



The international expansion of emerging-economy firms : The influence of path-breaking change and its antecedents

Kiattichai Kalasin

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« THE INTERNATIONAL EXPANSION OF EMERGING-ECONOMY FIRMS : THE INFLUENCE OF PATH- BREAKING CHANGE AND ITS ANTECEDENTS »

THESE

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*To my family and my true friends
To people who make the world better*

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ABSTRACT (EN)

The ownership advantage has been argued to be the driver of firms' international expansion. Multinational Enterprises (MNEs) expand abroad through the transfer of ownership advantages over competitors in the host market. These ownership advantages are derived from well-developed infrastructures and a competitive business environment. However, firms in emerging markets normally must deal with limited resource endowments, underdeveloped infrastructures, and ill-equipped institutional frameworks. Their country-factor endowments do not contribute to the competitive advantage of these firms. Nevertheless, we still can find that many emerging-market firms expand internationally. Therefore, the theoretical extension is needed. This dissertation introduces mechanisms that explain the international expansion of emerging-market MNEs (EM MNEs) into advanced economies. We propose path-breaking change as a complementary view. It is the driver of emerging-economy firms' international expansion into advanced economies. We argue that path-breaking change is a prerequisite for emerging-economy firms to build and, in turn, leverage their ownership advantages in advanced economies.

In addition, we further investigate the antecedents of path-breaking change. Building upon the upper-echelon theory, we assert that the composition of a top management team (TMT) and a board of directors (BOD) has an impact on the extent of a firm's path-breaking change. We argue that foreigners and executives with international exposure may bring new knowledge and introduce new management practices to their organizations. They may use such knowledge and skills to transform firms into more market-oriented entities. However, success in the domestic market prevents a firm from changing. Firms tend to build their capabilities upon their historical path trajectory. Hence, market leadership position, conglomerate diversification, and government ties deter firms from venturing into advanced economies.

ABSTRACT (FR)

L'avantage de propriété a été établi comme une des causes majeures de l'expansion internationale des entreprises, laquelle se fait grâce au transfert de ces droits. Cet avantage compétitif prend source dans des infrastructures de qualité. Néanmoins, les entreprises des pays émergents ont un accès limité aux ressources et à des infrastructures de qualité, sans compter les faiblesses du cadre institutionnel. Les facteurs des pays émergents ne soutiennent pas les entreprises dans le développement de leur avantage compétitif. Cependant, nous avons constaté que de nombreuses entreprises des marchés émergents se développent à l'international. Par conséquent cette étude présente les mécanismes qui expliquent l'expansion internationale des entreprises multinationales des pays émergents vers des pays développés. Nous suggérons que les changements radicaux en termes de routines contribuent à expliquer l'expansion des entreprises des pays émergents. Nous soutenons que ce type de changement radical est une étape indispensable pour que les entreprises des pays émergents puissent construire un avantage compétitif et entrer dans les économies avancées.

De plus, nous nous intéressons aux antécédents du changement radical des routines de l'entreprise. En nous appuyant sur la théorie de l'échelon supérieur, nous suggérons que la composition des équipes de direction a un impact sur les changements radicaux de routines. Nous soutenons le fait que les dirigeants étrangers et ceux disposant d'une expérience internationale peuvent apporter de nouvelles connaissances et pratiques de gestion dans leurs organisations, ce qui contribue à les rendre plus compétitives. Toutefois, le succès sur le marché domestique peut empêcher l'entreprise d'évoluer à l'international. Les entreprises ont tendance à construire leurs capacités dans le prolongement de leur trajectoire passée; une diversification conglomerale, des liens avec le gouvernement et une position de leader de marché peuvent empêcher les entreprises d'entrer dans les économies développées.

INTRODUCTION

INTRODUCTION (EN)

Emerging economies are found within countries that satisfy three criteria: (1) an average GDP per capita, (2) a rapid pace of economic development, and (3) government policies favoring economic liberalization and the adoption of a free-market system (Arnold & Quelch, 1998; Hoskisson *et al.*, 2000). Emerging economies fall into two groups; the first group is comprised of developing countries in Asia, Latin America, Africa, and the Middle East, while the second group is composed of transitional economies in the former Soviet Union and China (Hoskisson *et al.*, 2000). For the past two decades, the outward foreign direct investment (FDI) from these countries has grown remarkably. According to the *World Investment Report*, the outward FDI from developing countries and transitional economies is about 132 billion USD (UNCTAD, 2008), accounting for 15 percent of the world's outward FDI in 2008. The growing importance of emerging market MNEs (EM MNEs, hereafter) can be observed from the upsurge of research on this topic in the recent years (Hoskisson *et al.*, 2000; Wright *et al.*, 2005; Luo & Tung, 2007; Aulakh, 2007; Gammeltoft *et al.*, 2010).

The predominant view of international business theory is the ownership-advantage perspective, which argues that firms engage in international expansion when they seek to leverage their firm-specific advantages in new settings. This, in turn, allows them to overcome the liabilities of foreignness (Zaheer, 1995; 1997) and to achieve a competitive advantage over indigenous firms in the host country (Vernon, 1966; Hymer, 1976; Caves, 1971; Dunning, 1980; Dunning & Lundan 2008; Guillen & Garcia-Carnal, 2009).

In addition, some scholars argue that such ownership advantages of MNEs may be derived from the business environment of the home market. Firms in certain industries possess specific advantages that accrue due to the way their industries have developed within their home countries (Vernon, 1966; Porter, 1991; Schroath *et al.*, 1993; Peng *et al.*, 2008;

Dunning & Lundan, 2010). Vernon (1966) introduces the product-life-cycle model. He argues that the market environment can shape the capabilities of firms to introduce innovative products. Three factors contribute to the necessity of firms locating their production plants in a manner that enables them to manufacture innovative products within advanced economies. These factors are: (1) access to scientific knowledge, (2) capacity to comprehend scientific principles, and (3) opportunities to satisfy new wants associated with high average consumer incomes. Subsequently, in the growth phase, production is moved to similar countries with comparable supporting infrastructures, but with lower production costs.

Porter (1991) argues that the business environment is the major force in determining the competitive advantage of firms. The competitive advantage of firms is derived from the interaction between: (1) firms' strategies, (2) factor market conditions, (3) demand conditions, and (4) supporting industries and competitive rivalry. He notes that:

"The true origin of competitive advantage may be the proximate or local environment in which a firm is based. The proximate environment will define many of the input (factor) markets the firm has to draw on, the information that guides strategic choices, and the incentives and pressures on firms to both innovative and accumulate skills or resources over time. (p.110)

On the contrary, firms from emerging markets normally face various difficulties in institutional framework, supporting infrastructures, and country-resource endowments (Khanna & Palepu, 1997, 2006; Hoskisson *et al.*, 2000; Wright *et al.*, 2005; Luo & Tung, 2007; Aulakh, 2007; Peng *et al.*, 2008; Gammeltoft *et al.*, 2010). Hence, their home-market characteristics are less likely to enable these firms to build an ownership advantage to compete internationally.

Nevertheless, we still see a lot of evidence that these firms venture into the international market. This phenomenon brings up the following question: “*what factors drive the international expansion of these firms?*” In order to investigate this issue, we present three essays that focus on the causes and mechanisms that drive the international expansion of EM MNEs.

In the first essay, we examine the impact of path-breaking change on the international expansion of firms from emerging markets. We assert that the path trajectories of EM firms do not fit the requirements of international competition. The existing path trajectories of EM firms are normally shaped by underdeveloped institutional frameworks, inefficient factor markets, and former planned economies (Porter, 1991; Hoskisson *et al.*, 2000; Wright *et al.*, 2005; Luo & Tung, 2007; Aulakh, 2007; Gammeltoft *et al.*, 2010). Accordingly, EM firms tend to build their capabilities and advantages along domestic-path trajectories. Hence, EM firms tend to focus on building networks with governments, private networks, and other business groups (Hoskisson *et al.*, 2000). They also frequently develop into conglomerates (Khanna & Palepu, 2006). Although such a path trajectory may enable firms to gain competitive advantages in the domestic market, such advantages may not be transferred to the advanced economy market. Therefore, we argue that emerging-economy firms may need to engage in path-breaking changes before venturing abroad. Path-breaking changes enable firms to reconfigure their resource bases (Karim & Mitchell, 2000) and align path trajectories with the competition in advanced economies. Specifically, Path-breaking changes that provide first-world linkages and first-world mimetic isomorphism positively relate to the extent of an emerging-market firm’s international expansion into advanced economies.

In the second essay, we further investigate the antecedents of path-breaking change. Organizational path formation and change generally result from entrepreneurial decisions (Sydow *et al.*, 2009; Garud & Kanoe, 2010). Building upon the upper-echelon theory (Hambrick & Mason, 1984), we assert that the composition of a top management team (TMT) and a board of directors (BOD) has an impact on the extent of a firm's path-breaking change. Past experiences of a manager shape his or her cognitive base, values, knowledge, and skills (Hambrick & Mason, 1984; Lee & Park, 2008) and, in turn, influence his or her decisions on strategic organizational choices. We argue that foreigners and executives with international exposure may bring new knowledge and introduce new management practices to their organizations. They may use such knowledge and skills to transform firms into more market-oriented entities. Therefore, foreigners and executives with international exposure may lead firms in implementing path-breaking changes.

In the last essay, we examine the moderating effect of critical success on the relationship between path-breaking changes and the extent of EM firms' international expansion into advanced economies. Building on the behavioral theory of firms, we argue that conglomerate diversification, government ties, and market leadership positions deter firms to expand into advanced economies. Firms tend to repeat what succeeded for them in the past (Helfat *et al.*, 2007). In other words, firms tend to build their capabilities upon their historical path trajectory (Nelson & Winter, 1982). While these factors enable firms to gain advantages over competitors in their local market, they create organizational inertia, which deters firms from changing their businesses. Firms tend to preserve their paths in order to sustain their past successes in the domestic market (Levinthal & March, 1993; March, 1991). Therefore, in this essay, we argue that market leadership, conglomerate diversification, and government ties negatively moderate the relationship between path-breaking changes and the extent of an emerging-market firm's international expansion into advanced economies.

The International Expansion of Emerging Economy Firms: The Influence of Path-Breaking Change and its antecedents

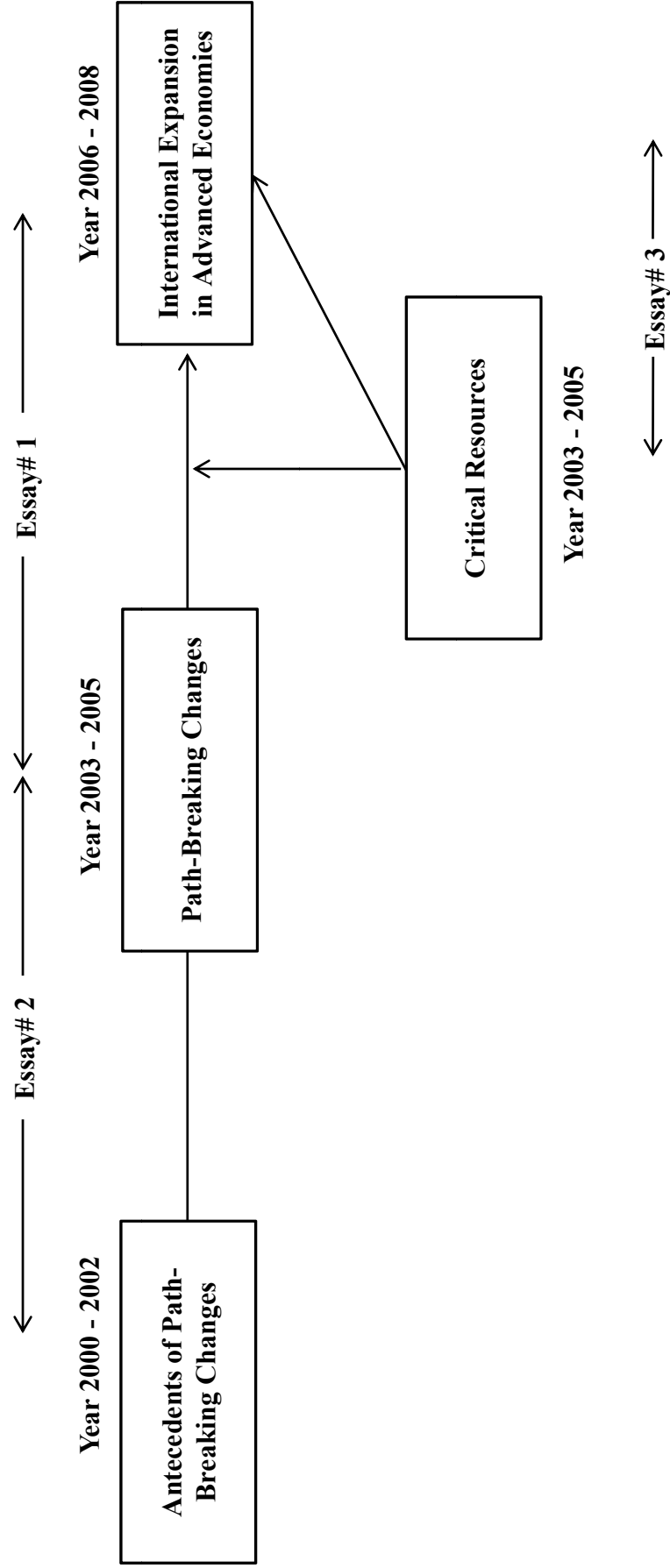


Figure 1: Dissertation Overview

INTRODUCTION (FR)

Les économies émergentes se trouvent dans les pays qui répondent à trois critères: (1) Un PIB moyen par habitant, (2) Un développement économique rapide, et (3) Des politiques gouvernementales favorisant la libéralisation économique et l'adoption d'un système de marché libre (Arnold et Quelch, 1998). Les économies émergentes se répartissent en deux groupes ; le premier groupe est composé de pays en développement d'Asie, d'Amérique latine, d'Afrique et du Moyen-Orient. Le second groupe est composé des pays à économie en transition, anciens membres de l'Union soviétique, et la Chine (Hoskisson *et al.* 2000). Au cours des deux dernières décennies, les investissements étrangers directs (IED) en provenance de ces pays a augmenté de façon remarquable. Selon le World Investment Report, l'IED en provenance des pays en développement et économies en transition est d'environ 132 milliards de dollars (UNCTAD, 2008), soit 15% de l'IDE mondial en 2008. On peut noter l'importance croissante des entreprises des économies émergentes par l'augmentation importante de la recherche à ce sujet ces dernières années (Hoskisson *et al.*, 2000 ; Wright *et al.*, 2005; Luo et Tung, 2007; Aulakh, 2007; Gammeltoft *et al.*, 2010).

Le paramètre dominant des théories des affaires internationales IED est la notion d'avantages des entreprises, qui fait valoir que les entreprises s'engagent dans une expansion internationale quand elles cherchent à tirer parti de leurs avantages propres sur les marchés internationaux. Ces ressources permettent aux entreprises de surmonter le désavantage d'être des compagnies étrangères (Zaheer, 1995, 1997) et d'avoir un avantage concurrentiel sur les entreprises domestiques des pays étrangers (Hymer, 1976; Caves, 1971; Dunning, 1980 ; Dunning & Lundan, 2008 Guillen & Garcia-Carnal, 2009; Hennart 2009).

En outre, certains chercheurs affirment même que de tels avantages des entreprises multinationales peuvent être tirés de l'environnement du marché intérieur. Dans certaines

industries, les entreprises possèdent des avantages spécifiques qui s'accumulent du fait de leur développement dans leur pays d'origine (Vernon, 1996 ; Porter, 1991 ; Schroath *et al.*, 1993 ; Peng *et al.*, 2008; Dunning & Lundan, 2010).

Vernon (1966) introduit le modèle de Cycle de durée de vie du produit (*Product Life Cycle*). Il fait valoir que l'environnement du marché peut avoir une influence sur la capacité des entreprises à introduire des produits innovants. Trois facteurs contribuent à la nécessité des entreprises à fabriquer des produits novateurs dans les économies avancées. Ces facteurs sont: (1) Accès aux connaissances scientifiques, (2) La capacité à comprendre les principes scientifiques et (3) Les possibilités de satisfaire aux nouvelles demandes d'une clientèle à revenu élevé. Par la suite, en phase de croissance, la production est délocalisée dans des pays similaires ayant des infrastructures d'appui comparables, mais à moindre coût.

Porter (1991) propose que l'environnement est la principale force dans la détermination de l'avantage compétitif des entreprises. Leur avantage concurrentiel provient de l'interaction entre: (1) Les stratégies des entreprises, (2) Les conditions factorielles, (3) Les conditions de la demande, et (4) Les industries de support et la rivalité concurrentielle. Il note que (p.110):

“The true origin of competitive advantage may be the proximate or local environment in which a firm is based. The proximate environment will define many of the input (factor) markets the firm has to draw on, the information that guides strategic choices, and the incentives and pressures on firms to both innovative and accumulate skills or resources over time”.

Au contraire, les entreprises des pays émergents doivent normalement faire face à des difficultés diverses au sein du cadre institutionnel, des infrastructures de support, et des

ressources locales (Khanna & Palepu, 1997; 2006; Hoskisson *et al.*, 2000; Wright *et al.*, 2005 Luo & Tung, 2007 Aulakh, 2007; Peng *et al.*, 2008; Gammeltoft *et al.*, 2010). De ce fait, les caractéristiques de leur marché intérieur ne leur permettent pas d'aboutir à un avantage pour faire face à la concurrence internationale.

Cependant, de nombreux exemples démontrent que ces entreprises s'aventurent sur le marché international. Ce phénomène soulève la question de savoir quels les facteurs entraînent l'expansion internationale de ces entreprises. Par conséquent, pour enquêter sur de tels facteurs, les auteurs présentent trois propositions qui mettent l'accent sur les causes et les mécanismes entraînant le développement à l'international des entreprises des pays émergents.

Dans le premier essai, nous examinons l'impact du changement radical de trajectoire sur l'internationalisation des entreprises des pays émergents. Nous affirmons que les trajectoires des entreprises des pays émergents ne correspondent pas aux exigences de la concurrence internationale. Les trajectoires existantes des entreprises des pays émergents se caractérisent normalement par des cadres institutionnels insuffisants, des marchés aux facteurs inefficaces, et des économies historiquement planifiées (Porter, 1991; Hoskisson *et al.*, 2000 ; Wright *et al.*, 2005; Luo & Tung, 2007; Aulakh, 2007; Gammeltoft *et al.*, 2010). En conséquence, les entreprises des pays émergents ont tendance à renforcer leurs capacités et leurs avantages selon des trajectoires domestiques. Donc, les entreprises des pays émergents ont tendance à concentrer leurs efforts sur le développement de réseaux avec les gouvernements, les réseaux privés et autres groupes d'affaires (Hoskisson *et al.*, 2000). Elles se transforment souvent en conglomérats (Khanna et Palepu, 2006). Bien que cette trajectoire puisse permettre à ces entreprises de gagner des avantages concurrentiels sur le marché domestique, ces avantages ne peuvent pas toujours être transposés à l'international. Par conséquent, nous soutenons que

les entreprises des pays émergents peuvent avoir besoin de changer de trajectoire avant de s'aventurer sur le marché international. Lesdits changements de trajectoire permettent aux entreprises de redéfinir leurs bases de ressources (Karim & Mitchell, 2000) et d'aligner leur trajectoire sur les exigences de la concurrence internationale.

Dans le deuxième essai, nous examinons plus avant les antécédents du changement de trajectoire. La formation et le changement de la trajectoire organisationnelle résultent généralement de décisions d'entreprise (Sydow *et al.*, 2009). S'appuyant sur la théorie des échelons supérieurs (*Upper-Echelon Theory*) (Hambrick et Mason, 1984), nous affirmons que la composition d'une équipe de direction générale et d'un conseil d'administration a un impact sur l'ampleur du changement de trajectoire d'une entreprise. Les expériences passées d'un directeur forme sa base cognitive, ses valeurs, ses connaissances et ses compétences (Hambrick et Mason, 1984; Lee et Park, 2008). Ces facteurs affectent à leur tour ses décisions sur les choix stratégiques de l'organisation. Nous soutenons que les directeurs ayant eu une expérience internationale et les étrangers peuvent apporter de nouvelles connaissances et introduire des nouvelles pratiques de gestion dans leurs organisations. Ils peuvent utiliser ces connaissances et ces compétences pour transformer les entreprises en entités plus orientées vers l'économie de marché, donc pour conduire les entreprises à mettre en œuvre des changements radicaux.

Dans l'essai final, nous examinons la relation entre l'effet modérateur de les facteurs critiques de success sur les relations entre l'étendue des changements radicaux des entreprises et le développement international des multinationales des pays émergents sur des pays développés. S'appuyant sur la Théorie du comportement des entreprises (Behavioral Theory of Firms), nous soutenons que la la diversification en conglomérat, les liens avec les gouvernements et la position de leader sur le marché intérieur dissuadent les entreprises de

s'engager dans des changements radicaux de trajectoire. Les entreprises ont tendance à répéter ce qui leur a réussi dans le passé (Helfat *et al.*, 2007). En d'autres termes, les entreprises renforcent leurs capacités en suivant leur trajectoire historique (Nelson et Winter, 1982). Bien que ces facteurs permettent aux entreprises d'obtenir des avantages sur leurs concurrents domestiques, ils créent une inertie organisationnelle qui les dissuade d'y apporter des changements. Les entreprises tendent à préserver leurs trajectoires habituelles afin de soutenir leurs succès antérieurs sur le marché domestique (March, 1991; Levinthal et March, 1993,). Par conséquent, dans cet essai, nous soutenons que la position de leader du marché intérieur, la diversification en conglomérat, et les liens gouvernementaux ont un effet négatif sur la modération des liens entre les changements radicaux et le développement international des multinationales des pays émergents sur des pays développés.

CHAPTER 1

The International Expansion of Emerging-Market MNEs:

An Evolution and Literature Reviews

The International Expansion of Emerging-Market MNEs:

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During the past four decades, researchers have tried to investigate the causes of MNE internationalization via foreign direct investments. Since the seminal work of Hymer (1976), one of the common explanations has centered on the firm-specific advantages that cause internationalization. Among major International Business (IB) theories, this main stream of research proposes that firms expand abroad through the transfer of firm-specific advantages over competitors in the host market (Vernon, 1966; Caves 1971; Hymer, 1976; Dunning, 1995; Dunning & Lundan, 2008). In order to exploit competitive superiority, firms transfer their ownership advantages to host markets via foreign direct investments (Erramilli, 1997). This stream of research receives extensive empirical support. According to Guillen & Garcia-Canal (2009), there is strong evidence that the degree and extent of international expansion are associated with technological capabilities (Dunning, 1995; Khavul *et al.*, 2007, 2010), innovation (Chung-Ming L & Hang-Yue, 2004), management capabilities (Delery & Doty, 1996; Guillen & Garcia-Canal, 2009), brand (Bonaglia *et al.*, 2007), and operational efficiency (Elango & Pattnaik, 2007).

In addition, some scholars argue that the origins of such firm-specific advantages are derived from home-country characteristics (Vernon, 1966; Porter, 1991; Peng *et al.*, 2008; Dunning & Lundan 2010). Nevertheless, this stream of research fails to explain the international expansion of EM MNEs, whose respective country environments are less likely to enable them to build competitive superiority to compete in the international market (Hoskisson *et al.*, 2000; Uhlenbruck *et al.*, 2003 Luo & Tung, 2007; Aulakh, 2007; Peng *et al.*, 2008; Gammeltoft *et al.*, 2010).

At the country level (Vernon, 1966), despite facing limited country resource endowments, underdeveloped infrastructures, and inefficient institutional frameworks (Khanna & Palepu, 1997, 2006), many firms from emerging markets can still expand their business and operations into international markets (Mathews, 2006; Yiu *et al.*, 2007; Chittoor *et al.*, 2008; Guillen & Garcia-Canal, 2009).

At the industry level (Porter, 1991), this model does not explain the differences among firms in the same industries or business environments. While some firms aggressively venture abroad, other firms remain in the domestic market. It also does not explain the differences in the degree of internationalization undertaken by EM firms. While Red Bull is extensively marketed internationally, its major domestic competitor, M-150, still focuses energy-drink product sales in Thailand and nearby regions. Other examples of firms that remain in the domestic market are China's Wahaha Group, India's Bharti Televentures, Turkey's Koc, and Dogus Business Group (Khanna & Palepu, 2006).

The international expansion of firms from third-world countries has received attention from scholars since the 1980s (Lall, 1983; Wells, 1983). Such expansion was termed as the "first wave" of internationalization of third-world firms by Dunning (1998). Building upon the ownership-advantage argument, Lall (1983) and Wells (1983) argued that the proprietary advantages of these firms are low input cost, cheap labor, and knowledge of third-world market conditions and institutions. Therefore, these firms expand into other similar, less developed countries. The prominent examples were the international expansion of firms from Argentina and India during 1970s.

Dunning (1998) categorized the international expansion of newly industrialized economies (NIEs) as a second wave of firms from developing countries. These countries include Hong Kong, Korea, Taiwan, and Singapore. These firms heavily focused on mostly regional exportation in the beginning phases of business and eventually expanded to the rest of the world in subsequent stages (Chittoor, 2009). All of these countries are currently considered as advanced economies (IMF, 2008).

The literature concerning the third wave of the international expansion of emerging market can be traced back to the 1990s (Lecraw, 1993; Young *et al.*, 1996). Unlike those in the first and the second wave of international expansion, these MNEs operate internationally using multiple entry modes ranging from acquisition, strategic alliances, international joint ventures, research consortiums, and wholly owned subsidiaries (Guillen & Garcia-Canal, 2009). The third-wave expansion includes many countries that are rich with natural resources and are much larger in size. Various pieces of literature have referred to them as “late comers” (Bartlett & Ghoshal, 2000; Mathews, 2002, 2006; Li 2007), “inferior challengers” (Mathews, 2002, 2006; Cuervo-Cazurra & Genc, 2008, Barnard, 2010), “unconventional multinationals” (Li, 2003), “challengers” (BCG, 2008), and “emerging giants” (Khanna & Palepu, 2006; Ghemawat & Hout, 2008). While they may not possess the most sophisticated technology, marketing skills, and management capabilities, they have become key actors in foreign direct investment (UNCTAD, 2006; Guillen & Garcia-Canal, 2009)

In 2000, the *Academy of Management Journal* launched a special issue on strategy research in emerging economies, edited by Hoskisson *et al.* (2000). However, the focus of this special issue centered on the characteristics and institutions of emerging markets and how to do business in emerging markets. One out of 13 articles investigated the international expansion

of firms from emerging markets. Aulakh *et al.* (2000) examine the impact of export strategies on the performance of EM MNEs. The remaining 12 articles investigated various topics, including the characteristics of business groups, corporate downsizing and change, and how first-world firms can tap business opportunities in the emerging markets.

In 2005, the *Journal of Management Studies* launched its special issue, “Strategy research in emerging economies: Challenging the conventional wisdom,” edited by Wright *et al.*, (2005). One out of eight articles addressed the outward FDI of EM firms. Brouthers *et al.*, (2005) examined the impact of export strategies of EM firms on based on the firms’ export performance.

Subsequently, the number of articles that examine the mechanisms behind the international expansion has increased significantly. Researchers began to pay a lot of attention to the drivers of EM MNEs’ international expansion. In 2007, the *Journal of International Business Studies* also launched a part focused issue titled “International Expansion of Emerging Market Businesses.” In this part focused issue, all five articles examined the drivers of international expansion and the performance of EM MNEs. In the same year, the *Journal of International Management* launched a special issue titled “Emerging Multinationals from Developing Economies: Motivations, Paths and Performance,” edited by Aulakh. In this issue, the articles cover various topics, including drivers, performance, and location choices of these international expansions.

Again, the *Journal of International Management* published a special issue in 2010. The title of this special issue was “Emerging Multinationals: Outward Foreign Direct Investment from Emerging and Developing Economies.” This special issue published eight articles, edited by Gammeltoft *et al.* Three of them focus on the drivers of the internationalization.

Therefore, the focus of existing literatures has shifted from the business environment in emerging markets to the characteristics of international expansion of EM MNEs. Nevertheless, these special issues have been very much focused on internationalization rather than international diversification. Besides these special issues, there are some other articles that have been published in regular journal issues during the past two decades. Hence, we categorized the existing literature into three groups, all of which are the drivers of international expansion of EM MNEs: (1) “in general,” (2) “into developing countries,” and (3) “into advanced economies.” (For literature that focuses on other dimensions, such as performance, entry modes, and location choices, please kindly refer to Chapter 5.)

1.1 International Expansion of EM MNEs “In General”

The majority of existing literature about the causes of international expansion falls under these categories. We labeled this particular category the international expansion of EM MNEs “in general” because these articles address the international expansion of EM MNEs from a broader perspective. There is no specific indication of whether firms will expand into advanced economies or developing countries.

INSERT TABLE 1.1 ABOUT HERE

Moreover these articles frequently used the degree of internationalization (DOI), Foreign Sales/Total Sales ratio, as their dependent variables. We summarize the exhaustive lists of literature in Table 1.1.

1.2 International Expansion of EM MNEs into “Developing Countries”

In table 1.2, we further provide a summary of the literature that investigates the international expansion in similar institutional environments. According to our search from business source complete database, there are five articles in this group (Khanna & Palepu, 2006; Filatotchev *et al.*, 2007; Cuervo-Cazurra, 2007; Cuervo-Cazurra & Genc, 2008; Li & Yao, 2010).

INSERT TABLE 1.2 ABOUT HERE

The major arguments in this literature focus on ownership advantage, in which firms can transfer knowledge and experiences from doing business in institutional-void contexts to enter a foreign market with a similar institutional environment.

1.3 International Expansion of EM MNEs into “Advanced Economies”

Table 1.3 provides a summary of literature which investigates the international expansion of EM MNEs into advanced economies. In this category, there is one theory article and there are three empirical papers. Lecraw (1993) focuses on the motivation to expand to developed countries. Thomas *et al.* (2007) examines the impact of linkages and knowledge gained from first-world partners on the likelihood that a firm will survive in advanced economies. Miller *et al.* (2008) investigates the impact of ethnic identity and breadth and depth of expansion on survival rate of EM MNEs. In addition, Yamakawa *et al.* (2008) provide a multi-lens theory to investigate this phenomenon.

INSERT TABLE 1.3 ABOUT HERE

In Tables 1.1 through 1.3, we can observe that the majority of literature focuses on the drivers that cause EM MNEs to expand abroad “in general.” However, the literature that investigated such expansion into developing countries or into advanced economies is underrepresented. Therefore, in order to fill the gap of existing literature, this dissertation focuses on the international expansion of EM MNEs into advanced economies.

Table 1.1 International expansions of EM firms “in general”

Author(s)	Contribution	Method	National & Industry Contexts	Theory	Dependent Variable	Independent Variables	Sign	Empiric Support
Young et al (1996) Internationalization and Competitive Catch-up Proc: Case Study Evidence on Chinese MNE <i>MIR</i>	The relationship between inward and outward FDI	Case Study	5 SOEs from China	IT	Inward / Outward International Expansion	1) Export 2) Alliance with foreign firms at home 3) Asset accumulation 4) Hong Kong Connection	+ + + +	N/A N/A N/A N/A
Erramilli et al (1999) Internationalization Theory and Korean Multinationals <i>APJM</i>	Testing Uppsala model	Empirical	568 FDI 1973 -90	Uppsala	# Year firm invest to gain majority ownership	1) Psychic Distance 2) Geographical Distance	+ +	Y Y
Bartlett & Ghoshal (2000) Going Global: Lessons from Late Movers <i>HBR</i>	1) The factor, which deter EM firm to go abroad 2) The strategies, which firm should adopt to go abroad	Theory	N/A	Org Learning RBV	Internationalization	1) Breaking out of marginal mind-set 2) Strategies for Late Movers - Benchmarking & sidestep - Confront & Challenging 3) Learning How to learn	+ + +	N/A N/A N/A
Tsang (2002) Learning from overseas venturing experience: The case of Chinese family businesses <i>JBV</i>	internationalization approach of Chinese family business	Case Study	10 Singaporean firms	Org Behavior Org Memory	Chinese Family Business	1) authority and control 2) Formal structure 3) organizational memory	+ - + +	N/A N/A N/A N/A
Acedo & Florin (2006) An entrepreneurial cognition perspectives on the int'l of SMEs <i>Journal of International Entrepreneurship</i>	Why some CEOs identify and pursue international expansion opportunities, while some others don't	Survey	222 SMEs	Cognitive Behavior	Internationalization	<i>Direct Effect</i> 1) Firm's age, size, market coverage 2) CEO's international posture 3) CEO's risk perception <i>Mediating Variable</i> CEO's risk perception 4) Firm's age, size, market coverage 5) CEO's international posture	 + + - - -	Y Y Y Y Y Y
Mathews J. (2006) Dragon multinationals: New Players in 21st century globalization <i>APJM</i>	The LLL framework Linkage Leverage Learning Alternative to OLI	Theory	N/A	RBV / IT	International Expansion	1) Forming alliance 2) Ownership advantage 3) Learning from partner	+ + +	N/A N/A N/A

Table 1.1 International expansions of EM firms “in general” (Continued)

Author(s)	Contribution	Method	National & Industry Contexts	Theoretical Approach	Dependent Variable	Independent Variables	Sign	Empiric Support
Bonaglia et al. (2007) Accelerated International by EM-MNEs : The case of the white goods sector <i>J of World Business</i>	Factors, which drive International Expansion	Case Study	3 Firms from China, Mexico, & Turkey	RBV	International Expansion	1) Foreign Partner 2) R&D intensity 3) Organization Innovation 4) Investment in brand building	+ + + +	N/A N/A N/A N/A
Buckley et al. (2007) The determinants of Chinese outward foreign direct investment <i>JIBS</i>	Macroeconomics factors & Country-resource endowments	Empirical	Chinese firms	Macroecon Business Environment & IO Uppsala Network	Outflow FDI	1a) Absolute host market size 1b) Host market size per capita 1c) Host market growth 2) Host country endowments of natural resources 3) Host country endowments of ownership advantages 4) Host country political risk 5) Ethnic Chinese in the host population 6) Liberalization of FDI policy 7) Depreciation of the host country's currency 8) Host country inflation rates 9) Exports to the host country 10) Imports from the host country 11) Geographic distance 12) Degree of openness of the host economy	+ + + + + - + + + - +	Y Y Y Partial N N Y Y N N Y Y N N
Elango & Pattnaik. (2007) Building capabilities for international operations through networks: A study of Indian firms <i>JIBS</i>	Learning from parental network	Empirical	794 Indian Firms	KBV Org Learning FSA	Internationalization	1) Differentiation Advantage 2.1) Market Power 2.2) operational efficiency 3) int'l exp. of the parental network 4) degree of parental network scope 5) foreign partner ownership	no rel + + + + +	Y Y Y Y Partial Y
Khavul et al. (2007) Learning during and after Internationalization by Entrepreneurial Firms From Emerging Economies <i>AOM Proceedings</i>	Learning Process of EM Entrepreneurial firms in the internationalization	Empirical (Survey)	216 Firms from China, India & South Africa <10 years old	RBV	Employment Growth	1) Age at Timing of entry 2) Commitment of resource 3) Network 4) Technology Development	inv U inv U + +	Y Y Y Y

Table 1.1 International expansions of EM firms “in general” (Continued)

Author(s)	Contribution	Method	National & Industry Contexts	Theoretical Approach	Dependent Variable	Independent Variables	Sign	Empiric Support
Klein & Wücker (2007) Emerging global contenders South African experience <i>J of Int'l Management</i>	The impact of CSAs and FSAs on the internationalization of EM-Firms	Case Study	3 Firms South Africa	CSA & FSA	Internationalization	1) Home Market Dominate 2) Leadership 3) Sustain local domination 4) Asset exploitation + seeking	+ + - +	N/A N/A N/A N/A
Petrou A. (2007) Multinational banks from developing versus developed countries: Competing in the same arena? <i>J of Int'l Management</i>	The comparison between EM - MNBs and DM-MNBs in the internationalization process	Empirical (Survey)	98 Banks from EM	RBV/IT	MNBs Origin from EM	1) Follow the Client 2) Situated in financial center 3) Situated both in EM and DM 4) Ownership of foreign subsidiaries	+ - + +	Y Y Y Y
Pananond P. (2007) The changing dynamics of Thai multinationals after the Asian economic crisis <i>J of Int'l Management</i>	The impact of economic crisis on the firms strategies	Case Study	Thai 2 MNEs	IT RBV	Strategies - Networking Cap. - Technological Cap.	Before and After Crisis Before Crisis After Crisis	+ +	N/A N/A N/A
Yiu et al. (2007) International venturing by EM firms: the effects of capabilities, network and Corporate Entrepreneurship <i>JIBS</i>	1) mediating effect of corp. entrep 2) moderating effect of home biz environment on the relationship between ownership advantage and the internationalization	Empirical (Survey)	274 Chinese Firms	RBV, Relational Assets	Inter'l Venturing: (4 likert scale)	<i>IV</i> 1) Technological Achievement 2) R&D Intensity <i>Moderating Variables</i> 3) Home competition 4) Export Intensity <i>Mediating Variables</i> 5) Corporate Entrepreneurship	+ + + + + +	Y Y N Partial Partial Y
Chittoor et al (2009) Third-World Copycats to Emerging Multinationals: Institutional Changes and Organizational Transformation in the Indian Pharmaceutical Industry <i>Organization Science</i>	The impact of discontinuous institutional changes and business group on the internationalization	Empirical	206 Indian firms in Pharma Industry	RBV Relational Assets	Product market Internationalization Firm Performance	1) Access int'l tech resources 2) Access int'l financial resources 3) Moderation effect of market liberalization on 1) & 2) 4) Business group affiliation 5) Moderation effect of group affiliation on 1) & 2) 6) Product market Internationalization	+ + + - - ∩	Y Y Y Y Y Y

Table 1.1 International expansions of EM firms “in general” (Continued)

Author(s)	Contribution	Method	National & Industry Contexts	Theoretical Approach	Dependent Variable	Independent Variables	Sign	Empiric Support
Fabian et al (2009) Understanding Decision to Internationalize by small and Medium-sized Firms Located in an EM <i>MIR</i>	Factors that drives a decision to internationalize in the first place	Survey	168 SMEs from Colombia	cognitive model of networks , IT	Internationalization	1) Int'l of Key customers 2)Int'l of important local suppliers 3) Int'l of domestic competitors 4) foreign competitor at home 5) foreign pull factors 6) domestic push factors 7) Int'l of social network firms 8) Int'l of similar firms 9) Success of firms that int'l 10) Normative pressure	+ + + + + + + + + +	N N Y Y Partial N N N N N N
JF Hennart (2009) Down with MNE-centric theories! Market entry and expansion as the bundling of MNE and local assets <i>JIBS</i>	The impact of complementary asset and knowledge asset on entry mode	Theory Paper	N/A	TCE	residual rights of MNEs	The Level of difficulty of 1) knowledge transaction 2) complement asset transaction 3) their interaction effect	+ - +	N/A N/A N/A
Duysters et al (2009) Internationalization and technological catching up of emerging multinationals; a comparative case study of China's Haier group <i>Industrial & Corporate Change</i>	Case study of Intenational expansion of Haier Group	Case Study	Haier Group	RBV	Internationalization	Evolution of Heir Group 1) Improved Quality 2) Gain domestic dominance 3) Regional expansion & Exports 4) Target Niche in foreign market 5) Alliances 6) Acquisition 7) Reorganization of R&D	+ + + + + + +	N/A N/A N/A N/A N/A N/A N/A
Tolentino (2010) Home country macroeconomic factor and outward FDI of China and India <i>J of Int'l Management</i>	Macroeconomic factor	Empirical	China & India	Macroeconom	Outward FDI Trade openness Real Lending Rate Real eff. Exchange rate	1) Previous outward FDI 2) Previous degree of trade openness 3) Previous Real Lending Rate 4) Real effective exchange rate	+ + + +	Partial N Partial N
Kalotay & Sulstarova (2010) Modelling Russian Outward FDI <i>J of Int'l Management</i>	Testing the existing theories in Russian Firms Contexts	Empirical	Russian Firms	Home Factor State owner Mkt seeking Resour seeking Asset Seeking Uppsala	Outward FDI	1) Russian GDP growth 2) State participation 3) Host market size 4) Natural resources of host country 5) Downstream Market 6) Geographical distance 7) Cutural Proximity	+ + + + + - +	Y N/A Y Y Partial N Y
Tan & Meyer (2010) Business groups outward FDI: A manager resource perspectives <i>J of Int'l Management</i>			184 Busines groups from emrging market		Internationalization	1a) Managerial foreign education 1b) Managerial foreign working exp. 2) Local ties	+ + -	Y Y Partial

Table 1.2 International expansions of EM firms in developing countries

Author(s)	Contribution	Methodology	National & Industry Contexts	Theoretical Approach	Dependent Variable	Independent Variables	Sign	Empiric Support
Khanna & Palepu 2006 Emerging Giants: Building World-Class Companies in Developing Countries <i>HBR</i>	International Strategies for EM-MNEs Institutional void context	Theory	N/A	FSA Institutional-void knowledge	Survival Rate	1) Psychic Distance 2) Similar developing business environment	- +	N/A N/A
Filatotochev et al. 2007 FDI by firms from NIEs in EMs: corporate governance, entry mode, and location <i>JIBS</i>	Decision to undertake FDI in emerging markets	Empirical	Taiwanese Firms expand to China Electrical & Textile Industries	Uppsala	% Ownership of overseas affiliate in China	1) Family share ownership 2) Non-family insider share ownership 3a) Domestic financial inst share ownership 3b) Foreign financial inst share ownership 4) economic & cultural links	- - - + +	Y N Y Y Y
Cuervo-Cazurra 2007 Sequence of value added activities in the multinationalization of developing country firms <i>J of Int'l Management</i>	Factors that determine the internationalization sequence of firms from developing countries	Case Study	20 Firms from Latin America	Motives Uppsala Eclectic	Type of Subsidiaries in EM -Production vs Marketing	1) Production cap. & image 2) Seek location advantages 2a) Technology 2b) Natural resources 2c) access market 3) difficult to transfer product	- + + + + +	N/A N/A N/A N/A N/A N/A
Cuervo-Cazurra & Gence 2008 Transforming disadvantages into advantages: developing-country MNEs in the least developed countries <i>JIBS</i>	The impact of similarity of Institutional context on the existence of EM MNE	Empirical	49 least developed countries	IT	Prevalent of developing country MNEs	1) voice and accountability 2) political stability 3) government effectiveness 4) regulatory quality 5) rule of law 6) corruption control	- - - - - -	N Partial Partial Y Y Y
Li & Yao 2010 The role of reference groups in international investment decision by firms from emerging markets <i>J of Int'l Management</i>	Roles of reference groups	Empirical	FDI into China 1979 - 1995 EM MNEs from 32 developing countries	IT	FDI entries / year in China from a particular home country	1a) Same country FDI density 1b) Emergign-economy FDI density 1c) Developed-economy FDI density <i>Moderating Effect of</i> 2a) Politic uncertainty on 1a 2b) Politic uncertainty on 1b 2c) Politic uncertainty on 1c <i>Moderating Effect of</i> 3a) Institution distance on 1a 3b) Institution distance on 1b 3c) Institution distance on 1c	+ + - + + - - - -	Y Y Y Y Y Y Y N N

Table 1.3 International expansions of EM firms into advanced economies

Author(s)	Contribution	Method	National & Industry Contexts	Theoretical Approach	Dependent Variable	Independent Variables	Sign	Empiric Support
Lecraw (1993) Outward Direct Investment by Indonesian Firms: Motivation and Effect <i>JIBS</i>	Motive and Impact of Internationalization	Survey	24 Firms from Indonesia 1986 - 1990	Asset Seeking	1) Capabilities 2) Entered into developed countries	1a) Export-enhancement motive 1b) Export-enhancement motive 2a) Operation-extending motive 2b) Operation-extending motive	+ + + -	Y Y Y Y
Thomas et al. (2007) Experience of EM Firms The role of cognitive bias in developed market entry and survival <i>MIR</i>	The impact of cognitive bias, experience ,on the survival rate of EM firms in DM	Empirical	104 Latin American Firms	Org. Learning KBV, experience Cognitive bias	Likelihood - entry - survival	1) Alliance with Fisworld firm at Home market 2) Developed Market failure experience 3) Developed market experience	+ entry - survival - entry + survival + entry + survival	Y Y Y Y Y Y
Miller et al. (2008) Knee deep in the big muddy: The survival of EM firms in developed markets <i>MIR</i>	The impact of ethnic identity on the survival rate of EM firms in DM	Empirical	1066 Latin American Firms 1989 - 2003	Ethnic identity RBV	survival rate	1) Local ethnic density 2) Geographical breadth 3) Local depth	+ ∩ ∩	Y Y Y
Yamakawa et al. (2008) What drives New Ventures to Internationalize from Emerging Market to Developed Market <i>Entrepreneurship Theory and Practice</i>	Factor which drives EM new ventures to go to DM	Theory	N/A	Industry-Based View RBV IT	Inter'l expansion from EM to AM	1) competition at home 2) Industry' Technological intensive 3) Learning motive 4) VC from AM as investor 5) Alliances with AM Firms 6) Entrepreneurial Orientation 7) Unfavourable regulatory environment at home 8) Favourable regulatory environment at AM 9) Potential to enhance legitimacy 10) Entrepreneurs exp. in AM	+ + + + + + + + + +	N/A N/A N/A N/A N/A N/A N/A N/A N/A N/A

CHAPTER 2

Essay 1: The International Expansion of Emerging Economy Firms into Advanced Economies: The Influence of Path-Breaking Change

ABSTRACT

Existing literature investigates the drivers behind the international expansion of emerging-market multinational enterprises (MNEs) to less developed countries, where firms can exploit knowledge in similar institutional-void business environments. However, if a firm expands into advanced economies with well-developed institutions, such a firm-specific advantage may lose its value when transferred. This study investigates the drivers of the international expansion of emerging-market MNEs to advanced economies. We argue that path-breaking change is a prerequisite for emerging-economy firms to build and leverage ownership advantages to enter advanced economies. Path-breaking change is a change that significantly alters the established trajectory and set a new track. They enable firms to transform themselves to become more market-oriented enterprises. We investigated 855 firms from 18 emerging economies over a 6-year period. These firms did not possess any foreign subsidiary in advanced economy at the beginning of our observation period. We found strong support that for emerging-economy firms, path-breaking change that provides first-world linkages and first-world mimetic isomorphism positively correlates with the extent of international expansion into advanced economies.

2.1 INTRODUCTION & LITERATURE REVIEW

The major characteristics of emerging countries include political instability, macroeconomic instability, an inefficient legal framework, infrastructure deficiencies, and scarcity in resource endowments, the latter of which manifests as shortages of skilled labor and thin capital markets (Hoskisson *et al.*, 2000; Wright *et al.*, 2005; Luo & Tung, 2007; Aulakh, 2007; Peng *et al.*, 2008; Gammeltoft *et al.*, 2010). The lack of strong legal frameworks in these countries accentuates the problems of opportunism, bribery, and corruption (Hoskisson *et al.*, 2000; Weitzel & Berns, 2006; Luo, 2006; Cuervo-Cazurra, 2006; 2008). Inefficient legal frameworks, unstable political structures, and underdeveloped infrastructures in emerging economies result in inefficient factor markets (Khanna & Palepu, 1997; Cuervo-Cazurra & Genc, 2008). As a result, firms from emerging markets (EMs) may find it difficult to develop ownership advantages (Vernon 1966; Porter, 1991) that fit the requirements of the first-world market. Instead, they tend to develop competitive advantages that are suitable to the business environment in their home and similar markets (Hoskisson *et al.*, 2000; Khanna & Palepu, 1997; 2006; Cuervo-Cazurra & Genc, 2008; Li & Yao, 2010).

In emerging economies, governments normally play an important role in providing critical resources to firms, enabling them to operate in the market (Hoskisson *et al.*, 2000). Significant support and protection from government may allow EM firms to grow and accumulate the resources for capabilities development. The degree of regulatory restrictions and intervention significantly affects the performance of the local firm (Kale & Anand, 2006). Furthermore, regulators may adopt policies favoring corporations that support a specific political party. When regulators place political goals over economic efficiency, they can distort the manner in which markets function (Khanna & Palepu, 1997; Cuervo-Cazurra, 2006; 2008)

Moreover, many emerging countries are in a transitional stage, changing from planned economies to market-based economies (Hoskisson *et al.*, 2000; Uhlenbruck *et al.*, 2003; Wright *et al.*, 2005). Property rights and resource allocations are determined by a country's government and central planning unit (Hoskisson *et al.*, 2000; Uhlenbruck *et al.*, 2003). Hence, firms in emerging markets heavily rely on their network relationships and closed business-government ties to gain access to critical resources from the government or institutions (Hoskisson *et al.*, 2000; Cuervo-Cazurra, 2006, 2008; Luo, 2006; Kale & Anand 2006; Peng *et al.*, 2008; Meyer *et al.*, 2009). Such network relationships in emerging economies are formed in response to underdeveloped factor markets (Caves, 1989; Yiu *et al.*, 2007; Peng *et al.*, 2008; Meyer *et al.*, 2009). Hence, firms from transitional economies may decide to strengthen their relationship advantages to operate profitably in their domestic market (Levinthal & March, 1993). Their paths are significantly shaped by the current business environments of emerging economies (Vernon, 1966; Porter 1991; Peng *et al.*, 2008; Dunning & Lundan, 2010).

In addition, EM MNEs are generally considered inferior challengers and latecomers by some scholars (Mathews, 2002, 2006; Li, 2003, 2007; Cuervo-Cazurra & Genc, 2008; Guillen & Garcia-Canal, 2009; Rongping, 2009; Barnard, 2010). On average, these firms possess less advanced technology, less managerial and marketing expertise, and fewer financial resources to compete with the incumbent MNEs (Bartlett & Ghoshal, 2000; Mathews, 2006; Cuervo-Cazurra & Genc, 2008; Guillen & Garcia-Canal, 2009; Barnard, 2010). Furthermore, they possess less legitimacy and an inherited negative image, making it more difficult for these firms to enter the host market. For example, labels such as "Made in China," "Made in Mexico," or "Made in Thailand" or are considered inferior by customers (Bartlett & Ghoshal, 2000).

Furthermore, one stream of research argues that particular firm-specific advantages may not only be molded by *home-country* characteristics (Vernon, 1966; Porter, 1991; Peng *et al.*, 2008; Dunning & Lundan, 2010), but are also contingent upon the characteristics of *host* locations (Erramilli, 1997; Lall, 1983; Cuervo-Cazurra & Genc, 2008; Miller *et al.*, 2008; Barnard, 2010). A given firm characteristic or resource may represent an advantage to the firm only in the context of a particular location. Consequently, some scholars highlight the idea that it is better for EM MNEs to venture into countries with similar institutional frameworks and insufficient economic resources (Hu, 1995; Khanna & Palepu, 2006; Cuervo-Cazurra & Genc, 2008; Li & Yao 2010). For example, a Thai company may find it much easier to expand its business to Laos or Vietnam than to venture into Japan or Australia. By expanding into similar economies, EM firms can leverage their knowledge of the institutional-void environment to enter other emerging economies or less developed countries (Khanna & Palepu, 2006; Cuervo-Cazurra & Genc, 2008; Li & Yao 2010). Nevertheless, this research stream has some limitations. It fails to examine the international expansion of EM MNEs into advanced countries. Furthermore, there is no explanation provided for global champions from emerging markets who enter multiple host markets into advanced economies. These firms include China's, Haier, Huawei, Galanz, and Lenovo; India's Dr. Reddy's Laboratories, Infosys, Ranbaxy, Tata Group, and Wipro; Mexico's Cemex, (Khanna & Palepu, 2006); and Thailand's Red Bull. This phenomenon raises a significant question for IB scholars: *What factors drive EM MNEs to expand into advanced economies?*

In addressing the theoretical gap, we assert that EM MNEs' existing paths, which are shaped by inefficient business environments, may not fit the requirements of market competition in advanced economies. We further argue that path-breaking changes (Karim & Mitchell, 2000; Sydow *et al.*, 2009) are the major drivers to unlock EM MNEs to enable them to engage in international expansion into advanced economies. Path-breaking change is the change that

significantly alters the established trajectory and set a new track (Karim & Mitchell, 2000; Sydow *et al.*, 2009). EM MNEs must change and evolve toward a business model that does not rely on government lobbying (Hoskisson *et al.*, 2000; Kale & Anand, 2006; Luo, 2006) but, rather a market-oriented business model that responds to the market requirements of advanced economies. Path-breaking change that provides first-world linkages and first-world mimetic isomorphism positively correlates with the extent of international expansion into advanced economies.

To compete with the first world, global-specialist MNEs in their home markets (advanced economies), EM MNEs need to reconfigure their businesses to align with the requirements of the advanced economy market, which are significantly different from those in their domestic market (Bartlett & Ghoshal, 2000; Uhlenbruck *et al.*, 2000; Meyer, 2006; Chittoor *et al.*, 2009). These differences encompass product and service standards, quality, price, product portfolio, organizational routines, corporate cultures, organizational forms, and human resources (HR) practices (Hoskisson *et al.*, 2000; Uhlenbruck *et al.*, 2003; Brouthers *et al.*, 2005; Khanna & Palepu, 2006; Cuervo-Cazurra & Genc, 2008; Black & Morrison, 2010).

Furthermore, they have to change themselves to compete in a game with very different rules when faced with competition from incumbent, first-world MNEs in advanced economies. For example, government ties do not yield a competitive advantage for a Thai conglomerate to compete against German competitors in Germany. To meet these new requirements, EM firms need to reconfigure their business capabilities, whether by adding, upgrading, divesting, or modifying their resource bases and changing their organizational routines. Such changes help a firm to shift its organizational path to a new trajectory and to address market requirements in the first-world countries.

2.1.1 Contribution

This paper contributes to the following areas. In addition to the existing international business theories, this paper puts forth the notion of path-breaking change (Karim & Mitchell, 2000) as a complementary view that aims to explain international expansion of EM MNEs into advanced economies. We assert that path-breaking change is an antecedent of the firm-specific-advantage argument (Hymer, 1976; Caves, 1971; Dunning, 1980; Dunning & Lundan, 2008). We see path-breaking change as a prerequisite before firms can build and, in turn, leverage their ownership advantages in overseas markets. Path-breaking change allows firms to reconfigure (Karim & Mitchell, 2000; Sydow *et al.*, 2009) and align their resource bases (Uhlenbruck *et al.*, 2003; Chittoor *et al.*, 2009) to the rules of market competition in advanced economies. Subsequently, firms can acquire or develop their resource bases and capabilities along with their new path trajectories (Nelson & Winter, 1982; Levitt & March, 1988; Sydow *et al.*, 2009).

By developing the path-breaking perspective, we aim to complement the existing theories with new insights that make it possible to better account for the international expansion of EM MNEs into advanced economy markets. Although this paper focuses on firms from emerging markets, the path-breaking perspectives are applicable to firms from advanced economies (Meyer, 2006) as well as Third World countries. To some degree, a firm needs to enact changes prior to venturing abroad. When entering the international market, incumbent firms from advanced economies may need to reconfigure their ownership advantage to align with the requirements of international competition. For example, a European business school may need to change its admission system so that it is aligned with the international standard. GMAT is increasingly being adopted by European business schools that aspire to compete in the international market. Furthermore, their administrative systems, instruction languages, and curriculums are being re-designed to fit the requirements of international competition.

Nevertheless, we expect that the path-breaking changes required from EM MNEs to expand into advanced markets are significantly greater than those of incumbent MNEs from developed countries, whose economies are more market-oriented, enjoy a more efficient institutional framework, and operate in more competitive industries. Furthermore, in addition to the international business research stream, we expect that the path-breaking-change perspective can be extended to other areas of firm behavior to examine a variety of organizational outcomes.

INSERT TABLE 2.1 ABOUT HERE

Second, this paper contributes to the literature on the international expansion of EM MNEs. It provides a cause of international expansion of global champions from emerging economies that enter into advanced economies. While the existing literature provides the driving force behind the international expansion of EM MNEs in less developed countries or other emerging markets (Erramilli, 1997; Wright *et al.*, 2005; Khanna & Palepu, 2006; Aulakh, 2007; Luo & Tung, 2007; Cuervo-Cazurra & Genc, 2008; Li & Yao 2010), this study provides a theoretical extension that investigates the cause of international expansion by EM MNEs into advanced economies.

Third, this paper contributes to the literature on strategic change. The question of whether a firm should conform to or depart from past behaviors still prompts major debate among organizational researchers (Durand *et al.*, 2007). Theorists who propose the conformity view argue that changes cause deviance from norms and, in turn, trigger environmental sanctions (Dimaggio & Powell, 1983; Hannan & Freeman, 1989). However, another stream of research argues that radical changes need not lead to negative outcomes for organizations (Durand *et*

al., 2007). We expect that this paper will shed some light on the above debate, at least in the context of international expansion. It supports the notion that change can lead to positive outcomes for organizations (Durand *et al.*, 2007). We theorize that changes may allow firms to discover new opportunities and strengthen their organizational capabilities (Uhlenbruck *et al.*, 2003; Chittoor *et al.*, 2009). Finally, this paper examines how path-breaking change can unlock companies, enabling them to internationalize into advanced economies.

2.2 THEORETICAL DEVELOPMENT

2.2.1 Routines and Path Dependence

The terms “path dependence,” “path dependency,” and “path-dependence process” are widely used in the literature on management (Sydow *et al.*, 2009). However, there is no clear definition of path dependence among organizational researchers (Vergne & Durand, 2010). Therefore, before we develop our concept of EM MNEs, we will devote this section to a discussion of the theoretical notions of routines, path dependence, and path-breaking changes.

Routines are identifiable patterns of activities embodied in human or capital assets (Nelson & Winter, 1982; Karim & Mitchell, 2000). They are recurrent collective phenomena (Grant, 1996; Nelson & Winter, 1982; Karim & Mitchell, 2000). Organizational routines have been regarded as the primary means by which organizations accomplish much of what they do (Cyert & March 1963; Nelson & Winter, 1982; Bromiley & Flemming, 2002). The organizational literature explains the prevalence of organizational routines based on the need for cognitive efficiency and the reduction of complexity. Organizational routines are a product of organizational learning. To maximize efficiency and legitimacy, organizations use routines to carry out their work process (Feldman & Pentland, 2003).

Routines are normally firm-specific, tacit, and co-specialized with other routines, resulting in knowledge regarding what a firm is able to accomplish (Karim & Mitchell, 2000). The combination of routines can create critical resources and capabilities for firms (Wernerfelt, 1984; Grant, 1996). Such a combination of routines and critical resources determines a firm's initial settings, which are also shaped by their home-market institutions (Porter, 1991; Garud *et al.*, 2010; Dunning & Lundand, 2010). We argue that the initial conditions of firms are very important in that they serve as a springboard for firms to establish themselves, survive, and compete in the market (Vernon, 1966; Porter, 1991; Garud *et al.*, 2010; Vergne & Durand, 2010; Dunning & Lundand, 2010). Organizations are created out of the specific technological, economic, political, and cultural resources available in the founding context (Johnson, 2007).

Subsequently, firms' past investments and repertoire of routines contribute to their path dependence (Teece *et al.*, 1997; Karim & Mitchell, 2000; Sydow *et al.*, 2009). The major mechanism here is a self-reinforcing process. From the view of organization sociologists, this process is known as organizational imprinting (Stinchcombe, 1965), wherein the reproduction of organizational routines leads firms to subsequently survive far into the future with their founding structures largely intact because the latter continue to be efficient (Johnson, 2007). Accordingly, the current position of firms is often shaped by the paths they have traveled (David, 1985; 2001), resulting in the imprinting of former decisions and solutions on present and future realities. All human activities and organizational processes are imprinted by their history (Sydow *et al.*, 2009; Garud *et al.*, 2010).

Furthermore, the importance of path dependence is accentuated when increasing returns are taken into account (Teece *et al.*, 1997; Sydow *et al.*, 2009). The notion of increasing returns refers to positive feedback and self-reinforcing processes (Sydow *et al.*, 2009). The sources of

increasing returns include network externalities (Katz & Shapiro, 1985), the presence of complementary assets and supporting infrastructure, learning by doing, and scale economies in production and distribution (Teece *et al.*, 1997). In turn, increasing returns may eventually lead to lock-ins (David, 1985; 2001) or inflexibility. When a lock-in occurs, other alternatives are likely to cease to be feasible (Sydow *et al.*, 2009). Hence, from the above discussion, we develop a path-dependent process divided into four phases, which are 1) initial conditions, 2) self-reinforcement or imprinting, 3) increasing returns, and 4) lock-in.

However, organizational routines and path dependence create their own problems. Their characteristics make firms change in a path-dependent manner and, as a result, firms are shaped by history (Nelson & Winter, 1982; Levitt & March, 1988; Karim & Mitchell, 2000; Sydow *et al.*, 2009). Therefore, many scholars argue that organizational routines are a source of inertia, inflexibility, and mindlessness (Feldman & Pentland, 2003). Organizations tend to repeat existing routines, evoking old solutions for new problems, even though these routines may not lead to higher performance (Newman, 2000; Bromiley *et al.*, 2001).

2.2.2 Path-Breaking Changes

Path-breaking change is a change that significantly alters the established trajectory and set a new track (Karim & Mitchell, 2000; Sydow *et al.*, 2009). It is realized to a superior alternative (Sydow *et al.*, 2009). The actor must deliberately unlock the path with a great effort (Garud & Kanoe, 2001; Bassanini & Dosi, 2001; Sydow *et al.*, 2009). The trigger for path-breaking changes may come from an internal source and/or external pressure (Karim & Mitchell 2000; Uhlenbruck *et al.*, 2003; Karim, 2006; Chittoor *et al.*, 2009). The internal source may derive, for example, from the visionary leadership of the top management team, while the external sources can be market competition, institutional changes, and technological

advancements. Accordingly, firms may consider reconfiguring their resource bases to address a firm's strategic direction and/or environmental changes.

During the routines reformation process, firms require multiple trials to find superior sets of routines and a new organizational path. Time is required to narrow down the potential solutions in forming an organizational path. Not all cases of competing solutions fit new organizational paths (Sydow *et al.*, 2009). Solutions that favor a particular type of new decision or new action pattern may do so. Consequently, new organizational routines can be seen as a product of organizational learning, which promotes reduced variability, standardization, and the avoidance of failure (Feldman & Pentland, 2003). Because routines encode organizational capabilities and knowledge, they are seen as a key component of organizational learning (March, 1991; Levitt & March 1998). They are conceptualized as a way to store knowledge and capabilities (Nelson & Winter, 1982).

Simultaneously, organizational learning occurs through new organizational routines that are repeated and modified. Organizational learning includes first-order and higher-order learning (Newman, 2000). First-order learning deals with incremental changes in routines within the existing schema. We label these change path-reinforcing changes. On the other hand, higher-order learning (Winter, 2003) involves the search for new routines and schemas rather than mastery of existing routines. We label these changes path-breaking changes. Therefore, we can consider the relationship between organizational learning and path-breaking changes and path reformation as a co-evolution process. Meanwhile, path-reinforcing changes can enable first-order learning; path-breaking changes allow firms to achieve higher-order capabilities. In turn, both of such learning will allow firms to modify their routines either to improve or change their sets of routines.

2.2.3 Path-Breaking Change & International Expansion of Emerging-Economy Firms into Advanced Economies

In this section, we further develop the intervening mechanisms between path-breaking changes and the international expansion of EM MNEs into advanced economies. Not all path-breaking change will lead EM firms to expand into advanced economies. Instead, path-breaking changes that navigate EM firms to the *market-oriented, critical juncture* (Sydow *et al.*, 2009; Garud & Kanoe, 2010), and subsequently allow EM firms to form a market-oriented path trajectory, will enable EM firms to expand into advanced economies. We, therefore, present two types of path-breaking changes that navigate EM firms to the *market-oriented, critical juncture*. These include first-world linkages and first-world mimetic isomorphism.

First, path-breaking changes that provide linkages to first-world market knowledge will lead EM firms to expand into advanced economies. These linkages will help EM firms reconfigure their business to overcome a *liability of outsidership* (Johanson & Vahlne, 2009) and gear toward a *market-oriented path*. Linkages have an impact on foreign market selection (Coviello & Munro, 1995, 1997; Methews, 2006; Johanson & Vahlne, 2009). Furthermore, knowledge is developed in a relation (Johanson & Vahlne, 2009), and market-specific knowledge is the critical kind of knowledge (Forsgren, 2002; Petersen, Pedersen, & Sharma, 2003; Johanson & Vahlne, 2009). This specific type of path-breaking change navigates EM firms to the *market-oriented, critical juncture* in a formation phase of path creation (Sydow *et al.*, 2009; Garud & Kanoe, 2010). Subsequently, EM firms can build their capabilities upon market-oriented paths (Sydow *et al.*, 2009), resulting in various transferable ownership advantages (Hymer, 1976; Caves, 1971; Dunning, 1980; Dunning & Lundan, 2008) over local competitors in the advanced economies.

Second, based on the concept of mimetic isomorphism (DiMaggio & Powell, 1983), path-breaking changes that mimic the business model of first-world firms will lead EM firms to expand into advanced economies. Mimetic isomorphism can be defined as achieving conformity with imitation (Brouthers *et al.*, 2005). It provides rational bandwagons (Abrahamson & Rosenkopf, 1993) of imitative decisions, strategies, and behaviors. Through imitation, firms can justify their strategic choices. By imitating first-world MNEs, EM MNEs can develop new paths toward the *market-oriented, critical juncture* (Sydow *et al.*, 2009; Garud *et al.*, 2010). As a result, by building capabilities upon the new market-oriented path, EM MNEs can develop transferable ownership advantage (Hymer, 1976; Caves, 1971; Dunning, 1980, Dunning & Lundan, 2008) and expand into advanced economies.

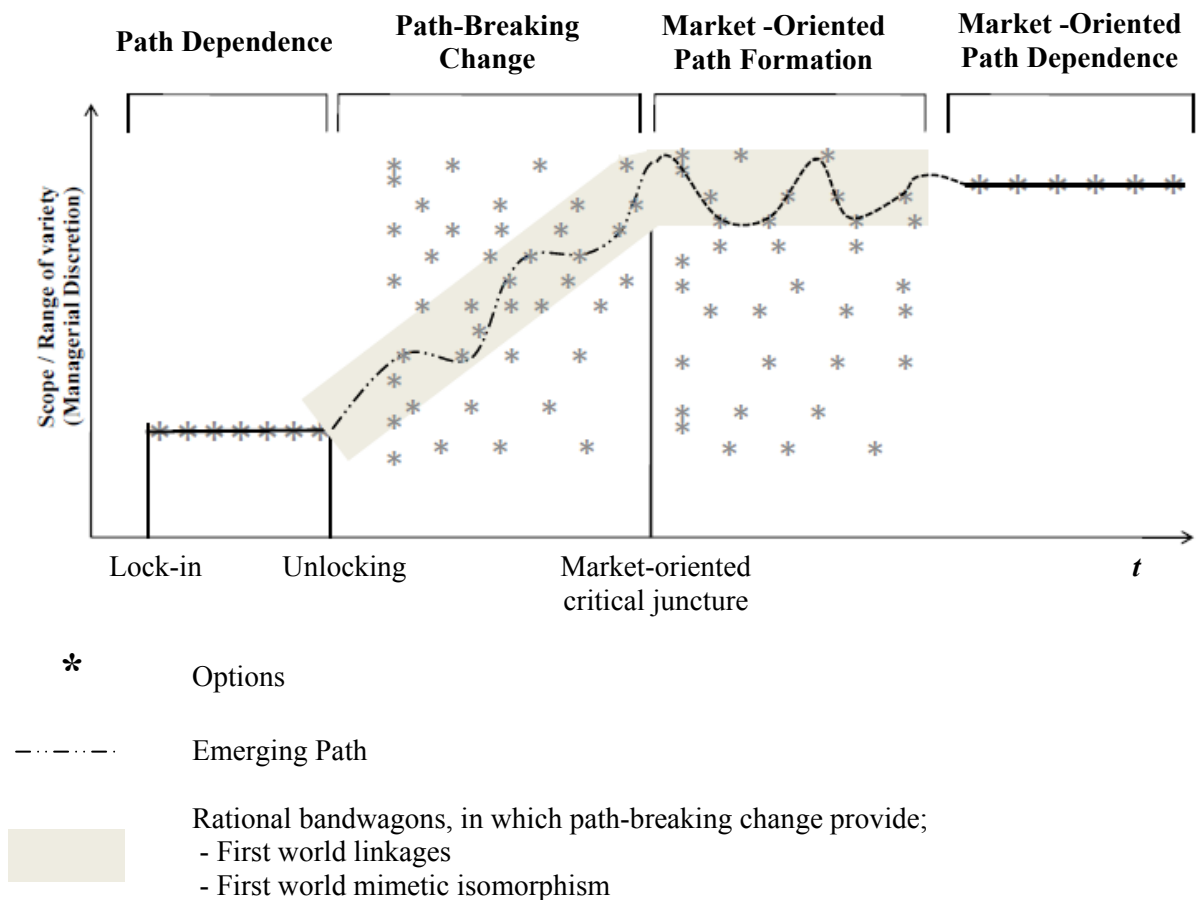


Figure 2.1: The constitution of a market-oriented path
(Adapted from Sydow, 2009)

2.3 HYPOTHESES

We now turn to examining the types of path-breaking changes that are likely to pre-exist EM MNEs' forays into advanced economy markets. We identified three such changes: corporate governance reform, divestiture of unrelated businesses, and overseas research and development (R&D).

2.3.1 Corporate governance reform (Mimetic isomorphism)

Most emerging-market companies are frequently controlled by the founding family and do a relatively poor job of enforcing shareholders' legal rights, resulting in a need to improve accounting practices and corporate transparency (La Porta *et al.*, 1999; Coombes & Watson, 2001; Peng *et al.*, 2008). In the emerging market, the key conflicts are not *principal-agent* conflicts. Rather, the key conflicts are *principal-principal* conflicts between two classes of principals, namely controlling shareholders and minority shareholders (Peng *et al.*, 2008; Young *et al.*, 2008). The concentration of ownership and the unification of ownership and management lead managers to be subjected to less pressure from outside investors and other monitors who demand accountability, transparency, and strategic renewal (Carney, 2005; Peng *et al.*, 2008; Young *et al.*, 2008).

Due to ownership concentration, controlling shareholders (often a family or business elites) do not really want to engage in risky projects (Peng *et al.*, 2008). According to the Agency theory (Jensen & Meckling, 1976), the principal and agent tend to have risk preference. This effect is accentuated in family businesses in emerging economies, in which owners and managers are the same agents (Peng *et al.*, 2008). Critically, the majority parts of their fortunes are invested in their own companies. Therefore, expansion into advanced economies poses a significant risk for founding family. These family controlled businesses tend to stay in domestic markets or expand into nearby regions (Weidenbaum, 1996; Tsang, 2002).

Furthermore, controlling shareholders do not really want to share control with anybody (Peng *et al.*, 2008). As a result, corporate governance does not function properly, as the board of directors has difficulty monitoring and controlling the top management team (Peng *et al.*, 2008). Therefore, the controlling shareholders frequently make decisions to serve their own interests, leading to the expropriation of rents from minority shareholders and bond holders (Chang, 2003). Hence, the effectiveness of corporate governance in emerging markets is frequently called into question (Morck *et al.*, 2005; Young *et al.*, 2008).

Therefore, we argue that corporate governance reform among EM MNEs is a means to engage in path-breaking changes. These changes mimic the first-world MNEs business model. Hence, the changes provide a rational bandwagon for EM firms to develop their paths toward a market-oriented, critical juncture (Abrahamson & Rosenkopf, 1993; Brother *et al.*, 2005). Corporate governance reform allows firms to alter their ownership concentration (Tuschke & Sanders, 2003). Ownership changes that reduce the degree of control concentration will promote the separation between ownership and management. The agent is more likely to take risks to expand into advanced economies. The strategic decision making of the top management team is, therefore, aligned to the market-based competition rather than to founding members' risk preference (Jensen, & Meckling, 1976).

Moreover, such changes in corporate governance reform are enacted in the firm's board structure, accounting standards, and transparency acts. With transparent accounting standards, board members and shareholders can effectively monitor the firm's decisions (Fama & Jensen, 1983). Stringent accounting standards can help firms increase their transparency and, at the same time, reduce their information asymmetry and monitoring costs. All stakeholders will have a chance to evaluate the firm's strategy and, in this way, they can directly and indirectly influence the strategy of the firm.

From the above discussion, we expect that corporate governance reform will contribute to a firm's ability to transform itself in order to become a more market-oriented enterprise (Abrahamson & Rosenkopf, 1993; Brother et al., 2005). It redefines the path trajectory of the firm, potentially making it more competitive, enabling it to take a higher level of risk, and allowing it to build new capabilities upon a new market-oriented path (Sydow et al., 2009). As a result, EM MNEs expand into advanced economies through the transfer of ownership advantages over competitors in the host market (Hymer, 1976; Caves, 1971; Dunning, 1980; Dunning & Lundan, 2008 Guillen & Garcia-Carnal, 2009; Khavul, 2010).

Hypothesis 1: Engaging in corporate governance reform positively relates to the extent of an emerging-market firm's international expansion into advanced economies.

2.3.2 Divestiture of unrelated business (Mimetic isomorphism)

Although the conglomerate corporation has become something of a dinosaur in advanced economies, it has been argued that this organizational form fits the business environment of emerging markets (Khanna & Palepu, 1997; Elango & Pattnaik, 2007; Chittoor *et al.*, 2009). We can find a lot of evidence that highly diversified firms are profitable in emerging markets. Such firms include business houses in India, groups of firms in Thailand, holding companies in Turkey, and grupos in Latin America (Daekwan *et al.*, 2004). Khanna and Palepu (1997, 2006) argue that conglomerate diversification is a strategy that firms use to counter inefficient factor markets. The conglomerate organization frequently acts as an institution and fills institutional voids in the factor markets.

However, such competitive advantage may not be transferrable to advanced economies. Much past research has shown that single business firms or firms with related businesses achieve better performances than firms diversified into multiple unrelated businesses (Rumelt,

1982; Chatterjee 1986; Chatterjee & Wernerfelt, 1991; Montgomery, 1994). Divestments would free up the top management team (Penrose, 1959). It helps EM MNEs to overcome managerial and financial resources constraints, and in turn, to focus on building their new capabilities upon the new path trajectories toward a market-oriented critical juncture (Sydow et al., 2009) through a mimetic isomorphism mechanism (Abrahamson & Rosenkopf, 1993; Brouthers et al., 2005). Accordingly, the new market-oriented business model has been developed to take advantage of capabilities seeking, which leads to path-dependent patterns of growth (Dierickx & Cool, 1989) along the new market-oriented path trajectory. As a result, it creates new ownership advantages that are transferable (Hymer, 1976; Caves, 1971; Dunning, 1980; Dunning & Lundan, 2008; Guillen & Garcia-Carnal, 2009; Khavul, 2010) to the advanced economies.

Hypothesis 2: Engaging in unrelated business divestment positively relates to the extent of an emerging market firm's international expansion into advanced economies.

2.3.3 Overseas R&D facilities (First world linkages and mimetic isomorphism)

Setting up R&D facilities in foreign countries is becoming significant not just as a source of new knowledge for the entire corporation (Feinberg & Gupta, 2004) but also as a source of routine change inside a company. Learning has emerged as a key element in the internationalization of R&D. By setting up the overseas R&D facilities, EM firms can gain access to new knowledge, technology, and expertise that is not available in their home market. They can benefit from local-factor endowments and potential knowledge spillover from the host country (Zejan, 1990; Feinberg & Gupta, 2004). These spillover effects are in the form of technology, R&D management, norms, values, and cultures. The knowledge spillover can be both from external sources, such as markets and institutions, and from internal sources, such as employees.

As mentioned earlier, knowledge is embedded in organizational routines. Therefore, by accessing new resources, firms can reconfigure their resource bases and change their organizational routines, particularly the routines of R&D units and product-development functions. This helps EM firms develop new routines to achieve new sets of product specifications, design norms, technological requirements, and quality standards. Hence, firms can break out from their local standards in the domestic market (Bartlett & Ghoshal, 2000; Chittoor *et al.*, 2009). Then, EM MNEs build their capabilities along the market-oriented path through their first-world linkages (Coviello & Munro, 1995, 1997; Methews, 2006; Johanson & Vahlne, 2009) and mimetic isomorphism mechanism (Abrahamson & Rosenkopf, 1993; Brouthers *et al.*, 2005). Such mechanisms navigate EM firms to develop a new path toward the market-oriented, critical juncture and to form a market-oriented path (Sydow *et al.*, 2009; Garud *et al.*, 2010). As a result, EM MNEs can develop transferable ownership advantage (Hymer, 1976; Caves, 1971; Dunning, 1980; Dunning & Lundan, 2008; Guillen & Garcia-Carnal, 2009; Khavul, 2010) and expand into advanced economies. Hence, we present the following hypothesis:

H3: Engaging in overseas R&D activities positively relates to the extent of an emerging market firm's international expansion into advanced economies.

2.4 DATA AND METHODS

2.4.1 Research Setting

We examined firms in the electrical, electronics, and pharmaceutical industries (SIC 28, 35, 36). These industries are the top three industries in terms of the number of firms in the Osiris database. The list of countries was selected from the MSCI Emerging Market Index of 2008, published by Morgan Stanley Capital International, Inc. We dropped South Korea and Taiwan from this list because these two countries are generally perceived as Asian Tigers (Nelson & Pack, 1999) and generally categorized as second-wave international expansion by developing countries (Dunning 1998; Mathews, 2006). Furthermore, we dropped Israel from the list because the IMF categorized Israel as a country with an advanced economy (IMF, 2008).

- | | | |
|------------------|--------------|------------|
| 1. Argentina | 2. Brazil | 3. Chile |
| 4. China | 5. Colombia | 6. India |
| 7. Indonesia | 8. Malaysia | 9. Mexico |
| 10. Morocco | 11. Pakistan | 12. Peru |
| 13. Philippines | 14. Poland | 15. Russia |
| 16. South Africa | 17. Thailand | 18. Turkey |

2.4.2 Sample and Data Collection

This paper focuses on the outward foreign direct investment (FDI) from emerging-market MNEs. Exports are excluded in this study. We obtained the data from secondary sources. The company list was obtained from the Osiris database over the 2003 to 2008 time period. To be included in the sample, a firm must have been incorporated in one of the above 18 emerging countries, while the subsidiaries of foreign MNEs were excluded.

Subsequently, we excluded firms that already possessed foreign subsidiaries in first-world countries in the year 2003. Hence, there is no single firm in our dataset that possessed a foreign subsidiary in an advanced economy country in 2003.

We collected the data from multiple databases and sources: Osiris, Thomson One Banker, Zephyr, and annual reports. Unfortunately, in some countries, annual reports are not available in English. To address this problem, MBA students from the above-listed countries were assigned to code data from the companies' annual reports. These data include the number of foreign subsidiaries in each foreign country, the ownership percentage of the top ten shareholders, overseas R&D activities, state-owned, business segment information, and R&D ratio. To code the data, we organized a one-day formal training session for the participating MBA students. Subsequently, the MBA students worked closely with the authors for one week in a face-to-face environment to ensure the consistency of the data collection. After that, we used various means, including telephone calls, Skype conversations, instant messaging (via MSN), and email, to communicate with our research assistants during the data collection period. The authors met with the research assistants once a week to track their progress and to solve any upcoming issues. The data collection period ran for five months. The languages utilized include Chinese, Portuguese, Indonesian, Spanish, and Russian. We collected data for 855 firms from the above 18 emerging economies over a six-year period.

2.4.3 Estimation

We used panel data econometrics to estimate our model. There are three panels in our dataset. To choose between pooled effects and random effects, we used the Breusch and Pagan Lagrangian multiplier test to assess the appropriateness of a random effects model. The test clearly indicated that a random effect model should be employed. We then utilized the Hausman test to choose between fixed effects and random effects. Nonetheless, we obtained

a negative value in the Hausman test. Thus, we further examined the within and between variation in our dataset. We found that the value of the within variation was 0.0165, whereas that of the between variation was 0.2518 in our dataset. If we use the fixed effects estimation, the coefficient will be imprecisely estimated and will be not identified (Cameron & Trivedi, 2009). Furthermore, we had several important time-invariant predictor variables (business group affiliation, corporate governance reform, overseas R&D) that fixed effects have made it difficult to incorporate (Chittoor *et al.*, 2009). Nevertheless, we also employed Multilevel mixed effects, which include both fixed and random effects in the calculation, to observe the differences. In this analysis, we applied a random-intercept model and a random-coefficient model to observe the difference between single-level analysis and four-level estimation. In addition, we tested a potential endogeneity problem with two-step least squares modeling (2SLS). Moreover, we employed the Fuller's LIML estimation (FULL) to check for the endogeneity problem.

2.4.4 Measures

Dependent Variable: International expansion into advanced economies

We measured this variable by the number of countries in which a firm has established foreign subsidiaries (Ramaswamy, 1993; Tihanyi *et al.*, 2000), in Western Europe, North America, Japan, Australia, and New Zealand. Specifically, we followed the classification of the International Monetary Fund in 2008. Our first-world countries included Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Malta, Netherlands, New Zealand, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Subsequently, the number of countries was weighted by economic freedom distance and geographical distance in thousand kilometers between the home and host markets in which the overseas subsidiaries were located. This information was obtained from companies' annual reports. We obtained the

economic freedom score from the World Heritage foundation. We decided to select figures from the 2006, 2007, and 2008 financial years in order to allow for the time lag between dependent variables and independent variables. Therefore, our dependent variable is:

$$IE_i = \frac{n}{j=1} \left[\sum C_j \times GD_{ij} \times ED_{ij} \right] \times 10^{-6}$$

IE_i: International expansion in the advanced economy of firm *i*

C_j: First-world countries where an EM firm set up a subsidiary

GD_{ij}: Geographical distance between home (*i*) and host country (*j*)

ED_{ij}: Economic distance between home (*i*) and host country (*j*)

The decision on what choices of distances to be used to measure our dependent variable is elaborated upon in the conclusion and discussion section of this essay.

Independent Variables

Corporate governance reform (+)

We captured this variable by determining the public status of EM firms in overseas stock exchanges (first world linkages and mimetic isomorphism). Because of the differences in corporate governance practices between the stock exchanges of developed economies and those in emerging markets (Claessens *et al.*, 1999; Peng *et al.*, 2008), EM MNEs need to change their corporate governance in order to conform to the standards of the major international stock exchanges, such as the New York Stock Exchange or the London Stock Exchange. We argue that corporate governance reform in their own countries may not provide for real changes within these companies. The accounting standards, board structures, and transparency acts are generally set by the stock exchange of each country. Therefore, arbitrarily changing the accounting standards may violate the rules and regulations of the stock exchange in a firm's home country. Furthermore, the stock exchange commission (SEC)

in an emerging country is frequently influenced by politicians and the business elite. Therefore, rules and regulations set by domestic SECs frequently do not meet international standards. Hence, by listing with the major international stock exchanges, EM MNEs should gain a better opportunity to engage in corporate governance reform. We used a dummy variable to represent whether EM firms are listed in foreign stock markets. This variable is coded “1” if the firm is listed overseas on the stock market of an advanced economy country; otherwise, it is coded “0.”

Divestiture of Unrelated Business (+)

We used a dummy variable to capture this variable. If a company divested unrelated businesses in the years 2003, 2004, or 2005, we coded it with a “1.” Otherwise, we coded it “0.” We obtained this data from the Osiris database and companies’ annual reports under the business-segment section. To determine the relatedness of a business segment, we used a two-digit SIC code. If a divested business is under a different two-digit SIC code, we categorized it as an unrelated business.

Overseas R&D activities (+)

We used a dummy variable to denote whether a firm has overseas R&D activities. The variable is coded “1” if the firm engages in R&D activities overseas. The source of this variable was the companies’ annual reports.

Control variables: firm and industry level

Business group affiliation (-)

The decision made at the head office may be suboptimal and serve the interests of the controlling family of shareholders or government bureaus. The decision by group-affiliated firms to expand abroad is framed by the degree of international expansion of their parents

(Elango & Pattnaik, 2007). On average, group affiliation tends to have a negative impact on the international expansion of firms (Gaur & Kumar, 2009). We controlled for the business group affiliation through a dummy variable. If a local entity owned more than 25% of a firm, we coded it “1” and “0” otherwise.

Firm size (+)

Typically, larger firms are more likely to have slack resources to engage in international expansion, especially in an emerging-economy context (Yiu *et al.*, 2007). We controlled for the size of the firm through total revenues in billion USD.

Firm age (-)

This variable is the number of years that have passed since the firm’s establishment. In transition- and relation-based economies, older firms tend to be embedded in the pre-reformed period. Therefore, they tend to develop organizational inertia, resulting in difficulties with international expansion (Yiu *et al.*, 2007). This data was collected from the Osiris database.

Prior Performance (+)

Prior performance is likely to influence decision makers’ assessment of risky choices (Matta & Beamish, 2008). To measure the firm’s prior performance, we used their return on assets in 2003, 2004, and 2005. We obtained this data from the Osiris and Infinancial databases.

Technological intensity (+)

Technical intensity can be translated into a competitive advantage that firms can transfer to and exploit in overseas market (Hymer, 1976). Firms with high technical intensity are more likely to engage in international expansion. Therefore, we controlled for technological

intensity according to the firm's R&D expenses-to-revenues ratio. Nevertheless, the accounting standard varies across countries. Therefore, many companies did not report this information in their annual reports. In this case, we used the country-based R&D industry average instead.

Control variables: country level

Country endowment factors also have an impact on firms' international expansion (Vernon, 1966; Porter, 1991; London & Hart, 2004; Peng *et al.*, 2008; Dunning & Lundan, 2010). They create liabilities of origin, which pose difficulties for firms striving to build ownership advantages. Hence, we also controlled for the factors listed below.

Level of public corruption (+)

We employed the Corruption Perception Index (CPI), provided by the Transparency International Organization, to measure this variable. A low CPI score indicates serious problems of public corruption in the country, resulting in difficulties operating within the home market.

Country's technological deficiency (+)

Technological sophistication in the home country directly affects the capabilities of firms from that country (Porter, 1991; Vernon, 1966). However, in emerging markets, a country's technology level is not sufficient for firms to build sufficient capabilities in order to compete with the incumbent MNEs. Therefore, firms may seek to tap technological opportunities overseas (Yamakawa *et al.*, 2008). Therefore, we predict a positive relationship between the ranking of the technological readiness of its home country and an emerging market firm's international expansion into advanced economies. A country with the 100th position provides the lowest technological infrastructure to build firms' capabilities. As a result, firms

in this country are pushed to expand into advanced economies to access technological knowledge (Feinberg & Gupta, 2004). We measured technological deficiency based on the technological readiness ranking, divided by a hundred. The data was obtained from the World Economic Forum.

Tertiary industry (-)

The service industry plays an important role in providing support for the capabilities of a firm. Such support activities include financial services, logistics and transportation, contract manufacturing, legal advisors, management consulting, etc. However, in emerging markets, there is an institutional void in that service industries may not be efficient in providing sufficient support for other firms. Hence, firms may seek service support overseas in order to expand abroad (Yamakawa *et al.*, 2008). Hence, we predicted a negative relationship between the ratio of service industry to total gross domestic product (GDP) and the international expansion of EM firms into advanced economies. We obtained this information from the World Bank and measured this variable by the cubic of service industry ratio, divided by a million. We used the cubic to avoid multicollinearity.

Moreover, to further check the robustness of our findings, we tested a number of other controls. If we found them insignificant, we did not retain them in the final model. These variables are: a) macroeconomic environment; b) the business competitiveness index; c) the growth competitive index; d) country size: population; e) export value; f) hi-tech export value; and g) gross national income (GNI) per capita.

2.4.5 Variables Summary and Expected Outcomes

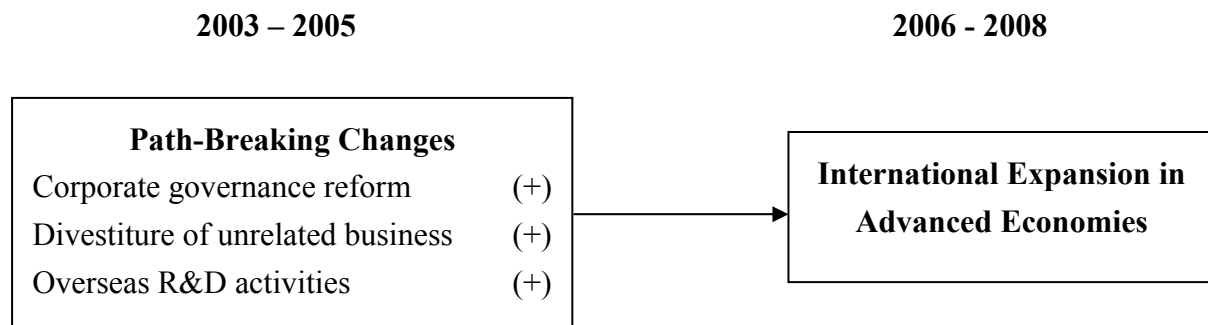


Figure 2.2: Conceptual Framework

Dependent Variable: International diversification in advanced economies

$$IE_i = \left[\sum_{j=1}^n C_j \times GD_{ij} \times ED_{ij} \right] \times 10^{-6}$$

Independent variable

Corporate Governance reform (+)	:	Dummy Variable of listing with foreign stock exchange (Y=1, N=0)
Divestiture of unrelated business (+)	:	Dummy Variable of line divestment at 2 digit SIC code (Y=1, N=0)
Overseas R&D Facilities (+)	:	Dummy Variable (Y=1, N=0)

Control Variable

Business group affiliation (-)	:	Dummy Variable (Y=1, N=0)
Firm Size (+)	:	Sales Revenues x 10 ⁻⁹
Firm Age (-)	:	Number of Years
Prior Performance (+)	:	Return On Assets (ROA)
Technological Intensity (+)	:	R&D Expense/Sales
Level of public corruption (+)	:	CPI Index
Tertiary industry (-)	:	Cubic service-industry GDP x 10 ⁻⁶
Country's technological deficiency (+):	:	Technological readiness ranking x 10 ⁻²

2.5 RESULTS

According to Table 2.2, we assessed the risk of multicollinearity problem by computing variance inflation factors (VIFs). None of the combinations of variables introduced in our model possessed a VIF greater than 3.04, and no one individual variable presented a VIF greater than 10, indicating that there was no serious problem regarding multicollinearity. In addition, the means, standard deviations, and correlations of the variables included in our analysis are presented in Table 2.3.

INSERT TABLE 2.2 ABOUT HERE

2.5.1 Results of the Hypothesis Test

Table 2.4 shows the results emanating from our model, starting from the base model with controls (Model1), moving to *Random-effect models* (Model 2), and ending with *the Panel IV estimation*: 2SLS (Model 3) and the FULL model (Model 4). We produced a standard error that was robust in terms of both heteroskedasticity and autocorrelation to mitigate the potential threat from such problems.

INSERT TABLE 2.3 ABOUT HERE

Model 1 displays the effect of a baseline model with control variables. In terms of the individual control variable, the coefficient of *business group affiliation* is negative and significant. Therefore, it aligns with our prediction that a decision made at the parent company is suboptimal and suggests that business-group-affiliated firms are less likely to embark on international expansion into advanced economies. Second, the coefficient of *firm size* is positive and highly significant. Large firms have slack resources to expand abroad or engage in risky projects. However, the coefficient of *technological intensity* is not significant. The major reason for the latter is that we used the industry average value for each individual country, where annual reports does not provide this data. We can find this information consistently in the annual reports of companies from India, Malaysia, and Turkey. In other countries, this information is difficult to find, however. In addition, the coefficient of *firm age* is positive but not significant. One possible reason is that many emerging market MNEs are in the infancy and growth stages; not many of them are in the mature stage. In our dataset, the average firm age is only 19.37 years. The coefficient of country technology deficiency is positive and significant, suggesting that EM firms seek to tap technological opportunities overseas (Yamakawa *et al.*, 2008) in order to offset the liabilities of origin at their home countries. For *prior performance*, *level of public corruption* and *Tertiary industry*, the sign of their coefficient aligns with what we predicted. However, their coefficients are not significant.

INSERT TABLE 2.4 ABOUT HERE

Turning to Model 2, we discuss the results of the panel data, random-effect model for the main variables. In terms of the individual hypotheses, Hypothesis 1 predicted that corporate governance reform would lead EM firms to expand into advanced economies. According to the empirical results, the coefficient of *corporate governance reform* is positive and significant ($p < 0.05$), which provides moderate support to Hypothesis 1.

Hypothesis 2 proposed that engaging in unrelated business divestment would overcome managerial and financial constraints and allow firms to focus on building capabilities, in order to transfer their competitive advantage to advanced economies. In Model 2, the coefficient of *divestiture of unrelated business* is positive and significant ($p < 0.01$), providing strong support for Hypothesis 2.

Hypothesis 3 predicted that engaging in overseas R&D would allow firms to break out from their local design norms and services standard. It is a trigger for EM firms to expand into advanced economies. The coefficient of foreign R&D activities is positive and significant ($p < 0.01$). Hence, the empirical results strongly support Hypothesis 3.

2.5.2 Endogeneity Test

For this section, we conducted the endogeneity test by using the 2SLS Model in Model 3 and FULL in Model 4. The suspected endogenous variable is the overseas R&D variable. There may be simultaneous causality between overseas R&D activities and international expansion into advanced economies. In addition, every company in our dataset is a publicly traded company. Because of data availability, private companies were excluded. This may cause a self-selection bias.

According to Model 3, we used five instrument variables in our model, with two of the five being gearing and annual GDP growth. The other three instrument variables were generated by using the *xtdata* command in *STATA* to convert the data to a form suitable for random-effects estimation. Subsequently, we used dummy variables of such random-effect adjusted variables. If their value was greater than the average value, we coded them as “1” and otherwise as “0.” Hence, these instrument variables are dummy variables of random-effect adjusted-average governance reform, of random-effect adjusted-average divestiture, and of random-effect adjusted-average foreign R&D.

We then checked the relevance conditions of our instrument variables. Our suspected endogenous regressor was overseas R&D. Our first-stage F-statistics of overseas R&D was 1,484.89. This value was much greater than in Stock-Yogo’s weak instrument test, which has a cut-off value of 18.37. Therefore, our first-stage F-statistics confirms the relevance of the instrument. Subsequently, we checked for the exogeneity condition by employing the Hansen *J* statistic. Every instrument met the exogeneity condition. The *p* value of Hansen’s *J* statistic and that of the *C* statistic was much greater than 0.1, demonstrating strong consistency with the exogeneity condition.

Model 4 deals further with heteroskedasticity and autocorrelation problems. We used the IV heteroskedasticity test and the Arellano-Bond test. However, we did not find heteroskedasticity and autocorrelation problems. Nevertheless, to check for robustness, we upgraded our estimation method from 2SLS to the FULL model, which is a modified version of the traditional LIML estimator and has finite moments. Hence, it solves the moment problems of LIML or JIVE (Hahn & Hausman, 2003; Hahn *et al.*, 2004). FULL estimation outperforms LIML estimation in many circumstances (Davidson & Mackinnon 2006; Han *et al.*, 2004). FULL estimation is more robust with weak instruments than 2SLS and performs well in even with many weak instruments (Stock & Yogo, 2004).

Later, we compared our results with those of Moreira's CLR, which has been argued to be the test of choice in IV applications. It has the best power properties (Cruz & Moreira, 2005; Yogo, 2004). Unfortunately, this method does not make it possible to deal with heteroskedasticity, serial correlation, and multiple endogeneous regressor. Therefore, we employed the FULL model and then checked whether the coefficients aligned with Moreira's CLR critical range. According to Table 2.4, the coefficient of overseas R&D in Models 3 and 4 falls within the confidence set [172.51, 236.08], provided by Moreira's CLR. They also possess the same p value. Therefore, there is no finite sample/weak instruments problem (Yogo, 2004).

Nevertheless, the p -value of the Durbin component of the Durbin-Wu- Hausman test was 0.7058, indicating that Panel IV estimation was not appropriate to estimate our model. Moreover, to check for robustness, we tested every independent variable to determine whether it was endogenous or not. No single variable suffered from endogeneity problems, indicating that Panel IV is not a consistent estimator. Therefore, we rejected Models 3 and 4.

2.5.3 Nested, Multilevel Analysis

In this section, we further examine the multilevel effects in our model. Table 2.5 illustrates results from the *Multilevel mixed-effect analysis*: Multilevel-baseline model (Model 5), the Random-intercept model (Model 6), and the Random-coefficient model (Model 7).

In this analysis, to test Models 6 to 8, we used four clustering levels: (1) country, (2) industry, (3) firm, and (4) year. Based on the single-level analysis in Model 2, we suspected that multilevel effects might distort our results. Therefore, we controlled for such effects by using the *xtmixed* command in *STATA*. This analysis not only provided multilevel clustering but also included both fixed effects and random effects in the estimation.

INSERT TABLE 2.5 ABOUT HERE

We further employed the naïve likelihood-ratio test to determine the appropriateness of the random coefficient model. According to our test results, the output clearly showed that there was a statistically significant difference between the random-intercept and the random-coefficient model. The random-intercept model (Model 6) was rejected in favor of the random-coefficient model (Model 7).

In Model 7, we enabled random coefficients for the overseas R&D variable. According to the empirical results, the coefficients of corporate governance reform were positive and strongly significant ($p < 0.01$), providing strong support for Hypothesis 1. The corporate governance reform positively relates to the extent of an emerging market firm's international expansion into advanced economies.

Similarly, the coefficients divestiture of related business was positive and strongly significant ($p < 0.01$), supporting Hypothesis 2. Engaging in unrelated business divestment positively relates to the extent of an emerging market firm's international expansion into advanced economies.

Hypothesis 3 predicted that engaging in overseas R&D facilities would drive EM firms to expand into advanced economies. In Model 7, the coefficients of overseas R&D was positive and strongly significant ($p < 0.01$), providing strong support for Hypothesis 3

Across all of the different methods used to check for robustness, our individual independent variables received strong support. Therefore, the empirical results provided strong support to our proposition that the path-breaking change that provides first-world linkage and mimetic isomorphism positively relates to the extent of an emerging market firm's international expansion into advanced economies.

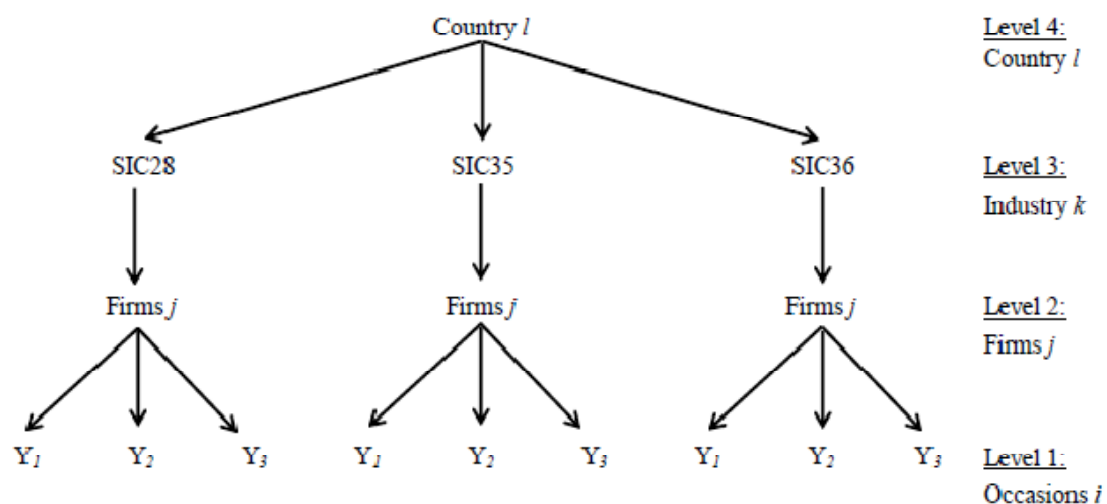


Figure 2.3: Nested, Multilevel Mixed Model

2.6 DISCUSSION & CONCLUSION

2.6.1 Conclusion

With respect to the phenomenon we investigated, the rise of emerging-economy firms continues to be striking. According to the Forbes Fortune 500 list, the fraction of firms from emerging markets has risen from 0.9% in 1995 to 10% in 2010. Much of these gains from emerging-economy firms have come at the expense of Japanese firms, while the fraction of European and American firms has slightly increased over this fifteen-year period (Black & Morrison, 2010).

Although such a growing phenomenon has led international business scholars to focus on the international expansion of EM MNEs, theoretical developments as well as empirical studies on this topic are still scarce (Black & Morrison, 2010; Chittoor *et al.*, 2009). The existing literature focuses on the international expansion of these firms into less developed countries or markets with low institutional distance (Khanna & Palepu, 2006; Cuervo-Cazurra & Genc 2008; Li & Yao 2010). Our research is one of the first attempts to provide an explanation for the emergence of global champions from emerging economies that venture into advanced economy markets. It puts forth the notion that the path-breaking change is a prerequisite step for these firms to build capabilities before venturing into advanced economies. Our results provide support for the idea that particular type of path-breaking change leads to international expansion into advanced economies. In other words, changes inside a firm seem to alter its pattern of international expansion and, more generally, its global strategy.

INSERT TABLE 2.6 ABOUT HERE

Based on model selection, there is no endogenous regressor in our model. Hence, Panel IV Estimation is not a relevant estimator (Reject Models 3 & 4). In addition, the Multilevel analysis includes fixed effects and random effects. It also includes the nested, four-level effect in the estimation. Accordingly, Model 7 provides more empirical robustness than Model 2. Therefore, we consider the results from Model 7, a random coefficient model, to be the most reliable. The coefficient of each variable should be obtained from a random-coefficient model (Model 7).

In terms of our main variables, every hypothesis receives strong empirical support. Corporate governance reform, the divestment of unrelated business, and overseas R&D activities significantly relate to the international expansion into advanced economies, providing strong supports for Hypothesis 1, 2, and 3 ($p < 0.01$). Therefore, they support our proposition that particular type of path-breaking change is a driver for EM MNEs firms to expand into advanced economies. It is a prerequisite before EM firms build capabilities and transfer their competitive advantage into advanced economies.

With respect to the country-level factors, the coefficient of country technology deficiency is positive and significant. Accordingly, the empirical results imply that a technological disadvantage stemming from their country of origin forces emerging-economy firms to expand in overseas market in order to build new capabilities. Nevertheless, corruption and bribery in their home markets deter firms from doing so. Firms may be well connected with the institutional prescriptions and develop path trajectories that fit the local market requirement.

For the measure of our dependent variable, one can argue that there are other types of distance that we can consider incorporating into our dependent variables. According to the study of Angue & Mayrhofer (2010), the distance can be categorized into five types, which are cultural distance, political distance, geographical distance, economic distance, and technological distance. Different types of distance can lead to different empirical results. In their study, cultural distance was rejected, while the other four types were statistically significant. However, in our model, we used geographical and economic distance. Nevertheless, the operationalization of our economic distance implicitly included the political distance. Our economic distance was the economic degree of freedom index, provided by the Heritage Foundation. This index is comprised of ten components; 1) business freedom, 2) trade freedom, 3) fiscal freedom, 4) government spending, 5) monetary freedom, 6) investment freedom, 7) financial freedom, 8) property rights, 9) freedom from corruption, and 10) labor freedom. For technological distance, we treated technological deficiency as one of our control variables. If we had included technological distance in the dependent variable, it would have caused an endogenous bias in our model. Therefore, we did not incorporate technological distance in our dependent variable.

2.6.2 Managerial implication

This study also provides insights with important implications for managers and policymakers. Emerging economy firms that successfully reconfigure their routines and resources and subsequently build capabilities upon a new path are more likely to survive in the international market. Hence, our research sheds some light on the debate about whether firms should stay in their domestic market or expand into international markets. According to the institutional view, firms may decide to follow their partners or competitors to expand overseas. However, in the long run, the critical factor that determines survival will be capabilities and competitive

advantage, which strongly depend on the extent that firms can change toward a business model that fits market-oriented economies. In addition, this research also has implications for policy makers. In some emerging countries, the government plays an important role in pushing local firms to venture abroad. For example, many state-owned enterprises in China are encouraged by the Chinese government to enter the international market (Larçon, 2009; Zhaoxi L., 2009). Accordingly, before pushing their firms to go abroad, policy makers may launch programs that promote change inside firms, leading to a new path trajectory and a new business model. Such programs may help firms to break their paths and build capabilities to compete effectively against incumbent MNEs.

2.6.3 Limitation

In this section, we highlight a few potential limitations in this study. First, according to foreign R&D activities, one can argue that there is an increasing trend that firms from developed countries outsource their research to R&D firms in less developed countries, such as India and China. However, if we take a closer look at the aforementioned R&D outsourcing practice, we find that most of these firms are driven mainly by cost rather than by tapping new knowledge. In addition, the core business for these EM R&D firms is to conduct research for their clients. Their major sources of income come only from doing research for other firms. Therefore, we can separate these R&D firms from our sample. On top of that, to receive a purchasing contract from other firms to engage in R&D, these firms must meet various international R&D standards rather than domestic standards. Therefore, these firms still require some changes to gain international revenue from their foreign clients.

Additional limitations pertain to the difficulty of operationalizing path-breaking change. In this study, we used corporate governance reform, the divestiture of unrelated business, and

overseas R&D to operationalize the notion. However, the path-breaking changes occur at the routines level. Therefore, it is very difficult to measure the real routine changes inside companies. Accordingly, future studies may examine inside this black box.

2.7 FUTURE RESEARCH

Future research should expand the understanding of path-breaking change. For instance, we need to examine the antecedents of path-breaking changes before firms build their specific advantages upon the new path trajectories. In addition, future research may examine the intensity of different strategic actions firms implemented to break their paths. Each strategic action may cause path-breaking changes of various degrees.

Moreover, the interplay between path-reinforcing changes and path-breaking changes may help to provide a better understanding of organizational ambidexterity (Luo & Lui, 2009). For example, there are some EM firms that operate successfully both in the home market and the overseas market, where the rule of the game is completely different. Thailand's Red Bull company provides a good example for this case. From the beginning, Thailand's Red Bull has been offering its energy drink to the bottom of the pyramid (London & Hart, 2004; Olsen & Boxenbaum, 2009) in the Thai market. However, when it has expanded in overseas markets, it has targeted the top of pyramid of the international markets. Consequently, future studies should examine mechanisms behind the organizational ambidexterity of these MNEs

Table 2.1: The EM MNEs compared to incumbent MNEs from the first world
(Adapted from Guillen & Garcia-Canal, 2009)

Dimesion	EM MNEs	Incumbent MNEs
Speed of Internationalization	Accelerated	Gradual
Competitive Advantages	Medium: Upgrading required	Strong
Political & Institutional Framework at home	Unstable	Stable
Country's Technological Capabilities	Varied	Strong

Table 2.2: Variance inflation factors (VIFs).

Variable	VIF	1/VIF
Corruption perception index (CPI)	7.85	0.13
Country's technological deficiency	6.93	0.14
Tertiary industry	5.97	0.17
Firm'age	2.89	0.35
Businessg group affiliation	2.52	0.40
Technological intensity	1.52	0.66
Firm's Size	1.39	0.72
Foreign R&D	1.24	0.81
Corporate governance reform	1.11	0.90
Divestiture of unrelated business	1.04	0.97
Prior performance	1.02	0.99
Mean VIF	3.04	

Table 2.3: Descriptive Statistics and Correlation

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
Expansion in advanced economy	39.89	133.47	1.00											
Corporate governance reform	0.05	0.22	0.18	1.00										
Divestiture of unrelated business	0.01	0.08	0.27	0.07	1.00									
Foreign R&D	0.06	0.23	0.43	0.15	0.09	1.00								
Technological intensity	0.02	0.03	0.05	-0.03	0.10	0.12	1.00							
Business group affiliation	0.58	0.49	-0.10	0.01	-0.06	-0.14	0.04	1.00						
Prior performance	0.01	0.35	0.05	0.02	0.01	0.04	-0.02	-0.05	1.00					
Age	18.68	19.15	0.12	-0.07	0.05	0.09	-0.16	-0.21	-0.06	1.00				
Firm size	0.16	0.32	0.24	0.10	0.05	0.26	-0.05	0.02	0.04	0.05	1.00			
Corruption perception index	3.25	1.14	-0.01	0.05	0.01	0.11	0.11	0.04	0.02	-0.24	-0.02	1.00		
Country_technology deficiency	53.67	19.44	0.08	0.09	0.02	0.00	0.11	0.21	0.03	-0.24	0.09	0.15	1.00	
Cubic of tertiary Industry	100.61	50.53	0.06	-0.07	0.01	0.08	-0.19	-0.32	-0.08	0.53	-0.04	-0.07	-0.37	1.00

**Table 2.4: Results for the determinants of international expansion in advanced economy
weighed by geographic and degree of economic freedom distance**

Variable	Model 1 Base	Model 2 Random Effect	Model3 2SLS RE	Model 4 FULL RE
Control Variables				
Technological intensity	33.35 (87.03)	11.44 (57.54)	5.68 (50.57)	5.42 (50.28)
Business group affiliation	-22.55* (13.84)	-11.65 (9.45)	-10.13 (7.11)	-10.06 (7.1)
Prior performance	2.09 (1.18)	2.79* (1.67)	3.03** (1.35)	3.03** (1.35)
Age	0.7973** (0.31)	0.6628*** (0.24)	0.6386** (0.28)	0.6376** (0.28)
Firm's size	58.6078*** (21.6)	40.7788*** (12.9)	38.3369*** (13.86)	38.224*** (13.81)
Corruption perception index	2.99 (4.002)	-2.2673 (3.92)	-2.9457 (3.44)	-2.9754 (3.45)
Country's technology deficiency	0.2541* (0.15)	0.2819* (0.16)	0.2864** (0.13)	0.2866** (0.13)
Tertiary industry	-0.06 (0.05)	-0.04 (0.05)	-0.04 (0.04)	-0.04 (0.04)
Corporate Governance Reform (H1)		103.2967** (48.2)	100.3404** (39.72)	100.2149** (39.72)
Divestiture (H2)		74.658*** (23.12)	74.1351*** (22.03)	74.1032*** (22.02)
Overseas R&D activities (H3)		175.0542*** (57.86)	202.8124*** (61.07)	204.0471*** (61.47)
Endogeneity Test: Overseas R&D				
Number of instruments			5	5
First stage F-statistics			1484.89***	1484.89***
p -value of Hansen J -test			0.2173	0.2173
Difference-in-Sargan statistics			Yes	Yes
p -value of the Durbin component of the Durbin-Wu-Hausman test			0.7058	0.7058
Moreira's CLR (p-value in parentheses)			[172.51, 236.08] (0.0000)	
Wald Chi ²	24.43***	65.70***	.	.
R ²	0.0815	0.2378	0.1511	0.1510
Number of group	855	855	855	855
Number of observations	2345	2345	2345	2345
Number of panel	3	3	3	3

Legend: * p<0.1; ** p<0.05; *** p<0.01.

Heteroskedasticity-robust standard errors are given in parentheses under the coefficient

For the Difference-in-Sargan statistic, "Yes" means that each instrument is exogenous.

Instruments: *Debt-to-equity ratio* , *Annual GDP growth* , *Dummy Variable of average Corporate governance reform*
Dummy Variable of average Overseas R&D , *Dummy Variable of average Divestiture*

**Table 2.5: Multilevel analysis -Results for the determinants of international expansion
in advanced economy weighed by geographic and degree of economic freedom distance**

Variable	Model 5 Base Model	Model 6 Random Intercept	Model 7 Random Coefficient
Fixed Part			
_cons	-22.0207 (23.77)	-24.5527 (22.41)	-5.9596 (18.96)
Technological intensity	43.12 (54.44)	23.03 (53.53)	-7.68 (52.78)
Business group affiliation	-17.2867** (8.77)	-6.15 (8.02)	-5.86 (7.13)
Prior performance	0.52 (6.11)	0.96 (5.92)	0.97 (5.65)
Age	0.4637* (0.25)	0.3902* (0.23)	0.21 (0.21)
Firm's size	60.9887*** (9.02)	43.5071*** (8.72)	39.2836*** (8.68)
Corruption perception index	14.0657*** (4.47)	7.5778* (4.25)	6.8334* (3.73)
Country's technology deficiency	0.304 (.24)	0.3904* (.23)	0.2402 (.21)
Tertiary industry	-0.1513* (0.0778)	-0.12 (0.0761)	-0.1301* (0.07)
Corporate Governance Reform (H1)		107.3664*** (15.05)	118.691*** (14.4)
Divestiture of unrelated business (H2)		72.8857*** (18.28)	83.4863*** (18.26)
Overseas R&D activities (H3)		167.6385*** (15.52)	194.2988*** (36.35)
Random Part			
$\sqrt{\psi^{(4)}}$	28.02	27.40	17.60
$\sqrt{\psi^{(3)}}$	6.23	0.00	0.00
$\sqrt{\psi^{(2)}}$	115.19	103.55	102.05
$\sqrt{\psi(f_rd)}$			245.54
$\rho(f_rd_cons)$			-0.17
Θ	47.25	46.95	46.65
Log likelihood	-13580.971	-13486.079	-13406.162
Wald Chi ²	75.64***	303.74***	177.68***
Number of group	855	855	855
Number of observations	2345	2345	2345
Number of panel	3	3	3

Legend: * p<0.1; ** p<0.05; *** p<0.01. Standard errors are given in parentheses under the coefficient

Table 2.6: Empirical-results comparison between single level analysis and multilevel analysis

Hypotheses		Empirical Result	
		<i>Single Level</i>	<i>Multilevel</i>
1	Corporate Governance Reform	Support	Support
2	Divestiture	Support	Support
3	Overseas R&D activities	Support	Support

CHAPTER 3

Essay 2: The Antecedents of Path-Breaking Change:

The Roles of the Top Management Team and the Board of Directors

ABSTRACT

This study investigates the impact of the composition of the top management team (TMT) and board of directors (BOD) on the extent of a firm's path-breaking change. We examine this relationship in the context of the international expansion of emerging-economy firms. Due to the existence of different economic and institutional settings between the home and host markets, we argue that the managers' international exposure, foreign executives, and foreign board members tend to lead firms to engage in path-breaking changes. To test our hypotheses, we examine 170 firms from 11 emerging economies over a six-year period. We find empirical support for three of our four hypotheses. International exposure and its heterogeneity, and foreign board members accelerate firms to engage in path-breaking changes. Surprisingly, the empirical results indicate that foreign executives prevent firms from engaging in such changes.

3.1 INTRODUCTION

The ability of firms to respond to a business environment is a key issue that determines the viability and competitive advantage of the firms (Wiersema & Bantel, 1992). One factor that may have an impact on such ability is the characteristics of the top management team (TMT), which is normally considered to be the link between the organization and the business environment (Dutton & Duncan, 1987; Carpenter *et al.*, 2004; Certo *et al.*, 2006; Finkelstein *et al.*, 2008).

One stream of research has examined the impact of TMT characteristics on strategic outcomes. This stream of research can be traced back to the 1980s, when Hambrick and Mason (1984) first introduced the upper echelon theory. This literature argues that the strategic outcomes of firms are shaped by the managerial cognition, values, and perceptions of the firm's manager. Top managers tentatively make strategic choices on the basis of their cognitive base, and the organization becomes a reflection of its top managers (Carpenter *et al.*, 2004; Certo *et al.*, 2006; Finkelstein *et al.*, 2008).

However, only over the past decade has the discussion of the effects of the TMT composition extended to the context of MNCs and firm internationalization (Herrmann & Datta, 2005; Lee & Park, 2008; Nielsen, 2010). Therefore, this essay extends this stream of research. It builds upon the upper echelon theory and further investigates the antecedents of path-breaking changes, which subsequently enables emerging-market (EM) firms to venture into advanced economies. We argue that the effect of the TMT's composition and the board's characteristics may be associated with the extent of the path-breaking changes that EM firms engage in.

3.1.1 Contribution

This essay provides new insight into the strategic change arena by uncovering the antecedents of path-breaking changes. It focuses on the importance of TMT and BOD composition on the extent of path-breaking changes. Many researchers have heavily investigated the impact of the TMT composition on firms' strategic changes (Ginsberg & Abrahamson, 1991; Wiersema & Bantel, 1992; Wiersema & Bantel, 1993; Boeker, 1997; Luo, 2005). While previous research has examined the linkage among various top management demographic characteristics and strategic changes, no attempt has been made to investigate the impact of these characteristics on organizational-routine changes, which, in turn, result in global-strategy changes. Hence, to fill this gap, this study examines changes at organization-routine level, which subsequently affect changes at the corporate level.

Second, this essay investigates the role of the TMT of firms from emerging markets. The research on corporate governance and the TMT of firm from emerging markets is still in its infancy. The existing upper echelons dealing with international contexts are based on the TMT of firms from advanced economies, specifically North America (Sambharya, 1996; Reuber & Fischer 1997; Sanders & Carpenter, 1998 Tihanyi *et al.*, 2000; Athanassiou & Nigh 2002; Carpenter & Fredrickson, 2001; Carpenter *et al.*, 2001; Herrmann & Datta, 2005). There is limited studies have been conducted on the impact of the TMT on strategic choices of the firms from the emerging markets (Nielsen, 2010). This essay aims to discover the characteristics of TMT and corporate governance of firms in emerging economies.

3.2 LITERATURE REVIEW & BACKGROUND

The role of the TMT in the strategic choice and organizational outcome has been heavily investigated over the past two decades. This stream of research has its roots in the notion of the “dominant coalition” (Cyert & March, 1963) and demographic research that were subsequently united in the seminal work of Hambrick and Mason’s upper echelon theory. Hambrick and Mason (1984) argue that the background, experiences, and values of corporate executives influence important strategic decisions enacted by these key corporate actors. Subsequently, a stream of research has investigated the role of TMT in organizational decisions and outcomes. This body of research has examined the impact of the TMT’s characteristics on the diversification strategy (Wiersema & Bantel, 1992), firm performance (Finkelstein & Hambrick, 1990), and innovation (Bantel & Jackson, 1989).

Building on upper echelon theory (Hambrick & Mason, 1984), the impact of TMT’ composition on the internationalization of firms has been studied extensively (Sambharya, 1996; Tihanyi *et al.*, 2000; Carpenter *et al.*, 2004; Lee & Park, 2008; Nielsen, 2010). The majority of the studies have examined the direct relationship between the demographic factors of the TMT and the internationalization of firms. International experience and the heterogeneity of the international experience have a positive impact on the extent of the international diversification in which a firm engages. International experience is a proxy for the reduction of uncertainty and facilitates the manager’s accumulation of cultural knowledge (Sambharya, 1996). Moreover, tenure, education, and international experience have a positive relationship to international diversification (Tihanyi *et al.*, 2000). The major mechanisms in such relationships are cognitive structure (Hambrick & Mason, 1984), foreign knowledge (Sambharya, 1996; Reuber & Fischer, 1997; Lee & Park, 2008; Nielsen, 2010), risk perceptivity (Sambharya, 1996), and inertial self-perceptions (Burgelman & Grove, 1996).

Despite the extensive empirical support, this stream of research is criticized by some scholars. Theorists have criticized the upper echelon approach for failing to access the “black box” and illustrate the intervening mechanisms (Tihanyi *et al.*, 2000; Carpenter *et al.*, 2004; Lee & Park, 2008; Nielsen, 2010). The influence of the top decision makers should be modeled as indirect rather than direct (Reuber & Fischer, 1997; Nielsen, 2010). Consequently, many studies aim to examine the intervening mechanisms that mediate the relationship between the TMT’s demography and the internationalization of firms (Jackson, 1992; Reuber & Fischer, 1997; Papadakis & Barwise, 2002; Peterson *et al.*, 2003; Carpenter *et al.*, 2004).

Based on the above problem, we aim to illustrate an intervening mechanism. We argue that path-breaking changes are the potential candidate that mediates the relationship between a TMT’s characteristics and the international expansion of EM MNEs into advanced economies. Therefore, we further discuss the impact of the TMT on the business changes of an organization.

The demographic factors of the TMT are associated with companies’ strategic changes. These factors include average age, average tenure, heterogeneity, and education level (Wiersema & Bantel, 1992). The mechanisms behind such changes are the risk perceptivity of the manager and self-perceptions (Burgelman & Grove, 1996). To accelerate changes, some researchers highlight the importance of “outsiders” in overcoming the inertial patterns. As outsiders, agents may be more likely to embrace the logic of consequentiality anchored on the present methods of evaluation (Garud & Karnoe, 2001; Johanson & Vahlne, 2009; Sydow *et al.*, 2009). The outsiders may help counteract the inertial forces that may block the implementation of changes (Ginsberg & Abrahamson, 1991; Johanson & Vahlne, 2009). In some cases, external consultants have proved helpful. The change agent role of management consultants is to create pressure for changes by helping shape new managerial perspectives of

the environment (Ginsberg & Abrahamson, 1991). They are not only instrumental in discovering patterns and overcoming “inertial self-perceptions” (Burgelman & Grove, 1996) but also, in unlocking organizational patterns by introducing a new perspective (Garud & Karnoe, 2001; Sydow *et al.*, 2009). Individual managers from advanced economies may promote changes in organizational routines.

Corporate Governance in Emerging Markets

At the institutional level, the governance system in emerging markets is relation-based (Maurer & Li, 2006; Li *et al.*, 2004). In such situations, most transactions are based on personal and implicit agreements rather than on formal contracts that are legally enforceable (Li *et al.*, 2004). The development of market institutions such as legal infrastructures that provide the basis for effective corporate governance has been even slower and more difficult, resulting in difficulties with enforcing property rights, even when legislation has been enacted. Courts and judges are controlled by politicians, industries and markets are controlled by a small number of insiders with connections to the power elites, and there is a strong private network in industries and markets based on private rather than public information and enforcement (Li *et al.*, 2004; Cuervo-Cazurra, 2006, 2008). Furthermore, a lack of strong legal frameworks has accentuated the problems of opportunism, bribery, and corruption (Hoskisson *et al.*, 2000; Cuervo-Cazurra, 2006; Luo, 2006; Cuervo-Cazurra & Genc, 2008).

At the firm level, there is a problem of the unification of ownership and management (Peng *et al.*, 2008). Therefore, the founding family tends to build the network and, then, rely on the government’s support and private network to substitute for the underdeveloped external market (Caves, 1989; Hoskisson *et al.*, 2000; Kale & Anand, 2006; Peng *et al.*, 2008) and to avoid risk. Although such capabilities may fit the requirements of domestic competition (Khanna & Palepu, 1997; Hoskisson *et al.*, 2000; Peng *et al.*, 2008), they may not enable EM

firms to compete in advanced economies. Their local-path trajectories may deviate from those that are suitable for competition in advanced economies. To compete in the first-world market, EM firms need to engage in path-breaking changes.

With respect to the upper echelon theory, a manager tends to structure the strategic decision to match his or her view of the world (Lee & Park, 2008; Nielsen, 2010). Each top executive's perception is a reflection of his or her cognitive state, which influences his or her decision (Sambharya, 1996). Therefore, we expect that international exposure, foreign values, and knowledge from advanced economies will shape the cognitive bases and decision processes of managers (Hambrick & Mason, 1984) and translate into path-breaking changes.

3.3 HYPOTHESIS AND THEORETICAL DEVELOPMENT

The Antecedents of Path-Breaking Change

The basic argument of path dependence proposes that the former decision has an impact on those that follow (David, 1985, 2001; Sydow *et al.*, 2009; Garud *et al.*, 2010; Vergne & Durand, 2010). Path dependence is a product of a firm's routines and previous investments, and it is amplified by the existence of increasing returns and lock-ins (Teece *et al.*, 1997). Organizational paths generally result from human activities, particularly from specific types of entrepreneurial decision making (Sydow *et al.*, 2009). Organizational routines, capabilities, and strategies seem to be shaped by cumulative learning, tacit knowledge, cognitive base, and the value of the management team in a path-dependent manner (Hambrick & Mason, 1984)

Nevertheless, it is also the reflexive agents who lead firms to engage in breaking paths, even if a lock-in has occurred (Karim & Mitchell, 2000; Sydow *et al.*, 2009; Garud *et al.*, 2010). The entrepreneurial mindset is embedded in the structure from which it attempts to depart (Garud & Karnoe, 2001). "Human will" can play a role in the unlocking of paths (Bassanini

& Dosi, 2001). Managerial decisions that result in path-breaking changes are normally shaped by the cognition, value, and knowledge of the TMT (Hambrick & Mason, 1984). Such path-breaking changes may occur at the cognitive and emotional levels of a TMT that subsequently makes a decision on investment and organizational strategies. At the cognitive level, reflecting on hidden dependencies helps clarify the underlying mechanism and, thereby, enables reflection on the possibilities of changing it (Sydow *et al.*, 2009). At the emotional level, the inertial patterns are caused by and depend on unconscious routines and emotions (Burgelman & Groove, 1996). Thus, the outsiders are in a better position to accelerate changes (Ginsberg & Abrahamson, 1991). Hence, we argue that managers who have experience in an advanced-economy setting may lead EM firms to engage in path-breaking change because the managers with international knowledge and exposure will be familiar with the international market environment (Lee & Park, 2008; Nielsen, 2010) in advanced economies. We expect that such backgrounds, experiences, and values of corporate executives may influence the managers (Hambrick & Mason, 1984) to engage in path-breaking changes and set their path on a trajectory to align with international competition.

3.3.1 TMT's International Exposure

International exposure captures the top executives' educational backgrounds and international work experience. International exposure normally affects a manager's cognitive structure and values (Sambharya, 1996). Executives are influenced by their backgrounds and, thus, develop biases, attitudes, values, aspirations, and behaviors based on their life experiences (Hambrick & Mason, 1984; Sambharya, 1996). Accordingly, international exposure affects the knowledge and competence of the individual (Reuber & Fischer, 1997; Lee & Park, 2008; Nielsen, 2010). Experiences in international settings enable the manager to acquire greater international knowledge. Executives with international exposure may bring in their knowledge and skills derived from their international experiences to change an EM firm's

path and enhance the competitiveness of the firm (Levitt & March, 1988; Helfat *et al.*, 2007). Such new knowledge ranges from management practice in operation, general management, product development, R&D management, and technology implementation.

Furthermore, prospect theory indicates that knowledge and competence affect individual choices under risk (Tversky & Koehler, 1994) and an individual's risk receptivity (Wiersema & Bantel, 1992; Matta & Beamish, 2008). Accordingly, a manager with high international exposure tends to have higher receptivity to change and is more likely to take risks (Wiersema & Bantel, 1992; Matta & Beamish, 2008).

Given these reasons, we predicted that a TMT with high international exposure would be more likely to engage in path-breaking changes.

H1: TMT's international exposure positively relates to the extent of an emerging-market firm's path-breaking changes.

3.3.2 Heterogeneity in International Exposure

The extent to which a member has a certain demographic characteristic predicts his or her perspectives and interpretations. The heterogeneity of a TMT captures the breadth of perspective in organizational decision-making (Sambharya, 1996). Homogeneity is linked to maintaining the status quo, greater cohesion, and stability (Tihanyi, 2000). With high diversity, a team's demographic heterogeneity suggests diverse information sources and perspectives, creativity, and innovativeness in decision making (Wiersema & Bantel, 1992). Heterogeneity among agents may result in the unlocking of paths (Bassanini & Dosi, 2001). According to the law of variety, heterogeneity with respect to international exposure in the TMT can promote creativity and generate new ideas in decision making (Sambharya, 1996). Each individual executive brings the cognitive structure, knowledge, skills, and competence

obtained from each foreign country to share with the group (Lee & Park, 2008). Furthermore, heterogeneous groups are expected to take a novel approach to solve non-routine problems (Hambrick & Mason, 1984). Since path-breaking changes constitute non-routine situations that require the attributes of novelty, adaptability, and innovation, we expect greater heterogeneity with respect to international exposure to be associated with the extent of the path-breaking changes.

H2: Heterogeneity in the TMT with respect to international exposure positively relates to the extent of an emerging-market firm's path-breaking changes.

3.3.3 Foreign Executives from Advanced Economies

Firms from developed countries normally possess managerial competence, marketing capabilities, operational efficiency, and technological advantages over firms from emerging markets (Bartlett & Ghoshal, 2000; Mathews, 2006; Cuervo-Cazurra & Genc, 2008; Barnard, 2010). From the knowledge-based perspectives (Kogut & Zander, 1992), the foreign executives who work in these companies are, of course, familiar with the managerial routines and strategies used in their previous firms. They normally possess management expertise and foreign-market information (Bartlett & Ghoshal, 2000; Papadakis & Barwise, 2002; Peterson *et al.*, 2003; Carpenter *et al.*, 2004; Lee & Park, 2008; Nielsen, 2010). Therefore, foreign executives from these MNEs tend to apply what they have already tried in their previous companies to change organizational routines and reconfigure the resources of EM MNEs (Levitt & March, 1988; Helfat *et al.*, 2007). They can utilize foreign knowledge and new expertise to change the path of EM MNEs. Such new knowledge includes management practices in operations, general management, product development, R&D management, and technology implementation.

Furthermore, according to the upper echelon theory, foreign executives from the first world normally have different backgrounds, experiences, values, and cognitive bases from domestic executives. Their past experiences in the developed institutional framework, efficient governance system, and competitive market-based economies will shape their biases, attitudes, values, aspirations, and behaviors (Sambharya, 1996) and, in turn, reconfigure the firm's path and formulate a strategy that fits the market-based competition (Hambrick & Mason, 1984). The outsiders from different economic systems, specifically advanced economies, may serve as the agents of change to counteract inertial forces that may block the implementation of these changes (Ginsberg & Abrahamson, 1991). Therefore, we expect that foreign executives from advanced economies will influence firms to engage in path-breaking changes and transform them for market-based competition.

H3: Firms with foreign executives from advanced economies positively relates to the extent of an emerging-market firm's path-breaking changes.

3.3.4 Foreign Board Members from Advanced Economies

The role of a board of directors (BOD) is to monitor the management team in terms of strategic choice implementation and the performance of the company. In addition, the BOD is frequently involved in defining, selecting, and implementing corporate strategy (Ruigrok *et al.*, 2006). More importantly, a critical determinant of a firm's ability to engage in changes is its corporate governance. Carpenter *et al.* (2003) argues that corporate governance associates with a firm's strategic risk-seeking. A venture capitalist (VC) is an example of a risk-seeking board that influences the TMT to take risks.

According to the agency theory, the manager is generally viewed as being risk-averse (Jensen & Meckling, 1976). Because engagement in a path-breaking change may result in poor

performance (Hannan & Freeman, 1989), a TMT, on average, may not want to engage in changes that represent a departure from the norm. In this circumstance, it is the role of the BOD to influence the manager to engage in path-breaking changes (Carpenter *et al.*, 2003). Nevertheless, a domestic board member who is familiar with the governance system in emerging markets may not facilitate many path-breaking changes. The managers from different economic systems may serve in the role of change agents to counteract inertial forces that may block the implementation of changes (Ginsberg & Abrahamson, 1991).

Furthermore, foreign board members from advanced economies normally possess the foreign knowledge, skills, and competence that fit market-based competition (Hoskisson *et al.*, 2000; Lee & Park, 2008), resulting in uncertainty reduction (Sambharya, 1996). Each board member frequently uses his or her past experiences to serve on the management team or as a board member for other companies (Ruigrok *et al.*, 2006). They expose decision makers to different leadership styles, management techniques, and innovations (Ruigrok *et al.*, 2006). They can share their past experiences and prior learning with the TMT (Sambharya, 1996; Lee & Park, 2008). Experience normally reduces uncertainty regarding the actual probabilities of success and failure (Sitkin & Pablo, 1992). Such experiences can increase the risk perceptivity of the board (Tversky & Koehler, 1994) and, in turn, influence the TMT to adopt changes and implement risky projects (Sambharya, 1996; Hambrick & Mason, 1984). Therefore, we expect that foreign BODs from advanced economies may put pressure on the TMT to change the organizational path to align with market-based competition. A foreign board member will offer knowledge and skills from his or her international experience to influence the TMT to engage in path-breaking changes (Hambrick & Mason, 1984).

H4: Firms with foreign board members from advanced economies positively relate to the extent of an emerging-market firm's path-breaking changes.

3.4 DATA AND METHODS

3.4.1 Research Setting

Similar to Essay 1, we examined firms in the chemical and pharmaceutical, industrial machinery, and electrical and electronics industries (SIC 28, 35, 36). These industries present the top three industries in terms of sample size in the Osiris database. The list of countries was selected from the MSCI Emerging Market Index of 2008 published by Morgan Stanley Capital International, Inc. We excluded South Korea and Taiwan from this list because these two countries are generally perceived as Asian Tigers (Nelson & Pack, 1999) and categorized as second-wave internationalization nations by developing countries (Dunning, 1998; Mathews, 2006). Furthermore, we excluded Israel from the list because the IMF has categorized Israel as a country with an advanced economy (IMF, 2008). Therefore, our list consists of 20 emerging economies. However, the data available for the executive biographies in emerging markets is extremely limited. Of those 20 countries, we finally have samples in the following 11 countries:

- | | |
|--------------|------------------|
| 1. Chile | 7. Mexico |
| 2. China | 8. Philippines |
| 3. Hungary | 9. Russia |
| 4. India | 10. South Africa |
| 5. Indonesia | 11. Thailand |
| 6. Malaysia | |

3.4.2 Sample and Data Collection

We obtained data from multiple data sources. One of them is annual report. In some countries, the company's annual report is not provided in English. To solve this problem, the MBA students from the above countries are assigned to code the data from the company's annual report. The languages include Chinese, Indonesian, Spanish, and Russian. We obtained the company list from Osiris. To be included in the sample, a firm must have been incorporated in the above 11 emerging countries, while the subsidiaries of foreign MNEs were excluded. The procedure to collect data is illustrated in Essay 1. The annual reports enable us to collect the names of TMT and BOD. Subsequently, we used other data sources to find their backgrounds and profiles, including Marquis, Executive Biographies, LinkedIn, China Vitae, Who's Who in India, and Google.

3.4.3 Estimation

Again, we used panel data econometrics to estimate our model. There are three panels in the dataset. To choose between the pooled effect, fixed effect, and random effect, we use Breusch and Pagan Lagrangian multiplier test and Hausman test to assess the appropriateness of the random effects model. The test clearly indicates that the random-effect model should be employed.

In addition, we addressed a potential endogeneity problem by 2SLS. Moreover, we employed Fuller's LIML estimation (FULL) to control for the endogeneity problem and produce heteroskedasticity and autocorrelation consistent standard error (HAC). In this essay, we also tested the impact of the multilevel effect on our model. Therefore, we used the nested, multilevel mixed model to test our hypothesis and to compare the results with those from other models.

3.4.4 Measures

Dependent Variable: Path-Breaking Changes

We used the sum of five factors to measure the extent to which firms engage in path-breaking changes. These five factors include

- | | |
|---------------------------------------|-------------------------------|
| (1) Corporate governance reform: | Dummy variable (Y = 1, N = 0) |
| (2) Divestiture of unrelated business | Dummy variable (Y = 1, N = 0) |
| (3) Foreign R&D facilities: | Dummy variable (Y = 1, N = 0) |
| (4) Foreign acquisition: | Dummy variable (Y = 1, N = 0) |
| (5) Cross-border alliances: | Dummy variable (Y = 1, N = 0) |

We decided to select the figures from the 2003, 2004, and 2005 financial years in order to allow for the time lag between dependent variables and independent variables.

With respect to the operationalization of path-breaking changes, we discussed the first three factors in Essay 1. These three factors are corporate governance reform, divestiture of unrelated business, and overseas R&D. However, we have yet to discuss the other two factors: foreign acquisition and cross-border alliances. Therefore, we devote this section to elaborate on the impact of foreign acquisition and cross-border alliances on path-breaking changes.

Foreign acquisition

Acquisitions are frequently followed by business changes for both the acquiring and the target firms (Capron *et al.*, 1998). Firms can use acquisitions to achieve long-term business reconfiguration through the deletion, retention, or addition of business resources (Karim & Mitchell, 2000). Acquisition allows firms to combine the routines that underlie different types of resources in order to create new resources. Vermeulen and Barkema (2001) argue that acquisitions revitalize the acquiring organizations and foster their long-term survival. They

are another way for organizations to administer shocks to their systems and counter the process of progressing simplicity. They enrich the knowledge bases and break the rigidities of the acquiring firms.

Each firm has idiosyncratic sets of routines (Nelson & Winter, 1982). Acquisitions are anchored in different organizational cultures and are likely to have different rules, procedures, conventions, and strategies (Greenwood & Hinning, 1993). Even though their integration often leads to clashes and tensions owing to the confrontation of different cultures, structures, and systems (Chatterjee *et al.*, 1992), such differences also break rigidities in acquiring firms, counter progressing simplicity (Vermeulen & Barkema, 2001), and foster learning (Karim & Mitchell, 2000). EM MNEs that engage in foreign acquisition have many chances to change their organizational routines. They can also integrate, delete, modify, and extend the resources, resulting in new capabilities of the firms. The infusion of knowledge and practices will boost the development of new knowledge and capabilities (Grant, 1996; Kogut & Zander, 1992).

In addition, acquisition promotes changes in organizational mindsets or mental maps (Vermeulen & Barkema, 2001). Each organization holds unique values and norms, and has a unique culture, combined with the knowledge embedded in the organizational routines (Nelson & Winter, 1982). Due to these differences, acquisitions lead to cultural clashes and tensions when they are implemented. However, they provide opportunities for firms to infuse the corporate culture or the organizational mindset of the target firm into the acquiring firms and decrease the rigidity in their mental map (Vermeulen & Barkema, 2001).

Furthermore, we expect that *foreign* acquisition is likely to accentuate the differences between the corporate cultures of the acquirer and the target and, in turn, amplify changes in

organizational routines. Due to differences in nationalities and cultures, people tend to think and work in different ways (Johanson & Vahlne, 1977; Kogut & Singh, 1988; Zahra, 1995). Their mindsets and cognitive bases express some degree of differences, boosting a large variety of events, ideas, and norms, which cause them to develop new mental maps. Hence, foreign acquisitions change the path of a firm, causing it to deviate from previous norms and values, as well as its established way of operating its business.

Nevertheless, one can argue that the foreign acquisition of a target firm in a less developed country promotes path-reinforcing rather than path-breaking changes, and it may not lead a firm to expand in an advanced economy. To address this criticism, we assert that (1) this move is a process that EM firms employ to break away and deviate from the domestic path. By engaging in foreign acquisition, EM MNEs reflect a more international focus, rather than a domestic focus. (2) Even in a less developed country, EM firms still have to face competition with MNEs from advanced economies (Rangan & Drummond, 2004). Hence, they allow firms to experience new competitive settings (Ahuja & Katila, 2004; Anand & Delios, 2002). They also take place in different economic and regulatory environments (Nadolska & Barkema, 2007). For example, a Thai company may compete with an American company in such multiple host markets as Indonesia, Cambodia, and Malaysia. This will give EM MNEs the opportunity to become familiar with different degrees of market-based competition, depending on the host country that they have entered (Makino *et al.*, 2002; Brouthers *et al.*; 2005). Hence, we see this move as a learning process when EM firms gain institutional experiences in overseas markets. Such experiential knowledge, possibly combined with other knowledge, is synthesized into the firm's systematic knowledge, assimilated into its organizational memory, and institutionalized into its organizational routines (Crossan *et al.*, 1999). Hence, a Thai company can learn from these competitions and, in turn, develop new set of routines and capabilities to catch up to an American competitor.

This idea can develop further into a dynamic process in which EM firms learn and abridge the institutional distance and different level of competition intensity. Therefore, we expect that such international exposures will enable firms to redefine their path-trajectory to reflect a more international focus. EM firms can build their capabilities and reconfigure their resource bases along the new international path trajectory.

Cross-border alliances with firms from advanced economies

Strategic alliances are inter-firm cooperative arrangements aimed at achieving a firm's strategic objectives (Gulati, 1995). The examples of alliances include minority equity alliances, joint R&Ds, joint venture, and joint marketing efforts (Teng, 2007). Strategic alliances provide many benefits for firms (Dacin *et al.*, 2007). The key advantages that have been attributed to the establishment of alliances include entry into new markets, increased market power (Eisenhardt & Schoonhoven, 1996), risk and investment sharing, economies of scale and scope (Contractor & Lorange, 1988), government or trade barriers (Contractor & Lorange, 1988), and the acquisition of institutional legitimacy (Baum & Oliver, 1991).

In addition to the above benefits, strategic alliances provide EM firms the opportunity to acquire the critical resources of their foreign partners (Dussauge, 2009). Forming such alliances enables firms to acquire new skills and capabilities (Dussauge *et al.*, 2000). Since core competencies and value-creating disciplines are not distributed equally among firms, forming an alliance is a means to acquire other firms' capabilities and resources, which are a combination of organizational routines embodied in human or capital assets (Grant, 1996; Teece *et al.*, 1997).

Building upon this research stream, we examined the impact of forming alliances with foreign partners on path-breaking changes. Since EM firms can learn from their first-world

partners, such organizational learning will help EM firms access and benchmark their existing routines with those of partners. Accordingly, it allows the EM firms to recombine routines that underlie different types of partners' resources in order to create new resources and capabilities (Grant, 1996; Wernerfelt, 1984). New sets of routines and resource bases result in the redefinition of path trajectories (Teece *et al.*, 1997), which is aligned with market-based competition. Strategic alliances represent a means of promoting innovation, corporate ventures, and strategic renewal (Borys & Jemison, 1989; Teng, 2007).

Like foreign acquisition, cross-border alliances with foreign partners help EM MNEs reduce rigidities in their mental maps (Vermeulen & Barkema, 2001). In addition, we expect that this effect will be accentuated in cross-border acquisition because of differences in nationalities, norms, cultures, and values (Johanson & Vahlne, 1977; Kogut & Singh, 1988; Zahra, 1995).

Let us take an example. An Indian firm decides to form a strategic alliance with a German company. This collaboration will enable the Indian firm to gain access to its German partner's critical resources. Hence, the Indian firm can learn and change its set of routines to reconfigure its resource base. It can learn and change the routines of different functions such as human resources management, R&D management, operation management, and marketing management. Such learning and changes will allow this Indian firm to redefine its resources base, capabilities, and path trajectory (Kale & Anand, 2006).

Independent Variables

TMT international exposure (+)

A TMT is defined as those managers who hold the rank of vice president and above (Sambharya, 1996). The international exposure of each executive was measured by (1) overseas education and (2) the numbers of years spent abroad for employment. We used two measures for this variable. First, we used the proportion of the TMT that educated or worked overseas to the total number of agents in the TMT. Second, we used a dummy variable to capture this variable. Hence, if a company employs executives with international exposure, we code it “1”, and if not, “0.” We obtained the names of executives from each company’s annual report. Subsequently, we search for their profiles in Marquis, China Vitae, Who’s Who in India, and Google.

TMT international heterogeneity (+)

We use Blau’s Heterogeneity Measure (1977) to measure the heterogeneity of the TMT international experience. The expression of this measure is $(1 - \sum p_i^2)$, where p_i is the proportion of the team in the i^{th} country of employment or study. For this variable, we did not use dummy variable. This variable correlates with the TMT international exposure. If we use a dummy variable, it will cause a great threat of perfect multicollinearity. To obtain data for this variable, we use the same procedure as that in the previous discussion. The data sources are Marquis, China Vitae, Who’s Who in India, and Google.

Foreign TMT from advanced economies (+)

Again, we used two measures for this variable. First, we used the proportion of foreign TMT from advanced economies to the total number of agents in the TMT. Second, we use a dummy variable to capture this variable. If firms employ foreign executives, we coded it “1”, and if not, “0.”

Foreign board members from advanced economies (+)

Similarly, we used two measures. First, we used the proportion of foreign members of the BOD from advanced economies to total number of directors in the BOD. Second, we used a dummy variable. If firms possess foreign executives, we coded it “1,” and if not, “0.” We obtained data from firms’ annual report, Marquis, China Vitae, Who’s Who in India, and Google.

Control Variable: Firm Level

CEO’s age (-)

Risky choices are affected by the age and career horizon of a CEO (Matta & Beamish, 2008). Therefore, we control for the age of the CEO. This information was obtained from the company’s annual report, LinkedIn, China vitae, Who’s Who in India, and Google.

CEO’s education level (-)

Competence affects individual choices under risk (Tversky & Koehler, 1994). CEOs with a higher level of education tend to be more willing to take risks (Wiersema & Bantel, 1992; Matta & Beamish, 2008). We used ordinal measures to capture this variable: Doctoral degree = 4, Master degree = 3, Bachelor degree = 2, High School = 1, and Other = 0.

Foreign ownership (+)

Foreign investors can influence managers of EM firms to restructure their businesses to align with the requirement of international competition (Elango & Pattnaik, 2007). A higher level of foreign ownership tends to influence firms to engage in path-breaking changes to a greater extent. This data was obtained from companies’ annual reports. However, for India, we obtained this data from the Bombay Stock Exchange, whose website provides information about the shareholding patterns and major shareholders of Indian companies.

Firm's size (+)

Typically, larger firms are more likely to have slack resources to engage in risky projects, especially in an emerging-economy context (Yiu *et al.*, 2007). We control for the size of a firm through the total sales revenues in billion USD. We obtained this data from the Osiris and Infinancial databases.

Firm's age (-)

This variable is calculated in years. In transition-and-relation-based economies, older firms tend to be embedded in the pre-reform period. Therefore, they tend to develop organizational inertia, resulting in difficulties with international expansion (Yiu *et al.*, 2007).

Prior performance (+)

Prior performance is a referent for decision makers' assessment of risky choices (Matta & Beamish, 2008). To measure a firm's prior performance, we used the return-on-asset (ROA) ratio in the 2003, 2004, and 2005 financial years.

Firm's debt-to-equity ratio (-)

Firms with more slack resources are more likely to engage in international venturing (Yiu *et al.*, 2007). A low debt-to-equity ratio may allow firms to engage in risky projects. We obtained this data from the Osiris and Infinancial databases.

Control Variable: Country Level

In this essay, we did not control for country factors. This is primarily because the firms in the dataset reside in 11 emerging markets. Hence, the variation is very trivial. Each firm in the same country possesses the same country factor value. In addition, it caused a multicollinearity problem. Therefore, we excluded the country level factor from our model.

3.4.5 Variables Summary and Expected Outcomes

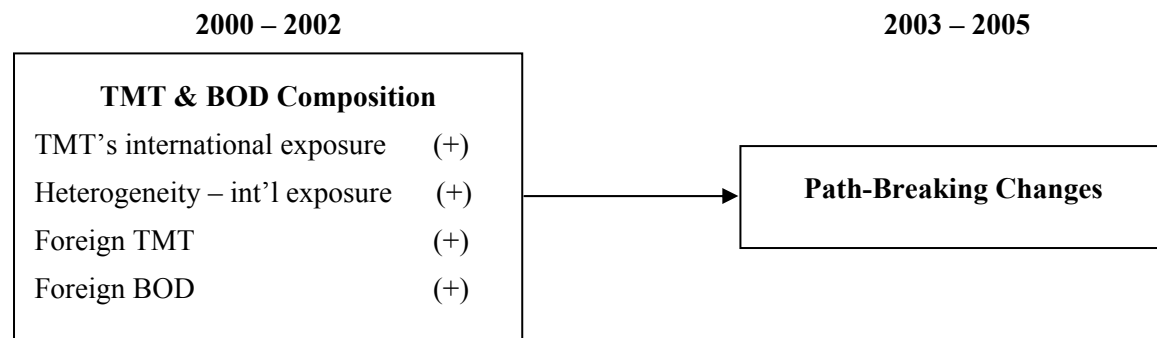


Figure 3.1: Conceptual Framework

Dependent Variable:

$$\text{Path-Breaking Changes} = \sum \left(\begin{array}{ll} (1) \text{ Corporate governance reform:} & (Y = 1, N = 0) \\ (2) \text{ Divestiture of unrelated business:} & (Y = 1, N = 0) \\ (3) \text{ Foreign R\&D facilities:} & (Y = 1, N = 0) \\ (4) \text{ Foreign acquisition:} & (Y = 1, N = 0) \\ (5) \text{ Cross-border alliances:} & (Y = 1, N = 0) \end{array} \right)$$

Independent Variable

TMT's International Exp (+)	1 Ratio of TMT educated and worked outside home country 2 Dummy variable for TMT international exp. (Y = 1, N = 0)
Heterogeneity in International Exposure (+)	Blau's Heterogeneity Measure (1977); $(1 - \sum p_i^2)$, p_i is the proportion of the team in the i^{th} citizenship category
Foreign Executives (+)	1 Ratio of Foreign Executives 2 Dummy Variable Foreign Executives (Y = 1, N = 0)
Foreign Board Members (+)	1 Ratio of Foreign Board Members 2 Dummy Variable Foreign Executives (Y = 1, N = 0)

Control Variable

CEO's Age (-)	: Number of Years
CEO's Education Level (+)	: Doctoral degree = 4, Master = 3 Bachelor = 2, High School = 1, Other = 0
Foreign Ownership (+)	: Dummy variable. We code "1" if a foreigner owns more than 25% of the firm shares
Firm's Size (+)	: Sales Revenues $\times 10^{-9}$
Firm's Age (-)	: Number of Years
Prior Performance (+)	: ROA
Firm's Debt-to-Equity Ratio (-)	: Debt-to-Equity ratio

3.5 RESULTS

The means, standard deviations, and correlations of the variables included in our analysis are presented in Tables 3.2 and 3.3. To assess the risk of multicollinearity problem, we computed variance inflation factors (VIFs), as shown in Table 3.1. None of the combinations of variables introduced in our model possesses a VIF greater than 4, and no one individual variable presents a VIF greater than 10, indicating that there is no serious problem regarding multicollinearity.

INSERT TABLE 3.1 ABOUT HERE

3.5.1 Results of the Hypothesis Test

Table 3.4 shows the results emanating from our model, starting from the baseline model with controls (Model 1), moving to random effect estimation (Models 2–3), and ending with the Panel IV estimation model (Models 4–7). We produce a standard error that is robust to both heteroskedasticity and autocorrelation to mitigate the potential threat from such problems.

INSERT TABLE 3.2 ABOUT HERE

Model 1 displays the effect of the base model with control variables. The coefficients of CEO education level and foreign ownership are positive and significant. However, the coefficients of CEO age, firm size, firm age, gearing, and prior performance do not receive empirical support.

INSERT TABLE 3.3 ABOUT HERE

Turning to Model 2, we first discuss the results of the single level, random effect (RE) estimation for the main variables. Hypothesis 1 predicted that the TMT's international exposure positively relates to the extent of an emerging-market firm's path-breaking changes. The coefficient of TMT's international exposure is positive and significant, providing moderate support for Hypothesis 1 ($p < 0.05$).

Hypothesis 2 proposed that heterogeneity in the TMT with respect to international exposure positively relates to the extent of an emerging-market firm's path-breaking changes. As we predicted, the coefficient heterogeneity with respect to international exposure is positive and significant, providing a moderate support for Hypothesis 2 ($p < 0.05$).

Hypothesis 3 predicted that the firm having foreign executives from advanced economies positively relates to the extent of an emerging-market firm's path-breaking changes. Surprisingly, the coefficient of the foreign TMT ratio is negative and significant ($p < 0.05$), providing contrasting results and a strong rejection of Hypothesis 3.

Hypothesis 4 argued that firms with foreign board members from advanced economies positively relates to the extent of an emerging-market firm's path-breaking changes. According to the result, the coefficient of foreign BOD is positive and significant ($p < 0.1$). Therefore, Hypothesis 4 receives weak empirical support.

INSERT TABLE 3.4 ABOUT HERE

Moving to Model 3, we further investigate the dichotomous variables of a TMT with international exposure, the ratio of foreign TMT, and the ratio of foreign BOD.

For Hypothesis 1, the coefficient of TMT with international exposure is positive and significant, thus, supporting Hypothesis 1 ($p < 0.05$). For Hypothesis 2, the coefficient of heterogeneity with respect to international exposure is positive and significant, thus, providing weak support for Hypothesis 2 ($p < 0.1$). Furthermore, the coefficient of foreign BOD is positive and significant, thus, providing strong empirical support for Hypothesis 4 ($p < 0.01$). However, the coefficient of foreign TMT is still negative, and it is no longer significant. Hence, we reject Hypothesis 3.

3.5.2 Endogeneity Test: Ratio Form

According to Model 2, we suspect that foreign BOD may suffer from an endogeneity problem. We use six instrument variables in our model. The first set of instrument variables is a corruption perception index and a ranking of public institution efficiency. For the second set of instrument variables, we use *xtdata* command in STATA to convert our dataset into a form suitable for random effects estimation. Subsequently, we use the dummy variables of such random effect adjusted variables. If their values are greater than the average value, we code “1”, otherwise “0.” Hence, those variables include the dummy variable of the average, random-effect adjusted TMT with international exposure, the dummy variable of the average, random-effect adjusted heterogeneity of international TMT, the dummy variable of the average, random-effect adjusted foreign TMT and the dummy variable of the average, random-effect adjusted foreign BOD.

We first check the relevance condition of our instrument variables. In Model 4, our first stage *F*-statistics of our suspected variable, foreign BOD is 78.69. This value is much greater than the Stock-Yogo weak ID test critical values at 5% maximal Fuller rel. bias. Therefore, our first stage *F*-statistics provide strong consistency with the instrument relevance condition.

Subsequently, we check for the exogeneity condition by employing the Hansen *J* statistic. Every instrument meets the exogeneity condition. The *p* value of the Hansen *J* statistic and that of the *C* statistic is much greater than 0.1.

Model 6 further deals with the heteroskedasticity and autocorrelation problems. We use the IV heteroskedasticity test and Arellano-Bond test. We found heteroskedasticity problems in our model. Hence, we upgrade our estimation method from 2SLS to FULL model, which is a modified version of the traditional LIML estimator and has finite moments. Hence, it solves

the moment problems of LIML or JIVE (Hahn & Hausman, 2003; Hahn *et al.*, 2004) FULL estimation outperforms LIML estimation in many circumstances (Davidson & Mackinnon, 2006; Han *et al.*, 2004), as FULL estimation is more robust to weak instruments than 2SLS and performs well in case of many weak instruments (Stock & Yogo, 2004). The results of Model 4 are very close to those of Model 2 in terms of coefficient, standard error, and p value. Later, we compared our results with those of Moreira's CLR, which has been argued to be the test of choice in IV applications. It has the best power properties (Cruz & Moreira, 2005; Yogo, 2004). However, this method does not allow us to deal with heteroskedasticity, serial correlation, and multiple endogenous regressors. Therefore, we employ the FULL model and then check whether the coefficients align with Moreira's CLR critical range. According to Table 3.4, the coefficients of foreign BOD ratio in the 2SLS and FULL model fall within Moreira's confidence set [1.54, 4.59]. They also possess the same p value. Therefore, there is no finite sample/weak instrument problem (Yogo, 2004). Consequently, based on our strong result, we indicated that there is no endogeneity problem in Model 2.

Nevertheless, the p value of the Durbin component of the Durbin-Wu-Hausman test of each independent variable of both models is greater than 0.1, indicating that Panel IV estimation is not a consistent estimator. Therefore, we reject Models 4 and 6. Later, we also consider that foreign TMT and a TMT with internal experience and its heterogeneity might be endogenous. Therefore, we test every independent variable, whether it is endogenous or not. According to our result, there is no endogenous regressor in our model. Hence, the empirical results should not be interpreted from Panel IV estimation. We rejected Models 4 and 6.

3.5.3 Endogeneity Test: Dummy Form

Similar to the previous section, we also test Model 3 to assess whether there is a potential threat from the endogeneity problem. Again, we use six instrument variables. Two of them—corruption perception index and ranking of public institution efficiency—are the same variables. For the other four instrument variables, we use the same identification technique by transforming the dataset to a form suitable for random-effects estimation. Subsequently, we use the dummy variable of such random-effect adjusted variable. If their values are greater than the average value, we code “1,” otherwise “0.”

Again, we check the relevance condition of our instrument variables. In Model 5, the first stage F-statistics of our suspected variable, foreign BOD is 378.27. This value is much greater than Stock-Yogo weak ID test critical value of 19.28. Therefore, our first stage F-statistics provide strong consistency with the instrument relevance condition.

Subsequently, we check for the exogeneity condition by employing the Hansen J statistic. Every instrument meets the exogeneity condition. The p value of the Hansen J statistic and that of the C statistic is much greater than 0.1.

We found a heteroskedasticity problem in Model 5. Hence, we upgrade from 2SLS to FULL in Model 7. Subsequently, we checked that our value (0.5775) falls within Moreira's confidence set [0.28, 0.89]. Therefore, there is no finite sample/weak instruments problem (Yogo, 2004).

Consequently, based on our strong result, we confirm that there is no endogeneity problem in Model 3 and that Panel IV estimation (Models 5 and 7) is not a consistent estimator. We rejected Models 5 and 7. In conclusion, we rejected Models 4 - 7 in favor of Models 2 and 3.

3.5.4 Multilevel Mixed Model

In this section, we further employed multilevel analysis. In Table 3.5, we controlled the hierarchical clustering effect in our model. In this analysis, to test Models 8–12, we used four clustering levels: (1) country, (2) industry, (3) firm, and (4) year. Similar to essay 1, we controlled such effects by using the *xtmixed* command in STATA. Model 8 represents the base model, while Models 9 and 10 illustrate the random-intercept model and Models 11 and 12 represent the random coefficient model.

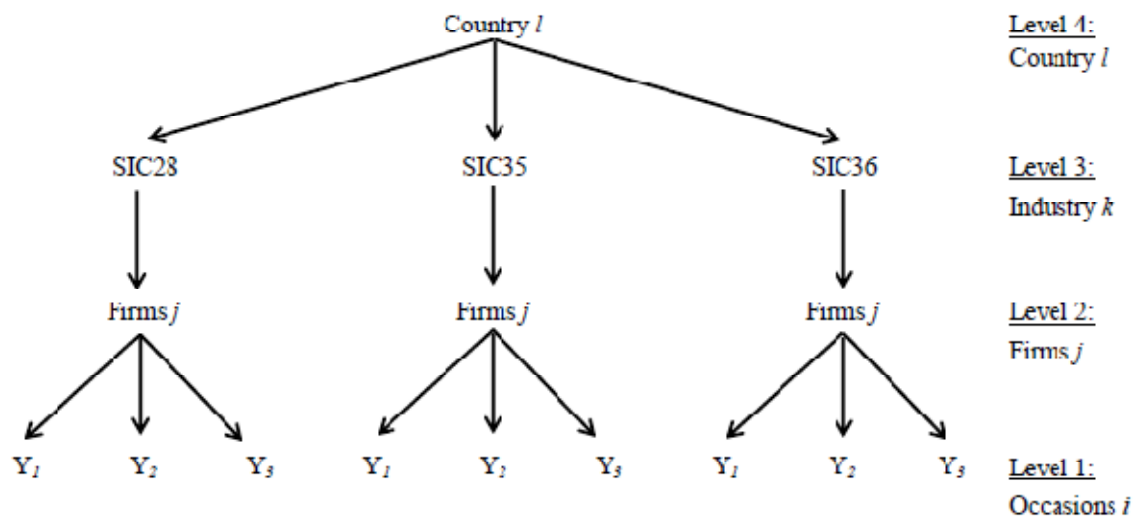


Figure 3.2 Nested, Multilevel Mixed Model

Model 8 represents a multilevel-base model. It provides the empirical results for the control variables. According to Table 3.5, the coefficient of a firm's size becomes positive and significant. For other control variables, the results are similar to Model 1 in Table 3.4 in terms of sign and empirical support.

3.5.5 Multilevel Analysis – Ratio Form

In Model 9, we allowed a random intercept for each variable, whereas in Model 11, relaxed the slope of foreign TMT. Therefore, Model 9 is nested in Model 11. We selected foreign TMT in order to check whether the cluster effect has an impact on its sign.

Subsequently, we further employed the naïve likelihood-ratio test to assess the appropriateness of the random coefficient model. According to our test result, the output clearly states that there is no statistically significant difference between the random-intercept and random coefficient models. The empirical evidence fails to reject the null hypothesis that there is no difference between these two models. Hence, the random coefficient model (Model 11) is rejected in favor of the random-intercept model (Model 9).

INSERT TABLE 3.5 ABOUT HERE

In Model 9, the coefficient of the foreign BOD and the heterogeneity of TMT is significant, providing support for Hypotheses 2 and 4. For foreign TMT, its coefficient is still negative and weakly significant. Therefore, we reject Hypothesis 3. Moreover, the coefficient of TMT with international experience is no longer significant, rejecting Hypothesis 1. By examining further, we found that there are differences across industries. While there is empirical support for this variable in SIC Code 35 (industrial machinery and equipment), it does not receive empirical support in SIC 28 (chemicals and allied products) or SIC36 (electrical and electronic equipment). Hence, the nested, clustering effect has an impact on TMT international exposure.

3.5.6 Multilevel Analysis – Dummy Form

Model 10 represents the random intercept of each variable, while Model 11 relaxes the coefficient of foreign TMT, as mentioned in the previous section.

We used the naïve likelihood-ratio test to choose between Model 10 (random intercept) and Model 12 (random coefficient). Again, the empirical evidence fails to reject the null hypothesis that there is no difference between these two models. Hence, the random coefficient model (Model 12) is rejected in favor of the random intercept model (Model 10).

From Model 10, the coefficient of heterogeneity in international exposure and that of foreign BOD is positive and significant, providing support for Hypotheses 2 and 4. The coefficient of TMT' international exposure is positive but not significant. Hence, we reject Hypothesis 1. Furthermore, the coefficient of foreign TMT is negative but no longer significant, providing a strong rejection of Hypothesis 3.

3.6 ROBUSTNESS CHECK – Monte Carlo Simulation

Due to the very small size of the sample (170 firms with 398 observations), the result should be interpreted cautiously. We aim to alleviate the problem of the small sample size by further running Monte Carlo simulation to do a robustness check.

Since the main authors are familiar with MATLAB, we import data and ran Monte Carlo simulation in MATLAB. In MATLAB, there is a built in function to generate data with respect to the Monte Carlo method. Nonetheless, MATLAB does not possess a function to simulate data into panel data, where subsequent observation is influenced by the previous time period. In addition, MATLAB does not possess a function to nest a firm in an industry or in a country. Hence, we are obliged to select one panel from our dataset in order to run OLS regression. We select data from 2005 for independent variables and 2008 for our dependent variable. The major reason for this is that in 2005, we have the highest number of observations. We then compute the covariance matrix of our real sample for future use.

By using MATLAB, we generate data for 10,000 firms for 18 variables, including dependent, independent, and control variables. Each variable is normally distributed. Subsequently, to transform this uncorrelated data into a correlated dataset, we use Cholesky decomposition (Brandimarte, 2006). By employing Cholesky decomposition, we can run the OLS regression with new correlated dataset.

$$\begin{aligned} C^T C &= S \\ Y &= UC \end{aligned}$$

Where C: Cholesky decomposition

S: Covariance matrix of the existing dataset

U: Data set generated by Monte Carlo simulation

Y: Correlated dataset with normal distribution

Table 3.6 shows the covariance matrix simulated data using Monte Carlo simulation. Table 3.7 also shows the covariance matrix of real data. These two tables show similar covariance matrices as a result of a robust Monte Carlo simulation and Cholesky decomposition.

INSERT TABLE 3.6 ABOUT HERE

INSERT TABLE 3.7 ABOUT HERE

Table 3.8 shows the results of linear OLS regression of the correlated, simulated dataset. We produce a standard error that is robust to both heteroskedasticity and autocorrelation.

Model 13 displays the effect of a baseline model with control variables. The coefficient of CEO's education age is negative but not significant. For the rest of our control variables, their coefficients are strongly significant ($p < 0.01$).

According to Model 14, we first discuss the results of the ratio form of our focal independent variables. The coefficient of TMT with international experience and its heterogeneity is positive and significant, providing strong support for Hypotheses 1 and 2. Furthermore, the coefficient of foreign BOD is positive and significant. Hence, Hypothesis 4 receives empirical support as well. Nevertheless, the coefficient of foreign TMT is still negative and significant, thus, rejecting Hypothesis 3.

Model 15 further investigates the dichotomous variables of TMT with international exposure, ratio of foreign TMT, and ratio of foreign BOD. Similarly, the coefficient of TMT with international exposure and that of its heterogeneity as well as the coefficient of foreign BOD is positive and significant, providing empirical support for Hypotheses 1, 2, and 4. Again, the coefficient of foreign TMT is still negative and significant. Hence, it confirms our strong rejection of Hypothesis 3.

INSERT TABLE 3.8 ABOUT HERE

3.7 DISCUSSION & CONCLUSION

3.7.1 Conclusion

This study examines the impact of TMT and BOD compositions on path-breaking changes. According to the empirical results in the multilevel model, two of our four hypotheses—Hypotheses 2 and 4—receive empirical support. The heterogeneity of TMT international exposure positively correlates with path-breaking changes. Similarly, the coefficient of the foreign BOD positively correlates with path-breaking changes. However, the coefficient of the TMT international exposure of the TMT is positive but not significant.

Contrary to our prediction, the coefficient of foreign TMT is negative, rejecting Hypothesis 3. The empirical results imply that foreigners from advanced economies may encounter a cultural clash in the TMT; in other words, they may not work well with the local manager and employees (Peng *et al.*, 2008). In addition, EM firms may face a problem of a low foreign TMT member retention rate. Foreign TMT members from advanced economies may find it difficult to move their families and work in an emerging market. These difficulties are accentuated in countries wherein the institutional framework and infrastructure development differ greatly from those in advanced economies. Therefore, foreign TMT members tend to leave EM firms after a period of time. This also occurs in the higher education industry, where the professors from advanced economies tend to leave universities in emerging countries such as China, Indonesia, and Thailand after a few years.

With respect to control variables, the coefficients of the CEO age and education level are not significant. One possible reason for this is that the decision is made by the mutual agreement of the TMT. Accordingly, the decision of the CEO may be influenced by other TMT members. Therefore, future research is needed to quantify the impact of the average age and education level of a member of the TMT on the path-breaking changes of a firm.

As in our previous essay (Essay 1), the coefficient of the firm's age is positive and significant. One possible reason for this is that many EM firms are in the growth stage. Not many of them are in the mature stage. According to Tables 3.2 and 3.3, the average firm's age in our dataset is 19.05 years.

By controlling the multilevel mixed effect in Model 7, our picture slightly changes. While the empirical results provide the same picture for Hypotheses 2 and 4, they do not provide support for Hypothesis 1. According to Table 3.5, the coefficient of TMT with international exposure is positive but not significant. There are industry impacts on the TMT with the international experience variable. One possible reason for this is that the standard in each industry is different. Meanwhile, the electronic industry (SIC35) and chemicals and pharmaceutical industry (SIC 28) standards are converged to become a global standard. The industrial machinery and equipment industry (SIC36) standard varies across countries. Hence, the necessity of path-breaking changes is accentuated in this industry (i.e., SIC36) rather than in the other two.

We would also like to highlight the impact of the clustering effect on the empirical results. Although we mentioned earlier that it is more appropriate to interpret the empirical results from multilevel analysis, it is worthwhile to reiterate that the multilevel analysis should be adopted by international business scholars who investigate firms in multiple countries and industries. For example, in this essay, the nested clustering effect has an impact on the coefficient of the TMT's international exposure. Meanwhile, the coefficient of this variable is moderately significant ($p < 0.05$) in the single level model. It is no longer statistically significant in the nested multilevel, mixed model. Therefore, the multilevel, mixed method should be employed to achieve a higher degree of robustness.

INSERT TABLE 3.9 ABOUT HERE

3.7.2 Managerial Implication

The top management and board composition of a company greatly impact the direction and path trajectory of a firm. Transforming an EM firm's path trajectory toward a market-oriented company requires knowledge about market-based competition. This study provides important insight with important implications for the managers and shareholders of EM firms who seek path-breaking changes. According to our empirical results, foreign TMT from advanced economies negatively relates to the extent of path-breaking changes. Therefore, as shown in Hypothesis 4, it will be better for a foreigner to take a board member position to provide advice and guidance to the local TMT to engage in path-breaking changes.

Furthermore, by hiring a foreign TMT from an advanced economy, EM firms also have to be more open to and ready for change toward a business model that aligns to market-oriented competition. Many EM firms hire foreigners from advanced economies merely to improve the company's image, to be perceived as more international and gain legitimacy in the home market. Moreover, EM firms should provide the authority and accountability of foreign managers from advanced economies in order to effect changes. Otherwise, the impact of the foreign knowledge is trivial if a first-world manager is unable to execute or implement the path-breaking-change program.

3.7.3 Limitation

Due to the data availability, a limitation for this essay is the problem of its small sample size. One of the major reasons for this small sample is that many databases such as Marquis, Executive Biographies, Who's Who in the World, and LinkedIn frequently do not possess the profiles of managers from emerging economies. To solve the data-availability problem, we had to collect data by using a search engine such as Google. We obtained the names of executives and board members from companies' annual reports. Subsequently, we used Google to search their profiles. Unfortunately, public data frequently provides a limited version of executives' biographies. Hence, our sample size is relatively small. According to our dataset, our sample size is 170 firms with 398 observations. Hence, generalizations should be made with caution.

Although we employ Monte Carlo simulation to alleviate the problem, the simulated dataset must be transformed to a correlated dataset using Cholesky decomposition. Therefore, the real samples significantly influence the empirical results of the Monte Carlo simulation. In addition, one limitation of the simulation is that it cannot capture a firm's changes over times. MATLAB neither has a function to generate data into a panel data nor a nested model. We can simply generate data into a single panel. Therefore, we ran this simulation merely for the purpose of a robustness check. Again, the generalization of its results should be interpreted with caution.

3.8 FUTURE RESEARCH

Since the coefficient of foreign TMT from advanced economies is negative and significant, future research may consider investigating the interaction between foreign TMT and the local manager and whether a foreign manager can influence the TMT and CEO to engage in path-breaking changes. Therefore the interplay between the CEO and other local managers should be investigated.

Secondly, future research should further examine the characteristics of a foreign TMT member. For example, the age and education level of this particular foreign TMT member may influence his or her decisions on path-breaking changes. A foreign TMT member who is young or who possesses a higher level of education is more likely to take risks. In addition, future research should examine foreign TMT members from emerging economies rather than from advanced economies. Accordingly, we can see the differences between those two groups. Nevertheless, our prediction is that foreign TMT members from emerging economies are more likely to lead a firm to engage in path-reinforcing changes because they all possess the knowledge to do business in an institutional-void environment. However, a large empirical test should be employed in order to confirm our prediction.

Thirdly, according to the TMT international experience, future research may examine the number of years that the local manager spent abroad. Studying or working abroad for one year may not be long enough for a manager to accumulate foreign knowledge and experience. Furthermore, such knowledge and experience is neutralized by the manager's home business environment when he or she returns to work locally. Therefore, more years in overseas may accentuate the extent of path-breaking changes. On the contrary, more years working in the home market environment after an international assignment may neutralize the impact of the TMT international exposure on path-breaking changes.

Table 3.1: Variance Inflation Factor (VIF)

Independent variables: Ratio form				Independent variables: Dummy form			
Variable		VIF	1/VIF	Variable		VIF	1/VIF
Heterogeneity - Int'l exp.		7.92	0.126244	Ceo's education		9.55	0.104674
Ceo's age		7.64	0.130865	Ceo's age		8.13	0.12307
Ceo's education		6.88	0.145267	TMT with int'l exp: Dummy		7.9	0.126559
Ratio of TMT with int'l exp.		6.77	0.147716	Heterogeneity - Int'l Exp.		4.87	0.20547
Firm's age		1.97	0.506622	Foreign BOD: Dummy		2.36	0.423494
Foreign Ownership		1.9	0.526123	Foreign TMT: Dummy		2.17	0.460573
Ratio of Foreign TMT		1.66	0.601485	Firm's age		1.98	0.505835
Ratio of Foreign BOD		1.55	0.644759	Foreign Ownership		1.95	0.513242
Firm's Size		1.48	0.676218	Firm's Size		1.51	0.662503
Gearing		1.31	0.763751	Gearing		1.33	0.750938
Prior Performance		1.28	0.778675	Prior Performance		1.3	0.768745
Mean VIF		3.67		Mean VIF		3.91	

Table 3.2: Descriptive statistics and Correlation

Independent Variable: <i>Ratio form</i>		Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1	Path-breaking changes	0.48	0.83	1											
2	Ratio of TMT with int'l exp.	0.14	0.19	0.25	1										
3	Heterogeneity - Int'l exp.	0.19	0.21	0.33	0.87	1									
4	Ratio of Foreign TMT	0.02	0.07	0.07	0.38	0.29	1								
5	Ratio of Foreign BOD	0.04	0.11	0.26	0.24	0.25	0.45	1							
6	Ceo's age	50.12	8.11	0.02	0.09	0.11	0.02	-0.02	1						
7	Ceo's education	2.44	0.93	0.19	0.12	0.22	0.03	0.06	-0.15	1					
8	Firm's Size	1.54	2.53	0.18	-0.01	0.04	-0.01	-0.01	0.15	0.00	1				
9	Firm's age	19.05	22.52	0.22	0.02	0.03	-0.02	0.08	0.24	-0.01	0.20	1			
10	Gearing	0.56	1.33	0.02	-0.04	-0.05	-0.10	-0.03	0.06	0.05	0.03	0.15	1		
11	Foreign Ownership	0.35	0.48	0.33	0.09	0.13	0.31	0.32	0.04	0.11	0.14	0.15	0.08	1	
12	Prior Performance	0.04	0.11	0.23	0.13	0.17	-0.02	0.01	0.03	0.12	0.01	0.09	-0.21	-0.05	1

Table 3.3: Descriptive statistics and Correlation

Independent Variable: <i>Dummy form</i>		Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1	Path-breaking changes	0.48	0.83	1											
2	TMT with int'l exp: Dumm	0.58	0.49	0.31	1										
3	Heterogeneity - Int'l Exp.	0.19	0.21	0.33	0.76	1									
4	Foreign TMT: Dummy	0.14	0.35	0.19	0.31	0.23	1								
5	Foreign BOD: Dummy	0.20	0.40	0.36	0.32	0.29	0.65	1							
6	Ceo's age	50.12	8.11	0.02	-0.03	0.11	-0.03	-0.06	1						
7	Ceo's education	2.44	0.93	0.19	0.47	0.22	0.24	0.25	-0.15	1					
8	Firm's Size	1.54	2.53	0.18	0.12	0.04	0.05	0.02	0.15	0.00	1				
9	Firm's age	19.05	22.52	0.22	-0.01	0.03	-0.01	0.06	0.24	-0.01	0.20	1			
10	Gearing	0.56	1.33	0.02	-0.04	-0.05	-0.13	-0.06	0.06	0.05	0.03	0.15	1		
11	Foreign Ownership	0.35	0.48	0.33	0.17	0.13	0.36	0.38	0.04	0.11	0.14	0.15	0.08	1	
12	Prior Performance	0.04	0.11	0.23	0.18	0.17	-0.05	-0.01	0.03	0.12	0.01	0.09	-0.21	-0.05	1

Table 3.4: Results for the determinants of path-breaking changes

	Random Effect			Panel IV- 2SLS		Panel IV - FULL	
	Model 1	Model 2	Model 3	Model 4	Model5	Model 6	Model 7
<i>DV: Path-breaking changes</i>	Base	Ratio Form	Dummy Form	Ratio Form	Dummy Form	Ratio Form	Dummy Form
<i>Control Variable</i>							
CEO' age	0.0020 (0.0019)	0.0006 (0.0017)	0.0014 (0.002)	0.0015 (0.0066)	0.0016 (0.006)	0.0015 (0.0066)	0.0016 (0.006)
CEO education level	0.1225*** (0.0348)	0.0856*** (0.0259)	0.0470 (0.0301)	0.0892* (0.0427)	0.0431 (0.046)	0.0892* (0.0427)	0.0431 (0.046)
Firm's Size	0.0333 (0.0302)	0.0355 (0.0279)	0.0323 (0.0263)	0.0421 (0.0261)	0.0329 (0.0253)	0.0421 (0.0261)	0.0328 (0.0253)
Firm's Age	0.0048 (0.0031)	0.0041** (0.0018)	0.0043*** (0.0015)	0.0033 (0.0024)	0.0042* (0.0023)	0.0033 (0.0024)	0.0042* (0.0023)
Gearing	-0.0072 (0.0056)	-0.0021 (0.0046)	0.0023 (0.007)	-0.0031 (0.00560)	0.0021 (0.0093)	-0.0031 (0.00560)	0.0021 (0.0093)
Foreign ownership	0.3464*** (0.1288)	0.3221*** (0.108)	0.2666*** (0.1016)	0.2408 (0.1486)	0.2514* (0.1275)	0.2403 (0.1486)	0.2514* (0.1275)
Prior performance	0.5503 (0.3485)	0.4767 (0.3486)	0.4897* (0.2956)	0.4467 (0.4858)	0.4935 (0.4663)	0.4465 (0.4858)	0.4935 (0.4663)
<i>Independen Variable: Ratio form</i>							
Ratio of TMT with int'l exp. (H1)		0.204** (0.0854)		0.1569 (0.1539)		0.1567 (0.154)	
Heterogeneity - Int'l exp. (H2)		0.7366** (0.1853)		0.6636** (0.3065)		0.6632** (0.3064)	
Ratio of Foreign TMT (H3)		-1.7026** (0.8022)		-3.0738** (0.1852)		-3.0813** (1.1874)	
Ratio of Foreign BOD (H4)		0.9235* (0.4747)		2.9453*** (0.8109)		2.9562*** (0.8129)	
<i>Independen Variable: Dummy form</i>							
TMT with int'l exp: Dummy (H1)			0.1946** (0.088)		0.1961** (0.0905)		0.1961** (0.0905)
Heterogeneity - Int'l Exp. (H2)			0.474* (0.2572)		0.4442 (0.4825)		0.4443 (0.4825)
Foreign TMT: Dummy (H3)			-0.2793 (0.2467)		-0.3447 (0.2333)		-0.3445 (0.2333)
Foreign BOD: Dummy (H4)			0.4536*** (0.1743)		0.5778*** (0.1949)		0.5775*** (0.1948)
<i>Endogeneity Test: Foreign BOD</i>							
Number of instruments				6	6	6	6
First stage F-statistics				78.69***	378.27***	78.69***	378.27***
p-value of Hansen J-test				0.5200	0.8471	0.5198	0.8471
Difference-in-Sargan statistics				Yes	Yes	Yes	Yes
p-value of the Durbin component of the Durbin-Wu-Hausman test				0.3073	0.1177	0.3073	0.1177
Moreira's CLR (p-value in parentheses)				[1.54, 4.59] (0.0000)	[0.28, 0.89] (0.0000)	[1.54, 4.59] (0.0000)	[0.28, 0.89] (0.0000)
Wald Chi ²	27.33***	37.74***	57.87***
R ²	0.2015	0.2851	0.2944	0.244	0.2835	0.2437	0.2836
Number of group	170	170	170	170	170	170	170
Number of observations	398	398	398	398	398	398	398
Time period	3	3	3	3	3	3	3

Legend: * p<0.1; ** p<0.05; *** p<0.01. For the Difference-in-Sargan statistic, "Yes" means that each instrument is exogenous.

Heteroskedasticity-robust standard errors are given in parentheses under the coefficient

Instruments: Curruption perception index, Public efficiency ranking, Dummy variable of averageInt'l TMT

Dummy variable of heterogeneity of Int'l TMT, Dummy variable of foreign TMT, Dummy variable of foreign BOD

Table 3.5: Multilevel analysis -Results for the determinants of path-breaking changes

Variable	Random Intercept			Random Coefficient	
	Model 8 Base Model	Model 9 Ratio Form	Model 10 Dummy Form	Model 11 Ratio Form	Model 12 Dummy Form
Fixed Part					
_cons	0.1158 (0.3310)	-0.0255 (0.3180)	0.2398 (0.3738)	0.0216 (0.3152)	0.0427 (0.3124)
CEO' age	-0.0007 (0.0053)	-0.0015 (0.0051)	-0.0031 (0.0049)	-0.0019 (0.0050)	-0.0015 (0.0050)
CEO education level	0.0979* (0.0528)	0.0543 (0.0509)	0.0184 (0.0533)	0.0471 (0.0511)	0.0098 (0.0551)
Firm's Size	0.036* (0.0196)	0.0408** (0.0186)	0.0312* (0.0180)	0.0404** (0.0185)	0.0368** (0.0183)
Firm's Age	0.0008 (0.0028)	0.0018 (0.0026)	0.0013 (0.0026)	0.0016 (0.0026)	0.0020 (0.0026)
Gearing	-0.0152 (0.0212)	-0.0097 (0.0213)	-0.0106 (0.0214)	-0.0082 (0.0209)	-0.0049 (0.0211)
Foreign ownership	0.3418*** (0.099)	0.3135*** (0.0999)	0.2457** (0.0982)	0.3019*** (0.1001)	0.2496** (0.1009)
Prior performance	0.4863 (0.3194)	0.4387 (0.3159)	0.5031 (0.3111)	0.4306 (0.3107)	0.4583 (0.3108)
Independen Variable: Ratio form					
Ratio of TMT with int'l exp. (H1)		0.193 (0.2907)		0.2207 (0.2926)	
Heterogeneity - Int'l exp. (H2)		0.7624*** (0.295)		0.7203** (0.2909)	
Ratio of Foreign TMT (H3)		-1.4835* (.8458)		-0.1748 (1.4355)	
Ratio of Foreign BOD (H4)		1.147** (0.48840)		1.1862** (0.5226)	
Independen Variable: Dummy form					
TMT with int'l exp: Dummy (H1)			0.0333 (0.1363)		0.1142 (0.1379)
Heterogeneity - Int'l Exp. (H2)			0.7668** (0.3176)		0.6073** (0.3079)
Foreign TMT: Dummy (H3)			-(0.1539) (0.1623)		-0.133 (0.185)
Foreign BOD: Dummy (H4)			0.5194*** 0.14		0.4638*** (0.142)
Random Part					
$\sqrt{\psi^{(4)}}$	0.0000	0.0000	0.6273	0.0000	0.0000
$\sqrt{\psi^{(3)}}$	0.3127	0.2979	0.2455	0.2702	0.2692
$\sqrt{\psi^{(2)}}$	0.5959	0.5434	0.5034	0.7039	0.6414
$\sqrt{\Psi}$ (foreign TMT)				5.0413	0.9829
ρ (foreign TMT, _cons)				-0.3527	-0.4027
Θ	0.3916	0.3965	0.3951	0.3863	0.3860
Log likelihood	-354.4175	-345.1011	-341.3415	-345.0886	-340.25433
Wald Chi ²	24.28***	50.45***	60.84***	50.94***	54.94***

Legend: * p<0.1; ** p<0.05; *** p<0.01. Standard errors are given in parentheses under the coefficient

Table 3.6: Covariance Matrix Comparison between real data and Montecarlo simulated data, adjusted by Cholesky Decomposition, Ratio Form

Real Data

Variables	1	2	3	4	5	6	7	8	9	10	11	12
Path-breaking changes	0.623	0.043	0.058	0.002	0.018	0.135	0.124	0.366	2.612	0.061	0.110	0.021
Ratio of TMT with int'l exp.	0.043	0.042	0.037	0.005	0.006	0.225	0.014	-0.004	0.135	-0.019	0.013	0.002
Heterogeneity - Int'l exp.	0.058	0.037	0.046	0.004	0.007	0.222	0.041	0.029	0.114	-0.032	0.020	0.004
Ratio of Foreign TMT	0.002	0.005	0.004	0.005	0.004	0.012	0.001	-0.006	-0.045	-0.010	0.011	-0.001
Ratio of Foreign BOD	0.018	0.006	0.007	0.004	0.010	0.021	0.002	-0.012	0.151	-0.002	0.017	-0.001
Ceo's age	0.135	0.225	0.222	0.012	0.021	67.789	-1.156	3.597	56.277	1.563	0.129	0.002
Ceo's education	0.124	0.014	0.041	0.001	0.002	-1.156	0.854	0.033	-0.790	0.083	0.025	0.015
Firm's Size	0.366	-0.004	0.029	-0.006	-0.012	3.597	0.033	7.990	13.414	0.232	0.132	0.017
Firm's age	2.612	0.135	0.114	-0.045	0.151	56.277	-0.790	13.414	476.046	5.610	1.716	0.242
Gearing	0.061	-0.019	-0.032	-0.010	-0.002	1.563	0.083	0.232	5.610	2.594	0.066	-0.027
Foreign Ownership	0.110	0.013	0.020	0.011	0.017	0.129	0.025	0.132	1.716	0.066	0.233	-0.003
Prior Performance	0.021	0.002	0.004	-0.001	-0.001	0.002	0.015	0.017	0.242	-0.027	-0.003	0.015

Montecarlo simulated data, adjusted by Cholesky Decomposition

Variables	1	2	3	4	5	6	7	8	9	10	11	12
Path-breaking changes	0.623	0.047	0.060	0.002	0.017	0.154	0.131	0.361	2.782	0.066	0.112	0.023
Ratio of TMT with int'l exp.	0.047	0.042	0.037	0.005	0.006	0.230	0.015	0.001	0.173	-0.018	0.013	0.003
Heterogeneity - Int'l exp.	0.060	0.037	0.046	0.004	0.007	0.232	0.042	0.036	0.130	-0.028	0.020	0.004
Ratio of Foreign TMT	0.002	0.005	0.004	0.005	0.004	0.011	0.001	-0.006	-0.031	-0.009	0.010	-0.001
Ratio of Foreign BOD	0.017	0.006	0.007	0.004	0.010	0.030	0.001	-0.011	0.162	0.000	0.017	-0.001
Ceo's age	0.154	0.230	0.232	0.011	0.030	67.096	-1.138	3.359	54.215	1.579	0.136	0.008
Ceo's education	0.131	0.015	0.042	0.001	0.001	-1.138	0.847	0.084	-0.800	0.100	0.027	0.015
Firm's Size	0.361	0.001	0.036	-0.006	-0.011	3.359	0.084	7.975	12.836	0.189	0.125	0.018
Firm's age	2.782	0.173	0.130	-0.031	0.162	54.215	-0.800	12.836	479.224	5.701	1.845	0.239
Gearing	0.066	-0.018	-0.028	-0.009	0.000	1.579	0.100	0.189	5.701	2.640	0.068	-0.028
Foreign Ownership	0.112	0.013	0.020	0.010	0.017	0.136	0.027	0.125	1.845	0.068	0.234	-0.003
Prior Performance	0.023	0.003	0.004	-0.001	-0.001	0.008	0.015	0.018	0.239	-0.028	-0.003	0.015

Table 3.7: Covariance Matrix Comparison between real data and Montecarlo simulated data, adjusted by Cholesky Decomposition, Dummy Form

<i>Real Data</i>	1	2	3	4	5	6	7	8	9	10	11	12
Variables												
Path-breaking changes	0.623	0.123	0.058	0.039	0.099	0.135	0.124	0.366	2.612	0.061	0.110	0.021
TMT with int'l exp: Dummy	0.123	0.240	0.079	0.052	0.066	-0.146	0.209	0.095	-0.512	-0.082	0.042	0.010
Heterogeneity - Int'l Exp.	0.058	0.079	0.046	0.018	0.028	0.222	0.041	0.029	0.114	-0.032	0.020	0.004
Foreign TMT: Dummy	0.039	0.052	0.018	0.126	0.086	0.010	0.059	0.007	-0.204	-0.060	0.062	-0.002
Foreign BOD: Dummy	0.099	0.066	0.028	0.086	0.159	0.054	0.072	-0.017	0.788	-0.019	0.075	-0.003
Ceo's age	0.135	-0.146	0.222	0.010	0.054	67.789	-1.156	3.597	56.277	1.563	0.129	0.002
Ceo's education	0.124	0.209	0.041	0.059	0.072	-1.156	0.854	0.033	-0.790	0.083	0.025	0.015
Firm's Size	0.366	0.095	0.029	0.007	-0.017	3.597	0.033	7.990	13.414	0.232	0.132	0.017
Firm's age	2.612	-0.512	0.114	-0.204	0.788	56.277	-0.790	13.414	476.046	5.610	1.716	0.242
Gearing	0.061	-0.082	-0.032	-0.060	-0.019	1.563	0.083	0.232	5.610	2.594	0.066	-0.027
Foreign Ownership	0.110	0.042	0.020	0.062	0.075	0.129	0.025	0.132	1.716	0.066	0.233	-0.003
Prior Performance	0.021	0.010	0.004	-0.002	-0.003	0.002	0.015	0.017	0.242	-0.027	-0.003	0.015

Montecarlo simulated data, adjusted by Cholesky Decomposition

Variables	1	2	3	4	5	6	7	8	9	10	11	12
Path-breaking changes	0.623	0.130	0.060	0.042	0.098	0.154	0.131	0.361	2.782	0.066	0.112	0.023
TMT with int'l exp: Dummy	0.130	0.239	0.079	0.053	0.063	-0.134	0.209	0.117	-0.534	-0.079	0.042	0.012
Heterogeneity - Int'l Exp.	0.060	0.079	0.046	0.019	0.027	0.232	0.042	0.036	0.130	-0.028	0.020	0.004
Foreign TMT: Dummy	0.042	0.053	0.019	0.125	0.086	0.005	0.062	0.008	-0.150	-0.057	0.059	-0.001
Foreign BOD: Dummy	0.098	0.063	0.027	0.086	0.158	0.075	0.070	-0.009	0.878	-0.014	0.075	-0.003
Ceo's age	0.154	-0.134	0.232	0.005	0.075	67.096	-1.138	3.359	54.215	1.579	0.136	0.008
Ceo's education	0.131	0.209	0.042	0.062	0.070	-1.138	0.847	0.084	-0.800	0.100	0.027	0.015
Firm's Size	0.361	0.117	0.036	0.008	-0.009	3.359	0.084	7.975	12.836	0.189	0.125	0.018
Firm's age	2.782	-0.534	0.130	-0.150	0.878	54.215	-0.800	12.836	479.224	5.701	1.845	0.239
Gearing	0.066	-0.079	-0.028	-0.057	-0.014	1.579	0.100	0.189	5.701	2.640	0.068	-0.028
Foreign Ownership	0.112	0.042	0.020	0.059	0.075	0.136	0.027	0.125	1.845	0.068	0.234	-0.003
Prior Performance	0.023	0.012	0.004	-0.001	-0.003	0.008	0.015	0.018	0.239	-0.028	-0.003	0.015

Table3.8: Results for the determinants of path-breaking changes from Monte-Carlo Simulation

<i>DV: Path-breaking changes</i>	Ordinary least squares (OLS) Regression		
	Model 13 Base	Model 14 Ratio Form	Model 15 Dummy Form
<i>Control Variable</i>			
CEO' age	-0.0009 (0.0009)	-0.0054*** (0.0009)	-0.005*** (0.0009)
CEO education level	0.1098*** (0.0081)	0.0705*** (0.008)	0.0305*** (0.0087)
Firm's Size	0.0295*** (0.0026)	0.0306*** (0.0025)	0.0309*** (0.0024)
Firm's Age	0.0026*** (0.0004)	0.0025*** (0.0003)	0.0024*** (0.0003)
Gearing	0.0183*** (0.0046)	0.0241*** (0.0044)	0.0342*** (0.0044)
Foreign ownership	0.4459*** (0.0152)	0.37*** (0.0156)	0.2864*** (0.0157)
Prior performance	1.5058*** (0.0598)	1.2306*** (0.0574)	1.3538*** (0.0573)
Independen Variable: Ratio form			
Ratio of TMT with int'l exp. (H1)		0.4015*** (0.0656)	
Heterogeneity - Int'l exp. (H2)		0.6566*** (0.0642)	
Ratio of Foreign TMT (H3)		-2.0084*** (0.126)	
Ratio of Foreign BOD (H4)		1.1659*** (0.0849)	
Independen Variable: Dummy form			
TMT with int'l exp: Dummy (H1)			0.0978*** (0.0243)
Heterogeneity - Int'l Exp. (H2)			0.7104*** (0.0507)
Foreign TMT: Dummy (H3)			-0.2428*** (0.0247)
Foreign BOD: Dummy (H4)			0.459*** (0.0227)
Model F Statistics	330.08***	347.15***	361.53***
R^2	0.1892	0.2764	0.284
Number of observations	10000	10000	10000

Legend: * p<0.1; ** p<0.05; *** p<0.01.

Heteroskedasticity-robust standard errors are given in parentheses under the coefficient

Table3.9: Empirical-results comparison between single level analysis and multilevel analysis

Hypotheses	Empirical Result (Ratio Form)		Empirical Result (Dummy Form)	
	<i>Single Level</i>	<i>Multilevel</i>	<i>Single Level</i>	<i>Multilevel</i>
1 TMT with int'l experience	Support	Reject	Support	Reject
2 Heterogeneity: Int'l experience	Support	Support	Support	Support
3 Foreign TMT	Reject	Reject	Reject	Reject
4 Foreign BOD	Support	Support	Support	Support

CHAPTER 4

Essay 3: Path-breaking or Path-reinforcing change:

How critical resources drive emerging-economy firms to expand internationally or prevent them from doing so.

ABSTRACT

This study investigates the tension between path-breaking and path-reinforcing changes for emerging-market multinational enterprises (EM MNEs). We explore the moderating effect of firms' critical resources on the relationship between path-breaking changes and international expansion into advanced economies. In this study, we consider conglomerate diversification, government ties, and domestic market leadership as critical success factors in the domestic market. We argue that the differences in the environmental conditions, institutional frameworks, and rules of the game between emerging markets and advanced economies make it difficult for EM MNEs to transfer their critical resources to advanced economies, and in turn, encourage firms to improve their current paths and remain in their domestic markets. To test our hypothesis, we examined 847 firms from 16 emerging economies over a six-year period. We found partial support that local embedded critical resources negatively moderate the relationship between path-breaking changes and the extent of an emerging-market firm's international expansion into advanced economies.

4.1 INTRODUCTION

Are emerging market firms that succeed in the domestic market likely to engage in path-breaking changes in order to expand overseas? Or are they more likely to remain complacent in their success and stay focused on their domestic market? Despite many previous studies, the answers to the above questions are still controversial.

Successful organizations frequently possess valuable resources to compete against other firms in the market (Wernerfelt, 1984; Barney, 1991). Such valuable resources not only define the competitive advantage of the firms, but also enable firms to engage in innovation and business changes (Schumpeter, 1942). Valuable resources, such as marketing expertise, research and development capability, production capacity, general management experience, and financial reserves, can be viewed as potentially important facilitators of change (Kraatz & Zajac, 2001). These resources allow firms to more readily create, imitate, or appropriate technological or organizational innovations. Moreover, such resources can be recombined with other complementary resources to enable organizations to engage in business changes (Teece *et al.*, 1997; Eisenhardt & Martin, 2000; Winter 2003; Helfat *et al.*, 2007). These sets of resources allow firms to compete effectively in both the domestic and international market (Schumpeter, 1942; Wernerfelt, 1984; Barney, 1991; Hymer 1976; Caves 1971; Dunning 1980; Dunning & Lundan, 2008; Guillen & Garcia-Carnal, 2009; Hennart, 2009).

From the contrary perspective, resources that have historically provided organizations with competencies can create competency traps when environmental conditions change (Levinthal & March, 1993). Without a life-threatening crisis, firms may avoid engaging in organizational or strategic changes. They may become complacent in their success and engage in such changes only in response to abnormally poor performance (Cyert & March, 1963; Newman, 2000; Bromiley *et al.*, 2001; Bromiley & Flemming, 2002). They are subject

to structural inertia, which enables firms to enhance their performance by increasing the reliability and accountability of the organizations (Hannan & Freeman, 1989). This relationship clearly manifests in the more historical and successful firms, where age and various experiences protect them from failure (Kelly & Amburgey, 1991). Various advantages protect successful firms from abnormally poor performance (Wernerfelt, 1984; Barney, 1991), resulting in organizational inertia and progressing simplicity, rather than the implementation of radical changes (Levinthal & March, 1993; March, 1991; Bromiley *et al.*, 2001; Vermeulen & Barkema, 2001; Bromiley & Flemming, 2002).

Building upon the above theoretical debate, this essay investigates the moderating effect of unique sets of critical resources on the relationship between path-breaking changes and the extent of an emerging market firm's international expansion into advanced economies. On one hand, emerging market firms with conglomerate diversification, strong government ties, and a market leadership position possess the necessary resources (Khanna & Palepu, 1997, 2006; Hoskisson *et al.*, 2000; Daekwan *et al.*, 2004; Luo & Tung, 2007; Cuervo-Cazurra & Genc, 2008; Tan & Meyer, 2010) to facilitate the EM firms to engage in path-breaking changes and to expand into advanced economies. For example, conglomerates, market leadership, and strong government ties may enable firms to form collaborations with the foreign MNEs more easily. In addition, these factors equip firms with the critical resources required to engage in risky projects, such as international acquisitions, strategic alliances, and overseas research and development (R&D) facilities, to change their paths and reconfigure their capabilities in order to align with the market requirements of advanced economies.

On the other hand, conglomerates, a market leadership position, and strong government ties create organizational inertia, which deter firms from changing. Firms tend to preserve their paths in order to sustain their past successes (Cyert & March, 1963; Garud & Kanoe, 2001;

Sydow *et al.*, 2009; Garud *et al.*, 2010; Vergne & Durand, 2010). Therefore, this essay presents the tension between path-breaking and path-reinforcing changes. We predict that, in the context of the emerging market, the net effect may yield the path-reinforcing changes. Valuable resources and success in domestic markets prevent firms from engaging in path-breaking changes. The environmental conditions, institutional frameworks, and rules of the game of emerging markets are different from those in advance-economy market and international markets (Hoskisson *et al.*, 2000; Wright *et al.*, 2005) may encourage the EM firms to improve their current paths and develop capabilities along existing path trajectories (Vermeulen & Barkema, 2001; Garud & Kanoe, 2001; Sydow *et al.*, 2009; Garud *et al.*, 2010; Vergne & Durand, 2010). Resources acquired by firms over time may impose constraints on their strategic options (Mishina *et al.*, 2004). Existing valuable resources tend to influence the EM firms to engage in path-reinforcing changes and remain in the domestic market.

In addition, tremendous opportunities at the base of the pyramid of emerging economies (London & Hart, 2004) present increasing returns and lock-ins (Teece *et al.*, 1997). We expect that firms with conglomerate diversification, strong government ties, and a market leadership position are more likely to preserve their paths. Past success signals that the existing manner of operating is appropriate and radical changes may not be necessary (Cyert & March, 1963; Bromiley *et al.*, 2001; Bromiley & Flemming, 2002).

4.1.1 Contribution

This essay contributes to the following areas. First, this essay contributes to international business literature. It provides insight into the tension between path-breaking and path-reinforcing changes. In this study, we focus on the impact of the moderating effect on the relationship between path-breaking changes and the extent of an emerging-market firm's international expansion into advanced economies. Many scholars examine the direct relationship between critical resources and the international expansion of firms. The empirical results of the existing studies yield mixed results, especially concerning the market leadership variable (Mitchell *et al.*, 1992; Ito & Pucik, 1993; Hennart & Park, 1994; Belderbos & Sleuwaegen, 2005). We expect that by designing the critical resources as the moderating effects, which influence the relationship between path-breaking changes and international expansion into advanced economies, may help to paint a clearer picture.

Second, this essay contributes to the literature on the international expansion of EM MNEs. Most of the existing studies examine the relationship between market leadership position and international business expansion or first-world MNEs. We therefore examine firms from emerging economies to distinguish between these two types of firms.

Furthermore, this essay provides both the cause and mitigation of the international expansion of EM MNEs into advanced economies, while the existing literature provides the driving force behind the international expansion of EM MNEs in less developed countries or other emerging markets (Erramilli, 1997; Wright *et al.*, 2005; Khanna & Palepu, 2006; Aulakh, 2007; Luo & Tung, 2007; Cuervo-Cazurra & Genc, 2008; Li & Yao 2010).

4.2 LITERATURE REVIEW

4.2.1 Organizational Resources, Changes, and International Expansion

Organizational changes have been investigated heavily over the past few decades. Many researchers have tried to uncover the antecedents, occurrences, and organizational outcomes of such changes (Kraatz & Zajac, 2001). Such factors, which have a direct impact on business changes, can be derived from external or internal sources (Rajagopalan & Spreitzer, 1997). Regarding the external sources, the environmental context is generally perceived as the antecedent that encourages or deters firms from engaging in strategic changes. The environmental context assumed to be objectively determined and manifested as a source of threats and opportunities (Chaffee, 1985). These conditions directly influence changes by facilitating a deliberate analysis of strategic alternatives (Ansoff, 1965; Rajagopalan & Spreitzer, 1996). Such environment variables include munificence (Wiersema & Bantel, 1993; Zajac & Kraatz, 1993), uncertainty (Fombrun & Ginsberg, 1990), and deregulation (Goodstein & Boeker, 1991).

Regarding the internal source, the impact of organizational resources on the extent of firms' strategic changes is another area that has been extensively investigated. Although this stream of research has been established over the past few decades, the empirical results of such studies are inconclusive (Rajagopalan & Spreitzer, 1997), resulting in an ongoing debate among scholars. Such conflicting views center on whether organizational resources facilitate or deter firms from undertaking strategic changes (Kraatz & Zajact, 2001).

Rooted in the seminal work of Schumpeter (1942), organizational theorists view organizational resources as facilitating firms' engagement in strategic or organizational changes. Organizations with various valuable resources will be more likely to engage in risky investments and innovation (Schumpeter, 1942). Resources may provide the necessary

flexibility to take these risks (Kraatz & Zajact, 2001). Such resources function as a bundle of options to be utilized for future strategic choices (Bowman & Hurry, 1993). Organizations always possess unused or underutilized resources that can accumulate to develop, produce, and market any given product or service (Penrose, 1959). Larger stocks of productive resources may create greater opportunities for firms to engage in strategic or organizational changes (Kraatz & Zajact, 2001). Furthermore, resources can be recombined with other complementary resources to enable organizations to engage in changes (Cohen & Levinthal, 1990). Such recombination result in dynamic capabilities that motivate firms to make business or industry changes or respond to environmental changes (Teece *et al.*, 1997; Eisenhardt & Martin, 2000; Helfet *et al.*, 2007). Therefore, organizations with large pools of valuable resources are in a better position to facilitate business and industry changes or respond to environmental changes. They more readily invent, imitate, or appropriate technological or organizational innovations (Schumpeter, 1942; Kraatz & Zajac, 2001).

Based on the contrary perspective, many scholars assert that organizational resources may deter firms from implementing changes. According to Levinthal & March (1993), resources that enabled past success may deter or misdirect the search for behaviors and the organizational learning necessary for adaptation in turbulent environments. Firms tend to focus on applying and improving their existing resources at the expense of exploring and developing the new resources that are often required for strategic change (Bromiley *et al.*, 2001; Kraatz & Zajac, 2001; Bromiley & Flemming, 2002). In other words, firms tend to repeat what they successfully achieved in the past. They tend to engage in changes whenever there is a survival-threatening crisis (Cyert & March, 1963; Bromiley *et al.*, 2001; Bromiley & Flemming, 2002). Under normal circumstances, firms tend to operate in their path-dependent manner (Nelson & Winter, 1982). Path dependence severely limits the range of responses that firms can employ when confronted by environmental turbulence, however

(Kraatz & Zajac, 2001). Hence, the resources that firms develop into their core competencies can become core rigidities (Leonard-Barton, 1992), preventing them from engaging in business changes.

According to the above conflicting views of whether the relationship between organizational resources deters or facilitates changes, the empirical results of such relationships are mixed. With regard to the existing literature, the empirical evidence for many variables is still inconclusive (Rajagopalan & Spreitzer, 1997). For example, the findings on the impact of firm size and organizational age on change are ambiguous (Rajagopalan & Spreitzer, 1997).

The above conflicting views also apply to the international business research stream. While both external (environment) and internal (resources) factors have an impact on the international expansion of firms (Young *et al.*, 2003; Etemad, 2004), recent research highlights the important role of a firm's resources. Some scholars argue that unique organizational resources have allowed firms to overcome barriers to internationalization (Peng, 2001; Young *et al.*, 2003). On the contrary, organizational resources can also create path dependencies (Levinthal & March, 1993) that hinder internationalization (Autio, 2005). Again, the literature to date is still inconclusive. There are conflicting views among research scholars and the empirical results are ambiguous (Mitchell *et al.*, 1992; Ito & Pucik, 1993; Hennart & Park, 1994; Belderbos & Sleuwaegen, 2005).

4.3 THEORETICAL DEVELOPMENT

With regard to the literature review, the debate centers on whether valuable resources and success in the domestic market deter or facilitate firms' participation in path-breaking changes and their subsequent expansion into advanced economy markets. In this essay, we argue that valuable resources and success in the domestic market may indeed deter EM firms from enacting the path-breaking changes that lead to international expansion into advanced economies. Significant differences between the institutional environment and the rules of competition in emerging economies versus advanced economies (Bartlett & Ghoshal, 2000; Hoskisson *et al.*, 2000; Wright *et al.*, 2005) may pose difficulties for the EM firms in terms of reconfiguring their resources to align with the rules for competition in advanced economies. EM firms may find it difficult to transfer their ownership advantages (Hymer, 1976; Caves, 1971; Dunning, 1980; Dunning & Landan, 2008; Khanna & Palepu, 2006; Cuervo-Cazurra *et al.*, 2007) from the domestic market to advanced economy markets. Such advantages lose their value in the competition in advanced economies (Cuervo-Cazurra *et al.*, 2007; Cuervo-Cazurra & Genc 2008; Tan & Meyer, 2010). For example, many scholars assert that government ties are critical resources for operating successfully within emerging economies (Hoskisson *et al.*, 2000; Wright *et al.*, 2005; Kale & Anand, 2006; Cuervo-Cazurra *et al.*, 2006, 2008). However, such ties may lose their value when firms enter the arena of international competition into advanced economies. Furthermore, some scholars argue that conglomerate diversification represents a diversification strategy that fits emerging economies, but not advanced economies (Khanna & Palepu, 1997, 2006; Meyer, 2006).

4.3.1 Conglomerate Diversification, Government Ties, and Market Leadership:

Representations of Success in the Emerging Economies

Large, diversified conglomerates play a prominent role in emerging economies, exercising a significant economic impact on these economies (Khanna & Palepu, 1997; Khanna & Rivkin, 2001; Yiu *et al.*, 2005). For example, 60 percent of China's industrial output was contributed by Chinese conglomerates (Yiu *et al.*, 2005). In former emerging economies like Korea, large, diversified conglomerates also had a great impact on the economy. Forty percent of Korea's total output was contributed by its top 30 conglomerates (Daekwan *et al.*, 2004).

Conglomerates typically have a strong relationship with the government (Khanna & Palepu, 2000; Kale & Anand, 2006, Cuervo-Cazurra, 2006, 2008). In many settings, the initial formation of conglomerates has been induced by the government in order to foster economic development in the home market. Many of these conglomerates were formerly state-owned enterprises and government bureaus (Yiu *et al.*, 2005). By forming a strong relationship with the government, conglomerates can lobby policymakers to acquire critical resources and property rights. Diversified conglomerates often obtain licensing advantages from the government (Hoskisson *et al.*, 2000; Kale & Anand, 2006 Cuervo-Cazurra, 2006, 2008). They can also leverage their government ties to lobby policymakers to limit competition intensity in the domestic market (Ghemawat & Khanna, 1998; Kale & Anand, 2006).

In emerging economies, many competitive advantages are based on network relationships and close business-government ties to substitute for a lack of institutional infrastructure (Hoskisson *et al.*, 2000; Kale & Anand, 2006, Cuervo-Cazurra, 2006, 2008; Peng *et al.*, 2008; Gammeltoft *et al.*, 2010). Such advantages, in turn, enable diversified conglomerates to dominate the domestic market and gain superior returns in emerging economies (Khanna & Palepu, 2000; Daekwan *et al.*, 2004). Frequently, diversified conglomerates become effective

monopolies in their home markets (Hoskisson *et al.*, 2000; Daekwan *et al.*, 2004).

In conclusion, we show that conglomerates, government ties, and market leadership are related. These three factors enable firms to gain a competitive advantage. They normally possess strong relationships with the government and frequently dominate the domestic market. Nevertheless, the sequence of this relationship can work in reverse. For example, the market leader in an industry may form strong government ties to obtain a licensing advantage and subsequently develop and expand into diversified conglomerates. However, the sequence is not the focal point here. In this essay, we focus on three factors—conglomerate diversification, government ties, and market leadership—and examine their impact on the extent of EM firms' path-breaking changes.

Based on the above discussions and their interrelated nature, we, therefore, selected these three factors to represent the success of firms in the domestic markets. These three variables are formulated into hypotheses in the next section.

4.4 HYPOTHESES

4.4.1 Conglomerate Diversification

Over the past four decades, firms from advanced economies have divested their peripheral businesses and subsequently focused on their core competencies (Meyer, 2006). While companies in advanced economies have dismantled unrelated business activities, the conglomerate remains the dominant organizational form in most emerging markets (Hoskisson *et al.*, 2000; Khanna & Rivin, 2001; Daekwan *et al.*, 2004; Elango & Pattnaik, 2007; Tan & Meyer, 2010). Many conglomerates operate in the form of holding companies, whereas some other groups are comprised of collections of publicly traded companies with some degree of central control (Khanna & Palepu, 1997; 2006; Daekwan *et al.*, 2004).

According to the existing literature, the conglomerate diversification does not benefit from most types of synergies (Ansoff, 1957; Chatterjee, 1986). It cannot benefit from managerial synergies (Salter & Weinhold, 1979), the increased development of core skills (Rumelt, 1982), nor the ability to build upon distinctive competencies (Hitt & Ireland, 1985). Therefore, the general prescription that related diversification and single businesses are superior to unrelated diversification has been widely and strongly embraced (Rumelt, 1982; Salter & Weinhold, 1979; Montgomery, 1994; Palich *et al.*, 2000).

Despite a plethora of disadvantages, we can still observe many conglomerates thriving in emerging economies (Hoskisson *et al.*, 2000; Khanna & Rivin, 2001; Daekwan *et al.*, 2004; Chakrabarti *et al.*, 2007; Tan & Meyer, 2010). Highly diversified business groups can be particularly well-suited to the institutional context of most developing countries. This specific form of organization develops from an attempt to fill institutional voids in emerging economies. The absence of intermediary institutions makes it costly for emerging market firms to acquire the necessary inputs. As mentioned in the first two essays, the institutional framework of emerging economies is inefficient. Emerging market firms normally face a scarcity of resource endowments, market failures, and ill-equipped infrastructures (Hoskisson *et al.*, 2000; Khanna & Palepu, 1997; 2000; Daekwan *et al.*, 2004; Chakrabarti *et al.*, 2007; Tan & Meyer, 2010). Therefore, a conglomerate is developed to respond to the underdeveloped factors and product markets, unpredictable contract and legal enforcement, and immature capital markets.

It has been suggested that conglomerates benefit only from financial synergies (Williamson, 1975; Montgomery, 1994; Palich *et al.*, 2000). This benefit is clearly important for emerging market firms. In the emerging market, firms may encounter difficulties in accessing financial capital (Hoskisson *et al.*, 2000; Cuervo-Cazurra & Genc, 2008; Peng *et al.*, 2008;

Gammeltoft *et al.*, 2010). Because of its superior, internal-capital market mechanism, a conglomerate may be able to develop distinctive capabilities in assessing the investment opportunities of disparate business (Williams *et al.*, 1988; Chakrabarti *et al.*, 2007) and immature product markets (Khanna & Palepu, 1997, 2006).

Accordingly, in the domestic market, an enterprise may be most profitably pursued as part of a large diversified conglomerate that can act as an intermediary between individual entrepreneurs and imperfect markets. Conglomerates can use their internal cash flows, track records, and reputations within their established lines of business to gain creditability for new ventures with domestic suppliers and customers (Khanna & Palepu, 2000; Cuervo-Cazurra & Genc, 2008). Furthermore, in times of uncertainty, conglomerates can efficiently transfer firm-specific capital among different product lines when market conditions change (Levy & Haber, 1988; Williams *et al.*, 1988; Chakrabarti *et al.*, 2007).

Nonetheless, while such advantages may benefit firms in their domestic markets, they do not benefit them in advanced economy markets (Meyer, 2006). In the domestic market, there are institutional voids and market failures. If there are an abundance of opportunities in the domestic market, conglomerates may decide to focus on their home country by diversifying their business to fill the gaps in factor markets (Khanna & Palepu, 1997; 2006). Diversified conglomerates may decide to postpone international expansion into advanced economies as they may find it difficult to compete with large international specialists from the first world (Meyer, 2006).

In order to compete in advanced economies, conglomerates may also need to implement path-breaking changes, as we discussed in the first essay. However, these changes may result in poor performance (Hannan & Freeman, 1989). As a result, EM firms may hesitate to engage

in path-breaking changes (Cyert & March, 1963; Bromiley *et al.*, 2001; Bromiley & Flemming, 2002). Instead, the manager may decide to preserve their business group, which can be seen as a successful strategy in emerging economies (Khanna & Palepu, 1997; 2000; Daekwan *et al.*, 2004; Yiu *et al.*, 2005; Elango & Pattnaik, 2007; Tan & Meyer, 2010). Therefore, EM firms tend to engage in path-reinforcing activities (Levinthal & March, 1993) by diversifying their business to compete effectively in the domestic market. Such actions may result in domestic-path trajectories.

Furthermore, highly diversified organizations generally possess diverse knowledge across their organizations (Willimson, 1975). Such diverse knowledge can create communication difficulties among employees conducting different business activities, resulting in poor learning and inefficient knowledge integration (Grant, 1996). Conglomerate diversification may inhibit the firm from engaging in the organizational learning required for the changes (Kraatz & Zajac, 2001) to internationalize. Therefore, based on the above discussion, we predict that the conglomerate diversification raises barriers for EM MNEs to expand into advanced economies.

H1a: *Conglomerate diversification negatively moderates the relationship between corporate governance reform and the extent of an emerging market firm's international expansion into advanced economies.*

H1b: *Conglomerate diversification negatively moderates the relationship between unrelated business divestment and the extent of an emerging market firm's international expansion into advanced economies.*

H1c: *Conglomerate diversification negatively moderates the relationship between overseas R&D activities and the extent of an emerging market firm's international expansion into advanced economies.*

4.4.2 Government Ties

Unlike the governments of developed countries, governments in emerging economies normally play an important role in providing critical resources to firms to facilitate their operation in the market (Hoskisson *et al.*, 2000; Kale & Anand, 2006; Peng *et al.*, 2008; Gammeltoft *et al.*, 2010). The degree of governmental regulatory restriction significantly affects the performance of local firms (Kale & Anand, 2006). Significant support and protection from the government may allow EM firms to grow and accumulate the resources required for capabilities development (Kale & Anand, 2006) prior to leveraging ownership advantage in the international market (Hymer, 1976; Caves, 1971; Dunning, 1980; Dunning & Lundan, 2008; Hennart, 2009). Therefore, strengthening their relationship with the government is very critical for firms striving to compete effectively in domestic markets.

Although government ties are very important in enabling firms to effectively compete in the home market (Hoskisson *et al.*, 2000; Wright *et al.*, 2005; Kale & Anand, 2006; Cuervo-Cazurra 2006, 2008), these resources may also deter a firm's management team from enacting path-breaking changes before venturing abroad. Firms tend to build their capabilities upon their existing routines and paths (Nelson & Winter, 1982), which enables them to form strong ties with the home government. A management team may decide to engage in path-reinforcing changes by improving their current paths (Vermeulen & Barkema, 2001). By engaging in path-reinforcing changes, firms may focus on the knowledge and routines that contribute the most to their success and filter out those routines that are less successful in the current setting (Cyert & March, 1963). Because possessing strong ties to the government is an advantage for a firm operating in an emerging market (Hoskisson *et al.*, 2000; Wright *et al.*, 2005; Cuervo-Cazurra 2006, 2008; Peng *et al.*, 2008), a management team may decide to repeat what it has already achieved and tend to continue building a relationship with the government to compete in the domestic market.

However, government ties may only benefit firms in the domestic market. Firms may find it difficult to transfer these relational advantages to the international market, as such resources may lose their advantageous nature when transferred to a new country (Cuervo-Cazurra *et al.*, 2007).

Furthermore, linkage to a well-regarded institution signals a firm's adherence to the institution's prescriptions and institutional embeddedness, decreasing flexibility and inhibiting learning (Baum & Oliver, 1991). An organization is more likely to survive if it obtains legitimacy and approval from the external constituents of its institutional environment (DiMaggio & Powell, 1983).

Based on the above discussion, we posit that strong government ties tend to influence EM firms to engage in path-reinforcing changes to operate successfully in the domestic market.

H2a: *Government ties negatively moderate the relationship between corporate governance reform and the extent of an emerging market firm's international expansion into advanced economies.*

H2b: *Government ties negatively moderate the relationship between unrelated business divestment and the extent of an emerging market firm's international expansion into advanced economies.*

H2c: *Government ties negatively moderate the relationship between overseas R&D activities and the extent of an emerging market firm's international expansion into advanced economies.*

4.4.3 Market Leadership

Firms with market leader positions usually enjoy various advantages, such as strong reputations, economies of scale, cumulative learning, setting industry standards, and the preemption of preferred supplies, distribution channels, or customers (Mascarenhas, 1986). The market leader normally possesses critical resources to compete against challengers in the industry (Porter, 1985) and to engage in risky projects and innovation (Schumpeter, 1942; Kraatz & Zajac, 2001).

Nevertheless, valuable resources frequently deter organizational learning (Leonard-Barton, 1992; Ghemawat & Costa, 1993). Firms tend to focus an increasing amount of attention on applying and improving the existing routines, paths, and resources at the expense of exploring and developing the new resources that are often required for change (Kraatz & Zajac, 2001).

This phenomenon may specifically occur in the firms from emerging markets, where the business environments may differ from those of advanced economies (Hoskisson *et al.*, 2000; Wright *et al.*, 2005; Peng *et al.*, 2008). The technological standards and product sophistication seems to be inferior in emerging markets (Bartlett & Ghoshal, 2000). There are many customers who are satisfied with products of local quality and with local prices (Khanna & Palepu, 2006). In addition, the economics at the base of the pyramid of emerging economies seem to represent tremendous opportunities for many firms (London & Hart, 2004; Olsen & Boxenbaum, 2009), resulting in increasing returns and lock-ins (Teece *et al.*, 1997). The bottom of the market consists of people who can afford only the least expensive products (London & Hart, 2004; Olsen & Boxenbaum, 2009).

With such differences in business environments, together with untapped opportunities in their home market, the managers of market leaders may hesitate to engage in path-breaking changes (Kraatz & Zajac, 2001). The major reason is that such changes may result in poor organizational outcomes (Hannan & Freeman, 1989). Opportunities in home markets and the chance of poor outcomes resulting from radical changes may outweigh the necessity of enacting path-breaking changes. Hence, the managers of market leader firms may engage in path-reinforcing activities and progressing simplicity (Vermeulen & Barkema, 2001) to compete effectively in their domestic markets.

In addition, such inertia may be derived from the way that the top management team perceives and interprets the necessity to adopt business changes. On average, decision makers in successful organizations perceived less environmental uncertainty than leaders of less distinctive, unsuccessful organizations facing the same objective environment (Milliken, 1990; Kraatz & Zajac, 2001). Therefore, a market leader firm is less likely to experience a sense of urgency to engage in path-breaking changes to enter into advanced economies

H3a: *Market leadership negatively moderates the relationship between corporate governance reform and the extent of an emerging market firm's international expansion into advanced economies.*

H3b: *Market leadership negatively moderates the relationship between unrelated business divestment and the extent of an emerging market firm's international expansion into advanced economies.*

H3c: *Market leadership negatively moderates the relationship between overseas R&D activities and the extent of an emerging market firm's international expansion into advanced economies.*

4.5 DATA AND METHODS

4.5.1 Research Setting

As in the first and the second essay, we will examine the firms in the chemical and pharmaceutical, industrial machinery, and electrical and electronic industries (SIC: 28, 35, 36). These industries are the top three industries in terms of sample size in the Osiris database. The list of countries was selected from the MSCI Emerging Market Index of 2008 published by Morgan Stanley Capital International, Inc. As in Essay 1 and 2, we dropped South Korea, Taiwan, and Israel from the country list. Therefore, we have a total of 20 emerging economies on our list. Unfortunately, the data availabilities for some emerging countries are extremely limited. Of those 20 countries, we finally ended up with samples from 16 countries, which are listed below:

- | | | |
|--------------|------------------|--------------|
| 1. Argentina | 2. Brazil | 3. Chile |
| 4. China | 5. India | 6. Indonesia |
| 7. Malaysia | 8. Mexico | 9. Pakistan |
| 10. Peru | 11. Philippines | 12. Poland |
| 13. Russia | 14. South Africa | 15. Thailand |
| 16. Turkey | | |

4.5.2 Sample and Data Collection

This essay focuses on the outward foreign direct investment (FDI) from EM MNEs. Export is excluded in this study. We obtained company lists from the Osiris database. To be included in the sample, a firm must have been incorporated in one of the above 16 emerging countries, while the subsidiaries of foreign MNEs were excluded.

Subsequently, we excluded firms that already possessed foreign subsidiaries in a first-world country in the year 2003. Hence, there is no single firm in our dataset that possessed a foreign subsidiary in an advanced economy market in 2003.

We collected data from the Osiris database and companies' annual reports. Unfortunately, in some countries, EM firms did not provide their annual reports in English. We then hired MBA students from these countries to code data from the companies' annual reports. These data included the number of business segments that a firm operates in and the proportion of government ownership. With respect to the market leadership variable, we collected data based on the industry rankings provided in the Osiris database. We previously explained our data collection process for the other variables. Hence, I will not repeat it here. This process was discussed in detail in the first essay.

4.5.3 Estimation

As in Essay 1, we used panel data econometrics to estimate our model. There are three panels in our dataset. To distinguish between the pooled effect and the random effect, we used the Breusch & Pagan Lagrangian multiplier test to assess the appropriateness of the random effects model. The test clearly indicated that the random effect model should be employed. We further utilized the Hausman test to choose between the fixed effect and the random effect. Again, we obtained a negative value from the Hausman test. Thus, we further examined the *within* and *between* variation in our dataset. We found that the value of the *within* variation was 0.0307, whereas that of the *between* variation was 0.3260 in our dataset. If we had used fixed effect estimation, the coefficient would have been imprecisely estimated and would not have been identified (Cameron & Trivedi, 2009). Furthermore, we had several important time-invariant predictor variables (business group affiliation, corporate governance reform, overseas R&D) that the fixed effects model may find it difficult to incorporate (Chittoor *et*

al., 2009). Nevertheless, we also further employed the multilevel mixed effect, which includes both the fixed and random effect in the calculation. In this analysis, we employed the random-intercept model and the random-coefficient model to observe the difference between single-level analysis and four-level estimation.

In addition, we addressed a potential endogeneity problem by using the two-step least square (2SLS) estimator. Moreover, we employed Fuller's LIML estimation (FULL) to control for the endogeneity problem and produce heteroskedasticity and the autocorrelation consistent standard error (HAC).

4.5.4 Measures

International expansion into advanced economies

As in the first essay, we measured this variable by the number of countries with foreign subsidiaries (Ramaswamy, 1993; Tihanyi *et al.*, 2000) in Western Europe, North America, Japan, Australia, and New Zealand. Subsequently, the number of countries was weighted by the economic freedom distance and geographical distance in thousand kilometers between the home and host market in which its overseas subsidiaries were located. We decided to select figures from the 2006, 2007, and 2008 financial years in order to allow for the time lag between the dependent variable and independent variables. Therefore, our dependent variable was:

$$IE_i = \left[\sum_{j=1}^n C_j \times GD_{ij} \times ED_{ij} \right] \times 10^{-6}$$

IE_i: International expansion into advanced economy of firm *i*

C_j: First-world countries, which an EM firms set up as subsidiaries

GD_{ij}: Geographical distance between home (*i*) and host country (*j*)

ED_{ij}: Economic distance between home (*i*) and host country (*j*)

Independent Variables (Same as Essay 1)

Corporate governance reform (+)

We used a dummy variable to represent whether EM firms are listed in the foreign stock markets. This variable is coded “1” if the firm is listed in the overseas; otherwise, it is coded “0.” The sources for this variable were companies’ annual reports.

Divestiture of Unrelated Business (+)

We used a dummy variable to capture this variable, as well. If a company divested its unrelated business in the year 2003, 2004, or 2005, we coded it “1.” Otherwise, we coded it “0.” The data are also available in companies’ annual reports under the business-segment section. To determine the unrelatedness of a business segment, we used a 2-digit SIC code to categorize the segments. If a divested business possessed a different 2-digit SIC code, we categorized it as an unrelated business.

Overseas R&D activities (+)

We used a dummy variable for the availability of overseas R&D activities to measure this variable. The variable is coded “1” if they engaged in overseas R&D activities and “0” otherwise.

Moderating Variables

Conglomerate Diversification:

To measure this variable, we used the logarithmic value of the number of business lines the firm operates in. The major reason for using a logarithm was to alleviate the multicollinearity problem between the divestiture of unrelated business and conglomerated diversification. The data was obtained from the companies’ annual reports.

Government Ties:

We used the proportion of government ownership to measure this variable. The data was obtained from companies' annual reports.

Market Leadership

In the beginning phase, we aimed to use market share to operationalize this variable. Unfortunately, it was very difficult to obtain this data. We searched for this variable in the Lexis Nexis database, companies' annual reports, and Google. Nevertheless, we found less than 100 observations. To solve this problem, we used industry ranking in order to measure this variable. This data was obtained from the Osiris database.

The Osiris database ranks 20 firms in the same industry in a particular country. We assigned an index score of "20" for the 1st place firm and an index score of "1" for the 20th place firm. Subsequently, we divided the index scores by the total number of players in the same industry or peer group.

Market Rank	Market Position Index Score
1 st	20
2 nd	19
3 rd	18
4 th	17
.	.
.	.
.	.
19 th	2
20 th	1

Control variables: Firm level (Same as Essay 1)

Business group affiliation (-)

We controlled for the business group affiliation through the dummy variable. If a local entity owned more than 25 percent of a firm, we coded it “1” and “0” otherwise.

Firm's size (+)

Typically, larger firms are more likely to have slack resources to engage in international expansion, especially in an emerging economy context (Yiu *et al.*, 2007). We controlled for the size of firm through their total sales revenues in billion USD.

Firm's age (-)

This variable was calculated based on the number of years that a firm has been established. Data was collected from the Osiris database.

Prior Performance (+)

To measure the firm's prior performance, we used the return on asset ratio from the 2003, 2004, and 2005 financial years. We obtained this data from the Osiris and Infinancial databases.

Technological intensity (+)

We controlled for technological intensity according to the firm's R&D expenses-to-revenues ratio. Nevertheless, the accounting standard varied across countries. Therefore, many companies did not report this information in their annual reports. In these cases, we used the R&D industry average instead.

Control variables: Country level

Similar to the first essay, the country endowment factors have impacts on the international expansion of firms. These comprise their liabilities of origin, which include factors that raise difficulties for a firm striving to build its ownership advantage. Hence, we also controlled for the factors listed below.

Level of public corruption (+)

We employed the Corruption Perception Index (CPI), provided by the Transparency International Organization, to measure this variable. A low CPI score indicates the serious problem of public corruption in the country, resulting in difficulties operating within the home market.

Country's technological deficiency (+)

We measured technological deficiency by the technological readiness ranking, divided by a hundred. The data was obtained from the World Economic Forum.

Tertiary industry (-)

Per our discussion in the first essay, we predicted the negative relationship between the gross domestic product (GDP) value derived from the service industry and international expansion into the advanced economies of emerging market firms. We measured this variable based on the cubic service-industry GDP, divided by a million. The data was obtained from the World Bank's database.

4.5.5 Variables Summary and Expected Outcomes

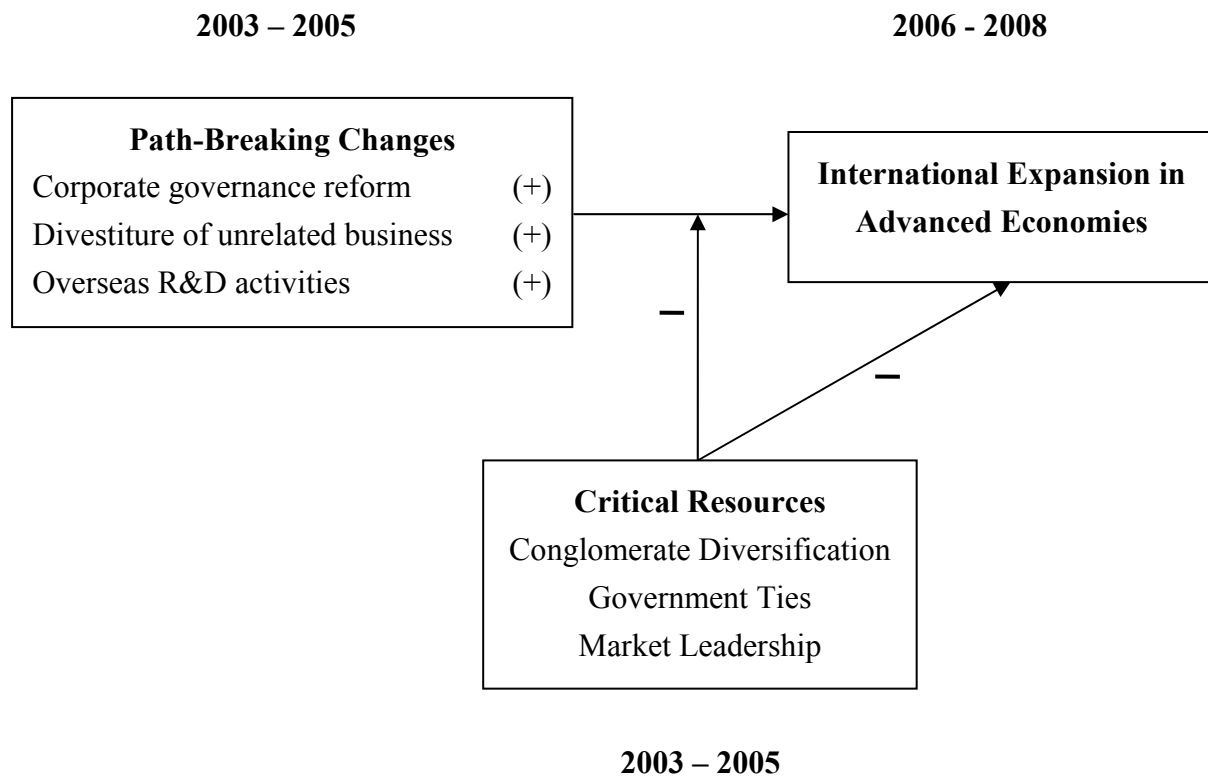


Figure 4.1: Conceptual Framework

Dependent Variable: International diversification into advanced economies

$$IE_i = \left[\sum_{j=1}^n C_j \times GD_{ij} \times ED_{ij} \right] \times 10^{-6}$$

Independent variable

- | | | |
|---------------------------------------|---|--|
| Corporate Governance reform (+) | : | Dummy Variable of listing with foreign stock exchange (Y=1, N=0) |
| Divestiture of unrelated business (+) | : | Dummy Variable of line divestment at 2-digit SIC code (Y=1, N=0) |
| Overseas R&D Facilities (+) | : | Dummy Variable (Y=1, N=0) |

Moderating Variables

Conglomerate Diversification (-)	:	Natural Log (number of business lines)
Government Ties (-)	:	Proportion of government ownership
Market Leadership (-)	:	$\frac{\text{Market Position Index Score}}{\text{Number of firms in a peer group}}$

Interaction Effect

	<i>Hypotheses</i>	<i>Prediction</i>
Governance Reform x Conglomerate Diversification	H1a	-
Divestiture x Conglomerate Diversification	H1b	-
Overseas R&D x Conglomerate Diversification	H1c	-
Governance Reform x Government Ties	H2a	-
Divestiture x Government Ties	H2b	-
Overseas R&D x Government Ties	H3b	-
Governance Reform x Market leadership	H3a	-
Divestiture x Market leadership	H3b	-
Overseas R&D x Market leadership	H3c	-

Control Variable

Business group affiliation (-)	:	Dummy Variable (Y=1, N=0)
Firm's Size (+)	:	Sales Revenues x 10^{-9}
Firm's Age (-)	:	Number of Years
Prior Performance (+)	:	Return On Asset (ROA)
Technological Intensity (+)	:	R&D Expenses/Sales
Level of public corruption (+)	:	CPI Index
Tertiary industry (-)	:	Cubic service-industry GDP x 10^{-6}
Country's technological deficiency (+)	:	Technological readiness ranking x 10^{-2}

4.6 RESULTS

According to Table 4.1, to assess the risk of a multicollinearity problem, we computed variance inflation factors (VIFs). None of the combinations of variables introduced in our model possessed a VIF greater than 3, and no one individual variable presented a VIF greater than 10, indicating that there was no serious multicollinearity problem. In addition, the means, standard deviations, and correlations of the variables included in our analysis are presented in Table 4.2.

INSERT TABLE 4.1 ABOUT HERE

4.6.1 Results of the Hypothesis Test

Table 4.3 shows the results of random-effects estimation with single-level analysis, starting from a base model (Model 1), moving to direct-effect models (Models 2 and 3), and ending with interaction-effect models (Models 4, 5, 6, and 7).

INSERT TABLE 4.2 ABOUT HERE

Model 1 displays the effects of a base model with control variables. The coefficients of firm's age, size, and technological deficiency were positive and significant.

Model 2 expresses the direct effects of the three independent variables. Similar to the first essay, the coefficients of our focal independent variables (corporate governance reform, divestiture of unrelated business, and overseas R&D) were positive and significant. The empirical results were consistent with those from the first essay.

Model 3 further investigates the direct effect of the moderating variables. The coefficients of conglomerate diversification, market leadership position, and government ties were negative and significant.

In Model 4, we examine the interaction effect of *conglomerate diversification*. The coefficient of the interaction effect between corporate governance reform and conglomerate diversification (governance reform x conglomerate diversification) was negative and significant, providing support to Hypothesis 1a ($p < 0.05$). Furthermore, the coefficient of the interaction effect between overseas R&D and conglomerate diversification (overseas R&D x conglomerate diversification) was negative and significant, providing support to Hypothesis 1c ($p < 0.01$). Nevertheless, the coefficient of the interaction effect between divestiture and conglomerate diversification (divestiture x conglomerate diversification) was negative but not significant. Therefore, we rejected Hypothesis 1b.

Model 5 investigates the moderating effect of *government ties*. The coefficient of interaction effect between corporate governance reform and government ties (corporate governance reform x government ties) was positive but not significant. Although its coefficient was positive, the p value is very weak ($p = 0.950$). Hence, we rejected Hypothesis 2a. In addition,

the coefficient of interaction effect between divestiture of unrelated business and government ties (divestiture x government ties) was negative but not significant, rejecting Hypothesis 2b. Nevertheless, the coefficient of the interaction effect between overseas R&D activities and government ties (overseas R&D x government ties) was negative and strongly significant, providing strong support to Hypothesis 2c ($p < 0.01$).

INSERT TABLE 4.3 ABOUT HERE

Model 6 deals further with the moderating effects of *market leadership position*. The coefficient of the interaction effect between corporate governance reform and market leadership position (corporate governance reform x market leadership) was negative but not significant. Hence, we rejected Hypothesis 3a. Similarly, the coefficient of the interaction effect between overseas R&D and market leadership position (overseas R&D x market leadership position) was negative but not significant, rejecting Hypothesis 3c. However, the coefficient of the interaction effect between overseas R&D activities and government ties (divestiture x market leadership) was negative and strongly significant, providing strong support to Hypothesis 3b ($p < 0.01$).

Model 7 represents a completed model of all variables, including a dependent variable, independent variables, moderating variables and their interaction effect, as well as control variables. In this model, a picture of control variables does not change. The coefficients of firms age, firms size, and the country's technological deficiency were positive and significant, while other control variables were not statistically significant.

For the direct effect, the coefficient of corporate governance reform was no longer significant. However, the coefficients of other direct-effect variables were statistically significant. For the positive sign, these variables included the divestiture of unrelated business and overseas R&D. For the negative sign, these variables were conglomerate diversification, government ties, and market leadership position.

For the interaction effect, we also obtained a picture resembling that of Models 4, 5, and 6. We first examined the moderating effect of *conglomerate diversification*. The coefficient of the interaction effect between corporate governance reform and conglomerate diversification (governance reform x conglomerate diversification) was negative and significant, providing support to Hypothesis 1a ($p < 0.1$). The coefficient of the interaction effect between overseas R&D and conglomerate diversification (overseas R&D x conglomerate diversification) was negative and significant, providing support to Hypothesis 1c ($p < 0.01$). The coefficient of the interaction effect between divestiture and conglomerate diversification (divestiture x conglomerate diversification) was negative but not significant, rejecting Hypothesis 1b.

For the moderating effect of *government ties*, the coefficient of the interaction effect between corporate governance reform and government ties (corporate governance reform x government ties) now became negative but still not significant. Hence, we rejected Hypothesis 2a. The coefficient of the interaction effect between the divestiture of unrelated business and government ties (divestiture x government ties) was negative and became significant, providing weak support to Hypothesis 2b ($p < 0.1$). Nevertheless, the coefficient of the interaction effect between overseas R&D activities and government ties (overseas R&D x government ties) was negative and strongly significant, providing strong support to Hypothesis 2c ($p < 0.01$).

Lastly, the moderating effect of *market leadership position*, the coefficient of the interaction effect between corporate governance reform, and market leadership position (corporate governance reform x market leadership) was negative but not significant. Hence, we rejected Hypothesis 3a. Similarly, the coefficient of the interaction effect between overseas R&D and market leadership position (overseas R&D x market leadership position) was negative but not significant, rejecting Hypothesis 3c. The coefficient of the interaction effect between overseas R&D activities and government ties (divestiture x market leadership) was negative and strongly significant, providing strong support to Hypothesis 3b ($p < 0.01$)

4.6.2 Endogeneity Test

With respect to Table 4.4, we tested the overseas R&D variable to see whether this variable is endogenous or not. We used the same set of instrument variables as for Essay 1. We first checked the relevance condition of our instrument variables. In Model 8, our first-stage F -statistics was 3379.51, which was much greater than 18.37, the Stock-Yogo weak ID test critical values at 5 percent maximal rel. bias. Therefore, our first-stage F -statistics provided strong consistency with instrument relevance conditions.

Subsequently, we checked for the exogeneity condition by employing the Hansen J statistic and C statistic. Every instrument met the exogeneity condition. The p value of Hansen J statistic and C statistic was greater than 0.1. Furthermore, the p -value of the Durbin component of the Durbin-Wu-Hausman test of each independent variable was greater than 0.1, showing that Panel IV estimation is not a consistent estimator.

INSERT TABLE 4.4 ABOUT HERE

We further checked the heteroskedasticity and autocorrelation in both Models 8 and 9. We found heteroskedasticity plaques in our model. Hence, we upgraded our model from 2SLS to FULL in Model 9. However, the p value of Hansen J statistic and C statistic was still greater than 0.1. Furthermore, the p -value of the Durbin component of the Durbin-Wu-Hausman test of each independent variable was greater than 0.1. Therefore, Panel IV estimation is not a consistent estimator. Therefore, we rejected Models 8 and 9.

4.6.3 Multilevel Analysis

In Table 4.5, we further controlled for the multilevel effects in our model. In this analysis, to test Models 9 – 13, we used four clustering levels: (1) country, (2) industry, (3) firm, and (4) year. Again, we controlled for such effects by using the *xtmixed* command in *STATA*.

Models 10 and 12 illustrate a random-intercept estimation of our model. Models 11 and 13 represent random-coefficient estimation. We further employed the naïve likelihood-ratio test to determine the appropriateness of the random coefficient model. Based on our test results, the output clearly showed a statistically significant difference between the random-intercept and random coefficient model. The random intercept model (Models 10 and 12) was rejected in favor of the random co-efficient model. Hence, the results should be interpreted from Models 11 and 13.

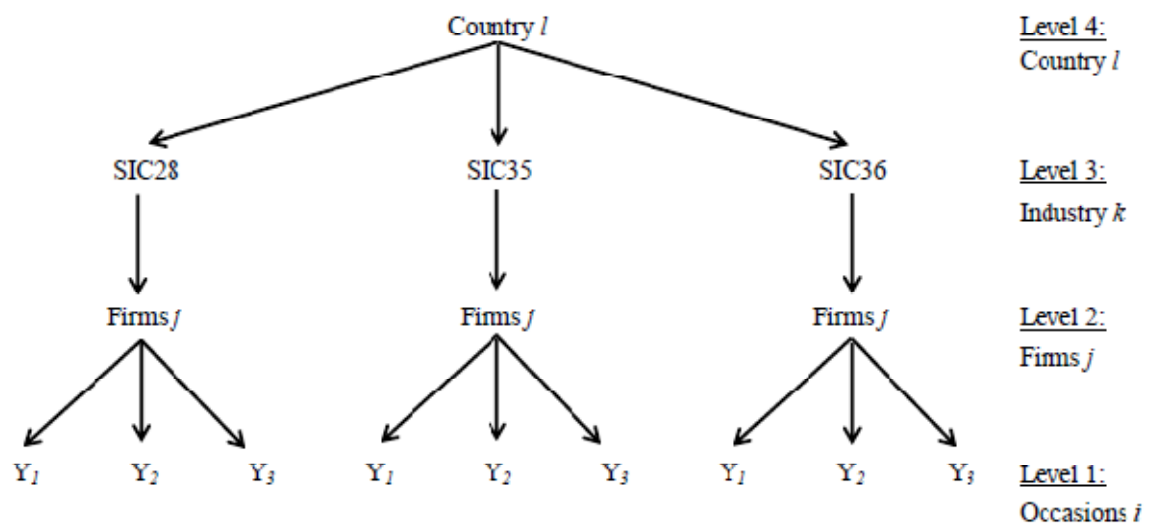


Figure 4.2 Nested, Multilevel Mixed Model

Model 9 represents a base model of multivariable analysis. There are some changes in our control variables. For example, the coefficient of business group affiliation and tertiary industry was negative and became significant. In addition, the coefficient of country technological deficiency was no longer significant. However, the coefficients of the firms' age and the firms' size were still positive and significant.

Model 11 illustrates the impact of the clustering effect on our direct-effect model. Similar to in Model 3, the coefficients of corporate governance reform, divestiture of unrelated business, and overseas R&D are positive and significant. In addition, the coefficients of conglomerate diversification and market leadership position were negative and significant. However, the coefficient of government ties was negative but no longer significant in this model. Hence, we further run the random-coefficient estimation in Model 13 by relaxing the slope of the government ties variable and the intercept value of every variable.

INSERT TABLE 4.5 ABOUT HERE

Model 13 represents the random coefficient analysis of our interaction-effect model. In this model, we relaxed the slope of the government ties variable because it did not receive empirical support in the direct-effect model (Model 11). Nevertheless, the coefficient of government ties was negative but still not significant. Furthermore, the coefficient of market leadership position was negative but no longer significant.

For the moderating effect of conglomerate diversification, the coefficient of interaction effect between corporate governance reform and conglomerate diversification (governance reform x conglomerate diversification) was negative and significant, providing support to Hypothesis 1a ($p < 0.05$). However, the coefficients of the interaction effect between overseas R&D and conglomerate diversification (overseas R&D x conglomerate diversification) and the coefficient of divestiture and conglomerate diversification (divestiture x conglomerate diversification) were negative but not significant. Therefore, we rejected Hypotheses 1b and 1c.

For the moderating effect of government ties, the coefficient of interaction effect between corporate governance reform and government ties (corporate governance reform x government ties) was positive and significant, providing support to Hypothesis 2a ($p < 0.1$). In addition, the coefficient of the interaction effect between overseas R&D activities and government ties (overseas R&D x government ties) was negative and strongly significant, providing support to Hypothesis 2c ($p < 0.05$). Nevertheless, the coefficient of the interaction effect between divestiture of unrelated business and government ties (divestiture x government ties) was negative but not significant, rejecting Hypothesis 2b.

For the moderating effects of market leadership position, the coefficient of every interaction effect was negative and significant, providing support to Hypotheses 3a, 3b, and 3c. Such interaction effects included corporate governance reform x market leadership, divestiture x market leadership, and overseas R&D x market leadership position.

4.7 DISCUSSION & CONCLUSION

4.7.1 Conclusion

This study examines the moderating effect of critical resources on firms' international expansion. According to the empirical results, our main idea, that critical resources negatively moderate the relationship between path-breaking and international diversification in advanced economies, receives partial support. The empirical results provide support to H1a, H2a, H2c, H3a, H3b, and H3c. but not to H1b, H1c, or H2b.

We further examined H1b, H1c, and H2b. Their coefficients were negative as we had predicted. Nevertheless, their p values were larger than 0.1. Nevertheless, some of their p values were relatively small and nearly significant. For example, the p value of H1c (overseas R&D x conglomerate diversification) was 0.165 and the p value of H1b (unrelated business divestment x conglomerate diversification) was 0.215. Nevertheless, for H2b (unrelated business divestment x government ties), the p value was moderately large ($p = 0.302$), providing a strong rejection of H2b.

With respect to the control variables, only the firms' size was strongly significant. Larger firms possess higher levels of resource bases to engage in risky projects. This variable received strong empirical support across every model. However, other control variables, both at the firm level and the country level, did not receive any empirical support.

To be consistent with the previous essays, we again highlight the impact of the clustering effect on the empirical results. In this essay, the nested clustering effect had an impact on Hypotheses 1c, 2b, 3a, and 3c.

According to Table 4.6, hypotheses 1c and 2b received empirical support in single-level analysis but not in multilevel analysis. On the contrary, Hypotheses 3a and 3c did not receive empirical support in single-level analysis but did receive empirical support in multilevel analysis. Therefore, the multilevel analysis should be adopted by international business scholars, who investigate firms in multiple countries and industries. The nested, multilevel mixed method should be employed to achieve a higher degree of robustness.

INSERT TABLE 4.6 ABOUT HERE

4.7.2 Managerial Implication

This study also provides insights with important implications for managers and policymakers. For managers, these include the strategic decision of whether to stay at home or to expand abroad. If they want to expand abroad, they may consider relying less on governments, private networks, and the domestic elite. However, if they want to stay in the home market, they have to cooperate with the government even more to gain unfair advantages. Therefore, firms need to determine their strategy of whether to go abroad or stay in a home country.

In addition, this research also sheds some light for the policy maker. In some emerging countries, the government plays a critical role in the international expansion of emerging economy firms. In some countries, the governments tend to protect their domestic firms. Some of them seem to be neutral, while a few push their firms to expand abroad.

Hence, the policy maker can also set the firm's future course of action. Such a policy should represent a mutual collaboration between the public and private sector. For example, the policy maker may want to push the firm to expand internationally, but their local firms may not be ready to compete in the advanced economies. Hence, policy making should be derived from both sides rather than borne of a top-down decision.

4.7.3 Limitation

In this section, we highlight a few potential limitations of this study.

According to the operationalization of critical resources, one can argue that conglomerate diversification should not be considered a critical resource. One can also assert that conglomerate diversification is an organizational form, not a critical resource. However, conglomerate diversification and market leadership position can be seen as critical resources that enable a firm to enjoy many benefits, such as prestige and reputation for trustworthiness (Khanna & Palepu, 2006).

For market leadership position, we argue that market ranking is a result of marketing capabilities. It is implicitly derived from marketing capabilities. Because of data scarcity, we used neither the marketing-expenses-to-total sales ratio nor the market share to operationalize this variable. We could not find this data in the annual reports of firms from many emerging countries.

Secondly, similar to Essay 1, the data on R&D expenses were very difficult to obtain in many emerging economies. Therefore, we used the industry average of this value in each country. Hence, this variable was not statistically significant.

4.8 FUTURE RESEARCH

First, we need to examine the co-evolution of institutional learning and path-breaking changes, a relationship that provides the interplay between factors at the firm level and those at the institutional level. Because firms expand abroad in multiple host countries, they can gain different institutional experiences. Therefore, we need a dynamic model, which provides a mechanism that explains this relationship, in which firms learn from one specific institutional environment before expanding to another one. Such learning can help firms to abridge the institutional gap of the home and targeted host market. For example, in order to enter Japanese market, Indonesian firms may consider gaining institutional experiences in Taiwan and South Korea to experience institutional differences and change their routines and organizational paths.

Second, we aim to model the erosion and evolution of institutional advantage. Emerging economies can gain institutional advantage if they enter into less developed countries (Khanna & Palepu, 2006). However, when they enter an advanced economy, such an advantage is eroded, though they can gain knowledge from this institutional setting. Hence, they can reconfigure their institutional knowledge to fit the requirements of multiple markets. We aim to model such dynamic institutional learning by using the partial differential equation. The mimetic of the heat-wave equation will be used to model such dynamic settings. (Once a new source of knowledge diffuses inside the firm, an existing knowledge source may dissipate outside a focal firm). Subsequently, computer simulation and empirical evidence is used to elaborate this dynamic process.

Table 4.1: Variance inflation factors (VIFs)

Variable	VIF	1/VIF
Corruption perception index	8.56	0.12
Country's technology deficiency	8.14	0.12
Tertiary industry	6.84	0.15
Governance Reform	3.11	0.32
Firm's Age	2.96	0.34
Business group affiliation	2.95	0.34
Government Ties	2.86	0.35
Overseas R&D activities	2.71	0.37
Conglomerate Diversification	2.26	0.44
Governance Reform x Market leadership	2.21	0.45
Overseas R&D x Market leadership	2.15	0.47
Market Leadership	2.09	0.48
Governance Reform x Government Ties	1.95	0.51
Divestiture of unrelated business	1.95	0.51
Divestiture x Market leadership	1.67	0.60
Overseas R&D x Government Ties	1.59	0.63
Technological intensity	1.56	0.64
Firm's Size	1.45	0.69
Governance Reform x Conglomerate Diversification	1.43	0.70
Overseas R&D x Conglomerate Diversification	1.38	0.72
Divestiture x Conglomerate Diversification	1.28	0.78
Divestiture x Government Ties	1.15	0.87
Prior Performance	1.02	0.98
Mean VIF	2.75	

Table 4.2: Descriptive statistics and Correlation

Variables	Mean	Std.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1 Int'l Expansion in advanced economies	40.49	134.21	1.00																							
2 Governance Reform	0.0525	0.2230	0.19	1.00																						
3 Divestiture of unrelated business	0.0069	0.0827	0.26	0.07	1.00																					
4 Overseas R&D	0.0555	0.2290	0.42	0.15	0.09	1.00																				
5 Conglomerate Diversification	0.5405	0.5180	-0.26	-0.15	-0.07	-0.17	1.00																			
6 Government Ties	0.2313	0.2704	-0.11	-0.04	-0.06	-0.10	0.16	1.00																		
7 Market leadership	2.5687	3.7499	-0.02	0.02	0.00	0.07	-0.10	-0.21	1.00																	
8 Governance Reform x Diversification	0.0108	0.0954	-0.01	0.48	-0.01	0.01	0.07	0.00	-0.04	1.00																
9 Divestiture x Diversification	0.0009	0.0249	0.08	-0.01	0.43	-0.01	0.01	-0.02	-0.01	0.00	1.00															
10 Overseas R&D x Diversification	0.0102	0.0910	0.04	0.02	-0.01	0.46	0.06	-0.03	0.04	0.06	0.00	1.00														
11 Governance Reform x Government Ties	0.0097	0.0684	0.11	0.60	-0.01	0.13	-0.08	0.14	-0.04	0.35	-0.01	0.06	1.00													
12 Divestiture x Government Ties	0.0003	0.0122	0.06	-0.01	0.33	-0.01	-0.02	0.02	-0.01	0.00	0.22	0.00	0.00	1.00												
13 Overseas R&D x Government Ties	0.0067	0.0598	0.09	0.16	-0.01	0.46	-0.06	0.13	-0.03	0.07	0.00	0.29	0.34	0.00	1.00											
14 Governance Reform x Market leadership	0.1507	1.1892	0.11	0.54	0.08	0.18	-0.11	-0.06	0.24	0.12	0.00	0.00	0.18	0.00	0.02	1.00										
15 Divestiture x Market leadership	0.0185	0.4367	0.12	0.09	0.51	0.04	-0.04	-0.03	0.09	0.00	0.11	0.00	-0.01	0.07	0.00	0.33	1.00									
16 Overseas R&D x Market leadership	0.2067	1.4633	0.19	0.14	0.03	0.58	-0.10	-0.09	0.30	-0.01	-0.01	0.27	0.01	0.00	0.11	0.39	0.01	1.00								
17 Technological intensity	0.0212	0.0330	0.05	-0.03	0.10	0.12	0.05	0.10	-0.09	-0.02	0.07	-0.01	-0.02	0.04	0.01	-0.02	0.03	0.03	1.00							
18 Business group affiliation	0.5832	0.4931	-0.10	0.00	-0.06	-0.14	0.09	0.42	-0.15	-0.02	-0.02	-0.04	0.08	0.02	-0.01	-0.05	-0.04	-0.12	0.03	1.00						
19 Prior Performance(ROA)	0.0140	0.3495	0.05	0.02	0.01	0.04	0.00	0.00	-0.01	0.01	0.00	0.02	0.02	0.00	0.01	0.01	0.01	0.01	-0.01	-0.05	1.00					
20 Firm's age	18.578	19.11	0.12	-0.06	0.05	0.09	-0.10	-0.35	0.23	-0.04	0.00	-0.04	-0.05	-0.01	-0.04	0.01	0.05	0.10	-0.16	-0.21	-0.06	1.00				
21 Firm's Size	0.1657	0.32	0.24	0.10	0.05	0.26	-0.05	0.10	0.02	0.00	-0.01	0.12	0.06	0.01	0.23	0.09	0.01	0.14	-0.05	0.02	0.04	0.05	1.00			
22 Corruption perception index	3.248	1.14	-0.01	0.05	0.01	0.11	0.04	0.02	0.15	0.02	0.02	0.09	0.01	0.00	0.01	0.09	0.00	0.21	0.11	0.03	0.02	-0.24	-0.02	1		
23 Country's technology deficiency	53.58	19.38	0.08	0.09	0.02	0.00	-0.03	0.35	-0.06	0.05	-0.01	-0.03	0.07	0.01	0.06	0.02	0.02	-0.05	0.12	0.22	0.03	-0.24	0.09	0.15	1	
24 Tertiary industry	100.12	50.33	0.06	-0.07	0.01	0.08	-0.20	-0.49	0.44	-0.06	0.00	-0.02	-0.10	-0.02	-0.07	0.06	0.04	0.13	-0.19	-0.31	-0.08	0.53	-0.03	-0.1	-0.4	1

**Table 4.3: Results for the determinants of international expansion in advanced economy
weighed by geographic and degree of economic freedom distance**

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Technological intensity	31.21 (86.73)	9.85 (57.43)	14.82 (60.27)	2.18 (53.62)	7.47 (58.95)	7.09 (53.48)	-4.45 (50.73)
Business group affiliation	-23.08 (14.29)	-11.87 (9.83)	-7.55 (7.37)	-9.63 (9.02)	-8.11 (7.29)	-12.68 (10.34)	-7.59 (8.49)
Prior performance	2.08 (1.88)	2.78 (1.74)	3.13 (2.08)	2.22 (1.97)	2.33 (1.71)	3.15* (1.68)	2.20 (1.95)
Firm's Age	0.80** (0.32)	0.66*** (0.25)	0.64** (0.26)	0.57** (0.27)	0.55** (0.25)	0.72*** (0.23)	0.56** (0.25)
Firm's size	58.91*** (21.31)	41.13*** (12.63)	43.14*** (14.41)	39.13*** (13.25)	45.11*** (14.7)	41.61*** (13.15)	43.08*** (15.11)
Corruption perception index	2.87 (3.99)	-2.36 (3.94)	-0.33 (4.42)	-2.10 (4.6)	-3.42 (3.99)	-0.59 (3.73)	-0.43 (4.27)
Country's technology deficiency	0.28* (0.15)	0.30* (0.17)	0.31* (0.16)	0.22 (0.16)	0.37** (0.17)	0.31** (0.14)	0.28** (0.11)
Tertiary industry	-0.06 (0.05)	-0.03 (0.05)	-0.04 (0.05)	-0.1** (0.04)	-0.06 (0.05)	0.02 (0.08)	-0.06 (0.05)
Governance Reform		108.63** (47.05)	97.19** (47.79)	119.55** (58.55)	109.67 (73.54)	116.78** (56.84)	149.2 (116.62)
Divestiture of unrelated business		74.01*** (23.16)	72.11*** (22.59)	82.15** (35.36)	84.74** (37.92)	101.91*** (20.58)	141.92** (63.14)
Overseas R&D activities		173.62*** (58.45)	163.53*** (55.3)	216.55*** (44.)	207.85*** (52.57)	182.39** (75.08)	264.07*** (45.82)
Conglomerate Diversification			-39.68*** (5.89)	-32.21*** (5.00)			-31.17*** (5.04)
Government Ties			-20.57* (10.95)		-17.76 (13.35)		-13.13** (5.43)
Market Leadership			-2.74* (1.69)			-2.04* (0.123)	-1.86* (0.104)
Governance Reform x Conglomerate Diversification (H1a)				-128.94** (55.94)			-146.84* (84.39)
Divestiture x Conglomerate Diversification (H1b)				-59.2 (63.12)			-104.56 (75.75)
Overseas R&D x Conglomerate Diversification (H1c)				-201.54*** (60.68)			-185.17*** (55.99)
Governance Reform x Government Ties (H2a)					8.72 (139.11)		-34.04 (181.34)
Divestiture x Government Ties (H2b)					-140.78 (87.21)		-196.62* (104.49)
Overseas R&D x Government Ties (H2c)					-317.93*** (114.96)		-284.16*** (79.75)
Governance Reform x Market leadership (H3a)						-0.48 (2.14)	-2.43 (4.98)
Divestiture x Market leadership (H3b)						-7.98*** (2.05)	-9.99*** (3.8)
Overseas R&D x Market leadership (H3c)						-3.14 (9.36)	-7.38 (7.53)
Wald Chi ²	24.59***	66.31***	112.42***	123.97***	78.20***	91.09***	206.04***
R ²	0.0829	0.2386	0.273	0.2816	0.2621	0.2469	0.3108
Number of group	847	847	847	847	847	847	847
Number of observations	2325	2325	2325	2325	2325	2325	2325
Number of panel	3	3	3	3	3	3	3

Legend: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Standard errors are given in parentheses under the coefficient

Table 4.4: Endogeneity Test

Variable		Model 8	Model 9
Dependent Variable : International Expansion in advanced econon		2SLS RE	FULL RE
Technological intensity		-13.03 (39.29)	-13.03 (39.29)
Business group affiliation		-6.57 (6.75)	-6.57 (6.75)
Prior performance		2.21 (1.65)	2.21 (1.65)
Firm's Age		0.54** (0.26)	0.54** (0.26)
Firm's size		41.51** (15.37)	41.51** (15.37)
Corruption perception index		-0.63 (3.29)	-0.63 (3.29)
Country's technology deficiency		0.27** (0.11)	0.27** (0.11)
Tertiary industry		-0.06 (0.04)	-0.06 (0.04)
Governance Reform		147.73 (103.63)	147.73 (103.63)
Divestiture of unrelated business		139.58** (60.25)	139.58** (60.25)
Overseas R&D activities		311.23*** (61.06)	311.23*** (61.06)
Conglomerate Diversification		-29.37*** (4.61)	-29.37*** (4.61)
Government Ties		-1.59* (0.88)	-1.59* (0.88)
Market Leadership		-10.79* (6.2)	-10.79* (6.2)
Governance Reform x Conglomerate Diversification	(H1a)	-143.76* (84.07)	-143.76* (84.07)
Divestiture x Conglomerate Diversification	(H1b)	-32.85 (160.31)	-32.85 (160.31)
Overseas R&D x Conglomerate Diversification	(H1c)	-2.35 (4.48)	-2.35 (4.48)
Governance Reform x Government Ties	(H2a)	-101.33 (72.61)	-101.33 (72.61)
Divestiture x Government Ties	(H2b)	-193.31* (99.39)	-193.31* (99.39)
Overseas R&D x Government Ties	(H2c)	-9.9** (3.7)	-9.9** (3.7)
Governance Reform x Market leadership	(H3a)	-218.45*** (65.08)	-218.45*** (65.08)
Divestiture x Market leadership	(H3b)	-339.46*** (96.11)	-339.46*** (96.11)
Overseas R&D x Market leadership	(H3c)	-10.94 (7.24)	-10.94 (7.24)
Endogeneity Test : Overseas R&D			
Number of instruments		5	5
First stage F-statistics		3379.51***	3379.51***
p-value of Hansen J-test		0.3201	0.319
Difference-in-Sargan statistics		Yes	Yes
p-value of the Durbin component of the Durbin-Wu-Hausman test		0.3036	0.3036
Moreira's CLR (p-value in parentheses)		[266.02, 360.92] (0.0000)	
R ²		0.2005	0.2005
Number of group		847	847
Number of observations		2325	2325
Number of panel		3	3

Legend: * p<0.1; ** p<0.05; *** p<0.01. For the Difference-in-Sargan statistic, "Yes" means that each instrument is exogenous. Heteroskedasticity-robust standard errors are given in parentheses under the coefficient

Instruments: *Debt-to-equity ratio* , *Annual GDP growth* , *Dummy Variable of average Corporate governance reform*
Dummy Variable of average Overseas R&D , *Dummy Variable of average Divestiture*

Table 4.5: Multilevel Analysis - results for the determinants of international expansion in advanced economies weighted by geographic and degree of economic freedom distance

Variable	Direct Effect			Interaction Effect	
	Model 9 Base Model	Model 10 Random Int.	Model 11 Random Coef.	Model 12 Random Int.	Model 13 Random Coef.
Fixed Part					
_cons	-20.109 (23.95)	9.2985 (21.09)	20.9781 (21.33)	6.1264 (20.79)	20.6104 (20.84)
Technological intensity	41.05 (54.78)	21.26 (53.69)	19.34 (52.81)	4.48 (53.11)	9.67 (51.82)
Business group affiliation	-17.40** (8.86)	-5.05 (8.17)	-3.06 (7.91)	-5.52 (7.98)	-5.96 (7.33)
Prior performance	0.5041 (6.14)	1.6825 (5.92)	1.6835 (6.05)	0.8635 (5.83)	0.9314 (5.995)
Firm's Age	0.4588* (0.26)	0.47** (0.23)	0.41* (0.24)	0.4079* (0.22)	0.3053 (0.24)
Firm's size	61.31*** (9.08)	43.91*** (8.72)	37.24*** (8.34)	43.99*** (8.6)	37.79*** (8.06)
Corruption perception index	13.80*** (4.5)	(5.43)	(4.67)	5.25 (3.96)	3.56 (3.91)
Country's technology deficiency	0.31 (0.25)	0.37* (0.22)	0.28 (0.22)	0.33 (0.22)	0.23 (0.22)
Tertiary industry	-0.15* (0.08)	-0.11 (0.08)	-0.11 (0.08)	-0.12 (0.08)	-0.12 (0.08)
Governance Reform		101.57*** (15.12)	94.20*** (14.23)	157.49*** (23.26)	149.56*** (23.92)
Divestiture of unrelated business		70.01*** (18.33)	67.14*** (18.45)	141.4071*** (28.97)	130.33*** (29.63)
Overseas R&D activities		158.17*** (15.54)	148.86*** (15.89)	255.3183*** (22.34)	266.99*** (24.11)
Conglomerate Diversification		-37.20*** (6.87)	-37.30*** (6.48)	-28.748*** (6.82)	-27.61*** (6.14)
Government Ties		-8.7728 (16.80)	-16.6649 (17.25)	-2.42 (16.76)	-5.75 (17.89)
Market Leadership		-1.83* (1.03)	-1.93* (1.05)	-0.96 (1.07)	-1.11 (1.10)
Governance Reform x Conglomerate Diversification (H1a)				-150*** (41.39)	-120*** (32.98)
Divestiture x Conglomerate Diversification (H1b)				-41.01 (61.85)	-69.25 (55.88)
Overseas R&D x Conglomerate Diversification (H1c)				-3.02 (2.41)	-3.32 (2.39)
Governance Reform x Government Ties (H2a)				-110* (58.56)	-100* (58.99)
Divestiture x Government Ties (H2b)				-200* (107.59)	-(110.) (107.06)
Overseas R&D x Government Ties (H2c)				-9.87*** (3.61)	-9.27** (3.63)
Governance Reform x Market leadership (H3a)				-180*** (37.09)	-200*** (39.58)
Divestiture x Market leadership (H3b)				-270*** (72.84)	-260*** (63.46)
Overseas R&D x Market leadership (H3c)				-7.15** (3.37)	-6.95* (3.72)
Random Part					
$\sqrt{\psi^{(4)}}$	27.87	17.98	15.40	19.26	15.41
$\sqrt{\psi^{(3)}}$	7.18	11.23	10.98	1.31	4.69
$\sqrt{\psi^{(2)}}$	115.97	102.37	114.70	99.65	115.58
$\sqrt{\psi}$ (Government Ties)			207.98		277.22
ρ (Government Ties,_cons)			-0.78		-0.90
θ	47.44	47.09	47.12	46.65	46.82
Log likelihood	-13476.29	-13366.10	-13334.77	-13328.70	-13287.50
Wald Chi ²	74.79***	340.66***	307.41***	437.4***	398.1***
Number of group	847	847	847	847	847
Number of observations	2325	2325	2325	2325	2325
Number of panel	3	3	3	3	3

Legend: * p<0.1; ** p<0.05; *** p<0.01 Standard errors are given in parentheses under the coefficient

Table 4.6: Empirical-results comparison between single level analysis and multilevel analysis

Hypotheses		Empirical Result	
		<i>Single Level</i>	<i>Multilevel</i>
1a	Governance Reform x Conglomerate Diversification	Support	Support
1b	Divestiture x Conglomerate Diversification	Reject	Reject
1c	Overseas R&D x Conglomerate Diversification	Support	Reject
2a	Governance Reform x Government Ties	Reject	Support
2b	Divestiture x Government Ties	Partial Support	Reject
2c	Overseas R&D x Government Ties	Support	Support
3a	Governance Reform x Market leadership	Reject	Support
3b	Divestiture x Market leadership	Support	Support
3c	Overseas R&D x Market leadership	Reject	Support

CHAPTER 5
GENERAL CONCLUSION & DISCUSSION

5.1 CONCLUSION & DISCUSSION

This dissertation examined the path-breaking change of firms from emerging economies and its antecedents. It also presented the influence of such changes on firm's global strategy. The three essays were developed to examine the phenomenon, and in turn provided new theoretical contributions to the international business research stream. The first paper focused on routine changes inside EM firms that correlate to the extent of an emerging market firm's international expansion into advanced economies. It was anchored in path-breaking changes and it is proposed that such a theorization complements the existing ownership advantage framework in explaining the outward international expansion of firms from developing economies into advanced economies. The path-breaking change is a prerequisite for EM firms before building capabilities and subsequently transferring their competitive advantages to advanced economies. In order to test our hypotheses, we collected data from secondary sources over a six-year period on 815 emerging economy firms. According to empirical results, we find full support for our hypotheses in the first essay. The path-breaking change positively relates to the extent of the emerging market firm's international expansion into advanced economies.

In the second essay, the hypotheses received partial support. Some traits of TMT and BOD affect the path-breaking changes of an EM firm. The TMT's heterogeneity with respect to international experience and the foreign BOD composition have a direct impact on path-breaking changes. The decision made by TMT and BOD represents strategic choice for a firm to define its path trajectory in the future. However, the coefficient of foreign TMT from advanced economies was negative but not significant. Contrary to our prediction, the coefficient of foreign TMT from advanced economies was negative but not significant. These results occurred in every model, ranging from the random effect estimation to multilevel analysis to Monte Carlo simulation.

Although Monte Carlo simulation provides rigorous empirical evidence, it correlates with the existing dataset. Its results depend significantly on the rigor of the real dataset. Basically, to run a Monte Carlo simulation, we obtained the covariance matrix from the real data by applying Cholesky decomposition (Brandimarte, 2006). Therefore, the simulated dataset correlated with the real dataset. Accordingly, the sample size of the real dataset should be large enough to accurately specify the empirical model. Then, Monte Carlo simulation correctly provides a strong robustness check for the empirical model. According to our sample size, the real dataset was very small. We examined 170 firms from 11 emerging economies. Therefore, the results should be interpreted with caution.

We further investigated the impact of the moderating effect of local success on the relationship between path-breaking changes and the extent of an emerging market firm's international expansion into advanced economies. We found partial support for the negative moderating effect of conglomerate diversification, and for government ties. In addition, we found full support for the moderating effect of domestic market leadership.

Regarding Essay 1 and 3, one can argue that the focal variables in Essay 3 can be included in Essay 1, but we assert that each essay presents a different angle of contribution. Essay 1 aimed to introduce the path-breaking-change notion as a cause of emerging economy firms' expansion into advanced economies. It also aimed to extend and contribute to the existing theories. We argue that path-breaking changes are a prerequisite for EM firms to build capabilities and expand into advanced economies. Actually, Essay 1 motivated us to further investigate the impacts of competency traps and core rigidities on international expansion of EM firms into advanced economies. Accordingly, Essay 3 focused on path-reinforcing changes rather than path-breaking changes. Therefore, these concepts should be built separately, however. To support this argument, we can observe the existing practices in

management research; we found a lot of studies that a dependent variable in one article becomes an independent variable in another article. For example, some literature argues that the performance of a firm has a direct impact on its international expansion. On the contrary, some other literature examines the impact of international diversification on the performance of a firm (Contractor *et al.*, 2007; Zhou *et al.*, 2007; Kumar & Singh, 2008; Khavul *et al.*, 2010; Zhao *et al.*, 2010).

5.2 GENERAL LIMITATION

The common limitations across our three essays pertain to the differences among emerging economies in various dimensions. First, with respect to the country lists, one can argue that each country has unique features and should be studied separately. For example, (1) there are differences in the size of their economies; China and India have large economies, whereas those of Thailand and Malaysia are much smaller; (2) there are different levels of government intervention; the Chinese government is actively promotes Chinese firms going abroad (Larçon 2009; Zhaoxi, 2009), while the government of other countries may be more neutral; and (3) there are constitutional differences: historical communist, current communist, and democratic. On top of that, there are a great deal of other differences between these countries, including religion, values, laws, beliefs, norms, and many others. To address such problems, we use multi-level analysis to control the clustering effect, ranging from country level to industry level to firm level to occasional level (year). Subsequently, we used the random-intercept and random-coefficient models to see the impact of each level. Therefore, by controlling such a clustering effect, we assert that firms from various countries should be examined. Many existing studies pay more attention to India and China. International Business (IB) scholars should extend their studies to include EM MNEs from other emerging economies, as well.

Second, we also acknowledge that there are differences among countries in the advanced economies. One cannot assert that the term “advanced economies” cannot represent a homogeneous group of countries from the first-world. For example, the regulatory restrictions in Japan are higher than those of the United States (Black & Morris, 2010) or Switzerland. Furthermore, cultures, values, norms, competition, institutions, and the level of government intervention, all vary across the first-world countries. To address these differences, we included the economic distance in our dependent variables in order to capture them. The economic distance is a difference in degree, an economic freedom index between the host and home country. The components of the degree of economic freedom are discussed in the previous section. In addition, we further incorporate the geographical distance into our dependent variable for robustness. We really hope that this treatment will help to alleviate the problem.

Overall, we are classifying countries into two types instead of analyzing the particularities of each country. This is an implicit method to contrast emerging economy MNEs with advanced economy MNEs; differences between these two sets of firms would support the idea that the study of EM MNEs can yield new theoretical insights rather than merely yielding old theoretical arguments.

Third, the concept of path-breaking changes is difficult to operationalize. Therefore, we acknowledge some simplifications performed in the research design used to test the hypotheses. According to our measure, we are not actually measuring or observing the real routines changes and actual path-breaking changes of the firms but instead observing the firm actions that lead to path-breaking changes. This is an implicit method to test the idea that strategic action undertaken by firms leads to changes at their organizational routines level, and in turn, drives EM firms to expand into advanced economies.

5.3 AVENUES FOR FUTURE RESEARCH

Future research should expand the understanding of path-breaking change. For instance, we should examine the impact of path-breaking changes on other organizational outcomes. For example, we can investigate the impact of path-breaking changes on a firm's performance, innovativeness, and entrepreneurial orientation.

Second, future research should further investigate the performance of these firms in advanced economies. According to our study, we capture the international diversification in advanced economies during 2006 – 2008, which can be considered recent phenomena. It is worthwhile for international business scholars to examine the survival rate of these firms during the next five or ten years. From the institutional view and that of behavioral theory, such expansions can be considered bandwagon effects. Therefore, a long-run study should examine the survival rate of these firms, which expand into advanced economies.

INSERT TABLE 5.1 ABOUT HERE

From Table 5.1, the dependent variable from the existing literature is exported performance, return on sales, and return on assets. The exit rate of such expansion should be investigated to determine the real performance of this expansion wave from EM MNEs. Therefore, there are theoretical gaps for IB scholars to investigate the performance of such expansion.

INSERT TABLE 5.2 ABOUT HERE

Furthermore, IB Scholars can examine the performance of EM MNEs that enter less developed countries. Subsequently, the comparison should be made as to which strategy is better. Therefore, we can link such performance differences with the literature about the location choice (Table 5.2), which EM MNEs target to establish an international footprint.

Third, future research may examine the competition outcome between emerging economy firms and advanced economy firms in multiple host countries. Nowadays, many firms expand their operations to other countries. When they expand, they have to compete with not only the local firms but also other foreign firms. For example, when Chinese companies expand to such developing countries as Thailand, they not only compete with Thai firms but also French, Japanese, Malaysian, Singaporean, U.S., and U.K. firms. Similarly, if a U.S. firm expands its operation in such an advanced economy as Australia, the U.S. firm also has to compete with Australian firms and many other firms from various countries. Therefore, future research should investigate the competition outcome of advanced-economy (AM) MNEs and EM MNEs in the third, focal host market.

Firms Types	Competition Terrains		
	<i>Developped Countries</i>	<i>Developing Countries</i>	<i>Third-world countries</i>
EM MNEs	EM -AM -Local competition outcome	EM -AM -Local competition outcome	EM -AM -Local competition outcome
AM MNEs	EM -AM -Local competition outcome	EM -AM -Local competition outcome	EM -AM -Local competition outcome

Figure 5: Competition between emerging-economy firms and advanced economy firms in multiple host markets.

Table 5.1 Organizational outcomes of the international expansion of EM MNEs

Author(s)	Contribution	Method	National & Industry Contexts	Theoretical Approach	Dependent Variable	Independent Variables	Sign	Empiric Support
Aulakh et al. (2000) Export strategies and performance of firms from EM: evidence from Brazil, Chile, and Mexico <i>AMJ</i>	Applying porter's model on the export performance of emerging-economy firms	Survey / Empirical	196 Firms in Brazil, Chile and Mexico	Porter's Corporate Strategy	Export Performance: 1. Export Profit 2. Impact of export on - Sales Growth - Market Share - Competitive Position	Cost Leadership Strategies in LDC Differentiate Strategy in EM LDC Cost + Differentiation Marketing Standardization Marketing Standardization in DM Export Diversification	+ + - - - ∩	Y Y N Y Y Y
Brouthers et al. (2005) Generic Product Strategies for Emerging Market Exports into Triad Nation Markets: A Mimetic Isomorphism Approach <i>J of Management Studies</i>	The role of mimetic Isomorphism on the export performance	Survey / Empirical	33 Romanian & 68 Chinese Firms	IT	Satisfaction with Export Performance (10-point Likert scale)	1) Mimetic of Price-Quality strategy (Question on 10 items)	+	Y
Chiao et al (2006) Performance, Int'l and firm specific advantages of SMEs in a NIEs <i>Small Business Economics</i>	The impact of internationalization, advertising and R&D activities on firms' performance	Survey / Empirical	818 electronics 601 Textile Taiwan SMEs	RBV	ROS	1) Export Intensity 2) Advertising 3) R&D investment	∩ U +	Y Y Y
Elango (2006) An empirical Analysis of the Int'l - Performance relationship across emerging market firms <i>Multinational Biz Review</i>	internationalization - performance relationship	Empirical	719 firms from 12 Emerging Market	TCE cost of coordination, governance	Performance	Internationalization Governance x Internationalization	+ +	Y Y
Chittoor R. & Ray S. (2007) Internationalization paths of Indian Pharmaceutical firms A Strategic group analysis <i>J of Int'l Management</i>	Firms in distinct strategic groups exhibit different performance	Survey / Empirical	98 Banks from EM	Strategic Groups	Different performance	1) distinct strategic group 1.1) Exploiters 1.2) Outsourcers 1.3) Explorers 1.4) Emerging Global 1.5) Global	+	Y
Contractor et al. 2007 Nature of the relationship between international expansion and performance: The case of EM firms <i>Journal of World Business</i>	Impact of internationalization on firm performance	Empirical	269 Indian firms over a 5-year period	KBV	Performance ROE, ROA, ROS	Foreign Sales/Total Sales Service > Manufacture Firm age Firm size	∩ - + +	Partial Y Y Partial
Garg & Delios (2007) Survival of the foreign subsidiaries of TMNCs: The influence of business group affiliation <i>J of Int'l Management</i>	The impact of Business Group on the survival of its foreign subsidiaries	Empirical	110 Indian Firms	Resource Dependence	Exit Rate	1) business group affiliation 2) established in developed countries 3a) situated in developing countries 3b) non-business group affiliation	- + - +	N Y Y Y

Table 5.1 Organizational outcomes of the international expansion of EM MNEs (Continued)

Author(s)	Contribution	Method	National & Industry Contexts	Theoretical Approach	Dependent Variable	Independent Variables	Sign	Empiric Support
Zhou et al. (2007) Internationalization and the performance of born-global SMEs The mediating role of social networks <i>JIBS</i>	The role of social network in the internationalization of EM - SMEs	Survey / Empirical	129 Chinese SMEs	RBV / IT	Export Performance	IT/ Outward Internationalization Inward Internationalization <i>Mediating Variable</i> Guanxi as a mediator of Outward and Inward Int'l	+	Y
Kumar & Singh (2008) Internationalization and Performance of Indian Pharmaceutical Firms <i>Thunderbird International Business Review</i>	Explore the impact of firm's growth stage on the relationship between internationalization and performance	Empirical	75 Indian firms in pharma industry	RBV	ROA, ROE	1) Internationalization of firms in early stages 2) Internationalization of firms in growth stages 3) Internationalization of firms in mature stages	- + -	Y Y Y
Bernard (2010) Overcome the liability of foreignness without strong firm capabilities - the value of market based resources <i>J of Int'l Management</i>	The possibility of foreign subsidiaries of EM MNEs will become a center of excellence	Survey / Empirical	441 firms in total -108 firms Africa & Middle East -223 firms Asia ex Japan -110 Latin America & Caribbean	RBV	Center of Excellence	@ Host country in developed mkt 1a) Competitive environment 1b) Institution environment 2) Skilled employee at host market	- - +	N N Y
Black & Morrison (2010) A cautionary tale for Emerging Market Giants <i>HBR</i>	Factor that leads EM firms to fail in foreign markets (Lesson from Japanese firms)	Theory Paper	Analysis of 4 EM MNEs from BRIC countries	RBV / IT	Risk of failing overseas	Replicating export to the foreign subsidiaries Isolated Domestic Market A Docile Labor Force	+	N/A
Khavul et al. (2010) Going global with innovations from emerging economies: Investment in customer support capabilities pays off <i>Journal of Int'l Marketing</i>	The impact of investment in foreign customer support on outcome of globalization	Empirical	173 new ventures from India and China	RBV, Dynamic Capabilities	<i>Mediating Variable</i> Investment in int'l customer support <i>Dependent Variables</i> Org Learning Org Performance	1) Proprietary Technology 2) Intent to Internationalization <i>Mediating Variable</i> 3) Investment in international customer support capabilities	+	Y
Zhao et al., (2010) The contribution of outward direct investment to productivity changes within China 1991 - 2007 <i>J of Int'l Management</i>	An impact of Outward FDI on changes in 1) technological capabilities 2) efficiency capabilities 3) total factor productivity	Empirical	Country Level China R&D capital stock 1991 - 2007	Asset seeking	changes in 1) tech cap. 2) efficiency cap 3) total productivity	1) Domestic R&D capital stocks 2) Int'l R&D capital stocks Y_0 3) Int'l R&D capital stocks Y_{-1} 4) Int'l R&D capital stocks Y_{-2}	No cor + + +	Partial Yes N N

Table 5.2: Factor, which drive a location choices to less developed countries or more developed countries

Author(s)	Contribution	Method	National & Industry Contexts	Theoretical Approach	Dependent Variable	Independent Variables	Sign	Empiric Support
Erramilli et al (1997) Are firm-specific advantages location-specific too ? <i>JIBS</i>	Characteristics of both home and host-country locations affect the ownership decision of NICs company	Empirical	177 Foreign subs of Korean Firms	OLI Dunning	Level of Ownership in Less Dev Countries/ (LDC) More Dev Countries/ (MDC)	Technological Intensity Product Differentiation Capital Intensity	+ LDC no rel MDC + MDC - LDC + MDC - LDC	Y N Y Y Y Y
Markino et al (2002) Asset-Exploitation vs Asset-Seeking: Implications for Location Choice of FDI from NIEs <i>JIBS</i>	Factors affect the location decision of firm from NIEs	Survey	1,312 Taiwanese firms	RBV FSA	Location choice - LDC = 0 - MDC = 1	1a) Asset seeking Motive 1b) Technology seeking motive 1c) Prior experience in asset seeking 2a) Low-cost labour seeking 2b) Labour intensive production cap. 3a) Market seeking motive 3b) Technological capabilities 3c) Superior labour intensive production cap. to local firms	+ + + - + + + -	Y Y Y Y N Y Y N
Sim & Pandian (2003) Emerging Asian MNEs and Their Internationalization Strategies: Case Studies Evidence on Taiwanese and Singaporean Firms <i>APJM</i>	Motives, psychic distance and the internationalized pattern of Asian MNEs	Case Study	12 Firms from Taiwan & Singapore	Slack resources Asset Exploitation FSA KBV Uppsala Asset Exploitation Network	International spread Enter developing country <i>Enter developed country</i> <i>Enter developed country</i> Set up subsidiaries Internationalization Internationalization	Company size cost-saving motives market-seeking motives asset-seeking motives psychic distance cost strategies Ethnic network (quanxi)	+ + + + + + +	N/A N/A N/A N/A N/A N/A N/A
Luo & Rui (2009) An Ambidexterity Perspective Toward Multinational Enterprises From Emerging Economies <i>AMP</i>	Org ambidexterity as a driver of EM firm to expand abroad	Theory Paper	4 Case studies (Chinese firms)	Organization Ambidexter	Global Expansion in both LDC and MDC	1) Co-orientation 2) Co-competence 3) Co-opetition 4) Co-evolution	+ + + +	N/A N/A N/A N/A
Parmentola A. (2011) The Internationalization Strategy of New Chinese Multinationals: Determinants and Evolution <i>Int'l J of Management</i>	Internationalization pattern of Chinese MNEs	Case	5 Chinese firms in Electronics & IT industry	RBV Ownership advantage	N/A	Step 1) Chinese MNEs firstly seek resources in AM 2) Chinese MNEs, then, exploit FSA in another emerging countries	N/A N/A	N/A N/A

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THE INTERNATIONAL EXPANSION OF EMERGING-ECONOMY FIRMS: THE INFLUENCE OF PATH-BREAKING CHANGE AND ITS ANTECEDENTS

Summary

This dissertation introduces mechanisms that explain the international expansion of emerging-market multinational enterprises (EM MNEs) into advanced economies. It aims to provide a theoretical explanation of global champions from emerging economies. We propose path-breaking change as a complementary view that is the driver of emerging-economy firms' international expansion into advanced economies. We argue that path-breaking change is a prerequisite before emerging-economy firms build and, in turn, leverage their ownership advantages in advanced economies.

In addition, we further investigate the antecedents of path-breaking change. Building upon the upper-echelon theory, we assert that the composition of a top management team (TMT) and a board of directors (BOD) have an impact on the extent of a firm's path-breaking change. We argue that foreigners and executives with international exposure may bring new knowledge and introduce new management practices to their organizations. They may use such knowledge and skills to transform firms into more market-oriented entities. However, success in the domestic market may prevent a firm from changing. Firms tend to build their capabilities upon their historical path trajectory. Hence, market leadership position, conglomerate diversification, and government ties deter firms from venturing into advanced economies.

Keywords: path-breaking change, international expansion, emerging market MNEs

L'EXPANSION INTERNATIONALE DES ENTREPRISES DES PAYS ÉMERGENTS: L'INFLUENCE DES CHANGEMENT DE TRAJECTOIRE ET LEUR ANTÉCÉDENTS

Résumé

Cette thèse présente les mécanismes qui expliquent l'expansion internationale des entreprises multinationales des pays émergents vers des pays développés. Nous suggérons que les changements radicaux en termes de routines contribuent à expliquer l'expansion des entreprises des pays émergents. Nous soutenons que ce type de changement radical est une étape indispensable pour que les entreprises des pays émergents puissent construire un avantage compétitif et entrer dans les économies avancées.

De plus, nous nous intéressons aux antécédents du changement radical des routines de l'entreprise. En nous appuyant sur la théorie de l'échelon supérieur, nous suggérons que la composition des équipes de direction a un impact sur les changements radicaux de routines. Nous soutenons le fait que les dirigeants étrangers et ceux disposant d'une expérience internationale peuvent apporter de nouvelles connaissances et pratiques de gestion dans leurs organisations, ce qui contribue à les rendre plus compétitives. Toutefois, le succès sur le marché domestique peut empêcher l'entreprise d'évoluer à l'international. Les entreprises ont tendance à construire leurs capacités dans le prolongement de leur trajectoire passée ; une diversification conglomerale, des liens avec le gouvernement et une position de leader de marché peuvent empêcher les entreprises d'entrer dans les économies développées.

Mots-clés: changement de trajectoire, l'expansion international, entreprises multinationales des pays émergents