Internationalization and Performance in Emerging Countries:

Assessing the Merit of Home-Country Support for Outward Foreign Direct Investment in Neighboring Countries

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Question and Arguments

- What is the impact of internationalization on the performance of firms from emerging markets?

- Important in design of government support for outward foreign direct investment (OFDI)
  - Support of OFDI is controversial
    - Seeing in zero-sum with domestic investment
    - Loss of employment and tax base in home country
    - However, some countries are helping OFDI because it is seeing as leading to more competitive firms
  - Understand which internationalization strategies are more likely to be successful is important to asses which support to provide
  - Decide whether to reinforce success or whether to help with more problematic actions

Multinationality-Performance

- Is internationalization good (profitable)?
- Arguments for both sides:
  - Positive relationship
    - Best firms become MNCs (transferable advantage) (Buckley and Casson, 1976; Dunning, 1977; Hymer, 1976; Rugman and Verbeke, 1992).
    - MNC become better from knowledge (Bartlett and Ghoshal, 1989) and arbitrage (Kogut, 1985; Ghemawat, 2010)
  - Negative relationship
    - Being an MNC is difficult: no transfer of advantage, creation of disadvantages, lack of complementary resources (Cuervo-Cazurra, Maloney and Manrakhan, 2007; Eriksson *et al*., 1997)

Multinationality-Performance

- Is internationalization good (profitable)?
  - Conflicting evidence
    - Some find negative relationship between internationalization and performance and other positive
    - Recent argument suggest curvilinear relationship (e.g., Contractor, Kundu and Shu, 2003; Lu and Beamish 2004)
      - Negative at low level because of lack of knowledge of how to run an MNC
      - Positive at higher level because of benefits of international diversification and solved
      - Negative (or less positive) at very high levels because of difficulties of running a disperse and complex firm
  - Unclear whether this is the case for developing country firms: Studies done in advanced economy firms

Multinationality-Performance in Emerging Market Firms

- Emerging market multinationals are different and internationalization and performance may be different
  - Uniqueness of EMNCs: Country of origin
    - Lower levels of income of customers
    - Less developed hard (transportation, distribution, supply…) and soft (technology, finance, institutions…) infrastructures

Multinationality-Performance in Emerging Market Firms: Negative

- Unclear benefit of internationalization
  - It is more difficult to achieve levels of international competitiveness and become successful MNCs because of lack of supporting infrastructure at home
  - Sources of competitive advantage may not transfer well abroad, especially to advanced economies
  - Comparative advantages of low cost factors of production may go against superior performance abroad

Multinationality-Performance in Emerging Market Firms: Positive

- But new sources of advantage are in advanced economies
  - Obtain resources and capabilities that can help EMNC upgrade home operations (technology or brands) (Luo and Tung, 2007; Madhok and Keyhani, 2012)
    - Realize positive impact in the long-term after integration of superior resources/capabilities (solving the challenge of absorption/digestion)
  - Escape to advanced countries with better institutions (Witt and Levin, 2007) or technology (Chen and Cuervo-Cazurra, 2013) to realize profitability potential at home
    - Domestic performance in EMNCs not at frontier: Comparative disadvantage reduces profitability: Cost of emerging market (e.g., red tape, corruption, reliable power, export tariffs,…)

Research Questions and Hypotheses

- Question 1: What is the relationship between different levels of internationalization and firm performance?
  - Hypothesis: decreasing performance in the beginning and increasing in later stages

- Question 2: Which location strategies are likely to lead to better performance?
  - Hypothesis: superior performance from countries further away from Thailand

Research Design

- Database
  - Population of publicly traded firms in Thailand
    - Extend dataset of all publicly traded firms with OFDI (data by 2009)
    - 2000-2012
      - Post-1997 resurgence
    - Financials from stock exchange for all firms
    - Collect information on internationalization from annual reports and 56-1 report
    - Include firms with no OFDI as control group

Research Design: Variables and measures

- Dependent variable: Performance
  - ROA (comparability with other studies and stability across time, less subject to manipulation)
- Independent variables: Multinationality
  - Exports/total sales (comparison with other studies, general argument)
  - Number of foreign subsidiaries, number of foreign countries with subsidiaries, number of regions with foreign subsidiaries (complexity)
  - Controls
    - Size (sales)
    - Capabilities (intangible assets)
    - Leverage
    - Diversification (% sales main industry)
    - Complexity (number of subsidiaries at home)
    - Industry (Indicator of industry)
    - Year

Research Design

- Method
  - Panel OLS regression
    - Control for firm effects (fixed, random if appropriate)
    - Correct for heteroskedasticity and autocorrelation

Conclusion

- Multinationalization-performance relationship in emerging markets
  - Government support appropriate for government objective:
    - Bet on winning horses: Support actions that are associated with higher performance
    - Help underdogs: Support actions that are related to lower performance temporarily
  - Targeted support, for example
    - If negative at low level and positive at high level:
      - Support initial effort and withdraw later
    - If positive in neighboring countries and less positive in far away countries
      - Support only when going nearby

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Thank you for your attention!