

行政院國家科學委員會專題研究計畫 成果報告

地主國經驗與海外子公司績效關係之探討

計畫類別：個別型計畫

計畫編號：NSC91-2416-H-004-038-

執行期間：91年08月01日至92年07月31日

執行單位：國立政治大學國際貿易學系

計畫主持人：譚丹琪

報告類型：精簡報告

處理方式：本計畫可公開查詢

中 華 民 國 92年10月17日

Abstract

This study examines how experience interacts with firm and industry characteristics. Based on a sample of Japanese firms' entry into the United States, our empirical results demonstrate that a firm's foreign industry experience is indeed positively associated with its performance in the foreign industry; however, the positive relationship is even stronger when (1) the target industry is characterized by product customization, and (2) when the firm expands abroad at an earlier age. Our results also indicate that while learning from other firm experience may be an important way of a firm learns about the foreign market, such learning cannot substitute for experiential learning as a mean to develop location-specific capabilities in the foreign market.

Keywords: Foreign direct investment, foreign market experience, subsidiary performance, learning

Introduction

Since the past decades, firms have been increasingly expanding their activities across national borders. In 2000, approximately a half of world output was produced by foreign operations of multinational firms (United Nations Publication, 2001). Through international expansion, firms can leverage their competencies in a greater number of markets and gain access to a greater pool of productive resources.

While international expansion potentially brings advantages to a firm, effective management of an overseas operation often requires knowledge and skills that are beyond the firm's existing repertoire. The international business research literature suggests that a firm can develop knowledge and skills required for international management through experiential learning in the foreign market (e.g., Chang, 1995; Eriksson, Johanson, and Majkgard, 1997; Johanson and Vahlne, 1977). In accordance with this line of reasoning, empirical studies generally support that a firm's experience in a foreign market enhances the firm's knowledge about the market and thus increases its propensity of further investing in the market (e.g., Li, 1994; Yu, 1990), and has positive influence on its performance in the market (e.g., Barkema, Bell, and Pennings, 1996; Delios and Beamish, 2001; Luo and Peng, 1999; Shaver, Mitchell, and Yueng, 1997). Recently, researchers suggest the need for a more fine-grained view of experience (e.g., Argote, McEvily, and Reagans, 2003). However, so far only few attempts have been made at exploring this issue (Luo and Peng, 1999;

Shaver, Mitchell, and Yeung, 1977).

The primary purpose of this study is to provide additional evidence to the literature in this emerging stream of research. We explore the conditions in which a firm's direct experience in a foreign market has a stronger relationship with its performance in the market.

The paper is organized as follows. The next section discusses the role of experiential learning in subsidiary performance and we explore several conditions in which experiential learning is likely to have a stronger impact on subsidiary performance. We then describe the data and measures for empirical tests of the hypotheses. The final sections report and discuss the results provide conclusions.

Theory and Hypotheses

A firm that expands in a foreign market often requires idiosyncratic knowledge and relationships that are beyond the firm's existing repertoire. For example, the firm has to deal with culturally different employees, suppliers, and customers, and it must also adapt its production systems to local infrastructure. In addition, it may need to deal with local governments or other peculiar institutional forces. All these activities are likely to create unprecedented problems which could not be readily handled with the firm's existing routines (Nelson and Winter, 1982) and thus requires the firm to develop a new set of knowledge and skills that are specific to the entered market (Zahra, Ireland, and Hitt, 2000).

A firm can acquire new knowledge and skills through two primary ways: learning from direct experience, and learning from the experience of others (Levitt and March, 1988). We first discuss learning from direct experience.

Direct experience is an important source through which a firm acquires local knowledge. Local knowledge consists of information about local culture, economy, and politics, as well as information about how to get access to local resources such as production factors and distribution channels. Local knowledge also includes know-how of doing business in the foreign market; such as how to overcome these national differences in economy, politics, and culture, and how to make local adaptation (Makino and Delios, 1996). While a firm may be able to acquire some information about a foreign market through external sources, some local knowledge such as business customs is often tacit and is learned more effectively through the

firm's interaction with local actors (Luo and Peng, 1999). In addition, the know-how about how a firm should adapt its products, production, and management systems to local conditions is firm-specific and must be obtained through try-and-error experimentation, because such know-how varies with the firm's unique characteristics such as its competencies, corporate culture, history, and among others (Johanson and Vahlne, 1977). Thus, experiential learning plays an important role in acquiring local knowledge. The longer a firm has operated in a foreign market, the more knowledge and know-how the firm is likely to develop about the market. Thus, we expect that a firm's experience in a foreign market is positively related to the performance of its subsidiary.

It should be noted that while expanding into a foreign market requires a firm to develop a new set of skills and knowledge, the firm may be able to apply at least some of its home or other international experience in the new market. In industries where products are not universally standard and must be customized, a firm is likely to find its prior experience at home and in other national markets to be insufficient and thus to have a great deal to learn. It has to learn the unique preference of local customers and to develop co-specialized relationship with them. It also has to learn how to adapt its production processes for manufacturing the customized products efficiently. Hence, we expect that when the relationship of a multinational firm's experience in the industry and subsidiary performance is likely to be stronger in industries with customized products.

Learning from the experience of other foreign firms in the same industry is an important way through a firm acquires local knowledge (Ingram and Baum, 1997; Mitchell, Shaver, and Yeung, 1994; Shaver, Mitchell, and Yeung, 1997). A firm can acquire the preferences of local consumers through different products and prices that other foreign firms in the same industry offer (Ingram and Baum, 1997). A firm can also acquire information about sourcing, choosing local plant locations, and managerial practices by watching how other foreign firms interact with local suppliers, labor, unions, and governments (Mitchell, Shaver, and Yeung, 1994). The more a firm can learn about the foreign market from other firms' experience in the same industry, the less the firm relies on experiential learning to develop knowledge and skills about how to do business in a foreign market. Therefore, we expect that when there is a strong presence of foreign firms in an industry, the relationship of a multinational firm's experience in the industry and subsidiary performance is likely to be weaker.

A firm can also gain access to local resources through entering joint ventures

with local firms (Delios and Beamish, 1999). In particular, a joint venture promotes the transfer of complementary resources between firms when exchange of these resources in the market incurs high transaction costs (Hennart, 1991). One such type of resources is local knowledge; since local knowledge is often tacit (Hennart, 1991, Luo and Peng, 1999), it is more effectively transferred through equity arrangement. Other local complementary resources that can be obtained through partnering with local firms include distribution channels, brand names, technologies, managerial skills, and among others. To the extent that a firm can obtain local knowledge from its joint venture partner(s), the relationship between a firm's own experience and performance in the foreign market is weaker. Hence, we expect that the relationship of a multinational firm's experience in the industry and subsidiary performance is likely to be weaker when the firm enters the foreign industry via joint venture.

Finally, for a firm with a low learning capacity, having a long presence in a foreign market does not necessarily leads to a better performance because the firm may not be able to built location-specific knowledge and relationships from its experience. The relationship between experience and performance should be stronger for a firm with a greater learning capacity. A firm's learning capacity can be influenced by the age at which a firm first starts its international expansion (Autio, Sapienza, and Almeida, 2000). A firm that internationalizes at an older age is likely to have established search routines that help collect and process information more efficiently at home (Nelson and Winter, 1982). However, such established routines are likely to constrain the nature of the information the firm obtains and the type of information the firm can process and utilize (Hennan and Freeman, 1977). Alternatively, a younger firm is likely to be more receptive to information and opportunities in the foreign market. Therefore, we expect that the relationship of a multinational firm's experience in the industry and subsidiary performance is likely to be weaker, the greater the age of the firm at international entry.

Methodology

The initial population consists of all 905 Japanese manufacturing affiliates¹ in the United States in 2001 that meet the following two criteria: (1) the Japanese parent firms were listed in the first or second section of the Japanese stock exchange, and (2) the parent firm is not a trading company. A Japanese sample is appropriate for examining the theoretical framework of this study (Delios and Beamish, 2001)

¹ Affiliates in which the parent firms own less than a 10 percent share were left out.

because Japanese firms tend to expand into foreign markets incrementally and tend to use their earlier investments to build capabilities for further investment (Chang, 1995). We choose to study Japanese subsidiaries in the U.S industries because U.S. was the leading destination of foreign direct investment outflow from Japanese firms over the study period. Due to the lack of industry, firm, and subsidiary performance data, our final sample consists of 323 subsidiaries.

The dependent variable is subsidiary performance. It is measured by the managerial assessment of profitability provided in the directory. Our independent variables of interests include a firm's experience in the target foreign market, the degree of customization in products in the target market, foreign presence in the target market, joint venturing with local firms, and the age of firm internationalization. We measure a firm's experience in the target market by the logarithmic transformation of the number of years since a firm has manufactured in a given four-digit SIC U.S. industry at the end of 2000. Our control variables include subsidiary size and the modes of entry. We test our hypotheses using an ordered logit model because our dependent variable, subsidiary profitability, is ordinal

Results and Conclusions

This study examines how experience interacts with firm and industry characteristics. Previous studies have pointed out that experiential learning is a major source via which a firm obtains knowledge and skills about a foreign market, and have modeled a positive linear relationship between a firm's foreign market experience and its performance. Our study extends these studies by identifying a set of firm and industry characteristics that moderate the positive relationship between experience and performance. Our results indicate that a firm's foreign industry experience is indeed positively associated with its performance in the foreign industry; however, the positive relationship is even stronger when the target industry is characterized by product customization. Such a finding confirms our argument that experiential learning is more valuable in foreign industries where a firm's home or other international experience is less applicable and thus where developing location-specific capabilities is crucial.

Our results also show that a firm's foreign industry experience has a stronger impact on subsidiary performance when it expands abroad at an earlier age. This finding suggests that experiential learning provides greater value to the firm if a firm has a higher learning capacity and thus is more capable of learning from its

experience.

We find that experiential learning does not have a weaker influence on subsidiary performance even when a firm can learn about the new market from other information channels, such as partnering with local firms and information spillovers from other foreign firms in the industries. It suggests that while learning from other firm cannot substitute for experiential learning as a mean to develop location-specific capabilities in the foreign market.

It should be noted that while our study advances the understanding of the role of experiential learning in international expansion, our empirical findings are solely based on Japanese firms' expansion in the United States. Future research could provide insight into the applicability of the empirical results of this study by examining data from other national settings.

References

- Argote, L., McEvily, B. and Reagans, R. 2003. Management knowledge in organizations: An integrative framework and review of emerging themes. *Management Science*, 49(4): 571-582.
- Autio, Sapienza, and Almeida. Effects of age at entry, knowledge intensity, and imitability on international growth. *Academy of Management Journal*, 43(5): 909-924.
- Barkema, Harry G, Bell, John H. J., Pennings, Johannes M. 1996. Foreign entry, cultural barriers, and learning. *Strategic Management Journal*, 17: 151-166.
- Barkema, H. G., and F. Vermeulen 1998. International expansion through start-up or acquisition: a learning perspective. *Academy of Management Journal*, 41(1): 7-26.
- Chang, SJ. 1995. International expansion strategy of Japanese firms: Capability building through sequential entry. *Academy of Management Journal*, 38(2): 383-407.
- Delios, A. and Beamish, P. W. 1999. Ownership strategy of Japanese firms: Transnational, institutional, and experience influences. *Strategic Management Journal*, 20: 915-933.

- Delios, A. and Beamish, P. W. 2001. Survival and profitability: The roles of experience and intangible assets in foreign subsidiary performance. *Academy of Management Journal*, 44(3): 1028-1038.
- Erramilli, M. Krishna 1991. The experience factor in foreign market entry behavior of service firms. *Journal of International Business Studies*, third quarter, 479-501.
- Hannan, M. T., and J. Freeman 1977. The population ecology of organizations. *American Journal of Sociology*, 82: 929-964.
- Hennart, J.-F. 1991. The transaction costs theory of joint ventures: An empirical study of Japanese subsidiaries in the United States. *Management Science*, 37(4): 483-497.
- Huber, George P. 1991. Organizational learning: the contributing process and the literatures. *Organization Science*, 2(1): 88-115.
- Ingram, P., and J. A. C. Baum. 1997. Opportunity and constraint: Organizations' learning from operating and competitive experience of industries. *Strategic Management Journal*, 18 (Summer Special Issue): 75-98.
- Johanson, Jan, Vahlne, Jan-Erik. 1977. The internationalization process of the firm – A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8: 23-32.
- Levitt, B. and March, J. G. 1988. Organizational learning. *Annual Review of Sociology*, 14: 319-340.
- Li, Jiatero 1994. Experience effects and international expansion: Strategies of service MNCs in the Asia-pacific region. *Management International Review*, 34: 217-234.
- Luo, Yadong, Peng. Mike W. 1999. Learning to compete in a transition economy: experience, environment, and performance. *Journal of International Business Studies*, 30(2): 269-296.
- Makino, S. and A. Delios. 1996. Local knowledge transfer and performance: Implications for alliance formation in Asia. *Journal of International Business Studies*, Special issue: 905-927.

Mitchell W, Shaver JM, Yeung B. 1994. Foreign entrant survival and foreign market share: Canadian companies' experience in United States medical sector markets. *Strategic Management Journal* 15: 555-567.

Nelson, Richard R., and Sidney G. Winter 1982. *An Evolutionary Theory of Economic Change*. Cambridge, MA: Belnap/Harvard University Press.

Shaver. JM. Mitchell W, and Yueng B. 1997. The effect of own-firm and other-firm experience on foreign direct investment survival in the United States, 1987-92. *Strategic Management Journal*, 18: 811-824.

Sinkula, J. M. 1994. Market information processing and organizational learning. *Journal of Marketing*, 58: 35-45.

Yu, Chwo-Ming J. 1990. The experience effect and foreign direct investments. *Weltwirtschaftliches*, 126(3): 560-579.

Zahra, Shaker A., R. Duane Ireland, and Michael A. Hitt. 2000. International expansion by new venture firms: International diversify, mode of market entry, technological learning, and performance. *Academy of Management Journal*, 43(5): 925-950.