



The Learning Effect on Business Groups' Subsequent Foreign Entry Decisions into Transitional Economies

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Abstract

Organizational learning theory has been extensively employed in many subfields of management studies. While scholars have demonstrated that international experience facilitates decisions on foreign direct investment, few studies have explored the influences of various experiences from multiple sources within and across organizational boundaries. Specifically, this study aims to examine how intra/inter-organizational experiences of internationalization affect the likelihood that a member firm in a business group will conduct subsequent FDI in a transitional economy and how managers weigh a variety of experiences that come from multiple sources at different levels. By analyzing the FDI data of Taiwanese electronics firms in China from 1993 to 2004, we confirm that both the experiences shared among peer subunits within a business group and the spillover experiences from industrial competitors and collaborators increase the likelihood that a focal firm will make subsequent investments in a transitional economy. However, when presented with various experiences, only country-specific experiences and the experiences of horizontal peer subunits within a business group maintain positive influences on focal firms' subsequent entry decisions. In contrast, managers tend to ignore international experiences that are dissipated at the industry level. The findings deepen the academic understanding of intra-and inter-organizational learning behavior regarding the international expansion of business groups.

Keywords: International experience, organizational learning, FDI, business group

1. Introduction

The international expansion of firms has been an interesting and important research topic in the international management and strategy fields (e.g. Hymer, 1960; Johanson and Vahlne, 1977; Dunning, 1980; Yu, 1990; Li, 1994; Chetty and Eriksson, 2002; Al-Laham and Amburgey, 2005). Early scholars, such as Hymer (1960), Buckely and Casson (1976), and Dunning (1980), took a static analysis approach to exploring the determinants of foreign direct investment (FDI). These studies considered each foreign entry as an independent decision, but ignored the influence of accumulated knowledge and experience that was gained from prior entries on subsequent foreign investment (Lu, 2002; Carlsson et al., 2005; Qian and Delios, 2007).

Theoretically, transaction cost economics (TCE), one of the dominant theories explaining firms' FDI behavior, views each foreign entry as an independent transaction (Anderson and Gatignon, 1986), in which FDI is a preferable form of entry when the costs associated with an

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individual transaction are high. Although theories based on such economic rationales received prevalent support from empirical evidence, the static perspective overlooks the possible linkage between early entries and subsequent ones (Lu, 2002), and thus fails to capture the full dynamics of a series of foreign entry decisions. Specifically, one may cast doubt on the applicability of these economic theories when considering a series of foreign investments.

Taking a process perspective, scholars (i.e. Johanson and Vahlne, 1977; Chang, 1995; Pedersen and Petersen, 1998; Eriksson and Chetty, 2003) viewed FDI as an incremental process. In accordance with the process view, some FDI literature (i.e. Yu, 1990; Li, 1994; Eriksson and Chetty, 2003; Carlsson et al., 2005) particularly emphasized the role of international experience, which is regarded as a valuable firm resource facilitating the internationalization process. Under the constraints of information and market attractiveness, the FDI choice is affected by firms' current and potential buyers, rival suppliers, and non-competing suppliers (Martin et al., 1998). If firms decide to invest in the host country, they may take the "follow the leader" strategy, through learning the operational experience from competing rivals and/or non-competing suppliers that have already entered the host country. It would be beneficial for firms to learn from other pioneering firms' experiences, in order to reduce market risk and increase their survival probability in the host country (Shaver et al., 1997; Martin et al., 1998).

Our assessment of the literature regarding knowledge and experiential effects on FDI shows that the focus has been primarily on the entrants' performance and survival (e.g. Sapienza et al., 2006), the entry modes (e.g. Dikova and Witteloostuijn, 2007), ownership structures (e.g. Mani et al., 2007), entry timing (e.g. Sapienza et al., 2006), and the location choices (Ito and Rose, 2002), with few relating to shareholder valuation (e.g. Berry, 2006) and institutional adaptation (e.g. Delios and Henisz, 2003). Two distinctions are featured in the literature: First, the learning behaviors and experiential effects on FDI were typically examined within a single organizational context-intra-organizational learning and experiences rather than inter-organizational learning. This has drawn the attention of international business researchers. In particular, inter-organizational learning and experience-sharing in a large, systematic consortium of corporations are rarely investigated. Second, although perspectives such as oligopolistic interaction view the interaction between firms and their industrial peers, including collaborators and competitors, as an important driver of FDI, the learning perspective has not been employed to study the phenomenon of FDI following the collaborators and competitors.

Theorists have asserted that decision-making is bounded to rationality (e.g. March and Olsen, 1979), which implies that it is unlikely for managers to conduct sophisticated calculations for every foreign entry in a series of FDI decisions. Under such a circumstance, some FDI decisions may essentially depend on the recognition and logic built up by prior experiences and accumulated knowledge (Kumar and Subramaniam, 2001; Mudambi and Mudambi, 2002; Barkema and Drogendijk, 2007). Along this line of argument, researchers (Barkema and Vermeulen, 1998) have proposed the use of organizational learning perspective to explain firms' sequential FDI behavior and their relevant decisions, such as entry mode choices. Nevertheless, literature on this topic is still rarely seen.

The MNE is typically considered as a network, in which knowledge is created in various parts of the MNE and transferred between inter-related units (Bartlett and Ghoshal, 1989; Minbaeva et al., 2003; Lindstrand et al., 2009). Therefore, researchers suggested that flows of knowledge can be studied from different levels of analysis: Nodal (individual subunits), dyadic (joint behavior of unit pairs), and systematic (entire network) (Gupta and Govindarajan, 2000). In spite of this research proposal, two literature gaps remain.

Studies that simultaneously investigate knowledge sharing across multiple levels, including inter- and intra-organization, seem rare. In addition, researchers pay little attention

to the interflows of knowledge in a particular, albeit important, form of MNE: The business group.

The existence of business groups characterizes the economies of Asian, in countries such as Japan, Korea, and Taiwan (Hamilton and Kao, 1990). In a business group, social and economic embeddedness among member companies has helped to coordinate and harmonize critical decisions from different units (Luo and Chung, 2005; Smångs, 2006). As a result, the decision-making process within a business group might contradict the view held by some economic theorists who assume independence of each foreign entry decision. While scholars pay much attention to the effects of firm-level and industry-level experience on FDI, few studies demonstrate that the business group-level experience may also be crucial to the decision-making for FDI (Guillén, 2003), especially for firms in East Asian countries (Chang, 1995). Network studies show that organizational units could produce more innovations and enjoy better performance if they occupy at a central position that provides access to new knowledge developed by other units (Tsai, 2001). Following this logic, the knowledge sharing platform provides firms within a business group with necessary country-specific experience. Therefore, it facilitates the decision-making of initial and subsequent investments in the host country. Given its theoretical significance and practical relevance, the experiential effect of inter- and intra-business groups on member firms' FDI decisions deserves systematic and in-depth analysis.

For historical reasons, the relationship between Taiwan and China is not analogous to that between Hong Kong and China. Since Hong Kong was returned to China from Great Britain in 1997 and became a special region of China, Hong Kong's direct investment into China should no longer be regarded as FDI. In contrast, Taiwan is still an independent political entity and the political tension between Taiwan and China still exists to some degree. Fortunately, the economic ties have largely eased political tensions over the past two decades when the Taiwan government started to permit FDI in China in 1993. Though the potential political confrontation implies a higher level of investment risk for Taiwanese MNCs than for Hong Kong's MNCs, Taiwanese FDI in China has considerably increased over the past two decades. A recent study on Taiwanese business groups indicated that FDI in China accounts for more than 57% of all FDI taken by Taiwanese business groups during the years of 1973-2003 (Yang and Chen, 2007). The flourishing FDIs from Taiwanese business groups to China provide an adequate sample for observing the behavior of subsequent investments.

In light of the literature gaps, this study, with the process view of a firm's FDI (Johanson and Vahlne, 1977; Chang and Rosenzweig, 2001; Eriksson and Chetty, 2003), aims to examine the learning effect of international experience from multiple sources within and outside of business groups on subsequent foreign entry decisions. Specifically, we study two research questions. First, do intra- and inter-organizational experiences of internationalization correlate with the likelihood of subsequent FDI conducted by a member company in a business group? Second, given multiple sources of international experiences from outside of and within a business group, how does a focal firm in a business group weight those experiences? In the following sections, we first review the literature to develop a set of hypotheses that postulate the connections between varied international experiences and subsequent FDI decisions. Through a vector of the entire business group-level, business-level, and industry-level factors, we then examine the hypotheses on a sample of Taiwanese electronics firms that are member companies of business groups and have invested in the transitional economy of China. Finally, we discuss the findings and give our concluding remarks.

2. Literature and hypotheses

2.1 Organizational learning and international expansion

Organizational learning is an act taken to develop the linkages, knowledge and insights between past outcomes and future actions (Crossan et al., 1999). In other words, knowledge and experiences gained from past actions are important input to initiate the process of learning within an organization (Szulanski, 1996). Specifically, theorists have asserted that the nature of knowledge is frequently experiential (Levitt and March, 1988); it can be accumulated incrementally over time (Kogut and Zander, 1993). Therefore, experience is a major, direct, and effective source of organizational learning (Barkema and Vermeulen, 1998). In addition, experiential learning is not confined to organizational boundaries (Lyles, 1994; Delios and Henisz, 2000) but it often happens inter-organizationally.

In addition to experience, the imitation of strategies or moves devised by other organizations is another important source of organizational learning (Lyles, 1994). Because prior moves provide information and clues for decision makers to reduce uncertainty (Levitt and March, 1988), the imitation of past actions that have proven successful legitimizes an organization's decisions when faced with a high degree of uncertainty (DiMaggio and Powell, 1983). Since firm internationalization is deemed to be a highly risky investment, especially when the target host country is experiencing a radical transformation from a planned economy to a free market (Brouthers, 2002), following the step of early entrants inside and/or outside of the organization becomes a reasonable approach for international expansion. However, very few studies have confirmed this phenomenon in the context of business groups (Guillen, 2002).

The process view of firm internationalization (e.g. Johanson and Vahlne, 1977; Chang and Rosenzweig, 2001) deals with knowledge acquisition, i.e., with learning (Forsgren, 2002). How MNCs learn and how their learning influences subsequent foreign investment behavior is the central issue for the model (Johanson and Vahlne, 1977, 1990). This model argues that MNEs could accumulate knowledge and experience by operating abroad. Therefore, the learning effect allows a firm to incrementally become involved in foreign operations (Carlsson et al., 2005). Overseas experiences not only strengthen firms' capabilities that escalate firms' commitment in foreign markets (Delios and Henisz, 2000), but also generate spillover information that has reference values for later entrants that increase their probability of survival (Shaver et al., 1997) and their performance in a host country (Carlsson et al., 2005). The empirical evidence has demonstrated a learning mechanism that transforms foreign investment experience into organizational capabilities, which, in turn, affect the decisions of subsequent foreign entries (Sapienza et al., 2006).

2.2 Organizational learning on FDI behavior within business groups

A stream of literature on organizational learning argued that the transfer of knowledge and experiences may not be as smooth as it is generally presumed (Szulanski, 1996; Jensen and Szulanski, 2004). For example, the internal stickiness of knowledge transfer can easily arise from such impediments as causal ambiguity, the lack of motivation of knowledge providers and recipients, and an arduous relationship (Szulanski, 1996). In spite of these impediments in knowledge transfer, sharing experiences and knowledge regarding foreign host countries within business groups could be different as discussed below. Although a business group, by definition (Chung, 2001; Yiu et al., 2005), is comprised of at least two legally independent business entities, the member companies are socially and economically embedded such that their crucial decisions are often interdependent and harmonized. Accordingly, scholars regard

a business group as a typical form of an intra-organizational network (Tsai, 2000), where each member unit is a node of the network. In the internal network, foreign investment experiences and knowledge about industries and specific host countries are turned into the inputs of the organizational learning process, thereby forming a knowledge network. Such a knowledge network serves as a platform that facilitates the exchanges of knowledge and experiences when member firms call for information regarding overseas investment. The learning behavior may ultimately be exhibited in imitation among subunits within a business group (Guillén, 2003).

According to Yiu et al. (2007), business groups were classified into four categories based on two dimensions: External contexts and internal mechanisms. The four categories are the network (N-form), club (C-form), holding (H-form), and multidivisional (M-form) category. Among the four types of business groups, Taiwanese business groups, also termed *guanxi qiye*, are classified as an example of N-form business groups. This type of business group is essentially a network where one firm plays the dominant role by concentrating on one industry while a number of individual firms engage in the partnership as suppliers of technology, intermediate products, and other functions as well (Yiu et al., 2007). As stated earlier, the organizational reliance on social ties, in addition to economic exchanges, is one of the characteristics that differentiates a business group from a typical multinational corporation or a holding company as they occur in North America (Yiu et al., 2007). The central actor has a higher degree of autonomy and the central actor's relative position in a structural hole allows primacy in controlling resources and information (Burt, 1983) so as to influence other member firms in the social network (Yiu et al., 2007). With ownership and non-ownership control, the substantial owners of business groups manifest their influential power in a way that differs from the decision-making behavior of independent CEOs in western MNCs. Specifically, it is believed that the features of cross-holding, interlocking directorates, and social ties all facilitate the experiential learning and knowledge-sharing that goes on among affiliated companies on such critical decisions as FDI (Granovetter, 1994; Yiu et al., 2007).

Organizational boundaries define the learning domains. Although a business group is composed of a number of legally independent business entities, legal boundaries may be blurred by the ownership and non-ownership characteristics of a business group. Santos and Eisenhardt (2005) proposed four conceptions of organizational boundaries: Efficiency-based, power-based, competence-based, and identity-based boundaries. They conceptualize the power-based organizational boundaries as a sphere of organizational influence in which organizational actors may choose to influence other organizations not only through ownership mechanisms that expand vertical and horizontal boundaries, but also through non-ownership mechanisms such as board appointments, alliances, and friendship ties. The power conception moves beyond dyadic forms of non-ownership mechanisms to the role of network structural positions. The central actors (i.e. the control family or groups of elite owners/managers) exert their influences on a business network through either ownership or non-ownership mechanisms, such as cross-holding (ownership), interlocking directorates, and/or social ties (non-ownership). Therefore, this power conception helps delineate the organizational boundaries of a business group and justify the view that inter-unit learning within a business group is essentially intra-organizational learning.

It is quite common that top management teams (TMTs) of different subunits in a business group are highly affiliated and interactive, with a high proportion of cross holding of equity (Granovetter, 1994; Chung, 2001). Since top management teams play an imperative role in defining organizational boundaries and establishing knowledge structure for organizations, the close relationship (interlocking directorship and cross shareholding) between different TMTs helps to transmit implicit knowledge regarding overseas markets (Ghoshal et al., 1994; Yiu et al., 2007). In such an organizational learning circumstance, following the experiences

of prior successful foreign entry becomes prevalent because it legitimizes the decision being made and increases the probability of survival in an unfamiliar environment (Klimecki and Lassleben, 1998).

Some researchers have investigated the factors that affect firms' FDI strategy. Empirical results indicate that firms with more international experiences have a higher tendency to prefer global expansion (Yu, 1990; Li, 1994; Tuppura et al., 2008). In addition, the experience effect will improve the chances of success for subsequent investment (Li, 1995; Barkema and Drogendijk, 2007). Chang (1995) proved that firms could benefit from international expansion experiences so as to overcome the difficulties of subsequent investment and then to accelerate the decision-making process of subsequently investing in the host country. Therefore, we hypothesize the following:

H1a: The more general international experience that a business group has, the higher is the likelihood that the focal firm in the business group will make a subsequent investment.

H1b: The more experience that a business group has in investing in a specific transitional economy, the higher is the likelihood that a focal firm will make a subsequent investment in that transitional economy.

Relative to general experiences, experiences regarding a specific industry or a host country that managers are evaluating for possible foreign entry are more finely applicable to the decision context. Therefore, decision makers attach more importance to specific experiences (Padmanabhan and Cho, 1999; Cho and Padmanabhan, 2001). Furthermore, a reference pool containing specific experiences provides clear and unbiased organizational memories of high credibility, which induces subsequent entrants to imitate. Haunschild and Miner (1997) classified organizational imitation into three categories: Frequently-based, trait-based, and outcome-based. An imitation based on the similarity between the referring subject and the referred subject is the so-called "trait-based" imitation (Haunschild and Miner, 1997); this is empirically supported (Henisz and Delios, 2001).

Imitation as a form of organizational learning is not necessarily limited to a narrow segment of businesses, but rather often happens to a broader domain of related businesses, i.e., to a supply chain. The sharing of knowledge among supply chain members has been proposed by many researchers (Cooper et al., 1997; Manrodt et al., 1997; Lindstrand et al., 2009) and is seen as being very important (Wang et al., 2008). Also, this phenomenon was found in the business group context, meaning that a firm acquires relevant knowledge and experience from others in the same business group and this sharing behavior may affect the firm's foreign expansion (Guillén, 2002). Hence, we expect that the effect of international experiences in peer subunits, which are horizontally or vertically related to the focal firm in a business group, will be manifested on the decision of subsequent entry into transitional economies. We propose the following hypotheses, H2a and H2b:

H2a: The more experience of a specific transitional economy member companies that are horizontally related to the focal firm in a business group have, the higher is the likelihood that the focal firm will make subsequent investments in the transitional economy.

H2b: The more experience of a specific transitional economy member companies that vertically served either as the suppliers or as the clients of the focal firm in a business group have, the higher is the likelihood that the focal firm will make subsequent investments in the transitional economy.

In contrast, we argue that the effect of the international experience of unrelated member companies, in terms of connections within a supply chain, on the focal firm's decision of foreign entry is not as evident as that of related member companies. Thus, we add as follows:

H2c: The effect of the international experience of member companies in the same supply chain on the focal firm's decision of subsequent foreign entry outweighs that of unrelated member companies.

2.3 Organizational learning on FDI behavior outside of business groups

Often, imitations take place beyond organizational boundaries. Among Haunschild and Miner's (1997) classification of organizational imitations, outcome-based imitation is adopted on the assumption that strategies formulated by successful firms are effective. When firms face a highly uncertain and unfamiliar decision context, they tend to imitate other firms' strategies that have proven successful (Lu, 2002). Over time, an increasing number of firms in an industry become homogeneous as a result of imitation, a phenomenon described as "mimetic isomorphism" by DiMaggio and Powell (1983).

In line with the ecological perspective, a member firm may not only refer to the international experiences of affiliated companies within its business group when making decisions regarding foreign entry, but may also observe the frequency and outcomes of foreign entries taken by industrial counterparts outside of its business group. Lu (2002) confirmed such an inter-organizational imitation, on the bases of the frequency and success on foreign entry behavior of Japanese MNEs in the same industry. Similarly, Barkema et al. (1996) found that late entrants into a specific host country tend to imitate the entry modes of early entrants in that country.

Forsgren (2002) reviewed in detail the concept of learning in the Uppsala internationalization process model and pointed out that "organizations, through their business relationships, can gain access to the knowledge of other firms, without having to go through exactly the same experiences as these firms." (Levitt and March, 1988; Eriksson et al., 1997, 1998; Hansen, 1999; Kraatz, 1998; Kumar and Nti, 1998; Lane and Lubatkin, 1998). Access to a network of business relationships creates the opportunity to learn from other firms (Burt, 1983). Deep and long-lasting business relationships in a business network will facilitate the assimilation of tacit knowledge from different actors in the network (Uzzi, 1996; Andersson et al., 2001).

Beyond the ecological and social relation perspectives, early researchers employed the notion of oligopoly reaction to explain why firms follow rivals into foreign markets (Knickerbocker, 1973). Major firms in an oligopolistic industry closely watch the strategic moves of other firms; once a competitor expands into a certain international market, the others are likely to follow in pursuit of those market opportunities. Knickerbocker's argument has been supported by a few empirical studies over the years (e.g. Yu and Ito, 1988; Martin, et al., 1998).

H3: The likelihood that a member firm will make subsequent entry into a host country increases with the level of the presence of its horizontal competitors in that host country.

In examining regional advantages, Saxeninan (1994) has provided evidence that managers are highly cognizant of the benefits of interfirm knowledge spillovers and of the fact that these knowledge spillovers tend to be geographically clustered. Accordingly, it is expected that managers are likely to take future spillover potential into account when they make decisions regarding where to locate the business (Feinberg and Gupta, 2004). The 'clustering effect' also plays an important role when firms consider following their competitors and/or collaborators to expand abroad to the same location.

Based on the constraints of information and the market, Martin et al. (1998) inferred that following the move of overseas investment of noncompeting suppliers not only reduces investment risk in the host country, but also avoids losing customers that are already served. Firms often pay more attention to the actions of rivals than to those of non-competing

suppliers and customers; however, if a buyer starts to expand to a new location, the supplier only has a short time to make an investment decision for two reasons. First, the buyer needs to identify suppliers for each component before the buyer starts its own production operations on a commercial scale. Having all of components before the orderly production of a product or service begins is a requirement in many industries (Masten et al., 1991). Second, the buyer must arrange suppliers for the components involved in its product range quickly because investments in setting up new operations cannot begin to pay themselves back until commercial production begins. The opportunity of a firm closes as the buyer identifies a full component of suppliers in the host location. Therefore, as suppliers detect that its buyers are expanding into a new location, the suppliers will follow the buyers in order to invest in the new location quickly (Martin et al., 1998). Empirical evidence also shows that firms leverage their external linkages as they make the decision of the FDI location (Chen and Chen, 1998). We, therefore, hypothesize the following:

H4: The higher the level that vertical collaborators (i.e. suppliers and clients in the home country) outside of the business group invested in a specific transitional economy, the higher is the likelihood that the focal firm will make subsequent entry into that transitional economy.

3. Methodology

3.1 Sample

In this study, we utilized the data collected from the official annual reports of the Business Operation Investigation in China published by the Taiwan Investment Commission. We consider this dataset to be one of the most reliable data sources available to researchers for two reasons. First, since FDI in China is still under the strict regulations of the Taiwan government, the chance that our sample firms took undercover FDI in China is low. The Taiwan Investment Commission maintains the most up-to-date and complete FDI records of Taiwanese firms than any other data sources. Second, because all of our sample firms were publicly listed on the Taiwan Stock Exchange, they were supposed to have fully disclosed crucial information regarding their foreign investment.

According to the official annual reports of the Business Operation Investigation in China, the percentage of Taiwanese electronics firms investing in China was less than 20% until 1996. During the period of 1996 to 2002, the percentage began to rise to 60%. Since most cases of FDI took place after 1993 when Taiwanese firms were legally permitted to invest in China, the data exhibits an obvious left-skewed distribution. Due to data availability and the need to normalize the distribution, we chose the sample period to be 1993-2004, leaving very few cases truncated. In totally, we collected eighty-three listed firms: Thirty-five from the printed circuit board industry, eleven from the motherboard industry, twenty-four from the switching power supply industry, and the remaining thirteen from the personal computer (PC) industry.

Since we utilize the survival model to estimate the likelihood of subsequent entry, the unit of analysis in this study is not a business group but the FDI events of a member firm in a business group. Therefore, we need to pre-select a focal firm in a given business group. A focal firm is generally one of the core companies of a business group and its main business should be related to one of the four pre-defined industries. A filter process for our sample selection guaranteed that all business groups had no more than one listed firm in a single industry during the sample timeframe.

In accordance with the specification of a survival model, we need to divide the selected time frame (ten years) into several time segments (also called “time spells”) by FDI events for each observed firm. The number of time spells for each sample firm was equal to the number

of FDIs, plus one. For example, if firm A invested in China three times in 1999, 2002 and 2003, the number of time spells for firm A would be four. In a similar vein, if firm B recorded two instances of FDIs in China, its timeframe would be divided into three time spells. If a sample firm made no investment in China during the sampling period, the number of time spells for this firm would be one. Then, an individual time spell was set as the unit of analysis in the survival model. The procedures of processing data followed Chang's study (1995). In sum, we collected 157 FDI events from 83 listed firms and we partitioned the data into 213 time spells for analysis. All sample focal firms were manufacturing firms and were affiliated into business groups.

3.2 Measures

3.2.1 Dependent variable

The dependent variable of our survival model is the likelihood that the focal firm reinvests in China, and it is coded as a dummy variable (0, 1).

3.2.2 Independent variables

General international experiences of a business group

Following Contractor and Kundu (1998), the general international experiences, excluding the self-experience of the focal firm, shared among members of a business group was measured by the number of years since the year of the first foreign entry of the affiliated companies in non-Chinese regions until the last year of the corresponding time spell; the longer the years, the higher is the level of knowledge sharing among the member firms. The second proxy measured the number of entries of a business group into China prior to the last year of the corresponding time spell; the higher the number of prior entries of a business group, the higher is the level of knowledge sharing among member firms. China as a suitable representative of a transitional economy was widely recognized and set as a research context (Child and Tse, 2001).

Experiences of member companies within a business group

For testing hypotheses *H2a* through *H2c*, we further divided the general experiences of a business group as a whole into three experience pools: experiences of horizontally-related, vertically-related, and unrelated member firms. The experience level of horizontally-related member firms was measured by the number of member firms in the same business (e.g. power supply business) that have already invested in China before the last year of the corresponding time spell. Likewise, we separately computed the numbers of firms that were vertically-related or unrelated to the focal firm and have conducted FDI in China as the surrogate of the experience levels of the remaining two reference pools. All three experience pools exclude the self-experience of the focal firm.

Experiences of competitors and collaborators outside the business group

We measured the country-specific experience at the industry level by calculating two ratios: the numbers of horizontal competitors and vertical collaborators, separately, that have invested in China, to the total number of firms in the industry.

3.2.3 Control variables

We incorporated six control variables into the models, in order to mitigate their possible influences on the findings. Past studies demonstrated that firms with more resources and superior capabilities are more willing to expand abroad (e.g. Tan and Vertinsky, 1996). As has often been done in prior studies, we measured a firm's resource stock by the two proxies of the total number of employees and the earnings per share (EPS). We also utilized the percentage of research and development expenditure (R&D intensity) and the percentage of

advertising expenditure (marketing intensity) as the surrogates of firm capabilities. In the internationalization literature, innovation and marketing capability are regarded as two of the most important capabilities reflecting the firm-specific advantages (FSAs) of MNEs, which allow firms to compete abroad (Caves, 1996). From the angle of corporate governance, internationalization is sometimes a reflection of the will of policymakers such as CEOs or TMTs (Baysinger and Hoskisson, 1990; Tihanyi et al., 2003). Thus, we controlled for the impact of different CEOs and general managers on the FDI decisions of the focal firm with a dummy variable, coded 0, for the same CEO/general manager and 1 for the situation in which the CEOs/general managers would change hands in a time spell. Finally, since experiences outside of the studied host country (i.e. China) may also have impacts on subsequent entry decisions, we counted the numbers of countries in Southeast Asia where sampled business groups have taken FDIs. The reason for taking experiences in Southeast Asia into account is that countries in this region have received the second largest amount, next to China, of capital from Taiwanese firms.

3.3 Statistical model

We build a survival model of hazard rate (Cox and Oakes, 1984) in order to estimate the probability that a focal firm will reinvest in China. In a survival model, the time spells need to be created as the unit of analysis. We devise seven models to examine the proposed four hypotheses. The first model contains control variables only, which is followed by models two through five, each for the validation of hypotheses one through four, respectively. Models six and seven aim to provide overall examinations of the four hypotheses, which incorporate all of the independent variables except the variables “competitors’ China experience” and “collaborators’ China experience”; this is due to the multi-collinearity concern.

4. Results

Table 1 shows the descriptive statistics and correlation matrix for the main variables. The correlation matrix suggests a moderate level of collinearity among the various measures of international experience. Although there is relatively little concern with regard to the collinearity problem when applying a discrete choice model, we still separately incorporated the two experience variables of horizontal competitors and vertical collaborators into different models so as to alleviate the potential collinearity problem due to their high correlation.

Table 2 presents the results for the repeated hazard model (Cox and Oakes, 1984) from the entire set of independent time spells. Model 1 only incorporated control variables as the base model. First, the two experience variables of a business group as a whole were added to Model 2. The results show that the probability of a focal firm making subsequent FDI in China significantly increases with the level of a business group’s China experience ($p < 0.01$), but not with general international experience. Therefore, *H1b* is supported, while *H1a* is not.

Model 3 incorporated three experience variables of related/unrelated business sectors within a business group. Of the three experiential reference pools, the same business experiences of the affiliated companies already investing in China significantly ($p < 0.01$) receives more weight as compared to the remaining two vertically-related and unrelated business experiences from the focal firm when evaluating subsequent FDI in China. The significantly positive coefficient indicates that the likelihood of a focal firm making subsequent FDI in China significantly increases with the level of horizontal peer subunits’ China experiences. Therefore, the statistical results support hypothesis *H2a*, but do not support hypotheses *H2b* and *H2c*.

With respect to the experiential influences at an industry level, we found that both the experience levels of horizontal competitors and vertical collaborators demonstrate

significantly positive effects ($p < 0.01$; $p < 0.01$) in models four and five, respectively, on the likelihood of a focal firm making subsequent FDI in a transitional host country. Hence, *H3* and *H4* are both supported.

To compare the relative importance of general experiences versus specific experiences at different levels, we devised two aggregated models: Models 6 and 7. In Model 6, we incorporated all of the experience variables, except for the one for vertical collaborators in industry due to its apparent multicollinearity with the horizontal competitors' variable. Similarly, in Model 7, we retained all of the experience variables in the model except for replacing the experience variable of horizontal competitors with one of vertical collaborators. Both models show consistent results that a business group's China experience as a whole and the experiences of horizontal peer subunits still maintain their significantly positive influence on the likelihood of subsequent foreign entry. However, the experiences of industrial competitors and collaborators become insignificant. The results suggest that when presented with international experiences from multiple sources, a focal firm will tend to attach more importance to the experiences that are specifically related to its business or the target host country as opposed to those that are general or unrelated. As a result, hypothesis *H2c* is supported.

Of all of the control variables, both proxies of firm resource stock, i.e., the number of employees and EPS, consistently demonstrated a significantly positive ($p < 0.01$) effect on the probability of subsequent foreign entry of a focal firm in all models. Nevertheless, the experiences from prior FDI in the Southeast Asian countries have a consistently and significantly negative effect on the subsequent entry of a focal firm into China. The result seems to suggest that, on a post hoc hypothesis, the phenomenon of escalating commitment in FDI location choices of Taiwanese manufacturing firms.

5. Discussion and conclusion

This study investigates the learning effect of prior FDI experiences, shared from multiple intra/inter-organizational sources, on the subsequent entry decision of a focal firm affiliated in a business group which has invested in a transitional host country. From the organizational learning perspective, we argue that both the experiences shared among peer subunits within a business group and the spillover experiences from industrial competitors and collaborators positively stimulate a firm in a business group to conduct subsequent FDI in the transitional economy. While the empirical evidence essentially supports our perspective, managers do not give equal weight to experiences of various reference pools. We elaborate our findings further in the following discussion.

Table 1. The correlation matrix of variables.

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1. R&D intensity	1.54	1.90	1.00												
2. EPS	1.86	2.65	0.14*	1.00											
3. AD intensity	0.02	0.02	- 0.19*	- 0.04	1.00										
4. # of employees	1278.6	2536.82	0.09	0.13	0.20**	1.00									
5. FDI countries in S.A.	0.40	0.87	0.09	0.04	- 0.04	0.51**	1.00								
6. CEO	0.08	0.28	0.07	- 0.04	0.03	0.10	0.11	1.00							
7. General exp. of BG as a whole	5.36	6.37	0.22**	0.12	- 0.04	0.59**	0.65*	0.17*	1.00						
8. China exp. of BG as a whole	1.12	1.24	0.19**	0.23**	- 0.21*	0.23**	0.34**	0.33**	0.46**	1.00					
9. China exp. of same business	0.14	0.49	0.15*	0.11	0.03	- 0.04	0.23**	- 0.02	0.15*	0.03	1.00				
10. China exp. of related peers	0.46	1.88	- 0.04	- 0.03	-0.03	- 0.03	0.27**	0.15*	0.20**	0.17*	0.08	1.00			
11. China exp. of unrelated peers	0.73	2.95	0.04	- 0.05	- 0.02	0.08	- 0.06	- 0.01	- 0.02	-0.01	0.17*	0.14	1.00		
12. China exp. of competitors ^a	- 1.09	0.95	0.26	0.15	- 0.16*	0.23**	0.13	0.22**	0.30	0.67**	0.07	0.05	0.07	1.00	
13. China exp. of collaborators ^a	-1.16	1.00	0.28**	0.15*	-0.15*	0.13	-0.01	0.16*	0.16*	0.56**	-0.06	-0.05	-0.05	0.88**	1.00

Notes:

a: Natural log; “BG” stands for business group and “exp.” stands for experience

**.correlation is significant at the 0.01 level (2-tailed); *.correlation is significant at the 0.05 level (2-tailed).

Number of firms = 83; number of FDI events = 157; number of time spells = 213

Table 2. The statistical result of the Proportional Hazard Model.

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
R&D intensity	0.071 (0.043)	0.061 (0.042)	0.067 (0.045)	0.048 (0.045)	0.048 (0.044)	0.05 (0.045)	0.047 (0.045)
EPS	0.087 (0.03)	0.056 (0.03)	0.085*** (0.03)	0.083*** (0.03)	0.084*** (0.031)	0.058* (0.031)	0.061* (0.032)
AD intensity	2.733 (3.974)	5.199 (3.99)	1.461 (4.101)	7.011* (4.165)	5.928 (4.063)	5.562 (4.242)	5.507 (4.179)
# of employees	0.000 (0.000)	0.000 (0.000)	0.000*** (0.000)	0.000* (0.000)	0.000** (0.000)	0.000*** (0.000)	0.000*** (0.000)
FDI countries in S.A.	- 0.129 (0.117)	- 0.275 (0.126)	- 0.192* (0.119)	- 0.132*** (0.305)	- 0.187* (0.12)	- 0.339*** (0.129)	- 0.352*** (0.129)
CEO	0.263 (0.292)	- 0.317 (0.31)	0.321 (0.293)	- 0.038 (0.305)	- 0.025 (0.31)	- 0.307 (0.317)	- 0.322 (0.318)
General experience of BG as a whole (H1a)		0.006 (0.019)				0.009 (0.019)	0.007 (0.019)
China experience of BG as a whole(H1b)		0.432 (0.088)				0.350*** (0.107)	0.358*** (0.101)
China experience of the same business (H2a)			0.528*** (0.189)			0.487*** (0.186)	0.530*** (0.185)
China experience of related peers (H2b)			0.051 (0.054)			0.058 (0.048)	0.062 (0.049)
China experience of unrelated peers (H2c)			- 0.021 (0.053)			- 0.014 (0.065)	- 0.019 (0.046)
China experience of competitors ^a (H3)				0.383*** (0.107)		0.185 (0.134)	
China experience of collaborators ^a (H4)					0.352*** (0.109)		0.204 (0.127)
Model Chi-Square	28.114***	53.272***	37.788***	37.943***	35.989***	61.970***	62.142***
Change of Model Chi-Square		25.158***	9.674**	9.829***	7.875***	33.856	34.028

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$ (one tailed); “BG” stands for business group

5.1 *Experience sharing within a business group*

With regard to sharing experiences within a business group, we distinguish the prior FDI experiences of a business group as apart from the experiences of peer subunits which have different interrelatedness with the focal firm. The former ones contain general international experiences (*H1a*) and country-specific experiences (*H1b*), while the latter ones include experiences of horizontal-related (*H2a*), vertical-related (*H2b*), and unrelated (*H2c*) peer subunits. The empirical results only exhibit significant impact from country-specific (*H1b*) and horizontal-related (*H2a*) experiences on the focal firm's decision regarding subsequent foreign entry. On the one hand, these findings partially confirm our predicted experience-sharing behavior within a business group, while, on the other hand, they clearly demonstrate that managers do not take all types of experiences into account when making subsequent FDI decisions; only those with specific relevancy to the decision context matter. Such a conclusion is consistent with the findings of previous studies (Padmanabhan and Cho, 1999; Cho and Padmanabhan, 2001) which state that context-specific information provides more reference values than information with little relevancy.

In this study, country-specific experience has proven to be effective in explaining the sequential investment behavior of Taiwanese electronics firms, as consistent with the findings of previous studies (Chang, 1995). The higher reference value of country-specific, as opposed to general, experiences may be partly attributed to the challenges of doing international business in a transitional economy. Since a transitional economy is experiencing radical changes in its social, economic, and political systems (North, 1990) that have great impacts on multinational enterprises in the host country (Child and Tse, 2001), the importance of prior investment experiences that help deal with uncertainties associated with the unstable institution will be highlighted by later entrants. Due to the institutional gap between a transitional host country and a country not under radical transition, it would be difficult for firms to apply non-country-specific experiences to transitional economies such as China's.

5.2 *Experience sharing in industry*

Scholars of business strategy state that industry clustering is a source for national competitiveness, especially as related to geographical mass (e.g. Porter, 1990; Saxenian, 1994). Facing an uncertain environment in a host country, firms could use the spillover information from their competitors (e.g. Yu and Ito, 1988; Martin et al., 1998) and/or non-competing suppliers (e.g. Martin et al., 1998, Chen and Chen, 1998). Researchers asserted that potential knowledge spillovers are highly salient (Feinberg and Gupta, 2004). MNEs not only anticipate the likelihood of knowledge spillovers from other firms, but also appear to discriminate between different types of firms in assessing the potential for spillovers (Feinberg and Gupta, 2004).

In this study, we distinguished horizontal competitors from vertical collaborators in knowledge spillovers within an industry and examined their influences on a focal firm's subsequent entry behavior. The findings reveal that both sources of experiences signal and induce the focal firm, no matter if as an industrial competitor or as a collaborator of early entrants, to go into the transitional host country. This outcome-based imitation (Haunschild and Miner, 1997) is utilized, partly at least, as a strategy to reduce investment risk and legitimize the entry decision. This follow-the-competitor phenomenon is in accordance with the perspective of oligopolistic competition, since follow-the-customer allows the late entrant to secure its competitive position in the value chain.

5.3 *The relative importance of different types of experiences*

One of the major contributory findings of this study pertains to the question of “how managers weigh a variety of experiences that come from multiple sources at different levels?” When presented many sorts of experiences, as specified in our last two models (models six and seven), only country-specific experiences and experiences provided by horizontal peer subunits within a business group maintain their influences on the focal firms’ subsequent entry decisions. In contrast, managers no longer give much weight to the experiences dissipated at the industry level. These interesting findings suggest that a focal firm may initially seek knowledge that is critical to its foreign entry investment from an external industry network when it lacks an experience pool within its own business group. Nevertheless, when peer subunits advance in foreign direct investment in a transitional host country, the focal firm turns to seek specific experiences inside one of its business groups in order to guide its international expansion instead of outsourcing experiences from competitors and collaborators in the industry. Again, relevancy to the decision context (Padmanabhan and Cho, 1999; Cho and Padmanabhan, 2001) in terms of specificity and business relatedness dominates other characteristics of the experiences being studied.

This study contributes to FDI and business group literature. While past international business literature recognizes that MNEs conduct FDI as a series of investment activities and decisions may be interrelated through time, a majority of the relevant studies still adopt the perspective of economic efficiency, such as TCE, in order to examine the FDI decisions of MNEs. Such a perspective tends to ignore the influences of early entry on subsequent entries (Lu, 2002). Although few studies have investigated this topic through the lens of organizational learning (e.g. Barkema and Vermeulen, 1998; Vermeulen and Barkema, 2001), none, to our knowledge, elaborates this issue in particular forms of organizations such as business groups. We argue that the decision process regarding FDI in business groups differs from that in typical MNEs, calling for deeper exploration of this idea. Our study supplements FDI literature by looking into the interrelatedness of a series of FDI decisions across time made by member units in a large, systematic, and sophisticated organization: the business group. Furthermore, although a few studies have investigated the experience effect on FDI decisions (e.g. Chang, 1995), these studies confined the generation, transfer and sharing of experiences and knowledge regarding foreign markets to a single organization (i.e. a multinational enterprise). In light of this limitation, this study expands the experiential learning space to a broader context so as to consider intra-organizational learning within a business group and inter-organizational learning from industrial collaborators and competitors.

The existence and importance of business groups as a characterized organizational form outside of North America is increasingly recognized, but research on this topic to date remains in short supply and is fragmented (Yiu et al., 2007). More recently, researchers have systematically categorized business groups into different types. In the study of Yiu et al., (2007), a particular form, the N-form, of business groups was exemplified by Taiwanese business groups. N-form business groups are characterized by a tighter horizontal connectedness among member firms and a looser vertical linkage as compared with other types of business groups. Yiu et al. (2007) further proposed some critical research questions to advance the theoretical progress of N-form business groups. For example, they asked: “How do affiliates learn from each other?” (p.1570) and “Under what circumstances do affiliates adopt homogeneous strategies?” (p.1572), given their high horizontal connectedness. In the present study, we have probed the questions that respond to the call of Yiu et al. (2007). By investigating these issues, we provide a better understanding of the experiential learning behavior of business groups under the decision context of FDI.

5.4 Limitations and directions for future research

The findings of the present study have enabled us to know and compare the influences of a variety of experiential references at different levels within and across organizational boundaries concerning FDI decisions. Hence, our conclusions may be applicable to a critical decision context in which decision makers are inter-related, and are provided with internal and external sources of related and unrelated experiences. Nonetheless, even with such a theoretical view for the contribution of this study, we still call for more comprehensive examinations across different contexts at national, industrial, and firm levels.

Although the present study makes contributions on FDI issues, some limitations should still be recognized. First, our research sample is confined to Taiwanese electronics manufactures investing in China. The conclusions drawn from this study may not be generalized to manufactures in other sectors which also invest in China and/or in other countries. The relatively short cultural distance between China and Taiwan should be taken into account when comparing related studies, for example, for western MNEs in China. Second, our sample firms own eighty percent, on average, of the world market shares in their business sectors. Although this research context rationalizes our perspective of oligopolistic competition at the industry level, our findings from these focal firms within business groups may not be appropriately generalized to small and medium-sized independent companies. Also, since our sample data contained only survival FDI cases, this study is not immune from a potential survival bias.

Institutional theory postulates that business operations are influenced by and subject to the institutional environment which is composed of politics, legal structure, culture, and economics (North, 1990). Therefore, managers also consider the influences of institutional factors such as the political climate and the legal structure when making FDI decisions. Some researchers even suggest that institutional theory best explains firm behaviors in transitional economies (Shenkar and von Glinow, 1994). Our study does not incorporate the institutional perspective. Future studies might be interested in investigating the influences of the institutional environment on our findings.

For future research, since the past performance of the focal firms may influence their motives of making subsequent investments in host countries, we suggest that future studies on this issue incorporate performance variables to explain why firms would make subsequent investments in a specific country. In addition, researchers who are interested in studying large, multi-layer, systematic organizations such as business groups may consider the adoption of multi-level quantitative methods such as hierarchical linear modeling (HLM).

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