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International Diversification: Antecedents, Outcomes, and Moderators

Michael A. Hitt*
Laszlo Tihanyi
Toyah Miller
Brian Connelly

Mays Business School, Texas A&M University, College Station, TX 77843

Pursuit of international markets and resources from foreign sources has increased dramatically during the past two decades, and the academic study of international diversification has increased concurrently. Reviewing the literature in management and related disciplines, the authors discuss recent findings of research on international diversification. A conceptual model groups key relationships, including antecedents, environmental factors, performance and process outcomes, moderators, and the characteristics of international diversification. The authors synthesize intellectual contributions, highlight unresolved issues, and provide recommendations for future research.

Keywords: *international diversification; internationalization; globalization; multinational*

Developing strategies for the global marketplace and managing operations in diverse country markets have become critical tasks for managers. At the same time, the international diversification process is accompanied by a great deal of uncertainty, with little agreement about the form it should take. Although several determinants of international diversification have been examined in prior research, the effects of firm, industry, and environmental factors have not been fully specified (Gimeno, Hoskisson, Beal, & Wan, 2005). Similarly, the relationships between types of international strategies and their performance outcomes remain complex (Geringer,

*Corresponding author. Tel.: 979-458-3393; fax: 979-845-9641.

E-mail address: mhitt@mays.tamu.edu

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Beamish, & daCosta, 1989; Gomes & Ramaswamy, 1999). Not surprisingly, the extent of firms' international involvement—the scale and scope of their international diversification—has increasingly become a focus of research in management and its sister disciplines.

Two factors motivated this review and synthesis of the research stream on international diversification. First, as scholars in the management domain continue to add new and diverse insights to the already significant body of literature (Carpenter & Sanders, 2004; Nachum, 2004; Tihanyi, Ellstrand, Daily, & Dalton, 2000; Wan, 2005; Werner, 2002; Zahra, Ireland, & Hitt, 2000), the field would benefit from an overview of the dominant relationships that exist among important variables and emerging contexts of international diversification. As such, there is need for a comprehensive model to integrate the insights from prior research and provide direction for future research.

Second, notable findings in international diversification research from related disciplines, such as finance (Riahi-Belkaoui & Alnajjar, 2002), accounting (Garrod & Rees, 1998), international business (Ruigrok & Wagner, 2003), and marketing (Kotabe, Srinivasan, & Aulakh, 2002), have not been integrated into the management literature. Findings from these alternative disciplines offer unique perspectives on international diversification. Thus, we examine recent developments and interpret gaps within and across disciplines. The goal of this review is to systematically examine the intellectual ground that has been covered during the past 20 years, to identify diverse findings from multiple disciplines, to uncover discrepancies, and to suggest important areas of research that have yet to be explored.

“International diversification is a strategy through which a firm expands the sales of its goods or services across the borders of global regions and countries into different geographic locations or markets” (Hitt, Ireland, & Hoskisson, 2007: 251). Studies using such labels as *internationalization*, *geographic diversification*, *international expansion*, *globalization*, and *multinationality* tend to refer to the same strategic management construct and are included in our analysis. Although early international diversification research originated from studies of capital flows (Caves, 1971), research on international diversification in strategic management has focused on the portfolio of foreign direct investments involving equity and control. Furthermore, strategic management researchers view international diversification as more than a simple means of risk reduction (Geringer et al., 1989; Hitt, Hoskisson, & Ireland, 1994;) embracing it, rather, as a strategy for gaining competitive advantage. Thus, the management literature provides significant attention to the relationship between international diversification and firm performance (Errunza & Senbet, 1984; Grant, 1987). Studies have also proposed a variety of antecedents (Sambharya, 1996; Tihanyi et al., 2000), and recent research on international diversification has increasingly emphasized complex relationships and potential moderating effects (Thomas, 2005), process outcomes (Zahra et al., 2000), and the effects of the institutional environment (Wan, 2005). Herein, we derive a comprehensive model of international diversification that follows this general progression by examining research on the antecedents, moderators, and outcomes of international diversification research. We build a framework for examining recent developments and considering gaps within and across disciplines. On the basis of our review and critique of the literature, we outline a variety of suggestions for continuing research on international diversification.

Twenty Years of International Diversification Research

The international business environment has witnessed unprecedented change during the past two decades, such that international diversification has become an increasingly important strategic option available to firms seeking sustained competitive advantage (Nachum & Zaheer, 2005). According to the World Investment Report (2005), leading multinational enterprises (MNEs) in 2003 on average operated with 49.5% of their employees, 49.8% of their assets, and 54.1% of their sales outside their home countries. International diversification has significantly increased with developing country MNEs as well. For example, firms based in emerging market countries accounted for 12% or \$849 billion of total foreign direct investment (FDI) in 2002 (Hoskisson, Kim, White, & Tihanyi, 2004). An example of emerging market firms' international diversification is shown by Cemex S.A., a construction and materials company headquartered in Mexico. This company employs 66% of its workforce and operates 35 of its 48 subsidiaries outside its home country. Primarily since the late 1980s, researchers have studied the phenomenon of international diversification by analyzing the share of foreign operations—sales, assets, subsidiaries, or profits—within the MNE. This line of research experienced rapid growth throughout the 1990s as scholars considered how firms could obtain new resources and transfer core competencies to new markets by diversifying internationally, leading to higher performance and risk-adjusted returns. A recent survey of articles published in the 20 top management journals indicates that international diversification has become one of the most popular research areas in international management (Werner, 2002). Growth in international diversification research continues to increase as research questions become richer, delving further into the complex relationship with performance and varied motivations that drive firms to expand internationally.

International Diversification as a Strategy of the Firm

International diversification has been studied from a broad range of theoretical perspectives, resulting in debates regarding its fundamental characteristics and appropriate measurement (Annarajula & Beldona, 2000; Coviello & McAuley, 1999). Early studies in international business list diverse strategic motives and explain several factors that affect the location of markets where firms should compete, whether worldwide, regional, or domestic. Hymer (1976) was among the first to argue that the potential for enhanced returns spurs firms to diversify internationally and that firms experience cost trade-offs in doing business abroad. In this early account of FDI, firms retain control and create monopoly power by removing competition between subsidiaries, thereby exploiting subsidiary capabilities. Other theories concentrated on transaction costs to explain why firms compete in foreign markets. Firms are prompted to enter international markets where transactions are not efficiently conducted in the market (Hennart, 1982). Caves (1996) explained that there are high transaction costs when operating with intangible assets in some markets; therefore, transactions are taken inside the firm to conduct business in those countries. Moving transactions within the firm improves control, facilitates the dissemination of information, and offers means of dispute resolution.

Buckley and Casson (1976) argued that international markets are imperfect and that firms have an incentive to internalize them.

From a strategic management perspective, “international business activity is a form of diversification” (Fouraker & Stopford, 1968: 48). The study of diversification across business units is one of the most influential literature streams of strategic management research (Bergh, 2001; Rumelt, Schendel, & Teece, 1994). Product diversification as a corporate strategy has been considered more than a risk-reduction tool—it has been recognized as a means for increased market power (Hitt et al., 1994), capitalizing on economies of scale (Teece, 1982), using excess resources (Penrose, 1959), and reducing transaction costs (Amit & Livnat, 1988).

International diversification, with its multiple objectives, is a complex corporate-level strategy that provides an effective alternative to product diversification and other strategies. Similar to firms that diversify their product portfolio, firms that diversify internationally have diverse motives, including economies of scale, access to new resources, cost reduction, extension of innovative capabilities, knowledge acquisition, location advantages, and performance improvements (Hitt, Hoskisson, & Kim, 1997). In contrast to product diversification, however, international diversification offers new means for value creation through access to foreign stakeholders, resources, and institutions. Although doing business abroad increases uncertainty, international diversification is increasingly preferred by firms because it allows them to accentuate their existing core competencies, gain unique knowledge, and access substantial growth opportunities in the product markets of foreign countries. IKEA’s early international entry illustrates the value creation potential from international diversification. Because of the limits to growth in its core furniture store business, IKEA considered different growth opportunities, including expanding its product lines to serve new customer segments in Sweden (i.e., product diversification) or by identifying and serving their existing customer base of young professionals and families in other countries (i.e., international diversification). International diversification allowed IKEA to cater to its customer base worldwide and become the international leader in its original market segment (Bartlett & Ghoshal, 1989).

Prior research from the strategic management perspective has focused on several important characteristics of international diversification. The scale and scope of a firm’s international diversification may help to explain the extent of its strategic intentions. A high level of international diversification can indicate market power, access to abundant resources, or increased potential to more effectively use its resources. From a resource-based view, Oviatt and McDougall (1994) emphasized the importance of resource utilization, defined as the number of primary activities undertaken outside the home country. Beamish suggested that international diversification is “the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future and establish and conduct transactions with other countries” (1990: 77). In addition to scale and scope characteristics, structural, performance, and attitudinal dimensions have been the subjects of previous studies on international diversification. Some researchers argue that international diversification does not always create value for the firm because of firms’ liability of foreignness (e.g., Zaheer, 1995). Firms may face higher or lower liability of foreignness depending partly on the structural dimensions of the markets represented by their international diversification, such as operating in markets with different cultural values, levels of development, or institutions, and their skills in managing entry into and operation in foreign markets. Some researchers suggest that

firms' early international experience may be positive, but increases in scope augment the costs of coordination (Hitt et al., 1997). These researchers argue that a more complex relationship exists between international diversification and firm performance than that suggested by prior work.

In light of recent debate on, and interest in, the topic of international diversification, we reviewed key studies on the subject published in the past two decades in leading management journals, such as the *Academy of Management Journal*, the *Academy of Management Review*, *Administrative Science Quarterly*, the *Journal of International Business Studies*, the *Journal of Management*, *Organization Science*, and the *Strategic Management Journal*. We incorporated insights from articles published in journals of related fields, including international business, finance, marketing, accounting, entrepreneurship, and economics. Our review resulted in the development of a framework (see Figure 1) that integrates the antecedents, environmental influences, process outcomes, moderators, and performance outcomes of international diversification. Most previous literature focused on the effect of international diversification relative to a narrow set of constructs (e.g., firm performance) or debated measurement issues. Despite the important findings, several relevant constructs and their effects have been overlooked. Our framework offers assistance to researchers working in this area by presenting a comprehensive overview of a broad range of relevant constructs and based on prior research, identifying their dominant relationships with international diversification. In addition, we have provided a short review of selected empirical articles on the relationships among the reviewed constructs in Table 1.

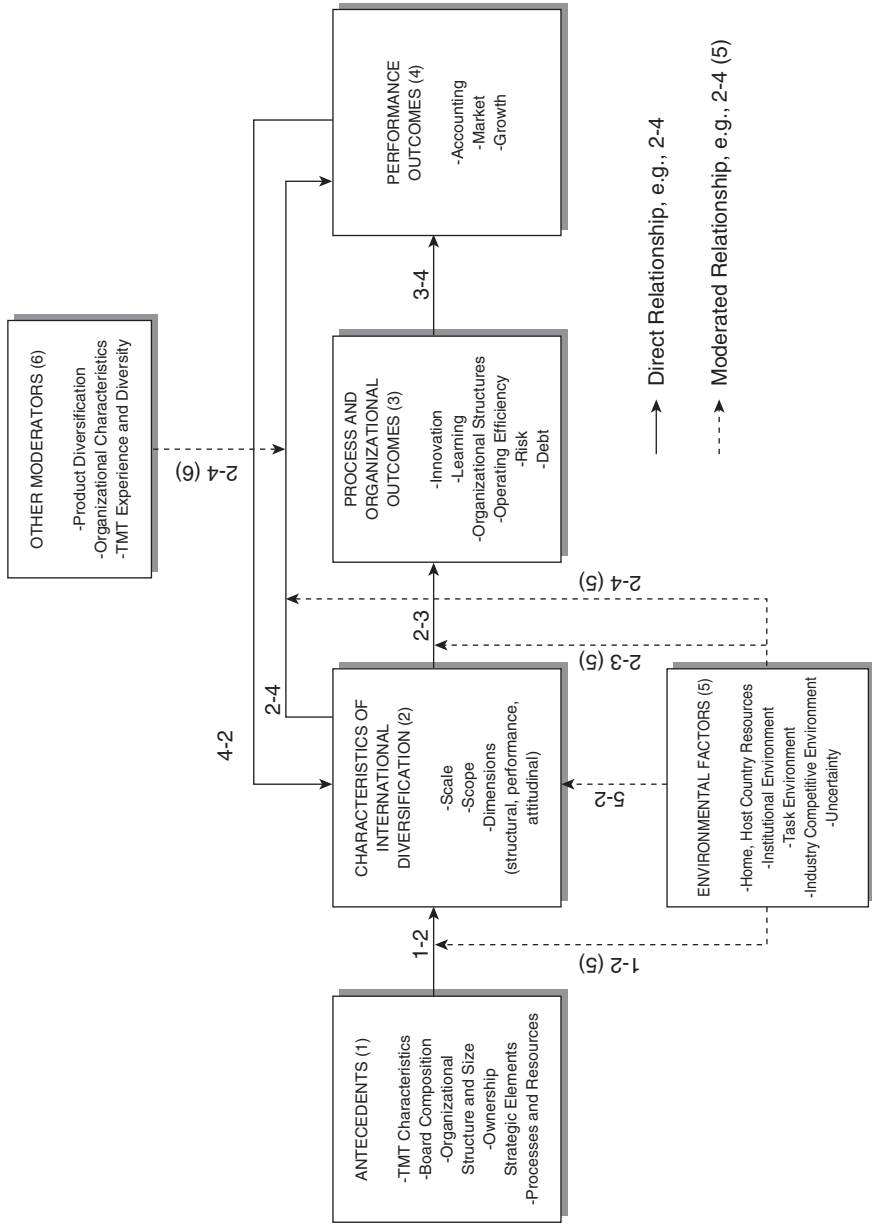
Antecedents: Relationship 1-2

A critical component of international diversification research concerns its antecedents. Early research considered the principal relationship of organizational size and structure with internationalization (Wolf, 1977), and there has been renewed interest in exploring these firm characteristics in more detail. Prior research has shown that such variables as R&D intensity, size, performance, product diversification, and organizational age are positively associated with international diversification (Autio, Sapienza, & Almeida, 2000; Delios & Beamish, 1999; Fiegenbaum, Shaver, & Yeung, 1997; Martin, Swaminathan, & Mitchell, 1998). Recent research on antecedents examined a number of strategic resources and organizational processes as predictors of international diversification.

Drawing on theoretical rationale from Caves (1996) and Buckley and Casson (1976), one stream of research has sought to establish the relationship between intangible resources and international diversification (Delgado-Gomez, Ramirez-Aleson, & Espitia-Escuer, 2004; Nachum & Zaheer, 2005). These studies suggest that intangible resources provide ownership advantages that lend themselves to internal control and expansion to new locations. Findings in this stream indicate that firms with higher endowments of intangible resources are more likely to expand internationally (Delgado-Gomez et al., 2004). In this tradition, Hitt, Bierman, Uhlenbruck, and Shimizu (in press) found that firms holding stronger human capital and relational capital with large corporate customers and with foreign governments have a higher probability of entering international markets. Nachum and Zaheer (2005) considered not only

(text continues on p. 846)

Figure 1
A Framework for Understanding International Diversification Research



Note: TMT = top management team

Table 1
Summary of Empirical Research on International Diversification Published Since 1995

Primary Construct Under Investigation: Antecedents						
Year	Study	Links	ID Measure	Data Source	Sample	Key Findings
2004	Delgado-Gomez, Ramirez-Aleson, & Espitia-Escuer	1-2	Foreign subsidiaries	Archival	96 Spanish public firms	ID increases with a firm's endowment of intangible resources.
2003*	Tihanyi, Johnson, Hoskisson, & Hitt	1-2	FSTS, FATA, Fsub/Tsub	Archival	197 U.S. firms	Pressure-resistant institutional investors are positively associated with ID. Professional investment funds prefer ID with outside directors. Pension funds prefer ID with inside directors.
2001	Wally & Becerra	1-2	Herfindahl Geographic Diversification Index	Archival	52 U.S. MNEs and their 405 EU subsidiaries	Top management team (TMT) characteristics are associated with international diversification.
2000*	Autio, Sapienza, & Almeida	1-2	FSTS	Survey	59 small- to medium-size Finnish electronics firms	Earlier initiation to the internationalization process, and greater knowledge intensity results in more rapid ID. Imitable technology is also associated with more rapid ID.
2000	Tihanyi, Ellstrand, Daily, & Dalton	1-2	FSTS, average country scope	Archival	126 firms in the U.S. electronics industry.	TMT characteristics are associated with international diversification.
2000	Wolff & Pett	1-2	FSTS	Survey	157 U.S. small businesses	The relationship between internationalization in the form of export intensity and firm size is not significant.
1999*	Delios & Beamish	1-2 2-4	FDI count, country count of FDI	Archival	399 Japanese manufacturing firms	R&D intensity is positively associated with international diversification.

(continued)

Table 1
(continued)

Primary Construct Under Investigation: Antecedents						
Year	Study	Links	ID Measure	Data Source	Sample	Key Findings
1998*	Sanders & Carpenter	1-2	FSTS, FATA, number of countries with subsidiaries	Archival	258 U.S. firms from the S&P 500.	International diversification is positively related to firm performance. Higher international diversification is associated with higher CEO compensation, longer term CEO pay, larger TMTs, and separation of chairperson and CEO positions.
1997	Fiegenbaum, Shaver, & Yeung	1-2	FSTS	Archival	104 U.S. Firms with operations in the Middle East	R&D intensity is positively related to international diversification.
1996	Sambharya	1-2	FSTS, FATA	Survey & archival	54 U.S. firms from the Fortune Industrial 500	TMTs with greater international experience and more heterogeneity are associated with higher ID.
Primary Construct Under Investigation: Competitive or Country Environment						
Year	Study	Links	ID Measure	Data Source	Sample	Key Findings
2004	Nachum	2-4 2-4 (5)	Geographic Diversification Index	Archival	345 firms from developing countries	ID is positively associated with performance. This relationship varies by geographic region.
2003*	Wan & Hoskisson	2-4 (5)	No. of countries with subsidiaries	Archival	722 Western European firms	Munificence in the home country moderates ID-performance relationship (it is positive in more munificent environments, negative in less)

2002*	Vermeulen & Barkema	2-4 2-4 (6)	No. of countries, expansion per year	Archival	22 firms in many industries over 26 years	Speed of internationalization, spread of the geographic and product markets entered, and the irregularity of the expansion pattern negatively moderate ID-performance relationship.
2001*	Carpenter & Fredrickson	1-2 (5)	FSTS, FATA, foreign subsidiaries in cultural zones	Archival	207 U.S. industrial firms from the S&P 500	TMT characteristics are positively associated with ID, but the influence of TMT tenure heterogeneity and functional heterogeneity are moderated by environmental uncertainty.
1999	Sarkar, Cavusgil, & Aulakh	5-2	FDI count, total FDI	Archival	19 large telecommunications carriers worldwide.	Industry, network, and entry conditions are positively associated with pace and mode of ID.
1998*	Martin, Swaminathan, & Mitchell	5-2	Dummy variable for entry into North American market	Archival	547 Japanese firms in the automobile industry.	Supplier ID increases at a decreasing rate as the number of buyers that have internationalized increases. Supplier ID initially increases, then decreases with internationalization of competitors.

Primary Construct Under Investigation: Firm Performance

Year	Study	Links	ID Measure	Data Source	Sample	Key Findings
2004*	Lu & Beamish	2-4 2-4 (6)	Foreign subsidiary, no. of countries entered	Archival	1,489 Japanese firms, 1986- 1997	There is an S-shaped relationship between international diversification and performance. Firms investing in intangible assets achieve greater gains from international diversification.
2004	Thomas & Eden	2-4	FSTS, FATA, country scope	Archival	151 U.S. manufacturing firms, 1990-1994	Three-stage sigmoid relationship between ID and performance.

(continued)

Table 1
(continued)

Primary Construct Under Investigation: Firm Performance						
Year	Study	Links	ID Measure	Data Source	Sample	Key Findings
2003	Capar & Kotabe	2-4	FSTS	Archival	81 German firms, 1997-1999	U-shaped curvilinear relationship between international diversification and performance of service firms.
2003	Contractor, Kundu, & Hsu	2-4	FSTS, FETE, FOTO	Archival	103 service firms, 1983-1988	Sigmoid (S-shaped) relationship exists between ID and performance in knowledge-based service firms.
2003	Ruigrok & Wagner	2-4	FSTS	Archival	84 German manufacturing companies, 1993-1997	U-shaped relationship between international diversification and financial performance.
2002*	Denis, Denis, & Yost	2-4	FSTS	Archival	7,520 U.S. firms, 1984-1997	International diversification is positively associated with valuation discounts. Firms that decrease international diversification experience increase in excess value.
2002	Qian & Li	2-4	FSTS, entropy measure	Archival	125 large industrial U.S. firms, 1983-1992	Curvilinear relationship between ID and profitability.
2002	Riahi-Belkaoui	2-4	FPTP, FSTS	Archival	3,972 firm-quarter observations, 1990-1999	ID is negatively related to post-earnings-announcement drift.
2002	Riahi-Belkaoui & Almajjar	2-4	FSTS, FPTP, FATA	Archival	878 firm-year observations, U.S. firms, 1990-1999	ID is negatively related to earnings persistence.

2001*	Lu & Beamish	2-4 2-4 (6)	No. of countries, no. of 10% equity FDI	Archival	164 Japanese small- and medium-size firms, 1986-1997	There is a U-shaped relationship between international diversification and firm performance. Exporting negatively moderates this relationship.
2001	Ramirez-Aleson & Espitia- Escuer	2-4	Diversification index, market diversification categories	Archival	103 Spanish firms, 1991-1995	A positive relationship is found between market value and international diversification.
1999*	Gomes & Ramaswamy	2-4 2-3	FSTS, FATA, No. of countries entered	Archival	570 U.S. manufacturing firms, 1990-1995	There is an inverted-U-shaped relationship between international diversification and operating performance, also between international diversification and financial performance.
1998	Riahi-Belkaoui	2-4	FSTS	Archival	100 U.S. manufacturing and service firms, 1987-1993	There is an S-shaped relationship between ID and firm performance.
1997*	Hitt, Hoskisson, & Kim	2-4 2-4 (6)	Entropy, by 4 primary foreign markets	Archival	295 U.S. manufacturing firms, 1988-1990	There is an inverted-U-shaped relationship between international diversification and performance. Product diversification moderates this relationship.

Primary Construct Under Investigation: Moderators

Year	Study	Links	ID Measure	Data Source	Sample	Key Findings
2005	J. Li & Qian	2-4 (6)	FSTS, FATA, FETE	Archival	167 U.S. firms from the Fortune 500	Regional diversification moderates ID- performance relationship. ID moderates PD-performance relationship.

(continued)

Table 1
(continued)

Primary Construct Under Investigation: Moderators						
Year	Study	Links	ID Measure	Data Source	Sample	Key Findings
2004	Carpenter & Sanders	2-4 (6)	FSTS, FATA, foreign subsidiaries	Archival	224 U.S. MNEs from the S&P 500	ID moderates TMT pay-performance relationship.
2003	Qian, Yang, & Wang	2-4 (6) 2-4	FSTS	Archival	271 emerging SMEs	ID is positively associated with performance for small firms. Industry and R&D intensity positively associated with performance.
2002	Dragun	2-4 (6)	FSTS	Archival	130 retailers from 19 countries	The relationship between globalization and performance is positive and significant only for large retailers.
2002	Kotabe, Srinivasan, & Aulakh	2-4 (6)	FITI	Archival	49 U.S. firms	Multinationality-performance relationship is stronger for firms with higher R&D intensity or marketing intensity.
2002	Qian	2-4 2-4 (6)	FSTS	Archival	71 U.S. manufacturing SMEs	ID-performance is inverted-U shaped in small firms. ID moderates PD-performance relationship.
2000*	Daily, Certo, & Dalton	2-4 (6)	FSTS, FATA, Fsub/Tsub, psychic dispersion of subs	Archival	367 Fortune 500 firms	International diversification moderates the CEO international experience-performance relationship (it is stronger when international diversification is high).
2000*	Geringer, Tallman, & Olsen	2-4 2-4 (6)	Foreign subsidiary sales/total sales	Archival	108 Japanese manufacturing firms, 1977-1993	Partial support found that international diversification is positively related to firm performance, but performance varies considerably across time periods.

1998	Riahi-Belkaoui & Picur	2-4 2-4 (6)	FSTS, FPTP, FATA	Archival	80 U.S. manufacturing and service firms, 1987-1992	ID is positively associated with performance (relationship is stronger with more diverse investment opportunity set).
1996*	Bloodgood, Sapienza, & Almeida	1-2 2-4	Percentage of logistics outside the U.S.	Archival	61 firms that had an IPO in 1991 and less than 5 years old	International diversification is the product differentiation as a source of competitive advantage, international experience of the BOD, and size at the time of IPO.
1996	Riahi-Belkaoui	2-4 (6)	FSTS	Archival	31 French MNEs	ID is positively associated with performance. Performance gains from ID are more likely with unrelated diversification.
1996*	Tallman & Li	2-4 (6)	FSTS, no. of foreign countries	Survey and archival	192 U.S. manufacturing firms	Minimal relationship between ID-performance. Also, ID has only a weak effect on the relationship between PD and performance.
1995	Ramaswamy	2-4 (6)	FATA	Archival	25 U.S. MNEs in pharmaceuticals	Multinationality-performance relationship is stronger for greater amounts of coordination and control.
1995	Sambharya	2-4 (6)	FSTS, FATA	Survey and archival	53 U.S. firms from the Fortune Industrial 500	PD is negatively associated with ID. Neither leads to improved performance, but the interaction does improve performance.

Primary Construct Under Investigation: Process Outcomes

Year	Study	Links	ID Measure	Data Source	Sample	Key Findings
2005	Dibrell, Davis, & Danskin	2-3 2-3-4	FSTS, FETE, FPTP	Survey	85 firms in pulp and paper	ID positively associated with reduction in cycle times.

(continued)

Table 1
(continued)

Primary Construct Under Investigation: Process Outcomes						
Year	Study	Links	ID Measure	Data Source	Sample	Key Findings
2004*	Yeoh	2-3 2-3 (6)	FETE, entropy	Survey	258 new ventures in the U.S.	ID is negatively related to technological learning and positively related to social learning, moderated by cultural diversity and TMT international experience.
2004	Low & Chen	2-3	CIFAR index	Archival	232 industrial firms, 1986-1990.	ID negatively associated with leverage.
2004	Wagner	2-3	FSTS	Archival	83 German manufacturing firms, 1993-1997	Inverted-U-shaped relationship between cost efficiency and internationalization speed.
2003	Hsu & Boggs	2-4 2-3	FSTS, country scope	Archival	118 U.S. firms, 1996-1998	There is an inverted-U-shaped relationship between asset turnover and ID and between scope of ID and performance.
2000*	Zahra, Ireland, & Hitt	2-3 3-4	Number of countries, Diversity index	Archival	321 high-tech new ventures in 1993	ID is associated with technological learning, which in turn is positively associated with firm performance.
2000	Kwok & Reeb	2-3	FATA	Archival	1,320 firms in regulated industries, 1992-1996.	Internationalization is associated with debt reduction.
1998	Han, Lee, & Suk	2-4 2-3	FSTS	Archival	2,643 manufacturing firms from 7 countries in 1994	There is no consistent positive effect of ID on performance in firms across countries, but ID is positively related to components of ROE.

1998	Reeb, Kwok, & Baek	2-3	FSTS, FATA	Archival	880 finance, transport, and utilities firms, 1987-1996	There is a positive relationship between internationalization and the MNEs' systematic risk.
1997	Chen, Cheng, He, & Kim	2-3	FITI	Archival	2,219 firms, 1984-1993	Debt ratio is positively related to the degree of international diversification.
1996	Burgman	2-3	FTTT	Archival	487 firms, 1987-1991	MNCs have lower debt ratios than domestic companies.
1995*	Chang	2-3	Export ratio	Archival	95 electronics firms from Japan, 1976-1989	Firms gain capabilities through sequential entry into foreign countries and businesses where they have a competitive advantage, enabling expansion into noncore businesses.
1995	Al-Obaidan & Scully	2-3	Dummy variable	Archival	44 petroleum firms, 1976-1982	ID is positively related to scale efficiency and negatively related to business risk.
1995	Siegel, Omer, Rigsby, & Theerathorn	2-3 2-4	FTTT	Archival	424 NYSE-listed companies, 1968-1987	Firms decrease excess returns and increase total risk as international diversification increases.

Note: The table includes only empirical articles that operationalize international diversification or its equivalent, such as internationalization or geographic expansion. *Indicates Web of Science most highly cited articles. ID = international diversification; FSTS = foreign sales/total sales; FATA = foreign assets/total assets; FsubTsub = foreign subsidiaries/total subsidiaries; MNE = multinational enterprise; FDI = foreign direct investment; TMT = top management team; FE/TE = foreign exports/total exports; FOTO = foreign offices/total offices; FPTP = foreign profits/total profits; PD = product diversification; SME = medium-size enterprises; FTI = foreign income/total income; IPO = initial public offer; BOD = Board of Directors; CIFAR = Center for International Financial Analysis and Research; ROE = return on equity; FTIT = foreign taxes/total taxes; MNC = multinational corporation; NYSE = New York Stock Exchange; S&P = Standard & Poor's.

the endowment of intangible resources but also the motivation of seeking intangible resources from the host country (e.g., intellectual capital). This resource-seeking motivation was found to be most influential in information-intensive industries; market seeking and export seeking were dominant motivations in less information-intensive industries. Araujo and Rezende (2003) considered path dependence and the influence of relational networks on international diversification. The search for strategic resources and organizational processes that effectively predict international diversification is a recent phenomenon, and the research described herein provides the initial impetus toward more complete understanding.

Another line of research emphasizes the role of top executives in the decision to diversify internationally. Prior findings demonstrate that elite education, lower average age, and greater international experience of the top management team (TMT) are positively associated with firm international diversification (Eriksson & Johanson, 1997; Herrmann & Datta, 2005; Sambharya, 1996; Tihanyi et al., 2000; Wally & Becerra, 2001). These researchers reason that higher education heightens managers' awareness of international issues and that younger managers often have greater propensity toward risk taking. Furthermore, international experience reduces the uncertainty associated with international expansion and creates social capital that can facilitate a firm's plans to diversify internationally (Hitt et al., in press). International experience in the top management team (TMT) is also likely to increase the speed of internationalization, particularly in small firms (Reuber & Fischer, 1997). The argument that diversity within the TMT is likely to facilitate international diversification is consistent with findings that suggest larger (Sanders & Carpenter, 1998) and more heterogeneous (Sambharya, 1996) TMTs are associated with higher levels of international diversification.

Beyond the TMT, boards of directors and owners also influence organizational decisions to diversify internationally. Tihanyi, Johnson, Hoskisson, and Hitt (2003) differentiated two types of pressure-resistant institutional investors, professional investment funds and pension funds, each with unique motivations for diversifying internationally. Ownership by either group was found to be positively related to international diversification, but with a different theoretical rationale for each group's behavior. Sanders and Carpenter (1998) used agency theory to explain why the separation of chairperson and CEO positions is positively associated with international diversification.

Environmental Factors: Relationships 1-2(5) and 2-4(5)

There are a variety of exogenous influences that shape when and how firms diversify internationally. Scholars have considered the effects of organizational task environments, institutional environments, and the natural environment. Discussion of the external environment in the management literature is often focused on a firm's task environment, including customers, suppliers, and competitors (Castrogiovanni, 2002). In contrast, a multinational firm's institutional environment is commonly considered in three domains: regulatory, cognitive, and normative institutions (Scott, 1995). The natural environment also has implications for strategic decisions of the firm, although the intersection of the natural environment and international diversification has not drawn appreciable research interest as yet (Starik & Marcus, 2000).

Several researchers have considered the effects of specific dimensions of the task environment on international diversification decisions. For example, Martin and colleagues (1998) examined incentives and constraints on international expansion in relation to the firm's buyers and suppliers. They found that the likelihood of international diversification increases at a decreasing rate with the number of internationally diverse buyers. Similarly, international diversification of competitors leads to an initial increase and a subsequent decrease in supplier international involvement. In the telecommunications industry, researchers have found that the competitive structure of the industry and network characteristics of the firm are primary determinants of international diversification (Sarkar, Cavusgil, & Aulakh, 1999). In agreement with these findings, Gimeno et al. (2005) compared competitive and institutional explanations for mimicry in the international diversification process, finding the competitive rationale to have the strongest influence.

Research has recently focused on institutional pressures—regulatory, cognitive, and normative—as an important influence on a firm's decisions regarding international diversification. Early research in this area found little relationship between host country regulatory indicators and international diversification decisions (Kobrin, 1976; Thunnel, 1977). Nigh (1985) suggested the lack of findings was due to methodological shortcomings, and more recent research has sought to rectify those problems. For example, Calof and Beamish (1995) found that the regulatory environment influences the mode of international diversification as well as mode changes. Acs, Morck, Shaver, and Yeung (1997) provided the theoretical basis for the important role of regulations and property rights in the host country, particularly in the case of small- and medium-size firms seeking to internationalize. Others have focused on the influence of economic institutions (Mascarenhas, 1992; Wan, 2005), suggesting that internationally diversified firms first enter nations with lower bureaucratic costs, such as countries with liberalized market economies. Although firms often find it easier to do business in countries where the social climate is similar to their own (Hitt et al., 1994), researchers have paid less attention to normative and cognitive institutions in favor of studying the regulatory environment (Bergara, Henisz, & Spiller, 1998).

The host country resource endowment is an important consideration in firms' choice of markets for diversification. Firms may emphasize the market potential of the host country or the potential for economies of scale in choosing target countries for diversification (Kochhar & Hitt, 1995). Nachum and Zaheer (2005) labeled these two motivations as *market seeking* and *efficiency seeking*, respectively, and added *resource seeking*, *export seeking*, and *knowledge seeking* as additional motives, each of which value different resource endowments in the host country. A topic of particular interest to researchers is how the composite level of technological sophistication and innovation capability of host countries influence market entry selections (Crisuolo, Narula, & Verspagen, 2005; Henisz & Macher, 2004). Although researchers have considered home and host country endowments to be important (Buckley & Casson, 1998; Tse, Pan, & Au, 1997), most of this work is oriented specifically toward the entry mode decision rather than international diversification in general (Werner, 2002).

Applying Dess and Beard's (1984) model of environmental dimensions (e.g., complexity, munificence, and dynamism), Kostova and Zaheer (1999) suggested that complexity plays a prominent role in international diversification. Environmental complexity increases challenges for organizational legitimacy more so for firms that are diversified internationally than

for primarily domestic firms. In other words, firms operating in multiple complex environments experience more challenges than purely domestic firms operating in a single but complex domestic environment. Alternatively, Wan and Hoskisson (2003) found that munificence of the home country environment functions as a moderator of the relationship between international diversification and performance. Their results suggest that firms in more munificent home country environments enjoy performance improvements when they diversify internationally, whereas those in less munificent environments do not gain substantial performance benefits. In addition, there is some evidence to suggest that dynamism may affect a firm's diversification strategy (Bergh & Lawless, 1998); international diversification researchers have examined the dynamism construct as a moderating variable (Carpenter & Fredrickson, 2001; Rasheed, 2005). For example, Carpenter and Fredrickson (2001) found some evidence that the relationship between TMT characteristics and international diversification may be stronger in highly uncertain environments. The authors explain that as firms diversify internationally, TMT members are afforded greater discretion, which in turn increases demographic effects on their strategic decisions.

Performance Outcomes: Relationships 2-4 and 4-2

The relationship between international diversification and firm performance has received the most attention in the literature, although findings have been mixed (Capar & Kotabe, 2003). Early research began by exploring differences in the performance of multinational and domestic firms (Brewer, 1981; Shaked, 1986; Vernon, 1971), but later studies focused on understanding the nature of the relationship. Vernon (1971) suggested that international diversification and performance were positively related because of economies of scale and location-based advantages, prompting study of a positive linear relationship during the 1970s and 1980s (Errunza & Senbet, 1984; Grant, 1987; Grant, Jamine, & Thomas, 1988). Even recently, scholars (Delios & Beamish, 1999; Tallman & Li, 1996) have suggested that the scope of international diversification is positively related to firm profitability because it expands market opportunities, diversifies risk, and increases market power (Kim, Hwang, & Burgers, 1993; Kogut, 1985). Yet, other studies have found a negative association and/or no association at all (Fatemi, 1984; Kumar, 1984; Siddharthan & Lall, 1982).

Currently, researchers posit a more complex relationship between international diversification and performance to reflect its costs as well as benefits, resembling U-shaped (Lu & Beamish, 2001; Ruigrok & Wagner, 2003), inverted-U-shaped (Gomes & Ramaswamy, 1999; Hitt et al., 1997), and S-shaped curves (Lu & Beamish, 2004; Thomas & Eden, 2004). Theoretical arguments suggesting an inverted-U relationship between the level of international diversification and performance stress the positive effects of diversification up to a point, the "internationalization threshold," where the costs of coordination among diverse operating units exceed the benefits of increased access to resources (Geringer et al., 1989; Sullivan, 1994b). Although prior work (Geringer et al., 1989; Hitt et al., 1994; Ramaswamy, 1995) hypothesized the possibility of an inverted-U relationship, Hitt et al. (1997) were among the first to provide a more solid theoretical foundation and employ a multidimensional measure of international diversification. Exploring the stability of the relationship over time, Gomes and Ramaswamy

(1999) supported the inverted-U relationship finding that increased international diversification only yields benefits up to a certain level and then declines because higher levels of diversification increase governance costs.

Still others report a U-shape relationship between international diversification and firm performance, which is due to an interaction between initial governance costs and learning effects (Lu & Beamish, 2001; Ruigrok & Wagner, 2003). Early on, international diversification may reduce firms' profitability because of the complexity of an unrelated strategy. However, after a firm learns about the new environment, profitability begins to rise. Lu and Beamish (2001) found a U-shaped relationship in a sample of small- and medium-size enterprises (SMEs) engaging in international diversification. In the initial stages of international diversification, SMEs encounter performance declines as they deal with liabilities of foreignness. However, performance improves with continued internationalization as new knowledge and capabilities are developed through learning and access to resources. In a longitudinal study supporting the learning perspective, Ruigrok and Wagner (2003) found a U-shaped relationship between international diversification and performance, suggesting that firms initially suffer declining performance but later learn and recover.

The differences in findings have been perplexing and have even led to more complex sigmoid models. Using FDI theory, Riahi-Belkaoui (1998) explained that entry into a new market is initially detrimental to performance. However, the positive effects arising from internationalization occur at middle levels of diversification and decline again. Using a similar rationale, Contractor, Kundu, and Hsu (2003) found a sigmoid-shaped relationship in knowledge-based service firms. This S-curve relationship was again supported by Lu and Beamish (2004) and Thomas and Eden (2004). Lu and Beamish (2004) noted that as early liabilities and costs are reduced by experiential learning, firms profit from both scale and scope economies. However, as international diversification increases, governance and coordination costs associated with diversification increase and create more challenges for management (Hitt et al., 1997). Consequently, Lu and Beamish (2004) found a horizontal S-curve, where the international diversification–performance relationship is negative at low and high levels of international diversification, but positive at moderate levels.

Strategic management researchers investigating the international diversification–performance relationship have largely used accounting performance measures, but other disciplines use market-based measures that may not yield the same results. In fact, Keats and Hitt (1988) found that accounting and market-based measures of performance were negatively related. However, there is a lack of consensus about the international diversification–performance relationship even among those using market-based measures. A number of studies suggest that international diversification increases market value and reduces risks for investors (Brewer, 1981; Hughes & Sweeney, 1975; Kim et al., 1993). Some argue that international diversification has negative effects on market value because it is more beneficial for managers in search of prestige than it is for investors (Denis, Denis, & Yost, 2002; Fatemi, 1984; Michel & Shaked, 1986). Others find higher valuation of multinational firms over domestic firms, showing that increasing levels of diversification result in higher market value (Errunza & Senbet, 1984; Garrod & Rees, 1998; Ramirez-Aleson & Espitia-Escuer, 2001).

Regardless of the diverse performance measures used, findings remain inconclusive partly because of the examination of various industries, time periods, and motivations for international

diversification in different studies. Realizing that many studies were conducted on manufacturing firms, Capar and Kotabe (2003) investigated the effect of international diversification of German service firms on firm performance, finding an inverted-U shaped relationship. This outcome is supported by a recent study of the international diversification of U.S. professional service firms (Hitt et al., in press). Contractor et al. (2003) distinguished between knowledge-based service firms and capital-intensive service firms. They argue that knowledge-based service firms experience positive gains at earlier stages of international diversification because they have fewer tangible assets to manage, more international clients established, and easier global standardization compared with other service sectors. The knowledge-based service sector also reaches an international threshold that capital-intensive service firms do not experience because of the tendency to overexpand. There is an opportunity for more empirical research and better development of the theoretical rationale regarding industry-specific differences of the international diversification–performance relationship. In addition, the sampling frame may influence the type of relationship observed between international diversification and performance. A case in point, Thomas and Eden (2004) showed that a different relationship between international diversification and performance exists when long-term versus short-term performance is studied. Geringer, Tallman, and Olsen commented that

the direction of different investment flows may represent very different strategic purposes with emphasis on different performance measures. Large sample studies observe only levels of diversity of activity and related performance, but cannot easily address issues of strategic intent or management control structure. (2000: 56)

The primary objective for a firm's international diversification (e.g., enhanced resources, profit, or market share) should be a factor in determining the most appropriate performance metric. For example, some firms may engage in international diversification to buffer the effects of competition, and, thus, the benefits of their diversification efforts may be imperceptible to profitability measures (Gomes & Ramaswamy, 1999).

Other Moderator Variables: Relationship 2-4(6)

Several moderators have been suggested in the literature to explain apparently conflicting empirical findings regarding the performance implications of international diversification. Factors endogenous to the firm, such as product diversification, size, and structure, have garnered the most research attention, but exogenous factors, such as culture and institutions, have also been studied.

The most commonly explored moderating effect of the international diversification–performance relationship is the firm's level of product diversification. This interaction has been explored in a variety of ways. Hitt and colleagues (1994) developed theoretical arguments describing the moderating effect that international diversification has on the product diversification–performance relationship. They suggest that related diversified firms benefit from internationalization because it facilitates exploitation of business unit interdependencies; unrelated diversified firms also benefit from internationalization because it produces economies of scale and scope. This line of reasoning was corroborated by Sambharya (1995) in a sample of U.S. MNEs, but Tallman and Li (1996) found only weak effects from the

interaction of international diversification and product diversification in a similar population of firms. The difference may be partially explained by the inclusion of additional control variables in the latter study.

Hitt and colleagues (1997) considered the same interaction, arguing from the conceptual perspective of product diversification as the moderator. Using a learning perspective, these authors found that the effect of international diversification on performance was more positive in firms with higher product diversification. Other researchers working from this conceptual base have found the interaction term to be nonsignificant (Geringer et al., 2000). Doukas and Lang (2003) sought to explain the inconsistent results by noting that product diversification has a strong interactive effect when firms diversify internationally outside their core business but that the interaction is less strong for core international diversification.

Other firm-level characteristics have been suggested as moderators of the international diversification–performance relationship. For example, Dragun (2002), using a sample of U.S. retailers, found that international diversification is only beneficial for large organizations, with little or no benefit accorded to small- or medium-size retailers. This contrasts with findings from the international entrepreneurship literature that suggest a positive relationship between international diversification and performance for small- and medium-size enterprises (Qian, 2002; Qian, Yang, & Wang, 2003; Wolff & Pett, 2000). Beyond size, organizational configuration variables have also been considered as moderators. For example, Ramaswamy (1993) found that reductions in control and coordination enhance the effect of international diversification upon performance. A similar effect occurs with increases in marketing intensity or R&D intensity (Kotabe et al., 2002). Arguing from a real options perspective, Riahi-Belkaoui and Picur (1998) found firm-level differences in the relationship between international diversification and performance based on the “investment opportunity set” available to the firm. Using primarily financial measures to define the investment opportunity set, the relationship was found to be stronger when firms had a broader number of investment opportunities available to them. Carpenter and Sanders (2004) added the practical consideration of CEO pay, finding interactions between international diversification and the relationship between level and structure of CEO pay and firm performance.

The literature also considers some less tangible organizational characteristics as potential moderating influences. Despite popular perspectives that extol the benefits of diversity, research has shown that culturally related international diversification has a positive effect on performance, whereas the opposite exists for culturally unrelated diversification (Gomez-Mejia & Palich, 1997; Tihanyi, Griffith, & Russell, 2005). Palich and Gomez-Mejia (1999) reasoned that cultural relatedness between divisions of internationally diversified firms provides firm-level efficiencies as well as shared managerial cognitions that improve firm performance. Cultural diversity between divisions, on the other hand, impedes efforts to integrate activities across units and creates friction within the MNE. Thomas (2005) built on this idea to suggest that the relationship between international diversification and performance is moderated by a TMT’s “dominant logic.” Prahalad and Bettis (1986) defined dominant logic as “the mindset . . . of the business and administrative tools to accomplish goals and make decisions . . . which is stored as a shared cognitive map among the dominant coalition.” Bringing greater diversity (Thomas, Arthur, & Hood, 2004) and international experience (Yeoh, 2004) to the TMT dominant logic allows firms to draw on the benefits of geographically diverse business groups, strengthening the relationship between international diversification and both

process and performance outcomes. Empirical results from Daily, Certo, and Dalton (2000) support this conclusion as they found the interaction of CEO international experience and international diversification significantly affects firm performance.

Process and Organizational Outcomes: Relationships 2-3 and 2-3-4

Because of mixed results emerging from the research on the international diversification–performance relationship, some scholars suggest the need to move beyond investigations of the direct relationship and open the “black box” of process by which international diversification is achieved. Process outcomes, such as operational improvements and organizational learning, provide further insight into when and why performance gains occur. Organizational outcomes, such as board size, are more frequently considered as antecedents or control variables. One exception is Sanders and Carpenter (1998), who suggest that firms cope with information-processing demands and agency problems arising from international diversification through a combination of higher and more contingent CEO pay, larger management teams and boards, and combining the roles of CEO and chairperson. Athanassiou and Nigh (2000) added that international diversification also brings a more dense advice network for the TMT.

Increasingly, researchers have been examining incremental process outcomes, such as organizational learning. For example, Chang (1995) examined how international expansion through sequential foreign entry builds capabilities as firms learn from their past mistakes, allowing them to enter unrelated markets and achieve greater success. Consistent with this perspective, Zahra et al. (2000) showed that international diversification leads to greater breadth and depth of technological learning. They found that technological learning facilitated innovation, differentiation, and market speed, which ultimately increase firm performance. In a study of high-technology new ventures, Yeoh (2004) found that geographic diversity of exports has a negative effect on technological learning, has no significant impact on market learning, and has a positive relationship with social learning. Further research may shed light on the contingencies that influence when and how firms learn from international diversification.

Venkatraman and Ramanujam (1986) proposed that strategic management researchers should give more attention to nonfinancial measures, such as operational efficiency, which have an effect on financial performance. Operational measures (e.g., cost-efficiency, risk, and debt) serve as an important mediator of the international diversification–performance relationship. In support of this argument, Wagner (2004) found that cost-efficiency is gained from low-to-moderate levels of international diversification, suggesting that cost-efficiency mediates the relationship between international diversification speed and financial performance. Han, Lee, and Suk (1998) reported that international diversification increases operating performance. Their study of 2,643 manufacturing firms from seven countries reveals that international diversification has no effect on return on equity (ROE). However, they found a positive relationship between international diversification and two operating components of financial performance, asset turnover and net profit margin. In contrast, Hsu and Boggs (2003) found an inverted U shaped relationship between scope of international diversification and asset turnover. In addition, Dibrell, Davis, and Danskin (2005) found that international

diversification reduces cycle time, thereby increasing efficiency, service, and profitability, underscoring the importance of investigating the impact of international diversification on operating performance.

Other research has shown risk exposure to be an important outcome of international diversification. Consistent with the original, narrower view, early research demonstrated that international diversification indeed led to lower risk for the firm (Agmon & Lessard, 1977; Al-Obaidan & Scully, 1995; Brewer, 1981; Hughes & Sweeney, 1975; Kim et al., 1993; Rugman, 1976). The work of Reeb, Kwok, and Baek (1998); Siegel, Omer, Rigsby, and Theerathorn (1995); and Bartov, Bodnar, and Kaul (1996), however, contradicted much of the early literature; they found risk exposure to be positively related to international diversification because firms encounter increased uncertainty because of fluctuating exchange rates, institutional risks, and agency problems.

Closely linked to risk, Lee and Kwok (1988); Chen, Cheng, He, and Kim (1997); Burgman (1996); and Low and Chen (2004) suggest that international diversification is negatively related to leverage because multinational firms encounter higher agency costs of debt. Kwok and Reeb (2000) argued that the relationship between systematic risk, leverage, and international diversification may depend on whether the diversifying firm is based in a more developed country or a less developed one. The movement from a stable home economy to operating in a more dynamic economy may result in a positive relationship between international diversification and risk and a negative relationship between international diversification and leverage.

Synthesis of Research on International Diversification

Theories and Relationships

As our review suggests, a number of theoretical frameworks have been used to explain the motives underlying international diversification, the conditions under which firms diversify internationally, and the effects of international diversification on other firm strategies and performance. Theoretical perspectives include various theories of FDIs (Buckley & Casson, 1976; Dunning, 2003; Hymer, 1976), upper-echelon theory (Hambrick & Mason, 1984), and social network theory (Araujo & Rezende, 2003). Consideration of the environment and of moderating variables has been shaped by contingency theory (Henisz & Macher, 2004; Qian et al., 2003; Ramaswamy, 1995), but complex explanations of the environment have also emerged out of institutional theory (Gimeno et al., 2005; Kostova & Zaheer, 1999). Resources are critical antecedents to, and outcomes of, international diversification (Chang, 1995; Delgado-Gomez et al., 2004; Kotabe et al., 2002; Riahi-Belkaoui, 1998), thereby suggesting the importance of the resource-based view for understanding this international strategy. The organizational learning perspective has also been influential in helping to understand both antecedents (Autio et al., 2000) and outcomes (Ruigrok & Wagner, 2003; Yeoh, 2004; Zahra et al., 2000) of international diversification, along with the related notion of absorptive capacity (Vermeulen & Barkema, 2002).

More recently, international new venture theory has addressed somewhat similar issues with a view toward small- and medium-size enterprises (Acs et al., 1997; Oviatt & McDougall,

1994). Finance research has added a real options perspective to the discussion of the effect on performance (Riahi-Belkaoui & Picur, 1998). Collectively, the various theoretical frameworks that have been advanced to explain why firms diversify internationally, and what occurs when they do so, provide complementary understandings of a broad and complex phenomenon. From the theoretical perspective, we expect the development of more advanced frameworks focused on the integration of different perspectives and multiple levels, including managers, firms, industries, and countries. Our review also indicates that the field would benefit from investigations of alternative theoretical explanations within similar research settings.

Some aspects of the framework presented herein have received greater research attention than others. The most heavily researched topic is the relationship between international diversification and performance (the 2-4 relationship). Recent studies acknowledge the likelihood of an inverted-U shaped relationship, whereas prior studies may have captured some portion of the inverted-U, either the positive slope on the left side or the negative slope on the right side. The empirical tests of this relationship have reached a critical mass, allowing meta-analyses to be completed (Palich, Cardinal, & Miller, 2003). Our review of the literature indicates that the relationship between international diversification and performance is likely to be context dependent. Sample characteristics such as small firms or knowledge-based firms may result in findings that cubic curves (horizontal-S shaped) explain the highest degree of performance variance.

There is general agreement that technological learning and organizational learning are important process outcomes (the 2-3 relationship) of international diversification that ultimately lead to improved financial performance. Also, researchers have found that international diversification produces greater operational efficiency, which in turn contributes positively to a firm's financial performance. Although early research envisioned international diversification as a means to diversify risk, more recent research suggests that international diversification may increase firm risk because of increased exposure to uncertain environments. Many of the findings regarding process outcomes emerge from research in the finance literature, suggesting that further work exploring strategic outcomes as mediators could enhance the empirical body of work on international diversification.

Our review found the literature to be dominated by accounting-based performance measures as consequences of international diversification; however, limited research has examined other outcomes. It is likely that the focus on relatively narrow financial performance indicators, such as ROE or return on assets (ROA), has directed researchers to seek more complex statistical relationships rather than to extend their search for other indicators of value creation. Although we expect continued research using accounting-based performance measures, changes in organizational characteristics, organizational populations, and societal outcomes all hold the promise of interesting research questions. First, increasing the scope of international operations may lead to changes in several organizational characteristics owing to higher levels of uncertainty, increased complexity, and exposure to new stakeholders. For example, "international diversity can tax a firm's resources, structure and management team. It can also complicate the communication process within the organization and the relationships the new venture establishes with other companies" (Zahra et al., 2000: 945). Although some research exists in these areas, scholars might address questions such as the following: How does international diversification affect corporate entrepreneurship and innovation? How does it influence TMT decision making and cohesion? Does international diversifica-

tion affect the ability to establish strategic alliances and joint ventures, or does it create stress for current interorganizational relationships? In contrast to an earlier era of international business, multinational firms are increasingly motivated to further diversify their operations internationally to acquire know-how, to renew their competitive skills, or to access managerial talent. How does international knowledge acquisition affect the evolution of the multinational firm?

Second, changes in organizational populations resulting from international diversification also present an interesting arena for future research. As firms diversify internationally, their production or service network(s) may also expand. Increased competition within supplier and buyer networks may lead to additional, often unintended, international diversification by other firms (Martin et al., 1998). Examination of the diffusion of international diversification could provide interesting explanations for the development of different organizational populations. Social network theory and institutional theory provide useful rationales for how strategic phenomena diffuse throughout a population of firms. Does international diversification into new markets begin with firms more central in their network, on the periphery of the network, or at the junction between clusters within a network (e.g., Burt, 2006)? Which firms are more likely to diversify early, and which are more likely to mimic or be late adopters (Greve, 1998)?

Third, there are several societal implications of international diversification beyond monetary rewards. Interestingly, early studies by developmental economists and sociologists considered mostly the societal implications of international diversification (Wells, 1998). However, perhaps owing to overwhelmingly negative conclusions about multinational firms in early globalization research, we found limited management research on the societal outcomes of international diversification. How do home and host country environments change as a result of strategies by multinational firms? What are the institutional implications of having several internationally diversified firms in home markets? How are norms exported or imported by multinational firms and their stakeholders? Do institutions in different nations converge or diverge with increased international diversification?

There is no shortage of potential moderators to the relationship between international diversification and its outcomes. Product diversification has received a great deal of attention as a moderator (the 2-4[6] relationship). The effect of international diversification on performance appears to be more positive in firms with higher product diversification, especially when those firms internationalize outside their core business. Also in this relationship, other forms of diversity have helped to explain the relationship with performance. Cultural diversity between divisions has been shown to act as a negative moderator, whereas diversity within the TMT has the opposite effect; it positively moderates the relationship between international diversification and performance.

Moderation is also found in the 1-2(5) and 2-4(5) relationships. Research has consistently found that both competitive pressures and institutional pressures influence a firm's likelihood of diversifying internationally. Similarly, a body of research has found that the relationship between international diversification and performance is likely to depend on home and host country environments. That is, complexity and dynamism negatively moderate this relationship, whereas munificence is a positive moderator.

Another area that has received significant research attention is the influence of TMT and governance variables on international diversification, as found in relationship 1-2. Findings

consistently show that larger, younger, and more heterogeneous TMTs are associated with higher levels of international diversification, which is explained in terms of risk propensity and the ability to process more diverse information. International experience and significant social capital within the TMT also lead to international diversification because these factors hold the potential for reducing the uncertainty associated with diversifying internationally or facilitate acquiring the resources to increase the likelihood of successful international diversification. Although most of the previous studies relied on TMT demographic variables, future studies are likely to use surveys of TMTs for richer measures and to gain a better understanding of the dynamics of international diversification decisions. Although firm ownership variables have received somewhat less attention, agency theory arguments have been used to explain why pressure-resistant institutional owners are likely to induce firms to diversify internationally (Tihanyi et al., 2003). Our review indicates a growing interest in governance mechanisms as antecedents of international diversification, including the influence of different types of owners and other stakeholder groups. Agency-theoretic examinations can potentially enhance prior technical and competitive explanations for international diversification.

This review also exposes some relationships that require further exploration because they may be important for developing a comprehensive understanding of international diversification. Whereas research on antecedents, the 1-2 relationship, has excelled in examining structural and management variables, the resource-based view of the firm has contributed less to the ongoing discussion of antecedents. That is, few studies have specifically sought to identify the organizational processes and resource types that predict which firms diversify internationally and why they do so, with Hitt et al. (in press) being one of the exceptions.

Most empirical research has considered one or two relationships in the framework, without considering interdependencies in the larger set of relationships. For example, the relationship between international diversification and process outcomes (the 2-3 relationship), such as organizational learning, is likely to be closely connected to antecedents (the 1-2 relationship), such as organizational structure and size. Similarly, divergent results regarding the relationship between international diversification and performance, the 4-2 relationship, may be partially explained by diverse motives for international diversification from the 1-2 relationship.

It is possible that a negative relationship between international diversification and performance in some studies is determined by previous performance problems, as managers of unsuccessful firms tend to search for diversification opportunities. In contrast, the positive relationship between product and international diversification may be the result of the possession of strategic resources. Considering interdependencies would help the field to isolate correlations and establish causal relationships between international diversification and other variables. Our collective understanding of international diversification would therefore benefit from empirical research that considers interdependent relationships and effectively controls for potential endogeneity (Hitt, Boyd, & Li, 2004).

Characteristics and Measurement of International Diversification

Our review of the research identified inconsistent and varied usage of international diversification measures. Thomas and Eden (2004) explained that differences in terminology and proxies

may be an important reason for mixed results in the international diversification-performance relationship. Indeed, our review identified more than 25 different operationalizations of international diversification, making it difficult to integrate the literature or compare results from diverse fields.

Early studies concentrated on the scale, or degree, of international diversification, including the ratio of foreign sales to total sales (FSTS), foreign assets to total assets (FATA), or foreign employees to total employees (FETE) (Capar & Kotabe, 2003; Contractor et al., 2003; Kwok & Reeb, 2000; Stopford & Wells, 1972; Tallman & Li, 1996). However, these particular measures have been criticized for failing to capture the heterogeneity of international diversification (Vachani, 1991). Other researchers measure the scope of expansion abroad, which reflects the geographic dispersion of operations across countries (Barkema & Vermeulen, 1998; Kogut, 1985; Tallman & Li, 1996). To account for similarities between countries, Hitt et al. (1997) proxied scope using an entropy measure to weight the level of diversification across different geographic regions. More recently, international diversification in professional service firms has also been captured using an entropy measure based on the number of foreign offices and the number of professional employees in each office, an indicator of the relative importance of these markets to the firm (Hitt et al., in press).

Focusing on one dimension of international diversification may not fully reflect the extent of international expansion, so more researchers are using both scale and scope measures in their studies. Sullivan (1994a), for example, argued for multidimensional measures that capture three dimensions: performance (activities overseas), structural (resources existing overseas), and attitudinal (top management's international orientation). He proposed a measure of the degree of internationalization (DOI) composed of (a) FATA, (b) number of foreign subsidiaries to total number of subsidiaries, (c) top managers' international experience, and (d) the dispersion of subsidiaries among 10 psychic zones of the world. However, not all researchers agree on the inclusion of an attitudinal component (Ramaswamy, Kroeck, & Renforth, 1996). Another multidimensional measure, the transnationality index, is composed of FATA, FSTS, and FETE and is published annually by the World Investment Report.

The structural indicators of international diversification may also be proxied by the governance structures of the corporation, such as the number of foreign owners or the number of foreign stock exchanges on which firms' stocks are traded (Annavaarjula & Beldona, 2000; Hassel, Hopner, Kurdelbusch, Rehder, & Zugehor, 2003). Performance measures of international diversification show the degree to which a firm's performance is connected to foreign operations. FSTS, in addition to other measures such as foreign profits to total profits (FPTP), has been used to measure the performance attributes of international diversification (Dibrell et al., 2005; Riahi-Belkaoui & Alnajjar, 2002; Riahi-Belkaoui & Picur, 1998). These operationalizations, however, blur the distinction between international diversification and its outcomes.

Although we applaud efforts to use multidimensional measures, the development of a universal measure of international diversification is a difficult goal to achieve because of problems of content validity across a range of firms, countries, and empirical settings. There is some danger that any one measure may incorporate dimensions that do not change with the degree of foreign activity (Hassel et al., 2003). Therefore, it is important for each study's measure of international diversification to fit with the study's theoretical intent in order to

maximize the measure's content validity (Annavarjula & Beldona, 2000). Researchers also should consider how their theory specifically applies to the scale and scope of international diversification (Qian & Li, 2002).

Future Directions for Research

Our review identified several areas of future research for scholars interested in international diversification. Most important, new theoretical perspectives can help to advance the field. There are many additional variables to explore as potential antecedents, mediators, moderators, and outcomes of international diversification. More in-depth investigation of the international diversification phenomenon using multiple levels of analysis, inclusion of temporal dimensions, and refined measures offers a promising future for this area of research. Of the many potentially interesting directions, we focus on alternative motives for, and outcomes of, international diversification, board and TMT roles, institutional environments, level of analysis, longitudinal designs, and mediating processes.

Great strides have been made in understanding the relationships surrounding international diversification; examination of additional motives and outcomes will help to identify new explanations for international business activities. For example, the behavior of outlier firms may explain irregularities in previously studied relationships. Hitt et al. noted that "future research may benefit from determining when the effects of international diversification become negative and how outlier firms are able to manage high levels of international diversification" (1994: 320). Furthermore, international diversification is often associated with risk. Sometimes firms are unprepared when they enter new countries, resulting in negative performance and eventual discontinuance of operations in these countries. As a result, future studies might consider divestment of international operations and the possible antecedents of divestitures (Turcan, 2003). Similarly, although researchers have devoted significant attention to studying the modes used by firms to enter international markets, more research is needed to explore the antecedents and outcomes of subsequent mode changes (Pedersen, Petersen, & Benito, 2002). Investigating alternative motives for international diversification also holds the potential for bringing new insights into the body of literature. A firm's motive for international diversification may influence its primary antecedents and outcomes. Surveys of, and interviews with, executives may improve our knowledge of the performance outcomes of international diversification and the motivations behind it.

Another area for future research is the intersection of the TMT, governance, and international diversification. Matters concerning TMT compensation, board structure, and institutional investors have received attention in recent years (Carpenter & Sanders, 2004; Tihanyi et al., 2003), but there are opportunities for scholars to further examine the effects of ownership on international diversification, the influence of the board of directors (Bloodgood, Sapienza, & Almeida, 1996), or the impact of the market for corporate control on this strategy. How do institutional ownership and board structure affect the scope of international diversification? What resources do owners and directors bring the firm that might shape the timing and nature of its international diversification? Does the market for corporate control discipline company officers and directors for poor or late decisions to enter international markets or expand the presence in them?

Our review showed little prior work on the executive decision-making process of international diversification. Even though early studies noted the roles of uncertainty and cognitive limitations (e.g., Aharoni, 1966; Johanson & Vahlne, 1977), additional research could uncover how the process of internationalizing occurs in organizations (e.g., Malnight, 2001). How do managers and boards of directors interact in making significant international expansion decisions? What is the origin of these decisions in a multinational firm? What are the role of politics and power in making and implementing international diversification decisions?

Future research should be directed at the role of institutional environments in decisions to enter particular international markets. There is much to learn about the antecedents and consequences of international diversification on firms with different home country environments. Knowledge and innovation are being outsourced across national boundaries (Engardio & Einhorn, 2005; D. Li, Holmes, & Hitt, 2005), and firms from emerging market countries are increasingly diversifying into international markets (Kuada & Sorensen, 2004; Nachum, 2004). The generalizability of existing findings is partially limited by the research focus on large manufacturing firms based in the United States (Lu & Beamish, 2001; Vermeulen & Barkema, 2002). Consequently, questions remain about whether the results generalize to firms diversifying internationally from emerging market contexts and other developed countries as well (Thomas & Eden, 2004) or from other areas where there is high institutional distance between home and host countries.

Grounded in institutional theory (DiMaggio & Powell, 1983; Scott, 1995), researchers have recognized how the performance of firms going abroad is affected by their ability to gain legitimacy. Firms entering foreign institutional environments may suffer from liability of foreignness (Zaheer, 1995), and “psychic distance” that often constrains knowledge transfer when doing business abroad (Johanson & Vahlne, 1977). Providing impetus for this work, Kostova and Zaheer (1999) defined institutional distance as the differences or similarities between MNE home and host country institutions. Understanding and explaining the role of institutional distance in the process of international diversification holds significant opportunity.

Future research can add several methodological advancements to the existing body of empirical studies. The majority of international diversification research has focused primarily on a single level of analysis—the firm—leaving significant opportunity for research at the network, industry, and country levels. Research exists suggesting the importance of different levels of analysis. For example, Carpenter and Fredrickson (2001) found that industry-level uncertainty moderated the relationship between TMT characteristics and international diversification. In addition, industry characteristics possibly affect performance or the ability to diversify internationally. Given that extant research favors manufacturing firms, contrasting various industry characteristics (including service industries) as moderators is likely to provide unique insights.

The preponderance of international diversification research in the strategic management and international business fields has focused on firm-level moderators, whereas economics researchers more frequently consider country-level moderators. One exception is the work of Wan and Hoskisson (2003), who found that the munificence of the home country environment moderates the relationship between international diversification and performance. The potential “fit” between home and host cultures, capabilities, and resource endowments can be better understood with further exploration. In addition, researchers might also consider their samples in view of the regional context, contrasting relationships across regions.

We anticipate increasing interest in interorganizational perspectives of international diversification, which are likely to introduce new levels of analysis. The role of social networks can be investigated as an antecedent to international diversification or perhaps as a moderator of the relationship between international diversification and performance. Gimeno et al. (2005) found that when firms internationalize, they tend to cluster in certain geographic areas because of competitive forces. This competitive mimicry contributed to international diversification such that firms could benefit from information spillovers and positive externalities.

Our review of the literature indicates the need for more extensive longitudinal studies. In fact, Thomas and Eden (2004) suggested that future research should explore the temporal dimension of the international diversification–performance relationship. Recently, temporal elements have been incorporated into measures of international diversification to gauge the impact of rhythm and speed of international expansion (Vermeulen & Barkema, 2002; Wagner, 2004). Rhythm refers to the regularity of pattern with which firms diversify internationally. Vermeulen and Barkema (2002) found that speed of international diversification negatively moderates the relationship between international diversification and performance. The inclusion of time into theoretical explanations of international diversification is likely to produce new research questions related to speed, pace, rhythm, and sequence of entry (George & Jones, 2000).

The relatively long history of international diversification by MNEs in many countries sets the stage for longitudinal studies. Although some have used longitudinal data to investigate the outcomes of diversification (Geringer et al. 2000; Lu & Beamish, 2004; Thomas & Eden, 2004), few have used longitudinal data to investigate the process of international diversification. Overall, there is a challenge for scholars to continue to address the external validity of theories by applying them to diverse samples over long periods of time.

Another future research avenue involves exploration of the processes serving as mediators between antecedents and outcomes. Research on the process of international diversification is becoming increasingly necessary to advance our knowledge of this strategy. Prior research has emphasized content variables. How do firms diversify internationally? How are firms constrained from diversifying internationally? How do managers, firms, and alliances increase the success of international diversification? Longitudinal data can help identify and understand these processes as well as highlight the importance of both short-term and long-term effects of international diversification.

Our review of the work on international diversification provides several contributions. First, we develop and describe an integrative model of the relationships among international diversification, its antecedents, and outcomes and moderators of these relationships based on the extant research. Second, we have identified important gaps in our knowledge of the international diversification strategy. Third, we have provided guidance for future research needed to advance our knowledge of the international diversification strategy and thereby facilitate further development of the international management field.

In sum, we suggest that international diversification research to date has covered significant intellectual ground. Foundational relationships have been explored in detail, and new relationships have been advanced to explain existing phenomena. We expect the field to move toward consolidation to examine and understand relationships with sufficient depth of empirical research and via the development of more complex theoretical models that simultaneously

consider multiple relationships. Several mediating and moderating variables require additional replication research to validate existing ideas. Last, the field is expected to develop new theoretical explanations on the how and why of international diversification.

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Biographical Notes

Michael A. Hitt is a distinguished professor of management and holds the Joe B. Foster Chair in Business Leadership and the C. W. and Dorothy Conn Chair in New Ventures at Texas A&M University. He received his PhD from the University of Colorado. His current research focuses on international strategy, strategic entrepreneurship, managing resources to create value, and strategic networks.

Laszlo Tihanyi is an associate professor of management in the Mays Business School at Texas A&M University. He received his PhD from Indiana University. His research interests include international strategies, corporate governance in multinational firms, and organizational adaptation in emerging economies.

Toyah Miller is a PhD student in strategic management in the Mays Business School at Texas A&M University. Her research interests include alliances, social networks, international strategy, and strategic leadership.

Brian Connelly is a PhD student in the Mays Business School at Texas A&M University. His current research interests include corporate governance, ownership, and international strategies.