Disentangling the Relationship between the Degree of Internationalization and Firm Performance

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The empirical literature on the relationship between internationalization and performance has reached conflicting findings. One of the reasons for this inconsistency is lack of construct validity of the “degree of internationalization” (DoI) construct. We advance a comprehensive framework of the conceptual domain map of DoI, which comprises (i) stages of the value chain, (ii) depth and breadth of internationalized resources and activities, and (iii) direction of international flows. Such framework moves beyond the simplistic conceptualizations and operationalizations of DoI that have appeared in most empirical works, and makes explicit the need to model carefully the substantive relations between DoI and performance. In particular, we address (a) the multiple mechanisms by which each facet of DoI may affect performance, (b) the existence of distinct effects and (c) not mutually compensatory effects across facets of DoI, (d) the existence of co-variation and of (e) possible interaction between facets of DoI. We discuss how the multifaceted nature of DoI and the complex relationships between its facets and performance should inform measurement and structural models in empirical practice. We argue for contingent conceptualizations of the construct, which should be driven by the theoretical arguments that are to be empirically tested in each particular study.

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Since the configuration of activities (i.e., which activities of the value chain will be realized in which countries) has implications over the coordination costs and results (cf. Porter, 1986), a comprehensive conceptualization of DoI should take into account the different stages of the value chain (Hennart, 2011) that have an international component. Instead of taking a functional view of the value chain (e.g., inbound logistics, operations, outbound logistics, marketing and sales etc., cf. Porter, 1985), we suggest a sequence of inputs (resources that are acquired (or produced by the firm) in order to be transformed (e.g., raw materials) and resources that serve as a “catalyst” (e.g., knowledge, financial resources) to the transformation of inputs into outputs), means (resources – such as assets, people and organizational processes – that realize the transformation of inputs into outputs) and outputs (the results of the transformation that will be sold in the market, in other words, tradable products or services). The fragmentation of the value chain across geographies (Buckley and Ghauri, 2004) signifies that inputs, means and outputs can be internationally dispersed. The recognition of the activities and resources that have an international component should be complemented by details regarding their depth and their breadth. Depth would mean the intensity of use of the resource or how much of it the firm has. Breadth would mean how dispersed and spread the resources are across countries. The execution of activities and the possession of resources abroad should consider internalization vs. externalization, that is, which activities are realized (or resources possessed) internally by the firm itself, which are fully outsourced to the market in arm’s length transaction (including purely commercial contracts) and which are mid-way through, that is, realized through joint ventures or partnerships/alliances with other firms (Koza et al., 2011). In addition, the direction of international flows and the geographical location (home country vs. host countries) of occurrence of activities or use of resources are relevant to characterize DoI. Besides, the usual outward look at internationalization – that is, production and sales in foreign countries –, one should also consider that internationalization can happen inward (cf. Welch and Luostarinen, 1993). Examples of inward internationalization would include: the acquisition of materials and other resources abroad to be used in the home country, the hiring of foreign employees in the home country,
partnerships with foreign firms in the home country, sales to foreign firms in the home country etc. In a certain way, these examples entail involvement with international spheres to a certain extent and set the firm apart from purely domestic firms. Besides, they may have implications to firm performance by similar mechanisms (e.g., learning, scale economies) as those present in outward internationalization does. Interestingly, such activities (e.g., sales to foreign firms in the firm’s home country) would not be recognized in simplistic (though often used) measures of DoI, such as FSTS (foreign sales to total sales).

Resultados e contribuições do trabalho para a área
We started from the recognition that the inconclusiveness of studies about the relationship between the degree of internationalization (DoI) and firm performance may be due, in part, to the over-simplistic way in which DoI has been operationalized in empirical practice and to the mismatch between selected measures of DoI and the theoretical arguments under scrutiny in empirical studies. We advanced an abstract analytical framework of the overarching domain map of DoI (Figure 1) that explicitly incorporates three main aspects: the stages of the value chain (input, means and outputs) that are internationalized, the depth and breadth of the resources and activities (assets, people and organizational processes) that have an international component, and the direction of international flows and the geographical location of use of the resources. This generic analytical framework was detailed in Figures 2a, 2b and 2c, and can serve as an initial standard by which to select appropriate measures of the construct. In addition, it invites the researcher to explicitly consider which aspects of DoI definition and measurement s/he will be dealing with in any specific study and to be aware of other aspects that might be deliberately left out and to consider the implications of such a research design. We argue that there would be no generic (conceptual and operational) model of DoI that would be universally applicable to every study about the consequences (or the antecedents thereof) of DoI, but rather there should be derived specific models of the construct that would fit the particular research questions and theoretical arguments of each study. Empirical studies about the relationship between DoI and firm performance should make clear why the selected measures of DoI are appropriate to test the theoretical arguments advanced in the study. In fact, the following issues about the relationship between DoI and performance, discussed in this paper, should be carefully and explicitly addressed in future empirical studies: multiplicity of impacts (each facet of DoI may affect performance by multiple mechanisms, leading to positive as well as negative effects); not mutual compensation, co-variation and possible interaction effects across dimensions and indicators of DoI; contingent effects; and endogeneity issues (e.g., common causation and reverse causality). As DoI is operationalized in more refined ways, the researcher has to carefully define the substantive relationships that will be modeled between DoI and its antecedents or consequences in a nomological network. We proposed that DoI should be represented as a reflective single-order multidimensional construct (Figure 4a) and that the effects associated with each dimension should be explicitly defined in a structural model. Alternatively, given the complex interactions and co-variation among facets of DoI, the researcher might consider not searching for net effects, but rather searching for configurations, that is, “causal recipes” that would relate DoI (as well as environment and firm characteristics) to performance. By increasing the validity of the DoI construct, researchers will be better able to uncover true relationships (if they exist) between DoI and performance and, as a consequence, to develop sounder theories and to provide grounded recommendations for managers. In this study, we focused on the DoI construct. But, of course, the conceptualization and operationalization of the firm performance construct (in order for the researcher to select the particular aspects of performance that are expected to be affected by DoI, given the theoretical arguments of each
empirical study) has also to receive proper attention in order to increase the internal validity of studies relating DoI to performance.

Referências bibliográficas