretical discourse on internationalization process has relied on ownership specific advantages possessed by resource rich firms (Dunning, 1993).

- Ownership specific advantages provide greater motivation for internalization.

- Traditional resources also create a stronger domestic position for a firm, which it can exploit in the foreign markets (Delios and Beamish, 2001).

- Technological resources and capabilities can
  - help in product mobility across national boundaries (Buckley and Casson, 1976),
  - be a source of long term competitive advantage in foreign markets (Alvarez, 2004)

Hypothesis 1a: Firms with greater technological resources are more likely to make a shift from exports to FDI.
Market reputation of a firm is also an important determinant of its success in the foreign markets.

- Emerging economy firms, when going abroad, initially target the Diaspora, who have a knowledge about the reputation of the firm and its products in the domestic market.

- Firms, then build on this reputation over time, by investing more on marketing efforts.

**Hypothesis 1b:** Firms with greater market resources are more likely to make a shift from exports to FDI.
While the host country specific experience is important for the success of foreign investments, just having more general knowledge of operating in foreign markets also helps in internationalization initiatives (Barkema et al., 1996).

- For emerging market firms exporting experience provides such knowledge. For successfully operating in export markets firms have to
  - change processes to satisfy design and operational specifications and
  - enhance the quality of products

- Prior exporting activities acts as a trigger for FDI as FDI helps in overcoming export barriers for future exporting activities. FDI may help gain access to raw materials, knowledge and client contacts.

**Hypothesis 2a:** Firms with greater level of export intensity are more likely to make a shift from exports to FDI.

**Hypothesis 2b:** Firms with greater level of export experience are more likely to make a shift from exports to FDI.
Theory: Institution Based Explanations

- FDI involves substantive commitment of resources which may be easier to manage for a group affiliated firm than for an unaffiliated firm.
  - Group affiliated firms have easy access to group-wide financial, human and technical resources.

- Cross-subsidization across group companies would make it easier for group affiliated firms to bear FDI losses in the short run.

- The network structure of a business group allows affiliated firm to draw upon the knowledge that may be available anywhere in the network (Hoskisson et al., 2004).
  - Group affiliated firms can have access to invaluable knowledge about operating in foreign markets if any other member firm has made a direct investment. Thus, FDI by one group affiliated firm may open the doors for similar FDIs by other members of the group.

**Hypothesis 3a:** Firms are more likely to make a shift from exports to FDI if they are affiliated to a business group.

**Hypothesis 3b:** Firms are more likely to make a shift from exports to FDI if other affiliated firms of the same business group have made FDI.
Methods

Sample:
Longitudinal sample of 4512 Indian exporting firms from 1989 till 2007 obtained from the 2007 edition of Prowess database
- 37.8% were group affiliated firms

Dependent variable:
Event of shift from exports to FDI measured by a binary variable

Explanatory variables:
Firm level international exposure measured by export intensity and export experience; business group affiliation; group level international exposure measured by group level export experience and a count of FDI by all group companies; technological capabilities and marketing capabilities

Control variables:
Firm size, age and industry affiliation

Analysis procedure:
Binary logistic regression
## Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
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</thead>
<tbody>
<tr>
<td><strong>Controls: Firm size, Age, Industry affiliation</strong></td>
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<tr>
<td>Export Intensity</td>
<td>$0.144^{***}$</td>
<td>$0.139^{***}$</td>
<td>$0.151^{***}$</td>
<td>$0.146^{***}$</td>
<td>$0.145^{***}$</td>
<td>$0.144^{***}$</td>
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<tr>
<td>Export Exp.</td>
<td>$1.695^{***}$</td>
<td>$1.684^{***}$</td>
<td>$1.341^{***}$</td>
<td>$1.448^{***}$</td>
<td>$1.780^{***}$</td>
<td>$1.770^{***}$</td>
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<tr>
<td>Group Affiliation</td>
<td>$0.311^{**}$</td>
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<td>2.249^{***}</td>
<td>2.227^{***}</td>
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<tr>
<td>Group Export Exp.</td>
<td></td>
<td></td>
<td>2.951^{**}</td>
<td></td>
<td>3.894^{***}</td>
<td>3.897^{***}</td>
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<td>Group FDI no.</td>
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<td></td>
<td>$0.301^{***}$</td>
<td>-0.677^{***}</td>
<td>-0.674^{***}</td>
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<td>R&amp;D Expense</td>
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<td>Marketing Expense</td>
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<td>-0.001</td>
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</tbody>
</table>
Conclusion

- Firm level export experience as well as prior stock of exports has a positive relationship with the propensity of a firm to make a shift from exports to FDI.

- Firms affiliated to business group find it easier to make this shift. In addition, group level experience with respect to exports and FDI also help in making a shift from exports to FDI for group affiliated firms.

- Firms that have a greater level of technological capabilities find it easier to shift from exports to FDI.
Suggestions

Thanks