The Internationalization of Chinese Firms

Nan Zheng

Doctor of Philosophy

University of York

The York Management School

December 2013
Abstract

The rise of China’s outward foreign direct investment (OFDI) has resulted in an increasing number of research studies. A variety of firm, industry and country-related factors have been examined largely in an isolated fashion. This thesis adopts an integrated approach in conceptual development and addresses three empirical questions surrounding the internationalization of Chinese firms.

Based on productivity heterogeneity theory and the strategic tripod framework (integrating resource-based view, industry-based view and institution theory), the first study carries out a multi-dimensional analysis to examine the factors driving exporting firms to engage in OFDI as part of their internationalization strategy. Hypotheses are tested using a recent survey of Chinese privately-owned enterprises.

The second study attempts to answer two questions: what are the nature of the specific strategic resources that are sought after by Chinese acquirers and whether a partnering approach is a viable strategy for post-CBMAs? Draws on multiple case studies of Chinese firms’ cross-border mergers and acquisitions (CBMAs), it is revealed that, possessed with resource advantages in terms of domestic developed technological know-how and abundant international experience, Chinese firms are likely to engage in CBMAs to seek well-known brands, advanced technologies, established distribution networks and management know-how possessed by developed economy (DE) firms. For Chinese firms, being the new players in international markets, the partnering approach is a viable strategy for securing strategic resources, reducing the unintended consequences of traditional integration and maintaining the strategic resources of the foreign firms.

Drawing on the entry mode literature and the strategic tripod framework, the third study investigates whether firms that used hybrid entry mode (a combination of exporting and OFDI) performed better than exporting-only ones. The dataset used is the same survey used in the first study and it is found that employing OFDI entry mode does not improve an exporting firm's performance.
# Table of Contents

Abstract ....................................................... 2

Table of Contents .............................................. 3

List of Figures .................................................. 5

List of Tables ................................................... 6

Acknowledgements ............................................. 7

Author’s Declaration ........................................... 9

Chapter 1: Introduction ....................................... 10
  1.1 Introduction ............................................. 10
  1.2 Research Objectives and Questions ....................... 14
  1.3 Research Methodologies .................................. 18
  1.4 Potential Contributions ................................... 19
  1.5 Structure of This Thesis .................................. 22

Chapter 2: An Overview of China’s Outward Foreign Direct Investment .......... 24
  2.1 Introduction ............................................. 24
  2.2 General Trend of China’s Outward Foreign Direct Investment ........ 24
  2.3 The Staged Development of China’s Outward Foreign Direct Investment ... 28
  2.4 China’s Outward Foreign Direct Investment by Ownership: SOEs vs. POEs .... 61
  2.5 Motivates of China’s Outward Foreign Direct Investment ............... 64
  2.6 Conclusion ............................................. 72

Chapter 3: Chinese Exporting Firms Expanding to Outward Foreign Direct Investment? .... 73
  3.1 Introduction ............................................. 73
  3.2 Literature Review and Hypothesis Development .................... 77
  3.3 Data and Methodology ..................................... 92
  3.4 Research Findings ....................................... 100
  3.5 Discussion ............................................... 108
  3.6 Conclusion ............................................. 114

  4.1 Introduction ............................................. 119
  4.2 Internationalization, Strategic Resources and Partnering Approach Strategy 124
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.3</td>
<td>Research Design</td>
<td>133</td>
</tr>
<tr>
<td>4.4</td>
<td>Case Findings</td>
<td>137</td>
</tr>
<tr>
<td>4.5</td>
<td>Discussion</td>
<td>149</td>
</tr>
<tr>
<td>4.6</td>
<td>Conclusion</td>
<td>155</td>
</tr>
<tr>
<td>Chapter 5: Does Outward Foreign Direct Investment Lead to Better Performance?</td>
<td>159</td>
<td></td>
</tr>
<tr>
<td>5.1</td>
<td>Introduction</td>
<td>159</td>
</tr>
<tr>
<td>5.2</td>
<td>Literature Review and Hypothesis Development</td>
<td>162</td>
</tr>
<tr>
<td>5.3</td>
<td>Data and Methodology</td>
<td>180</td>
</tr>
<tr>
<td>5.4</td>
<td>Research Findings</td>
<td>185</td>
</tr>
<tr>
<td>5.5</td>
<td>Discussion</td>
<td>190</td>
</tr>
<tr>
<td>5.6</td>
<td>Conclusion</td>
<td>197</td>
</tr>
<tr>
<td>Chapter 6: Conclusion</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>6.1</td>
<td>Introduction</td>
<td>200</td>
</tr>
<tr>
<td>6.2</td>
<td>Summary of Major Findings</td>
<td>200</td>
</tr>
<tr>
<td>6.3</td>
<td>Research Contributions</td>
<td>203</td>
</tr>
<tr>
<td>6.4</td>
<td>Research Limitations and Further Research Recommendations</td>
<td>205</td>
</tr>
<tr>
<td>6.5</td>
<td>Research Implications</td>
<td>208</td>
</tr>
<tr>
<td>Appendix</td>
<td></td>
<td>210</td>
</tr>
<tr>
<td>Abbreviations</td>
<td>219</td>
<td></td>
</tr>
<tr>
<td>References</td>
<td>221</td>
<td></td>
</tr>
</tbody>
</table>
List of Figures

Figure 1 China’s OFDI Flows, Current Price (US$, billion) ................................................. 25
Figure 2 Major Sources of Global OFDI in 2012 (US$, billion) ............................................. 26
Figure 3 China’s OFDI vs. China’s GDP (US$, billion) ............................................................. 27
Figure 4 China’s OFDI vs. China’s GDP per capita ............................................................... 28
List of Tables

Table 1 - Summary of Existing Studies on China’s OFDI .......................................................... 37
Table 2 - The Share of OFDI by Ownership ............................................................................. 63
Table 3 - Profile of Sample Firms ......................................................................................... 101
Table 4 - Motives of OFDI Firms .......................................................................................... 102
Table 5 - Descriptive Statistics and Correlation Matrix ....................................................... 103
Table 6 - Regression Results .................................................................................................. 105
Table 7 - Case Demographics ............................................................................................... 137
Table 8 - Descriptive Statistics ............................................................................................. 186
Table 9 - Regression Results .................................................................................................. 188
Acknowledgements

First of all, I would like to take this opportunity to express my sincere gratitude to my supervisor, Professor Yingqi (Annie) Wei for her guidance, assistance, encouragement and enormous amount of effort and time that she has put into my PhD study at the York Management School. It would have been impossible for me to finish this work without her support along my PhD journey.

Second, I would like to say thankyou to Dr Andy Charlwood and Professor David Higgins, for their help and valuable comments throughout my PhD study. My thanks also go to my PhD colleagues and staff members in the International Business and Strategy Group, for sharing the PhD experience and for discussing the research together. I am very grateful for their comments and suggestions that added value to this PhD research.

Third, I would like to thank conference participants at the Academy of International Business (UK & Ireland) annual conference in Liverpool in 2012 and the three anonymous referees for International Business Review for their comments on part of chapter 3. Chapter 4 also benefited from conference participants’ comments at the Chinese Economic Association (UK/Europe) annual conference in the Hague in 2013.
This thesis is dedicated to my parents, for giving me life and raising me, for their kindness and endless love. Thanks to their understanding, encouragement and their belief in me, and to Huajun Li, for his love and understanding, and for being there for me always.
Author’s Declaration

I hereby declare that this thesis entitled ‘The Internationalization of Chinese Firms’ represents my original work and it hasn’t been submitted, either in part or whole, for a degree at this or any other University. Wherever other sources of information are used every effort has been made to indicate this clearly, with due reference to the literature and acknowledgement of the contributions of others.
Chapter 1: Introduction

1.1 Introduction

According to the International Monetary Fund (IMF)’s Balance of Payments Manual (1993), foreign direct investment (FDI) is made by a multinational enterprise (MNE) to acquire a lasting interest in firms operating in a host economy other than its home country (country-of-origin). The MNE’s purpose is to gain an effective voice over the management of the host country firm. The forms of FDI include equity capital, the reinvestment of earnings and intra-company loans (long-term and short-term). The Organization for Economic Co-operation and Development (OECD) (1996, 2008) has a compatible definition to the IMF’s but it is more specific and classifies FDI as a direct investment by a firm that either owns 10% or more of the ordinary shares or voting power of a host country firm\(^1\), or owns less than 10% of the ordinary shares or voting power of the firm but still maintains or has an effective voice in management. The key characteristic of FDI, therefore, is the intention to exercise control over the management, and that distinguishes it from foreign portfolio investment (FPI) which is more of a short-term, profit-maximization driven investment through diversification, without the

\(^1\) However, if it can be proven that the investor does not have an effective voice in management, the investment is classified as foreign portfolio investment (FPI).
intention of active management of the host country firm.

FDI, in the past, tended to be utilized by firms from developed countries to penetrate other markets. In recent years, FDI has been gradually adopted by emerging economy (EE) MNEs for their internationalization (Wright et al., 2005). According to the World Investment Report (2013), the share of EEs in global outflows of FDI reached 35 per cent in 2012, compared to the mere 2.25 per cent in 1985, a more than 15 times increase (WIR, 2008).

China is a significant force among EEs. As one of the fastest growing EEs, China has accelerated its pace regarding OFDI from a negligible annual average of US$0.4billion in the 1980s to an average of US$2.3billion in the 1990s, then further jumping to an average of US$19.1billion in the 2000s. By the end of 2012 around 16,000 Chinese firms had made a cumulative investment of US$531.94billion in 179 countries (China Ministry of Commerce, 2013). This moved China up to the 3rd largest source of global FDI, after only the United States and Japan.

The rise of China’s OFDI has drawn attention among academics and policy makers which has resulted in an increasing number of studies on this issue. Existing research on China’s OFDI suggests that OFDI strategic decisions are influenced by a variety of firm, industry and country-related factors (Buckley et
al., 2007, Lu et al., 2011, Yamakawa et al., 2008). Extant research has been grounded in several theoretical perspectives, such as a learning perspective, a resource-based view and an institutional theory (Child and Rodrigues, 2005, Witt and Lewin, 2007, Yamakawa et al., 2008). While some studies have found that Chinese firms consider OFDI as an effective way of obtaining advanced knowledge and catching up with Western MNEs (Deng, 2009, Luo and Tung, 2007, Mathews, 2006), others have shown that government’s supportive policy plays an important role in OFDI (Luo et al., 2010, Voss et al., 2010). The motives of China’s OFDI have been widely studied. The extant research has pointed out that China’s OFDI is dominated by two motives, one is strategic asset-seeking OFDI, and the other is market seeking ones (Lu et al., 2011). Furthermore, a number of studies have adopted an integrated approach by examining how competitive advantages at firm-level and institutional environments jointly affect the motives for China’s OFDI (Lu et al., 2011, Wang et al., 2012, Yamakawa et al., 2008). The findings from existing studies have shed new light on this issue and enhanced our understanding of the determinants of OFDI by Chinese firms. However, prior research has mainly examined the patterns, determinants and motivations of Chinese OFDI. Little is known about why Chinese firms actually shift from exporting to OFDI, the determinants of the level of OFDI, the performance consequences of different entry modes, the nature of strategic assets that Chinese MNEs employ OFDI to gain access to and the management strategy after an OFDI is undertaken.
In addition, existing studies have focused on state-owned enterprises (SOEs), listed companies, or a mix of firms with different types of ownership (Lu et al., 2009, Yiu et al., 2007, Ramasamy et al., 2012, Cui et al., 2011, Cui and Jiang, 2009, Wang et al., 2012). Only a few studies have focused explicitly on privately-owned enterprises (POEs) (Lu et al., 2011, Liang et al., 2012). POEs are an important driving force behind China’s OFDI, in addition to export growth and economic development (Liu et al., 2008). In 2012, POEs accounted for 9.5% of China’s OFDI flows (Economist, 2013), growing from less than 4% two years before, and their role in China’s ‘go global’ strategy will continue to increase (Lin, 2010). It is important to separate firms with different types of ownership when investigating their outward internationalization strategy. POEs differ from SOEs in a number of ways. POEs have been systematically discriminated against in China. They were not legitimate in China until the opening up in the late 1970s and were not allowed to invest overseas until 2003. The strategic behaviour of POEs differs from that of non-POEs (Rui and Yip, 2008, Ramasamy et al., 2012, Lin, 2010). POEs are increasingly operating in a free-market environment and are more likely to be influenced by market forces and to be commercially motivated (Liu et al., 2008, Ramasamy et al., 2012). They more closely resemble their developed economy (DE) counterparts (Liang et al., 2012). On the other hand, SOEs’ objectives can be politically motivated and can be determined by the government’s consideration of China’s political and economic influence in the World. Examining POEs separately therefore enriches our
understanding of the strategic behaviour of Chinese private firms in terms of their outward internationalization strategy. This thesis aims to fill some of the research gaps identified above. The purpose of this chapter is to offer an overview of the thesis. The next section sets out research objectives and questions. Section 1.3 offers explanations of research methodologies. This is followed by a discussion of this thesis’ potential contributions. Finally, the structure of the thesis is outlined.

1.2 Research Objectives and Questions

Entering foreign markets involves a major commitment of strategic, technical, managerial and financial resources. As a result, firms have to make a strategic decision as to which entry mode they will use to enter a foreign market. These decisions have a direct effect on firm performance (Brouthers, 2002, Brouthers et al., 2003, Brouthers and Hennart, 2007). According to the Stage Approach (Jan Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977), internationalization is the product of a series of incremental decisions, from the entry mode requiring the least resource commitment, e.g. exports, up to that requiring the most resource commitment, e.g. FDI. Export is a relatively lower business risk activity, requires lower resources, and has greater flexibility for managerial actions than does FDI. In the process of exporting, firms are able to
establish linkages in international markets (Mathews, 2006). As firms accumulate experience through exports, they can increase their international commitments gradually through the establishment of sales subsidiaries and, ultimately, of production in the host country (Jan Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977). This internationalization process of firms is by no means universally observed, however. Given firms’ export experiences, not all move on to engage in OFDI. This thesis aims to provide a systematic and rigorous research into China’s OFDI by answering three sets of research questions:

Question 1 (Q1): What determines whether exporting firms move to OFDI as part of their outward internationalization strategy?

Question 2 (Q2): What strategic assets do Chinese firms intend to acquire through cross-border merger and acquisitions (CBMAs) and whether a partnering approach is a viable strategy for post-CBMAs?

Question 3 (Q3): Does the hybrid entry mode that incorporates OFDI by exporting firms lead to better performance than those that focus on exporting only?

The first research question, Q1, examines the factors determining whether or not exporting firms expand through OFDI as part of their internationalization strategy. Based on productivity heterogeneity theory and the strategic tripod framework (integrating resource-based view, industry-based view and
institution theory), this research carries out a multi-dimensional analysis to investigate the impact of firm, industry and institutional-level factors on an exporting firm's entry mode transformation. The second research question, Q2, aims to understand what strategic resources Chinese firms use cross-border merger and acquisitions to gain access to and the strategy of a partnering approach undertaken in managing post-CBMAs. This study draws on multiple case studies of Chinese firms’ CBMAs. The third research question, Q3, aims to explore whether exporting firms with OFDI perform better. Drawing on the entry mode literature and the strategic tripod framework, I examine firm performance influenced by firm, industry and institution-specific factors.

The three sets of research questions are closely connected. A major problem faced by China and Chinese firms is the short of strategic assets that constitute competency deficiency for Chinese firm to compete on an international stage and for China to catch up to the world frontier. In the first empirical study, our data echo existing claim in the literature that Chinese MNEs undertake mainly strategic-assets seeking and market-seeking FDI. Based on this premise, we develop conceptual framework to identify what firm-, industry- and institutional-level factors affect exporting firm's transformation to include FDI as part of their activities. However, it is equally important to understand the nature of strategic assets and management approach of these strategic assets, which is the core of the second empirical study.
Though firms undertake OFDI for different motives, ultimately, they have a goal for value creation and performance improvement. The conventional argument is that OFDI should have a positive impact on firm performance because MNEs go abroad to exploit their ownership advantages. In the case of Chinese MNEs, they may not have ownership advantages to exploit abroad. Instead, their OFDI is for the purpose of exploration, i.e. to acquire strategic assets for the benefits of the company. However, this should also translate to performance improvement. Having established why firms investing in OFDI abroad and the nature and the management of their acquisition, I carry out the third empirical study to examine the performance effect of OFDI.

China provides an ideal setting for a research on OFDI. Firstly, the country has been the fastest growing economy, a leading international trading country and the most popular manufacturing location for foreign investment in recent years (Luo et al., 2010). Nevertheless, Chinese firms are still young players in the global market. Their internationalization is still at an early stage and is dominated by exporting. As latecomers in the world market, similar to other EE firms, they more or less suffer from not having well-known brands, advanced technologies, superior management know-how, international market experience and overseas distribution channels (He and Wei, 2011). However, with the accumulated experience in their internationalization process, either through exporting or their engagement with foreign firms in China, Chinese firms are
moving onto OFDI. The determinants of the strategic decisions of OFDI, the performance impact of entry mode and the resource and strategy issues related to OFDI are of significant concerns to academics, policy makers and business managers.

1.3 Research Methodologies

This thesis adopts both quantitative and qualitative research methods. Hurmerinta-Peltomäki and Nummela (2006, p.440) argue that "International business is a multi-faceted area of research, cross national, cultural, organizational and personal boundaries, and inspiring quite complicated research questions". As a consequence, the narrow/simple methodological research method is inadequate to capture the complex context and reveal the reality. The combined research methods approach is frequently called for among International Business (IB) researchers, given the under-developed theoretical roadmaps within this relatively new subject and the need for continuous exploration (e.g. Hurmerinta-Peltomäki and Nummela, 2006, Hurmerinta-Peltomäki and Nummela, 2004). The combined research methods can help to improve the validity of the findings, to generate new findings and to derive new knowledge, to obtain a more complete picture of the phenomenon and to enrich understandings of specific research questions so that they can be
added to the existing knowledge base (Hurmerinta-Peltomäki and Nummela, 2006, Jick, 1979, Hurmerinta-Peltomäki and Nummela, 2004).

Most of the empirical studies on Chinese OFDI are based on a single research method, either case studies or macro-level data analysis (Yamakawa et al., 2008) (Please also see table 1). This thesis aims to provide a comprehensive analysis of Chinese firms’ internationalization. The research questions, Q1 and Q3 (chapters 3 and 5) are studied by using survey data of Chinese POEs. Quantitative techniques are applied to test the hypotheses. The research question, Q2 (chapter 5) uses a case-study approach. Data is gathered from open-ended interview questions in order to derive propositions.

1.4 Potential Contributions

This thesis intends to make contributions to the analysis of the internationalization of Chinese firms. Given the uniqueness of China’s approach to economic development and its increasing power in the world economy, China provides a perfect research setting to examine the applicability of conventional theories and to develop context-specific propositions.

Building upon the existing research, I intend to make a number of major contributions. Firstly, the study advances the research agenda in international
business and investigates the impact of factors on outward internationalization strategy from the perspectives of the firm, the industry in which the firm operates and the institutions under which the firm embeds. The international business literature has for some time emphasized the importance of adopting multi-dimensional analysis to consider macro-level factors, industry dynamics and firm characteristics (Buckley and Lessard, 2005). However, few studies have considered the breadth or the scope of multi-dimensional factors in the internationalization process of firms. To the best of my knowledge, this study is one of the first to investigate Chinese firms using multi-lenses, thus providing a valuable extension to existing studies.

Secondly, conceptually, I try to combine different branches of literature when examining the first and the third research questions. In the first empirical study I combine productivity heterogeneity theory with strategic tripod framework and broaden the institution-based view in the strategic tripod framework by recognising the subnational-institutional variation across Chinese regions and taking account of both the national and subnational institutions in which the Chinese firms operate. A number of studies of Chinese OFDI have narrowly focused on the impact of regulatory factors and state support (Luo et al., 2010, Lu et al., 2011). No research addresses the impact of subnational institutions, despite the reorganization of diverse subnational regions in China (Xu, 2011). The focus on the subnational institutional environment complements previous
studies (Cui and Jiang, 2012, Lu et al., 2011, Wang et al., 2012) and helps generate new insights into how and which regional institutions matter for the outward internationalization strategy of Chinese firms. In the third study I combine entry mode literature with the strategic tripod framework. Despite the increasing number of research papers on China’s OFDI, few examine the performance consequences of different entry modes. Does OFDI lead to better performance? This is an important but neglected research question.

Thirdly, my focus on Chinese POEs in the two empirical studies enhances understanding of the outward internationalization strategy of this group of firms within the industry and institutional contexts. Such an investigation helps provide valuable empirical evidence on POEs whose economic power, both within China and outside of China, is gaining momentum.

Fourthly, in the second empirical study, I try to understand the nature of the strategic assets that Chinese MNEs seek through CBMAs and the organisational management strategy undertaken in managing post-CBMA. This is a relatively new topic. Though it has been claimed that Chinese firms go abroad to seek complementary strategic assets, there is no systematic study on the nature of these strategic assets. Little is also known about viable strategies that Chinese MNEs can adopt for post-CBMA. This research contributes to the existing literature by investigating which strategic assets are important to Chinese MNEs.
and whether ‘partnering strategy’ is a viable strategy in the Chinese context.
This thesis not only aims to serve the interests of academics, but also to highlight the practical implications to managers and to policy makers.

1.5 Structure of This Thesis

This section outlines this thesis and explains the content and purpose of each chapter.

Chapter 1 - Introduction
Chapter 1 introduces the research motivation, key research questions, methodologies and potential contributions.

Chapter 2 - An Overview of China’s Outward Foreign Direct Investment
Chapter 2 provides a background study of China’s OFDI. It describes the trends, the staged development, ownership differences between State-Owned Enterprises (SOEs) and Privately-Owned Enterprises (POEs) and the motivations of China’s OFDI.

Chapter 3 - Chinese Exporting Firms Expanding to Outward Foreign Direct Investment?
Chapter 3 examines the factors determining whether or not exporting firms
expand to outward foreign direct investment (OFDI) as part of their internationalization strategy.

Chapter 4 - Which Strategic Assets and Is a Partnering Approach a Viable Strategy for Chinese Cross-Border Merger & Acquisitions?

Chapter 4 aims to investigate the nature of the strategic assets that Chinese MNEs use CBMAs to gain access to and the strategy undertaken in managing post CBMAs. It discusses the case findings and derives propositions to answer the third set of research questions.

Chapter 5 - Does Outward Foreign Direct Investment Lead to Better Performance?

Chapter 5 examines whether exporting firms with OFDI perform better than exporting firms that do not engage in OFDI. Here I also explore the determinants of firm performance from the perspective of firm, industry and institutional factors.

Chapter 6 - Conclusions

Chapter 6 concludes the whole thesis by summarizing the key findings and contributions, acknowledging the research limitations, listing the practical implications for managers and policy makers and pointing out the possible future research questions.
Chapter 2: An Overview of China's Outward Foreign Direct Investment

2.1 Introduction

Chapter 1 has provided a general structure of this thesis. The current chapter provides a detailed description and analysis of the development path of China's OFDI. It aims to offer the background information for the rigorous empirical studies to be reported in the following chapters. Section 2.2 reviews the general trend. Sections 2.3 and 2.4 discuss the staged development of China's OFDI and China's OFDI by ownership, respectively. Section 2.5 categorises the motives behind China's OFDI. Finally, section 2.6 offers a conclusion.

2.2 General Trend of China’s Outward Foreign Direct Investment

China’s OFDI has undergone dramatic changes in the past 35 years and it has become one of the most significant sources of OFDI in the World. Figure 1 presents the general trend of China's OFDI from 1978, the year of ‘opening up’, to 2012. In the early years, soon after China’s opening up, i.e. between the late 1970s and 1980s, OFDI was negligible. Official statistics show that only 77
non-trade projects with a total investment of US$50 million were approved between 1979-1983. In 1990s, there was some OFDI by Chinese firms. A number of pioneers in manufacturing industries, such as Haier, TCL, Lenovo, Huawei and ZTE began venturing abroad. However, the real take-off started in the 21st century. In 2012, China’s OFDI exceeded US$84 billion and China was ranked the 3rd largest source of global FDI (see figure 2).

Figure 1 China’s OFDI Flows, Current Price (US$, billion)

Source: United Nations Conference on Trade and Development (UNCTAD), Statistical Bulletin of China's Outward Foreign Direct Investment
Figure 2 Major Sources of Global OFDI in 2012 (US$, billion)

Source: United Nations Conference on Trade and Development (UNCTAD)

Figure 3 and figure 4 show China’s OFDI flows vs. GDP and China’s OFDI flows vs. GDP per capita from 1990 to 2012. It is clear that there is a positive relationship between OFDI flows and GDP and OFDI flows and GDP per capita. This seems to be in line with the traditional internationalization theory, investment development path (IDP) framework (Dunning, 1981, Dunning, 1986). The framework posits that a country’s OFDI can be linked to its economic development level. The empirical research has treated GDP/GDP per capita as the default measures for the level of economic development in the IDP.

---

2 I use 1990 as a starting point to compare OFDI flows against GDP because, as shown in Figure 1, China’s OFDI only started to gain momentum from 1990.
framework. So the prediction of the framework is that there should be a positive relationship between GDP/GDP per capita and FDI. It is only when a country reaches a certain developmental stage that it moves on from being the recipient of FDI to the source of FDI. However, as argued by Liu and Buck (2005), other complementary variables should be taken into account when applying the IDP framework to investigate the link between economic development and OFDI.

**Figure 3 China’s OFDI vs. China’s GDP (US$, billion)**

2.3 The Staged Development of China’s Outward Foreign Direct Investment

Experimental Period (1979-1985)

The Chinese economic reform began after the end of the Cultural Revolution and crystallized during the Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party in 1978 (UNCTC, 1988 ,p.54). The Third Plenary changed the main task of the Party to ‘four modernizations’, in the areas of agriculture, industry, science and technology. The main objective behind the Modernization was to increase China's gross national product (GNP) through economic development and to improve social welfare.

The ‘ Reform and Open up’ policy formulated in 1978 showed that China wanted increased integration with the rest of the World. In the initial stage of the economic reform, China needed capital, technology, knowledge and expertise to supplement its growth. In 1979, the acceptance of FDI inflows was the result of a fundamental shift in political leadership and economic policy. China recognized the importance of attracting FDI inflows, so it could use foreign capital to compensate for its shortage of capital, bring in new technology, equipment and management skills to help existing enterprises to improve the quality of products and increase exports, to help train more technical and management people, and to increase employment and income (Wei and Liu, 2001).
In the experimental period, China's OFDI was insignificant (Zhang, 2009, Cai, 1999, Hong and Sun, 2006). In total, Chinese firms had established 185 non-trading foreign affiliates spreading over 45 countries from 1979 to 1985. By the end of the year 1985, Chinese companies had invested about US$197 million abroad.

The first reason for this low level of OFDI was that China's priority during the initial stage of economic reform was the nation's domestic economic restructuring. The overseas investment activities were strongly linked to government's political objectives rather than commercial objectives. During the experimental period, only selected state-owned trading companies, as well as provincial and municipal ‘economic and technological cooperation enterprises’ were allowed to establish foreign affiliates under the State Economic and Trade Commission (SETC) (Buckley et al., 2008). These investments usually fell into one of the following categories: (1) securing access to natural resources that are scarce in China; (2) accessing and transferring advanced technologies for use in China; (3) enhancing export possibilities for Chinese companies; and (4) augmenting managerial skills through ‘on-the-job’ training (Guo, 1984).

The second reason may be linked to tight foreign exchange controls. For example, only certain Chinese firms with export licenses had the right to retain a share of their foreign exchange earnings under the ‘retention scheme’, and the remainder had to be returned to the Chinese government. In other words, firms
cannot use the retained foreign exchange earnings freely, without the permission of SAFE. Another example is that foreign exchange transactions could only be undertaken in accordance with the national foreign exchange plan, which involved co-ordination with the Ministry of Foreign Economic Relations and Trade (MOFERT, later MOFCOM or the Ministry of Commerce), Ministry of Finance, SAFE, the Bank of China, the State Planning Commission and the State Council.

Finally, the slow growth of China’s OFDI may be related to the regulatory situation. There was no clear regulation on China’s OFDI until 1984. The first regulation on OFDI issued in May 1984 was concerned with the approval authorities and principles for opening non-trade joint ventures overseas, as in Hong Kong and Macau. In the following year, the approval and control procedures were published (Voss et al., 2008).


The inward FDI played an important role in the initial stage of China’s economic reform. Chinese firms successfully absorbed foreign capital, received advanced technology and learned management skills from their foreign counterparts. Following the stable economic development and the knowledge acquisition from MNEs, Chinese firms began to undertake overseas investment on a larger
scale and proactively participated in the international markets.

At the same time, the Ministry of Foreign Economic Relations and Trade (MOFERT, later MOFCOM or the Ministry of Commerce) released the “Provisional Regulations Governing the Control and the Approval Procedure for Opening Non-trade Enterprises Overseas”. The restrictive policies on OFDI eased and opened overseas production opportunities to SOEs in general rather than just to trading companies (Zhang, 2003). Though these SOEs and trading firms still had to go through the formal administrative approval process, there were signs that the government was increasingly open-minded about OFDI and recognized its potential benefits for China and Chinese firms. In 1989 the first regulation on the usage of foreign exchange earnings was issued. This increased the transparency of the OFDI approval procedures. In 1991, the National Development and Reform Commission (NDRC) issued a document concerning the strengthening of the administration of overseas investment projects (Voss et al., 2008).

Despite the move towards liberalization and the modest increase of OFDI flows occurring after 1985, the amount of investment during the gradual development period was small, totalling US$1.2billion by the end of 1991 (Buckley et al., 2008). During this period Chinese overseas investments were dominated by SOEs and monopolized industries, such as the financial services, shipping,
international trading and natural resources (UNCATD, 2006). Taking advantage of its similarities in culture, Hong Kong was used by most Chinese MNEs as the first stop on their path to internationalization.


In 1992 Deng Xiaoping’s Southern tour and the 14th Party Congress gave new momentum to overseas investments. The Congress officially ‘brought to an end the political and ideological controversies with regard to the direction of China’s reform’ (Hong and Sun, 2006). The official policy now explicitly encouraged Chinese firms to expand overseas. The annual outflows reached a record of US$4billion in 1992 compared with US$0.913billion in 1991, representing a four-fold increase. During this period there was an increase of US$1.2billion in total OFDI (Buckley et al., 2008). However, the 1997 Asian financial crisis changed the economic landscape and many Chinese firms faced substantial losses from their overseas investments. This could also have resulted from the lack of investment know-how, the ignorance of the rule of law in the overseas markets and the shortage of management expertise. The MOFTEC then tightened the approval procedures and adopted a more rigorous screening process for overseas ventures, especially for those projects valued at US$1million or more. In the following year OFDI declined.
Implementation of the ‘go global’ Policy (1999-2001)

With the economic recovery in the region and worldwide, in 1999, the Chinese government issued a Directive to encourage OFDI again. OFDI in specific industries was encouraged in the form of export tax rebates, foreign exchange assistance and direct financial support. This was particularly noticeable in trade-related activities which aimed to promote exports. In 2001 the Tenth Five-Year Plan announced that the aim of the strategy of enterprises “going out” to invest overseas was one of the means which would enable China to adjust itself to the trend of economic globalization. From 1999 to 2001, total approved OFDI rose by US$1.8billion.

Post-WTO period (2001-present)

The business environment changed significantly after China’s accession to the World Trade Organization (WTO) in November 2001. WTO accession has brought both opportunities and threats to China’s economic development. On the one hand, the entry into the WTO can help China to better integrate into the international economic community and to better use international resources. Moreover, more MNEs are attracted to invest in China so as to promote the development of China’s economy and exports. On the other hand, the entry into the WTO may force Chinese firms to face increasing competition at home from
both domestic and foreign enterprises.

In the post-WTO period, Chinese governments have undertaken several policies to facilitate OFDI. Firstly, in 2003, SAFE, NDRC and MOFCOM jointly declared that Chinese POEs were legally allowed to apply for outbound investment projects. Given the growing domestic competition and the undeveloped institutional environment, this provided an opportunity for POEs to seek new markets abroad instead. Secondly, the investment approval process was simplified and decentralized to subnational government authorities. Thirdly, in 2004, NDRC and the Export-Import Bank of China (EIBC) jointly announced a decision to encourage overseas investment in specific areas: (1) resource exploration projects to mitigate the domestic shortage of natural resources; (2) projects that promote the export of domestic technologies, products, equipment and labour; (3) overseas R&D centres to utilize internationally advanced technologies, managerial and professional skills; (4) mergers and acquisitions (M&As) that could enhance the international competitiveness of Chinese enterprises and accelerate their entry into foreign markets.Fourthly, the foreign exchange approval process was further liberalized. Additionally, the Chinese government stressed the importance of ‘going global’ for Chinese firms in the 11th five year plan. The latest Five Year Plan (12th), which came into effect in 2011, again strengthens the commitment to promote the ‘going global’ policy.

In summary, China’s OFDI has undergone five stages of development. The
Chinese government has played an important role in shaping the trend of OFDI. Little research has focused on China's OFDI until the turn of the 21st century. However, the phenomenon has changed significantly after China's entry into the WTO and initiated the ‘go global’ policy. The post-WTO period has witnessed the emergence of China as one of the leading sources of OFDI in the World. China's OFDI has gained remarkable momentum, particularly from the year 2003, as shown in Figure 1. In the same year MOFCOM started publishing official OFDI statistical data. This OFDI growth has attracted considerable attention from international business scholars. See Table 1 for a summary of existing studies on China's OFDI.
### Table 1 - Summary of Existing Studies on China’s OFDI

<table>
<thead>
<tr>
<th>Authors</th>
<th>Research theme</th>
<th>Theoretical foundation</th>
<th>Setting</th>
<th>Key arguments/findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buckley et al. (2007)</td>
<td>Determinants</td>
<td>OLI, three special explanations</td>
<td>Macro data between 1984-2001</td>
<td>Tests the extent to which mainstream theory OLI is applicable to the emerging country context and whether special explanations (capital market imperfections, special ownership advantages and institutional factors) nested within general theory are needed. Chinese OFDI is found to be associated with host country variables including political risk, market size, natural resources endowments, culture and geographical proximity with China, though the degree of the impact of these variables...</td>
</tr>
</tbody>
</table>
varies during different sample periods. The special explanations help to explain the behaviour of Chinese MNEs.

<table>
<thead>
<tr>
<th>Authors</th>
<th>Topic</th>
<th>Methodology</th>
<th>Dataset</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardoza and Fornes (2011)</td>
<td>Internationalization of SMEs</td>
<td>LLL</td>
<td>125 surveys of SMEs in Ningxia, China</td>
<td>Barriers (7 internal + 5 external) hinder firms’ international expansion. State ownership does not play an important role; support from the state in the form of funds is helpful in the first stages of expansion (regional level); funds from private sources are key to crossing country borders.</td>
</tr>
<tr>
<td>Chou et al. (2011)</td>
<td>Determinants</td>
<td>Economics perspective</td>
<td>Macro-level panel data between 1993-2008</td>
<td>The pattern of China's OFDI tends towards a complex FDI without third-country effects. A high level of economic integration and political risk are not conducive to China's OFDI. Culture proximity</td>
</tr>
</tbody>
</table>
and per capita income have significant benefits and the host country's market opportunity has a significant negative effect on China’s OFDI.

<table>
<thead>
<tr>
<th>Cui and Jiang (2009)</th>
<th>Entry mode choice – WOS vs. JV</th>
<th>Strategic behaviour perspective</th>
<th>Survey data of 138 Chinese firms</th>
<th>Chinese firms are likely to choose WOS if they enter a competition-intensive host country industry, seek complementary assets overseas and pursue a global strategy. A joint venture entry mode is more likely to be chosen when Chinese firms enter high growth foreign markets to establish first or early-mover advantages.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cui and Jiang (2010)</td>
<td>Entry mode choice – WOS vs. JV</td>
<td>RBV, IBV</td>
<td>10 multiple case studies</td>
<td>On the resource side, Chinese OFDI is both asset-exploiting and asset-augmenting. On the institution side, Chinese firms adjust their entry</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Research Area</td>
<td>Methodology</td>
<td>Sample</td>
<td>Findings</td>
</tr>
<tr>
<td>-----------</td>
<td>---------------</td>
<td>-------------</td>
<td>--------</td>
<td>----------</td>
</tr>
<tr>
<td>Cui et al. (2011)</td>
<td>Entry mode choice – WOS vs. JV</td>
<td>RBV, IBV, IT</td>
<td>Survey data of 138 Chinese firms</td>
<td>The cost advantage of the investing firm and learning opportunities in the host industry have positive effects on the likelihood of a firm opting for WOS against JV, while the market attractiveness of the host industry, host country restrictions, cultural barriers and cognitive pressures have negative effects.</td>
</tr>
<tr>
<td>Deng (2010)</td>
<td>Performance implication of CBMA</td>
<td>Absorptive capacity perspective</td>
<td>Cases of Lenovo and TCL</td>
<td>Performance of Chinese firms’ overseas acquisitions is affected by the acquiring firms’ absorptive capacity at multiple dimensions. The factors under consideration include prior related</td>
</tr>
</tbody>
</table>
knowledge (international experience, R&D intensity), combinative capabilities (organization mechanisms & training, knowledge sharing/learning) and strategy execution/effect (complementary resources, business environment).

<p>| Deng (2012) | Antecedents, processes and outcomes of the internationalization of Chinese firms. | RBV, IBV, IT, TC | Survey paper, Qualitative content analysis | Review articles published in major scholarly journals during the period 1991–2010. Within the reviewed literature, three primary streams of enquiry are identified which focus on the antecedents, processes and outcomes of the internationalization of Chinese firms. |
| Duanmu | Location choice | 194 location | SOEs and non-SOEs react differently to host |
| (2012) | choices in 32 countries between 1999-2008 | country factors. SOEs respond to political risks in the host country less negatively and favourable exchange rates more positively. Economic risk and natural resources are found to be unimportant for both SOEs and non-SOEs. At the firm level manufacturing-orientated investment projects respond to the host market size and cost structure more strongly than trading-orientated projects. |
| Gao et al. (2012) | Human mobility in promoting OFDI | IDP | Macro data between 1979-2010 | The two-way mobility of highly-skilled Chinese students and scholars significantly promotes Chinese OFDI. Chinese OFDI is also driven by domestic economic development, but substitutes for exports. |
| Globerman and Shapiro (2009) | Acquisition vs. Greenfield by Chinese OFDI in US | Strategic perspective | Evidence from existing literature | Discusses the economic and strategic implications of OFDI from China to US from the perspective of both Chinese investors and US policymakers. Argues that Chinese FDI in US is more likely to take the form of Acquisition than Greenfield. |
| Kang and Jiang (2012) | Location choices | IT, traditional economic factors | Macro-level panel data of Chinese OFDI to 8 economies in East and Southeast Asia during 1995-2007 | Traditional economic factors of host countries have a major role to play in affecting Chinese MNEs’ OFDI location decisions. Institutional factors also matter. |</p>
<table>
<thead>
<tr>
<th>Kolstad and Wiig (2012)</th>
<th>Determinants</th>
<th>IT, locational advantage in OLI</th>
<th>Macro-level panel data of Chinese OFDI in 142 host countries during 2003-06</th>
<th>Chinese OFDI is attracted to large markets and to countries with a combination of large natural resources and poor institutions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liang et al. (2012)</td>
<td>Determinants</td>
<td>RBV</td>
<td>553 Chinese POEs</td>
<td>Chinese private firm’s likelihood of venturing abroad is associated with resource endowment advantages vis-à-vis foreign-invested enterprises, organisation capability advantages vis-à-vis state-owned enterprises. These same advantages (or disadvantages) in organisation capabilities also increase a firm’s likelihood of choosing a</td>
</tr>
</tbody>
</table>
A firm's resource endowment and organisation capabilities interact with each other and mutually enhance each other's effect on the likelihood of outward internationalization.

<table>
<thead>
<tr>
<th>Study Authors</th>
<th>Topic</th>
<th>Data Source</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liu et al. (2005)</td>
<td>Determinants</td>
<td>IDP</td>
<td>Macro-level data between 1979-2002</td>
</tr>
<tr>
<td>Quer et al. (2012)</td>
<td>Location choice</td>
<td>IT</td>
<td>139 location choices by 29 Chinese MNEs in 52 countries</td>
</tr>
<tr>
<td>Location choice (Ramasamya et al., 2012)</td>
<td>Location choice</td>
<td>1,350 location choices by 63 Chinese MNEs investing in 59 countries from 2006-2008 out of 137 countries considered</td>
<td>Locational determinants of Chinese OFDI differ by firm ownership. SOEs are attracted to countries with large natural resources, risky political environments, strategic assets, advantages in technology, brand names and know-how. POEs are market-seekers.</td>
</tr>
<tr>
<td>Determinants of the volume of OFDI (Wang et al. 2012)</td>
<td>Determinants of the volume of OFDI</td>
<td>1,231 Chinese manufacturing firms with Government support (proxied by a dummy which indicates whether a sector is classified by government as one that should be “encouraged”</td>
<td></td>
</tr>
<tr>
<td>Source</td>
<td>Methodology</td>
<td>Data</td>
<td>Findings</td>
</tr>
<tr>
<td>-----------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Zhang and Daly (2011)</td>
<td>Determinants</td>
<td>Macro-level panel data between 2003-09</td>
<td>China's overseas investments are positively related to host country factors including international trade, market size, economy growth, the degree of openness and endowments of natural resources.</td>
</tr>
<tr>
<td>Zhao et al. (2010)</td>
<td>Productivity implication</td>
<td>Technology sourcing (technology spillover) perspective</td>
<td>China's OFDI has beneficial spill-over effects in improving home country's TFP growth; gains in efficiency have been the chief reason for this.</td>
</tr>
</tbody>
</table>
### Patterns, Trends & Motives

<table>
<thead>
<tr>
<th>Authors</th>
<th>Research theme</th>
<th>Theoretical foundation</th>
<th>Setting</th>
<th>Key arguments/findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agyenim et al. (2008)</td>
<td>Motives and performance implication</td>
<td>RBV, TC, learning perspective, efficiency theory</td>
<td>27 listed firms between 2000-04</td>
<td>Cross-border M&amp;A (CBMA) by Chinese firms is motivated by market seeking and strategic assets seeking, i.e. fast entry into new markets, diversification and the acquisition of foreign advanced technologies and other resources. CBMA creates value for acquiring firms.</td>
</tr>
<tr>
<td>Athreye and Kapur</td>
<td>Patterns, motivates</td>
<td>OLI, LLL</td>
<td>Literature</td>
<td>Outlines the quantitative and qualitative patterns</td>
</tr>
<tr>
<td>(2009)</td>
<td>and strategies of Chinese vs. Indian firms</td>
<td>review</td>
<td>of internationalization activities of Chinese and Indian firms, identifying factors that motivate these firms to invest overseas, and describes the internationalization strategies they have adopted.</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>---------------------------------------------</td>
<td>--------</td>
<td>----------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Boisot and Meyer (2008)</td>
<td>The internationalization of SMEs</td>
<td>TC, IT</td>
<td>Conceptual paper</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Explains that the internationalization of many Chinese firms is because of a strategic exit from the home country resulting from high transaction costs associated with local protectionism and inefficient domestic logistics rather than strategic entry into foreign markets.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buckley et al. (2008)</td>
<td>Patterns and motives</td>
<td>Firm, industry and institution-level</td>
<td>Macro data between</td>
<td>Identifies historic and emergent trends of Chinese OFDI with regard to investment</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Title</td>
<td>Methodology</td>
<td>Time Period</td>
<td>Findings</td>
</tr>
<tr>
<td>-------------------</td>
<td>------------------------------------------------------------------------</td>
<td>------------------------------------</td>
<td>-----------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Chen and Young (2010)</td>
<td>Performance implication of CBMAs</td>
<td>Principal-principle perspective</td>
<td>1990-2004</td>
<td>Government ownership in the acquiring firm is negatively related to the favourability of investor perceptions of a proposed CBMA deal. The moderating effect of environmental complexity is not supported.</td>
</tr>
<tr>
<td>Child and Rodrigues (2005)</td>
<td>Patterns and motives</td>
<td>OLI, latecomer perspective, catch-up perspective, IT</td>
<td>Cases of firms including Galanz, Huawei, Ningbo bird, Holly group, SAIC, Lenovo, TCL and Haier</td>
<td>Examines the patterns and motives of internationalization by prominent market-seeking Chinese firms. Concludes that the Chinese case offers an opportunity to extend present theorizing in four primary areas concerning the latecomer perspective and catch-up strategies, institutional analysis with reference to the role of government, the relations between entrepreneurs and institutions and the liability of foreignness.</td>
</tr>
<tr>
<td>Deng (2004)</td>
<td>Motivates and implications</td>
<td>Business perspective (UNCTAD) and micro</td>
<td>There are five motivations for Chinese firms to invest abroad: to gain resources, technology, strategic assets, markets and diversification.</td>
<td></td>
</tr>
<tr>
<td>Deng (2007)</td>
<td>Trends and strategic-assets seeking motives</td>
<td>IT, asset-seeking perspective</td>
<td>Cases of firms including Haier, Galanz, Huawei, Lenovo, Ningbo Birder and TCL</td>
<td>Chinese MNEs are motivated primarily by the quest for strategic resources and capabilities, and the underlying rationale for such asset-seeking FDI is strategic needs.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Deng (2009)</td>
<td>Motives</td>
<td>IT</td>
<td>Cases of TCL, BOE and CBMAs by Chinese firms represent a means to acquire strategic assets, which is the logic of</td>
<td></td>
</tr>
</tbody>
</table>
Lenovo China’s unique institutional environment. The factors under consideration include the role of government (respond to the government’s national development strategy, political and financial incentives provided by the government), escape response to institutional constraints (institutional constraints at home, difficulty in internally distinctive capabilities), corporate values and norms (entrepreneurial orientation, going global orientation) and inward FDI as stimulus to overseas M&A.

<p>| Hong and Sun (2006) | Dynamics of investment | IT, strategic seeking | Macro data, firm-level data | Assesses the progress and strategic orientation of China’s OFDI. |</p>
<table>
<thead>
<tr>
<th>strategies</th>
<th>perspective</th>
<th>and cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liu and Li (2002)</td>
<td>Driving forces and constraints for Haier’s internationalization</td>
<td>Haier</td>
</tr>
<tr>
<td>Lu et al. (2011)</td>
<td>Determinants of the motives for Chinese OFDI</td>
<td>RBV, IBV, IT</td>
</tr>
<tr>
<td>Luo et al. (2010)</td>
<td>The role of governments in facilitating OFDI</td>
<td>Political perspective, IT</td>
</tr>
<tr>
<td>------------------</td>
<td>-----------------------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Morck et al. (2008)</td>
<td>Patterns and determinants</td>
<td>Economy and firm-level perspective</td>
</tr>
<tr>
<td>Rui and Yip (2008)</td>
<td>Determinants and motives</td>
<td>Strategic intent perspective</td>
</tr>
<tr>
<td>Authors</td>
<td>Research Question</td>
<td>Methodology</td>
</tr>
<tr>
<td>-----------------------</td>
<td>------------------------------------------------------------------------------------</td>
<td>---------------------------------------</td>
</tr>
<tr>
<td>Voss et al. (2010)</td>
<td>Impact of home country institutional effects on internationalization</td>
<td>Network perspective, IT Interviews   (Chinese firms and government)</td>
</tr>
<tr>
<td>Wu and Chen (2001)</td>
<td>Patterns and motives of China’s OFDI</td>
<td>Macro data between 1976-99</td>
</tr>
<tr>
<td>Authors (Year)</td>
<td>Research Focus</td>
<td>Methodology</td>
</tr>
<tr>
<td>---------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Yang et al. (2009)</td>
<td>Patterns and motives of OFDI, Chinese vs. Japanese firms</td>
<td>RBV, IBV, IT</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yiu et al. (2007)</td>
<td>Motives and processes of international venturing</td>
<td>RBV, IT, corporate entrepreneurship perspective</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zhang (2009)</td>
<td>Patterns and motives</td>
<td>OLI, IDP</td>
</tr>
<tr>
<td>Globerman and Shapiro (2009)</td>
<td>Acquisition vs. Greenfield by Chinese OFDI in US</td>
<td>Strategic perspective</td>
</tr>
</tbody>
</table>

**Strategies**
<table>
<thead>
<tr>
<th>Author(s) and Year</th>
<th>Subject</th>
<th>Source</th>
<th>Cases/Countries</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duysters et al. (2009)</td>
<td>Internationalization strategies of China’s Haier vs. India’s Tata</td>
<td></td>
<td></td>
<td>Examines several aspects of two firm’s internationalization including the mode of internationalization and the choice of overseas destinations. Explores the importance of, among others, conglomerate structure, prior experience, the state and entrepreneurship in internationalization.</td>
</tr>
<tr>
<td>Ge and Ding (2008)</td>
<td>Internationalization strategies</td>
<td>LLL</td>
<td>Galanz</td>
<td>Examines the process of Galanz’s integration into the global market.</td>
</tr>
<tr>
<td>He and Lyles (2008)</td>
<td>Opportunities and challenges of China’s OFDI in US</td>
<td>Business perspective</td>
<td>Cases of CNOOC, Lenovo and TCL</td>
<td>Proposes that Chinese firms’ lack of experience in foreign operations creates a high liability of foreignness, specifically in political, culture, marketing and technological aspects. Explores</td>
</tr>
</tbody>
</table>
how Chinese firms might deal with these inherent disadvantages of competitiveness.
2.4 China’s Outward Foreign Direct Investment by Ownership: SOEs vs. POEs

SOEs played a dominant role in the Chinese economy before economic reform and during the early years of economic reform. The extant literature on SOEs portrays Chinese SOEs as subject to government-guided influences when they engage in OFDI. One key characteristic of China’s OFDI is the State’s deep involvement. Deng (2004, p14) observes “(the) Chinese government has, to a great extent, played a critical role in shaping the structure of the country's approved outward investment”. This involvement and shaping is often through its influence of SOEs. Thus SOEs’ OFDI objectives can be politically motivated and can be determined by the government’s consideration of China’s political and economic influence in the World. To give an example, Deng (2007) points out that 22 Chinese firms were encouraged to engage in OFDI and their primary goals were to become competitive MNEs in the global markets. Many SOEs have been able to gain substantial monetary support from state-controlled banks. As such, in the early years of Chinese firms’ internationalization, the scene was dominated by SOEs.

In contrast, the ownership structure of POEs was not properly defined until 1988. POEs only became a formal integral part of the Chinese economy in 1997 and had their legal status established in 1998 (Steinfeld, 2004, Kanamori and Zhao, 2004).
It was not until 2003 that the POEs were legally allowed to invest overseas. For POEs, their internationalization strategy was sometimes driven by a desire to escape from non-favourable institutional environments that they were facing at home. In contrast to the strategic behaviour of SOEs and other non-POEs, POEs are increasingly operating in a free-market environment and are more likely to be influenced by market forces and to be commercially motivated (Ramasamya et al., 2012, Liu et al., 2008). They more closely resemble their developed economy (DE) counterparts (Liang et al., 2012). Thus, when investigating the internationalization of Chinese firms, it is important to separate firms by ownership.

Table 2 shows the share of Chinese outward investors by ownership. In terms of both the number of parent firms and OFDI stocks, the share of SOEs declined on a yearly basis. On average, SOEs accounted for 22.6% of the total number of parent firms between 2003 to 2011. However, SOEs' OFDI was large in scale. Its share of OFDI stocks ranged between 62.7% in 2011 and 81% in 2006. In Appendix 1, thirty largest companies ranked by OFDI stocks are listed from 2004 to 2011; among them, most are SOEs. Moreover, China’s SOEs have two levels of government ownership: central and local (including provincial and city) governments. In contrast, POEs’ OFDI accounted for 10.2% on average between 2003 and 2011, by total number of parent firms, and they accounted for 1.2% of OFDI stocks on average from 2006 to 2011. This indicates that POEs’ OFDI
projects are relatively small in scale.

### Table 2 - The Share of OFDI by Ownership

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of parent firms</th>
<th>OFDI stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SOEs</td>
<td>POEs</td>
</tr>
<tr>
<td>2003</td>
<td>43%</td>
<td>10%</td>
</tr>
<tr>
<td>2004</td>
<td>35%</td>
<td>12%</td>
</tr>
<tr>
<td>2005</td>
<td>29%</td>
<td>13%</td>
</tr>
<tr>
<td>2006</td>
<td>26%</td>
<td>12%</td>
</tr>
<tr>
<td>2007</td>
<td>19.7%</td>
<td>11%</td>
</tr>
<tr>
<td>2008</td>
<td>16.1%</td>
<td>9.4%</td>
</tr>
<tr>
<td>2009</td>
<td>13.4%</td>
<td>7.5%</td>
</tr>
<tr>
<td>2010</td>
<td>10.2%</td>
<td>8.2%</td>
</tr>
<tr>
<td>2011</td>
<td>11.1%</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

2.5 Motivates of China’s Outward Foreign Direct Investment

Firms have different motives when they engage in OFDI. Three generic motives are generally recognised: market-seeking, efficiency-seeking and resource-seeking (Dunning, 1998, Dunning, 1993).

Market-seeking FDI

Firms are attracted by a number of factors to engage in market-seeking FDI. These factors include: large and growing domestic markets, the quality of the labour force, the industrial competitiveness of the host country, the quality of national and local infrastructure, the increased role of agglomerate spatial economies and local service support facilities, macroeconomic and macro-organizational policies, proximity to customers and promotional activities by regional and local development policies (Dunning, 1998). Firms undertake either defensive market-seeking FDI, to strengthen and protect existing markets, or offensive market-seeking FDI to develop and explore new markets. Defensive market-seeking FDI occurs when a host country imposes tariff or non-tariff barriers to imports. Investing firms then need to take action to bypass the trade barriers. Offensive market-seeking FDI can benefit from physical proximity to local markets as firms can increase their control over products, distribution channels and other tangible and intangible assets (Dunning, 1993).
During the 1980s and early 1990s much of China’s OFDI was of a market-seeking nature and OFDI was employed to facilitate exports of Chinese firms. OFDI helps Chinese firms to become familiar with international markets, to collect information about the host economies and to accumulate foreign reserves. At the time the Chinese government was greatly interested in promoting exports. (Buckley et al., 2008).

There were both defensive and offensive market seeking Chinese OFDI. Given the country-specific advantages (i.e. low labour costs, labour intensive production), Chinese firms benefitted from exporting. However, protectionist measures began to threaten the Chinese exports to the US, Latin America and Europe, the countries with which China enjoyed a large trade surplus (Taylor, 2002). Chinese firms thus chose to engage in defensive market-seeking OFDI and either locate ‘offshore’ manufacturing plants in these countries or establish an export-platform to those countries by having production in third-country markets, such as Cambodia, Mauritius, Jamaica and Fiji, which face fewer restrictions from those countries (UNCATD, 2003). Moreover, many industries in China are in markets characterized as prone to ‘excessive competition, thinning margins and overcapacity’ (Duanmu and Guney, 2009). This has spurred Chinese companies to invest overseas, especially after China’s WTO accession in 2001.
From the offensive market-seeking perspective, Chinese firms are motivated to develop new markets in both developed and developing countries (UNCATD, 2003). On the one hand Chinese firms, e.g. Huawei, ZTE, Lenovo, are actively seeking new markets in developed countries and to raise their brand awareness in these high-end markets. On the other hand Chinese outward investments toward developing countries in Asia and Africa are focusing on small-scale and labour-intensive projects, that is, to produce low value-added products for local markets (Deng, 2004).

**Efficiency-seeking FDI**

Efficiency seeking FDI refers to firms seeking to reduce their operation, production, labour and other administrative costs by moving their operations and production to countries that are characterized as lower cost locations. On the one hand firms can reduce their costs by centralizing or concentrating production in one place, while taking advantage of lower trade barriers between that place and their target markets. On the other hand the efficiency-seeking FDI may be driven to introduce new technologies and designs that can reduce costs and add value for their investors. Though China is a fairly low cost location, there have been rising costs in particularly in terms of labour and land. As explained above, some Chinese MNEs are moving to developing countries in Asia and Africa. These market-seeking FDIs can also enjoy the benefit of improving efficiency.
Resource-seeking FDI

Resource-seeking FDI can be categorized into: (1) natural resource-seeking; (2) technology-seeking; (3) strategic asset-seeking. Natural resource-seeking FDI refers to seeking the natural resource endowments that a host country possesses, such as oil, minerals and other raw materials. Such investments are believed to sustain economic growth and to secure the future needs of the home country. Technology-seeking FDI are made in R&D and research design. Firms seek to tap into countries with high-knowledge stocks to benefit from the spillover effects. Strategic assets-seeking FDI is motivated by the acquisition of tangible and intangible assets that are either not available in the home country or are too time and cost-consuming to be developed and delivered domestically.

Chinese MNEs undertake natural resource-seeking FDI because of the need to support the rapid economic growth at home and to ensure the sustainable supply of nature resources where China has domestic shortfalls (Deng, 2004). China is well-endowed with some natural resources, but there are large demands it cannot meet alone, especially in the iron ore, aluminium, copper, petroleum, timber and fish sectors (Deng, 2004). These key raw materials therefore need to be acquired to sustain domestic consumption. The internalization of these key raw materials is viewed as a stable way to access these resources given the volatile world-market prices (Tan, 1999). Chinese firm's OFDI in the natural
resources sector is often in developed counties such as in the USA, Canada and Australia (Buckley et al., 2008). For example, the natural resource-seeking FDIs supporting China Metallurgical Import and Export Corporation's acquisition of stakes in Austrian mineral and foods companies in 1990s (Wu and Sia, 2002), CNPC’s acquisition of Canada-based PetroKaz in 2005 and, one of the most recent, CNOOC’s takeover of the Canadian oil and gas company Nexen in 2013. However, not all of the acquisitions toward natural resource-seeking FDI are successful. For example, CNOOC’s acquisition of Unocal in 2005 was rejected by the US government because of concerns about security issues. Despite the difficulties, China’s acquisition in natural resources continues. For example, Mathew (2013) reports that “PetroChina, China’s biggest oil and gas producer, is looking to invest US$60 billion on overseas acquisitions over the period to 2020”.

On the back of technology-seeking OFDI Chinese MNEs invest in high income or industrial countries, e.g. Europe and the US (Deng, 2007). Wang (2002) notes that more than 70% of Chinese overseas subsidiaries were established in industrial countries excluding those from Hong Kong and Macau. These investments often take the form of the acquisition of a host country company or the establishment of a subsidiary there (Warner et al., 2004). Mergers and acquisitions (M&As) are the most common entry mode used by Chinese MNEs (Deng, 2007). The underlying motivation of technology-seeking OFDI is to close the technology gap with those industrial countries and upgrade capabilities
M&As are an effective way for Chinese firms to access advanced technologies. After learning from the acquired firms, Chinese firms can transfer the technology and other valuable assets back to China to strengthen their capabilities at home. To give an example, China Bicycles Corporation bought an American bicycle company to learn how to make a specific model in order to satisfy the U.S. and Europe markets; they later transferred the technology back to their plants in China (Deng, 2004). This helps the firm to serve its home market.

In addition to seeking technologies, Chinese MNEs are motivated to acquire other strategic assets, such as brands, management know-how, distribution networks, marketing techniques and other hard to imitate strategic assets. It is believed that strategic asset-seeking is the primary motivation of many of China’s overseas investments (Deng, 2004, Deng, 2007, Deng, 2009). Deng (2007) expands on his own work (2004), examining the rationale for strategic assets-seeking FDI in the case of China. He points out that strategic assets-seeking FDI is driven by the need to access complementary resources and update a firm’s own capacity. Chinese investors, as latecomers, need to pursue strategic assets-seeking FDI in order to address their ownership disadvantages and to increase their global competitiveness. This is also suggested by other scholars, such as Luo and Tung (2007), who take the view that Chinese firms use international expansion as a springboard to the acquisition of strategic resources. Generally speaking, Chinese firms lack proprietary knowledge, well-known
brands and specialized management know-how; OFDI offers a way of acquiring strategic assets directly or creating R&D centres in developed countries. The acquisition of strategic assets enables Chinese firms to further develop their own resources and capabilities and this can be combined with their existing competitive advantages, e.g. low labour costs, production capabilities and cost and quality control in manufacturing operations, to accelerate their progress in catching up with the global giants (Rui and Yip, 2008). To give an example, Lenovo's acquisition of IBM's personal business unit is a typical case of strategic assets-seeking FDI. It has turned Lenovo into the World’s third largest producer of PCs and has provided them with an opportunity to rapidly obtain access to the proprietary technology of the “Think” family of IBM products, gaining knowledge of, and access to, premium products in global PC industry, and of the associated advanced technologies and superior management methods.

**New phenomenon: Institution-seeking FDI**

The literature has recognised that the institutional differences between developed and developing countries include emerging economies. Institutions have an impact on investment strategy, entry mode and performance (Meyer et al., 2009a, Wright et al., 2005, Henisz and Swaminathan, 2008). The internationalization of many Chinese firms may not be motivated only to seek market, efficiency and resources. There is another dimension to it, i.e. strategic
exit. In other words, rather than being pulled by host country factors, there are push factors from the home country government institutions at work. Because of the high transaction costs associated with local protectionism and inefficient domestic logistic infrastructure, firms’ motives for going abroad may very well be in order to escape the institutional constraints of the home country or home region (Witt and Lewin, 2007, Luo et al., 2010, Boisot and Meyer, 2008). A host country with a transparent, predictable, sound and well-enforced institutional environment will certainly attract Chinese MNEs who are eager to avoid the institutional constraints and political hazards of the home country (Luo and Tung, 2007, Yamakawa et al., 2008).

Voss, Buckley et al. (2010) have also found that this motive may probably relate to firm size. Institutionally well-connected Chinese firms, probably SOEs and some large POEs, benefit from institutional advantages e.g. different forms of government support. They go abroad because the government has pushed them. However, for smaller firms, mostly POEs, they internationalize because of the institutional constraints that they face at home. For these firms, international markets probably give them more opportunities for success than staying in China and struggling with local bureaucracy.
2.6 Conclusion

Since the ‘Reform and Open up’ policy formulated in 1978, China has integrated itself into the world economy with tremendous effects. China has not only attracted a huge amount of inward FDI, but also has become one of the major contributors to world OFDI. China has attracted the World’s attention, evolving from a famous global factory for the World to a major global investor in the World. Such transformation has been accompanied by different economic development paths. This chapter summarizes the major stages that Chinese OFDI has been through, highlights the significant role that the Chinese Government has played at each stage, points out the significance of ownership type to the analysis of OFDI and identifies Chinese firms’ motives in undertaking OFDI.
Chapter 3: Chinese Exporting Firms Expanding to Outward Foreign Direct Investment?

3.1 Introduction

A review of the extant research on China’s OFDI (see Table 1 for a summary of published research in English-language journals) shows that most studies have examined the patterns, motivations and determinants of the volume, location and entry mode choice of OFDI (e.g. wholly-owned subsidiaries (WOSs) vs. joint ventures (JVs)) and have adopted several theoretical perspectives, including the linkage-leverage-learning framework (LLL), the investment development path theory (IDP), the resource-based view (RBV), the transaction costs theory (TC) and the institutional theory (IT). Research findings indicate that OFDI strategic decisions are influenced by a variety of firm, industry and country-related factors. These studies have shed light on the issues of China’s OFDI. However, few studies have investigated the entry mode transformation of Chinese exporting firms and the role of subnational institutions in such a transformation. The internationalization of firms is by no means universally observed. Despite firms’ export experience, not all exporting firms expand to OFDI entry mode. What are the factors giving rise to the decision to move on from exporting to OFDI? What determines the volume of OFDI flows (VFDI)?
To address the research gaps, this study adopts a multi-dimensional approach, based on productivity heterogeneity hypothesis (Greenaway and Kneller, 2007) and the integrated ‘strategic tripod’ framework (Peng et al., 2008), to examine the roles of internal factors, industry conditions and institutional environments in the entry mode transformation of Chinese exporting firms. The international business (IB) literature has for some time emphasised the importance of adopting multi-dimensional or multi-level analysis (Buckley and Lessard, 2005). More recently Jormanainen and Koveshnikov (2012), after critically assessed research into the internationalization of emerging market firms (EMFs), published in fourteen top international management journals between 2000-2010, issued a similar guideline suggesting that “the development of multi-level models accounting for country, industry and firm-specific factors may shed some light on the observed plurality and allow for making a more informed comparison of EMFs following different internationalization paths” (p.719). One of the shortcomings of the extant China’s OFDI literature is the attention paid to only one group of variables, with a few exceptions (see Table 1). In response to the above calls, this study considers firm characteristics, industry dynamics and macro-level factors and goes on to develop corresponding hypotheses based on productivity heterogeneity hypothesis (Greenaway and Kneller, 2007) and the integrated ‘strategic tripod’ framework (Peng et al., 2008).
Productivity heterogeneity hypothesis in economics literature explains entry mode transformation from exports to OFDI by looking at the cost implications associated with exports and OFDI (Greenaway and Kneller, 2007). Both exports and OFDI involve sunk costs including, for example, market research, product research (leading to product modification or new development), distribution networks and advertising. OFDI eliminates the variable transportation costs associated with exports but incurs higher fixed costs than exports; productivity heterogeneity hypothesis therefore determines entry mode transformation. The more productive firms become exporters, while the less productive ones sell domestically and only the most productive exporters undertake OFDI. Productivity heterogeneity hypothesis has received empirical support in the studies of German, Italian, French, Irish, British, Japanese and American firms (Tomiura, 2007, Wagner, 2006, Kiyota and Kimura, 2006, Helpman et al., 2004, Arnold and Hussinger, 2010, Castellani and Zanfei, 2007, Engel and Procher, 2011, Girma et al., 2004, Girma et al., 2005, Head and Ries, 2003). However, there is no study that empirically tests this theory in the context of China.

Building on RBV (Barney, 1991) and the industry-based view (IBV) (Porter, 1980), IB literature traditionally argues that firms' strategic decisions are influenced by their internal resources and capabilities and industrial conditions. More recently, Peng, Wang et al. (2008) suggest that IT is the third preeminent perspective in helping to explain emerging economy (EE) firms' internationalization, given the
strong influence of governments in EEs and the fundamental change of institutions; they propose the 'strategic tripod' framework, integrating RBV, IBV and IT. This research broadens IT in the framework by recognising the subnational-institutional variation across Chinese regions and taking account of both the national and subnational institutions in which the Chinese firms are embedded. A number of studies of Chinese OFDI (see Table 1) have narrowly focused on the impact of regulatory factors and state support. No research addresses the impact of subnational institutions, despite the reorganization of diverse subnational regions in China (Boisot and Meyer, 2008, Xu, 2011). The focus on subnational institutions complements the studies of Yang, Jiang et al. (2009) and Wang, Hong et al. (2012) and helps generate new insights into how and what institutions matter to Chinese exporting firms’ OFDI decisions.

Another important feature of the study is the focus on Chinese privately-owned enterprises (POEs). Existing studies have mainly focused on state-owned enterprises (SOEs), listed companies, or a mix of firms with different types of ownership (see Table 1). Only a few studies have focused explicitly on POEs, despite the fact that POEs are an important driving force behind China's OFDI, in addition to export growth and economic development (Liu et al., 2008). In 2012, POEs accounted for 9.5% of China's OFDI flows (Economist, 2013), growing from less than 4% two years before, and their role in China's 'go global' strategy will continue to increase (Lin, 2010). As explained in the previous chapters, it is
important to separate firms with different ownership as POEs differ from SOEs in a number of ways. Examining POEs separately enriches our understanding of their strategic behaviour in terms of their outward internationalization strategy, enables us to differentiate the impact of different institutional dimensions from the ownership effect and enhances our understanding of these firms’ outward internationalization paths within the institutional context. Such a focus helps provide valuable empirical evidence on the relationship between the characteristics of POEs and their entry mode transformation.

This chapter is organized as follows. Section 3.2 provides a literature review and develops hypotheses. Data and methodology are then outlined in Section 3.3, followed by empirical results in Section 3.4 and discussions in Section 3.5. Section 3.6 summarises, discusses the implications and points out the limitations of the research and possible directions for future studies.

3.2 Literature Review and Hypothesis Development

Firm internationalization, in general, and entry mode transformation from exporting to OFDI, in particular, is a complex process and is affected by many factors. A single theoretical approach is inadequate to capture such complexity and to reflect the impact of multi-dimensional factors on strategic decisions relating to OFDI. Therefore, an integrative approach is undertaken, drawing on
productivity heterogeneity hypothesis (Greenaway and Kneller, 2007) and the strategic tripod framework (Peng et al., 2008, Yamakawa et al., 2008) which, in turn, comprises RBV, IBV and IT. Productivity heterogeneity hypothesis stresses the impact of productivity on internationalization, which complements RBV, whereas IBV and IT enable us to explicitly examine the impact of industry and the institutional context in which firms are embedded. This integrated approach allows us to examine a wide range of factors affecting firms’ strategic decisions on expanding from exporting to OFDI.

3.2.1 Productivity Heterogeneity Hypothesis

In the economics literature, considerable attention has been paid to linking productivity heterogeneity to a firm’s entry mode decision regarding exports and OFDI (Greenaway and Kneller, 2007). The mode shifts from exports to OFDI as firm productivity increases. When serving international markets, a firm’s choice is commonly between exports and OFDI. Firms entering the international market incur fixed costs relating to research into product compliance, setting up new distribution networks, advertising and so on. Therefore, only firms with sufficiently high profits to cover the fixed costs could internationalize (e.g. Helpman et al., 2004, Greenaway and Kneller, 2007). Comparing exports to OFDI, exports involve lower fixed costs but higher trade-related costs such as transportation, tariff and non-tariff barriers. OFDI, on the other hand, entails lower variable costs, but higher costs in maintaining capacity in multiple markets.
Increasing returns-to-scale at plant level create incentives to concentrate production in one place and use exporting for internationalization, while transportation and transaction costs associated with the distance between the locations of production and sales provide a countervailing pressure towards engaging in OFDI by producing closer to the foreign market (Arnold and Hussinger, 2010). Firm productivity influences decisions concerning exporting and OFDI. Of those firms that serve foreign markets, only the most productive find it profitable to meet the higher costs associated with OFDI. Exporting firms’ expansion to OFDI therefore depends on their productivity. It is expected that the most productive exporting firms engage in OFDI and become multinational enterprises (MNEs) (Greenaway and Kneller, 2007). This predication has received empirical support in a number of recent studies of developed countries including Germany (Arnold and Hussinger, 2010, Wagner, 2006), Italy (Castellani and Zanfei, 2007), France (Engel and Procher, 2011), Ireland (Girma et al., 2004), UK (Girma et al., 2005), Japan (Head and Ries, 2003, Kiyota and Kimura, 2006, Tomiura, 2007) and the US (Helpman et al., 2004). The above arguments lead to the following hypothesis:

Hypothesis 1: Exporting firms with higher levels of productivity are more likely to expand to OFDI and to undertake more VFDI.
3.2.2 Resource-based View (RBV)

The RBV rests on two fundamental assumptions: resource heterogeneity and resource immobility (Barney, 1991, Barney et al., 2001). The former refers to the different levels of resources and capabilities possessed by different firms, while the latter explains that this heterogeneity cannot be transferred from firm to firm without substantial costs (i.e. resources being ‘sticky’). The rare, valuable, inimitable and non-substitutable firm-specific assets/resources (FSRs) are a source of competitive advantage for internationalization (Brouthers and Hennart, 2007). EE firms, though not possessing the sort of FSRs owned by DE MNEs (e.g. advanced technologies, marketing techniques and superior management know-how), still need to possess resource advantages in order to overcome their liabilities of foreignness (Liu et al., 2008, Wang et al., 2012). These advantages are termed ‘comparative ownership advantages’ (COAs) by Sun et al. (2012) and arise from internal FSRs or the interaction between country-specific resources (CSRs) and FSRs. Zhang (2009), for example, asserts that FSRs possessed by China’s MNEs are “similar in kind to their developed country counterparts, but differ in proportion” (p.92) and rely on advantages in production-process capabilities, cheap resources and institutional supports. Using case studies, Rui and Yip (2008) find that Chinese MNEs may lack product technology, globally-recognised brands and international managerial experience, but they have innovative products for niche markets, and innovative and effective marketing and services. These FSRs are “relatively (not absolutely) valuable, rare,
hard-to-imitate and organizationally embedded in comparison with MNEs from other countries” (Sun et al., 2012, p. 7).

Following COA logic, EE multinationals need to absorb and integrate the CSRs of a host country in location, and factor endowments into their FSRs (Sun et al., 2012). Hence, EE firms’ OFDI decisions are largely conditioned by their ability to obtain advanced technology and to learn how to operate internationally (Mathews, 2006). As a basis for competitive advantage and an important type of FSR, technology-based capability can help to mobilise other FSRs into dynamic capabilities. It supports knowledge integration for firms operating in multiple markets and increases their level of absorptive capacity in understanding and adapting to international market opportunities (Lu et al., 2011, Yiu et al., 2007). For example, strong domestic-based technological know-how has enabled Chinese firms like Midea (a leading manufacturer of refrigerators, air conditioners, washing machines and other white goods), Ningbo Bird (a leading manufacturer of mobile phones) and Wanxiang (a leading manufacturer of auto parts) to absorb superior technologies from international industry leaders (Deng, 2004, Deng, 2007, Lin, 2010). The above arguments lead to the following hypothesis:

Hypothesis 2: Exporting firms with technology-based capability are more likely to expand to OFDI and to undertake more VFDI.
Extant literature emphasises the role of brands in a firm’s FSR base (Anand and Delios, 2002, Morgan and Rego, 2009). As a valuable intangible asset, brands are important in distinguishing products by status, emotional characteristics and subjective qualities. They are pernicious barriers to entry. Brands are costly and require long time-horizons to build up. Strong brands, signifying deep and meaningful relationships with customers, can result in increased product sales and reduced customer price sensitivity. Firms can leverage them to reduce costs or increase profit margins. Brand recognition at a broader level (beyond national, and at the worldwide scale) constitutes a firm’s competitive advantage and is essential for a firm’s internationalization strategy (Strihakova et al., 2008). Firms with brands, when serving international markets, need to establish both legitimacy and effective communication with customers in order to overcome the liabilities of foreignness and newness. It is relatively easier to achieve local acceptance through OFDI than exporting given the physical presence of OFDI in the host country markets (Yildiza and Fey, 2012). There is increasing evidence to suggest that Chinese firms are investing abroad to develop new markets and raise brand awareness. Cases in point include Huawei (Economist, 2012a), Bosideng (Economist, 2012b), Galanz (Lin, 2010) and Wanxiang (Ramsey, 2012). Taking Galanz as an example, Galanz began the production of microwave ovens in 1992. Within six years, it became the biggest producer and largest exporter of microwave ovens in the World through OEM (original equipment manufacturing). It used its own brands at home but sold products under established MNEs’
brands in overseas markets. However, since 2008, there has been a strategic shift to OBM (own brand manufacturing). The firm has set up manufacturing and R&D facilities around the World and developed global distribution networks. The above arguments lead to the following hypothesis:

Hypothesis 3: Exporting firms with brands are more likely to expand to OFDI and to undertake more VFDI.

It is well documented that most EE firms start their internationalization with exports and that this helps firms to gain experience and establish linkages in international markets (Mathews, 2006). From the RBV perspective, export experience represents a firm-specific tacit resource (Meyer et al., 2009b) that is important for OFDI. Such experience allows firms to improve their understanding of, and competence in, foreign markets, to build relational assets and to develop foreign market entry capability that helps to mitigate information asymmetry and uncertainty and, thus, to overcome the liability of foreignness associated with OFDI. It also influences managers’ perceptions regarding the costs of OFDI and enhances their confidence (Johanson and Vahlne, 1977, Pedersen and Shaver, 2000). Hence, firms with more export experience are more likely to undertake OFDI to benefit from knowledge acquired through that exporting. OFDI is also a way to overcome trade barriers and to promote exports (Buckley et al., 2008, Lu et al., 2011). Even with the WTO, EE firms still face
non-tariff barriers, such as anti-dumping rules and countervailing duties. In order to bypass these trade barriers, firms with more export experience are more likely to engage in OFDI (Buckley et al., 2007, Buckley et al., 2008). One illustrative example of this is Wanxiang whose OFDI benefits from its accumulated export experiences (Lin, 2010). Wanxiang started its internationalization through exports, then established manufacturing abroad and, finally, used local resources to design, manufacture and distribute its products around the World. Another case in point is Galanz. Early development in the export market enabled the firm to participate in international joint ventures (IJVs) in DEs such as North America and Western Europe (Deng, 2007). These examples suggest that exporting firms benefit from their accumulated export experiences as they become more familiar with international business, improve their understanding of local customers’ needs and more easily absorb useful information on host countries. As a consequence, this learning and experimentation can lead them to expand to OFDI. The above arguments lead to the following hypothesis:

Hypothesis 4: Exporting firms with more accumulated export experience are more likely to expand to OFDI and to undertake more VFDI.
3.2.3 Industry-based View (IBV)

The IBV emphasizes the importance of the industrial environment in which a firm operates. Industry conditions affect firms’ strategic behaviour (Boter and Holmquist, 1996, Porter, 1980), including their internationalization strategy (Yamakawa et al., 2008). These conditions, such as entry barriers and industry R&D, may shape the extent to which exporting firms are likely to achieve COAs and expand to OFDI. Industry entry barriers have the effect of reducing or limiting competition. A firm’s internationalization decisions crucially depend on the level of an industry’s entry barriers. A low level of entry barriers in an industry encourages new entrants, which increases competition (Arora and Gambardella, 1997, Porter, 1980). The competitive pressure pushes firms to cut prices and improve product performance, thus lowering profit in the domestic market. The off-setting force of competition places a ceiling or threshold on the equilibrium number of firms. This may pressurise firms to use OFDI as a means to search for new markets and to seek further growth elsewhere (Lu et al., 2011).

In contrast, an industry with a high level of entry barriers is characterised by a low level of competition. Established exporting firms operating in such an industry tend to comfortably enjoy strong market position and superior profits and, therefore, have limited incentives to expand to OFDI.
Economies of scale can act as an entry barrier when the output level at which all potential economies of scale have been exploited (minimum efficient scale, MES) is large relative to the total size of the market and when the average costs associated with a production level below the minimum of efficient scale are greater than the average costs at minimum efficient scale. For most of their international market forays Chinese firms’ internationalization is still at an early stage and is primarily dominated by exporting (Child and Rodrigues, 2005, Liu et al., 2005). Exporting is a relatively lower business risk activity, requires fewer resource commitments and has greater flexibility for managerial actions than OFDI. Given the home country CSRs, such as low labour costs and low production costs, firms may benefit from economies of scale by concentrating production at home and then exporting their products to foreign markets. Expanding to OFDI implies costs arising from producing at different locations, therefore new entrants face cost disadvantages because they do not produce at the low-cost position on the economies of scale curve (Lipczynski et al., 2009). In addition, there are learning-curve cost advantages, i.e. the costs of production fall with the cumulative volume of production. Firms that successfully move along the learning curve can obtain cost advantages over rivals. Therefore, exporting firms have incentives to pursue exporting activities continuously and enjoy the cost advantages when they operate in an industry characterised by high entry barriers. The above arguments lead to the following hypothesis:
Hypothesis 5: Exporting firms operating in an industry characterised by high entry barriers are less likely to expand to OFDI and to undertake less VFDI.

Besides the impact of entry barriers on OFDI, industry R&D may influence the transformation from exporting to OFDI (Yamakawa et al., 2008). Specifically, industry R&D captures technical dimensions within which firms compete. High industry R&D provides the potential for a large degree of product differentiation and signifies the need for continuous knowledge acquisition. Firms operating in such an industry need to update their innovation capability and tap into cutting-edge technology in foreign countries, given that technological development in emerging economies still lags behind that of developed countries. Constrained by a low knowledgebase at home, EE firms have strong incentives to acquire knowledge from international markets. Direct personal contacts between parties and lengthy communication are essential to acquire external knowledge (Makino and Delios, 1996) and therefore exporting firms in R&D intensive industries may seek to expand to OFDI rather than solely focusing on exports. The mode of transformation enables exporting firms to expose themselves to advanced technologies through physical proximity. Subsidiaries in a host country can gain direct access to new knowledge and research skills which cannot be achieved effectively without a local presence. Existing research has found that motives for acquiring external knowledge affect the path of internationalization and OFDI activities provide a means of knowledge exploitation and exploration in
foreign countries (Lu et al., 2011, Meyer et al., 2009b). In comparison, exporting activities only allow firms to have limited interaction with foreign buyers and suppliers, representing limited learning opportunities in international markets (Liu et al., 2005). The above arguments lead to the following hypothesis:

Hypothesis 6: Exporting firms operating in an industry characterised by high R&D are more likely to expand to OFDI and to undertake more VFDI.

### 3.2.4 Institutional Theory (IT)

North (North, 1990, p.3) defines an institution as “the humanly-devised constraints that structure human interaction”. It sets the “rules of the game” to govern firm behaviour. It is recognised that institutions play an important role in supporting the effective functioning of market mechanisms and help firms and individuals to engage in market transactions (Meyer et al., 2009a). A country's institutions form the conditions for doing business there and determine the transaction costs of business activities. As repositories of knowledge and information, well-established institutions facilitate the development of the competitive capabilities of firms that embed in the institutions, help reduce information asymmetries and serve to disseminate information about what and how to gain, or deepen, new and existing capabilities (Chan et al., 2010). They induce firms to create particular resources and capabilities and ensure transparency and contract enforcement. Institutions significantly shape firms'
behaviours and encourage them to make long-term strategic decisions such as OFDI (Buckley et al., 2007). Institutions can make an important contribution to the international competitiveness of indigenous firms. The ownership advantages from the possession of resources and capabilities that Chinese firms enjoy are mainly home-country based (Boisot and Meyer, 2008, Rugmana and Li, 2007). This makes home-country institutions particularly important. The literature has repeatedly stressed, for example, the role of a supportive policy by the government (e.g. Child and Rodrigues, 2005, Deng, 2004, Deng, 2009, Luo et al., 2010, Voss et al., 2010). Since China's formulation of the 'Go Global' policy, central and provincial governments have perceived OFDI positively and actively attempted to provide an institutional environment that enables Chinese firms to engage in OFDI.

While noting that national institutions play an important role in OFDI, it is important to point out that subnational institutions also have a strong bearing. With 31 provinces, China is well-known for its fragmented domestic economy, regional disparity and considerable institutional variation across regions (Boisot and Meyer, 2008, Meyer, 2008, Xu, 2011). Though the central government's control is substantial, provincial governments play a pivotal role in shaping the regional institutional environment (Boisot and Meyer, 2008). This is, in part, associated with administrative decentralization, including fiscal decentralization, the delegation of responsibility for economic performance, the delegation of
control of SOEs from central government to provincial governments and the
delegation of the local implementation of intellectual property laws (Boisot and
Meyer, 2008). Provincial governments are granted authority over, and
responsibility for, economic development in general and internationalization
strategy, in particular, at the regional level. They implement policies which affect
the development of product markets, factor markets and markets of intermediate
goods and services and legal systems. For example, provincial governments have
policy-making authority in spending on strategic assets, public finance, tax
exemptions and subsidies (Chan et al., 2010). In regions where government
interference in business activities, or regulatory uncertainty, is high, non-market
forces prevail and there is a lack of effective contract enforcement, which
increases business costs and reduces the competitiveness of the local firms
(Boisot and Meyer, 2008, Voss et al., 2010). Previous findings based on interviews
with firms and government officials show that OFDI approval was quicker in
certain provinces than others (Voss et al., 2010), for example.

Such variations in subnational institutional environments provide an appropriate
context to examine the impact of regional institutions on OFDI. Chinese firms face
the same national institutional environment but different subnational
institutional environments. Their practices in different regions are inherently
imprinted by regional institutional environments. Such regional institutional
environments may constrain or encourage firm internationalization. A quality
regional institutional environment helps to ensure transparency, reduces transaction costs for OFDI, reduces information asymmetries and facilitates OFDI. The above arguments lead to the following hypothesis:

Hypothesis 7: Exporting firms from provinces with better institutional environments are more likely to expand to OFDI and to undertake more VFDI.

Institutions exist not only to enforce regulatory environments and government policy; there are also intermediary organisations. Support from industry associations and intermediary organisations also act as an important motivator in Chinese firms’ OFDI. Professional associations can be seen as institutional actors that help shape the perceptions of managers and their responses to business opportunities (Nordqvist et al., 2010). “Links with domestic trade associations and professional bodies can provide intelligence on different markets and access to those markets for international operations” (Yiu et al., 2007, p.524). In other words, the institutional supports provided by professional associations may help reduce information asymmetry and uncertainty about foreign markets and may encourage firms to undertake OFDI. These organisations also influence industry norms and practices through which firms may consider internationalization a strategic choice in their industry. For example, if the industry associations and intermediary organisations can provide sufficient training to employees, and updated information on host countries’
culture, language, accounting systems and legal systems, exporting firms may be in a better position to move on to the next level of internationalization. The focus on professional associations and intermediary organisations helps to capture the impact of the different dimensions of institutions on firms’ internationalization strategies and complements prior studies which have mainly examined the impact of regulatory environments and government policy (Lu et al., 2011, Wang et al., 2012, Cui and Jiang, 2012). The above arguments lead to the following hypothesis:

Hypothesis 8: Exporting firms receiving sufficient support from industry associations and intermediary organisations are more likely to expand to OFDI and to undertake more VFDI.

3.3 Data and Methodology

3.3.1 Estimation Method

The hypotheses were tested using the following equations to capture two decisions in the OFDI strategy by exporting firms. First, firms’ decisions on whether or not to expand to OFDI and, second, how much OFDI to undertake
\[ OFDI_i^* = \gamma X_i + v_i \]  \hspace{1cm} (1)

\[ VFDI_i^* = \beta Z_i + u_i \]  \hspace{1cm} (2)

with

\[ VFDI_i = VFDI_i^* \quad \text{if} \ OFDI_i = 1 \quad \text{and} \ OFDI_i = 1 \quad \text{if} \ OFDI_i^* > 0 \]

\[ VFDI_i = 0 \quad \text{if} \ OFDI_i = 0 \quad \text{if} \ OFDI_i = 0 \quad \text{if} \ OFDI_i^* \leq 0 \]

where \( OFDI^* \) represents choices between the decision to engage in FDI and \( VFDI^* \) stands for the volume of FDI that firm \( i \) undertook. The observed \( OFDI \) decision is a dummy variable that equals 1 if firm \( i \) reported engaging in OFDI. The observed volume of FDI (VFDI) is zero when the firm decides not to invest abroad (OFDI=0) and takes a positive value when the firm decides to invest abroad (OFDI=1). Since \( OFDI^* \) and \( VFDI^* \) are unobserved, they are assumed to be functions of multi-dimensional variables at firm (f), industry (i) and country-level (c), as outlined in the hypotheses. \( X \) and \( Z \) are matrices of the relevant explanatory variables measured at the three levels. The same set of explanatory variables has been used to explain both the decision to undertake FDI and its volume. \( \beta \) and \( \gamma \) are parameters to be estimated. The distribution of the error terms (\( u, v \)) is assumed to be bivariate normal. The \( OFDI \) decision is estimated using the binary Logit model. Building upon the \( OFDI \) decision equation, a Tobit model is estimated using \( VFDI \) as a dependent variable. One attractive feature of estimating using two equations separately is that it allows us to assess whether the variables have an identical impact on the two decisions of \( OFDI \).
3.3.2 Sample and Data Collection

Most of the data was collected from the results of a questionnaire survey produced by the Chinese Academy of Social Sciences (CASS) and the All-China Federation of Industry and Commerce (ACFIC) in 2008. CASS and ACFIC have a government background; CASS is the largest government-funded research institute of social science and ACFIC is the largest association of firms in China. The advantages of conducting the survey by cooperating with government agencies include its accuracy and its good response rate. The drawbacks include the possibility of biased responses, especially related to any questions about the role of government. However, as argued by Lu et al. (2011) and Bai, Lu and Tao (2006), seriously biased responses are not likely to be a problem when using this set of survey data because both CASS and ACFIC are public institutes with a role in facilitating communication between firms and administrative authorities, and both are reputable, with extensive experience in conducting surveys and collaborating with international institutes.

The survey was conducted in the following Chinese provinces: Beijing, Chongqing, Fujian, Hebei, Jiangsu, Shanghai, Sichuan and Zhejiang, in July 2008. Collectively, these provinces accounted for 84.7% of exports and 55.7% of OFDI in 2007 (National Bureau of Statistics of China, 2008). The survey focused on private manufacturing firms with exporting activities. A total of 1,200 questionnaires
were sent to randomly selected POEs and 868 questionnaires were returned. However, only 225 of the returned questionnaires contained valid information for this study, representing a 19% response rate. In the survey, most of the respondents identified themselves as owners or senior managers and therefore had a good understanding of their firms’ strategic decisions. To supplement missing information and to check data reliability, company websites and annual company reports were used. Data for some industry variables were obtained from China Industry Economy Statistical Yearbook 2008. For subnational institutional variables I used the NERI Institutional Environment Index constructed by National Economic Research Institution (NERI) of China (Fan et al., 2010).

3.3.3 Variable Measurements

The dependent variables include OFDI, representing the dichotomous choice of whether exporting firms were engaging in OFDI, and VFDI, the volume of outward investments. For independent variables, three levels of analysis are used in the empirical model: firm, industry and institution-level variables.

The first set includes productivity, technology-based capability (TBC), Brands and export experience (Export_exp), Size, Age and Born_global. The first four variables correspond to Hypotheses 1-4. Productivity is measured by Total Factor Productivity (TFP) calculated as the residual of the production function,
with sales as the dependent variable, and total assets and the number of employees as independent variables. **TBC** is measured by three items, following Lu et al. (2011). Firms were asked to evaluate whether or not: (1) they have the capacity to produce unique products and services; (2) their products and technologies cannot be easily imitated by their competitors; and (3) their customers cannot easily switch to another supplier. Principal-component factor analysis is used to extract a factor to reflect a firm’s technological capability. **Export_exp** is measured as the ratio of a firm’s exports to sales, as in Lu et al. (2011) and Yiu et al. (2007). To measure **Brands**, the following question in the questionnaire is used: whether the firm owns internationally registered brand names.

Following the existing literature, three control variables are included at the firm level that are important in a firm’s internationalization decision. Firm size is related to a firm’s ability to fulfil the resource commitments associated with internationalization and firm’s age reflects a firm’s accumulation of knowledge and experience (Wang et al., 2012, Cui et al., 2011, Deng, 2012). **Size** is measured by the logarithm transformation of a firm’s total assets, following Chen and Young (2010), and **Age** by the number of years since it was founded, similar to Yiu et al. (2007).
Many firms have been observed to expand into foreign markets and exhibit international business prowess from or near their founding (Knight and Cavusgil, 2004, Øystein and Per, 2002). To capture the phenomenon of Chinese ‘Born_global’ POEs, I classify the firms based on the time between establishment and the first year of exporting, and the share of their sales that go to foreign countries. Knight and Cavusgil (2004) define ‘Born_global’ as firms with at least 25% of their sales to foreign countries within three years after their inception. This is a fairly stringent definition. Given China’s large domestic market size, a more modest threshold of 10% is chosen for the variable Born_global. But different threshold levels are tested during robustness tests.

At the industry level, entry barriers and industry R&D are included to test Hypotheses 5 and 6. For Entry Barriers, the survey asked firms to evaluate whether or not, in the industry to which they belong, it was difficult for new firms to enter; with 1 indicating yes and 0 otherwise. Industry R&D is measured by the R&D expenditure of the industry in which firms operate.

There has yet to be a conclusive list of all dimensions of institutions. Three key components are considered here: reduction in regulatory uncertainty (RRU), intellectual property rights protection (IPRP) and reduction in government interference (RGI). The measurement of subnational institutional environments

---

3Thank one of the referees for suggesting the investigation of ‘born global’ firms.
is derived from the NERI indices. **RRU** refers to the reduction of a firm’s burden, besides taxes, and is constructed on the basis of the ratio of non-tax levies to sales. The **IPRP** index is constructed from two ratios: the ratio of the number of patent applications to the number of R&D personnel and the ratio of the number of approved patent applications to the number of R&D personnel. **RGI** refers to the reduced role of government in business and is constructed based on the percentage of time that firm managers spent dealing with government agencies and government officials. Each of the three indicators is valued by a score between 0 and 10, with a large score meaning a high level of institutional development.

To test Hypothesis 8, firms’ perceptions of **Institutional supports** are used. Firms were asked whether or not, in their internationalization process, industry associations and intermediary organisations had provided relevant services, with 1 indicating yes and 0 otherwise. As argued by Santangelo and Meyer (2011), the subjectivity of perceptual measures can be an advantage because it is the decision-makers’ views of their environment that influence their decision-making process.
3.3.4 Non-response Bias Test and Common Method Variance (CMV)

To assess potential non-response bias, I compare the respondents and the original sample with respect to the number of employees and the age of the firm. The t statistics were statistically insignificant suggesting that there are no significant differences between these two groups. As the data was collected from the same individual respondents of an organization the CMV could create a false internal consistency. Several methods are employed to minimise the effect of CMV (Podsakoff et al., 2003, Podsakoff and Organ, 1986). First, the dependent variables, OFDI and VFDI can be independently verified from other sources and thus are ‘objective’ in nature. Second, the dependent, independent and control variables are not similar in content. Finally, Harmon’s factor test was conducted and all the measurement items were loaded into an exploratory factor (Podsakoff et al., 2003). The results show an eight-factor solution in which the largest factor explains only 24% of the total variance, indicating that CMV is not a major concern in the data.
3.4 Research Findings

3.4.1. Descriptive Analysis

Table 3 reports the industrial distribution of the sample firms. On average the sample firms are less than 11 years old and have less than 7 years of exporting experience. A total of 40 out of the 225 Chinese private exporting firms undertook OFDI in 2007. Table 4 presents the OFDI firms’ motives. Existing literature shows that Chinese POEs undertaking OFDI are more likely to be strategic asset-seeking and market-seeking (Buckley et al., 2008, Lu et al., 2011). In the sample, all OFDI firms pursued either strategic asset-seeking and/or market-seeking strategies. Over 70% of MNEs adopted both strategies. It shows that the majority of Chinese private exporting firms with OFDI aim to achieve asset exploration and market expansion simultaneously by expanding to OFDI. Three MNEs’ motives are more strategic-seeking than market-seeking and one is more market-seeking than strategic-asset seeking.

Table 5 reports descriptive statistics and correlation matrix for the main variables. All correlation coefficients are low except that between IPRP and RGI. I further checked the variance inflation factors (VIF) scores. The mean VIF is 1.96 with no single VIF score greater than 7 (less than the threshold level of 10), suggesting that multicolinearity is not a serious issue.
<table>
<thead>
<tr>
<th>Industry</th>
<th>Firm No. without FDI</th>
<th>Firm No. with FDI</th>
<th>Age</th>
<th>Years of Exporting</th>
<th>No. of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage Production and Processing</td>
<td>11</td>
<td>0</td>
<td>9.1</td>
<td>7.9</td>
<td>1,171</td>
</tr>
<tr>
<td>Textile and Clothing</td>
<td>27</td>
<td>8</td>
<td>8.9</td>
<td>7.3</td>
<td>1,706</td>
</tr>
<tr>
<td>Leather, Fur, Feather and Related Products</td>
<td>2</td>
<td>3</td>
<td>11.8</td>
<td>7.8</td>
<td>3,156</td>
</tr>
<tr>
<td>Timber Processing, Wood, Bamboo, Rattan, Palm and Cane Products</td>
<td>7</td>
<td>5</td>
<td>7.3</td>
<td>5.5</td>
<td>720</td>
</tr>
<tr>
<td>Printing and Record Processing</td>
<td>1</td>
<td>0</td>
<td>18</td>
<td>7</td>
<td>961</td>
</tr>
<tr>
<td>Stationery, Education and Sports Goods</td>
<td>2</td>
<td>0</td>
<td>12</td>
<td>3</td>
<td>410</td>
</tr>
<tr>
<td>Processing of Petroleum, Coking, Processing of Nuclear Fuel</td>
<td>1</td>
<td>1</td>
<td>20.5</td>
<td>17.5</td>
<td>3,342</td>
</tr>
<tr>
<td>Raw Chemical Materials and Chemical Products</td>
<td>10</td>
<td>1</td>
<td>15.4</td>
<td>7.1</td>
<td>814</td>
</tr>
<tr>
<td>Medical and Pharmaceutical Products</td>
<td>7</td>
<td>1</td>
<td>8.5</td>
<td>9.3</td>
<td>1,247</td>
</tr>
<tr>
<td>Rubber &amp; Plastic Products</td>
<td>11</td>
<td>1</td>
<td>8.8</td>
<td>6.4</td>
<td>487</td>
</tr>
<tr>
<td>Non-metal Mineral Products</td>
<td>7</td>
<td>2</td>
<td>11.8</td>
<td>4.9</td>
<td>710</td>
</tr>
<tr>
<td>Smelting &amp; Processing of Metals</td>
<td>5</td>
<td>1</td>
<td>11.3</td>
<td>4.2</td>
<td>5,185</td>
</tr>
<tr>
<td>Metal Products</td>
<td>13</td>
<td>3</td>
<td>12.1</td>
<td>8.1</td>
<td>711</td>
</tr>
<tr>
<td>Manufacture of General Purpose Machinery</td>
<td>7</td>
<td>3</td>
<td>9.6</td>
<td>6.1</td>
<td>1,149</td>
</tr>
<tr>
<td>Electric Equipment and Machinery</td>
<td>18</td>
<td>1</td>
<td>14.4</td>
<td>6.3</td>
<td>1,719</td>
</tr>
<tr>
<td>Equipment for Special Purposes</td>
<td>17</td>
<td>2</td>
<td>11.1</td>
<td>8.5</td>
<td>934</td>
</tr>
<tr>
<td>Automobiles</td>
<td>4</td>
<td>0</td>
<td>11</td>
<td>6.8</td>
<td>1,003</td>
</tr>
<tr>
<td>Other Transportation Equipment</td>
<td>9</td>
<td>4</td>
<td>11.1</td>
<td>7.1</td>
<td>1,241</td>
</tr>
<tr>
<td>Other Transportation Equipment</td>
<td>9</td>
<td>4</td>
<td>11.1</td>
<td>7.1</td>
<td>1,241</td>
</tr>
<tr>
<td>Home Appliances</td>
<td>3</td>
<td>0</td>
<td>15.7</td>
<td>6</td>
<td>503</td>
</tr>
<tr>
<td>Communication Equipment, Computer and Other Electronic Equipment</td>
<td>8</td>
<td>1</td>
<td>10.2</td>
<td>5.9</td>
<td>893</td>
</tr>
<tr>
<td>Instruments, Meters, Cultural and Office Machinery</td>
<td>3</td>
<td>1</td>
<td>14.5</td>
<td>6.3</td>
<td>4,573</td>
</tr>
<tr>
<td>Manufacture of Artwork, Other</td>
<td>9</td>
<td>1</td>
<td>7.1</td>
<td>5.7</td>
<td>564</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9</td>
<td>1</td>
<td>8.5</td>
<td>2</td>
<td>10,390</td>
</tr>
<tr>
<td>Average</td>
<td>10</td>
<td>1</td>
<td>10.8</td>
<td>6.9</td>
<td>1494</td>
</tr>
</tbody>
</table>
Table 4 - Motives of OFDI Firms

<table>
<thead>
<tr>
<th></th>
<th>Strategic-asset seeking</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt; 3  = 3  &gt; 3</td>
<td></td>
</tr>
<tr>
<td>&lt; 3</td>
<td>0  0</td>
<td>1  1</td>
</tr>
<tr>
<td>Market-seeking</td>
<td>0  3</td>
<td>1  4</td>
</tr>
<tr>
<td>&gt; 3</td>
<td>3  4</td>
<td>28 35</td>
</tr>
<tr>
<td>Total</td>
<td>3  7</td>
<td>30 40</td>
</tr>
</tbody>
</table>

Notes: The questionnaires contain six questions that are related to Chinese firms’ outward FDI motives. For the strategic asset-seeking motive the respondents were asked, on a five-point scale (1=not important, 5=very important), to assess the importance of outward FDI in terms of (1) obtaining advanced technologies, (2) acquiring high-quality brands, and (3) attracting high-end human resources. An ordinal measure is constructed that equals the average of the three items, to reflect firms’ strategic asset-seeking motive. For the market-seeking motives the respondents evaluated the importance of outward FDI: (1) to avoid market competition in the domestic market, (2) to enter new foreign markets, (3) to increase market share in host countries. Similarly, an ordinal measure that averaged the above three items is calculated to reflect firms’ market-seeking motive.
### Table 5 - Descriptive Statistics and Correlation Matrix

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>s.d.</th>
<th>1.</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5.</th>
<th>6.</th>
<th>7.</th>
<th>8.</th>
<th>9.</th>
<th>10.</th>
<th>11.</th>
<th>12.</th>
<th>13.</th>
<th>14.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VFDI (x10^8)</td>
<td>0.058</td>
<td>0.251</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. OFDI</td>
<td>0.178</td>
<td>0.383</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. TFP</td>
<td>0.131</td>
<td>0.664</td>
<td>0.152</td>
<td>-0.102</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. TBC</td>
<td>0.024</td>
<td>1.037</td>
<td>0.084</td>
<td>0.111</td>
<td>-0.108</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Brands</td>
<td>0.466</td>
<td>0.500</td>
<td>0.150</td>
<td>0.150</td>
<td>0.007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Export_exp</td>
<td>0.090</td>
<td>0.158</td>
<td>0.053</td>
<td>0.092</td>
<td>-0.030</td>
<td>-0.064</td>
<td>0.033</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Entry barriers</td>
<td>0.453</td>
<td>0.499</td>
<td>-0.006</td>
<td>-0.027</td>
<td>-0.113</td>
<td>0.172</td>
<td>-0.001</td>
<td>-0.057</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Industry R&amp;D</td>
<td>4.065</td>
<td>1.911</td>
<td>-0.040</td>
<td>-0.080</td>
<td>-0.030</td>
<td>0.083</td>
<td>-0.005</td>
<td>-0.099</td>
<td>0.106</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. RRU</td>
<td>15.126</td>
<td>4.33</td>
<td>-0.013</td>
<td>0.045</td>
<td>-0.011</td>
<td>0.026</td>
<td>-0.028</td>
<td>0.137</td>
<td>0.068</td>
<td>0.026</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. IPRP</td>
<td>27.140</td>
<td>9.533</td>
<td>0.058</td>
<td>0.076</td>
<td>0.091</td>
<td>-0.120</td>
<td>-0.018</td>
<td>0.185</td>
<td>-0.037</td>
<td>-0.012</td>
<td>0.380</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. RGI</td>
<td>10.434</td>
<td>1.757</td>
<td>0.022</td>
<td>0.074</td>
<td>0.098</td>
<td>-0.108</td>
<td>-0.017</td>
<td>0.140</td>
<td>-0.035</td>
<td>0.018</td>
<td>0.173</td>
<td>0.894</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Institutional support</td>
<td>0.689</td>
<td>0.464</td>
<td>0.093</td>
<td>0.061</td>
<td>-0.026</td>
<td>0.011</td>
<td>0.191</td>
<td>-0.120</td>
<td>0.014</td>
<td>-0.015</td>
<td>-0.142</td>
<td>-0.130</td>
<td>-0.065</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Size</td>
<td>5.170</td>
<td>1.673</td>
<td>0.187</td>
<td>0.138</td>
<td>-0.161</td>
<td>0.007</td>
<td>0.207</td>
<td>-0.311</td>
<td>-0.064</td>
<td>0.134</td>
<td>-0.131</td>
<td>0.054</td>
<td>0.104</td>
<td>0.063</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Age</td>
<td>10.760</td>
<td>7.088</td>
<td>0.076</td>
<td>0.039</td>
<td>-0.016</td>
<td>0.039</td>
<td>0.226</td>
<td>-0.186</td>
<td>-0.015</td>
<td>0.007</td>
<td>-0.098</td>
<td>-0.045</td>
<td>-0.002</td>
<td>0.101</td>
<td>0.319</td>
<td></td>
</tr>
<tr>
<td>15. Born_global</td>
<td>0.178</td>
<td>0.132</td>
<td>0.020</td>
<td>0.024</td>
<td>0.061</td>
<td>-0.032</td>
<td>-0.059</td>
<td>0.172</td>
<td>0.080</td>
<td>-0.052</td>
<td>0.074</td>
<td>0.099</td>
<td>0.099</td>
<td>-0.057</td>
<td>-0.182</td>
<td>-0.200</td>
</tr>
</tbody>
</table>
3.4.2. Econometric Results

Table 6 presents the estimation results. Models (1.1) and (1.2) contain all variables that are related to the hypotheses developed in Section 2 and are the results of Logit and Tobit models, respectively. Models (2.1) and (2.2) add control variables to the estimation. Pseudo R$^2$ is used for model-fit. The figures range between 0.121 and 0.205, which is as expected for cross-sectional survey analysis and is comparable to the results of other studies of Chinese OFDI using survey data, e.g. Duanmu (2012), Yiu et al. (2007) and Lu et al. (2011) and those using cross-sectional data, e.g. Wang et al. (2012).
Table 6 - Regression Results

<table>
<thead>
<tr>
<th></th>
<th>(1.1)</th>
<th>(1.2)</th>
<th>(2.1)</th>
<th>(2.2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OFDI</td>
<td>VFDI</td>
<td>OFDI</td>
<td>VFDI</td>
</tr>
<tr>
<td><strong>TFP</strong></td>
<td>-0.616</td>
<td>-0.281</td>
<td>-0.665</td>
<td>-0.282</td>
</tr>
<tr>
<td></td>
<td>(0.223)</td>
<td>(0.099)</td>
<td>(0.317)</td>
<td>(0.132)</td>
</tr>
<tr>
<td><strong>TBC</strong></td>
<td>0.464</td>
<td>0.186</td>
<td>0.507</td>
<td>0.190</td>
</tr>
<tr>
<td></td>
<td>(0.079)</td>
<td>(0.032)</td>
<td>(0.086)</td>
<td>(0.036)</td>
</tr>
<tr>
<td><strong>Brands</strong></td>
<td></td>
<td></td>
<td>0.563</td>
<td>0.188</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.486)</td>
<td>(0.144)</td>
</tr>
<tr>
<td><strong>Export_exp</strong></td>
<td>1.740</td>
<td>0.463</td>
<td>2.499</td>
<td>0.844</td>
</tr>
<tr>
<td></td>
<td>(0.338)</td>
<td>(0.092)</td>
<td>(0.377)</td>
<td>(0.133)</td>
</tr>
<tr>
<td><strong>Entry barriers</strong></td>
<td>-0.389</td>
<td>-0.144</td>
<td>-0.480</td>
<td>-0.162</td>
</tr>
<tr>
<td></td>
<td>(0.171)</td>
<td>(0.061)</td>
<td>(0.175)</td>
<td>(0.072)</td>
</tr>
<tr>
<td><strong>Industry R&amp;D</strong></td>
<td></td>
<td></td>
<td>-0.038</td>
<td>-0.012</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.048)</td>
<td>(0.011)</td>
</tr>
<tr>
<td><strong>RRU</strong></td>
<td>-1.777</td>
<td>-0.687</td>
<td>-1.577</td>
<td>-0.617</td>
</tr>
<tr>
<td></td>
<td>(1.037)</td>
<td>(0.361)</td>
<td>(0.862)</td>
<td>(0.286)</td>
</tr>
<tr>
<td><strong>IPRP</strong></td>
<td>0.241</td>
<td>0.093</td>
<td>0.251</td>
<td>0.096</td>
</tr>
<tr>
<td></td>
<td>(0.100)</td>
<td>(0.034)</td>
<td>(0.078)</td>
<td>(0.025)</td>
</tr>
<tr>
<td><strong>RGI</strong></td>
<td>-0.999</td>
<td>-0.374</td>
<td>-1.111</td>
<td>-0.406</td>
</tr>
<tr>
<td></td>
<td>(0.368)</td>
<td>(0.129)</td>
<td>(0.269)</td>
<td>(0.093)</td>
</tr>
<tr>
<td><strong>Institutional support</strong></td>
<td>0.470</td>
<td>0.221</td>
<td>0.416</td>
<td>0.189</td>
</tr>
<tr>
<td></td>
<td>(0.202)</td>
<td>(0.050)</td>
<td>(0.183)</td>
<td>(0.039)</td>
</tr>
<tr>
<td><strong>Size</strong></td>
<td></td>
<td></td>
<td>0.359</td>
<td>0.158</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.075)</td>
<td>(0.036)</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td>-0.007</td>
<td>0.001</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.022)</td>
<td>(0.008)</td>
</tr>
<tr>
<td><strong>Born_global</strong></td>
<td>1.104</td>
<td>0.472</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.314)</td>
<td>(0.155)</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>225</td>
<td>225</td>
<td>221</td>
<td>221</td>
</tr>
<tr>
<td><strong>Pseudo R²</strong></td>
<td>0.121</td>
<td>0.126</td>
<td>0.176</td>
<td>0.205</td>
</tr>
</tbody>
</table>

Notes: Robust standard errors clustered by region in brackets. * p<0.10, ** p <0.05, *** p <0.01
Let's now turn to the results of hypothesis testing and control variables. The coefficients on TFP are negative and statistically significant. Thus, Hypothesis 1 is not supported. Three hypotheses are linked to RBV. The coefficients on technology-based capability (TBC) and export experience (Export_exp) are positive and statistically significant, thus supporting Hypotheses 2 and 4. The variable of Brands appears to be statistically insignificant, indicating that Chinese private firms are less likely to exploit firm-specific assets, such as brands, through OFDI. Therefore Hypothesis 3 is not supported.

Three firm-level control variables are Size, Age and Born_global. Size is positive and statistically significant. As firm size is often considered to be a proxy for tangible and intangible resources (Deng, 2012), the findings suggest that exporting POEs with more resources are more likely to undertake OFDI. Firm age is statistically insignificant in both OFDI and VFDI models. Born_global is statistically significant in both OFDI and VFDI models, suggesting that ‘BornGlobals’ may have FDI in mind from the beginning of their inception rather than expanding to FDI later. However, this finding has to be interpreted with caution as the number of firms which belong to the ‘Born_global’ category is very small.

Out of 225 firms in the sample, only 4 started exporting within 3 years of founding and exported more than 10% of their output. If I use 25% as the threshold level, following Knight and Cavusgil (2004), only 1 firm meets the criteria. This is why the variable is only included here as a control variable.
Industry conditions are captured by Entry barriers and Industry R&D. The former is negative and is statistically significant, corroborating Hypothesis 5. Industry R&D is statistically insignificant and, hence, Hypothesis 6 is not supported. Three variables pertaining to home subnational institutions are used: reduction of regulatory uncertainty (RRU), intellectual property rights protection (IPRP) and reduction of government interference (RGI). High-quality institutions characterised by strong intellectual property rights protection are associated with more OFDI, thus providing support to Hypothesis 7. On the other hand, weak institutions, characterised by more regulatory uncertainty and government interference, are linked to more OFDI, thus contradicting Hypothesis 7. The results of these subnational institutional variables provide fresh empirical evidence of the effects of different dimensions of subnational institutions. Finally, at the intermediary level, a firm’s perception of industry association support has a positive and significant effect on OFDI and VFDI, thus supporting Hypothesis 8.

3.4.3. Robustness Check

To further check the robustness of the results, alternative measures are used for Productivity, Export experience, Industry R&D, Size and Born_global. Productivity is measured by labour productivity calculated as the logarithm transformation of the ratio of sales to the number of employees. Export
experience is the number of years since firms started exporting (He and Wei, 2011). The number of R&D personnel in the industry is used to reflect Industry R&D. For Size, the logarithm transformation of a firm's sales (Cui and Jiang, 2009) or the number of employees (Chen and Young, 2010, Yiu et al., 2007) is used. Two broad definitions of ‘Born global’ firms are chosen: POEs with at least 10% of sales in exports within five years from inception and POEs who started exporting within three years of inception. The results are broadly consistent with those presented in Table 6, though sometimes the coefficients of productivity and export experience variables have the same sign but are statistically marginally insignificant. To take into account the possible endogeneity of productivity and the lagged effect of productivity, I also estimate regressions using firm productivity (both labour productivity and TFP) in the previous year. The results again are broadly in line with those in Table 6. The robustness of the models is therefore deemed satisfactory.

3.5 Discussion

This study examines factors affecting the entry mode transformation of Chinese exporting POEs and conducts a detailed multi-dimensional analysis of how firm-level factors, industry conditions and institutional contexts determine strategic decisions to expand into OFDI. The findings associated with productivity variables contradict the theoretical predictions and are
inconsistent with evidence in existing studies as shown in previous sections. However, prior studies all focus on DE firms that have ownership advantages and whose internationalization activities seek to exploit FSRs which they already possess. EE firms in general, and Chinese firms in particular, do not have that sort of ownership advantage and their OFDI decisions are largely motivated by seeking strategic assets (Child and Rodrigues, 2005). In other words, Chinese firms invest overseas mainly, not to exploit competitive advantages, but to redress their competitive disadvantages against their DE counterparts and to engage in a catch-up strategy (Cui and Jiang, 2009, Cui and Jiang, 2010) or to upgrade their position in the value-chain or global production network.

The results may reflect the fact that OFDI is an effective way for Chinese firms to access the strategic resources that they need (Mathews, 2006). The ‘late development’ countries are still lagging behind developed economies and there is a need to use a high control mode (i.e. OFDI) to acquire strategic assets to compensate for competitive disadvantages (Buckley et al., 2007, Buckley et al., 2008, Cui and Jiang, 2009, Deng, 2007) as “exporting cannot fulfil the need of upgrading their capabilities”, but OFDI “is more likely to facilitate learning through extensive involvement in international operations” (Liang et al., 2012, p.137). This implies that Chinese exporting firms engage in OFDI in order to acquire strategic assets and capabilities to improve their
future profitability and to maximize global-synergy effects, but their productivity level may not be as high as those firms that are confident enough to focus on exports only. OFDI, therefore, is a means to tap into strategic know-how in the host country. This is in line with the empirical evidence of existing studies (Cui and Jiang, 2009, Lu et al., 2011, Rui and Yip, 2008). This shows that resource exploration is more important than resource exploitation in the outward internationalization process of Chinese exporting POEs.

From the RBV perspective, technology-based comparative ownership advantages, derived from firms’ specific internal resources and capabilities or the interaction between country-specific advantages and firm-specific resources, are the determinants of Chinese firms’ entry mode. The finding indicates that firms that possess technology-based ownership advantages are more likely to undertake OFDI. This may suggest that a large domestic market and highly competitive industrial conditions have enabled Chinese firms to develop competitive advantages. In particular, private firms are under competitive pressure from both SOEs and foreign-invested firms. The survivors of this fierce competition have established the internal capability needed for OFDI. Hence, the competitive domestic market has served as a training ground for private firms and represents the foundation for expanding to OFDI. In addition, private firms that have developed a strong domestic base in technological knowledge have a greater absorptive capacity to learn
superior technologies from developed countries through venturing abroad.

Chinese private firms with a short internationalization history are less likely to exploit firm-specific marketing assets such as brands. This finding corroborates Wang et al. (2012) which shows that advertising does not make an important contribution to OFDI volume decisions by Chinese firms. Thus, Chinese firms, though recognizing the importance of brand names, understand the newness of their brands which they are still in the process of building up internationally and are aware that it will take time to develop brand awareness in international markets. The result may also suggest that brands tend to be location-bound (Anand and Delios, 2002) and Chinese private firms may encounter difficulty transferring their brands to new markets. Under the circumstances, possession of internationally-registered brands may not result in OFDI.

Firms with accumulated export experience are more likely to choose OFDI. These findings are consistent with Yiu et al. (2007) who reveal that exporting firms can benefit from learning in foreign markets, accumulating local knowledge, gaining legitimacy and developing local networks. Lu et al. (2011) also find that Chinese POEs with greater export experience are more likely to engage in OFDI for the purpose of defensive market seeking. Thus, experienced exporting firms have the capability to participate in the international markets and have a better fit with the host country conditions.
Taken together, the findings suggest RBV in the integrated strategic tripod framework provides theoretical underpinnings for Chinese exporting POEs’ entry mode transformation.

Firms in industries that are characterized by a low level of entry barriers to the home country industry are more likely to choose OFDI. This shows that a Chinese firm’s entry mode decision is contingent on the level of home country industry competition (Lu et al., 2011, Yiu et al., 2007). Industry R&D does not appear to affect a firm’s OFDI decisions.

One key motivation of this study is to examine the role of the subnational institutions in Chinese firms’ outward internationalization. Although a number of recent studies have recognised the pre-eminence of home country institutional factors in helping to explain Chinese firms’ internationalization, given the strong influence of the government in the economy and the fundamental change of institutions (Buckley et al., 2008, Child and Rodrigues, 2005, Deng, 2007, Lu et al., 2011, Wang et al., 2012, Yang et al., 2009, Deng, 2009), they generally assume that institutional environments are homogenous within a country and overlook subnational effects. The evidence here demonstrates that subnational institutions represent another dimension of analysis for OFDI. China, with a large geographic area and multiple administrative regions, has heterogeneous subnational institutions, and
regional differences affect Chinese POEs’ internationalization strategies. More specifically, strong intellectual property rights protection helps firms to expand into OFDI. However, the results also show that Chinese POEs go abroad in order to escape from government interference and regulatory uncertainty as these decrease firms’ freedom of operation and increase their business costs. This finding is in line with the view of ‘institutional escapism’ which suggests that a principle motive for POEs to go abroad is to seek a better institutional environment for their businesses (Boisot and Meyer, 2008, Luo et al., 2010). It suggests that poor institutional factors at home may push firms to undertake OFDI in pursuit of more efficient institutions (Boisot and Meyer, 2008, Child and Rodrigues, 2005, Luo et al., 2010, Yamakawa et al., 2008). In contrast, strong institutional factors in the home region help to support firms to remain as exporters operating in the region. These findings on subnational institutions complement the existing studies, as summarised in Table 1, and reveal a complex role of regional institutions in entry mode transformation.

Intermediary institutional support is found to be statistically significant. This indicates that industry associations and intermediary organisations play an important role in POEs’ strategic decision to expand into OFDI. Existing literature has established that, in China, governments and industry associations and intermediary organisations play a crucial role in shaping
China’s OFDI (Buckley et al., 2008, Cui and Jiang, 2010, Deng, 2004, Wang et al., 2012, Yiu et al., 2007). The government sets up the outward FDI directive and encourages specific investments to promote exports to improve firms’ capability in terms of technology and R&D activities and to create internationally-recognized brands. This is in line with existing evidence that the Chinese government has supported some selected POEs through instruments such as financial support, favourable tax regimes and overseas investment insurance.

3.6 Conclusion

Entry mode transformation is a phenomenon that manifests itself at firm, industry and country levels. Recourse is made to a variety of theories to explain the OFDI decisions of Chinese private exporting firms. This paper is one of the first to explore a largely neglected issue related to factors affecting POEs’ entry mode transformation from exporting only to including OFDI. Adopting an integrated framework that combines productivity heterogeneity theory and the strategic tripod framework, I have empirically examined the impact of multi-dimensional factors on firms’ decisions about whether to engage in OFDI and how much OFDI to carry out using a unique dataset for Chinese POEs. The findings suggest the importance of internal factors,
including productivity, technological capabilities and export experience, and of industry conditions, including entry barriers, subnational institutions and intermediate institutional support.

Focusing on POEs, this study contributes to the existing literature in several ways. First, this research helps to improve our understanding of the outward internationalization strategy of Chinese POEs by carrying out a multi-dimensional analysis to examine how they expand their internationalization strategies to OFDI. This fills a research gap in existing studies that have taken the shift from exporting to OFDI as given when examining the determinants of entry mode choices by focusing on the comparison of two OFDI entry modes: wholly-owned subsidiaries (WOS) vs joint ventures (JV) (Cui and Jiang, 2009, Cui and Jiang, 2010, Cui et al., 2011). The findings show that all three aspects of the strategic tripod framework are the determinants of firms’ entry mode transformation and help enhance our understanding of factors affecting the internationalization path of firms. Second, it complements existing research by including productivity heterogeneity theory in the analytical framework. This study is one of the first to extend this theory to the context of China and reveals that this theory is not supported in the case of China’s POEs. This implicitly indicates that Chinese POEs’ entry mode transformation cannot be adequately explained by productivity, showing that the multi-dimensional analysis is important. Finally,
institutional theory is extended by investigating subnational institutional factors, thus broadening the institution-based view in the strategic tripod framework by recognising the subnational-institutional variation across Chinese regions.

This research highlights the importance of the subnational institutions, including the elements of regulatory uncertainty, government interference and intellectual property protection which are key units of analysis for firms’ outward internationalization strategy. Such an analysis helps to capture the impact of regional institutional diversity on OFDI decisions and moves beyond existing studies that merely treat institutions within a country as homogenous entities.

The findings have practical implications for managers and policymakers. First, it is clear that internal resources and capabilities provide the confidence for firms to undertake OFDI and firms need to leverage significant internal resources and capabilities in entry mode transformation. In particular, technology-based capabilities are a necessary condition under which firms aim to seek strategic assets, explore international markets or to achieve resource exploration through undertaking OFDI. Second, strategic choices, including entry mode transformation, are not only driven by firm productivity, internal resources and capabilities and industry conditions but are also a
reflection of home national and subnational institutional frameworks. Firms’
commercial success hinges on how well their intellectual property rights are
protected and how much government intervention and regulatory uncertainty
they experience. Both national and regional governments need to ensure
transparent, predictable, sound and well-enforced rules, regulations and
policies in order to reduce interference and provide sufficient institutional
supports for POEs’ outward internationalization.

The study has a few limitations. First, due to data availability, industry factors
and institutional contextual factors in the host countries are not included in
the research design. In particular, the customer needs, industry life-cycle and
location attractiveness of host countries should be incorporated in future
work. Another set of missing variables, at the firm level, includes senior
executives’ ‘global leadership’, entrepreneurship and networks. Future studies
should examine the impact of such factors to enrich our understanding of the
OFDI decisions of Chinese firms. Second, the measure for industry entry
barriers is based on managers’ perception of whether it is difficult for new
entrants to enter the industry in which their firms operate. This is a broad
measure. Future studies should examine the impact of entry barriers such as
tariffs imposed on host country industries. Third, I have followed the existing
literature to measure the impact of international experience. However, such a
measure may not fully reflect the fact that firms may engage in
internationalization in various ways, such as using their own distribution networks or undertaking contracted manufacturing/OEM. Future studies are awaited examining the impact of international experience gained through a variety of channels. Finally, Peng et al. (2008) suggest paying attention to the interactions among firm resources, industry dynamics and institutional factors. For example, firms are motivated to gain or enhance their legitimacy and performance by becoming isomorphic within their industry and institutions. They, therefore, adjust FSRs and implement strategy accordingly in response to the competitive pressure of the industrial environment and institutional change. Industrial and institutional forces can promote or hinder the further development of existing FSRs and capabilities, and the access of new strategic assets. A deeper level of internationalization might be warranted by the interplay of a firm’s internal resources with industrial and institutional factors. An extension to this study therefore could explore how the interaction among firms, industries and institutions influences firms’ strategic decisions, and could address the contingency impact of these factors on internal capabilities in shaping firms’ internationalization strategies.
Chapter 4: Which Strategic Assets? Is a Partnering Approach a Viable Strategy for Cross-border M&As?

4.1 Introduction

The recent decades have witnessed a significant rise of cross-border merger and acquisitions (CBMAs) by emerging economy multinational enterprises (EMNEs). The total value of CBMA deals by EMNEs worth US$182 billion in 2008 in comparison to US$37 billion in 2004, representing a growth rate of 392% (Nicholson and Salaber, 2013). Despite overall decline of CBMAs worldwide because of the 2008 financial crisis, EMNEs have maintained a strong position. In 2012 their CBMA deals were US$122 billion, accounting for approximately 40% of the world total (UNCTAD, 2013). The existing literature has emphasized that EMNEs employ CBMAs for strategic asset-seeking purpose in order to overcome late-mover disadvantages and address competitive weakness in international markets (Agyenim et al., 2008, Dunning and Lundan, 2008b, Cui et al., 2014, Liu and Woywode, 2013, Luo and Tung, 2007, Nicholson and Salaber, 2013).

Strategic assets are firm-specific resources and capabilities that are difficult to trade and imitate, scarce, appropriable and specialized (Amit and Schoemaker, 1993). They give firms a competitive edge over rivals and afford them the accrual of superior performance (Barney, 1991). Existing research on
strategic asset-seeking EMNEs tends to focus on motives and consequences. For example, Deng (2009) argues that strategic asset-seeking through CBMAs by Chinese MNEs (CMNEs) is in response to the unique institutional characteristics of China. Cui et al. (2014) reveal that CMNEs’ strategic asset-seeking intent is influenced by their exposure to foreign competition, governance structure and financial and managerial capabilities. Using a sample of 175 acquisitions made by Indian MNEs (IMNEs) between 2000-2006, Elango and Pattnaik (2011) find that acquisition is affected by assimilative capability and acquisition experience. By acquiring targets serially but of increasing value in a sequential manner, IMNEs learn and build capabilities. In a comparative study of CMNEs and IMNEs, Sun et al. (2012) develop a conceptual framework and argue that antecedents of EMNEs using CBMAs as an instrument to gain comparative ownership advantage are national industrial factor endowments, dynamic learning, value creation, reconfiguration of value chain and institutional facilitation and constraints. However, there is no study that systematically examines what strategic assets matter to EMNEs and which strategic approach is adopted in securing these assets.

In this chapter, I aim to fill the research gaps by focusing on the CMNEs. China is one of the largest emerging markets that has transformed from a centrally planned economy dominated by state-owned enterprises to a
market-oriented economy with liberal regulatory regime and increasing competition between firms of various ownerships. During this transition, Chinese firms proactively source and develop resources and capabilities so as to gain a competitive edge over both local and foreign rivals. Since 1990s, China has been a magnet for inward foreign direct investment (FDI) which provides an important channel for Chinese firms seeking strategic assets (Wei and Wang, 2009). In recent years, China has also provided the impetus for outward FDI. By the end of 2012, around 16,000 Chinese firms had made an accumulative investment of US$ 531.94 billion in 179 countries (China Ministry of Commerce, 2013). In terms of CBMAs, between 2000 and 2010, China increased its number of completed deals from 36 to 135 with the latter carrying a value of US$ 32 billion (Nicholson and Salaber, 2013). CBMAs provide Chinese firms an alternative channel for strategic assets acquisition (Agyenim et al., 2008, Deng, 2009, Rui and Yip, 2008).

Through studying CMNEs, I aim to investigate two related research questions. What strategic assets are sought after by CMNEs through CBMAs? Which strategic approach is adopted by CMNEs in order to secure these assets? I make two contributions to the literature. First, I identify the nature of strategic assets that matter to CMNEs. Existing research tends to treat strategic assets as an abstract concept that is theoretically argued to include technology, human capital, brand names and buy-supplier relationships
(Stucchi, 2012, Lu et al., 2011, Luo and Tung, 2007). However, there is no empirical research that offers contextualized perspective on the nature of strategic assets. EMNEs may require different strategic assets to complement their needs and wants. For example, Nicholson and Salaber (2013) argue that Chinese firms enjoy competitive advantages in manufacturing industry but Chinese managers lack fluent communication skills, cross-cultural knowledge, and international experience and face language barriers. As a result, Chinese firms are more interested in acquiring superior managerial skills. On the other hand, Indian firms’ competitive advantages lie in service sector. Given the country’s colonial history and being a feminine society, Indian firms enjoy a cultural advantage, can easily access to new product and client markets and face few obstacles for global integration. Consequently, they have high desire for “advanced resources such as leading technologies and knowledge-based abilities”. Though a plausible argument, it has not been empirically verified.

The first contribution of this paper is to try to unbundle the abstract concept – strategic assets and investigate what strategic assets really matter to CMNEs, thereby helping to focus managerial attentions on those strategic assets provisions.

Second, what is even less understood is the approach that EMNEs could employ to secure strategic assets. Faced with challenges associated with their country-of-origin, e.g. institutional voids and cultural distance, EMNEs may
choose different strategic approach in managing post-CBMA activities. Traditionally, MNEs often fully integrate the business they have bought overseas so as to take control of the new acquisitions. However, this traditional post-CBMA integration approach could be ‘counterproductive’ for EMNEs (Madhok and Keyhani, 2012) as it may destroy everything that they seek to gain through CBMAs, e.g. losing the identity of the target firm, undermining its capabilities by disrupting its routines, or even losing key talents whose knowledge is important to retain (Kale et al., 2009, Madhok and Keyhani, 2012). Therefore EMNEs may have to find an alternative approach for post-CBMA. Recent studies show that some EMNEs, particularly Asian MNEs, have taken a partnering approach (Child and Rodrigues, 2005, Cogman and Tan, 2010, Mathews, 2006, Yamakawa et al., 2008), a strategic approach that keeps “an acquisition structurally separate and maintaining its own identity and organization” (Kale et al., 2009, p. 109). It gives the newly acquired firm autonomy, reduces the unintended consequences of full integration, minimizes the complexity associated with full integration and helps the acquired firms retain key personnel and maintain original identities. Early research – Kale et al. (2009), indicates that it has generated value for Indian firms, and their acquired firms in the US and Europe were satisfied to work with the Indian parent firms. Through focusing on CMNEs, this chapter helps advance knowledge on the validity of partnering approach in securing strategic assets.
4.2 Internationalization, Strategic Resources and Partnering Approach Strategy

4.2.1 Strategic Asset-seeking and CBMAs

Unlike DE MNEs who possess firm-specific resources/capabilities (FSRs) in the form of advanced technology, superior brands and management know-how, EMNEs originated from countries that are characterised by underdeveloped factor and product markets, limited resources and underdeveloped but rapid changing institutions (Hoskisson et al., 2000). They face a deficiency in conventional type of FSRs that are source of ownership advantage for exploitation in a foreign country. Though they have managed to compete in an international market, their competitive strengths are based on cost advantages from their home country and production process capabilities (Elango and Pattnaik, 2011). There is a need to increase their body of knowledge and capabilities to gain sustainable competitive advantages through the acquisition of strategic assets.

Strategic assets are defined as “the set of difficult to trade, imitate, scare, appropriable and specialized resources and capabilities that bestow the firms competitive advantage” (Amit and Schoemaker, 1993, p. 36). Firms can acquire strategic assets through internal development, e.g. R&D, cumulative
experience and “learning by doing”, or external purchase, e.g. CBMA. But CBMA has a number of advantages over other channels. It provides firms with an expedient tool to close knowledge gap. It allows for a rapid reconfiguration of resources and capabilities for performance gain. Because firm-specific strategic assets are likely to be subject to market failure, CBMA also helps firms overcome transaction costs.

EMNEs operate in an increasingly globalized and ever-changing context, so they must quickly update their capabilities. According to the resource-based view (RBV), strategic assets give firms competitive advantages over rivals (Barney, 1991). The specific internationalization theory developed for EMNEs, such as the “linkage-leverage-learning” (LLL) framework (Mathews, 2006) and the “springboard perspective” (Luo and Tung, 2007), suggest that EMNEs are driven to acquire strategic assets from their DE counterparts. The LLL framework extends Dunning's OLI paradigm to latecomer firms, seeing internationalization as an effective way for EMNEs to access the strategic assets that they are short of. The springboard perspective suggests that EMNEs use international expansion as a springboard to acquire strategic assets to compete more effectively against their rivals and to avoid the institutional and market constraints in the home country.

CBMA is viewed as the preferred route for EMNEs (Rui and Yip, 2008) as it
represents “the fastest means of reaching the desired goals when expanding internationally” (Agyenim et al., 2008) and is the most effective channel for EMNEs to acquire strategic assets (Agyenim et al., 2008, Child and Rodrigues, 2005, Deng, 2007, Deng, 2009, Rui and Yip, 2008). For example, CBMA enables the acquirer to obtain brand and prestige, whereas building up a well-known brand is time consuming (Deng, 2009). It provides the acquirer access to multiple capabilities, such as gaining and controlling technological resources and management know-how. It also promotes organizational learning by acquiring, integrating, sharing and applying critical knowledge. In short, CBMA constitutes a unique and important strategic lever for an EMNE to overcome the latecomer disadvantages, to integrate their comparative competencies with resources and capabilities in foreign markets, and to achieve rapid development (Gubbi et al., 2010).

Although the key motivation for EMNEs’ CBMAs in DEs is to acquire strategic assets, acquirers from different emerging economies (EEs) may target different strategic assets. For instance, Nicholson and Salaber (2013) argue that, since Chinese firms have comparative advantages in manufacturing-orientated industries, their foreign acquisitions often aim at acquiring superior managerial and marketing skills to improve their position in manufactured products, and to develop China from the 'Workshop of the World' into the dominant global supplier of manufactured goods. This
argument is echoed in the literature (Child and Rodrigues, 2005, Agyenim et al., 2008, Deng, 2004, Rugmana and Li, 2007, Rui and Yip, 2008). CMNEs are in a vulnerable strategic position with competitive advantages that are not sustainable and their foreign acquisitions are motivated by the need to seek strategic assets that provide them opportunity to gain sustainable competitive advantages and are not available in the home country. On the other hand, Nicholson and Salaber (2013) maintain, in the case of India, it is primarily a service-driven economy, so its firms’ foreign acquisitions are motivated by the need to gain more advanced knowledge and technologies that are also not available at home, but complement their FSRs (Buckley et al., 2012). Thus, the context of studying the nature of the strategic assets in demand by EMNEs is vital.

4.2.2 Partnering Approach Strategy

Existing research on CBMAs are predominantly about DE MNE activities (Bhabra and Huang, 2013). They often aim for rapid integration and maximum synergy effect, thus they go for full structural integration which represents “the extent to which the acquirer consolidates the functional activities of the target into its reporting hierarchy” (Zaheer et al., 2013, p. 605). However, the other side of the coin is that it has been widely reported that the majority of CBMAs are unsuccessful (Shimizu et al., 2004) and this
“suggests a sizable discrepancy between the promising expectations motivating acquisitions and the apparent difficulty in realizing their value” (Zaheer et al., 2013, p. 605). Cultural fit appears to play an important role in the performance of CBMAs. High cultural distance (both at the national level and the organizational level) between the acquirer and the target is associated with the low wealth effects for acquiring firm shareholders and low returns to acquiring firms (Shimizu et al., 2004).

Cultural distance issue is particularly pronounced to EMNEs given their limited internationalization experience. Recent studies show that strategic-asset seeking firms from EEs in general and Asia in particular are not taking the traditional structural integration approach. For example, Cogman and Tan (2010) conduct in-depth case studies of 120 acquisitions (a representative sample of Asian acquirers by deal size and country of origin) during 2004 to 2008. They estimate that about half of the Asian deals have not followed the traditional post-merger management model, over a third of the Asian deals only involved limited functional integration, such as in the procurement sector and an additional ten per cent attempted no function integration at all.

This “keeping an acquisition structurally separate and maintaining its own identity and organization” is the partnering approach (Kale et al., 2009, p.
In other words the acquirer grants the target firm autonomy and allows it to operate independently. To give an example, after acquired Ford Motor Co.’s Jaguar and Land Rover brands, Tata retained these brands’ own management team and a full roster of employees. Tata aimed to learn from their target counterpart, using their knowledge, technology and sales network to enhance their own products, selling them in overseas markets, while importing Jaguars and Land Rovers to India. EMNEs are inexperienced acquirers. They have the need of learning how to operate effectively in host countries; thus they focus on long-term growth at the overall organisational level rather than the acquired firm’s growth (Cogman and Tan, 2010).

Madhok and Keyhani (2012) view that a partnering approach can be seen “as a genuine collaborative partnership rather than an imposition of hunter upon hunted”. It has several characteristics (Kale et al., 2009, Kale and Singh, 2009). First, the acquirers do not integrate the target organizations to a significant extent, instead, they allow their acquisitions to remain separate, to operate as stand-alone businesses, and to give them almost complete operational freedom even in the same or related businesses. The rationales are (1) to reduce unintended consequences of integration, minimize complexity and to avoid the mistakes that originate from having too many layers of takeovers, which may disrupt the routines and operations in both organizations and cause employees’ dissatisfaction; (2) to retain and maintain foreign
acquisitions’ own identities (e.g. brands). EMNEs have limited understanding of foreign acquisitions, so any wrong decision may damage the identity of acquired firms. The partnering approach helps to protect foreign acquisitions’ identities and the acquirers can therefore benefit from them. A case in point is China’s TCL’s acquisition of French consumer electronics giant – Thomson’s TV and DVD operations in 2004. The integration “did not work well with people from different cultures, with different experiences and with different routines” (Deng, 2010, p. 520), thus lead to misunderstandings between the acquirer and the target firm and many of the French employees quit from their jobs. As a young player in international market, TCL had limited international management experience and limited understanding of cross-cultural and cross-functional issues, and also failed to recognize the hidden costs that might hinder the success of the integration. As a result, TCL failed to achieve the expected benefits and finally gave up Thomson’s original business model, distribution channels and even the Thomson brand (Deng, 2010).

Second, the partnering approach help retain senior executives of the acquired firms by granting them autonomy. Autonomy refers to “the amount of day-to-day freedom that the acquired firm’s management is given to manage its business...without close control by the parent company” (Datta and Grant, 1990, p. 31). Retaining the management team and granting them autonomy
create a positive atmosphere in the acquired firm, send a positive signal to its stakeholders, help to retain industry-and company-specific knowledge (i.e. expertise), leverage the acquired company’s human and social capital, reduce post-merger uncertainty among customers, suppliers and employees, and motivate top management team to do better (Kale et al., 2009). Doing the opposite could bear unintentional negative consequences such as the departure of key managers, operational inefficiencies originating from disrupted routines, and misunderstandings arising from unfamiliarity with the local operating procedures and local market conditions because of the cross-culture differences (Zaheer et al., 2013). In general, EMNEs lack the expertise and capabilities to manage complex international operations (Kale et al., 2009, Peng, 2012). Retain acquisitions’ incumbent management or to recruit from the local market help with the performance of post-CBMA. For instance, Cogman and Tan (2010) present a case about an acquisition of an European business by a Chinese industrial company in 2006. Given that there was a good record of active restructuring, producing significant synergies in the sector, the president of the acquiring company believed that there was no need to assign a Chinese team to manage the acquired foreign firm since he had observed the downsides of the traditional structural integration that had caused many failed Chinese acquisitions. Instead, he retained the top management team in the acquired firm with only very minor changes, and grant autonomy to the top management team to develop its own business
plan. The CEO of the acquired firm continued to serve the same role and be responsible for developing the firm’s own business strategy which though has to get input and approval from the new parent company so as to align the overall business strategy at the group level.

Third, EMNEs also look for coordinated, though not fully integrated, business activities which can help to both create synergies and reduce costs. EMNEs normally start with raw materials purchase for their foreign acquired firm, like Tata Tea’s acquisition of Tetley, by forming a buying team that consist equal number of managers from each company. By purchasing raw materials together, it helps to reduce procurement and logistics costs and also each company becomes familiar with the other’s quality standards (Kale et al., 2009). A similar discussion is also mentioned by Cogman and Tan (2010) who suggest that EMNEs focus only on a few major sources of synergy rather than trying to align every aspect of their businesses immediately. Furthermore, cooperation between the partnering firms allows knowledge sharing. Madhok and Keyhani (2012) state that “being treated as an equal in a joint endeavour with both sides benefiting makes the target more willing to make its knowledge readily available and help the EMNE learn as well as learn from it”. Such an example can be seen from Tata steel’s acquisition of Corus. The knowledge sharing works on both ways, meaning that they learned from each other and applied new ideas to update each’s capabilities. Therefore, the
partnering approach strategy is likely to create an environment for cooperation and knowledge sharing (Kale et al., 2009).

Studying 204 Indian corporations, Kale et al. (2009) find that the partnering approach can generate value for shareholders. In addition, their survey of Indian acquirers’ senior executives shows that a partnering approach strategy helps them to achieve most of their objectives, with a satisfied outcome measuring an average of 5.69 on a 7-point scale where 7 is most satisfied. They also interviewed employees in 10 US and European companies which were acquired by Indian firms and more than 50% of their employees were “happy” with the new owners.

4.3 Research Design

This study employs a multiple case study approach. Yin (2009, p. 18) describes a case study as an “empirical inquiry that investigates a contemporary phenomenon in depth and within its real life context”. A case study approach allows the development of understanding as the case progresses; in particular it enables us to examine the strategic assets needed by and the strategy employed in CMNEs. A detailed case study approach is concluded as a useful strategy in real life organizations (Robson, 2002) as is found to provide a much richer, deeper and broader understanding than the
large sample quantitative study (Morris and Wood, 1991). The multiple case study approach is more effective than a single case study and may give opportunities for replication and comparison (Eisenhardt, 1989, Gao and Liu, 2012, Yin, 2009). It also enables researchers to gather first-hand information to achieve research objectives.

The case study approach uses different sources of information (e.g. interviews, archives, questionnaires, observations). The qualitative interviewing enables the understanding of complex interrelationships between the research objectives and their contexts (Stake, 1995). This research aims to reveal answers to two questions: What strategic assets are sought after by CMNEs through CBMAs? Which strategic approach is adopted by CMNEs in order to secure these assets? To answer these questions requires people who are in the important positions in their organizations and this ties in strongly with people’s “knowledge, views, understandings, interpretations, experiences and interactions” (Mason, 2002, p.63). Quantitative research cannot capture the complex nature of this research; interviews are a more appropriate way.

In order to identify potential interviewees, I first went through all the Chinese CBMAs in the UK in recent years by reference to journal articles, newspapers, and the internet in general and the UK Trade and Investment official website in particular. I narrowed down the research sample to those in the
manufacturing sector, so as to ensure I was comparing similar situations, and identified six relevant CBMAs carried out by Chinese firms in the UK. I obtained the contact information from their webpages and then contacted all potential interviewees through email, explaining the aim and scope of my research. Only one agreed to participate in the interview. The response rate is a bit low, but it is expected as it is hard to obtain direct contact information with people who are in charge. I then expanded my search to Chinese firms’ CBMAs of European firms and used personal contacts and external networks to try to reach potential interviewees. Potential interviewees were asked whether they personally involved in foreign acquisitions. This research excluded those who were not involved in the merger and acquisition process, whether or not they were actively involved in the management post-CBMA. I telephoned and emailed each individual to further confirm their availability and to arrange telephone or face-to-face interviews or some other meeting methods that they might prefer. A total of 4 interviewees finally agreed to participate in the research. Data was collected mainly through interviews and emails. The semi-structured individual interviews are employed in this study. The semi-structured interviews refer to conversations and discussions (Mason, 2002) which give respondents “freedom to talk and offer their opinions and understanding of the topic” (Gao and Liu, 2012). The interviewees were briefed regarding the scope of the research when they were invited to participate. Each interview lasted for about one hour.
Interviewees outside China (foreign target firms) were interviewed via telephone in English. Interviewees in China (Chinese parent firms) were interviewed by telephone in Mandarin. Under the guarantee of anonymity, all interviews were digitally recorded and transcribed within 24 hours of the interviews to minimize information loss. For research purposes, secondary data (e.g. company archives, corporate newsletters, media reports, and annual reports) are also employed to complement the data gathered from the semi-structured interviews. According to Eisenhardt (1989, p. 538), the triangulation (cross-referencing of data sources) suggests that “multiple data collection methods provide stronger substantiation of constructs and hypotheses”. Therefore, the data and information received from both streams of resources (primary and secondary data) are cross-checked constantly to ensure their reliability and validity (Eisenhardt, 1989, Deng, 2010). Table 7 lists information about the interviewees.
### Table 7 - Case Demographics

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Position</th>
<th>China Parent or Foreign Target</th>
<th>Interview Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Vice President</td>
<td>China Parent</td>
<td>Telephone and Emails</td>
</tr>
<tr>
<td>B</td>
<td>Board Member</td>
<td>China Parent</td>
<td>Emails</td>
</tr>
<tr>
<td>C</td>
<td>Global Marketing Manager</td>
<td>China Parent</td>
<td>Telephone</td>
</tr>
<tr>
<td>D</td>
<td>CEO</td>
<td>Foreign Target</td>
<td>Telephone</td>
</tr>
</tbody>
</table>

Note: Interviewee B and C were from the same company.

### 4.4 Case Findings

This section presents the findings. As a result of analysing the case evidence, four important findings emerge:

1. Chinese acquirers possessed domestically-developed resource advantages.
2. Chinese acquirers are motivated to acquire strategic assets that foreign targets possessed.
3. The acquisitions help the Chinese parent firms and the foreign target firms to achieve complementarity.
4. Chinese acquirers adopted a partnering approach strategy for their CBMAs and a partnering approach strategy helps strategic asset acquisitions.

4.4.1 Resource Advantages in Chinese Parent Firms

All Chinese parent firms in my sample are leading firms in their industries in China. They have well-trained management teams and high quality staff. They also have abundant industry knowledge for both the domestic and overseas markets and have a clear understanding of the future direction of the industry. They possess resource advantages. The interviewees state that the Chinese parent firms have developed strong domestically-recognised brands, advanced technological capabilities and have R&D and manufacturing technologies.

“The company has the most advanced R&D and manufacturing technologies in the industry” (Interviewee A).

“Over 15 years of efforts, the company has successfully stood on the high ground within the industry and led the industry with technological innovation and product improvement” (Interviewee C).

In addition, the evidence indicates that Chinese acquirers have abundant
international experience. They either have export experience or have agents in many different countries. One of them also had previous foreign acquisition experience. International experience has led them to establish links to the international markets, to learn and to understand how to cooperate and work with foreign partners.

“The company has done a lot of international market research in the past few years and has accumulated a wealth of international experience in the market.” (Interviewee A)

### 4.4.2 Strategic Assets from Foreign Target Firms

The evidence suggests that foreign target firms possess strategic assets needed by CMNEs. The foreign target firms are located in well-developed European countries. The DEs are characterized as the ‘early mover’ in technology development and are the leaders in many different aspects of the international markets. The acquired foreign target firms have established well-known brand names.

“Through technological innovation and quality maintenance, the company (foreign target firm) has gradually developed into the World’s leading brand in the industry” (Interviewee A).
“Our foreign target firm has a good brand with a good reputation in the industry” (Interviewee B).

“The foreign target firm is very well known in the industry” (Interviewee D).

Case evidence shows that the foreign target firms also have advanced product technology and R&D capability. The advanced technological competency may improve firms’ operational weaknesses, such as those in product design, product innovation, process innovation and technological innovation.

“The company (foreign target firm) has cutting edge technologies which are difficult to imitate. Also, the company has 157 technical experts focused on the development of new technologies, of which about 100 are based in Germany. The company also develops highly customized products for customers in different regions to meet different market requirements” (Interviewee A).

“The company (foreign target firm) has distinct advantages in both product performance and manufacturing processes. Additionally, the company made 60 trademark applications and has 20 patent registrations” (Interviewee B).

“The company possesses advanced technology and that’s what we want to acquire from the acquisition.” (Interviewee C).
“The foreign target firm is very strong at blending of modern technology with the traditional skill of the eye to match any colour” (Interviewee D).

In addition to well-known brand names and advanced technologies, all my Chinese interviewees point out that the foreign target firms have established sales and services distribution networks that are needed by them. In DEs these network resources are developed at different stages of growth (both time and cost consuming) and under different institutional environments.

“The company (foreign target firm) has business around the World and sales and manufacturing networks in Europe, Asia, North and South America.” (Interviewee A).

“The company (foreign target firm) not only has a high market share and customer loyalty in the traditional European markets, but also has a presence in Eastern Europe, Russia, India and other emerging markets with development potential” (Interviewee B).

“Our foreign target firm has a widely spread global distribution network and that is what we need from a foreign acquisition” (Interviewee C).

The foreign target firms’ possession of management expertise is apparently also the strategic assets sought after by CMNEs. The managements’ knowledge of, and experience in, the industry is essential.
“The foreign acquisition can help us to fully learn and absorb foreign advanced management experience and technology and to create favourable conditions for overseas professional and technical personnel to come and work for us” (Interviewee A).

“Chinese manufacturing firms are lagging behind other international manufacturing enterprises in terms of operational management and that's the key obstacle to becoming a truly multinational enterprise. Despite that, we are the leading firm in the domestic industry; however, compared with other international enterprises, we still have a long way to catch up. Over the years, we have committed to learning advanced technology and management from advanced countries; however, it has been difficult to truly understand and grasp the essence of advanced management just through visiting, for example. Through a foreign acquisition we can observe at close-quarters and thus absorb their advanced operational processes, enhancing the communication between management teams so as to improve our operational capabilities” (Interviewee B).

“We have experience and we have sent employees across to their facilities so they have learnt certain things from us. Also, we have a good management team and they all have abundant industry experience” (Interviewee D).
4.4.3 Complementarity

The complementarity between the Chinese acquirers and the foreign target firms appears in different aspects, from brands, sales, purchasing and distribution network to product technology and manufacturing processes. In terms of brand, the acquisition has led to complementarity in using dual brand strategy to meet the different requests of different groups of customers, e.g. the Chinese parent firms offer relatively low price products and the foreign target firms target is the high end market.

“The foreign acquisition has helped us to improve our brand reputation. The acquisition has led to the combination of resource strengths from the Chinese acquirer and the foreign target firm and that has helped us to build an international benchmarking project in the industry (Interviewee A). “By benefiting from the well-known brand possessed by our foreign target firm, we have implemented ‘dual brand’ strategy to satisfy consumers’ different preferences” (Interviewee B).

The evidence reveals that even the Chinese parent firms possess domestic developed technologies, but that these are still far behind those from DEs. The foreign target firms in DEs own pioneer technology and Chinese firms can
gain or benefit from learning from their foreign acquisitions to upgrade their technology capabilities.

“The advanced or the pioneer technology is one of the biggest strengths of our foreign target firm. The cooperation with the foreign target firm has helped us to improve R&D capabilities” (Interviewee A).

“Although we are in the pioneer position within the domestic industry, in terms of advanced products, reliability, or other aspects of manufacturing process, we are still lagging behind the European leaders, especially in the brand visibility, user-acceptance aspects. The foreign target firm owns a variety of products and their products, in both product design and technology, are much better than ours. The acquisition has helped us to improve our product performance and has enabled us to upgrade our technology capabilities” (Interviewee B).

Chinese firms have a well-established network in China and they have experience in serving foreign markets through exports. However, establishing their own sales and service distribution networks in a host country is difficult, especially in those culturally distant countries. Although the evidence reveals that the Chinese parent firms have abundant international experience, they still face the liability of foreignness and liability of outsidersness. The foreign target firms understand the local markets, the needs and the wants of local
customers, and have developed relationships with suppliers, customers and
other related parties. Interviewees point out that their foreign target firms
have established service distribution networks not only in their home country,
but also spread across the rest of the World. Therefore, Chinese firms benefit
from the established networks possessed by their foreign counterparts. In
turn, the acquisition has enabled the foreign target firms to access to their
Chinese parent firms’ distribution networks in China. The Chinese parent
firms and the foreign target firms can therefore reduce their costs in seeking,
defining and establishing new networks.

“The foreign acquisition has helped us to expand into the foreign markets.
Our foreign target firm ranks No. 1 except in the Chinese market and
ranks No. 3 in the three biggest emerging markets, in Turkey, Saudi Arabia
and India” (Interviewee A)

“We have benefited from their sales and services networks, they have
enabled us to enter into the Europe, Russia, India and other emerging
markets in a short period of time, reducing the costs of expanding into
European markets and has also left us able to accumulate funds for
expansion into other markets. The shared network has helped us to enter
into other markets and, in turn, our foreign target firm has benefited from
quick access into the Asian markets” (Interviewee B).

“They didn’t have a presence in the European market, or very little, so the
acquisition has allowed them (the Chinese acquirer) to expand into Europe.” (Interviewee D)

It's given us the ability to greet impress our customers. All the raw material comes from China so to have a strong Chinese parent group as a raw material supplier has allowed us to greet customers and convince them that they should buy from us on many levels, particularly that we had got the best quality raw material guaranteed supplier in our Chinese parent company” (Interviewee D).

The Chinese parent firms have country-specific resources in terms of low labour costs and production capabilities to compensate for the high production costs in European countries. On top of that, the procurement costs can be reduced for both parties due to the fact that they may have greater negotiating power working together.

“First, we have helped our foreign target firm to reduce their purchasing costs by offering them some of the product components in which we have a manufacturing advantage. Second, due to capacity constraints, our foreign target firm cannot fully satisfy their orders; this can be solved by setting up a manufacturing plant in China to fulfil the capacity shortage, as well as reducing costs by producing locally. Third, we are in a better position to negotiate prices when the Chinese parent firm and the foreign
target firm purchase together so as to reduce purchasing costs” (Interviewee B).

“The biggest benefit for us (the foreign target firm) was that they were our principle raw materials supplier, so we have a guaranteed source of the best quality raw materials going into our products “(Interviewee D).

4.4.4 Partnering Approach Strategy

The interviewees from the China parent firms and the foreign target firm illustrate that a partnering approach is adopted in their CBMA. The Chinese parent firms let the foreign target firms operate independently, but they do have a comprehensive audit of the foreign target firms annually. The partnering approach not only maintains the original organizational structure and practices but also helps retain/protect the strategic assets possessed by the foreign target firms.

“The partnering approach strategy helps to maintain the stability of the incumbent management teams as well as to avoid turbulence” (Interviewee A).

“By adopting the partnering approach strategy, the original resources/benefits possessed by the foreign acquisition firm will not be lost. The biggest risk of the CBMA is disrupting everything and
establishing a new order in the host country. You do not understand the foreign operations, therefore you should maintain its entire business operations after mergers and acquisitions, especially in those well run businesses with good business continuity. If you merge a company in a well-planned way, you cannot disrupt it after taking over. What you should do is to keep the independence, integrity and consistency of the foreign operation and make good use of their resources to serve the Chinese market. Then the foreign target firm may also benefit from the Chinese market/resources to help them to reduce costs” (Interviewee B).

“It helps to dispel the concerns of management teams and staff in the foreign target firm” (Interviewee C).

“I think there would be a risk (such as cultural differences), but what they did was they didn’t put any Chinese management into the company, so the company is operated by the UK, you know, the management team was there previously, I think that’s been a big success and I think, if they had done differently, it would have been a risk. I think also it would be difficult for our customers; if we had Chinese management who are going to speak to customers, that would be a difficult. We are a Scottish company, got Scottish heritage; I think that is very important to our customers. Our customer prefers that they are talking to and dealing with Scottish managers. In other words, it helps to retain customers. From our employees’ perspective, our employees feel respected and trusted. I think
our employees are very grateful that a Chinese company bought us, because they have made investments and that also gives us, as I say, a guaranteed raw materials supplier that is crucially important to the business. Our employees see a lot benefits from a Chinese acquirer” (Interviewee D).

4.5 Discussion

The emergence of strategic asset-seeking activities by EMNEs has been a recent phenomenon and is a relatively less explored area of research in international business field. EMNEs have specific characteristics that are distinct from those of incumbent MNEs from DEs. They have limited international experience and lack international management expertise. Their ownership advantages are mostly country-based (or country-specific resources, CSRs thereafter) rather than firm-based (or FSRs), derived from e.g. monopolistic access to natural resources, government supports and subsidies and low cost production inputs. Such undifferentiated firm-specific strengths may be domestically viable. However, for EMNEs to be competitive in an international stage, their existing advantages need to be enhanced by strategic assets that are unavailable at home. Existing studies have focused on the motives and consequences of strategic asset-seeking EMNEs and there is a general discussion about what strategic assets are in demand by EMNEs. However, there is no systematic study on the nature of strategic assets sought
after by EMNEs and the approach undertaken by EMNEs in securing these assets.

In this study I focus on CMNE’s strategic asset-seeking activities in DEs. The findings show that Chinese acquirers possess resource strengths in its outward internationalization. The traditional dominant internationalization theory – OLI paradigm explains that MNEs internationalize when they possess developed competitive resources that can be leveraged in the host country so that they can overcome the inherent costs and disadvantages of competing with domestic rivals there. However, EMNEs may not possess the traditional advantages that are suggested the OLI paradigm (Luo and Tung, 2007, Mathews, 2006). For instance, Wang et al. (2012) argue that EMNEs start from a ‘resource-meagre’ position as they may not possess similarly strong technological resources to those from DEs. However, EMNEs still need to certain advantages when they are internationalizing (Lu et al., 2011, Wang et al., 2012, Dunning, 2006). The case study evidence reveals that Chinese firms who participate in CBMAs are those leading firms with strong domestically developed technology capabilities and international experience. This builds foundation for their strategic assets seeking through CBMAs. The existing literature states that the ability to assimilate external knowledge is dependent on their absorptive capacity (Cohen and Levinthal, 1990). Lu et al. (2011, p. 227) posit that EMNEs should “possess related technology
capabilities that are advanced enough to absorb superior technologies in the host countries” and find that Chinese firms who have domestically developed technology-based competitive advantage are more likely to expand overseas. This is also in line with the learning perspective of the internationalization theory, in which it highlights that firms with advanced domestic know-how are more capable of understanding and obtaining knowledge from their foreign counterparts. As a consequence, domestically developed technology capabilities enable EMNEs to overcome their resources constraints, technological gaps with the incumbent MNEs and latecomer disadvantages (Wang et al., 2012). Equally important is previous international experience. A firm’s international experience represents a firm-specific tacit knowledge (Barney et al., 2001). Having previous experience in international markets has been shown to be an advantage for managing international operations (Shimizu et al., 2004). For instance, Collinsa et al. (2009) argue that prior acquisition experience increases the likelihood of subsequent international acquisitions. Thus, I propose:

**Proposition 1:** Chinese acquirers who possess resource strengths in the form of domestically developed technology capabilities and international experience are likely to engage in cross-border mergers and acquisitions.
CMNEs engage in CBMAs to acquire strategic assets that are not available in their domestic market or time consuming to build up internally (e.g. Gubbi et al., 2010). Such acquisitions enable the Chinese acquirers to source locally embedded knowledge-based capabilities from their DEs counterparts in their home country environment so as to enable rapid improvements to its current competency and competitive position (Gubbi et al., 2010). The findings uncover that the most important strategic assets to Chinese acquirers are well-known brands, advanced technologies, well-established distribution networks and management know-how. Thus, I propose:

**Proposition 2:** Chinese firms acquire foreign target firms who possess strategic assets in the form of well-known brands, advanced technologies, well established distribution networks and management know-how.

Chinese firms possess ‘comparative ownership advantages’ (COAs) when they internationalize and these COAs are characterized as relatively (not absolutely) valuable, rare, hard-to-imitate (Sun et al., 2012, Ramamurti, 2009). It is also suggested by Zhang (2009) that FSRs possessed by CMNEs are “similar in kind to their developed country counterparts, but differ in proportion” (p. 92) and CMNEs rely on advantages arising from the complementary combination of FSRs or the interaction between CSRs and FSRs (Sun et al., 2012), such as production-process capabilities, low labour cost endowment and institutional
supports (Boisot and Meyer, 2008, Rugmana and Li, 2007). The findings reveal that the acquisitions can help the Chinese parent firms and the foreign target firms to achieve complementarity. It demonstrates that foreign target firms benefit from the COAs possessed by Chinese firms and, in turn, Chinese parent firms can benefit from the strategic assets possessed by their foreign counterparts to upgrade their capabilities. This is in line with the existing studies, e.g. Buckley et al. (2014), which state that acquisitions allow resource redeployment. That’s, EMNEs can benefit from the knowledge-, marketing-and technology-intensive resources of their DE counterparts, and target firms from DEs can be more cost effective through utilizing EMNEs’ resources thus increasing efficiency. Harrison et al. (2001) share a similar view, and illustrate that high-value front-end capabilities and resources available in DEs, combined with the back-end low-cost capabilities in EEs, can create valuable resource combinations so as to achieve a higher market valuation and globalization realization. Complementarity provides emerging firms “a wider array of business opportunities to develop competencies that could not create alone” (Kim and Finkelstein, 2009, p. 618). Firms with mutually supportive resources are therefore expected add value to both of parent and the target firms. Thus, I propose:

**Proposition 3:** CBMAs are employed by Chinese acquirers and foreign target firms to achieve complementarity.
The degree of integration is essential to the success of CBMAs (Bauer and Matzler, 2014). Buckley et al. (2014) argue that “as the culture and routines of acquiring and target firms differ, the post-acquisition resource integration process can be time consuming, challenging and costly”. The traditional post-acquisition integration suggests the removal of autonomy from target firms, but that may undermine their routines, processes and functions if acquirers are unfamiliar with them (Zaheer et al., 2013). The findings show that Chinese firms used a partnering approach in their CBMAs. The existing literature states that a partnering approach strategy preserve the sources of the target firms’ pre-acquisition value, avoids difficulties in the integration of two culturally distant partners, thus it may reduce hidden costs during the integration process (Kale et al., 2009, Zaheer et al., 2013). Chinese firms, as young players in the international market, lack the international management experience and capabilities to manage complex international operations. The partnering approach helps to retain the organizational structures of the foreign target firms and to create an environment for knowledge sharing. In a collaborative relationship, it motivates partners from both parties to collaborate closely. For instance, Madhok and Keyhani (2012) state that “being treated as an equal in a joint endeavour, with both sides benefitting, makes the target more willing to make its knowledge readily available and to help the EMNE learn, as well as learning from it themselves”. The findings also confirm the importance of a partnering approach strategy in retaining the
strategic assets. According to Zaheer et al. (2013), acquirers need to “rely on target managers’ knowledge about the complementary elements and their willingness to collaborate in order to realize their potential value” (p. 611-612). Chinese firms are motivated to acquire complementary strategic assets in their CBMAs, as I discussed above. Giving a substantial degree of autonomy to the targets could promote cooperation, motivate knowledge sharing, help to remain talented employees, and enhance acquisitions implementation. Therefore, the partnering approach avoids disrupting the resources and routines possessed by foreign target firms. Thus, I propose:

**Proposition 4:** The partnering approach strategy reduces the unintended consequences of traditional integration and helps to secure strategic assets.

### 4.6 Conclusion

While earlier studies have highlighted that EMNEs are motivated to acquire strategic assets, there is no research on what specific strategic assets are important to Chinese acquirers and how they can secure these strategic assets. Understanding these two research questions is important for several reasons. First, it is essential to unpack the abstract concept – strategic assets and put it in context. Different EMNEs from different countries with different
competitive advantages of their own may seek for different strategic assets, as their own competitive advantages determine absorptive capacity and build synergy between the possessed and acquired FSRs. Second, managing post-acquisition in order to achieve the objectives of CBMAs is hard enough for incumbent MNEs, as established in the literature. For EMNEs, it is an even bigger challenge. The study of partnering approach as a viable strategy for Chinese firms to take advantage of strategic assets from foreign acquisitions and to reduce the unintended consequences of traditional integration provides a useful tool for managers to apply in formulating international strategies for their firms.

This study contributes to the existing literature in two main ways. First, by focusing on Chinese manufacture firms, this study helps to advance research on the specific strategic assets needed in Chinese firms’ CBMAs. This aspect has been under-explored empirically, given that the theoretical emphasis focuses on EEs and presumes that EMNEs require strategic assets in general in their internationalization. But it is important to distinguish the strategic assets needed in different EEs nations because each of them is path dependent and has different strategic motives in their internationalization.

Second, to the best of my knowledge, this research is one of the first to introduce the partnering approach in the Chinese context. It proposes a
partnering approach is a viable strategy for CMNEs in managing their post-integration. Given their strategic motives in acquiring well-known brands, advanced technology, well-established distribution networks and management know-how, the findings reveal that the partnering approach can help Chinese firms to successfully secure these strategic assets. In other words, the partnering approach is in line with Chinese firms' strategic motives and it is a viable strategy in their foreign acquisitions.

Theoretical implications derived from this research are that scholars should pay more attention to the strategies that are undertaken by Chinese firms in managing their foreign acquisitions. Chinese firms are still young players in the international market and have less international experience. Meanwhile, given the differences in language and culture, as well as the lack of managerial capabilities, Chinese firms are facing a big challenge in managing their foreign acquisitions. Therefore, it is important to find an appropriate strategy that can help them manage their foreign acquisitions more effectively.

This study also has some important implications for managers. At the firm level, more training (e.g. English courses) should be given to the employees. It can enhance employees' ability to communicate and learn from their foreign counterparts. Meanwhile, Chinese firms may need to recruit some experienced employees who have been educated, trained and worked in
western institutions; they are in a better position to communicate with their foreign counterparts, to avoid misunderstandings and to manage the foreign acquisitions effectively.

This study has some limitations and further research is required. First, this study focuses on Chinese manufacturing firms in EU. Further research should expand the research context to other EEs and DEs and include more foreign acquisitions across different industries. Different EMNEs may have different motives in different industries and such motives may also vary between EMNEs from different nations, so different strategies may be adopted in managing acquisitions of DE firms. Second, this study proposes that a partnering approach can help Chinese firms to secure strategic assets they need, but can a partnering approach lead to better firm performance? Further studies should address this issue.
Chapter 5: Does Outward Foreign Direct Investment Lead to Better Performance?

5.1 Introduction

This chapter extends the empirical study presented in the chapter 3 by investigating whether entry mode transformation from exporting only to a hybrid mode of exporting and FDI affects firm performance. Entry mode is considered as an important determinant of firm performance (Brouthers, 2002, Brouthers et al., 2003, Brouthers and Nakos, 2004, Brouthers et al., 2008, Chen and Hu, 2002, Shaver, 1988, Woodcock et al., 1994). The rationale is that “firms will select the mode that provides the best return on investment” (Brouthers, 2002, p.207). The existing literature has investigated whether some investment modes provide better performance than others (Woodcock et al., 1994) or whether the theory-predicted entry mode lead to better firm performance (Chen and Hu, 2002, Brouthers, 2002, Brouthers et al., 2003, Brouthers and Nakos, 2004, Brouthers et al., 2008). The entry modes under consideration in these studies are often joint ventures (JVs) and wholly-owned subsidiaries (WOSs). Little research has considered the performance impact of exporting only versus a hybrid mode of exporting and OFDI. Given the increasing trend in OFDI, an interesting question arises: Does an entry mode transformation by exporting firms to include OFDI lead to
better firm performance? This research aims to fill this research gap. As a part of this investigation, other factors influencing firm performance are accounted for by taking an integrative perspective at the firm, industry and country-level.

Exporting is often the first stage of internationalization in emerging market firms (EMFs). However, the continuous marketization and liberation motivates firms to undertake OFDI as a means of entering foreign markets. Exporting helps firms to gain international experiences and to establish linkages in the international market (Mathews, 2006). Yiu et al., (2007) reveal that exporting firms can benefit from learning in foreign markets, accumulating local knowledge, gaining legitimacy and developing local networks. Furthermore, given the home country specific resources (CSRs) such as low labour costs and low production costs, EMFs may benefit from economies of scale by concentrating production at home and then exporting their products to foreign markets. The learning-curve cost advantages suggest that the costs of production fall with the cumulative volume of production, therefore firms moving along the learning-curve can obtain cost advantages over rivals. However, “exporting cannot fulfil the need of upgrading their [EMFs’] capabilities” (Liang et al., 2012,p.137). OFDI, on the other hand, offers firms better opportunities to learn and acquire resources from their counterparts in DEs as it offers firms an opportunity to be much closer to the
source of resources and knowledge than exporting does. This can potentially improve EMFs’ profitability. Thus, it is to be expected that exporting firms with OFDI perform better than those solely focused on exporting.

This chapter also intends to make a conceptual contribution by linking variables emphasised in the strategic tripod framework, including resource-based view (RBV), industry-based view (IBV) and institution theory (IT), to firm performance. The determinants of firm performance have attracted much attention from strategy, marketing, economics and human resources management. However, the existing research lacks a comprehensive theoretical base (Aulakh et al., 2000, Morgan et al., 2004). The extant literature is often based on RBV and/or contingency theory (Sousa et al., 2008). Following RBV, firms possess internal firm-specific resources and capabilities and these are central in explaining firm performance (Amit and Schoemaker, 1993). The contingency theory emphasizes the external environmental factors influencing a firm’s strategy and performance because they impose pressures to which a firm must adapt in order to survive and prosper (Cavusgil and Zou, 1994). The literature illustrates that different industrial factors, e.g. industry entry barriers and competition, affect firm performance. However, for EMFs in general, and Chinese firms in particular, the external environment factors comprise not only the industrial factors but also the institutional environmental factors. The latter play an important role
in shaping EMFs’ strategies and performance, given the strong influence of
governments in EEs and the fundamental change of institutions (Peng et al.,
2008). The institutional theory together with the RBV and IBV is therefore
expected to enrich our understanding of firm performance.

This chapter is organized as follows. Section 5.2 provides a literature review
and develops hypotheses. Data and methodology are then outlined in Section
5.3, followed by empirical results and discussion in Section 5.4 and 5.5.
Section 5.6 discusses the implications and point out the limitations of the
research and possible directions for future studies.

5.2 Literature Review and Hypothesis Development

5.2.1 Entry Mode

Entry mode is one of the most important firm-level strategies (Pangarkar and
Lim, 2003). An exporting strategy is the most accessible internationalization
strategy as it requires less fixed costs than many other entry modes such as
M&As. Exporting helps EMFs to establish linkages in the international market
(Mathews, 2006), to gain deep understanding of and competence in foreign
markets (Gao et al., 2008), to build relational assets and develop foreign
market entry capability that helps to mitigate information asymmetry and
uncertainty.
The exporting experience and the partnership with foreign counterparts may help EMFs, e.g. to benefit from the economies of scale/scope. Moving along the learning-curve gives them cost advantages. However, the learning and performance improvement benefits associated with exporting may diminish at times (Luo and Peng, 1999). Many foreign counterparts are reluctant to transfer their superior technologies which they believe are crucial to their own competitive advantage (Rui and Yip, 2008). This limits the scope of EMF’s learning and their development of R&D capacities. EMFs without core technologies cannot support their continuous development and therefore they need to seek an alternative way.

For many firms with exporting experience undertaking OFDI is the alternative. OFDI is “more likely to facilitate learning through extensive involvement in the international operation” (Liang et al., 2012, p.137). Through OFDI, exporting firms can tap into the knowledge bases of the host country, access a more extensive set of information and develop capacity for production, R&D and other functional activities. OFDI not only provides a fast access for EMFs to acquire intangible resources, such as advanced technology, superior brands and management know-how, but also enables exporting firms to reposition themselves strategically close to those from DEs through capability building (Cardoza and Fornes, 2011, Deng, 2013, Williamson and Raman, 2011).
Furthermore, OFDI offers EMFs a local presence in a host country and gives EMFs opportunities to build up their external networks. According to network theory, relationships with partners within business networks are critical to the enhancement of capacities and capabilities (e.g. Gammelgaard et al., 2012, Chen, 2003). The engagement into OFDI allows EMFs to benefit from the host country partners’ network, to access valuable information (e.g. reach key local contacts, gain specific local knowledge and experiences), to obtain abundant experience in dealing with local officials, to have close relationships with customers and suppliers (Child and Rodrigues, 2005, Filatotchev et al., 2007) and to seize more opportunities (e.g. provision of relevant information on local business opportunities). For instance, Pittaway et al., (2004) suggest that network relationships with suppliers, customers and intermediaries are important determinants of firm performance. This is also echoed by Johanson and Vahlne (2009) who emphasize that network relationships lead to improved performance. As a result, the network relationship provides performance boosting effects linked to improved resource development and enhanced learning and innovation capabilities (Gammelgaard et al., 2012). This is consistent with the EMF’s motives in the internationalization process in which they engage in OFDI in order to acquire strategic assets and capabilities to improve their profitability, and to maximize global synergy (Wei et al., 2014). The above arguments lead to the following hypothesis:
H1: Exporting firms with OFDI activities perform better than those focusing solely on exporting.

5.2.2 Resource-based View

The RBV is formally introduced by Jay Barney in 1991. This work is widely regarded as the first comprehensive theoretical framework to formalize the resource-based literature (Newbert, 2007). Barney (1991) proposes that the RBV rests on two fundamental assumptions: (1) resources and capabilities are heterogeneously distributed among firms, and (2) resource immobility (resources being ‘sticky’) - resources cannot be transferred without substantial costs from one firm to another. These two assumptions “conjointly allow for differences in firm resource endowments to both exist and persist over time, thereby allowing for a resource-based competitive advantage” (Newbert, 2007, p.123). Firms would attain competitive advantage if they possess advantage-generating resources. The advantage-generating resources are derived from intangible assets and are characterized as valuable, rare, inimitable and non-substitutable (VRIN). Strategic assets have a stable and long-lasting nature and are potential causes of performance differences. Prasad et al. (2001) reveal that possession of competencies enables a firm to enjoy superior performance. This is consistent with the findings of Beleska-Spasova, Glaister et al. (2011) that resources and competencies, including managerial, knowledge, planning and technology resources, have a
positive direct effect on performance. Thus the resource heterogeneity explains performance differences across firms (Dhanaraj and Beamish, 2003). In the following I shall consider such strategic assets as technology-based capability, brands and international experience.

**Technology-based capability**

Technology-based capabilities (TBC) are “the roots of a firm’s sustainable competitive advantage” (Lee et al., 2001, p.618). It has long been emphasized as one of the key strategic resources that enable the firm to construct performance differentials within industry (Tsai, 2004). The TBC, being rooted in routines and practices of the firm, are hard to replicate or imitate by other competitors, due to their complex and tacit nature (Makadok, 2001, Lee et al., 2001), so this endows an exceptional performance advantage (Tsai, 2004). The TBC is multifaceted, consisting of patents protected by law, technological knowledge, trade secrets, know-how engaged by R&D, and other valuable production skills (Lee et al., 2001, Hsieh and Tsai, 2007). It has been argued that the possession of TBC can enhance firm performance in two ways. First, a firm can boost its efficiency gains by pioneering process innovations or by redesigning its products. Second, a firm can achieve greater differentiation by accelerating the pace of new product developments and thereby seizing more market opportunities (Lee et al., 2001, Tsai, 2004).
The empirical evidence suggests that TBC can affect firm performance. For instance, Aw and Batra (1998) examine the linkages between TBC and firm efficiency in Taiwan’s manufacturing industry and they conclude that TBC has a positive correlation with firm efficiency. Lee et al. (2001) hypothesise that TBC, as one of the most important internal capabilities, has a positive correlation with firm performance. The regression results confirm the hypothesis by analysing data from 137 Korean firms. Tsai (2004) uses a seven year panel dataset which includes 45 large manufacturing firms quoted on the Taiwan stock exchange and he finds that TBC is an important determinant of firm performance. Similarly, other scholars suggest that TBC leads to sales growth and operating profits (Schoenecker and Swanson, 2002) and enhances firm performance (Ortega, 2010). The above arguments lead to the following hypothesis:

H2: Firms possessing TBC achieve better performance than those without.

**Brands**

Brands are considered an important part of any firm-specific resource (FSR) base (Anand and Delios, 2002, Morgan and Rego, 2009, Park et al., 2013, Wernerfelt, 1984). They are VRIN assets that are costly and take a long time to build up (Brouthers and Xu, 2002). Brand recognition constitutes a firm’s
competitive advantage and can significantly contribute to firm performance in number of ways.

Firstly, well-established brands are perceived as high quality in the minds of consumers and that allows firms to differentiate their products from other competitors so as to attract more customers and build barriers against the competition (Morgan and Rego, 2009). So firms who possess superior brands may no longer need to compete exclusively on price (Brouthers and Xu, 2002), they can charge higher prices and attain price premiums (Anand and Delios, 2002) and thus obtain superior financial returns (Morgan and Rego, 2009).

Secondly, high-quality brands are more responsive to marketing effects and these effects not only come from advertising and promotions but also come from the satisfied customers’ experiences (Srivastava et al., 1998). The extant literature states that customers respond more quickly to new products for those brands with good reputations and are more likely to “try the brand, adopt the brand and begin to refer the brand to others sooner than otherwise” (Srivastava et al., 1998, p10). As a result, such influences (e.g. earlier purchase and faster referrals) may, not only provide a competitive edge for firms, but also lead to the acceleration of cash flows, which can be translated into higher revenues, and thus enhance firm performance (Srivastava et al., 1998, Rao et al., 2004).
Thirdly, well-recognized brands signify a deep and meaningful relationship with channels and customers. It shows the willingness of channels and customers to stay with and to sustain the relationship with the brands in the future (Srivastava et al., 1998, Park et al., 2013). Such brand commitment is recognized as the main driver of firms’ performance (Srivastava et al., 1998). On the one hand, the positive attitude and loyalty of channels and customers may enable firms to secure a large market share and can result in increased product sales and reduced customer price sensitivity (Zou et al., 2003). Moreover, the switching costs render channels and customers less likely to purchase from other rivals and so generate competitive barriers (Srivastava et al., 1998, Morgan and Rego, 2009). Thus, the brand loyalty (i.e. relationship with channels and customers) and the switching costs may influence the stability and the growth of firms’ revenues and profit over time (Park et al., 2013). On the other hand, the superior relationship with customers and channels may lead to lower average costs of sales, advertising and marketing. Therefore, firms who possess well-recognized brands can be leveraged to reduce costs (Anand and Delios, 2002, Srivastava et al., 1998, Morgan and Rego, 2009) and, in turn, firm performance may be enhanced. The above arguments lead to the following hypothesis:

H3: Firms possessing brands achieve better performance than those without.
International experience

From the RBV, international experience represents a firm-specific strategic resource that affects firm performance (Barney et al., 2001). International experience was built and accumulated through dealing with new clients, suppliers and competitors abroad (Camisón and Villar-López, 2010). It is unique to a firm and is embedded within the organization, which means competitors cannot easily acquire, assimilate or apply it. The extant literature states that experience accumulation in foreign markets can help firms to develop new knowledge and capabilities, and this development can influence firms' strategies and performance (Delios and Beamish, 2001, Gao et al., 2008).

Firms are at a disadvantage compared to local firms when they expand into foreign markets. The liability of foreignness, in terms of lacking understanding of the local market, can lead to low performance (Luo and Peng, 1999). Organization learning is defined by Levitt and March (1988, p.320) as “encoding inferences from history into routines that guide behaviour”. The exposure to foreign markets leads to a greater level of learning, in terms of knowledge about the markets and knowledge about the technology (Love and Ganotakis, 2013). The extant literature states that international experience is the prime source of knowledge (Gao et al., 2008).
The accumulated experience about foreign markets may enhance firms’ understanding about the local culture, local institutions and market characteristics. It may also allow firms to have a better understanding of the environmental conditions (e.g. industry environments, complexity of cognitive, normative and regulatory domains) in the foreign markets. Therefore it gives firms the ability to accommodate local customers’ specific requirements (Cavusgil and Zou, 1994). The possession of such accumulated experience enables firms to absorb useful information on host countries so as to identify the changes in products that will lead to greater acceptance and sales (Brouthers and Xu, 2002), and consequently enhance firm performance.

Firms with accumulated international experience can also enlarge their knowledge base and develop new capabilities, thus reducing the range of competitive disadvantages (i.e. substantial risks and uncertainties) as compared to local firms (Gao et al., 2008). As a result, for those firms who possess accumulated international experience, they may have greater ability to reduce the level of operational uncertainties in host markets which, in turn, may enhance firm performance (Gao et al., 2008, Delios and Beamish, 2001, Carlsson et al., 2005). In addition, the diversity of accumulated international experience is important. For instance, firms can intensify their technological learning through operating in diverse international environments that may lead to more extensive knowledge-based, and stronger, technological
capabilities (Luo and Peng, 1999). Therefore, learning different ways of doing things allows firms to promote innovation and productivity, and thus enhance the firms’ performance (Luo and Peng, 1999).

The empirical evidence suggests that international experience shapes firms’ performance significantly. For instance, Luo and Peng (1999) find that the intensity and diversity of host country experience is an important predictor of sub-unit performance, based on a survey of 108 MNE sub-units operating in China. Carlsson et al. (2005) reveal that there is a positive relationship between international experience (i.e. from both physically proximate and physically distant markets) and subsidiaries’ economic performance. Gao et al. (2008) indicate that entry-specific experience and exporting experience exhibit positive effects on subsidiary performance. Furthermore, foreign firms build up new capabilities through the experience accumulated so that they can overcome the disadvantages of foreignness and achieve better performance. Therefore, it is suggested that international experience is an important determinant of firms’ performance. The above arguments lead to the following hypothesis:

H4: There is a positive relationship between international experience and firm performance.
5.2.3 Industry-based view

The IBV emphasizes the importance of the industry environment in which a firm operates. The industry conditions play a critical role in shaping a firm’s strategic behavior and performance (Porter, 1980). These conditions, such as industry R&D, may be considered as an important determinant to firm performance.

Industry R&D

Industry R&D reflects the technological context within which firms operate. The R&D intensity of an industry can affect firm performance in a number of ways. First of all, firms in an industry with high R&D intensity have opportunities to absorb the technological spillovers within the industry and enhance technological capabilities (Cheung and Lin, 2004, Blomström and Kokko, 1998). The existing studies suggest that technological opportunities in an industry can produce effects on the performance of firms through affecting the technological capabilities of firms (Kafouros and Buckley, 2008). With enhanced technological capabilities, firms can achieve several advantages including the technological leadership, cost advantage and product differentiation (Lofstrom et al., 2013). The reduced costs, improved and differentiated products and new features and functions added to new products can all help firms attract consumers, have more sales and enjoy
higher profitability.

Second, industries with higher R&D intensity are normally characterised as having more complete networks comprising of various social-economic agencies including firms, R&D institutions, universities, industrial associations and governments. Moreover, the networks comprising of suppliers and consumers, indigenous and foreign firms and governments and businesses are more complete within industries with higher R&D intensity. According to the network theory, networking promotes information, experience and knowledge sharing between organizations (Chen, 2003). The interactions and linkages within such networks could facilitate the learning activities and stimulate the technological spillovers from each other, which may in return improve firms’ performance as firms can learn from each other and acquire information, knowledge and know-how on how to develop products with lower costs but enhanced features and more returns (Gachino, 2006). The above arguments lead to the following hypothesis:

H5: There is a positive relationship between high industry R&D and firm performance.
5.2.4 **Institutional Theory**

Firm performance is not entirely driven by firm specific resources and industry conditions but, also, can be a result of formal and informal constraints of a particular institutional framework in which a firm is embedded (Scott, 1995). Institutions set “the rules of the game” (Scott, 1995, North, 1990) resulting in significant regulatory pressures for firms. This shapes firms’ behaviour and has performance consequences (Peng et al., 2008, Wright et al., 2005). It is recognized that institutional environments play an important role in supporting the effective functioning of market mechanisms and help firms and individuals to engage in market transactions (Meyer et al., 2009a). A country’s institutions form the conditions for doing business there and determine the transaction costs of business activities.

The institutional environment has a profound effect on firms’ strategies and performance (Goldszmidt et al., 2011). As firms are “deeply embedded in institutional environments, their practices are often either a direct reflection of, or response to, rules and beliefs built into their larger context” (Deng, 2009, p.74). Existing literature emphasizes that firm performance may be enhanced or diminished depending on the nature of a home country's institutional environment (McGahan and Victer, 2010, Goldszmidt et al., 2011).
Home Country Institutions

In EEs, the institutional environment of the home country can determine the ability and willingness of domestic firms to invest abroad (Buckley et al., 2007). It is thought to have a strong impact on firm performance (Wan and Hoskisson, 2003, Luo et al., 2010). The government intervention is one of the core elements of the institutional environment in EEs. The government plays a substantial role in as much as it defines, diffuses, or enforces prevailing norms and requirements of acceptable firm conduct (Oliver, 1991). For EEs, firms who are embedded in supportive institutional environments are more likely to benefit from differentially supportive polices and this could be reflected in their firm performance. Also, supportive institutional environments help to gain or deepen new and existing capabilities so as to facilitate the development of competitive capabilities and to achieve better firm performance (Chan et al., 2010). Therefore, it is expected that EEs firms operating in a supportive home country’s institutional environment are more likely to achieve better performance. The above arguments lead to the following hypothesis:

H6a: There is a positive relationship between a home country's institutional supports and firm performance.
Institutions also include intermediary organizations. Professional associations can be seen as institutional actors that help shape the perceptions of managers and their responses to business opportunities (Nordqvist et al., 2010). For instance, industry associations assist firms through knowledge building, knowledge deployments and standard setting (Nordqvist et al., 2010). In firms’ internationalization, “links with domestic trade associations and professional bodies can provide intelligence on different markets and access to those markets for international operations” (Yiu et al., 2007, p. 524). Therefore, firms operating in institutions with supportive industry associations and intermediary organizations are expected to achieve better firm performance. The above arguments lead to the following hypothesis:

H6b: There is a positive relationship between a home country’s institutional supports at intermediary level and firm performance.

**Host Country Institutions**

Existing literature considers the impact of host country institutional environment on firms’ performance (Brouthers, 2002). When firms expand into a host country characterized as having weak or under-developed institutions, i.e. lack of reliable market information, an effective legal system
or an efficient bureaucracy, this can make transactions costly for the firms doing business there (Chan et al., 2008, Wu, 2013b, Wu, 2013a). Moreover, the costs of searching for relevant information in the host country can be very high because of the inefficient intermediaries (Wu, 2013a, North, 1990). Additionally, the inconsistent and unpredictable legal enforcement in less developed institutions can result in improper behaviour, such as a lack of a proficient legal system to ensure contract enforcement and to protect property rights (Wu, 2013b, Wu, 2013a). Firms must, therefore, commit substantial resources to dealing with local governments and non-governmental organizations. As a result, the high transaction costs and market information costs leave firms with less incentive to develop new products and, the more resources they allocate to dealing with those unintended matters, the less resources they have to contribute to product innovation (Wu, 2013a, Wu, 2013b).

In contrast, Child, Chung et al. (2003, p.243) suggest that “firms operating under more favourable external circumstances have a better chance of prospering.” A host country with a transparent, predictable, sound and well-enforced institutional environment will certainly attract EEs firms who are eager to avoid the institutional constraints and political hazards of the home country (Luo and Tung, 2007, Yamakawa et al., 2008). As discussed above, a well-developed institutional environment has strong legislative
enforcement to ensure the smooth operation of market transactions. Firms can also benefit from the advantages of well-developed institutions to access advanced technologies, to access the customer base, to learn sophisticated processes and product technology, and so to build up their own technological capabilities. The accumulated technological capabilities can then contribute to product innovation and firm performance (Wu, 2013b, Wu, 2013a). Furthermore, the research by (Beamish, 1993, Cavusgil and Zou, 1994) suggests that laws and pressure from the foreign government can play a significant role in increasing or reducing firm capacity and effectiveness. Positive attitudes and favourable policies toward foreign investors result in firms needing to expend fewer resources to counter government-induced discontinuities and hence they exhibit better firm performance (Child and Markóczy, 1993). Therefore, firms operating under a supportive host government environment expected to achieve better firm performance. The above arguments lead to the following hypothesis:

H7: A supportive host country’s institutional environment is positively related to firm performance.
5.3 Data and Methodology

5.3.1 Estimation Methods

The hypotheses were tested using the following equation to capture the determinants of firms’ performance.

\[
\text{Firms’ performance} = \gamma X_i + v_i \quad (1)
\]

Since exporting firms’ performance is unobserved, they are assumed to be functions of firm (f), industry (i) and country-level (c) variables as outlined in the hypotheses. \(X\) is a matrix of the relevant explanatory variables measured at three levels. \(\gamma\) is a parameter to be estimated. The distribution of the error term (v) is assumed to be bivariate normal. The firms’ performance is estimated using the OLS regression model.

5.3.2 Sample and Data Collection

Data used in this chapter is mainly from the questionnaire survey collected by the Chinese Academy of Social Sciences (CASS) and the All-China Federation of Industry and Commerce (ACFIC) in 2008, as used in chapter 3. Data for industry variables are obtained from China Industry Economy Statistical Yearbook 2008. As explained in the previous chapter, both of CASS and ACFIC are government agencies; the former is the largest government-funded
research institute of social science and the latter is the largest association of firms in China. There are advantages and disadvantages associated with collecting data by cooperating with government agencies. However, CASS and ACFIC are public institutes and they are playing an important role in facilitating communication between firms and administrative authorities; both are reputable, with extensive experience in conducting surveys and collaborating with international institutes. There are strong reasons to believe in the quality of the data collected by them. In the survey, firms were asked to provide certain information during the period 2004 to 2007. For this study, there is sufficient data for us to employ a pooled cross-section analysis.

5.3.3 Variable Measurements

Two measures of dependent variable are used in this study: return on assets (ROA) and return on sales (ROS). Existing literature has established ROA and ROS as well accepted performance measurements (e.g. Luo and Peng, 1999, Camisón and Villar-López, 2010, Gao et al., 2008). In this study, ROA is the logarithm transformation of net income divided by total assets, adjusted by the producer price index. ROS is the logarithm transformation of net income divided by total sales, adjusted by the producer price index.

This study includes entry mode as an independent firm-level variable to reflect the impact of firm level strategy on performance. Entry mode (EM)
corresponds to that used in Hypothesis 1. It is a dummy variable, with 1 indicating exporting firms who engage in outward FDI and 0 otherwise.

TBC, brands and international experience, corresponds to that used in Hypotheses 2-4. As in the previous empirical study, TBC is measured by three items. Firms were asked to evaluate whether or not: (1) they have the capacity to produce unique products and services; (2) their products and technologies cannot be easily imitated by their competitors; (3) their customers cannot easily switch to another supplier. Principal-component factor analysis is used to extract a factor to reflect a firm's technological capability. Brands is measured by using the question in the questionnaire asking whether the firm owns internationally registered brand names. The term International Experience (Exports yr) is measured as the number of years since the firm starting exporting.

Following the existing literature, this study includes the firm-level control variables that are important in a firm's internationalization. Age is measured by the number of years since it was founded, similar to Yiu, Lau et al. (2007). For Motivations (MO) the respondents were asked, on a five-point scale (1=not important, 5=very important), to assess the motives for the firms' internationalization in terms of (1) local market seeking, (2) global market share and (3) avoiding domestic competition. Principal-component factor
analysis is used to extract a factor to reflect a firm’s market motives in their internationalization path.

At the industry level, I consider the Industry R&D as an independent variable to test Hypothesis 5. The industry R&D is measured by the R&D expenditure of the industry in which firms operate.

At the country level, the impact of home and host country's institutional environments are corresponding to Hypotheses 6a, 6b and 7. To measure home country’s institutional environment, this study takes into account the support from both the home government and the industry associations and intermediary organizations. The home country’s Supportive Government Policies (Homegov), followed by Lu et al., (2011), are measured by five items that assess the extent to which a firm can easily (i) access bank loans, (ii) get investment insurance, (iii) access ‘going abroad’ seeding-funds for small-medium enterprises from the government, (iv) get overseas investment tax reduction, and (v) get foreign currency. The survey asked the respondent to evaluate these items on a 5-point scale (1=very difficult, 5=very easy). The principal-component factor analysis is used to extract a factor to reflect the home country’s government policies. This study uses firms’ perception of Institutional Support at the intermediate level. Firms were asked whether or not, in their internationalization process, industry associations and
intermediary organizations had provided relevant services, with 1 indicating yes and 0 otherwise. As argued by Santangelo and Meyer (2011), the subjectivity of perceptual measures can be an advantage because it is the decision-makers’ views of their environment that influence their decision-making process. To measure Host Country’s Institutional Environment (Hostgov) the respondents were asked, on a five-point scale (1=not important, 5=very important), to evaluate the importance of a host country's policies for a firm's internationalization.

5.3.4 Non-response Bias Test and Common Method Variance (CMV)

To assess potential non-response bias, I compare the respondents and the original sample with respect to the number of employees and the age of the firm. The t statistics were statistically insignificant suggesting that there are no significant differences between these two groups. Thus non-response bias is unlikely to be a significant problem. Since the data was collected from the same respondents of an organization, that may create a CMV bias problem, creating a false internal consistency. Several methods of control for CMV are employed in this study (Podsakoff et al., 2003, Podsakoff and Organ, 1986). First, the dependent, independent and control variables are not similar in content. Second, the dependent variable, ROA and ROS can be independently
verified from other sources through calculation. Third, I test this potential problem by conducting the Harmon's factor test and all the measurement items are loaded into an exploratory factor analysis (Podsakoff et al., 2003). The results show that the largest factor explains only 18.018% of the total variance, indicating that CMV is unlikely to be a major concern in this study.

5.4 Research Findings

5.4.1 Descriptive Analysis

Table 8 shows descriptive statistics and a correlation matrix for the main variables. All correlation coefficients are low except for age and international experience. I further check the variance inflation factors (VIF) scores. The mean VIF is 1.21 with no single VIF score greater than 1.47 which is less than the threshold level of 10, suggesting that multicollinearity is not a serious issue.
Table 8 - Descriptive Statistics

<table>
<thead>
<tr>
<th>Feature</th>
<th>Mean</th>
<th>S.D</th>
<th>EM</th>
<th>TBC</th>
<th>Brands</th>
<th>Exports_yr</th>
<th>Industry R&amp;D</th>
<th>Homegov</th>
<th>Institutional Support</th>
<th>Hostgov</th>
<th>Age</th>
<th>MO</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM</td>
<td>0.1192288</td>
<td>0.3241398</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TBC</td>
<td>0.0041724</td>
<td>0.9919934</td>
<td>-0.0091</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brands</td>
<td>0.2648544</td>
<td>0.4413413</td>
<td>0.2107</td>
<td>-0.007</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports_yr</td>
<td>5.119476</td>
<td>6.897837</td>
<td>0.0933</td>
<td>-0.1047</td>
<td>0.2626</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry R&amp;D</td>
<td>8.994537</td>
<td>1.248742</td>
<td>-0.1969</td>
<td>0.0324</td>
<td>-0.0142</td>
<td>0.0689</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homegov</td>
<td>-0.001918</td>
<td>1.009998</td>
<td>-0.0574</td>
<td>0.1604</td>
<td>-0.0142</td>
<td>-0.0259</td>
<td>-0.0077</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Support</td>
<td>0.6470588</td>
<td>0.4780358</td>
<td>0.0546</td>
<td>0.0826</td>
<td>0.2094</td>
<td>0.0222</td>
<td>-0.0405</td>
<td>-0.0616</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hostgov</td>
<td>3.476723</td>
<td>1.315163</td>
<td>-0.0397</td>
<td>0.0589</td>
<td>-0.0239</td>
<td>-0.0346</td>
<td>0.0476</td>
<td>0.2497</td>
<td>0.1374</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>8.736009</td>
<td>7.64285</td>
<td>0.0784</td>
<td>-0.1123</td>
<td>0.4298</td>
<td>0.5126</td>
<td>0.2332</td>
<td>0.0215</td>
<td>0.1236</td>
<td>0.0052</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>MO</td>
<td>0.0083618</td>
<td>0.8055177</td>
<td>0.1717</td>
<td>0.1374</td>
<td>0.1029</td>
<td>0.0944</td>
<td>-0.0626</td>
<td>0.2011</td>
<td>-0.0807</td>
<td>0.2887</td>
<td>-0.0151</td>
<td>1</td>
</tr>
</tbody>
</table>
5.4.2 Econometric Results

Table 9 presents the estimation results. Models 1 and 2 contain all variables that are related to hypotheses developed in Section 5.2. I use $R^2$ for model-fit. The figures are 0.120 and 0.158 respectively, which are to be expected for cross-sectional survey analysis and are comparable to other studies of Chinese firms’ internationalization using survey data, e.g. Duanmu (2012), Yiu, Lau et al. (2007) and Lu, Liu et al. (2011), and those using cross-sectional data, e.g. Wang, Hong et al.(2012).
Table 9 - Regression Results

<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>ROS</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM</td>
<td>0.083</td>
<td>0.164</td>
</tr>
<tr>
<td></td>
<td>[0.114]</td>
<td>[0.104]</td>
</tr>
<tr>
<td>TBC</td>
<td>0.154***</td>
<td>0.173***</td>
</tr>
<tr>
<td></td>
<td>[0.051]</td>
<td>[0.046]</td>
</tr>
<tr>
<td>Brands</td>
<td>0.305***</td>
<td>0.163*</td>
</tr>
<tr>
<td></td>
<td>[0.102]</td>
<td>[0.093]</td>
</tr>
<tr>
<td>Exports_yr</td>
<td>-0.008</td>
<td>-0.007</td>
</tr>
<tr>
<td></td>
<td>[0.009]</td>
<td>[0.008]</td>
</tr>
<tr>
<td>Industry R&amp;D</td>
<td>0.094**</td>
<td>0.161***</td>
</tr>
<tr>
<td></td>
<td>[0.044]</td>
<td>[0.040]</td>
</tr>
<tr>
<td>Homegov</td>
<td>-0.109**</td>
<td>-0.190***</td>
</tr>
<tr>
<td></td>
<td>[0.048]</td>
<td>[0.044]</td>
</tr>
<tr>
<td>Institutional Support</td>
<td>-0.012</td>
<td>-0.108</td>
</tr>
<tr>
<td></td>
<td>[0.102]</td>
<td>[0.092]</td>
</tr>
<tr>
<td>Hostgov</td>
<td>-0.132***</td>
<td>-0.095**</td>
</tr>
<tr>
<td></td>
<td>[0.041]</td>
<td>[0.037]</td>
</tr>
<tr>
<td>Age</td>
<td>0.021***</td>
<td>0.023***</td>
</tr>
<tr>
<td></td>
<td>[0.008]</td>
<td>[0.007]</td>
</tr>
<tr>
<td>MO</td>
<td>0.064</td>
<td>0.120*</td>
</tr>
<tr>
<td></td>
<td>[0.069]</td>
<td>[0.062]</td>
</tr>
<tr>
<td>N</td>
<td>472</td>
<td>472</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.120</td>
<td>0.158</td>
</tr>
</tbody>
</table>

Standard errors in brackets $p<0.10$, $^*p<0.05$, $^{**}p<0.01$
I can now turn to the results. For firm-level strategy, the coefficients on entry mode (EM) are positive and statistically insignificant. Thus, Hypothesis 1 is not supported. At the firm-level, the coefficients on TBC and Brands are positive and statistically significant, thus Hypotheses 2 and 3 are supported. For international experience (Exports_yr), the coefficients on models 1 and 2 are showing negative signs and are statistically insignificant. Thus, Hypothesis 4 is not supported. Two firm-level control variables are age and firm motivations. Firm age is positive and statistically significant. The coefficients on motivations (MO) are showing positive signs and it is marginally significant in model 2.

Industry R&D is captured as an industry-level variable. The coefficients on industry R&D appear to be positive and are statistically significant in both models, thus providing support to Hypothesis 5.

At the country level, the coefficients for a home country’s institutions from supportive government policies (Homegov) show negative signs and are statistically significant in both models, thus contradicting to the Hypothesis 6a. For institutional support at the intermediate level of the home country, the coefficients are negative and statistically insignificant in both models; thus Hypothesis 6b is not supported. The coefficients for a host country’s institutional environment (Hostgov) are negative and are statistically significant in both models. Hypothesis 7 is therefore contradict to the predication and it is
not supported.

### 5.4.3 Robustness Check

I use alternative measures for international experience and industry R&D to further check the robustness of the results. For international experience, it is measured by the ratio of a firm’s exports to sales (e.g. Lu et al., 2011, Wei et al., 2014). The industry R&D is reflected by the total number of R&D personal in the industry. The results are broadly consistent with those presented in Table 9, though sometimes the coefficients of entry mode become marginally significant.

### 5.5 Discussion

I conduct a multi-dimensional analysis of how entry mode, firm-level factors, industry conditions and institutional contexts determine firm performance. Firms adopted different entry mode strategies and it is expected that the most appropriate entry mode strategy provided the best return on investment (Brouthers, 2002). However, the regression results are not in line with the theoretical prediction. The insignificant results indicate that exporting firms with OFDI do not perform better than those without OFDI. This is not surprising as anecdotal evidence shows that many Chinese firms with OFDI have been making losses in the host country (e.g. Deng, 2010). This is also in line with the findings of the previous empirical chapter, that exporting firms employ OFDI to
seek complementary and strategic resources/assets, not to improve firm performance.

From the resource-based view, strategic assets are important firm-specific resources and deeply rooted in organizations. The TBC has a complex and tacit nature making it difficult to imitate by other competitive rivals. The findings of this study are consistent with the existing literature (e.g. Aw and Batra, 1998; Acha, 2000; Lee et al., 2001; Tsai, 2004; Ortega, 2010), confirming that firms who possess superior TBC enjoy better performance compared to those without. Furthermore, the possession of domestically developed TBC is an indication of having absorptive capacity in technological learning which provides a base for knowledge innovations and could lead to the upgrade of existing products through redesign/redevelopment. This can also help the firm to target new markets and earn profits. For instance, Lu et al.(2011) took the view that domestically developed TBC has enabled Chinese firms, like Lenovo and Haier, to grow absorptive capacity to learn superior technologies from developed countries, which is a factor in better performance.

The findings associated with brands are consistent with the theoretical prediction, that is, firms possessing brands achieve better performance than those without. As discussed above, well-established brands put firms in a better position to compete with rivals because they are perceived as producing high
quality products in the mind of consumers (Morgan and Rego, 2009), they are more responsive to the marketing effects (Srivastava et al., 1998) and they have a deep and meaningful relationship with customers and channels (Srivastava et al., 1998, Park et al., 2013). These advantages can help to attract more consumers, reduce price sensitivity, attain price premium, reduce advertising and sales costs and build up customers and channels’ loyalty, thus enhancing firm performance.

Theoretically it is expected that international experience is an important predictor for firm performance (e.g. Gao et al., 2008, Luo and Peng, 1999, Carlsson et al., 2005); thus firms with more international experience are more likely to achieve better performance than those with less experience. But the variable is statistically insignificant. The possible explanation is that the measure used may fail to capture the real contextual link to the international experience. For instance, firms’ international experience may lead to different levels of learning about foreign markets (Delios and Henisz, 2003), therefore it is important to move beyond the aggregate measure of international experience (Delios and Henisz, 2003, Gao et al., 2008). Furthermore, the extent to which the depth and type of international experience can affect firm performance is unclear. Further studies may address this issue and can provide a new context by classifying different types of international experience and using more detailed measures to examine the impact of international experience.
R&D intensity of an industry positively affects firm performance. As a general policy, governments should build up national innovation system and make more R&D investment into important industries and support firms in R&D intensive industries upgrade their technological capabilities and performance. Governments should encourage R&D and original innovations by both indigenous and foreign firms in order to enhance the R&D intensity of Chinese industries. Moreover, governments should help industries build up networks with government institutions and R&D/educational institutions to enlarge the knowledge pool and promote information sharing (Chen, 2003). This is important as R&D intensive industries and firms in these industries can affect the national economy and global competitiveness of the country significantly as China relies heavily on R&D intensive industries to attract FDI, absorb technological spillovers, boost exports and develop indigenous knowledge and technological base (Gachino, 2006, Schaaper, 2009). This is also a compulsory step for China to become an innovative nation. For firms, engaging in R&D intensive product development and introduction is beneficial as the technological spillovers within the R&D intensive industries produced by both foreign firms and indigenous pioneers and the interactions of firms with the organizations outside the R&D intensive industries can significantly enhance firms’ capability of developing new products, promoting the features and performance of products and improve returns of firms (Blomström and Kokko,
Therefore, firms should upgrade their R&D strategies and increase their R&D inputs including R&D expenditure and personnel in order to stay in R&D intensive industries and enjoy the technological spillovers associated. They should try to acquire information and knowledge through interacting with both foreign firms and indigenous pioneers, government institutions and educational institutions to enhance their knowledge and technological base, which may significantly improve the performance of their products and returns from investments (Gachino, 2006).

The literature has emphasised that firm performance may be beneficially or adversely affected by home country's institutional environment (McGahan and Victer, 2010, Goldszmidt et al., 2011). The supportive home country's institutional environment is expected to contribute to firm performance and vice-versa. The findings are not in line with the theoretical prediction, indicating that a home country’s institutional support has a negative impact on firm performance. The possible explanation is that, despite being supportive and encouraging, some institutions in a home country may not be quite efficient. This is especially true for EE firms like China. In order to boost economic growth and implement the ‘go global’ strategy, China has set up various formal institutions, aiming to provide support and assistance for firms (Dunning and Lundan, 2008a). The setting up of these supportive institutions is one thing, while, whether or not they can be efficiently and effectively used in practice is
another thing. For example, the efficiency of law enforcement, the efficiency of financing to firms, the complexity of government policies and the effectiveness of higher education can all somehow affect the level of firm performance as the above formal institutions of a home country are closely related to the costs, opportunities and incentives of business activities (Zhu et al., 2012). Thereby, a seemingly supportive home country's institutions may be supportive on the surface, but inefficient underneath, which may negatively affect firm performance.

The findings at the home country’s intermediate level are found to be negative and statistically insignificant. Industry associations and intermediary organizations act as an important role in firms’ internationalization (Buckley et al., 2008, Cui and Jiang, 2010, Deng, 2004, Wang et al., 2012, Yiu et al., 2007). However, in EEs in general, and Chinese firms in particular, intermediary institutional supports went to SOEs mostly. Therefore, for POEs, intermediary institutional support may not directly reflect the firm performance, but links with industry associations and intermediary organizations may enable POE firms to gain intelligence on different markets (Yiu et al., 2007) and reduce information asymmetry and uncertainty about foreign markets.

In terms of a host country’s institutional environment, it has been suggested that a well-established institutional environment helps to reduce information
asymmetries, ensures transparency and contract enforcements, and allows for smooth market transactions. Firms who are operating under the favourable host country's institutional environment are more likely to benefit from the institutional advantages, to access the advanced technologies and to build up technological capabilities, thus expecting to achieve better firm performance (e.g. Wu, 2013a, Wu, 2013b). However, the findings are contradicting my theoretical prediction. The possible reasons for the negative relationship is the measurement (survey question) may be too broad, thus failing to reflect the intended context, that is the relationship between specific policy or a series of host government policies and firm performance. Further studies may take this point into account. This may also reflect the fact, that’s for the strategic asset-seeking EMFs, the host countries may be reluctant to let indigenous firms which hold the strategic assets to have deep contact with these EMFs despite the local institutions are supportive for OFDI entry. This is due to the fact that the strategic assets that EMFs are seeking form the competitive advantages of indigenous firms and the competitiveness of the host country, therefore, the host country’s institutions, despite being supportive, may set up barriers and restrictions on the business activities of strategic-asset-seeking EMFs (Griffin and Pustay, 2007), resulting in the negative firm performance of these firms.
5.6 Conclusion

This chapter explores a largely neglected issue related to factors affecting firms’ performance originating from EEs. Adopting an integrated framework that combines the entry mode and strategic tripod framework, I have empirically examined the determinants of firm performance using a unique dataset for Chinese POEs. The findings suggest the importance of internal characteristics including TBC, brands, industry conditions including industry R&D, and institutional factors including home and host country’s institutional environment, to firm performance.

The findings have practical implications for managers and policy makers. First, it is clear that internal resources and capabilities are important for firms’ internationalization and significantly affect firms’ performance. In particular, TBC and brands are necessary conditions under which firms aim to achieve better performance. Second, R&D intensity of an industry positively affects firm performance. Governments should build up national innovation system and make more R&D investment into important industries and support firms in R&D intensive industries upgrade their technological capabilities and performance. Governments should encourage R&D and original innovations by both indigenous and foreign firms in order to enhance the R&D intensity of Chinese
industries. Firms should upgrade their R&D strategies and increase their R&D inputs including R&D expenditure and personnel in order to stay in R&D intensive industries and enjoy the technological spillovers associated. Third, firm performance is not only driven by firm characteristics and industry conditions, but also affected by home and host country’s institutional environments. Firm performance is determined by whether government policies, in both home and host nations, create favourable conditions. In other words transparent, predictable, sound and well-enforced rules, regulations and policies can enhance firms’ performance.

This study has a few limitations. First, due to data availability, industry factors in the host countries are not included in the research design. In particular, the industry competition pressures of host countries should be incorporated, thus providing a more comprehensive view of how industry conditions, both at home and in host countries, influence firm performance. Second, as discussed above, further research on international experience should be more specific and be linked to the context, so as to assess the relationship between different types of international experiences and firm performance. Third, this study focuses on POEs only, further research should compare and contrast SOEs and POEs and investigate to what extent the factors affect performance differently. Fourth, due to data availability, this study does not take into account the impact of export strategy on firm performance. The literature emphasizes the importance of
export strategy. For instance, Aaby and Slater (1989)’s “strategic export model” emphasizes that a firm’s competences and strategy have positive and significant impact on their performance. However, the empirical results are mixed. The research of Zou and Stan (1998), amongst others, suggests that any specific exporting strategy, including concentration or diversification, first mover or follower, tends to have an insignificant impact on performance. Further research may take into account this point to identify whether an appropriate export strategy can improve firm performance so as to add more value to the research.
Chapter 6: Conclusion

6.1 Introduction

This chapter concludes the major findings of this thesis, acknowledges its research limitations, lists the practical implications for managers and policy makers and points out possible future research. The section 6.2 reviews the main findings of this study. Section 6.3 presents the major contribution of this study. Section 6.4 considers the limitations and proposes possible future research. Section 6.5 provides a list of the implications to managers and policy makers.

6.2 Summary of Major Findings

This thesis looks at the internationalization of Chinese firms. Given that China’s OFDI has become one of the major contributors to the World FDI outflows and its increasing power in the World economy, this thesis aims to provide us a much richer picture by examining the determinants of entry mode transformation from exporting only to include OFDI (chapter 3), investigating the nature of the specific strategic resources that are sought by Chinese acquirers and looking at the strategy that is undertaken by Chinese acquirers in managing post-integration (chapter 4), and inspecting whether firms that used
hybrid entry mode (a combination of exporting and OFDI) perform better than exporting only ones (chapter 5).

The first empirical chapter (chapter 3) aims to answer what are the factors giving rise to the OFDI decision, after exporting, and what determines the volume of OFDI flows (VFDI). To answer these questions this study employs a recent survey of Chinese privately-owned enterprises and adopts a multi-dimensional approach based on productivity heterogeneity theory (Greenaway and Kneller, 2007) and the integrated ‘strategic tripod’ framework (Peng et al., 2008) to examine the roles of internal factors, industry conditions and institutional environments in the entry mode transformation of Chinese exporting firms. The results from the econometric analysis are largely consistent with previous empirical findings. It has been found that internal factors, including productivity, technological capabilities and export experience, and industry conditions, including entry barriers, subnational institutions and intermediate institutional support, have a significant impact on firms’ entry mode transformation.

The second empirical study (chapter 4) addresses two questions: 1) what specific strategic resources are important for Chinese acquirers and 2) whether a partnering approach is a viable strategy for securing these strategic assets. To answer these questions, this study draws on multiple case studies of Chinese
firms’ CBMAs. The findings reveal that, possessed with resource advantages, in terms of domestic developed technological know-how and abundant international experience, Chinese firms are likely to engage in CBMAs to seek the well-known brands, advanced technologies, established distribution networks and management know-how possessed by their DEs’ counterparts. Moreover, the aim of the CBMAs is to achieve complementarity between the Chinese parent firms and the foreign target firms, with the Chinese intending to access the strategic resources possessed by their DEs’ counterparts and the foreign firms utilizing the firm-resource advantages possessed by the Chinese. It is clear that, for Chinese firms, being the new players in international markets, a partnering approach is a viable strategy to secure strategic resources, to reduce unintended consequences of traditional integration, and to maintain foreign entities.

The third empirical chapter (chapter 5) aims to answer whether exporting firms with OFDI perform better than those without. This research, drawing on the entry mode literature and the strategic tripod framework, examines how firm performance is influenced by firm, industry and country-level factors. This study adopts the same survey data as the first empirical chapter. The findings confirm that exporting firms that also use OFDI make no significant gain in firm performance. Other explanatory variables are strategic assets, including technology-based capabilities and brands, at the firm-level, industry R&D at the
industry-level and home and host country's institutions supports at the country-level, which all have effects on firm performance.

6.3 Research Contributions

In this thesis, I have systematically examined the neglected issue of entry mode transformation from exporting to OFDI (chapter 3). This not only enriches our understanding of Chinese firms’ internationalization path, and the underlying determinants, but also contributes to the existing literature rather than just focusing on the traditional comparison between WOSs and JVs (Cui and Jiang, 2009, Cui and Jiang, 2010, Cui et al., 2011). This study is one of the first to apply the productivity heterogeneity theory in an analytical framework in the Chinese context. However, the theory is not found to be supported and that means Chinese POEs’ entry mode transformation cannot be adequately explained by productivity. This may also reflect the importance of adopting multi-dimensional analysis. Moreover, this study considers the impact of subnational institutional factors to firms’ outward internationalization strategy, thus broadening the institution-based view in the strategic tripod framework by recognising the subnational-institutional variation across Chinese regions.

In Chapter 4, to the best of my knowledge, this study is one of the first to study the partnering approach in Chinese firms’ CBMAs. This study proposes that
Chinese firms are more likely to adopt a partnering approach in managing post-integration rather than traditional full integration. Given their strategic motives in acquiring well-known brands, advanced technology, well established distribution networks and management know-how, the findings reveal that the partnering approach can help Chinese firms to successfully secure these strategic resources. In other words, the partnering approach is in line with Chinese firms’ strategic motives and it is a viable strategy for their foreign acquisitions.

In chapter 5, previous research focuses on entry mode and firm performance, comparing JVs versus WOSs (Chen and Hu, 2002, Brouthers, 2002, Brouthers et al., 2003, Brouthers and Nakos, 2004, Brouthers et al., 2008, Woodcock et al., 1994); but little research considers the performance impact of exporting only versus a hybrid mode of exporting and OFDI. To the best of my knowledge, this study is one of the first to formally link the impacts of entry mode (exporting only versus a hybrid mode of exporting and OFDI) to firm performance in the Chinese POEs’ context. Furthermore, given that existing research lacks a comprehensive theoretical base (Aulakh et al., 2000, Morgan et al., 2004), this study contributes to the existing literature by considering the intuitional impacts at both home and host country level to firm performance, and also integrates with the firm and industry level factors.
6.4 Research Limitations and Further Research Recommendations

The research limitations should be acknowledged, considering reliability and validity issues. This thesis has employed empirical tests (chapters 3 and 5) as well as in-depth multiple-case (chapter 4) analysis research methods. For research Q1 and Q3 (see 1.2 - Research Objectives and Questions), they employ the same survey data, so they have the same issue related to data availability and measurement validity.

First, due to data availability, industry factors and institutional contextual factors are not included in the research design (Q1 and Q3). Future studies should examine the impact of such factors (e.g. the industry competition, customer needs, industry life cycle, location attractiveness of host countries) to enrich our understanding of the OFDI decisions of Chinese firms and examine how these factors can influence firm performance. Also, another set of variables at the firm level includes senior executives 'global leadership', entrepreneurship and networks which may be taken into account for future research.

Second, for research Q1 and Q3, they have followed the existing literature to measure the impact of international experience. However, such a measure may not fully reflect the fact that firms may engage in internationalization in various
ways, such as using their own distribution networks or doing contracted manufacturing/OEM. In chapter 3 (Q1), it has been found that exporting firms with more accumulated export experience are more likely to expand to OFDI and undertake more VFDI. Following that logic, the accumulated export experience can help firms in various ways and they are expected to achieve better firm performance. However, in chapter 5 (Q3), the empirical findings are statistically insignificant, indicating that there is no significant relationship between international experience and firm performance. Firms may learn different types of skills from various international operations, but to what extent and what types of international experience can affect firm performance is unclear. Future studies are awaited examining the impact of international experience gained through a variety of channels through different measurements.

Third, for research Q1 and Q3, Peng et al. (2008) suggest paying attention to the interactions among firm resources, industry dynamics and institutional factors. For example, firms are motivated to gain or enhance their legitimacy and performance by becoming isomorphic within their industry and institutions. They, therefore, adjust FSRs and implement strategy accordingly in response to the competitive pressure of the industrial environment and institutional change. Industrial and institutional forces can promote or hinder the further development of existing FSRs and capabilities and the access to new strategic
assets. A deeper level of internationalization might be warranted by the interplay between a firm’s internal resources and industrial and institutional factors. An extension to these studies, therefore, could explore how the interaction among firms, industries and institutions influences firms’ strategic decisions and could address the contingency impact of these factors on internal capabilities in shaping firms’ internationalization strategies and performance.

Fourth, institutional support at the intermediate level is a perceptual measure in research Q1 and Q3, but perceptual measures can be an advantage, providing a link to the context which will provide a much richer description. Further studies may take into account this point so as to enhance the explanatory power. Furthermore, for research Q1, industry entry barriers is measured based on managers’ perception of whether it is difficult for new entrants to enter the industry in which their firms operate. This is a broad measure. Future studies should also examine the impact of entry barriers.

Fifth, for research Q3, further research may also take into account the export strategy that is employed by firms, given it has significant impacts, either positively or negatively, on firm performance.

Sixth, for research Q2 (chapter 4), this study only looks at the Chinese manufacturing firms; further research should expand the research context in
EEs and include more foreign acquisitions across different industries. Because firms may have different motives in different industries and may also vary in different nations, they may adopt different strategies in managing post-integration. Furthermore, this study proposes that a partnering approach can help Chinese firms to secure the strategic assets they need, but is inconclusive as to whether a partnering approach can lead to better firm performance. Further studies should address this issue and take into account the impact of a partnering approach on firm performance. Additionally, it is better to include both subjective and objective measures of firm performance because some invisible effects cannot be captured from financial indicators alone.

### 6.5 Research Implications

This thesis has some important implications for managers and policy makers. First, according to the empirical results, it is clear that significant internal resources and capabilities provide the confidence for firms to undertake internationalization, and the possession of these resources can lead to better firm performance. Therefore, it is important for firms’ to leverage, utilize and develop their internal resources and capabilities. To improve firms’ capabilities, firms are recommended to offer employees effective training. Secondly, the empirical analysis shows that firms’ internationalization is not only driven by
internal resources and capabilities and industry conditions but is also a reflection of institutional frameworks. Firms’ performance therefore hinges on the institutional environment they experience. The government needs to ensure transparent, predictable, sound and well-enforced rules, regulations and policies in order to reduce interference and provide sufficient institutional supports for firms’ internationalization.
## Appendix

### Appendix 1: Thirty Largest Companies ranked by OFDI stock

<table>
<thead>
<tr>
<th>No</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>China National Mobile</td>
<td>China Mobile</td>
<td>China National</td>
<td>China National</td>
<td>Aluminium</td>
<td>China</td>
<td>China National</td>
<td>China National</td>
</tr>
<tr>
<td></td>
<td>Offshore Oil Corp.</td>
<td>Communications Corporation</td>
<td>Offshore Oil Corp.</td>
<td>Offshore Oil Corp.</td>
<td>Corporation of China</td>
<td>Petrochemical Corp.</td>
<td>Offshore Oil Corp.</td>
<td>Offshore Oil Corp.</td>
</tr>
<tr>
<td>---</td>
<td>------------------</td>
<td>-----------------------------</td>
<td>------------------</td>
<td>------------------</td>
<td>----------------------</td>
<td>---------------------</td>
<td>------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>4</td>
<td>China Resources (Holdings) Co. Ltd</td>
<td>China Resources (Holdings) Co. Ltd</td>
<td>China Resources (Holdings) Co. Ltd</td>
<td>China Ocean Shipping (Group) Company</td>
<td>China Resources (Holdings) Co. Ltd</td>
<td>Aluminium Corporation of China Ltd</td>
<td>China Resources (Holdings) Co. Ltd</td>
<td>China Mobile Communications Corporation</td>
</tr>
<tr>
<td>5</td>
<td>COSCO</td>
<td>COSCO</td>
<td>China Mobile Communications Corporation</td>
<td>China Resources (Holdings) Co. Ltd</td>
<td>China Ocean Shipping (Group) Company</td>
<td>China Resources (Holdings) Co. Ltd</td>
<td>China Ocean Shipping (Group) Company</td>
<td>China Resources (Holdings) Co. Ltd</td>
</tr>
<tr>
<td>6</td>
<td>CITIC Group</td>
<td>SINOPEC</td>
<td>COSCO</td>
<td>CITIC Group</td>
<td>China National Offshore Oil Shipping (Group) Company</td>
<td>China Ocean Shipping (Group) Company</td>
<td>China National Cereal, Oil and Foodstuff Corp. Company</td>
<td>China Ocean Shipping (Group) Company</td>
</tr>
<tr>
<td>7</td>
<td>SINOPEC</td>
<td>CITIC Group</td>
<td>CITIC Group</td>
<td>China National</td>
<td>China National</td>
<td>China National</td>
<td>Aluminium</td>
<td>China Minmetals</td>
</tr>
<tr>
<td>Page</td>
<td>Company Name 1</td>
<td>Company Name 2</td>
<td>Company Name 3</td>
<td>Company Name 4</td>
<td>Company Name 5</td>
<td>Company Name 6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>----------------</td>
<td>----------------</td>
<td>----------------</td>
<td>----------------</td>
<td>----------------</td>
<td>----------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>China Telecom</td>
<td>China Merchant Group</td>
<td>China National Cereal, Oil and Foodstuff Corp.</td>
<td>China Mobile Communications Corporation</td>
<td>SinoChem Corporation</td>
<td>SinoChem Corporation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Guangdong and Hong Kong Investment</td>
<td>China National Cereal, Oil and Foodstuff</td>
<td>China Merchants Group</td>
<td>SinoChem Corporation</td>
<td>CITIC Group</td>
<td>China Merchants Group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>China Merchants Group</td>
<td>China State Construction Corp.</td>
<td>SinoChem Corporation</td>
<td>China Merchants Group</td>
<td>China National Aviation Holding Corporation</td>
<td>China Unicom Corporation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>China NetCom</td>
<td>China National Aviation</td>
<td>China State Construction and Shum Yip Holdings</td>
<td>SinoSteel Corporation</td>
<td>China Shipping (Group)</td>
<td>China State Construction Corporation</td>
<td>China Unicom Corporation</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Engineering Company Limited</td>
<td>Engineering Corporation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>-------------------------------</td>
<td>-------------------------</td>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>China State Construction Corp.</td>
<td>China Telecom</td>
<td>China National Aviation</td>
<td>China Shipping (Group)</td>
<td>SinoSteel Corporation</td>
<td>China Minmetals Corporation</td>
<td>CITIC Group</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Lenovo Holding Corporation</td>
<td>SinoChem Corporation</td>
<td>China Telecom</td>
<td>China National Aviation Holding Corporation</td>
<td>China National Aviation Holding Corporation</td>
<td>SINOTRANS Changjiang National Shipping (Group) Corporation</td>
<td>China National Aviation Holding Corporation</td>
<td>China State Construction Engineering Corporation</td>
</tr>
<tr>
<td>14</td>
<td>China National Aviation</td>
<td>China NetCom</td>
<td>China Shipping</td>
<td>China National Chemical Corporation</td>
<td>China Minmetals Corporation</td>
<td>China Minmetals Corporation</td>
<td>SINOTRANS Changjiang National Corporation</td>
<td>China National Chemical Corporation</td>
</tr>
<tr>
<td>No.</td>
<td>Company Name</td>
<td>Subsidiary 1</td>
<td>Subsidiary 2</td>
<td>Subsidiary 3</td>
<td>Subsidiary 4</td>
<td>Subsidiary 5</td>
<td>Subsidiary 6</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>-----------------------------------</td>
<td>----------------------------</td>
<td>----------------------------</td>
<td>----------------------------</td>
<td>----------------------------</td>
<td>----------------------------</td>
<td>----------------------------</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>China Power Investment Corporation</td>
<td>China Shipping</td>
<td>China NetCom</td>
<td>China State Construction Engineering Corporation</td>
<td>China National Chemical Corporation</td>
<td>CITIC Group</td>
<td>SinoSteel Corporation</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>China Minmetals</td>
<td>Guangdong and Hong Kong Investment</td>
<td>GDH Limited</td>
<td>SinoSteel Corporation</td>
<td>China State Construction Engineering Corporation</td>
<td>China Unicom Corporation</td>
<td>CITIC Group</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>China National Cereal, Oil and Foodstuff Corp.</td>
<td>Shum Yip Holdings Company Limited</td>
<td>Shanghai Automotive Industry Corp.</td>
<td>Aluminum Corporation of China</td>
<td>China Huaneng Group</td>
<td>China Power Investment Corporation</td>
<td>China Huaneng Group</td>
<td>SINOTRANS Changjiang National Shipping (Group) Corporation</td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------------------------</td>
<td>-----------------------------------</td>
<td>----------------------------------</td>
<td>-----------------------------</td>
<td>---------------------</td>
<td>---------------------------------</td>
<td>---------------------</td>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>18</td>
<td>China Shipping</td>
<td>Lenovo Holding</td>
<td>China National Chemical Corporation</td>
<td>GDH Limited</td>
<td>China Unicom Corporation</td>
<td>China Huaneng Group</td>
<td>China Mobile Communications Corporation</td>
<td>China Shipping (Group) Company</td>
</tr>
<tr>
<td>19</td>
<td>Sino Transportation Group</td>
<td>China Power Investment Corporation</td>
<td>China Minmetals Corporation</td>
<td>China Minmetals Corporation</td>
<td>Shum Yip Holdings Company</td>
<td>China National Chemical Corporation</td>
<td>China Metallurgical Group Cop.</td>
<td>China Huaneng Group</td>
</tr>
<tr>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Company Name</td>
<td>Company Name</td>
<td>Company Name</td>
<td>Company Name</td>
<td>Company Name</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------------</td>
<td>-------------------------------------</td>
<td>-------------------------------------</td>
<td>-------------------------------------</td>
<td>-------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Shanghai Automotive Industry Corp.</td>
<td>China Minmetals</td>
<td>Lenovo Holding</td>
<td>CITS Group Corporation</td>
<td>Legend Holdings Ltd</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>China Mobile Communications Corporation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>China Huaneng Group</td>
<td>Sino Transportation Group</td>
<td>Shum Yip Holdings</td>
<td>Shanghai Automotive Industry Corp.</td>
<td>China National Travel Service Group (HK) Corporation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>China Metallurgical Group Corporation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Beijing Orient Electrics Group</td>
<td>TCL</td>
<td>China National Foreign Trade</td>
<td>Legend Holdings Ltd</td>
<td>GDH Limited</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Transportation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Shum Yip Holdings Company Limited</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>ZTE Corporation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>China World Best Group</td>
<td>Beijing Orient Electrics Group</td>
<td>Huawei Technologies</td>
<td>China Power Investment</td>
<td>China National Foreign Trade Ltd</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Legend Holdings Ltd</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Hunan Valin Iron &amp; Steel (Group)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>State Grid Corporation of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TCL Group</td>
<td>China Huaneng Group</td>
<td>Shanghai Haier Group</td>
<td>China Metallurgical Group Cop.</td>
<td>Hunan Valin Iron &amp;Steel (Group) Co. Ltd</td>
<td>Geely Holding Group</td>
<td>Legend Holdings Ltd</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>-----------</td>
<td>---------------------</td>
<td>----------------------</td>
<td>-------------------------------</td>
<td>---------------------------------------</td>
<td>-------------------</td>
<td>-------------------</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Guangdong Hangyun Group</td>
<td>China Poly Group</td>
<td>China Huaneng Metallurgical Group Cop.</td>
<td>Huawei Technologies</td>
<td>GDH Limited</td>
<td>Legend Holdings Ltd</td>
<td>China Power Investment Corporation</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Shanghai Baosteel Group Corporation</td>
<td>Shanghai SinoSteel Group Corporation</td>
<td>Guangzhou Yuexiu Holdings Limited</td>
<td>Shanghai Baosteel Group Corporation</td>
<td>Huawei Technologies</td>
<td>Shum Yip Holdings Company Limited</td>
<td>Huawei Technologies</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----</td>
<td>-------------------------</td>
<td>-----------------------</td>
<td>------------------------------</td>
<td>---------------------------------------------</td>
<td>----------------------------------</td>
<td>-------------------------------------------------</td>
<td>-------------------------------------------------</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>30</td>
<td>China Road and Bridge Corp.</td>
<td>China North Industries Group Corporation</td>
<td>Haier Group</td>
<td>ZTE Corporation</td>
<td>State Grid Corporation of China</td>
<td>Shanghai Baosteel Group Corporation</td>
<td>GDH Limited</td>
<td>Yanzhou Coal Mining Company Limited</td>
</tr>
</tbody>
</table>
# Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACFIC</td>
<td>All-China Federation of Industry and Commerce</td>
</tr>
<tr>
<td>CASS</td>
<td>Chinese Academy of Social Sciences</td>
</tr>
<tr>
<td>CBMAs</td>
<td>Cross-Border Mergers and Acquisitions</td>
</tr>
<tr>
<td>CMNEs</td>
<td>Chinese Multinational Enterprises (MNEs)</td>
</tr>
<tr>
<td>CMV</td>
<td>Common Method Variance</td>
</tr>
<tr>
<td>COAs</td>
<td>Comparative Ownership Advantages</td>
</tr>
<tr>
<td>CSRs</td>
<td>Country Specific Resource</td>
</tr>
<tr>
<td>DE</td>
<td>Developed Economy</td>
</tr>
<tr>
<td>EE</td>
<td>Emerging Economy</td>
</tr>
<tr>
<td>EIBC</td>
<td>Export-Import Bank of China</td>
</tr>
<tr>
<td>EMNE</td>
<td>Emerging Multinational Enterprise</td>
</tr>
<tr>
<td>EMFs</td>
<td>Emerging Market Firms</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FPI</td>
<td>Foreign Portfolio Investment</td>
</tr>
<tr>
<td>FSRs</td>
<td>Firm Specific Assets/Resources</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GNP</td>
<td>Gross National Product</td>
</tr>
<tr>
<td>IB</td>
<td>International Business</td>
</tr>
<tr>
<td>IBV</td>
<td>Industry-Based View</td>
</tr>
<tr>
<td>IDP</td>
<td>Investment Development Path</td>
</tr>
<tr>
<td>IJVs</td>
<td>International Joint Ventures</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IMNEs</td>
<td>Indian Multinational Enterprises (MNEs)</td>
</tr>
<tr>
<td>IPRP</td>
<td>Intellectual Property Rights Protection</td>
</tr>
<tr>
<td>IT</td>
<td>Institutional Theory</td>
</tr>
<tr>
<td>JVs</td>
<td>Joint Ventures</td>
</tr>
<tr>
<td>LLL</td>
<td>Linkage-Leverage-Learning</td>
</tr>
<tr>
<td>M&amp;As</td>
<td>Mergers and Acquisitions</td>
</tr>
<tr>
<td>MNE</td>
<td>Multinational Enterprise</td>
</tr>
<tr>
<td>MOFCOM</td>
<td>Ministry of Commerce</td>
</tr>
<tr>
<td>NDRC</td>
<td>National Development and Reform Commission</td>
</tr>
<tr>
<td>NERI</td>
<td>National Economic Research Institution</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OEM</td>
<td>Original Equipment Manufacturer/Manufacturing</td>
</tr>
<tr>
<td>OFDI</td>
<td>Outward Foreign Direct Investment</td>
</tr>
<tr>
<td>OLI</td>
<td>Ownership, Location and Internalization</td>
</tr>
<tr>
<td>POEs</td>
<td>Privately-Owned Enterprises</td>
</tr>
<tr>
<td>RBV</td>
<td>Resource-Based View</td>
</tr>
<tr>
<td>RGI</td>
<td>Reduction in Government Interference</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
</tr>
<tr>
<td>ROS</td>
<td>Return on Sales</td>
</tr>
<tr>
<td>RRU</td>
<td>Reduction in Regulatory Uncertainty</td>
</tr>
<tr>
<td>SAFE</td>
<td>State Administration for Foreign Exchange</td>
</tr>
<tr>
<td>SETC</td>
<td>State Economic and Trade Commission</td>
</tr>
<tr>
<td>SOEs</td>
<td>State-Owned Enterprises</td>
</tr>
<tr>
<td>TBC</td>
<td>Technology-Based Capability</td>
</tr>
<tr>
<td>TC</td>
<td>Transaction Cost Theory</td>
</tr>
<tr>
<td>TFP</td>
<td>Total Factor Productivity</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>VIF</td>
<td>Variance Inflation Factors</td>
</tr>
<tr>
<td>VRIN</td>
<td>Valuable, Rare, Inimitable and Non-substitutable</td>
</tr>
<tr>
<td>WIR</td>
<td>World Investment Report</td>
</tr>
<tr>
<td>WOSs</td>
<td>Wholly-Owned Subsidiaries</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
References


CHEN, T.-J. 2003. Network Resources for Internationalization: The Case of
Taiwan's Electronics Firms. *Journal of Management Studies*, 40, 1107-1130.


McKinsey Quarterly, 34, 8-12.


DUYSTERS, G., JACOB, J., LEMMENS, C. & JINTIAN, Y. 2009. Internationalization


GAMMELGAARD, J., MCDONALD, F., STEPHAN, A., T SELMANN, H. & D RRENB
CHER, C. 2012. The Impact of Increases in Subsidiary Autonomy and Network

Subsidiaries: Influences of Cumulative Experience. *Management International
Review*, 48, 749-769.

GAO, L. & LIU, X. 2012. The Internationalization of Chinese Stata-Owned
STOYANOVA, V. (eds.) International Business: New Challenges, New Forms, New

GAO, L., LIU, X. & ZOU, H. 2012. The role of human mobility in promoting
forthcoming.

manufacturers: The case of Galanz. *Asia Pacific Journal of Management*, 25,
667-683.

GIRMA, S., G RG, H. & STROB, E. 2004. Exports, International Investment, and
Plant Performance: Evidence from a Non-Parametric Test. *Economics Letters*, 83,
317-324.


GLOBERMAN, S. & SHAPIRO, D. 2009. Economic and strategic considerations


International Review, 46, 439-459.


JICK, T. D. 1979. Mixing Qualitative and Quantitative Methods: Triangulation in Action Qualitative Methodology, 24, 602-611.


KALE, P. & SINGH, H. 2009. Managing Strategic Alliances: What Do We Know Now, and Where Do We Go From Here? Academy of Management Perspectives, 23,


235


MATHEW, J. 2013. China Steps Up Farmland, Oil and Mining Assets Acquisitions Abroad *International Business Times*.


OECD 2008. *OECD Benchmark Definition of Foreign Direct Investment*, OECD


241


