



# Internationalisation and its determinants: A hierarchical approach

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## ABSTRACT

This study builds a hierarchical model to examine how country-level institutional dimensions impact the individual-level factors on the internationalisation by early stage entrepreneurial firms. Drawing on multiple datasets, cross-level analysis is used to explicate the influence of a country's institution on the effects of the individual-level determinants on the internationalisation by early stage entrepreneurial firms, and this method enables the study of country-level specific effects. The results of the empirical research confirm the role of resource-based explanatory variables (i.e. innovative competence, business scale, technological commitment, and technological newness) in predicting internationalisation and also identify the positive moderating effects of institutions on this association.

## 1. Introduction

The drivers behind firms going international have been a subject of increasing interest in international business research since 1970. (Rialp, Rialp, & Knight, 2005; Wagner, 2004). Over the past three decades, scholars have presented various descriptive models of internationalisation. Gemunden (1991) noted that there are over 700 explanatory variables that have been advanced in the literature as determinants of internationalisation. Buckley et al. (2007) investigated the effects of outward foreign direct investment and found that outward foreign direct investment is positively related to host market economy. However, relatively few studies of international entrepreneurship have empirically investigated the cross-level association between motivation factors and the decision of early-stage entrepreneurs to internationalise in particular. Ilan, Yehekel, Lerner, & Zhang, (2013) is an exception. From a resource-based perspective, Ilan et al. (2013) used the resource-based and internationalisation theories to explain the export behaviour of Chinese entrepreneurial firms, but their research was only at the firm level and neglected the national level factors. Moreover, understanding the impact of home contextual factors helps us to theorise about and empirically compare international entrepreneurship behaviours around the world (Hayton & Cacciotti, 2013). The extant literature suggests that national factors also help predict early internationalisation over and above individual-level factors, such as entrepreneurial orientation and market orientation (Liu, Li, & Xue, 2011), business group affiliation, international experience, and technological and marketing resources (Gaur, Kumar, & Singh, 2014). Thus, the impact of the home-country context on the internationalisation needs to be better understood and integrated into the existing theoretical and conceptual

frameworks that explain the degree of internationalisation (Zander, McDougall-Covin, & Rose, 2015). Much less attention has been placed to the national institutions that could mobilise and enable resource-based factors to support internationalisation of entrepreneurial activities, and this neglect may have contributed to the inconsistent findings regarding the relationship between resource-based determinants and internationalisation.

In order to address the research gaps, this paper adopts a hierarchical approach to explain firms' internationalisation level from the resource-based view and national institutions based on Scott's (1995) well-established three institutional dimensions, namely, the regulative, normative and cultural-cognitive institutional dimensions. This paper responds to the call issued by Meyer, Estrin, Bhamik, and Peng (2009), Peng (2000), Peng (2003), Peng and Luo (2000) and Peng and Pinkham (2009) for more integration between institutional and resource-based views. It is therefore driven by two key questions: How do individual-level resource-based factors influence the internationalisation level of firms owned by those who are actively involved in starting a new business or who are managing a young business? To what extent does the national-level institution moderate the relation between resource-based factors and internationalisation?

## 2. Theoretical background

### 2.1. Resource-based view

To develop a more conceptually rigorous and parsimonious model of export behaviour, this paper draws on the resource-based view (RBV) of the firm (Barney 1991; Wernfelt, 1984). Early explanations of the

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drivers of international expansion were derived from the perspective that firms have specific intangible resources that form ‘competitive’ or ‘monopolistic’ advantages (Barney 1991). The term “resource” is widely conceived of as “anything that can be thought of as a strength or a weakness” of the firm. The resource-based view argues that resources that are valuable, rare, imperfectly imitable and imperfectly substitutable (Barney, 1991) are an organisation’s main source of sustainable competitive advantage from which sustained performance results (Conner, 1991; Peteraf, 1993). The resource-based view has in recent years become a major research paradigm that is guiding the inquiry into the antecedents of internationalisation (Hitt, Uhlenbruck, & Shimizu, 2006; Tseng, Tansuhaj, Hallagan, & McCullough, 2007; Westhead, Wright, & Ucbasaran, 2001). For example, in order to further knowledge about the bases of internationalisation, Hitt et al. (2006) assessed the importance of two firm resources, namely, human capital and relational capital and confirmed their positive effects on internationalisation. Tseng et al. (2007) analysed how firm resources affect changes in internationalisation process by proposing a framework that consists of knowledge-based and property-based resources. They found resource determinants to be driving forces behind the internationalisation process. Despite the widespread use of the resource-based view in the area of international business, firm-specific resources as tool to explain the different degree of internationalisation remain unexplored (Zander et al., 2015). Following Penrose (1959), who defined a firm as “a collection of physical and human resources” and pointed to the heterogeneity of these resources, this study identifies three sets of resources that encompass the resource domain of a firm, namely, entrepreneurial resources, organisational resources, and technological resources.

Entrepreneurial resources refer to the characteristics of business owners, who are primarily responsible for the growth of the firm (Penrose 1959). The relationship between decision-maker characteristics and the degree of internationalisation has been much-researched. RBV provides a theoretical framework in which the variable can be anchored. Early research by Miesenböck (1988) argued that the key variable in business internationalisation is the decision-maker in a firm. According to Urbano, Alvarez, and Turró (2013), the central mechanisms of the decision-maker include entrepreneurial spirit and entrepreneurial innovative competence. Entrepreneurial spirit is considered to have a significant impact on organisations, because it can guide entrepreneurs’ goal setting, opportunity discovery, opportunity exploitation, etc. (Bird, 1988). In addition, a principal mechanism through which an organisation develops new competitive advantage is through the pursuit of new initiatives – attempting to add new products to its current repertoire (Urbano et al., 2013). Vatne (1995) presented a model on the internationalisation of SMEs in manufacturing activities, suggesting that an entrepreneur’s spirit and competency may influence a firm’s ability to identify and acquire external resources. Later, O’Farrell, Wood, and Zheng (1998) extended the model to incorporate the internationalisation of SMEs engaged in business service activities. They asserted that a variety of demand-side factors affect the reasons for foreign market entry, whereas supply-side factors can influence a business service firm’s ability to internationalise.

Organisational resources, often proxied by business size and scale, are a measure of “managerial slack” indicated by the financial and physical resources at the disposal of the firm (Penrose 1959). Barney (1991) argued that business size and scale are indicators of the managerial and financial resources available in the firm, and to the extent that excess resources are available, a firm will look for opportunities for expansion. Bonaccorsi (1992) detected a positive relationship between large firm size and the intention of entrepreneurs to internationalise. This relationship is supported by numerous studies that focus on sales revenue size (O’Reilly, 1993; Westhead, 1995) or employment number (Westhead, 1995). Calofs (1994) found that while smaller firms certainly possess fewer resources than larger firms, they may nevertheless have appropriate resources to be involved in international activities.

Technological resources encompass the tangible and intangible technological assets of a firm. They are important factors in a firm’s product mobility across national boundaries. Prior research has supported the positive effect of technological intensity on export motivation (Karagozoglu & Lindell, 2000) and performance (Gemunden, 1991). In an examination of the internationalisation of 61 new ventures in the United States, Autio, Sapienza, and Almeida (2000) revealed that internationalisation is directly related to the use of product differentiation as a source of competitive advantage. Study from Knight and Cavusgil (2004) proposed that unique product and technology advantages contribute to the internationalisation of young firms. Zheng and Khavul (2005) argued that foreign firms can overcome the liability of foreignness by leveraging their “technological innovation capability”, allowing firms to specialise their offerings to customers. Thus, companies with a strong technological innovative capability will internationalise more rapidly than firms lacking such capabilities and will obtain a product advantage in the broader international market (Leiblein & Reuer, 2004).

## 2.2. The moderating effect of national institutions

While resources and capabilities are certainly important (Peng, 2003), recent work has suggested that strategies are moderated by the characteristics of the particular context in which firms operate (Meyer & Peng, 2005; Meyer et al., 2009; Peng, 2003; Peng & Luo, 2000). A number of scholars have suggested that export behaviour is not only driven by firm-specific resources as emphasised by traditional strategy research (Barney, 1991; Porter 1980), but is also a reflection of the formal and informal constraints of a particular institutional framework in which a firm is embedded (Oliver, 1997; Scott, 1995). Dunning and Lundan (2008) argued that the internationalisation process of a firm is enabled or constrained by a multitude of institutional forces, including elements that both promote and hinder the upgrading of existing resources and capabilities. Buckley et al. (2007) asserted that consistent and liberal regulatory policies enacted by home country governments can encourage firms to engage in expansion abroad. On the other hand, a weak institutional framework leads to high transaction costs in establishing new business relationships and inhibits potential transactions (Meyer, 2001). Hayton and Cacciotti (2013) argued that understanding the impact of home contextual factors is helpful to theorise about and empirically compare international entrepreneurship behaviours around the world. Based on research on Asian organisations, Peng (2002) argued that in addition to the existing theories – mainly competition based on firms’ resource and capabilities perspective (Barney, 1991), it is also necessary to adopt an institution-based view to collectively explain the differences in business strategies since “institutions govern societal transactions in the areas of politics (e.g., corruption, transparency), law (e.g., economic liberalization, regulatory regime), and society (e.g., ethical norms, attitudes toward entrepreneurship)” (Peng, Wang, & Jiang, 2008, p. 922). Two broad branches of institutional theory exist, with one primarily deriving from political science and economics and the other being principally based on sociology and organisational theory (Ahlstrom & Bruton, 2002; DiMaggio & Powell, 1991). The political science and economics branch contends that rules and procedures, and formal control are the drivers of human behaviours (North, 1990, 2005). North (1990) thus stated that institutions can be formal (constitutions, regulations, contracts, etc.) or informal (attitudes, values, norms, or rather the culture of a society). In contrast, the sociology and organisational theory branch argues that social norms, shared cultures, cognitive scripts, and schemas are the drivers of human behaviours (Ahlstrom & Bruton, 2002). Institutions are thus referred to as the less formally shared interaction sequences, and taken-for granted assumptions, which are derived from regulatory structures, societal norms, and cognitive scripts (DiMaggio & Powell, 1983, 1991). Scott (1995) integrates these two branches and formulates institutional forces into three categories, namely the regulative, normative and cultural-

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