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Internationalization of emerging-economy new ventures: The role of within-country differences

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Abstract New ventures are increasingly internationalizing from emerging economies, but the role of their home country and any associated within-country regional differences are not well understood. In this article, we look at a new venture in China and how its headquartered region promotes its internationalization. We present empirical evidence that shows the interrelatedness between a venture's region and internationalization: When institutional development in a region is strong, the impact of foreign firm presence on venture internationalization becomes even stronger. We discuss implications for managers of multinational enterprises and new ventures operating in emerging economies as well as policymakers in these economies.

1. Are regional differences affecting new venture opportunities?

Emerging economies are becoming increasingly important sources of outward foreign direct investment and exporting (Ramamurti & Williamson, 2019; UNCTAD, 2015). This appears to be a trend for not only existing, large firms in emerging economies (e.g., Li, Li, Lyles, & Liu, 2016; Ramasamy, Yeung, & Laforet, 2012) but also new ventures (Li, 2013; Lin, Mercier-Suissa, & Salloum, 2016; Manolova, Manev, & Gyoshev, 2014). In exploring the antecedents of new venture internationalization from emerging economies, existing research has focused on entrepreneurial characteristics (e.g., Sekliuckiene, 2017), firm-level factors such

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as networks (e.g., Yamakawa, Peng, & Deeds, 2008) and capabilities (e.g., Yamakawa, Khavul, Peng, & Deeds, 2013), and industry linkages (Gashi, Hashi, & Pugh, 2014). Despite the external environment being a defining aspect of emerging economy new ventures, little is known about the role of any within-country differences in these ventures' internationalization.

To unravel the effects of the external environment within a new venture's headquartered region of an emerging economy on venture internationalization, this study draws on institutional theory as well as the foreign direct investment (FDI) spillover literature. First, we consider the uneven development of institutions within an emerging economy. Prior research showed that institutions influence entrepreneurial behaviors and entrepreneurial strategies (Batjargal et al., 2013; Hitt, Li, & Xu, 2016). The institutional environment in emerging economies is typically transitional in nature; the transition takes time and is often gradual (Child & Tse, 2001; Lu, Xu, & Liu, 2009), with some regions catching up with developed economies quickly and others lagging behind (Luo & Chung, 2013; Miller, Lee, Chang, & Le Breton-Miller, 2009). As regions develop, the support and resources for new ventures likely increase, which should affect internationalization efforts. Second, emerging economies represent a major growth opportunity for multinational enterprises. The presence and behaviors of new types of firms in a region—including foreign firms that typically possess more advanced technologies and better performance—carry important implications for emerging economy ventures regarding how to compete in an evolving institutional environment and in an open international market. Yet, despite the large volume of research investigating foreign firms' impact on the local economy (Hanousek, Kocenda, & Maurel, 2011; Meyer & Sinani, 2009) and local firms (Ljungwall & Tungvall, 2010; Zhang, Li, Li, & Zhou, 2010) in emerging economies, little is known about how foreign firms influence the internationalization of new ventures within these emerging economies. Our study addresses this question: What direct and joint impact do foreign firm presence and institutional development of a new venture's headquartered region within an emerging economy have on the venture's international intensity?

2. Foreign firm presence in emerging economies

Emerging economies represent a major growth opportunity for multinational enterprises, accounting for 55% of global foreign direct investment inflows (UNCTAD, 2015). While foreign direct investments in emerging economies can crowd out local firms, knowledge can also spill over, leading to increased productivity by local firms (Spencer, 2008; Wei & Liu, 2006; Zhang et al., 2010). As noted by Blomström and Kokko (1998), knowledge spillovers within a host country occur as a result of foreign firms bringing with them some sort of proprietary technology that comprises a firm-specific advantage over local firms. Learning is a critical part of emerging economy firms' business activities (Hitt, Li, & Worthington, 2005; Lyles, Li, & Yan, 2014); new ventures in emerging economies are especially alert to foreign firms in their headquartered regions given their newness and already active search for market players with valuable knowledge. In emerging economies, foreign firms often present themselves as a new type or group of players and are perceived to be equipped with advanced technology, managerial skills, and, more importantly, the next generation of know-how in market competition (Hitt et al., 2005). In sum, foreign firms represent a highly visible and attractive source for these new ventures to pay attention to and learn from.

Knowledge can be unintentionally diffused from inward foreign direct investment to local firms in emerging economies through imitative or demonstration effects (Spencer, 2008). New ventures rely heavily on their local environments for knowledge and opportunities (Stuart & Sorenson, 2003); Fernhaber and Li (2013) further point out that geographically proximate firms represent a key informal network of relationships that venture managers can use to learn. They leverage information exchanged through informal activities such as seminars, communication with personnel from nearby research institutes, employee turnover, and social events (Aldieri & Cincera, 2009; McKelvey, Alm, & Riccaboni, 2003; Saxenian, 1990). While the exchange of knowledge can potentially benefit both the sender and the recipient, it is often the new ventures that are more learning-oriented and better able to benefit from these opportunities (McCann & Folta, 2011; Shaver & Flyer, 2000).

By observing and learning from foreign firms, new ventures can better understand the type of firms they will encounter in international competition, thus helping them develop firm-specific knowledge relevant to the internationalization process as a whole (Eriksson, Johanson, Majkgard, & Sharma, 1997). Furthermore, new ventures in emerging economies can develop more strategic varieties for international competition by learning from their surrounding foreign firms. Larrañeta, Zahra, and González, (2012) argued that exposure to external

environments composed of unique players can promote new ventures to increase their strategic variety, including international operation. Observing the strategic actions by foreign firms around them, new ventures become aware of not only more strategic actions but also the effectiveness of those actions in a specific context. Such knowledge can be applied to their own international operation to improve the international intensity. Thereby the local presence of foreign firms can help increase the international intensity of emerging economy new ventures.

3. Uneven institutional development within an emerging economy

Institutional transitions in an emerging economy can take a long time, often resulting in a regional imbalance of institutional development (Oliver, 1991; Zaheer, Schomaker, & Nachum, 2012). Ghosh (2012, p. 190) noted that, in India, "disparities among regions have increased steadily and the benefits of growth have not reached all parts of the country equally." Similar regional imbalances during the institutional transition in other emerging economies such as Brazil and China have been frequently noted over the past decades in the media and in government and international reports. The institutional development imbalance is of particular impact to new ventures in emerging economies as they often exemplify a new form of organization that may have become recognized only in the recent history of their home countries. For example, private new ventures were largely illegal before Chinese economic reform began in the late 1970s. New ventures in emerging economies, therefore, often have severe difficulties in accessing critical resources that are historically controlled by the government. There are at least three reasons that high institutionalization in a new venture's headquartered region encourages the venture's internationalization.

First, government control over economic resources and business activities is limited in high-institutionalization regions (Chen, Sun, Tang, & Wu, 2011; Fan, Wang, & Zhu, 2010); also, with the reduction of power, the role of government changes under institutional development. Instead of being directly and exclusively responsible for planning and managing the economy and resource allocation, the government evolves into the role of support and indirect guidance of a more market-oriented economy. That is, the government's role moves away from controlling the market to guiding, serving, and partnering with the market. Governments are more responsive to facilitating requests for international business knowledge by firms, including new ventures in these regions (Child & Tse, 2001; Fan et al., 2010). This newfound freedom could lead to internationalization strategies.

Second, in high-institutionalization regions, where more freedom of business activities is allowed, new ventures can tap into the network resources not available when the government exerts salient influence on firm behaviors and strategies. New ventures in high-institutionalization regions can draw resources and knowledge from other local firms that similarly have more flexibility in sharing and innovating; that is, the mobility of resource and knowledge sharing is much higher in high-institutionalization regions, offering the opportunity for new ventures to accumulate necessary knowledge for internationalization. As Child and Rodrigues (2005) highlighted, networking with other firms can materially affect the process of internationalization and such effects are prominent in emerging economies. The ventures can also build relationships with firms beyond the national border in order to overcome their resource and information constraints. Tapping into the international resource/knowledge pool can be realized via strategic partnership (Kotabe & Kothari, 2016; Uzzi, 1997) or acquisition (Madhok & Keyhani, 2012), enhancing the ventures' internationalization.

Third, new ventures in high-institutionalization regions are likely featured by global mindsets necessary for internationalization. Institutionalization implies a freer market for competition; firms are forced to be more competitive and seek strategic alternatives for survival and growth, including internationalization (Luo & Tung, 2007; Peng, 2003). Also, internationalization has often been encouraged and incentivized in high-institutionalized regions, which directly affects new ventures' development of a global mindset and strategic consideration for international growth.

We recognize the institutional escapism view that firms may internationalize in order to escape from underdeveloped home institutions (Luo, Xue, & Han, 2010; Witt & Lewin, 2007), but we argue that resources and knowledge are still critical even for escape purposes. Resources and knowledge are particularly important for new ventures from emerging economies. These ventures suffer severe liabilities of newness (and smallness likely) as private new ventures per se are a relatively new phenomenon still earning their legitimacy. High institutionalization that enables resource and knowledge acquisition is critical for the new ventures in emerging economies to achieve internationalization.

4. Joint impact of foreign firm presence and institutional development

It could be argued that a more institutionally developed region would lessen the impact foreign firm presence has on new venture international intensity, assuming that new ventures shift their reliance from foreign firms to the regional institutions that have been developed. We acknowledge that such a shift might occur in developed economies with advanced institutional environments. For new ventures in an emerging economy, however, the fact that their home institution has recently been experiencing a transition limits the confidence in which the ventures will place on the institutions. Therefore, there will be a continued or even increased reliance on foreign firms, and the higher level of institutional development will give new ventures the confidence and ability to be able to capitalize on their observations.

In high-institutionalization regions, government control over economic resources and business activities is limited (Chen et al., 2011; Fan et al., 2010); without having to deal with government bureaucracies, new ventures in these regions have more freedom and are more proactive in observing and learning from other market players like foreign firms (Lu et al., 2009; Yamakawa et al., 2008). In the search for international business-related knowledge, new ventures in these regions tend to be more sensitive to foreign firm presence and activities in an effort to enhance their international operation. Further, as the government shifts from control oriented to being more guidance-oriented, it will be more responsive to requests for international business knowledge, including organizing local firms to attend international trade fairs, arranging opportunities to link local firms with foreign firms, sending firm executives abroad for international business exposure, and even assigning government officials to learn international business to better serve firms. In this realm, new ventures' information exchange and interactions with foreign firms will be further encouraged and more easily accessed, thereby enhancing the effect of foreign firm presence in a region on new ventures' international intensity.

In comparison to those operating in low-institutionalization regions, new ventures in high-institutionalization regions are less likely to receive government-oriented protection from market competition heightened by the entry of large, resourceful foreign multinationals. Prior research has shown that, when industry competition intensifies, firms swarm for mimetic isomorphism in their strategic responses (McKinley, Sanchez, & Schick, 1995) and new ventures from emerging economies pay closer attention to foreign firm behaviors for strategic solutions to enhance their internationalization (Yamakawa et al., 2008). Foreign firm presence and institutional development reinforce each other in promoting the local new ventures' internationalization.

5. Methodology

China, the world's largest emerging economy, offers an ideal setting for our study. China introduced an open-door policy in 1978, which first led to increasing amounts of foreign direct investments in China's coastal regions and, subsequently, inland and rural areas (Chang & Xu, 2008), providing opportunities for domestic firms to observe, imitate, and learn advanced technology and knowledge from foreign firms (Chang & Xu, 2008; Zhang et al., 2010). Second, the institutions in China are still underdeveloped and significantly unbalanced across provinces and counties (Fan et al., 2010; Jia, 2014). Third, Chinese firms are actively engaging in value-creating activities in global supply chain networks and playing an important role in the global economy; the value for exports of goods in China increased from $249.2 billion in 2000 to $2.263 trillion in 2017. We conduct our research in the information and communication technology industry (Hagsten & Kotnik, 2017). The ICT industry in China is a high-tech industry characterized by a large number of new ventures, varying levels of foreign firm presence across regions, and active international competition and collaboration (Li & Reimers, 2015; Yu, Chen, Nguyen, & Zhang, 2014).

Our sampling started with the Annual Industrial Survey Database (2008—2009) of the Chinese National Bureau of Statistics (CNBS), which contains the most comprehensive information about domestic and foreign firms in China (Tian, 2007). All firms operating in China are, by law, required to submit their basic and financial information to CNBS (Chang & Xu, 2008). The CNBS database in 2008 contained 13,212 ICT firms of which 6,462 are foreign and 6,750 Chinese. Our focus is on privately held new ventures no greater than 8 years old. Of the resulting 3,089 Chinese new ventures with valid data, 627 reported international sales in 2009. The 3,089 Chinese new ventures were located in 612 counties from 27 provinces; the 627 international ventures were located in 176 counties in 21 provinces. In our study, a region refers to a county, which is the basic administrative unit in China.

The dependent variable in our study is *international intensity*, measured as the percentage of export sales

to total sales (e.g., Autio, Sapienza, & Almeida, 2000; Beamish, Craig, & McLellan, 1993; Fernhaber, Gilbert, & McDougall, 2008). A 1-year lag was used between explanatory variables and dependent variables. While the dependent variable is from 2009, the remaining variables are from 2008.

We measure *foreign firm presence* in a region/county using four items (Xia, Ma, Lu, & Yiu, 2014): (1) revenue of foreign firms divided by the total revenue of all firms in a county; (2) assets of foreign firms divided by the total assets of all firms in a county; (3) number of foreign firms divided by the total number of all firms in a county; and (4) number of employees in foreign firms divided by the total number of employees in all firms in a county.

Following previous studies (Gao, Murray, Kotabe, & Lu, 2010; Jia, 2014), we used the National Economic Research Institute (NERI) institutional index to evaluate the *regional institutionalization* of a county. The NERI index consists of 19 indicators within five major areas of market-oriented reforms: (1) size of the government in the regional economy, (2) economic structure, (3) interregional trade barriers, (4) factor-market development, and (5) legal frameworks. As one of the indicators within the factor-market development area measured the environment for foreign investment, we excluded this indicator to ensure there was no overlap with our independent variable. We then followed the same methodology to generate a new variable of regional institutionalization with the remaining indicators.

To tease out potential confounding effects, we controlled for venture age, venture size, asset turnover ratio, prior international experience, joint ventures, international degree of regional domestic firms, venture profitability, and product innovation.

6. Findings

An overview of the level of foreign firm presence at the provincial level can be found in Figure 1a , with the data provided at the county level for the three provinces with the most foreign direct investment—Guangdong, Zhejiang, and Jiangsu—found in Figures 1b-1d . The descriptive statistics and correlations for the internationalizing subsample and the regression results are reported in Tables 1 and 2, respectively.

About 80% of our original sample of Chinese new ventures were not international and thus had zero on the dependent variable (international intensity).

Figure 1a. Foreign firm presence at the province level in China

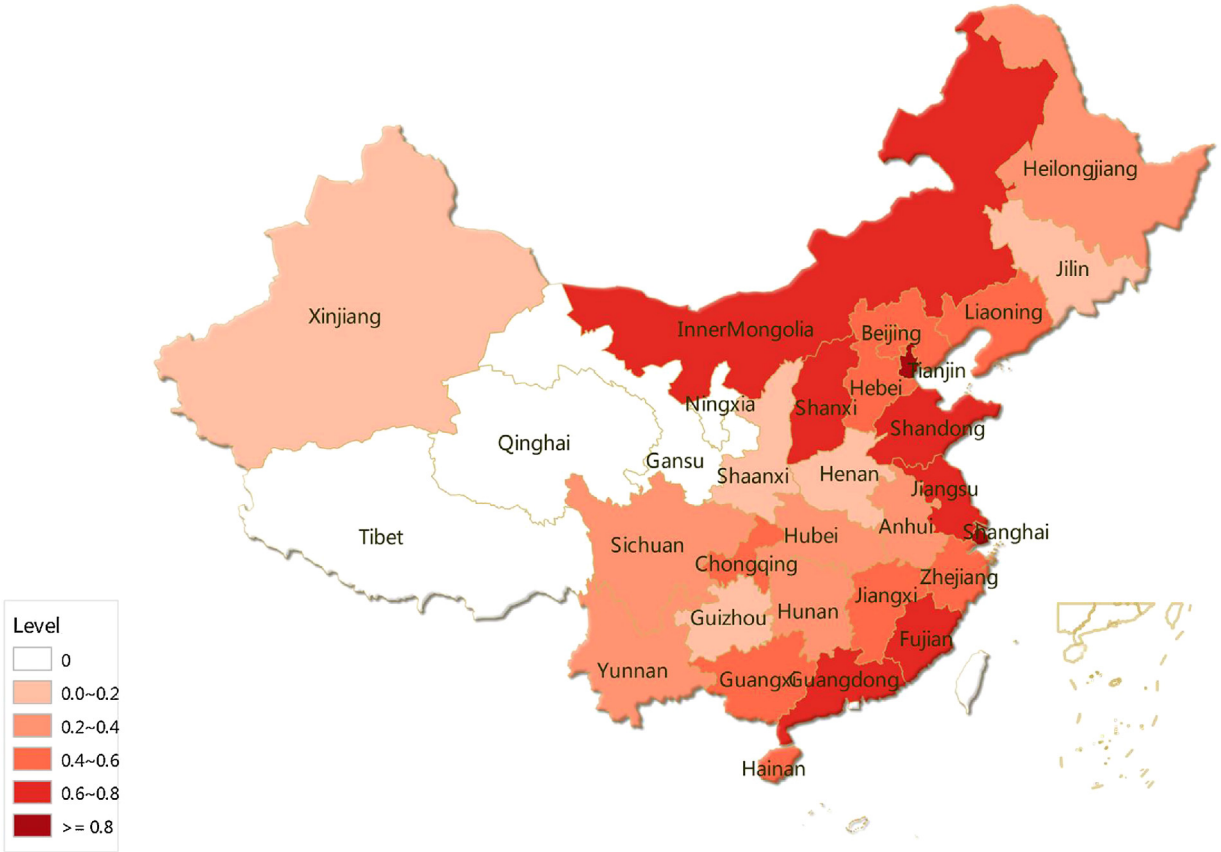


Figure 1b. Foreign firm presence at the county level in Guangdong province

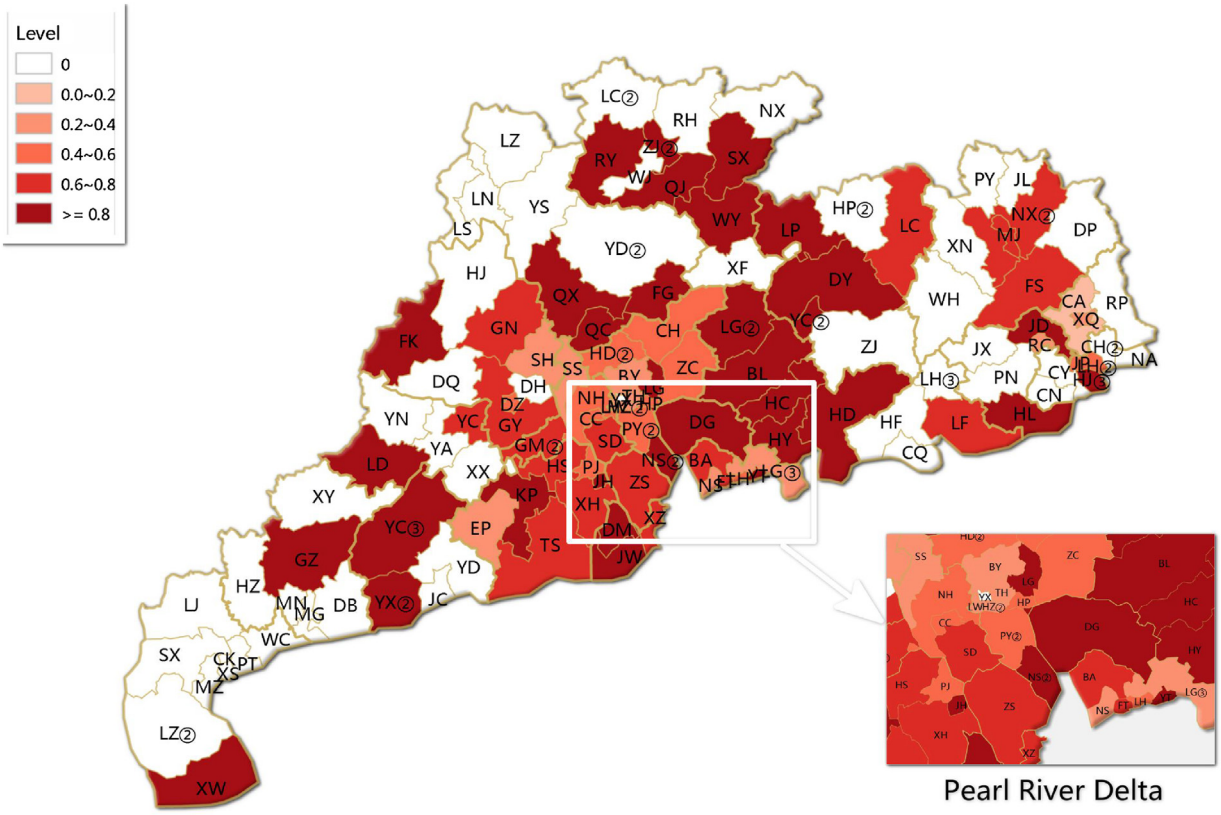


Figure 1c. Foreign firm presence at the county level in Zhejiang province

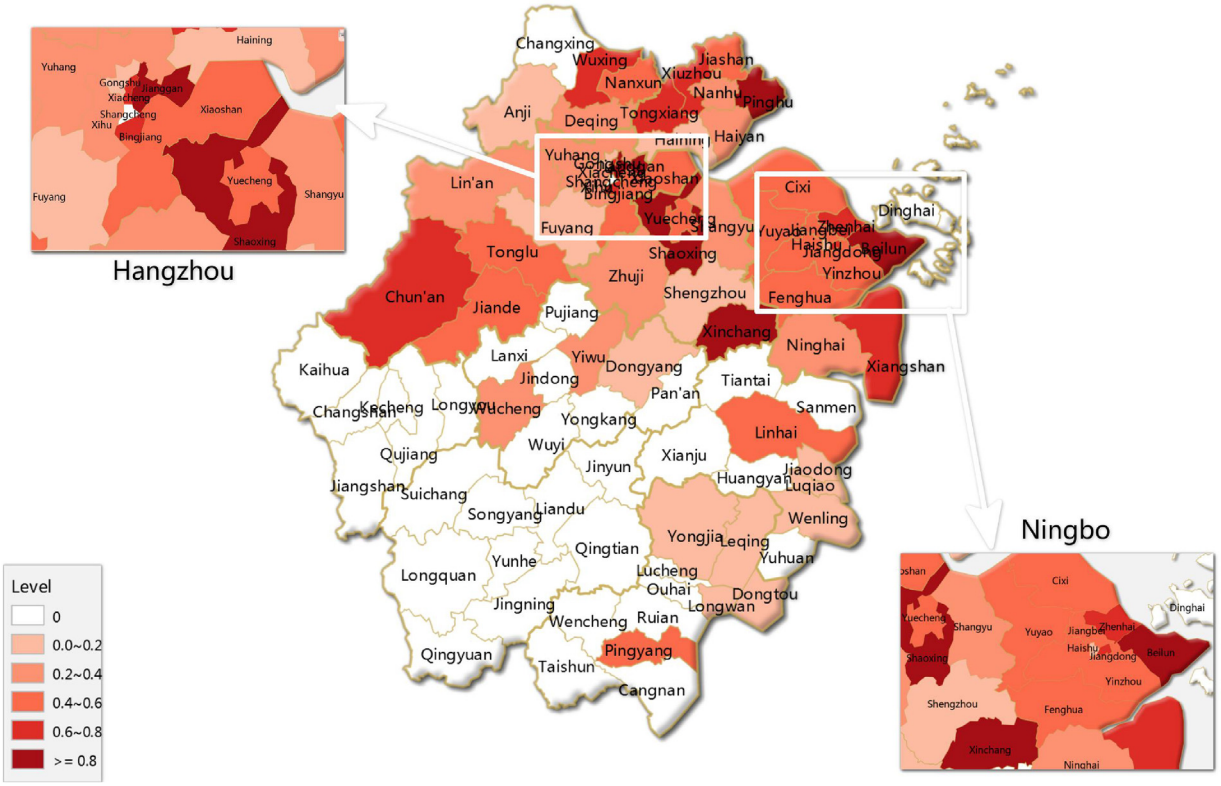
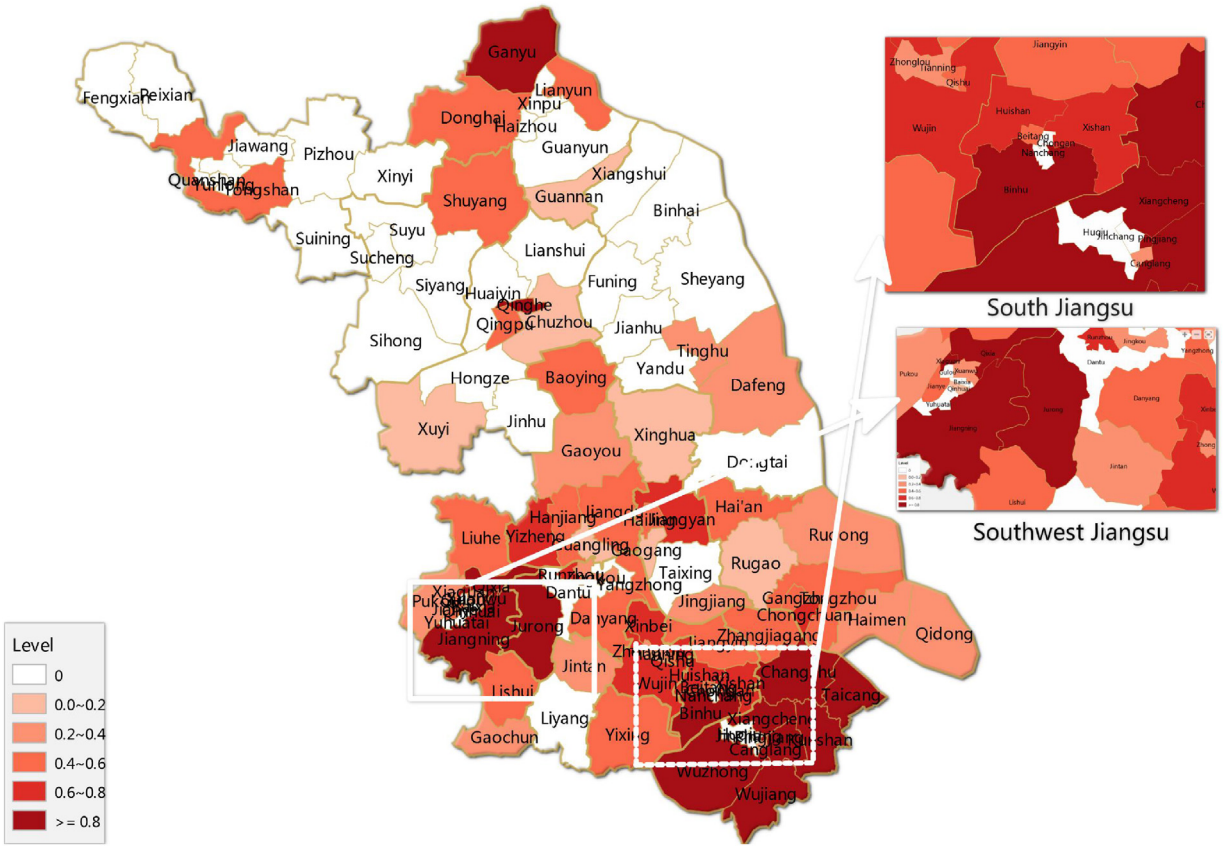


Figure 1d. Foreign firm presence at the county level in Jiangsu province



Therefore, we employed the Heckman's two-stage selection model to account for potential self-selection bias (Jia, 2014; Zhang et al., 2010), with the first stage estimating the venture's propensity to internationalize and the second stage estimating the international intensity of new ventures.

Our analyses show that foreign firm presence in a new venture headquarter region can lead to a significant increase in the new venture's international intensity. However, regional institutionalization does not seem to have much of an effect on venture internationalization. Instead, regional institutional development can strengthen the positive effect of foreign firm presence on venture international intensity, thus playing as a catalyst for new ventures to pay more attention to their neighboring foreign firms.

7. Practical recommendations

Our research offers insight by combining the "two newcomers to the global competitive arena," namely emerging economy firms and international new ventures (Hitt et al., 2016, p. 67). Results of our analyses show that foreign firm presence is positively related to venture international intensity. Surprisingly, the institutional development of a region did not have a direct effect on venture international intensity, yet we did find that, when a region's institutional development level is higher, the positive relationship between foreign firm presence and venture international intensity becomes stronger.

For multinational enterprises operating in emerging economies, local new ventures are becoming an increasingly powerful rival and potential partner in not only the host market but also the global market. Multinational enterprises demonstrate and teach (voluntarily and involuntarily) local new ventures how to compete internationally. Depending on the institutional development in the region, the multinationals have varying degrees of influence on the ventures. The mistaken assumption of homogeneity across regions within an emerging economy (Beugelsdijk & Mudambi, 2013; Dheer, Lenartowicz, & Peterson, 2015; Shenkar, 2012) needs to be reconsidered when these multinational enterprises compete locally and globally.

For new ventures operating in emerging economies, resorting to novel channels of knowledge is critical. While it is useful to rely on informal institutions such as

Table 1. Means, standard deviations, and correlations of variables

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. International intensity	0.44	0.35										
2. Venture age	5.45	1.98	−0.04									
3. Venture size	2.17	0.44	−0.09*	0.05								
4. Asset turnover ratio	2.22	2.00	0.22***	−0.11**	0.04							
5. Prior international experience	3.23	1.75	0.28***	0.11**	0.26***	0.03						
6. Joint ventures	20.81	24.69	0.03	−0.12**	0.12**	0.01	0.03					
7. IDRDF	0.29	0.20	0.18***	−0.00	0.06	0.07†	0.16***	0.16***				
8. Venture profitability	0.06	0.16	−0.04	−0.03	0.03	0.18***	0.01	−0.09*	−0.09*			
9. Product innovation	0.14	0.28	−0.11**	0.13**	0.07	−0.11**	0.07†	−0.13**	−0.10*	−0.02		
10. Foreign firm presence	0.54	0.30	0.17***	−0.11**	0.10*	0.07†	0.05	0.45***	0.03	−0.09*	−0.14**	
11. Regional institutionalization	8.84	1.04	0.10*	0.05	−0.13***	0.05	0.07†	0.20***	0.17***	−0.07	−0.04	0.24***

Notes: $^{\dagger}p < .10$, $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$ (two-tailed). [a]IDRDF: International degree of regional domestic firms. N = 627.

culture and trust, new ventures can benefit from seeking information and knowledge from nonconventional sources available in their home environment such as foreign firms. Another important consideration for new ventures in emerging economies is to be aware of the imbalance of institutional development and the constraints that may come from ventures themselves. While our findings demonstrate the benefits that new ventures can obtain through learning from foreign firms in their headquartered regions, ventures that are headquartered in regions with limited foreign firm presence might be able to break their geographic learning constraints by paying attention to a foreign firm in more distant regions.

For policymakers within emerging economies, our findings highlight another benefit to allowing foreign investors into the country as they can act as an alternative knowledge channel for new ventures. Policymakers can further leverage this opportunity by finding ways for new ventures to interact with foreign firms and ensure that policies are specific to the needs of each region within the country.

8. Research implications

Our article contributes to the growing conversation on emerging economy new ventures within the international entrepreneurship literature (Jones, Coviello, & Tang, 2011; Kiss, Danis, & Cavusgil, 2012). In their 2018 *JIBS* Decade Award paper, Jackson and Deeg (2008) highlighted the great need for scholarly effort in understanding the impact of home country institutions on firm internationalization. Echoing the call, our research investigates the impact of within-country regional differences in a specific aspect of the home-country business environment (i.e., foreign firm presence) and institutional development on new venture internationalization. Our study shows that foreign firms' influences in emerging economies go way beyond their own international joint ventures or the macroeconomy as prior research has reported (e.g., Hertenstein, Sutherland, & Anderson, 2017; Inkpen & Beamish, 1997; Lyles & Salk, 1996; Ren, Gray, & Kim, 2009), and that the influence of foreign firm presence at home on new ventures' international intensity is salient. Moreover, institutional development in a region per se does not affect new venture internationalization; foreign firm presence seems to be the necessary catalyst. Contributing to the advancement of our understanding of home country effects on new venture internationalization (Prashantham & Birkinshaw, 2015), these findings also enable new insights that could be

Table 2. Results from Heckman two-stage regression models

Dependent variable	1st stage probit estimate (International propensity)	2nd stage regression estimates (International intensity)			
	Model 1	Model 2	Model 3	Model 4	Model 5
Control variables					
Venture age	0.023	0.004	0.002	0.004	0.005
Venture size	0.282**	−0.126*	−0.114*	−0.126**	−0.128**
Asset turnover ratio	−0.005	0.028**	0.029**	0.028*	0.028*
Prior international experience	0.597***	0.359***	0.360***	0.359***	0.362***
Venture profitability	−0.398	−0.272*	−0.296**	−0.272*	−0.269*
Joint ventures	0.006***	0.001	0.002*	0.001	0.001
IDRDF [a]	0.407*	0.307*	0.289*	0.308**	0.316*
Product innovation	0.574***	0.080	0.062	0.080	0.079
Lambda (inverse Mills ratio)		0.802***	0.802***	0.802***	0.810***
Independent variable					
Foreign firm presence (FFP)		0.216**		0.217***	0.228***
Regional institutionalization			0.008	−0.002	0.017
Moderating effects					
FFP*Regional institutionalization					0.076*
Intercept	−2.383***	−1.174***	−1.205***	−1.173***	−1.192***
N	3089	627	627	627	627
Chi-square	1576.54(8)***	204.40(9)***	127.91(9)***	177.80(10)***	245.29(11)***

Notes: Standardized regression coefficients are shown. *p < .05, **p < .01, ***p < .001 (two-tailed). [a]IDRDF: International degree of regional domestic firms.

generalizable to smaller emerging economies at varying stages of development and point to the need to further consider the lack of homogeneity within emerging economies.

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