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Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

The role of MNEs' internationalization patterns in their regional integration of FDI locations

Jean-Luc Arregle^{a,*}, Toyah L. Miller^b, Michael A. Hitt^{c,d}, Paul W. Beamish^e

^a EM Lyon Business School, 23 Avenue Guy de Collongue, 69134 Ecully Cedex, France

^b Jindal School of Management, The University of Texas at Dallas, 800 West Campbell Road, Richardson, TX 75080-3021, United States

^c Mays Business School, Texas A&M University, College Station, TX 77845-4221, United States

^d Neeley School of Business, Texas Christian University, Ft. Worth, TX 76129, United States

^e Ivey Business School, Western University, 1255 Western Road, London, Ontario N6G 0N1, Canada

ARTICLE INFO

Keywords:

Geographic scope
Internationalization
Location of foreign subsidiaries
Regional strategy
Semiglobalization

ABSTRACT

Multinational enterprises (MNEs) use the regional aggregation and integration of their foreign direct investments as an important part of their internationalization. Internationalization decisions are integrated at the region level; however, little work has focused on explaining the extent of this regional integration. We develop theoretical arguments and test new hypotheses about MNEs' general international experience and international geographic scope (i.e., institutional diversity and international dispersion) as predictors of their extent of regional integration. The results from a sample of Japanese MNEs validate these different effects, suggesting these MNE level variables are important for regional influences on their internationalization decisions. The results further our understanding of how MNEs organize their internationalization and strategic geographic foci.

1. Introduction

Multinational enterprises (MNEs) reconfigure and coordinate their foreign direct investments (FDIs) in order to grow and improve their effectiveness and performance. Historically, the dominant view on MNEs' international strategy has been that they do both globally (e.g., Friedman, 2005; Levitt, 1983). In this research, focus on the global and country geographic dimensions has dominated. More recent counterbalancing perspectives, home region orientation (HRO) (Rugman & Verbeke, 2004; Rugman, 2005, 2005) and semiglobalization (Ghemawat, 2003, 2007), have suggested the importance of geographic regions in these decisions. HRO focuses on an MNE's geographic scope (e.g., sales in the home vs. host regions) while semiglobalization emphasizes the region-level integration of an MNE's FDI decisions. Each perspective focuses on a different question but both share the core idea that geographic regions matter for MNEs' international strategies and emphasize the geographic focus of MNEs' internationalization: the region as the locus of MNE strategies (Verbeke & Asmussen, 2016).

Semiglobalization is more specifically defined as partial cross-border (i.e., regional) integration of international expansion where MNEs develop firm-level strengths that are then utilized for regional responsiveness (Verbeke, Kano, & Yuan, 2016). They build region-

bound firm-specific advantages (RFSAs) (Ghemawat, 2003; Rugman & Verbeke, 2005). Therefore, firms are able to counteract liabilities of foreignness, asset specificity, and high costs associated with internationalization by aggregating or integrating FDI regionally and maintaining regional responsiveness. Because MNEs use regional aggregation or arbitrage in their internationalization, semiglobalization focuses on geographic regions as the "building blocks" of an MNE's internationalization decisions. MNEs can locate their future FDI in the same region instead of investing in other regions (i.e., regional aggregation) to profit from the relative similarities between countries in the same geographic region. Prior research has also shown that regional arbitrage occurs as MNEs take advantage of the variance among countries in a region, relocating their subsidiaries to countries in the same region (i.e., making arbitrage decisions) to improve their international strategy while using their RFSAs (Arregle, Beamish, & Hébert, 2009; Arregle, Miller, Hitt, & Beamish, 2013; Ghemawat, 2003). Although we have made progress in our knowledge of this regional integration effect, Oh and Li note (2015: 632) that "[o]ne critical question that has not been answered fully relates to the explanation of variations among firms with regard to their adoption of regional strategies." While some prior empirical studies have already shown that this regional integration effect of semiglobalization exists (e.g., Arregle et al., 2009;

* Corresponding author.

E-mail addresses: arregle@em-lyon.com (J.-L. Arregle), Toyah.Miller@utdallas.edu (T.L. Miller), mhitt@mays.tamu.edu (M.A. Hitt), pbeamish@ivey.ca (P.W. Beamish).

<https://doi.org/10.1016/j.jwb.2018.07.004>

Received 27 April 2017; Received in revised form 4 July 2018; Accepted 13 July 2018

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Flores, Aguilera, Mahdian, & Vaaler, 2013), we do not know if or the extent to which an MNE's decision to regionalize its FDI across countries is dependent upon its capabilities, its need to reduce costs, or its need to manage the complexity and uncertainty inherent in its internationalization.

Herein, we try to address this gap in the literature. The objective of this study is to develop and test a theoretical explanation of why MNEs integrate their FDI location decisions on a regional basis. We note that firms have different internationalization patterns (i.e., scale, scope, and experience) which may help them to overcome constraints that heighten the need for regional integration. To address this, we examine the following question: Does an MNE's internationalization pattern hinder or facilitate future semiglobal decisions? Unlike past studies on this topic, this research explores the degree to which firm-level attributes determine the *extent* of semiglobalization, i.e., extent of regional integration. We know that the regional integration of their internationalization (semiglobalization) helps MNEs, due to the learning that occurs as a firm internationalizes within a region, counteract liabilities of foreignness and the often high costs associated with internationalization. Therefore, much research has found a positive relationship between an MNE's prior internationalization in a country's region and its subsequent internationalization in a country (i.e., a measure of the regional integration effect in semiglobalization) (Arregle et al., 2009, 2013; Arregle, Miller, Hiitt, & Beamish, 2016; Flores et al., 2013). We develop and test a theory explaining the *extent* of an MNE's regional integration and moderators of this relationship. We base this on its firm-level internationalization attributes, drawing upon the perspective of organizational learning, firm-specific advantages, and internationalization patterns. Different theories suggest several important firm-level factors that explain the level of capabilities but also the challenges, costs, complexity, and uncertainty that MNEs experience during internationalization. These theories underscore the important influence of MNEs' existing international profile or pattern on their future decisions such as an MNE's general international experience (e.g., Delios & Beamish, 1999; Delios & Henisz, 2003; Eriksson, Johanson, Majkgard, & Sharma, 1997) and an MNE's geographic scope (Goerzen & Beamish, 2003; Kostova & Zaheer, 1999). Because new international FDI locations are influenced by an MNE's existing pattern of internationalization (Delios & Henisz, 2003; Goerzen & Beamish, 2003; Rugman & Verbeke, 1992), we explore and test MNEs' existing internationalization patterns, including scale, scope, and experience as potential moderators of MNEs' extent of regional integration in their subsequent FDI decisions. We test these models using a multilevel methodology to explain the internationalization of a sample of 547 Japanese MNEs over the period from 2001 to 2007 in 50 countries clustered in nine geographical regions.

This study contributes to our knowledge of MNEs' internationalization in two ways. First, extending the results of previous studies that validated the semiglobalization effect, we show that the positive effect of an MNE's prior internationalization in a region on its future internationalization (i.e., regional integration of semiglobalization) varies systematically across MNEs. This is critical for scholars to understand because recent research has examined and confirmed that MNEs' FDI decisions are regionally influenced (i.e., semiglobal), enabling us to better conceptualize the multilevel nature (e.g., country, region, corporate) and predict international expansion (e.g., Arregle et al., 2009; Asmussen, 2009; Flores et al., 2013; Qian, Li, Li, & Qian, 2008). However, the possibility that MNEs use different levels of regional integration and the reasons for such actions, both central issues for semiglobalization theories and the existing debate semiglobalization vs. globalization (e.g., Vahlne & Ivarsson, 2014), have not been studied. Thus, a more complete examination of factors explaining the *strength* of the regional integration effect characterizing semiglobalization is needed if we are to systematically advance our knowledge of MNEs' strategic geographic foci and internationalization to overcome the current divide between semiglobal and global perspectives. Hence,

responding to recent calls for research (e.g., Oh & Li, 2015; Vahlne & Ivarsson, 2014; Verbeke & Asmussen, 2016), we narrow the existing theoretical gap explaining why some MNEs have achieved a state of being (semi)global when others are less so, acknowledging the importance of learning and the complexity resulting from internationalization.

Second, we provide and test a model of how firm-level variables explain such differences and why. For instance, some MNEs tend to ignore the advantages of proximity and similarity in a region, so we know there are firm-level attributes that account for these differences. Much prior literature has noted that an MNE's international pattern influences its future decisions (Delios & Beamish, 1999; Goerzen & Beamish, 2003); however, this has not been considered in research on regional integration. Thus, we study how internationalization patterns (i.e., international experience and geographic scope) influence an MNE's strategic decisions regarding the extent of its regional integration. Finally, we underscore for managers the need to implement regional strategic integration processes to attain the desired level of integration and aggregation, while recognizing firm differences that affect this decision. We also help them to understand the locus of competitors' international strategy, an important dimension in their international competitive actions. Therefore, we move beyond the current existing alternatives between semiglobalization and globalization. We advance our comprehension of strategic decisions regarding internationalization through a more fine-grained examination of the reasons why the regional level can play a key role in MNEs' coordination and reconfiguration of their FDI.

2. Conceptual background: the regional dimension of an MNE's internationalization

As aforementioned, starting mainly 15 years ago with Rugman and Verbeke's (2004) and Ghemawat's (2003) articles, a renewed reflection in international strategy research on the locus of MNE strategies has taken place. It recognizes geographic regions as a key locus for MNE strategy formation rejecting the dominant global strategies view (see Verbeke & Asmussen, 2016 for a recent review). However, this stream of research uses two broad approaches to assess the roles of regions in MNE strategy: home region orientation (HRO) and semiglobalization.

HRO views an MNE's firm specific advantages as region bound: they have a limited exploitation potential outside the home region. Hence, HRO considers that most MNEs are home-regional and limit their geographic scope to their home region (Rugman & Verbeke, 2004, 2007). As a result, HRO "... analysis has focused mainly on explaining many MNEs' relative home-region orientation and the reasons for the typical absence of a balanced spread of activities across the world..." (Verbeke & Asmussen, 2016: 1060). For instance, it focuses on the percentage of an MNE's internationalization (e.g., sales or assets) in its home region vs. other regions. This idea has been empirically tested in many studies (see Asmussen, 2009 or Banalieva & Dhanaraj, 2013).

Semiglobalization is an extension of this first approach but studies a different question (see Verbeke & Asmussen, 2016): how MNEs adapt to a world where regional barriers to global integration exist. Semiglobalization involves partial cross-border integration whereby barriers to market integration are high but not high enough to insulate countries completely from each other (Arregle et al., 2013; Kim & Aguilera, 2015). This situation cannot be fully studied through purely country-level analyses, rather they require an evaluation across multiple locations (i.e., within a region) that are distinct from but not entirely independent of each other (Ghemawat, 2003). As a result, semiglobalization focuses on an MNE's propensity to develop some forms of regional responsiveness and integration or regional dimensions in its internationalization, organizational structure, or functioning (Arregle et al., 2016; Verbeke & Asmussen, 2016). Therefore, this second approach neither focuses on the home region nor considers the absence of global diversification (home/host regions) or the performance

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