The Evolution Mechanism of Corporate Overseas Investment Risk—Exploratory Research Based on Grounded Theory

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Abstract. The risk of overseas investment by Chinese companies under the global value chain reconstruction has received increasing attention. This study collected textual data of overseas investment risk cases through the Internet, and used the qualitative research method of grounded theory to conduct exploratory research on the risk of overseas investment and its evolution mechanism, and obtained “macro environment—management risk—business process—stakeholders—preventive measures” conceptual model, provided a useful reference for enterprises to conduct overseas investment risk prevention and control.

Introduction

Since the outbreak of the global financial crisis in 2008, the world economy has entered a "new equilibrium" state of deep adjustment and structural rebalancing. The original global trade cycle with the "consumer-producer-resource" as the core chain has become more and more unsustainable. Global value chain is being reshaped. Under such circumstances, corporate overseas investment faces many problems. Mainly in the following aspects: (1) as industrial return in some developed countries, technology monopoly and other policies hinder investment; (2) social conflicts intensified in parts of developing countries, political risks rises significantly; (3) global populism and protectionism rise, investment is blocked; (4) many emerging market countries are facing depreciation pressures, China's exchange rate and exchange risk exposure to overseas investment in emerging market countries is prominent.

Due to China's unique social system, the overseas investment behavior of Chinese companies is often not trusted by the host government and the public. This increases the complexity and uncertainty of Chinese companies' overseas investment and greatly increases the difficulty of risk identification. In order to explore the key risks faced by Chinese companies in overseas mergers and acquisitions, it is urgent to identify overseas investment risks and analyze their evolution mechanism to help enterprises to prevent risks.

Literature Review

Beginning in the 1960s, originated from “Enterprise Risk Management” of Melr & Hedges (1963), many scholars analyzed the risk of foreign investment in enterprises from multiple dimensions [1]. Miller (1992) constructed an international risk perception model from the international macro environment, industry environment and enterprise micro environment [2]. The analysis of the factors affecting overseas investment by Bala Ramasamy (2010) concluded that trade links, resource scrutiny and culture can positively influence foreign investment [3]. The risk environment is an important issue for companies to invest overseas. Tsai & Su (2005) explored the political risks of overseas investment with five Asian ports as an example, while Click (2005) and Ghemawat (2001) study the economic environment and the impact of social and cultural factors on overseas investment by manufacturing companies in a country [3,4,5]. Du Xiaojun and Liu He (2010) used the grounded theory to construct a key risk system for overseas mergers and acquisitions of Chinese...
enterprises with “cross-cultural risk” as the core category, and provided strategies and suggestions for Chinese government and enterprises to effectively prevent overseas M&A risks [7].

Overseas investment is a systematic project involving the interaction of different factors, and the resulting risks are difficult to quantify directly. In the analysis of the identification and evolution mechanism of overseas investment risks, relevant corporate data is classified as confidential and difficult to obtain directly. Previous qualitative research relied on a large number of textual materials for perceptual and descriptive analysis, focusing on the research on the expression of corporate overseas investment risks, but lacks in-depth research on the impact mechanism and impact process. Therefore, this paper used grounded theory to collect a large number of risk cases through the Internet and explored the evolution of overseas investment risks.

Research Design

The basic research steps of grounded theory include collecting original materials, and carrying out research problems, summarizing concepts and propositions directly from the original materials through coding analysis, and then constructing relevant theories. According to Strauss & Corbin (1990), the rooted theory method is called coding for the process of data analysis and classification [6]. The collected data is continuously broken, organized and reorganized to explore concepts, refine the scope, and construct meaning.

Regarding data sources, a large number of overseas investment failure cases were collected through the Internet, and discussion papers on the reasons for the failure of Chinese companies' overseas investment in the Q&A community were used as text data for the study. With regard to data analysis, this paper used manual coding analysis, using the model of exploratory research, assisted in the establishment, processing, modification and analysis of the intrinsic language information of qualitative data by analyzing text data, helping to find complex phenomena hidden in the data, thereby achieving the purpose of constructing theory. Qualitative research generally does not need to discuss the reliability problem, but "internal validity" is the key point to be solved. This paper used the researcher's triangulation method to test the validity.

Data Analysis and Coding

Open Coding

This study first removed irrelevant content, such as corporate background information, other information not related to the research topic in the case text, and finally obtains textual data (22,283 words) related to the research topic of the cause, influence, and situation of overseas investment risk. After that, the case texts are sorted one by one in a logical order, and 59 valid text data are obtained.

Open coding refers to the process of decomposing, examining, comparing, and conceptualizing and categorizing interview texts. It is an analytical work that defines phenomena and classifies them. The coder read through all valid text data separately and performed progressive coding of the initial concept. Entry selected into the code must be related to the risk of overseas investment, and each statement can only be counted in one entry. The open coding process has a total of 43 concepts. After merging the invalid and duplicate concepts, a total of 19 categories are obtained. Some of the contents are shown in the following table.

Axial Coding

Axial coding is a process of connecting the categories obtained in open coding by using the model of "causal condition → phenomenon → context → mediation condition → action/interaction strategy → result", aiming to find potential categories and their relationships. Through the paradigm model of "conditions - phenomena - context - interaction - results", this paper continued to classify and abstract open codes, and drew four main categories, namely "macro environment", "management risk" and "decision process", and "precautionary measures."
Selective Coding

The purpose of selective coding is to select the core category, to further concretize the category relationship formed by the main axis coding, to develop a story line that leads the whole category, to depict behavioral phenomena and context conditions, and to develop a new substantive theoretical framework. This study focuses on the core category of “enterprise overseas investment risk evolution mechanism”. The macro-environment is an antecedent variable. The macro-environmental change is an important driving factor for the formation of overseas investment risk. Under the change of macro environment, the specific embodiment of investment uncertainty on management level is the phenomenon of overseas investment risk. The performance of risk in the different stages of investment decision-making, project operation and its evolution with the dynamic game of different stakeholders is the clue and interactions of overseas investment risks. The precautionary measures taken by enterprises based on the evolution of risks brought about by macro and micro environmental changes are the inevitable result of overseas investment risks. Based on this, a conceptual model of the evolution mechanism of overseas investment risk in the context of global value chain restructuring is constructed.

Table 1. Open coding.

<table>
<thead>
<tr>
<th>NO.</th>
<th>Text</th>
<th>Refinement</th>
<th>Concept</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>43</td>
<td>Some countries have changed mining policies and even suspected Chinese companies, which has hindered the overseas mergers and acquisitions of Chinese companies.</td>
<td>Host country policy stability and bilateral relations affect overseas investment risk.</td>
<td>Policy stability</td>
<td>Political risk</td>
</tr>
<tr>
<td>9</td>
<td>In the process of international operation, we recognize that the main factors of the success or failure of investment projects are not only the scale and quality of resources, but also the development conditions of infrastructure, but also the policies and laws of the project location, and the working environment of the community.</td>
<td>The “soft” environment of the host country’s policies and laws is an important risk factor for overseas investment.</td>
<td>Legal risk</td>
<td>Industry attribute</td>
</tr>
<tr>
<td>6</td>
<td>Overseas investment of mining industry is typically with high capital, high risk and high concern…</td>
<td>War is a risk of force majeure.</td>
<td>Industry attribute</td>
<td>Industry risk</td>
</tr>
</tbody>
</table>

![Figure 1. Selective coding.](image)

To ensure the reliability of the study, it is necessary to test the model for theoretical saturation. Theoretical saturation refers to the fact that when the data that can further develop the characteristics of a certain category cannot be obtained, the theory tends to be saturated. In this paper, the remaining case enterprises are used as the data of theoretical saturation test. They are
open-coded, axial-decoded and selective coding in turn. The relevant risks are still consistent with the context and causality of the “enterprise overseas investment risk evolution mechanism”.

Research Conclusions

In practice, most of enterprises lack experience in overseas investment, and their awareness of risk prevention is shallow. The performance is that there is neither sufficient research on overseas investment environment nor a sound risk early warning management mechanism. Therefore, for the enterprises that participate in overseas investment in China, the most urgent task at present is to enhance the awareness of investment risk prevention, improve overseas investment research and improve the risk early warning management mechanism.

Table 2. Axial coding.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Main CAT.</th>
<th>Category</th>
<th>Relationship connotation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Condition</td>
<td>Macro environment</td>
<td>Political environment, social environment, industrial environment, economic environment, systemic risk</td>
<td>The risk sources for Chinese enterprises to invest overseas include political, social, economic and other aspects, as well as systemic risks resulting from the coupling of various risks.</td>
</tr>
<tr>
<td>Phenomenon</td>
<td>Management risk</td>
<td>Organization risk, social management risk, financial management risk, comprehensive risk</td>
<td>Under the influence of macro-environmental uncertainty, the risks faced by enterprises in overseas investment management are divided into four aspects: organization, society, finance and comprehensive risk.</td>
</tr>
<tr>
<td>Clue</td>
<td>Decision process</td>
<td>Pre-investment research, selection of investment object, speed of investment decision-making</td>
<td>Overseas investment is accompanied by pre-investment research, decision of location and amount, and post-decision project operation. The quality and speed of decision-making affect the risk of overseas investment, and constitute a risk evolution chain based on business flow.</td>
</tr>
<tr>
<td>Interactive</td>
<td>Multi-agent game</td>
<td>Host country, multinational company, invested party, partner</td>
<td>Overseas investment involves different stakeholders such as host countries, home countries, investment entities, investment targets, partners, employees, communities, and the public. Different subject objectives are inconsistent and affect overseas investment risks in a dynamic game.</td>
</tr>
<tr>
<td>Result</td>
<td>Precautions</td>
<td>Implement organizational change, seek third-party services, and coordinate interests</td>
<td>In the context of macro and micro environmental changes, the release of overseas investment risks and the continuous spread of risk evolution chains based on business processes and multi-agent dynamic games, companies should focus on organizational change, third-party services and coordinating interests as risk prevention measures.</td>
</tr>
</tbody>
</table>

This study explores the key risks and evolutionary mechanisms of overseas investment only from the existing textual data. In future research, risk indicators can be measured to determine key risks. Based on business process analysis of overseas investment, Markov Markov Chain can be used to quantify the probability of transition of risk states.

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References


