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Internationalization speed, resources and performance: Evidence from Indian software industry

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ABSTRACT

Rapid internationalization provides firms with quick access to global markets, but also constrains their capacity to absorb the expansion. Identifying the resources and capabilities that are most likely to moderate the relationship between rapid internationalization and performance is, therefore, of great interest. We focus on the software service industry in the specific context of the Indian emerging economy and investigate the role of linkage, leverage and learning capabilities. We use a unique longitudinal dataset from the Indian software sector as a setting to test our posited relationships and our findings largely support our predictions.

1. Introduction

A growing body of research has focused on the internationalization of multinational enterprises (MNEs) from emerging markets (EMNEs) and identified important ways in which they differ from MNEs from developed markets (Cuervo-Cazurra, 2012; Guillén & García-Canal, 2009; Luo & Tung, 2007; Mathews, 2002, 2006). EMNEs may possess less traditional ownership advantages, but they compensate by using market and non-market advantages emanating from their home country institutional environments (Cuervo-Cazurra & Genc, 2008; Kothari, Kotabe, & Murphy, 2013; Luo & Tung, 2018). They are also said to possess different types of ownership advantages such as a deep understanding of customer needs in emerging markets and the ability to function in difficult business environments (e.g., Cuervo-Cazurra & Genc, 2008; Ramamurti, 2012). Unlike their counterparts from developed markets, EMNEs use internationalization to gain competitive advantage in both foreign and domestic markets (Gaur, Kumar, & Singh, 2014; Luo & Tung, 2007) and often their M&A activity is driven by strategic reasons, such as to obtain essential technologies or competencies rather than to promote efficiency or instant growth (Kumar, 2009; Mathews, 2017; Popli, Akbar, Kumar, & Gaur, 2017).

This line of inquiry has observed that the EMNEs internationalize more rapidly than their developed market counterparts (Deng & Yang, 2015; Guillén, 2002; Mathews & Zander, 2007; Sun, Peng, Ren, & Yan, 2012) or at least more rapidly than the stages model would suggest (Ramamurti, 2012). While both developed market MNEs as well as EMNEs may pursue rapid internationalization, it is a greater need for EMNEs because they are driven by a motivation to catch-up with the established mature multinationals (Kumarasamy, Mudambi, Saranga, & Tripathy, 2012; Luo & Tung, 2007). Given this, there is a need to understand better which advantages can help with successful internationalization and which not (Ramamurti, 2012). The internationalization speed literature, accordingly, has increasingly shifted its focus to studying the resources that have the potential to moderate the relationship between speed of internationalization and firm performance (SI-P) (Chang & Rhee, 2011; Garcia-Garcia, Garcia-Canal, & Guillen, 2017). Perspectives, such as Linkage-Leverage-Learning (LLL) and Springboard theory have been advanced to explain EMNEs' rapid internationalization (Luo & Tung, 2007; Luo and Tung, 2018; Mathews, 2006, 2017). However, these new emergent theoretical perspectives do not specifically address the performance implication of rapid internationalization. To fill this lacuna and contribute to the new emergent perspectives on EMNEs, we investigate the resources that moderate the SI-P relationship in the context of Indian software service industry. We use the internationalization speed literature along with the LLL perspective to examine the service EMNEs' capabilities, such as, knowledge acquisition and linkage capabilities, customer leveraging capabilities, and learning and its retention capabilities.

The LLL perspective suggests that EMNEs, which, in general, begin their internationalization journey as vendors to developed market MNEs, link themselves with their customers in order to access and acquire knowledge, leverage those customer relationships to gain further

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traction, and learn from their repeated experiences to internationalize rapidly (Mathews, 2006). However, research on speed of internationalization and its effect on MNE performance (for example, Vermeulen & Barkema, 2002), has found the lack of time at the disposal of rapidly internationalizing firms to be the main constraint in making it difficult for them to overcome internationalization related risks, subsequently lowering their performance. While such a negative effect might not be experienced in the context of software service EMNEs (Contractor, Kumar, & Kundu, 2007), we posit that the LLL capabilities of EMNEs are likely to moderate the SI-P relationship by attenuating the time-related constraints on the one hand and enhancing the performance benefits on the other.

We use the Indian software industry to study our research question and believe it to offer an ideal setting to investigate the role of LLL capabilities (Ray, Ray, & Kumar, 2017) in shaping the SI-P relationship for a variety of reasons. Rapid growth is particularly essential to this industry. In a series of interviews with executives of leading software companies, commenting on the maxim 'Grow fast or die slow' all the respondents agreed with the first part ('Grow fast'); the only difference in opinion was as to 'die slow' or 'die fast' (Kutcher, 2015). However, at the same time it's becoming clear to most in the software and technology community that the days of growth at any cost are over and software companies must target becoming profitable rapidly and efficiently (Gnanasambandam, Miller, & Sprague, 2017; Kutcher, 2015).

In any case, whether as an active strategic move or as a response to the needs of global clients, given the high technological obsolescence in the industry, Indian software firms have not only rapidly expanded internationally during the last two decades but also become leading software service providers globally. There is also a need for them to become profitable quickly, given the high level of global and domestic competition in this industry. We examine our research question with the help of a unique longitudinal dataset we built by combining publicly-available information with personal communications. The dataset consists of information about the internationalization of largest publicly-listed Indian software companies for the ten-year period between 2000 and 2009. The results of our empirical tests mostly support our theoretical predictions (see Fig. 1) and provide evidence that, indeed, developing the right capabilities help firms overcome the challenges related to rapid internationalization.

Our study contributes to the existing research in several ways. First and foremost, our research joins a relatively new strand of research (for example, Chang & Rhee, 2011; Garcia-Garcia-Garcia et al., 2017) and constitutes a step forward in unpacking the SI-P relationship. It does so in the context of software service EMNEs that has not been examined in this particular context. Software service EMNEs have been observed to internationalize rapidly in order to acquire strategic resources overseas and sell their products quickly in a fast-changing external environment (Lorenzen & Mudambi, 2013). Further, they need to not only catch-up with developed-country MNEs but also protect their own competitive positions locally in the wake of rapid expansion of developed country MNEs in their home markets (Luo and Tung, 2018). Their internationalization, therefore, happens at a faster pace compared to manufacturing companies because it is easier for service firms to expand overseas merely by setting up a sales office (Javalgi, Dixit, & Scherer, 2009; Lamin, 2013). However, these firms also confront clients that are biased towards local firms for sourcing their service needs (Capar & Kotabe, 2003; Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Lamin, 2013). As a result, the rapid internationalization comes at the cost of having a potential negative influence on firm performance (Vermeulen & Barkema, 2002). Second, we move the EMNE literature and the LLL perspective beyond the antecedents of rapid internationalization to address the issue of potential lower performance associated with rapid internationalization. Further, we augment the LLL perspective by underscoring the significance of not only the originally-conceived external linkage but also internal linkage for a rapidly internationalizing EMNE (Lu, Ma, Taksa, & Wang, 2017). Similarly, we widen the LLL perspective's emphasis on learning to include learning retention as well for software service EMNEs where human resource, one of their most important resources, is highly mobile (Ray et al., 2017).

Our study also makes practical contributions. We are able to theorize and provide empirical evidence that helps identify specific resources that a service firm, such as, a software firm can use to its advantage when internationalizing rapidly. We identify these resources under the purview of the LLL perspective. We suggest these firms to develop resources to establish external and internal linkages, leverage those linkages and learn from and retain those linkages. By doing so, we believe that the managerial community, particularly the service industry, may gain from our results as we identify and explore some very pertinent service firm related resources that need to be nurtured for rapid internationalization.

The remainder of this paper is organized as follows. In the next section, we review the literature on internationalization speed. This is followed by the development of the hypotheses. We detail the empirical aspects, including our sample, operational measures and estimation in the next section. Later, we discuss the results of our analyses. Subsequently, we conclude by outlining the limitations of the paper and

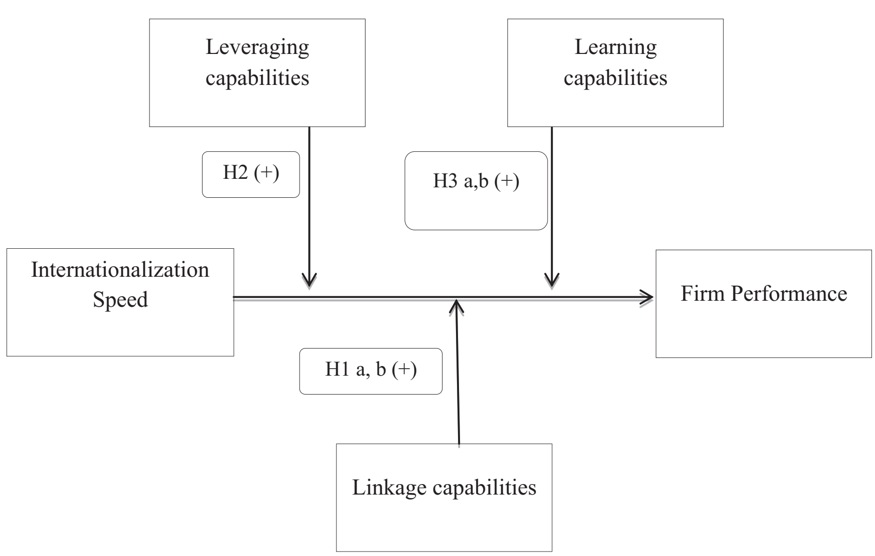

Fig. 1. Theoretical model.