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Doctoral Thesis

**Institutional Transition and Organizational Diversity:
Differentiated internationalization strategies of emerging
market state-owned enterprises**

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Institutional Transition and Organizational Diversity



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Institutional Transition and Organizational Diversity:

Differentiated internationalization strategies of
emerging market state-owned enterprises

Ming Hua Li

PhD Series 29-2014

The PhD School of Economics and Management

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**Institutional Transition and Organizational Diversity:
Differentiated internationalization strategies of emerging market
state-owned enterprises**

Ming Hua Li

October 31, 2014

In partial fulfillment of the requirements of the degree of Doctor of Philosophy

Department of International Economics and Management

Copenhagen Business School

Ming Hua Li

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Differentiated internationalization strategies of emerging market state-owned enterprises

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ABSTRACT

The rise of globalization over the past several decades has witnessed a surge of cross-border activities by emerging market firms. To a large extent, such acceleration in their overseas venturing has been precipitated by the liberalization of domestic and foreign trade regimes governing foreign direct investment. In order to compete with advanced country multinationals, emerging economy firms have increasingly leveraged a broad array of resources and organizational strategies to springboard abroad. Simultaneously, such firms are subject to dynamic shifts in their institutional terrains triggered by a plethora of heterogeneous reform treatments as their governments endeavor to modernize their economies.

The initiation of these potent large-scale reforms associated with transition such as economic decentralization, market liberalization, industrial restructuring and corporate ownership reform undoubtedly exert cross-cutting and transformational impacts on the resource endowments, adaptive capabilities and strategic behaviors of emerging market firms. Given this critical phenomenon, this dissertation is motivated by the primary research question – *how does institutional transition and its related change processes operate to reconfigure and alter firm resources and capabilities for internationalization?* Since a significant proportion of emerging market firms are owned by governments, this thesis investigates how reforms have transformed state-owned firms' strategic characteristics for internationalization.

The dissertation comprises of three research papers utilizing extensive primary fieldwork and a manually compiled panel dataset of Chinese firms to examine emerging market state-owned firms' overseas activities. The first paper is a conceptual piece which develops an overarching framework to delineate the reconfigured orchestration of multiple institutional reforms in the emerging economy context can spawn organizational diversity among state-owned firms leading to their differing outward FDI strategies. The second paper builds on this notion of organizational diversity and investigates how corporate ownership reform confers varying levels of institutional competitive advantages to marketized and non-marketized state owned firms to support their overseas venturing. It further examines how the relationship between firm ownership and outward FDI propensity is moderated by state-owned business group affiliation. The final paper studies how hybrid organizational forms arising from institutional transition such as university-run firms can evolve novel organizational features including 'incubating platforms' to launch overseas entrepreneurial spin-offs.

ABSTRAKT PÅ DANSK

Den stigende globalisering har i de sidste mange årtier resulteret i en bølge af virksomheder fra nye vækstlande, som har aktiviteter der rækker ud over deres egne landegrænser. Denne udvikling skyldes i vid udstrækning liberaliseringen af indenlandske og udenlandske handelsaftaler der regulerer direkte udenlandske investeringer. For at kunne konkurrere med avancerede multinationale virksomheder, har virksomhederne fra de nye vækstlande udviklet en bred vifte af ressourcer og strategier til deres internationalisering. Samtidig er sådanne virksomheder underlagt dynamiske forandringer i deres lokale institutioner, hvilket er udløst af deres regeringers bestræbelser på at modernisere deres økonomier.

De store reformtiltag som økonomisk decentralisering, markedsliberalisering og ejerskabsreformer har store konsekvenser for den strategiske udvikling af virksomhederne fra de nye vækstlande. På baggrund af dette vil denne afhandling besvare følgende problemformulering - *Hvordan påvirker institutionelle forandringer ressourcer og kompetencer blandt virksomheder der internationaliserer?* Da en betydelig del af virksomhederne fra de nye vækstlande er statsejede, undersøger denne afhandling, hvordan reformerne har forvandlet statsejede virksomheders strategiske karakteristika i forbindelse med deres internationalisering.

Afhandlingen består af tre forskningsartikler som er udformet på baggrund af primær dataindsamling samt et panel af kinesiske firmaer anvendt til at undersøge statsejede virksomheders oversøiske aktiviteter. Den første artikel er en begrebsmæssig afklaring, som udvikler den overordnede ramme, der afgrænser hvordan institutionelle reformer i en udviklingsøkonomi kan resultere i forskellige organisationsformer blandt statsejede virksomheder- hvilket igen fører til forskellige strategier for udgående direkte investeringer. Den anden artikel bygger på begrebet organisatorisk diversitet og undersøger hvordan ejerskabsreformer giver forskellige niveauer af institutionelle konkurrencefordele til henholdsvis markedsrelaterede og ikke-markedsrelaterede statsejede virksomheder for at støtte deres oversøiske aktiviteter. Den undersøger desuden, hvordan forholdet mellem ejerskab og udgående direkte investeringer er underlagt de statsejede koncerners gruppetilhørsforhold. Den tredje og sidste artikel undersøger, hvordan hybride organisationsformer opstår under den institutionelle overgang fra eksempelvis universitetsejede virksomheder, hvilket kan udvikle nye organisatoriske funktioner, herunder ”inkubationsplatforme” til at lancere oversøiske iværksætter spin-offs.

PREFACE

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– this dissertation would not have been possible without you –

Ming Hua Li

Copenhagen – October 31, 2014

CHAPTER 1

THESIS INTRODUCTION

1.1 THESIS RATIONALE AND OVERVIEW

This thesis investigates the internationalization of emerging economy firms under the context of institutional transition. Over the past thirty years, fundamental reforms during institutional transition have imparted profound implications for the evolution of economic coordination within national business systems of emerging economy countries. The Varieties of Capitalism perspective (Aoki, 1994; Crouch & Streeck, 1997; Hall & Soskice, 2001; Whitley, 1992) has sought to establish a meaningful typology for understanding how different systems of economic coordination with distinctive institutional configurations can give rise to varying systems of production.

The government's role and its interactive bargaining with other institutions with respect to shaping and steering industrial and market forces for building complementarities to sustain operable production regimes have been analyzed across diverse country contexts. Governments typically have recourse to a wide set of policy instruments for organizing economic activities and achieving stakeholder alignment, both directly and indirectly within their political and financial systems, as well as across labor, education, and cultural systems for reaching specific economic outcomes (Whitley, 1999). Such outcomes differ systematically based on the nature, interface and mode of economic coordination across countries. To this extent, the national scale, including both the state and non-state institutional forces, has emerged as a key organizing concept for interpretations of various forms of capitalism.

While such national systems of economic organization are viewed as being relatively stable and self-reinforcing over time, subsequent studies (Hancke, Rhodes, & Thatcher, 2007; Lane & Wood, 2009, 2010; Streek & Thelen, 2005) have revisited this assumption by focusing attention to the transformative potential of institutional change and whether the state's formal institutional architecture is sufficiently elastic to accommodate such changes while maintaining the resiliency of established modes of coordination. This latter literature embraces a 'diversity in capitalism' perspective which highlights the importance of institutional change as a driver of internal diversity within national business systems. Subject to a multiplicity of institutional change processes, emerging economy countries must actively engage in and cope with the dynamic recasting of their political economies. The plurality and complex sequencing of such reform processes can result in the hybridization or fragmentation of seemingly coherent institutional frameworks, renegotiating boundaries and complementarities between institutional subsystems, thus altering the organizing templates in which firms are embedded. The dismantling, reconstitution, and resynchronizing of institutions through various reforms in the process of institutional transition (e.g. corporate ownership reform, market liberalization, economic decentralization, and industrial reorganization) may not only modify firm incentives but re-channel and recombine their resources in novel ways to engender organizational diversity.

In essence, organizational diversity may arise from institutional transition which sparks an evolution in the greater institutional ecosystem in which firms inhabit. The primary theoretical and empirical agendas of this thesis are two-fold: 1) to explore in a deeper granularity how institutional transition and its associated change processes are linked to organizational diversity and strategic adaptation in emerging economy firms; and 2) to apply different methodologies to evaluate the impacts of various facets of such diversity arising from transition processes for emerging economy firms' internationalization activities. In so doing, this thesis endeavors to synthesize insights from relevant research streams within the fields of political economy, organizational sociology, and

international business to identify new patterns of behavior characterizing emerging economy firms which transform their resources and strategic capabilities for global venturing. According to Scott (2004: 5), ‘much of the history of the development of organization studies during the last quarter of the twentieth century to the present reflects a growing recognition of the many and diverse ways in which the environment constitutes, influences and penetrates organizations’. This statement suggests that factoring the structural changes in emerging economy firms’ institutional environments which interact with the formation of their organizational building blocks may provide valuable perspectives into such firms’ internationalization behavior.

The remainder of this opening chapter is organized as follows: 1) to place this thesis in a larger context by positioning the phenomena of emerging market multinationals within their evolving home-country contexts and diverse host-country environments; 2) identify relevant research streams which provide a theoretical foundation for this thesis; and 3) discuss the methodology and content of the three research papers.

1.2 RECENT RESEARCH ON EMERGING MARKET MULTINATIONAL FIRMS

The past decade has witnessed a rapid expansion of FDI flows from emerging economies which have reached a critical threshold of industrialization buoyed by productivity-enhancing structural reforms. The coalescence of favorable macro-economic conditions including robust worldwide demand, rising commodity prices, and abundant liquidity unfolding in parallel with increasing global trade integration has also fostered a supportive environment for driving economic growth and the basis for ongoing reforms. Since the 2000s, emerging economy countries have experienced a surge in growth characterized by an average 4.75% increase in GDP from 2000-2012 (IMF, 2014). The BRIC (Brazil, Russia, India, & China) economies have constituted a dynamic core growth engine, accounting for 20% of world GDP and 55% of output by emerging economy firms.

Against this backdrop, emerging economy firms have intensified the scope, diversity and breadth of their international activities, from overseas trading to subcontracting and strategic alliances to increasing foreign direct investment in neighboring and distant countries. Reflecting this trend, overseas FDI flows from emerging economy countries have reached more than \$350 billion from 1990 to 2008 (Gammeltoft, Barnard & Madhok, 2010). This has attracted the attention of researchers to re-examine the antecedents, traits, and strategies underlying the nascent phenomenon of emerging economy multinationals (EMNCs). Over the past five years, there has been a substantial shift in the geographical representation of companies in the Fortune 500 and Fortune 2000 lists with the rapid entry of multinational corporations (MNCs) from China, Brazil, Mexico, Russia, Malaysia, Turkey, India and Indonesia. How such companies have achieved this fully-fledged status and leapfrogged over established MNCs from advanced countries such as AT&T, Whirlpool, and Dupont has become a subject of major interest to researchers and practitioners.

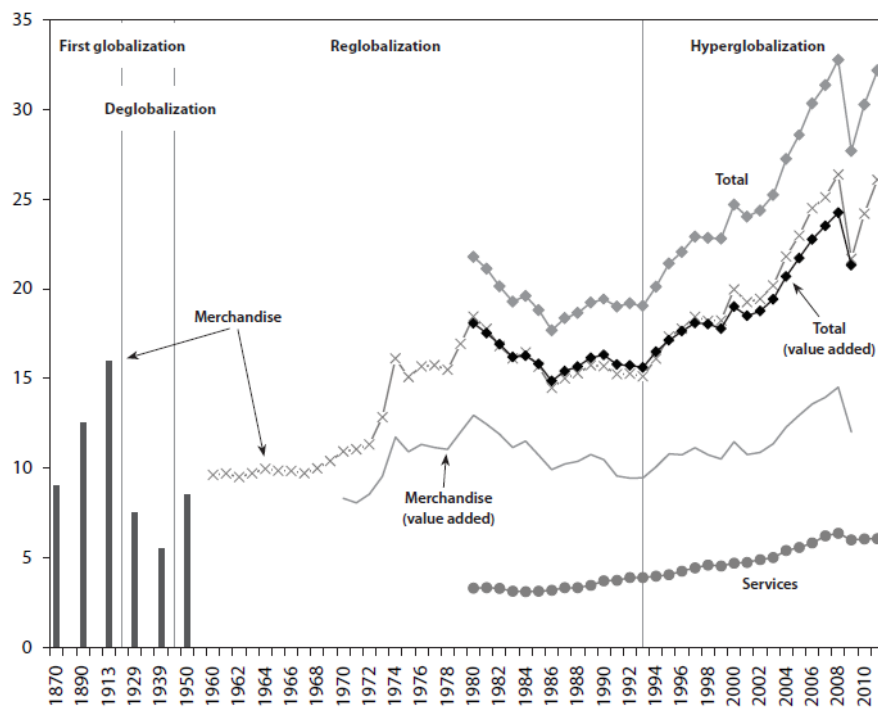
An extensive body of literature on the evolving nature of foreign investment by EMNCs has emerged beginning with early works by scholars such as Wells (1983) which minted the term ‘third world multinationals’ to explore the phenomenon of newly internationalizing EMNCs. Over the next ten years during the 1990s, the global infrastructure for trade and investment began to ripen, culminating in the advent of the WTO in 1995 which radically liberalized trade relationships between advanced and emerging economy countries. Such a pivotal event which established a rules-based trading system for the cross-border movement of goods and services has unleashed profound repercussions for global investment patterns.

During the 1980s to early 1990s, emerging economy governments around the world had already begun to reconfigure the institutions underpinning their systems of economic coordination and steer them towards experimentation with market-based instruments and pricing policies while discontinuing ineffective practices such as import-substitution. Despite political challenges, such formative initiatives to readjust their institutional systems for orchestrating the transition from agricultural to manufacturing

and service stages of economic development represented a tangible change from prior modes of economic coordination. Standards of living began to slowly improve, corresponding with rises in labor productivity, human capital, industrial upgrading, institutional development and capital accumulation. Despite higher volatility in output due to sensitivity to global shocks, such progress helped to narrow the gap between advanced and emerging economy countries, setting the stage for certain segments of emerging economy firms to advance overseas and play catch-up with established MNCs when trade and macro-economic conditions became propitious.

According to Subramanian & Kessler (2013: 3), ‘since the late 1990s, nearly three-quarters of the developing world (75 of 103 countries) started catching up, at an accelerated annual pace of about 3.3% per capita. Although developing country growth slowed during the global financial crisis (2008-2012), the rate of catch-up with advanced countries was not materially affected and remained close to 3%. At around the same time, perhaps just preceding this convergence phase, world trade started to surge, ushering an era of ‘hyperglobalization.’

Figure 1.1 – World exports in current dollars, 1970-2011



Source: Subramanian & Kessler, 2013

Such intense globalization associated with trade integration has been attributed to watershed events such as establishment of the WTO in 1995 which unlocked the floodgates to domestic markets of both developed and emerging economy countries. As a consequence of such breakneck expansion in cross-border trade, global FDI stocks have accelerated from less than 10% of world GDP to 30% while the number of multinationals has burgeoned to 80,000 as of 2010 (Subramanian & Kessler, 2013). In a recent study, Arregle, Beamish, & Hébert (2009) found that prior to 2001, such hyperglobalization has remained confined to semi-globalization using a longitudinal sample of 1000 Japanese MNEs.

What are the implications of hyperglobalization for EMNCs? Scholars have noted that the rise of EMNCs is not without a myriad of challenges and puzzles. Despite the impact of the WTO to balance the playing field by enforcing the principles of reciprocity and nondiscrimination, EMNCs are remain subject to the limitations of their latecomer status (e.g., lower technological R&D, managerial, & branding competence, lack of overseas networks and familiarity working with foreign teams, limited financial resources) and domestic institutional disadvantages (e.g., political instability, lower education levels, inefficient economic institutions, lack of accountability, underdeveloped infrastructure due to substandard public sector management) (Cuervo-Cazurra, 2012; Guillen & Canal, 2009; Luo & Wang, 2012; Ramamurti & Singh, 2009).

Nonetheless, scholars have also argued that the same disadvantages hampering EMNCs' efforts to venture abroad can also be converted into advantages under certain contexts such as navigating the hazards of similarly unstable host institutional environments (Cazurra-Cuervo, 2008; Li, 2007; Peng, 2012) or motivate them to springboard into new markets with agility for acquiring strategic resources to compensate for domestic market constraints (Luo & Tung, 2007). Dunning, Kim & Park (2009), Guillen & Garcia-Canal (2009) and Madhok & Keyhani (2012) also observe that the very same forces of market liberalization and deregulation that accompany trade integration

can amplify pressure by incoming rival MNCs on EMNCs in their home markets, propelling them to diversify into new foreign markets. Moreover, rise of domestic hypercompetition may serve yet as another compelling reason why EM firms increasingly locate abroad (Hermelo & Vassolo, 2010).

The rapid velocity in the reduction of trade barriers and capital restrictions associated with hyperglobalization has also enabled new possibilities for EMNCs to engage in accelerated international growth, removing constraints and shaving off years in the sequence of their overseas venturing, potentially enabling certain EMNCs to strategically bypass some of the logical assumptions associated with the OLI model (Li, 2007, Matthews, 2006). Trade and investment liberalization has eased the constraints for EMNCs to cultivate strategic partnerships and alliance networks which involve engineering novel transactions with an assorted array of overseas players to source untapped opportunities and degrees of freedom from which to adapt, bridge, recombine and forge their own organizational platforms and networks for overseas expansion. Furthermore, the accumulation of inward FDI and returnee entrepreneurs in many emerging economies increasingly avails EMNCs to more abundant resources and knowledge spillovers conducive to overcoming learning constraints (Chang & Xu, 2008; Li, 2007; Liu, Lu, Filatotchev, Buck & Wright, 2010). This is consistent with a correlative view offered by Mathews (2006) which emphasizes the possibilities associated with building fresh competitive advantages through external linkage, leverage, and learning (LLL model) and highlights the exploratory and creative entrepreneurial elements which underscore EMNCs' potential ability to upgrade their capabilities and deliver unique value propositions. According to Madhok & Keyhani (2012: 28), EMNCs can leverage asymmetries rooted in the historical and institutional differences (e.g., different institutional contexts, historical starting points, initial positions, and pathways) between their home and host country contexts to 'discover opportunities available through [foreign] acquisitions and capitalize on these by better facilitating the assimilation of knowledge through such acquisitions.'

Building upon the idea of opportunity in the entrepreneurship literature, Madhok & Keyhani (2012: 29) draw attention to the emergent ability of the EMNC to conceive of and grasp those untapped spaces between such asymmetries and experiment with them to build ‘advantage through a skillful combination of its own and others’ resources’. Similarly, Guillen & Garcia-Canal (2009: 31) point to EMNCs’ ‘ability to absorb technology, combine resources, and innovate from an organizational point of view in ways that reduce costs and enhance learning’. Madhok & Keyhani (2012) identify cross-border acquisitions as a potential vehicle for the creative re-bundling of resources and strategic learning because they incorporate the notions of evolution and discovery whereby interactions between the acquiring EMNC and target companies permit for a more organic process to join together different resources for achieving combined synergies which may be fully anticipated in advance. This perspective highlights the *open-ended nature* of EMNCs’ global venturing as a potentially dynamic process of *bricolage* (mixing, matching, regrouping and interacting), *discovery* (uncovering, innovating and appraising various combinations) and *creation* (calibration, strategic planning, integration and operationalization of idiosyncratic business models and practices) that may eventually invigorate them to acquire both ‘soft’ and ‘hard’ advantages to transform their capabilities.

Acquisitions may not be the only vehicle for co-creating resources, skills, and new knowledge platforms since strategic alliance also enables such possibilities. A recent study by the consulting firm Accenture (2008: 32) provides support for EMNCs’ alliance formation capabilities: ‘EMMs (emerging market multinationals) have shaped a new configuration of alliances and relationships in the hunt to secure resources. [Their] national oil companies (NOCs) are no longer reliant on international oil companies for technology and capital. Instead, they build new relationships with independent service companies and offer lucrative deals. As a result many independent service companies with specialized technology are more willing to deal with NOCs directly. Resource companies also form alliances and consortia to gain stable access to resources.’

While strategic asymmetries do not constitute actual advantages, they do offer EMNCs intriguing possibilities to address their issues of resource deficit and strategic fit through entrepreneurial action.

Moreover, scholars have also noted the strategic versatility of EMNCs to adopt an ambidextrous posture to respond to simultaneous changes in both their domestic and overseas environments. Luo & Rui (2009) propose that EMNCs display a dual-pronged approach in their international strategies characterized by building strategic ‘co-competence’ (both market-based transactional and relational competencies), developing ‘co-opetitive’ brokering ties (simultaneous competition and cooperation) with their external stakeholders, maintaining ‘co-orientations’ (align and integrate short-term and long-term goals in their strategic planning), and pursuing ‘co-evolutionary approaches’ (initiating internal organizational adaptation while proactively influencing external environmental stakeholders and institutions) to upgrade their capabilities abroad.

The above discussion recognizes the macro-level significance of globalization to hasten the pace of EMNCs’ investment development path (Dunning, Kim, & Park, 2008; Narula, 2010; Ramamurti, 2012) while also acknowledging that globalization has created an plethora of unique opportunities and unprecedented conditions for EMNCs to deploy micro-level organizational strategies, engage in entrepreneurial bricolage, and optimize their strategic flexibility to creatively carve out new niches and alliance structures for their global expansion (Guillen & Garcia-Canal, 2009; Luo & Rui, 2009; Madhok & Keyhani, 2012; Matthews, 2006). Over the past decade, a large volume of studies has been advanced to study micro-level dimensions of EMNC internationalization strategies from a variety of standpoints including resource and capability-based views (Cuervo-Cazurra & Genc, 2008; Lu, Zhou, Bruton, & Li, 2010), network perspectives (Elango & Pattnaik, 2007; Manolova, Manev, & Gyoshev, 2010; Yiu, Lau, Bruton, 2007), corporate governance and ownership structure (Bhaumik, Driffield & Pal, 2010; Lien & Filatotchev,

2015); entry mode strategy (Cui & Jiang, 2009; Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010), location choice and geographical diversification (Miller, Thomas, Eden, & Hitt, 2008; Ramasamy, Yeung & Laforet, 2012), home country institutions and cultural distance (Chittoor, Sakar, Ray & Aulakh, 2009; Peng, Wang & Jiang, 2008; Quer, Claver, & Rienda, 2011; Stal & Cuervo-Cazurra, 2011), performance-internationalization relationship (Banalieva & Santoro, 2009; Contractor, Kumar & Kundu, 2007), inward-outward FDI linkages (Li, Li, & Shapiro, 2012), and home and host country contexts (Child & Marinova, 2014; Meyer, Ding, Li & Zhang, 2014) among others.

A review of the rich literature on EMNCs suggests that a substantial diversity among EMNCs exist not only across different countries (Tolentino, 2010) but in their subnational contexts (Hoskisson, Wright, Filatotchev, & Peng, 2012; Li, Chen & Shapiro, 2013; Meyer & Nguyen, 2005; Shi, Sun, & Peng, 2012). Such firm-level differences at the subnational level has been attributed to a number of factors including economic geography, institutional quality and transparency, and economic disparity, some of which are malleable under conditions of fundamental institutional transition. So far, the international business field has primarily fostered two separate streams of research which are highly relevant to this thesis: the first stream focuses on the relationship between intra-country institutional diversity and EMNCs' patterns of international expansion while the second stream examines the linkages between institutional change and EMNCs' overseas expansion.

Recent studies characterizing the first stream have assessed the implications of subnational variations in home country institutional quality on EMNCs' ability to launch overseas (Sun, Peng, Lee & Tan, 2014; see Chan, Makino & Isobe, 2010 and Meyer, Mudambi & Narula, 2010 for research into some of the determinants of emerging economy subnational institutional differences). The second body of literature is concerned with measuring the impact of particular change processes such as pro-market reforms (e.g., deregulation, trade and investment liberalization, capital market reform, intellectual property reforms, property rights reforms, tax

reforms, reduction in state intervention) on EMNCs' internationalization behaviors (Chittoor, Sakar, Ray & Aulakh, 2009; Dau, 2013; Kim, Kim & Hoskisson, 2010).

While both of these literature streams provide deep insights into the importance of understanding the variegated ways in which home country institutions shape the overseas investment strategies of EMNCs, they have proceeded largely along distinct and parallel trajectories. Meanwhile less attention has been dedicated to unraveling the nature of 'systemic' linkages between institutional transition and intra-country corporate diversity and the impact of such interrelationship for firm resources, value-creation capabilities, and strategic choices to venture into foreign markets. The next section discusses in more detail how more finely calibrated and targeted research which incorporates contributions from comparative political economy (the comparative capitalisms view) and organizational sociology fields can be utilized to realign and bridge the space between these two separate streams.

1.3 RECALIBRATING THEORETICAL LENS TO THE EMERGING ECONOMY CONTEXT AND EMPIRICAL SETTING OF CHINA

The infusion of insights from other research fields can contribute additional depth, perspective and clarity to the notion of institutional transition by discerning finer-grained aspects and dynamics characterizing its related change processes and how they can catalyze diversity among emerging economy firms which influence their internationalization patterns. The comparative capitalisms (CC) literature which encompasses three related sub-strands (Crouch & Streeck, 1997; Hall & Soskice, 2001; Whitley, 1992) offers an important contribution to understanding institutional and organizational diversity from the perspective of 'non-market forms of coordination' (Jackson & Deeg, 2008). This is particularly salient since emerging economy firms are situated in domestic institutional contexts which are gradually moving away from reliance on non-market forms of coordination towards decentralized and reflexive self-regulating market-based coordination. The past thirty years have witnessed some of the critical inflection points

delineated above which contributed to alter the make-up and functional interactions between their internal domestic institutions. This leads to another key supporting concept in CC literature known as ‘institutional-as-configurations’ which depicts a more holistic understanding of how institutions may strategically interact, fit, and support each other in complementary configurations to facilitate market exchange and leverage.

The interlocking and overlapping utility of this theoretical approach has been acknowledged in various research streams, especially in organization sociology (Demers, 2008; Meyer, Tsui, Hinings, 1993; Snow, Miles, & Miles, 2006). Moreover, this conceptualization highlights the interdependent nature of institutions as opposed to an isolated variables-based approach (Aoki, 1994). According to configurational theorists, the emergence of such patterns can be attributed to a complex layering of particular events or interactions between organizations and their environments which do not necessarily unfold in a non-linear direction. Identifying such instrumental processes and the revolving axes in which they unfold can enable researchers to piece together the ‘multidimensional constellation of conceptually distinct characteristics that commonly occur together’ giving rise to ‘organizational configurations’ or typologies (Meyer, Tsui, & Hinings, 1993). Institutions cluster and orbit around each other in such identifiable patterns because they serve as complex feedback systems shaped by a confluence of factors including discrete power structures, industrial capabilities, socio-economic features, and relational capital.

CC scholars argue that such complementary features of institutions can reflect comparative advantages for economizing policy-making efficiency and value, especially when institutional resources and general enforcement capacity for economic coordination in different domains (political, financial, labor, industrial, education, and cultural) are limited. Such configurations may yield equifinal outcomes where no singular optimal outcome is generated. In essence, the configurational approach to institutions also embodies a functionalist co-evolutionary perspective which is applicable to the study of institutional transition and its related reform processes. One

critical insight of the CC ‘institutions-as-configurations’ perspective that remains under-explored in conventional IB studies is how interactions among institutions can give rise to institutional diversity both *in degree* and also *in kind*. The features manifested by one institution are contingent on the presence or absence of other institutions. Moreover, according to Jackson & Deeg (2008: 545) IB theory has devoted limited mindshare to ‘how institutions *socialize* the diverse set of actors related to the firm (managers, employees, owners, partner firms), or shape the interests and interactions among those stakeholders, and hence the activities of firms to pursue different strategies.’ In essence, CC scholars accentuate the intrinsic ‘embeddedness of economic life in social structure’ (Powell, 1990) and the interconnectedness between micro-level attributes of institutions and firms as well as their capacity for action which has been identified in the early literature on sociological institutionalism (DiMaggio & Powell, 1983; Meyer & Rowan, 1997). More recent offshoots of this theory (Haveman & Rao, 2006; Thornton, Jones, & Kury, 2005) have developed to incorporate the influence of institutional change on firm behavior.

In response to Jackson & Deeg (2008)’s observation that IB research has a tendency to adopt a relatively ‘thin’ and ‘unidimensional’ view of institutions for theorizing about firm strategy, more efforts can be made to integrate the new perspectives drawn from the CC literature and organizational sociology streams for enriching studies on EMNCs. Prior research on institutional change in the emerging economy context provide us some ideas on how the reorganization of national business system frameworks via reform processes such as economic and political decentralization can foster subnational business system diversity (Krug & Hendrische, 2008). Moreover, in a recent study comparing a broad group of thirteen Asian business systems, Witt & Redding (2013) observe the existence of ‘multiplexity’ – that is the presence of multiple business systems within the same economy. According to Witt & Redding (2013: 294): ‘if institutions are flexible (weak) enough, however, to permit high levels of variance, one possible

end result is the emergence of multiple punctuated equilibria, and thus multiple business systems, in the economy’.

In the specific context of China, the juxtaposition of an assortment of cross-cutting reforms reorganizing market-hierarchy relations has created new modes of coordination and space for organizational diversity and improvisation. From Boyer’s (2012: 34) point of view, although market relations might not be the exclusive mechanism of resource allocations, their logic is beginning to filter pervasively through the entire economic system such that ‘competition among independent units becomes the main engine of economic activity’. Moreover, this competitive dynamic is balanced by an intense networking between business and political spheres at the local and central levels to realign interests. At the end, ‘the efficiency criterion is neither the welfare of consumers according to the consumerist variant of capitalism, nor the value for shareholders. Rather, it is the *mix of political and economic objectives*’ (Boyer, 2012: 40).

During the early stages of Chinese economic reform, the rise of local state corporatism from decentralization encouraged local governments’ market incentives and flexibility to enlarge their tax base by creatively fostering a more entrepreneurial business environment. Moreover, given that provincial officials constitute the largest bloc within the Central Committee which selects the Politburo and Standing Committee members at the apex of the central government leadership, the relationship between the center and local provinces is ‘more reciprocally accountable than any other types of relations in China’s political system’ (Zheng, 2010: 10). In other words, provinces hold significant influence in the intergovernmental bargaining process which fostered decentralization from the early era of reform in the late 1970s until 1994 when the central government began to recentralize the taxation and banking system to downsize the power of provincial fiefdoms. However, such selective recentralization and ongoing attempts by the central government to readjust China’s development model has yielded limited effectiveness neither to dissolve the entrenchment of local interests nor to revitalize central state capacity.

With respect to the reform of SOEs, the early impact of decentralization etched an indelible blueprint for their ownership restructuring since local governments were granted direct authority to exercise oversight over this process which included shareholding diversification and corporate governance reforms. Local SOEs were being transformed into commercial vehicles for rent-seeking by local governments because they were allowed to keep their share of SOE revenues in exchange for covering local fiscal expenditures. Decentralization among other market reforms served to readjust the axis of economic coordination between central and local governments, while redefining their priorities, authority to allocate resources, and adaptation mechanisms which permeated to the restructuring of their SOEs. Simultaneously, horizontal types of reform such as market liberalization and industrial restructuring were also unleashed to support SOE productivity and competitiveness but they unfolded in different patterns at the central and local levels due to the cross-cutting vertical reconfiguration of economic coordination between them.

By the mid-1990s, the central government realized that local governments were exercising too much autonomy and began to rebalance its role in the economy through selective recentralization. Although efforts were made to implement a fiscal style taxation system, which clarified separate taxation responsibilities of local and central authorities by restricting the ability of provincial government to collect all taxes before remitting a certain portion to the center, such efforts did not help mitigate the fiscal responsibilities of the local government but further exacerbated them and encouraged corruption (Zheng, 2010). They also placed stronger pressures for revenue extraction by local governments on their SOEs as the costs of social welfare, education, infrastructure development, and healthcare persisted to mount at the local level. Meanwhile central SOEs were subject to differing reform treatments during the same time period. Many of them constituted the core of government ministries and they were viewed as strategically vital policy instruments. The government refrained from liberalizing sectors occupied by central SOE which were allowed to retain monopoly positions while local SOEs were increasingly subject to greater

foreign and domestic competition by private firms. However, the central government still subjected many central SOEs to increasing but limited ownership reform in an effort to pare away their inefficient assets and restructure the most valuable ones into globally competitive firms. The pursuit for such restructuring began in earnest when China entered the WTO in 2001, as globalization became an inevitable force redrawing its national economic-political landscape while catapulting its economy into the world arena.

The encompassing nature of institutional transition and reform dynamics could be felt in all sectors of the Chinese economy. By 2006, the manifold structural realignments in economic coordination set in motion during the 1990s and 1990s had coalesced into the metamorphosis of new economic actors to the extent that Delios, Wu, and Zhou (2006) recognized the need for redeveloping a new ownership classification system for Chinese listed firms' shareholders. They examined the identities of these shareholders using a dataset spanning from 1991-2002 and observed that the official categorization system (which demarcated ownership status according to the class of securities owned by the shareholder) did not necessarily correspond to their actual identities. This led them to reconsider the content validity of such scheme and to propose a new system which concretely accounted for shareholders' functional identities.

In the process of delineating a new organizing schema, they identified 16 fine-grained shareholding categories which more accurately captured the strategic identities of shareholders. They further regrouped such shareholders into three broad categories which included government shareholding, private shareholding, and a new class of hybrid ownership known as marketized corporate shareholding. The emergence of marketized corporate shareholders reflects an expansion of organizational diversity which had been touched upon by other scholars as early as Nee (1992). In particular they proposed that 'marketized corporate shareholdings are owned by the government, but they are not constrained by the same social objectives that government ownership bears. Marketized corporate shareholders are comparatively free of government intervention and are

comparatively independent in deciding a firm's strategy.' (Delios et al, 2006: 334). The value of this framework resides not only in clarifying the identities of shareholders, but also in how it uncovers and acknowledges the irrevocable organizational morphing of new types of shareholders. This created a stronger basis of comparison and a departure point for the positioning of this thesis.

The above overview of the multidimensional interweaving processes characterizing China's institutional transition reveal an array of upstream and downstream complexities associated with architectural reconfiguration of China's economic system, and makes the argument for dedicating more attention to unearthing and tracing the dynamic macro-micro linkages between various institutional change processes and evolution of firm organizational features. The following section introduces the remaining chapters of this thesis and explicates how different methodologies are applied to investigate the channels in which key dimensions of organizational diversity in Chinese state-owned firms contribute to their variegated internationalization patterns.

1.4 EMPIRICAL METHODOLOGY AND RESEARCH DESIGN

The peculiarities of China's institutional transition and resynchronized institutions of economic coordination have yielded significant effects for the differentiation of firm organizational characteristics and behavioral repertoire. This thesis takes a step forward to examine how such distinct heterogeneous features may be expressed in their overseas venturing, contributing to the literature elaborating home country effects on EMNCs' internationalization strategies. Few studies on EMNCs have systematically evaluated how institutionally-derived sources of heterogeneity arising from institutional transition can drive firms to evolve different strategic attributes, capabilities, and tactics for foreign market exploration. This raises a set of new research questions regarding the emergence of such heterogeneity and how it is mirrored in the resources, organizational structures and strategic behavior of firms. To address some of these questions, this thesis consists of three research papers utilizing different sources of data and methodological

approaches to investigate the connections between institutional transition, organizational diversity, and internationalization strategies of emerging market state-owned firms.

A mixed-method design is adopted to accommodate how idiosyncratic dimensions of organizational diversity can imprint their impacts on emerging economy firms' cross-border decision-making. Some of these distinct patterns are not only manifested in large-sample empirical data but also embedded in organizational designs and strategies encapsulated in the institutionally reconfigured and evolving internal structure of different 'species' of emerging economy state-owned firms. Thus, different methodologies are utilized to draw attention to and focalize on such potentially contrasting dimensions which may not be equally distinguishable using a singular methodological approach. In addition to bridging such lacuna, this thesis takes into consideration recent developments in the literature on EMNCs and the call for more conceptual and dynamic process-related approaches to revitalize the 'static nature of mainstream theories, which thus contribute little to explaining the evolution of MNEs over time, or the difference between mature and inexperienced MNEs, such as emerging economy MNEs' (Meyer, 2014: 169). In particular, one dimension which remains under-investigated and may benefit from further data-gathering, analysis, verification and comparison is the operational view of EMNCs' foreign investment strategies which can be extracted through a fine-scoping qualitative approach.

In this way, the thesis is structured to incorporate individual theoretical, empirical and qualitative components which are self-contained within each of the three papers sequenced in the same order. The aspiration is to bring together these different approaches highlighting varying elements of state-owned EMNCs' cross-border investment patterns which stem from their organizational diversity. The section below provides an illustration of the data and methods used to underpin the empirical and qualitative chapters.

Two primary sets of data have been constructed for the purposes of this thesis. The first set of data consists of a longitudinal dataset spanning 2002-2009 for 973 Chinese firms listed on the

Shanghai and Shenzhen stock exchanges which incorporates information on their evolving shareholding identities, various measures of financial and operational performance, industrial characteristics, corporate governance and top management team data, as well as overseas export and investment activities which include extensive details on foreign subsidiaries. The data was manually compiled, coded, matched, and integrated from several sources which include annual reports, the WIND database, and the Chinese customs authority. Variables with missing observations and invalid values were removed during the data cleaning process to generate a unique balanced dataset. Additional information such as state business group affiliation was sourced from a public registry compiled by China's National Bureau of Statistics. The consolidation of such data from these multiple sources serves as the empirical backbone for the third chapter of this thesis which examines the effects of corporate ownership reform on the foreign market entry of Chinese firms.

The second set of data was derived from archival information and extensive semi-structured interviews with the top management teams of two prominent university-run firms – Founder Group and Tong Fang Group which each rank among the top 100 multinational companies from China. The respective management which comprised of select parent company board members including subsidiary CEO or COO of both companies was interviewed on site in Beijing, Kuala Lumpur, and Singapore for approximately 30 hours during the period totaling two weeks from May-June 2014. Interviews were preceded and followed-up by additional email exchanges in which senior executives offered to share supplementary materials which enriched the discussions. The interviews enabled me to tap into senior managers' global mindsets and compile insightful observations on past and ongoing events, goals, and challenges experienced by such firms during China's institutional transition which I triangulated with archival data to form the exploratory basis of the fourth chapter of the thesis. This qualitative approach unveiled some finer design mechanisms that served instrumental and supporting functions to activate and shore up the

international venturing process of both firms which cannot simply be captured through large-sample cross-sectional or panel data.

Taken together, both quantitative and qualitative components of the data collection processes provide made-to-measure optimized lens from which to observe the internationalization activities of emerging market state-owned enterprises undergoing cross-cutting multitudinal processes of institutional transition. Although the empirical data is specific to the context of China, the theoretical anchor for the thesis rests upon a conceptual study focusing on the impact of reconfiguring institutional change processes and resultant organizational diversity on the foreign direct investment strategies of state-owned firms from the larger emerging economy context. As mentioned above, each of the three research papers also examine different angles of organizational diversity stemming from institutional transition and how this diversity contributes to shape their foreign investment approach. In this way, the three individual chapters are intertwined to provide a coherent and integrated framework for this thesis.

1.5 SUMMARY OF RESEARCH CHAPTERS

Chapter 2 – Varieties in State Capitalism: Outward FDI strategies of central and local state-owned enterprises from emerging economy countries

The motivation behind this second chapter is to elaborate an overarching theoretical framework advancing a configurational perspective to capture how different macro-institutional change processes in emerging economy countries reconfigure and engender diversity in the strategic resources, incentives, and dynamic capabilities of state-owned enterprises which shape their overseas FDI patterns. As discussed above, existing research on EMNCs have largely proceeded along separate but parallel paths which either focus on the impact of intra-country institutional variations on EMNCs' cross-border activities (Sun, Peng, Lee & Tan, 2014) or the impact of isolated institutional change processes on EMNCs' overseas investment behavior by applying bivariate analysis (Chittoor, Sakar, Ray & Aulakh, 2009; Dau, 2013; Kim, Kim & Hoskisson, 2010).

The above overview of current progress in this research domain argues that both streams can be harmonized by integrating insights from the comparative capitalisms and organizational sociology fields which offer insights into alignment of the relationship between reconfiguration of institutional constellations of economic coordination and corresponding evolution of internal firm attributes, mandates and organizing structures. To enhance this nexus, the second chapter seeks to broadly synthesize insights from such relevant perspectives into a coherent framework for understanding how recombinant modes of governance stemming from an array of institutional change processes can give rise to differently organized state owners with varying resources, strategic mandates, and legitimacy drivers which are refracted in the structuration of their overseas investment strategies.

In particular, the chapter derives a matrix framework for analyzing how horizontal and vertical institutional change processes (e.g., administrative and fiscal decentralization, industrial restructuring, and market liberalization) which simultaneously reconfigure both the distribution of political authority and state coordination over economic activities create organizational diversity among SOEs affiliated at central and local levels of government. Central SOEs which exhibit higher resource accumulation and embrace more vital national strategic mandates are being reorganized into ‘national champions’ but this profile renders them susceptible to stronger domestic and overseas institutional pressures. Concurrently, local SOEs with lower resource accumulation and stronger commercial mandates are less likely to be subject to such dual institutional pressures.

This contrasting diversity arising from the complex interplay of multiple institutional change processes and SOE restructuring reflects the realignment in the resource and capability structures of both types of SOEs. Drawing from sociological perspectives on institutional theory (DiMaggio & Powell, 1991; Hall & Taylor, 1996; Scott, 2004), this chapter illustrates how such institutionally-derived diversity in emerging economy SOEs’ management autonomy, institutional support, monopoly power, and market orientation can give rise to ‘*varieties in state capitalism*’.

This stratification in their identities and idiosyncratic growth trajectories imbue variation in their overseas FDI strategies along the dimensions of pace and scope of overseas expansion, business diversification, subsidiary ownership and establishment methods.

Chapter 3 – Corporate Ownership Reform and Foreign Market Entry of Emerging Market Firms: An institutional competitive advantage perspective

The third chapter builds on the premise of institutional and organizational diversity of emerging economy SOEs developed in the second chapter and extends it to evaluate the impact of corporate ownership reform on the foreign market entry of listed Chinese firms with marketized and non-marketized central and local state ownership. In addition to the institutional reform processes identified above, this chapter identifies corporate ownership reform as being a vital process which transforms the resources and institutionally endorsed behaviors of state-owned firms, thus reshaping their institutional competitive advantages for overseas venturing (Martin, 2014).

More specifically, corporate ownership reform has given rise to new categories of shareholders, including an array of marketized state shareholders restructured through ownership diversification which have not been investigated in prior studies on emerging economy firm internationalization strategies. As an increasing proportion of state shareholders transform into marketized players, they become more operationally autonomous, exhibit higher strategic responsiveness and productivity, and cultivate stronger market incentives (Delios et al, 2006; Nee, 1992). It is argued that such evolved characteristics are gradually upgrading marketized shareholders' understanding of complex global markets and proactiveness to devise foreign business opportunities which endow their invested firms with stronger institutional competitive advantages for cross-border investment. However, such view should jointly consider the diverging patterns of corporate ownership restructuring at the central and local levels of government which reflect vertical realignment. Factoring in the essential parameters which underpin the reconfiguration of economic coordination and task interdependency between central and local

governments, this chapter also identifies differences in the resource accumulation of marketized central and local state shareholders arising from fiscal reorganization which influence their invested firms' varying levels of institutional competitive advantage for overseas venturing.

While ownership structure is likely a critical determinant of institutional advantage, other important channels such as state business group affiliation also shape the allocation and delivery of institutional resources. The extant literature on business groups in emerging economy countries suggest they serve as 'micro-institutional' platforms for international venturing since they provide certain competitive advantages such as intra-group strategic coordination and resource pooling which include internal cross-lending, technology-sharing, and inter-firm human capital and knowledge flows (Lamin, 2013; Ma, Yao, & Xi, 2006; Yiu, 2011). These strategic characteristics indicate that business groups may operate as meso-level institutional network structures which provide additional organizational scaffolding to orchestrate foreign business activity. Compared to India, most business groups in China originate from government efforts to guide resource reallocation and coordinate policy implementation (Keister, 1998; Lin & Milhaupt, 2013).

Recent studies (He, Mao, Rui, & Zha, 2013) have found evidence that business groups in the Chinese institutional context provide internal financial market facilities in which stronger members may help subsidize weaker members. In particular, they investigated the effect of ownership type on the role of internal capital markets played by Chinese business groups by comparing the investment-cash flow sensitivity of group affiliated firms with private, local government and central government ownership. They found that such integrated internal financial markets are more likely to help those affiliated SOEs with private and local government ownership compared to those with central government ownership. This suggests that local SOEs and private firms may be more reliant on group resources for supporting their operations. Taking into consideration such redistributive mechanisms, it is hypothesized that interactive effects between

state business group affiliation and shareholding identities are also likely to moderate invested firms' institutional resources for overseas venturing.

These arguments were tested using a unique panel dataset spanning 2002-2009 which features 973 listed firms with 801 overseas subsidiaries established by 225 listed firms in 79 countries. The ownership coding process reflects an adapted version of the revised shareholding classification system developed by Delios et al (2006) which incorporates a new broad category of marketized corporate shareholding to supplement non-marketized and private shareholdings. The dataset captures the evolution of ownership structures for the top 10 shareholders of listed Chinese firms in the Shenzhen and Shanghai stock exchanges. A non-linear negative binomial model was adopted to account for over-dispersion in the dependent variable. The findings of this study supported the majority of proposed hypotheses relating to the effects of corporate ownership reform and moderating impact of state business group affiliation on Chinese listed firms' aptitude to commit investments overseas.

Chapter 4 – Incubating Platforms for International Entrepreneurial Spin-offs: The overseas strategies of university-run enterprises from China

The fourth chapter uncovers a new element of organizational diversity rooted in institutional transition which has given rise to the phenomena of hybrid firms in the Chinese business context. It explores the implications of hybrid organizational diversity for firms' international expansion strategies. Over the past few years, a number of studies in the organizational theory research stream (Battailana & Dorado, 2010; Jay, 2013; Pache & Santos, 2012) have investigated the formative circumstances, stakeholder composition and alignment, organizational structure, dynamic reconciliation of their multiple competing institutional logics, and their consequences for the evolutionary growth of such distinctive firms. However, few have studied how these firms may arise from challenging conditions of institutional transition in emerging economy countries and how they employ bricolage strategies to leapfrog into overseas markets.

Furthermore, as discussed before, scant attention has been paid to examine the dynamic process-related approaches to pinpoint the evolving operational features of EMNCs' overseas FDI strategies (Meyer, 2014). To address such visible gaps in the literature, this chapter undertakes a qualitative approach to delve under the surface of such type of firm and examine how it leverages its hybrid organizational characteristics to penetrate foreign markets.

The transitional and unpredictable era of economic reform in China offers an appropriate laboratory for distinguishing such organizational forms and observing how they maneuvered across the kaleidoscopic institutional landscape to build momentum, embed architectural knowledge and create opportunities for overseas entrepreneurship. Following the initial liberalization period, the first wave of domestic entrepreneurial dynamism was overshadowed by a vacuum in firm innovation talent, human capital and absorptive capabilities. The engine for industrial innovation was barely present and the institutional supports for orchestrating the creation of such innovation system have yet to be constructed. The only institutions which exhibited potential for crafting a bridging solution were universities which could offer basic R&D facilities and human resources. The development of new technologies through innovation and the subsequent commercialization demanded significant upfront capital, organizational restructuring, and learning costs which universities could not sustain alone. Such costs associated with potential benefits prompted the Chinese government to offer an array of complementary incentive schemes including tax exemptions, infrastructure, land, credit, and policy support to bolster this endeavor. This form of 'resource bricolage', which merged various complementary resources from fragmented sources, including both state and non-state sources as well as market and non-market sources, formed the basis of university-run firms.

As organizational hybrids, university-run firms were essentially business enterprises integrated into universities and managed by entrepreneurial professors and their business partners. This novel organizing blueprint enabled them to develop the large-scale architectural deployment

of what this chapter identifies as umbrella ‘incubating platforms’, an improvisational variant beyond the notion of ‘platform organization’ (Ciborra, 1996), which nurtured the propagation of smaller fleets of entrepreneurial start-ups sponsored by the university-run firm. The phenomenon of the university-run enterprises became widespread across China. They offered a combination of incubating platform assets which comprise of proprietary technological knowledge, seed capital, brand name, management leadership and R&D facilities that could be shared by offspring firms organized into mutually-supporting industrial clusters.

Furthermore, similar to the ‘sponsored spin-offs’ of Japanese firms (Ito,1995) such offspring firms were given access to significant autonomy, prolonged incubation and sustained support from their corporate parents even after spin-off and listing under foreign stock exchanges where they could raise more abundant capital and build exposure to foreign markets for global take-off. Through a detailed investigation which included a compendium of archival documents and detailed interviews with senior managers, this chapter delineates a multi-stage spatial evolutionary process model charting the key actors, operational initiatives, events, modular resources, and managerial decisions which enabled the construction of such ‘incubating platforms’, the spin-off launching process, and sustained parenting of their offspring firms towards developmental maturity. The chapter contributes to extend existing views on the international process model by incorporating an entrepreneurial and operational perspective that emphasizes how EMNCs can actively innovate new organizational solutions adapted for bridging foreign markets.

CHAPTER 2

VARIETIES IN STATE CAPITALISM: OUTWARD FDI STRATEGIES OF CENTRAL AND LOCAL STATE OWNED ENTERPRISES FROM EMERGING ECONOMY COUNTRIES¹

ABSTRACT

Institutional diversity characterizing state-owned enterprises (SOEs) from emerging economies holds critical but under-examined implications for their internationalization activities. Different types of SOEs can exhibit distinct motivations, strategic resources, and adaptive capabilities for penetrating foreign markets. To understand how such idiosyncratic differences emerge, we conceptualize the heterogeneity of SOEs as an outcome of multiple institutional reform processes - administrative and fiscal decentralization, industrial restructuring, and market liberalization - which create diversity between SOEs affiliated with central and local levels of government. Building on the idea of 'institutions-as-configurations', we elucidate how such reforms reconfigure SOEs' constellation of resources, capabilities, and priorities which shape the parameters of their ability to negotiate for home and host country institutional legitimacy. Specifically, we propose that the restructuring of central SOEs into 'national champions' exposes them to stronger institutional pressures from home and host country governments while local SOEs which have fewer obligations to serve national strategic prerogatives display greater managerial autonomy and market orientation, but lower levels of monopolistic behavior. We discuss how such contrasting attributes contribute to variations in SOEs' international business diversification patterns, foreign subsidiary establishment and ownership modes, and overseas location preferences. Recognition of SOEs' organizational diversity holds important implications for theories on state-owned multinationals.

Keywords: state-owned multinationals, institutional reform, firm heterogeneity, emerging economies, internationalization

¹This article was coauthored with Lin Cui and Jiangyong Lu. It is forthcoming in *Journal of International Business Studies* (doi:10.1057/jibs.2014.14).

2.1 INTRODUCTION

In a competitive global economy, emerging economy countries are increasingly promoting the international expansion of their state-owned enterprises (SOEs). At the same time, successive waves of institutional reforms have spawned widespread corporate transformation in these countries, substantively reshaping fundamental mechanisms in which such SOEs are governed and organized. The creative destruction and reform of institutional systems unfolding through administrative and fiscal decentralization, market liberalization, and industrial restructuring has unleashed sweeping changes among firms including SOEs (Aulakh & Kotabe, 2008; Dacin, Goodstein, & Scott, 2002). While considerable research has examined how institutional reforms shape firm behavior and corporate governance through ownership restructuring in emerging economies (Cuervo & Villalonga, 2000; Domadenik, Prasnikar, & Svejnar, 2008; Murrell, 2003; Newman, 2000; Peng & Heath, 1996), relatively less attention has focused on how the underlying patterns of control over SOEs exercised by different levels of state government are simultaneously being reconfigured through reforms which in turn redefine and SOEs' strategic motivations and institutional resources for internationalization.

Reflecting a shift in the underlying political economy of a country, reforms involve the recombining of old and new institutional elements into hybrid constellations which contribute to greater internal diversity in an economy (Aoki, Jackson, & Miyajima, 2007; Jackson & Deeg, 2008; Lane & Wood, 2009; Ostrom, 2005; Wei, 2007). Such fragmentation may result in the existence of micro-institutional environments characterized by diverse modes of economic coordination (Crouch, 2005; Lane & Wood, 2012). As a result, institutional change is not simply a homogenous time-related process (Kim, Kim, & Hoskisson, 2010; Tan, 2007), but a complex organic phenomenon that may involve multiple, discontinuous and possibly divergent experimental processes arising from interactions between firms and their surrounding institutional environment. Such diversity within countries has been recognized as an outcome of institutional transition

especially when more coordinated economic systems liberalize (Jackson & Deeg, 2008; Lane 2005) and is increasingly referred to as ‘diversity in capitalism’ which extends traditional assumptions of comparative capitalism to account for a more dynamic understanding of institutions (Crouch 2005; Lane & Wood, 2009; Streek & Thelen, 2005).

In the context of emerging economies undergoing rapid and profound institutional change, diversity in capitalism has significant implications for the evolution of state capitalism since SOEs which undergo heterogeneous reform treatments may evolve along different developmental pathways. Organizational diversity among SOEs can emerge through various means.¹ An assortment of distinct reforms can be implemented at each level of government, exerting differential impacts on SOEs’ internal restructuring, strategic flexibility and access to resources. Efforts to restructure management control over some SOEs by shifting their oversight between various agencies and bureaus can also influence their objectives and incentives. In essence, not all SOEs follow similar patterns of organizational change which provides the basis for our primary research questions. How do key institutional change processes in emerging economies facilitate institutional diversity within national business systems and how is this diversity instantiated among SOEs affiliated at different government levels? What implications does the emergence of varieties in state capitalism hold for SOEs’ FDI strategies?

Turning our attention to emerging economies which are gradually shifting from their reliance on centrally directed forms of economic coordination towards more decentralized, market-based approaches we examine how various types of reform can catalyze diversity among SOEs. We elaborate a trickle-down theoretical framework that connects the impacts of macro-level institutional reforms to the dynamic transition and differentiation of SOEs at the organizational field level, which exert substantial implications on their firm-level FDI strategic choices. We do so by applying and linking macro and micro level institutional arguments developed in the comparative capitalisms and sociological institutional theory literatures.

To develop theory that links macro-level institutional reform to field-level SOE diversity, we draw from comparative capitalisms (Hall & Soskice, 2001; Jackson & Deeg, 2008) and diversity in capitalism (Crouch 2005; Lane & Wood, 2009) theories to explain how as the institutional architecture of these countries is resynchronized to support a competitive market environment, large scale reforms (i.e., administrative decentralization, fiscal decentralization, industrial reorganization, market liberalization) operate to redefine the strategic coordination between various levels of government, reassigning different resources, priorities and institutional logics among them. Since SOEs affiliated at different government levels constitute an intrinsic part of the state capitalist system, they are necessarily subject to diverse restructuring regimes refracted through these macro-institutional changes which endow them with similar features, resources, and institutional logics characterizing their associated government owners. Our approach is motivated by research in sociological institutionalism (Haveman & Rao, 2006; Thornton, Jones, & Kury, 2005) which explores the nature and manner in which institutional logics and internal organizational dynamics shift within firms as a response to institutional change. Specifically we examine how reforms can induce greater heterogeneity within the institutional fields of SOEs associated with central and local levels of government and exert differential isomorphic pressures on their behavior.²

In order to illustrate how field-level SOE diversity leads to differing firm-level FDI strategies, we draw from sociological perspectives on institutional theory (DiMaggio, 1997; DiMaggio & Powell, 1991; Scott, 2004) to elucidate how institutionally derived organizational differences with respect to resources, logics, and behavior between SOEs affiliated with central and local governments (referred to as central and local SOEs hereinafter) can motivate them to pursue varying FDI approaches. We propose that reforms such as fiscal decentralization and market liberalization encourage local SOEs to acquire greater managerial autonomy and market orientation which imbue them with a stronger commercial logic to pursue development goals set by local

governments. On the other hand, central SOEs have experienced increasing consolidation to convert them into national policy instruments for sustaining macro-level growth and national industrial policies. Such differentiation in the institutional logics of local and central SOEs brings about disparity in home country expectations for their FDI activities and triggers different reactions and legitimacy challenges raised by host governments. For instance, local and central SOEs may be propelled to adopt different strategic prerogatives in their FDI strategy, with local SOEs going abroad primarily for rent-seeking purposes to satisfy local fiscal needs while central SOEs invest overseas to fulfill national policy objectives. Their diverging motives for going abroad will elicit different responses from host governments which may perceive them as credible business partners or as potential rivals that may pose a threat to host national interests. Through linking our theoretical efforts to identify the institutional sources of SOE diversity and how such diversity is reflected in central and local SOEs' FDI legitimization challenges in home and host countries, we develop an overarching theoretical framework highlighting the trickle-down effects of macro-institutional reforms on SOEs' FDI strategies, substantiated by a number of propositions for future empirical validation.

Our approach raises important implications for research on SOEs' internationalization. By dissecting the impact of institutional change at different levels of government ownership, we adopt a more nuanced approach to analyze how variation in key reform processes unfolding at these levels can fundamentally alter the constellation of institutional logics and pattern of resource allocation that determine SOEs' organizational behavior. Our study delves beneath the surface of SOEs to show how reforms are reshaping their internal structure in alignment with modifications in the overall system of economic coordination in emerging economies. Through extending the theoretical lens of diversity in capitalism to varieties in state capitalism, we contextualize the differential impacts of institutional change on SOEs' internationalization strategies. We delineate how SOEs' roles may have evolved along different trajectories of reform and as government

vehicles of international business activity they may not share the same objectives or capabilities for going abroad.

Our paper proceeds as follows. We first synthesize key insights from the comparative capitalism literatures, especially the works on diversity in capitalism, to develop a conceptual framework capturing the effects of different institutional change processes on the evolution of central and local SOEs. Second, we derive four distinct constructs mapping characteristic differences between central and local SOEs as a result of such institutional changes which we systematically link to their varying abilities to satisfy home country and host country legitimacy requirements when investing overseas. Third, by elaborating on how these different capabilities may be reflected in different FDI strategies, we derive testable propositions for our model and conclude with a discussion summarizing our contributions, future research directions, and practical implications for policy makers and managers of aspiring state owned multinationals.

2.2 INSTITUTIONAL CHANGE AND VARIETIES IN STATE CAPITALISM

To reinvigorate and deepen the existing scope of theorizing on globalization of state owned multinationals, we advance an ‘institutions-as-configurations’ approach (Greenwood & Hinings, 1996; Jackson & Deeg, 2008) to capture how a combination of interrelated reforms unfolding in emerging economies can collectively reshape and retool the capabilities and strategic objectives of their SOEs for overseas venturing. Adopting a configurational perspective to study how institutional change generates diversity among SOEs contributes to our understanding of their behavior in three unique ways. First, it provides theoretical insight for broadening our appreciation of the variety of macro-level reform processes which exert assorted influences on SOEs that guide their evolution into diverse actors. Secondly, by showing the patterned ways in which reforms can lead to variation in SOEs’ attributes and behavior, we aspire to develop a more nuanced and dynamic approach to theorizing about the relationship between SOEs and their principals, namely

their affiliated government owners which may exhibit different priorities when venturing overseas. Lastly, through exposing pivotal differences in the salient traits, internal governance and strategic prerogatives of SOEs, we identify certain prominent characteristics among them which have far-reaching consequences for their cross-border investment activities. Overall, the configurational approach allows us to explore the dynamic interplay between multiple institutional change processes and SOEs' strategic organizational evolution, thereby contributing to research on complex interactions between institutions and SOEs, as opposed to the variable-based approach that mainly aims to isolate singular effects of particular reforms on SOEs' behavior (i.e., regulatory shocks) which has been the prevailing approach in existing studies (Ralston, Terpstra-Tong, Wang, & Egri, 2006; Uhlenbruck, Meyer, & Hitt, 2003). Departing from this approach, we dedicate attention to the multifarious ways in which state-owned players' resources, priorities, and capabilities are re-bundled and customized through heterogeneous reforms which imbue them with varying mandates and strategic abilities for going abroad.

Incorporating a configurational approach to institutionalism explains not only the existence of institutional varieties, but also the disequilibrium and dynamic processes that create such varieties. While the manifestation and economic rationale of typologies of national business systems (i.e., institutional varieties) is the focus of the comparative capitalism literature (Aoki, 1994; Hall & Soskice, 2001; Hancke, Rhodes, & Thatcher, 2007; Jackson & Deeg, 2008), it is the recognition of the fluidity of institutional arrangements due to asymmetrical and idiosyncratic patterns of institutional change that has stimulated the emergence of 'diversity in capitalism' (Crouch, 2005; Lane & Wood, 2012; Streek & Thelen, 2005). This latter literature highlights the multitude of different change processes which lead to the hybridization or fragmentation of existing institutional arrangements within seemingly coherent national contexts to create internal diversity which offers an appropriate theoretical starting point for us to understand the emergence of varieties in state capitalism.

Focusing on the consequences of institutional change processes within a configurational framework, we examine the phenomenon of varieties in state capitalism across levels of governments. Specifically, we examine how the recalibration of local and central institutional structures through reforms in emerging economies can lead to mixed modes of coordination where direct intervention from the central government is gradually phased out as local governments take a more proactive approach to market coordination. The outcome is a hybridized market system integrating both aspects of market competition with inherited elements of central planning. As the underlying logics of economic coordination are renegotiated, new institutional complementarities may emerge between different levels of government. The central government may withdraw from certain industries but continue to coordinate key strategic sectors to promote coherent national growth while enabling local governments to guide their regional economies towards a market oriented development scheme. Such a hybridized system is characterized by the embodiment and integration of multiple institutional logics reflecting the mixing of old and new modes of coordination which engender coevolution and increasing plurality in the institutional environment.

Motivated by the idea that institutional change can trigger the evolution of the identity and strategic interests of firms (Campbell, 2004; Dacin, Goodstein, & Scott, 2002; Jackson & Deeg, 2008) we argue that varying internal changes unfolding within institutional subsystems can reshape the organizational characteristics, institutional logics and strategic priorities of SOEs along different trajectories giving rise to visibly distinct varieties in state capitalism which bear direct consequences for SOEs' strategic behavior abroad. As emerging economy governments remodel their institutional architecture to gradually loosen the central government's monopoly over the coordination of the economy, decisions must be made regarding the extent of economic coordination the central government prefers to retain, the kinds of economic activities and sectors from which it intends to relinquish control, and which actors – local governments or private sector – should coordinate those sectors which are no longer under its direct oversight. Realigning

priorities and roles among government actors through reforms alters the ‘functional interactions’ (Jackson & Deeg, 2008: 553) between them and is instrumental to modifying existing institutionalized arrangements to support new modes of economic coordination across different domains. SOEs reorganized under such new modes of coordination will increasingly respond to new incentive mechanisms and policy goals and thus evolve new strategic agendas for overseas venturing.

Introducing market based competition involves broadening the scope of participation in economic activities by local governments as well as their SOEs. In many emerging economies undergoing gradual reforms with the exception of certain countries such as Russia, Yugoslavia, Mexico and Brazil which pursued sudden and profound privatization, the government attempts to reduce the inefficiencies of central planning by reforming the state sector and transferring authority to lower levels of government to run their SOEs more autonomously. Inefficient SOEs which are less capable of withstanding increased competition due to liberalization are privatized to minimize losses. At the same time, the central state may keep its control over certain SOEs which operate in strategically sensitive sectors such as natural gas, infrastructure, and mining to sustain the overall economy. Logically it follows that not all SOEs would receive the same reform treatments, with some SOEs being subject to specific reforms intended to transform them into increasingly autonomous commercial players while other SOEs are restructured to retain monopolistic dominance over strategic sectors for serving other key policy objectives.

As noted earlier, our theoretical framework is subject to certain boundary conditions applicable to emerging economies that have not experienced rapid and extensive privatization which led to wholesale withdrawal of government participation in the economy to an extent that would represent a limitation to this study. The scope of our paper focuses on countries that continue to be characterized by an active state sector which are increasingly adopting federal systems of governance where political and economic decentralization are becoming more prevalent. This

boundary condition encompasses both transition economies with command economy heritage and pluralistic states which increasingly adhere to a market based economic governance system. Table 2.1 summarizes the key salient features of emerging economies that apply to our theoretical development including a list of terms and designations for central and local SOEs in various countries since they are classified under different nomenclatures based on historical precedents.

[Insert Table 2.1 about here]

Figure 2.1 illustrates the two dimensions of institutional change which have important implications on the progressive development of SOEs in emerging economies. In Figure 1, the vertical dimension captures the change of the locus of economic policy power in a country, typically through the process of political decentralization where power shifts from central to local level governments. The horizontal dimension captures the change in the degree of state coordination of national economy, which is achieved by economic decentralization reflected in market liberalization and industrial restructuring efforts of the government towards a more market-coordinated economy. Overall, the framework depicts how as the state shifts from a centrally directed system of economic coordination towards a more liberal market based coordination approach, SOEs under local and central governments begin to diverge with respect to their strategic priorities and organizational characteristics.

[Insert Figure 2.1 about here]

Vertical Institutional Change Processes

As shown in Figure 2.1, the vertical dimension reflects the change in the distribution of political authority (i.e., who coordinates) in a country and primarily involves two interrelated processes of

political decentralization – administrative decentralization and fiscal decentralization – whereby the central government devolves greater responsibility to local governments to make their own policy decisions and raise their own revenues. The transfer of management and decision-making authority to local governments through administrative decentralization enables them to exercise greater discretion in the design and execution of local development policies. Studies have shown that the successful ability of local governments in Vietnam to initiate experimental projects such as special export processing and industrial development zones to attract businesses and inward FDI have increased their independence from central authorities, creating additional justification for reforms which further enhance local autonomy (Malesky, 2003). Administrative decentralization therefore enables local governments to run their SOEs more freely. In other countries such as China, despite the prevalence of a top-down authoritarian governmental structure where power emanated from the center, local governments exercised a highly entrepreneurial approach to solving economic development issues which gained recognition from the central government during the 1980s (Caulfield, 2006). Their successful initiatives eventually led the central government to devolve a wider range of economic responsibilities covering a broad spectrum of activities including investment, land use, banking, and management of SOEs to local governments which further strengthened their independent growth incentives (Chien, 2007).

The financial incentive for local governments to promote growth and encourage their local SOEs to perform is further reinforced by fiscal decentralization which enables local governments to keep a share of SOE revenues and profits. In addition to China, India's administrative and fiscal system, characterized by one of the highest decentralization ratios in the world has become even more decentralized in recent years (Purfield, 2004). In 1999, Indonesia also began embarking on an ambitious decentralization scheme to strengthen both local fiscal and administrative autonomy (Ahmad & Mansoor, 2005). The importance of this reform initiative is underscored by the government's plans to emphasize its enhanced implementation in Indonesia's national mid-term

development plan for 2010-2014 (Ministry of National Development Planning, 2010). Over the past two decades, provincial governments in many emerging economies have gained significant autonomy to run their local SOEs, which are more numerous compared to central SOEs. In India for example, the number of central SOEs is limited to about 200 enterprises while local SOEs comprise 800 to 1,000 firms (Mishra, 2009). Indonesia has also seen the establishment of several hundred local SOEs while central SOEs are restricted to 140 firms in total (OECD, 2000).

As the trend of political decentralization continues, local SOEs will increasingly play a substantial role in generating revenues which also contributes to local governments' ability to consolidate their decision-making autonomy. Furthermore, local governments have been tasked to privatize smaller underperforming local SOEs or convert them into corporatized entities with majority state ownership (Ishizuka, 2009; Yusuf & Nabeshima, 2008). As a result, local SOEs, whether majority or wholly owned by the government exhibit relatively greater strategic versatility and responsiveness compared to central SOEs which remain tightly regulated and responsible for serving national strategic interests. Central SOEs' obligation to fulfill public service obligations may restrain their flexibility and their investments are subject to extra supervisory oversight, reducing their ability to respond freely to shifting market conditions. Therefore we propose:

Proposition 1: The greater the degree of administrative decentralization in a country, the higher the level of managerial autonomy of local SOEs relative to central SOEs.

In addition to granting local governments greater autonomy to set production targets and deploy contract-based incentive schemes for SOEs so that they can act more entrepreneurially, central governments have also made them more responsible for their own fiscal performance. During the 1990's fiscal decentralization was among the most widespread reforms among developing economies (Smoke, 2001). While fiscal decentralization can vary substantially in its implementation across countries, one important objective has been to empower local governments

to collect revenues and make expenditures to promote local economic development and policy objectives (Lin & Liu, 2000; Smoke, 2001). In exchange for the right to keep locally raised revenues including a share of SOE profits for their own purposes, local governments are obligated to cover a large portion of their expenditures for public services, infrastructure development, and investment in local SOEs. Consequently, fiscal decentralization serves a dual purpose to both motivate local governments to improve performance of their SOEs to maximize revenues while also introducing hard budget constraints which limit local SOEs' access to central government financial backing (Park, Li, & Tse, 2006). From this perspective, local governments are more restricted in the resources they can provide to local SOEs since extra expenditures beyond their budgetary capability require further approvals by the central government. Therefore we propose:

Proposition 2: The greater the degree of fiscal decentralization in a country, the lower the extent of institutional support received by local SOEs compared to central SOEs.

Horizontal Institutional Change Processes

The horizontal dimension of the framework in Figure 2.1 captures change in the degree of state coordination over economic activities (i.e., how coordinated) in a country as various sectors are gradually deregulated and liberalized to promote competition among firms including SOEs, private companies, and foreign multinationals. By opening domestic markets to foreign and private investors and abandoning import substitution policies, states must balance between their economic, political and social priorities to decide which industries to liberalize and the extent it wishes to divest control (Doh, 2000; Doh, Teegen, & Mudambi, 2004). While emerging economy governments have actively welcomed inward FDI to bolster domestic economic growth, they remain keen to maintain their bargaining power by reserving control over selective 'strategic industries' which remain restricted to competition (Doh et al., 2004; Park et al., 2006). Therefore, the loosening of state dominance over its economy by decentralizing its economic coordination

functions comprises of two parallel sub-processes – industrial restructuring and market liberalization – whereby the central government reasserts strategic control over key industrial sectors by consolidating central SOEs in those industries into large ‘champion’ firms while devolving economic control over non-strategic industries such as manufacturing and services to local SOEs, foreign entrants and private firms which are allowed to play more active roles. The resulting outcome is a gradual shift from strategic coordination towards liberal market coordination in most sectors of the economy.

Despite efforts to dismantle entry barriers to a wide array of industries, central SOEs in many emerging economies remain shielded from competition. Aiming to preserve control over strategic sectors to advance its national interest, the central state often carves out monopolies reserved for central SOEs or restricts private participation in these sectors to a minimal level. In both Vietnam and China for example, central SOEs have been structured into large enterprise conglomerates bounded together by interlocking directorates, cross subsidization, intra-group trade and cross shareholding (Child & Tse, 2001; Kim, Nam, & Cuong, 2010). This business group structure enables the creation of internal markets facilitating intra-group transactions such as risk-pooling, technology sharing, internal trading of intermediate goods, and rotation of management personnel (Ma, Yao, & Xi, 2006; Yiu, 2011) which further reinforces monopolistic tendencies. Similarly, Indonesia established a Ministry of State Owned Enterprises in 1998 with the goal to merge the assets of existing central SOEs and upsize them into concentrated sectoral holding companies with multiple layers of sub-holding companies and smaller affiliated firms (Abubakar, 2010; Fitriiningrum, 2008). In addition to this growing conglomeration pattern, central SOEs also enjoy the implicit guarantee and support of the central government through various preferential policies including cheap access to credit. For example, central SOEs in Vietnam account for over 46 per cent of all liabilities held by enterprises surveyed in a 2009 census organized by the General

Statistics Office (Malesky, 2009). Such disproportionate privileges are not readily accessible by other firms including local SOEs and private companies.

From an industrial standpoint, the concentration of national resources into large corporate groups provides the ‘big push’ needed to resurrect moribund industries and to coordinate growth across diverse industries (Morck & Nakamura, 2007) which transforms them into ‘state instruments for national welfare based on corporate practices’ (Abubakar, 2010:10). In other words, central SOEs are being reorganized by central governments to serve as policy instruments supporting macro-level growth and overall productivity of domestic firms through the steady provision of natural resources, raw materials, technologies and energy whereas local SOEs typically do not hold such policy responsibilities and are therefore less likely to claim monopolistic positions. This is consistent with studies (Mowery & Nelson, 1999; Murtha & Lenaway, 1994) which argue that governments have a strategic prerogative to deploy national industrial strategies and establish a basis from which domestic firms can build their competitive advantages. Therefore we propose:

Proposition 3: The greater the degree of industrial restructuring and consolidation in a country, the lower the level of monopoly power of local SOEs relative to central SOEs.

Compared to central SOEs which largely operate as policy instruments and hold privileged monopoly positions, local SOEs mostly occupy the non-strategic sectors which were deregulated and liberalized to enable private and foreign participation such as manufacturing and services sectors (Malesky, 2009). Navigating an increasingly dynamic market characterized by surges in the entry of highly profit-driven firms has important consequences on the organizational logic and structure of local SOEs. Recent empirical research which evaluated the sources of public sector inefficiency in Indonesia has found that market liberalizing reforms which elevate competitiveness in the overall business environment by encouraging foreign ownership, reductions in trade barriers, and greater constraints on government subsidized investments were responsible for substantial

improvements in SOEs' productivity growth (Bartel & Harrison, 2005). Subjected to the discipline of the market, a significant portion of underperforming local SOEs has also been completely or partially privatized in many emerging economies. Many were simply dissolved or transferred to workers' collectives. In Vietnam, the number of local SOEs has been continuously reduced, although the total capital in the local SOE sector has increased to provide surviving firms with more resources to strengthen their competitiveness (Ishizuka, 2009).

As a result, most remaining local SOEs comprise of firms which evolved new dynamic capabilities to handle the challenges of a competitive market environment. By adapting more swiftly to market uncertainties characterized by unstable shifts in market demand, disruptive product innovations, and entry of new foreign competitors, local SOEs are incentivized to invest more efforts to acquire market information, develop product differentiation strategies, improve customer service, and engage in strategic planning. This shift towards market orientation in response to environmental turbulence has been discussed variously in the business literature (Baker & Sinkula, 1999; Jaworski & Kohli, 1993; Santos-Vijande, Sanzo-Perez, Alvarez-Gonzalez, & Vasquez-Cassielles, 2005; Slater & Narver, 1995) as being vital to enhance organizational learning, managerial flexibility, and acquisition of sustainable competitive advantage. Given that local SOEs are exposed to higher levels of market competition and serve as commercial vehicles for generating profits for local governments, we propose:

Proposition 4: The greater the degree of market liberalization in a country, the higher the level of market orientation of local SOEs relative to central SOEs.

Taking a holistic view of institutional changes along both vertical and horizontal dimensions enriches our understanding of how institutional reforms can reshape central and local SOEs into actors with diverse agendas by re-bundling their matrix of resources, strategic priorities, and capabilities at different levels of government. Theoretically this is an important issue since rather

than viewing institutions as ‘variables’ or separate elements, our approach proposes that subsequent recalibration of institutions as configurations through reforms ‘give rise not just to differences in degree, but to fundamental differences in kind’ (Jackson & Deeg, 2008: 545). Reforms operate to modify the pattern of interdependence among institutions by realigning and reconciling their priorities, addressing coordination gaps, and reducing their imperfections. The strategic renegotiation of coordination between central and local governments ushers in the recalibration of institutional logics, organizational structures and resources at the field level of the state sector as it adjusts to ongoing structural transition in the political economies of emerging economy countries. The accompanying rise of diversity in state capitalism builds upon central and local governments’ evolving institutional complementarities and translates into creation of new comparative institutional advantages for local and central SOEs to engage in different kinds of economic activity. For example, central SOEs dominating strategic industries are able to produce at more socially optimal price levels for critical public goods and raw materials needed to spur the acceleration of market development spearheaded by private firms and local SOEs in downstream industries. Their obligation to advance national industrial and welfare priorities may lead them to operate from a stronger politically laden and noncommercial logic compared to local SOEs which are increasingly profit-driven to serve local economic development objectives. This interdependency perspective is supported by theories developed in the literature on organizational configurations (Meyer, Tsui, & Hinings, 1993) and increasingly applied in other fields such as corporate governance (Aguilera, Desender, & Kabbach de Castro, 2012) to advocate for a more holistic approach for examining how changing interactions among organizational actors can create new patterns of coordination and behavior within groups.

2.3 IMPLICATIONS OF VARIETIES IN STATE CAPITALISM FOR OUTWARD FDI STRATEGIES OF STATE OWNED ENTERPRISES

As agents of the state, SOEs are embedded in a political and social environment that extends beyond purely strategic and economic considerations. They must respond to home and host countries' institutional demands which exert pressure on them to mobilize organizational legitimacy for their international activities (Cui & Jiang, 2012). On the one hand, SOEs are obliged to fulfill certain home country government priorities such as acquiring key technologies and natural resources necessary for national development to legitimize their reasons for conducting FDI (Luo, Xue, & Han, 2010). However, they must also seek host country acceptance when they enter foreign markets. Previous studies have highlighted the importance of firms adopting conforming behaviors to cultivate host country legitimacy as a means to overcome political opposition in host markets (Kostova & Zaheer, 1999; Lu & Xu, 2006). Other studies have also found that firm responses to host country institutional environments may be reflected in their FDI ownership strategy (Lu, 2002; Xu & Shenkar, 2002). Presently, there is limited theoretical understanding on how different types of SOEs interact with competing domestic and foreign institutional pressures when they invest overseas.

By deriving a theoretical framework which elaborates the mechanisms through which large-scale institutional reforms induce stratification in the organizational field of SOEs leading to cleavages among them, we seek to articulate a new theoretical linkage between macro-level institutional changes contributing to diversity in state capitalism and micro-level SOE strategic choices reflected in their overseas venturing patterns. Variations in the level of SOEs' managerial autonomy, institutional support, monopoly power, and market orientation arising from macro-institutional changes signify a divergence in the institutionalized logics and expectations of roles held by local and central SOEs. Drawing from sociological institutionalism (DiMaggio & Powell, 1991; Hall & Taylor, 1996; Scott, 2004, Meyer & Rowan, 1977) which embraces a prescriptive

approach to analyze how organizational actors conform to behavioral norms and rules established in their institutional environment to earn legitimacy for their continued survival, we develop a series of propositions elucidating how differences in the expected behavior of central and local SOEs along these four dimensions can transform the way they seek legitimacy from home and host governments. Our approach takes into consideration the distinctive attributes of central and local SOEs which we postulate motivate them to adopt differentiated legitimization strategies for outward FDI.

Institutional Legitimacy in Home Countries

Research into firms' internationalization strategies are increasingly focused on both home and external host legitimacy challenges faced by firms when they enter foreign markets (Kostova & Zaheer, 1999; Lu & Xu, 2006). Such issues are relevant for internationalizing SOEs as they expand their business to operate in multiple overseas institutional environments. In particular, obtaining home institutional legitimacy is a crucial priority for SOEs since their survival is conditioned on sustained government access to valuable information and support. Such resource dependence exerts coercive pressure on SOE managers to meet government targets and priorities by establishing conforming routines and practices beyond purely economic mandates. Under circumstances where SOEs report to various government authorities with their own agendas and goals (Wang, Hong, Kafouros & Wright, 2012b), different tactical approaches may be employed by SOEs to obtain home organizational legitimacy. Moreover, central and local SOEs are not provided with the same level of institutional resources to fulfill their missions, which underscore their differing priorities (Sun, Mellahi, & Thun, 2010).

The different channels by which SOEs negotiate for home institutional legitimacy have implications for their choice of internationalization path. In exploring overseas, firms may follow a gradual internationalization path where they enter home-like foreign markets before venturing to

psychically and institutionally distant locations (Johanson & Vahlne, 1977, 2009; Xu & Shenkar, 2002), or they can leapfrog stages and enter distant locations without accumulating significant a priori experiential knowledge or networks (Luo & Tung, 2007; Matthews & Zander, 2007). As ‘national champions’, central SOEs derive a substantial part of their home institutional legitimacy by serving as policy instruments of central governments. Their monopoly privileges and high degree of institutional support are granted on the condition that they endeavor to serve certain national strategic goals (Luo, Xue, & Han, 2010; Yamakawa, Peng, & Deeds, 2008). In recent years, emerging economy governments have actively encouraged their central SOEs to accelerate their international expansion to secure important strategic assets and resources to strengthen national competitiveness (Kowalski et al., 2013; Zhang, Zhou, & Ebbers, 2011). Due to substantial home country push factors and preferential support, central SOEs from emerging market countries such as Bank of Brazil, SINOPEC of China, PETRONAS of Malaysia, and ONGC Videsh of India have leapfrogged to far-flung developed markets such as Australia, United States, Canada and Western Europe. Moreover, such firms may not be sent abroad for purely commercial reasons but rather for strategic purposes. They may expand abroad to project their growing political and economic power (Child & Rodrigues, 2005), establish a banking presence in distant financial centers such as New York or London to raise capital (Narula, 2012), set up R&D centers in advanced economies to acquire technical and tacit knowledge (Di Minin, Zhang & Gammeltoft, 2012), or make passive investments in such countries to observe the decision-making processes of their invested subsidiaries (Shapiro & Globerman, 2012).

Meanwhile local SOEs are not obligated to fulfill government mandates to pursue the same strategic interests compared to central SOEs. Instead, they derive their home institutional legitimacy from maximizing rents for local government purposes. The combination of their market-pull orientation and less privileged access to institutional resources encourages more profit-driven and risk adverse behaviors so they may delay entering unfamiliar advanced markets dominated by

sophisticated competitors requiring significant upfront investments which may reduce their short term profits. By contrast, institutionally and psychically proximate countries offer more predictable business environments with lower entry barriers which enable local SOEs to accumulate and fine-tune their capabilities in preparation for penetrating more distant markets. Over the past two decades, various local emerging economy SOEs have deployed this strategy. Among them, Saigon Trading Group, a local company controlled by the Ho Chi Minh City government in Vietnam signed a joint venture agreement in 2004 with Cambodia's SOKIMEX group to build a food processing factory in Cambodia before incorporating a subsidiary in the United States in 2007 and a representative office in Japan in 2009. Another local SOE, Hisense from Qingdao Province in China entered South Africa as early as 1996 and established itself as a top consumer electronics brand in the country before moving to more developed markets such as the US in 2001, Europe and Australia in 2006, and Canada in 2012. Similarly, PT Riau Airlines, a local Indonesian SOE owned by the Riau provincial government in Sumatra registered its first foreign branch office in Malaysia after entering a cooperation agreement with a Malaysian tourism company in 2009 to initiate air services between Sumatra and Malaysia.

The relatively fewer institutional resources accessible to local SOEs may also incentivize them to operate with greater caution in foreign countries. While local SOEs may receive extra policy supports such as subsidies and bank loans, they lack the abundant pool of resources specifically reserved for central SOEs to realize large-scale national strategic goals abroad. As policy instruments of the central government, central SOEs may be obligated to obtain home institutional legitimacy by leapfrogging to foreign strategic markets while utilizing their institutional supports to replace experiential learning. By contrast, as commercial vehicles of local governments, local SOEs must balance the risks and benefits of foreign market entry by gradually accumulating international management expertise beyond their immediate vicinities to eventually explore more distant foreign markets. Therefore, we propose:

Proposition 5: Relative to central SOEs, local SOEs are more likely to follow a gradual internationalization path when conducting outward FDI.

Beyond comparing the policy driven versus commercially motivated behavior of central and local SOEs, we identify differences in the regulatory expectations of central and local governments which influence how they pursue international diversification. While central SOEs are encouraged to invest globally, they are subject to more restrictive investment approval procedures and closer scrutiny of their diversification plans due to central governments' concerted efforts to fulfill national welfare goals. Central SOEs in many emerging economies including India, Vietnam and China are required to focus on their core businesses which render them incapable of freely diverting resources into new business lines. While India recently recognized the importance of removing bureaucratic hurdles by establishing the Maharatna scheme in 2009 to allow a selective group of central SOEs to invest up to 15 per cent of their net worth in foreign projects of their choice, other emerging economies such as China continue to follow a more stringent policy. In 2006, China initially established a similar 10% cap for central SOEs on foreign investments made beyond their core businesses. However in 2012, the government issued a new set of regulations prohibiting any new foreign investments by central SOEs in non-core business areas unless they receive special authorization. Under such regulatory pressure from home country governments not to deviate from authorized mandates, most central SOEs are largely constrained from independently diversifying their businesses in their overseas operations.

Compared to central SOEs which abide by strict government guidelines to maintain their institutional legitimacy, local SOEs follow more relaxed procedures to invest according to their business priorities. Evidence also supports the view that business diversification by local SOEs is spurred by local government development goals aimed at increasing production output and employment (Zhang & Li, 2006). Furthermore, local SOEs exhibit stronger market orientation and

managerial autonomy which stimulates them to be more alert to market trends in foreign consumer demand and deploy diversification strategies to gain competitive advantage abroad. An illustrative example of an internationalizing local SOE undertaking this approach is Saigontourist, a tourism company owned by Vietnam's Ho Chi Minh City government which expanded into the healthcare and rubber industries in Cambodia and Laos. In 2006, it joined a consortium of local SOEs including Saigon Construction Corporation and Saigon Real Estate Group to build a new hospital in Cambodia. As of 2011, Saigontourist invested over 27 million dollars in the development of this hospital and became a shareholder of a 5,000 hectare rubber plantation in Laos. In China, Liugong Machinery Company, a construction machinery firm owned by the Guangxi provincial government also established a manufacturing plant in India and recently acquired HSW, a company in Poland. Since initiating its production and sales in overseas markets, its senior management has actively broadened existing global business lines by focusing on customer's needs, in particular by adapting their product lines to meet requirements in Brazil and Thailand where environmental conditions necessitate adjustments. Lastly, the very process of economic liberalization in local domestic markets leads to rising competition which magnifies pressure on local SOEs to improve the diversity and quality of their products.

Deriving their legitimacy from central government regulations, central SOEs are obligated to focus on their core businesses and restrict their overseas business diversification. Conversely, local SOEs may achieve greater home institutional legitimacy by actively responding to varying market conditions in their foreign operations which present commercial opportunities outside their existing lines of businesses. Therefore, we propose:

Proposition 6: Relative to central SOEs, local SOEs are more likely to engage in business diversification when conducting FDI.

Institutional Legitimacy in Host Countries

A volume of studies have long acknowledged that multinational corporations (MNC) entering foreign markets face costs to entry due to their lack of external legitimacy (Kostova & Zaheer, 1999; Lu & Xu, 2006; Zaheer, 1995). Such lack of legitimacy is commonly associated with incompatibility between home and host country institutional values and practices in the regulatory, cognitive, and cultural domains. It may also be attributed to perceptions by host countries of possible conflicts of interests between the home and host countries (Henisz & Zelner, 2005; Lipsey, 2002). Due to such liability of legitimacy, MNCs dedicate significant resources to cultivate a positive corporate image in local markets and employ diverse strategies such as encouraging local cultural adaptation by subsidiary units or providing financial support for local social programs. In relation to SOEs aspiring to venture overseas, their liability of legitimacy is compounded by virtue of their political affiliation to home country governments which may trigger host country concerns about SOEs' motivations for host market penetration (Globerman & Shapiro, 2009; He & Lyles, 2008). However, it has also been recognized that state ownership should be treated as a 'multidimensional phenomenon' (Cui & Jiang, 2012: 281) and that SOEs with different types of government affiliation may not be subject to the same institutional pressures.

Extending this view, we propose that different levels of government affiliation matter significantly in shaping the nature and degree in which host country institutional pressures fall on SOEs. Following the distinction between goal-level and means-level conflicts of institutional demands (Pache & Santos, 2010), we argue that the potential conflicts of interest between central SOEs (internal institution) and host governments (external institution) arising from central SOEs' lack of autonomy, monopoly characteristics, and lower market orientation are likely to manifest at a *goal level* which renders such conflicts more difficult to resolve compared to disputes between local SOEs and host governments. As policy instruments of home governments, central SOEs may exercise non-commercial strategies with political motives that advance home country goals at the

direct expense of host country national interests. However, local SOEs with more credible commercial objectives and higher managerial autonomy are less likely to harm such interests. This does not imply their negotiations with host governments are free of disputes or contention, but rather their disagreements are more likely to manifest at a *means level* where bargaining remains possible. This crucial distinction between goal versus means level conflict has been analyzed in the context of organizational responses to competing institutional pressures, where organizations are more inclined to exercise harder measures such as contestation or avoidance rather than compromise under circumstances of fundamental goal misalignment when bargaining options are slim (Pache & Santos, 2010). Furthermore, resource dependence has been found to influence firm strategic responses. A firm that is highly dependent on an institution for important resources is more likely to conform to rather than deviate from the institution's expectations and priorities (Oliver, 1991). In relation to central SOEs, their higher dependence on home institutional resources reinforces their inherited policy mandate and makes them less willing to acquiesce to host country demands despite their weakened negotiating power. This view is consistent with observations made by Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury (2011: 319) that "an organization's position within a field shapes the form and intensity of complexity that it will experience such that 'central' highly embedded organizations may be more exposed to the tension that multiple logics engender as compared to less embedded 'peripheral' organizations".

The willingness and ability for firms to devise solutions to address external legitimacy challenges has important implications for their FDI strategies. Prior studies have found that firms' selection of entry modes, reflected in their subsidiary ownership structure, can be used to establish institutional legitimacy in host environments (Cui & Jiang, 2012; Yiu & Makino, 2002). New foreign market entrants may opt for a highly integrated wholly owned ownership structure to safeguard their control or a more loosely integrated joint ownership structure to minimize risk and benefit from their local partner's ability to navigate challenges in the informal and formal

regulatory, normative and cultural environment. The decision to engage in a joint venture also offers an array of advantages to shore up their organizational legitimacy. In addition to drawing from their partner's expertise to mitigate host country barriers, new market entrants may benefit from their partner's clean reputation to establish trust with other local stakeholders thereby alleviating host constituents' unfavorable perceptions (Cui & Jiang, 2012; Yiu & Makino, 2002). A wholly owned subsidiary is made when firms encounter high transaction costs and difficulty in negotiating with or monitoring their local partners (Brouthers, 2002). Therefore, firms seeking to avoid possible disputes or opportunism by a foreign partner will select this form of entry mode to maximize their control.

The incongruence between the interests of central SOEs and host governments may attenuate their ability to cultivate successful joint venture operations. Such perceived disadvantage can encourage central SOEs to use more exacting measures to secure their global strategic interests resulting in a preference for less compromising and more competitive entry modes such as wholly owned operations. Central SOEs may also be keen to select wholly owned entry approach since it optimizes their control and ability to fulfill home country obligations arising from their high resource dependence.

Strong preferences by central SOEs for comprehensive ownership control in FDI was recently manifested in a failed attempt by Singapore's state owned DBS Group to win regulatory approval from Indonesia's central bank to gain a 99% stake in PT Bank Danamon, which ranked sixth in assets among Indonesian banks. In 2013, DBS Group was compelled to withdraw from its year-long bid which would have been the largest acquisition in Indonesia's history due to a combination of de facto protectionist measures by both countries. Several months into negotiations, the deal was delayed by the Indonesian central bank's decision to establish new bank ownership rules which restricted foreign investors' initial shareholding to 40% in Indonesian banks. The Indonesian central bank gave DBS Group the option to purchase a minority stake and increase its

shareholding in exchange for providing greater market access to Indonesian banks for expanding their foothold in Singapore. Despite this compromise offer, inaction by Singapore's Monetary Authority to reciprocate prompted DBS Group to withdraw its bid, contributing to the deal's collapse. Meanwhile Indonesian banks such as Bank Negara Indonesia are now exploring alternative foreign investment strategies such as establishing a branch in Myanmar to support the overseas expansion of other Indonesian SOEs into this rapidly developing country.

Undoubtedly, local SOEs also face considerable challenges in foreign markets, but unlike central SOEs which often stir up significant host country resistance in their overseas investments, we argue that local SOEs are better positioned to negotiate for host country local legitimacy. Since they are less likely to encounter goal level conflicts, a wider set of options to offset host government concerns are available to them. The more neutral perception of local SOEs by foreign host constituents may permit them to find willing joint venture or trading partners open to foreign investment in host environments. Employing collaborative entry approaches can permit local SOEs to gradually expand their network of formal and informal engagements with foreign stakeholders to modify host perceptions in their favor. Such strategies are not new and have been previously deployed by latecomer Japanese firms such as Toyota when overcoming high entry barriers to the US market in the 1980s (Chung, Mitchell, & Yeung, 2002).

In recent years, collaborative entry approaches have been adopted by various local SOEs from India, Indonesia and China. A characteristic example is Beidahuang Nongken Group, a local agricultural company owned by China's Heilongjiang provincial government which signed a joint venture agreement with Argentina's Cresud SA and the local government of Rio Negro to lease and develop vast tracts of farmland in Patagonia to produce agricultural products for export to China. The 20 year joint venture collaboration which facilitated the circumvention of strict regulations banning large foreign land acquisitions also included plans for the Chinese partner to contribute to local economic development by expanding Rio Negro's port and constructing

irrigation facilities. Indonesian local SOEs have also been actively pursuing collaborative investments abroad. In addition to PT Riau Airlines, PT Pembangunan Jaya Ancol, a local tourism and property management company controlled by the Jakarta municipal government was recently invited to establish a joint venture theme park by the Malaysian government. Beyond Malaysia, the firm has also been keen to establish a commercial presence in Cambodia, Thailand and Vietnam. Over the past decade, two local Indian SOEs controlled by the Gujarat state government also established high profile joint venture projects overseas. In 2006, the Gujarat State Fertilizers and Chemicals Ltd. initiated a joint venture project with two Tunisian SOEs to build a chemical plant to produce ingredients for fertilizer production which would be exported to India. This facility became operational in July 2013 and currently employs over 500 people. Gujarat State Petroleum Corporation, the only provincial company in India engaged in oil exploration and production also has multiple joint ventures with firms in several countries including Egypt, Yemen and Australia. Given prominent differences in their willingness and ability to negotiate for host country legitimacy between central and local SOEs, we propose:

Proposition 7: Relative to central SOEs, local SOEs are more likely to choose a joint ownership structure than a sole ownership structure when conducting FDI.

In addition to entry mode, the method of establishing a foreign subsidiary also matters for firms' ability to cultivate institutional legitimacy in the host country. Firms may select to conduct a greenfield or mergers and acquisitions (M&A) investment which can influence host country stakeholder perceptions of foreign entrant's investment motivations. Greenfield projects typically involve the construction of new physical facilities contributing to tangible job creation and host country productive output while M&A investments require purchasing of existing assets and resources without necessarily creating new value. M&A investments by foreign entrants are generally perceived less favorably by host constituents compared to greenfield investments which

offer more benefits (Globerman & Shapiro, 2009). Moreover, M&A approaches are viewed as more competitive and less collaborative since it facilitates the takeover of valuable domestic assets by foreign entrants (Zhang et al., 2011). Therefore, greenfield projects rather than M&A investments may imprint more positive impressions on host country stakeholders to facilitate deeper operational ties.

Since goal-level conflicts between central SOEs and host country stakeholders compromise central SOEs' willingness and ability to successfully negotiate for host legitimacy, the diminished likelihood of resolution for such conflict may encourage central SOEs to follow more competitive or evasive entry strategies. Local SOEs on the other hand, have more alternatives to address means-level conflicts with host country stakeholders. In contrast to central SOEs which may prefer M&A or wholly owned investment strategies, local SOEs can employ a greenfield approach to create mutual benefits and secure host country legitimacy. For example, the joint venture operations by Beidahuang Nongken Group, PT Pembangunan Jaya Ancol, Gujarat State Fertilizers and Chemicals Ltd., and Gujarat State Petroleum Corporation were all established through greenfield investments which rewarded both host and home country stakeholders.

For central SOEs, their interest in securing and optimizing their monopoly power also places them in direct competition against well-established multinationals such as BHP Billiton and General Electric which dominate highly competitive global industries. Challenged to outpace their stronger rivals, central SOEs with latecomer disadvantages may also prefer M&A to rapidly accelerate their international growth and upgrade their capabilities directly through acquisition of assets and knowledge rather than rely on slower organic growth. Central SOEs often adopt this aggressive M&A approach despite its tendency to create goal level conflicts with host country governments. A widely reported and controversial case which illustrates such contentious behavior by a central SOE is the failed attempt by Aluminum Corporation of China (Chinalco) to increase its minority stake in Rio Tinto. In 2009, both parties agreed for Chinalco to make an additional

investment of 20 billion dollars in Rio Tinto which would have doubled Chinalco's ownership stake, but after Rio Tinto withdrew from the deal partly due to heightened opposition from the Australian government, the Chinese media immediately made declarations accusing Australia of open protectionism. An unusual but noteworthy statement was issued by a Chinese Ministry of Commerce analyst that Chinalco was no longer interested in making additional compromises in such deals. Unable to respond to foreign host pressures while prioritizing home country interests, Chinalco was compelled to adopt a confrontational response rather than negotiate for host country legitimacy. Such differing host country legitimacy and global competition challenges faced by central and local SOEs may lead them to exhibit varying preferences for FDI establishment methods. Summarizing the discussion above, we propose:

Proposition 8: Relative to central SOEs, local SOEs are more likely to pursue greenfield investment rather than M&A when conducting FDI.

We illustrate our theory and propositions development in a trickle-down model (see Figure 2). As shown in Figure 2.2, central and local SOEs differ along four characteristic dimensions (Propositions 1 to 4) which are derived from reform processes underpinning evolution in the macro-institutional systems of emerging economies (see Figure 2.1). We posit that the interaction of these organizational differences with particular home and host institutional pressures further give rise to differentiation in local and central SOEs' FDI strategies (Propositions 5 to 8). Overall, the trickle-down model illustrates how macro-institutional processes serve as drivers of variation in SOEs' FDI activities.

[Insert Figure 2.2 about here]

2.4 DISCUSSION

Main Theoretical Contributions

Prior studies on the foreign venturing of SOEs have identified how incompatibilities between home country strategic interests and host country resistance can generate contravening circumstances affecting the cross-border activities of SOEs (Gordon & Tash, 2009; Kowalski et al., 2013; Shapiro & Globerman, 2012). While there has been no shortage of studies highlighting such important considerations, the cascading effect of institutional reforms in catalyzing diversity among SOEs and its profound consequences for how SOEs balance competing institutional demands in their cross-border FDI remain largely overlooked. To deepen this vein of investigation, we unravel the formative institutional mechanisms by which central and local SOEs evolve distinct salient characteristics that motivate them to adopt different overseas expansion strategies.

With this article, we both contribute to efforts to understand the broader implications of institutional diversity for IB studies and respond to calls for greater cross-fertilization of ideas from the comparative capitalisms literature to IB research (Jackson & Deeg, 2008). Our theoretical framework draws from and integrates both research streams by delineating how intricate combinations of reform processes can reconfigure institutional arrangements of economic coordination in emerging economies which affect resource allocation and capabilities formation for SOEs investing abroad. Rather than adhering to a static perspective on SOEs, we advance a configurational approach to examine their evolution into organizational actors with varying agendas. Embracing this approach enriches and elaborates a bigger picture understanding of how governments are internally adapting their state sectors to sustain hybrid models of economic coordination capable of greater responsiveness to global integration.

More specifically, we develop a dynamic model to illustrate how varieties in state capitalism may emerge due to the transformative and cross-cutting nature of reforms in emerging economies which results in more radical measures of change and idiosyncratic patterns of development among SOEs. In

particular, the mixing and coalescing of elements from central planning and market based coordination rearrange the constellation of economic and political state actors into a hybrid institutional configuration capable of supporting both forms of economic activity. By disentangling the effects of multiple reform processes to show how they reconfigure institutional subsystems for new kinds of economic coordination, we trace the unique patterns of development of SOEs operating in these subsystems. Interestingly, the extant comparative capitalisms literature has been largely silent on how systems of economic coordination can be reshuffled to create new institutional synergies which facilitate the structuration of market based development in emerging economies. Through the prism of diversity in capitalism, we theoretically map the effects of macro-level institutional changes to SOE firm-level attributes.

Our theoretical development shows how as the roles, resources, logics and priorities between central and local governments are realigned to accommodate a hybrid market economy, the functions and characteristics of SOEs under their respective jurisdiction also begin to diverge. Central SOEs are reformed into ‘national champions’ with more concentrated monopoly features and business group characteristics to act as policy instruments of the state. Their formal mandates to support macro-level industrial growth and social welfare distances them from purely profit-maximizing practices. Whereas local SOEs are restructured into more autonomous and market oriented firms with greater flexibility and driven by commercial logic. Such integral differences in the formulation of their strategic priorities and resource positions not only intrinsically shape how SOEs act in domestic business environments, but also how they navigate foreign markets.

We extend existing theories on SOEs’ foreign investment behavior by showing how underlying organizational differences can regulate their ability to obtain home and host country institutional legitimacy for foreign investment. Prior research has found that SOEs are highly resource dependent on home country institutions which increases pressure for their conformity to domestic demands and priorities (Cui & Jiang, 2012). SOEs intending to venture abroad are also simultaneously under

magnified pressure from host country institutions to demonstrate credible investment motives (Li & Meyer, 2009; Kowalski et al., 2013). Consequently, a crucial issue faced by SOEs is whether they can balance the dual competing demands of home country and host country governments. Since central SOEs are more likely to face goal-level conflicts with host institutions which may perceive them as threats, the visceral strength of such conflicting legitimacy requirements may handicap their legitimization efforts, leading to their adoption of more evasive or competitive foreign market entry strategies. On the other hand, local SOEs may exhibit greater flexibility to pursue collaborative investment strategies due to their more credible commercial profiles. Rather than categorizing all SOEs under the same umbrella, we unveil how their restructured capabilities and exposure to varying home and host institutional pressures can propel them to deploy different strategic tactics abroad which are reflected in their foreign subsidiary establishment strategies, international diversification patterns, and geographic location preferences.

Implications for Host and Home Country Governments

Our study holds critical implications not only for key stakeholders such as host and home country government owners but also for researchers in advisory roles. First, developing greater awareness of SOE diversity among host country policy-makers would enable them to draw more precise conclusions regarding the strategic motivations of foreign investing SOEs. In recent years, with the rapid growth of foreign investments by emerging economy SOEs, many host governments have imposed a spate of bureaucratic restrictions and review procedures applying to all state owned entities which have sparked concerns about protectionism by home country governments. While host governments regularly commission reports from internal research groups and experts from academic institutions to scrutinize foreign investing SOEs in their territories, such studies have tended highlight SOEs' potential strategic and security complications with minimal consideration for their diverse origins or potential value propositions to host constituents.

For example, Shuanghui International Holdings, a food and logistics group recently privatized by the Henan local government in China faced regulatory hurdles in its efforts to acquire Smithfield Foods, a US pork producer. An expert's testimony commissioned by the US Senate asserted the deal represented a national security threat on the basis of Shuanghui International's previous state ownership without clarifying the nature of such state ownership apart from offering a general statement asserting that the Chinese government's role is complicated and not always disclosed. Although Shuanghui International's bid was ultimately successful as it did not represent any material harm and received unwavering support from its American partner, a more detailed assessment of its background would have shed greater clarity on its commercial intentions. Government responses have significant signaling effects on the perceptions of domestic firms and stakeholders. Applying finer-grained methods to diagnose the business risks of foreign SOEs may offer better guidance to host country firms considering potential business ventures with them.

Secondly, home country governments should also reflect on the institutional reform implications for their SOEs' overseas activities. While a substantial segment of reforms constitute experiments in the making, emerging economy governments should not overlook the consequences of their institutional designs which directly impact the ability of SOEs to address legitimacy issues in host environments. Emerging economy policymakers should consider how the strategic features of SOEs are shaped through the reorganization of institutional elements catalyzed by reforms and how altering these elements may trigger a change in the way SOEs' actions are perceived abroad. By consolidating central SOEs into what they envision to be world class 'national champions', emerging economy policymakers may inadvertently spur corresponding measures by potential host countries to issue stronger policies fortifying them against incoming FDI activities by foreign SOEs. Therefore, engaging in more extensive communications to gauge host governments' reactions to their reform efforts through regular exchanges and forums sponsored by international organizations

such as APEC and OECD may help host policymakers to design appropriate measures facilitating the viable expansion of their SOEs operating abroad.

Implications for Managerial Practice

The evolving strategic functions of SOEs bring consequences for their managers as well as host country business partners and competitors. Although central SOEs from emerging economies face significant host country resistance combined with domestic restrictions on business diversification, local SOEs with sufficient resources for international venturing may now exercise greater flexibility in their FDI strategies than before. By recognizing these favorable conditions, managers of local SOEs can actively prepare their firms to exploit such advantages by undertaking more extensive efforts to develop business ties with foreign firms receptive to alliances and partnerships. Local SOEs from emerging economies which have successfully cultivated such strategic alliances can leverage them to make inroads into new host markets while minimizing legitimacy concerns. Moreover, establishing such alliances can enable local SOEs to access different managerial perspectives from their foreign partners which may revitalize their reform momentum and lead them to consider new business models and organizational practices to upgrade their existing capabilities.

Central SOEs may continue to encounter intrinsically more challenging issues stemming from their domestic policy-driven focus especially given accelerated efforts by emerging economy governments to promote their entry into foreign markets. Although their managers may prefer more evasive or competitive strategies, displaying greater openness to compromise solutions may facilitate future progress despite their initial lack of appeal. Following its unsuccessful bid for PT Bank Danamon, DBS Group's CEO admitted the substantial setback of this missed opportunity and estimated it would take more than five years for DBS to independently grow its operations in Indonesia. Due to such prominent priorities at stake and the potentially irreversible effect of their

decisions, central SOE managers and their respective governments may need to more carefully reevaluate whether long term benefits of concessions may outweigh shorter term sacrifices when compromise opportunities arise. Central SOE managers may also consider more targeted strategies to compensate for their institutional shortcomings by cultivating mutually beneficial collaborations with neutral third-party foreign partners to build sufficient legitimacy for establishing multi-party consortiums to jointly invest abroad. While this approach may dilute their ownership control over foreign invested subsidiaries, it may also serve to diffuse potential goal level disputes with host governments.

Finally, developing institutional awareness of complex trends in the population change of emerging economy SOEs can enable foreign firms to better anticipate their overseas behavior and incorporate these into their own schemes for effective collaboration or competition. Five years ago Shuanghui International became involved in a trading partnership with Smithfield Foods. Recognizing the strategic importance of their relationship, senior managers from Smithfield Foods repeatedly proposed mutual shareholding arrangements before an acquisition deal was negotiated. The acknowledgement by Smithfield Foods' CEO of his proactive role in negotiations to sell his company indicates that Smithfield Foods was a strategic enabler of this deal and was as mutually interested in reaching an agreement as its Chinese counterparts. Representing the largest acquisition of a US company by a Chinese firm, this breakthrough deal signifies a nascent deepening in foreign firms' discernment of new institutional realities in emerging economy countries.

Implications for Future Research

Through a systematic examination of the institutional drivers and mechanisms underpinning emerging economy SOEs' evolutionary organizational development, we offer a series of propositions that can be empirically investigated using longitudinal multilevel methods. Apart from empirical evaluation, our attempt to disaggregate the effects of institutional change processes and

how they give rise to varieties in state capitalism also creates space for important theoretical questions regarding other forms of SOE diversity and their associated effects on SOEs' overseas venturing. Organizational diversity is multi-faceted in nature. While our analysis captures general reform processes that are most relevant to the renegotiation of the relationship between different levels of government, it does not explore the full range of country-specific reform dynamics that may induce organizational diversity along different dimensions. For example, the effects of partial privatization and ownership reform in China, India, and Vietnam have led to the proliferation of transitional corporate entities and public-private hybrid firms which straddle between private and public control (Boyer, 2012; Gupta, 2005).

While our study does not address the ambiguities and implications arising from the emergence of these hybrid firms, we concur with other studies (Inoue, Lazzarini, & Mussachio, 2013; Khanna, 2012; Mussachio & Lazzarini, 2014) that this is a promising area of research for future investigation. More attention can be devoted to explore the combination of resources, competitive advantages, governance structures and routines leveraged by these hybrid organizations to operate internationally and whether they adopt more private competition based approaches to establishing organizational legitimacy in host country environments. The blurring of boundaries between government and private sectors in emerging economies creates a grey zone that will likely become a focal area where new interest groups emerge to reshape the constellation of constraints, motivations, and resources behind these state-private hybrid firms' activities. Under circumstances of shared ownership and mutual interdependence where the state retains a silent but influential strategic role, the issue of control becomes highly salient. How are such firms jointly managed by state and private shareholders? What special niches do they occupy in international markets and what mandates do they follow? Do they serve to advance institutional innovation in emerging economies? While institutional pluralism is increasingly recognized in various fields including political economy, organizational studies, and international business, its consequences

remain underexplored. Future research into the relationship between state ownership and globalization can benefit from investigating how these emergent state-private hybrid firms may operate as governments' response to globalization's pressures, demands and challenges.

Above these research horizons, future studies can also advance this line of inquiry by addressing additional factors not considered in this study. First, the temporal dimension of institutional change should be considered for its potential downstream effects. Under circumstances of radical change which has unfolded in some countries, the trickle-down effects of reform may be diminished significantly. However, this does not mean that state ownership in these countries have disappeared entirely. For instance, large scale privatization in Russia has substantially reduced the number of SOEs but they continue to account for 11% of all firms and over 32% of total capital investment (OECD, 2008). Comparative studies aimed at measuring the effects of different reform speeds and sequencing across multiple countries can shed valuable insights into the linkages between institutional change and organizational diversity among SOEs as well as subsequent effects on their foreign investment patterns. Furthermore, it would be worthwhile for future studies to incorporate other critical elements such as subnational institutional heterogeneity characterized by the level of institutional quality and socio-economic disparity of local regions. Various studies have pinpointed this factor as having significant impacts on firm performance and internationalization behavior (Liu, Lu, & Chizema, 2013; Ma, Tong & Fitza, 2013; Meyer, Mudambi, & Narula, 2011; Meyer & Nguyen, 2005) which may also be a source of considerable heterogeneity among SOEs.

Lastly, while our study mainly considers how institutional changes in host country environments may shape SOEs' FDI strategies, we see a robust theoretical opportunity in investigating the effects of macro-institutional changes in host countries which may alter the institutional frameworks and conditions under which SOEs operate abroad. Recent research finds evidence that evolving political conditions in host environments can substantially curtail the ability

of multinational firms to maintain their organizational legitimacy in these countries (Bucheli & Kim, 2012). Such findings merit more extensive research to evaluate the sensitivities of foreign investing SOEs to host country institutional changes and their strategic responses to mitigate associated potential risks and disadvantages.

2.5 CONCLUSION

Broadly speaking, the theoretical framework developed in this study makes important contributions to the international business and political economy literatures by showing how organizational diversity of emerging economy SOEs derived from macro-institutional reforms can extensively impact their overseas venturing strategies. Our study also underscores the importance of institutional change as a driving component of firm strategy in emerging economies. The ongoing reform of SOEs into modern corporations characterized by increasingly differentiated organizational modalities is imperfectly captured by current literature on state-owned multinationals which overlooks the evolving political economy systems of emerging economies as core determinants of their SOEs' global strategies. Keeping abreast of the dynamic momentum of institutional change and progressing beyond static conceptions of SOEs' identities, behaviors and functions enables us to identify crucial inflection points in SOEs' organizational restructuring which may shape their future relationships with host governments, foreign competitors and partner firms. Moreover, our study reveals how asymmetric institutional pressures from home and host countries may apply to different types of SOEs, mirroring their contrasting strategic agendas and capabilities. The central implication is that SOEs will encounter unique cross-border challenges and windows of opportunity borne out of such asymmetric pressures which lead them to adopt differentiated FDI strategies. By illustrating the value of diversity in state capitalism in guiding SOEs' heterogeneous overseas investment choices, we hope our paper can stimulate new research

into other facets of SOE diversity and their potential impacts on SOEs' organizational responses to globalization.

Notes

1. We use the term 'heterogeneity' and 'diversity' interchangeably in this paper.
2. The term 'central government' refers to the highest level of government and is used interchangeably with 'federal government' and 'national government' while the term 'local government' is applied to provincial or municipal levels of government. Most studies on decentralization typically examine the evolving relationship between central and local levels of government which is why we focus our analysis on these two levels of government.

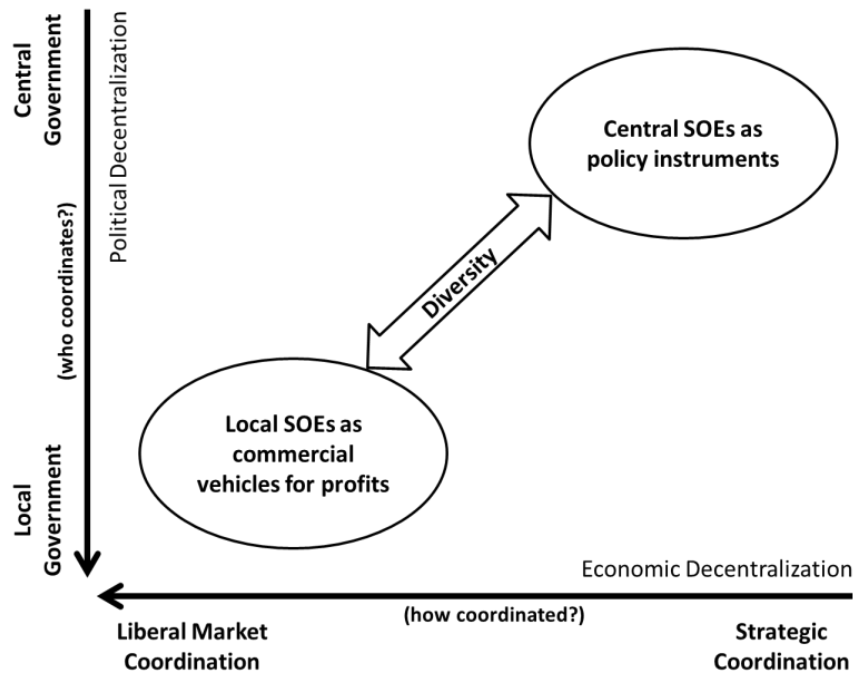


Figure 2.1 Institutional change processes and SOE diversity in emerging economies

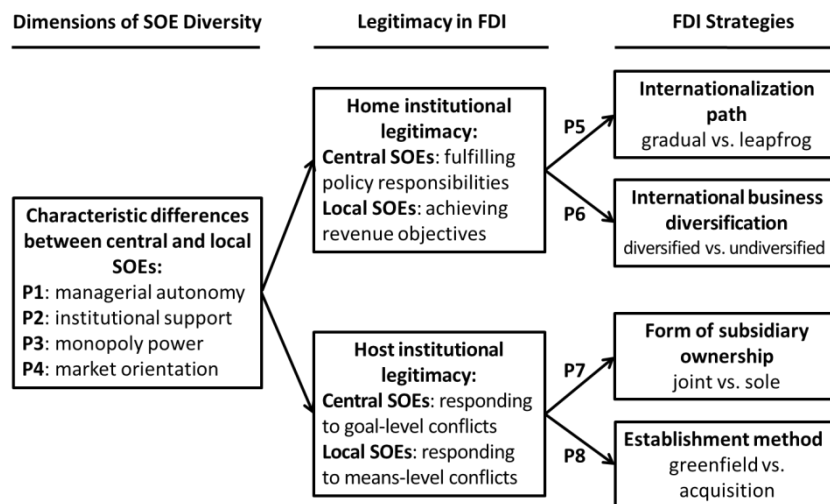


Figure 2.2 The trickle-down effects of institutional change on SOE diversity and FDI strategies

Table 2.1 State ownership patterns in selected emerging economies

Country	Classification and Designation of Central and Local SOEs		Boundary Conditions
	Central SOEs	Local SOEs	
China	Central SOEs are under the direct control of the State-owned Assets Supervision and Administration Commission of the national State Council.	Local SOEs are under the direct control of the State-owned Assets Supervision and Administration Commission of provincial and municipal governments.	Transition economy system characterized by political and economic decentralization with gradual privatization
India	Central SOEs are referred to as Central Public Sector Enterprises (CPSEs) or Central Public Sector Units (CPSUs) designated under the direct control of the Ministry of Heavy Industries & Public Enterprises	Local SOEs are referred to as State Level Public Sector Enterprises (SLPEs) or State Level Public Sector Unit (SLPSUs) under the direct control of provincial governments	Pluralistic governance system characterized by political and economic decentralization with gradual privatization
Indonesia	Central SOEs are referred to as Badan Usaha Milik Negara (BUMNs) which designated under the direct control of the Ministry of State Owned Enterprises	Local SOEs are referred to as Badan Usaha Milik Daerah (BUMDs) which are designated under the direct control of provincial and municipal governments	Pluralistic governance system characterized by political and economic decentralization with gradual privatization
Malaysia	Central SOEs are referred to as Government Linked Companies (GLCs) under the control of the Ministry of Finance and five Federal Government Linked Companies (GLICs) which invest for the central government.	Local SOEs are referred to as State Government Linked Companies (SGLCs) under the direct control the State Economic Development Corporations (SEDCs) which serve as investment arms for provincial governments	Pluralistic governance system characterized by political and economic decentralization with gradual privatization
South Africa	Central SOEs are referred to as National Public Entities (NPEs) or National Government Business Enterprise (NGBEs) under the direct supervision of the national Department of Public Enterprises	Local SOEs are referred to as Provincial Public Entities (PBEs) or Provincial Government Business Enterprises (PGBEs) which are under the direct supervision of provincial and municipal governments	Pluralistic governance system characterized by political and economic decentralization with gradual privatization
Vietnam	Central SOEs are referred to as State-owned Economic Groups (SEGs) designated under the control of various line ministries under the supervision of the Prime Minister	Local SOEs are designated under the control of the People's Committees of provincial and municipal governments. They are referred to directly as Local SOEs.	Transition economy system characterized by political and economic decentralization with gradual privatization

Appendix 2.1 Illustrative case references

Case Examples	References
1. Vietnam's Saigon Trading Group invests in Cambodia, US and Japan	<p>"SATRA expands business to Cambodia", Saigon Times Magazine. 13 November 2004. http:// www.accessmylibrary.com/coms2/summary_0286-14385888_ITM</p> <p>Company history website for details of US subsidiary: http://satra.com.vn/index.php/en/about-us/satra-history/</p> <p>Thuy, B. "SATRA ready to make inroads into Japanese market", Vietnam Chamber of Commerce and Industry News. 26 February 2013. http://vccinews.com/news_detail.asp?news_id=27990</p>
2. China's Hisense invests in South Africa, US, Europe, and Australia	<p>http://www.hisense.co.za/about/ http://hisense-usa.com/about/ http://hisense.com.au/about/ http://www.hisense-europe.com/aboutus.php http://hisense-canada.com/about/</p>
3. Indonesia's PT Riau Airlines establishes joint venture with Malaysian tourism company	<p>"Ten thousand Indonesian individuals appointed as directors in Malaysia", Viva News. 3 June 2013. (Indonesian) http://us.bisnis.news.viva.co.id/news/read/417787-sepuluh-ribu-orang-indonesia-menjabat-direktur-di-malaysia</p> <p>"RAL Opens Medan-Ipoh Route", North Sumatra Post Daily Archive. 21 August 2009. (Indonesian) http://www.hariansumutpos.com/arsip/?p=7300</p>
4. Regulations restricting foreign business diversification of Chinese and Indian Central SOEs	<p>Bombay Stock Exchange Public Sector Undertakings website: http://www.bsepsu.com/maharatnas.asp</p> <p>State-owned Assets Supervision and Administration Circular – Central Enterprises Shall Not Engage in Non-Core Business Investments Abroad (Chinese) http://finance.sina.com.cn/china/20120411/004811791104.shtml</p>
5. Vietnam's Saigontourist Holding Company diversifies into hospitals and rubber in Cambodia and Laos	<p>"HCM City's planned Cambodia clinic approved", Saigon Times Daily. 29 March 2006. http://www.intellasia.net/hcm-citys-planned-cambodia-clinic-approved-20525</p>

	<p>“Saigontourist spends \$2 bln on infrastructure”, Vietnam Investment Review. 23 February 2011. http://www.vir.com.vn/news/en/top-news/saigontourist-spends-\$2-bln-on-infrastructure.html.</p>
6. China’s Liugong Machinery broadens its product lines to satisfy Brazilian and Thai customers	<p>Chao, W., & Yan, H. “Liugong Machinery adapts products to overseas customer needs”, China Daily. 28 December 2012. http://www.chinadaily.com.cn/m/guangxi/liuzhou/2012-12/28/content_16096389.htm</p>
7. Singapore’s DBS Group fails to acquire sole control of Indonesia’s PT Bank Danamon	<p>Grant, J., & Bland, B. “DBS bid for Indonesia’s Danamon collapses”, Financial Times. 31 July 2013. http://www.ft.com/intl/cms/s/0/23374da2-f9cd-11e2-b8ef-00144feabdc0.html#axzz2e7djUjWH</p>
8. Indonesia’s Bank Negara Indonesia explore other investment opportunities in Myanmar following collapse of deal with DBS Group	<p>Sipahutar, T. “Regional expansion still ‘on track’”, Jakarta Post. 05 August 2013. http://www.thejakartapost.com/news/2013/08/05/regional-expansion-still-track.html</p>
9. China’s Beidahuang Nongken Group signs joint venture agreement with Argentina’s Cresud SA to invest in Argentinian farmland	<p>Orihuela, R. “China’s top farmer to invest in Argentina’s Patagonian winemaking, corn”, Bloomberg News. 6 November 2008. http://www.bloomberg.com/news/2011-06-08/beidahuang-will-invest-1-5-billion-on-patagonian-farms-that-it-won-t-own.</p>
10. Indonesia’s PT Pembangunan Jaya Ancol looks to expand its regional presence in Southeast Asia and was invited to establish joint venture theme park by the Malaysian government	<p>“Jaya Ancol targets Vietnam”, Waspada Online. 11 June 2008. (Indonesian) http://www.waspada.co.id/index.php?option=com_content&view=article&id=21683:jaya-ancol-bidik-vietnam&catid=18:bisnis&Itemid=95</p> <p>“Iskandar Malaysia to get third theme park”, New Straits Times. 08 January 2013. http://www.nst.com.my/nation/general/iskandar-m-sia-to-get-third-theme-park-1.197979</p>
11. India’s Gujarat State Fertilizers & Chemicals Ltd. establishes joint venture plant with two Tunisian state owned enterprises	<p>“Inauguration of TIFERT by Shri Srikant K. Jena, Minister of State for Chemicals & Fertilizers” http://www.mea.gov.in/Portal/CountryNews/1167_Inauguration_of_TIFERT_by_Shri_Srikant_K.pdf</p> <p>“Tunisia – India Fertilizer (TIFERT) SA Joint Phosphate Acid Project” http://www.mea.gov.in/Portal/CountryNews/486_Tunisia_-_India_Fertilizer__TIFERT__SA.pdf</p>
12. Gujarat State Petroleum Corporation establish multiple joint venture projects in Egypt, Yemen, and Australia	<p>Nair, Avinash. “State firms push foreign investment, Rs 670 crore capital outflows in July”, The Indian Express. http://www.indianexpress.com/news/state-firms-push-foreign-investment-rs-670-crore-capital-outflows-in-july/1157520/</p>

	Company website for details on Gujarat State Petroleum Company's foreign joint venture projects: http://gspcgroup.com/content.php?SecType=2&CID=1&CATID=34
13. China's Chinalco fails to increase its stake in Australia's Rio Tinto resorts to protestation	Xu, J. "Rio Tinto-Chinalco: China is not amused", Wall Street Journal. 4 June 2009. http://blogs.wsj.com/deals/2009/06/04/rio-tinto-chinalco-china-is-not-amused/
14. US Senate expert testimony on Shuanghui International's provides few details on nature of its previous state ownership	Testimony of Daniel M. Slane before the Committee on Agriculture, Nutrition and Forestry of the US Senate. 10 July 2013. http://www.ag.senate.gov/download/?id=2ce80e90-c82e-4d14-8176-a522328e1d72
15. Singapore's DBS Group CEO admits setback of missed opportunity to invest in Indonesia's PT Bank Danamon	Raghuvanishi, G. "DBS still bullish on Indonesia after failed Danamon deal", Wall Street Journal. 1 August 2013. http://online.wsj.com/article/SB10001424127887323681904578641140671604494.html
16. US Smithfield Foods CEO acknowledges his proactive initiative to engage China's Shuanghui International to negotiate acquisition deal	Shapiro, M.W. "China deal negotiated as Smithfield faced criticism from investor" Daily Press. 6 June 2013. http://articles.dailypress.com/2013-06-06/news/dp-nws-smithfield-pope-20130606_1_smithfield-foods-smithfield-and-shuanghui-larry-pope

References for examples 4, 6, 9, and 13 in the appendix were accessed on 18 May 2013, while other references were accessed on 6 September 2013.

CHAPTER 3

CORPORATE OWNERSHIP REFORM AND FOREIGN MARKET ENTRY OF EMERGING MARKET FIRMS: AN INSTITUTIONAL COMPETITIVE ADVANTAGE PERSPECTIVE¹

ABSTRACT

Emerging market firms experience a variety of home country institutional reforms which reshape their resource profiles and stakeholder expectations. During institutional transition, corporate ownership reform can give rise to new shareholding identities which exert diverse influences over the evolving strategic orientation, performance, and resource accretion of firms, imparting them with distinct institutional competitive advantages. However, the effects of such ownership restructuring on emerging market firms' overseas FDI activities remains understudied. By systematically linking reform outcomes to resulting firm institutional advantages for international expansion, we examine the impact of different types of reformed state ownership on the outward FDI propensity of firms. Results from an empirical study of 973 Chinese listed firms spanning 2002-2009 support our arguments that relative to non-reformed shareholding, reformed marketized ownership has a stronger impact on firms' proclivity for outward FDI. This effect is more pronounced for firms with ownership by central marketized state-owned enterprises. We also find evidence of synergies and misalignments between institutional competitive advantages derived from equity-based shareholding structures and meso-level institutional arrangements such as state business group affiliation. The significant interaction effects suggests a greater need to investigate the interplay between micro and meso-level home country institutions and how firms may leverage both for cross-border venturing.

Keywords: corporate ownership reform, institutional competitive advantage, internationalization, emerging market multinationals, China

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3.1 INTRODUCTION

Over the past several decades, many emerging market countries have initiated substantial and far-reaching institutional reforms which transformed their corporate landscapes. Evidence abounds that while such reforms created exogenous shocks challenging domestic firms' survival, they have also spawned a new era by creating a novel and complex transitional context which yield implications for emerging market multinational corporations' (EMNCs) abilities for international venturing (Jormanainen & Kovesnikov, 2012; Luo, Xue, & Han, 2010). While a number of studies have explored the impact of pro-market structural reforms and industrial reorganization on the international activities of EMNCs (Buckley et al., 2007; Cuervo-Cazurra & Dau, 2009; Kim et al., 2010), there is a scarcity of research on how EMNCs transform themselves in response to institutional transitions and how such organizational morphing can reshape their resources and capabilities for internationalization (Chittoor, Sarkar, Ray, & Aulakh, 2009). One critical but under-examined driver of organizational evolution is the phenomenon of corporate ownership reform which has precipitated widespread restructuring of firm ownership identities and the emergence of new categories of shareholders which yield consequences for the composition of firms' resources, their access to information flows, and their strategic incentives. Focusing on how such ownership reform may alter or redefine the competitive advantages of firms for overseas venturing this study seeks to evaluate the effect of reformed ownership on EMNCs' internationalization strategies.

The rise of new ownership categories through corporate ownership reform bears important implications for the institutional resources and organizational capabilities of firms for orchestrating their foreign business operations. Such resources and capabilities can constitute unique firm-specific advantages (FSAs) for going abroad. While existing research has focused on distinguishing

key differences between the FSAs of developed country and emerging market multinationals for under taking FDI (Cuervo-Cazurra & Genc 2008; Ramamurti, 2012), few studies have examined how such advantages can be shaped by home country institutional reforms. The current paradigm of FSAs has been used to study how firms may overcome liabilities of foreignness by acquiring a unique set of advantages comprising proprietary skills and resources which enable them to minimize market imperfections and coordination costs to operate globally (Rugman & Verbeke, 1992). In the context of EMNCs, this theoretical lens has been applied to explain how firms may derive FSAs from country specific advantages (CSAs) of their developing country context to successfully penetrate foreign markets. Ambitious EMNCs are learning to maximize their limited home country FSAs to springboard abroad and acquire new FSAs to overcome domestic disadvantages (Cuervo-Cazurra & Genc, 2008; Luo et al., 2011).

Despite these valuable insights into how FSAs can be leveraged for EMNCs' global expansion, current treatments of FSAs in the emerging market context provide limited theoretical scope to map how emerging market firms' FSAs can evolve in response to institutional reforms. In particular it fails to capture how some firms may sharpen their competitive advantage over others as institutional conditions change. Recently, a new stream of literature has proposed that *interactions* between firms and their surrounding institutions can generate enabling or disabling conditions which translate to unique institutional advantages or disadvantages for orchestrating their international activities (Martin, 2014; Sun, Peng, Lee, & Tan, 2015). This perspective underscores the importance of assessing how 'firms' initial resources and local conditions *jointly* affect how the firm's range of activities and resources evolve, which then determines relative performance' (Martin, 2014: 62). Moreover, according to Martin (2014: 62): 'though they tend to

be underestimated, home country conditions cannot be taken for stable or homogenous either in affecting the direction of firms' international expansion...likewise, subtle differences, depending on the time of founding and the state of resources and institutions in the home country, may have consequences for the state and buildup of capabilities within the firm'. In the context of emerging market countries where institutional reforms have manifested in an experimental and uneven manner, divergences in reform treatments may contribute to inter-firm heterogeneity, thus modulating firms' strategic resource and behavioral configurations.

Therefore, the transitional context in emerging market countries provides an opportunity for examining how firms which have experienced corporate ownership transformation may develop distinctive institutional competitive advantages for venturing abroad. In this study, we highlight two types of reformed state ownership, namely central marketized state ownership and local marketized state ownership and examine their effects on firms' foreign market entry, relative to that of non-marketized state ownership, to each other, and its boundary conditions. We argue that in altering the identities of institutional shareholders of emerging market firms, corporate ownership reform has also transformed their incentive structures and relative resource positions which amount to heightened competitive advantages for overseas venturing. This ownership effect is contingent on meso-level institutions such as state owned business group affiliation which may support or hinder ownership-based institutional competitive advantage. By linking the theoretical implications of corporate ownership reform to evolution in firms' institutional competitive advantages for foreign investment, we contribute to the literature exploring country-of-origin effects on EMNCs' internationalization strategies. Using China as our analytical and empirical setting, we address this research gap by investigating the effects of reformed ownership on firms'

engagement in FDI. Our theoretical approach is supported by findings obtained through an empirical study of 973 publicly listed Chinese firms from 2002-2009.

3.2 THE CHINESE CONTEXT OF CORPORATE OWNERSHIP REFORM

Among various reforms enacted in EM countries few are as important as reforms in corporate ownership. As Dunning (2004: 16) points out, it demands a ‘wholesale reconfiguration of the organizational and economic management’ of their economies. In China, the state sector remains one of the largest among transitioning countries. Due to the state sector’s disproportionate dominance, transforming SOEs into modern corporations requires the implementation of a orchestrated package of reforms to overhaul their corporate infrastructure. The multilayered nature of reforms which reorganized SOEs’ equity shareholding structure has nonetheless produced unique and somewhat contradictory sequencing outcomes including the emergence of hybrid corporatized state-owned firms which straddle between state and market based objectives.

Such efforts to stimulate market competition by reforming SOEs’ shareholding systems have also introduced more complex ownership-control relationships. Consequently, the evolution in Chinese firms’ shareholding structures has led to greater ownership identity diversity which can also be attributed to the multiplicity of reform processes operating to reconfigure firms’ strategic incentives and institutional resources. Over the past thirty years, ownership reforms have unfolded in a series of piece-meal components which has fundamentally reshaped firms’ identities. For instance, the first wave of privatization in China involved the divestment of state assets via auctions, M&A, as well as employee and management buy-outs by individuals, foreigners and other corporate actors which directly increased private shareholding in China’s corporate sector (Bai, Lu

& Tao, 2009; Jefferson & Su, 2006). A significant portion of smaller SOEs which held minor strategic value for the state was wholly privatized in this fashion.

However, for larger, strategically vital SOEs which may be publicly listed or controlled by important government bureaus, gradual introduction of mixed ownership and managerial reform served as more appropriate means to upgrade their market competitiveness owing to the government's reluctance to cede ownership control (Jefferson & Su, 2006; Zhang, 2011). Instead, state policymakers adopted a less radical partial ownership transformation of such SOEs which culminated in the emergence in a new category of marketized ownership that applies to shareholders of listed firms responding to market incentives and profit motives (Delios et al., 2006; Nee, 1992). This shareholding type which is characterized by mixed ownership is commonly found in an increasing segment of Chinese SOEs which evolved more competitive organizational structures and management practices (Zhang, 2011).

Over the past decade, the pace of conversion to a mixed-ownership corporate system has rapidly accelerated, and while marketized shareholders are still subject to state supervision, they are granted significant operational autonomy. They are conceptually distinct from shareholders that are directly controlled by central or local government bureaus or other state agencies with strategic or military responsibilities. Such non-marketized shareholders (e.g., state-owned banks, government bureaus and ministries, companies owned by the military, state asset and investment management bureaus, unreformed industry companies and government research institutes) which are typically tasked with fulfilling certain social welfare or strategically paramount functions are likely to be less responsive to market signals and have fewer incentives to do so given their stronger priority to serve non-financial state mandates.

Nonetheless, the general category of marketized state ownership does not entirely reflect the cross-cutting nature of ownership reforms. Beyond the broadly visible features of shareholding reform, a parallel but equally critical process of political decentralization has unfolded across China. This process, which consists of administrative and fiscal decentralization, has enabled local governments to exercise significantly greater administrative oversight to govern SOEs under their jurisdiction. It has also empowered local governments to independently restructure their SOEs, which include shareholding diversification and corporate governance reforms. However, since decentralization has compelled local governments to become responsible for their own fiscal expenditures, marketized SOEs which were restructured by local governments (LMSOEs) have also been largely transformed into commercial vehicles for local government rent-seeking (Lin, Tao, & Liu, 2003). When they could no longer rely on central government fiscal transfers to cover their spending, local governments began to task LMSOEs to shoulder increasing policy burdens associated with decentralization by providing for social welfare, tax revenues for education and infrastructure expenses, and employment for the local population (Jin & Zou, 2005).

At the central level, marketized SOEs emerged through a combination of shareholding diversification, reorganization of government ministries, and reform experimentation advocated by top leaders within the government. Some of these central marketized SOEs (CMSOEs) such as Baosteel, China Ocean Shipping Company, and ZTE have undergone extensive upgrading of their internal governance and professionalization in their top management teams including appointing external independent directors or foreign senior managers. More importantly, firms such as ZTE have even taken steps to introduce mixed private ownership at the holding company level to improve their managerial autonomy. By 2013, over 52% of central SOEs have successfully

transitioned into mixed ownership enterprises. The pace of marketization accelerated as the Chinese government recognized the importance of building more dynamic market-oriented companies to compete with the influx of foreign rivals pouring into China's domestic market after it joined the WTO in 2001 (Liu & Woo, 2001). Compared to LMSOEs which are subject to harder budget constraints from fiscal decentralization (Park, Li, & Tse, 2006), CMSOEs remain relatively less burdened by welfare responsibilities, especially since the central government has increasingly devolved ownership over lesser-performing central enterprises to provincial governments while maintaining control over the most valuable and profitable central SOEs.

Falling at the other end of the spectrum, are private firms which do not receive any institutional support from the government. While such firms may exercise complete operational autonomy, they are also restricted from accessing channels of credit or policy support from the government. Given the diverse range of ownership identities stemming from corporate ownership reform, we propose that such ownership differences between marketized and non-marketized shareholders as well as different types of marketized shareholders may confer varying degrees of institutional competitive advantage to firms in their overseas strategies.

3.3 THEORY AND HYPOTHESIS DEVELOPMENT

Recent studies on EMNCs' overseas internationalization patterns have recognized the importance of home country institutions on their ability to springboard abroad (Dau, 2012; Liu, Lu, & Chizema, 2014; Luo & Wang, 2012; Peng, Li, Pinkam, Hao, 2009; Wang, C., Hong, J., Kafouros, M., & Wright, 2012). Some studies emphasize that home institutions may confer certain benefits to firms, especially in the case of emerging market state-owned multinationals where state ownership may confer preferential policy support such as subsidies, cheap inputs and raw materials, and abundant

loans (Cui & Jiang, 2010; Luo, Xue & Han, 2010; Rui & Yip, 2008). Such benefits have been categorized as a form of ‘institution-related capital’ for internationalization (Luo & Yao, 2006; Wang, Hong, Kafouros, & Boateng, 2012). However, the character, availability and composition of such state-dependent forms of capital may vary as institutional environments evolve, generating important implications for firms’ ability to leverage them in foreign markets.

Advancing this line of logic forward further, we draw from a new stream of literature which embraces a more dynamic perspective by suggesting that interactions between firms and their surrounding institutions can create supportive or disabling conditions for firms’ international strategies (Martin, 2014; Sun, Peng, Lee, & Tan, 2014). In elaborating his concept of institutional competitive advantage, Martin (2014: 55) highlights the importance of exploring the ‘environmental characteristics and processes that jointly explain the connection between institutions, distinctive strategy, and competitive advantage’ of firms. Other studies have also emphasized the importance of investigating the mechanisms connecting institutions with firms’ competitive advantages in transition economy contexts (Hermelo & Vassolo, 2010). This perspective is highly salient under circumstances where institutional change processes such as corporate ownership reform can redefine vital interactions between firms and their institutional ecosystem. Extending beyond static conceptions of the relationship between firms and their institutional environment, this approach advances a finer-grained focus to explore how shifts in their interactions can activate different resources and strategic incentives for firms’ overseas strategies, thereby leading them to cultivate distinctive institutional competitive advantages.

EMNCs are known to be more organizationally diverse compared to DMNCs due to the plurality of ownership types which co-exist in transitional corporate systems in emerging market

countries (Peng, Tan & Tong, 2004). This can be primarily attributed to the differential ownership reform treatments received by EMNCs which may lead to assorted heterogeneity and a corresponding asymmetrical endowment in their institutional competitive advantages. According to Martin (2014: 64), ‘institutions and their presence are not immutable, and that too participates in shifting resources and prospects for a firm’. However, such firm-level processes of evolution have been largely overlooked in the international business literature (Cantwell, Dunning, & Lundan, 2010). To push this vein of inquiry, we first evaluate some critical changes in the reformed ownership identities of Chinese firms to unravel how their institutional attributes have transformed. Similar to other EMNCs undergoing market transition, Chinese firms have undergone extensive restructuring to upgrade their competitiveness. In exploring the multifaceted nature of such restructuring, we identify the sources of variation among different types of shareholders which contribute to reshape firms’ institutional competitive advantage for overseas venturing.

Main Effects of Reformed Ownership on Foreign Market Entry

The emergence of marketized shareholders represents an innovation in organizational form which has not been discussed extensively in international management research although it is widely examined in the literature on transition economies (Boisot & Child, 1996; Delios et al., 2006; Nee, 1992). In contrast to non-marketized firms which operate as an ‘appendage of the state’ to serve redistributive and strategic functions set forth by the state (Nee, 1992: 7), marketized shareholders possess an extra degree of managerial freedom derived from their reformed ownership which aligns them more closely with market incentive mechanisms. Such firms may not possess the same degree of autonomy as private firms, but according to (Boisot & Child, 1996: 32), ‘their effective freedom of economic action is usually greater because of the support they enjoy from local institutional

intermediaries such as banks'. Furthermore, in an empirical study on ownership transformed Chinese SOEs, Jefferson & Su (2006) evaluated the effect of ownership conversion on firm performance. They observed that although ownership restructuring had little immediate impact on sales profitability, the infusion of non-state shareholding had a longer term positive impact on labor and capital productivity, as well as higher R&D intensity. They conclude that the introduction of mixed ownership heightens the profit-seeking behavior of marketized SOEs by deepening their commitment to R&D and innovation, as well as optimizing their return on capital and return on labor to improve efficiency gains.

By contrast, non-marketized firms continue to rely on vertical ties to government bureaus which transfer to them materials and capital resources according to bureaucratic planning and coordination. Such firms 'can only produce for the market once they have satisfied the requirements of the plan, and in many cases the prices of both inputs and outputs under the plan are fixed administratively...one-third of [non-marketized] state enterprises are overtly loss-making while another third have so-called hidden (unpaid) debts; these firms rely on subsidies to keep them afloat' (Boisot & Child, 1996: 31). Based on observations drawn by Delios et al. (2006), Nee (1992) and Boisot & Child (1996), the prevailing pattern of behavior characterizing non-marketized firms is their restricted managerial autonomy, lower levels of performance efficiency, and bureaucratic rigidity. From both a resource and behavioral view, non-marketized firms appear to face greater structural challenges and demonstrate limited value-creating potential.

The differences highlighting these forms of ownership are likely to confer varying degrees of institutional advantages to marketized and non-marketized shareholders which are circumscribed by their access to institutional resources and behaviors endorsed by institutional stakeholders. With

respect to their resources, both marketized and non-marketized firms receive financial support from the state, but since marketized firms exhibit higher return to capital investment and stronger performance, they are more likely to receive extra government support to compete with foreign MNCs in overseas markets. For example, in 2012 ZTE received a \$20 billion dollar loan from the China Development Bank for the exclusive purpose of overseas expansion to become a leading contender among top global smartphone makers. According to a statement by the company, ‘The principal terms of the agreement include the provision by CDB of a \$20 billion facility for cooperation, comprising financing facilities for the company's overseas projects and credit facilities for the company. The agreement forms the framework of business cooperation for an effective period of five years.’ Moreover, marketized firms also possess greater strategic flexibility and face fewer bureaucratic hurdles to utilize their revenues for investing abroad. From this overall standpoint, marketized firms may derive stronger institutional resources for international venturing.

In relation to their strategic behavior, operating in competitive market-driven conditions has encouraged marketized firms to elevate their sensitivity to market signals by developing stronger customer focus, acquiring market information, and formulating niche product differentiation strategies which set them apart from traditional state owned firms. In an empirical study on the market orientation of Chinese SOEs, Li, Sun & Liu (2006) found that enhanced market competitive pressure, formalized corporate governance, and reduced government control had a positive effect on SOEs’ market orientation. Furthermore, market orientation which was operationalized as a three-dimensional construct consisting of the generation of market intelligence, dissemination of intelligence across the organization, and organization-wide responsiveness was positively associated with organizational performance. We propose that such increasing inclination for

marketized SOEs to expand their search capabilities and knowledge horizons about both clients and competitors alike also improves their ability to handle the challenges associated with adapting to rapidly evolving global market conditions. The ability to acquire and leverage complex market knowledge may confer stronger competitive advantages to marketized firms compared to their non-marketized counterparts for identifying and exploiting overseas market opportunities. Combining the strengths of their institutional resources with their institutionally endorsed behaviors, marketized firms are more likely to exhibit greater institutional competitive advantages to engage in FDI activities. To summarize, given marketized shareholders' stronger institutional competitive advantages, we predict:

Hypothesis 1a: Marketized state ownership, both at central and local government levels, has a stronger positive association with a firm's foreign market entry compared to non-marketized state ownership.

While marketization has rendered SOEs more profit-driven, not all marketized SOEs can be bundled together since certain subsets of these firms were exposed to varying ownership reform treatments. Substantive differences in ownership restructuring between marketized SOEs at different levels of government may lead to distinctive variations in the way these marketized SOEs *interact* with their surrounding institutional environments. According to Martin (2014: 59, 64) '...at various levels, institutions exhibit a complex of effects that may promote or hinder economic and organizational outcomes' and the 'scope for institutions to differentially enable resource accretion' contributes to firm heterogeneity, thus leading to their varying abilities to acquire institutional competitive advantage.

Divergences in the reform pathways of CMSOEs and LMSOEs thus hold important implications for their potential to cultivate institutional competitive advantages for overseas

venturing. Relative to LMSOEs, the evolution of CMSOEs has followed the streamlining and reform of the central government apparatus. Some CMSOEs were formed as products of complex and substantial reorganizations at the central ministerial level which altered China's industrial landscape while others emerged from experiments by the central government to serve as centerpieces of reform. The merging of certain ministries and obsolescence of others enabled the government to inject competitive economic dynamics into otherwise lackluster sectors. For example, within the defense sector alone, by 1993 the Ministry of Energy Resources was converted into the China National Nuclear Corporation, the Ministry of Coal Industry and the Ministry of Electric Power Industry were both re-established, while the Ministry of Machine Building and Electronics Industry was divided into three separate entities – the Ministry of Electronics Industry, the Ministry of Machine Industry, and the Northern Chinese Industries Corporation (NORINCO).

Although central SOEs such as China National Nuclear Corporation and NORINCO are considered as non-marketized industry companies under Delios et al.'s (2006) classification scheme, other firms including ZTE Corporation have become marketized through shareholding reform. By 1999, the Chinese government had embraced the restructuring of large and medium-sized SOEs into shareholding companies with mixed ownership and enshrined this policy during the 4th plenary session of its 15th annual Communist Party Congress. Originally founded as a subsidiary of the China Aerospace Science Technology Corporation and the China Aerospace Science and Industry Corporation, ZTE was transformed into a partially privatized firm and its controlling holding company has been 49% privately held over the past decade. Institutional and foreign shareholders including Deutsche Bank, China Life Insurance Company, HKSCC Nominees, Agricultural Bank of China, JP Morgan Chase, PNB Paribas and Sun Life Financial consistently

serve among its top 10 shareholders. Other CMSOEs include listed subsidiaries of CITIC Group (China International Trust and Investment Corporation) which has diversified into the utilities, real estate, telecoms, airlines, natural resource, and banking industries. Founded in 1979, CITIC Group was the brainchild of a private industrialist who was appointed by the central government to promote market liberalization and foreign investment into China. Although the parent company of CITIC Group is controlled by the Ministry of Finance, its listed subsidiaries have undergone extensive shareholding diversification into marketized firms.

Moreover, over the past 10 years, the central government has actively reduced the number of central SOEs from over 170 to 116 SOEs through a series of mega mergers between them while transferring their less valuable and non-performing assets to local governments or state asset management companies. Nonetheless, from 2001 to 2010, the total value-added including compensation for labor, profits, and taxes paid by central SOEs has quadrupled. This suggests that instead of downgrading the profiles of reformed central SOEs, the central government has proactively cultivated their competitiveness by concentrating their resources through strategic mergers and transforming them into flagship companies. As a result, CMSOEs not only exhibit greater strategic agility and responsiveness, but also a deeper reservoir of financial resources, reputational capital, and foreign networks which can be leveraged for their foreign operations (Child & Rodrigues, 2005; Luo et al., 2010). This combination of access to robust institutional resources and strong market orientation imbues CMSOEs with considerable institutional competitive advantages to absorb the risks associated with overseas FDI.

On the other hand, the pattern of corporate restructuring for LMSOEs has deviated along an alternate trajectory which can be traced to the gradual separation of economic coordination

responsibilities between central and local governments underpinning a recalibration of intergovernmental fiscal relations (Li et al., 2014). During the 1990s, control rights over many SOEs became increasingly decentralized to local state authorities (Huang, Li, Ma, & Xu, 2014). For example, in 1998 the State Council decreed that all 94 SOEs and their subsidiaries in the coal industry would be transferred from central to local jurisdiction. Following this transfer, provincial governments assumed fiscal responsibility for 3.2 million workers and 1.3 million retirees (Nie & Jiang, 2011). In accordance with the state's new decentralization initiative, local governments were charged with the mandate to 'first decentralize, then restructure ownership' of local SOEs (Huang et al., 2014). By the end of the 1990s, over 80% of local SOEs were transformed into LMSOEs through partial privatization and reorganizations.

At the same time, local governments were assigned greater roles to support burgeoning social welfare, education, employment, pension and infrastructure costs through self-generated revenues (Jin & Zou, 2005; Steinfeld, 1998). Although fiscal decentralization increased the ability of local governments to collect revenues from LMSOEs, it also obligated local governments to cover a rising portion of economic development costs which the central government no longer supports. However, according to Jin & Zou (2005: 1051), 'local governments simply do not have the social and economic endowments to generate the revenue required to finance their spending requirements.' As local governments assumed responsibility for their financial survival, they began to push LMSOEs to perform (Oi, 1992; Jin, Qian, & Weingast, 2005) which placed LMSOEs under heightened institutional pressure to address local domestic growth and fiscal priorities.

To summarize, the emergence of a new division of responsibilities between central and local governments flowing from decentralization has led to differential patterns of corporate

restructuring for central and local SOEs, which not only redefined their priorities but also their ability to access to institutional resources. As a result of such distance in the legitimating expectations of central and local governments, LMSOEs are less likely to enjoy the same institutional competitive advantages for engaging in OFDI compared to CMSOEs. Therefore, we predict:

Hypothesis 1b: The positive effect of marketized state ownership is stronger for central marketized state ownership than local marketized state ownership.

Moderating Effects of State-Owned Business Group Affiliation

To acquire institutional competitive advantages, firms interact with their surrounding institutions which can create enabling conditions for them to acquire resources or engage in strategic behavior which are conducive to outward FDI. Such interactions can be channeled through equity-based ownership arrangements or through meso-level institutional mechanisms for coordination and governance such as business group affiliation. A plethora of studies have linked the popularity of business group structures in emerging markets to institutional antecedents by suggesting that business groups help to mitigate the factor market imperfections, information asymmetries, and underdeveloped capital markets created by ‘institutional voids’ in these countries (Khanna & Palepu, 1997). Some researchers also argue that business group conglomeration as an organizational form evolved partly due to distinct patterns of institutional change and adaptation (Carney & Gedajlovic, 2001; Keister, 1998; Zattoni, Pedersen, & Kumar, 2009). In China, where the government wielded strict control over reform directions, the formation of state owned business groups into economic clusters was aimed to reduce transaction costs, build collaborative synergies, and improve economies of scale during its economic transition (Keister, 1998).

While most studies have either focused on the direct effects of business group affiliation or ownership structure on EMNCs' ability to engage in outward FDI (Chittor et al., 2009; Kumar, Gaur, & Pattnaik, 2012; Tan & Meyer, 2010; Yiu, 2011), scant attention has been dedicated to exploring how firms' interactions with institutions via equity-based ownership arrangements may be influenced by other potential non-equity based channels such as business group affiliation. In other words, firms may derive their institutional competitive advantages from both sources so it is essential to consider their joint effects. From an institutional standpoint, group affiliation may bring both positive advantages and costs. On the one hand business groups are viewed as constituting a 'micro-institutional' platform for international venturing (Yiu, 2011). Leveraging group specific advantages such as resource-pooling, bridging market imperfections, and inter-firm linkages can significantly reduce the costs and barriers to establishing foreign operations. An affiliated firm may not only benefit from the internal financial market formed by the group to allocate capital among its members, but also shared reputational capital and intra-organizational relationships within the group umbrella (He, Mao, Rui, & Zha, 2013; Ma, Yao, & Xi, 2006; Lamin, 2013). However, such benefits are balanced by the challenges of reconciling multiple agency relationships associated with the complexities of internal cross-lending, coordinating intra-group decisions and managing divergent group interests (Carney, Gedajlovic, Heugens, Van Essen & Oosterhout, 2011).

In China, the formative conditions underlying the creation of business groups reflects to a larger degree earlier efforts by the government to cluster firms into coalitions characterized by orchestrated economic coordination. In contrast to countries such as India, where most business groups are private or family-owned, the majority of business groups in China are typically owned by the state. During the 1990s, the Chinese government rearranged various organizational units

across the country into larger pilot business groups to consolidate their resources, organizational capital and capabilities (Keister, 1998; Lin & Milhaupt, 2013). In this reform period, the government endeavored to minimize losses from underperforming SOEs while strengthening their autonomy and market competitiveness.

A significant number of SOEs and former government ministries were restructured into multi-tiered business groups in which stronger members served as core companies to coordinate resource allocation and information flow to lesser tiers. Policies from the state would also be transmitted down the chain of command within the group. The formation of state business groups also served another purpose. By clustering SOEs together into groups, the state could exercise oversight over backbone industries and key economic sectors by monitoring only a few hundred large state-owned business groups (Lin & Milhaupt, 2013). The prevalence of state business groups suggests that there are two channels by which firms could derive strategic resources from the state. First, firms may obtain benefits from their immediate state shareholders or they could also extract tangible and intangible resources through their affiliation to a state business group. Logically, this observation implies that firms' institutional competitive advantages may not only be determined from their ownership by state shareholders, but also from their association with state controlled business groups. Consequently, their effects should be jointly taken into consideration when evaluating the ability of firms to acquire institutional competitive advantages for internationalization.

Given the insights obtained from previous studies on the resource allocation role of business groups, it is likely that affiliated members with more munificent resources, better performance, and knowledge may fall under greater institutional obligation to share their capital with less endowed

group members. Prior studies on business groups in Asian countries have found that comparatively weaker firms have leveraged their business groups via resource sharing and internal group transactions to sustain performance and mitigate risk (Chang & Hong, 2000; Friedman, Johnson & Mitton, 2003; Kim & Hoskisson, 1996). This widely studied resource distribution mechanism is administered via internal finance companies embedded within business groups to facilitate intercompany lending (Colpan, Hikino, & Lincoln, 2010; Keister, 1998; Lin & Milhaupt, 2013) and may enable some group members to derive greater institutional advantages relative to others. For CMSOEs which possess abundant capital, stronger networks and other tangible and intangible resources, membership to a state business group can task them with added responsibilities such as helping less resourceful affiliate firms. Since one of the primary purposes behind state business group formation is for the government to establish a scaffolding system during its transition reform period to enable stronger firms to insulate weaker members, such business group affiliation may diminish the beneficial impact of CMSOE shareholding on firms' ability to derive resources for overseas investment.

In a recent empirical study on Chinese business groups, He et al. (2013) investigated the effect of ownership type on the role of internal capital markets played by Chinese business groups by comparing the investment-cash flow sensitivity of group affiliated firms with private, local government and central government ownership. They found that the internal financial market of business groups is more likely to help those group-affiliated SOEs with private and local government ownership relative to those with central government ownership. Based on their findings, they propose that both private firms and local SOEs face larger financial constraints which render them more reliant on group resources to support their business operations. This finding

suggests that LMSOEs may derive greater benefits from state business group affiliation compared to CSMOEs. In essence, affiliation to a business group situates its members in a complex institutional field characterized by multiple agency relationships which sacrifices the resource advantages of stronger members to subsidize weaker members. Therefore we predict:

Hypothesis 2a: State business group affiliation weakens the positive effect of CSMOE ownership on firms' foreign market entry, in that the effect of CSMOE ownership will be less positive for firms affiliated with state business groups than unaffiliated firms.

Hypothesis 2b: State business group affiliation strengthens the positive effect of LMSOE ownership on firms' foreign market entry, in that the effect of LMSOE ownership will be stronger for firms affiliated with state business groups than unaffiliated firms.

3.4 METHODOLOGY

Sample Description

Given the longitudinal nature of corporate ownership reform, our sample consists of publicly traded Chinese firms which remain consecutively listed from 2002-2009 on the Shanghai and Shenzhen Stock Exchanges. Our data was constructed by manually coding data on all foreign subsidiaries, including domestic and foreign subsidiaries from annual reports and matching them with detailed firm-level ownership and financial data compiled from the WIND database has been used in other empirical studies (Peng, Sun, & Tan; 2008). The primary reason for utilizing data from publicly listed firms can be attributed to the transparency of their shareholding structure. Thus, it is possible not only to trace the identities of immediate shareholders but also intermediate and ultimate shareholders to observe their ownership restructuring patterns. After accounting for missing data and reporting errors, our sample includes 973 firms over an 8 year period consisting of 7784 observations. Out of this sample, 589 firms were in manufacturing, 349 firms in service-related

industries and 35 firms in the primary sector. We identify 801 overseas subsidiaries established by 225 listed firms in 79 countries from 2002-2009. Our data coverage begins immediately following China's WTO entry in 2001 to account for the rapidly growing outward FDI flows by Chinese firms in these subsequent years.

Dependent Variable

Our dependent variable, new FDI entry, records the number of newly established overseas subsidiaries by a firm in a given year. A longitudinal record of new foreign subsidiaries on yearly basis captures the firm's on-going engagement in FDI. Compared to other measures of internationalization such as firm exports and international sales ratio, the number of new FDI entries captures more solid evidence of firms' ability to establish a tangible presence in foreign markets. We determined the establishment year of each overseas subsidiary by comparing subsidiary lists of the listed firm during our sample period. If an overseas subsidiary appears in the annual report of a firm during one year but not in previous years, we further check the annual report and other public announcements to confirm that subsidiary's establishment. We code all new foreign entries from 2002-2009 and account for delayed temporal effects of our explanatory variables by applying a one year lag between explanatory and dependent variables. The lag reduces our sample size from 7784 to 6653 observations and shortens our dataset to 7 years.

Independent Variables

Our key explanatory variables capture two main categories of reformed ownership and non-marketized ownership. We obtain the ownership percentages for each firm's top 10 shareholders from the WIND database since listed companies must report top 10 shareholders' equity percentages and their ultimate owner. This higher level of transparency enables us to accurately

classify these shareholders according to the new corporate ownership classification system developed by Delios et al., (2006) which account for the reformed status of Chinese listed firms. The corporate structures of Chinese firms are noted to be complex and obfuscating (Lin & Milhaupt, 2013) with some conglomerates nested below many ownership tiers. Listed firms, as conglomerates in their own right, are usually situated in the second or third level of ownership beneath an intermediary holding company and a core parent company. Since listed firms are positioned in upper ownership tiers, we can obtain detailed information about their immediate and ultimate shareholders which facilitates identification of their ownership identities.

Given this extensively available data, we coded the top 10 shareholders of each firm according to Delios et al.'s (2006) fine-grained classification scheme. In their framework, Delios et al., (2006) established three comprehensive categories of ownership, namely government, marketized, and private ownership to which they assigned 16 shareholding subcategories. This new ownership classification scheme was developed to capture recent changes in shareholding identities associated with corporate ownership reform in China. In particular, the first wave of ownership reform was characterized by partial privatization of SOEs starting in the 1990s with many large SOEs going public to raise minority tradable shares by selling them to private actors while the state retained majority control over non-tradable shares (Liao, Liu, & Wang, 2014). However, the dual existence of tradable and non-tradable shares also created a cumbersome split-share stock structure which curtailed the trading of state shares on the secondary market. In other words, non-tradable shares which comprise of state shares and legal person shares were not listed and could only be transferred via agreement between relevant parties. Only tradable shares of firms could be listed and issued to institutional legal persons, individuals or foreigners. Moreover, tradable shares are

classified under different schemes which include A-shares issued by mainland incorporated firms which are traded in Shanghai and Shenzhen and quoted in RMB, B-shares issued by mainland companies which are traded in Shanghai and Shenzhen but quoted in HK dollars and H-shares issued by mainland companies but traded only in Hong Kong. Firms may list these different categories of shares on both the mainland markets and the HK market which is more accessible to foreign investors.

While this initial ownership classification system is nominally demarcated by the share transaction regulations set forth by the China Securities Regulatory Commission, it does not provide a clear link to the actual ownership identities of different shareholders. According to Delios et al., (2006: 325), ‘we can clearly see that state-owned shares (guoyou gu) consist of two parts: state shares (guojia gu) and state-owned legal person shares (guoyou faren gu). Yet, these two parts rest in two different categories in the official classification. Even this simple description reveals a problem in the content validity as it relates to the identities of shareholders in the official classification scheme.’ Given such obfuscation of the shareholding identities of Chinese listed firms, Delios et al., (2006) proposed a new classification system by identifying shareholders based on substantive criteria relating to their functional and strategic characteristics (please see Appendix 3.2 for a comparison between the official and new ownership classification scheme). Reflecting the tangible impact of ownership reforms, a new category of marketized shareholding was incorporated into the new classification system to complement the non-marketized state shareholding category while newly privatized security companies and investment funds were added to the existing category of private firms.

Based on Delios et al.'s (2006) updated shareholding classification system which more accurately captures new trends and incentives in the strategic behaviour of Chinese firms, we utilized this matrix to group shareholders into detailed ownership categories. Four independent coders were tasked with coding shareholders by verifying their backgrounds using information from shareholders' annual reports, company websites, financial articles in newspapers, and public announcements. Our coding method followed rigorous procedures in which coders switched between their own coding and checking each other's work every other day. A fifth coder was responsible for independently monitoring their work and performing extra background searches to resolve any disagreements between coders to clarify ambiguous cases. First, shareholders were assigned into one of the 16 shareholding subcategories. Then they were sorted into the three broad ownership categories. We separated out private shareholders, and re-categorized marketized and non-marketized shareholders by process of elimination. Firms which were directly owned by government ministries and bureaus, state asset investment and management bureaus, government research institutes, industry companies and state owned banks were generally categorized as non-marketized shareholders.

In addition to filtering out these firms, we identified marketized shareholders based on the important criteria of whether they had successfully engaged in shareholding diversification under the joint-stock reform through the introduction of institutional, private, or foreign owners at the holding group level (Li, 2006). Firms which have diversified their shareholding by transferring no less than 5% of their total shares to individual non-state block shareholders qualify under this requirement (Zhang, 2011). We apply this procedure since block shareholders do not typically hold large blocks of shares for the purpose of trading them in the secondary market. They represent

important stakeholders serving the role of strategic investors with an interest to improve the long-term managerial performance and corporate governance of their invested firms. In practice, firms with diversified corporate ownership often have multiple non-state minority block shareholders and a controlling state majority owner which typifies the vast number of listed SOEs falling under this category.

According to China's State Economic and Trade Commission, by 2001, over 64.18% of all SOEs have undergone such shareholding diversification. Firms which have not undergone such restructuring process were excluded. In our selection process, we found that several industry companies which were separated from former ministries such as ZTE had not only implemented shareholding diversification but also introduced mixed private ownership by the early 2000s. Meanwhile, military owned companies such as NORINCO remain 100% controlled by the government and were not subject to shareholding diversification. This led us to observe some exceptions to the Delios et al.,'s (2006) classification scheme. Another category of firms which have not received much attention in this classification system are university-run S&T enterprises which are majority owned by a university holding company reporting to the Ministry of Education but founded and managed by university professors turned entrepreneurs (Eun et al., 2006). To encourage their managerial and profit incentives, minority shares in these companies are often allocated to these founding academics. For example, Peking University Founder Group, a large conglomerate with stakes in IT, healthcare, real estate, and banking industries is 70% owned by Peking University Asset Management Company and 30% owned by its senior management team through Beijing Zhaorun Investment Management Company.

Furthermore, a recent empirical study by Jefferson, Jiang & Tortorice (2014) on the restructuring of Chinese research institutes found that university-run S&T firms had substantially augmented their non-government revenues and patent productivity after shifting their reliance away from government grants. Given their strong commercial orientation and mixed ownership, these university-run firms should be distinguished from government research institutes and universities which are categorized as non-marketized firms by Delios et al., (2006). Lastly we separated marketized firms into CMSOEs and LMSOEs based on their level of government affiliation. We repeated this coding process for each year of our sample, thus capturing any changes in shareholding identities associated with the ongoing process of corporate ownership reform.

In addition to shareholding diversification, marketized firms have also undergone significant corporate governance reforms which coincide with their ownership transformation and restructuring. In the vast majority of cases, ownership reform through the introduction of non-state strategic investors is accompanied by the adoption of new governance practices relating to the appointment of senior managers, operational autonomy and disclosure which are brought in by those investors. Following a survey of 950 Chinese firms, Zhang (2011) found that after restructuring, the majority of marketized firms have adopted shareholding covenants between new strategic investors and government shareholders which govern the conditions for establishing the shareholding proportion, the distribution of voting rights, composition of board of directors, and exit arrangements.

As of 2001, the State Economic and Trade Commission estimated that over 89.9% of marketized firms and 76.4% of non-marketized firms appointed their senior managers using market-based selection approaches. This figure indicates that ownership reform is still the more

rigorous criteria to serve as a basis for evaluating the extent of a firm's marketization. Nonetheless, we dedicated careful attention to corroborating marketized firms' ownership reform with any corresponding improvements in corporate governance practices by examining whether they had introduced new codes regulating the hiring of independent board members and professional managers, protection of minority shareholders, and corporate disclosure. Such information was collected and triangulated by combing through their annual reports, related newspaper articles, company websites, and investment reports.

We coded marketized shareholders based on their shareholding reform history and corporate governance improvements described above. An inter-coder reliability check showed that the four coders reached agreement in 93.2% of all cases without further clarifications. The remaining cases were resolved together with the fifth coder. Owing to the transitional nature of ownership reform, some firms which appeared to belong to one shareholding subcategory may also fit into another category especially when the ownership composition of the holding company changes and state shares are transferred to legal person and private shareholders. Therefore more extensive research was needed to examine available public information on the shareholding structure of these firms to reach clarification. For a detailed summary of Delios et al.'s (2006) ownership classification system which we adapted to incorporate new categories of marketized and non-marketized state shareholders, please see Appendix 3.1.

Moderator and Control Variables

We coded the business group affiliations of each firm in our sample based on the official annual publication Large Corporations of China, a directory of China's largest business groups collected by the National Bureau of Statistics from China (Lu & Ma, 2008). Further research into the

backgrounds of each business group through company websites and annual reports revealed that the majority of such registered business groups are state-owned. Our variable is a dummy which takes the value of 1 if a listed firm is an affiliate of a qualifying state-owned business group in a given year. Since some listed firms may be affiliated with more than one state-owned business group, we took measures not to double-count their status.

In addition to our moderating effects, we control for the private shareholding category specified by Delios et al., (2006) as comprising of security companies, investment funds, individuals, as well as foreign and private entities. Following previous studies, we also include other typical factors which may influence firms' FDI decisions which include firm size proxied by the natural log of total firm assets which broadly reflects the resources available to the (Cui & Jiang, 2012), international performance measured by foreign sales ratio which is an indicator of firm success and exposure in overseas markets (Sullivan, 1994), previous FDI entry to capture firm internationalization experience (Boeh & Beamish, 2012), firm age which consists of the total number of years of firm operation and reflects a firm's maturity (Tallman & Li, 1996), overall firm performance measured by ROE (Barkema & Vermeulen, 1997), and access to liquidity proxied by the current ratio (ratio of current assets to current liabilities) to measure the firm's ability to meet its short-term cash obligations without having to raise additional capital for investment (Palepu, 1986).

3.5 ANALYSIS AND RESULTS

Since our dependent variable is a count variable measuring the number of new FDI entries made by firms and our initial examination of the data presents evidence of over-dispersion in the outcome variable, the negative binomial (NB) model would serve as an appropriate estimation technique. A

cursory tabulation of our data also reveals the presence of zero-inflation since 748 out of 973 firms did not establish foreign subsidiaries, and the majority of those firms which did engage in FDI did not make many repetitive entries over the eight year sample period. Out of a total number of 7784 observations, 7380 of these observations had a value of zero for the dependent variable. Due to this overabundance of zeros, the zero-inflated negative binomial model (ZINB) might serve as a more suitable substitute for the NB model. The Vuong (1989) test is typically performed to determine which model would offer the best fit, although recent studies (Allison, 2012) have found that the difference in the quality of fit between NB and ZINB models is typically negligible. Applying the Vuong test which compares the NB model with the ZINB model, we obtain a test statistic of $z = 0.81$. The z -value was insignificant which indicates that the ZINB model does not offer more accurate fit compared to the NB model. Given this result, we adopt the NB model for our study.

Due to our longitudinal data structure, applying a fixed effects approach in combination with the NB model would be preferable to account for within firm variation that may lead to unobserved time-invariant heterogeneity among them. However, current techniques for estimating fixed-effects over-dispersion models are only available for conditional fixed effects which do not qualify as a true unconditional fixed effects method (Allison & Waters, 2002). To circumvent this challenge, Allison & Waters (2002) recommended a conventional NB estimation with dummy variables for all individuals to represent fixed effects but they acknowledged this estimation method is only computationally feasible when the number of dummies for individuals is low. Since unconditional fixed effects for NB models are not available for panel data with large number of individuals, we use a pooled cross-section estimation approach where all observations for the period between 2002 and 2009 are included along with year dummies and a forward lag structure for the dependent

variable to account for time. We run the model using cluster-robust standard errors to control for correlation across firms over time (Rabe-Hasketh & Skrondal, 2012).

Table 3.1 presents the descriptive statistics and correlations matrix of the independent variables. Correlations between most independent variables are quite low which reduces potential for multicollinearity. Since the correlation between lag of New FDI Entry and Past FDI Entry is slightly higher than normal (0.68), we run additional diagnostic measures to obtain the variance inflation factor (1.11) and the matrix condition number (2.65) which both fall well beneath critical thresholds thus minimizing any collinearity concerns. Following Chang et al. (2006), we control for such dynamic feedback effect in our NB regressions. Table 3.2 presents our findings on the differential effects of CMSOE, LMSOE and non-marketized shareholding on firms' outward FDI propensity.

[Place Table 3.1 and Table 3.2 about here]

As shown in Table 3.2, we report results from our NB estimation model. In Model 1a, we include our three key independent variables distinguishing the three types of shareholding along with control variables to shed light on their main effects. CMSOE ownership yielded a positive coefficient significant ($p < 0.05$) in Model 1a, indicating that CMSOE has a positive effect on FDI engagement. To provide a more accurate interpretation of our results, we calculate the marginal effect of CMSOE ownership holding other independent variables at their mean value. The marginal effects obtained for the NB model indicate that for one standard deviation increase in CMSOE ownership from its mean, the probability for foreign market entry increases by 14.73%. Meanwhile,

LMSOE ownership had a positive coefficient as expected but was insignificant in Model 1a. The marginal effect of LMSOE ownership was 0.004%, which was also much smaller than that of CMSOE ownership, as can be expected due to its insignificant effect. Non-marketized ownership also yielded a positive but insignificant coefficient of 0.0008% which was even smaller compared to the coefficient for LMSOE ownership. Hence, we found support for H1b, while H1a was partially supported.

The interaction effects between state-owned business group affiliation and reformed ownership types are displayed in Model 1b-1c. We had proposed that such interaction may yield differential impacts on firms' FDI entry. Our results show a significant negative interaction between CMSOE ownership and state business group affiliation ($p < 0.05$) in Model 1b, supporting a negative moderating effect proposed in H2a. Conversely, the interaction between LMSOE ownership and state business group affiliation was positive and significant ($p < 0.05$), providing support for H2b. Since the coefficient for interaction terms is not very informative for non-linear models (Ai & Norton, 2003) it is necessary to test the robustness of the interaction term which requires computing its cross-partial derivative effect. Although STATA's margins command can only generate the derivative of a single variable at a time, it is nonetheless possible to obtain the interaction effect by calculating the derivative with respect to one variable at different values of the other variable to obtain the cross-partial effect (Karaca-Mandic, Norton, & Dowd, 2012: 270-271). Applying this approach, the interaction effect would be the difference in the marginal effect of CMSOE ownership on FDI entry when state-owned business group affiliation shifts from 0 to 1. Subtracting the difference in the marginal effects of CMSOE ownership as state group affiliation changes from 0 to 1, we find that the positive marginal effect of CMSOE ownership decreased by

63.45%. For LMSOE ownership, we find that the marginal effects increased significantly by 153.46% when state business group affiliation shifts from 0 to 1. These findings show support for H2a and H2b indicating that business group affiliation exerts operate moderating effects on CMSOE and LMSOE ownership. The graphical results of both moderating effects while holding all other explanatory variables at their mean levels are displayed in Figures 3.1a and 3.1b.

[Place Figures 3.1a and 3.1b about here]

In addition to applying the NB estimation model, we performed an alternative specification model in order to verify the robustness of our results. We reran our tests using the pooled Poisson model with cluster-robust standard errors to account for over-dispersion and correlation issues. This is a valid substitute to the NB and ZINB approaches. The results obtained from this test (presented alongside our main results in Table 3.2) are highly consistent with our original results and do not affect our findings.

Among our control variables, private ownership, international sales ratio, total asset size, and past foreign entry experience are consistently significant and positive across all models ($p < .001$). The positive effect of private ownership on FDI has also been corroborated in other studies which indicate that private firms which are handicapped by domestic government restrictions from operating in a number of industries as well as lack of access to domestic credit channels may engage in institutional escape by investing overseas to leverage their entrepreneurial skills (Luo et al., 2011; Wright et al., 2005). With the freedom to pursue their independent business agendas, private firms

may also go abroad to access more efficient factor markets, cultivate R&D capabilities, and benefit from stronger IP protection unavailable at home.

The strong positive association between past FDI experience and new market entry is also anticipated since previous experience confers greater confidence and specific knowledge to firms which improves their success in future foreign operations. Likewise, the higher a firm's international sales ratio, the greater its foreign profits are compared to its domestic revenues which supports the rationale that it may augment its international operations to sustain its growth. The positive effect of firm size reflected in total assets suggests that firms which have access to greater financial resources are inherently more capable of absorbing the risks associated with international investment and more able to dedicate a steady stream of resources for foreign expansion.

3.6 DISCUSSION

What are the consequences of home country institutional reforms for the overseas FDI behavior of firms from emerging market countries such as China? We investigate this question by unraveling the multifaceted role of corporate ownership reform in reconfiguring the shareholding identities of listed firms. The heterogeneous manner in which government shareholders have been restructured contributes to an uneven stratification of their institutional endowments, performance capabilities and strategic incentives leading them to evolve differential competitive advantages and prospects for overseas venturing. In this study we examine the emergence of different categories of reformed shareholding on Chinese firms' propensity to invest abroad as well as how other institutional affiliations such as state business group membership may moderate firms' ownership derived resources for cross-border venturing. Drawing from the literature on corporate ownership reform in China (Delios et al., 2006; Jefferson & Su, 2006; Nee, 1992; Peng et al., 2004) which links the

effects of such reforms to firm behavior and characteristics, we propose that different types of shareholding such as marketized and non-marketized ownership confer varying levels of institutional competitive advantages for firms' overseas expansion. Our research builds on recent research which links firm's ownership structure to its internationalization behavior (Filatotchev, Strange, Lien, Piesse, 2007; Bhaumik, Driffield, & Pal, 2010). As firms' shareholding identities evolve, such changes precipitate corresponding adaptation in their capabilities and strategic orientations which are likely reflected in their overseas strategies. The results of our study show that marketized ownership is positively associated with internationalization especially for CMSOEs which were restructured into more dynamic commercial enterprises and receive greater institutional support from the central government. However, our findings are less conclusive for LMSOE ownership due to its insignificant coefficient while non-marketized ownership yielded an unequivocal negligible impact on firms' likelihood for conducting overseas FDI.

In addition to our main effects, we examine the moderating effects of state business group affiliation which we propose provides a different channel from which institutional resources could be extracted for firms' overseas expansion. Specifically, we argue that affiliation to a state business group may complement or erode the benefits derived from ownership on firms' foreign market entry. A firm's membership to a business group exposes firms to a more complex institutional field which subjects them to the expectations of the group. For CMSOE shareholders which already possess strong organizational and financial resources for expanding abroad, such affiliation may not offer added benefits but render them more susceptible to the priorities of the state business group to redistribute and share their resources with weaker group members. However, for LMSOE shareholders, firm membership to a state owned business group may improve their access to intra-

group resources and new sources of information which enable them to proactively engage in FDI. The findings of our study corroborates with He et al.,’s (2013) empirical observations that ownership is not the sole mechanism for channeling institutional resources but that state business group affiliation can facilitate resource redistribution among firms and influence their FDI behavior. It also calls attention for a greater need to investigate the interplay between micro and meso-level home country institutions to understand their interrelationships and how firms leverage both for orchestrating their international business activities.

Contributions and Implications

Recent research has highlighted how changes in the identity and characteristics of firms can be triggered by institutional change processes (Cambell, 2004; Cantwell, Dunning & Lundan, 2010; Dacin, Goodstein, & Scott, 2002). By evaluating how corporate ownership reforms can alter firms’ resource endowments and organizational behavior, we show how home country ‘institution-enabling’ sources of competitive advantage (Martin, 2014: 55) can be derived, allowing some types of ownership-transformed firms to exhibit a higher propensity for overseas commitment of capital and resources. Moreover, corporate ownership reform can unfold differently at various levels of government, thus differentially reshaping shareholders’ interactions with local institutions and the extent and ways in which resource inputs from such institutions are channeled and utilized. In this way, the institutional competitive advantage perspective provides a useful framework for analyzing the strategic implications of a range of institutional distinctive organizational features which can emerge from institutional change including reformed state ownership. In our cataloging of the wide array of ownership identities emerging from corporate ownership reform, we have also identified new categories of marketized and non-marketized shareholders including military-owned firms,

restructured industry companies and university-run enterprises which have not been factored into previous studies. The existence of these alternative ownership forms indicates the rise of a greater heterogeneity among firms in emerging market countries due to active restructuring programs, and the need to broaden the existing domain of research on firm ownership structure and internationalization strategy.

Another interesting observation from our results is the differential interaction effects between firms' state business group affiliation and their ownership identities on their tendency to invest overseas. The exposure of firms to multiple institutional pressures characterizing business group affiliation may impinge upon the resource advantages of stronger members while improving the endowments of weaker members. In showing how this moderating effect varies for group affiliated firms with CSMOE ownership and LSMOE ownership, we contribute a novel perspective on how firms' equity based ownership arrangements may interact synergistically or less compatibly with non-equity based institutional affiliation such as state business group membership. Our results shed light on some of the multidimensional and contrasting forces at play which reconfigure the institutional advantages of firms for undertaking foreign expansion.

In relation to practical implications, our study emphasizes the importance for policy-makers to understand how the reforms they orchestrate can impart long-lasting consequences for SOEs' FDI prospects. Despite significant measures taken by the Chinese government to establish favorable policies and conditions to promote the 'Going Global' of Chinese SOEs, such policy initiatives have not filtered through various government levels. According to Luo et al., (2010: 70) 'the role of provincial governments in OFDI policy-making is limited only to feedback sharing and administrative support needed by the central government'. One reason why our H1a was not fully

supported may be due to the combined dual effects of delaying such FDI promotion policies from reaching the local level and sustained expectations for local SOEs to contribute to local economic growth which restricts their willingness to undertake the enhanced risk of offshore investment. In addition to favorable financing terms and subsidies for FDI, such policy support comprises of overseas market intelligence and practical knowledge on foreign approval procedures and legal systems. As a result LSMOEs may be less confident of their ability to navigate foreign markets. However, as reforms continue and some entrepreneurial LMSOEs such as Pearl River Piano Corporation and Hisense establish stronger footholds in overseas markets, local governments are likely to take notice and shift their attention towards soliciting support for these firms. While the agenda setting for FDI policies has emanated from the center, local governments can take a more active role to influence central government policies and promote more favorable measures that are in better alignment with their core business interests.

Limitations and Future Research

While our study is one of the first to examine the effect the effects of reformed ownership on emerging market firms' internationalization patterns, we also identify several limitations which lead to future research possibilities. First, our study mainly focuses on the propensity for FDI by firms with reformed ownership. Future studies can incorporate the use of other dependent variables to capture additional differences in FDI behaviors reflected in reformed firms' entry mode or location choice. Secondly, due to the idiosyncratic nature of institutional reforms in China, the findings of our study are mainly applicable to the Chinese context where ownership reforms have been implemented more gradually, allowing for the evolution of a spectrum of diverse shareholding identities. Future studies can deepen this vein of inquiry by examining the conditions for such

underlying institutional heterogeneity in other emerging market countries and investigate how such diversity may influence EMNCs' strategies for outward FDI.

To this extent, our findings indicate that country-of-origin effects play a role in shaping the micro-level strategies and capabilities of firms to venture overseas. Indeed, not only may institutional environments be heterogeneous across countries, but as our paper demonstrates, they may also be heterogeneous within countries since reforms do not unfold homogeneously inside national boundaries. The differential reforms taking place at local and central levels of government in China lead to substantive variation in the vital resource endowments and institutional pressures for LMSOEs and CMSOEs. Through the analytical lens of institutional diversity, it is possible to shed new insights on why they exhibit different institutional competitive advantages for outward FDI activity.

Finally, while this study does not examine host country institutional or market characteristics in tandem with home country institutions, we believe that this research area remains under-investigated and portends significant potential. Recent research has found that firms' host country regulatory institutions and level of technological development may influence the entry mode decisions of state owned firms (Meyer, Ding, Li & Zhang, 2014). Furthermore, firms which have evolved certain specialized capabilities and behavioral features through interactions with their domestic institutional context may also be more likely to find a better fit with a designated range of overseas markets characterized by complementary institutional environments. This notion of 'institutional complementarity' (Hall & Soskice, 2001; Jackson & Deeg, 2008) highlights the possibilities for EMNCs to benefit by pairing FSAs developed under different institutional arrangements in the same way that conventional MNCs locate in various countries to optimize value

creation. By relocating offshore operations in host countries with favorable institutions, firm can nurture new capabilities not feasible back home and reconfigure their existing FSAs with these capabilities to create novel sources of competitive advantage. Future studies can investigate this potential research avenue by simultaneously taking into consideration both domestic and foreign institutional conditions in evaluating firms' foreign location preferences.

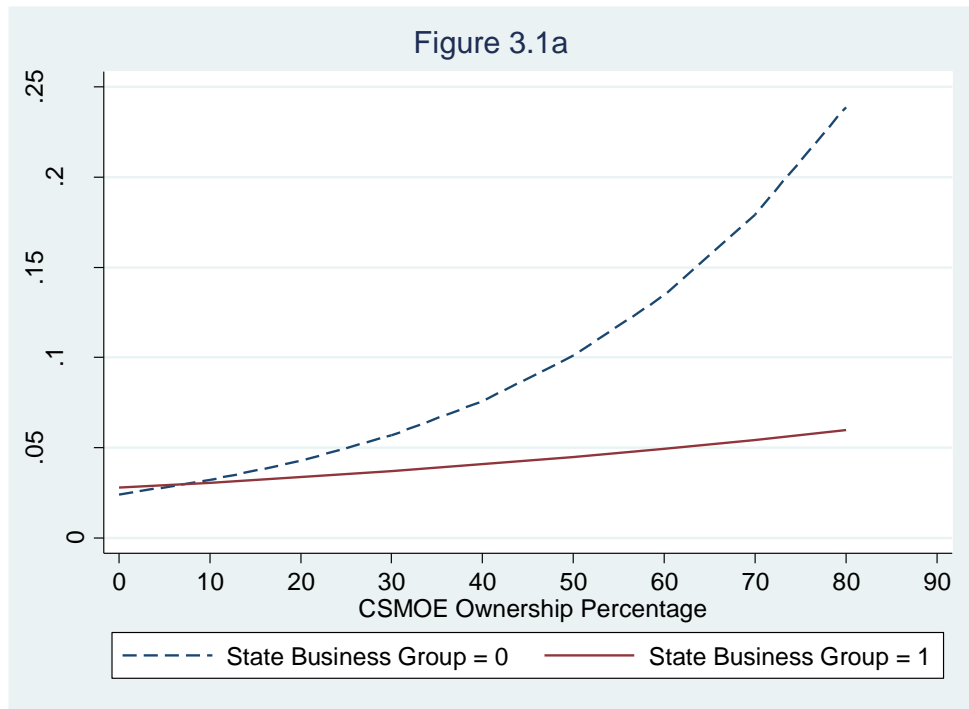


Figure 3.1a Moderating effect of state business group affiliation on CSMOE ownership

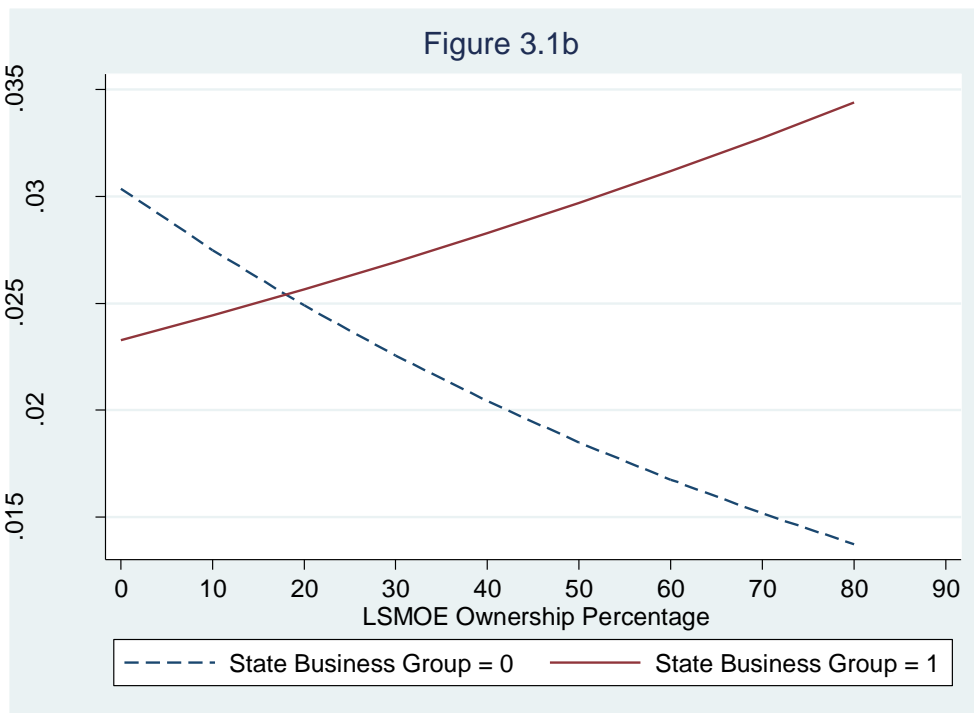


Figure 3.1b Moderating effect of state business group affiliation on LSMOE ownership

Table 3.1 Descriptive statistics and correlations

	Mean	S.D.	Correlations ¹											
			1	2	3	4	5	6	7	8	9	10	11	12
1. New FDI Entry _{t+1}	.106	0.80	1.00											
2. Central marketized state ownership	2.82	11.2	0.17*	1.00										
3. Local marketized state ownership	23.9	24.4	-0.04*	-0.19*	1.00									
4. Non-marketized state ownership	6.24	13.7	-0.01	-0.08*	-0.29*	1.00								
5. Private ownership	17.0	18.8	0.01	-0.08*	-0.44*	-0.17*	1.00							
5. Business group affiliation	0.50	0.49	0.03*	0.14*	0.36*	-0.25*	-0.47*	1.00						
6. Past FDI Entry	0.27	1.22	0.68*	0.21*	-0.08*	-0.01*	0.03*	0.02*	1.00					
7. International Sales Ratio	0.07	0.17	0.05*	0.10*	-0.05*	-0.01*	0.03*	0.06*	0.11*	1.00				
8. Total Assets	21.4	1.17	0.14*	0.15*	0.07*	-0.07*	-0.10*	0.25*	0.17*	0.00	1.00			
9. Firm Age	11.5	6.68	-0.04*	-0.04*	-0.16*	0.06	-0.04*	-0.10*	0.11*	0.02*	-0.04*	1.00		
10. ROE	4.86	13.4	0.03*	0.04*	0.04*	-0.05*	0.04*	0.09*	0.04	0.00*	0.23*	-0.06*	1.00	
11. Current Ratio	1.44	1.55	0.00	0.01	0.00	-0.01	-0.01*	0.01	0.00	0.04*	-0.07*	-0.05*	0.07	1.00

¹ N = 7784, * p < .05

Table 3.2 Results of negative binomial estimation and pooled Poisson robustness check

DV = Rate of New Foreign Market Entry _{t+1}	Negative Binomial				Pooled Poisson			
	Model 1a	Model 1b	Model 1c	Model 1d	Model 2a	Model 2b	Model 2c	Model 2d
Central marketized state ownership (CMSOE)	0.012 (0.004)**	0.028 (0.007)***	0.013 (0.005)**	0.026 (0.007)***	0.019 (0.007)**	0.035 (0.007)***	0.021 (0.007)**	0.035 (0.008)***
Local marketized state ownership (LMSOE)	0.001 (0.003)	0.001 (0.0034)	-0.009 (0.005)	-0.008 (0.005)	0.006 (0.007)	0.006 (0.078)	-0.017 (0.009)	-0.014 (0.009)
Non-marketized state ownership	0.0008 (0.007)	0.002 (0.007)	-0.001 (0.007)	-0.001 (0.007)	0.003 (0.008)	0.013 (0.008)	0.007 (0.008)	0.008 (0.008)
Private ownership	0.013 (0.003) ***	0.015 (0.003)***	0.011 (0.003)***	0.012 (0.003)***	0.020 (0.006)**	0.020 (0.193)**	0.013 (0.006)*	0.015 (0.006)*
State Business Group Affiliation		0.092 (0.150)	0.088 (0.150)	0.111 (0.165)		-0.052 (0.193)	0.040 (0.239)	0.091 (0.239)
CMSOE x State Business Group		-0.257 (0.100)*		-0.183 (0.094)*		-0.199 (0.086)*		-0.188 (0.096)*
LMSOE x State Business Group			0.361 (0.151)*	0.311 (0.154)*			0.726 (0.221)**	0.646 (0.228)**
Past FDI Entry	0.813 (0.132)***	0.814 (0.133)***	0.801 (0.134)***	0.799 (0.135)***	0.158 (0.018)***	0.158 (0.018)***	0.159 (0.181)***	0.160 (0.018)***
International sales ratio	1.370 (0.274)***	1.367 (0.277)***	1.377 (0.272)***	1.398 (0.277)***	1.906 (0.276)***	1.937 (0.277)***	1.961 (0.271)***	1.978 (0.275)***
Total Assets	0.391 (0.067)***	0.392 (0.069)***	0.396 (0.068)***	0.397 (0.069)***	0.498 (0.058)***	0.513 (0.066)***	0.517 (0.067)***	0.525 (0.067)***
Firm Age	-0.001(0.012)	0.000 (0.012)	-0.0004 (0.012)	0.0004 (0.012)	0.0139 (0.015)	0.014 (0.014)	0.015 (0.015)	0.015 (0.014)
ROE	-0.002 (0.004)	-0.002 (0.004)	-0.002 (0.004)	-0.0028 (0.004)	-0.001 (0.006)	-0.001 (0.006)	-0.0005 (0.006)	-0.001 (0.006)
Current Ratio	0.008 (0.032)	0.010 (0.031)	0.009 (0.031)	0.010 (0.030)	0.034 (0.026)	0.037 (0.024)	0.032 (0.025)	0.034 (0.024)
Year dummies	Included	Included	Included	Included	Included	Included	Included	Included
Constant	-11.62 (1.438)***	-11.76 (1.470)***	-11.50 (1.441)***	-11.62 (1.461)***	-13.61 (1.606)***	-13.94 (1.609)***	-13.50 (1.595)***	-13.81 (1.594)***
Log pseudo likelihood	-1307.44	-1306.06	-1305.38	-1304.27	-1745.24	-1740.91	-1728.20	-1723.80
Wald chi2	433.41***	436.83***	445.13***	458.56***	1170.44***	1193.91***	1243.90***	1251.28***
N	6653	6653	6653	6653	6653	6653	6653	6653

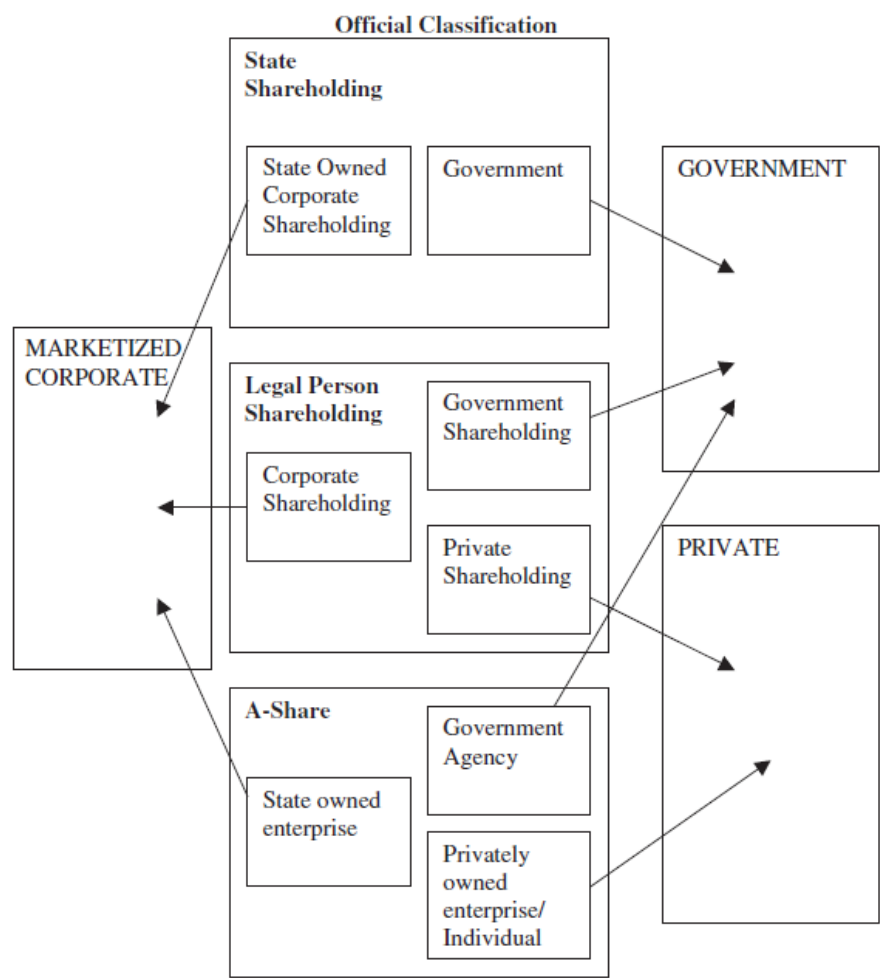
+ p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001 (significance levels based on two-tailed test)

Appendix 3.1 Shareholder categories of China's listed companies under new ownership classification scheme

Broad Category	Sub-group category	Example
Non-marketized State Shareholding	Local Government	Yunnan Provincial Government
	Government Ministry	Watery Ministry
	Government Bureau	Department of Finance of Fuzhou
	Industry Company (previous government ministry)	Yunnan Metallurgy Corporate Group
	State Asset Investment Bureau	Beijing International Trust and Investment Co. Ltd
	State Asset Management Bureau	Jing Shan State Asset Management Bureau
	Research Institute	Fudan University
	State Owned Bank	Commercial Bank of China
	Military Owned Company	China North Industries Corporation (NORINCO)
Marketized Corporate Shareholding	Infrastructure Construction Company	Hunan Highway Construction and Development Co. Ltd
	Market-Oriented State Owned Enterprise	Baosteel Ltd.
	Reformed Industry Company	ZTE Corporation
	University-Run Enterprises	Peking University Founder Group
Non-state shareholding	Security Company	Shenyin Wanguo Security Company
	Investment Fund	Hongfei Security and Investment Fund
	Private	Shanghai Hua Xin Investment Limited
	Individual	Lu Weiwei
	Foreign (Hong Kong, Taiwan, other countries)	Standard Chartered Bank Hong Kong Credit Ltd
	Work Union	The Work Union of Hu Bei Fiber Ltd

Note: Such-group categories and examples are adapted from Delios et al. (2006)

Appendix 3.2 Comparison between the official and new ownership classification scheme



Source: Delios et al (2006)

CHAPTER 4

INCUBATING PLATFORMS FOR INTERNATIONAL ENTREPRENEURIAL SPIN-OFFS: THE OVERSEAS STRATEGIES OF UNIVERSITY-RUN ENTERPRISES FROM CHINA¹

ABSTRACT

The paper investigates and reveals the different stages of incubation for Chinese university-owned enterprises' international start-ups culminating in their IPO and eventual international spin-off for global expansion. We argue that this unique 'incubating platform' model can serve as an important launching pad for emerging market high technology firms seeking to compete with leading advanced country multinationals. By platform - we imply that the URE provides a diverse array of resources including seed capital, brand name, core technology, management leadership, and market legitimacy which supports the startup until it can stage a successful IPO in a foreign stock exchange, after which it develops its own capital structure for fully fledged global operations. The notion of platform also encapsulates a second dimension - the URE continuously 'hatches' a fleet of domestic and international offspring firms organized into related clusters which constitute a business platform ecosystem. The presence of this phenomenon is explored via comparative case studies of PUC Founder Berhad and Technovator International, subsidiaries of Peking University Founder Group and Tsinghua University Tong Fang Group which established their respective overseas headquarters in Malaysia and Singapore. The results of the study offer important implications for how emerging market new ventures can leverage organizational solutions to springboard into global markets.

Keywords: incubating platform, emerging market multinationals, university-run enterprises, international entrepreneurial spin-offs, China

¹ This article is sole-authored. It has been accepted to the 2014 SMS special conference in Sydney, Australia.

4.1 INTRODUCTION

A prominent feature characterizing many emerging economy countries is the evolving resynchronization and transformation of their institutional corporate architectures through market reforms which exert far-reaching impacts on their economic systems (Chitoor, Sarkar, Ray & Aulakh, 2009; Dau, 2012). Such profound changes to firms' surrounding operational environment have led to fundamental shifts in their strategic responses as they experiment with new organizational structures, coordination mechanisms, and practices to optimize their survival capabilities. To achieve congruence, emerging economy multinational firms (EMNCs) have 'coevolved their structures and practices within idiosyncratic environments' (Gammeltoft, Filatotchev, & Hobdari, 2012) which lead them develop specialized attributes. Owing to resource scarcity and challenging environmental contingencies characterized by underdeveloped and rapidly changing institutions, EMNCs may lack adequate skills, preparation or leverage compared to developed country multinationals (DMNCs) to expand overseas. Despite the lack of required capabilities, EMNCs tend to exhibit stronger motives to catch up with DMNCs in the international arena. Hence, the salient question is how can they overcome their inherent disadvantages by relying on existing capability structures to conduct overseas boundary-spanning activities?

While earlier studies of EMNCs have highlighted their underdeveloped markets and weak institutions as key obstacles to their development abroad, an emergent literature stream seeks to identify how such disadvantages may be converted into advantages. Rather than comparing characteristics of EMNCs and DMNCs as being better or worse for internationalization, these studies avoid generalizations by exploring how the formative environment underpinning such firms' development are merely different from one another, conferring discrete context-specific

advantages and disadvantages (Cuervo-Cazura & Genc, 2010; Ramamurti & Singh, 2009). For instance, EMNCs may benefit from asymmetrical capabilities stemming from their unusual institutional development paths and learning experiences which can be transformed into advantages for international venturing (Madhok & Keyhani, 2012). Such advantages may include organizational improvisation, versatile adaptation, and opportunistic entrepreneurialism to ‘squeeze the most out of adverse circumstances’ (Madhok & Keyani, 2012; Guillen & Garcia-Canal, 2009; Luo, Sun, & Wang, 2011). In other words, the atypical organizational structures, entrepreneurial strategies or business models which EM firms have fabricated to bridge domestic institutional voids may also be deployed in foreign environments, even if they were not designed with such original purpose.

While recent research has identified organizational and management innovation by EM firms as a crucial element in their arsenal of advantages for internationalization (Ghemawat & Hout, 2008), only a handful of studies have concretely investigated how EMNCs creatively structure their management teams and establish boundary-spanning organizational practices to build synergies and capture value abroad (Girod & Bellin, 2011; Martinez, Esperanca, & De La Torre, 2005). Moreover, there is a paucity of research exploring how the evolutionary pressures associated with institutional transitions can induce the genesis of new organizational forms and practices which may be leveraged by EMNCs for internationalization. Most studies have focused on EMNCs with established organizational profiles such as large business groups, SMEs, state-owned enterprises, family-owned firms, and private firms whose identities have been well defined, examined, and established in the international business literature. Lastly, despite abundant research into the

international entrepreneurship activities of ‘born globals’, only a handful of studies have focused on corporate entrepreneurship by EMNCs (Yiu, Lau, & Bruton, 2007; Yiu & Lau, 2008).

To remedy this oversight, this paper seeks to break new ground by exploring the cross-border venturing strategies of a relatively new and underexplored species of firms known as university-run enterprises (UREs) which emerged as a new organizational form to support market-based development of China’s innovation and high technology sectors (Kroll & Liefner, 2008; Eun, Lee, & Wu, 2006). While UREs are more known for their boundary-spanning role to facilitate collaborations between academia and industry, their unique organizational features have rarely been studied in relation to international venturing. Focusing on the hybrid form of UREs which is built upon a foundation of co-governance between Chinese universities and the state, we examine, by applying case study methodology, how their distinctive features enable them to serve as ‘incubating platform’ organizations for international spin-offs. Engaging primarily with the expanded research on international entrepreneurship by emerging market firms, we seek to make a two-fold contribution. First, we elucidate how the platform organizational model of UREs can become a launching pad for entrepreneurial start-ups across borders. Second, we illuminate the temporal pattern of UREs’ incubating role unfolding in a multi-staged process starting from initial incubation of its offspring firms to extended parenting and final overseas spin-off. In so doing, we contribute to the literature on organizational strategies by EMNCs to address latecomer deficiencies for penetrating global markets.

4.2 RISE OF NEW ORGANIZATIONAL FORMS DURING INSTITUTIONAL TRANSITION

The past twenty years has witnessed a remarkable transformation in the institutional environments of emerging economy countries with the simultaneous dismantling and reshaping of existing economic institutions to create new ones for market-based growth. Actions by governments to overhaul their institutional systems are accompanied by mutually reinforcing policy adjustments such as corporate ownership and governance reform, deregulation, capital market reforms, market liberalization, and industrial restructuring. The evolutionary dynamics of such institutional transitions are nonetheless characterized by ‘institutional imperfections’ which arise from ‘the gaps between the existing and desired institutional arrangements and governance systems (Roth & Kostova, 2003: 315). Such gaps may not only emerge due to underdeveloped institutions but also from incongruence between prior and new institutional arrangements and the lack of strategic complementarity between them.

Organizational responses by firms to deal with profound institutional change has been of vital interest to institutional theorists and fresh efforts to understand how firms cope with rapid environmental change have generated a volume of literature (Ahlstrom & Bruton, 2010; Suhomlinova, 2006; Pettigrew, Woodman & Cameron, 2001; Ulenbruck, Meyer & Hitt, 2003; Zhou, Tse & Li, 2006). However, the majority of studies have tended to interpret firm responses via the lens of gradual organizational adaptation to changing institutional circumstances rather than through the creation of radically new organizational forms. Despite renewed interest into how firms realign themselves with kaleidoscopic institutional change, it has also been acknowledged that ‘current taxonomies of environmental change are insufficiently sensitive to all the granularity of the relationship between environmental and organizational change’ (Suarez & Olivia, 2005).

Indeed, the assorted dynamics and patterns of change and their implications on firm organizational adaptation have yet to be fully explored. One form of institution-building that has lately revived the attention of institutional theorists is the concept of ‘institutional bricolage’ (Crouch, 2005; Yeung, 2004), which is characterized by the cobbling together of different institutional elements drawn from various sources to synthesize a new institutional schema capable of reconciling multiple, possibly incompatible institutional logics.

In the context of emerging market countries such as China, such recombinant dynamics of institutional transition has important implications on firm organizational behavior. Nested in a complex institutional environment straddling state-led and market-based capitalism, firms make novel use of the eclectic resources and institutions at their disposal ‘to craft new institutional solutions by combining elements drawn from a repertoire whereby new forms differ but resemble old forms’ (Carney, Gedajlovic & Yang, 2009: 372). To survive, they must navigate and embed themselves across different institutional domains to align with the opportunities that arise from partial transformations in both state and market spheres. According to Nee (1992: 4), ‘this characteristic of partial reform creates an institutional environment in which hybrid forms enjoy a transaction cost advantage over alternative governance structures’. Hence, the phenomena of institutional bricolage can serve as a precursor to the rise of new organizational forms during sustained periods of institutional transition.

Recent studies on organizational hybridity have started to investigate how such organizations can embed a diversity of perspectives, skills, and resources by combining and integrating the identities, practices, and structures of old and new institutions to generate novel forms that not only imbue them with strategic flexibility, but also the ability to extract resources

and sustain legitimacy from different institutional stakeholders (Kraatz & Block, 2008; Thornton, Ocasio & Lounsbury, 2012). Such organizations may also be purposefully created to bridge different institutional boundaries and understandings (Besharov & Smith, 2013; Thornton & Ocasio, 2008). They may hire individuals with qualities that embody each of the institutional logics or archetypes they seek to combine (Battilana & Dorado, 2010). Due to the idiosyncratic discontinuities and sequencing of reforms characterizing institutional transitions which are unique to each emerging economy, the creation of hybrid organizational forms cannot rely on any existing models to reconcile the tensions between the institutional logics they combine. Not all hybrids are capable of handling the strain of reconciling different institutional pressures and nor can they all keep abreast of turbulent institutional change. However, those hybrids which manage to develop into robust entities are likely to have formulated prescriptions for achieving viability by matching complementarities residing among different institutional elements which add up to more than the sum of their parts (Ennen & Richter, 2010).

4.3 ORGANIZATIONAL INNOVATION AND INTERNATIONALIZATION

In their efforts to combine and reconfigure elements from different institutional spheres, hybrid organizations engage in a form of organizational innovation that gives rise not only to incremental evolutionary adaptation but also the potential emergence of radically novel organizational templates and business models. The trial-and error iterative nature of their development process and their ability to mobilize resources from multiple institutional fields may allow them to evolve new organizational architectures, internal coordination mechanisms, and growth strategies to drive performance outcomes. Over the past decade, studies have occasionally highlighted the role of organizational innovation as an under-recognized but critical ingredient in the internationalization

strategies of EMNCs. In elaborating his linkage-leverage-learning (LLL) framework, Mathews (2006) illustrated how EMNCs can devise new organizational structures such as Acer's global cellular architecture to create a worldwide cluster of semi-autonomous business units to circumvent the typical subsidiary-headquarter coordination issues that burden conventional MNEs. However, apart from a few studies (Bonaglia, Goldstein & Mathews, 2007), this stream of research remains under-investigated and underdeveloped. The extant literature has also yet to capture how hybrid firm types from emerging markets can leverage their organizational innovations to leapfrog into global industries traditionally dominated by established MNEs.

To address this lacuna, we examine a relatively new kind of hybrid organization which emerged from China's transitional context known as university-run enterprises (UREs). We evaluate their institutional origins and investigate how they have evolved hybrid organizational features by combining elements derived from their institutional heritage and features of Western university-spinoffs and industrial clusters. By unraveling their hybrid organizational attributes, we shed light on how such latent characteristics can enable UREs to serve as 'incubating platforms' for nascent start-ups which are nurtured into successful international spin-offs. We support our theoretical development through a comparative case analysis (Eisenhardt, 1989) of two companies – Peking University Founder Group and Tsinghua University Tong Fang Group which were both established by leading Chinese universities in the 1990s as a response to public initiatives by the government to promote the role of university-run enterprises in the formation of China's embryonic high technology sector. Both firms established international spin-off companies in Malaysia and Singapore and thus provide an ideal field setting for exploring the 'incubator platform' model for international expansion. As of 2012, Tong Fang Group is ranked at No. 44 among the top 100

Chinese multinationals with \$1.66 billion USD in overseas assets and \$101 million USD in foreign revenues while Founder Group's listed subsidiary Beijing Founder Electronics Corporation was individually ranked at No. 86 with over \$320 million USD in overseas assets and \$237 million USD in foreign revenues. Together these two firms are considered among the most dynamic Chinese multinationals to emerge over the past decade.

4.3 HYBRID ORGANIZATIONAL CHARACTERISTICS OF URES AND THEIR INCUBATING PLATFORM MODEL

The particular manifestation of UREs as hybrid firms owned by the state but managed by universities can be viewed as a response to outgrow the constraints of China's underdeveloped institutions and form a *de novo* ecosystem for industrial innovation. Following the initial economic liberalization period, the first wave of entrepreneurial dynamism in China was overshadowed by the absence of critical innovation skills, human capital and absorptive capabilities for building technological competence within industrial firms (Wu, 2010). The majority of state-owned firms were burdened with the legacy of centralized planning while the nascent private sector was in no better position to spearhead China's technological industrial development. According to Chen, Li, Zhang & Shapiro (2014), the distortion of factor markets for labor, capital and knowledge due to China's command economy heritage leveraged high transaction costs which hampered innovation among non-state-owned firms. Due to such distortions, the availability of human talent and expertise required for technological upgrading was largely confined to research institutions publicly financed by the state.

While Chinese research institutions possessed the potential for developing breakthrough innovations, the 'barren' external environment surrounding academic institutions made it difficult

for researchers to identify suitable firms capable of commercializing their research (Eun et al, 2006). In contrast to advanced economies where R&D activities are undertaken in parallel by both corporations and universities alike, the structural misalignment in the capabilities of state-owned and private industrial firms to promote knowledge industrialization in China left policy-makers with few options but to call upon universities to take the risk of directly entering the market (Kroll, 2008). However, the development of new technologies involved substantial upfront investment and learning costs which magnified the risk for market failure. To address such uncertainties, the government sponsored various incentive schemes including royalties and preferential tax exemptions for universities to set up enterprises which ‘were meant to integrate several stages of the research, development and commercialization process into one organizational entity’ (Kroll & Liefner, 2008: 302). Through this large-scale joint mobilization of university and government resources, thousands of UREs were established during the 1990s to promote technological growth in China.

The hybrid design of UREs emerged from efforts to create an internal system for pooling a dynamic mix of resources and incentives to support innovation. In partnering to form UREs, the state became a key source of resources such as land, infrastructure, credit, subsidies, tax benefits, and policy support whereas universities contributed critical intangible resources such as human talent, brand recognition, intellectual property, and international research networks. This form of ‘resource bricolage’ embodied in the integration of inherited resources from state and universities not only functioned to minimize transaction costs, but also to develop new organizational platforms for innovation. While the trend of establishing ‘entrepreneurial universities’ had also gained momentum in other countries around the world (Etzkowitz, 1998), the particular recombinant

features of the URE have eluded most typical characterizations attributed to Western university spin-offs. According to Eun et al (2006), the phenomenon of UREs has been described as a new ‘governance form’ of knowledge industrialization.

As Eun & Lee (2010) aptly pinpointed, UREs were essentially business enterprises integrated into their parent universities. This tight coupling mechanism ensured that they remained connected to their mother institutions ‘through a sort of umbilical cord’ (Eun et al, 2006). Relying closely on the resources, staff, and research facilities concentrated within their university, UREs also incorporated their university names in their commercial brands. While the utility of this feature has been highlighted with respect to integrating the R&D and commercialization activities of UREs (Kroll & Liefner, 2008; Eun et al, 2006; Eun & Lee, 2010), we argue that there is another, perhaps more imminent strategic purpose being served through the intertwining of UREs and their parent institutions. In sharp contrast to university spin-offs in advanced countries such as the US or Europe, UREs emerged from a backdrop of scarcity characterized by poor resource munificence in venture capital and private industrial R&D funding. The paucity of alternative sources of early stage investment obviates the motive for UREs to separate from their parent institutions. Moreover, as hybrid entities, they were infused with a public mandate to help revitalize China’s innovation sector while serving as commercial vehicles. This dual-purpose market-shaping prerogative for cultivating an innovation ecosystem remains at the heart of UREs’ overarching business strategy and has significant implications on the subsequent development of their organizational architecture.

Undoubtedly, the emergence of UREs was inspired by the rise of regional high technology clusters, science parks, and incubators in the US, UK, Japan, Israel and Taiwan which have been covered extensively in the innovation literature (Clarysse, Wright, Lockett, Van de Velde, &

Vohora, 2005; Phan, Siegel, & Wright, 2005; Bresnahan, Gambardella & Saxenian, 2001). However, unlike these vibrant and dynamic start-up environments which were fostered by a diverse mix of supporting public policies and private entrepreneurial initiatives, the institutional vacuum characterizing UREs' surrounding environment left them with multifaceted unprecedented challenge – how to simultaneously develop new innovative businesses while contributing to the formation of supportive market infrastructure to nurture their growth? Moreover, UREs' initially low technological starting point meant they faced a steeper learning curve in their R&D efforts and therefore required more extensive technical, administrative, and organizational support to reach commercial take-off stage.

Such tactical considerations combined with the high risk nature of creating innovative ventures led UREs to adopt what we define as an extended 'incubating platform' organizational model of entrepreneurial development. We evoke the notion of 'platform' to illustrate how UREs have evolved ambidextrous business structures for the continuous propagation of offspring start-up firms to commercialize new technologies developed by their affiliated universities. The basic tenant of the 'incubating platform' concept is the URE's ability to spawn a fleet of smaller companies which are incubated into related industrial clusters resembling an innovation ecosystem to support a family of products and services. The core essence of the business platform concept is to provide an enabling foundation or common organizational structure which supports the development of derivative products developed by internal or external teams (Meyer & Lehnerd, 1997). In the case of the URE, the primary assets constituting its platform may comprise of individuals, processes, proprietary knowledge, networks, components and university facilities which could be shared among its offspring firms. While a substantial body of literature has emerged

to explain the phenomenon of platforms in a variety of business contexts (Bresnahan & Greenstein, 1999; Ciborra, 1996; Gawer & Gusumano, 2013; Lansiti & Levien, 2004; Gawer, 2010; Thomas, Autio & Gann, in press), the particular hybrid characteristics of UREs which combine the interplay between its incubator and platform functions have been under-investigated.

In contrast to other typical incubators such as science and technology parks which are populated by start-ups with individual business agendas, the platform characteristics of the URE help its offspring firms to orchestrate their business and technological decisions ‘in the context of a coherent set of strategic moves’ (Gawer & Gusumano, 2013). Such firms are not only embedded in the URE’s existing platform but also help to strategically orchestrate its evolution in alignment with changes in the surrounding market and technological landscape. However, the scope of the platform remains broad enough to accommodate the emergence of diverse or even unforeseen commercialization possibilities arising from spillovers of large-scale R&D activities (Wallen & Dahlstrand, 2006). Such spillovers may be explored through the formation of new offshoot firms with their own assets, competencies, and business lines. The creation of varied offspring ventures also forms the basis which enables UREs to identify, select and exploit valuable diversification opportunities. Figure 4.1 provides a conceptual model of the URE as a hybrid organizational entity integrating both business enterprise and incubator functions.

[Insert Figure 4.1 about here]

Moreover, unlike Western university spin-offs which typically receive limited incubation time and resources before they must split off to secure venture capital for survival, the offspring firms of UREs undergo prolonged incubation which facilitates their growth while shielding them

from initial market risks and obstacles. This extended incubation treatment which resembles the ‘sponsored-spin-offs’ by Japanese multinational firms (Ito, 1995; Ito & Rose, 1994), provides UREs’ offspring firms the advantage of utilizing the existing assets of their parent firm while preserving the entrepreneurial qualities of a smaller firm. Moreover, owing to the initial lack of industrial firms with strong commercialization abilities, the offspring firms are incubated for longer periods to reach maturation. Over the past 20 years, UREs such as Fudan Fuhua Group, Neusoft Group, and Tsinghua Tong Fang Group have each incubated a portfolio of 80-100 companies which are organized under core technology areas. For instance, Tong Fang Group has structured its firms under an umbrella consisting of 10 core groups: computers, digital city, internet of all things, micro-electronics & radio frequency technology, multi-media, semiconductor & lighting, knowledge network, military applications, digital TV, and environmental industry. While initially designed to address the absence of venture capital and supporting innovation architecture, it is precisely the added resilience and recombinant potential of this ‘incubation platform’ approach which we seek to explore as a critical enabler of UREs’ ability to launch successful international spin-offs.

4.4 RESEARCH METHODOLOGY

Owing to the special circumstances characterizing the ‘incubating platform’ model of internationalization, we adopt an exploratory comparative case study approach to unearth new theoretical insights (Eisenhardt, 1989). The focal companies of our study, PKU Founder Group and Tsinghua Tong Fang Group were created respectively by Peking and Tsinghua Universities during the early stages of China’s reform period and have similar organizational layouts. Both groups operate under the auspices of large holding companies which are supervised by state asset management committees that are approved by the State Council and report to the Ministry of

Education. Each holding company is headed by a management team consisting of senior professors, some of whom served as the group's original founders. This unique blend of university management and government oversight reflects the hybrid nature of the URE as a unique organizational form among other corporatized entities in China's transitioning economic system. Managers of both companies are simultaneously motivated by commercial incentives to develop profitable applications while fulfilling state mandates to promote technology diffusion to the industrial sector. A substantial portion of the profits are rechanneled back to their universities to support ongoing R&D initiatives.

From its inception, both firms received substantial priority support from central and municipal-level governments owing to their affiliation with China's leading elite universities. Although both groups follow state directives to innovate certain technologies which are critical to China's development, they also possess significant managerial autonomy and considerable entrepreneurial prowess which distinguish them from typical state-owned enterprises. Among the various types of university-industry linkages comprising of joint research centers with industrial firms, university science parks, and incubators identified in a typology framework developed by Eun et al (2006), UREs are classified as exhibiting the highest level of entrepreneurship. Both PKU Founder Group and Tsinghua Tong Fang Group have actively promoted an entrepreneurial organizational culture to foster the commercialization of innovative ideas and scientific discoveries in the marketplace. According to Tong Fang's president Lu Zhicheng, the commercialization strategy of Tong Fang centers around 'three clever steps' organized under successive stages of development known as 'Technology + Capital', 'Collaboration + Development', and 'Brand + Globalization'. The first stage involved intensive investment in R&D, subsequently followed by the hatching of

multiple mutually-supporting industrial clusters. The large scale growth of these clusters contributes to its brand recognition and overarching aim to become globally competitive. Similarly, Founder Group exhibits a similar managerial mindset, adopting the motto 'Forever Innovative' in their entrepreneurial endeavors.

However, the cultivation of an active entrepreneurial environment in both companies required a creative organizational design solution. A significant challenge to sustaining an innovative and open-minded organizational culture lies in the inherent bureaucratic inertia and rigidity which arises in large corporations especially with respect to diversification decisions. According to Prahalad & Bettis (1986), managers with experience in utilizing a particular set of administrative and analytical tools to manage their business lines acquire a dominant logic or conditioned mental representation which constrains their ability to pursue diverse entrepreneurial opportunities due to their limited capacity for accommodating multiple dominant logics. The decision to incorporate greater variety by diversifying into new unfamiliar business areas involves hidden tradeoffs such as slower strategic responsiveness and unforeseen challenges to address potentially conflicting demands. Such costs may deter managers from entering into new business lines which do not fit into the company's existing organizational structure or management system.

From its inception UREs such as Founder Group and Tong Fang Group made efforts to circumvent such bottlenecks. One way to experiment with entrepreneurial business development involved adopting an 'incubation platform' organizational structure by nurturing clusters of domestic and foreign offspring firms were provided with baseline resources and managerial autonomy to develop their own core competencies. For instance, Founder has evolved five clusters including IT, healthcare, real estate, financial and commodities groups. Within each cluster,

offspring firms are provided with wider degrees of freedom to develop their own product range and pursue entrepreneurial opportunities. While critical functions such as financial management, marketing, and hiring are centralized, investment decisions are not scrutinized at the group level. Rather, performance is assessed by offspring firms' return on investment. The offspring firms are given access to relevant resources of the parent firm until reaching sufficient maturity for a public listing to infuse them more capital for growth. However, rather than spinning off completely, the offspring firm may remain tied to its parent institution as a partial-spinoff through an equity shareholding arrangement. The arrangement also benefits the parent company as listed subsidiaries help to raise capital for the parent firm. Depending on the evolving business conditions, some subsidiaries may eventually fully spin off, while others remain tethered to their mother company. In this study we investigate how such an extended incubating platform approach has been successfully leveraged by Founder Group and Tong Fang Group for overseas entrepreneurial venturing.

Data Sources and Analysis

In order to study how Founder Group and Tong Fang Group incubated their international spin-offs, we employ a longitudinal approach to evaluate how the different stages of incubation facilitated the initial overseas venturing and subsequent public listing of their offspring firms which further served to consolidate their overseas expansion. Our approach takes into consideration the importance of the 'entrepreneurial journey' to understand the sequence of events which yield transformative effects on the capabilities of firms to engage in international entrepreneurship (McMullen & Dimov, 2013). Moreover, it provides us with a basis to compare how the different

phases of incubation unfolded in both firms to illustrate a coherent pattern of events reflecting the ‘incubating platform’ model of internationalization.

Data gathering focused not only at the holding company level of both firms, but also on their respective offspring firms, one from each group which was successfully launched through public listing in overseas stock exchanges. Among the two offspring firms which constitute the primary objects of our study is PUC Founder (MSC) Berhad, the Malaysian subsidiary of Founder Group specializing in biometric and electronic publishing products. Founded in 1997, it was subsequently listed on the Bursa Malaysia Stock Exchange in 2000. The other offspring firm is Technovator International, the Singaporean subsidiary of Tong Fang Group, a leading building energy management solution provider established in 2005 and publicly listed on the Hong Kong Stock Exchange in 2011. Both Tong Fang Group and Founder Group initially held controlling ownership of their foreign subsidiaries (30-35%) which were established as joint ventures while their foreign partners became secondary minority shareholders (10-15%) with multiple strategic investors accounting for remaining shares. The composition of the board of directors for each firm mirrored the aforementioned ownership structure with both parent UREs initially providing over half of their subsidiaries’ management teams. Multiple sources of data were solicited for triangulation purposes including semi-structured interviews with top management teams from both firms, archival data from annual reports and IPO listing prospectuses, quarterly financial and investment reports, dedicated blog archives maintained by the founder of PUC Founder Berhad for the past 7 years, publications from both parent and offspring companies, proprietary archival documents shared by both companies and newspaper articles. Tables 4.1a and 4.1b summarize the archival documents gathered in support of our study.

[Insert Tables 4.1a and 4.1b about here]

Emerging Multi-stage Process Model

Two streams of data are obtained from the primary and archival data. The first stream consists of archival materials documenting the overseas international expansion of both PUC Founder and Technovator International. It charts the key initiatives, events and decisions which characterize the extended process of international incubation and spin-off. The second stream is derived from blog archives, published interviews, and face-to-face interviews with the top management team of both firms to provide a basis for interpretation of the events and circumstances, as well as the underlying rationale behind the incubation process. In May 2014, the author made several field visits to the offices of PUC Founder and Technovator International in Kuala Lumpur and Singapore, and engaged in extensive semi-structured interviews with founding executives of both overseas subsidiaries and group headquarters in Beijing. The availability of online archival materials enabled the author to identify relevant interview questions which were formulated to pinpoint and confirm the strategic mindset of senior executives as well as unravel how certain events unfolded based on triangulation with archival data. A total of 30 hours of intensive interviews were conducted over a 2 week period split approximately between each company and separated by several days for data consolidation purposes, with key parent company board members, including founding executive directors and subsidiary office CEO or COO supplemented by ongoing email correspondence and exchange of company reports and documents. Senior executives who are cited in this paper have given consent to the disclosure of their names and titles. Two other top executives who extensively

shared their insights and agreed to be identified but were not quoted include Mr. Wei Xin, the chairman of Founder Group and Mr. Cheong Chia Chieh, the new managing director of PUC Founder Berhad.

Following initial interviews which helped the author gain familiarity with the entrepreneurial challenges and critical junctures faced by both companies, efforts were made to identify different transition periods in their development characterized by varying patterns of strategy deployment. Particular attention was paid to how the overseas senior executives portrayed their companies' early, emergent, and evolving organizational identity – especially their decisions to establish independent brand names which differentiated them from their parent company. Detailed questions were supplemented by broader guiding questions such as: “What early circumstances or conditions enabled you to establish Founder Group and Tong Fang Group’s overseas subsidiary?” and “How did you identify your entrepreneurial opportunities and convince other executives at HQ to transfer their core technologies and invest in your start-up?” and “What was your strategic vision and how did your company build its early momentum leading to its IPO?”. Efforts were made to evaluate how combinations of different resources were channeled from the parent company into the offspring start-up to support the formation of capabilities for R&D, capital-raising, brand management, and product development to orchestrate an international take-off.

In addition to demarcating the different phases of the ‘incubating platform’ utilized by both companies for overseas venturing, the author set about to examine the dual contextual levels in which the offspring firm was embedded. While the offspring start-ups of both Founder Group and Tong Fang Group were undergoing successive rounds of incubation, new restructuring efforts and shifts in strategic positioning were simultaneously unfolding at the parent level which corresponded

to the parent firm's own idiosyncratic life cycle. To assess how the offspring firm was coevolving with changes at the parent level, questions were posed to explore how the subsidiaries adapted and what kinds of impacts such changes exerted on their overseas survival and performance.

During the second phase of interviews, the author began to reconcile the archival data with details gathered during the initial interviews. The overarching goal was to cluster information and identify missing gaps which required further clarification or explanation during follow-up interviews. This process involved filtering out surplus information derived from archival data and focusing on particular emergent patterns or recurrent themes which had been repeatedly touched upon by senior executives. Efforts were made to clarify any contradictory or ambiguous strands of information gathered from the archival data with the informants. At this stage, the author iterated between both streams of data to develop clarity around theoretical concepts such as 'prolonged incubation' and 'incubating platform' after mapping out the linkages between platform resources utilized for incubation and subsequent developmental outcomes associated with each stage of PUC Founder and Technovator's evolution. This theoretical exercise was supplemented by consulting relevant literature on platform organizations, academic spin-offs and incubators to fine-tune the notion of 'incubating/parenting platform' for international spin-offs. Due to the exploratory focus of this research topic, efforts were made to iterate between interviews to obtain new information, theorize, and retrace old data to enhance triangulation for sharpening our conceptual development.

Our analysis focused on strategies deployed by senior executives to coordinate and mobilize various resource streams at each stage of incubation to achieve a range of targeted outcomes. The aim was to understand how specific competencies were cultivated and layered upon each other or dissolved if they were not deemed effective to optimize strategy formulation for international

growth and survival. Secondly, by disaggregating the evolution of PUC Founder and Technovator as a series of incubating stages, our analysis reveals a shift in the organizational identity of both firms. For PUC Founder, this transition was marked by a change in its business focus from simple biometric access control applications during the first years of incubation to real time digital multimedia services and web-based human resource management during later incubation stages. The latter decision to pursue software development/digital services was initiated by PUC Founder's founding CEO – Mr. Teh Hong Seng – for two main reasons. First, while Founder Group's traditional core competency included digital media, less attention was paid to the provision of real time web-based services to complement its hardware and software offerings. The delivery of internet-based services complementing PUC Founder's biometric devices represents both a cost-saving and value enhancing measure made possible through the introduction of cloud computing technology. Adoption of such design features over the past several years has led PUC Founder to evolve a much stronger social media presence to promote its 'Going Global' strategy.

For Technovator International, the founding COO – Mr. Seah Han Leong – placed a strong emphasis on repositioning its core business from integrated building automation systems (iBAS) to energy management systems. This strategic shift was motivated by two critical factors. First, it was a response to reap the opportunities availed by the Chinese government to offer preferential tax treatment to high technology firms providing environmental protection solutions. Due to the high rate of urbanization and construction in China, the installation of energy management systems to monitor and reduce energy consumption via intelligent building design is becoming increasingly prevalent. Since up to 40% of building costs alone are derived from energy use, the installation of energy management systems could reduce such costs by 10-20%. Moreover, similar to the industry

conditions facing PUC Founder, Technovator has benefited from improvements in cloud computing technology which significantly boosts the agility and speed of machine-to-machine communications. This permits for the embedding of various smart sensors and control devices to collect environmental data which can be uploaded to the cloud, analyzed in real time, and then fed back into the energy management system to regulate energy use. The rapid feedback loop also enables the company to monitor patterns of usage by customers and to tailor its products and services to anticipate their specific needs.

The final stage of interview involved the author summarizing and drafting her observations in written form which were shared with both companies' senior executives, enabling them to provide further clarifications and feedback. Through this iterative and extensive dialogue, the author gathered additional insights on the external and internal relationships, organizational practices and routines, and targeted initiatives set by top executives to navigate their overseas business environments. In these meetings and written correspondence, the senior executives of both companies were impressively transparent and candid which were facilitated by the author's offer to share her draft with them prior to publication.

Figures 4.2a and 4.2b present a detailed timeline of the main players and the key events underpinning PUC Founder and Technovator's overseas incubation, serving as markers to identify the operational milestones achieved during each incubation cycle. In analyzing this information we adopt a process-driven approach (Mohr, 1982) rather than a variance-based method to capture the overarching pattern of events which unfold through the various stages of incubation. The process analytical approach is motivated by the logic that 'each event on the path to the eventual outcome is necessary to explain that outcome, but by itself is not sufficient: what is sufficient are all the

events that occur after it, without which it would be plausible to presume that the outcome would not occur as actually observed. This is consistent with the entire chain of events being the explanatory unit.’ (McMullen & Dimov, 2013: 1488).

[Insert Figures 4.2a and 4.2b about here]

Pre-incubation and Early Parenting Stage: From birth and parenting of offspring firm to early childhood

Over the past two decades a volume of literature has emerged covering the rise of international new ventures in international business (Knight & Cavusgil, 1996; Jones & Coviello, 2005; Mudambi & Zahara, 2007). However, the formative process of creating such ventures through the discovery and exploitation of new opportunities for overseas venturing remains underexamined (Prashantham & Young, 2011; Zahra, 2005). The establishment of an overseas office denotes a certain rite of passage and a new ‘achieved status’ in the perception of key stakeholders such as the founding team, investors, employees, media, and government (Prashantham, 2013). This notion of passage through new life cycles resonates with the different stages of incubation experienced by the focal firms of our study. It is also well aligned with the concept of corporate parenting (Campbell, Goold & Alexander, 1995; Goold, Campbell & Alexander, 1998) which explores how parent firms may extend their strategic guidance and resources to support value creation in their subsidiary business units. While the literature on corporate parenting appears to involve a top-down approach to management, it is not inconsistent with theories of corporate entrepreneurship which argues that bottom up entrepreneurial initiatives within organizations can be leveraged to drive strategic

renewal and performance. Rather, studies have found that both strategies are complementary if they are balanced and calibrated in a coordinated way (Bieto, Planellas, & Parada, 2006).

During the initial birth and early incubation period, both offspring firms Technovator and PUC Founder relied extensively on the incubating platform provided by their parent UREs. While the platform resources of Founder Group and Tong Fang were quite substantial, they did not constitute *all* the necessary ingredients for the successful incubation of its foreign subsidiary. Rather, a critical function of its parenting role involved knowing *how* to identify and mobilize those resources which were not readily available. Without the support functions of the parent URE, each individual start-up must face the tedious challenge of searching for and acquiring an accoutrement of different strategic resources to build up their own internal ecosystem for survival. However, with the platform approach, the offspring firm is provided with an array of incubating resources which include platform technology, initial seed capital, group platform resources and an internal business platform ecosystem. Table 4.2 summarizes our categorization of the different resources made available to PUC Founder and Technovator and its initial phase of international incubation.

[Insert Table 4.2 about here]

With respect to the types of incubating platform resources available, we provide the following definitions. Platform technologies refer to the core proprietary technologies, R&D processes and technical knowhow which has been transferred from the parent firm to their overseas offspring subsidiary for commercialization. Decisions concerning which technologies to transfer and the specific transfer mechanisms were made jointly between the parent group and the foreign cofounders of the offspring

firms. For Founder Group, the original intention to set up a foreign subsidiary in Malaysia was to expand its electronic publishing and management information systems businesses into South East Asia. However, after consulting with Mr. Teh Hon Seng, a Malaysian Chinese entrepreneur who was tapped by Founder Group's executives to set up PUC Founder, the management team decided to transfer to its subsidiary Founder Group's proprietary fingerprint technology which had already been successfully deployed in government security departments. Mr. Teh, who had served as Founder's distributor of electronic publishing systems in Malaysia, identified the potential growth possibilities for biometric technologies which were in their infant stage of commercial development during the 1990s. After licensing the automated fingerprint technology from Founder Group, PUC Founder set up its R&D units in Malaysia and Shenzhen to develop its own fingerprint products which were subsequently marketed under the FingerTech brand to over 100 countries.

Similarly, Technovator International collaborated with a Singaporean Chinese entrepreneur to transfer its integrated building automation systems (iBAS) technology for commercialization and expansion into the energy management systems market. Mr. Seah Han Leong, the Singaporean cofounder of Technovator, has extensive management experience at Honeywell, a multinational firm which is the leading provider of iBAS systems in North America and Asia. During the 1980s, he helped to set up Honeywell's representative office in Beijing, and became acquainted with Tong Fang's president Lu Zhicheng. Although their friendship was established over 20 years ago, Mr. Seah did not begin working for Tong Fang until 2005 when he proposed to help set up Technovator in Singapore. As China's largest supplier of iBAS components and solutions, Tong Fang Group would provide a strong technical foundation for the development of Technovator International's iBAS products and energy management systems.

The initial seed capital to establish both overseas subsidiaries consist of several sources of which the most substantial portion was derived from their parent UREs. In the absence of venture capital, Founder Group furnished the initial outlay of capital required to cover the basic costs of setting its foreign subsidiaries. The successful IPO of Founder's main HK subsidiary in 1995 raised critical funds of which 1 million Malaysian ringgits were injected into PUC Founder for its incorporation. According to Alan Cheung Shuen-Lung, who sits on the board of directors and serves as one of Founder Group's pioneering founders:

Founder Group was established on the basis of its innovative Chinese electronic publishing system which was developed by Peking University. After the decision was made for Founder Group to leverage this technology and establish operations abroad, I personally visited each country – Taiwan, Malaysia, Japan, and the United States – to meet with prospective partners and identify market opportunities. I met with Mr. Teh and invited him to Beijing. After entrusting him to set up our electronic publishing division, we sold our systems to all major newspapers in Southeast Asia through our Malaysian subsidiary. At the time, our systems were very new and innovative. The market seemed quite solid but we realized that revenues from this business line would eventually decline, so we decided to invest other areas including biometrics technology.

Under the aegis of Mr. Teh, PUC Founder ventured into the biometrics field and successfully obtained a substantial Malaysian government grant in 1999 to support 70% of its R&D expenses for developing its first biometric prototypes. In addition, PUC Founder applied for public listing on Bursa Malaysia's MESDAQ market to finance the commercialization of its new biometric products. PUC Founder also continued to actively leverage its Chinese electronic publishing (EP) and management information systems (MIS) businesses which offered a more stable revenue base to incubate its biometrics division. Together, these three pillars functioned to sustain the incubation process. The EP business has served as one of Founder Group's mainstay

operations with its origins dating back to the mid 1980's when the first Chinese laser typesetting systems were developed and manufactured by Beijing University New Technology Co., the predecessor to Founder Group. In addition to biometrics technology, this software intensive technology was transferred to PUC Founder to activate its nascent growth.

The formative incubation process for Technovator mirrored the approach adopted by PUC Founder. After many years of industry experience with leading multinationals, Mr. Seah cultivated a business relationship with Tong Fang Group which culminated in his suggestion to establish an international start-up. During the initial period, Tong Fang Group positioned itself as the primary provider of investment capital for Technovator. Through its investment holding company Resuccess, Tong Fang Group indirectly became Technovator's principal shareholder. As a minority shareholder, Mr. Seah Han Leong also contributed a substantial share of the capital needed to set up the company. However, the remaining funds were made available by two private equity firms – Zana China Fund and CTC Capital – which were introduced by Tong Fang Group to Technovator. Following a period of five years where it invested substantially in R&D and engaged in several international M&As, Technovator staged its IPO on the HK Stock Exchange, raising over \$81 million HKD to support its expansion operations. According to Mr Seah:

At the time that I proposed to set up Technovator International, I had decided to move on from TAC Controls [a multinational company] where I served as their Asia managing director for over 7 years. After my experience gained from working for MNCs, I was able to identify clear opportunity gaps which could be leveraged in the creation of a new innovative company. The growth potential was further amplified by the rise in convergence of digital technologies for building smart buildings and integrated artificial environments. Tong Fang Group already possessed a solid foundation in systems integration and I had a strategic vision for leveraging their resources to enter the energy management systems business. With Tong Fang's financial and

technical support, complemented by my expertise navigating the iBAS industry, we were able to play catch-up with more established multinational players.

The group platform resources made available by Founder Group and Tong Fang Group to their offspring firms constitute a vital incubating backbone for their growth and evolution. The idea of platform is particularly salient in this context since the parent URE provides its offspring firms with a diverse pool of resources, technological support, and managerial expertise which help them to overcome the liability of international start-up. Such critical resources and services include management leadership, R&D technical support, access to expertise in other product divisions, administrative and human resources support, and most importantly the use of the parent firm's brand name. Executives from Technovator and PUC Founder acknowledged making extensive use of these resources during the early stage of incubation to achieve a faster time-to-market development cycle. The ability of offspring firms to tap directly into these platform resources not only bolsters their agility but also helps them to avoid the prohibitive cost of setting up their own business infrastructures. This incubating platform which can be referred to as a 'launching pad' departs from traditional established patterns of development by typical international new ventures which must overcome significant hurdles to mobilize critical resources already accumulated by the parent URE for use by its offspring firms.

Most importantly, in addition to platform resources, Founder Group and Tong Fang Group also nurtured internal platform ecosystems for their offspring firms which consisted of established business lines related directly to the parent UREs' core technologies. Endowing their subsidiaries with such core competencies enables them to generate a stable revenue stream to support the R&D incubation of their new business lines – in this case biometric technology for PUC Founder and

energy management systems for Technovator International. Initially both firms derived the majority of their revenues from established business lines. It was not until after their new products won several international awards which raised their visibility that they began to receive orders from prospective clientele. For Technovator, entering into the EMS industry requires adopting a new energy management contracting business model where Technovator assumes the upfront costs of EMS installation but reaps a share of the profits derived from subsequent energy savings with its customers. While entailing a substantial risk since it requires Technovator to assume the financing costs, this new model enables the firm to generate a recurrent income stream rather than reaping one-off revenues obtained from product delivery.

Similarly, PUC Founder also faced an uncertain period characterized by slow uptake of its biometric products where revenues from its EP and MIS business lines helped to keep the company afloat. In this sense, the internal platform ecosystem provided by parent UREs serves to secure the survival of their offspring subsidiaries until their nascent technologies are sufficiently upgraded to cultivate a steady client base. It also provides an organizational buffer for immature offspring firms to address unforeseen challenges which may surface with as they enter into new business segments.

Post-IPO Extended Incubation Stage: Parenting of offspring firms during adolescence for global takeoff

To maintain the momentum of business growth and jumpstart their overseas aspirations, both PUC Founder and Technovator International staged successful IPOs in international stock exchanges about five years following their incorporation. By now, the initial challenges experienced by both companies have been overcome, permitting them sufficient opportunities to attract strategic investors and build up a balance sheet for valuation. Although their IPOs were both oversubscribed

and raised abundant capital for overseas operations, both offspring firms remained closely tethered to their parent UREs via equity ownership.

IPOs can provide existing owners of firms with a golden exit opportunity by selling their stakes to the public and make a profit. In the case of both PUC Founder and Technovator International, the decision by both parent UREs to preserve their ownership control allowed them to extend the incubation of their offspring firms. After the initial stage of enthusiasm following the IPO, high technology firms may begin to quickly use up their raised capital for rapid expansion. In the case of PUC Founder, it announced its IPO earnings were spent after about one year following flotation. Short of raising new capital, the decline in initial resource endowments may lead to a new period marked by ‘liability of adolescence’ (Bruderl & Schussler, 1990; Fichman & Levinthal, 1991) where the new company’s initial assets are gradually used up and renewed efforts become necessary to establish market legitimacy.

Similar to the high risk infant stage of development, this phase is characterized by a heightened risk of failure arising from declining asset stocks and the challenges of launching a new business line to attract new customers and maintain their goodwill. At the same time, the firm may begin to feel pressure to prove its competence by making more intensive investments in R&D, marketing, and strategic M&A to deepen its reputation and international presence. The parent firm may decide to step up certain aspects of its support system to facilitate this corporate strategy. Table 4.3 provides an overview of the platform structures provided by the parent UREs to bolster the global takeoff of their offspring firms.

[Insert Table 4.3 about here]

Beyond the initial stage of incubation, the parent URE may continue to extend their support through the provision of group platform resources to their offspring firms. Recognizing the rising challenges facing their subsidiaries to establish market legitimacy among their international competitors, Founder Group continued to provide managerial support and channel resources such as transferring some of Founder HK's subsidiaries to PUC Founder for supporting its operational upgrading. The annual reports of Founder's offspring firm reveal a clustering of related party transactions which pertain to the establishment of new R&D and sales subsidiaries for PUC Founder. Discussions with PUC Founder's CEO reveal that such transactions which included distribution channels, administrative support, human resources, accounting services and R&D resources represented a transfer of two Founder HK's subsidiaries – Founder GlobeTech in Shenzhen and Hong Kong to PUC Founder. These smaller subsidiaries which were engaged in EP and MIS businesses contributed to about 50% PUC Founder's revenue stream while it incubated its FingerTec biometrics division. According to Mr. Teh:

The 2-3year period following our IPO was perhaps one of the most challenging since I could not really see much light at the end of the tunnel. Although our biometrics prototypes were developed, the early commercialization process was challenging and we had some serious issues with quality control. Our customers were not satisfied and returned our products which caused revenues to plummet. The company was facing a critical stage where we had to strive for survival. Actually, our quality control problems led us to discard most of our initial inventory of biometrics devices and redesign new ones which all required more R&D investment. During this time where our biometrics division was not profitable, we relied on revenues from our EP and MIS business lines to stay afloat. After I implemented a new marketing strategy, it took about two years to turn the

company back to profit. Our biometrics business would not have been properly incubated unless we found other ways to support its development.

In the extended period of incubation lasting from 2002-2010, Mr. Teh spearheaded the establishment of a new social media outreach program and an e-platform portal to promote product sales and optimize service delivery. He also established a global resellers program rather than rely on direct sales to end users. By providing his resellers with comprehensive online technical support through a new e-platform portal which included hardware and software video guides, updated product information, manuals, and warranty registration, he was able to reduce costs for resellers and help them attract new international clients. This branding strategy helped to secure greater visibility for PUC Founder, catapulting its brand recognition and presence to over 100 countries by 2010. However, the consolidation and subsequent rise of FingerTec would not have been possible without extended support from Founder Group to PUC Founder during its critical stage of adolescence. It took another five years between 2002 and 2007 before PUC Founder finally became profitable. Moreover, more investment was made to support PUC Founder's ongoing R&D activities to develop new product offerings such as facial recognition, multimedia, and cloud computing biometric technologies to supplement its traditional fingerprint products.

The international evolution of Technovator also parallels PUC Founder's development trajectory, apart from the fact that Technovator started to internationalize at an earlier stage before its IPO since it aspired to enter the energy management systems industry. Entry into this sector involved the execution of a series of cross-border acquisitions to build competitiveness by obtaining state-of-the-art energy management technologies and distribution channels. The acquisition of Canadian firm Distech Controls in 2008 consolidated a strategic international

partnership which further cascaded into other acquisitions in France and the Netherlands in 2010. Following its IPO in 2011, Technovator entered into a purchase agreement to obtain raw materials which would be supplied by Tong Fang Group to its subsidiary in Beijing. The subsidiary produces circuit boards which are shipped to Technovator's Canadian and European subsidiaries for value-added assembly before delivery to overseas clients in North America, Asia and Europe. Centralized business services from the parent URE are also provided to Technovator's foreign subsidiaries to help coordinate their activities. According to Mr Seah:

Very early on, I recognized the energy management systems business represented a significant potential opportunity which had not fully entered the radar screen of other MNCs. In establishing Technovator, I advised Tong Fang Group's senior management that we did not have the luxury of spending the time and effort to engage in purely organic growth. The strategic challenge of building Technovator is equivalent to constructing a Formula 1 racing car. We had to hit the ground running and build a company capable of out-maneuvering its global competitors. The car would comprise the very best components which would all work together in a modular fashion so we made a number of overseas strategic acquisitions prior to our IPO to incubate and launch our new business line.

Although Technovator did not experience the same setbacks as PUC Founder with respect to quality control, it faces a similar liability of newness associated with fine-tuning its new energy management contracting model. Following this approach, Technovator would assume the costs of installing its EMS systems in return for an agreement to share profits gained from energy-savings with its clients over an extended period. As mentioned earlier, this involves a substantial risk for Technovator to take over the financing costs so it must deliver the energy savings and establish a successful track record to secure future contracts. In the meantime, it relies on its core iBAS business to support the incubation of its EMS business. In the run-up to 2014, iBAS sales had

increased 14% to US \$107 million while EMS sales grew by 68% to US \$22 million. Technovator plans to substantially ramp up its EMS business over the next five years since the global market for smart building technology is estimated to expand significantly from US \$6.3 billion in 2013 US \$21.9 billion by 2018.

During this adolescent stage of development characterized by growth in its production capabilities, the offspring firm may begin to increase its interactions with other subsidiaries within some industrial clusters established by their parent URE which include offspring firms embedded in a wider ‘innovation ecosystem’ supporting the overall parent group platform. Following its IPO, PUC Founder began to engage in a variety of two-way business transactions with other Founder subsidiaries including recurring subcontracting arrangements. PUC Founder also sourced several Founder subsidiaries including Founder Century and Founder Electronics with its biometric equipment. At the same time it maintained a subcontracting relationship with Founder Group for various EP and MIS projects. Similarly, Technovator International is currently engaged in an ongoing subcontracting agreement to supply subsidiaries of Tong Fang Group and its distributors with iBAS and EMS systems. Sales to Tong Fang’s subsidiaries increased from \$13.8 to \$21.5 million USD from 2012-2013. The strategic value of nesting offspring firms in an embedded business ecosystem lies in the URE’s ability to continuously upgrade and evolve its overall technological platform. According to Gawer & Gusumano (2013), recurrent improvements to a firm’s technological platform are vital to maintaining competitive advantage in highly fluid and dynamic global industries. In the context of the URE, subsequent enhancements to its intra-group platform ecosystem through interactions among offspring firms provide learning experiences which can be internalized for future exploitation.

Another benefit to the ‘incubating platform’ model of development lies in the ability its offspring firms to build market legitimacy among its competitors. While the subsidiary is granted an unusual level of autonomy to develop its own products and services, it nonetheless must develop a client base which requires mutual trust and quality assurances. The lack of reputation and social capital characterizing most young firms often handicaps their ability to lock down a steadfast clientele. One way to circumvent this obstacle is to market its products through the sales network of its parent firm. The transfer of Founder GlobeTech to PUC Founder enabled it to acquire a distribution channel in HK for FingerTec products while Technovator has diversified its sales network via Tong Fang Group’s subsidiaries. Such initial support can operate to promote recognition of offspring firms’ own brands by a broader customer segment.

International Spin-off Stage: Gaining independence through rite of passage into young adulthood

In the final period leading to its complete spin-off into a separate entity, the offspring firm has finally managed to convert its accomplishments into a set of proven competencies, established a portfolio of diverse product offerings which satisfy a growing population of customers, and become self-sufficient. The transition is marked by a rise in profitability, potential new strategic alliances, and fine-tuning of its business model to capture a larger share of its target market. The offspring firm may begin to reduce its reliance on the parent’s ecosystem and focus on new business horizons while developing its own dominant logic apart from the parent URE’s core business areas.

After 9 years of prolonged incubation, PUC Founder finally reached this threshold point by achieving an annual after-tax profit growth of 100% by 2011. Even prior to reaching this stage, proactive efforts were made by Mr. Teh and Founder Group’s senior executives to initiate the

process of contemplating PUC Founder's future strategic direction. Identifying a viable strategy to exit on a high note and maximize value for future investors became their next mission. Moreover, both parties saw value in preserving their strategic cooperation rather than resetting to an arm's length relationship. The ties and trust built upon years of mutual collaboration had helped to establish a relational network which retains significant value that could be leveraged for future international business opportunities.

To establish its own independence, PUC Founder identified an attractive opportunity to tie up with Red Hot Media Asia (RHMA), a rising Malaysian media conglomerate with which it had conducted prior business. While PUC Founder did not need any cash injection, it recognized this chance as a dual opportunity for Founder Group to reap a substantial profit from its investment while allowing PUC Founder to acquire its managerial autonomy. More importantly, RHMA which had its roots in digital media and advertising saw value in PUC Founder's EP and MIS divisions. Both parties saw synergies between PUC Founder's EP, MIS and biometrics divisions and RHMA's advertising, online trading platform, and financial services business lines. Also established in 1996 around the same time as PUC Founder's incorporation, RHMA was founded by a young Malaysian Chinese entrepreneur named Cheong Chia Chieh. From its inception he had grown RHMA into a diversified media conglomerate with a presence in China and Malaysia.

Listed on the Alternative Investment Market of the London Stock Exchange, RHMA was also moving in a similar growth trajectory as PUC Founder with its revenues doubling between 2008 and 2010 and pre-tax profits rising by 135%. Moreover RHMA had ambitious expansion plans to target the greater Southeast Asian market with respect to digital media services and e-commerce. A merger with PUC Founder would help to facilitate collaboration with Founder Group

for future overseas ventures into Southeast Asia. The proposed tie-up strategy would involve leveraging the expertise and resources of both firms to launch a new integrated e-platform incorporating e-content, e-payment, and B2B social media businesses which have witnessed a rapid take-off in Asian markets.

The three pillars of this strategic plan include a proposal to set up an e-payment system known as Founder Pay which would be targeted towards Chinese companies seeking to do business overseas in Southeast Asia or other foreign markets, an Online to Offline (“O2O”) social media portal which connects Chinese companies to overseas customers, and an e-content system that also operates as an advertising platform which generates revenues from individual and institutional subscribers. The interlocking and mutually supporting components of these three pillar businesses would be combined together to facilitate e-commerce between China and Southeast Asia. With the approval of its parent Founder Group, PUC Founder entered into a conditional reverse acquisition agreement with RHMA in late 2010. The details of this corporate arrangement are summarized in Table 4.4.

[Insert Table 4.4 about here]

Under the terms of the proposed reverse takeover agreement, Resource Holding Management (RHM), the holding company for Red Hot Media Asia would inject its core business unit Red Media Asia into PUC Founder for a purchase consideration of 90 million Malaysian ringgits amounting to equity ownership of 62.48% in PUC Founder. Founder Group would dispose of its share but keep a minority stake of 3.19%. Red Media Asia comprises of Red Hot Media

Group and Ausscar Group which constitute RHM's digital advertising and financial services divisions. The enlarged conglomerate would retain the name PUC Founder Berhad. Thus, the overall strategic vision of the combined group coalesces around leveraging different elements of PUC Founder's original strengths in electronic publishing, management information systems, and biometrics with RHM's media brokerage, financial services and online trading expertise to establish a one-stop shop for e-business solutions. In addition, the new corporate entity would be dual listed on the London Stock Exchange and the Bursa Malaysia, thus allowing it to raise capital in both markets to facilitate future expansion.

After management approval of this agreement, the reverse takeover exercise was recently completed in January 2014. With its offspring firm spun off into another entrepreneurial firm possessing strong growth prospects, Founder Group had accomplished its corporate parenting duties but preserves a strategic alliance with PUC Founder to explore future business opportunities in the Southeast Asian market. According to Founder Group's cofounding director Alan Cheung Shuen-Lung:

PUC Founder was a little tree growing under the shadow of a much larger parent tree. We needed to allow it the freedom to grow independently as it cannot flourish and become its own big tree under the parent's shadow.

The success story of PUC Founder may offer some insights into the current evolution of Technovator which shares similar characteristics with PUC Founder. Since Technovator was founded over 8 years after the incorporation of PUC Founder, it has only recently reached its adolescence. However, positive signs of its growing independence are already evident. Technovator currently generates about 40% of its revenue from overseas markets via Distech

Controls, its overseas joint venture subsidiary which was founded by Etienne Vielleux, a Canadian entrepreneur. Together he and Mr. Seah Han Leong have worked to make strategic acquisitions in several energy management companies in the Netherlands, France, and Canada, including Acelia, Comtec, and E2 Solutions. This ongoing effort to grow Technovator's own distribution channels and R&D capabilities reflects its efforts to build an independent hub of operations.

Moreover, in 2013, Technovator announced the introduction of several new institutional and strategic investors in Distech Controls which raised another CAD \$25.5 million. Such capital raising efforts following its IPO indicate a view towards expansion for global take-off. As of 2014, annual profits have increased by 27% while shares growth was up by 216%. Senior executives have stated their intention to penetrate the Southeast Asian market following a rise in demand for zero-energy consuming green buildings. It recently secured a contract to provide EMS services for the construction of Ruby Hall National Guest House, the official venue of the ASEAN summit in 2014. This is Technovator's second high profile project in Burma, the first being Junction Square, a large scale shopping center which became operational in 2012. The installation of the shopping center's iBAS system included a pioneering energy monitoring system which billed tenants for the actual amount of energy consumed. While the story of Technovator International remains to be written, it appears actively engaged in activities leading to value accretion for future spin-off opportunities.

4.5 DISCUSSION

Comparing our case study evidence with insights from the literature streams on corporate parenting (Campbell, Goold & Alexander, 1995; Goold, Campbell & Alexander, 1998), sponsored spin-offs (Ito, 1995; Ito & Rose, 1994; Wallen & Dahlstrand, 2006), organizational hybrids (Kraatz & Block, 2008, Thornton et al, 2012; Battilana & Dorado, 2010), innovation platform ecosystems (Gawer &

Cusumano, 2002; Gawer & Cusumano, 2013; Gawer & Phillips; 2013; Thomas, Autio, & Gunn, in press), and accelerated internationalization of EMNCs (Bonaglia, Goldstein & Mathews, 2007; Li, 2007, 2010; Mathews; 2006), we identify a novel ‘incubating platform’ organizational model for international entrepreneurial spin-offs by UREs. The modified hybrid structure of UREs stems from resource bricolage to span institutional voids arising from early absence of innovation resources and infrastructure by combining the typical incubation function widely deployed by advanced country universities with a centralized business platform. By showing how these dual features are interwoven together, we argue that this special ‘governance form’ of knowledge industrialization harbors certain unique advantages for international spin-off potential which we discuss in a detailed comparative study of PUC Founder Berhad and Technovator International. Figure 4.3 below presents a conceptual model of the multi-stage incubating platform model for international spin-off:

[Insert Figure 4.3 about here]

Specifically we propose that the ‘incubating platform’ approach enables the URE to propagate offspring firms which are nurtured under related industrial clusters to optimize their access to pooled resources for global take-off. At the onset of incubation, the embeddedness of the overseas offspring firm in this industrial ecosystem avails them to an array of diverse resources including seed capital, core technology, and managerial expertise which extend above and beyond resources offered via venture capital or corporate accelerator channels. For most overseas start-ups, this early stage can be unpredictable and challenging despite their identification of lucrative business

opportunities. The availability of abundant resources and specialized business knowledge from the parent URE helps to buffer the offspring in its embryonic phase, providing an extra cushion of protection rarely accessible to most international new ventures. To create an even stronger architectural leverage in addition to its platform resources and seed capital, the parent URE may step up investment by transferring some of its core business lines to its offspring. This umbilical cord operates to generate a stable revenue stream while the infant start-up ramps up its R&D and marketing activities for incubating a new business line to support overseas expansion. After demonstrating its growth potential, the offspring startup is floated on a foreign stock exchange via IPO. Therefore we propose:

Proposition 1: During the early incubation phase, the parent URE provides a bundle of platform resources including platform technology, seed capital, managerial leadership, and core business lines to its offspring firm, creating an internal gestational ecosystem to optimize the offspring's chances of international survival.

Proposition 2: In the stages leading up to its overseas IPO, the offspring firm derives a reliable revenue stream by leveraging the core business lines transferred from its parent URE, placing the offspring in an advantageous position to set up its overseas operations relative to other international new ventures relying only on venture capital or accelerator channels of investment.

The injection of equity through public listing serves to reduce the cost of capital for offspring firms, enabling them to borrow greater amounts on a standalone basis to finance their expanding operations. Despite the creation of their independent capital structure after this critical juncture, the parent URE continues to support its adolescent offspring through its next phase of international development. While PUC Founder and Technovator International were granted significant autonomy to develop their own product portfolios, their senior managers remained cognizant of the risks associated with the liability of adolescence. This phase is complicated by a

gradual decline in assets as the initial funding raised begins to dwindle while the pressure to demonstrate value creation increases. To sustain its offspring's velocity of international expansion, the parent URE may channel additional resources its offspring firm. The overseas offspring firm may also become increasingly involved in recurrent transactions with other subsidiaries of the parent URE such as subcontracting arrangements to support production.

Interactions between the offspring firm with other subsidiaries of the parent may provide enhanced learning and competence-building opportunities. At this point, the offspring firm may gradually switch from being reliant on the parent towards greater self-autonomy by developing its own organizational identity. However, this gradual development phase necessitates a prolonged incubation. Following its IPO, five years had passed before PUC Founder was able to orchestrate a successful marketing campaign to deploy its FingerTec brand of biometric products overseas. The elaborate campaign involved the creation of a global reseller program, a new electronic sales platform, and a social media campaign which included personal blogs and updates by its managing director. Similarly, Technovator engaged in a number of cross-border acquisitions over the past 6 years to consolidate its EMS business line. Therefore we propose:

Proposition 3: During the extended incubation phase, the parent URE may contribute additional resources to its offspring firm to help it overcome its liability of adolescence as it ramps up its international marketing, distribution and R&D activities to orchestrate a global takeoff.

Proposition 4: The prolonged incubation phase may lead to an increase in interactions between the offspring firm and other parent subsidiaries to help bolster its market market legitimacy, contributing to the formation of an intra-group platform ecosystem.

Towards the latter stage of its extended incubation before actual spin-off, the offspring firm finally begins to realize its performance potential, becoming less reliant on the parent URE's intra-

group platform to support its growth. Signs of this improvement can be observed in its ability to attract a broader array of clients, sales profitability, R&D achievements, and accumulation of assets in the immediate years leading up to its spin-off. Evaluating the case of PUC Founder, the process of spinning off may also require careful advanced preparation to identify a financially viable opportunity for the offspring firm and parent URE. The timing of the international spin-off is also important, not only as a means to raise additional rounds of capital for the spin-off but also for the parent to fully recoup its investment.

In the case of PUC Founder, the operationalization of its spin-off via reverse merger with RHM also enabled it to enter new business lines such as e-content and social media, suggesting that spin-off opportunities can be coupled with other valuable growth strategies including combining forces with new strategic partners to build synergies and maximize take-off capabilities. While the final spin-off process is open-ended and subject to contextual circumstances facing the offspring firm, the experience of PUC Founder suggests that the spin-off process may not trigger a complete separation between the parent URE and its offspring. Rather than disengaging from its parent, the offspring firm may choose to become a strategic alliance partner to explore future business opportunities together. The spin-off process may support conditions for continued collaboration and knowledge-sharing to realize the spin-off's potential in overseas markets. Therefore we propose:

Proposition 5: The international spin-off process which enables the parent URE to reap its early investment may also be combined with additional growth strategies such as tie-ups with other strategic partners to build new synergies to maximize the offspring's global take-off capabilities.

Proposition 6: Following the culmination of its international spin-off, the offspring firm may continue to cultivate a strategic alliance with its parent URE based on prior relationship ties to establish an alliance network for exploring new international business opportunities.

4.6 CONCLUSION

Theoretical and Practical Implications

In elaborating a multifaceted ‘incubating platform’ model for international spin-offs, this study contributes to ongoing efforts to identify emergent processes and patterns of overseas venturing by emerging market entrepreneurial firms which may rely on new organizational models to orchestrate their cross-border activities. Our study aims to make several theoretical contributions. First, the longitudinal design of our study enables the development of a rich conceptual process model to capture the nascent phases and evolution of international entrepreneurship by UREs and their offspring firms, a hybrid organizational corporate entity from China. Currently, very little is known about the early stages of international entrepreneurship by new ventures, where the configuration of initial resources and capabilities is of paramount importance to new venture survival (Keupp & Gassman, 2009; Prashantham, 2012).

In particular, we identify a novel approach to understanding how the URE as a hybrid between incubator and business enterprise can serve as an incubating platform for international start-ups to springboard abroad. The ‘incubating platform’ concept for international spin-off has yet to be explored in the literature on international entrepreneurship. As Keupp & Gassman (2009: 618) accurately predicted in their assessment of future research opportunities in international entrepreneurship studies, ‘such entities [MNC international spin-offs] would probably behave differently in the international environment, and new theoretical linkages would have to be explored to analyze their behavior’. By illuminating how such incubation unfolds over an extended

duration, our study unveils the unique stages of evolution in UREs' offspring startups to venture overseas.

According to Sharma & Chrisman (1999: 17), 'entrepreneurship encompasses acts of organizational creation renewal and innovation that occur within or outside an existing organization.' While a spirited effort has been made to advance our theoretical understanding of international entrepreneurship (Coviello, McDougall, & Oviatt, 2011; Oviatt & McDougall, 2005; Zahra, 2005) the literature in this area has exhibited some longstanding inconsistencies, knowledge gaps and conflicting predictions (Keupp & Gassman, 2009) including a bias towards zooming the investigation focus solely on new start-ups started by independent individuals or small teams. Such a compartmentalized view overlooks the insights offered in the literature on corporate entrepreneurship which explores how new organizational units (spin-offs & subsidiaries) are founded by 'an individual or group of individuals in association with an existing organization' with the goal to establish a new business or 'instigate renewal or innovation within that organization' (Sharma & Chrisman, 1999: 18). By incorporating these insights from corporate entrepreneurship into our study, we hope to contribute to more robust theoretical development of the international entrepreneurship literature stream.

This study holds some important implications not only for research on international entrepreneurship, but also for EMNCs which must overcome their latecomer status to compete with DMNCs. By articulating a blueprint which elucidates how offspring ventures of UREs from emerging economies can draw upon the resource base and accumulated knowledge of their parent firms to springboard abroad, we demonstrate the possibility of transcending such latecomer constraints through novel organizational modalities. In so doing, we attempt to fill in an important

piece of the puzzle on how overseas emerging market firms can address the twin liabilities of start-up and foreignness. While the success of UREs' overseas offspring is undoubtedly attributed to the strategic vision, responsibility and managerial aptitude of their dedicated foreign cofounders who navigated uncharted global markets with sophistication and persistence, the presence of a safety net and support system offered via their parent UREs offers an extra layer of protection which cannot be substituted by venture capital or other accelerator modes.

Our model identifies the different stages of platform incubation spanning the birth, infancy, childhood, adolescence, and young adulthood of the offspring new ventures. To deepen our contribution, we show how the offspring firm is afforded a period of prolonged incubation under the umbrella of its parent URE to shield it from liabilities of adolescence arising from vulnerabilities related to increased pressure to demonstrate value creation as it sets up independent operations to launch its international expansion. We also evaluate the final spin-off process and investigate how the offspring firm may continue to sustain a relationship with its parent with a view to jointly explore new business opportunities for realizing the potential of the offspring's global takeoff.

One central but under-examined implication of this 'incubating platform' model is that by virtue of incubating multiple startups and nurturing a web of trust relationships, the parent and its offspring become engaged in the co-creation of an international alliance network for exploiting future business opportunities. Considerable value can be generated by providing adequate space and strategic flexibility for offspring firms to develop their own dynamic capabilities, complementary knowledge base, and dominant logic. In recent years, the business network view of internationalization (Johanson & Vahlne, 2009) has underscored the importance for

internationalizing firms to overcome their ‘liability of outsidership’ by penetrating existing foreign business networks. Extending this perspective, we propose that one alternative means to dissolve the barriers associated with such liability is through grafting and seeding new autonomous organizational structures to build the scaffolding for co-creating fresh network nodes, thereby devising innovative organizational solutions to address traditional challenges associated with internationalization. While recent theoretical studies have highlighted the instrumentality of cross-border market, eco-system and value co-creation (Pitelis & Teece, 2010; Pitelis, 2012), there is a lack of empirical studies investigating the specific organizational mechanisms and processes which could be leveraged for such purposes.

The findings of our study are thus important for scholars interested in understanding how EMNCs can leverage organizational innovations to generate novel strategies for overseas venturing and international network creation (Bonaglia, Goldstein & Mathews, 2007; Mathews, 2006). Created as a response to early institutional voids in China’s innovation architecture, UREs combined the integration of incubation and business functions to establish ‘incubating platforms’ for their overseas offspring firms. The emergence of such alternative organizational forms and the unique solutions they devised to penetrate foreign markets suggest that more opportunities to investigate the cross-fertilization between international corporate strategy and organizational behavior remain to be unmasked. In particular, this study highlights the interconnectedness between institutions, organizations, and global strategy. By virtue of their embeddedness in dynamic institutional environments, emerging market firms are likely to face greater pressure for organizational adaptation and learning which affect their overseas behavior. The rise of hybrid corporate entities from institutional transition may yield attractive research avenues for investigating additional linkages between organizational responses to institutional change and international business strategy.

Limitations and Directions for Future Research

This article presents the findings of an exploratory theory-building exercise using PUC Founder and Technovator International as focal subsidiaries of Founder Group and Tong Fang Group, two UREs in China which display a distinctive ‘incubating platform’ approach to internationalization.. While the model has only been explored in relation to UREs as an organizational form, it can potentially be tested and refined in other organizational contexts to more fully establish its validity and applicability. In particular a couple of features relating to the UREs in this research study should be highlighted to note their idiosyncrasies.

First, Founder Group and Tong Fang Group are not typical of most UREs in China as their parent institutions, Peking University and Tsinghua University, represent the very top echelon of Chinese universities. Therefore, they are likely to have access to more abundant resources, research talent and organizational capabilities to develop valuable technologies which can be transferred to their respective offspring firms for commercialization. The challenge for most international entrepreneurial ventures resides in their ability to develop a proprietary portfolio of technologies which underpin their international competitiveness. Other UREs in China may be less innovative and thus less likely to successfully launch overseas spin-offs employing the same methods, although Fudan University’s Fuhua Group and Neusoft Group of China’s Northeastern University have both made significant progress with overseas venturing.

Second, UREs are a product of China’s unique institutional context and the resource bricolage that it engendered may be different in other countries where conditions for such tight integration between the realms of academia and industry are not possible. While the Chinese government has actively encouraged this unique form of university-industry collaboration by

incentivizing the formation of UREs, the merits of this knowledge industrialization approach remains to be validated in other countries where basic scientific research in universities and commercial R&D activities remain separate. One reason for keeping these two streams of research separate lies in policy-makers' priorities to maintain a distinction between pursuing science for the purpose of knowledge discovery and developing technology for the purpose of commercialization. Due to idiosyncratic institutional circumstances, hybrid university-owned businesses may not be widely prevalent in other countries, which may limit the scope of our research in other country contexts.

However, with respect to promising directions for future investigation, the 'incubating platform' model for international spin-off can benefit from more extensive investigation into the spin-off strategies of a wider range of EMNCs and Western multinationals which may deploy such organizational innovations internationalize. In particular, a focus on globally competitive market leaders such as IBM, Google and Apple which already adopt a platform ecosystem approach for product development might reveal some novel platform features in their international operations.

Finally, greater awareness can be dedicated to the organizational dimension underpinning firm internationalization strategies. For example, new types of hybrid firms such as UREs from China, commercial microfinance organizations from Bolivia (Battilana & Dorado, 2010), or public-private nonprofits from the US (Jay, 2013) increasingly come into existence to solve complex organizational challenges by reconciling multiple institutional logics. Such organizations which reflect a unique bricolage of resources, networks, and capabilities may adopt unprecedented combinations of strategies for their overseas boundary-spanning activities which are seldom considered in mainstream studies. Our critical exploration of how offspring firms of hybrid UREs

leverage incubating platforms for global takeoff serves to illustrate some of the ways such organizational innovations can translate into unique asymmetrical advantages for international entrepreneurship.

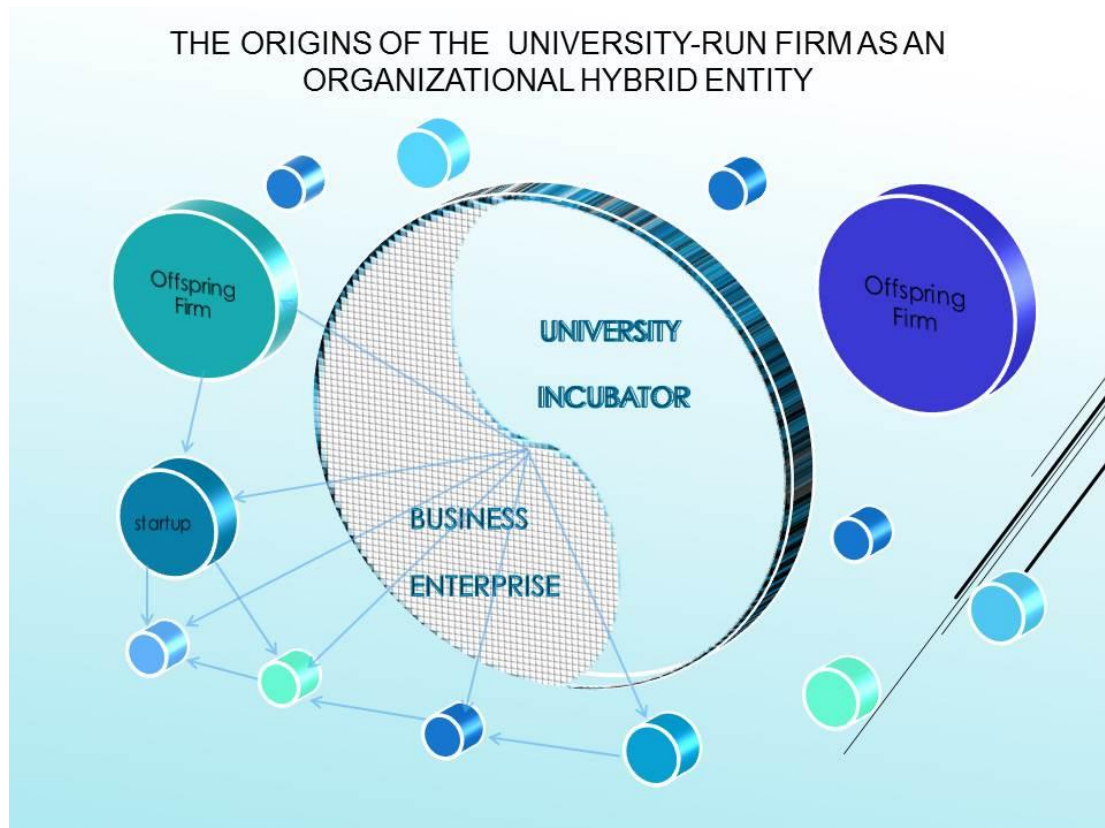


Figure 4.1 Emergence of university-run firms as hybrid organizational entities

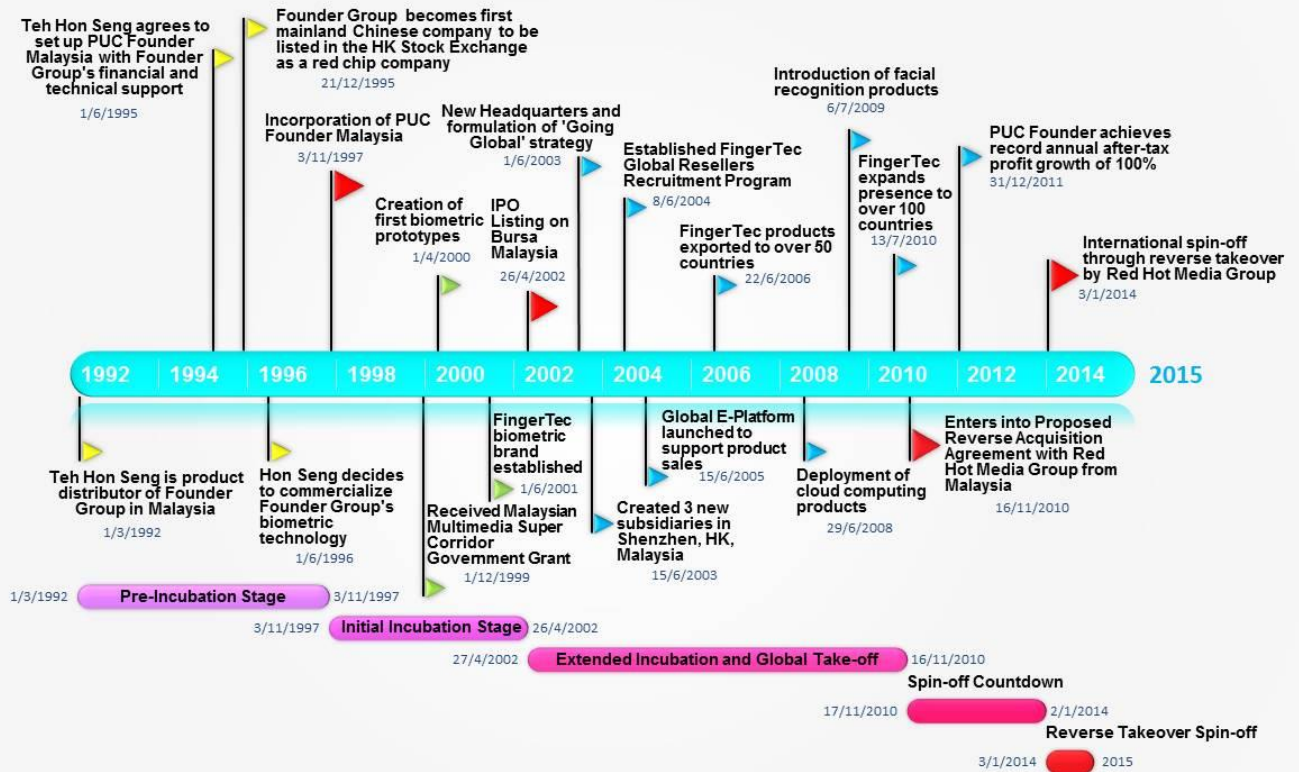


Figure 4.2a Incubation timeline for PUC Founder Berhad

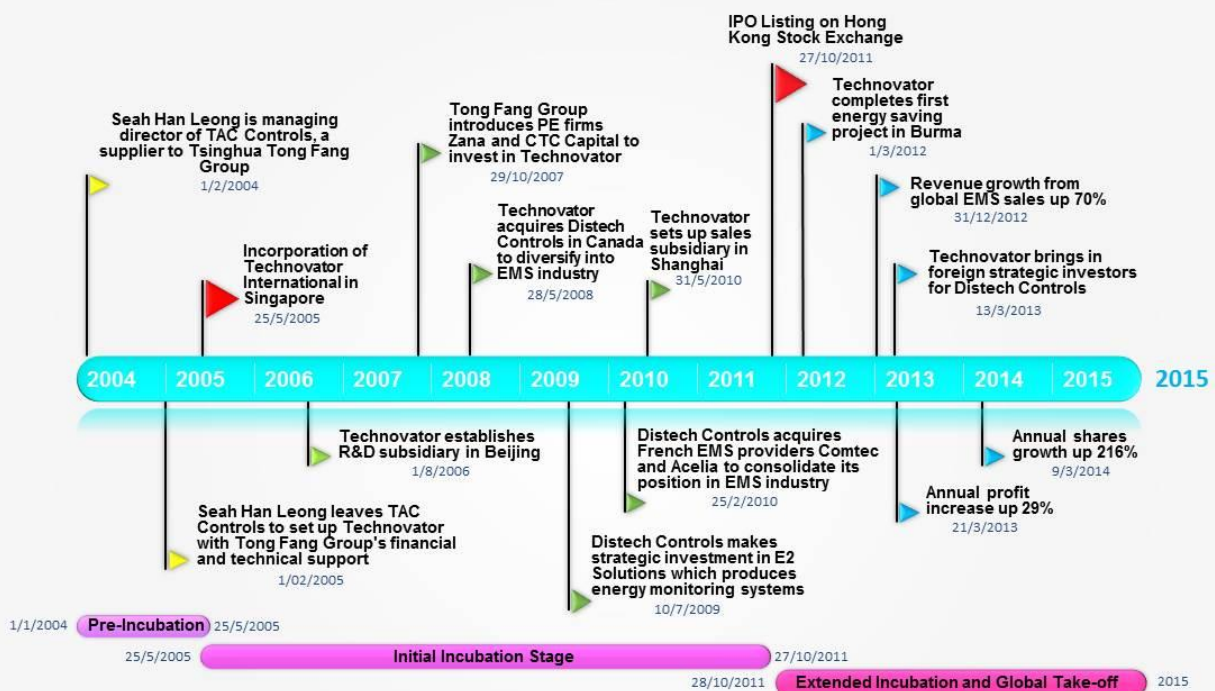


Figure 4.2b Incubation timeline for Technovator International

Table 4.1a Archival data sources for PUC Founder Berhad

Summary of Archival Data Sources for PUC Founder Berhad	
Source	Number ^a
Archival public documents (2002 - present)	
Annual reports and audits	10
IPO listing prospectus	1
Interim financial reports	23
External investment reports	8
Board of director meeting minutes	20
Company records and documents (2006 - present)	
Blog archives of managing director	40
Published interviews of senior managers	9
In-depth company publications	15
Company website news	30
Corporate strategy presentations	7
Regular corporate announcements	23
News articles and media coverage	38
Parent company archival documents (1995 - present)	
Annual reports and audits	16
IPO listing prospectus	1
In-depth company publications	18
Company website news	17
Regular corporate announcements	23
Published interviews of senior managers	6
Published in-depth case studies	3

^a The total number of archived materials is 308.

Table 4.1b Archival data sources for Technovator International

Summary of Archival Sources for Technovator International	
Source	Number ^a
Archival public documents (2011 - present)	
Annual reports and audits	3
IPO listing prospectus	1
Interim financial reports	5
External investment reports	3
Board of director meeting minutes	3
Company records and documents (2006 - present)	
Published interviews of senior managers	8
In-depth company publications	5
Company website news	11
Corporate strategy presentations	5
Regular corporate announcements	5
News articles and media coverage	15
Parent company archival documents (1997 - present)	
Annual reports and audits	14
IPO listing prospectus	1
In-depth company publications	8
Company website news	12
Regular corporate announcements	15
Published interviews of senior managers	9

^a The total number of archived materials is 126.

Table 4.2 Pre-IPO initial incubation stage – parenting from infant to childhood period

Incubating Platform Resources	PUC Founder Berhad – (1997-2002)	Technovator International – (2005-2011)
Platform Technology	<p>Founder Group provides PUC Founder with a license to its proprietary fingerprint algorithm to develop a commercial range of biometric products. The FingerTec product line was originally adapted from technology used in automated fingerprint identification systems for criminal investigation and civil registration purposes by various government public security divisions.</p>	<p>Tong Fang Group as China’s largest supplier of building automation solutions and network integration, provides Technovator International with a wide array of proprietary technologies in remote monitoring, control, energy analytics, air conditioning, ventilation, heating, and IT integration to develop a new line of integrated building automation and energy management products.</p>
Initial Seed Capital	<p>Initial capital was secured from several sources – (1) Founder HK, a subsidiary of Founder Group which raised capital through IPO in HK Stock Exchange in 1996 became PUC Founder’s principal investor, (2) Research funding from the Malaysia Research and Development Grant Scheme to support R&D expenses for initial product development, (3) Revenues from PUC Founder’s electronic publishing and management information systems business.</p>	<p>Initial capital was secured from several sources – (1) Tong Fang Group and its investment holding company Resuccess became Technovator’s principal shareholders, (2) Equity contributions by Mr. Seah Han Leong, the cofounder of Technovator made him a minority shareholder, (3) Strategic investments were made by two private equity firms Zana China Fund and CTC Capital which were introduced by Tong Fang to Technovator International.</p>
Group Platform Resources	<p>Founder Group provides PUC Founder with an array of business services including access to software and hardware sourced from other Founder subsidiaries such as Founder Electronics and Founder Information, top management leadership, Founder Group’s brand name, R&D technical support and expertise, administrative and accounting support, and human resources.</p>	<p>Tong Fang Group provides Technovator with a broad spectrum of business services including software and hardware from other subsidiaries such as Tong Fang Artificial Environment and Tong Fang Security Technology Co., product distribution channels, management leadership, Tong Fang’s brand name, R&D technical support and expertise, administrative and accounting support, and human resources</p>
Internal Platform Ecosystem	<p>PUC Founder’s internal platform ecosystem comprised of three main business lines – electronic publishing, management information systems, and biometrics. Electronic publishing and management information systems constituted PUC Founders’ initial core businesses which generated steady revenues. PUC Founder’s biometrics division was in its nascent stages of R&D, requiring substantial capital to incubate and develop a new product line. Revenues from PUC Founder’s two established business lines helped to subsidize the biometrics division to fund R&D incubation for developing its first biometric prototypes.</p>	<p>Technovator International’s internal platform ecosystem comprises of three business lines – integrated building automation systems (iBAS), energy management systems, and control security systems. Technovator’s iBAS products constitute an established business line that generates its primary revenue stream. Tong Fang Group also supplied the capital to acquire Distech Controls, a Canadian energy management systems provider. The acquisition enabled Technovator to build competitiveness in the energy systems management industry. Revenues from iBAS business are used to support ongoing incubation of its energy management systems business.</p>

Table 4.3 Post-IPO extended incubation stage – prolonged parenting through adolescence

Incubating Platform for Global Takeoff	PUC Founder Berhad – (2002-2010)	Technovator International – (2011-Present)
Extended Parent Ownership	PUC Founder's successful IPO on the Bursa Malaysia in 2002 enabled it to raise a sufficient capital base for R&D and global business development. Rather than spinning off into an independent company, PUC Founder remained tethered to Founder Group via controlling equity ownership. Founder Group assumed its role as principal shareholder of PUC Founder with 35.90% ownership while PUC Founder's cofounder Mr. Teh Hong Seng holds 10.59% ownership as the company's second largest minority shareholder.	Technovator International's successful IPO on the Hong Kong Stock Exchange in 2011 has enabled it to raise adequate capital to support its ongoing R&D and global expansion. Instead of spinning off into an independent company, Technovator International remains a subsidiary of Tong Fang Group. As the principal shareholder, Tong Fang Group holds 32.98% of Technovator International while cofounder Mr. Seah Han Leong holds 11.53% ownership as the firm's third largest minority shareholder following Zana China Fund which holds 12.55%.
Group Platform Resources	Founder Group continues to provide PUC Founder with access to resources and business services in addition to enhancing its support in several respects. Founder Group helps to transfer two subsidiaries, Founder GlobalTech (HK) and Founder GlobalTech (Shenzhen) to PUC Founder to support its revenue stream and operational capabilities as it continues to incubate its nascent biometrics division. New efforts were made to help PUC Founder establish market legitimacy by enabling PUC Founder to access Founder GlobeTech's (HK) distribution services.	Tong Fang Group continues to provide Technovator International with ongoing resources in several respects. After establishment of Technovator's new subsidiary, Tong Fang Technovator International (Beijing), Tong Fang Group entered into an ongoing purchase agreement to provide raw materials including peripheral equipment, software, and other components utilized by Technovator Beijing in the production process. Other efforts have been made to help Technovator establish market legitimacy by tapping into Tong Fang Group's extensive sales network.
Intra-Group Platform Ecosystem	A series of recurrent related party transactions between Founder Group subsidiaries including Founder HK, Founder Century, Founder Electronics, Founder North America and Founder Order Computer System and PUC Founder were made shore up its business growth. This included Founder Group subsidiaries entering into a series of subcontracting arrangements with PUC Founder to provide services for the development, installation and implementation of an advertising management system.	A series of recurrent party transactions between Tong Fang Group subsidiaries including Tong Fang Artificial Environment, Tong Fang Security Technology, Tong Fang Health and Technology and Technovator were made to shore up its business growth. Technovator also entered into an ongoing subcontracting arrangement with Tong Fang Group to sell its iBAS and EMS products to Tong Fang Group and other affiliated parties for a period of three years. The ongoing subcontracting arrangement has been renewed until the end of 2016.

Table 4.4 International spin-off stage – gaining independence through rite of passage into young adulthood

PUC Founder Berhad – (2010 - Present)	
Preparations for Final Spin-off	<p>Following its IPO, PUC Founder Berhad launched a five year ‘Going Global’ strategy in 2003 which led to the creation of a global distribution network culminating in the expansion of its presence to over 100 countries. By 2011 it recorded a profit growth of over 100%. To support its expansion in a competitive industry and diversify its revenue base, it entered into a conditional reverse acquisition agreement in 2010 with Red Hot Media International, an advertising and media company founded by another Malaysian Chinese entrepreneur in 1996. The reverse takeover proposal required in advance the internal restructuring of Red Media Asia in preparation for completing the terms of the acquisition which was completed by January 2014.</p>
Terms of Reverse Takeover	<p>The reverse takeover deal includes the following key elements agreed to by the executive management of both companies: 1) the entire stake of Red Media Asia, its core business unit would be injected into PUC Founder in exchange for a controlling stake of 62.48% in PUC Founder. The parent firm Founder Group would dispose of its shares but retain a minority stake of 3.19% 2) under the agreement the enlarged corporate group would retain the name PUC Founder Berhad 3) the reverse takeover triggers a shift in strategic direction with PUC Founder seeking to expand into the e-content, e-payment, and B2B social media business post-merger 4) FingerTec would leverage Red Hot Media’s sales and distribution network to deepen its penetration into the Southeast Asian market while Red Hot Media would utilize Founder Group’s network to expand its advertising and media business in the Chinese mainland.</p>
Corporate Reorganization	<p>The new corporate group structure of PUC Founder Berhad would comprise of three main pillars under the umbrella of the parent company Resource Holding Management (RHM) which is listed on the London Stock Exchange: 1) Red Hot Media which comprises the advertising and media arm of the conglomerate which was injected into PUC Founder 2) PUC Founder’s electronics publishing, management information systems and biometrics arms 3) Ausscar Group which is Red Hot Media’s financial services division. The corporate reorganization is accompanied by a corresponding enlargement in the board of directors with the appointment of several executives from RHM to the board. Cheong Chia Chieh, the founding director of RHM becomes the new group managing director while Teh Hon Seng remains as executive director. The combined revenues of both PUC Founder and Red Media totaled to 13.1 RM million in 2013.</p>

Chapter 5

CONCLUSION

5.1 SUMMARY

This thesis endeavors to respond to calls for a stronger cross-fertilization of ideas between the literatures on institutional diversity and international business (Jackson & Deeg, 2008). In particular it is concerned with exploring how institutional complementarities between government institutions in emerging market countries can evolve through institutional transition, thus giving rise to diversity in capitalism and new patterns of behavior in organizations that diffuse into their overseas investment strategies. According to Boyer (2012: 33), ‘this is a challenge to the variety of capitalism approach that postulates a one-to-one correspondence between firms’ organization and institutional forms operating at the macro level’. While it has been widely acknowledged that economic institutions exert a direct impact on firm-level phenomena (North, 1990; Williamson, 1985), relatively less attention has been devoted to explore the implications of institutional evolution for the realignment of relevant stakeholders contributing to the rise in diverse new organizational forms in the emerging economy context. One interesting angle to understand how such new business structures evolve is to observe how they refract and mediate the challenges associated with vital institutional change processes.

An important implication of this outcome is the increasing manifestation of hybridity and diversity among differently organized state-owned actors which have progressively evolved distinct attributes and strategic orientations, propelling them to exhibit their own unique specialized

capabilities and organizational approaches to internationalization. This dissertation is composed of three research essays which evaluate how institutionally derived forms of organizational diversity have re-sculpted the patterns of emerging economy state-owned firms' overseas investment activities. By clarifying some of the evolving internal complexity of institution-firm linkages, this thesis seeks to shed light on how the embeddedness of such firms in fragmented mini-institutional environments can lead them to adopt very different approaches for internationalization.

5.2 MAIN CONTRIBUTIONS

Each of the three research papers comprising this thesis employs a different methodology to identify the varying dimensions of state-owned firms' organizational diversity and how they impact firms' overseas venturing strategies. The first paper sets the stage by developing a theoretical framework which bridges the political economy, organizational sociology, and international business literatures. It delineates how the reconfiguration of macro-institutional reforms can recalibrate central and local institutions of economic coordination giving rise to sharpened distinctions between the organizational features of central and local SOEs. The paper examines the strategic implications of such differentiation in their firm-level resources and capabilities for their cross-border venturing activities. This theoretical development offers significant contributions by progressing beyond static and singular conceptions of SOEs' identities to pinpoint new patterns in the shifting mutation of their attributes and perceptions by host countries that propel them to pursue specialized strategies for outward FDI.

The second paper investigates how corporate ownership reform spawns the emergence of diverse marketized ownership identities which have consequences for firms' outward FDI. The rise of these new shareholding categories has motivated researchers including Delios et al (2006) to

develop a new ownership classification system to account for Chinese shareholders' increasingly variegated identities. It has been widely acknowledged that shareholders can play strategic agenda-setting roles and impact how resources are channeled into their invested firms. Thus, corporate ownership reform bears transformational consequences for state-owned firms' ability to derive institutional competitive advantages for internationalization.

This paper traces how the ownership reform process yielded new categories of shareholding including marketized state owners which have been restructured into profit-oriented organizations. Building on insights from the first paper, this second paper makes a contribution by demonstrating how reformed marketized and non-reformed ownership at central and local levels of government may confer different levels of institutional competitive advantage to their invested firms which are reflected in their varying propensities for outward FDI. Moreover, the study finds that meso-level institutional structures such as state business group affiliation may moderate the relationship between firms' ownership identities and their rate of foreign market entry. The goal of the study is geared to capturing how adaptation in the institutional architecture embedded in ownership structures and state business group affiliation reshapes the parameters of Chinese firms' ability to expand their foreign operations.

The final paper explores how institutional transitions can give rise to hybrid state-owned university-run firms which employ 'institutional bricolage' to learn, modify, combine, and optimize existing institutional elements for leveraging new organizational solutions to internationalize. In so doing, the study illuminates the linkages between EMNC's evolving organizational architecture and international business strategy. Based on extensive field work and

archival data, the study evaluates the origins of university-run firms from China as hybrids merging business enterprises and incubators to build new organizational templates operationalizing architectural leverage. It illustrates how they constructed ‘incubating platforms’ for the creation and extended parenting of international entrepreneurial high-technology start-ups for orchestrated and coordinated leapfrogging into foreign markets. By unveiling the unique mechanisms developed by university-run firms to venture overseas, this exploratory study responds to recent calls for deeper investigation into the relationship between institutions, organizational structure and global strategy.

According to Carney et al., (2009: 366), ‘we see great heterogeneity in the emergence of novel and hybrid organizational forms, such as clustered production networks, specialist firms that participate in global commodity chains, and large government-linked enterprises...[which] are suggestive of much greater variation in corporate forms than is predicted by Varieties of Capitalism and other institutional theories of organization. Therefore, explaining variation in the population of domestic firms in a country remains a crucial task for an institutional theory of firm strategy’. This study makes an important contribution by targeting precisely this research gap as well as making further extensions to reveal the some unique implications of new organizational forms in emerging economies for firm internationalization strategies.

5.3 CLOSING REMARKS AND FUTURE RESEARCH DIRECTIONS

This dissertation focuses on investigating the implications of institutional change on emerging economy SOEs’ internationalization and therefore leaves space for extended investigation on how such SOEs may proactively respond to develop new market institutions or co-evolve with them. Secondly, while the empirical sections of this thesis are context-specific, future research can apply empirical methods

to test the theoretical framework developed in this thesis to analyze the impact of different macro-institutional reforms on the foreign investment patterns of SOEs from other emerging economy countries.

There are nonetheless some additional limitations which can be addressed by future studies. Institutional transition is a gradual process and the effects of particular reforms may not become visible for years. The empirical findings of this study capture a snapshot in time with respect to the morphogenesis of emerging market state-owned firms from China. With the simultaneous unfolding of multiple reforms in other country contexts, it may also be challenging to disentangle their interconnected and contingent effects on firms' attributes and strategic choices. In addition there exist other unique facets of diversity and hybridity in various countries which remain yet to be elaborated. Furthermore, there is considerable internal geographical heterogeneity within national boundaries which may impact the formation of firm characteristics. Future studies can also benefit from investigating the effects of macro-institutional changes in host countries which may alter the operating environment for foreign investing firms. Recent research finds evidence that evolving political conditions in host environments can substantially curtail the ability of multinational firms to maintain their organizational legitimacy in these countries (Bucheli & Kim, 2012).

Most importantly, the findings of this thesis hold valuable implications for research into the relationship between institutional transition, organizational diversity and global business strategy. The instantiation of new varieties of Asian capitalism has unleashed fresh strategic imperatives among state-owned firms to evolve and intensively recalibrate their resource profiles and dynamic capabilities (Carney et al., 2009). To a large extent, such organizational innovation and creativity is not limited to SOEs but applicable to wider population of emerging economy firms. By delving into more deeply in

a systematic manner into domestic institutional contexts and employing different methodologies to capture and pinpoint how such firms are reconstituting their capability structures through organizational bricolage and reconfiguration in alignment with the evolving institutional infrastructure, future studies can uncover new entrepreneurial modalities, innovative practices and unique pathways engineered by emerging economy firms to successfully thrive in global markets. To this extent, more research can be applied to examine the relative performance, time horizons, deployment, and replicability associated with varying organizational strategies of emerging economy firms.

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