



Does learning at home and from abroad boost the foreign subsidiary performance of emerging economy multinational enterprises?



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ABSTRACT

Based on a sample of Chinese firms that have undertaken outward FDI, we examine the extent to which domestic learning and host market learning affect subsidiary performance. The findings indicate that domestic learning through collaboration with foreign firms at home, and host market learning, positively contribute to subsidiary performance. We find some synergetic effects between domestic learning and host market learning, and these two types of learning jointly shape subsidiary performance. By providing new empirical insights into the performance implications of different types of learning, this study helps advance our understanding of EMNEs.

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1. Introduction

The substantial increase in outward foreign direct investment (OFDI) by emerging economy MNEs (EMNEs) has stimulated research interest which has resulted in a growing number of studies on this phenomenon (see [Deng, 2012](#); [Jormanainen & Koveshnikov, 2012](#) for a review). Most existing studies have examined the patterns, motivations and entry mode selections of EMNEs' OFDI ([Bangara, Freeman and Schroder, 2012](#); [Cui & Jiang, 2012](#); [Lu, Liu, & Wang, 2011](#); [Luo & Tung, 2007](#); [Meyer, Ding, Li, & Zhang, 2014](#); [Ramamurti & Singh, 2009](#)). The findings from these studies have enhanced our understanding of EMNEs' OFDI. However, few have investigated whether different types of learning influence the performance of EMNE overseas subsidiaries. In particular, the extent to which the domestic learning and host market learning of EMNEs affects subsidiary performance is under explored.

Previous research has tended to over emphasize experiential learning through direct operations abroad based on the internationalization process of MNEs from developed countries, but downplay learning through collaboration with foreign firms at home ([Eriksson, Johanson, Majkgard, & Sharma, 1997](#); [Johanson &](#)

[Vahlne, 1977](#)). Such a focus has been built on the implicit assumption that a firm detaches itself from the home country when it goes abroad, such that only experiential learning in host countries matters with regard to further international expansion and overseas subsidiary performance. However, this emphasis may not reflect the characteristics of EMNEs as they are exposed to foreign firms at home before undertaking OFDI. Emerging economies, such as China, have opened up to inward FDI since the early 1980s, and EMNEs have had the opportunity to accumulate knowledge and capabilities through learning from foreign firms before venturing abroad. At the early stages of internationalization, EMNEs may lack experiential knowledge from heterogeneous host-country environments. Therefore, the knowledge and capabilities accumulated at home are more valuable for EMNEs than for well-established MNEs. However, little research has been conducted on whether learning from foreign firms at home affects the international operations of EMNEs, with a few exceptions. [Lu, Liu, Filatotchev, and Wright \(2014\)](#) have examined the impact of EMNEs' domestic diversification on international diversification, but they did not consider the effect of learning from foreign firms at home and called for more studies to cover a broader context, i.e. the way in which EMNEs accumulate the knowledge and capabilities needed for internationalization through domestic learning.

In addition, existing studies treat the impact of different forms of learning, such as host market learning through overseas operations, and domestic learning through collaborating with foreign firms, as homogenous (e.g. [Delios & Beamish, 2001](#); [Gao,](#)

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Pan, Lu, & Tao, 2008; Luo & Peng, 1999; Wu & Lin, 2010). We argue that the impact of host market learning on subsidiary performance should be differentiated from that of domestic learning. Domestic learning through collaborating with and observing foreign firms enables EMNEs to acquire knowledge about international markets, foreign countries' regulations, foreign firms' best practice and advanced technology (Martin & Salomon, 2003; Tsang, 2002). This kind of learning may form the basis of EMNEs' competitive advantage. The lack of attention to different types of learning by EMNEs represents an important theoretical and empirical omission since different dimensions of learning may result in different levels of subsidiary performance. Hence, there is a need to better understand the importance of both types of learning in the subsidiary performance of EMNEs. In particular, few studies explicitly address the interrelationship of host market learning, domestic learning and the overseas subsidiary performance of EMNEs (Li, Poppo, & Zhou, 2010).

This paper aims to fill these research gaps by investigating how different types of learning, such as host market learning and domestic learning, affect subsidiary performance and whether these two types of learning have a synergetic effect on overseas subsidiary performance. In so doing, we seek to assess the extent to which different types of learning are crucial for the overseas success of EMNEs.

This study makes a number of contributions to the existing literature. First, departing from previous research which has predominately focused on the importance of experiential learning when firms conduct international operations abroad, this study unpacks the performance implications for EMNEs of domestic learning through collaborating with foreign firms at home. We explicitly delineate whether the knowledge and capabilities accumulated through domestic learning affect overseas subsidiary performance. This helps to contribute to our understanding of factors affecting the overseas performance of EMNEs, given that only a limited number of studies have examined the impact of learning on the outcomes of EMNE internationalization. Second, by considering the knowledge and capabilities accumulated through domestic learning, this study moves beyond the boundary of experiential learning through direct international operations in a host country and helps to build a link between international exposure at home and outward FDI, and broadens the knowledge base for the overseas subsidiary performance of EMNEs. This consideration captures the characteristics of EMNEs that have been exposed to international collaboration at home before going abroad, thus enriching our understanding of EMNEs' competitive advantage embedded in the context of their home country. Collaboration with foreign firms at home provides learning opportunities through which EMNEs accumulate the knowledge and expertise needed for international operations. Finally, we further explore the synergetic effects between the two types of learning by focusing on the interaction between domestic learning and host market learning. Such synergetic effects are absent in the existing literature on EMNEs. This enables us to provide a more complete account of how different types of learning jointly shape the overseas subsidiary performance of EMNEs.

The paper is organized as follows. The next section introduces our theoretical background and hypotheses. We then describe the sample and variables used in the study, while the empirical results are presented in the subsequent section. Finally, we discuss the findings and their implications, followed by conclusions.

2. Theoretical background and hypotheses

The growing literature on EMNEs has mainly examined the patterns, motivations, location choices and entry model selections of EMNEs based on various theoretical perspectives, including the

linkage-leverage-learning framework (LLL) (Mathews, 2006), the resource based view, transaction costs theory and institutional theory. The main findings show that OFD decisions by EMNEs are affected by a variety of firm, industry and institutional contextual factors (Bangara et al., 2012; Buckley, Clegg, & Wang, 2007; Cui & Jiang, 2012; Lu, Liu, Wright, & Filatotchev, 2014; Ramamurti & Singh, 2009; Yamakawa, Peng, & Deeds, 2008; Wang, Hong, Kafourous, & Boateng, 2012). While some studies have found that EMNEs use OFDI as a means of acquiring advanced knowledge and catching up with technological leaders in the West (Deng, 2009; Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; Luo & Tung, 2007; Mathews, 2006), others have shown that supportive government policies and ownership significantly affect location choices and entry mode selection by EMNEs (Luo, Xue, & Han, 2010; Meyer et al., 2014). Several studies have applied an integrated approach to investigate how firms' competitive advantages, industry competition and institutional environments jointly determine OFDI by EMNEs (Lu et al., 2011; Wang et al., 2012; Wei, Zheng, Liu, & Lu, 2014; Yamakawa, Peng, & Deeds, 2008). While these existing studies enhance our understanding of factors affecting OFDI by EMNEs, few have examined the outcomes and performance of EMNEs. In particular, the role of domestic learning through collaborating with foreign firms in EMNEs' home countries is underexplored in the existing literature. Such an omission limits our understanding of EMNEs' competitive advantage embedded in the context of their home country.

In this study, we adopt an organizational learning perspective to unpack the impact of different types of learning on the subsidiary performance of EMNEs. Organizational learning refers to firms' development of knowledge, or insights that assist in their behavioral change (Hurley & Hult, 1998; Levitt & March, 1988). Recent research decomposes organizational learning into four main elements: knowledge acquisition; information dissemination, by which information from different sources is shared; information interpretation, in which distributed information takes one or more commonly understood interpretations; and organizational memory, representing the means by which knowledge is stored for later use (Clercq, Sapienza, Yavuz, & Zhou, 2012; Gao et al., 2008; Huber, 1991; Hult & Ferrell, 1997; Santos-Vijande, Lopez-Sanchez, & Trespalacios, 2012; Sinkula, 1994; Slater & Narver, 1995). Organizational learning is concerned with access to knowledge and the capabilities needed for utilizing and building on such knowledge. In this study, we mainly focus on knowledge acquisition and utilization. As such we explore how domestic learning and host market learning enable firms to build competitive advantage and generate desirable performance.

When firms engage in international expansion, they learn about the foreign markets they target and accumulate experiential knowledge about the host country in which they operate. This type of learning is defined as experiential learning and refers to the gradual accumulation of knowledge as a firm expands its international activities (Johanson and Vahlne, 1977, 1990). Experiential learning accrues as firms learn from their own engagement in conducting business activities (Argote, 1999). By definition, firms can accumulate knowledge about internationalization through experiential learning only when they venture abroad and have international operations in which firms can acquire knowledge about a host country incrementally through learning by doing (Johanson & Vahlne, 1977, 1990). Experiential learning is identified as the most important means by which internationalized firms gain first-hand foreign market knowledge (Clercq et al., 2012; Yeoh, 2004; Zou & Ghauri, 2010). Through experiential learning, firms can reduce the level of liability of foreignness and overcome operational uncertainties (Gao et al., 2008). Experiential experience also helps firms build a local knowledge base and so overcome challenges associated with the unfamiliarity of host country conditions (Peng, 2001). Existing studies have examined how firms acquire host country knowledge

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