The internationalization of emerging market firms: motivations and approaches.

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ABSTRACT

In spite of the growing international presence of companies from different emerging economies, most studies on firms internationalization are still grounded in the paradigms of Western countries. Most of them refer only to outward-oriented activities and do not take into account the so-called inward internationalization. It seems then important to analyze more in-depth these two issues with particular reference to the context of an emerging economy such as the one of China. The determination of Chinese firms to address their initial international competitive weaknesses, and the strategies they employ to do so, appear to have been inadequately recognized in the mainstream literature that remains too wedded to the thesis that internationalization proceeds on the basis of prior competitive advantage (Child and Rodriguez, 2005). This traditional view in fact gives insufficient weight to the role of both ‘inward’ and ‘outward’ internationalization in addressing competitive disadvantages through learning and asset acquisition. The purpose of this study is to analyze the unique motivations and routes to internationalization among private owned Chinese firms and to assess how inward internationalization may be linked to outward-oriented one. Using a qualitative methodology based on multiple case studies, the research will contribute to existing literature by combining some elements of the mainstream theories on the field of IB with a new perspective emerging from the analysis of Chinese private-owned firms routes to internationalization. The opportunity for an extension of the existing theoretical frameworks will be considered. The present work will also lead to a better understanding of their competitive position and relationships with foreigners within the international context.
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INTRODUCTION

Firms’ international operations and strategies have been an area of wide research interest in international business for decades. Recently the rise of companies from developing countries in a variety of industries is one of the characterizing features of globalization. In particular, the dominant economies of Europe and North America are increasingly being challenged by firms from emerging markets (EM), defined as those low-income, high-growth nations principally reliant on economic liberalization for their growth (Strategic Entrepreneurship Journal, 2011). The recognition of this economic shift toward emerging countries, such as People’s Republic of China (PRC), India, Brazil, Russia, South Africa, etc., is represented by the significant internationalization of their firms in terms of: greater participation in international trade, growing outflows of foreign direct investment (FDI) and intense cross-border mergers and acquisition activities. As noted by the World Investment Report 2008 and 2010, flows of outward FDI from developing and transition economies rose from about $6 billion in the period 1989–1991 (about 2.7% of global outward flows) to $253 billion for 2007 and to $229 billion for 2009 (nearly 25% of global outflows). The stock of outward FDI from developing countries rose from around $145 billion in 1990 to $2288 billion in 2007 (about 8% of global stock of FDI in 1990 to 14.6% of global stock in 2007). FDI inflows to developing and transition economies amount to $548 billion for 2009 (nearly 50% of global outflows). The following figure illustrates their shares in global FDI inflows and outflows.

**Figure 1.** Shares of developing and transition economies in global FDI inflows/outflows, 2000-2009 (Per cent)

Source: UNCTAD (2010)
Within this broad trend, the growing internationalization of firms from a fast-growing country, such as PRC, is particularly notable. This is understandable in the light of the fact that China has absorbed huge amounts of inward foreign direct investment and it remains one of the most popular destination for FDI in the world, as report by the United Nations Conference on Trade and Development (UNCTAD, 2010). Moreover, of the top 15 most popular FDI destinations, nine are developing countries. Brazil, Russia and India all made the top five.

The “2010-2012 World Investment Prospects Survey” released by the 2010 UNCTAD World Investment Forum (WIF), shows that for the next two years China will likely remain the largest destination of FDI worldwide and at the same time will become the second largest country for outbound direct investment (ODI), next only to the United States. In Appendix 1 it is possible to find some tables illustrating the Global FDI inflows and outflows of Top 20 economies.

Moreover, exports have been a central feature of the growth of the Chinese economy over the last three decades and, more recently also outward FDI from domestic firms has grown rapidly. Morck et al. (2008) explain that outward FDI flows from China were around $22.5 billion in 2007 and that the stock of Chinese outward FDI grew steadily, from $4.5 billion in 1990 to $96 billion in 2007. One of the characteristics of Chinese investments are that they are directed both towards other developing countries and towards advanced economies and that they regard both lower-end industries and high-value adding activities.

Chinese multinationals are represented also in the top 100 global brands published by The Financial Times with 12 Chinese brands, such as China Mobile, Bank of China, Baidu, etc., and dominating the Asia Top 10 with eight entries (Hille, 2011).

In spite of this growing international presence, it seems that most studies on firms internationalization1 are still grounded in the paradigms of Western countries. As noted by Liu et al. (2008), the research on the internationalization process is overwhelmingly focused on firms from developed economies such as Europe, North America, Australia or New Zealand. It appears that there is much less research on firm internationalization from an emerging country’s perspective. To fill this research gap several Special Issues

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1 At this stage in the research, internationalization will be generally defined as a “multidimensional phenomenon” which involves on the one hand the geographical expansion of economic activities over a national country’s border and on the other a process of mobilizing, accumulating and developing resource stocks for international activities.

Within the phenomenon of firms’ internationalization, the aim of this work is to analyze how emerging markets’ (EM) firms, with particular reference to People’s Republic of China, may follow quite different patterns to expand overseas and reach a global competitiveness.

Firms from emerging markets are becoming significant global players but the processes through which these latecomers catch up with existing multinational firms need to be further investigated.

The main research questions are the following:

1. what are the motivations behind their internationalization?
2. how inward internationalization may be linked to outward-oriented one?
3. how existing theoretical frameworks on firm’s internationalization can be extended?

Specifically, the extant internationalization theories, including the Ownership–Location–Internalization (OLI) Model and the Internationalization process theory (IPT) are questioned concerning not only their relevance for latecomers firms but also their validity for any company in the context of globalization (Coviello, 2006; Li, 2007). The OLI Model has been particularly challenged by a growing body of research on MNE latecomers especially from emerging countries in East Asia (Athreye & Kapur, 2009; Child and Rodriguez, 2005; Li, 1994, 2003; Mathews, 2002, 2006; Yeung, 1994). The reason is that, typically, these companies tend to have limited technological and ownership advantages to exploit abroad. Rather, their internationalization activity reflects the attempts to acquire strategic assets, such as new technologies and brands, and to secure access to raw materials and distribution networks (Athreye & Kapur, 2009).

2 This latecomer position is due to the fact that EM firms have started internationalization very late compared to firms from advanced economies. For this reason they suffer from competitive disadvantages relative to MNE early-movers.
The purpose of this work is to explore more in depth the starting point, motivations and routes characterizing the internationalization of Chinese firms with the aim of improving existing knowledge by providing a typology that outlines their patterns of international expansion.

Moreover, the analysis plays particular attention on one aspect of internationalization: the inward-oriented side (Coviello and Jones, 2005; Jones, 1999; Welch and Luostarinen, 1988). International exchange in fact is a two-sided coin, involving exporters and importers, but in literature, most attention is focused on outward-oriented operations such as exporting and FDI and there are few studies on inward oriented activities that, however, are also included in the internationalization of businesses (Karlsen et al. 2003).

The idea is that firms can internationalize also by inward activities, such as importing of goods, finance and technology; establishing buying offices overseas, becoming a franchisee or a licensee for a foreign company, being the joint venture partner with an overseas firm in its domestic market or producing semi-finished or end product (OEM3) for a large foreign company (Fletcher, 2001). This is a list of what may happen when firms pursue strategic alliances, countertrade, cooperative manufacturing or international projects (Fletcher, 2008).

A systematic search of the academic literature reveals an imbalance: while exporter’s behavior has been extensively studied, importer’s one remains a largely neglected area of study, even though importers are playing an important (often dominant) role in consummating trade transactions (Liang and Parkhe, 1997). However, given the growing movements toward strategic alliances and other forms of collaboration in IB, the role of the connection between inward and outward linkages in internationalization is an important element to analyze (Karlsen et al., 2003; Korhonen et al., 1996; Welch and Luostarinen, 1993). For instance, in the case of emerging markets firms, the cumulative benefits of inward FDI have apparently fostered and helped accelerate subsequent outward FDI by Chinese MNEs (Child & Rodrigues, 2005; Deng, 2010), requiring much scholarly inquiry. In line with this assumption, several recent studies

3 OEM stands for: original equipment manufacturing
analyze more closely the inward internationalization routes (Child and Rodriguez, 2005; Li, 2003, 2007, 2010; Yadong and Tung, 2007; ) and other acknowledge that there is a link between inward and outward activities (Karlsen et al., 2003; Knight and Kim, 2009; Korhonen et al. 1996).

An additional important finding is that the experience deriving from importing has both a direct and indirect effect on later exporting, because it does not only reduce cultural differences, provide knowledge and contacts, but it makes managers more confident and proactive.

In particular, the recognition of such connection is relevant also for policy makers because they are concerned with companies’ internationalization as a way to improve the balance of payments’ position of their countries. In spite of that, the major focus is usually put on the outward side, providing support, marketing assistance, trade representatives in foreign markets, while the inward process is neglected because more difficult to justify. However, attempts by governments to improve international performance need to be seen not only in terms of actions and results on the outward side, but also on the inward side in order to encourage positive connections between the two (Korhonen et al., 1996).

By combining these two streams of research: the internationalization of EM firms and inward-oriented internationalization, it seems possible to extend existing literature and contribute to a more holistic understanding of the internationalization phenomenon.

As this research focuses on an area of research relatively less known and the researcher is engaged more in a theory-building type of approach, case study appears an appropriate method to employ (Ghauri, 2004). In particular a multiple-case study research design is used because it is more robust than a single case study (Yin, 1994) and three cases have been selected.

In order to increase the validity of the study multiple sources of evidence have been employed and the pattern matching logic (Yin, 2007), in which patterns of data are related to the theoretical propositions, guided our analysis.

The thesis is structured as follows. First a review of the definition of the term internationalization is presented. In literature in fact it is difficult to find an agreement on this and several aspects, such as the so called inward side of the phenomenon has been not considered properly.
The following step deals with the review of the internationalization theories which is conducted at different levels. First, the analysis is at a macro-level and it clarifies the existing alternative perspectives on internationalization, which can be summarized as follows:

1. market perspective;
2. firm perspective;
3. individual perspective.

Each of them identifies alternative approaches to the study of the internationalization phenomenon:

1. economic;
2. process;
3. international entrepreneurship.

Each of these “schools” identifies specific theories on firms’ internationalization.

The review of the traditional theories on firms’ internationalization is very important because the approaches to internationalization identified lead to the definition of alternatives “routes” to internationalization, which means different patterns of internationalization strategies.

The review continues then with the exploration of two under searched issues: inward oriented internationalization and the international expansion of EM firms. The combination of elements from these two streams of studies leads to the definition of a conceptual model on the internationalization of EM firms that guided the empirical research. As explained above the work adopt a qualitative research methodology based on multiple-case studies of Chinese firms, the analysis of their internationalization represents the way for comparing the main elements of our proposed framework of internationalization derived from literature with our multiple cases to “confirm, challenge or extend the theory” (Yin, 2003, p. 40). Finally the contributions to internationalization literature and implications for research are outlined at the end.
CHAPTER I – Definition of Internationalization

1.1 Definition of the internationalization phenomenon

A general agreement on the definition of the phenomenon is difficult to find in literature (Anderson, 1997). In fact, as noted by Welch and Luostarinen (1993), although the term is widely used it needs some clarification. For this reason, a review on what is meant by “internationalization” is essential before proceeding with the discussion of relevant theories.

Firms’ internationalization is a complex phenomenon and as explained by Ruzzier at al. (2006) it started in the 1920s by replacing imperialism as the dominant organization principle framing the interaction between different countries. The authors provide a broad definition as “a synonym for the geographical expansion of economic activities over a national country’s border” (Ruzzier et al., 2006, p.477). In literature, significant studies on this field date back to the late 1950s and 1960s and they were characterized by a more “economic” perspective. Since the mid 1970s a process approach has been developed and more recently an “entrepreneurial” perspective emerged within the literature.

The aim of this first part of the work is to illustrate the evolution of the concept of internationalization by analyzing alternative definitions among these perspectives. In particular by studying this development, it will be possible to identify the main approaches and theories on firm internationalization, discussed in the next chapter.

From an economic view, internationalization is considered a pattern of investment in foreign markets explained by rational economic analysis of internalization, ownership and location advantages (Williamson, 1975; Dunning 1988 in Coviello and McAuley, 1999). An alternative interpretation, drawing on the work of Johanson & Wiedersheim-Paul (1975) is the one of internationalization as a process. The term international may refer to “either an attitude of the firms toward foreign activities or to the actual carrying out of activities abroad” (Johanson & Wiedersheim-Paul, 1975, p.306) and, starting from this idea, internationalization is a process described by the interaction between attitudes and actual behaviors.
The seminal contributions by Johanson and Vahlne (1977, 1990) define the concept as a gradual learning and resource commitment process, according to which companies develop their international activities in a step-wise fashion determined by gradual international expansion and aversion to risk taking. Within this approach internationalization is "a process in which the enterprise gradually increases its international involvement. This process evolves in the interplay between the development of knowledge about foreign markets and operations on one hand and increasing commitment of resources to foreign markets on the other" (Johanson and Vahlne, 1990, p. 11). These studies illustrate internationalization as a gradual, sequential process through different stages, with the firm increasing its commitment to international operations as it proceeded through the stages. In particular, by focusing on firms’ entry into different foreign countries, Andersen (1993) reviews the internationalization process of firms and presents an alternative perspective on the phenomenon as a process of innovation of the company.

These traditional views, however, have in common a mechanistic and deterministic view of internationalization as made of a series of sequential steps or stages that a firm must follow (Hollensen, 2004). Moreover, in general, the term "Internationalization" is here employed to describe the outward movement in a firm's international operations (Turnbull, 1987), without taking into account also these types of activities. Importing, licensing, franchising represent a way of gaining knowledge of foreign markets and international business practices leading to and influencing later outward activities, and they are not explicitly considered in the definitions illustrated so far (Andersen, 1993, 1997; Bilkey and Tesar, 1977; Cavusgil, 1980; Johanson & Vahlne, 1977, 1990; Reid, 1981).

In order to take into account also these inward activities, Welch and Luostarinen (1988, p.36), offer the following definition: "the process of increasing involvement in international operations". This is more extensive than the previous ones because it refers to both inward and outward growth and illustrates that the two are interrelated (Huszagh and Huszagh, 1986; Khoury, 1984). The merits of Welch and Luostarinen's (1988) definition have been recognized by others because it is concise and readily interpretable (Young, 1990) and sufficiently holistic to take account of the multiple factors associated with international expansion (Morgan & Katsikeas, 1997). Also in this case, the phenomenon is associated with increasing involvement in foreign markets, however the definition explains more adequately the reality of internationalization in today’s
environment and the fact that “it is not only outward-driven but also inward driven and linked” (Fletcher, 2001, p.954). The work of Welch and Luostarinen (1988) looking at both sides of the process stresses what they call the inward-outward interconnection, using countertrade and subcontracting to illustrate how success in outward growth is tied with inward performance. As explained by Fletcher (2001), in this perspective internationalization can be seen as a matter of outward activities leading to inward activities and vice versa.

Moreover, a further improvement in the definition is given by Calof and Beamish (1995) who consider also that sometimes a firm may drop a product, sell a foreign production plant, or downsize its international operations. Internationalization may then take the form of de-investment and a much broader definition is offered: "the process of adapting firms' operations (strategy, structure, resource, etc.) to international environments" (Calof and Beamish, 1995, p.116). As noted by Chetty (1999) this means that the process is not continuous and do not develop incrementally over time because de-internationalization can occur at any stage.

Another important contribution comes from authors adopting a network perspective and focusing on the set of relationships in which the company is embedded. In this context, internationalization is seen as a “cumulative process in which relationships are continually established, maintained, developed, broken and dissolved in order to achieve the objective of the firm” (Johanson and Mattsson, 1993, p. 306). According to this view it seems possible to describe internationalization as a process of developing networks of business relationships in other countries. This is consistent with Lehtinen and Penttinen (1999) who maintain that internationalization concerns the relationships between the firm and the international environment and is concretely manifested in the development of different international activities primarily inward, outward and cooperative operations. As it possible to see, the authors have included in their definition a more complete and extensive range of behaviors and operations in line with Welch and Luostarinen (1988).

The definitions illustrated so far, have in common the focus on identifying and describing the behavioral processes underlying internationalization at a firm level. Most recently, the international new venture approaches have emerged (Dana et al., 1999; Arenius, 2002), as an attempt to explain early or rapid internationalization, and the
born-global approaches (Rennie, 1993), more concerned with identifying and describing the behavioral processes phenomenon. These streams of research has in common with previous studies the foundational element represented by behavioral processes (Coviello and Jones, 2005; Wright and Ricks, 1994) but the main construct has been reconceptualized as “an entrepreneurial process of behavior” (Coviello and Jones, 2005, p.285).

In particular, drawing from McDougall and Oviatt (2000, p. 903), we refer to “innovative, proactive and risk-seeking behaviors that crosses national borders”. As it possible to understand this new definition is based on the intersection between research on entrepreneurship and internationalization and stresses the importance of the personal traits an role of the entrepreneur in pursuing opportunities. For this reason the new area, emerged from the seminal works of McDougall and Oviatt (1994, 2000), have been defined “international entrepreneurship” and applied also to explain SMEs’ internationalization.

This discussion on the definition leads to the emergence of at least three different perspectives on firms’ internationalization: market/economic, behavioral (process-based or relationship-based) and entrepreneurship. Except for the early view focused on foreign investment, the others have in common the idea of internationalization as a process of behaviors leading to a firm’s (increasing) involvement in international operations. This process, however, may not be “gradual”, based on incremental steps and commitment to foreign markets, or continuous (Chetty, 1999) and limited to outward activities. For the purpose of this research a more broad definition will be adopted and internationalization will be considered as a “two-ways” process of expansion of firms’ activities across national borders. This is in line with the “process-view” outlined above and, moreover, both inward and outward flows are included in the study giving the possibility to extend the research beyond the traditional mechanism of internationalization based on outward operations.

1.2 Dimensions of Internationalization

Having defined firms’ internationalization as a dynamic process, it is important to stress that it is also a multidimensional phenomenon (Chetty, 1999; Coviello and Jones, 2005;
Ruzzier et al. 2006, 2007; Welch and Luostarinen, 1988, 1993) associated with, and perhaps dependent upon, the development of different elements. Ruzzier et al. (2007) identify the following dimensions:

1. **Operation.** Root (1994) defines an international market entry mode as an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management, or other resources into a foreign country. The choice of the entry method is one the most significant international marketing decisions and it represents an important way of assessing the pattern of internationalization. Due to the dynamic nature of the process, alternative modes and different combinations are employed, and this is also reflected in different classifications. Hollensen (2004), drawing on Root (1994) and depending on the level of control and resource commitment identifies three main categories: *export entry modes*; *intermediate entry modes*; *hierarchical (investment) entry modes*.

2. **Market.** Geographical distance, differences in terms of dimension, culture and institutions affect firms’ choice of the target market and the direction of international activities. In particular this choice has been explained employing the concept of “psychic” distance defined as “a sum of factors that prevent the flow of information between firm and the market” (Johanson and Vahlne, 1990, p.13) and including different dimensions such as political, environmental and cultural factors (Johanson and Weidersheim-Paul, 1975).

3. **Product.** This dimension for a manufacturing firm can be described as composed by (Luostarinen, 1979 in Ruzzier et al. 2007): physical goods, services, know-how and systems. When a firm is expanding overseas, central issues concern: product standardization, the adaptation of promotion in different contexts and the expansion within an existing or into a new product line, etc.

4. **Time.** Internationalization is a “time-sensitive process” (Coviello and McAuley, 1999, p.248) made up of a series of events occurring at specific points of time. It is then essential to consider it as a primary dimension of internationalization (Coviello and Jones, 2005). Moreover it represents a bridge between the firms that evolve gradually from domestic to international (Johanson and Vahlne, 1977; Johanson and Weidersheim-Paul, 1975) and new ventures or born global firms that start their international activities soon after their inception (McDougall and Oviatt, 1994, 1995; Rennie, 1993).
5. Performance. Two of the most frequently used measures are export intensity (proportion of total sales exported) and export sales growth (Aaby and Slater, 1989). However even if they are simple and easy to define, if considered alone they provide very little information about the nature of firms’ international expansion.

The above mentioned factors need to be considered altogether in order to derive an overview of the state of internationalization of a company and to measure its degree of internationalization (Welch and Luostarinen, 1988). Moreover, their analysis allows also to make comparison between different companies (Chetty, 1999; Ruzzier et al. 2007).

Alternative lists of dimensions may be found in other studies, in particular if we refer to the work of Coviello and Jones (2005), the primary dimensions are:

1. time. It is considered a key element also in other works (Anderson, 1993, 1997; Coviello and Jones, 2004; Ruzzier et al., 2006, 2007) and it refers to: time taken to start international activity; speed at which international activities develop.

2. Behavior. It is represented as “an accumulation of actions or events in relation to time” (Jones and Coviello, 2005, p. 289) and includes: modes of cross-border activities; selection of foreign countries; time at which it occurs.

By comparing this list with the one elaborated by Ruzzier et al. (2007) it is possible to note that products are not mentioned. In fact, as argued by Coviello and Jones (2005), the products, services and resources transferred to foreign countries should not be used to explain internationalization patterns because they are “an evidence that the process has taken places” (Coviello and Jones, 2005, p. 291).

Concerning the entry mode choice and the selection of the target country, they are key strategic decisions in relation to a firm’s internationalization (Andersen, 1993, 1997) and, moreover, they are observable characteristics of internationalization (Andersen, 1997).

In particular the mode choice is a critical dimension since the entry technique will influence the rest of the marketing programme (Chee and Harris, 1998) and firm performance.

For the purpose of this work, the attention will be focused mainly on the following dimension: the “mode of transference” (Coviello and Jones, 2005, p. 291) with
particular reference to inward and cooperative modes (Coviello and Jones, 2005; Jones, 1999; Welch and Luostarinen, 1988).

Very few studies exist on types of inward operations and on the connection between inward and outward activities in the internationalization process of a firm (Karlsen et al., 2003; Korhonen et al., 1996; Welch and Luostarinen, 1993).

The following paragraph presents a possible classification of the modes of internationalization in order to illustrate the range of alternatives available to a company entering a foreign market.

**1.3 Dimensions of Internationalization: “the mode of transference”**

The purpose of this paragraph is to present shortly the possible foreign market entry modes a company can choose to develop its internationalization strategy. Foreign market entry methods are the means of linking a company's product(s) to foreign market(s). A detailed definition is given by Root (1994) which describes them as institutional arrangements that makes possible the entry of products, technology, human skills, management, or other resources into a foreign country. A complete list of mode structures does not exist (Brouthers and Hennart, 2007) and within literature it is possible to find also several classifications of market entry modes, depending on the criteria (cost, risk, flexibility, level of commitment, level of ownership, etc.) considered. Hollensen (2004) in particular identifies three main categories:

- **export entry modes**: they occur when a company’s products are manufactured in the domestic market, or in a third country, and then transferred indirectly (through an independent organisation located in the producer’s country) or directly (when the manufacturer/exporter sells directly to an importer or buyer located in the foreign market) to the host market (Hollensen, 2004). This last category in particular includes the figure of the foreign agents and distributors;

- **intermediate entry modes**: they include a variety of arrangements, such as licensing, franchising, joint ventures and strategic alliances, which enables a company’s technology, skills and know-how to be transferred to a foreign market. In this way the domestic firm is enabled to enter markets when, for example, there are resource constraints or the countries are geographically
distant or there are tariffs or quotas which prevent entry of an exporter’s products (Hollensen, 2004);

- **hierarchical (investment) entry modes**: they occur when the domestic firm completely owns and controls the foreign entry mode (Hollensen, 2004). This category includes foreign sales branch, foreign sales subsidiaries and manufacturing subsidiaries.

The entry modes classified above, differ in the degrees of control, risk, flexibility and resource commitment to the foreign market (Hollensen, 2004).

Export modes for example are usually used in initial entry when companies have little or no experiential knowledge of foreign countries and markets and/or the perceived risks are high (as maintained by authors, such as Johanson and Vahlne, within the Incremental Internationalization school). This happens because exporting:

- allows companies to enter a target market in a less costly way;
- guarantees high degree of flexibility because of the limited commitment to foreign market.
- limits firm’s exposure to risks by restricting the resource commitments.

However the degree of control over foreign operations is low.

At the opposite, investment modes, which require more investment and involve high risk (a large amount of capital, in fact, is tied up in one market only), guarantee full control over foreign operations. This, however, leads to a loss of flexibility for the company because of the substantial equity investment and the heavy resource committed to foreign markets which create exit barriers. This means that company’s ability to change the chosen entry mode in a quick and easy way is limited (Hollensen, 2004).

Concerning intermediate entry modes risk, control and costs are shared with the other partner(s) but with joint ventures the degree of flexibility involved is lower than the one guaranteed by export modes because partners may be locked into a long-term investment from which it is difficult to withdraw (Hollensen, 2004). Therefore, it appears that the decision of the entry mode involves trade-offs between control and flexibility.
Figure 2 below illustrates the different characteristics such as flexibility, complexity, cost, level of control and of risk involved, of the alternative market entry modes.

**Figure 2. Different Characteristics of Alternative Entry Modes**

In particular it is possible to understand that as the involvement in the host market increases, the degree of control over foreign operations improves. This improvement, however, entails a cost which may be expressed as:

- increase of risks (market, political and economic) (Hollensen, 2004);
- increase of costs: the firm may have to absorb the costs of setting up an office, a company or manufacturing facilities abroad. Moreover fixed costs, such as office and storage facilities and permanent working capital needed to finance administrative/marketing overheads (Root, 1994), have to be taken into account;
- increase of management complexity (Hollensen, 2004);
• loss of flexibility for the company. In particular a withdrawal from a foreign market where the firm has established its own sales or production subsidiary, can be extremely costly, not only in terms of financial expenses but also in terms of reputation in the international and domestic market (Hollensen, 2004).

An alternative perspective sees entry modes as divided into two groups (Hennart and Brouthers, 2007): contracts (such as licensing, etc.) and equity (such as JV and wholly owned subsidiaries, WOS). The authors focus on the difference in the method chosen to remunerate the input provider and stress that the fundamental characteristic of equity is that input suppliers are paid \textit{ex-post} from the profits of the venture. While the difference between a JV and a WOS lies in the ownership side, the first presents a shared ownership, while the latter a full ownership.

The classification discussed so far, illustrates modes that allow a firm to pursue “outward internationalization” but does not address the issue of inward-oriented operations that represent also a route to expand the activities beyond national boundaries. Child and Rodrigues (2005) in order to take into account also this perspective, suggest the following routes toward internationalization:

• partnership through OEM or Joint venture;
• acquisition of foreign companies;
• organic expansion. It entails the greenfield establishment of subsidiaries and facilities within targeted markets.

These three modes emerge from the analysis of the routes taken by Chinese firms and the first point of this classification is a way for realizing inward internationalization. Mainland firms, in fact, entering into a partnership with foreign firms through OEM or licensing their technology are able to establish a close operational relationship with them, to strengthen their international competitiveness relevant to eventual “outward internationalization through exporting and/or investment” (Child and Rodriguez, 2005, p.390).

The following chapter presents a review on the theories on firms’ internationalization in order to get a more in-depth understanding of the range of a firm’s potential internationalization path. The chapter starts with the identification of the alternative
perspectives, existing in literature and leading to different approaches and routes of internationalization. This analysis is essential to understand the relation between a firm’s internationalization process and foreign market entry mode choice.
CHAPTER II – Approaches to Firms internationalization

The internationalization process of a firm may take a wide range of potential paths. There are general patterns of evolutionary development such as the ones described by the Nordic researchers (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 1990), or others more focused on the interaction and development of network relationships over time (Johanson and Mattsson, 1988).

This chapter presents an evaluation of the literature on firm’s internationalization with particular attention to the alternative theories developed to illustrate the phenomenon. The following steps guide the review:

1. identification of the different perspectives on firms’ internationalization;
2. alternative approaches developed by various authors in the literature;
3. most significant theories on firms’ internationalization.

The following Figure 3 illustrates these three different levels of analysis.

Figure 3. Levels of analysis of firm’s internationalization

The discussion ends with a summary of the key features of some of the most significant theories, evaluating for each of them the following characteristics:

1. unit of analysis;
2. basic assumptions;
3. explanatory variables;
4. implications;
5. weaknesses.
2.1 Perspectives on firms’ internationalization

Internationalization have been studied intensively over the last few decades from a wide range of different points of view. Therefore, the models found in literature can be seen as presenting alternative perspectives. Ruzzier et al. (2006), drawing on Ahokangas (1998), suggest the following three:

a) market;

b) firm;

c) individual.

The roots of the research within the first perspective are in the area of economic theories and international trade (Hecksher and Ohlin, 1991; Hymer, 1960; Vernon, 1966). Even if they provide some insights into internationalization they concentrate on international trade patterns and, as noted by Porter (1990), do not provide enough information to fully understand the development of firms’ international activities. Moreover, the studies deriving from this perspective focus mainly on the internationalization and diversification strategies of large firms (Ruzzier et al., 2006) and adopted multinational enterprises as unit of analysis (Morgan and Katsikeas, 1997).

The second perspective includes the bulk of available theories on internationalization and their main focus is on firms’ specific attributes. Among this perspective, two schools have been developed: (1) behavioral, internationalization is usually described as an internal process of incremental learning of the firm; (2) relationship, importance of the network of interorganizational and interpersonal relation in which a firm is embedded. While the first view tends to focus on factors influencing internationalization, the second has been more concerned with identifying and describing the behavioral processes underlying internationalization.

The last perspective focuses on individuals making strategic choices, and refers to more recent studies in the field of entrepreneurship and IB. The focus is on entrepreneurs and top managers playing an important role in defining a firm’s internationalization. A new research stream has been identified, the so called “International Entrepreneurship” as an intersection between international business and entrepreneurship literature (McDougall and Oviatt, 2000).
Having clarified that there are alternative perspectives underlying the research on firms’ internationalization, in the following paragraphs we will discuss the different approaches and theories.

2.2 Approaches and Theories on firms’ Internationalization

2.2.1 Economic Approaches
Among the first perspective we find the “economic approaches” assuming that internationalization decisions are a consequence of a rational analysis of, for example, transportation costs, tariffs and non tariff barriers, transaction costs, relative wages and market size (Anderson, 2004). These approaches “tend to emphasize rational and strategic decision-making criteria such as costs, investment, risk and control [and] they assume that foreign market entry decisions consist of discrete alternatives, and occur at specific and identified points in time” (Coviello and Jones, 2005, p.286).
Concerning specific theories and models, we usually refer to the ones developed in the late 1950s and 1960s, at the early stage of internationalization research, with a main focus on multinational companies and their international activity. The dominant theories includes: the monopolistic advantage theory (Hymer, 1976); the internalization theory (Buckley and Casson, 1976, 1993); the transaction-cost model (Williamson, 1985) and the eclectic paradigm (Dunning, 1988).

Monopolistic advantage theory
This theory refers to the seminal work of Hymer and with the publication of his doctoral thesis in 1976 in which he investigated why American corporations prefer to make FDI instead of making indirect investment such as portfolio investment. Hymer stated that the differences between portfolio investment and FDI is that FDI involves the transfer of a package of resources (such as management skills, technology, etc.) and not just finance capital. FDI, moreover do not involve change in the ownership of resources or rights transferred, while indirect investment, that are transacted through the market, requires such a change (Fleury and Fleury, 2011). Hymer (1976) concluded that firms, in order to own and control foreign facilities, must possess some forms of advantages in terms of innovation, marketing, cost, knowledge that cannot be acquired by other firms. The author refers to a sort of monopolistic advantage which is sufficient to
outweigh the disadvantages of competing with local firms based on the foreign market. The idea is that once a firm has developed a superior knowledge it can exploit this advantage overseas with no additional cost (McDougall and Oviatt, 1994). On the other hand local entrepreneurs will have to pay the full cost for developing this know-how and, even if they possess more local market knowledge, they cannot compete effectively with the foreign company.

A possible critique or comment to this approach is that FDI involves the transfer of competences, skills and resources to another country and, this raises some issues regarding the transfer of competence itself, not addressed by the model (Fleury and Fleury, 2011). Moreover the theory does not explain why foreign production is considered the most desirable means of harnessing the firm’s advantage (Morgan and Katsikeas, 1997).

**Internalization Theory**

Studies on this area treat the entry into a foreign market as a transaction (Anderson and Gatignon, 1986) and the issue to address is whether to rely on external market modes such as exporting or to internalize operations through FDI. The firm is represented by Buckley and Casson (1976) as an internalized bundle of resources which can be allocated between product groups, and between national markets. They analyze market-based versus firm-based solutions and explain that market entry involves two interdependent decisions on location and mode of control. On one side there is exporting, as a domestically located and administratively controlled strategy, then foreign licensing, foreign located and contractually controlled, and on the other side, FDI, foreign located and administratively controlled. This model was formalised by Buckley and Casson (1981), and empirically tested by Buckley and Pearce (1979), Contractor (1984) and others. As noted by Morgan and Katsikeas (1997), internalization theory centers the notion that firms aspire to develop their own internal markets whenever transactions can be made at a lower cost within the firm. The firm will continue in this direction until the benefits and costs of further internalization are equated to the margin (Buckley and Casson, 1993). Concerning the entry mode, an interesting point made by this approach is the inclusion of licensing as a means of reaching customers abroad, while for joint ventures to be included in the governance choices we have to wait until the mid 1980s. Some issues with this theory have been highlighted by Fisch (2008, p. 109), who noted that “internalizing markets may lead to
reduced economies of scale, problems of cross-border communication and discrimination by host governments”. The theory of transaction costs, presented in the following paragraph, further specify the conditions under which internalization may occur and suggests to internalize transactions that feature a high rate of repetition and that are surrounded by uncertainty and require specific investment.

*Transaction Cost Theory*

The foundation for this theory was made by Coase (1937) and it is closely related to the internalization perspective because both are concerned with the minimization of transaction costs and the conditions underlying market failure (Hollensen, 2004). Transaction costs emerge when markets fail to operate under the requirements of perfect competition and firms’ decisions are explained by the need to minimize such costs in order to define the most efficient governance mode. Transaction cost variables are concerned with the costs of integrating an operation within the firm as compared with the costs of using an external party to act for the firm in a foreign market. A company will continue to perform activities internally as long as it cannot buy the service or product on the free market at a lower price using outsiders’ know-how and advantages. The assumptions of the theory are “bounded rationality” and possible opportunism which provide the motivation for firms to economize on transaction costs by choosing the most appropriate governance structure: market governance *versus* internal organization (Malhotra, et al. 2003). The model has been further developed by Williamson (1985) and in his Transaction Cost Approach (TCA) he included the following three factors influencing firm boundary decisions and in particular vertical integration choices: asset specificity, uncertainty surrounding the exchange of resources between buyer and supplier and frequency of the economic exchange. In particular, if asset specificity is high, firms will integrate in order to retain control over the specific advantages offered to the market (Whitelock, 2002).

In general, these costs influence entry mode choice, and suggests that firms perceiving high transaction costs in a market seek internalization of activities and use FDI (through wholly owned subsidiaries) while firms perceiving low transaction costs tend to rely on the market and use independent outsiders (agents, distributors) or joint venture modes (Brouthers, 2002).
Then it is possible to understand that international market entry decisions are made in a rational manner, based on an analysis of the costs of transactions, and firms tend to internalize and integrate vertically in order to reduce them. In particular, transaction costs are composed of the costs of finding and negotiating with an appropriate partner, and the costs of monitoring the performance of the partner firm (Agarwal and Ramaswami, 1992). Hollensen (2004) presents a more detailed analysis and divides them into *ex ante costs* and *ex post costs*. The first include: *search costs* for gathering information to identify and evaluate potential export intermediaries; and *contracting costs* associated with the negotiation and writing of the agreement with the intermediary. *Ex post Costs* consist of *monitoring costs*, referred to monitoring the agreement and ensure that the export intermediary will fulfill the obligations; and *enforcement costs*, referred to the sanctioning of a trading partner who does not perform in accordance with the agreement. The basic assumption of the model is that firms will try to minimize the combination of such costs when undertaking a transaction (Hollensen, 2004).

Whitelock (2002), in his review on the theories of internationalization and their impact on market entry, explains that TCA is particularly useful in explaining how firms evaluate whether or not to establish a manufacturing subsidiary in a market abroad. In particular TCA is effective in illustrating vertical integration decisions and has been used to predict entry mode for both manufacturing and service firms (Erramilli and Rao, 1993 in Andersen, 1997). An important weakness to consider is that transaction costs are difficult to measure, because they usually need to be assessed indirectly using indicators like asset specificity and uncertainty, and cannot be accurately calculated before the international operation has been established (Andersen, 1997). These issues of measurement, moreover, may also lead to different results concerning the prediction that high asset specificity is related to the choice of high control modes (Brouthers and Hennart, 2007). The same for the variable of uncertainty, it seems in fact that more attention should be paid to how different types of uncertainty are measured and how they may impact upon entry mode choice. Another limitation is that the model seems to ignore “internal transaction costs” (Hollensen, 2004, p.59) that may arise within a firm, for example between head offices and sales subsidiaries.

In addition, while internationalization has been presented in the first chapter as a dynamic process of adapting firms' operations to international environments (Calof and Beamish, 1995), the transaction cost theory is characterized by a static nature focusing...
on why firms differ in their entry mode choice at a specific point of time (Andersen, 1997).

The Eclectic Paradigm

The eclectic paradigm, elaborated by Dunning (1988), seeks to offer a general framework for determining the extent and pattern of internationalization. In particular, the choice of an entry mode is influenced by the configuration of three types of factors: ownership advantages of a firm, location advantages of a market, and internalization advantages of integrating transactions within the firm. Concerning how internationalization takes place, Dunning (1988) elaborated the OLI paradigm composed by the following three set of factors: Ownership, Location and Internalization advantages.

Ownership advantages are firms’ specific assets and skills (Andersen, 1997). They include: firm’s size, firm’s multinational experience and skills by its ability to develop differentiated products (Dunning, 1993). Firm’s size in particular reflects the resource availability of a company and then its capacity to sustain the costs of setting up a foreign sales branch/subsidiary or a manufacturing subsidiary. Size is positively correlated with firms’ propensity to enter foreign markets and to choose sole ventures modes, on the other hand, multinational experience, which involves a better understanding of foreign markets and the ability in managing overseas operations, seems to encourage the choice of investment entry modes (Agarwal and Ramaswami, 1992). Firms possessing skills and knowledge to develop differentiated products, may find too risky to share their knowledge with host country partners because they may acquire it and become potential competitors. In this case then companies usually prefer high control modes because they guarantee a higher degree of control over foreign markets operations.

More recently, Dunning (2002), has extended the notion of ownership advantages to include relational assets with particular reference to relations both within and the firm and with other firms which allow companies to access resources controlled by other and to govern their joint use.

Location advantages. They are related to the institutional and productive factors of a particular geographical area (Ruzzier et al., 2006). These variables reflect how attractive
the host country is and include market potential (which correspond to the present and projected size of the target country) and investment risks in the host country. These risks in particular are referred to the uncertainty over the continuation of present economic and political conditions and government policies in the target country. In addition, measures of location advantages include similarities in culture, market infrastructures and the availability of lower production costs (Dunning, 1993).

For instance, restrictive policies of a host country's government towards foreign investments are likely to encourage a company not to enter or favour non-investment options such as exporting.

**Internalization advantages** refer to the firm’s ability to leverage abroad its domestic advantages by internalizing markets. They deal with to the costs of choosing a hierarchical entry mode over an external mode (Andersen, 1997). They include the costs of writing and enforcing contracts, the risk of deterioration in the quality of services if they are provided jointly with a host firm, and the risk of dissipation of knowledge in the host country. This last risk in particular refers to the possibility that firm-specific advantages in know-how may be expropriated by a licensing or joint venture partner (Hill et al, 1990).

Usually when these risks are high, companies may prefer exporting or sole ventures because these modes allow retaining the skills and competences within the firm and, in the case of the sole venture, providing better control.

Agarwal and Ramaswami (1992) found that this three types of advantages all affected the entry mode used by the firms analyzed in their study. Moreover by studying the interaction among them, they noted that advantages in one area often offset lack of advantages in other area (Brouthers and Hennart, 2007). Dunning (1993) analyzes also why firms become international and identifies four types of foreign production: (1) resource seeking, when the subsidiary seeks access to resources possessed by the host country; (2) market seeking, when the subsidiary tries to exploit local markets from its operations in the host countries; (3) efficiency seeking, when the local subsidiary plays a role in the rationalization of the international production process; (4) asset seeking, the local subsidiary incorporates competences and strategic assets geared toward innovation. This analysis on firms’ motives for internationalization is important because it allows to identify the specific assets and advantages possessed by the company.
Therefore, according to this paradigm the choice of the entry mode depends upon the combination of the above mentioned three factors (Agarwal and Ramaswami, 1992). The more Ownership advantages a firm has, the higher the propensity to internalize, the more attractive a foreign country is as a production location, the greater the propensity to internationalize. In particular Location advantages affect the choice of foreign market entry mode, i.e. export or production. However, as reported by Andersen (1997), normative theories suggest that the choice of a foreign market entry mode should be based on trade-offs between risks and returns. A firm is in fact expected to choose the entry mode that offers the highest risk-adjusted return on investment. In addition to these criteria, the advantages above mentioned also reflect the desirability of control and resource availability. Then the entry mode choice is likely to be a compromise among these four criteria. Moreover, it seems important to examine not only the individual effects of these factors but also the impact of the inter-relationship among them in order to gain a better explanation of firm choices (Agarwal and Ramaswami, 1992).

An improvement of the eclectic framework, in line with these considerations, has been made by Hill et al (1990), with the introduction of a new element: strategic variables. They influence the choice of entry mode through the control requirements involved: different strategies in fact require different degrees of control over the operating and strategic decisions of foreign affiliates, and thus different entry modes. Moreover Bradley and Gannon (2000) have published a study focusing on the influences of the firm's technology and marketing profile on foreign market entry mode. They find out that a concentration strategy may have different influences than a diversification strategy on entry mode choice. Specifically, the desire of firms following a diversification strategy to minimize resource commitment and risk in any one market results in their choosing of low-control, non equity modes (indirect exporting, licensing). According to Dunning's paradigm, this may be explained as firms choosing low-control modes in less attractive markets (low location advantage).

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4 Resource availability refers to the financial and managerial capacity of a firm for serving a particular foreign market.
In contrast, the choice of a market concentration strategy will result in firms choosing high-control, equity entry modes (wholly-owned subsidiaries, joint ventures), which enable the firm to have greater control over strategy and tactics. Dunning would consider this as the adoption of higher-control modes in more attractive markets (high location advantage).

One of the strengths of the OLI paradigm, as explained by Andersen (1992), is the inclusion of intermediate modes of entry, such as licensing and joint ventures among the possible market entry methods, which are not considered by other models.

As for the other economic approaches, a weakness is its static nature (Young et al, 1989). The OLI variables in fact allow to establish the circumstances under which one entry strategy will be preferred to another. The model, moreover, does not take into account that these variables change over time and that there are also competitive and strategic factors which should be considered and studied with a more dynamic approach.

2.2.2 Process Approaches

While the previous economic approaches focus mainly on external factors to the firm (with the exception of the OLI Paradigm that includes also to company’s specific assets), the approach discussed in this paragraph is more concerned with firm-level factors. In this stream it is possible to find two main schools: (1) behavioral, stressing the internal process of incremental learning of the firm; (2) relationship, stressing the importance of the network of relationships in which a firm is embedded (Coviello and McAuley, 2005). Among these approaches, an additional school is presented: the Resource Based View (RBV).

The first school identifies the so-called stage models of internationalization, while the second is referred to the network model of internationalization.

Among the stage models it is possible to find: the Uppsala model of internationalization (U-model) and the Innovation-related model (I-model). These models have been widely used in internationalization literature because they represent a clear manifestation of the overall process (Welch and Luostarinen, 1988).
Uppsala Internationalization Model

The key features of the Uppsala model derive from the seminal works of Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) who developed a model of the firm’s choice of market and mode of entry, by studying the internationalization process of Swedish manufacturing firms. The assumption is that firms develop their activities abroad over time and in an incremental fashion, based on their knowledge development (Whitelock, 2002). The authors refer to the so called “experiential knowledge” (Penrose, 1959) that is critical in international business because it can be gained only thorough personal life and professional experiences and hence difficult to transfer and taught. The internationalization process is then described as a causal cycle with the firm’s knowledge as the main explanatory variable (Johanson and Vahlne, 1990). The development of company’s international activities is also explained by the concept of psychic distance. This means that firms expand first into markets they can more easily understand (and where the perceived market uncertainty is low) because psychically close, and after into more "distant" countries as their knowledge develop.

The authors distinguish between four different modes of entering an international market, where the successive stages represent higher degrees of international market commitment. Market commitment is composed of two factors (Andersen, 1993; Ruzzier et al., 2006): the amount of resources committed (the size of the investment needed) and the degree of commitment (it refers to the difficulty of identifying an alternative use for the resources and transferring them to that alternative use). As the company gains knowledge and international experience, these are the stages of the internationalization process (Johanson and Wiedersheim, 1975; Johanson and Vahlne, 1977):

1. no regular export;
2. export via independent representatives;
3. foreign sales subsidiaries;
4. foreign production/manufacturing plants.

In Appendix 2 it is possible to find a representation of the internationalization steps above mentioned.

In particular, in this schema, foreign market commitment increases with market knowledge and vice versa (Andersen, 1997). Internationalization is characterized by

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5 Psychic distance is here defined as: “The sum of factors preventing the flow of information to and from the market. Examples are differences in language, education, business practices, culture and industrial development” (Johanson and Vahlne, 1977, p. 24).
state and change aspects (Johanson and Vahlne, 1990). The mechanism is the following: market (experiential) knowledge and resource commitment (state aspects) affect commitment decisions and current business activities (change aspects) which in turn, increase the market knowledge and stimulate further resource commitment to foreign markets in the following cycle (Andersen, 1993). Figure 4 illustrates the internationalization process as described by the Uppsala School. The model is dynamic, in fact, the outcome of the decision regarding foreign market entry is the input for subsequent decisions.

**Figure 4. The Uppsala Internationalization Model**

![Diagram of the Uppsala Internationalization Model](source)

Source: Johanson and Vahlne (1977, p.26)

If we compare the *Uppsala* model with the economic approaches, previously discussed, it is possible to note that it has the advantage of being dynamic. Internationalization in fact is described as a process of international involvement depending on firms’ learning. Empirical researches in a wide range of countries have confirmed that commitment and experience are important factors explaining international business behaviour (Hollensen, 2004). These studies include US firms (Davidson, 1980, 1983; Denis and Depelteau, 1985), Hawaiian export firms (Hook and Czinkota, 1988), Japanese firms (Johansson and Nonaka, 1983). Their findings confirm that commitment and experience are key factors in explaining behaviour in internationalisation.

However this approach presents some weaknesses. As explained by Andersen (1993, p.216): “the model does not clarify why and how the process starts and the sequence of states or conditions are not discussed”, moreover the authors do not illustrate factors that may influence the process, the U-model in fact assumes that the internationalization
process, once started, will proceed regardless of firms’ strategic decisions (Johanson and Vahlne, 1990). Furthermore co-operative modes of entry are not included and the model appears being too deterministic (Reid, 1983; Turnbull, 1987). The firm in fact will start at stage 1, then it will go to stage 2, etc. and its ability to make strategic choices regarding appropriate modes of entry in overseas markets seems denied (Andersen, 1997).

The "establishment chain" of: export through independent intermediary - export through sales subsidiary - manufacture within the market has been questioned because firms may also use "mixed" approaches to individual foreign markets. Several studies have also pointed out that the initial market entry may not always be by export through an independent middleman and that production abroad is not always the ultimate goal for all firms in all markets (Whitelock, 2002). Root (1987), for example, refers to high technology firms, for whom licensing may be the mode of first entry into international markets.

Another limitation of this theory is the fact that it does not provide an explanation when companies leapfrog stages in the establishment chain by entering distant markets at an early stage or some intermediate entry modes in order to move more quickly towards foreign investments (Hollensen, 2004). For example a large company may decide to enter a foreign market first using an agent or distributor and, after a period of time, “jump” to the last stage by establishing a manufacturing subsidiary. It appears that the use of only one explanatory variable, experiential knowledge, is not likely to provide a complete explanation of such a large step from export modes to wholly owned foreign subsidiaries in the internationalisation process (Andersen, 1997). Johanson and Vahlne (1990) in order to respond to some of the criticisms, suggested that there are three exceptions to the model of incremental market commitment as a response to increased market knowledge: (1) possession of large resources which may lead firms to make larger internationalization steps; (2) stable market conditions and possibility to gain homogeneous relevant market knowledge in different ways than through experience; (3) firms’ experience from markets with similar conditions makes possible to generalise this experience to the specific market.
Innovation-related model

Together with the U-model, the I-model addresses individual firm’s internationalization process.

Andersen (1993) presents a very effective review of the Innovation-related internationalization models. The Figure 5 below illustrates his work.

**Figure 5. Review of the Innovation-related models**

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<tbody>
<tr>
<td><strong>Stage 1</strong></td>
<td><strong>Stage 1</strong></td>
<td><strong>Stage 1</strong></td>
<td><strong>Stage 1</strong></td>
</tr>
<tr>
<td>Management is not interested in exporting</td>
<td>Domestic marketing; The firm sells only to the home market</td>
<td>The completely uninterested firm</td>
<td>Export awareness: Problem of opportunity recognition, arousal of need</td>
</tr>
<tr>
<td><strong>Stage 2</strong></td>
<td><strong>Stage 2</strong></td>
<td><strong>Stage 2</strong></td>
<td><strong>Stage 2</strong></td>
</tr>
<tr>
<td>Management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exporting</td>
<td>Pre-export stage: The firm searches for information and evaluates the feasibility of undertaking exporting</td>
<td>The partially interested firm</td>
<td>Export intention: Motivation, attitude, beliefs, and expectancy about export</td>
</tr>
<tr>
<td><strong>Stage 3</strong></td>
<td><strong>Stage 3</strong></td>
<td><strong>Stage 3</strong></td>
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<tr>
<td>Management actively explores the feasibility of active exporting</td>
<td>Experimental involvement: The firm starts exporting on a limited basis to some psychologically close country</td>
<td>The exploring firm</td>
<td>Export trial: Personal experience from limited exporting</td>
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<tr>
<td><strong>Stage 4</strong></td>
<td><strong>Stage 4</strong></td>
<td><strong>Stage 4</strong></td>
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<tr>
<td>The firm exports on an experimental basis to some psychologically close country</td>
<td>Active involvement: Exporting to more new countries—direct exporting—increase in sales volume</td>
<td>The experimental firm</td>
<td>Export evaluation: Results from engaging in exporting</td>
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<tr>
<td><strong>Stage 5</strong></td>
<td><strong>Stage 5</strong></td>
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<tr>
<td>The firm is an experienced exporter</td>
<td>Committed involvement: Management constantly makes choices in allocating limited resources between domestic and foreign markets</td>
<td>The experienced small exporter</td>
<td>Export acceptance: Adoption of exporting/rejection of exporting</td>
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<tr>
<td><strong>Stage 6</strong></td>
<td><strong>Stage 6</strong></td>
<td><strong>Stage 6</strong></td>
<td><strong>Stage 6</strong></td>
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<tr>
<td>Management explores the feasibility of exporting to other more psychologically distant countries</td>
<td></td>
<td>The experienced large exporter</td>
<td></td>
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</table>

Source: Andersen (1993, p.213)

Also Morgan and Katsikeas (1997) reviewed the I-related models and to the ones presented above, they added other works as shown in Figure 6.
Like the Johanson and Vahlne theory, these studies highlight the role of managerial learning in firm’s internationalization and describe the process as a sequence of stages. This type of incremental approach is a result of innovation adoption behavior, whereby the perceptions and beliefs of managers influence, and are shaped by, involvement in foreign markets (Andersen, 1993).

For example, Cavusgil (1984) empirically identifies five steps (Preinvolvement, Reactive/Opportunistic, Experimental, Active, and Committed Involvement), reflecting differences in the firm's orientation and management attitude to international market expansion.

The I-models have in common the idea that each subsequent stage of internationalization represents an innovation for the firm (Gankema et al., 2000) and in general a higher level stage represents more experience and involvement that the lower level stage.

While the nature of the internationalization process is the same for all models, there are some differences in the number of steps and in their description. Bilkey and Tesar (1977) and Czinkota (1982) recognized six stages while Rao and Naidu (1992) and Lim et al. (1991) only four. In particular the model of Cavusgil (1980) and Reid (1981) present the firm as more interested and active to initiate export also in the early stages.

Both the U-model and I-model are behaviorally oriented and describe the internationalization process as a gradual pattern guided by experiential knowledge acquired through individual learning and top managers (Andersson, 2000).

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<tbody>
<tr>
<td>Stage 1</td>
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</tr>
<tr>
<td>Export awareness</td>
<td>Non-exporters: the firm has no current export activity nor any future interest</td>
</tr>
<tr>
<td>Stage 2</td>
<td>Stage 2</td>
</tr>
<tr>
<td>Export interest</td>
<td>Export intenders: the firm is a current non-exporter but would like to explore future export opportunities</td>
</tr>
<tr>
<td>Stage 3</td>
<td>Stage 3</td>
</tr>
<tr>
<td>Export intention</td>
<td>Sporadic exporter: the firm exports, but in a sporadic fashion</td>
</tr>
<tr>
<td>Stage 4</td>
<td>Stage 4</td>
</tr>
<tr>
<td>Export adoption</td>
<td>Regular exporter: the firm exports on a regular basis</td>
</tr>
</tbody>
</table>

Source: Morgan and Katsikeas (1997)
However some authors maintains that the I-related models are quite vague in theoretical terms (Andersen, 1993) and lack of a criteria for distinguishing between different stages. Moreover too little attention to the time of different stages and to their operational level (Ruzzier et al., 2006).

**The Network models of internationalization**

The models discussed so far concentrate on the autonomy of the firm in developing its international activities. In contrast, Johanson and Mattsson (1987, p.34) explain that “in industrial systems, firms are engaged in production, distribution and use of goods and service. We describes such systems as networks relationships among firms. There is a division of work in a network that means that firms are dependent on each other”. Hence, the basic assumption of the model, as developed by the IMP (Industrial Marketing Purchasing) Group, is that individual firm depends on resources controlled by others (Johanson and Mattsson, 1988) and hence firms should not be considered as an isolated actor in the market because “business takes place in a networking setting, where different business actors are linked to each other through direct and indirect business relationships” (Chetty and Holm, 2000, p.79) and the three basic variables within this context are: actors, resources and activities (Karlsen et al., 2003). According to this school, internationalization depends on the set of network relationships of a firm rather than firm-specific advantages (Coviello and McAuley, 1999).

The model elaborated by Johanson and Mattsson (1987, 1993), emphasizes gradual learning and the development of market knowledge through interaction within networks. The position of a company can be analyzed taking into account relationships at a micro / firm level or at a macro / network level (Ruzzier et al., 2006). According to the first view, firms are interdependent and co-operate, compete with other companies within the network, internationalization is then characterized by a combination of complementary and competitive relationships. The second level entails both direct relations (among partners in the network) and indirect relations (involving firms that are not partners). Combining these two levels of analysis four stages of internationalization can be identified (Johanson and Mattsson, 1993): the early starter, the late starter, the lonely international and the international among others. The firm is initially engaged in a domestic network and further develops its business relationships in networks in foreign countries. The internationalization process of firms is then described as the establishment and
development of positions in relation to other counterparts in a foreign network (Ruzzier et al., 2006).

This approach goes beyond the models of incremental internationalization, previously discussed, by suggesting that a firm's strategy emerges as a pattern of behavior influenced by a variety of network relationships. Moreover, as explained by Johanson and Mattsson (1993), there is an interdependence between firm’s decisions to enter a market, to select an entry mode and the actions of other actors in the market, such as competitors (Whitelock, 2002).

The network model also helps with the understanding of some particular aspects of internationalization. Benito and Welch (1994), in fact, highlight that individual firms’ internationalization has some aspects of unpredictability, related to an apparent randomness with which opportunities and threats relevant to international activity arise. Such opportunities and threats may be presented to the firm by their network relationships (Coviello and Munro, 1997). These external relationships may drive, facilitate, or inhibit a firm's international market development and might also influence the firm's choice of foreign market and entry mode (Coviello and Munro, 1997).

The network model of internationalization represents an opportunity also for integrating and improving other process-oriented approaches. In fact, the incremental internationalization model of Johanson and Vahlne (1977) originally concentrates on one explanatory variable, firm’s experiential knowledge and sees the firm as an independent actor in the environment. However, the authors by continuing to examine the process, acknowledge the importance of a second variable: networks (Johanson and Vahlne, 1990). They recognize that companies are embedded in business networks including actors in a wide range of interdependent relations. Firms have relationships with customers, suppliers, competitors that can be used as “bridges to other networks […] These relationships can help the firm in getting inside networks in foreign countries” (Johanson and Vahlne, 1990, p.20). The further application of the network perspective to the Uppsala model has recently led to the development of the so called “business network model” (Johanson and Vahlne, 2009). Internationalization is seen as “the outcome of firm actions to strengthen network positions by what is traditionally referred to as improving or protecting their position in the market” (Johanson and Vahlne, 2009, p.1423). This new framework, as the one of 1977, is characterized by two sets of factors: state variables and change variables affecting each other and describing
dynamic and cumulative processes of learning, trust and commitment building. Figure 7 illustrates the 2009 version of the model.

**Figure 7. Business Network Model**

Some changes occurred to the original model of 1977. Knowledge has been integrated by the concept of opportunity and network positions have been included instead of market commitment assuming that internationalization is now pursued within networks. In the “change aspects”, current activities have been made more explicit by referring to their outcomes “learning, creating and trust building”. The concept of commitment has also been improved by adding the term “relationship” to clarify its domain. This variable implies that firms decide to increase or decrease commitment to a specific relationship or to a network of relationships. The main implication of this revised model is that internationalization depends on a firm’s relationships and network, and a company is expected to go abroad based on its relationships with important partners who are committed to develop the business through internationalization (Johanson and Vahlne, 2009).

Networks have also been used by several authors to explain the internationalization of SMEs (Chetty and Holm, 2000; Coviello and Munro, 1995; Ojala, 2009; Ng and Zain, 2006). Coviello & Munro (1995, 1997), for example, describe networks as drivers of the internationalization of smaller companies because they: (1) provide contacts and access to resources; (2) allow sharing of knowledge and experience which lead to a better
understanding of and a better offering to the market; (3) may speed up the process of internationalisation (Hollensen, 2004), and then influence firm’s entry mode choice and foreign markets selection. Within networks firms are able to find and combine different resources, capabilities, activities, people, information, etc. and this perspective leads to a more realistic understanding of the overall process.

What seems to be neglected in this model is the position and the decisions of individuals within the firms (Ruzzier et al., 2006). Another weakness seems to be the lack of a predictive power. Moreover a problem with this approach is that existing contacts which may be the most appropriate in one market may not be the most appropriate for other countries and the risk is to end up locked into less efficient entry modes. The framework does not seem to address this issue.

However, an advantage of the Network model is that it provides a more comprehensive explanation of internationalization over the life of a firm (Fletcher, 2008), thanks to his holistic approach focusing on firm’s relationships to the market guided by both competition and cooperation forces that appear to be more influential than individual market’s cultural characteristics (Coviello and McAuley, 1999).

The resource-based approach to internationalization

In order to complete the review of internationalization theories, the Resource-Based View (RBV) is also analyzed. According to the RBV firms are characterized as a collection of heterogeneous and specific resources (Penrose, 1959; Foss et al., 1995) that can be exploited in foreign markets, which in turn can be used for acquiring and developing new resources and advantages (Brouthers and Hennart, 2007). This approach is linked to the incremental internationalization theory (Johanson and Vahlne, 1977) because of the idea that international experience, gained over the time by firms, gives the firm an advantage in foreign markets and guides their internationalization process by influencing entry mode choice. Concerning this last point, Barney et al. (2001), reviewing the impact of the RBV on strategic management since 1991, maintain that RBV contributes to foreign market entry mode research by suggesting that such decisions are pulled by resources and capabilities of firms abroad as well as being pushed by firm-specific advantages possessed by MNCs.

The resource-based view rests on two key assumptions: (1) firms within any given industry are heterogeneous with regard to the resources they control and (2) resources
are not perfectly mobile across firms and hence, heterogeneity tends to be long-lasting. The theory helps to explain how knowledge and organizational capabilities are developed within a company and serve as important advantages in international activities (Knight, 2001). In particular it is important to stress that according to this view, companies are perceived as a bundle of resources which are then transformed into capabilities through dynamic and interactive firm-specific processes (Andersen, 1997) where individual skills, organization and technology are combined together. Skills and competences are considered as intangible components and thanks to their uniqueness they confer a competitive advantage to the firm, enabling the production of value-added products for foreign markets (Knight and Kim, 2009). Resource-based theory implies that differential endowment of organizational resources, such as assets, capabilities, information, knowledge and technologies, impact upon company’s strategy and performance (Barney, 1991; Knight, 2001). The resources controlled, enable the firm to conceive and implement strategies that improve its effectiveness and efficiency and to obtain differential advantage in foreign markets (Collis, 1991; Porter, 1991; Wernerfelt, 1984 in Knight, 2001). Therefore, the most critical resources are those leading to the achievement of competitive advantages and they are characterized by being superior in use and hard to imitate or supplant (Porter, 1991). However, an important issue needs to be addressed regarding the definition of critical resources to firm’s internationalization. As stressed by Ruzzier et al. (2006), different authors have identified several characteristics essential to sustain a long-term competitive advantage. For example, Barney (1991) suggests that they must be valuable, intangible, imperfectly imitable and not sustainable, while Grant (1991) maintains that they have to reflect durability, transparency, transferability and replicability. Peng (2001), tracking the evolution of the RBV within IB literature, explains some of the differences with the traditional economic approaches, previously discussed. While they focus on the exploitation of firm’s specific advantages and on one-time entries based on a set of relatively static conditions, RBV focuses on both the exploitation and development of firm-specific advantages and highlights a dynamic, longitudinal process in which multiple entries take place each building on capabilities and learning from the previous entry experience. Moreover an important contribution of the RBV can be found in the emergence of international entrepreneurship, presented in the following
paragraph, by explaining the rapid international success of SMEs without going through all the stages identified by the Uppsala model and the Innovation related ones.

2.2.3 Entrepreneurship Approaches

The economic approaches are useful in deciding whether to establish a production facility during the later stages of firms’ internationalization (Vahlne and Noedstorm, 1993 in Ruzzier et al., 2006), but do not consider the process and dynamic aspects of internationalization. On the other hand the Uppsala school has been criticized as deterministic (Reid, 1981) and, if firms develop in accordance with the model, individuals would then have no space for strategic choices (Andersson, 2000). Another big challenge is that today many firms do not follow the traditional pattern of internationalization proposed by the stage theories. Some firms are international from their birth and are known as: international new ventures (McDougall, 1994; Oviatt and McDougall, 1994, 1995), born global (Rennie, 1993; Madsen and Servais, 1997), and global start-ups (Oviatt and McDougall, 1995). In this view the specificity of the time of internationalization appears to be one of the most significant features. The considerations on early internationalizing firms and new small global players challenging with their unique behaviors traditional internationalization theories and multinational companies, lead to the emergence of a new paradigm. We refer to an organizational model in international business based on the assumptions that “small and medium-sized companies can successfully develop substantial export business, often capitalizing on their relative strengths” and that “gradual internationalization is obsolete” (Cavusgil, 1994, p.4).

This statement might appear to be a provocation, however it identifies a new direction for the development of the internationalization literature and practice.

In the same period, Oviatt and McDougall (1994) introduced the definition of International New Ventures (INV) as small firms that from inception derive a significant part of their income from multiple country markets. Oviatt and McDougall (1994, p. 56) analyzing the “number of value chains that are coordinated” and “the number of countries entered”, define the following three groups of International New Ventures:

1. *New International Market Makers* that make profit “by moving goods from nations where they are to nations where they are demanded” (Oviatt and McDougall, 1994, p. 57);
2. *Geographically Focused Start-ups* that focus on the use of foreign resources to serve needs of particular regions of the world;

3. *Global start-ups* deriving their “significant competitive advantage from extensive coordination among multiple organizational activities, the locations of which are geographically unlimited.” (Oviatt and McDougall, 1994, p. 57).

Other studies analyze in depth the Born Global phenomenon considering different point of view. Ganitsky, (1989) define them as “innate exporters” thanks to international outlook in the management and the high flexibility degree, but they are limited due to their inexperience and lack of resources. Madsen and Servais (1997) focus on the role and characteristics of the manager-founder and found out that the differences between traditional exporters and the Born Globals is related to differences in the founder’s background and market conditions.

This approach to early internationalization and SMEs is an emerging research area, at the interface of entrepreneurship and international business research, called international entrepreneurship (McDougall and Oviatt, 2000; Ruzzier et al., 2006).

The definition of this relatively new field of study is still in process. Wright and Ricks (1994) define it as the research focusing on firm-level business activity that crosses national borders and is in turn related to the link between businesses and the international environment in which they are embedded. McDougall and Oviatt (2000, p. 903) define International Entrepreneurship as the “combination of innovative, proactive, and risk seeking behavior that crosses national borders and is intended to create value in organizations”.

It is important to note that this definition, initially focused on the creation of new organizations, has been extended to include also the so called corporate entrepreneurship (Birkinshaw, 1997; Zahra et al., 2000; Zahra & George, 2002; Venkataraman, 1997; Shane and Vekatataraman, 2000). A further improvement derives from the formalization of the concept of entrepreneurship as the “examination of how, by whom, and with what effects opportunities to create future goods and service are discovered, evaluated and exploited” (Shane and Venkataraman, 2000, p 218). In fact, starting from this point, McDougall and Oviatt (2005, p. 540) maintain that: “International entrepreneurship is the discovery, enactment, evaluation and exploitation of opportunities – across national borders – to create future goods and services”.

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Therefore the research on the International Entrepreneurship field is based on the following two main elements: opportunities identification/exploitation and national borders.

Moreover, the authors define two particular branches: studies on the behaviors of entrepreneurial actors crossing national borders and the “cross-national-border comparison of entrepreneurs”.

This approach allows to study internationalization from an entrepreneurial perspective and it is appropriate for investigating entrepreneurial type of organizations with an international geographical scope. Traditional internationalization theories, on the other hand, are more adequate to study large/established organizations in an international context, while the field of entrepreneurship deals with entrepreneurial firms with a domestic focus (McDougal and Oviatt, 2000 in Ruzzier et al., 2006). According to this new approach internationalization is seen as a process of firm-level entrepreneurial behaviors manifested by events and outcomes in relation to time (Coviello and Jones, 2005).

Within this approach, the focus of analysis is moved from the firm to a more individual level: the entrepreneur, who is assumed to be as a source of sustained competitive advantage thanks to his specific resources in terms of knowledge, skills, experience and relations (Ruzzier et al., 2006). Recently, researchers tried to elaborate a model integrating insights from traditional internationalization theories with the one of international entrepreneurship (Antoncic and Hisrich, 2000; Coviello and Jones, 2005; Ruzzier et al., 2006).

Coviello and Jones (2005), in response to the call for a unifying direction for research in the emergent field of international entrepreneurship, suggest the following conceptual model illustrated in Figure 8. Drawing on classic approaches to internationalization, and importing insights from entrepreneurship, they present internationalization as a time-based process of entrepreneurial behavior.
Figure 8. General model of entrepreneurial internationalization behavior.

Source: Coviello and Jones (2005)

Other models have been developed within the literature and one of the most interesting is the one of Ruzzier et al. (2006) which is especially tailored for SMEs, but presents some important features for creating a unified framework of International Entrepreneurship. First of all, entrepreneurs’ characteristics previously implicitly considered are now analyzed separately and divided into human and social capital; second internationalization is considered as made of several dimensions (time, mode, market, product and performance); third among firms’ characteristics some additional features are considered (number of employees and sales). The Figure 9 below, illustrates the conceptual framework of international entrepreneurship discussed so far.

Figure 9. International Entrepreneurship Framework

Source: Ruzzier et al. (2006)
As it is possible to note from the figure, entrepreneurial internationalization is presented as a dynamic process influenced by various entrepreneurial, firm and environmental factors, moreover it is linked to various aspects of firms performance, in accordance also with the conceptualization made by Jones and Coviello (2005).

However, a limitation of this model is that the effects of possible interactions between constructs are not considered (Ruzzier et al., 2006). Moreover, a possible feedback effect of firm performance on firm’s internationalization behavior (decisions, processes and activities) should be taken into account. In addition, when measuring firm performance also non financial indicators, in terms of organizational learning and knowledge creation, may have to be considered (Johanson and Vahlne, 1977; Jones and Coviello, 2005).

2.3 Concluding remarks

The principal models discussed in our review and explaining firms internationalization are summarized in the following Figure 10.
**Figure 10. Summary of the models**

<table>
<thead>
<tr>
<th>Perspective</th>
<th>MARKET</th>
<th>FIRM</th>
<th>ENTREPRENEUR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unit of Analysis</strong></td>
<td>The transaction or set of transactions</td>
<td>The firm: - behaviors (U-Model and I-Model) - relationships (Network)</td>
<td>Entrepreneurs as individuals carrying out entrepreneurial actions (Andersson, 2000)</td>
</tr>
<tr>
<td><strong>Basic Assumptions</strong></td>
<td>- Markets are competitive - Opportunistic behaviors - Internationalization decisions as consequences of a rational analysis based on transaction costs</td>
<td>- Behavioural models: firms develop their activities abroad over time and in an incremental fashion, based on their knowledge development - Relationship models: firms are interdependent and internationalization is characterized by a combination of complementary and competitive relationships with other companies within the network</td>
<td>- internationalization as a process of entrepreneurial behaviors manifested by events and outcomes in relation to time. - combination of innovative, proactive, and risk seeking behaviors crossing national borders and intended to create value in organizations.</td>
</tr>
<tr>
<td><strong>Main Explanatory Variables</strong></td>
<td>- TCA Model: Asset specificity, uncertainty and frequency of transactions - OLI Paradigm: Ownership, Location and Internalization advantages</td>
<td>- Behavioural models: Experiential Knowledge - Relationship models: Network Relationships</td>
<td>- entrepreneur human and social capital</td>
</tr>
<tr>
<td><strong>Implications</strong></td>
<td>- TCA: High transaction costs lead to internalization of activities / integrate vertically (for example through wholly owned subsidiaries) - OLI P.: propensity to engage in international production increases when the 3 conditions have been satisfied.</td>
<td>- Behavioural models: Additional market commitment based on increasing market knowledge and made in small incremental steps (from low to high psychic distance, from low risks entry modes to high risk ones) - Relationship models: domestic relationships as bridges to other networks in different countries</td>
<td>- importance of time as a strategic dimension of internationalization. - importance of entrepreneur’s traits, characteristics and personal network of relationships.</td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
<td>- Static Nature - Difficulty in measuring TC - Overlook the possibility of individuals making strategic choices - Optimal choices depending on perfect information</td>
<td>- Behavioral Models: too deterministic, firms’ ability to make strategic choices denied and cooperative/intermediate entry modes not included - Relationship models: no space for strategic decisions of individuals and lack of a predictive power.</td>
<td>- Relatively new field requiring a unified conceptual model - interactions among different constructs (firms vs. entrepreneur’s characteristics) need to be addressed.</td>
</tr>
</tbody>
</table>
The two dominant views in international business research are the economic and the process approaches that give us some insights into the complex and multidimensional phenomenon of firms internationalization. The former allows to understand the decision regarding production units in the later stages of firm’s internationalization, while the latter explains the incremental development in a firm’s early stages on internationalization. However in order to understand various international behaviors in the early stages of the process, firms’ first international ventures and radical strategic changes, it is important to include in the analysis entrepreneurs who influence the internationalization decisions. For this reason a third perspective and school, labeled as “international entrepreneurship”, emerged within literature and contribute to a more in-depth understanding of the phenomenon also with respect with new organizational forms and enterprises (such as SMEs and born global firms, etc.). The international entrepreneurship approach offers a new way of interpreting entry mode choices and illustrates in which ways entrepreneurs influence companies’ internationalization behaviors. Anderson (2000), in his review of the theoretical perspective on internationalization, stresses the important contributions deriving from the adoption of the entrepreneurial approach. While economic theories, and in particular the OLI paradigm, propose an analysis of the market and of the company to find the best solution for the firm and the Uppsala process theory proposes a stepwise increase in market involvement from direct export to establishment of a production unit abroad, the entrepreneurship model proposes that individuals who take part in the internationalization process are the most important factors in determining the mode choice. This explains also why firms that appear to be similar and have similar environments can differ in their views and internationalization patterns.

The theories presented in the review have in common a general outward-oriented point of view on internationalization. The operations that are mostly discussed are those regarding exporting versus foreign investment, however the internationalization of business also includes activities that are inward-oriented (such as the imports of goods, raw materials, technology, know-how, etc.) offering opportunities of learning about foreign markets and for networking (Karlsen et al., 2003). We may assume that inward activities contribute to firms’ experiential knowledge, leading to increasing commitment to foreign markets.
We may also maintain that they have a positive impact upon the establishment of relationships in the international market and the emergence of international business opportunities.

These assumptions are in line with several studies on inward operations (Karlsen et al., 2003; Korhonen et al., 1996; Welch and Luostarinen, 1988, 1990) and their role in the internationalization process. The next part of the thesis focuses the attention on this particular under-researched aspect of international business.
CHAPTER III - Internationalization from an inward-oriented perspective

As noted by Karlsen et al. (2003) one of the deficiencies in the knowledge of firm’s internationalization is the strong bias toward outward operations and the fact that less is known on the potential linkages between outward and inward-oriented activities. Therefore, the purpose of this paragraph is to define the “state of the art” of studies on inward-oriented internationalization and the possible connections with outward activities. The seminal researches on inward operations and their link to outward activities are mostly conceptual or based on qualitative case study approach, and they draw back to the work of Welch from Australia together with Luostarinen and Korhonen from Finland. Further research on the field has been then conducted by Karlsen et al. (2003), who focus on knowledge development and use within inward-outward linkages, and Holmlund et al. (2007), who analyzed the relationship between importing and exporting among internationalizing SMEs. This literature review is useful as a guide for the following part of the dissertation dealing with emerging market firms and their routes of international expansion.

The present chapter is structured into two main parts: the first presenting a general assessment of “inward-internationalization”, the second focusing on the link that might emerge between inward and outward activities.

3.1 Inward Patterns of Internationalization

More and more companies are buying their parts, semi-finished components and other supplies from international subcontractors or suppliers, the emerging phenomenon is defined as international sourcing (Hollensen, 2004). In addition, the growing movement towards strategic alliances and other forms of collaboration in international business, shows that the reality of internationalization cannot be considered only outward-oriented because it is also inward driven and linked (Fletcher, 2001; Karlsen et al., 2003; Korhonen et al., 1996; Welch and Luostarinen, 1988; 1993). The idea is that firms can internationalize also by inward activities, such as importing of goods, finance and technology; establishing buying offices overseas, becoming a franchisee or a licensee for a foreign company, being the joint venture partner with an overseas firm in
its domestic market, manufacturing abroad to supply the home market or producing semi-finished or end product for a large foreign company (Fletcher, 2001). This is a list of what may happen when firms pursue strategic alliances, countertrade, cooperative manufacturing or international projects (Fletcher, 2008). Inward operations should be regarded as a strategic resource for the firm because of two important roles (Luostarinne and Welch, 1990): (1) they act as a prerequisite for the establishment of the firm; (2) they respond to the lack of commercial and technical knowledge in a country. However, Karlsen et al. (2003) stress how difficult is to analyze in-depth and over time inward operations because they develop often into routine operations by purchasing staff and hence tend to be regarded as supporting activities.

Welch and Luostarinne (1993), recognizing that the effect of the inward process on outward moves has been the subject of limited research, present a first analysis of this issue based on the empirical evidence of an Australian wine cooler company. The basic assumption is that as companies develop foreign sourcing activities, they pursue a process of inward internationalization considered “as a mirror image of the outward process” (Welch and Luostarinne, 1993, p. 44). They found out that inward activities precede and influence the development of later outward moves, at any stages of the overall internationalization process. However this contributory role appears to be more critical at the early stages of internationalization, by impacting on the likelihood, timing, pattern of the process. Inwards movements, in fact, in whatever form signal the beginning of a relationship between a foreign seller / customer and a local buyer / provider, which creates the possibility of later using:

- this link to access a foreign network;
- knowledge about a foreign market.

For this reason the final aim of their work is to understand how to use such inward moves in a more productive way to promote outward internationalization. This argument has been also further developed by Karlsen et al. (2003) who maintain that inward-oriented international operations, by building relationship with foreign firms and by providing learning opportunities, may form an important platform for subsequent outward operations.

In a more recent study, Holmlund et al. (2007), examine more in-depth whether and how importing contributes to subsequent exporting in SMEs. They confirm that importing represents the most common first operation in the internationalization
process, before outward operations take place (Jones, 1999; Korhonen, 1999; Welch and Luostarinen, 1988, 1993). An additional important finding is that the experience deriving from importing has both a direct and indirect effect on later exporting, because it does not only reduce cultural differences, provide knowledge and contacts, but it also makes managers more confident and proactive.

In particular, the recognition of such connection is relevant also for policy makers because they are concerned with companies’ internationalization as a way to improve the balance of payments’ position of their countries. In spite of that, the major focus is usually put on the outward side, providing support, marketing assistance, trade representatives in foreign markets, while the inward process is neglected because more difficult to justify. In general, however, attempts by governments to improve international performance need to be seen not only in terms of actions and results on the outward side, but also on the inward side in order to encourage positive connections between the two.

Korhonen et al. (1996), analyze more in-depth government’s policy implications and the approach to assist the inward side. The authors present an empirical study on the overall patterns of internationalization of 480 domestic owned Finnish SMEs and, drawing from Luostarinen (1979), classify them according to the order of introduction of inward, outward and cooperative modes. Their findings show that more than the 50 per cent of the SMEs began international operations on the inward side, about two-thirds through importing of physical goods (raw materials, components, machinery, spare parts, etc.) and the rest importing services (planning and supervising, installation, training and development) or other know-how operations (licensing, franchising). These inward activities may involve: trips to foreign markets, investigation of alternatives suppliers and prices, learning on international trade techniques and negotiations with foreign suppliers or on foreign operation modes. All of them help firms to gain knowledge and experience that can be readily adapted to similar demands on the export side and assist with outward moves. The authors conclude that, from a macro-level point of view, this implies positive spillovers from importing activities and inward FDI in a country leading to later exports from domestic firms. Policy markers, by promoting the outward stage, which seems to be the second rather than the first stage of internationalization, may ignore an important opportunity to develop potential exporters from their country.
The recognition that firms may become internationalized by undertaking import-led activities and activities in which inward and outward operations are linked together (such as strategic alliances, cooperative manufacture and countertrade), allows to develop a holistic view to internationalization (Fletcher, 2001). This type of approach has been previously developed by Jones (1999) who included within the internationalization process not only “entry modes” but also the links among the firms’ core value chain functions and individuals and organization based in other countries. The analysis of firms’ internationalization is then based on the examination of these types of cross border links formed over time. In particular, they are classified according three dimensions: directional (inward, outward and cooperative), integrational (external or transactional, internal or investment) and functional (value chain). According to the first dimension, firms’ cross-border activities can be classified as shown in Figure 11.

**Figure 11. Cross-borders links**

<table>
<thead>
<tr>
<th>Inward Cross-Border Links</th>
<th>Outward Cross-Border Links</th>
</tr>
</thead>
<tbody>
<tr>
<td>M = Import from overseas supplier</td>
<td>M = U.K.-based export</td>
</tr>
<tr>
<td>M2 = Import plus distribution in the United Kingdom</td>
<td>M2 = Overseas agent/distributor export</td>
</tr>
<tr>
<td>M3 = Marketing or management service/consultancy for firm in the United Kingdom</td>
<td>M3 = Integrated export (own overseas representatives or branch)</td>
</tr>
<tr>
<td>R = License in technology from overseas</td>
<td>M4 = Management/marketing consultancy performed overseas</td>
</tr>
<tr>
<td>R2 = R&amp;D performed under contract in United Kingdom for overseas-based firm</td>
<td>R = License out technology to overseas licensee</td>
</tr>
<tr>
<td>P = Manufacturing performed under contract in United Kingdom for overseas-based firm</td>
<td>R2 = R&amp;D contracted out to overseas-based firm</td>
</tr>
<tr>
<td>P2 = Technical service/consultancy performed in the United Kingdom for overseas-based firm</td>
<td>P = Manufacturing contracted out to overseas-based firm</td>
</tr>
<tr>
<td>P3 = Investment in overseas production</td>
<td>P2 = Technical service/consultancy performed overseas</td>
</tr>
<tr>
<td>Formal Cross-Border Cooperation</td>
<td>P3 = Investment in overseas production</td>
</tr>
<tr>
<td>T = Formal technology sharing cooperation agreement</td>
<td>Source: Jones (1999)</td>
</tr>
<tr>
<td>J = Formal joint production agreement</td>
<td></td>
</tr>
<tr>
<td>C = Comprehensive R&amp;D, production, and marketing agreement</td>
<td></td>
</tr>
<tr>
<td>D = Formal cooperative distribution agreement</td>
<td></td>
</tr>
</tbody>
</table>

This classification is very comprehensive and provides a list of the possible forms that those links may take, supporting the idea that internationalization can no longer be considered as a purely outward-driven process.
However, a limitation of this work, is that it does not include some important variables to explain the variation in the internationalization process of firms, such as: motivations, aspirations, strategies of the entrepreneur, etc.

The more recent study of Fletcher (2001) attempts to address in part this issue. The basic assumptions of his model are the following:

- firms can also become internationalized by inward-driven activities;
- outward internationalization can lead to inward internationalization and vice versa, as when the franchisee or licensee in one country becomes the franchisor or licensor in another;
- internationalization often requires more complex forms of international behavior in which there is a linking of both inward and outward international activities as happens with strategic alliances, countertrade and cooperative manufacture;
- internationalization should be viewed as a global activity rather than as an activity with respect to a firm’s involvement in a specific overseas country. This is because a firm might reduce its involvement in one country so as to devote resources to more beneficial activities in other countries. This relates to the concept of de-internationalization mentioned in the first chapter in relation to the definition of the internationalization process.

In addition, the international behavior of firms indicates that companies may undertake different forms of internationalization (i.e. outward, inward and linked) at the same time.

The above mentioned points allow the author to develop a conceptual framework, presented in figure 12, illustrating his holistic approach to internationalization.
Figure 12. Holistic approach to internationalization

The framework illustrates various types of international activities (exporting, licensing, production overseas, strategic alliances, etc.) and classify them into three main categories: outward, inward and linked modes. This distinction can be found also in Kaynak (1997) who identify importing or becoming a licensee for a foreign firm as a type of inward-driven internationalization and countertrade as an example of linked activity. Moreover a first interesting aspect is that factors, previously found to apply to outward-driven internationalization also impact on inward and linked forms of internationalization. It also confirms that outward operations can lead to inward ones and vice versa.

Concerning the variables impacting upon the form and nature of the international involvement of firms, the author found out that the factors that previous research attributed to outward-driven internationalization also applied to the inward-driven one. This suggests that “the firm and management characteristics attributed previously to a tendency to engage in export and other outward form of internationalization in fact reflect a tendency towards international involvement regardless of the form it takes” (Fletcher, 2001, p. 44). The same effect is registered also by the incentives and impediments whose attribution is extended also to inward-driven internationalization.
For the above mentioned reasons the author calls for a holistic view of internationalization that is better able to represent the more sophisticated forms of international involvement that characterize many firms’ international activities. In particular, this approach seems to be more appropriate for SMEs that are “born global”, as well as those companies undertaking international business in the electronic commerce (e-commerce). Although "entry modes" are a critical element of a firm’s internationalization process, this more holistic view allow to incorporate in the process the links among the firms' core value chain functions, research and development (R&D), production, and marketing/distribution and individuals and organizations based in overseas countries (Jones, 1999).

As suggested also by other authors (Korhonen et al., 1996; Welch and Luostarinen, 1993), the recognition that inward-driven internationalization can lead to outward-driven internationalization and vice versa, has significant policy implications. Governments, in fact, should not focus only on promoting export assistance and incentives but they need to: (1) understand that the lack of appropriate assistance is an impediment to international business; (2) move beyond outward forms.

3.2 Inward-Outward connections

As shown by the previous literature review, inward operations are linked to outward activities and this connection appears to be important for the overall internationalization process, with particular reference to its early stages. The aim of the present paragraph is to highlight some of the most significant researches and findings on the link between inward and outward operations.

Welch and Luostarinen (1993) classifies those links on a continuum where at one end there is direct relationship, typified by overt dependence and contracts, and at the other there is indirect relationship, characterized by little dependence of one movement on the other. The indirect link is developed, for example, through the widening of international contacts in another country through a foreign supplier. This process leads to the development of foreign market knowledge and contact network that may in turn lead to exporting. However it is important to note that these connections do not immediately arise but they evolve over time, and may be difficult to detect with a short-term
perspective. They conclude by stating that “the nature and extent of inward internationalization process, where it applies, may therefore have an important impact on the likelihood, timing, and pattern of the outward process” (Welch and Luostarinen, 1993, p.50).

Korhonen (1999) goes further in the analysis of such connections and classify them according to the different stages of the internationalization process where they may emerge and develop. At the beginning it is possible to find unilateral connections playing a significant role, in the form of a direct link from inward operations to outward operations. The author refers to imports of machinery, technological know-how, as well as raw materials and components in order to start production and international outward operations. Then there are bilateral connections involving a two-way interaction of international business partners, such as the using of a foreign supplier or distributor to help develop exporting operations. In this way the firm may be able to obtain detailed market knowledge through its dealing with the supplier. This is in line with the assumptions made by Johanson & Vahlne (1977, 1990), who maintain that the lack of such experiential knowledge is often seen as a reason for failing in a foreign market. Finally, multilateral connections involve links with a broader set of actors with a higher degree of interdependence, and influence in the move from inward to outward operations or vice versa. These links refer to inward–outward chains connecting a company with its foreign supplier, the customer and bank of the foreign supplier, and trade associations.

Karlsen et al. (2003) by the empirical investigation of a single in-depth case study, confirm that firm’s initial inward operations with the Russian market provided critical knowledge and network base for later operations on both outward and inward sides. Inward operations, in particular, represents a starting point to international activity and to penetrate a particular market and provide an essential basis for expanded operations. The analysis of the development of the case firm operations in Russia and of the different phases / timing in the development of inward-outward connections, leads to the identification of the following list of benefits:

1. more access to market knowledge;
2. expanded business networks;
3. more business opportunities;
4. improved quality and performance of new operations;
5. reduction of the time spent on the establishment phase of new operations;
6. risk reduction;
7. improved quality of outward activities because of the use of information and knowledge available from preceding inward activities;
8. deeper foreign market penetration.

These benefits depend mainly by the potential of knowledge creation deriving from inward-outward connections. In fact, business activities in the market lead to increased experience and specific market knowledge that reduce perceived uncertainty, facilitate the generation of new international business opportunities and hence influence the overall internationalization process (Karlsen et al., 2003).

In addition, this broader view of the internationalization process, allows to understand better the so called born global phenomenon (Fletcher, 2001; Karlsen et al., 2003) and previously hidden incremental development processes (Karlsen et al., 2003). In fact, as noted by Karlsen et al. (2003) the inward-outward connections perspective can explain movements from one stage in the internationalization process to another as well as deviations from the expected patterns which are not easily illustrated by traditional incremental internationalization process models (Johanson and Vahlne, 1977, 1990; Johanson and Wiedersheim-Paul, 1975).

The full potential of these connections, however, may be difficult to achieve because of a series of obstacles, Korhonen (1999) identifies several constraints:

1. distance between and within units. It depends on the growing size and operations in different locations, the presence of hierarchical organization structures, the increasing formality of communication between network actors, etc.;
2. perceived low-status nature of the purchasing function.

To these two variables, Karlsen et al. (2003) add a third one: how to formalize or transfer the knowledge within the firm. The author argue that the knowledge usually acquired through experience in the market remains tacit and linked to the person involved in specific events, hence there is the need to convert such individual tacit knowledge into more explicit, organizational knowledge.
3.3 Concluding Remarks

Inward operations have two principal roles (Luostarinen and Welch, 1990): (1) prerequisite for the establishment of the firm; (2) response to firms’ lack of commercial or technical knowledge in a country. In the context of international business, inward activities impact upon the likelihood, timing and pattern of the internationalization process (Luostarinen and Welch, 1993) because they:

1. provide knowledge about a specific foreign market;
2. act as links to access foreign networks;
3. make available knowledge and experience readily adaptable to similar demand on the export side;
4. assist with later outward moves.

The holistic approach presented by Fletcher (2001) and Jones’ (1999) classification of inward and outward operations are very useful to take this view at a more operational level. In fact, through the identification and classification of the various forms that inward (and outward) international modes may take, they clarify the different moves and decisions of a firm within its internationalization process. Moreover, the analysis of the inward-outward connections allows to explain movements from one stage in the internationalization process to another as well as deviations from the expected patterns which are not easily illustrated by traditional incremental internationalization process models (Karlsen et al., 2003).

From the literature review it is possible to distinguish two main categories of inward international activities: (1) buying abroad, we refer to operations dealing with international sourcing; (2) collaboration in IB, such as strategic alliances, countertrade, cooperative manufacturing, international projects, etc.

The studies analyzed so far deal mainly with the first type of operations (foreign sourcing activities) and do not address specifically other modes of inward-driven internationalization. Several authors (Ghymn et al., 1999; Holmund et al., 2007; Karlsen et al., 2003; Kaynak, 1997) stress the strategic importance of the purchasing functions within firms as a way to learn about foreign markets / international business and to support outward internationalization. However an important element seems to be overlooked by these researches: the characteristics of a firm’s domestic market. The
features of the economic and industrial system of the country of origin, may impact on the motivations and patterns of the internationalization process. For instance, a small domestic market may force a firm to look for additional customers overseas very soon, scarcity of raw materials may require to put strong efforts in the purchasing/import function, etc. In the same way the lack of know-how or technology may encourage to consider opportunities for overseas collaboration, such as cooperative manufacturing, joint production agreement, contract manufacturing for foreign-based firms. This appears to be the case of firms from emerging countries, in fact, they have benefited from inward internationalization at home by cooperating (via original equipment manufacturing -OEM- and joint venture -JV- agreements) with global players who have transferred technological and organizational skills, allowing emerging market enterprises to undertake outward internationalization later (Yadong and Tung, 2007). A study on the internationalization of Chinese firms made by Child and Rodrigues (2005) reveals that there are three main routes to internationalization: (1) the partnership route through OEM or joint venturing; (2) the acquisition route; and (3) the organic expansion route. The partnership route is a channel for realizing inward internationalization, whereas the second and third routes fulfill outward internationalization.

The next chapter of the thesis is dedicated to the examination of the first route identified above. It seems in fact that among the inward-driven internationalization not too much attention has been devoted to this cooperative or linked modes based on alliances, partnership and joint cooperation among firms from different countries. The perspective taken in this work is that of the domestic enterprise forming strategic alliances, JV, partnership with foreign firms through OEM, ODM or licensing of technology / know-how, as an effective mean of acquiring resources, knowledge, business practices relevant to eventual outward internationalization. In particular this topic will be studied with reference to emerging markets firms in order to assess: (1) starting point of their internationalization; (2) motivations to internationalize; (3) routes to internationalization and possible link between inward and outward activities.
CHAPTER IV - Internationalization of Emerging Market Firms

The traditional literature on firms’ internationalization is mainly based on large Western multinational enterprises (MNEs) and the internationalization motives and behaviors are largely explained by the eclectic paradigm of Dunning, which states that firms enter foreign markets to exploit their existing competitive advantages (Tsai and Eisingerich, 2010). In addition, much of the early literature on the process of internationalization adopts also an incremental view, suggesting that firms gradually deepen their commitment and investment as they gain more market experience in the process of internationalization (Johanson and Vahlne, 1977, 1990). However, firms from emerging markets, such as China, Brazil, India, Russia and Mexico, appear to follow unique internationalization processes compared to the ones of enterprises from advanced markets (Tsai and Eisingerich, 2010) and the above mentioned views are not able to explain in-depth their behaviors and decisions. Liu et al. (2008) find that the internationalization of Chinese private firms can only be partially explained by the Uppsala model and Rui and Yip (2008) observe that large Chinese firms internationalize mainly thorough cross-border acquisitions rather than by expanding through sequential stages of international expansion as postulated by the IP theory. Usually these companies do not follow an evolutionary path in selecting entry modes and locations (Luo and Tung, 2007) and they do not comply with the incremental approach in internationalization even if they recognize the importance of learning and international experience, two central concepts of the process theory developed by Johanson and Vahlne (1977, 1990). It seems that a new framework is needed to understand the rationale, motives, decisions and challenges in the course of emerging market firms’ international expansion. The reasons of their distinctive behaviors can be summarized as follow:

1. lack of *ex-ante* ownership advantages, considered as preconditions for internationalization by traditional internationalization theories, such as the OLI paradigm (Li, 2003, 2007; Luo and Tung, 2007);
2. *latecomer* disadvantage and competitive weaknesses due to the lack of technological, management, international and linguistic knowledge (Aulakh, 2007; Child and Rodriguez, 2005; Deng, 2009; Li, 2003, 2007, 2010; Liu and Thian, 2008; Luo and Thung, 2007);

3. pressures from global rivals, quick changes in technological and product development, domestic institutional constraints (Child and Rodriguez, 2005; Deng, 2004; Liu et al., 2008; Liu and Thian, 2008; Luo and Thung, 2007, Yang et al., 2009);

4. need to overcome critical bottlenecks, such as poor governance and accountability, lack of global experience, managerial competence and professional expertise, weak technological and innovation capabilities. This argument is also known as *bounded entrepreneurship* (Liu et al., 2008), in the sense that, especially private-owned firms from countries, such as China, are limited by low education, experience, unfavorable institutional arrangements and lack of managerial, technological, linguistic knowledge.

In particular it appears that a firm:

1. can internationalize and invest abroad not only after reaching a strong competitive position in the domestic market and after having accumulated exceeding resources;

2. can expand also in countries characterized by a higher level of development than that existing in the domestic country in order to acquire new knowledge.

Therefore, mainstream theories, such as the OLI paradigm (Dunning, 1988) and the IP theory (Johanson and Vahlne, 1977, 1990; Johanson and Wiedersheim-Paul, 1975) deriving mainly from the analysis of Western multinational corporations, need to take into account the unique characteristics of the Chinese context together with the *latecomer perspective*, in order to grasp the patterns and motives for internationalization by emerging market firms.

In fact, from the above mentioned list, internationalization does not appear to be motivated by firms’ wish to exploit an existing competitive advantage overseas, but rather by the need to address a relative disadvantage and to catch up with Western

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6 The latecomer disadvantage is due to the fact that EM firms have started internationalization very late compared to firms from advanced economies. For this reason they suffer from competitive disadvantages relative to MNE early-movers (Li, 2010).
companies in terms of technology, know-how, experience, brand (Child and Rodriguez, 2005). As noted by Yadong and Tung (2007), firms from emerging countries focus on the advantages that can be acquired externally and they use routes such as, OEM, ODM, cooperative alliances, etc. to overcome problems of market intelligence. Chinese firms, in particular, also engage in internationalization using an inward looking approach, importing products, becoming licensee or franchisee for a foreign firm or forming international JVs (Li, 2001). As noted by Young et al. (1996), through inward internationalization they accumulate considerable financial and operational assets, upgrade technological and management skills, develop unique capabilities and learning experiences.

The discussion, so far, seems to suggest that there are unique traits that characterize the international expansion of EM MNEs with particular reference to (Luo and Tung, 2007):

1. the internal and external forces that might compel or facilitate their propulsion into the global scene;
2. the unique motivations that steer them toward internationalization;
3. the peculiar strategies and activities undertaken in pursuit of international expansion.

According to this elements, the aim of this chapter is to review existing literature on the internationalization of emerging markets firms with particular reference to their:

1. “starting point”. Several authors define them as latecomers (Aulakh, 2007; Child and Rodriguez, 2005; Deng, 2009; Li, 2003, 2007, 2010; Liu and Thian, 2008; Luo and Thung, 2007);
2. motivations to expand internationally;
3. routes toward internationalization.

The chapter is organized according to these three main themes and ends with the elaboration of a conceptual framework integrating the main findings of the review. The following table illustrates the different authors analyzed in the review and contributing to the above mentioned points.
Figure 15. The internationalization of EM firms. Main contributions

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4.1 EM firms internationalization. The starting point

Firms from emerging markets differ from those from more advanced economies because they start their international expansion later, facing the challenges and advantages of globalization. On the one hand they might be advantaged by the improvement in ICT, transportation, access to information, etc. but on the other they have to face since the beginning an intense competition from foreign MNEs in both domestic and international markets. Mathews (2002) note that EM firms are typically resource-poor and this will engage in searches to capture resources that can be internalized and transformed into dynamic capabilities essential for competing in demanding, technology-intensive markets. Several authors describe them as latecomers (Aulakh, 2007; Child and Rodriguez, 2005; Deng, 2009; Li, 2003, 2007, 2010; Liu and Tian, 2008; Luo and Tung, 2007; Mathews, 2002, 2006) as “those firms from the
developing economies that have started internationalization very late and suffer from competitive disadvantages relative to MNE early-movers” (Li, 2010, p.43). There is an agreement in literature on the fact that MNE latecomers tend to differ from MNEs early-movers especially at the early stage on their evolution in the process of internationalization (Narula, 2006; Li, 2007). In fact, a fundamental assumption typical of Western models of international expansion is that the firm already possesses the technology and product-related knowledge required to meet the needs of the foreign markets, and internationalization is undertaken in order to exploit this stock of existing know-how, or ownership advantages (Dunning, 1988).

However, while MNEs from developed countries, focus on how to apply and exploit existing internal advantages (asset-exploitation), MNE latecomers emphasize asset-exploration (Li, 2007; Mathews, 2006). In fact because of the different internal and external conditions experienced, they do not start from a position of exploiting ex ante strengths but they rather have an acute need for acquiring ex post new advantages (Li, 2007).

Child and Rodriguez (2005) describe those firms as characterized by: lack of brand development and international reputation, limited marketing capabilities and access to advanced technology, lack of intellectual property rights regulations and limited access to qualified human resources. To these factors, Loane and Bell (2011) in a recent inquiry on the internationalization behaviors of Chinese electronics SMEs, add the limited access to capital and knowledge of foreign markets opportunities (which however might be a similar starting point also for developed countries’ SMEs). Aulakh (2007) recognizes the initial resource hurdles and technological gap that create a latecomer disadvantage in international markets. The argument of the initial competitive disadvantage is also presented by Luo and Tung (2007) who maintain that the reason is the lack of consumer base, brand and technological leadership. If we consider also the domestic institutional constraints faced by those companies, a study of Liu et al. (2008) on the internationalization of private-owned Chinese firms presents the argument of bounded entrepreneurship which explains their competitive position and unique internationalization patterns. Embedded in a transitional and emerging country, Chinese entrepreneurs are bounded by their low education and experience and by unfavourable institutional arrangements. Moreover, due to limited technological, managerial and linguistic knowledge:
(1) they have limited capabilities in assessing the degree of integration and homogeneity of the domestic and foreign markets; (2) they have bounded entrepreneurial cognition of international business opportunities and hence tended to start their businesses in the home market; (3) they do not have business networks and experiential knowledge about foreign markets and operations, they either “waited for windfall” or strove to obtain the information by other means such as attending exhibitions.

These studies confirm that Chinese firms experience an ownership disadvantage which can be considered as a pre-condition for them as latecomers to internationalize and become a MNE (Li, 2003, 2007; Luo and Tung, 2007).

Internationalization is thus viewed as a response to their lack of competitive advantages and can be well described as “a process of transferring a firm's knowledge across borders, whether it is knowledge underlying technology, production, marketing or other activities” (Aulakh, 2007, p.237).

This view is presented also by more recent studies, such as the one of Parmentola (2011) on the analysis of the internationalization strategies of Chinese MNEs, which confirms that internationalization can be viewed as a compensatory response to their latecomers position on the global stage.
4.2 The motivations for internationalization

As noted by Lu et al. (2011) a major difference between EM firms and companies from developed economies is that the former are driven by different motives: while firms from developed countries are more likely to exploit their competitive advantage established at home (Dunning, 2001), EM firms need to balance asset exploitation and exploration in the process of internationalization and to use FDI as a springboard to acquire strategic resources (Luo and Tung, 2007, Yamakawa et al., 2008). Because of the ownership disadvantages experienced by EM firms, the exploitation of existing ownership advantages can no longer be considered as the principal motive and precondition for international expansion and FDI (Li, 2003, 2007; Luo and Tung, 2007). Luo and Tung (2007) in their discussion on the unique characteristics of the internationalization of EM firms, maintain that they are driven by distinctive motivations and especially by learning objectives. In fact their purpose is to overcome the initial resource hurdles arising due to technological gaps and late mover disadvantages in international markets (Aulakh, 2007). The motivations behind EM firms internationalization appear to be more centered around “asset seeking” rather than “asset exploitation” motives (Aulakh, 2007). Several authors confirm this view (Athreye & Kapur, 2009; Child and Rodriguez, 2005; Deng, 2004, 2009; Lee and Slater, 2007; Li, 2003, 2007, 2010; Liu et al., 2008; Liu and Tian, 2008; Luo and Tung, 2007; Tsai and Eisingerich, 2010; Yang et al., 2009; Young et al., 1996) and stress that the exploration of new ownership advantages in terms of advanced technologies, market channels, etc. is a critical motivation for internationalization.

Looking more closely to Chinese firms, Loane and Bell (2011), even if they recognize the pivotal role of decision-makers and entrepreneurs with their subjective characteristics (attitudes, perceptions and personality) and objective characteristics (knowledge, experience and networks) in the choice to go international, maintain that Chinese companies experience a different situation. In fact they do not move abroad to exploit a competitive advantage but to avoid a number of competitive disadvantages including regional protectionism, limited access to capital, lack of developed intellectual property rights, poor local infrastructure and under-provision of training and education that limits access to skilled human resources (Boisot, 2004 in Loane and Bell, 2011).
This view is characterized by a sort of *institutional escapism* (Yamakawa et al., 2008) and adds another motivation to go abroad: the desire to avoid the poor institutional domestic environment.

In literature it is also possible to find a *springboard* view on internationalization (Luo and Tung, 2007; Mathews, 2002) stating that EM firms use international expansion as a springboard to:

1. compensate for their competitive disadvantages;
2. overcome their latecomer disadvantages in areas such as: consumer base, brand recognition, technological leadership;
3. counter-attack global rivals in their home country market;
4. bypass stringent trade barriers;
5. alleviate domestic institutional constraints;
6. secure preferential treatment offered by emerging market governments.

The motives for such behaviors can be summarized referring to the concepts of asset-seeking (acquisition of technology, brands and distribution network, management expertise and experience) and opportunity-seeking. In addition there are also two important push and pull external factors that further encourage EM firms to go abroad (Luo and Tung, 2007):

- institutional embedded constraints such as limited property rights protection, weak judicial and legal systems and unexpected changes to regulatory policies. Firms attempt to avoid these constraints by investing abroad;
- less institutionally embedded but favorably evolving government policies that encourage local firms to expand. In the case of China, the government sponsors overseas expansion through the provision of low-interest loans to fund the purchase of foreign companies from sources it controls such as state banks.

It is possible to classify the motivations analyzed so far into two main groups:

1. asset-seeking / exploring motivations because of the need to overcome resource deficiencies. In particular, *latecomers*, through internationalization, aim to gain experiential knowledge on foreign markets and operations, networks contacts, advanced technology, brand reputation, management expertise, and access to global supply chains;
2. need to overcome domestic institutional constraints, such as regional protectionism that limits the opportunities otherwise offered by a large domestic
market to exploit economies of scale; limited access to capital that prevents investment in plants of optimal scale; lack of developed intellectual property rights that limits access to state-of-the-art technologies; under-provision of training and education that limits access to skilled human resources; poor local infrastructure that increases transport costs; and regional markets that are fragmented by provincial and municipal protectionism (Child and Rodriguez, 2005; Zhang, 2005).

The motives for the international expansion of Chinese firms are consistent with the view that they regard internationalization as the means to better equip themselves to gain competitive strength (Child and Rodriguez, 2005). Many EM firms, experience internationalization as a key means to achieve strategic learning and capability building in order to be able to catch-up with other MNEs (Sun Li, 2009).

If we link the starting point of latecomers with the first category of internationalization motives, it appears that a central element to their evolution is cross-border learning. This leads to a learning-based view of internationalization (Li, 2010) consistent with Jones and Coviello’s (2005) conceptualization of internationalization as an entrepreneurial process of behaviour in time. There are two possible learning trajectories defined as “a pattern or path of learning delineated by both learning motive and learning capability” (Li, 2010, p.46), a firm can follow: exploratory or exploitative. Exploratory learning is characterized by the acquisition of new knowledge from external sources or by the creation of novel knowledge by oneself or joint effort. On the other hand, exploitative learning is characterized by deepening or applying one's own or joint extant knowledge. The different patterns of international evolution among different firms can be explained in terms of unique learning trajectories. For example the learning trajectory of latecomers is based on the exploration of ex post advantages, however their challenge is the need to balance exploration and exploitation, which is difficult task because of the lack of slack resources (Li, 2003, 2007; Mathews, 2002). This is consistent with Child and Rodriguez (2005), the authors in fact maintain that due to the need for asset exploration of firms from emerging economies, exploratory learning is a critical element.

The next paragraph deals with the possible routes to internationalization of EM firms. This is an interesting topic to study, because, as noted by Li (2003) the difference in
ownership advantage between the earlymovers firms and latecomers gives rise to the difference in strategy and pattern of MNE evolution between the two groups. In particular, the lack of ownership advantage in the case of latecomers results in an intensive use of strategic alliance for learning and networking, leading to an accelerated pattern of MNE evolution to catch up with the MNEs as early-movers.

4.3 The routes to internationalization

The starting point and unique motivations to expand overseas influence the routes to internationalization and the entry mode choice of EM firms. A paper of Young et al. (1996), based on case studies of five Chinese SOEs, explains the importance of the inward and outward internationalization process as mechanism of facilitating competitive catch-up by developing country MNEs. This approach draws on previous studies of Luostarinen (1979), Welch and Luostarinen (1993) stressing the contribution of inward and cooperative modes of internationalization to subsequent outward international business activities. The main findings of the study of Young et al. (1996) can be summarized as follows:

- equipment purchases, technology imports (mainly through licensing) and the establishment of JV in China with foreign partners has been an important component of inward technology transfer and international learning;
- inward internationalization facilitated technological upgrading, the development of unique capabilities and hence outward internationalization;
- Chinese government policies had important influences on the firms’ outward internationalization;
- regarding factors influencing mode choice, home country variables probably provided the major stimulus initially, thereafter firm-level and host country factors were probably predominant.

In addition, a study on Korean firms (Hwang, 1994), confirmed the important role of the government and both of non FDI and FDI forms of inward technology acquisition in different types of firms. The principal mechanisms for technological enhancement identified were: (1) assistance from foreign buyers to Korean subcontractors to innovate and improve product quality and design and production processes; (2) inward investment by foreign MNEs in offshore processing, mainly in consumer electronics.
Concerning China, there is a growing body of empirical research relating to inward FDI reflecting the fact that the country had become the largest recipient of worldwide FDI flows by the 1990s (Young et al., 1996) and is today the world’s largest recipient of inward FDI (Child and Rodriguez, 2005).

Li (2003), drawing from a longitudinal case study on ACER, shows that transaction costs are not any more the only determinant for entry mode choice because the opportunity for better learning about the tacit knowledge through partnerships represents an important factor due to the associated high transaction value. According to this view, strategic alliances are not a second best solution to wholly owned entry modes because they allow latecomers to reduce transaction costs and especially to increase transaction value. In addition the establishment chain is not the most viable entry mode strategy, in fact many MNEs from developing countries started with inward internationalization and they subsequently leapfrog the chain so as to catch up with other early-established MNEs from advanced countries. Also the relevance of psychic distance is challenged because EM firms need to compensate for their competitive disadvantages and obtain advanced technologies, know-how, management expertise, etc. as well as strategic partners from the developed countries.

Chinese firms, given the lack of business networks and experiential knowledge about foreign markets and operations, according to the bounded entrepreneurship argument (Liu et al., 2008) carry out inward-oriented internationalization activities to acquire technological and managerial knowledge before they started outward-oriented activities. This is in line with the idea that even prior to firms moving into international markets, EM companies would need to upgrade their technological and scientific know-how so as to be able to offer products commensurate with the more advanced needs of the international markets (Aulakh, 2007). Many times, inward internationalization can act as a starting point to international activity (Mathews, 2006). In an empirical study on Chinese firms internationalization and performance, Li (2001) highlights that while much of the extant literature focus on outward internationalization, Chinese companies also engage in internationalization using an inward looking approach, importing products, becoming licensee or franchisee for a foreign firm or forming international JVs. A similar evidence can also be found among Turkish firms, in a recent study of
Yaprak and Karademir (2010) the relevance of inward internationalization serving as alliance partners at the beginning of the international expansion of Turkish firms is stressed. The case study on the internationalization of Huawei (Sun Li, 2009) confirms the use of an inward approach to complement firms’ strength and offset its weakness in the global marketplace. In a comparison between the internationalization strategy of Tata and Haier (Duyster et al., 2009) it comes out that at the beginning of their international expansion, both firms started with the acquisition of technology from abroad through purchasing from or strategic alliances with foreign firms. Also in this case it is possible to recognize an inward oriented approach to internationalization. Moreover, other empirical studies on the internationalization in the form of outward FDI by Chinese MNEs (Deng, 2004) reveal the importance of having accumulated indigenous assets over two decades of growth, largely through huge inward FDI and superior technology transfer. In the rise of Chinese MNEs, Guthrie (2005), looking at a sample of firms from Shanghai, found out that inward partnerships with developed country MNEs allowed Chinese companies to strengthen their international competitiveness and outward international activities.

Li (2007), using a multiple case method based on three Chinese MNEs (Haier, Lenovo and TCL), shows that a common element to all the studied latecomer firms is the importance of inward internationalization in terms of local alliance partners for foreign MNEs in the area of local marketing or local OEM supply, as an opportunity to learn about the initial manufacturing technologies, marketing skills and managerial expertise. Moreover, strategic alliances (e.g., OEM and joint venture) are recognized as the best mode to enter global supply chains for MNE latecomers to catch up with MNE early-movers in an accelerated manner (Li, 2007; Mathews, 2002). This approach is consistent with the learning-based view of internationalization recently illustrated by Li (2010). Central to the evolution of latecomers firms is the concept of cross-border learning and entry strategies represent one of the primary applications of such learning with two main possibilities: hierarchy, which is best for exploiting extant core competences (exploitative learning), and strategic alliances, best for exploring a novel core competence (explorative learning) and representing a unique organizational form for bilateral learning.

The springboard perspective on internationalization presented by Luo and Tung (2007) clarify the link between the internationalization strategies of EM firms with their asset-
seeking or opportunity-seeking motivations. They undertake several strategies including inward-oriented ones ranging from import, OEM, ODM (original design manufacturing) or OBM (original brand manufacturing) to cooperative alliances and equity joint ventures that can also stimulate their outward internationalization efforts. Usually EM firms tend to focus on advantages that can be acquired externally through OEM arrangements and, in general, through inward internationalization, they accumulate financial and operational assets, upgraded technological and process management skills, and develop unique capabilities and learning experiences (Young et al., 1996). The result is a more in-depth understanding of international markets which help them develop international experience. OEM, ODM and OBM offer local firms the advantages of preserving their own identity, achieving economies of scale, and gaining an international reputation for manufacturing excellence in their own right. Cooperative alliances and joint ventures, on the other hand, integrate local firms more closely into the internal network of their foreign partners. This may help to explain why emerging economies that have been successful in attracting inward FDI (e.g., China and India in Asia, Brazil and Chile in Latin America) have been able to quickly increase their outward FDI.

The argument of inward internationalization is also useful to explain the characteristics of EM firms’ outward internationalization, which appears to be characterized by rapidity and leapfrog trajectories. These firms in fact do not internationalize in an incremental fashion as predicted by IP theory (Johanson and Vahlne, 1977, 1990) because as latecomers on the global stage they have to accelerate the pace of internationalization so as to catch up with that of earlymovers. This is consistent with Li (2003), according to whom the establishment chain is not the most viable entry mode strategy. Many MNEs from developing countries started with inward internationalization and they subsequently need to leapfrog the chain so as to catch up with other early-established MNEs from advanced countries. Moreover while IP theory suggests that firms enter new markets involving successively greater psychic distance, many EM MNEs’ start to internationalize in highly distant countries such as Europe and North America. They start to internationalize in those markets where there are more opportunities for their products, even if they are less familiar. This has been explained also by Li (2003), who maintains that psychic distance is not the most viable entry point strategy for EM firms because they need to obtain advanced technologies as well as strategic partners from the developed countries. Moreover, an explanation for this
trajectory can be found in the preceding process of inward internationalization which, in part, has attenuated the perceived psychic distance and liability of foreignness\(^7\) (Luo and Tung, 2007). In addition, cooperation via joint ventures or strategic alliances between EM companies and advanced market and NIC MNEs during inward internationalization foster cooperation between them when they themselves venture abroad. Drawing from the above analysis, a possible illustration of the internationalization patterns of EM firms is presented in Figure 16.

**Figure 16. Internationalization pattern of EM firms**

In a recent paper, Li (2010), has further developed the view on internationalization as a way of cross-border learning and identifies several *learning trajectories* leading to different entry strategies. In particular, *latecomers* tend to adopt OEM initially; then ODM after acquiring the necessary manufacturing capabilities, and finally OBM after gaining the major marketing capabilities (Child and Rodrigues, 2005; Li, 2003, 2007). While OEM is often involved in a transfer of required technological know-how from foreign buyers to local suppliers, there is no such a need in the case of ODM, where local suppliers will only rely on the marketing expertise of foreign buyers. In this sense, OEM appears more oriented to exploratory learning than ODM and OBM, but OEM may also be regarded as exploitative because it is primarily an application or extension of extant manufacturing capabilities. Moreover, OEM and ODM are defined as bilateral, in contrast to OBM as unilateral\(^8\), because the learning via OEM (ODM)

\(^7\) The ‘liability of foreignness’ has been defined as ‘the costs of doing business abroad that result in a competitive disadvantage for a multinational enterprise (MNE) subunit’ (Zaheer, 1995, p. 342).

\(^8\) A second dimension of learning consists on the difference between *unilateral* learning and *bilateral* learning. The first refers to a trajectory of learning by a single firm, either internally alone or externally from other passive parties. The external unilateral learning often takes the form of modes of knowledge
requires both buyers and suppliers to cooperate beyond the market transaction. A particular position is given to alliances because they allow to balance exploration and exploitation and to address the need for complementary assets from external sources, and latecomers’ core rigidity (in terms of difficulty in switching from exploitation to exploration).

At a more strategic level Child and Rodriguez (2005), identify three main routes being taken by Chinese firms toward internationalization:

1. partnership route through OEM or joint venturing;
2. the acquisition route;
3. the organic expansion route.

The partnership route is a channel for realizing what may be termed ‘inward internationalization’, whereas the second and third routes are ones to fulfill ‘outward internationalization.

For the purpose of this work, the focus will be on the first route including: forming joint ventures with foreign enterprises and entering into a partnership with them through original equipment manufacturing or licensing their technology. Evidence suggests that partnership with a multinational enterprise, more so than with an overseas Chinese firm, can be an effective means of transferring modern practices to the Chinese firm thereby helping to strengthen its eventual international competitiveness (Child and Yan, 2001; Guthrie, 2005). This route amounts to a kind of ‘inward’ internationalization in which there is a close, continuing, relationship with one or more multinational enterprises that permits the transfer of competencies and knowledge relevant to eventual ‘outward’ internationalization through exporting and/or investment abroad. Moreover, OEM allows to combine the cost advantage of a Chinese enterprise with the brand advantage of a foreign firm.

The following Figure 17 compares the two main inward-oriented strategies presented by Child and Rodriguez (2005).

---

transfer, such as licensing, M&A, and majority-equity JV, where only one party is active in knowledge transfer, so it is an asymmetrical and imbalanced learning with a passive partnership. While bilateral learning refers to a trajectory of interactive learning with all the partners being actively involved, either to jointly utilize the complementary resources, or to jointly create novel assets (Li, 2010).
**Figure 17. Inward routes to internationalization**

<table>
<thead>
<tr>
<th>OEM for a foreign company</th>
<th>JV with foreign partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>It offers to Chinese firms:</td>
<td></td>
</tr>
<tr>
<td>• advantages of preserving their own identity</td>
<td></td>
</tr>
<tr>
<td>• achieving economies of scale</td>
<td></td>
</tr>
<tr>
<td>• gaining a reputation in their own right for manufacturing excellence</td>
<td></td>
</tr>
<tr>
<td>• accumulation of financial resources that can be used to acquire international assets later on</td>
<td></td>
</tr>
<tr>
<td>• the opportunity to build up an independent international reputation</td>
<td></td>
</tr>
<tr>
<td>Joint Ventures:</td>
<td></td>
</tr>
<tr>
<td>• ties a Chinese firm more closely into the internal network of that partner. This can offer a more effective channel for the transfer of tacit knowledge to the Chinese partner, not just in production and distribution but also in other areas where internationally competitive standards need to be achieved</td>
<td></td>
</tr>
<tr>
<td>• allow the transfer of tacit knowledge and the effective use of technology by the Chinese firm</td>
<td></td>
</tr>
<tr>
<td>• entail the risk for the Chinese partner’s identity to be subsumed into that of the joint venture, which is often associated with the foreign partner’s name and reputation rather than with those of the Chinese partner.</td>
<td></td>
</tr>
</tbody>
</table>

Source: personal elaboration from Child and Rodriguez (2005)

In particular it seems that while joint ventures may offer an effective path towards securing the technological basis for a differentiation advantage, they may not be as effective as the OEM route for Chinese firms to build up an independent international reputation.

Concerning Child and Rodriguez (2005) analysis, the main advantages and disadvantages of the inward routes discussed are illustrated in Figure 18.
The analysis of the case of Galanz and Huawei conducted by Child and Rodriguez (2005), illustrates that Chinese firms in order to compete in higher value-adding markets, differentiation\(^9\) and brand advantages\(^{10}\) are required and the need to acquire or strengthening them represents a driver for their internationalization. This can be achieved through an inward oriented approach to internationalization, with particular reference to long-term contracts or partnerships with leading foreign companies as a means to learn about international production and quality standards as a preparation for outward FDI.

As noted by several authors (Lou and Tung, 2007), although further investigation is necessary, inward investment, allowing EM firms to overcome their initial competitive disadvantage and helping them to accumulate international experience, seems to have fostered accelerate EM MNEs’ subsequent outward internationalization.

\(^9\) Differentiation is gained when the market perceives products to stand out from those of competitors in a way that customers approve.

\(^{10}\) A brand advantage is gained when customers are willing to pay a higher price for a product even though it has the same qualities and functions performance as competing products.
4.4 Concluding remarks

The Chinese case conforms more closely to the latecomer perspective than to analyses derived from the exploitation of firm-specific advantages by already strong companies. It seems that greater attention needs to be given to the ways in which initially disadvantaged firms from countries like China can acquire the necessary assets to offset these disadvantages through a close association with foreign MNCs or obtaining them abroad.

The determination of Chinese firms to address their international competitive weaknesses, and the strategies they employ to do so, appears to have been inadequately recognized in the mainstream literature that remains too wedded to the thesis that internationalization proceeds on the basis of prior competitive advantage (Child and Rodriguez, 2005). This thesis gives insufficient weight to the role of both ‘inward’ and ‘outward’ internationalization in addressing competitive disadvantages through learning and/or asset acquisition. The internationalization process of Chinese firms shows the importance of their capacity for organizational learning which should not be underestimated because it represents one of the most important of all competitive advantages (Moingeon and Edmonson, 1996).

While firms from developed countries, focus on how to apply and exploit existing internal advantages (asset-exploitation), latecomers emphasize asset-exploration (Li, 2007; Mathews, 2006) because they:

- start from an acute need for acquiring ex post new advantages by becoming MNEs;
- do not start from a position of exploiting ex ante strengths;
- expand internationally to overcome their existing disadvantages by acquiring the needed advantages overseas (i.e., asset-exploration or asset-seeking) via non-equity alliances (Li, 2003, 2007; Mathews, 2006).

The significance of this perspective lies in the three key implications for modifying and enhancing existing literature (Li, 2003, 2007, 2010; Mathews, 2006):

1. ownership advantages are not a prerequisite to become a MNE but rather a strategic motive or a goal to achieve after MNE formation. The initiating point of MNE formation in the evolutionary process starts earlier with asset-seeking rather than asset-exploiting, and with inward investment (in terms of serving as
the local alliance partners for MNE early-movers for local marketing or global supply chains via original equipment manufacturing arrangement or OEM) rather than outward investment (Child and Rodrigues, 2005);

2. evidence of MNEs latecomers from less developed countries such as China shows that they tend to invest in developed countries, such as Europe and US, challenging the OLI model maintaining that MNE latecomers will invest in the less developed countries rather than in the more developed ones;

3. entry mode. Latecomers MNEs often use external or partial internalization modes (non equity strategic alliances, contracting, etc.) rather than full internalization.

From this review of the literature it is possible to elaborate a conceptual framework attempting to integrate the different perspectives analyzed: the learning-based (Li, 2007, 2010), the springboard (Luo and Tung, 2007; Mathews, 2006), the institutional escapism (Yamakawa et al. 2008) and the strategic asset seeking (Child and Rodriguez, 2005; Deng, 2004, 2009; Rui and Yip, 2008). Figure 19 below illustrates the model linking together the starting point of EM firms with their motivations for internationalization and routes.

Figure 19. Framework for the internationalization of EM firms

EM firms starting point, characterized by their latecomers position and the unique features of their domestic environment, determines the motivations to expand abroad which in turns shape the internationalization routes undertaken by those companies. The literature review stresses: the importance of learning as a criteria in the choice of the internationalization strategy, the role of inward-oriented internationalization, especially at the early stages of their international expansion and the subsequent leapfrog of some
of the steps presented by the establishment chain theory in order to catch up with early-movers MNEs. Also the choice of the foreign market follows a different logic and psychic distance does not appear to be determinant.
CHAPTER V – Research Method

A research can be defined as a systematic, methodological and rigorous enquiry or investigation into a question or issue of concern. The process is designed to add (publicly) knowledge and cast light on the question in a reliable and trustworthy manner (Gray, 2003). The continuous interaction between the researcher and the object of the study makes the research possible and allows to improve the understanding of the world around us. To achieve this goal it is essential to approach the research in a systematic and rigorous manner as suggested by the above definition. Only in this way we will obtain reliable results and add new knowledge to the exiting one. The aim of this chapter is to clarify the research design employed in this study and the process leading to intellectual discoveries and knowledge creation.

The structure is similar to the one suggested by Zalan and Lewis (2004) and published in the *Handbook of Qualitative Research Methods for International Business* in order to present a transparent account of the selected methods.

The main elements of this chapter are the following:

1. justification of the methodology;
2. research design;
3. assessment of the study.

5.1 Justification of the methodology

Choosing a methodology is a critical decision in research because it determines what we can study as well as the range of possible results and conclusions (Alder et al., 1989). In order to justify this choice it is important to clarify the philosophical worldviews influencing the practice of research. A philosophical worldview is defined as “a basic set of believes that guide action” (Guba, 1990, p.17), Crotty (1998, p.7) refers to the term *theoretical perspective* and defines it as “the philosophical stance which lies behind our chosen methodology […]. Inevitably, we bring a number of assumptions to our chosen methodology. We need, as best we can, to state what these assumptions are. This is precisely what we do when we elaborate our theoretical perspective.” In general a research method cannot find justification by itself because it depends on the way of seeing and interpreting the world of the researcher. Philosophical considerations
represent the basis of the selected research design and method of inquiry and they include ontological and epistemological issues. Crotty (1998) in particular instead of using the broad term philosophical worldview refers to ontologies and epistemologies (Creswell, 2007). Miles and Huberman (1994) suggest to state them expressly in order to justify the choice of the selected research method.

Ontology refers to the nature of human reality which can be conceived as of an objective nature external to the individual or, the product of individual cognition and mind. In the first case reality is independent of the mind, in the latter is constructed by the individual mind.

Closely related to ontology is epistemology that is the philosophical theory of knowledge and it is concerned with what constitute warrantable knowledge and how a researcher can acquire it. In literature it is possible to find various approaches and the main two are: the positivist and the interpretivist (Zalan and Lewis, 2004).

It is possible to find also other classifications, the following Figure 20 illustrates an alternative classification based on the four major paradigms and their basic beliefs in terms of ontology, epistemology and methodology.

**Figure 20.** Basic beliefs associated with the major paradigms

<table>
<thead>
<tr>
<th>Paradigms</th>
<th>Basic Beliefs</th>
<th>Positivism/Postpositivism</th>
<th>Constructivist</th>
<th>Transformative</th>
<th>Pragmatic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ontology (nature of reality)</strong></td>
<td>One reality; knowable within probability</td>
<td>Multiple, socially constructed realities</td>
<td>Multiple realities shaped by social, political, cultural, economic, ethnic, gender, and disability values</td>
<td>What is useful determines what is true; participants perform reality checks by determining increased clarity of understanding</td>
<td></td>
</tr>
<tr>
<td><strong>Epistemology (nature of knowledge; relation between knower and would-be known)</strong></td>
<td>Objectivity is important; researcher manipulates and observes in dispassionate, objective manner</td>
<td>Interactive link between researcher and participants; values are made explicit; created findings</td>
<td>Interactive link between researcher and participants; knowledge is socially and historically situated</td>
<td>Relationships in research are determined by what the researcher deems as appropriate to that particular study</td>
<td></td>
</tr>
<tr>
<td><strong>Methodology (approach to systematic inquiry)</strong></td>
<td>Quantitative (primarily); interventionist; decontextualized</td>
<td>Qualitative (primarily); hermeneutical; dialectical; contextual factors are described</td>
<td>Inclusion of qualitative (dialogic), but quantitative &amp; mixed methods can be used; contextual and historical factors are described, especially as they relate to oppression</td>
<td>Match methods to specific questions &amp; purposes of research; mixed methods can be used.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Mertens (2010)
As it is possible to note each paradigm identifies a specific worldview and leads to different assumptions on the nature of reality and knowledge, which in turn influences the type of methodology chosen by the researcher. In international business research, the two most competing claims regarding what constitute warrantable knowledge are the postpositivist and the constructionist ones (Zalan and Lewis, 2004).

The postpositivist paradigm is the successor of positivism a philosophy based on the work of Aristotele, F. Bacon, J. Locke, A. Comte and I. Kant (Mertens, 2010) and holding that one reality exists and that is the researcher’s job to discover it. The basic beliefs are that the social world can be studied in the same way as the natural world and that the scientific method allows experimentation and measurement of what could be observed with the final goal of discovering the general laws and the existing casual relationships between variables. As positivism, also postpositivism identifies a deterministic philosophy based on the idea that causes determine effects and the key is to assess the causes that influence outcomes such as found in experiments (Creswell, 2007). However the main difference is that Postpositivism concurs that reality exists but it can be known only imperfectly because of the researcher’s human limitations. Therefore it is possible to know reality but only within a certain realm of probability (Mertens, 2010). Knowledge develops thanks to the observation and measurement of the objective reality that exists outside the individual mind. In particular reality is governed by laws and theories which need to be tested and verified in order to enhance our understanding of the world around us. The scientific method adopted usually is based on theory testing and the collection of data, evidences and rational considerations leading to new claims more strongly warranted that previous ones. The final aim is to describe the casual relationship existing among different variables and by posing this in terms of hypothesis or questions. An essential characteristic for the researcher is to be objective and to remain neutral to prevent biases from influencing the work. Concerning the methodology, it is based on the experimental methods from the natural sciences with some modifications in order to apply them to people (Mertens, 2010). In general, quantitative research methods are predominant with the final goal of theory verification.

The constructivist paradigm has its roots in the philosophy of E. Husserl, W. Dilthey and other German philosopher studying hermeneutics defined as the study of interpretive understanding or meaning (Mertnes, 2010). This approach reject the existence of an objective reality that can be known, reality, in fact, is socially
constructed by people and the researcher should attempt to understand the multiple social constructions of meaning and knowledge. For this reason some authors refer to *Social Constructivism* and the basic assumption is that “individuals seek understanding of the world in which they live and work. People develop subjective meanings of their experiences – meanings directed toward certain objects or things.” (Creswell, 2007, p. 8). The aim of the researcher is to understand and to catch the complexity of these multiple meanings. For this reason it is essential to access the participants’ views of the situation being studied. Open ended questions and discussions with the participants allow to understand their opinions on a particular situation and how they construct the meaning of the world around them. Moreover the researcher is also interested in the social, cultural background, the specific context in which participants live and work because these elements shape their interpretation. The researcher is interested in making sense of these meanings and interpretations others have about reality or about a specific phenomenon. In particular the inquirer tries to interpret and to generate meanings from the information and data collected personally in the field. Usually qualitative research methods with more personal and interactive mode of data collection are employed with the final goal of theory generation. Interviews, observations and document reviews are predominant in this paradigm because they allow the interaction between and among investigator and respondents leading to the discovery of the social construction of reality (Lincoln and Guba, 2000).

The phenomenon studied in this work is the internationalization of firms from EM markets and the definition adopted in chapter 1 deals with the process of expansion of firms’ activities across national borders. In particular, the relationships between the firm and the international environment, together with the behaviors of managers and entrepreneurs are concretely manifested in the internationalization process. Therefore, in order to understand its development it is essential to study the extensive range of such networks and behaviors. This is in line with Coviello and Jones (2005, p.285) who conceived internationalization as an “entrepreneurial process of behaviors” and the emerging field of study is concerned, by definition, with behavior and value-creating processes and for this reason in need of a more interpretive approach (Coviello and Jones, 2005).

It seems then appropriate to adopt a constructivist point of view, combined with a qualitative research method in order to understand the meaning of the phenomenon in
its social context. Qualitative methods, in particular, are characterized by the following main elements (Creswell, 2007):

1. means of exploring and understanding the meaning that individuals or groups ascribe to a social or human problem;
2. inductive style, focus on individual meaning and importance of rendering the complexity of a situation;
3. data typically collected in the participants’ setting;
4. data analysis inductively building from particular to general themes and the researcher making interpretations of the meaning of the data.
5. written report with a flexible structure.

The present study adopts a qualitative approach because it seems the more appropriate to understand the internationalization behaviors manifested by EM firms with particular reference to China.

5.2 Methodology

The purpose of this paragraph is to illustrate and explain the motives of the chosen method.

The papers analyzed in the previous chapter to build the literature review on EM firms’ internationalization can be divided according to the research method employed into four main categories:

1. conceptual contributions. Articles dealing with theoretical reviews and model development;
2. qualitative methods;
3. quantitative methods;
4. mixed methods. In this case the author use both qualitative and quantitative methods.

The following figure illustrates this classification.
Figure 21. Research method of articles on EM firms' internationalization

<table>
<thead>
<tr>
<th>Author</th>
<th>Journal</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Athreye &amp; Kapur (2009)</td>
<td>ICC</td>
<td>Conceptual contribution</td>
</tr>
<tr>
<td>Aulakh (2007)</td>
<td>JIM</td>
<td>Conceptual contribution</td>
</tr>
<tr>
<td>Child and Rodriguez (2005)</td>
<td>MOR</td>
<td>Qualitative method. Multiple Case studies</td>
</tr>
<tr>
<td>Deng (2010)</td>
<td>AMP</td>
<td>Conceptual contribution</td>
</tr>
<tr>
<td>Duyster et al. (2009)</td>
<td>ICC</td>
<td>Qualitative method. Comparative case study</td>
</tr>
<tr>
<td>Guthrie (2005)</td>
<td>MOR</td>
<td>Mixed method</td>
</tr>
<tr>
<td>Hwang (1994)</td>
<td>-</td>
<td>PhD Thesis</td>
</tr>
<tr>
<td>Lee and Slater (2007)</td>
<td>JIM</td>
<td>Qualitative method. Single case study</td>
</tr>
<tr>
<td>Li (2001)</td>
<td>AIM</td>
<td>Quantitative method</td>
</tr>
<tr>
<td>Li (2003)</td>
<td>APJM</td>
<td>Qualitative method. Single case study</td>
</tr>
<tr>
<td>Li (2007)</td>
<td>MOR</td>
<td>Qualitative method. Multiple case studies</td>
</tr>
<tr>
<td>Li (2010)</td>
<td>JIM</td>
<td>Conceptual contribution</td>
</tr>
<tr>
<td>Liu et al. (2008)</td>
<td>IBR</td>
<td>Qualitative method. Multiple case studies</td>
</tr>
<tr>
<td>Loane and Bell (2011)</td>
<td>AIM</td>
<td>Quantitative method</td>
</tr>
<tr>
<td>Lu et al. (2011)</td>
<td>MOR</td>
<td>Quantitative method</td>
</tr>
<tr>
<td>Luo and Tung (2007)</td>
<td>JIBS</td>
<td>Conceptual contribution</td>
</tr>
<tr>
<td>Mathews (2006)</td>
<td>APJM</td>
<td>Conceptual contribution</td>
</tr>
<tr>
<td>Parmentola (2011)</td>
<td>IJM</td>
<td>Qualitative method. Multiple case studies</td>
</tr>
<tr>
<td>Sun Li (2009)</td>
<td>MBR</td>
<td>Qualitative method. Single case study</td>
</tr>
<tr>
<td>Tsai and Eiseingerich (2010)</td>
<td>CMR</td>
<td>Quantitative method</td>
</tr>
<tr>
<td>Yamakawa et al. (2008)</td>
<td>ETP</td>
<td>Conceptual contribution</td>
</tr>
<tr>
<td>Yang et al. (2009)</td>
<td>APMJ</td>
<td>Qualitative method. Comparative case study</td>
</tr>
<tr>
<td>Yapra and Karademir (2010)</td>
<td>IMR</td>
<td>Conceptual contribution</td>
</tr>
<tr>
<td>Young et al. (1996)</td>
<td>MIR</td>
<td>Qualitative method. Multiple case studies</td>
</tr>
</tbody>
</table>

Of the selected 26 articles, 10 employed a qualitative methodology based on case study research, 8 are conceptual contributions, 1 adopted a mixed method approach with a...
quantitative analysis followed by a multiple case study and the remaining 6 are based on quantitative methods. Concerning the data collection, most of the papers employ secondary data. In particular among the qualitative studies, only 3 of them (Guthrie, 2005; Lee and Slater, 2007; Liu et al., 2008) rely also on primary data collected through interviews with firms’ managers and employees.

Sinkovics et al. (2008) in recent research article, argue that research in IB often deals with dynamic and volatile situations that demand creative and flexible research designs and methodologies. For this reason qualitative methodologies are important in helping “to find meaning behind the numbers” (Sinkovics et al., 2008, p. 690) and in providing flexibility without requiring large samples. The advantages of using a qualitative method can be summarized as follow:

- suitable to capture multi-dimensional phenomena, such as internationalization;
- more effective when a longitudinal perspective is required;
- more appropriate to understand and describe dynamic processes;
- more appropriate for holistic, dynamic and contextual explanations of a phenomenon.

As noted by Marschan-Pekkari and Welch (2004) there is a call for more research design of this kind and the main arguments in favour of qualitative IB can be summarized as follow:

- IB requires more sophisticated and theory development and then theory-generating research rather than empirical testing;
- qualitative research allows for deeper cross-cultural understanding and is less likely to suffer from cultural bias. This type of research allows to examine organizations and societies in their own terms and to take a more holistic perspective to the phenomenon and the research objects;
- it is preferable in developing countries where secondary data required for random sampling may be lacking and respondents may be unfamiliar with questionnaires, and on those cultures in which particular emphasis is based on the development of face-to-face relations and trust;
- it goes beyond the measurement of observable behaviours and seeks to understand the meanings and beliefs underlying actions.
In general qualitative research explains and provides answers to complex issues that may be difficult to investigate through quantitative methodologies, especially when the object of study deals with inter-relationships and cross-border behaviours. The challenges of IB qualitative research are the following (Marschan-Pekkari and Welch, 2004):

1. contextualization of qualitative research methods. It involves adapting the research design and methods to local conditions, altering research questions to incorporate local meanings and concerns, take account of problems of foreign locations and languages. In general, the research design must take into account environment peculiarities, resource constraints and cultural traits that characterize a foreign country. It is important to consider that a research design that fits at home may not be appropriate in a foreign location;
2. challenges of cross-national collaborative research. Group heterogeneity may be a liability as well as an asset. In particular, this type of team does not neutralise cross-cultural issues deriving from the distinct institutional and professional environments of the researchers;
3. rethinking research methods. Qualitative research should not be considered suitable only for explorative studies. In fact the method has an important role in theory building and testing, especially from an international point of view. Moreover alternative strategies and conceptualization of the interview data collection method need to be considered. Interviews have limitations and drawbacks, such as:
   - influence of the relationship between the researcher and the person interviewed;
   - use of an English-dominated approach in cross-cultural interviewing;
4. quality, publishing and codification of qualitative research. Usually triangulation is considered a good guide, however it is only a possible validation strategy (Andersen and Skaates, 2004).

Also a broader perspective on the development of qualitative research is suggested (Alasuutari, 2004). This will enable to share best common practices and to develop common methodological anchors and more standardized methods in qualitative research.

Concerning the limitations of quantitative research methods, the papers presented in figure 21 employing this methodology even if they give some insights on the
internationalization motives and modes of EM firms, they lack of a longitudinal perspective and do not seem to catch the complexity and dynamicity of internationalization which is a multidimensional process made of a series of behaviors, decisions, strategies and network relationships that develop over time and between individuals operating in different social and environmental contexts. This lack of a longitudinal approach is confirmed by Jones and Coviello (2005, p.500), who suggest that, firm internationalization’s research underpinned by logic-scientific mode of reasoning dominates the economic-based literature representing “static snapshot pictures of the situation at a point of time”. In the paper of Li (2001) even if the relationship between DOI and firms’ performance among Chinese firms is illustrated, the outcomes are limited to outward looking internationalization and the inward-oriented approach is completely left out of the study. Therefore, it may appear that the author obtains only a partial view on the studied phenomenon. In the studies of Liu and Tian (2008), and Deng (2009) it is possible to find a similar limitation because both papers focus on investment modes and FDI without considering other possible internationalization patterns, they lack of a more holistic perspective and their contributions with final results should be more closely combined with theory in order to build a more comprehensive and homogeneous body of literature.

In order to overcome these disadvantages and try to contribute to existing literature by enhancing the understanding of the complex and dynamic phenomenon of the internationalization of EM firms, a qualitative approach seems more appropriate. The research questions defined at the beginning of the work refer to the process of internationalization from a holistic point of view (it includes in fact both inward and outward oriented activities) and to the need of improving/ extending existing theories with new insights.

The study is not interested in testing a particular casual relationship or in the frequency of a phenomenon but in shading light on some aspects that have seemed to be neglected by extant literature. In particular the aim is to try to find a model including the peculiarities and key points of the internationalization of EM firms and that can be considered as a framework for its understanding.
As explained by Creswell (2007), the next step is to decide the *strategy of inquiry* as the type of method designs that provide specific directions in a research. Among the available qualitative strategies it is possible to find (Creswell, 2007):

- ethnography. Strategy based on the study of an intact cultural group in a natural setting over a period of time by collecting primarily, observational and interview data;
- grounded theory. The researcher derives a general, abstract theory of a process action or interaction grounded in the views of the participants;
- case studies. The researcher explores in depth a phenomenon, event, activity or process over time, through detailed, in-depth data collection involving multiple sources of information (observations, interviews, audiovisual material, documents and reports) and reports a case description and case-based themes.

For the purpose of this work, a case study research design has been chosen because it is expected to advance our understanding of the research phenomenon rather than generalization.

Yin (1994), defines case studies as rich, empirical descriptions of particular instances of a phenomenon that are typically based on a variety of data sources.

The method is useful when the area of research is relatively less-known and the researcher is engaged in theory building types of research. In addition, as reported by Yin (1994), case studies are preferred when:

- “how” and “why” questions are to be answered;
- the researcher has little control over the events;
- the focus is on real-life context.

Eisenhardt (1989) adds that case studies are suitable when little is known about the phenomenon or the current perspectives seem inadequate because they have little empirical substantiation or they conflict one each other. Or, when a new perspective is needed.

As explained by Ghauri (2004) case studies are employed not only to provide insight into an issue or a new theory but also to investigate IB topics such as international JV, market entry processes, etc. because they provide with more in-depth understanding and insights into culturally embedded problems in the IB field.

Why do case studies have the potential to deepen the understanding of a phenomenon? Because they (Ghauri, 2004):
1. allow to take a longitudinal view. The researcher compare the historical review of the material of the company with interviews, direct observations, etc.
2. are contextual to the natural setting. In international business this is an important strength because you need to take account of national settings, etc.
3. require a level of depth that allows theory building and not only theory testing;
4. are holistic, permitting the investigation of a phenomenon from a variety of viewpoints, covering a period of time and crossing boundaries between different factors.

As this dissertation aims to extend the existing literature on the internationalization by the analysis of emerging markets, the case study method appears to be appropriate because it “is about theory construction and building, and is based on the need to understand a real-life phenomenon with researchers obtaining new holistic and in-depth understandings, explanations and interpretations about previously unknown practitioners’ rich experiences, which may stem from creative discovery as much as research design” (Riege, 2003, p. 80).

5.3 Research Design

5.3.1 Case study selection
The next step in the methodology concerns case selection. As explained by Eisenhardt and Graebner (2007, p.27), the response to this challenge is “to clarify that the purpose of the research is to develop theory, not to test it, and so theoretical (not random or stratified) sampling is appropriate. Theoretical sampling means that cases are selected because they are particularly suitable for illuminating and extending relationships and logic among constructs”. This purposive rather than probabilistic sampling is consistent with the following research’s aims:

- literal replication, whereby similar results across cases are observed for predictable reasons (e.g. the same internationalization’s pattern and/or motivations);
- theoretical replication, whereby contrary results are observed but for predictable reasons (e.g. differences emerge between firms);
- analytical generalization, whereby the researcher is able to generalize a particular set of results to a broader theory.
The following issue is to decide whether to adopt a single case study research design or multiple case study. The number of cases to be included in the study usually depends upon the research problem and objectives. Single cases are used when a particular case is critical and when we want to use it to explain or question an established theory. It has to be a critical case with all the conditions to confirm, challenge or extend the theory. Or it has to be an extreme, unique case. Another possibility is “when the case is revelatory” (Ghauri, 2004, p.114) and the phenomenon under study was not previously accessible.

In multiple case studies, the researcher asks the same questions in a number of organizations and compare them with each other to draw conclusions. The purpose is to compare (replicate) the phenomenon in a systematic way, to explore different levels of research variables. It is important to be clear that every case has to serve a particular purpose in the study. The following Table compares the characteristics of single-case research versus multiple-case studies.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Single-Case Study</strong></td>
<td>- uniqueness</td>
</tr>
<tr>
<td></td>
<td>- unusually revelatory</td>
</tr>
<tr>
<td></td>
<td>- extreme examples or opportunities for unusual research access</td>
</tr>
<tr>
<td></td>
<td>Rich description of the existence of the phenomenon</td>
</tr>
<tr>
<td><strong>Multiple-Case Studies</strong></td>
<td>- contribution to theory development</td>
</tr>
<tr>
<td></td>
<td>- replication, extension or elimination of alternative explanations</td>
</tr>
<tr>
<td></td>
<td>- stronger base for theory building</td>
</tr>
<tr>
<td></td>
<td>- creation of more testable, robust and generalizable theory</td>
</tr>
<tr>
<td></td>
<td>- broader explanation of research questions</td>
</tr>
</tbody>
</table>

Source: personal elaboration from Eisenhardt and Graebner (2007).

For the purpose of this work a multiple-case study approach has been chosen and as stressed by Ghauri (2004), the selection of cases has been based on criteria that are consistent with the research problem. The cases in fact should correspond to the theoretical framework and the variables we are studying.

These are the four main criteria employed:

1. **sector.** Firms are drawn from various industry sectors characterized by different levels of technology. There are firms from more traditional industries characterized by a lower level of R&D and other firms active in more sophisticated sectors such as
the pharmaceutical industry. This sample enables to investigate the phenomenon across industries which is recently identified as a desirable approach by Styles and Gray (2006). In particular the selected companies are operating in the following industries: electronic, pharmaceutical, household appliances;

2. level of international expansion. Firms should have an export ratio of at least 30% and established web-sites with both Chinese and English version;

3. ownership. All firms should be Chinese private owned firms. Given that China’s economy has experienced very fast changes and growth and its impact on the global economy is increasingly important (Fishman, 2006; Liu et al., 2008), there is growing interest toward China and Chinese Private owned companies on the international market.

The current research focuses on Chinese private firms rather than state-owned enterprises (SOEs) for the following reasons. First, large SOEs (Haier, Lenovo, Aluminum Corporation of China’s- Chinalco, etc.) appear to be too exceptional to be representative of ordinary Chinese firms. Second the role of private-owned firms in China’s entering into foreign markets has been rapidly expanding: in 2003, the private sector was already responsible for 57% of value-added production by the non- farm business (Herd & Dougherty, 2005). While the share of exports produced by SOEs fell from 47% in 2000 to 26% in 2003, exports by domestic private enterprises nearly doubled in 2004 (EIU, 2006);

4. activity. The companies, at some point of their history, should have done OEM (original equipment manufacturing) for foreign firms or some sort of inward internationalization (import, acquisition of foreign technologies, JV in the domestic market with a foreign firms, etc.).

Concerning the number of private owned enterprises (POEs), the following table illustrates the same indicators in the period 1998-2008.
Figure 23. Number and Gross Industrial Output of Private Industrial Enterprises in PRC

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of enterprises (unit)</td>
<td>10.667</td>
<td>14.601</td>
<td>22.128</td>
<td>49.176</td>
<td>67.607</td>
<td>119.357</td>
<td>123.820</td>
<td>149.736</td>
<td>177.080</td>
<td>245.850</td>
<td></td>
</tr>
<tr>
<td>Growth (%)</td>
<td>36,9</td>
<td>51,6</td>
<td>63,7</td>
<td>35,8</td>
<td>37,5</td>
<td>76,5</td>
<td>3,7</td>
<td>20,9</td>
<td>18,3</td>
<td>38,8</td>
<td></td>
</tr>
<tr>
<td>Gross Industrial Output value (100 million yuan)</td>
<td>2.083</td>
<td>3.245</td>
<td>5.220</td>
<td>12.951</td>
<td>20.980</td>
<td>35.141</td>
<td>47.778</td>
<td>67.240</td>
<td>94.023</td>
<td>136.340</td>
<td></td>
</tr>
<tr>
<td>Growth (%)</td>
<td>55,8</td>
<td>60,9</td>
<td>67,8</td>
<td>47,8</td>
<td>62,0</td>
<td>67,5</td>
<td>36,0</td>
<td>40,7</td>
<td>39,8</td>
<td>45,0</td>
<td></td>
</tr>
</tbody>
</table>


In the reviewed period the average annual growing rate of the number of POE is 38% with an average annual growing rate of the gross industrial output of 52%. Figure 24 illustrates the same indicators for Chinese State-owned and State-holding Industrial Enterprises (SOEs) in the period 1998-2007.

Figure 24. Number and Gross Industrial Output of State owned Industrial Enterprises in PRC

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of enterprises (unit)</td>
<td>64.737</td>
<td>61.301</td>
<td>53.489</td>
<td>46.767</td>
<td>41.125</td>
<td>34.280</td>
<td>35.597</td>
<td>27.477</td>
<td>24.961</td>
<td>20.680</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>-5,3</td>
<td>-12,7</td>
<td>-12,6</td>
<td>-12,1</td>
<td>-16,6</td>
<td>3,8</td>
<td>-22,8</td>
<td>-9,2</td>
<td>-17,2</td>
<td></td>
</tr>
<tr>
<td>Gross Industrial Output value (100 million yuan)</td>
<td>33.621</td>
<td>35.571</td>
<td>40.554</td>
<td>42.408</td>
<td>45.179</td>
<td>53.408</td>
<td>70.229</td>
<td>83.750</td>
<td>98.910</td>
<td>119.686</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>5,8</td>
<td>14,0</td>
<td>4,6</td>
<td>6,5</td>
<td>18,2</td>
<td>31,5</td>
<td>19,3</td>
<td>18,1</td>
<td>21,0</td>
<td></td>
</tr>
</tbody>
</table>

In the reviewed period the number of SOEs gradually decreased at an average annual rate of -11.6%, while their gross industrial output shows an average annual growing rate of 15.4%.

According to China’s Ministry of Commerce and State Statistical Bureau (2004), by the end of 2003, the share of outward foreign direct investment (FDI) made by SOEs was 43%, but that of private and other domestic firms was 50%.

Thirdly, the decision-making process in Chinese private firms has been much more influenced by market forces than that in SOEs, where there is still government intervention. Thus, to apply or test existing Western theories of firm internationalization in the context of China, private firms as a sector seem to be a much more appropriate candidate than SOEs.

Concerning the size of the selected firms, even if it is a very common criteria employed in research it has not been used in this case for the following reasons:

1. a definition of SME in China is challenging because it depends on the industry category and it is very different with what we consider in Western countries (Loane and Bell, 2011). So in order to avoid misleading interpretations or generalizations we prefer not to consider size;

2. the major focus of the research is on private owned industrial companies as we suppose that they use different logic as compared to SOEs.

In spite of this in order to avoid including in the cases small businesses we tried to focus on firms with at least 2’000 employees.

The table below illustrate the key characteristics of the selected firms.

**Figure 25.** Key characteristics of the case firms

<table>
<thead>
<tr>
<th>Case Firm</th>
<th>Industry</th>
<th>Size</th>
<th>Year of foundation</th>
<th>FSTS</th>
<th>OEM / Inward activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHINT Corp.</td>
<td>Electro-mechanical</td>
<td>15’000 employees</td>
<td>1984</td>
<td>30%</td>
<td>yes</td>
</tr>
<tr>
<td>DESANO Pharma</td>
<td>Pharmaceutical</td>
<td>6’000 employees</td>
<td>1996</td>
<td>75%</td>
<td>yes</td>
</tr>
<tr>
<td>MIDEA Corp.</td>
<td>Household appliances</td>
<td>170’000 employees</td>
<td>1968</td>
<td>30%</td>
<td>yes</td>
</tr>
</tbody>
</table>
5.3.2 Data Collection

Concerning data collection methods as reported in the literature (Creswell, 2007; Eisenhardt, 1989; Ghauri, 2004) it is possible to identify different methods: archival records, interviews, observations, surveys, etc.

For the purpose of this study, as suggested by Yin (2007), different sources of evidence have been employed: documentation, archival data, interview and direct observations. The following table illustrate the data collection method that we have been able to use for each case firm.

Figure 25. Sources of evidence

<table>
<thead>
<tr>
<th>Case Firm</th>
<th>Documentation</th>
<th>Archival data</th>
<th>Interviews</th>
<th>Direct observation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHINT Corp.</td>
<td>●</td>
<td>●</td>
<td>Mr. G. Tung, CEO / CHINT Italy</td>
<td></td>
</tr>
<tr>
<td>DESANO Pharma</td>
<td>●</td>
<td>●</td>
<td>Dr. Z. Wang, CEO / Cdymax</td>
<td>●</td>
</tr>
<tr>
<td>MIDEA Corp.</td>
<td>●</td>
<td>●</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The types of documents that has been analyzed are those mainly available through internet searches, such as: news and articles prepared by mass media and newspapers, other studies on the same case.

These documents have been useful in verifying the correct information and names collected during the interviews. Archival data includes mainly company’s annual reports and investor’s relations presentations. These records tend to be more quantitative than the data collected using other sources, however their analysis allows to better understand the growth process of the case firm.

Interviews are the most important source of information and they represent a highly efficient way to gather rich, empirical data (Eisenhardt and Graebner, 2007). In particular, the research employs personal in-depth interviews with key informants within the firms and all interviews were conducted during September 2011. In-depth interviews provide the best potential for understanding the behaviours of decision-makers in different cultures (Ghauri, 2004). In fact the use of a questionnaire may lead to misleading conclusions because of the understanding and interpretation of the questions made by respondents and the difficulties in comparing answers. Following the
idea of pattern matching, we constantly compared the main elements of our proposed framework of internationalization in Figure 15 derived from the existing theories of firm internationalization with our multiple cases to “confirm, challenge or extend the theory” (Yin, 2003, p. 40). While the interviews were conducted in line with a predesigned protocol, based largely on existing theories, for asking questions and recording answers, open questions were often asked to allow for possible theoretical modification. In Appendix 1 it is possible to find the list of questions that guided interviews’ with companies’ management.

Finally, in some cases also direct observations have been possible in a less formally way. Observations have been made throughout a field visit to firms’ premises. In the case of Desano and Midea the observation involved factory work, R&D centres and show rooms. Moreover in both cases there has been the possibility to meet company’s CEOs and listen to their personal presentation of the firm. Observational evidence has been useful in providing additional information about the studied firms and it was also the opportunity to take pictures of companies’ premises, factory workers, employees and surroundings. The main weakness of this source of evidence is that it is time-consuming and costly. It has been necessary in fact a two weeks trip to China in order to collect the first part of the information and to do visit the companies. Moreover it may have been better to have more than one researcher making the observations in order to increase the reliability of the observational evidence (Yin, 2007) and also increase the number of information and field notes collected during the visits.

As explained by Yin (2007) the benefits from these strategies can be maximized if we follow three principles:

1. use of multiple sources of evidence. It allows the researcher to address a broader range of historical and behavioural issues. Moreover case study findings and conclusions are likely to be more convincing and accurate;

2. create a case study database. It deals with the way of documenting and organizing the data collected for case studies. It is important to separate the data or evidentiary base (case study database) from the report of the investigator because the first increases the reliability of the entire case study. The most common components of a database are:
a. notes. They may be the result of the interviews, observations or document analysis and they must be stored and organized for example according to the major subjects
b. documents. They need to be stored according to their importance for the case study;
c. tabular material including any type of quantitative data.
d. narratives. The researcher may compose open-ended answers to the questions in the case study protocol in order to integrate the available evidence;

3. maintain a chain of evidence. The idea is to follow the derivation of any evidence from initial research questions to ultimate case study conclusions. This is important to increase the reliability of the information in the case study.

This research, in order to comply with the above mentioned principles: employs multiple sources of evidence and has developed a case study database separately from the case study report. In addition by citing specific documents, interviews and observations in the case study report and by revealing in the database the circumstances under which data were collected (time, place of the interviews, observations, etc.) we tried to maintain an chain of evidence.

In particular, multiple sources of evidence have been important to combine the information and data collected and to verify their accuracy and reliability. A limitation of this study however is the fact it has not been possible to have the same sources of evidence for each case firm. In particular not all firms have been available for personal interviews. Some of the reasons are the following:

- issues regarding the use of the English language. Some of the key informants do not feel comfortable in speaking in English especially when they have to answer to specific questions. This issue could be overcome using a translator, however because of time and budget constraints this strategy has not been viable;
- listed firms in order to ensure the fairness of the information disclosure prefers to send their annual report and related presentations instead of allowing personal interviews.
5.3.3 Analysis and Interpretation

The process of data analysis and interpretation “involves making sense out of the text and image data. It involves preparing the data for analysis, conducting different analyses, moving deeper and deeper into understanding the data, representing the data, and making an interpretation of the larger meaning of the data” (Creswell, 2007, p. 183).

In the data analysis, guidelines suggested by Eisenhardt (1989) and Yin (2007) were followed. All three individual cases are written out as standalone case histories. After that, the unique patterns of each case are identified and similar patterns categorized under common themes. This helps to organize and summarize the collected data. The case study analysis, in particular, has been done “step by step” along the ladder of abstraction. As suggested by Ghauri (2004) the process has been organized as follows:

1. case description. This is a sort of story telling concerning the chronologies and histories of the organizations under study;
2. coding and categorisation which requires to map and locate different elements and variables. In this phase, the data that has been collected are rearranged into more conceptual rather than chronological categories. This coding helps to interpret and relate them to our questions and theoretical frameworks;
3. building a model or theory. This is useful to explain how variables are connected and how they may influence each other;
4. establish findings.

As suggested by Yin (2007, p. 135) the best preparation for conducting case studies is to have a “general analytic strategy” guiding case study analysis. Among the proposed techniques, pattern matching logic described by Campbell (1975) appears to be suitable for the purpose of our research. With this logic, patterns of data (empirical-based ones) are related to the theoretical propositions (predicted patterns). Therefore, several pieces of information from one or several cases are related to a priori assumptions in order to find a systematic or unsystematic pattern (Ghauri, 2004). Following this idea of pattern matching, we constantly compared the main propositions from our framework on the internationalization of EM firms as highlighted in the previous section with our multiple cases to “confirm, challenge or extend the theory” (Yin, 2003, p. 40). This technique helps also to deal with the issues of internal and external validity outlined below.
5.3.4 Assessment of the study

One of the important principles of research quality is to make findings trustworthy. In quantitative research the main criteria used are: reliability, validity, generalizability and objectivity; however as explained by Sinkovics et al. (2008) some of these quantitative criteria may not be appropriate for qualitative studies. Hence, “to establish “trustworthiness” of qualitative research, credibility, dependability, transferability and confirmability need to be established” (Sinkovics et al., 2008, p.691). The above mentioned criteria are then suggested to as ways to assess qualitative research. These criteria are defined as follows (Sinkovics et al., 2008):

- credibility is defined as being parallel to internal validity (Guba and Lincoln, 1989). It focuses on establishing a match between the constructed realities of respondents and those realities represented by the researcher(s);
- transferability is parallel to external validity or generalizability in quantitative research. It depends on the degree to which salient conditions overlap or match (Crawford et al., 2000);
- dependability is a criterion which is considered equivalent to reliability and similarly concerned with the stability of the results over time;
- confirmability is what objectivity is to quantitative research. Researchers need to demonstrate that their data and the interpretations drawn from it are rooted in circumstances and conditions outside from researchers’ own imagination and are coherent and logically assembled (Ghauri 2004).

In order to meet the above mentioned criteria, several strategies has been adopted. The analytic technique of Pattern-matching logic (Yin, 2007) is used to increase research’s internal validity and credibility. Such a logic compares the empirical based pattern with the predicted one and if they coincide the results strengthen the internal validity of the case study. Concerning external validity it is important to keep in mind that case studies rely on analytical generalization which means that the researcher is determined to generalize his/her set of results to some broader theory. Replication logic is a tactic that has been employed in our multiple-case studies, the underlying theory in fact need to be tested by replicating the findings in a second or even a third case, once this replication has been made the results may be accepted as strong support to the theory (Yin, 2007). The reliability of the research is ensured by the documentation of the procedures followed in the cases, which allows other possible later investigators to conduct the
same study again and to arrive at the same findings (Yin, 2007). Concerning reliability, it is important to note that in IB literature, one of the most important issue that needs to be addressed in qualitative research deals more with “authenticity” rather than reliability. This position is supported by Ghauri (2004), who explains that the researcher needs to be able to present an “authentic” understanding of the reality and experience. To do this the data collected must be interpreted against the background of the context in which they are produced. A way to ensure this is to keep data analysis and collection closely interconnected during the case study research (Ghauri, 2004).

The use of case study database and of an interview protocol allows to make research steps’ as operationalized as possible and hence to increase reliability. For each company we followed a series of steps:

- visit to their official web site and collection of basic company’s information (ownership, location, year of foundation, sector, history, international expansion);
- when available analysis of their most recent Annual Reports;
- for public listed companies, visit to the Shanghai Stock Exchange web site to collect additional information;
- look for published articles or case studies in Academic Journal through Business Source Premiere Database;
- look for published articles in Newspapers such as The Financial Times;
- look for published materials on Chinese news web sites;
- attending to company’s visit and presentation made by the founder or CEO (when possible);
- direct contact with company’s CEOs or Top Managers via e-mail and telephone to ask their availability for an interview.

Moreover a short summary of the secondary data collected through desk research, company’s visit (where applicable) and of each interview (where applicable) has been provided as a separate document.

Finally to guarantee construct validity, which refers to the identification of correct measures for the concepts being studied (Yin, 2007, p. 40), multiple sources of evidence such as archival records, documentation, interviews (when possible) and direct observations (when possible) has been used. In addition, as suggested by Yin (2007), we tried to establish a chain of evidence between the case studies and the initial research.
questions. In addition, we also ask key informants to review the draft of the case study report and the observations of the researcher.

The study presents however some limitations. The idea of gathering direct information and data from Chinese firms has been a challenging task because of the geographical and cultural distance between Italy and PRC. The possibility to visit China in 2011 participating to the Faculty Development in International Business “China”, organized by the University of Colorado Denver’s CIBER\(^\text{12}\), has been essential for observations, collecting first data and for establishing a direct contact with the companies visited.

The main limitations of the study are the following:

1. different data collection methods have been employed to the case firms. In fact the interview method has not been applied to all case firms because some of them preferred to release only documentation and archival data;
2. interviews have been done by the same researcher. The possibility to involve two researchers doing the same interviews may in fact be a good strategy to enhance the quality and reliability of the data collected;
3. for each company just one key informant has been interviewed (usually the CEO or general manager). Also in this case the possibility to get access to more people within the firm will allow to compare results and improve the reliability of the information;
4. other sectors, such as IT, may have been represented in the sample in order to add more perspectives on firms internationalization across different industries with varying level of technology involved.

Moreover because of the limited number of cases analyzed, at this stage, a software program (e.g. N*Vivo) has not been employed. The use of software programs is considered by some researchers to inhibit creativity and colonize qualitative research with rigorous criteria of quantitative research (Hesse-Biber 1996 cited by Sinkovics et al., 2008). Contrastingly, other authors (Sinkovics et al., 2008) maintain that computer software helps and supports researchers in the analytical process of coding and

\(^{12}\) CIBER stands for Centre for International Business Education and Research.
analyzing textual data, makes data easily accessible to collaborators and thus strengthens credibility, replicability and substance of research results.
CHAPTER VI – Case Study Analysis and Findings

As suggested by Ghauri (2004) the case study analysis has been done “step by step” along the ladder of abstraction.

The chapter begins with case description, a sort of *story telling* concerning the chronologies and histories of the organizations under study. The profile of the selected firms is presented following these categories:

- background;
- history;
- culture;
- structure;
- international expansion;
- success factors and challenges.

This part is essential to do the within-case analysis and prepare for a more in-depth study of the internationalization process.

After this presentation, the second part of the chapter tries to map and locate different elements and variables. In this phase, the data that has been collected are rearranged into more conceptual rather than chronological categories. This coding helps to interpret and relate them to our questions and theoretical frameworks.

In this way it is possible to do a cross-case analysis useful to identify patterns of behaviors, to compare them between different case firms and finally to contrast them with the theoretical model drawn from literature.

The aim is to build a model or theory, useful to explain and illustrate how the findings from the case studies relate to each other and to existing theory.
6.1 Case Firms’ Profiles
The firms included in this study are: CHINT Group Corporation, DESANO Pharmaceutical Holding company, Ltd., Midea Group Corp.

CHINT Group Corp.

Background
CHINT Group Corp. is China’s largest and the world's third largest manufacturer of low-voltage electrical products. The Group is specialized in 5 categories: low-voltage electrical products, power transmission / distribution products, instruments and meters, electric products for building / construction and solar energy products. The company started in 1984 as a workshop of 7 workers in Wenzhou and now is composed of seven specialized companies with more than 15,000 employees. Its sales network expands from over 2,000 domestic sales centers to over 40 overseas distributors, generating a Group turnover of nearly 3.8 Billion USD in 2010. The company usually invest around the 5 per cent of its turnover into R&D. CHINT’s fast growth has been possible thanks to its two decades concentration on specializing in the electrical apparatus industry, as explained by Mr. Cunhui Nan.

Today, CHINT is listed in the Top10 Chinese private-owned enterprises and in 2006, it ranked 15th in the list of top100 Companies released by Forbes. CHINT was also recognized as “National Well-known Trademark”, one of the most prestigious honors for outstanding enterprises, by China State Administration for Industry and Commerce. Concerning the brand’s name, it means "Tomorrow of China", in fact "CHIN" indicates "CHINA", and "T" stands for "TOMORROW".

At present, the company is the world's third largest manufacturer of low-voltage electrical products and its main competitors are the top multinational companies operating in the electronic industry, such as: ABB, Schneider, Siemens, Ls (Korea), Moeller.

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13 Mr. Cunhui Nan is the founder and CEO of CHINT Group Corp. Source: http://www.nwp.cn/book/566_28214.shtml
14 Forbes evaluated all private companies (both those listed as public and not) in China.
History

In 1984, Mr Nan Cunhui and Mr Hu Chengzhong came up with 15,000 RMB to establish the Jinyi Switch Ltd, which was just a litter family workshop at that time. Through tying up the cash flow in supply chain, the two enterprisers used a so-called “social debit” for free and made a profit of 200 million after six years. In 1991, Jinyi Switch divided into two companies, and one was taken by Mr Cunhui (Lu and Wang, 2010). In 1994, CHINT group was officially formed, which was shared by Mr Cunhui (40 percent of the total shares), his four relatives, 40 individual shareholders and 38 corporate shareholders. CHINT represented the first group corporation via the approval of the local government in low-voltage electric industry in Wenzhou area and in the same year CHINT, was registered as a trademark. In 1998, Mr Cunhui’s family substantially diluted its equity down to 28 percent but still remaining the largest shareholder.

Concerning firms’ operations, 1998 represents a significant year because for the first time, a series of products developed by CHINT Group independently were on exhibit in Beijing. This marked the strategic transition from unilateral learning to independent R&D by the Company. In 1999, the company founded the hi-tech industrial park of CHINT Group, which has the size of 78,000 square meters and boasts the 1st in the Low-Voltage Electric industry in China per production capacity, was laid in Wenzhou Bridge Industrial Park. In 2005, CHINT and GE established a JV, GE CHINT Electric Co. Ltd., located in Wenzhou. Another JV has been set up in 2006, Zhejiang KEMA Co. Ltd., a JV between KEMA and Wenzhou Liankai, a subsidiary of CHINT, for China LV apparatus testing business15.

From its foundation, in 25 years CHINT has expanded from a workshop of 7 workers to a leading manufacturer of electrical products specialized in 5 categories: Low-voltage electrical products, power transmission & distribution products, instruments & meters, electric products for building & construction and solar energy products.

CHINT started to produce for the domestic market, however, soon after its foundation it followed the OEM strategy and hence started to work for foreign multinational companies (especially European ones) in the electro-mechanical industry, manufacturing and supplying them with modular din-rail products, control products,

15 KEMA Testing Service (Zhejiang) Co. Ltd., established in Yueqing, is the fourth testing agency in China. It is a joint venture by Holland KEMA and Wenzhou LianKai Electric Technology Inspection and Testing Co. Ltd. This means that the safety of key products of Wenzhou low-voltage electric appliances can be certified in Wenzhou so as to enter the European market.
power relays, inverters, soft starters, transformers, automatic voltage regulators, capacitors, switch disconnectors, etc. However since the mid 2000’s, and in particular the last three years, CHINT is progressively changing this strategy in order to increase the presence and reputation of his own brand in the international market, with particular reference to Western countries. To achieve this goal, the firm can count on the reputation and experience gained after many years of work in this sector. The company is now supplying different types of products to many foreign countries and companies (such as Fincantieri in Italy, Saint Gobain in France, Fingrid in Finland, etc.) and some of its low and medium voltage appliances have won international bids, such as in Italy for the supply of Energy Meters to Enel.

Culture
CHINT is a company encouraging vigor, innovation, spirit of entrepreneurship and marching forward pertinaciously. The company adheres to the following values: Harmonization, Innovation, Learning and Practice.

“Harmonization” refers to firm’s orientation towards employees and commitment to environment and society. In practice it means working to achieve the harmonization between company, society and nature.

“Innovation” deals with imagination, creativeness and continuous improvement. In the last 20 years CHINT has grown from a family workshop to a modern enterprise and innovation has been essential to its success. By means of innovation and creativity, the management improved company’s approach to the market, enabling CHINT to respond to changing markets’ conditions. In this way the company has successfully created competitive advantages over most of its competitors and maintaining its core competence for the future.

“Learning” is linked to innovation and refers to a study-oriented approach. This has been a critical factor because, with the development of the Company, CHINT has encountered many "bottleneck" restrictions, such as employee training, R&D, management adjustment, the challenge of internationalization, etc. All of the problems made learning essential and urgent for both managers and employees. For this reason CHINT encourages them to learn and absorb new knowledge and up-to-date information and to improve themselves continuously.
Concerning “Practice”: the firm defines itself as Fact-oriented, combining business ethics & integrity with market aggressiveness and ambitions. CHINT decisions and strategies take into consideration the impact upon shareholders, customers, suppliers, society, employees and other stakeholders. Integrity is also believed to be the key to sustain and improve firm’s reputation in the domestic and international markets.

Structure

CHINT Group Corp. currently consists of 8 major subsidiaries and owns 2000 domestic distribution centers and more than 40 sales organizations abroad. With products sold in over 90 countries and regions The headquarter is located in Wenzhou, China and the principal production facilities are in Wenzhou, Shanghai and Hangzhou. The Group is made of the following principal companies:

1. Zhejiang CHINT Electrics Co. Ltd. (the core enterprise of CHINT GROUP Corporation).
   CHINT Electrics Co. Ltd is the first enterprise of the group established in Wenzhou in 1994 and the major subsidiary of CHINT Group, operating in the low-voltage electric appliance industry. The firm is specialized in providing high-quality modular devices, low-voltage power distribution and industrial controlling equipments, and systematic solutions for buildings, factories, schools, households, mines, vehicles, etc. CHINT Electrics has established a worldwide sales network, including eight branches in USA, Middle East, Germany, Russia, Brazil, Ukraine, Hong Kong and Great Britain. This organization made up of several agents, distributors and partners provides CHINT products and services to customers in over 80 countries. Since January 2010, the company is successfully listed on the Shanghai Stock Exchange.

2. Zhejiang CHINT Instrument & Meter Co., Ltd. The firm is located in Wenzhou and was founded in 1996, as professional supplier in metering products and system solutions.

3. CHINT Power Transmission & Distribution Co. Ltd. The headquarter is in Shanghai and the firm engages in the manufacturing and sales of power transformers, distribution transformers, HV surge arrestors, transformers, insulators, MV&LV
switchgears, prefabricated substations, etc. Moreover, it carries out electric power projects and its products are applied to domestic projects, such as Chinese State Grid, the Grid South, West-East Electricity Transmission Project, West-East Gas Transmission Project, the Three Gorges Project, the Beijing-Tibet Railway Project, China Central Television, China Capital International Airport, etc. But, its products are introduced also overseas in more than 30 countries, like Russia, Japan, Italy, Australia, India, Vietnam, Congo, Nigeria, Columbia, etc.

4. CHINT Solar Co., Ltd. Founded in 2006, with headquarter and manufacturing facilities in Hangzhou. The company is also known under the brand name Astronergy Solar. In 2009, the company invested one million Euros to establish a German branch - Astronergy Solar Deutschland GmbH. The same year it started also to expand into the US market thanks to the achievement of the UL certification for Astronergy's products, opening up the North American market. In 2010, the international expansion has been fostered with the establishment of new foreign subsidiaries in Australia, Germany, the US, Spain and Korea.

5. NOARK Electric Co. Ltd. Company founded in 2007 and located in Shanghai and specialized in low voltage products manufacturing positioned at the high-end market. The firm deals especially with various new areas, such as smart grid and renewable energy. The NOARK Electric product portfolio includes circuit breakers and switches, switchboards and connection systems intended for use in household electrical applications and administration buildings as well as in photovoltaic systems. At present the two main subsidiaries are in Czech Republic, and the US.

6. CHINT Power Systems Co., Ltd. As the new energy industry becomes one of the emerging leading industries of the global market in the long-term, a series of investment activities have been conducted by the Chint Group since 2006. Firstly, CHINT Solar was established, with its factory set up in Hangzhou for R&D and manufacturing of solar panel modules in 2006. Then in 2009, CHINT Electrics made investment in Shanghai, focusing on the power electronics field including PV inverters. In 2009, Chint Power Systems was established to promote and expand the business from Chint’s traditional low-voltage electrics business to the new energy industry with advanced power electronics technologies. Meanwhile, the emerging of Chint Power Systems completed the vertical integration of the energy industry supply chain for CHINT GROUP which gained the CHINT GROUP’s full attention with full support as well. The firm is a solar power system solution provider,
designing, manufacturing, and supplying high reliability inverters and power solutions for customers. An international senior management team, research and development resources, strong financial support from Chint Group, and inheritance of Chint 27 years' manufacturing experiences and volume, strongly support Chint Power System's brand in the field of renewable energy. This combination of power electronic technologies, low-voltage products, and high-voltage transmission and distribution projects, all rolled into one, symbolizes the move toward high added-value business such as the one of renewable energies and makes CHINT GROUP a leading player in today’s energy industry.

**International expansion**

The international expansion of CHINT started in the late 1980’s, soon after its inception and has been guided by the strong development of the domestic market in terms of turnover and of economies of scale. Also in this case the strong focus of the company on the electrical apparatus industry has been important to achieve a strong position in the domestic market and at the same time start to expand overseas. This combined with Mr. Cunhui Nan’s international vision and orientation drove the company across its national borders. Also CHINT’s OEM activity has been important in this sense because it has further encouraged firm’s internationalization, making the management team more aware of the existing international opportunities. Moreover, it seems that company’s focus on learning and innovation has been depicted into improvement inventions and products development made locally by Chinese engineers as a part of the OEM agreements.

The firm at present is characterized by an extensive international activity, and especially since the 2000’s with the gradual shift from OEM to the development of his own brand in different foreign markets, CHINT intensified its internationalization process opening wholly owned subsidiaries across the globe and increasing the number of its foreign distributors. It is difficult to draw a complete picture of this extensive internationalization process, however, table 1 below illustrates some of the key operations of the firm.
# Table 1. Key international operations

<table>
<thead>
<tr>
<th>Region</th>
<th>Most important markets</th>
<th>Year of entry</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUROPE</td>
<td></td>
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<tr>
<td>Chint (Astronergy) Solar Co., Ltd</td>
<td>- Germany - Spain - CZ - Italy - Spain - Turkey - UK - Poland - Norway, Denmark, Sweden - Finland, Russia, Baltic States - NL</td>
<td>2009 2007</td>
<td>- Astronergy Solar GmbH - Astronergy Solar Spain</td>
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<tr>
<td>NOARK Electric Co. Ltd</td>
<td>- NL</td>
<td>2006</td>
<td>- Importer/Distributor: KLINKMAN</td>
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<td>AMERICA</td>
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<tr>
<td>NOARK Electric Co. Ltd</td>
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<tr>
<td>ASIA PACIFIC</td>
<td>- Hong Kong</td>
<td>1999</td>
<td>- CHINT Hong Kong</td>
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<tr>
<td>Chint (Astronergy) Solar Co., Ltd</td>
<td>- Australia</td>
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<td>- Korea</td>
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<td>- UAE</td>
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<td>- New Zeland</td>
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<td>- Solco Solar Products</td>
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<td>- Astronergy Solar Korea Co., Ltd.</td>
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<td>- Chint Electrics Holding Ltd</td>
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<td>- PT CHINT INDONESIA</td>
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<td>- CHINT New Zealand Ltd</td>
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<td>- CHINT Syria</td>
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<td>- CHINT Electric Co. LTD</td>
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<td>- Tunisia</td>
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<td>- Algeria</td>
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<td>- Congo</td>
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<td>- South Africa</td>
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<td>- Kenya</td>
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<td>- Ghana</td>
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<td></td>
<td>- Local Distributors.</td>
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<tr>
<td>AFRICA</td>
<td>The company is increasing its activities in Africa by supplying several local and national companies, such as: Kenya Power &amp; Lighting Company (KPLC), Societe National d'Electricite Zaire (SNEL) - D.R. Congo, Volta River Authority (VRA) – Ghana, etc. However the expansion is still limited because of the political risk in some of these regions.</td>
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</table>

**Success factors and challenges**

The following Table 2, illustrates the main success factors and issues characterizing the firm.

This list is useful to better understand how the company positions itself in the marketplace and beside its competitors. It is important to note that the information included in the figure are drawn from both secondary data (company’s report, news and articles published in industry magazines) and primary data collected through the personal interview. During the interview it is important to note that while it was more easy to get critical success factors and company’s strengths, the weaknesses and more critical issues for the firm has not been identified so clearly.
Table 2. Critical success factors and challenges

<table>
<thead>
<tr>
<th>Success factors</th>
<th>Challenges</th>
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</thead>
<tbody>
<tr>
<td>• Production of a broad line of products&lt;br&gt; • sales channels for low-voltage&lt;br&gt; electrical products almost coincide&lt;br&gt; with the ones for other products such&lt;br&gt; as solar cells, etc.</td>
<td>• Face though competition from&lt;br&gt; established Western MNEs&lt;br&gt; • Reducing profits within the low-voltage electrical fields&lt;br&gt; • Lack of top-brand perception in&lt;br&gt; Western countries such as Europe&lt;br&gt; • Making CHINT a global brand&lt;br&gt; • Succeeding in becoming a global producer</td>
</tr>
<tr>
<td>• Active R&amp;D&lt;br&gt; • Bids for international supplies&lt;br&gt; • Global distribution and presence&lt;br&gt; • Innovative products (solar and&lt;br&gt; renewable energy industry) added to&lt;br&gt; existing core business&lt;br&gt; • Focus on growing energy sector&lt;br&gt; • Move to Eastern Europe with the idea&lt;br&gt; of manufacturing in CZ, and to Spain&lt;br&gt; with the idea of setting up European&lt;br&gt; largest solar power plant.</td>
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</table>
Background

China represents the world's third-largest prescription drug market in 2011 (the two largest markets are the US and Japan) and pharmaceutical revenues are growing at a great pace, as the country improves its health care infrastructure and aims for near-universal health coverage.

DESANO Pharmaceutical Holding company, Ltd. covers the manufacturing of pharmaceutical and nutritional products as well as contracted R&D and manufacturing. DESANO currently has 14 production sites worldwide, and employs more than 5000 people. Some of its products and affiliates have gained verification and certification from China, the USA and the EU.

With the partnership with Chinese and international key industry players, DESANO is steadily on its way to becoming an international, sustainable and competitive health industry group with brand impact. The headquarter is located within the Zhangjiang High-Tech park close to Shanghai. In the same area it is possible to find also other important multinational, such as: Novartis, Glaxo&Smith, etc. Since its foundation in 1996, the company expanded rapidly in the production of active pharmaceutical ingredients (API), the raw materials of drugs.

On the side there is a picture of Desano headquarter taken during the visit to the company.

At present its main competitors are Chinese, such as: Shenyang-based Northeastern Pharmaceutical Co Ltd, Xiamen-based MCHEM Pharma Group, Shanghai Pharmaceuticals Holding Co., Ltd. and Hangzhou -based Huahai Pharmaceutical Co Ltd.
History

The firm was established in 1996 by two classmates focusing on the production of APIs (active pharma ingredients). In few years Desano has developed into a key supplier with branded generic APIs, spanning its activities across the entire value chain from R&D, manufacturing, regulatory to sales and marketing. At present the company employs 6'000 people and it is listed on the Shanghai stock exchange. Desano is also engaged in the production of Finished Pharmaceutical Products (FPPs). The main production sites are located in the following areas: Shanghai, Inner Mongolia, Jiangsu and India (two production sites).

Among Desano’s products’ offering there are also finished anti-AIDS medicine. Since the first AIDS case was diagnosed in 1985 in China, the number of HIV/AIDS victims has risen to over 1 million in 2001 the Ministry of Health said. However, due to the high cost of imported AIDS drugs, less than 200 AIDS patients in China was able to afford therapies.

Desano started to keep an eye on the HIV drug market in 1996. In 1999, the company started to export materials for HIV drugs after taking over several chemical factories. At that time, the patents of major AIDS drugs were controlled by several global giants and just a few Chinese companies produce raw materials for exports or AIDS drugs on an OEM (original equipment manufacturer) model for foreign firms. The turnabout came in 2001 when the patent protection period of the world's first AIDS drug- AZT - expired in China. After that, in 2002, four AIDS drugs run out of their protection period under Chinese law, and this opened the door for domestic companies, such as Desano, to manufacture generic versions of these drugs without the need to pay a licensing fees. According to experts analysis such a change cut the cost of treatment using the four drugs by up to 90 per cent. A “cocktail therapy” using the domestically made drugs will cost around 5,000 yuan (US$602) per patient every year - compared with 100,000 yuan (US$12,000) for imported drugs.

Since 2002 China has become a world supplier of anti-HIV drugs for developing countries.

However there are still patent issues because the effectiveness of the treatment should not be limited to the availability of the four drugs used. The serious situations ad
increasing number of AIDS patients is forcing national governments and the international community to rethink the protection of patents or “lives”, in fact patients could not wait 15 years for the drug to be available on the market.

As noted by Xavier Leus, World Health Organization (WHO) representative to the Economic and Social Commission for Asia and Pacific (ESCAP), most people who die of AIDS in the world is not because no medicine could help them but because they cannot afford to buy medicine.

Reducing the price of anti-AIDS medicine in developing countries has become a common goal for the global society and China is already moving in this direction, by producing the required medicines.

**Culture**

The company is dedicated to develop, produce and market essential and life-saving drugs for low and medium income countries and to make the high quality medicines more accessible.

The principles inspiring Desano’s activities are the following: self discipline, in prosperity think of adversity, social commitment and focus on people. The core values are:

1. Customer first. It is essential to listen to customers, satisfy their diverse needs, and strive to go beyond their expectations;
2. People-orientation. Company’s staffs is considered as the greatest asset. Desano cares about people’s aspirations and create an environment for them to perform and realize their full potential;
3. Integrity. The firm is accountable for its actions, and live up to every promise made to customer, employee, and the society;
4. Continuous improvement. Enterprise’s excellence is achieved through continuous and incremental improvements to processes, including by removing unnecessary activities and variations;
5. Teamwork. Desano believes and stimulates the creation of a culture of teamwork with mutual trust and respect, to work toward the company’s common vision.

In addition there is a growing commitment towards Environment, Health & Safety measures. Equal high priority is given to environmental protection, health and safety as compared to quality, production and cost.
Structure

The Shanghai Desano Pharmaceuticals Holding Company is made of 5 subsidiaries:

1. Desano Biopharma Co. Ltd. Its core Business consists in the manufacturing and marketing of anti retroviral and anti malarias drugs (bulk). The mission is to meet the demand emerging from public epidemical disease such as HIV and Malaris. The major countries where its products are marketed are: India, Brazil, South Africa, Thailand and China as well. Desano is the largest exporting company in China for these types of drugs, covering 75% of the total export of these products. Additional characteristics:
   a. exporter of seven kinds of anti-AIDS material medicine to India, Thailand and Brazil. Among them the largest annual exporting amount of one kind is as much as 12 tons.
   b. main producer and provider of APIs. It is the only Chinese API provider who passes the WHO\textsuperscript{16}-PQ (2007) and US-FDA\textsuperscript{17} (2009) inspections;
   c. besides providing material for anti-AIDS medicine production, after successfully manufacturing the first anti-AIDS preparation of China in August 2002, the firm began to list finished anti-AIDS medicine in its export agenda;
   d. domestically, the firm covers the 50% of the market supplying anti-HIV drugs;
   e. internationally. Largest exporting company in China covering the 75% of export for the same products. The company also cover the 28% of the non-patented worldwide market for bulk drugs.

2. Hegno. Hegno is a high-tech company engaged in developing, manufacturing & marketing pharmaceutical and nutritional ingredients. Hegno persistently works towards the mission of “Better nutrition, better life” with passion, creativity and dedication. The headquartered is in Shanghai, China, and there are three manufacturing sites in Inner Mongolia Province and Yangtze River Delta, which have over 60 years of experience in APIs manufacturing. These sites have passed the GMP inspections by US FDA, Chinese FDA and EDQM, and gained various quality system certificates such as ISO, Kosher, Hala, Fami-Qs, HACCP, etc. The main features of the company are the following:

\textsuperscript{16} WHO = World Health Organization
\textsuperscript{17} FDA = Food and Drug Administration
a. producers of tons of vitamins. Major regulated markets: US and EU. Major non-regulated markets: China, India and South America. Recent acquisition of a SOE in Inner Mongolia where part of the production will be moved;

b. applications. These vitamins can be found in most of the functional/energy beverages and food produced by PEPSI (MDX), Mineral Glacial Water, etc. and distributed in EU and US. An example is the Mountain Dew MDX, an energy drink manufactured and distributed by PepsiCo and introduced in 2005 as PepsiCo's second attempt to market an energy soda;

c. internationally. It is one of the few manufacturer of a series of vitamins in bulk, its major regulatory markets are: Europe and America with CEP and FDA quality assurance, among non-regulatory markets the most important are: India, Latin American countries and China.

3. Biomabs. New company founded in 2008 and focusing on the development of bio drugs for cancer treatment. They have two production sites: one in Shanghai and one in Goa (India). The venture is based on the collaboration between private enterprises and universities and sponsored by the Government.

4. Alputon. Alputon is the first service company in China to employ integrated chemistry technology platform including proprietary hardware and software to provide chemistry services. Alputon Inc.’s vision is to enable clients to shorten the time between initiating a drug discovery program and filing an NDA, to reduce overall cost of pharmaceutical R&D, and ultimately to facilitate the commercialization of innovative drugs for unmet medical needs.

5. Cdymax. Shanghai based company manufacturing intermediate products and APIs in oncology and respiration drugs. Main markets: China and developing countries. The firm has a subsidiary in India, Cdymax (India) Pharma Pvt. Ltd. that started its manufacturing activities in Jigani Industrial Area (about 25 Km away from Bangalore). The main purpose of the Unit is to manufacture APIs and Drug Intermediates.

**International expansion**

The company started exporting soon after its foundation and, at the beginning of the 2000s, by selling its products to other Asian Countries.
At present the degree of foreign sales to total sales is around 75%. The main international markets served by the firm are emerging countries in South-East Asia and Latin America, such as India, Thailand and Brazil. In addition other important markets for its product are: South Africa and the US.

Desano’s internationalization process can be described by the following main steps:

1. 1996-2000 – starting period. Desano started as a trading company, the focus was on making money to survive and to plan for future investments.

2. 2001-2005 – formulations, manufacture and commercialization of AVR generic drugs. In 2004, Desano started to expand internationally and set up of overseas branches to introduce its brand internationally. Moreover 1st round of international business recruitment. The present CEO of the pharmaceutical arm of the group, Dr. Zhengping Wang joined the company in this period, after a period of work in the US and a stint in the Beijing office of a German company;

3. 2005-2010 - development of the business model and improvement of the human resources within the company. Moreover 2nd round of people recruitment. Mergers and acquisition. Extensive international market development.

4. 2015-2020- increase human resources with an international profile and background. The idea is to acquire talents from different parts of the world, especially in these areas: marketing and management, science.

Table 3 illustrates some of the key operations of the firm.
Table 3. Key international operations

<table>
<thead>
<tr>
<th>Region</th>
<th>Most important markets</th>
<th>Year of entry</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUROPE</td>
<td>EU (Germany, Netherlands)</td>
<td>2008</td>
<td>Creation of Dafeng DESANO Pharmaceutical Co., Ltd thanks to a collaboration with DSM^18</td>
</tr>
<tr>
<td>AMERICA</td>
<td>US - Brazil</td>
<td></td>
<td>Wholly owned subsidiary in the US and research centre in Boston.</td>
</tr>
<tr>
<td>ASIA – PACIFIC</td>
<td>India - Indonesia - Thailand</td>
<td>2009</td>
<td>Cdymax(India)Pharma Pvt. Ltd Desano Pharmaceuticals India Pvt. Ltd + Biomab (JV with CIPLA^19)</td>
</tr>
<tr>
<td>AFRICA</td>
<td>South Africa</td>
<td></td>
<td>Distributor</td>
</tr>
</tbody>
</table>

In the US Desano holds a wholly owned subsidiary responsible for the marketing and selling of some products. They supply also APIs to PEPSI and other beverage companies. Through this subsidiary they manage the relationship with American companies.

Table 4. Success factors and challenges

<table>
<thead>
<tr>
<th>Success factors</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Products are ranging from intermediates, active pharmaceutical ingredients to finished pharmaceutical products, satisfying the needs of various customers from emerging markets to highly regulated markets.</td>
<td>• Face though competition from established Western MNEs</td>
</tr>
<tr>
<td>• Strong Customer orientation</td>
<td>• Reduced profits for the selling of Anti-HIV drugs</td>
</tr>
<tr>
<td>• Active R&amp;D</td>
<td>• Increase brand reputation</td>
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<tr>
<td>• focus on life-saving drugs for public health crisis.</td>
<td>• Succeeding in becoming a global producer</td>
</tr>
<tr>
<td>• High production efficiency</td>
<td>• Working towards the creation of a sustainable and competitive global brand for nutritional ingredients, API manufacturing and FPPs</td>
</tr>
<tr>
<td>• Competitive prices</td>
<td>• International human resources.</td>
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</tbody>
</table>

\^18 DSM is a Life Sciences and Materials Sciences Company and its end markets include human and animal nutrition and health, personal care, pharmaceuticals, automotive, coatings and paint, electrical and electronics, life protection and housing DSM has annual net sales of about €8 billion and employs some 22,700 people worldwide. The company is headquartered in the Netherlands, with locations on five continents and it is listed on Euronext Amsterdam. (www.dsm.com)

\(^19\) Cipla is a Indian manufacturer of anti-retroviral medicines for HIV and anti-malarias.
Midea Group Corp.

Background
Midea Group is a leading Chinese manufacturer and exporter of household appliances, covering a comprehensive line of heating and air-conditioning systems, kitchen and bath appliances, lighting, motors, compressors and other industrial components. Employing around 170,000 people both in China and all over the world, Midea achieved a revenue of USD17.0 Billion in 2010, while 5.08 Billion of them are exporting and overseas businesses.

In September 2011, China’s Enterprise Confederation released its annual ranking of the Top 500 Enterprises in China and Midea group ranked 70th on the list, while holding a high position in non-state-owned enterprises, just next to Huawei, Sha Steel, Suning and Lenovo.

Today, Midea wields a fully integrated manufacturing and R&D process, as well as a vast distribution and worldwide partnership network, to serve customers worldwide. Midea Living Appliances, one of the companies within the group, focuses mainly on OEM and ODM, exporting its products to over 100 countries worldwide, thanks to the establishment of cooperation with famous manufacturers all over the world, especially in Europe and America.

In the heating, ventilation and air conditioning (HVAC) equipment industry, Midea is the world’s third-largest manufacturer, as reported by the Financial Times (2010). Concerning competition, both global and local brands such as Japan's Panasonic, LG, Samsung (for the high-end of the market) and Chinese rivals Haier, Gree Electric, TCL are among its main competitors.

History
Midea was founded in 1968 as a village co-operative, making plastic bottles’ tap, by 23 people putting together 50 yuan each of capital. By early 1980 the original workshop has expanded into a factory with more than 180 employees.

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20 Midea means “beautiful” in Chinese.
In 1980 the firm manufactured the first portable electrical fan and this marked its entry into the home appliance market. Since then other consumer electronic appliances have been added in order also to moderate the seasonality of the initial fan and air conditioner businesses. Initially the core technologies needed were acquired through joint ventures with foreign companies (especially Japanese Toshiba, NEC, Ryosan and Shibaura). However by 1999, the production capabilities of the firm have been improved and completed with the creation of the Midea Industrial Park in Shunde. Now it is a public listed company and it is renowned as a sizeable conglomerate that specializes in the manufacturing of household appliances and sets foot in relevant fields of real estates and logistics. It is now one of the largest white household appliance production based and export based in China. Midea formally entered into the household appliance industry in 1980, and started to use the brand name of Midea in 1981. Today, the Group has up to 100,000 employees and owns over ten famous brands in various industries, namely Midea, Welling, Wuxi Little Swan Limited Co. Midea has had 15 production bases in China, apart from its headquarter in Shunde, the Group has established production bases scattered in Guangzhou, Zhongshan, Wuhu, Wuhan, Huai’an, Kunming, Changsha, Hefei, Chongqing and Suzhou. They have opened also a base in Pingyang (Vietnam) close to the Chinese border. Possessing an extensive marketing network spreading all over China, the Group also has established twenty-one overseas branch subsidiaries in countries and areas such as U.S.A, England, Germany, Japan, Hong Kong, Korea, Canada, Russia, France, Malaysia and Vietnam. Currently, Midea holds the largest and most complete production chains for air-conditioner, refrigerator, microwave oven, small home appliances and kitchen utensil groups in China. Its core products include residential AC, commercial AC, large-scale central AC, washing machine, electric cooker, refrigerator, water dispenser, microwave oven, dish washer, induction cooker, electric fan, electric warmer, water heater, kitchen range, range hood, sterilizing cabinet, electric chafing dish, electric oven, vacuum cleaner, small household appliances and other household appliance products, as well as other supporting products, such as compressor, electric motor, magnetron and transformer. Midea has been growing in healthy, steady and rapid steps. It successfully achieved an average growth rate of 60% and 50% respectively in the 80s and the 90s. Since the

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21 This company is not competing with Midea in all businesses anymore because, Midea purchased 24.01% stake of Little Swan, aiming at establishing a broader platform for its power-industries of refrigerator and washing machine.
arrival of the new millennium, Midea maintains a growth rate of 35% annually. In 2007, sales revenue of Midea increased by 30% and hit a record of 75 billion Yuan, while export sales went up by 40% to 3.12 billion USD compared to 2006. In the assessment of China Most Valuable Brands 2007, brand value of Midea ranks No.7 by surging to 37.829 billion Yuan. In June 2007, Midea ranked the 3rd in the list of Guangdong's Top 100 Enterprises by Guangdong Enterprise Union Committee and Guangdong Enterprise Association. In October 2007, Midea was placed 52nd by National Bureau of Statistics among the China's Top 500 Large-scale Enterprise Groups. While keeping a rapid growth, Midea also makes active contribution for local economic development. Looking into the future, the group aims at maximizing its consolidated value and further improving its corporate structure and management system. In 2010, Midea strives to become the most valuable brand of home appliances of China and an internationalized consumer electrical appliances manufacturer giant and rise to the top five white household appliance suppliers in the world, with record-breaking sales revenue of 120 billion Yuan.

**Culture**

Midea aims to provide household appliances with the best cost performance to consumers and featuring at the same time a top-grade environment and quality experience. This approach is summarized by its core principle “Creating a better life for humans” through products offering consumers satisfaction, and bringing them a more comfortable, easier, and better life.

**Structure**

As the company grew, new management processes and systems have been introduced and one of the most significant events was the reorganization that took place in 1997 (Yuan, 2000). Midea was restructured into different strategic business units and today the group is composed by five major, each one divided into different divisions:

1. Midea Air-conditioning & Refrigeration Group
   - Residential Air-conditioning International Division
   - Commercial Air-Conditioning Division
   - Refrigeration Division
   - Laundry Division
2. Living Appliances Group
   • Consumer Electric Division
   • Microwave Appliances Division
   • Environmental Appliances Division
   • Dishwashing Appliances Division
   • Kitchen & Bath appliances Division
   • ASEAN

3. Midea Appliance Components Group

4. Real Estate Unit. Founded on December 2004, MREU is affiliated to Midea Group for the planning, development and management of the Group's real estate business. The aim is to develop and list the independent brand "Midea Real Estate".

5. Midea Hong Kong Corp.

For the purpose of the study, the analysis will focus mainly on Midea Air conditioner and Living appliances. In particular, Midea Microwave and electrical appliances manufacturing Company, Ltd., founded in 1999, has been visited in January 2011. In the microwave appliances sector, Midea acts as OEM and ODM for the major multinational companies such as Siemens, Kenwood, Candy, Bosh, Samsung (only for the low-end of the market) and is also manufacturing for private labels such as Lidl, Wall Mart, Carrefour, Sears, etc. At the same time, Midea is using its own brand name for the domestic market and Southeast Asia and developing countries. The main microwave production plant is in Shunde (China) because all their suppliers are located in the same area of Midea and the proximity to them is an essential element of competitive advantage. However the firm has recently opened a new manufacturing plant in Belarus, in order to be closed to its main European customers.
Here below some pictures of the production line for Candy microwaves.

The company employs 50 workers for each production line and manufactures 2 million microwave units per month and around 50'000 units daily. The market share of Midea in the US is around the 40% and its main competitors are: Daewoo, LG and Samsung (only for the high-end of the market because they already manufacture the low-end of Samsung).

**International expansion**

The company has traditionally viewed exports as an opportunistic addition to domestic sales, rather than its strategic focus (Yuan, 2000). For this reason most of the production was exported for sale under other companies’ names, usually the importers’ brands, such as SMC in Hong Kong and Danby and Kenmore (brand owned by Sears) in Canada and the US. During the 1980s, the company did not have a strong international branded presence and by the end of the 1990s, with the prospective entry of China into the WTO, the competition from foreign companies (such as LG, Sharp, Carrier, etc.) in
both the domestic and international market were expected to increase. These considerations lead Midea to play a more important role internationally reviewing its strategy by examining both private label and branding options.

Concerning the first international operations, in 1985, Midea started importing components from Hong Kong and Japan to assemble window air conditioner and sell them both in the domestic markets and overseas through SMC a family-owned Hong Kong company. In 1986, also Midea fans entered the international market through SMC that sold the products under its own brand name in Southeast Asia and Europe. In a short time, Midea exported the 70% of its fan production in this way was able to overcome the increasing competitive pressure on the domestic market.

Its international operations intensified in the early 1990's when Midea began its multi-level cooperation with well-known international enterprises such as the Japanese Toshiba, Sanyo, Shibaura, the American General Motor, and the Italian Merloni.

In particular starting from 1992, Midea acquired the core technologies needed for air conditioner production through joint ventures with multinational companies such as Japanese Toshiba, NEC, Shibaura, Ryosan and Texas Instruments from the US (Yuan, 2000). Alongside the fan and air-conditioner business, other products have been gradually introduced by the firm, such as: air purifiers, rice cooker, microwave ovens, electric heaters, etc. Also in this case the needed technology has been imported from foreign companies, such as Sanyo (for rice cookers), Toshiba (microwaves) and Merloni (washing machines).

At present, in the living appliances business the company has developed long-term strategic partnership with GE, Honeywell, Black&Decker and many leading brands of other fields. Meanwhile, it is the supplier of Wal-Mart, Target, Lowe's, Carrefour, Tesco and other famous retailers. Concerning Dishwashing appliances division, Midea is keeping a good and long-term business relationship with GE, Whirpool, Electrolux and Candy, becoming the biggest dishwasher manufacturer in China and Asia.

Although the Midea company sells all over the world, including the U.S., Germany and Japan, 80% of its exported products carry other companies' names. Now, Midea aims to boost its sales of Midea-branded product in Eastern Europe and Southeast Asia, and branding is becoming an increasingly important issue.

In 2006, the Vietnam Industrial Park of Midea was founded and put into production. The Park has been the manufacturing and export base of Midea in ASEAN.
The following Table 5 summarizes some of the key international operations.

Table 5. Key international operations

<table>
<thead>
<tr>
<th>Region</th>
<th>Most important markets</th>
<th>Year of entry</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUROPE</td>
<td>- NETHERLANDS</td>
<td>1999</td>
<td>Midea Italia S.r.l</td>
</tr>
<tr>
<td></td>
<td>- GERMANY</td>
<td></td>
<td>Manufacturing plant for Microwaves</td>
</tr>
<tr>
<td></td>
<td>- FRANCE</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- SPAIN</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- ITALY</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- RUSSIA</td>
<td>2007</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- BELARUS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AMERICA</td>
<td>- USA</td>
<td>1992</td>
<td>Collaboration with Texas Instruments (US)</td>
</tr>
<tr>
<td></td>
<td>- CANADA</td>
<td>2008</td>
<td>JV with Carrier Corp(^{22}), to form an air conditioning manufacturing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>JV, Foshan Midea Carrier Air Conditioning Equipment Co. Ltd. in Shunde.</td>
</tr>
<tr>
<td></td>
<td>- BRAZIL</td>
<td>2011</td>
<td>JV with Carrier Latin America Holding Company(^{23})</td>
</tr>
<tr>
<td></td>
<td>- ARGENTINA</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- CHILE</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- MEXICO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASIA – PACIFIC</td>
<td>- JAPAN</td>
<td>2005</td>
<td>Midea Scott &amp; English Electronics Sdn Bhd (JV with DRB-HICOM Berhad(^{24})</td>
</tr>
<tr>
<td></td>
<td>- MALAYSIA</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- VIETNAM</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- INDONESIA</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- INDIA</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- HONG KONG</td>
<td>1985</td>
<td></td>
</tr>
</tbody>
</table>

\(^{22}\) Carrier Corp., a unit of United Technologies Corp., and Guangdong Midea Electric Appliances Co. Ltd., a unit of the Midea Group, have signed an agreement to form an air conditioning manufacturing joint venture, Foshan Midea Carrier Air Conditioning Equipment Co. Ltd. in Shunde, China. Midea will hold a 60 percent stake and Carrier will hold the minority stake in the joint venture. He Xiangjian, chairman of the Midea Electric board, and Geraud Oarnis, chairman and president of Carrier Corp., celebrated the contract signing at a ceremony in Guangzhou.

\(^{23}\) Through its Netherlands subsidiary, Midea acquires 51% of the equity in Carrier Latin America Holding Company while the rest 49% equity will be owned by Carrier. Total transaction price is around 220 million U.S. dollars.

\(^{24}\) Company listed at Kuala Lumpur Stock Exchange.
Success factors and challenges

The following Table 6, illustrates the main success factors and issues characterizing the firm.

Table 6. Critical success factors and challenges

<table>
<thead>
<tr>
<th>Success factors</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Production of a broad line of products</td>
<td>• Become a Global brand</td>
</tr>
<tr>
<td>• Close relationships and geographical proximity with all their major suppliers</td>
<td>• Exchange rates, they expect an appreciation of the Yuan;</td>
</tr>
<tr>
<td>• Single brand strategy</td>
<td>• Increase in labour costs;</td>
</tr>
<tr>
<td>• Long term collaboration with Japanese, Us and European companies</td>
<td>• High dependence on few customers for the US market. For example, Midea</td>
</tr>
<tr>
<td>• Global distribution and presence</td>
<td>manufactures 4 Million units of microwaves per year just for WalMart</td>
</tr>
<tr>
<td>• Strong domestic Market share</td>
<td>that is now continuously pressuring for cutting the prices;</td>
</tr>
<tr>
<td>• Overseas manufacturing plant</td>
<td>• Short run there is the need to re-brand the products</td>
</tr>
<tr>
<td></td>
<td>• Long-run: no much innovation in the technology for microwaves, etc.</td>
</tr>
</tbody>
</table>

Strategy for the “future”:

1. improving company’s product portfolio and invest in R&D. Midea is already the market leader and for them there is no point of gaining new market shares;
2. control costs;
3. keep the supply chain stable;
4. increase products’ quality;
5. look to other BRIC countries.
6.2 Starting point

Literature points out that firms from EM markets differ from early-movers ones specially at the early stages of the internationalization process (Narula, 2006; Li, 2007). From the case study analysis, it is possible to find some evidences supporting this statement.

CHINT started its international operation soon after its inception, in fact by the 1990s the firm was already, supplying foreign multinational companies in the electromechanical industry under OEM agreements. As the market potential for its products grew, overseas subsidiaries was gradually opened in those more promising markets, such as Italy (1991).

From the analysis of the collected data and the interview with the CEO of CHINT Italia SrL, it seems confirmed the description made by Child and Rodriguez (2005) of firms characterized by: lack of brand development and international reputation, limited marketing capabilities and access to advanced technology. While the limited access to qualified human resources, mentioned by the authors does not seem to be considered by the firm as an element affecting its international expansion significantly. Concerning the limited access to advanced technologies, it is important to note that, while at the beginning of the internationalization process, it implies to collaborate with foreign multinationals for the development of products to be exported overseas, gradually it has become less relevant because CHINT, in 1998, started to develop and design a range of products independently and to export them to foreign distributors directly. The following Figure 26 illustrates this passage.

**Figure 26.** Shift from purely OEM to exports

<table>
<thead>
<tr>
<th>CHINT ➔ OEM ➔ European MNE ➔ DISTRIBUTORS ➔ END CUSTOMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>European MNE ➔ DISTRIBUTORS ➔ END CUSTOMERS</td>
</tr>
<tr>
<td>CHINT ➔ DISTRIBUTORS / IMPORTER ➔ END CUSTOMERS</td>
</tr>
</tbody>
</table>

The argument of the initial competitive disadvantage, presented also by Luo and Tung (2007) who stress the lack of consumer base, brand and technological leadership, is
confirmed even if the limited consumer base does not appear a significant element for CHINT, because when it started its international operations, the firm was already experiencing a good position in the domestic market.

More interesting is the argument of bounded entrepreneurship (Liu et al., 2008) with particular reference to the bounded entrepreneurial cognition of international business opportunities and the lack of experiential knowledge about foreign markets. In this last category we may find also the specific requirements and certification needed to be able to gain for example the ISO9001, Quality System Certificate, the ISO14001 Environmental Management System Certificate, etc. Through the collaboration with established foreign company, CHINT learned indirectly how to meet the above mentioned criteria and being accepted in the most important international markets.

Moreover, as explained by the firms, the initial collaboration and manufacturing activities for foreign MNEs made company’s management more aware of international business opportunities and encouraged the development of a position in the global market.

The approach to internationalization described so far can be illustrated on the one hand as a response to a latecomer position as said by literature, but on the other is also characterized by a mix of exploration and exploitation of complementary competitive advantages. CHINT in particular could count on advantages mainly based on costs due to its location.

Since its foundation, Desano focused on the manufacturing of APIs that at the beginning were supplied to Cipla, an Indian company, for the production of anti-retroviral medicines for HIV and anti-malarias. At that time Desano were in need to build a reputation at the international level, to get supply contacts from other overseas companies, to gain certification for its plants by foreign institutions (such as the US Food and Drug administration) and to develop domestically as a producer of FPP for HIV and anti-malarias.

Desano started then from a disadvantaged position compared to other multinational firms already operating in the pharmaceutical market internationally. Moreover concerning the bounded entrepreneurship argument, it seems that the main constraint for the company was the lack of brand leadership and more particularly the presence of international patent laws preventing the firm to start on its own the manufacturing of FPP and some APIs for and to export them under its name. India in this sense
represented for Desano an important “partner” not only for the acquisition of advanced know how (concerning quality controls, etc.) but also because until the mid 1990s’ the country did not sign the regulation concerning international patent laws.

In this case it does not seem that the company had a “limited cognition of international opportunities” but rather that the exploitation of these opportunities was bounded by a system of patents and regulations precluding a straightforward development of international activities.

The figure below is an attempt to describe the passage of Desano from a supplier of APIs to the production and commercialization of FPPs with particular reference to the market for anti-HIV drugs.

**Figure 27.** Desano development in the anti-retroviral drugs

| DESANO → APIs → CIPLA (India) → FPPs → DISTRIBUTION → END CUSTOMERS |
| DESANO → OEM → FPPs to Foreign MNEs → DISTRIBUTION → END CUSTOMERS |
| DESANO → FPPs → DISTRIBUTION → END CUSTOMERS |

Concerning the third case study, Midea started in the fans business as a manufacturer for the domestic market in 1980. The international market was entered in 1985 with the import of air conditioners components from Japan and Hong Kong. The assembled air conditioners were then sold to the local market and exported to foreign companies which sold them under different brand names.

At the beginning of the 1990s, the technology needed to further develop the business were acquired from foreign companies (especially Japanese Toshiba, NEC, Ryosan and Shibaura, the Italian Merloni, etc.)

These particular episodes tell us two things:

1. the firm lacked of the necessary technology, capabilities to independently develop new products;
2. lack of international marketing skills and of a recognized brand under which the products can be sold.

Also in this case the company experienced a *latecomer disadvantage* compared to foreign MNEs also because they have no access to a large international sales and service
network. This is line with the argument of the initial competitive disadvantage presented by Luo and Tung (2007) who focus on the lack of consumer base, brand and technological leadership.

Midea, did not start its internationalization process from the position of exploiting specific competitive advantages but rather from the need of acquiring new advantages to increase its customer base and geographical diversification.

Concerning the bounded entrepreneurship argument, there is no specific evidence in this sense, a part from the fact that the limited technological knowledge and international awareness characterized the first stages of Midea internationalization.

6.3 Motivations for internationalization

According to the literature review in chapter four, internationalization especially in the first stages is seen mainly as a way of addressing competitive weaknesses. The process is considered as a way to acquire strategic resources and to learn in terms of: technologies, market channels, brand and management expertise. Alongside these learning objectives there may be also the need to bypass stringent barriers or counter-attack global rivals coming in the domestic market.

From the data collected on CHINT and the interview, one of the motivation for starting internationalization in the late 1980’s, beginning of the 1990’s, was the strong development of the domestic market that allowed the firm to reach economies of scale and look for additional markets where to sell its products.

Then, among the guiding factors it is possible to find the following:

- increase sales / consumer base;
- improve products’ development and innovation;
- achieve an international reputation and brand recognition.

In particular the OEM activities of the company has been very important because they encouraged a sort of “unilateral learning” among the firm thanks to the collaboration with leading MNEs in the electro-mechanical industry. This responds to what has been defined as exploratory learning, a driving force of the internationalization of latecomers on the international market. At the end of the 1990s’ CHINT developed for the first time a set of products independently and
this marked a sort of shift to a new approach, the so called, *exploitative learning*. This means that among the motivations, CHINT follows a mix between the two, identifying a particular *learning trajectory*.

Moreover an important motivation for further developing international operations is represented by the increasing awareness of international opportunities thanks to OEM activities, as stated by the CEO of CHINT Italia

The OEM activity for foreign firms made CHINT aware of international business opportunities and the importance of investing into the international markets.

Also the financial support granted by the Chinese government is important for CHINT with particular reference to specific insurances granted by the government to guarantee firms exports and FDIs.

In the case of Desano the main motivations behind its expansion, as explained by the CEO of Cdymax, are the following:

- increase the technology content of their formulations;
- get access to raw material and energy;
- acquire international experience and reputation. This, in particular, is aimed in sustaining the development of strong and reliable brand name;
- increase consumer base.

For example the decision to cooperate and to establish, lately, a JV with the Indian Cipla at the beginning is guided by Desano’s need to improve its production capabilities and start to build an international experience. The contract manufacturing for this firm, in fact, helped Desano with the establishment of supply contracts with other foreign firms and to start manufacturing FPPs for the Chinese market.

It is also possible to note that the choice is characterized by the acquisition of new knowledge from another company however, as time goes by, it develops in the creation of novel knowledge by joint effort. In 2009 in fact a new company, Biomab, based on a JV with Cipla has been established and the main characteristic is that while the manufacturing will be kept in India, part of the know-how will be provided also by Desano. This can be found also in the establishment of Dafeng DESANO Pharmaceutical Co., Ltd in JV with Dafeng, because it is motivated by desire to combine the technical strengths of the two parties, DSM’s strong sales network and the local production advantages of DESANO in biotin production.
Chinese government’s support and financing are also considered important by the company, even if they do not directly influence its internationalization process. We refer to the grant of research funds to qualified firms to keep a certain percentage of revenues to put in R&D activities. This does not represent a commercial support for companies, however it encourages strong R&D activities together with the development of high quality products that can meet the international demand for quality and reliability, more easily.

Concerning Midea, the main motivations for its internationalization are: maintain its leadership position in the home market and become a global brand. The company in fact had traditionally considered exports as an “opportunistic addition to domestic sales rather than its strategic focus” (Yuan, 2000). However, when China entered the WTO more foreign companies entered the Chinese market and the competition increased dramatically. Midea found himself to be competing directly with global giants such ad LG, Sharp, Carrier, etc.. At this point, internationalization became a strategic option in order to defend its position in the domestic market and further increase the quality, technology and reputation of its products.

However, it is important to stress that especially during the 1980s when the first international operations took place, internationalization has been mainly driven by asset seeking motivations. The company in fact started to import components from abroad for new products’ development, to contract manufacturing for foreign firms and to buy the core technology needed to diversify into new market segments (such as the one of air-conditioner, washing machines, etc.).

It is then possible to list the following main motivations:

- increase sales / consumer base. We may include in this category also the need to face a global competition by becoming global and the acquisition of new customers;
- find a relief from overly competitive domestic market\(^{25}\);

\(^{25}\) Yuan (2000) explains that since the mid 1980s the Chinese market was characterized by a growing number of producers of fans, generating an over-capacity that eroded prices. Midea competed by introducing new products, cutting costs, building economies of scale and developing other electronical appliances. In addition it started to look more carefully to foreign countries.
• achieve international reputation and brand recognition;
• improve product development and innovation ratio;
• increase technology content of the products.

6.4 Routes to internationalization

In this paragraph we discuss how internationalization took place among the case firms with particular reference to their initial entry mode choices and timing. As explained by literature (Li, 2003, 2007) a typical route followed by MNEs from developing countries is to start with inward internationalization and then subsequently leapfrog the chain so as to catch up with other early-established MNEs from advanced countries. This is illustrated by figure 15 in chapter IV.

CHINT started its international operation soon after its inception, in fact by the end of the 1980’s the firm was already, supplying foreign multinational companies in the electro-mechanical industry under OEM agreements. As the market potential for its products grew, overseas subsidiaries was gradually opened in those more promising markets, such as Italy (1991).

This represents a very important step, because through these WOS, CHINT was not only closer to its most important customers but could also start thinking to commercialize products under its own brand. The experience, know-how and more importantly knowledge of international markets that the company was accumulating thanks to the collaboration with large Western MNEs (such as Schneider, Lovato, etc.) enabled CHINT to present its first range of independently developed products in 1998. This marks the strategic transition from a unilateral learning to independent R&D and the beginning of a new stage in the internationalization process.

In fact as explained by Mr. Tung, a gradual change has occurred since the 2000s.

An important strategy followed is that of the OEM for large European firms in the electro-mechanical industry, however since the mid 2000’s and in particular the last three years CHINT is putting strong efforts to strengthen its brand. The company can count now on the reputation achieved after many years of work in this sector, moreover to achieve this goal a lot of resources are currently devoted to marketing activities.
This demonstrates that a gradual shift from OEM to the establishment of a global brand just started, with CHINT directly exporting its low-voltage electrical products, etc. and setting up foreign wholly owned subsidiaries. Alongside this development the firm diversified into new sectors with particular reference to the solar energy industry moving in this way to the manufacturing of high-end market products.

The following figure illustrates the main steps of the internationalization process.

**Figure 28. Steps of the internationalization pattern**

It is interesting to note that the international expansion follows firm’s strategy of developing a global brand and diversifying gradually into new sectors within the industry. In fact at the beginning CHINT mainly produced low-voltage electrical products for the domestic market, then it started to expand abroad following an inward-logic, by supplying foreign MNEs, and as its awareness of international business opportunities and practices grew, it started gradually to commercialize the same products under its own brand name. At that time their competitive strength was mainly based on costs advantages and OEM strategy allowed to complement CHINT’s strengths and to offset its weaknesses in the global marketplace such as the lack of a global supply chain, international reputation, etc. OEM gave the chance, on the one hand, to extend its extant manufacturing capabilities acquired by operating in the domestic market, and on the other to improve CHINT’s technological and international business know-how thanks to the transfer of expertise from foreign buyers. Moreover, we may assume that the collaboration with Western MNEs, has in part attenuated the psychic distance and the liability of foreignness which in turns made easier the subsequent firm’s outward internationalization.

As time goes by, further products’ categories have been added and by the end of the 1990s it stated an independent R&D activity and opened the CHINT Groups’ high-tech industrial park in China. Since then company’s strategy focused on the improvement of its international position following two main routes:
export of its own branded products to foreign importers and distributors;
• establishment of Wholly owned sales subsidiaries in more important markets (such as Italy, Spain, UK, France, etc.).

The last point marks a significant shift to an outward FDI strategy intensified in the last three to four years by the creation of several subsidiaries and new companies in other sectors (renewable energy) with particular attention to the high-end of the market. In addition also two new brands have been introduced: Astronergy and Noark and both are now penetrating the international markets through the establishment of WOS in Spain, United States and Czech Republic.

The firm has also increased significantly the investment in marketing activities in order to build a global brand and thanks to the joint efforts of its network of worldwide subsidiaries is now challenging its main competitors, mostly Western-based MNEs.

Concerning Desano, since its foundation in 1996, the company expanded rapidly in the production of active pharmaceutical ingredients, with much of its sales going to Cipla of India for the manufacture of anti-retroviral medicines for HIV and anti-malarias. That helped establish Desano as a producer of the finished drugs for the domestic market, while the know-how provided by Cipla has helped it in winning supply contracts with other companies and certification of its plants by the US Food & Drug Administration (The Financial Times, 2010).

It is possible to note that the first strategy used by Desano to expand internationally was inward oriented. In fact, even if the company exported materials for ant-HIV and anti-malaria drugs, it was also producing anti-HIV drugs under OEM agreements for foreign firms.

This strategy was important for Desano because it allowed:
• to accumulate financial assets, needed to survive;
• to enter the global pharmaceutical market distribution network;
• the transfer of technological know-how from foreign buyers.

All the above mentioned elements respond to a specific effort: to strengthen its international competitiveness. Few years later, at the beginning of the 2000s, when the patent protection period of some HIV drugs expired in China, an important modification of the strategy occurred because Desano started to manufacture this drugs independently in order to supply the home market and other emerging countries.
Then, between 2001 and 2005 WOS has been established in major markets in order to introduce the Desano brand internationally and also new products have been developed in new areas such as: nutrition / vitamins (supplied for example to energy drinks’ manufacturers like Pepsi) and bio drugs for cancer treatments.

Recently, the internationalization efforts of Desano also include outward-oriented strategies with particular reference to acquisitions and the development of Joint ventures with overseas MNEs in both the home (such as the establishment of Dafeng DESANO Pharmaceutical Co.) and foreign markets (Biomab, Indian JV with Cipla).

The following figure illustrates the main steps of the internationalization process.

Figure 29. Steps of the internationalization pattern

<table>
<thead>
<tr>
<th>time</th>
<th>OEM</th>
<th>SUPPLY AGREEMENTS</th>
<th>EXPORT + WOS</th>
<th>ACQUISITION</th>
<th>JV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990s</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000-2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005-2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The internationalization process presents an increasing outward orientation over time which in turn, follows a parallel pattern towards the growth in higher value activities such as biological production, etc.

In particular the more recent international operations, such as the JV signed with Cipla in 2009, shows a new configuration of competences and combination of capabilities, with Desano supplying advanced know-how and R&D skills in new fields. It seems that the employment of JV at this stage is a good way of combining complementary advantages such as local production, access to international sales networks, etc.

If we consider the foreign target markets of Desano together with the international strategy of the firm, it is possible to understand that the main drivers influencing the choice are: market potential, in this case Desano is targeting developing countries especially for anti-HIV and anti-malarias drugs, and firm’s strong market orientation, as explained by Dr. Wang

> the most important thing you need to understand when you want to expand internationally is what the international market is demanding to you: low cost? Environment protection? High products’ quality? Etc.

Concerning future, the extensive international market development started at the beginning of the 2000s, will continue and as explained by company’s CEO
in the period 2010-2020 our strategy will focus on the recruitment of human resources with an international profile. The idea is to acquire talents from different parts of the world, especially in the areas of marketing and management science.

Also in this case, as for CHINT, the company is working to strengthen its international presence and focusing on marketing activities it is aiming at becoming a global brand.

Since Midea officially entered into the home appliances industry in 1980, international expansion has been an important part of its growing strategy even if until the end of the 1990s, it was based mainly on the export of products for sale under the importer brand name, such “SMC” in Hong Kong and “Danby” and “Kenmore” in Canada and the US. Moreover also import characterized the first part of Midea’s internationalization, the company in fact in 1985 was importing from Hong Kong and Japan components to assemble window air conditioners for both home and foreign markets. In this last case, Midea supplied SMC, a Hong Kong buyer, that sold the products under its own brand name in Southeast Asia and Europe.

The following figure illustrates the most significant steps in Midea’s internationalization process.

**Figure 30. Midea internationalization process**

![Diagram of Midea's internationalization process]

After the first period of import of components and OEM mainly for the Hong Kong trading company SMC, Midea started to collaborate with foreign MNEs from Japan, Europe and the US (Toshiba, NEC, Sanyo, Merloni, Texas Instruments, etc.) through JV agreements in order to acquire core technologies needed to continue air conditioner production and to launch new home appliances in order to increase the variety of its products. By the beginning of the 2000s, with the prospective entry of China into the WTO, the position of the company within the domestic market was challenged by an intensified competition from multinational companies and internationalization became an important strategic option to face excess capacity, decreasing margins and to improve company’s profile: from a low value-added, low technology and easily
replaceable supplier to a global manufacturer of high quality and innovative products. The forces driving its internationalization process were the following: maintain leadership position in the home market, build its own distribution network at an international level and become a global brand. Therefore, Midea opened WOS in key international markets (such as Italy and Spain) and upgraded its R&D activities thanks to the creation of Midea Research and Development Center in 1999. This in particular helped Midea to develop from OEM model to ODM, acting also as an outsourced R&D Centre for foreign multinationals.

More recently the firm intensified its outward internationalization activities following two strategies:

- FDI to build overseas manufacturing plant (Vietnam and Belarus);
- JV with foreign MNEs in both the domestic and international market (for example Latin America) to increase its market share in particular products categories (such as air conditioners) in foreign countries.
### 6.5 Concluding remarks

The findings discussed so far are illustrated in the table below. The key evidences derived from the case firms are presented in relation to the three categories of the internationalization process: starting point, motivation and routes that appeared to characterized the approach of EM firms.

**Figure 31. Key findings**

<table>
<thead>
<tr>
<th>Category</th>
<th>CHINT</th>
<th>DESANO</th>
<th>MIDEA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Starting point</strong></td>
<td>- Lack of International reputation and brand</td>
<td>- Lack of an international reputation and brand</td>
<td>- Lack of an international reputation and brand</td>
</tr>
<tr>
<td></td>
<td>- Limited access to international distribution network</td>
<td>- International patent laws preventing the entry</td>
<td>- Lack of international sales and service network</td>
</tr>
<tr>
<td></td>
<td>- Bounded cognition of international opportunities</td>
<td>- Lack of international certification</td>
<td>- Lack of technologies</td>
</tr>
<tr>
<td><strong>Motivations</strong></td>
<td>- increase sales / consumer base; - improve products’ development and innovation; - achieve an international reputation and brand recognition</td>
<td>- increase the technology content of their formulations; - get access to raw material and energy; - acquire international experience and reputation. - meet increasing demand for anti-HIV and anti-malarias drugs from developing countries.</td>
<td>- increase sales / consumer base - need to face a global competition by becoming global and the acquisition of new customers - find a relief from overly competitive domestic market - achieve international reputation and brand recognition; - improve product development and innovation ratio; - increase technology content of the products.</td>
</tr>
<tr>
<td><strong>Routes</strong></td>
<td>Started domestically, then develop into OEM and then WOS and outward FDIs.</td>
<td>Started as OEM under foreign supply agreements, then develop into an exporter. In more recent years opening of WOS and outward FDIs, especially through acquisitions and JVs.</td>
<td>Started domestic, then import of components, OEM, acquisition of technology through JV. Gradually shift to ODM, opening of WOS and outward FDI (foreign manufacturing plants).</td>
</tr>
</tbody>
</table>
As it is possible to see, when these companies started their international activity, they experienced both a position as *latecomers* and a sort of *bounded entrepreneurship* with particular reference to the cognition of international business opportunities. In this case, no specific evidences emerged concerning home country institutional constraints, even if literature (Deng, 2009) stresses that the lack of legal protection for property rights, poor enforcement of laws and underdeveloped factor markets push firms to go global.

The analysis of the motivations confirms that internationalization is viewed as a way of addressing internal competitive weaknesses, once above all: the lack of an international reputation and brand. This appears to be a common concern, not influenced by industry sector. Moreover asset-seeking motivations are also relevant with particular reference to technology and know-how.

The case of Desano allows to introduce in the discussion also an industry-specific element: the regulations and patent laws in the pharmaceutical industry, which represented a strong external element influencing the choice to internationalize. Also in the case of Midea, an exogenous factor forced and further motivated the company to expand overseas, in fact the entry of China in the WTO, required Midea to counter-attack its global rivals in the domestic market. These two considerations stress the importance of the characteristics and level of internationalization of the industry and competition within.

In addition, government played a role in encouraging firms to pursue international expansion. As explained by CHINT, the financial support granted by institutions making available specific insurances to guarantee firms exports and FDIs is a good way of facilitating internationalization. At a more general level, the Chinese government since 1999 with the announcement of the “Go global” strategy, is promoting the globalization of Chinese firms, urging them to invest more overseas and make more tangible their international business presence. Chinese investments abroad are openly encouraged and the premier Wen Jaibao, reinforced this approach, by declaring in 2004 that “the Chinese government encourages more enterprises to go global”, and following to this statement, “the pace of Chinese outbound investment began in earnest, with foreign acquisitions doubling from 40 in 2003 to 82 in 2006 and reaching a high of 298 in 2009 or some $73.20 billion, anticipated to account for roughly 8% to 9% of global merger and acquisition activity in 2011” (Alon et al., 2011, p. 191). Moreover, Chinese firms’ internationalization is supported also by a vast pool of savings and export surplus earnings, in addition to relatively cheap labour and location advantages.
As explained by Cdymax CEO, Dr. Wang, a supporting environment is also created by the specific research funds a company can apply to. China in fact is the only Asian government that not only actively facilitates and encourages outward FDI but also investment in R&D to enhance companies’ innovative capability (Deng, 2010). This approach even if it does not constitute a direct commercial support, it represents a strong motivation to increase firms’ R&D activities and investments.

Concerning the last point investigated, the routes of international expansion, literature has documented how firms can benefit from inward internationalization in the form of OEM agreements, collaborative alliances, domestic JV with foreign partners. All these modes, in fact, are effective vehicles with which to transfer tacit knowledge related to technology, products’ development, management, etc. and therefore are more relevant for players who need to catch up (Deng, 2009), as EMs firms. In particular the inward flow of investment in China has deepened firms’ knowledge of foreign markets and understanding of international business operations and practices, helping them also to accumulate international experience, know-how and financial assets. As explained by Luo and Tung (2007) these learning experiences, made Chinese firms more prepared to their subsequent outward internationalization and they make it more rapid and characterized by an strong increasing commitment to international markets. The following list attempts to summarize some of the most important contribution of inward internationalization to the development of export activities and outward FDIs:

1. reduce cultural differences;
2. no need to start from scratch with outward internationalization;
3. acquisition of knowledge to use in subsequent internationalization;
4. encouragement to begin exporting and to establish a firm’s own position in foreign countries;
5. access to international distribution channels and building of cross-border networks;
6. gradually acquisition of a reputation as a reliable manufacturer / supplier among foreign MNEs.

In addition from the analysis it is possible to see that case firms’ internationalization has been realized by participating in globalization via learning from foreign experiences and adopting them properly. With their approach, on the one hand they have been able to raise money from overseas but on the other they have also acquired knowledge,
capabilities, access to distribution and sales network, essential elements to become internationally renowned brands.

The strategies followed demonstrate also a gradual shift from a focus on costs, towards independent products’ development, intensification of R&D activity, greater attention to quality issues and gradually market penetration with their own brand.

The final aim of their international expansion is to make the leap from low cost and low quality to become world brands of real repute: in recent years they have realized that the key goal must be to take their brand to the world.

For companies still operating as OEMs rather than selling under their own names, and competing on price, thanks to their low manufacturing costs, it is important to note that there is a growing threat coming from rivals at the low end from countries such as India and Vietnam. This consideration enhances the need to review the approach to international markets and it seems to be well represented by the recent strategic moves of the case firms analyzed so far.
CONCLUSIONS

This work presents a multiple case study on the internationalization process of private owned Chinese firms. Literature review on companies’ internationalization, in spite of the growing global presence of MNEs from emerging countries, is still mostly grounded in the paradigms of Western markets. As noted by Liu et al. (2008), the research is overwhelmingly focused on firms from developed economies such as Europe, North America, Australia or New Zealand and there is much less research on firm internationalization from an emerging country’s perspective. This work tries to investigate this unique issue in current literature.

In particular, from the review of the major contributions on this field, three aspects emerged and have been explored in the research: the starting point, motivations and routes of internationalization.

The first deals with the so called latecomer perspective (Aulakh, 2007; Child and Rodriguez, 2005; Dneg, 2009; Li, 2003, 2007, 2010; Liu and Tian, 2008; Luo and Tung, 2007) and the need of catching-up with advanced economies’ MNEs. In addition, it is possible to find also a bounded entrepreneurship (Liu et al., 2008) argument, maintaining that especially private-owned firms from China are limited by low education, experience, unfavorable institutional arrangements and lack of managerial, technological, linguistic knowledge. The combination of these two features, suggest that Chinese firms experience an ownership disadvantage which can be considered as a pre-condition for them as latecomers to internationalize and become a MNE (Li, 2003, 2007; Luo and Tung, 2007). This view challenges the traditional OLI model (Dunning, 1988) because the possession of ownership advantages does not represent anymore pre-condition for internationalization.

In fact, international expansion is thus viewed as a response to firms’ lack of competitive advantages and can be well described as “a process of transferring a firm's knowledge across borders, whether it is knowledge underlying technology, production, marketing or other activities” (Aulakh, 2007, p.237).

Case studies’ evidences confirm this view, in fact the three firms experienced an initial situation of competitive disadvantage compared to established Western MNEs especially in the area on technology, brand and managerial experience on international
business practices. At the beginning they could count, mainly, on cost-based advantages but in order to compete internationally they had to learn the technology and to get access to international distribution and sales networks. Moreover the specific certification, international patent laws also affect their possibility of entering the international markets by themselves and hence contributed to reinforce the bounded entrepreneurship argument.

Therefore, also the motivations to internationalization appears to be different from the ones illustrated by traditional theories. Firms do not internationalize only when they have a competitive advantage to exploit overseas. Most of the research on EMs firms (Child and Rodriguez, 2005; Deng, 2004; 2009; Lee and Slater, 2007; Li, 2003, 2007, 2010; Liu et al., 2008; Liu and Tian, 2008; Luo and Tung, 2007; Mathews, 2002; Tsai and Eisingerich, 2010; Yang et al., 2009; Young et al., 1996) found out that asset-exploiting motivations are replaced by asset-exploring motivations and they stress that the exploration of new ownership advantages in terms of advanced technologies, market channels, etc. is a critical motivation for internationalization.

In practice, EM firms use international expansion as a way to (Luo and Tung, 2007; Mathews, 2002):

1. compensate for their competitive disadvantages;
2. overcome their latecomer disadvantages in areas such as: consumer base, brand recognition, technological leadership;
3. counter-attack global rivals in their home country market;
4. bypass stringent trade barriers;
5. alleviate domestic institutional constraints;
6. secure preferential treatment offered by emerging market governments.

There is a sort of learning trajectory of latecomers emerging from these considerations and based on the exploration of ex post advantages (Li, 2003, 2007; Mathews, 2002).

This focus on cross-border learning, makes possible to find a point in common with the IE literature and especially with Jones and Coviello’s (2005) conceptualization of internationalization as an entrepreneurial process of behaviour in time.

In the case of CHINT it is possible to find an initial “unilateral learning” thanks to the collaboration with leading MNEs in the electro-mechanical industry. This represents mainly exploratory learning, which drives the internationalization of latecomers.
However, at the end of the 1990s’ CHINT developed independently for the first time a set of products and this marked a shift to a new approach of *exploitative learning*. This means that among the motivations, CHINT follows a mix between the two, identifying a particular *learning trajectory*.

A similar view can be found also in MIDEA, with the company starting to internationalize to acquire specific components, technologies and know-how from overseas (especially Japan and Hong Kong) in order to increase its competitiveness both domestically and internationally. In the case of DESANO the learning trajectory is less evident. In fact, the main driving force behind its internationalization appears to be the evolution of the international patent law for anti-HIV and anti-Malarias treatments and the need to establish a network of supply contracts with foreign firms in order to survive and prepare for subsequent outward internationalization, that started when international regulations in the industry changed.

The following figure compares the EM firms perspective with the traditional view on internationalization, discussed so far.

**Figure 32. Traditional vs. EM firms internationalization**

<table>
<thead>
<tr>
<th>TRADITIONAL</th>
<th>Vs.</th>
<th>EMERGING MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earlycomers</td>
<td>Vs.</td>
<td>Latecomers</td>
</tr>
<tr>
<td>Asset exploitation</td>
<td>Vs.</td>
<td>Asset exploration</td>
</tr>
<tr>
<td>Exploitation of <em>Ex-ante</em> strengths</td>
<td>Vs.</td>
<td>Acquisition of <em>Ex-post</em> advantages</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>Vs.</td>
<td>Bounded Entrepreneurship</td>
</tr>
</tbody>
</table>

The difference in ownership advantages between the *earlymovers* firms and *latecomers* makes unique their starting point and the motivations for internationalization. This gives rise to a difference in strategy and pattern of MNE evolution between the two groups. In particular, the lack of ownership advantage in the case of *latecomers* results in an intensive use of strategic alliance for learning and networking, leading to an accelerated pattern of MNE evolution to catch up with early-movers. In particular, concerning the case of China, there is a growing body of empirical research relating to inward FDI reflecting the fact that the country had become a largest recipient of worldwide FDI flows by the 1990s (Young et al., 1996) and is today the world’s largest recipient of inward FDI (Child and Rodriguez, 2005).
Several authors focused on the so called inward internationalization (Aulakh, 2007; Child and Rodriguez, 2005; Deng, 2004; Deng, 2010; Li, 2001; Li, 2003, 2007; Liu et al., 2008; Liu and Tian, 2008; Luo and Tung, 2007; Yang et al., 2009; Young et al., 1996) and found out that this strategy represents one of the primary application of cross-border learning and asset-acquisition.

Therefore, there is a link between the internationalization strategies of EM firms with their asset-seeking or opportunity-seeking motivations. Usually they tend to focus on advantages that can be acquired externally through arrangements with foreign companies and through inward internationalization they accumulate financial and operational assets, upgrade technological and process management skills, and develop unique capabilities and learning experiences (Young et al., 1996). There are several possible inward-oriented strategies, including: import, OEM, ODM (original design manufacturing), OBM (original brand manufacturing), cooperative alliances and equity joint ventures in the domestic market. The result of these routes is a more in-depth understanding of the global market which in turns helps firms to develop an international experience and stimulates also their following outward internationalization efforts.

The study on the inward-oriented internationalization, allows to make more clear the learning trajectory followed and to better understand their next outward moves, usually characterized by rapidity and leapfrog of stages, challenging traditional IPT (Johanson and Vahlne, 1977, 1990) and the stages of the I-related models (Bilkey and Tesar, 1977; Cavusgil, 1980; Lim et al., 1991; Rao and Naidu, 1992).

If we look back to the case studies findings, it is possible to see how different firms used inward internationalization. The following figure summarize the main evidences.

**Figure 33. Inward internationalization among case firms**

<table>
<thead>
<tr>
<th>CASE FIRMS</th>
<th>INWARD OPERATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHINT</td>
<td>OEM for Western MNEs in the electromechanical industry</td>
</tr>
<tr>
<td>DESANO</td>
<td>OEM for Indian firms</td>
</tr>
<tr>
<td></td>
<td>Supply agreements for APIs and FPPs</td>
</tr>
<tr>
<td>MIDEA</td>
<td>IMPORT</td>
</tr>
<tr>
<td></td>
<td>ACQUISITION of technology</td>
</tr>
<tr>
<td></td>
<td>OEM for Western MNEs in the household appliances industry</td>
</tr>
</tbody>
</table>
In all the three cases inward internationalization can be viewed as a way to access international sales and distribution networks and gain a reputation as a reliable manufacturer among their industries. In particular, it represents a strategy to learn, to overcome competitive disadvantages (lack of managerial and international marketing experience) and to acquire strategic assets or new competitive advantages (brand recognition, technological innovation, etc.) that cannot be easily found domestically or following the traditional internationalization pattern based on outward moves.

By taking this perspective it is possible also to understand *leapfrog* strategies. The case firms in fact, after undertaking OEM, started to open WOS overseas, maintaining inward-oriented activities at the same time, and establishing JVs, acquiring foreign firms in order to consolidate their position in the international market and compete with large MNEs.

Therefore, how does this perspective extend traditional theories?

Literature points out that firms from EM markets differ from early-movers ones specially at the early stages of the internationalization process (Narula, 2006; Li, 2007). In the conclusions we have already highlighted that this leads to alternative points of view on the OLI framework and IPT. Regarding other economic approaches to internationalization it is important to note that decisions are not based upon transaction costs considerations but rather upon the transaction value expected. The firms investigated when deciding which strategy to follow, always “keep an eye” on the expected value that can be transferred thanks to the establishment of a relationships with a foreign player, which, especially during the first stages of their internationalization process is also more competitive.

This perspective is different from the one manifested by Western MNEs, some of them in fact tend to establish connections with firms perceived as less competitive in order to take advantage of their weaknesses and of favorable localizations.

A consequence is the relevance of inward internationalization that has been overlooked by some part of the literature but that seems to fit well with the case of Chinese firms. In fact, they have been able to capitalize on the link between OEM, supply contracts, import of technology, etc. and the subsequent outward internationalization via exporting, WOS, etc.

It seems also that one strategy does not exclude the other, the analyzed companies follow a mixed approach ranging from OEM to outward FDIs.
If we link the starting point of latecomers with the first category of internationalization motives, it appears that a central element to their evolution is cross-border learning. This leads to a learning-based view of internationalization (Li, 2010) consistent with Jones and Coviello’s (2005) conceptualization of internationalization as an entrepreneurial process of behaviour in time.

Moreover, the argument of bounded entrepreneurship adds a new point view to international entrepreneurship literature because it stresses how entrepreneurs may be motivated also by constraints in their home market. In the case of China it seems that there is both some constraining elements to independent and private entrepreneurship but at the same time also a conducive environment leading to the emergence of a significant entrepreneurial activity. This is demonstrated also by the development of Chint, Desano and Midea, where at the “heart” of the companies we can find a strong entrepreneurial and market orientation. This is in line with Liu et al. (2008) findings on entrepreneurship as the most driving factor among private Chinese firms’ internationalization. The Chinese experience then, strongly suggest on the one hand to make more evident the contribution of entrepreneurship among internationalization theories, and on the other to analyze more in-depth the constraining and enabling forces by the international entrepreneurship approach.

A further contribution is represented by the need to consider more carefully the characteristics of the specific industries and markets where the company is operating. Firms, in fact, seems to follow markets’ development very closely and to change accordingly, realizing what in marketing is conceived as “market orientation”. The strong focus of these firms on “what the market is demanding” and the rapid adaptation to changing customers needs, regulations, etc. allows them to face global rivals and improve the presence on the international markets.

The main limitation of this work is that it is qualitative and based on three case studies. For this reason it is not possible to demonstrate statistically the existence of specific relationships among the different factors studied, and to generalize findings to the whole population of Chinese firms. A further issue is represented by the use of a different combination of sources of data. In two out of three cases direct observations have been conducted and also personal interviews have been conducted only with two firms. Research will benefit from a more homogenized data collection method, however
because of the distance with China and the difficulty in setting up interviews and in gaining the needed in depth information, at this stage, it has not been possible to follow a different strategy.

The use of qualitative methods have been important to highlight some of the peculiarities of their internationalization process and to investigate the relevance of inward-oriented operations, that have been denied by a part of literature. In this way the concept of internationalization itself has been improved and made more “holistic”, enhancing Fletcher (2001) model by attempting to include also an analysis on the motivations and relationships among different internationalization choices. The study of the inward and outward connections among the case firms helped also to understand the different steps in the internationalization process and the deviations from expected patterns.

Future research is called especially concerning the linkages between Chinese MNEs and foreign investors and their evolution over time. For this purpose longitudinal case studies may be considered in order to grasp the temporal development of the inward-outward connections and of the relationships between mainland Chinese firms and foreign MNEs.
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http://www.chint.it/
http://www.dsm.com/
http://www.dsm.com/nl_NL/html/dcn/01_07_08_DSM_and_DESANO.htm
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http://english.gov.cn/
http://www.ft.com/
http://hegno.com/
http://www.pharmachinaonline.com/Archives/
http://www.unctad.org/
APPENDIX 1 – Global FDI inflows and Outflows, Top 20 Economies, 2008-2009

Global FDI inflows, Top 20 Economies, 2008-2009

Source: UNCTAD (2010)

Global FDI outflows, Top 20 Economies, 2008-2009

Source: UNCTAD (2010)
APPENDIX 2 – IPT Model
APPENDIX 3 - List of Questions for Interviews

The internationalization of Chinese firms: motives and routes

A ) Company’s profile

1. Name of the Company_______________________________________________________
2. Year of foundation____________________________________________________

3. Person Interviewed and current Position in the company
________________________________

4. Main field of activity of the company________________________________________

5. Number of employees____________________________________________________

6. Year of company’s first international operation___________________________________
In which country_______________________________________________

7. Degree of foreign sales to total sales? (percentage) ________________________________

B ) Company’s international expansion

8. Internationalization process. Please could you tell us the most important markets by region in which your company has operations with the relative year of entry and type of strategy?

<table>
<thead>
<tr>
<th>Region</th>
<th>Most important markets</th>
<th>Year of entry</th>
<th>Strategy (Import of goods/raw materials; OEM(^{26}), ODM(^{27}), Export, JV(^{28}) with foreign partner, Alliance, Foreign subsidiary, Representative office)</th>
</tr>
</thead>
<tbody>
<tr>
<td>America</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

\(^{26}\) OEM = Original equipment manufacturing for a foreign company
\(^{27}\) ODM = Original design manufacturing for a foreign company
\(^{28}\) JV = Joint Venture
Concerning the foreign market strategies chosen by your company, as time goes by any significant change in the strategy? (for example the decision to set up a wholly owned subsidiary after a period of export, etc.)?

9. When your company started to expand abroad, can you tell us what were your strengths and weaknesses?

STRENGTHS
☐ Advanced technology
☐ Products’ quality
☐ Products’ competitive price
☐ Brand
☐ Company’s reputation
☐ Qualified Human Resources
☐ Managerial and linguistic knowledge
☐ Marketing Skills
☐ International experience
☐ Network relationships
☐ Other

WEAKNESSES
☐ Lack of Advanced technology
☐ Lack of Products’ quality
☐ Lack of competitive price
☐ Lack of a well-known Brand
☐ Lack of international reputation
☐ Lack of Qualified Human Resources
☐ Lack of Marketing Skills
☐ Lack of International experience
☐ Lack of Network relationships
10. Motivations for your company’s internationalization.
How important you believe these element are for your firm when considering international expansion or just exports?

a. Acquire international experience and knowledge
   NOT IMPORTANT □   QUITE IMPORTANT □   IMPORTANT □

b. Get access to skilled human resources
   NOT IMPORTANT □   QUITE IMPORTANT □   IMPORTANT □

c. Get access to raw materials and energy
   NOT IMPORTANT □   QUITE IMPORTANT □   IMPORTANT □

d. Exploit domestic advantages on markets abroad
   NOT IMPORTANT □   QUITE IMPORTANT □   IMPORTANT □

e. Increase sales / consumer base
   NOT IMPORTANT □   QUITE IMPORTANT □   IMPORTANT □

f. Improve cost efficiency in production
   NOT IMPORTANT □   QUITE IMPORTANT □   IMPORTANT □

g. Achieve international reputation and brand recognition
   NOT IMPORTANT □   QUITE IMPORTANT □   IMPORTANT □

h. Improve product development and innovation ratio
   NOT IMPORTANT □   QUITE IMPORTANT □   IMPORTANT □

i. Increase technology content of own products
   NOT IMPORTANT □   QUITE IMPORTANT □   IMPORTANT □

l. Avoid domestic institutional constraints (regional protectionism, lack of developed intellectual property rights, etc.)
   NOT IMPORTANT □   QUITE IMPORTANT □   IMPORTANT □

m. Access to government support or finance
   NOT IMPORTANT □   QUITE IMPORTANT □   IMPORTANT □

Are there any particular motivation not included in the above mentioned list and that is important for your company’s internationalization?
Thank you for your collaboration.

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