



Localized learning by emerging multinational enterprises in developed host countries: A fuzzy-set analysis of Chinese foreign direct investment in Australia



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ABSTRACT

Firms learn general international management and foreign market specific knowledge in their internationalization process. Firms' strategic emphasis on generalized vs. localized learning is an important yet underexplored issue in the extant literature. Drawing on the theoretical framework of dynamic capability, and in the context of emerging multinational enterprises' FDI into developed host countries, this study examines the equifinal process–position–path configurations of firms that will motivate them to engage in localized learning (as opposed to generalized learning). Utilizing primary and secondary data of eleven Chinese foreign direct investments in Australia, collected at both headquarters and subsidiary levels, we conducted fuzzy-set qualitative comparative analysis (fsQCA) that provided substantial support to our propositions. This study contributes to the internationalization process model by identifying equifinal process–position–path configurations, as well as their core and peripheral conditions that motivate localized learning at both the headquarters and the subsidiary levels.

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1. Introduction

The internationalization process model (IPM) highlights the role of knowledge, and hence the process of learning, in firms' international strategy formulation and implementation (Johanson & Vahlne, 1977; Johanson & Vahlne, 1990). It focuses on experiential learning, through which firms acquire general knowledge of international management as well as localized knowledge related to specific foreign markets (Eriksson, Johanson, Majkgard, & Sharma, 1997). The learning of such general and localized knowledge influences further internationalization of the firm (Chan & Makino, 2007; Chang, 1995). Specifically, general knowledge of international management allows firms to replicate successful practices in foreign locations and achieve global integration, while localized knowledge enables firms to benefit from different location advantages of foreign markets and achieve

local responsiveness (Bartlett & Ghoshal, 1998). Despite the important and diverging strategic implications of generalized vs. localized learning, we know little about what influences firms' motivation to emphasize one type of learning over the other. This knowledge gap limits our understanding of firm's internationalization process, especially that of emerging multinational enterprises (EMNEs), where localized (as opposed to generalized) learning, namely the learning of localized knowledge, is asserted to serve the strategic intents of these latecomers to catch up with their developed country counterparts (Cui, Meyer, & Hu, 2014; Liu & Buck, 2009; Rui & Yip, 2008).

Recent studies of EMNEs suggest that these “late-comer” firms actively utilize FDI as a channel to acquire overseas advanced knowledge to enhance their global competitiveness (Cui et al., 2014; Rui & Yip, 2008). Unlike established multinational enterprises that exploit existing ownership advantage through global standardization strategy, EMNEs need to engage in localized learning, especially in their FDI into developed host countries, to acquire foreign strategic assets and redress their ownership disadvantages. In the context of EMNEs' FDI, learning is usually localized in overseas settings (Luo & Peng, 1999), and first occurs at the business level (i.e., subsidiaries) before transferring back to the corporate level (Erramilli, 1991). As such, localized learning is an

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important mechanism affecting the internationalization success of EMNEs. However, the current literature lacks a theoretical explanation of firms' learning emphasis in their internationalization process. This study addresses this gap by answering the following research question: *What motivates EMNEs to engage in localized learning in developed host countries?*

We follow a configurational approach of theory building that has been increasingly adopted in organizational research (Fiss, 2007, 2011). In contrast to a contingency approach, which aims to identify the causal condition that maximizes the desired outcome, the configurational approach allows for equifinality and explores multiple causal pathways that can lead to the same level of the desired outcome. We adopt the configurational approach because the core of the research question, localized learning, is a means to an end. As localized learning can serve different strategic intents, such as acquiring technology, expanding markets, or developing human resources (Cui et al., 2014; Luo & Tung, 2007), firms' motivation to engage in localized learning may vary. Therefore, there is no set formula to maximize the motivation of localized learning, rather, there can be multiple configurations of firm internal and external factors that lead to the same learning emphasis of firms. This configurational approach can be implemented through a fuzzy-set qualitative comparative analysis (fsQCA) which allows us to explore the equifinal motivating conditions of localized learning (Crilly, 2011; Fiss, 2007, 2011).

We draw on a dynamic capability framework to identify the individual factors that are relevant to firms' motivation of engaging in localized learning. Dynamic capabilities refer to a firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Barreto, 2010; Teece, Pisano, & Shuen, 1997), which are necessary to sustain superior enterprise performance, especially in fast-moving global environments (Zhou, Barnes, & Lu, 2010). Teece (2014) promotes a capabilities-based theory of the multinational enterprises, which explains how firms maintain and develop their competitive advantages in unfamiliar and changing environments during the internationalization process. While localized learning can serve various strategic intents of EMNEs, all these intents are related to building dynamic capabilities by integrating, building, and reconfiguring firm' internal and host country external competences. Also, compared with other dominant frameworks in the international business literature, notably the transaction cost framework, a capabilities-based framework is more relevant for the internationalization of EMNEs, which are relatively less concerned about economizing on existing competences but more focussed on developing new ones. Thus, the dynamic capability framework serves as an ideal guiding framework for this study. Specifically, Teece et al. (1997) identify three building blocks of dynamic capabilities; processes, positions and paths. In the context of localized learning, we identify relevant factors that fall under these three building blocks, and then subject them to fsQCA to explore the potential process–position–path configurations that lead to localized learning.

Empirically, we choose the context of Chinese FDI in Australia. Compared to EMNEs from other home countries, the phenomenon of Chinese FDI has attracted academic attention. Prior studies suggest that Chinese firms are proactive and entrepreneurial in terms of building dynamic capabilities overseas (Cui et al., 2014; Lyles, Li, & Yan, 2014; Zhou et al., 2010). We choose Australia as the focal host country, not only because it is a primary destination of Chinese FDI, where Chinese firms engage in a wide range of industries in resources, manufacturing and services for knowledge seeking and market seeking purposes (FIRB, 2012; KPMG, 2013), but also that the relatively isolated geo-economics of Australia provides an ideal “natural lab” for Chinese firms to experiment with entrepreneurial activities for capability building. While

Australia resembles major developed markets (such as the US and Europe) in terms of institutions, market segmentation, and culture, its relatively small and isolated economy enables quicker market feedback and lower-cost experimentation. As a result, many Chinese firms use Australia as a test-ground for global capability building before entering the major triad markets (Fan, Zhu, & Nyland, 2012; Zhang & Fan, 2014). Moreover, the investment environment in Australia is fast changing, especially for Chinese FDI, given the increasing reliance of Australia on Chinese investment and the intensifying political and social debate leading to unpredictable and frequent policy changes. Such an environment requires Chinese firms to constantly upgrade their dynamic capabilities through localized learning to adapt to new market trends, policy requirements, and competence-enhancing opportunities (cf. Fan, Zhang, & Zhu, 2013; Nyland, Forbes-Mewett, & Thomson, 2011).

The study utilizes qualitative data, such as interviews with 22 senior executives and archives, collected from both headquarters and Australian subsidiary levels of nine Chinese MNEs in their 11 FDI projects in Australia. The next section provides a literature review covering the six causal conditions derived from the process–position–path framework. Three propositions are then derived drawing on both dynamic capability and configurational theoretical perspectives and the research design is explained. The empirical results are then detailed, the implications of the findings are analyzed and a future research agenda is proposed.

2. Theoretical framework

We adopt a dynamic capability framework as a guiding theoretical framework to identify the elements of potential configurations leading to localized learning. Teece (2014) proposes a capabilities-based theory of MNE which focuses on learning and knowledge issues in international business rather than transaction cost issues. This framework is particularly relevant to the internationalization of EMNEs. Luo (2001) argues that localized learning reflects a firm's dynamic learning capability, which measures how MNEs learn to identify fit, with specific environmental and resource contingencies within a host economy, or across different host country contexts (Gupta & Govindarajan, 1991). Localized learning is particularly associated with the dynamic capabilities of EMNEs investing in developed host countries. EMNEs actively invest in developed host countries to access key assets, resources and technologies (Morck, Yeung, & Zhao, 2008; Ramamurti & Singh, 2009). By localizing their learning efforts in such host countries, EMNEs set up their subsidiaries as conduits to fulfil their competence-building strategic intents (Cui et al., 2014).

Teece et al. (1997) identify three building blocks of dynamic capabilities; processes, positions and paths. We argue that the configurations of the factors associated with these building blocks motivate firms to engage in localized learning. Guided by these three building blocks, we identify factors relevant to the context of FDI. A conceptual framework is depicted in Fig. 1, which shows (1) theoretical constructs of observable antecedent and outcome variables in squared boxes, (2) set-theoretical causal mechanisms in circles, and (3) corresponding propositions pertaining to the linkages between constructs and causal mechanisms.

2.1. Processes

Organizational processes embed the strategy and business model into internal norms and routines. The input–process–output model also highlights the important mediation of processes in businesses (Miles, Snow, Meyer, & Coleman, 1978; West & Anderson, 1996). The implementation of strategic behaviour, such as localized learning, necessarily depends on the existing culture

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