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Institutional open access at home and outward internationalization ☆

Sunny Li Sun [a,*], Mike W. Peng [b], Ruby P. Lee [c], Weiqiang Tan [d]

[a] Henry W. Bloch School of Management, University of Missouri - Kansas City, 5110 Cherry Street, Kansas City, MO 64110, United States
[b] Jindal School of Management, University of Texas at Dallas, 800 West Campbell, SM 43, Richardson, TX 75080, United States
[c] College of Business, Florida State University, Tallahassee, FL 32306, United States
[d] School of Business, Hong Kong Baptist University, Kowloon, Hong Kong

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ABSTRACT

While voluminous research has focused on the impact of host country institutions on foreign entrants, the rise of outward internationalization of firms from emerging economies is challenging this research stream. Limited work has been done to investigate a crucial question: How do *home country* institutions influence firms from emerging economies to engage in outward internationalization? Inspired by North's insights on institutional open access, we develop an institution-based framework highlighting intra-country (sub-national) regional differences within a large emerging economy. Specifically, we argue that greater institutional open access in a particular region of a home country—in the areas of legal environment openness and financial market openness—leads to greater outward internationalization of local firms headquartered in that region. Further, tenure of that region's governor moderates such relationships in different ways. Our multilevel analysis with 5239 observations (company-years) finds that institutional open access is indeed behind some Chinese firms' outward internationalization.

A voluminous literature suggests that host country institutions affect the inward internationalization of foreign entrants (Chacar, Newburry, & Vissa, 2010; Dunning & Lundan, 2008; Holmes, Miller, Hitt, & Salmador, 2013; Luo & Peng, 1999; Meyer, Estrin, Bhaumik, & Peng, 2009; Yang, Tipton, & Li, 2011). To the extent that any internationalization move involves at least two countries (host and home), then, what about the impact of *home country* institutions on firms that internationalize? Until recently, the literature had largely ignored this question, because the typical foreign entrants studied are multinational enterprises (MNEs) from developed economies (DE) and the pro-outward internationalization policies adopted by home country governments in DE are taken for granted (Peng, Wang, & Jiang, 2008). However, with significant outward internationalization by firms from emerging economies (EE), a new theory needs to start filling this gap (Guillén & García-Canal, 2009; Luo & Tung, 2007; Mathews, 2006; Peng, 2012).

In response, we develop an institutional open access framework to highlight the effect of *home country* institutions on the internationalization of firms, especially those from EE. Institutional open access means advancement in formal rules that enables market forces to access opportunity via competition (North, Wallis, & Weingast, 2009). Such market-supporting institutional environments may reduce transaction costs, encourage individuals and firms to enter complex transactions, and facilitate impersonal exchange that is based on market efficiency rather than personal networks or political power (Peng, 2003; Young, Tsai, Wang, Liu, & Ahlstrom, 2014).

While governments in many EEs have set country-level policies to facilitate such institutional open access, considerable intra-country (sub-national) regional differences exist in large emerging economies such as Brazil, Russia, India, and China (BRIC) (Chabowski, Hult, Kiyak, & Mena, 2010; Hoskisson, Wright, Filatotchev, & Peng, 2013). Such variations within a country allow us to extend the institution-based view from cross-country comparisons to intra-country (inter-region) comparisons by concentrating on the institutional differences among different regions within a country (Chan, Makino, & Isobe, 2010; Chang & Xu, 2008; McDermott, Corredoira, & Kruse, 2009; Meyer & Nguyen, 2005; Shi, Sun, & Peng, 2012). Against this backdrop, we address a

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* Corresponding author.
E-mail addresses: sunsli@umkc.edu (S.L. Sun), mikepeng@utdallas.edu (M.W. Peng), rlee3@cob.fsu.edu (R.P. Lee), wqtan@hkbu.edu.hk (W. Tan).

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previously underexplored question: What institutional variables facilitate open access in the home region within an EE such that local firms from that region can increase their outward internationalization?

Overall, we endeavor to contribute to the literature in three ways. First, extending the institution-based view (Ahuja & Yayavaram, 2011; Peng et al., 2008; Peng, Sun, Pinkham, & Chen, 2009; Wright, Filatotchev, Hoskisson, & Peng, 2005), we identify two types of institutional open access—legal environment openness and financial market openness, which may facilitate outward internationalization. In other words, we offer an alternative theoretical framework centered on institutional open access (North et al., 2009) to explore how institutional advancement at home shapes the progress of domestic firms' outward internationalization (see Fig. 1).

Second, while inter-regional differences within a large EE have been investigated by a small number of studies (Atsmon, Kertesz, & Vittal, 2011), the emphasis has been on how domestic firms survive or exit (Chang & Xu, 2008; Lebedev & Peng, 2014), how foreign firms enter (Meyer & Nguyen, 2005; Shi et al., 2012; Shi, Sun, Pinkham, & Peng, 2014), and how foreign firms' affiliates perform (Chan et al., 2010). None has probed the link between inter-regional differences and the outward internationalization of local firms. We not only theorize about this link, but also offer the first set of large-sample empirical evidence, using two dimensions of openness at the regional (provincial) level from China to substantiate our case. Third, we highlight the continuing importance of political influence (Shi, Markoczy, & Stan, 2014), by revealing the moderating role played by the tenure of regional governor in affecting the relationship between institutional open access in a region and outward internationalization undertaken by firms from that region.

1. The debate of home country institutions behind outward internationalization

While the literature has paid a great deal of attention to host country institutions (Deng, 2009; Meyer et al., 2009; Meyer & Sinani, 2009; Xia, Tan, & Tan, 2008; Yang et al., 2011), scholars begin to recognize that institutions adopted by the home country cannot be taken for granted to explain the internationalization of EE firms (Cuervo-Cazurra & Dau, 2009; Cui & Jiang, 2010; Del Sol & Kogan, 2007; Luo & Tung, 2007; Witt & Lewin, 2007). These findings thus promote an interest in probing the role played by home country institutions behind outward internationalization (Dau, 2012; Del Sol & Kogan, 2007; Lee & Weng, 2013; Liu, Lu, & Chizema, 2014; Luo & Wang, 2012). Two contrasting arguments have emerged, which can be summarized as an "escape" view and a "fostering" view.

The "escape" view argues that outward FDI from EE is in part an escape response to a burdensome home country institutional environment (Witt & Lewin, 2007). Through this "dark" lens on institutional constraints, some scholars argue that EE firms' primary motivation to go abroad is not to leverage their competitive advantages, but to avoid a number of competitive disadvantages incurred by home country institutions (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Hoskisson et al., 2013; Peng, Sun, & Blevins, 2011). Luo and Tung (2007, p. 482) identify the "pull factor" of EE MNEs that "use outward investments as a springboard to acquire strategic assets needed to compete more effectively against global rivals and to *avoid the institutional and market constraints they face at home*" (added italics). The important evidence on this "escape" view is capital round-tripping (Wei, 2005). For example, Chinese outward FDI stock in the Cayman Islands and the British Virgin Islands (BVI) is more than that in the US, the UK, and Germany combined. In turn, together the Cayman Islands and the BVI's FDI stock in China is more than that from the US, the UK, and Germany combined (Peng et al., 2011).

The "fostering" view suggests a facilitating role of advanced institutions that promotes firms' outward internationalization (Wan & Hoskisson, 2003). Viewed from this "bright" lens of institutional impetus, firms do not necessarily react to institutional *constraints*, but strategically explore institutions as *opportunities* (Jonsson & Regnér, 2009; Martin, 2014). It means that EE MNEs may leverage government intervention as a positive "push factor" behind their internationalization (Goh & Wong, 2011). The high level of government support in the privileged access to raw materials,

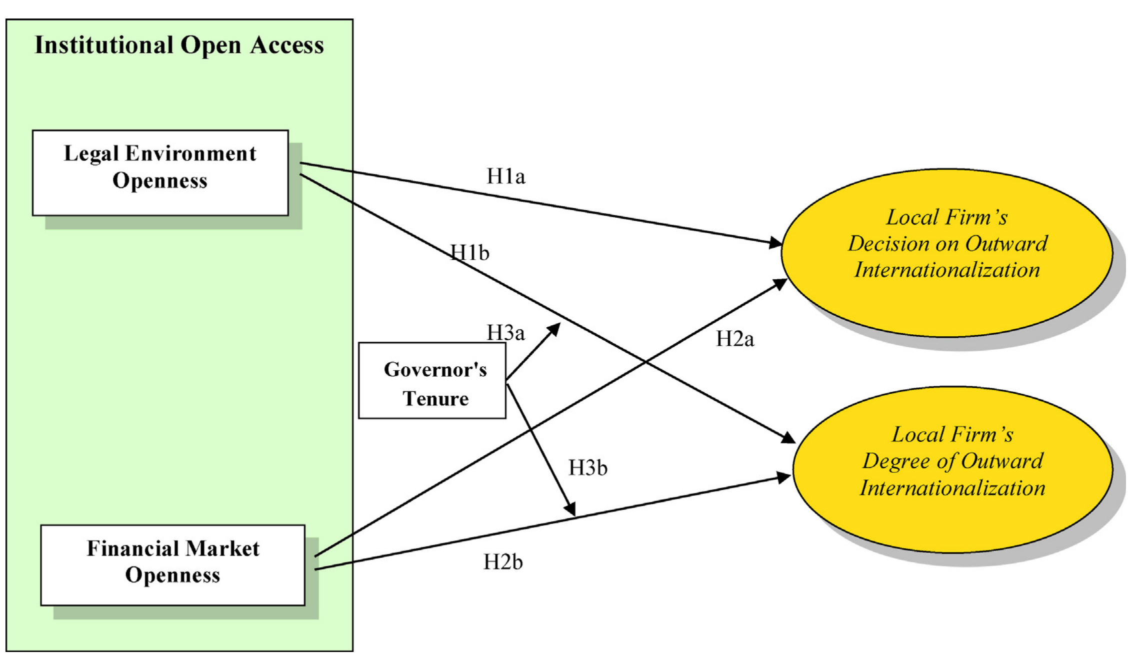

Fig. 1. Theoretical framework.