

Track 1: The internationalization process and international entrepreneurship
Competitive session

Qingqing Tang, Xi'an Jiaotong University & Hong Kong Polytechnic University

Flora F. Gu, Hong Kong Polytechnic University

En Xie, Tongji University

How do explorative and exploitative OFDI differ in affecting firm performance?
The moderating effects of industrial dynamism

ABSTRACT

Extensive research in the past 30 years have investigated outward foreign direct investment (OFDI) in emerging economies. However, few has empirically examined the performance impact of OFDI. Extending previous work in the area, this study conceptualizes and examines the impacts of two types of OFDI, namely, explorative OFDI and exploitative OFDI, based on whether new subsidiaries established by the firm are in entirely new markets or markets it has previously entered. Drawing on resource-based view and industry-based view, we hypothesize that both types of OFDI improve the firm's competitive advantage. Moreover, industrial factors including technological dynamism and competitive dynamism, can moderate the performance impacts of different types of OFDI. Leveraging panel data of Chinese manufacturing listed firms during 2008–2016, we find that both explorative OFDI and exploitative OFDI increase firm performance. Technological dynamism strengthens the beneficial effect of exploitative OFDI while weakens that of explorative OFDI on firm performance. Competitive dynamism also enhances the positive effect of exploitative OFDI on firm performance. These findings not only reveal how explorative and exploitative OFDI affect firm performance differently in emerging economies, but also offer advice for firms to select appropriate OFDI under different industrial dynamism.

Keywords: Internationalization and performance, Explorative OFDI, Exploitative OFDI, Technological dynamism, Competitive dynamism