

Effects of Overseas Investment on Core Competence: From the Aspect of Corporate Culture

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ABSTRACT Manufacturers in Taiwan are proceeding internationalization or engaging in overseas direct investment. In the process of internationalization, the capabilities of manufacturers are promoted or the industry upgrade is enhanced; the results of overseas direct investment also provide Taiwanese manufacturers with a channel for resources and learning or outsourcing low value-added or labor-intensive downstream operations, but remaining high value-added upstream operations or R and D in Taiwan for international resource distribution. It is also considered that the core capabilities of manufacturers are the key in surviving the competitive environments. When proceeding internationalization or FDI activities, the relations and effects on the core capabilities and the derived issues are worth in-depth discussions. By literature analyses and questionnaire survey, this study tends to explore the effects of Overseas Investment on Core Competence, where Overseas Investment contains the dimensions of Ownership Advantages, Internalization Advantages, and Location Advantages, and Core Competence covers Pulse Survey Capability, Integration-Related Capability, and Function-Related Capability. Total 250 copies of questionnaires were distributed to high-level supervisors in electronics enterprises in Taiwan and 192 valid ones were retrieved, with the retrieval rate 77%. The research findings show the significant correlations between Overseas Investment and Core Competence, where Corporate Culture shows remarkably correlations with Overseas Investment and Core Competence. Finally, several suggestions are proposed aiming at Overseas Investment.

INTRODUCTION

Trade and Foreign Direct Investment (FDI) are generally regarded as the major engines in global economic development. In the past quarter century, policies for Foreign Direct Investment were gradually deregulated because of the barrier of international trade being broken, attracting foreign capitals became the tactic to promote national economic development, and the amount of global Foreign Direct Investment was increasing. Since 1990s, technology has greatly advanced that the promotion of free measures for trade and investment is accelerated when the global economic integration is largely enhanced and the industrial competition is promoted from one region to the global to facilitate the emergence of multinational enterprises' diversification strategies and the boom of enterprise merger (M and A) and promote the development of global Foreign Direct Investment.

A lot of researchers have studied the situation of Taiwanese manufacturers actively pro-

ceeding Foreign Direct Investment (FDI), because of the change of domestic investment environments and the increasing international competition, for maintaining the competitive advantages. Locus (1993) indicated that Taiwan Miracle depended on acquiring learning opportunities in the production process through mass export and further accumulating enormous human capitals to facilitate the economic development and achieve the high economic growth rate. Hobday (1995) studied East Asian countries and found that Taiwanese manufacturers imitate, learn, and absorb foreign advanced technology by direct investment or joint venture to reinforce the technological capabilities and experiences for the enterprise activities and to achieve the result of business upgrade.

Being an island economy, Taiwan has deficient regions and natural resources. Under such globalized and internationalized waves, Taiwanese enterprises started foreign investment early in order to effectively expand the overseas market and increase the competitive advantages. The investment amount of Taiwanese enterprises constantly increased in 1990-2004. Apparently, it is inevitable for Taiwanese enterprises moving towards internationalized management and distribution.

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Literature Review and Research Hypothesis

I. Overseas Investment

Lee and Chen (2000) regarded Overseas Investment as a primary path for enterprises pursuing development; internationalized development stood for manufacturers distributing transnational management mechanisms with different value-added activities, while the heterogeneity among countries could enhance the complexity on dealing with businesses and organizational links. In short, overseas investment is a transnational expansion of operation in which manufacturers would increase the commitment and involvement in overseas markets when outsourcing the operating activities. This study attempts to organize relevant literatures based on manufacturers, markets, resources, and Eclectic Theory.

1. Manufacturer

Buckley and Casson (1976) considered that enterprise activities were connected by key intermediate products, including professional skills, knowledge, human capital, marketing, and management knowledge and experiences. The incomplete intermediate product market appears time lag and transaction costs. Manufacturers, under the control of common property, therefore have to internalize purchase behaviors and external activities (like purchase, marketing, R and D, and employee training) to substitute for external market transaction in order to overcome the incomplete intermediate product market. International direct investment is then formed when such internalized activities cross the boundaries.

Johanson and Mattsson (1988) proposed internationalization network model that processed through international expansion, international penetration, and international integration. Based on Market Internationalization and Manufacturer Internationalization, they further classified manufacturers into 1.early pioneers, 2.independent internationalization, 3.late pioneers, and 4.internationalization integration and explained the conditions.

2. Market

Vernon (1966) emphasized that technology would gradually change with time and divided

products into innovative product, mature product, and standardized product to explain the combination of international trade and overseas investment. Hymer (1960) stressed on specific ownership advantages of enterprises, covering products or the unique technology in the production process and scale economy, and pointed out the conditions of overseas investment competing with local manufacturers, including special ownership advantages for overseas investment and oligopolistic structure of the industry.

3. Resource

Kojima (1978) and Ozawa (1979) observed the overseas investment industries in Japan and discovered that Overseas Investment contained capital flow and emphasized the transfer of management skills and technological knowledge. They pointed out the basic elements for overseas direct investment, including the overseas direct investment industry losing comparative advantages in the nation and the overseas direct investment industry appearing comparative advantages in the host country. In other words, the combination of abundant resources and cheap labor in the host country with labor-intensive technology could enhance the comparative advantages of the industry in the host country and further present powerful competitiveness in the international market. On the other hand, eliminating uncompetitive industries and transferring limited domestic resources to the industry with higher productivity could assist investing nations adjusting the industrial structure.

According to Eclectic Paradigm Theory concluded by Dunning (1993), this study proposes the following factors in Overseas Investment.

1. Ownership advantages refer to the special production resources of a manufacturer, which is divided into (1) special property or intangible assets of an enterprise, such as production management capability, integrity of organization and marketing network, product innovation capability, and knowledge management capability, and (2) advantages resulted from transnational operation management, as multinational enterprises present a transnational networking model that overseas branches could provide various operation assistance for the parent company with lower costs and more resources. Besides, the internationalization experiences accumulated

from permanent overseas operations allow an enterprise reducing overseas operation risks with the experiences in the international market.

2. Internalization advantages indicate that manufacturers with special advantages, in consideration of overseas operation and production, would not look for local partners to avoid transaction costs, but tend to transaction internalization. Such transactions need to consider the following factors, covering (1) reducing and looking for negotiation costs, (2) reducing buyer uncertainties, (3) reducing the acquisition costs of special capitals, (4) acquiring mutually dependent benefits economically, (5) practicing price discrimination, (6) preventing governments from intervention, (7) ensuring the quality of intermediate products and final products, (8) controlling the delivery in the market, (9) controlling product supplies and sales conditions, and (10) cross subsidization or formulating international marketing strategies.

3. Location advantages are the key in the final choice of investment location. It is generated from an investor's comprehensive evaluation of market potential and investment risks in order to make the decision according to the principle of low-cost investment or the strategic purpose in the enterprise. The following factors in such location advantages should be taken into account, including (1) market scale, (2) price, quality, and productivity of invested elements, (3) international transportation and communication costs, (4) tariff and non-tariff barriers, (5) local infrastructure, (6) cultural and psychological distances, (7) stability of local politics and political situation, (8) distribution of resources and market space, (9) advantageous and disadvantageous inducement for investment, and (10) relative restrictions and rewards.

II. Core Competence

Mansour (1998) regarded Core Competence as the knowledge and technology negotiated, integrated, and shared among business sectors through SBU competitiveness. Core competence is the unique capability of a company integrating technology, knowledge, and skills in the market. Lin (2009) considered core competence as Value Creation Ability, which provided irreplaceable value for the cooperative partners and customers in the defined competitive field and labor division system. Value creation ability is based

on innovation, as the definition of value is changing in such an open operating environment that enterprises should master the trend, present innovation, and practice innovation abilities. Deal and Kennedy (1982) described core competence from the aspect of resource bases and regarded competition advantages as the assets a company had and how such assets were utilized. The past strategic thinking did not evaluate the asset quality and the connection to become an advantageous resource, nor did it emphasize the accumulation and future change.

Coyne (1986) pointed out core competence as a specific capability combined with professional skills and knowledge which could practice one or several tasks with international standards. Hejazi and Safarian (1999) defined core competence as the combination of several skills, which was not an accounting asset, but an ability, being able to provide customers with specially perceived value and contribution; processing capabilities for reducing costs was one of such capabilities, which was not necessarily returned to the customers. Core competence, originated from the capabilities of competitors, is different from those of competitors and is an opportunity to enter a new market. Long and Koch (1994) applied strategies to confirming and developing core capabilities so that the company could provide unique values with the customers and beneficiaries; he regarded capabilities as the tips of skills, knowledge, and technology, which provided special advantages for a special point in the value chain and were combined with strategies to form core competence.

Referring to Hejazi and Safarian (1999), core competence is divided into three dimensions in this study:

1. Pulse Survey Capability, the capabilities to be close to customers, including brand development management, sales and marketing, distribution and logistics, and technological support.
2. Integration-Related Capability, containing quality, operating time, and real-time stock management for a company being faster, more flexible, and more reliable than the competitors.
3. Function-Related Capability, a special function for the services or products being different from the competitors and the value of customer satisfaction.

III. Corporate Culture

Schein (1992) defined Organizational Culture as the common hypotheses learnt by an organization when solving external adjustment and internal integration problems; with the effective operation of culture, they were regarded as correct recognition, thinking, and feeling being taught to the new members when encountering relative problems. Messmer (2001) considered Corporate Culture as an invisible style or overall impression of an enterprise, which contained the bottom part, protected organizational structures, or presented more formal operation and interaction and visible policies and procedures (Meng 2010). Culture was originated from the philosophy of founders, which could strongly affect the recruitment of a company; and, managers' behaviors were the norm of the employee's behaviors (Robbins 2001). Peters and Waterman (1982) indicated that any equipment, skills, and complete plans and strategies could not compete with Corporate Culture (Hsu 2010). Corporate Culture was often mentioned in the research on the key factors in successful enterprises, which was considered as the solution for any business problems (Ogbonna and Harris 1998). Szutu (2009) indicated that an enterprise was maintained by Corporate Culture, and powerful Corporate Culture would assist the enterprise in passing through frustration and challenges in the development process and turned risks into opportunities. Safferstone (2001) mentioned that a benchmark enterprise could become the leader in the industry because of four key capabilities; one of which was the culture being able to create attraction and retain excellent employees. Lee (2010) regarded unique Corporate Culture as a competitive advantage which could affect employee behaviors and organizational performance. Chien (2011) pointed out Corporate Culture as the guideline of organizational members, which was an intangible influence from Corporate Culture allowing the enterprise moving toward consistent directions, creating valuable movements, cohering the employees, enhancing the organizational performance for the sustainable development of the company.

IV. Research on Overseas Investment, Core Competence, and Corporate Culture

Taiwanese businesses are facing a lot of difficulties in the changeable operation environment (like politics, law, economy, and social culture),

in which Corporate Culture conflict and recognition resulted from national culture and the effects of such highly uncertain investment environments on the choice of entering model (Kogut and Singh 1988) are the key factors in investing in the market in Mainland China. Chien (2011) argued that Corporate Culture could be the power and source of an organization facing challenges and developing Core Competence in the future.

Teece et al. (1997) pointed out the cultivation of relative potentials and the enhancement of core competence as the considerations in terms of Overseas Investment so that an enterprise could create sustainable competitive advantages by improving the management efficiency, product and service quality, technological innovation, and customer feedback and further affect the operation performance. The following hypotheses are therefore proposed:

H1: Overseas Investment appears significant correlations with Core Competence.

H2: Corporate Culture shows notably correlations with Overseas Investment.

H3: Corporate Culture presents remarkably correlations with Core Competence

RESEARCH METHODS

I. Operational Definition and Measurement of Variable

1. Overseas Investment

Overseas Investment is divided into the dimensions of Ownership Advantages, Internalization Advantages, and Location Advantages. Referring to Dunning (1993), this scale is measured with Likert's 7-point scale with 1 standing for Extremely Disagree and 7 for Extremely Agree. The overall reliability coefficient reveals Ownership Advantages 0.83, Internalization Advantages 0.85, and Location Advantages 0.82.

2. Core Competence

Core competence covers the dimensions of Pulse Survey Capability, Integration-Related Capability, and Function-Related Capability. Referring to Hejazi and Safarian (1999), this scale is measured with Likert's 7-point scale with 1 standing for Extremely Disagree and 7 for Extremely Agree. The overall reliability coefficient shows

Pulse Survey Capability 0.86, Integration-Related Capability 0.81, and Function-Related Capability 0.84.

3. Corporate Culture

Referring to Safferstone (2001), Corporate Culture Scale is measured with Likert's 7-point scale with 1 standing for Extremely Disagree and 7 for Extremely Agree. The overall reliability coefficient of Corporate Culture appears 0.90.

II. Research Subject

Manufacturers in Taiwan who engage in overseas direct investment and are still operating are studied and sampled from Overseas Investment Business published by Investment Commission, MOEA. Electronic Industry is selected as the research subject as it has become the major industry in few decades and several electronic products are leading the world. Hamel and Prahalad (1994) mentioned in *Competing for the Future* that computer manufacturers in western countries would not survive in the electronic market without the support of electronic manufacturers in Taiwan, showing the importance of Taiwanese electronics industry. High-level supervisors in electronics enterprises in Taiwan are distributed 250 copies of questionnaires, and 192 valid ones are retrieved, with the retrieval rate 77%.

III. Verification of Reliability and Validity

The reliability of the dimensions reaches up to 0.7, presenting the high reliability. The construct validity of the scales is analyzed with Confirmatory Factor Analysis. From Table 1, the convergent validity and the construct validity are favorable.

Table 1: Confirmatory factors

Research dimension	Overall fit	Analysis result
Overseas investment	X ² =0(P<0.001); DF=0; GFI=1.00; CFI=1.00	Excellent overall fit
Core competence	X ² =0(P<0.001); DF=0; GFI=1.00; CFI=1.00	Excellent overall fit
Corporate culture	X ² =0(P<0.001); DF=0; GFI=1.00; CFI=1.00	Excellent overall fit

RESULTS

I. Correlation Analysis

Table 2 shows the correlations among Overseas Investment, Core Competence, and Corporate that multicollinearity possibly appears among the dimensions. Niehoff and Moorman (1993) suggested solving such a problem with Nested Model Analysis. The significant correlations among the dimensions also correspond to the hypotheses.

Table 2: Correlation analysis

Research dimension	α	Overseas investment	Core competence	Corporate culture
Overseas investment	0.85			
Core competence	0.82	0.41**		
Corporate culture	0.83	0.28*	0.34**	

II. Discussion of Theoretical Model

The overall research is shown as Figure 1, in which Path Coefficients achieving the significance is shown with solid lines, while the one not reaching the significance is shown with dotted lines. It is obvious that Path Coefficients of the variables achieve the significance that such coefficients achieve the convergent validity, corresponding to the basic requirement of the analysis model. The fits of Theoretical Model, GFI=0.942, AGFI=0.928, RMSEA=0.02, and CFI=0.977, also present the research model corresponding to the theory and revealing validity.

III. Discussion of Research Hypotheses

With Nested Model, Chi-Square Difference Test is utilized for testing the hypotheses, as each Nested Model appears a degree of freedom. When the chi-square difference between Nested Model and Theoretical Model achieves the significance, Path Coefficients set 0 is significant. The research results show the model achieving the significance; the analyses of Nested Model are shown in Table 3; and, the test results of the hypotheses are listed in Table 4.

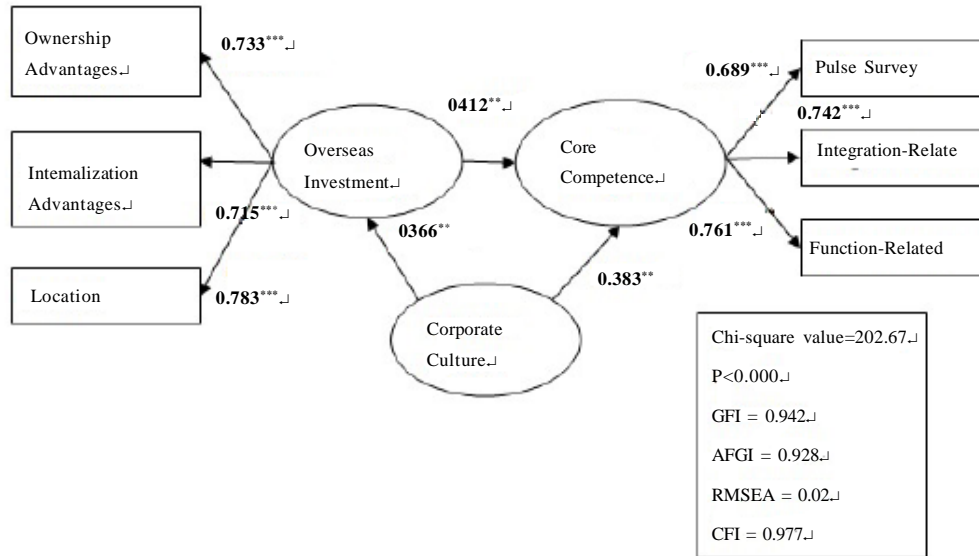


Fig. 1. Theoretical model and results

Table 3: Analysis of nested model

Model	χ^2	$\Delta\chi^2$	GFI	CFI	RMSEA
Theoretical model	202.67		0.942	0.977	0.02
Model 1: Hypothesis verification	211.02	8.35*	0.942	0.977	0.02
Model 2: Hypothesis verification	218.35	7.33*	0.942	0.977	0.02
Model 3: Hypothesis verification	226.49	8.14*	0.942	0.977	0.02

Table 4: Verification of hypothesis

Research	Correlation	Empirical result	P	Result
Hypothesis 1	+	0.412	0.00	Supported
Hypothesis 2	+	0.366	0.00	Supported
Hypothesis 3	+	0.383	0.00	Supported

CONCLUSION

The research results show the remarkably correlations between Overseas Investment and Core Competence that the results and the findings are concluded and following practical suggestions are proposed.

I. Ownership Advantages: Rich international experiences allow multinational enterprises investing branches overseas, challenging higher risks, and investing abundant resources in overseas businesses to enhance the control of overseas branches and acquire most benefits. The richer experiences of the parent company in the industry could have the similar effects as rich international experiences as well as cultivate relative potentials and enhance the core competence. The enterprise not only could acquire relative industrial experiences from the businesses, but also could accumulate management knowledge to exchange with customers and suppliers from the world. The enterprises therefore could learn risk response and management capabilities that the communication and management of overseas branches would become easier.

II. Internalization Advantages: To engage in overseas direct investment, manufacturers in Taiwan could cooperate with famous international manufacturers to directly acquire the skills, or outsource low value-added or labor-intensive downstream operation to overseas through labor division, but remain high value-added upstream operation or R&D in Taiwan for international resource distribution. In this case, Taiwanese manufacturers could more efficiently engage

in R&D to promote the technology or competitiveness.

III. Location Advantages: The complete legislation, economic degree, and social culture system in the host country could reduce the supervision and compliance costs for enterprises. Moreover, the intangible asset in high-tech industry is the formation of knowledge economy, which presents great effects on the physical assets. Location Advantages therefore is considered critical.

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