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Firm Resources and Host-Country Factors Impacting Internationalization of Knowledge-Intensive Service Firms



By

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Introduction

Globalization, coupled with market liberalization and technological transformation, is making transformation faster and easier for the flow of knowledge to people across the border. One of the results of globalization is the emergence of the knowledge-based society, in which service sectors are growing in importance. Today, service industries constitute more than two-thirds of the most developed nations' economic activities. In the last two decades, the global service sector has experienced tremendous growth resulting in a simultaneous increase in knowledge-based services (Javalgi, Joseph, & LaRosa, 2009). Growth in services, in both developed and emerging economies, has been facilitated by improvements in international trade policies, advances in technological developments, and the need to maintain innovation and competitive advantage (Javalgi & Martin, 2007; Javalgi & White, 2002). As countries develop, attracting knowledge-intensive service organizations, such as US business schools, becomes of greater interest.

The competitive arena generated by the global economy is compelling US business school leaders to be creative and innovative, especially by expanding their school's operations into international markets to make their growth sustainable. A business school's competition is becoming global in the knowledge-based services sector. The current research focuses on the internationalization of services, more specifically knowledge-based services, of US business schools. Knowledge-based services are more complex than traditional services because they possess additional characteristics such as high customization, greater risk and uncertainty, and the complexity and difficulty of being evaluated by customers (Jackson & Cooper, 1988; Zeithaml, 1981).

Knowledge-based services include management consulting, engineering services, and educational services (Lovelock & Gummesson, 2004). These services are growing much faster than manufacturing and other service industries (e.g., Aharoni, 2000; Peneder, Kaniovski, & Dachs, 2003; Toivonen, 2004). Among knowledge-based services, higher educational services such as US management education have shown continuous growth in the overseas markets. Management education is defined as being a degree-based program that leads to baccalaureate

and advanced degrees in business administration and allied disciplines (Javalgi et al., 2009).

This research focuses on the internationalization of MBA programs offered by US business schools. More specifically, the objectives of the paper are threefold: (1) to examine the effects of organizational (here, the terms *firms* and *organizations* are interchangeably used) resources and host-country factors on the internationalization of US MBA programs, (2) to discuss managerial implications of the findings, and (3) to suggest directions for future research to expand the understanding of the internationalization of knowledge-based services.

This study makes the contribution to the field of internationalization of services, more specifically knowledge-based services, in several ways. While there is increased literature that discusses knowledge-based services, the research on the internationalization of US management education (e.g., US MBA programs) is limited. Furthermore, international delivery of MBA programs is no longer the domain of a few schools in the United States. More and more business schools in the United States, regardless of their size and type, public or private, are aggressively seeking international markets to sustain growth. Therefore, it is becoming increasingly important to better understand the factors that drive the internationalization process of business schools so that necessary resources can be allocated to succeed in the international markets.

In this study, US MBA programs are selected for at least three reasons. First, US MBA programs are nationally and internationally recognized because of the rigor and applied nature of the curricula that tend to meet the growing demand of managers in the global marketplace. Second, many governments in different parts of the world, especially in developing economies, are establishing priorities to train their workforce to achieve economic competitiveness. Third, since the 1970s, US MBA programs have experienced incredible growth (National Center for Education Statistics, 2011). As a result of saturation in the domestic market, there is a greater need for continued growth, survival, and sustainability of the programs through expansion abroad.

While we do not propose that a US MBA program is better than one earned from a non-US business school, we do support the position that demand for the US MBA

in foreign countries has increased because of a variety of organization's (business school) specific variables, some of which will be the focus of this research.

The remainder of the article is organized as follows: The first section provides a review of related literature. The second section presents development of hypotheses. The third section focuses on research methodology, and the fourth section presents results. Finally, the fifth section provides discussion and managerial implications, followed by directions for future research.

Related Literature Review

An examination of the extant literature reveals that several theories have been used to explain the reasons that firms engage in international operations. This article reviews only some of those theories. However, building on previous theoretical studies, this study utilizes a resource-based view (Barney, 1991; McDougall, Covin, Robinson, & Herron, 1994) and the eclectic theory proposed by Dunning (1988). Each of the theories is briefly presented below.

Early explanations of the drive to expand internationally began from the perspective that organizations have specific resources that form competitive advantages. The emphasis on firm-specific resources as drivers of internationalization has its roots in the resource-based view (RBV) of the firm because most economic approaches to internationalization are resource based (resource exploitation or resource sourcing). The resource-based view has in recent years become a major research paradigm guiding inquiry into the antecedents of internationalization in recent years (Hitt, Bierman, Uhlenbruck, & Shimizu,

2006; Tseng, Tansuhaj, Hallagan, & McCullough, 2007; Westhead, Wright, & Ucbasaran, 2001). The RBV argues that resources that are valuable, rare, imperfectly imitable, and imperfectly substitutable (Amit & Schoemaker, 1993; Barney, 1991) are an organization's main source of sustainable competitive advantage from which sustained performance results (Conner, 1991; Peteraf, 1993).

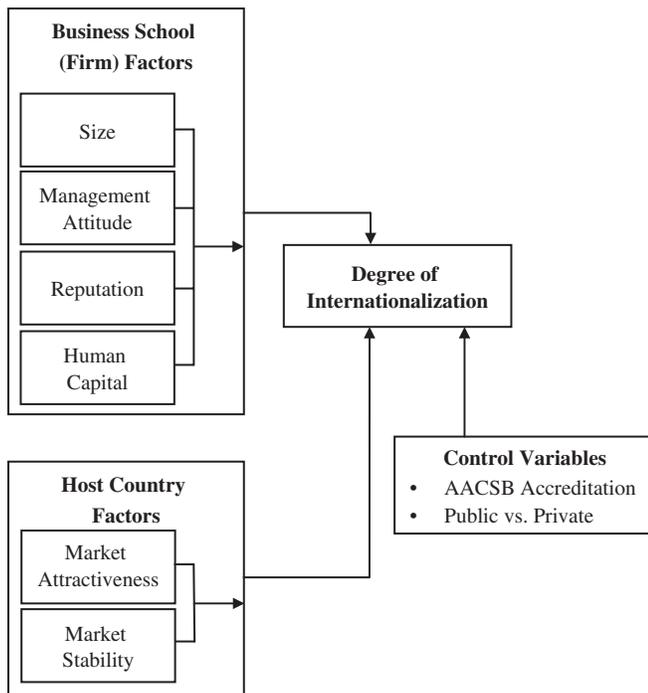
The RBV focuses on heterogeneous and firm-specific characteristics, which is a significant departure from the neo-classical market-based economics of the industrial organization view (Mahoney & Pandian, 1992). It sees foreign expansion primarily as a means by which organizations can appropriate rents in overseas markets from the exploitation of valuable idiosyncratic resources such as technological capabilities, brand names, human capital, and management know-how (Filatotchev, Strange, Piesse, & Lien, 2007; Hsu & Pereira, 2008). According to the RBV, an organization's (business school) success in the market not only depends on environmental factors but also on the firm's function and influence on the environment (Barney, 1991; Ekeledo & Sivakumar, 2004).

The concept of knowledge as a resource creates the theoretical link between the RBV and the knowledge-based view (KBV) of the firm (Kuivalainen, Puumalainen, Sintonen, & Kylaheiko, 2010). The KBV of the firm is, indeed, a recent extension of the RBV, and the firm's capabilities make that extension possible (Kuivalainen et al., 2010; Malerba & Orsenigo, 2000). The resource base of the firm increasingly consists of knowledge-based assets (Sveiby, 2001). As pointed out in the literature, the organization's knowledge resources are particularly important to achieve sustainable competitive advantage, as these resources are difficult to imitate since they are the foundation for sustainable differentiation (Wiklund & Shepherd, 2003). Today, we are witnessing a structural change in the production of knowledge and the dissemination of that knowledge (Teece, 2007). Kuivalainen et al. (2010) note that the competitive advantage of knowledge intensive firms (e.g., business school) is driven by the firm's intangible (e.g., human capital, reputation) and tangible resources (e.g., facilities).

Another theory used in this study to explain internationalization of firms is Dunning's eclectic theory of foreign direct investment. Dunning (1988) developed an eclectic framework for explaining a firm's foreign market entry strategies depending on its capabilities. According to Dunning (1988), the selection of entry-mode choice is influenced by three advantages: ownership advantage (O), location advantage (L), and internalization advantage (I). A business school's ownership advantage may include international experience gained through,

Early explanations of the drive to expand internationally began from the perspective that organizations have specific resources that form competitive advantages.

FIGURE 1 Theoretical Framework



for example, study abroad programs, and product and service differentiation. Location advantage refers to the market potential (e.g., students) of the host country. And, finally, internalization advantages may realize the benefits of retaining assets and skills (faculty and staff) within the organization when the market fails or there is potential for opportunistic behavior by a partner (Agarwal & Ramaswami, 1992; Dunning 1988). Dunning (1988) contends that these advantages are necessary conditions for investing abroad.

The ensuing discussion focuses on the development of hypotheses. The research constructs related to the hypothesis development are presented in Figure 1.

Development of Hypotheses

Firm Size

According to the resource based view of the firm (Barney, 1991), firm size is one of the indicators of managerial and financial resources available to the firm. Owing to greater resource availability, larger firms should show a greater degree of performance (Thomas & Eden, 2004). Evidence suggests that cross-border activities increase with firm size (Erramilli & Rao, 1993; Javalgi et al., 2003). In the international business literature, firm size is one of the independent variables most commonly

employed to explain the internationalization process of firms (Suh, Yi, & Houston, 2011). Several others have conducted a meta-analysis of the relationship between firm size and the degree of internationalization as well as export performance outcomes (Bonaccorsi, 1992; Chetty & Hamilton, 1992; Cubbin & Leech, 1986; Reid, 1995; Suh et al., 2011; Zou & Stan, 1998).

The study by Cavusgil and Nevin (1981) showed a positive relationship between firm size and export activity, but another study by Cavusgil (1984) illustrated that size does not influence export activity except for small size firms. In addition, Bonaccorsi (1992) studied the relationship between size and export behavior in 8,810 Italian companies and showed that firm size is positively associated with propensity to export and negatively associated with export intensity. Moreover, Vida, Reardon, and Fairhurst (2000) found that firm size is a determining factor for firm internationalization. Based on the above discussion, we propose the following hypothesis.

Hypothesis 1: *A business school's size is positively related to its degree of internationalization.*

Management Attitudes Toward Internationalization

Management attitudes act as a guiding force for the organization as these attitudes are important factors in determining the firm's level of international involvement beyond the domestic borders (Aaby & Slater, 1989; Javalgi, Griffith, & White, 2003). Initiating and maintaining international activities represent the firm's behaviors and as such they are greatly impacted by management attitudes (Ciszewska-Mlinaric & Mlinaric, 2010). Several studies of manufacturing firms have found that managers' attitudes toward operating internationally to be the most important factor of export performance (Axinn, 1988; Cavusgil & Nevin, 1981; Dichtl, Köglmayr, & Müller, 1990; Kedia & Chokar, 1986).

In a service context, White, Griffith, and Ryan (1999) found that managerial attitude toward the international expansion is a key discriminating variable differentiating exporting and nonexporting service firms. These authors note that, given lower capital requirements in the service industry, attitudes may play a stronger role in the internationalization of service firms. In their study, Javalgi et al. (2003) found strong support between managerial attitudes and internationalization of service firms. In summary, the existing literature in both the manufacturing and service industries shows a significant impact of the managements' attitudes and perceptions on the internationalization of firms. Therefore, in congruence with the existing literature it is expected that:

Hypothesis 2: *A business school's management attitude toward expanding internationally is positively related to its degree of internationalization.*

Reputation of the Business School

An organization's reputation has long been recognized as an important resource associated with sustainable competitive advantage and performance (Amit & Schoemaker, 1993; Barney, 1991). Reputation is "a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals" (Fombrun, 1996, p. 72). Reputation is based on the information its stakeholders (e.g., customers, suppliers) hold about its product/service quality and performance. Such information may simply result from past experience. But, more often, consumers/customers often exchange information about the organization's products and services. The manners by which consumers form perceptions and exchange related information is important in formulating that reputation and in ultimately garnering revenue and profitability. International marketing management researchers often emphasize the role of reputational assets—for example, brand equity, corporate reputation, corporate image—on superior performance. The role of brands as key intangible resources and sources of sustainable competitive advantages and superior performance has been particularly highlighted (e.g., Aaker, 1991; Fombrun & Shanley, 1990; Keller, 1993).

Clearly, a good reputation is a tremendous asset that could become a sustainable competitive advantage (E. Fischer & Reuber, 2007). For a business school, a positive reputation means that its products and services have

Reputation is based on the information its stakeholders (e.g., customers, suppliers) hold about its product/service quality and performance.

a good brand image (e.g., nationally and internationally recognized MBA program, faculty reputation, etc.). For a business school, a good brand name for its programs (e.g., MBA) is a differential advantage, and as such, the business school attempts to capitalize on it (K. Fischer, 2012). Several authors suggest and explore a positive association between corporate reputation and company image and an organization's superior performance (E. Fischer & Reuber, 2007; Fryxell & Wang, 1994). Based on the above discussion, we propose the following hypothesis:

Hypothesis 3: *A business school's reputation is positively related to its degree of internationalization.*

Human Capital

The RBV identifies firms as different collections of physical assets and intangible resources such as human capital (Barney, 1991; Chatterjee & Wernerfelt, 1991). Human capital resources include the training, experience, skills, relationships, and insight of individual managers and employees in a firm. Similarly, human capital is defined as the know-how, information, and general capabilities that employees bring to bear on behalf of the firm through their employment relations (Galunic & Anderson, 2000). Capabilities and/or professional knowledge and skills are specific abilities stemming from past experience/practice that allow organizations to perform certain tasks (Hitt et al., 2006). Employees' skills and international experiences are important as firms enter new markets, expand the scale and scope of existing markets/regions, and increase revenue.

In the context of professional services, human resources (as opposed to physical assets) has been identified as the fundamental resource endowments of these firms (Hitt et al., 2006; Shukla & Dow, 2010; Von Nordenflycht, 2010). Previous studies have conceptualized human capital as intangible capabilities or resource endowments that significantly influence the firm's international performance (Cavusgil & Naor, 1987; Javalgi & Todd, 2011). Other empirical studies have shown that individual/decision maker characteristics such as employees' international experiences and foreign market knowledge influence international performance of firms (Aaby & Slater, 1989; Cavusgil & Naor, 1987; Ruzzier, Antoncic, Hisrich, & Konecnick, 2007). Based on the preceding discussion, we propose the following hypothesis:

Hypothesis 4: *Human capital is positively related to the degree of internationalization of a business school.*

Hypothesis Related to Host-Market Attractiveness

Host market attractiveness is one of the most important characteristics of the external environment in which

business is conducted. The benefits that US business schools derive from the internationalization of the programs depends on the market attractiveness characterized by such factors as market potential, high market demand for products and services (e.g., a MBA curriculum), favorable attitude of the host government, and high political and economic stability fostering a conducive business environment (Javalgi et al., 2003; Pangarkar, 2008).

In the context of services, the attractiveness of a country for starting operations is more closely related to the size of the market and the income level (de Mooij & Hofstede, 2002). Several market characteristics may have an impact on the perceived attractiveness of the market (Mitra & Golder, 2002; Sternquist, 1997). Prior research suggests performance of firms is lower in those markets where foreign firms face challenging external environments, including poorly developed infrastructure (Beamish, 1985; Merchant & Schendel, 2000; Pangarkar, 2008). It is therefore reasonable to hypothesize, based on the preceding discussion, the following:

Hypothesis 5: *A host country's market attractiveness is positively related to the degree of internationalization of a business school.*

Host Country's Social, Economic, and Political Stability

The landscape of higher education and the world in which higher education plays a significant role is changing for

The landscape of higher education and the world in which higher education plays a significant role is changing for many reasons, including the stability of social, economic, and political conditions.

many reasons, including the stability of social, economic, and political conditions. As a result, the international activities of business schools have dramatically expanded in volume, scope, and complexity over the past two decades. The rationale behind the internationalization of higher education is diverse and yet interconnected (De Wit, 1999). In fact, Knight and De Wit (1997), for example, state that the fundamental reasons for internationalization of higher education are grouped into four clusters: (1) political, which ensures a country's position and role as a nation in the world contributing to stability, security, and peace; (2) economic, which greatly contributes to the skilled human resources needed for international competitiveness of the nation; (3) academic, which is the foundation to the economic advancement of the nation; and (4) cultural and social, which emphasizes the importance of the country's own cultural heritage.

In line with political stability, the economic stability of a host country is also important when firms decide to conduct business internationally. Good economic infrastructure (e.g., stable currency, low foreign debt, stable financial institutions) of a host country is an attraction for foreign firms. Knowledge intensive service providers such as business schools are more likely to favor franchising, joint ventures, or wholly owned subsidiaries as compared to export types of entry modes when a host country's economic and political conditions are consistently stable and conducive to productive business environment. In fact, many governments in emerging and developing economies are realigning their higher education policies to address the challenges presented by the knowledge and innovation economy. Governments are placing great value on higher education programs (i.e., an MBA) offered by advanced countries such as the United States. Based on the preceding discussion, we propose the following hypothesis:

Hypothesis 6: *A host country's market stability (e.g., economic, social, and political) is positively related to a business school's degree of internationalization.*

Research Methodology

Data Source and Sample

To develop the research instrument, we employed the following steps. First, we began our research with the articles published in the area of internationalization process of firms in the international management and marketing literature. An extensive review of literature became the basis for the development of the research instrument. We developed a questionnaire following the methods suggested

by Churchill (1979). In the second phase of the study, a qualitative interview was conducted with business schools' Deans/Associate Deans/Program Directors selected from Association to Advance Collegiate Schools of Business (AACSB) membership schools in order to seek information on the various aspects of the internationalization process of their respective schools. In the next stage of the research design, results of the qualitative research were combined with the extant literature to develop a survey instrument. The initial version of the questionnaire was tested by interviewing seven AACSB membership schools with international operations, with particular emphasis given to clarity, validity, and relevance issues.

The sampling frame used in this is a list of AACSB membership schools that are qualified by AACSB International. AACSB is the professional association for college and university management education and a premier accrediting agency for bachelor's, master's, and doctoral degree programs in business administration and accounting. This accrediting organization has nearly 1200 member schools (AACSB International, 2011). As of April 2011, 620 member institutions had attained AACSB business accreditation with over 220 of these accreditations coming from member schools from outside of the United States.

Not all business schools that are listed as members (both accredited and non-accredited) of AACSB International have locations in overseas campuses. Since the theme of this study focuses on the internationalization of business schools, the study focuses on those business schools having locations in overseas markets. Therefore, a total of 148 schools included in this study are comprised of US graduate business schools that are AACSB members and have locations in international markets. Each of these schools was then contacted via telephone and electronic mail communications. Sixty-two schools responded to the questionnaire, a response rate of 42%. Since many of the 62 responding schools have multiple locations overseas, the information presented here is based on 110 overseas campuses.

Twenty-five percent of the business schools reported fewer than 225 MBA students, 45% noted between 225 to 600 students, and the remaining 30% of the schools had over 600 students. One hundred ten campuses in our database indicated that three out of four business schools were accredited by the AACSB International, with an average length of accreditation of nearly 20 years. One-half of the schools were public institutions. Based on the schools' missions and general descriptions, 11% of the schools noted a heavy emphasis on high-quality research, and nearly three-quarters of the schools emphasized the importance

of balance between research and excellence in teaching. The remaining schools placed a heavy emphasis on teaching. A nonresponse bias is examined by using the size of the business school, since this variable could be independently confirmed for both responding and nonresponding schools. We compared the average school size of the 62 responding schools to the average school size of the 86 nonresponding schools and found the difference between respondents and nonrespondents to be statistically insignificant ($F = 0.25$; $p = 0.62$), indicating an absence of non-response bias based on the size dimension.

Measurement of the Variables

All of the variables used in this study are taken from existing studies (Agarwal & Ramaswami, 1992; Brouthers, Brouthers, & Werner, 1999) and a majority of the statements use a 5-point Likert scale. For the purpose of this study, wording of the statements was slightly modified.

Dependent Variable

The dependent variable is the degree of internationalization that is measured by international revenue as a percentage of total revenue (Hitt, Bierman, Shimizu, & Kochhar, 2001). This measure is perhaps the most widely used in the literature (Javalgi & Todd, 2011; Sullivan 1994; Yeoh, 2004).

Explanatory Variables

Size

The size of the business school is measured by the total number of students registered (both full-time and part-time MBA students) in a business graduate degree program. This is considered an acceptable indication of business school size because it is a common comparative measurement of all postsecondary US schools (National Center for Educational Statistics, 2011; Javalgi et al., 2003).

Management Attitude

The management attitude scale is captured through the use of a two-item scale (1 = not strong and 5 = very strong) taken from the existing literature (White et al., 1999). One of the items, for example, dealt with management's motivation to expand internationally (see Table 1). Between the two items, the Cronbach alpha is 0.71, which is consistent with the previous studies (Nunnally, 1978).

Human Capital

Human capital measured in the current study utilized the subjective measurement of the international teaching experience of business school faculty (employees

TABLE 1 Survey Items, Source, and Reliability of the Constructs

Scale (Cronbach)	No. of Items	Items	Prior Research
Management Attitude Towards Internationalization (Cronbach's alpha = 0.71)	2	<ul style="list-style-type: none"> How strong has the motivation by management been to seek overseas markets for the graduate business program? How would you rate the level of importance in establishing an overseas graduate program? 	White et al., 1998; Javalgi et al., 2003
Size	1	<ul style="list-style-type: none"> What is the total number of students (full-time and part-time) that are registered in a business graduate degree program at your institution? 	National Center for Education Statistics, 2011
Human Capital	1	<ul style="list-style-type: none"> Percentage of business school faculty experienced in teaching internationally in the MBA program 	Javalgi & Todd, 2011; Dimov & Shepherd, 2005
School Reputation	1	<ul style="list-style-type: none"> Dummy variables coded as 1 = national/ regional prestige of a business school; 0 = all other schools 	Ranking of 200 schools listed in <i>BusinessWeek</i> , Lavelle, 2012
Market Attractiveness (Cronbach's alpha = 0.80)	3	<ul style="list-style-type: none"> What growth do you project to be of postsecondary educational institutions in (country)? How would you rate the demand of postsecondary educational institutions in (country)? What is your perception of (country) government's attitude toward the entry of foreign graduate programs? 	Dunning, 1988, 1993
Market Stability (Cronbach's alpha = 0.90)	3	<ul style="list-style-type: none"> What is your perception about the stability of political conditions in (country)? What is your perception about the stability of social conditions? What is your perception about the stability of economic conditions in (country)? 	Dunning, 1980, 2001
Degree of Internationalization	1	<ul style="list-style-type: none"> Percentage of foreign revenue to total revenue 	Javalgi & Todd, 2011; Cavusgil & Zou, 1994; Lu & Beamish, 2001
AACSB Accredited	1	<ul style="list-style-type: none"> Dummy variable codes as Yes/No 	AACSB, 2011
Public vs. Private	1	<ul style="list-style-type: none"> Dummy variable coded as Yes/No 	AACSB, 2011

of the organization) (Dimov & Shepherd, 2005). Years of education and experience have been used as proxy for human capital in prior studies (Dimov & Shepherd, 2005; Javalgi & Todd, 2011). In the current study, in order to measure human capital, the respondents were asked to indicate the percentage of faculty experienced in teaching internationally in the MBA program. A 5-point scale is used.

Reputation of the Business School

To measure the reputation of the business school, the study used the listings of the rankings of the business schools' MBA programs as published in *BusinessWeek* (Lavelle, 2012). This source consisted of the prestige rankings of 200 US MBA programs. The rankings were listed in two categories: national reputation (30 business schools) and regional reputation (170). When we matched our sample data to national/regional listing, we found a total of 34 schools under national/regional rankings. We created a new dummy variable "reputation/prestige" coded as 1 = national/regional reputation and 0 = all other business schools.

Market Attractiveness

A host country's market potential scale, consisting of three items, is obtained from the existing literature (Dunning, 1988). Items are shown in Table 1. Each item is measured using a five-point scale (1 = not strong, 5 = very strong). The items focus on the manager's commitment to the importance of internationalization. The items were originally obtained by principle component analysis in which all the items were loaded on a single factor, accounting for 75.43% of the variance. The reliability of the scale (Chronbach's alpha) is 0.80 (Nunnally, 1978). The reliability scale is a measure of the internal consistency of the items making up the construct.

Market Stability

A host country's market stability scale is obtained from the existing literature (Dunning, 1988). There were three items in the scale, and each scale is measured using a 5-point scale (1 = not stable, 5 = very stable). Items are shown in Table 1. When factor analysis is conducted and a single factor accounting for over 85% of the variance is generated, the reliability of the scale (Chronbach's alpha) is 0.90.

A summary of the measurement scales, items used for the constructs, reliability of the constructs, and prior studies used for the scales are presented in Table 1.

Control Variables

The two control variables used are AACSB accreditation and public versus private business schools. One of the most internationally recognized accrediting organizations for business schools is the Association to Advance the Collegiate Schools of Business (AACSB). For this study, we created a dummy variable “AACSB accredited” as 1 = accredited business schools and 0 = not accredited. The second dummy variable used in this study is public versus private business schools. It is found that both of these variables were not significant, leading to the conclusion that the degree of internationalization of business schools is not impacted by accreditation recognition or whether the school is public or private. Many private and nonaccredited US business schools are internationalizing their MBA programs and generating revenue from abroad.

Results

All the preceding hypotheses have been tested using a multiple regression equation, which is a multivariate technique commonly used in the literature. The estimates of the regression coefficient of the explanatory variables are presented in Table 2. The regression equation is statistically significant ($F = 15.2, p < 0.001$; R-square = 0.51).

The coefficient of the independent variable size is not significant ($\beta = 0.08, p < 0.60$); thus, Hypothesis 1

is not supported. This suggests that the size of a business school does not appear to affect its degree of internationalization. The relationship between a business school’s management attitude toward expanding internationally and the degree of internationalization is significant ($\beta = 0.20, p < 0.001$); thus, Hypothesis 2 is supported. This shows that a business school’s management attitude toward the internationalization of MBA programs plays an important role.

Hypothesis 3 suggests a positive relationship between a business school’s reputation/prestige of the MBA program and the degree of internationalization. The results shown in Table 2 depict a statistically significant relationship ($\beta = 0.33, p < 0.001$). Thus, Hypothesis 3 is supported. Hypothesis 4 deals with the relationship between human capital and the degree of internationalization. As can be seen from Table 2, the relationship is statistically significant ($\beta = 0.71, p < 0.001$). Thus, Hypothesis 4 is supported.

As shown in Table 2, a country’s market attractiveness ($\beta = 0.16, p < 0.01$) is significant; thus, Hypothesis 5 is supported. This suggests that a country’s market attractiveness is positively related to the degree of internationalization of a business school. However, Hypothesis 6 dealing with the relationship between market stability and the degree of internationalization is not statistically significant ($\beta = 0.09, p < 0.58$). Thus, Hypothesis 6 is not supported.

In addition, we have conducted hierarchical regression analysis and compared different models to see which set of independent variables explained the most variance of the dependent variable (see Table 3). As shown in Table 3, the most important variables contributing to the dependent variable (the degree of internationalization) are human capital, reputation, management attitude toward internationalization, and foreign market attractiveness, respectively. These key factors help school administrators allocate resources to build and sustain international expansion activities. The size of the business school and AACSB accreditation were not the key contributors to the internationalization process.

Discussion and Implications

The internationalization of higher education refers to the delivery of educational services, that is, teaching, research, and service that transcends the borders of a single country. US business schools are in the service business playing a key role in creating and disseminating knowledge through teaching, research, and related services that cross domestic borders. No one denies the fact

TABLE 2 Regression Results

Variables	Standardized Coefficients
Firms (US Business School) Resources	
Management attitude toward internationalization	0.20*
Size	0.08
Human capital	0.71**
School reputation	0.33**
Host Country Factors	
Market attractiveness	0.16*
Market stability	0.03
Control Variables	
AACSB accredited	0.08
Public vs. Private	0.09

* $p < 0.05$; ** $p < 0.001$, $F = 15.2$.
R² Adjusted = 0.51.

TABLE 3 Analysis of Hierarchical Regressions

Variables	Model 1 (M1)	Model 2	Model 3	Model 4	Model 5
Control Variables	Coefficients (<i>t</i> -value)				
AACSB accreditation	0.10 (1.2)	0.06 (0.972)	0.08 (1.04)	0.07 (0.95)	0.08 (0.88)
Public vs. private	0.12 (1.5)	0.16 (2.32)	0.09 (1.3)	0.09 (0.97)	0.09 (1.18)
Independent Variables					
Human capital	0.64 (7.83)	0.67 (8.80)	0.68 (9.2)	0.68 (9.20)	0.71 (9.23)
Reputation		0.31 (4.38)	0.33 (4.72)	0.32 (4.68)	0.33 (4.74)
Management attitude towards internationalization			0.18 (2.45)	0.17 (2.30)	0.20 (2.50)
Market attractiveness				0.15 (2.23)	0.16 (2.34)
Size					0.08 (0.94)
R ² (adjusted) Change in R ²	0.38	0.09	0.04	0.02	0.004

that US MBA programs are globally relevant and very attractive to students who aspire to have an MBA degree from the United States no matter where they live.

This study provides several important strategic implications relating to the internationalization of US MBA programs. Furthermore, the study is especially helpful to business school administrators who face opportunities (e.g., increase enrollment beyond the domestic borders) and challenges (e.g., resources) when delivering programs abroad. The findings of this study are important to business schools choosing to internationalize its MBA program. These schools should consider such factors as human capital, reputation, attitude of management toward internationalization, and host market attractiveness. Our study, which is based on international business theory, also makes an important contribution to the topic of internationalization of knowledge-based services that represent a rapidly growing sector of a service economy. Researchers suggest that there is a need to better understand the internationalization process of firms (US business schools) in the knowledge-based services sector (Javalgi et al., 2009).

Our findings suggest that size of a business school does not seem to influence the internationalization of US MBA programs. This is a positive factor for a business school of any size, especially small ones wishing to internationalize (Ford & Leonidou, 1991; Johnson, Yin, & Tsai, 2009; Katsikeas, Piercy, & Ioannidis, 1996; Mohamad, Hafiez, & Ramayah, 2009). Business school administrators now have empirical evidence to indicate that the size of their school will not hinder the organization's ability to internationalize. Many small US MBA programs have successfully internationalized despite their size, due to

the fact that these schools have other organization specific and unique characteristics (e.g., human capital and management commitment to internationalization) that are more appealing to certain countries.

US MBA programs of all sizes that have been successful in overseas markets are those schools that have shown strong positive management attitude toward internationalization. Schools of all sizes that have these resources and aggressively promote their programs may find internationalization easier to promote. A school's capability of adjusting to overseas markets will depend on its management of collaborative relationships, faculty expertise and experience, development of customized creative programs, which meet the needs of the target country's educational demands while maintaining educational and service quality.

Findings of the study reveal that human capital of a business school appears to be very significant to its internationalization (Javalgi & Todd, 2011). This is one of the most important aspects in making a school distinctive, and it supports the works of Coleman (1998), Athanassiou and Nigh (2002), Fletcher (2004), and Herrmann and Datta (2005). If a US business school expects to expand overseas, it is important that human capital is not only well established, but also unique in a way that makes the school appealing. Because the faculty are the primary link to the front-line customers (students), they are the most vital resource. Investing in faculty research as well as hiring and retaining reputable and qualified faculty are crucial to building a successful program both domestically and abroad. Business school administrators' attitudes toward internationalization and their vision for

the school are vital. The administrative infrastructure, faculty expertise, scholarship, and research, combined with knowledgeable administrative staff, are critical in building a successful program abroad. Unequivocally, the human capital of a school aids in promoting the program's internationalization process.

When schools implement study abroad programs and other forms of international experience, they tend to send their best faculty because they represent the human capital that they wish to endorse. While we do not propose that a school's human capital has to be the best, it does help that when a school does internationalize, that the school's human capital is distinctive. Business school administrators frequently seek the best candidates as they recruit for their staffing purposes. For business schools, it is not uncommon for faculty searches to include phrases such as "Candidates should have a PhD degree in international business from an AACSB accredited institution with evidence of or potential for high-quality teaching and research." In addition, faculty searches frequently seek candidates who have a reputation that can be marketed and can provide the institution with continued global growth.

The findings of the study also suggest that a business school's reputation influences the internationalization process. It is important to note that an increasing number of foreign universities are partnering with business schools with highly regarded reputations. The value of an organization's overall reputation is easily seen in its relationship to the organization's revenue. An organization with a good reputation owns a valuable asset (e.g., brand name). A good reputation is very valuable for organizations such as US business schools. A good reputation may also allow business schools to attract graduate students from top universities worldwide. For reputable schools, internationalizing has the tremendous advantage of increasing revenue by assessing premium tuition fees because of a resource advantage (i.e., brand reputation) (Hadjikhani, 1997; Johanson & Vahlne, 2009), and students are willing to pay a premium for this advantage in countries such as Singapore, India, and China. Customers (students) tend to evaluate brand names with signals of quality and value. A growing number of US business schools (e.g., Yale, Harvard, Wharton) are using their well-known brand names to convince foreign students of the value of their MBA programs. In places such as Asia, where brand is extremely important, a successful brand is what will attract customers (students) regardless of many other organizational characteristics (Temporal, 2005). To become successful and hence profitable, brands must develop a positive, enduring reputation.

Furthermore, organizations with good reputations have the ability to influence and be selective of the countries they decide to enter. School administrators should note that this influence leads to the development not only of stronger reputations, but also improved revenues. We agree with Chen (2007), who supports the idea that the reputation of a school has more influence in the enrollment decision than immediate financial concerns, and that the academic reputation and quality of graduate education has the most pulling effect on the enrollment decision. Schools that wish to internationalize will need to promote their name globally through workshops, conferences, and alumni. Administration's commitment to building a strong reputation through service quality, curriculum design, and faculty research/expertise will help the school to garner more revenue from foreign countries.

Annually, organizations (business schools) are ranked in prestigious lists such as *Fortune*, *BusinessWeek*, *Financial Times*, and the like. These standings promote positive reputations and are commonly utilized by decision makers. In knowledge-based learning services such as higher education programs (i.e., MBA programs), these lists serve as important tools in promoting prestige and reputation in the community. As a result, students at the best universities are perceived as obtaining the highest level of available knowledge (Hitt, Harrison, & Ireland, 2001). For this reason, we suggest that a school promotes itself externally as well as internally by building a reputable program with a strong network so that others become aware of the expansion of the program as the school internationalizes.

According to the study findings, management attitude toward internationalization is also found to be significant. Cavusgil and Nevin (1981) determined that management's expectation and attitude of an organization are major factors in explaining why a firm internationalizes. Several other studies have acknowledged the importance of managerial attitudes and characteristics in developing international markets and achieving international success (Aaby & Slater, 1989; Calof & Beamish, 1994; Lim, Sharkey, & Kim, 1993; Smith & Zeithaml, 1999).

The development of globalization in a knowledge-based society has led to institutional changes in higher education systems such as management's mission and vision for the institution. The attitude and commitment of management have traditionally been significant indicators toward internationalization (Burton & Schlegelmilch, 1987; Gomez-Mejia, 1988; Reid, 1981; Tookey, 1964). Shih and Wickramasekera (2010) support the finding that firms that have a higher commitment by management are more likely to internationalize compared to

those that do not have a commitment by management (Deem & Brehony, 2005). Clearly, the attitudes of top management are important in formulating and effectively implementing an internationalization strategy (Shih & Wickramasekera, 2010). Implementing a global strategy is difficult because it requires resources and commitment that cross time, space, and cultural zones. At the same time, it is rewarding to see these global strategies come to fruition and to witness their impact not only on student and faculty experience but also on financial gains.

In addition to the key variables already mentioned, findings of the study suggest that foreign market attractiveness is significant to the international performance of a business school. Market attractiveness is a multidimensional construct. Foreign markets vary economically, politically, and culturally. Country and/or regional differences do matter. A careful study of these differences is imperative when a business school offers programs abroad. Assuming that the educational infrastructure in a host country is the same as that of the United States is risky. A host country's culture has profound influence on all aspects of delivery of the program including the curriculum design. Cultural influences change as the nation or region navigates political, economic, social, and technological transformation (Javalgi et al., 2009). It is important to understand the manner by which the composition of factors related to a host country's attractiveness influences the cross-cultural product service strategies.

Although there are many foreign universities that offer MBA programs to their students, US MBA pro-

grams are perceived as prestigious, rigorous, and suited for preparing the next generation of leaders. There are several countries where demand for the US MBA program is high; however, because of varying government and political restrictions in these countries, problems with investment, delivery format, and curriculum design exist. For example, higher education institutions in Saudi Arabia are required to include Islamic content in their curricula (Rugh, 2002). However, other specific religious content is restricted by government limits (Rugh, 2002). The Arab Human Development Report also pointed out that higher education in Arab countries lacks clear political vision and government policies that oversee the whole educational processes (United Nations Development Programme, 2003). In Nigeria the student population continues to demand US MBA programs, but because of government control, foreign investment in Nigeria's higher education market remains low (Bawa, 2009). In East African countries, many governments lack effective institutional quality assurance practices and are hindered by poor funding policies and a lack of human capacity (Materu, 2007). However, US business schools have entered foreign countries whose governments encourage collaborations in order to decrease risks and increase higher educational opportunities in the form of stipends, grants, and loans for their student population.

Countries trying to attract new investment will highlight the existence of a dynamic and prestigious education system, since knowledge is perceived to provide a network effect of added value. Encouraging investment in higher education on the part of the host country can help create a new competitive platform. Examples of this have been seen in several countries such as the United Arab Emirates, Singapore, India, and China. Attracting international MBA programs may, therefore, become the initiation of future international clusters of expertise and production. An additional incentive is that there are now fewer international trade restrictions (Adlung, 2006). With this incentive in mind, it is helpful to know that governments have flexibility in promoting services without violating international agreements and using their service support to improve conditions for production of goods and services.

Conclusions and Directions for Future Research

Regardless of the economic conditions in the United States and abroad, educational programs continue to expand overseas because business education leaders search for a means of continuing growth and sustaining a revenue

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stream. Furthermore, business schools seek to internationalize through a variety of mechanisms, including the establishment of a presence overseas. When a school begins the internationalization process, their best faculty (human resources) is sent overseas. Excellent faculty helps to improve the school's reputation and aids in developing a successful program. These types of decisions by the administration suggest that the attitude of management helps in the internationalization process. Management attitude toward internationalization is found to be significant and is critically important. For US business schools to sustain growth in terms of enrollment, educational leaders are increasingly choosing to expand their programs beyond their domestic borders. MBA school deans must get support from their administration. For US business schools, internationalization represents a tremendous opportunity to grow and achieve sustainable competitive advantage in new foreign markets and further generate new revenue by capitalizing on valuable resources and capabilities.

In conclusion, much of the internationalization research has been focused on the other types of organizations (e.g., manufacturing). In terms of future research, the exponential rise of knowledge-intensive service organizations such as business schools provide a myriad of opportunities for theoretical and empirical research. Applying existing international business/management theories such as the RBV and KBV, researchers can develop a comprehensive model based on the theoretical constructs explaining the internationalization process of knowledge-intensive service firms (Javalgi & Martin, 2007). If the study of internationalization of services is to increase and develop as a viable research area, more research efforts in theory building, measurement, and practice need to be examined closely. We believe that the proposed framework can be used as a guiding template to improve understanding of relationships among the factors impacting the internationalization of knowledge-intensive service organizations.

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