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Venturing Abroad by Emerging Market Enterprises

A Test of Dual Strategic Intents

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Abstract:

- This study presents a dual strategic intent perspective, elucidating that international venturing by emerging economy private firms is prompted by exploiting firm-specific advantages, as well as circumventing market imperfection residuals embedded in home country economic transformation.
- Our analysis of 1,355 Chinese private enterprises shows that their ownership-specific advantages in areas such as corporate governance, inherited advantage from mergers and acquisitions of state-owned companies, and inward internationalization increase the level of outward internationalization. Market imperfection residuals, such as industry structure uncertainty, also propel the inclination for internationalization.
- Two types of international experiences, one possessed by entrepreneurs and the other by private firms they lead, are positively associated with the proclivity for international venturing. Their moderating effect on the link between some ownership-specific advantages and venturing is negative, suggesting a substitutive role of experience in interacting with ownership-specific advantages with the process of internationalization.

Keywords: International venturing · Emerging market firms · Strategic intent

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Introduction

The global financial and economic crisis we currently face is triggering a new wave of organizational restructuring, especially for Western companies searching for liquid capital in order to maintain their operations. This trend generates more opportunities than previously available for private enterprises in emerging and transition economies (e.g., China, India, Brazil, and Russia) to venture abroad through mergers, acquisitions, alliances, or other modes. In recent years, we have witnessed an increased global presence of firms from emerging and transition economies that have been experiencing rapid economic growth and adopting free-market systems (*World Investment Report* 2006). Correspondingly, a new wealth of knowledge has been developing, examining why emerging market enterprises undertake outward foreign direct investments (OFDI) and how they strategically behave differently from their counterparts from advanced economies and newly industrialized nations (e.g., Cuervo-Cazurra and Genc 2008; Filatotchev et al. 2007; Luo and Tung 2007; Witt and Lewin 2007; Yiu et al. 2007).

One prevalent view is that emerging market enterprises have unique firm-specific advantages (e.g., mass production capabilities, low-cost position, and experience in operating in arduous and turbulent environments) and that they have strategic intent to exploit such advantages by venturing abroad (Bonaglia et al. 2007; Buckley et al. 2007; Child and Rodriguez 2005; Luo and Tung 2007). Recently, a new voice has emerged, arguing that these firms go global to evade poor institutional environments at home and thus attempt to reduce transaction costs associated with such institutional hardships and uncertainty (Yamakawa et al. 2008; Witt and Lewin 2007).

In this article we present a dual perspective, suggesting that these firms venture abroad to exploit their firm-level advantages *and* avoid disruptive residuals inherent in economic transition. That is, these firms seek both (not either/or) advantage exploitation and disadvantage circumvention in a simultaneous and coordinated fashion. While echoing the multinational enterprise (MNE) theory in that firm (ownership)-specific advantages enable and encourage the firm to internationalize, we advocate that private firms from emerging and transition economies are savvy in dually leveraging competitive advantages while alleviating competitive disadvantages. Venturing abroad provides them with more and fresh opportunities to avoid impeditive residuals rooted in economic and institutional transformation while enjoying expanded geographical domain where they can capitalize on their distinctive capabilities.

The dual strategic intent perspective introduced in this study offers insights into the different motives of international expansion between developing country private firms and developed country private firms. While both groups seek ownership-specific advantages in internationalization, developing country private firms are motivated in parallel to avoid environmental hardships at home, such as institutional obstacles and market imperfection residuals. Avoiding such home country market imperfection residuals, to our knowledge, has not been adequately addressed in internationalization studies. In explaining this perspective, we posit that private firms from emerging and developing countries do not have conventional ownership-specific advantages as possessed by developed country MNEs (e.g., technological resources and capabilities) to leverage but instead hold unique strengths, namely, governance advantage, inherited advantages from previous linkages

with stated-owned firms, and inward internationalization, by which they capitalize on in international venturing. Additionally, early studies on foreign market entry showed that host country market (industry) structure affected FDI inflows (Caves 1971; Knickerbocker 1973; Yu and Ito 1988). This study proposes a notion that *home country* market imperfection residuals stemming from a state-controlled economy also affect entry decisions such that firms in the country opt to venture abroad in order to avoid transactional costs deriving from these residuals at home. Such residual-related transaction costs are formidable for the firm to control and curtail, thus it may choose a market elsewhere that does not pose such a threat. Theoretically underpinned by the strategic entrance perspective, our arguments are generally supported by our analysis of 1,355 Chinese private enterprises.

Theory and Hypotheses

The strategic entrance perspective suggests that firms enter a foreign market in order to maximize economic returns from leveraging firm-specific advantages (offensive behavior) and minimize losses and risks associated with fierce competition, declining market demand and other environmental threats in the existing market (defensive behavior) (Caves 1971; Porter 1986; Root 1987). These offensive and defensive motives often coexist (Root 1987) because international entry decisions require a collective, simultaneous consideration of these kinds of factors (Buckley and Casson 1998; Kim and Hwang 1992). This co-existence occurs because in the absence of firm-level distinctive capabilities (i.e., ownership-specific advantage) the firm cannot overcome its liabilities of foreignness or newness. However, in the absence of severe threats from market structure forces in the home market, the firm can stay benefiting from its established market power, experience, networks, customer loyalty, and reputation (Root 1987). This joint pursuit is strategic in nature because its underlying intent is to improve the firm's long term flexibility, profitability, market position, and other strategic interests (Kim and Hwang 1992).

Per the above theoretic logic, we suggest that private firms in emerging and transition economies decide to venture abroad due to two sets of factors that work together—the first helps them to make it overseas (leveraging their strengths in foreign markets) and the other causes them to look overseas (escaping home country deterrence). They simultaneously seek to exploit firm-specific advantages and circumvent market imperfection residuals facing them. They are motivated by dual objectives—leveraging their existing firm-specific advantages while avoiding hurdles in structural transformation from a centrally planned regime to a market economy. Consistent with the logic of strategic entrance behavior (Porter 1986; Root 1987), we view this duality as a rational strategic intent in international venturing. Due to liabilities of newness and foreignness, the firms must deploy and exploit their unique capabilities to compete against global rivals when venturing abroad. Many of them have developed unique expertise in mass production through OEM (original equipment manufacturing) arrangements and international experience through cross-national alliances in their home countries. Their low-cost position and the ability to manufacture technologically standardized products enable them to grasp a large share of mid- and low-end global markets.

The strategic entrance perspective holds that exploiting a firm's unique advantages is not the sole rational choice behind its new market entrance. Firms may also be compelled to enter into and operate in a more promising market or a more congenial environment that can produce abnormal returns (Tirole 1988). Per this logic, we suggest that private firms from emerging economies are also pushed to go global in order to avoid domestic constraints, especially market imperfection residuals. Unlike state-owned firms in these countries, private firms suffer from institutional disadvantages in accessing local resources or obtaining governmental support at home (Garnaut and Song 2004; Child and Pleister 2003; Peng and Luo 2000). When faced with market uncertainty, private firms are less protected by the government and are therefore more vulnerable to market imperfection residuals. Thus, private firms have a stronger incentive to avoid the impediment of such residuals through international venturing than their state-owned counterparts (Yamakawa et al. 2008). Meanwhile, private firms have advantages in entrepreneurial values that allow them to quickly spot opportunities in international markets (Wright et al. 2005; Zahra et al. 2000). This advantage goes hand-in-hand with the rationale of avoiding disruptive domestic residuals and leveraging existing capabilities. Entrepreneurial values and actions are critical to both the initiation and outcome of international venturing (Mathews and Zander 2007; Oviatt and McDougall 1994). Such values and actions are valuable because they encourage private firms to improve opportunity identification and subsequent exploitation in international markets (Dess et al. 1997; Eckhardt and Shane 2003). Moreover, two recent studies (Boisot and Meyer 2008; Cuervo-Cazurra and Genc 2008) suggest that private firms in emerging economies can leverage their institutional arbitrage; the term capturing their firms' pursuit of efficient institutions outside their home country. The disadvantages previously suffered from home can become an advantage when venturing overseas, especially for firms from developing countries, because they are used to operating in "difficult" governance conditions. In sum, the simultaneous pursuit of exploiting firm advantages and circumventing disruptive domestic residuals is a strategic and rational choice for private firms while their entrepreneurial orientations make such an approach viable. Figure 1

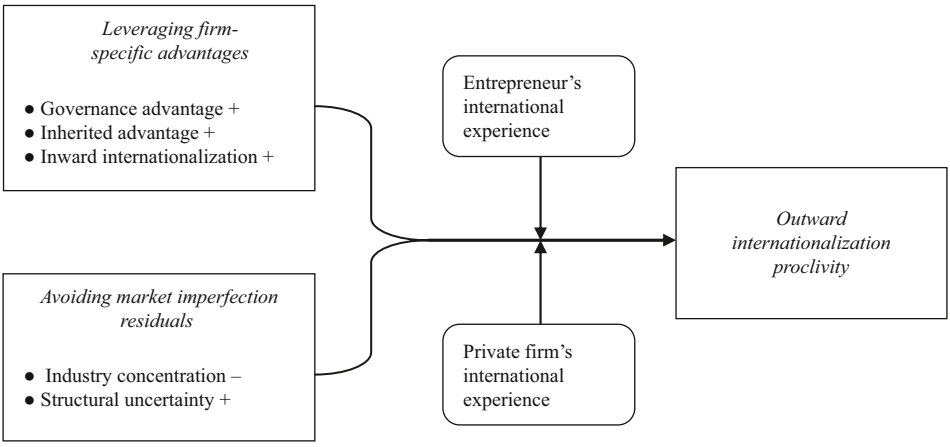

Fig. 1: Venturing abroad by emerging market private enterprises: A dual strategic intent perspective

depicts our theoretic framework, underpinned by the logic of strategic behavior of entry, in which the duality of advantage exploitation and disadvantage circumvention in international venturing is proposed.

The strategic entrance perspective, together with recent studies on international expansion of emerging market MNEs, guides us to select specific variables relating to dual strategic intents. Governance advantage, institutional advantage, and networking advantage have been conceptually argued as the key firm-level factors affecting the internationalization of emerging market enterprises (Luo and Tung 2007; Mathews 2006). According to the strategic entrance view, these advantages are possible catalysts nurturing a firm's strategic behavior of entry (Root 1987). Specifically, *governance advantage* is viewed as the key element of a firm's ownership-specific advantages that nurture international venturing (Dunning 1981; Filatotchev et al. 2007; Zahra 2003). Governance advantage is the extent to which a private firm has a sound corporate governance system that directs, controls, and monitors its relationship with major business stakeholders. This advantage facilitates a firm's new market entry because it helps the firm deal with more demanding and more diverse stakeholders (Porter 1986; Sanders and Carpenter 1998). Venturing abroad requires more complex governance structures that are subject to more institutional and strategic constraints (Caves 1971; Melin 1992). Thus, established governance advantages provide the firm with managerial and organizational experience in dealing with new stakeholders in foreign countries.

Inherited institutional advantages also give the firm some competitive edge in financial resources, governmental support, and risk-mitigating abilities in international venturing (Child and Pleister 2003; Hoskisson et al. 2000). In this study, *inherited advantage* is defined as the extent to which a private firm has inherited state-owned enterprises' institutional advantages (e.g., governmental support, loan access, outward FDI subsidies) through merging and acquiring such state-owned enterprises. According to the strategic entrance perspective, inherited institutional advantages can lead to some oligopolistic advantage (Tirole 1988). Using a sample of the U.S. tire and textile industries, Yu and Ito (1988) demonstrate that such oligopolistic advantage fosters outward FDI.

Finally, a firm's network advantage is a critical enabler in determining its behavior of strategic entrance in a new market (Kim and Hwang 1992; Root 1987; Scherer 1980). Such network advantage helps overcome the firm's liabilities of newness and reduce learning costs in an unfamiliar market (Root 1987; Yeung 1999). Similarly, Mathews and Zander (2007) and Luo and Tung (2007) suggest that network advantages are an essential quality for emerging market private firms to possess if they seek to compete against more established firms in host countries. In this study we examine one network advantage that is unique to emerging market enterprises—*inward internationalization*, which is the level of a private firm's accumulated cooperation at home with foreign companies via joint ventures, strategic alliances, or OEM. This inward internationalization can stimulate the firm's outward internationalization such that, through the former, the firm improves its intelligence and understanding of foreign markets, upgrades its technological and managerial skills, and develops financial and operational resources needed later for outward FDI (Luo and Tung 2007).

In light of the above discussions consistent with the strategic entrance view, we intend to examine governance advantage, inherited advantage, and inward internationalization,

which are firm-specific advantages particularly relevant yet unique in shaping international venturing proclivity of emerging economy private firms. Similar to the concept developed by Yiu et al. (2007), we define this proclivity as the firm's predisposition to risk taking or proactiveness in international venturing it undertakes. Thus, this study focuses on the central dimension of proclivity—the level of risk involvement or proactiveness in international venturing.

The second part of our dual strategic intent argument deals with the circumvention of home industry's market imperfection residuals. Here we emphasize two specific residuals of this kind that we think are particularly relevant to international venturing decisions: *Structural uncertainty*and *industry concentration*. The strategic entrance perspective explicitly suggests that oligopoly/monopoly in industry structures and uncertainty are the leading indicators of market imperfection (Caves 1971; Scherer 1980; Tirole 1988). These two market imperfection residuals are inherently rooted in economic transformation and institutional changes in emerging economies (Chow 1993), compelling private firms there to venture abroad and offset their domestic institutional or competitive disadvantages (Luo and Tung 2007; Witt and Lewin 2007; Child and Rodrigues 2005; Yeung 1999). Witt and Lewin (2007) suggest that outward investment may occur as an escape response from perceived misalignments between the firms' needs and home country institutional or competitive environments. Luo and Tung (2007) hold that private firms go global to avoid institutional or market constraints at home. Such claims, nevertheless, have yet to be verified.

Conceptually, structural uncertainty concerns the extent to which the focal industry is unpredictably turbulent, variable, and unstable, while industry concentration denotes the extent to which a small number of large firms dominate a given industry (Dess and Beard 1984; Scherer 1980). We acknowledge that there may exist some other market imperfection residuals (e.g., government policy unpredictability, monopoly by state-owned enterprises in certain sectors) that could affect private firms' international venturing; however, these two variables reflect market imperfection residuals in an emerging and transition economy because they are both vestiges of a formerly planned economy presently under drastic transformation (Chow 1993; Hoskisson et al. 2000).

Specifically, structural uncertainty states the dynamic property of an industry's transformation and resultant changes in demand, supply, and regulations, while industry concentration indicates, in part, the degree to which the formerly state-controlled sector or industry has been privatized. Generally, this ratio is reduced as the industry is deregulated, welcoming more private or entrepreneurial startups to enter (Lumpkin and Dess 2001). In an emerging economy, structural uncertainty and industry concentration both vary across industries due to heterogeneous paces and paths of deregulation, marketization, and liberalization across the industries. Below we propose in detail how these two industry-level residuals as well as the firm-specific advantages noted above specifically affect private firms' venturing proclivity.

Leveraging Firm-specific Advantages

Governance Advantage

Private firms are often superior to state-owned ones in regarding corporate governance advantages (Su et al. 2008). This advantage deals with the structure of rights and responsibilities among the parties with a stake in the firm (Aoki 2000). In this study, we focus on governance advantages that result from sound controlling and monitoring systems (Coles et al. 2001), and such systems are particularly important in many emerging markets due to weak governance tradition and institutional systems (Klapper and Love 2004; Luo and Tung 2007). Compared to domestic operations, international venturing generally involves larger capital needs and higher risks. Thus, well-developed corporate governance is essential for firms to efficiently manage their resources and effectively utilize firm capabilities in foreign markets. In the context of an emerging economy, Luo and Tung (2007) specifically propose that low governance legitimacy may tarnish organizational reputation and hinder firm transparency, credibility, and trustworthiness. We argue that, to the extent that reputation, credibility, and trustworthiness are valuable assets for firms to create competitive advantages, the governance-based advantages afford firms the managerial capability to undertake internationalization activities. These valuable assets embedded in adequate governance tend to increase managerial confidence in exploiting international venturing opportunities and implement more proactive and risk-taking measures.

The private business sector in most emerging economies has been long dominated by family businesses (Filatotchev et al. 2007), which tend to have a very different governance structure from the modern or market-based corporate governance structure (Whitley 1990). The family-governance structure relies mainly on personal ties among stakeholders and executives rather than on merits, knowledge, and performance. Consequently this undercuts transnational expansion and governance. In contrast, private firms with market-based corporate governance have an effective structure in place through which the firm objectives are set, and the means of attaining those objectives and monitoring performance are specified. These advantages will heighten internationalization proclivity. Thus:

Hypothesis 1: Emerging economy private enterprises with stronger governance mechanisms will exhibit greater outward internationalization proclivity.

Inherited Advantage

Emerging economy private firms are often institutionally restricted in accessing critical resources needed for international expansion and in embarking on outward FDI (Buckley et al. 2007). These firms face more difficulties than state-owned enterprises (SOEs) in obtaining outward FDI permits and project ratification from home government agencies in charge. In China, for instance, SOEs can receive stronger financial support from the government than private firms through low- or zero-interest loans and credit insurance from China's Export-Import (EXIM) Bank. To overcome such institutional disadvantages and gain access to privileges enjoyed by SOEs, private firms often strategically merge or acquire (M&A) SOEs (Hoskisson et al. 2000). Mergers with and acquisitions

of SOEs allow private enterprises to inherit institutional or political privileges previously offered to SOEs, such as accessing governmentally-controlled financial and non-financial resources necessary for international venturing. Moreover, inherited advantages through M&A of SOEs enable private enterprises to utilize SOEs' existing international networks developed in previous internationalization endeavors. Further, private firms can secure inherited advantages from existing connections and related bridging benefits between acquired SOEs and governmental institutions at various levels. Such political ties are useful not only for home country activities but can also alleviate political risks overseas through bilateral treaties or agreements between home and host country governments (China, for instance, has signed outward FDI protection agreements with 115 countries). In sum, private firms with SOE heritage will enjoy a multitude of benefits (financial, political, and institutional) previously reserved for SOEs, and such benefits in turn put private enterprises in a better position to venture abroad (Elango and Pattnaik 2007). We thereby propose:

Hypothesis 2: Emerging economy private enterprises that have merged with or acquired state-owned firms at home will exhibit greater outward internationalization proclivity.

Inward Internationalization

As commented by Luo and Tung (2007) and Child and Rodriguez (2005), most existing studies of internationalization neglect the relation between inward and outward internationalization. We argue that inward internationalization plays a significant role in international venturing of emerging economy private firms. These firms have actively conducted inward internationalization, through numerous forms, such as international licensing, OEM, cooperative alliances, equity joint ventures, and brand purchasing, in dealings with foreign firms. Inward internationalization influences outward internationalization by offering private firms learning opportunities and exposing them to foreign business practices and markets. Luo and Tung (2007) argue that firms from emerging markets have benefited greatly from inward internationalization at home by cooperating with global players that could transfer technological and organizational skills as well as financial and operational assets, which reduces their liability of foreignness and facilitates their subsequent outward internationalization activities. For instance, OEM provides local firms with advantages of "preserving their own identity, achieving economies of scale and gaining an international reputation for manufacturing excellence in their own right" (Luo and Tung 2007, p. 488). Cooperative alliances offer an effective channel for the transfer of tacit knowledge of production and distribution, as well as international standards (Simonin 2004). The domestic cooperation between Chinese and foreign partners fosters the network relationship that helps the former gain foreign market information and business advice and build referral trust and solidarity (Zhou et al. 2007; Deng 2004). Many private firms undertake outward FDI as a part of their growth strategy only after they have gained enough international experiences via inward cooperation with foreign partners. In line with the above reasoning, we expect that private firms with a broader range of inward internationalization experience are more capable of drawing on the knowledge and infor-

mation advantages gained through interactions with foreign partners in domestic markets to engage in outward internationalization. Therefore:

Hypothesis 3: Emerging economy private enterprises with stronger inward internationalization will exhibit greater outward internationalization proclivity.

Circumventing Market Imperfection Residuals

Structural Uncertainty

According to the logic of strategic behavior of entry (Caves 1971; Porter 1986), industry-level competitive environments can strongly affect a firm's internationalization. Structural uncertainty reflects industrial changes that are hard to predict and heighten instability for firms (Dess and Beard 1984). Higher structural uncertainty implies a less stable, more discontinuous industry with more uncertainty and turbulence (Keats and Hitt 1988). The level of uncertainty differs enormously across different industries in emerging economies like China (Luo and Tan 1997). Private firms operating in more dynamic industries have to confront more uncertainties stemming from high fluctuations in price and material supply, elastic domestic demand, unpredictable industrial policies, informal norms and standards, and local governmental control. Unless industry-specific uncertainties can be effectively managed, they represent actual disadvantages for private firms. Generally, structural uncertainty implies greater operational risk and cost for firms involved. If firms intend to avoid the risks, they should reduce their reliance on local settings. Consequently, firms operating in highly dynamic industries will tend to use international expansion as a springboard to compensate for their competitive disadvantages (Luo and Tung 2007). Firms opt to operate in more stable foreign markets to avoid uncertainty-induced disadvantages on domestic markets. Thus:

Hypothesis 4: Emerging economy private enterprises in an industry with higher structural uncertainty at home will exhibit greater outward internationalization proclivity.

Industry Concentration

Industry concentration characterizes an important aspect of competition (Scherer 1980). In a highly concentrated industry, a handful of firms command high market power with a large percentage of market shares (Hay and Vickers 1987). This is particularly true in emerging economies where a small number of state-owned firms monopolize strategically vital and governmentally regulated pillar industries, such as natural resources sectors, telecommunication services, banking and insurance, or transportation (Luo and Tan 1997). Thus, one could argue that in highly concentrated industries dominated by state-owned incumbents, private firms may therefore be more likely to venture abroad. Nevertheless, the unique fact that private firms in emerging economies generally operate in deregulated, non-pillar industries may change the direction of this argument. According to the *World Investment Report* (2006), emerging market private firms undertaking outward FDI tend

to anchor in deregulated, highly competitive, and less concentrated home industries. A less concentrated industry, where many firms compete furiously among themselves, can represent a disadvantage for private firms in the industry as the market reaches its limit to support many firms at the same time, making it difficult for them to make profits domestically. Therefore, for private firms operating in less concentrated industries, they are likely to be pushed out by avoiding the highly contested domestic market. In most emerging economies, there is a continuing erosion of barriers which formerly protected state enterprises against competition from private firms, giving rise to reduction in industry concentration and increased competition. In fact, in industries such as consumer electronics, processed foods and beverages, skin care products, and even PCs and automobiles, competition has intensified dramatically in domestic markets of emerging economies. Private firms' cost-effective mass production capabilities have been handicapped by the intensified competition at home (including competitive pressure from Western multinationals). To survive, these firms are now under increasing pressure to expand globally. Zhao and Zou (2002) shows that high industry concentration negatively affects a firm's export propensity. This relationship is likely to hold true for the private firm's internationalization propensity. Meanwhile, the private firms' cost effective mass production skills, accumulatively developed in highly competitive industries at home, are their competitive edge to be leveraged overseas, especially in other developing countries. Hence:

Hypothesis 5: Emerging economy private enterprises in a less concentrated industry at home will exhibit greater outward internationalization proclivity.

Moderating Role of International Experience

We offer two competing views to the proposal of the moderating effect of international experience: Complementary vs. substitutive. The complementary view suggests that international experience complements other firm-specific advantages in jointly fostering internationalization. For private enterprises equipped with more international experience, there will be a stronger propensity to leverage firm-specific advantages in international venturing. Thus, international experience moderates the proposed effect of firm-specific advantages on internationalization proclivity. To verify this argument, we examine two experience variables—the entrepreneur's international experience and the private firm's international experience. Together, they allow us to check both individual- and firm-level experience effects on moderating the relation between firm-specific advantages and international venturing proclivity.

According to the complementary logic, venturing abroad presents both opportunities and challenges, making learning or experience possessed by both entrepreneurs and the firms they lead critical (Barkema et al. 1996; Chang 1995; Shaver et al. 1997). International experience indicates familiarity with global markets and environments and a greater ability to reduce operational uncertainties and financial risks (Luo and Peng 1999). International venturing serves as a window, permitting private enterprises to gain tacit knowledge of international markets, which is acquired through experience. Once experience is gained, private firms can more effectively leverage firm-specific advantages by improving the alignment between such advantages and internationalization procliv-

ity. Accumulated knowledge helps the firm overcome its initial concerns about foreign operations, while reducing operational uncertainties (Shaver et al. 1997; Davidson 1980). In general, with greater international experience, the firm's intrinsic disadvantages due to foreignness can be substantially curtailed (Zaheer 1995; Erramilli 1991). This, in turn, enables the firm to better deploy and utilize its firm-specific advantages and transform such advantages into success in a new foreign setting. Per this complementary logic, a stronger positive effect of firm-specific advantages, such as governance advantage, inherited advantage, and inward internationalization on outward internationalization proclivity, may ensue for private firms with greater international experience accumulated by entrepreneurs and their companies.

In contrast, the substitutive logic assumes that international experience may substitute certain firm-specific advantages, such as governance advantage, inherited advantage, and inward internationalization, in promoting international venturing. As international experience continues to accumulate at the personal or organizational levels, it is possible that the positive contribution of governance advantage and inherited advantage to internationalization proclivity may in fact decline (Child and Rodriguez 2005; Luo and Tung 2007). For private enterprises, they need to successfully establish a strong and competitive foothold within a relatively short period of time. Due to financial pressure and resource constraints, they must adapt to host country environments more quickly than state-owned firms. It follows that international experience is vital to private firms' international venturing regardless of other firm-specific advantages they possess. In fact, such experience may even substitute their competitive and organizational weaknesses compared to SOEs (Deng 2004). Because private firms are normally younger than their state-owned incumbents in emerging and transition economies, they possess learning advantages of newness in international venturing compared to SOEs. International new ventures which enter international markets early in their life cycles have inherent advantages over late entrants in terms of learning about markets and competition (Autio et al. 2000). Young international venturing firms tend to possess fewer deeply embedded routines, face fewer initial constraints, and thus more readily recognize new opportunities from international venturing (Sapienza et al. 2006). Such learning advantages make the above substitution possible, allowing international experience of entrepreneurs and the firms they lead to compensate or substitute the firms' institutional disadvantages that may adversely affect the process of their internationalization. The following competing hypotheses are then suggested:

Hypothesis 6: Per the complementary logic, international experience possessed by (a) entrepreneurs and (b) the firms they lead will positively moderate the link between firm-specific advantages and outward internationalization proclivity.

Hypothesis 7: Per the substitutive logic, international experience possessed by (a) entrepreneurs and (b) the firms they lead will negatively moderate the link between firm-specific advantages and outward internationalization proclivity.

Research Method

Data Collection

We have used two sources of data to test the above hypotheses. The first is the nationwide survey of Chinese private firms administered jointly in 2004 by three national organizations: *The Chinese Academy of Social Sciences, All China Industry and Commerce Federation,* and *The United Front Work Department of the CPC Central Committee*. This data set consists of 1,613 private firms located in 31 provinces in China. The sample firms operate over 14 different industries ranging from farming to manufacturing, transport, catering, finance and science, and technology. The data was collected through intensive interviews of private owners and entrepreneurs, covering numerous issues such as owner background and demography, management composition, firm-specific advantages, firm attributes, and business performance, among others. Out of 1,613 sample firms from the first data set, 258 had missing values concerning industry information, and were removed, leaving 1,355 final sample firms. T-*tests* of involved variables between deleted cases and retained cases show no significant differences, suggesting no sample selection bias.

The second source of data is archival, industry-level information from the China Statistical Yearbook (2000–2004), Market Statistical Yearbook of China (2000–2004), Almanac of China's Commerce (2003), and China Industry Economy Statistical Yearbook (2003), used to measure industry concentration and structural uncertainty. These yearbooks are published by the State Statistical Bureau and other related institutions. Although the above survey or archival data are not without limitations, the data collected through authoritative quasi-government institutions in charge (e.g., SSB and The Chinese Academy of Social Sciences), are appropriate for empirical research; their samples are generally larger and more representative, as well as more diverse in regional and industrial distributions and in organizational forms and ownership types than surveys conducted by individual or small groups of scholars (Luo and Tan 1997; Chow 1993).

Since substantial data in the analyses are from a national survey, the results are potentially affected by common-method bias. However, there are several reasons why such bias is unlikely to pose a serious problem in our study. First, the data for two independent variables (industry concentration and structural uncertainty) are from different sources that can ameliorate the potential of common method bias. Second, both dependent and independent variables are all measured in a quasi-objective (e.g., factual information on whether a firm merged or acquired a SOE, whether a firm engages in export or FDI activities) rather than subjective evaluations (e.g., measurement of attitude, personality and aptitude). Thus unless the respondents to these national surveys deliberately lied when filling in the questionnaires, common method bias should be limited (Law et al. 2004). Third, we took additional steps to check for the potential threat of this bias. We first conduct Harman's single-factor test. Un-rotated factor analysis shows that more than one (six) factors can be extracted and the first principle component explains only 18.9% of the total variance with no one single factor dominating the variance explained, suggesting that common method bias does not appear to be a threat in our analysis (Podsakoff et al. 2003; Harman 1967). In the second step, we diagnosed the issue by using a partial correlation adjustment procedure suggested by Lindell and Whitney (2001). The results

of correlation analyses show that all the zero-order correlations remain significant after the partial correlation adjustment, suggesting that common method bias is not a major concern of this research.

Variable Measurement

Dependent Variable

Outward internationalization proclivity was measured by an ordinal variable, with the values of 0, 1, 2, and 3, respectively, representing ascending risk levels in internationalization: 0 if engaging in neither export nor FDI, 1 if export only, 2 if outward FDI only, and 3 if both outward FDI and export at the same time. It is a well-established consensus that outward FDI involves more risks (financial, political, and operational) than export and that multiple forms or activities of internationalization involve more of these risks than any other single form or activity (e.g., Chang 1995; Davidson 1980).

Independent Variables

Among firm-specific advantages, *governance advantage* defines the extent to which a firm has sound controlling and monitoring mechanisms, including shareholders' meetings, board of directors, supervisory board, and labor union. It is measured by the number of governance mechanisms a firm has adopted. *Inherited advantage* is measured as a dummy variable with a value of 0 if a firm has never acquired or merged with state-owned enterprise(s) and 1 if it has. *Inward internationalization* is measured by the number of inward internationalization activities (original equipment manufacturing, original design manufacturing, international licensing for technology, cooperative alliances, equity joint ventures, etc.) the firm has conducted. Since governance advantage and inward internationalization have skewed distributions, as identified from the Kolmogorov-Smirnov test, we performed a square root transformation (Sudarsanam and Taffler 1995; Netter et al. 1983), which normalized the variables.

We use the four-firm Herfindahl's index (H-index) to measure *industry concentration*, which is defined as follows:

$$H\text{-}index_j = \sum_{i=1}^{4} (revenue_{ij}/revenue_{.j})^2,$$

where $H\text{-}index_j$ is the Herfindahl's index of industry j; $revenue_{.j}$ is the total revenue of industry j; and $revenue_{ij}$ is the revenue of the *ith* biggest (i.e., with the highest market share) firm in industry j. To avoid reverse causality, this variable is lagged 1 year, as suggested and used by previous research (e.g., Guillen 2002). We also follow Keats and Hitt (1988) in measuring *structural uncertainty*. First, we run multiple regressions with the logarithm of industry income and year as dependent and independent variables, respectively, and obtain for each industry the standard errors of the regression slope coefficients. For each industry, we calculate the antilogarithm of the standard error values as the structural uncertainty measure. We use 5-year points from 1999 to 2003, as suggested by Keats and Hitt (1988).

Moderating Variables

Entrepreneur's international experience (EIE) is an ordinal variable with the values of 0, 1, or 2, measured as the sum of two dummy variables: Entrepreneur's personal oversea experience and work experience in a foreign-invested enterprise (FIE) before taking the current job. Entrepreneur's international experience was coded as 0 if s/he has neither overseas experience nor working experience in any FIE, 1 if she/he has either overseas experience or FIE working experience, and 2 if s/he has both overseas experience and FIE working experience. Because this variable's distribution is somewhat skewed, we used the square root transformation for this variable. A private firm's international experience (PFIE) is measured by the firm's previous (prior year) foreign sales (¥ million).

Control Variables

Several control variables are included in our analytical models, based on past research: (1) *Firm location*. Zhao and Zou (2002) empirically find that export propensity and intensity are higher for Chinese manufacturing firms located in the coastal areas than for those located inland. In this study, firm location is measured by a dummy variable (1 for coastal firms, 0 for inland firms). (2) *Firm age*. Established firms are deemed more likely to internationalize and take higher risks when expanding internationally because it is easier for them to collect information and leverage existing infrastructure for internationalization (Zahra 2003). In this study, firm age is measured as the number of years since the incorporation. (3) *Firm assets* (total assets in ¥ million). This variable is positively related to internationalization (Kotha et al. 2001). (4) *Employee size*, defined as the number of employees, is likely to share the same logic as asset size in affecting internationalization. (5) *R&D intensity* (%), measured by the firms' R&D expenses divided by total sales, is recognized as the key firm-level variable influencing Western MNEs' international activities (Sanders and Carpenter 1998). (6) *Previous performance*, measured by the firms' prior year total sales (¥ million), is conceived to promote firms' internationalization activities (Zahra et al. 2003). (7) *Organizational slack*. Because slack resources may be accumulated and deployed over time (George 2005), we first lag it by 1 year. We then calculate the equity-to-debt ratio following previous studies (Yiu et al. 2007; Dass 2000) and use the deviation from the industry means to measure the slack (George 2005).

Results

The descriptive statistics of all the variables in our test models are reported in Table 1. We examine the variance inflation factors (VIF) to test for multicollinearity. The results show that all VIF values are lower than 2, thus removing the concern. In consideration of the ordinal measure of our dependent variable, we ran an ordinal regression to test our hypotheses. Models 1–2 in Table 2 present the results for hypotheses 1–5. We first include controls in regression models (model 1) and then add research variables (direct effects) in model 2. The high pseudo R^2 indicates the good fit of our research model (Nagelkerke $R^2 = 0.230$ and Cox & Snell $R^2 = 0.192$ for Model 2).

Table 1: Descriptive statistics and correlations[a]

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Internationalization	0.488	0.848														
2. Firm location	0.687	0.464	0.064													
3. Firm age	7.235	4.137	0.075	0.007												
4. Firm assets[b]	27.846	97.878	0.115	−0.071	0.060											
5. Employee size	50.506	102.07	0.141	−0.034	−0.136	0.054										
6. R&D intensity	0.052	0.125	0.105	0.003	0.064	−0.006	0.007									
7. Previous performance[b]	31.546	87.526	0.147	−0.057	0.076	0.528	0.122	−0.042								
8. Organizational slack[c]	0.532	30.315	0.008	0.031	−0.005	0.610	0.141	−0.026	0.152							
9. Governance advantage (sqrt)	1.286	0.629	0.232	−0.055	−0.003	0.135	0.205	0.066	0.167	0.049						
10. Inherited advantage	0.198	0.398	0.228	−0.144	0.043	0.173	0.029	−0.000	0.247	0.013	0.226					
11. Inward internationalization (sqrt)	0.473	0.572	0.268	0.027	0.075	0.093	0.085	0.039	0.111	0.054	0.165	0.125				
12. Industry concentration	0.012	0.057	−0.001	−0.101	0.004	0.050	0.150	0.042	0.102	−0.005	0.024	0.032	0.037			
13. Structural uncertainty	1.010	0.006	0.194	0.077	0.072	0.059	0.173	0.116	0.055	0.023	0.202	0.018	0.195	0.213		
14. EIE (sqrt)[d]	0.137	0.355	0.155	0.082	−0.040	0.005	0.072	0.043	0.049	−0.002	0.097	0.083	0.099	−0.009	−0.004	
15. PFIE[b, c, d]	4.108	13.163	0.265	0.021	0.072	0.196	0.270	−0.025	0.401	0.094	0.172	0.161	0.177	0.108	0.173	0.059

[a]N = 1355. Correlations > 0.053 or < −0.053 are significant at the 0.05 level (2-tailed)

[b]In ¥ million

[c]The mean and standard error of this variable have been divided by 10^4

[d]EIE = entrepreneur's international experience; PFIE = private firm's international experience

Table 2: Ordinal regression results[a]

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Control variables						
Firm location	0.227(0.062)***	0.242(0.067)***	0.205(0.067)**	0.213(0.067)**	0.239(0.068)***	0.211(0.068)**
Firm age	0.147(0.059)*	0.091(0.063)	0.080(0.064)	0.107(0.063)†	0.072(0.064)	0.089(0.064)
Firm assets	0.260(0.092)**	0.185(0.093)*	0.234(0.095)*	0.194(0.094)*	0.260(0.093)**	0.271(0.094)**
Employee size	0.305(0.054)***	0.205(0.057)***	0.145(0.060)*	0.204(0.057)***	0.166(0.061)**	0.164(0.061)**
R&D intensity	0.224(0.052)***	0.182(0.055)***	0.187(0.055)***	0.173(0.055)**	0.190(0.055)***	0.182(0.056)**
Previous performance	0.150(0.074)*	0.035(0.070)	−0.071(0.071)	0.025(0.071)	−0.092(0.072)	−0.105(0.072)
Organizational slack	−0.228(0.090)*	−0.191(0.089)*	−0.231(0.093)*	−0.197(0.090)*	−0.225(0.090)*	−0.232(0.091)*
Independent variables						
Governance advantage (squared)		0.402(0.079)***	0.373(0.079)***	0.459(0.087)***	0.425(0.083)***	0.480(0.091)***
Inherited advantage		0.323(0.060)***	0.292(0.061)***	0.309(0.067)***	0.285(0.064)***	0.266(0.071)***
Inward internationalization (squared)		0.454(0.062)***	0.412(0.062)***	0.461(0.068)***	0.485(0.066)***	0.490(0.073)***
Industry concentration		−0.206(0.068)**	−0.208(0.070)**	−0.204(0.068)**	−0.213(0.069)**	−0.213(0.070)**
Structural uncertainty		0.359(0.070)***	0.343(0.071)***	0.372(0.071)***	0.331(0.070)***	0.344(0.072)***
Moderators						
EIE (squared)[b]			0.225(0.056)***	0.623(0.180)***		0.620(0.182)***
PFIE[b]			0.280(0.061)***		1.022(0.291)***	0.988(0.292)***
Interactions						
Governance adv.×EIE				−0.367(0.176)*		−0.364(0.177)*
Inherited adv.×EIE				0.009(0.068)		0.017(0.069)
Inward int.×EIE				−0.081(0.082)		−0.080(0.083)
Governance adv.×PFIE					−0.608(0.296)*	−0.570(0.297)†

Table 2: (continued)

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Inherited adv.×PFIE					0.112(0.084)	0.118(0.085)
Inward int.×PFIE					−0.273(0.104)**	−0.275(0.105)**
−2 Log likelihood	2358.698	2168.183	2131.155	2148.309	2134.691	2114.595
χ^2	99.127	289.642	326.670	309.516	323.134	343.231
Cox & Snell R^2	0.071	0.192	0.214	0.204	0.212	0.224
Nagelkerke R^2	0.084	0.230	0.256	0.244	0.253	0.267

[a]Link function: Logit; N = 1355. Standardized coefficients are reported; standard errors are in parentheses

[b]EIE = entrepreneur's international experience; PFIE = private firm's international experience

†$p < 0.10$; *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$

Hypothesis 1 states that emerging market private firms with governance advantages are more likely to exhibit a high level of outward internationalization. Governance advantage bears significant and positive coefficients ($\beta = 0.402$, $p < 0.001$), lending support to H1. Model 2 also shows that inherited advantage has a similar positive effect on outward internationalization ($\beta = 0.323$, $p < 0.001$). H2 is therefore supported. The findings confirm that private firms with stronger governance or institutional advantages inherited through merging with or acquiring SOEs tend to exhibit a higher level of outward internationalization. Model 2 further shows that inward internationalization is significantly and positively associated with outward internationalization ($\beta = 0.454$, $p < 0.001$), indicating that inward-outward linkage does exist for our sample firms. This finding supports H3.

Hypothesis 4 predicts that higher industrial structural uncertainty tends to compel private firms to undertake outward internationalization. The test results support this hypothesis, with a significant and positive coefficient ($\beta = 0.359$, $p < 0.001$). Hypothesis 5 predicts that a more concentrated industry tends to discourage the internationalization propensity of firms in the industry. According to Models 2, industry concentration is significantly and negatively related to outward internationalization ($\beta = -0.206$, $p < 0.01$). Thus, H5 is supported.

We proposed two competing hypotheses concerning the moderating effect of entrepreneur's international experience (EIE) and the private firm's international experience (PFIE). To test this effect, we conducted moderated regression analyses. Models 3–6 in Table 2 indicate the results. In the research models, all interaction terms are mean-centering, as suggested by Aiken and West (1991, pp. 28–45). Individually, the two experience variables have a positive main effect on outward internationalization ($\beta = 0.225$, $p < 0.001$ for EIE; $\beta = 0.280$, $p < 0.001$ for PFIE), which is reported in model 3.

As Models 4 and 6 show, entrepreneur's international experience only significantly interacts with governance advantage in relation to outward internationalization (Model 4: $\beta = -0.367$, $p < 0.05$; Model 6: $\beta = -0.364$, $p < 0.05$). Models 5 and 6 show that private firm's international experience significantly interacts with both governance advantage (Model 5: $\beta = -0.608$, $p < 0.05$; Model 6: $\beta = -0.570$, $p < 0.10$) and inward internationalization (Model 5: $\beta = -0.273$, $p < 0.01$; Model 6: $\beta = -0.275$, $p < 0.01$). All other interaction terms do not exert any significant effect. Moreover, the directions of the significant interactions are negative. Thus, the tests of the moderating results are inconsistent with the complementary view (H6) and more congruent with the substitutive view (H7). These results imply that international experience is either parallel to or compensatory for other firm-specific advantages concerning the influence on outward internationalization. There are no complementary effects between experience and other firm-specific advantages in jointly affecting international venturing.

To further verify the moderating results, we plot the interaction terms that are significant in the moderated regression tests, following Aiken and West's steps (1991). As shown in Fig. 2, the interaction between private firm's international experience (PFIE) and inward internationalization is significant in relation to internationalization. Following Aiken and West (1991), we calculated the simple slopes of inward internationalization on outward internationalization conditional on the (high vs. low) levels of private firm's international experience. The simple slope is 1.268 ($p < 0.001$) for a low PFIE level and

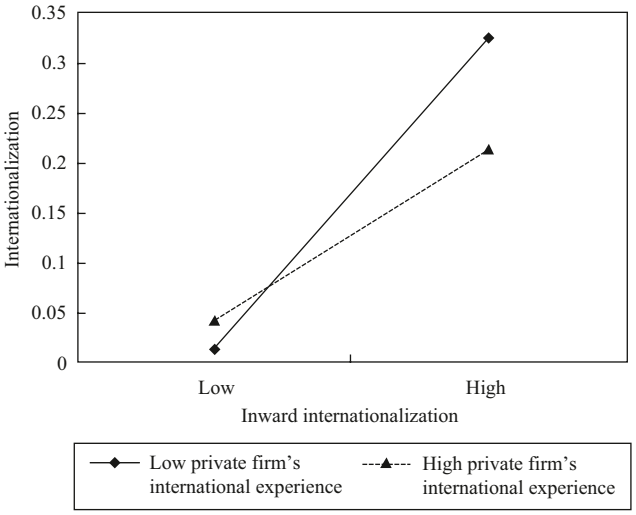

Fig. 2: Moderating effect of the firm's international experience on the relationship between inward and outward internationalization

0.741 ($p < 0.001$) for a high PFIE level, suggesting that the positive effect of inward internationalization on outward internationalization is stronger for a lower PFIE level.

Figure 3a clearly displays a sharp interaction trajectory between entrepreneur's international experience (EIE) and governance advantage on internationalization. The simple slope is 1.196 ($p < 0.001$) for a low EIE level and 0.704 ($p < 0.001$) for a high EIE level, indicating that EIE negatively moderates the positive relation between governance advantage and internationalization. Figure 3b shows the interaction effect between PFIE and governance advantage in relation to internationalization. For a low PFIE level, the simple slope is 1.143 ($p < 0.001$) and for a high PFIE level it is 0.828 ($p < 0.05$), indicating a negative moderating effect of PFIE on the relation between governance advantage and internationalization. In sum, these plots corroborate the regression findings reported in Table 2.

We further checked the stability and reliability of the above main effects (H1–H5) and moderating effects (H6 and H7). We randomly divided the total sample into half and reran all the models in Table 2. The results remained consistent with those currently reported in Table 2, and there were no significant differences between the two groups (halves). Second, we used an alternative dummy variable to measure outward internationalization proclivity (1 if a firm has undertaken OFDI; 0 otherwise). The logistic regression yielded fairly consistent results as those reported in Table 2. Both efforts suggest the considerable stability of the results we reported.

Some interesting results regarding control variables are noteworthy as well. Organizational slack, for instance, is negatively, rather than positively, associated with outward internationalization. This seems contradictory to the literature for Western MNEs. Higher slack should act as a firm-specific advantage facilitating the firm's international venturing, but this study shows the opposite for our sampling of Chinese firms. One possible explanation may be that private Chinese firms with adequate financial slack may be more inclined to focus on domestic/home market and expansion. This is reinforced by the fact

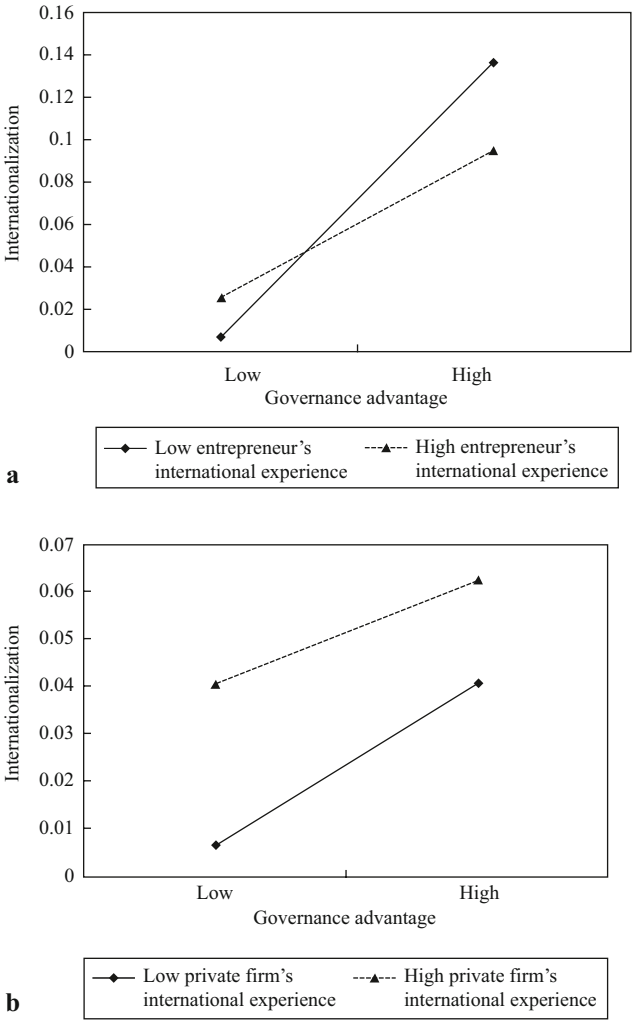

Fig. 3: Moderating effect of international experience (entrepreneur's and firm's) on the link between governance advantage and outward internationalization

that private Chinese firms are still institutionally restricted in converting local currencies to international currencies when venturing abroad, the discriminatory treatment compared to SOEs, as regulated by the government. On the other hand, those located in coastal cities (firm location) tend to be more inclined to venture abroad than those in inland regions. Larger firms (assets or workforce) or with higher R&D intensity are more likely to exhibit a higher level of internationalization than smaller or R&D-inferior firms.

The age of the private firms is not a significant factor in explaining their international venturing when other related variables are controlled for. Likewise, a firm's previous performance (sales in the prior year) does not influence its internationalization proclivity. This suggests that a private firm's decision to venture abroad is not contingent on its previous sales capability or performance at home.

Discussion and Conclusion

This study proposes the dual strategic intent model to conceptualize the determinants of international venturing by emerging economy private enterprises. Rapidly growing emerging economies are producing private business giants of their own at a staggering rate. While these businesses share the scale and ambition of their counterparts from developed countries, their decision processes and strategic behaviors are often dissimilar to those of their competitors in the developed world. These firms become increasingly competitive forces shaping the world economy and global business, becoming major rivals of many Western MNEs on the global stage, yet also their collaborators in the wake of today's global economic crisis, which has hit Western economies even more severely.

Systematic investigation of these firms' international venturing, however, is still largely anecdotal and scant. As an effort that redresses this lacuna, this study offers some valuable insights, with several theoretical and managerial implications. Theoretically, this study offers a novel logic that emerging economy private firms have dual strategic intents in international venturing, seeking two disparate objectives at the same time—the duality of leveraging what they are good at while escaping home country market imperfection residuals. After accumulating experience in dealing with institutional hardships at home and developing knowledge in international business via inward internationalization, these firms are now equipped with the unique ability to simultaneously pursue two distinct things at the same time—exploiting their firm-specific capabilities they control and circumventing market imperfection residuals they cannot control. Globalization renders an opportunity for them to fulfill this duality, or more broadly, to improve economic returns from their superior ability deployed and utilized in a much bigger and geographically dispersed domain.

In addition, this study extends the logic of strategic behavior of foreign entry by not only applying it to a new setting—emerging markets, but specifying what a unique set of firm-specific advantages and market-specific residuals that significantly affect the foreign entry decision. Using a large sample of Chinese private enterprises, we demonstrate that international venturing proclivity is a positive function of firm-level advantage exploitation and industry-level disadvantage (market imperfection residuals) avoidance. We show that the propensity of internationalization is positively associated with these firms' peculiar advantages in governance, institutional inherits, and inward internationalization. While firm-level determinants of foreign market entry have been widely studied, this bundle of firm-level advantages is investigated for the very first time by this study. These advantages are unique to emerging economy private firms to the extent that these firms are more organizationally advanced in terms of corporate governance than state-owned (SOEs), while massive privatization creates a wealth of opportunities, via M&As, for private firms to inherit some peculiar SOE advantages, such as institutional ties with regulators and officials as well as industrial experience and large scale manufacturing capacities.

Moreover, the strong positive link between inward internationalization and outward internationalization reported above advances our understanding of the unique trajectory of emerging market private firms' experience and capability accumulation needed for subsequent global expansion. Rarely mentioned in the mainstream literature, this link

also helps explain why these firms are able to leapfrog and employ radical, risk-taking measures, such as acquisitions, in the early stage of international expansion, rather than following the evolutionary steps as advocated by the Uppsala model (Johanson and Vahlne 1977). Inward internationalization is unique in the sense that these private firms are indeed late in undertaking outward FDI compared to MNEs from advanced nations or newly industrialized countries (e.g., South Korea, Singapore, Israel, and Hong Kong), but they are not necessarily new to international competition. The strong inward-outward internationalization linkage clearly underscores the benefits of OEM, international licensing, cooperative alliances, and equity joint ventures forged at home and the stimulating role of such inward activities and experience in subsequent overseas venturing.

Furthermore, this study sheds light on why and how *home* country market imperfection residuals influence the firm's outward internationalization. Early research has focused on the effect of host country market structure variables on the firm's FDI decision. This study instead shows the logic that international venturing of emerging market private firms is driven in part by the need to circumvent home-country market imperfection residuals as the market is transmitted from a centrally planned regime to the market-based system. In this study, we only parsimoniously examined two such residuals at the industry-level, namely industry concentration and structural uncertainty. Our analysis suggests that emerging economy private firms go global in part to avoid industry-level market imperfection residuals. Outward internationalization is negatively related to the domestic industry's concentration and positively related to the industry's structural uncertainty. It follows that the firms are more prone to venture abroad and take more risks in this process if the home country industry is less concentrated or more uncertain. High uncertainty is one of the market imperfection residuals in every emerging economy. Private firms respond to the uncertainty by circumvention—reducing their dependence on the home country market but heightening their offshore commitment and investment. Less concentration may indicate increasing competitive threats, thus propelling private firms to look for new opportunities in foreign markets.

Finally, prior research generally treated international experience as a predicting variable of the firm's international expansion. We advance this by exploring whether or not this experience plays some other role. In the model we proposed, we consider the possible moderating effect of the two experience variables—the entrepreneur's international experience and the firm's international experience—on the link between firm-specific advantages and internationalization proclivity. The results, however, deviate from what we originally expected. The coefficients of moderated regressions are either negative or insignificant. Specifically, we find that entrepreneur's international experience negatively moderates the relationship between governance advantage and internationalization. A firm's international experience negatively moderates the association between inward and outward internationalization. Per conventional logic, firms with richer international experience (executive and organization levels) would have better knowledge on how to plan, launch, execute, and organize worldwide operations, hence being in a superior position to leverage firm-specific advantages in the process of international venturing. This is the complementary view toward firm-specific advantages and international experience. The negative moderating effect we found seems to infer a different view—the substitutive view—where international experience may substitute (negative) or dupli-

cate (insignificant) to some extent certain firm-specific advantages in promoting international venturing. Similarly, inward internationalization may duplicate to some degree the entrepreneur's international experience (thus muting the interaction effect) and substitute the firm's international experience (thus negative interaction) so the entrepreneurs more knowledgeable in international business are likely to lead the firms to conduct more inward internationalization with foreign companies, while more internationally experienced firms may become less dependent on inward internationalization and instead more dedicated to overseas venturing.

There are several takeaways for international executives as well. Unlike the early path of internationalization for MNEs from advanced countries and newly industrialized economies, emerging economy private enterprises have benefited from not only governance advantage and inherited advantage, enabling them to offset some of their institutional disadvantages compared to SOEs, but also from inward internationalization at home by cooperating with global players who have transferred technological and organizational skills, allowing these private firms to venture abroad later in some unconventional way. For private firms from emerging markets, maintaining sound corporate governance is critical as it can reduce their liabilities associated with newness and smallness. Mergers with and acquisitions of SOEs provide them with valuable inherited advantages that improve their competence portfolio and inter-organizational connections with various business stakeholders. Similarly, inward internationalization is an important springboard for private firms to launch offshore venturing on the subsequent stage. When operating in more volatile or uncertain and less concentrated industries at home, private firms may pursue international venturing as a strategic response to circumvent market imperfection residuals still remaining in most emerging or transition economies. Lastly, executives should continuously develop and leverage their international experience at both the individual and firm levels. Individually, these experience effects contribute positively to international venturing propensities, yet they substitute, to some extent, the function of the above firm-specific advantages.

Admittedly, this study has several shortcomings that should be recognized. Although we chose China, a rich setting to explore the central question we raised, this study is limited by its single country data set. This confines the generalizability of the results and handicaps our ability to include country-level market imperfection residuals in our analysis. To augment this study's external validity, multi-country settings and cross-country comparison are highly merited. Even at firm and industry levels, there may be additional variables (e.g., a firm's strategic orientation, market orientation, and entrepreneurship orientation; an industry's competition intensity; and demand potential) that affect the firm's internationalization proclivity. Furthermore, despite our efforts using lagged measures for some independent variables to reduce a reverse causal relation between independent and dependent variables, synchronic measurement problems may still exist. For instance, albeit it is reasonable to expect that governance advantages lead to a high proclivity to internationalize, the opposite logic may also be possible, as private firms may improve their governance as a result of international operations. A longitudinal approach in future research may provide more accurate causality and temporal paths. Additionally, we only employed internationalization proclivity as the measure of international venturing. As

private firms evolve and grow in internationalization, more measures (e.g., geographic breadth, scale of outbound FDI, number of foreign mergers and acquisitions, contribution of foreign sales) are necessary if we want to unveil a fuller picture of international venturing activities of these firms in the future.

This study nevertheless delivers a novel argument and presents initial evidence that private enterprises from emerging economies are organizationally dexterous in international venturing, seeking the duality of both advantage exploitation and disadvantage avoidance. We have illustrated that these private firms tend to leverage certain unique advantages they possess, such as governance advantage, inherited advantage via acquiring SOEs, and inward internationalization, to bolster their endeavors and success of venturing abroad. They, however, still suffer from institutional disadvantages in their home countries as compared to SOEs, thus opting to venture abroad as a strategic "escape" from such disadvantages. Surely, a question of how these firms can succeed on the global stage *after* this "escape" is critical and has to be answered and substantiated by continuous inquiries that depart from the present study.

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