



Emerging Market Multinational Companies and Internationalization: The Role of Home Country Urbanization☆



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ABSTRACT

We develop a multilevel theoretical framework for investigating the role of home country urbanization for emerging market multinational companies' (EMNCs) international expansion. We propose that more urbanized home environments directly increase EMNC's proclivity to internationalize and moderate the effects of firm intangible and tangible resources. The empirical counterpart studies 592 EMNCs from 18 different countries in 2010 and an unbalanced panel of a subsample of these firms over the period 2006–2010. Our hypotheses are confirmed in both datasets. We find that while urbanization complements firm financial resources when expanding abroad, it appears to substitute to some extent for internal R&D capabilities. Our findings further our understanding of the drivers of internationalization of EMNCs.

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1. Introduction

Emerging market multinational companies (EMNCs) are an increasingly important phenomenon in international business (Gammeltoft et al., 2010; Hoskisson et al., 2013; Cuervo-Cazurra and Ramamurti, 2014; Meyer and Peng, 2015). The share of world foreign direct investment (FDI) outflows from developing countries, rose from 6.2% to 32% between 1980 and 2010 and reached \$468 bn. out of a global total of \$1354 bn. in 2014 (35%) (UNCTAD, 2015). But what drives the internationalization of EMNCs? Theory proposes that MNCs undertake outward FDI when they have specific resources and capabilities that they can transfer and exploit across international markets. These have been clearly identified for MNCs from developed economies (Dunning, 1993) but are at first sight less obvious for firms from emerging markets (Moghaddam et al., 2014; Rugman and Nguyen, 2014). Scholars have suggested that they might include operational capabilities of particular relevance in emerging markets, such as the ability to function effectively in challenging institutional environments (Verbeke and Kano, 2012) or developing capabilities in 'frugal innovation' which generate new products initially designed for emerging markets, while also enabling entry

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into niches in developed economies (Govindarajan and Ramamurti, 2011). Others have discussed capabilities in managing dispersed value chains and labor-intensive manufacturing processes (Ramamurti, 2012).

The literature has taken less account of specific resources of relevance in emerging markets, and the home country context as drivers of EMNC internationalization (Geleilate et al., 2016). In particular, tangible assets such as financial resources may be of greater significance for internationalization in emerging markets, and may be moderated by aspects of the resource munificence of the home country environment (Jormanainen and Koveshnikov, 2012). This paper seeks to further our understanding of the specific contextual conditions that form the basis for EMNCs ability to expand internationally. We do this with particular reference to the role of urbanization, a variable which has been central to understanding the growth process in the economic development literature, but which has not previously been used in the international business (IB) field.

Urbanization has long been viewed by economists as an important element in the process of economic growth and development in emerging markets (Harris and Todaro, 1970; Henderson, 2002, 2003). It is argued that urbanization will influence the rate and pattern of economic growth through the impact of the size of cities on worker productivity; workers in cities are argued to benefit from agglomeration economies and network effects, which take place through processes of resource sharing, better matching, and more learning (Duranton, 2014). Hence, urbanization has been linked to clusters of firms and resources as well as deeper and more complex market structures (Rosenthal and Strange, 2004). However, urbanization remains an as yet unconsidered element in the munificence of the home country for the purposes of firm's internationalization.

We propose that urbanization affects internationalization of EMNCs, both directly by augmenting the resource munificence of the environment in which firms operate, and indirectly by influencing the extent to which firm internal tangible and intangible resources drive internationalization. The moderating effects occur because urbanization yields agglomeration effects which act to counter deficiencies in firms' own resources when making choices about internationalization. The factors driving urbanization – rural to urban migration and urban versus rural demographics and birth rates – are distinct from other phenomena usually employed in IB studies to characterize emerging markets; such as human endowments, infrastructure as well as formal and informal institutions (Wan and Hoskisson, 2003; Wright et al., 2005). Urbanization, the share of the national population living in urban areas, therefore captures a distinct dimension of the geographic and economic development of a country, and one which gives rise to agglomeration of a unique combination of producer and customer resources. These provide domestic companies with greater home economy munificence that may influence how such firms develop strategies for international diversification. They have particular relevance in an emerging market context because emerging economies are typically characterized as having a weak underlying resource base – in terms of human capital, physical capital and infrastructure (Wright et al., 2005). The munificence of the home country will have a greater impact on firm strategy and performance in economies that are resource constrained; urbanization generates agglomeration effects which, especially in emerging markets, act to substitute for inadequacies of the underlying resource base. Hence, building on Wan and Hoskisson's (2003) notion of munificent home country environments, we introduce urbanization as a new country level variable that helps explain variability in internationalization by EMNCs.

While Wan and Hoskisson (2003) focused on Western European countries and aggregated measures of home country munificence, to our knowledge, no empirical studies explore the impact of urbanization effects on internationalization in the context of emerging market countries. Though they are usually treated as a single category, there is actually great heterogeneity in the business environments of the countries from which EMNCs originate, affecting both the development of firm specific capabilities and the ability of firms from different contexts to exploit them. Thus, it is now recognized that even the BRICs (Brazil, Russia, India and China) differ widely in the specific configurations of home country institutional environments (O'Neill, 2012), and the variance in contexts increases further when we widen our scope to consider the full range of emerging markets including countries from Central Asia and Africa (Estrin and Prevezer, 2010; Hoskisson et al., 2013). This variation influences EMNCs ability and proclivity to expand internationally.

We contribute to the internationalization literature in general and to research on emerging market multinational companies in particular. The paper makes the following contributions to the IB literature. First, our paper identifies theoretically and empirically a new home country factor – urbanization – which drives EMNC internationalization directly, as well as influences the way that firm specific resources influence expansion in global markets. Furthermore, we do this within a multilevel theoretical framework for investigating the importance of contextual factors that may act as either enablers or barriers to firms' international expansion. The multilevel analyses also allows us to disentangle the country level effects that combine with firm level sources of competitive advantage to propel EMNCs abroad; allowing for country, industry, and firm-level variance greatly improves our ability to isolate specific characteristics that may help or hamper firms in their efforts to internationalize. Our unique empirical study uses both cross sectional and panel data estimations. The former dataset contains 592 EMNCs from 18 different countries in 2010, while our five year unbalanced panel follows a subsample of these firms over the period 2006–2010. Thus our paper represents one of the first truly comprehensive analyses of EMNC international expansion, allowing us to draw wide-ranging conclusions regarding EMNCs more generally as opposed to the often single-country studies in this literature (Jormanainen and Koveshnikov, 2012).

While our hypotheses only concern two levels of analysis (firm and home country), we show that accounting for industry level factors is needed in a comprehensive empirical explanation of the drivers of firm internationalization. We use variance decomposition to show that all levels are important independent and inter-related drivers of internationalization; 49% variance is at firm level while the remaining 51% are at industry and home country levels. Finally, we make a methodological contribution. Multilevel modeling with cross-classified nesting represents a more accurate way of modeling the complex influences of different level factors pertaining to firm internationalization (Andersson et al., 2014; Nielsen and Nielsen, 2010). We illustrate the importance of this methodology to IB phenomena and partake in the ongoing debate in the IB literature concerning methodological development (Wiersema and Bowen, 2011).

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