Foreign Direct Investment Speed and Firm Performance: Evidence from China

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***Abstract*—We investigate how government support affects the impact of rapid Outward Foreign Direct Investment (OFDI) expansion on firm performance. In many emerging Asia countries, government is actively involved in firms' internationalization. We argue that rapid OFDI expansion is more likely to increase firm performance with government support, which compensates for firms' lack of superior internal resources and capabilities through state ownership or government affiliation. Our theories are supported by the empirical evidences from China, the largest emerging country in Asia. Our study helps us further understand the business modes of OFDI from emerging economies in Asia.**

***Index Terms*—Foreign direct investment speed, government involvement, internationalization, multinational enterprise**

I. Introduction

Outward Foreign Direct Investment (OFDI) is a major international entry mode, widely adopted by multinational enterprises (MNEs) that want to expand international markets. The 2020 investment report shows that the global FDI reached US$1.54 trillion (UNCTAD, 2020). Compared with the other entry modes, OFDI involves high-commitment investments and it is highly risky. Therefore, making appropriate OFDI strategy is critical to MNEs' success. Among many related decisions, OFDI speed is an important issue that has yet received insufficient attention. There are conflicting views on the impact of OFDI speed on firm performance. A large number of International Business (IB) studies have found that gradual internationalization can help MNEs manage the liability of foreignness because of time-compression diseconomies (Dierickx and Cool, 1989) and learning from prior experiences (Barkema and Bell *et al.*, 1996; Johanson and Wiedersheim-Paul, 1975). In contrast, some other studies suggest that rapid OFDI expansion may affect firm performance positively due to time-based competition and first-mover advantages (Cohen and Eliashberg *et al.*, 1996; Salomon and Martin, 2008), especially in today's rapidly changing business environment. Given these conflicting views on the impact of rapid expansion, Chang, and Rhee (2011) finds the conditions under which rapid OFDI expansion is a feasible strategy, that is, rapid OFDI expansion can enhance performance of firms in industries where globalization pressures are high or when it is adopted by firms with superior internal resources and capabilities.

A growing number of firms from emerging countries in Asia (e.g., China, India, and Malaysia) has been internationalizing as Asian MNEs. In many of these markets where market mechanism is usually imperfect, government has a profound impact on business and plays an important role in firms' internationalization process (Buckley and Clegg *et al*., 2007; Yamakawa and Peng *et al*., 2008). In this study, by building a framework based on the institutional theory and the Resource-Based View (RBV), we argue that government support can affect the result of rapid OFDI expansion. Specifically, there are two ways in which government plays a role. First, internationalization of State-Owned Enterprises (SOEs) is often encouraged by government. Secondly, private firms affiliated to government can seek favourable treatment in the process of internationalization. In either way, government support can compensate for the lack of superior internal resources and capabilities (Luo and Xue *et al*., 2010; Rugman and Li, 2007). We find that rapid OFDI expansion more likely leads to better performance for SOEs and firms closely connected to government. We test our hypothesis in the context of the Chinese market. We believe that China, as a typical emerging market in Asia, is an ideal setting because of the dominant role of state control in the Chinese economy and the active government involvement in domestic enterprises' internationalization (Buckley and Clegg *et al*., 2007; Child and Rodrigues, 2005).

Our study contributes to the literatures in several ways. Our first contribution lies in deepening our understanding of internationalization of firms from emerging markets in Asia. Many Asia MNEs are expanding internationally at an accelerated pace. Although this phenomenon has received much attention from the IB scholars and has opened up new avenues for academic research (Child and Rodrigues, 2005; Li, 2003; Pangarkar, 1998; Ulgado and Yu, 1994; Yeung, 1994), yet knowledge of the business modes of OFDI from Asian MNEs and how they differ from those of developed countries still remains incomplete. Using the data on China, the largest emerging market in Asia, our study can provide some insights on whether and when rapid OFDI expansion is a viable strategy for Asia EMNs.

In addition, we also contribute to the literature on the role of government in the internationalization process, which has been studied intensively in the international business literatures. Evidences of the active government involvement in promoting OFDI of domestic firms have been found in both developing countries like India (Prashantham and Birkinshaw, 2015) and Malaysia (Sim and Pandian, 2007), and developed countries like Norway (Amdam, 2009). Frequently studied topics in the relevant literature include how home country government affects MNEs' choices of entry mode, location or ownership structure of foreign subsidiaries and so on. But the effect of government on the decision of internationalization speed is rarely explored. Building on both the institutional theory and the RBV, our study shows how government matters for internationalization.

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In particular, we demonstrate how state ownership and different levels of government association influence the results of fast OFDI expansion.

Finally, the IB literatures have not paid enough attention to the speed of OFDI, an important strategic decision of internationalization via FDIs. Our study aims to address the gap in the literature by considering the impact of OFDI speed on firm performance. In particular, we examine how government involvement affects the speed effect, unlike the extant researches (Chang and Rhee, 2011), which only take into account the firm resources and industry characteristics. In this way, our study complements and extends the current researches that view the speed effect on firm performance simply as the result of firms' own superior resources and the nature of industry.

II. Theory and Hypothesis Development

In the process of internationalization, firms can expand at an accelerated speed or take a gradual approach. Some studies have shown that fast international expansion creates many challenges. For one, due to limited absorptive capacity, firms do not have enough time to learn from their prior experiences if they expand rapidly (Cohen and Levinthal, 1990). Time-compression diseconomy is another reason for poor performance caused by rapid international expansion (Dierickx and Cool, 1989; Barkema and Drogendijk, 2007; Vermeulen and Barkema, 2002). On the other hand, some researches find that rapid international expansion may lead to higher firm performance according to time-based competition (Cohen and Eliashberg *et al.*, 1996; Salomon and Martin, 2008). For instance, Salomon and Martin (2008) find that speed of investment increases firms' performance in the semiconductor and oil industry respectively. Using data on Korean firm expansion. Chang and Rhee (2011) explain these contradictory results by providing circumstances under which rapid international expansion positively affects firm performance. Specifically, they find that firms in industries with high globalization pressures or firms with superior resources and capabilities can improve performance using the rapid OFDI expansion strategy.

In this paper, we posit that government involvement can help MNEs better enjoy the potential benefits of a rapid expansion strategy and avoid many of its problems at the same time. Our arguments are built upon the institutional theory and the RBV. The institutional theory includes institutional variables as an important factor affecting firms' decisions in the internationalization process and their subsequent performances. Institution is defined as the 'rules of the game', including formal rules, informal constraints, and their enforcement characteristics (Davis and Davis *et al.*, 2000; Oliver, 1997). DiMaggio and Powell (1983) argue that organizations in the same environment are supposed to be structurally similar as they respond to similar coercive, normative, and mimetic institutionalization pressures. Overall, the institutional theory argues that MNEs' strategic behaviour and success are affected by the institutional structure of the home country. In the emerging markets with imperfect market mechanism, government affects business in a more significant way. According to this theory, it is natural to consider how government affects the impact of the speed of OFDI on firm performance.

The RBV (Wernerfelt, 1984) focuses on the importance of strategic resources as the sources of firms' sustainable competitive advantages. If firms have resources that can be transferred abroad, then they may have unique advantages over competitors in the host country. In general, the RBV emphasizes the major role played by resources in the process of internationalization. In the emerging markets, EMEs may have limited resources and lower capabilities compared with their counterparts from developed countries. Government support may provide firms with unique resources which give rise to competitive advantages in their international expansion that can increase their chance of success.

Therefore, according to the institutional theory and the RBV, it is critical to investigate the role played by government in firms' international expansion. We propose that there are two ways in which government affects the results of rapid international expansion, that is, direct ownership and indirect government affiliation. Due to the institutional features of emerging economies, the state ownership and government affiliation provide special resources for MNEs, helping them in the rapid international expansion. Wang and Hong *et al.* (2012) also differentiate state ownership and government affiliation when examining the role of government involvement in OFDI. However, they only study how government involvement influences the amount, the location and the type (resource- vs. market-seeking) of OFDI without investigating the impact of OFDI speed.

A. State Ownership

Government can influence firms' managerial decisions directly as a shareholder of SOEs. Governments, particularly in emerging markets, are actively facilitating international expansion of domestic firms. There are several reasons why rapid international expansion may enhance performance of SOEs.

First, preferential support provided by government helps SOEs face lower liability of foreignness. SOEs have privileged access to government subsidies and enjoy tax benefits. These special treatments make up lack of resources and create comparative advantages which can help firms adapt to complex situations in host countries. Compared with the local firms, foreign firms have difficult access to local resources and fewer opportunities. Government supports help SOEs suffer less from such liability of foreignness in their rapid internationalization (Zaheer, 1995).

Secondly, SOEs are more likely to enjoy the benefits of first-mover advantages with support from government. The literatures find mixed evidences for the positive effect of first-mover advantages brought by fast expansion (Fuentelsaz and Gomez *et al.*, 2002; Lee and Smith *et al.*, 2000; Lee, 2008; Makadok, 1998; Song and Benedetto *et al.*, 1999). The main reason for these ambiguous results is that first-mover disadvantages may also exist at the same time. For example, the late movers may act as free rider. With support from government, SOEs are better prepared to overcome such first-mover disadvantages. One way is through creation of large SOEs (Many emerging market governments likes creation of large firms through mergers and acquisitions).

In this way, SOEs can reach economies of scale which

increase their chance of success in international markets (Gaur and Kumar, 2018). Large SOEs backed up by government usually have plenty of resources and are more ready to face threats imposed by late movers. For instance, SOEs can deter entry or compete with the new entrants by pre-empting assets and creating switching costs.

In addition to the received government support, the perceived government support will change SOEs' risk perception and risk tolerance. With larger budgets and more resources, governments are more patient investors who tend to downplay the role of risks in international investment. Besides, governments' control over laws and regulations allows them to further reduce risks. Having such a shareholder, SOEs will be will be bailed out by government with subsidies if they are in financial difficulties, that is, SOEs face a soft-budget constraint. Due to such an institutional feature, SOEs can bear more short-term losses and invest in riskier projects with higher returns. They are more likely to take OFDI at an accelerated pace.

Finally, government can use its political influence and diplomacy to facilitate the international expansion of the SOEs. For one thing, government can negotiate conditions that are favourable to SOEs in bilateral or multilateral investment treaties. Besides, government helps reduce risk faced by SOEs in foreign markets by exerting its political influence. For instance, when SOEs are in investment and trade disputes, their home country government can step in and take them to international organizations (e.g., World Trade Organization and the International Centre for Settlement of Investment Disputes) to address the disputes if necessary. SOEs will also face lower expropriation risks given the backing of their home country government, which can negotiate with host governments. Thus, SOEs have a larger chance to succeed in countries which are too risky for private firms.

Our analysis above suggests that SOEs are more likely to enjoy the benefits from rapid OFDI expansion. We thus propose that:

Hypothesis 1: A firm's state ownership will positively moderate the relationship between the speed of OFDI expansion and firm performance.

B. Government Affiliation

In many emerging markets, government affects business not only through owning the firm but also through firms' affiliation to the government. Firms' government affiliation level refers to the hierarchical ranks of the governments to which they are politically connected. The degree of the government affiliation level is idiosyncratic to firms. In China, for example, some firms are affiliated to higher-level government, which is usually the state or provincial level, and others are affiliated to lower-level government like the city or county level. Consideration of government affiliation is meaningful as it is conceptually different from SOEs in spite of similar effects on business. A SOE may be affiliated to a lower government level, whereas a private firm may be affiliated to a higher government level (Du and Girma, 2010). Neglecting the impact of government affiliation would downplay the role of government as private firms may also enjoy state favours and are compensated for the lack of resources. Compared with SOEs, government affiliation affects firms in an indirect way. Due to their close ties and relationships with government, firms are aware of government expectations and will factor those into managerial decisions. In return, these firms can enjoy favourable treatment. They also have access to critical resources for international expansion. For instance, it would be easier for them to obtain needed credit and foreign currency. In addition, firms closely tied to government have fewer bureaucratic hassles and are able to run business more smoothly. Their relational ties with the government help them maintain market power and legitimacy as well. More importantly, government, especially the high-level government, can provide their affiliated firms privileged information about foreign markets and business opportunities. For instance, China's official development aid is often conditional on the receiving country giving a project contract to a Chinese company (Zhang and Smith, 2017). Companies having a closer tie to the government will have a larger chance of winning such contracts. Thus, firms with government affiliation have greater reach for international markets. The higher government level, the more preferential support they can receive when they internationalize, and more effectively they can utilize a rapid OFDI expansion strategy. Based on the above analysis, we propose that

Hypothesis 2: Government affiliation will positively moderate the relationship between the speed of OFDI expansion and firm performance.

III. Data and Methods

A. Data Overview

We perform the empirical test using data on Chinese firms' OFDI. China provides an ideal setting for testing our theory because of the following reasons. First, the Chinese government proactively encourages Chinese firms to expand internationally through the "going global" policy (Buckley and Clegg *et al.*, 2007; Child and Rodrigues *et al.*, 2005; Wang and Hong *et al.*, 2012). The fact that the Chinese government has been playing an important role in firms' international expansion makes it particularly relevant to study the impact of government on the speed effect of OFDI.

Second, a large number of Chinese firms engaged in OFDI are SOEs. OFDI by Chinese firms started in 1978 when Open Door Policy and the economic reform began. Chinese international expansion has been gradual and incremental until the launch of the 'Go Global' policy initiated in 1999 to encourage Chinese firms to internationalize. For a long period of time, the OFDI state approval system effectively prohibited private firms from making OFDI (Buckley and Clegg *et al.*, 2007; Gaur and Malhotra *et al.*, 2013). Via this system, the Chinese government could directly select Chinese SOEs to invest in targeted industries and host countries. The system of OFDI based on verification and approval remained until 2014 when it was replaced by a registration system of simple notification. In spite of the ongoing OFDI liberalization, the Chinese government still keeps its interference in the internationalization process of Chinese firms given its importance for the achievement of Chinese policy objectives.

Third, aggressive internationalization of Chinese firms also makes China appropriate research setting for examining the effect of speed on performance. China has become one of the world's three most important source countries of FDI. In 1986, China accounted for 0.1% of global OFDI stock. This share rose to 10.4% by 2019 and Chinese OFDI was US $136.91 billion, ranking the second to the United States (see Fig. 1: Statistical Bulletin of China's Foreign Direct Investment in 2019).

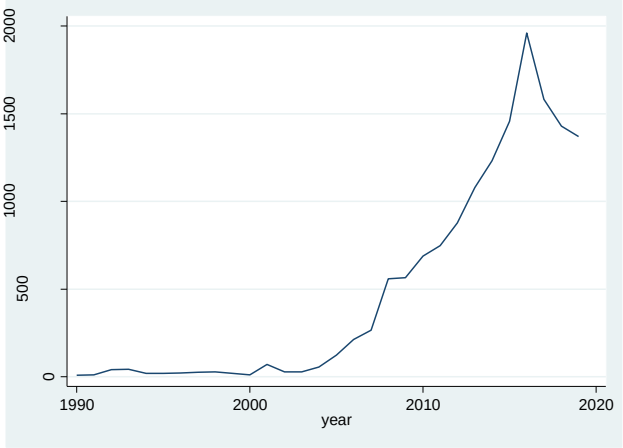

Fig. 1. Chinese OFDI from 1990 to 2019.

The comprehensive dataset we used in this study comes from multiple sources. The first source is the Annual Census of Industrial Enterprises (ACIE) compiled by the National Bureau of Statistics (NBS) of China. This comprehensive firm-level dataset covers both domestic and foreign firms with an annual turnover of more than 5 million Chinese Yuan (about US $60,000), accounting for 85–90% of the total output of manufacturing industries in China. ACIE provides detailed information on the name of firm, geographic location, establishment year, industry affiliation, ownership structure, the number of employees, and many operational and financial indicators.

The second dataset is about Chinese firms' OFDI. This dataset is from the Chinese Ministry of Commerce (CMOC), which provides detailed information on all Chinese firms' OFDI from 1970 to 2014. Specifically, the dataset includes the name of parent firms, the name of foreign subsidiaries, date of OFDI project, host country, and the nature of business. From this dataset, we are able to identify firms which have made OFDI, and more importantly we can measure the speed of Chinese OFDI expansion based on the information provided. After matching these two datasets, the final sample includes 11135 observations from 2000 to 2013.

B. Measures

The dependent variable is performance of firms making OFDI. Following the IB literatures, we use the financial measure, return on asset (ROA), as the primary measurement of performance. ROA, commonly used to analyse firm's profitability, measures how effectively a firm can earn a return on its investment in assets (Gao and Wang *et al.*, 2018; Hu and Cui *et al.*, 2019; Ma and Tong *et al.*, 2013). The ROA of firm *i* in year *t* ($\mathrm{ROA_{it}}$) is equal to net income divided by average total assets ($\mathrm{ROA_{it}} = \frac{\mathrm{Net\ Profit_{it}}}{\mathrm{asset_{it}}}$).

One of our key variables of interest is the speed of OFDI expansion. Following Chang and Rhee (2011), we define this variable as the average number of foreign subsidiaries in new countries divided by the number of years since a firm's first foreign expansion. By this definition, the *SPEED* variable is time-varying since a firm's total number of subsidiaries in new countries is updated at each year. The larger the value of the speed score, the more FDIs a firm made in new countries during the sample period.

Another two key variables of interest measure the degree of government involvement. Both variables are taken directly from ACIE. One variable *SOE* indicates whether a firm is state owned or not and the other variable affiliation measures government affiliation level. ACIE includes a variable that describes four levels of government affiliation: state, provincial, city, and county or below. A value between 0 and 3 is assigned to each level. The larger this value, the higher level to which the firm is affiliated. For instance, a value of 3 is assigned to firms affiliated to state government and a value of 1 to firms affiliated to city government.

We also include several control variables that affect firm performance. First, we control for firm size by using the number of employees, a commonly used measurement of size in the IB literatures. Larger firms usually have many advantages like more financial resources, stronger capabilities and larger bargaining powers when dealing with upstream and downstream business partners. But due to a natural limit on the amount of the benefits of size a firm could enjoy, we predict a curvilinear relationship between firm size and firm performance. That is, as size increases, firm performance increases at a diminishing rate. Second, Baum and Shipilov (2006) suggest that age has a positive relationship with firm performance since older firms usually have experiences and resources accumulated over time. Hence, we also incorporate a variable measuring firm age, which is equal to the number of years from its establishment year. Similar to the effect of size, Shinkle and Kriauciunas (2010) have documented a diminishing rate of age's positive effect on firm performance. We include the square term of size and age to capture their nonlinear effects on performance. In addition, since financial leverage may increase firm's ability to make OFDI, we incorporate it as well and operationalize it as the ratio of total debt to total assets. Finally, increased competitive pressure may push firms to enter international markets. To capture this effect, we construct a measure of competition for each industry by the Herfindahl industry concentration index of three-digit industry to which firm belongs.

Table I summarizes all the variables and provides descriptive statistics. As shown in the table, both state ownership and the government affiliation level are idiosyncratic to firms. We can also see that there is enough variation in all the variables. There are two sources of variations in the data: time variation (measurements of ROA and independent variables change over time) and cross-sectional variation (measurements of ROA and independent variables vary across firms).

TABLE I: DEFINITION OF THE VARIABLES AND SUMMARY STATISTICS

Variable	Measurement	Data source	Observation	Mean	Std. Dev.
ROA	return on asset	ACIE	11135	0.10	0.13
SPEED	the average number of foreign subsidiaries in new countries divided by the number of years since the firm's first foreign expansion	CMOC	11135	0.95	0.51
SOE	whether the firm is state owned or not	ACIE	11135	0.46	0.50
AFFILIATION	government affiliation level recorded in ACIE	ACIE	11135	0.14	0.49
SIZE	the number of employees	ACIE	11135	10.74	6.33
AGE	the number of years since established	ACIE	11135	2.44	0.55
LEVERAGE	the ratio of debt to asset	ACIE	11135	0.54	0.22
HHI	the Herfindahl industry concentration index of three-digit industries to which firm belongs	ACIE	11135	0.07	0.20

IV. RESULTS

We estimate a linear regression model. Table II reports the main results concerning how government involvement affects the OFDI expansion speed effect. Model 1 in Table II presents a baseline model which includes the main effect of OFDI expansion speed. As in the work of Chang and Rhee (2011), we do not propose a hypothesis about the effect of OFDI speed due to conflicting predictions for the impact of speed on firm performance in the literatures. The result shows that the coefficient estimate for *SPEED* is positive and insignificant, consistent with the ambiguous speed effect found in the literatures.

Models 2–4 test the interaction effects of the OFDI expansion speed with a firm's ownership status and affiliation level. In Model 2, we include the interaction term between the *SPEED* and the *SOE* variable. Model 2 tests Hypothesis 1, which predicts a positive interaction between the speed of OFDI expansion and a firm's SOE status. As shown in the second column of Table II, the coefficient of the interaction term between *SPEED* and *SOE* is positive and significant. This result supports Hypothesis 1, indicating that the speed of OFDI expansion positively affects firm performance for a firm that is state owned.

TABLE II: REGRESSION RESULTS

VARIABLES	(1)	(2)	(3)	(4)
SPEED	−0.004	−0.008***	−0.007***	−0.011***
	[0.002]	[0.003]	[0.003]	[0.003]
SOE	−0.002	−0.012*		−0.013**
	[0.003]	[0.006]		[0.006]
SPEED*SOE		0.009*		0.011**
		[0.005]		[0.005]
AFFILIATION	−0.014***		−0.021***	−0.022***
	[0.002]		[0.003]	[0.003]
SPEED*AFFILIATION			0.007***	0.008***
			[0.002]	[0.002]
SIZE	0.016***	0.016***	0.016***	0.016***
	[0.003]	[0.003]	[0.003]	[0.003]
$SIZE^2$	−0.001***	−0.001***	−0.001***	−0.001***
	[0.000]	[0.000]	[0.000]	[0.000]
AGE	−0.006	0.002	−0.006	−0.007
	[0.010]	[0.010]	[0.010]	[0.010]
AGE^2	−0.004*	−0.005***	−0.003*	−0.003*
	[0.002]	[0.002]	[0.002]	[0.002]
LEVERAGE	−0.169***	−0.169***	−0.169***	−0.169***
	[0.006]	[0.006]	[0.006]	[0.006]
HHI	−0.005	−0.010*	−0.006	−0.006
	[0.006]	[0.006]	[0.006]	[0.006]
Constant	0.140***	0.126***	0.138***	0.141***
	[0.036]	[0.027]	[0.031]	[0.032]
Year fixed effect	yes	yes	yes	yes
Observations	11,135	11,135	11,135	11,135
R-squared	0.095	0.093	0.095	0.096

The dependent variable is ROA. Robust standard errors are reported in brackets, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Results for the moderating effect of firms' government affiliation are reported in Model 3. The coefficient of the interaction term between rapid OFDI expansion and government affiliation is also positive and significant, supporting Hypothesis 2. This result means that rapid OFDI expansion is a better strategy for firms that have a higher government affiliation level.

In the last model, we include both interaction terms, and the results are consistent with those of the previous two columns where the interaction terms are individually added. As shown, rapid expansion has a positive effect on firm performance with the supportiveness of home country government, either in the way of state ownership or government affiliation. Therefore, both the hypotheses are confirmed again.

As for the control variables, most results are consistent with our expectations. The coefficients of the size and size-squared variables are significantly positive and negative respectively in all the models, suggesting that firm size has a U-shaped relationship with firm performance. However, the diminishing positive relationship with firm performance does not hold for age as the coefficients of the age variable are insignificant in all columns. For all the models, the financial leverage is negatively associated with firm performance. In contrast, HHI is insignificant in most models.

We have performed several tests to confirm the robustness

of our results. We first use various subsamples. Examining three randomly selected subsamples (90%, 80%, and 70% of the total observations, respectively), as shown in Table III, we find similar results with those estimated by using the full sample. We then use alternative measures for speed. Specifically, to put on more weights on more recent foreign investments, we measure speed using the number of foreign subsidiaries a firm established in the past three years. As shown in the first column of Table IV, again we obtain consistent results. Following study of Elango and Pattnaik (2007), we also lagged all independent variables by one year, taking into account that a firm's actions may take some time to influence OFDI. The results are reported in the second column of Table IV, which also remain stable compared with those of the baseline model.

TABLE III: ROBUSTNESS CHECK: DIFFERENT SAMPLES

VARIABLES	70% sample	80% sample	90% sample
SPEED	−0.012***	-0.011***	−0.012***
	[0.004]	[0.004]	[0.003]
SOE	−0.016**	−0.013*	−0.015**
	[0.007]	[0.007]	[0.007]
SPEED*SOE	0.012**	0.009*	0.012**
	[0.005]	[0.005]	[0.005]
AFFILIATION	−0.023***	−0.022***	−0.022***
	[0.003]	[0.003]	[0.003]
SPEED*AFFILIATION	0.007***	0.007***	0.008***
	[0.002]	[0.002]	[0.002]
SIZE	0.013***	0.015***	0.016***
	[0.004]	[0.004]	[0.004]
$SIZE^2$	−0.001***	−0.001***	−0.001***
	[0.000]	[0.000]	[0.000]
AGE	−0.019	−0.009	−0.013
	[0.012]	[0.011]	[0.011]
AGE^2	−0.001	−0.003	−0.002
	[0.002]	[0.002]	[0.002]
LEVERAGE	−0.173***	−0.168***	−0.169***
	[0.008]	[0.007]	[0.007]
HHI	−0.005	−0.008	−0.007
	[0.007]	[0.007]	[0.007]
Constant	0.136***	0.183***	0.149***
	[0.024]	[0.025]	[0.032]
Year fixed effect	yes	yes	yes
Observations	7,794	8,908	10,022
R-squared	0.102	0.096	0.094

The dependent variable is ROA. Robust standard errors are reported in brackets, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

TABLE IV: ROBUSTNESS CHECK: ALTERNATIVE MEASUREMENTS AND LAGGED VARIABLES

VARIABLES	Another Measure of Speed	Lagged Variables
SPEED	−0.004***	−0.009*
	[0.001]	[0.005]
SOE	−0.006	−0.018*
	[0.006]	[0.009]
SPEED*SOE	0.005*	0.013*
	[0.003]	[0.007]
AFFILIATION	−0.016***	−0.020***
	[0.002]	[0.004]
SPEED*AFFILIATION	0.002***	0.006***
	[0.001]	[0.002]
SIZE	0.015***	0.023***
	[0.004]	[0.005]
$SIZE^2$	−0.001***	−0.002***
	[0.000]	[0.000]
AGE	−0.005	−0.012
	[0.011]	[0.014]
AGE^2	−0.003	−0.001
	[0.002]	[0.003]
LEVERAGE	−0.170***	−0.146***
	[0.007]	[0.009]
HHI	−0.010	0.010
	[0.007]	[0.012]
Constant	0.138***	0.193**
	[0.034]	[0.077]
Year fixed effect	yes	yes
Observations	8,400	4,736
R-squared	0.098	0.088

The dependent variable is ROA. Robust standard errors are reported in brackets, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

V. CONCLUSION

Firms have been increasingly internationalizing operations through FDI. Given the high-commitment investment and high risk, it is extremely important for firms to make right FDI decisions. The speed of OFDI is one of such critical strategic decisions and yet it has not been intensively studied in the IB literatures. No unanimous conclusion has been reached in terms of the effect of speed on firm performance. Many IB studies posit that gradual internationalization is a wise choice as it can help firms accumulate experiences and manage the liability of foreignness more effectively. On the other hand, some researches argue that rapid OFDI expansion may enhance firm performance because of time-based competition and first-mover advantages. Chang and Rhee (2011) find that if firms have superior internal resources and capabilities or if firms are in industries with high globalization pressures, they will have good performance when they make OFDI rapidly. This study provides another condition under which fast expansion can affect performance positively, that is, the government support. Specifically, we find that rapid OFDI expansion more likely leads to better performance for SOEs and firms with a high level of affiliation to government. Government support can compensate for the lack of superior internal resources and capabilities. We test our framework using data on Chinese firm expansion. Given the active role of government in shaping firm behaviour and the fast internationalization of Chinese firms, China is an appropriate setting for examining this question.

Our paper makes several important contributions to theory and practice. The first area where we contribute concerns MNEs from emerging markets in Asia. In spite of increasing studies on Asian MNEs, yet knowledge of the internationalization process of Asian MNEs remains limited. Given the fact that many Asia MNEs are expanding fast, the results of our study help us further understand the business modes of OFDI from emerging economies in Asia. We also extend the literature on the role of government in the internationalization process by demonstrating the effects of state ownership and different government levels on the results of fast OFDI expansion. Finally, our research enriches the literature on the internationalization process by exploring a less studied topic, that is, the speed of OFDI. We address the gap by examining the impact of OFDI speed on firm performance combining insights from the institutional and resource-based theories. Our findings provide important insights to practitioners and policy makers as well. For policy makers, if they want to foster the establishment of internationally competitive firms, necessary support for entrepreneurs is necessary, especially for firms in emerging economies. For MNEs, if they are private firms which do not have a close tie to government, they should be more cautious in their internationalization process, that is, gradual approach may be a better option.

CONFLICT OF INTEREST

The author declares no conflict of interest.

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