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**INTERNATIONALIZATION OF CHINESE FIRMS:
A CONTINGENT RESOURCE PERSPECTIVE**

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LINGNAN UNIVERSITY

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**INTERNATIONALIZATION OF CHINESE FIRMS:
A CONTINGENT RESOURCE PERSPECTIVE**

**by
MA Xiaoyan**

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ABSTRACT

Internationalization of Chinese Firms: A Contingent Resource Perspective

by

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Master of Philosophy

This study examines the role of inward activities in the internationalization of firms from China and proposes a theoretical framework of internationalization using the contingent resource theory. Based on case studies of four Chinese enterprises and a survey of Chinese manufacturing firms, the study shows that by engaging in inward activities, firms may acquire the critical resources that can lead to outward activities and the internationalization process. Whether firms can succeed in internationalization is conditional upon several contingency factors including management motivation, absorptive capacity, resource fungibility, exploration strategy, exploitation strategy and government support. Lastly, we explore the implications of the inward activities-based approach to internationalization, internationalization strategies for firms from developing economies, and the directions for future research.

DECLARATION

I declare that this is an original work based primarily on my own research, and I warrant that all citations of previous research, published or unpublished, have been duly acknowledged.

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CHAPTER 1. INTRODUCTION

1.1 Problem Definition

The existing studies of firms' internationalization have largely focused on the outward activities, from export to foreign direct investment. The leading theory of the internationalization of firms-i.e., internationalization process or the knowledge development theory. Popularized by Johanson and WierdersheimPaul (1975) and Johanson and Vahlne (1977), suggests that firms start with no export activities begin to export via agents, and then establish their own foreign sales subsidiaries, and finally move to production by investing in foreign countries. Thus, the outward activities permeate the internationalization process whole process and finally lead the firms to achieve internationalization. Many studies have adopted the internationalization process theory, which is largely consistent with the theory of international production (i.e., Dunning's eclectic paradigm), to examine the internationalization of MNCs from developed economies.

Recently, several studies have examined the role of inward activities in firm's internationalization (Welch and Luostarinen, 1992). A number of researchers suggest that firms can be integrated into the global economy through inward activities (Loustarinen and Welch, 1997) or

up-stream internationalization (Kuada and Sorensen, 1999). Thus, it is plausible that in developing countries, inward activities play an important role in the internationalization process of firms. This is particularly true in China, where many firms start the internationalization process by being the customers or joint venture partners of foreign multinationals. Thus, the inward-led process may provide an alternative approach to explain the internationalization process. Although previous studies have explored the effect of inward activities on outward activities, they have not provided a coherent theoretical framework to explain how inward activities lead to outward activities and eventually the internationalization of firms.

1.2 Rationale

The emergence of China mainland as an economic superpower and the Chinese enterprises in the global market has received much attention in recent years. In the transition from central planning to market economy in recent decades, China has opened its market to foreign investors and attracted multinationals from many countries. While numerous multinational corporations (MNCs) have established operations in China, many local Chinese enterprises have formed joint ventures with these foreign firms. While many Chinese firms have become industry leaders in the domestic market, some of them have expanded aggressively overseas in recent years, such as Haier, TCL, and

Lenovo and emerged as formidable players in the international marketplace. As more Chinese enterprises become internationalized and move into the global marketplace, the internationalization of Chinese firms has become a topic of intense interest in international business.

1.3 Objectives of the Study

In this study, based on the inward-outward link, we integrate several theoretical frameworks, i.e., organizational learning, resource-based view (RBV), and the contingency approach to fill the gap in the existing literature. First, this author argues that the internationalization process of some Chinese firms is different from the traditional internationalization process theory and their experiences provide a unique opportunity to examine the role of inward activities in the internationalization of firms. Second, the relation question is then why some Chinese firms have begun the internationalization process while others have not, despite the fact that both groups of firms have engaged in inward activities. The objectives of this study are to provide the answers to the above two questions. We adapt the resource-based view to explore the internationalization process based on inward activities, apply the contingent approach to explain how the inward activities facilitate the outward activities and internationalization process, and present the research hypotheses. Specifically, we assess the role of resource acquisition as the mediator between inward activities and outward

activities and examine the moderating effect of several environment- and firm-level factors on the outward activities and internationalization of firms. This research adopts two methods for empirical analyses: a qualitative study and a quantitative study. Based on qualitative studies of four Chinese enterprises, including Haier, TCL, Lenovo, Founder, the study shows that by engaging in inward activities, firms may acquire the critical resources that can lead to the outward activities and internationalization process. Results based on a survey of over 100 Chinese manufacturing firms suggest that whether firms can succeed in internationalization are contingent upon several factors including management motivation, absorptive capacity, resources fungibility, government support, exploration strategy, and exploitation strategy.

1.4 Organization of the thesis

This thesis is organized as follows: In chapter 2, theories about of internationalization of firms are introduced. We furnish a brief review of the literature on the internationalization of firms and elaborate the research gap. The internationalization process of Chinese firms is discussed briefly in this sector. In Chapter 3, we develop a model of internationalization based on inward activities and propose hypotheses. Research methods are described in Chapter 4. The results of hypotheses testing are presented in Chapter 5. Lastly, in Chapter 6, we draw theoretical as well as managerial insights from the resultant findings, and

we explore the implications for the inward activities-based approach to the internationalization for firms from developing economics and the directions for future research.

CHAPTER 2. LITERATURE REVIEW

In this section, the definitions of internationalization of firms are reviewed first. Second, theories and models of internationalization process of firms are discussed. Third, it is followed by a discussion of the internationalization of firms in different areas. Forth, this section analyzes the internationalization process of firms in China.

2.1 The definitions for Internationalization of firms

The internationalization of firms has been captured by different terms such as multinational corporations, transnational enterprises, and more recently global companies. Researchers have defined internationalization from different perspectives.

From result perspective: Some researches use “Foreign sales as a percentage of total sales” as criteria of internationalization of firms (Stopford and Dunning, 1983). The multidimensional measure of internationalization focus on five characteristics of firms: having manufacturing operations in multiple regions/countries, integration of resources globally, leading product quality, world-class R&D capability, and well-known brand in the world market (Morgan and Katsikeas, 1997). Both the two definitions are suitable in this study since the two focuses on results of internationalization, but the former is more

objective and the later is based on the subjective perspective.

From process perspective: Internationalization is frequently described as “the outward movement of a firm’s international operation” (Johanson and Vahine, 1997; Johanson and Wedersheim-paul, 1975; Luostarinen, 1979). Those researchers consider internationalization to be a gradual, sequential process through different stages: from exporting to foreign direct investment.

Welch and Luostarinen (1988) define internationalization as “... the process of increasing involvement in international operations.” The inward-outward interconnection is used in this definition. Researchers propose that the quality of outward growth is tied with inward performance.

2.2 Various theories or models for the internationalization of firms

The internationalization of firms has been subjected to widespread research attention and empirical investigation (Anderson, 1993). Many researchers have proposed models or theories about the internationalization process of firms (Table 1). In the next part, the thesis reviews some leading theories of the internationalization of firms.

2.2.1 The Process Theory of Internationalization

One of the leading theories of the internationalization of firms is the so-called process theory or the knowledge development theory. The internationalization process theory is of Nordic origin, being formalized

and popularized by Johanson and Wiedersheim-Paul (1975) and Johanson and Valhne (1977). In this process, firms first begin to export

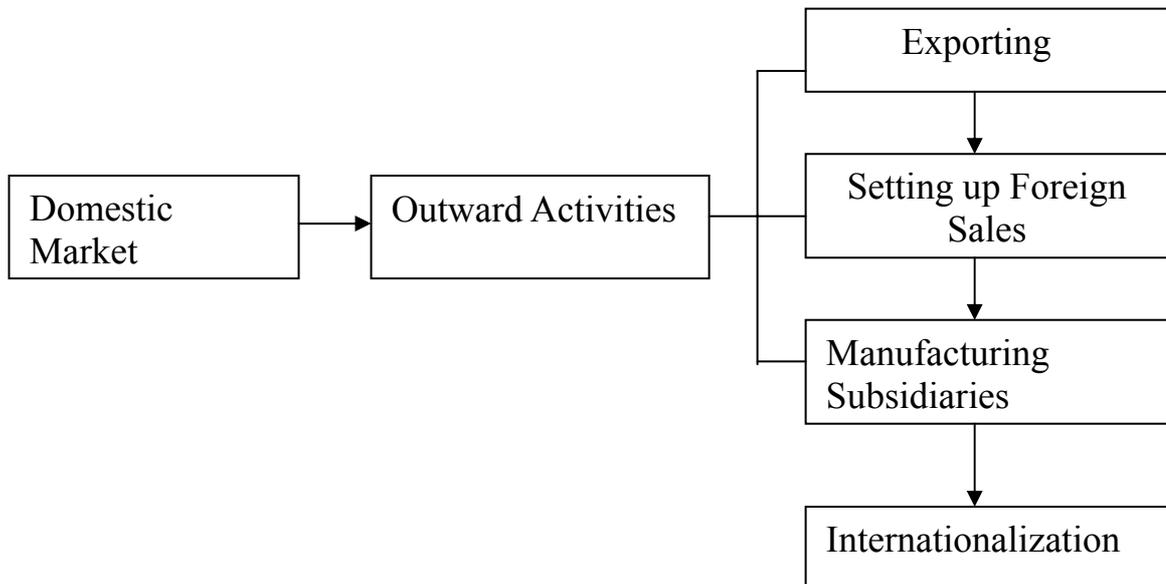
Table 1: Study on the internationalization process of firms

Year	Author	Model	Research Emphasis	Theory
1966	Vernon	product life cycle (PLC) model International Product Life Cycle (IPLC) model	Four phases: export strength-introduction of foreign production into the developing countries-increased competitiveness of foreign production-import competition in the developed countries	From an economic perspective
1975	Johanson Valhne	Uppsala Model	Four steps: no regular export-independent representative (agent)-sales subsidiary-production Psychic distance: the sum of factors preventing the flow of information from and to the market.	Process-theory; Knowledge development theory
1979	Luostarinen	Uppsala model+ “POM posture”	Extend the Uppsala model to include inward and cooperative modes of internationalization	Knowledge development theory
1986	Teece Hennart	Transaction cost model	A company is likely to become a multinational in the presence of factors concerning strategic advantage, location, and transactions cost.	Transaction cost theory
1988	Kogut	Organizational learning model	A multinational firm is seen as developing new capabilities and augmenting existing capabilities through its experience in foreign markets.	Organization learning theory
1990	Johanson Mattsson	Network Model	Primary domestic networks-developing business relationships in networks abroad	Technology theory
1996	Luostarinen Welch	Non-technology transfer model; Technology transfer model	Exports of goods and services; Licensing and franchising, contractual and cooperative arrangement, and R&D, assembly or manufacturing subsidiaries	Network theory
2002	Taylor	Four stages of a country in globalization	Major importer-Producer-Exporter-Foreign Investor	Stage theory

to foreign countries. The saturation domestic market for products and services is considered one of the primary reasons for firms to expand overseas. Other motivations may include profit maximization and risk

reduction (Johanson and Vahlne, 1977). As firms develop more knowledge about foreign markets and international business, they may then establish overseas manufacturing operations by direct investment (Figure 1). In brief, firms start with no regular export activities, begin to export via agents, and then establish their own foreign sales subsidiaries, and finally move to production by investing in foreign countries. According to the theory, firms expand internationally through various stages: from low risk, low-commitment mode of entry -- direct exporting -- to high risk, high-commitment modes of entry -- foreign sales and manufacturing subsidiaries (Johanson and Weidersheim-Paul, 1975). Previous researchers divided the entry mode for new foreign markets to two ways: exporting (directly or through independent channels), and foreign direct investment (FDI) (joint ventures, acquisitions, mergers, and wholly owned new ventures). Entry modes vary in the degree of control the firm has over invested tangible and intangible assets. Other researches examined the resources and the transactions costs associated with that resource commitment in the internationalization process (Anderson and Gatignon, 1986). From another perspective, entry involves two interdependent decisions-location and mode of control. Exporting is located domestically and is controlled administratively; licensing is in foreign locations and is controlled contractually; and FDI

Figure 1: The Internationalization Process from Outward Activities



is located overseas and is controlled administratively. Transaction costs theory views each choice of entry mode as an individual transaction that involves a trade-off between control and resource commitment (Anderson and Gatignon, 1986).

Whatever the entry model for new foreign markets adopted by firms, Johanson and Valhne (1977) believes that internationalization is the product of a series of incremental decisions. In this incremental process, manager's gradual accumulation of experimental knowledge of foreign market reduces the "psychic distance (a set of factors preventing or disturbing the information flows between firms and foreign markets, such as language, culture, political system, level of education, and the level of industrial development)" (Johanson and Valhne, 1977). Firms would gain experiential knowledge in stages by first entering foreign

markets with close "psychic distance" (Stottinger and Schlegelmilch, 1998), which help them to control the elevated risks of "foreignness" (Hymer, 1976) and accumulate experiential knowledge as a basis for entering other markets.

Whether exporting to foreign countries and establishing overseas manufacturing operations, these activities are largely considered "outward-looking." Therefore, the process model of internationalization is primarily based on outward activities and has been adopted to explain the internationalization of firms, especially the MNEs in many developed countries, such as the United States, Japan, and those in Europe (Figure 1). Figure 1 focuses on the different stages in the outward activities for the internationalization of firms after the domestic market is saturated. This model successfully describes the entry mode stage experienced by firms acquiring the overseas markets, and regards the gradual accumulation of market experience as a key factor in the internationalization of firms. However, the process model fails to explain the leapfrogging of certain stages by internationalizing firms.

In addition to the process theory for internationalization, many studies adopt other theories, although they were not initially used for internationalization.

2.2.2 OLI theory

Dunning's eclectic paradigm (1988) suggests that based on the

ownership (O), location (L) and internalization (I) advantage, firms will choose the most appropriate entry modes into foreign markets. This approach attempts to analyze the who, where and why FDI activities in term of OLI advantages (Tatoglu and Glaister 1998).

The O-advantages are firm-specific characteristics and capabilities that make a firm superior to local competitors irrespective of general locational characteristics. Ownership must be unique and substantial to guarantee the firm has comparative advantage in entry mode selection. Dunning (1993) identifies two kinds of ownership advantage, asset advantage (O_a) and transaction cost minimizing advantages (O_s), which arise from the availability of human, knowledge and physical capital as well as specific intangible related to property rights, marketing, organization, information processing, learning, managerial skills, governance and trust, finance, experience with foreign market, etc. Because most of these firm-specific advantages are tacit, and suffer higher risk in dissemination, firms with such advantages should choose the entry modes with higher resource commitment and higher control, such as wholly owned overseas subsidiaries (Agarwal and ramaswami, 1992; Gatignon and Anderson, 1986; Bell, 1996; Brouther et al., 1996).

The L-advantages are rooted mainly in country-specific characteristics. Dunning (1993) measures the L-advantage as the similarity in culture and market infrastructures and the availability of

lower production costs. L-advantages reflect how attractive the host country is, and the attractiveness of a country has been characterized by its market potential (Sabi, 1988; Terpstra and Yu, 1988; Agarwal and ramaswami, 1992), investment risk (Root, 1987), labor supply (Buckley and Casson, 1985; Dunning, 1988b; Brouthers et al., 1996), the level of competition in host markets (Bell, 1996; Kim and Hwang, 1992) and favorable host government policies and incentives (Bass et al., 1977; Root and Ahmed, 1978). These factors influence firms' choice of entry mode. For example, when the level of competition in a host market is intense, foreign investors should prefer the entry mode with lower resource commitments and lower risk, such as JV (Joint Venture). Several studies have suggested that when investment risk is high, firms should choose entry modes with low resource commitments (Gatignon and Anderson, 1988; Kim and Hwang, 1992; Erramilli and Rao, 1993; Bell, 1996).

The I-advantages are identified by internalizing market transactions through mergers and acquisitions or by forming co-operations and alliance. I-advantages are concerned with the costs of choosing a hierarchical mode of operation over an external model (Dunning, 1988). I-advantages determine whether foreign productions will be organized through markets (licensing) or hierarchies (FDI) (Tatoglu and Glaister, 1998). Hollenstein (2005) suggests firms can reduce search and

transaction cost, secure availability and high quality standards of key materials and components, etc. Dunning (1993) proposes some contribution of internationalization advantage: minimizing negotiation and transaction costs, ensuring adequate quality control, avoiding the risk of dissipation of knowledge, and avoidance of property right enforcement costs. Under high transaction costs, several literatures mention that firms will prone to choose high resource commitment/high control modes for entering foreign markets (Anderson and Gatignon, 1986; Gomes-Casseres, 1989; Hennart, 1991; Erramilli and Rao, 1993; Larimo, 1993; Bell, 1996).

The three advantages are related to three basic theories: trade theory, resource-based theory and transaction cost theory, which is the rich point of OLI theory to explain why firms should or should not choose the specific entry mode for foreign markets (Dunning, 2003). But some weaknesses still exist in the OLI theory. First, although the three basic theories are complementary, their explanations sometimes overlap. Second, the assumption of OLI theory is that MNEs exists because of its possession of superior resource (the three advantages). In reality, OLI theory fails to explain the case that firms expand into overseas markets in order to acquire particular resources that they do not have.

2.2.3 PLC theory

Vernon (1966) proposes “product life cycle” theory, which argues

that many products are initially produced in developed countries and exported to developing countries, then, when the techniques of production become more standardized, production shifts to developing countries due to the low labor costs, and finally, the developed countries become the importers of those products. The international product life cycle (IPLC) model based on “PLC” theory has been adopted to explain the export strategy of developing countries in recent years. Vernon proposed four phases for IPLC: export strength, introduction of foreign production into the developing countries, increased competitiveness of foreign production, and import competition in the developed countries. The IPLC model suggests that many products go through a cycle during which high-income, mass-consumption countries initially export products. Those countries eventually lose their export markets and become importers of those same products (Vambery, Robert and Yun 1993). In his product life cycle model, Vernon was concerned with the changing location of value-adding of a firm as its products moved through the various phases of their life cycles (Dunning, 2003). Vernon’s “Product Cycle Hypothesis” proposes that firms go through an exporting phase before switching first to market-seeking FDI, and then to cost-oriented FDI. Technology and marketing factors combine to explain standardization, which drives location decisions (Buckley and Casson1998).

The standardized technique of production is key factor to the internationalization of firms from the IPLC perspective. Some researchers analyze the internationalization of the firms in four developing countries based on the technology development theory and emphasize that the transferability of technology determines the internationalization of firms, which is the key limitation of “IPLC” theory. “IPLC” theory cannot explain the influence of the technology innovation in some new economic fields (such as information technology) on the internationalization strategy of firms.

2.2.4 Organizational Learning Theory

Organizational learning is defined by Autio et al. (2000) as “the process of assimilating new knowledge into the organization’s knowledge base.” Huber (1996) posits “an organization learns if any of its units acquires knowledge that it recognizes as potentially useful to the organization.” Many scholars have recognized the firms’ need of acquiring foreign market knowledge and the importance of organizational learning for entering or expanding in the international markets.

According to the organizational learning theory, organizations are described as learning by encoding inferences from history into routines (the forms, rules, procedures, conventions, strategies, technologies, and the structure of beliefs, frameworks, paradigms, codes, culture, and

knowledge) that guide behavior. The experiential lessons of history are captured by routines, and the routines are transmitted through socialization, education, imitation, professionalization, personnel movement, mergers, and acquisitions (Levitt and March 1988).

Organizational learning leads to the development of knowledge that potentially influence behavior and help firms create wealth, and reduces uncertainty of international business. This type of knowledge is mainly tacit, which has a personal quality and is hard to be formalized and communicated. Tacit knowledge is deeply rooted in action, commitment, and involvement in a specific context (Nonaka, 1994).

Organizational learning takes place through two major ways: direct organizational experience and learning from others. Since the knowledge in international business is mainly tacit and difficult to be internalized, firms should adopt the first way for the process of internationalization. Learning by doing and organizational search are the two mechanisms of direct organizational experience (Levitt and March, 1988). The firms adopt “learning by doing” for internationalization (such as wholly owned overseas subsidiaries) may go through the high risk because of the lack in internationalization experience. To avoid high risk in foreign market, many firms use low-risk internationalization entry modes (such as license and merge), which are obviously indirect organizational experience.

Some scholars suggest that absorptive capability result in the different degree of firm's internationalization. To some extent, absorptive capacity represents the organization's ability to learn. Apparently, organizations are not equally efficient or effective learners. Less empirical evidence is available in this perspective because of the intangible attribute of absorptive capability.

2.3 Internationalization of Firms in Different Areas

2.3.1 SME and Internationalization

As the growth of globalization of markets and industries, more and more SMEs (Small and Medium Enterprises) are not satisfied with being limited to local or regional markets. Many of them move into overseas markets to compete with MNEs. Since the 1980s, the internationalization of SMEs strongly accelerated (UNCTAD, 1993). In general, smaller firms face greater challenges than their larger counterparts in international markets, more so than the MNEs. How to be successful in the high competition? What kind of entry mode should they adopt to emerge in international market? Many researchers have proposed their opinions about this topic.

To succeed in the competition with MNEs, SMEs need to develop their own distinctive, if not unique and dynamic, competencies (e.g., assets, capabilities, competencies, and especially relations) (Mathew, 2002; Teece and Pisano 1998) to empower equally distinctive

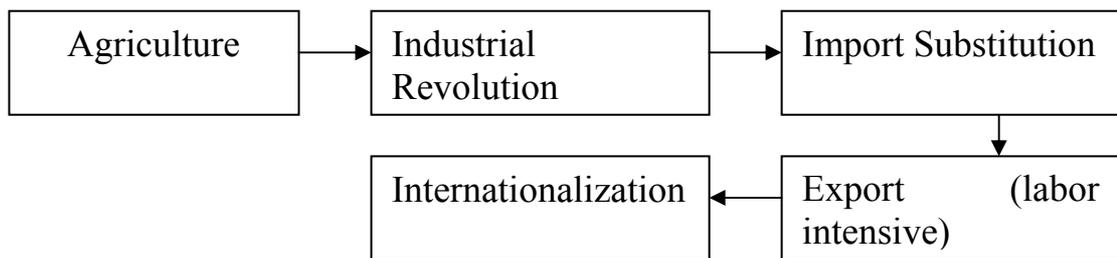
competitive strategies. This implies that the distinct and possibly unique resources on which the internationalizing strategies of SME are based should be more potent than those of well-endowed competitors. Competitive strategy and SME' distinctive core competencies and dynamic capabilities give firms globally competencies in the process and higher probability of rapid internationalization without facing serious competitive deterrence from others (Oviatt and McDougall, 1994).

SMEs may adopt different entry approach to internationalization. Rasheed (2005) extends the contingency theory of strategic alignment to the internationalization of SMEs. Specifically, the contingency model hypothesizes that the rate of growth of SMEs' internationalization depends on the combined effects of environmental factors and entry mode. Firms using an equity-based mode have a higher rate of growth than export modes when foreign risk is higher. Researchers often focus on the entry modes that are used by SMEs in the international process. Those explanations are still based on the outward-activities.

2.3.2 Internationalization in “the Four Little Dragons”

The process theory of internationalization based on outward activities largely follows the classic theory of economic development. (Figure 2)

Figure 2. The Classic Economic Development Model

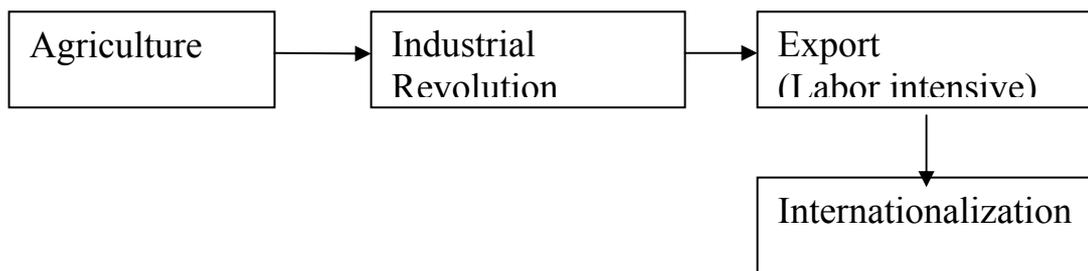


American economist Rose (1966) proposed the classic economic theory of productivity and development in his book of ‘The Stage of Economic Development.’ He divides the development of human being society to be three stages: initial stage, industrialization stage and post-industrialization stage. From this economic theory, a society emerges from an agricultural economy and begins industrialization, then develops its labor-intensive industries and focuses on the domestic market. Firms then begin to expand overseas when the domestic market is saturated. Meanwhile, governments in many countries adopt the import substitution policy to develop its own industries and satisfy the needs of the domestic markets (Aggarwal and Agmon, 1992). Following this policy, most firms have developed and expanded without any foreign finance, technical input or management expertise from outside. India is a good example of the import substitution policies to satisfy the domestic market by developing domestic firms and limiting foreign resources including raw materials, foreign capital and technology. It is not until recently that the Indian government encouraged the transition from

import substitution to more outward-looking industrial strategies (Haar and Ortiz-Buonafina, 1995).

However, some other countries or territories have not followed the conventional model of economic development and managed to achieve internationalization in their industries. The most prominent examples are the “Four Little Dragons” in Asia— South Korea, Singapore, Taiwan, and Hong Kong. Figure 3 describes a different model of economic development of the four countries.

Figure 3: Economic Development in the Little Dragons



Because of the small domestic markets and limited resources, the import substitution policy cannot sustain economic development for these countries or territories in the long run (Gulati, 1992). Many firms in the “Four Little Dragons” began their international activities at an early stage: by exporting, becoming the original equipment manufacturers, or setting up oversea manufacturing operations, and other outward activities focusing on the foreign markets. By expanding aggressively in overseas markets, firms from the “Four Little Dragons” have achieved internationalization in a relatively short period. Thus, the development process of these countries does not conform to the class

economic theory. Their experiences have inspired alternative interpretations and theoretical explanations of the internationalization of firms.

2.3.3 Internationalization of firms from emerging market

Since 1970s, the absolute value of transnational-based industrial exports from the third world increased rapidly (Nayyar, 1978). Emerging economies are moving away from inward-oriented import substitution policies toward outward-oriented export-led growth (Aulakh, Kotabe, and Teege, 2000). More and more firms from emerging markets seek to export products or establish manufacturing operations in foreign markets including developed markets.

The “Invasion” of capital, technology, and managerial expertise from developed economics into emerging markets has strengthened competition for local firms in emerging markets (Zhu, Hitt and Tihanyi, 2006). Market demand and trade restrictions are the dominant motivating factors for foreign investment for both industrialized countries and less developed countries (LDCs). However, based on different degree of economic development, LDCs show a variety of interesting motivations: 1.ethnic ties, 2.risk reduction from economic and political instability at home, 3.solidification of business with trade partners, and 4.manpower exports (Ghymn, 1980).

Firms from emerging economics are accelerating their efforts to

integrate into global economy (Hoskisson, Eden, Lau, and Wright, 2000). Outward FDI from developing countries accounts for more than 10 percent of the world overall outward FDI. The outward FDI from Asia Pacific (excluding Japan) accounts for some two thirds of this total. As the process of economic catch up and outward FDI emerging markets goes on, MNEs headquartered in emerging markets have been increasing in number, size, complexity of organization, and transnationality (Yang, 2003).

Outward FDI from emerging markets has been a hot research topic since the late 1970s (Dunning *et al.*, 1997). As the important actors of developing countries in international market, the internationalization in China has received increasing attention.

2.3.4 Internationalization of China's firms

China did not follow the former two models of economic development. The large scale of Chinese industrialization started from 1950s after the establishment of the new China. Then, large-scale industrialization was interrupted for well-known reasons in the following decades. China restarted her industrialization footstep at the end of the 1970s when the Open-door policy was instituted. Thus, China formally re-opened its market to foreign market (Gaba, Pan, and Ungson, 2002). The rapid economic growth based on FDI-led export strategy in China in the last two decades have resulted in a development process that is much

more compressed.

Figure 4: Economic Development in China



Except for the selected sectors controlled by the Chinese government, all other industries were opened gradually for foreign participation, including finance, technology, management, and so on. Many Chinese firms formed joint ventures with foreign partners to explore new technologies and manufacturing processes. For example, Haier formed a joint venture with a German firm to produce home appliances. In 2004, about 465,000 foreign investment projects were operating in China with a total realized investment of US\$500 billion (MOFTEC 2004).

By importing products, machinery and capital from foreign countries and corporations with foreign companies, Chinese enterprises have developed rapidly in recent decades, so the domestic markets have become saturated quickly in a short time period. Thus, China's economic development path based on FDI-led inward activities in recent years is quite different from the experiences of other countries (Liu, Burrige and Sinclair, 2002).

After saturating the domestic market, firms expand to the oversea

markets by exporting products or establishing oversea subsidiaries. In 1983 there were only 61 Chinese foreign affiliates in about 30 countries. By the end of 1994, over 900 Chinese TNCs had established over 4,600 foreign affiliates in 130 countries. China now ranks as one of the largest outward investors among developing economies in the 1990s (Kelvin, 1999). The development of Chinese outward FDI experience has gone through three stages. Between 1979 and 1985, China established 185 non-trading foreign affiliates, mostly in the form of joint ventures. These oversea enterprises spread over 45 countries and economies, primarily in the developing world. Many of these early investment activities were to a great extent motivated by the government's policies rather than commercial interests (Cai, 1999). In the 1985-1990 period, China established 577 non-trading foreign affiliates. These oversea enterprises spread over 90 countries and economies (including developed countries), were involved in a much wider range of industries, such as metallurgy/minerals, petrochemicals/chemicals, electronics/light industry, transportation, finance/insurance, medicine and tourism (Cai, 1999). In the 1990-present period, China's overseas direct investment began to expand at an unprecedented rate (Yang, 2003). China has become one of the top FDI exporters among developing economies (Cai, 1999).

Chinese firms' outward internationalization process is largely consistent with the traditional internationalization process, i.e., the

Uppsala model. However, the process theory cannot explain why some Chinese firms have managed to become internationalized in a relatively short time. More recently, several researchers have explored the role of inward activities in the internationalization of firms (Welch and Luostarinen, 1993). They suggest that domestic firms can begin the knowledge development process by engaging in inward activities, such as become a distributor of foreign product, or form a joint venture with a foreign company. These inward activities have facilitated the rapid development of Chinese firms and domestic market, and enhance their competitive capability to then export to international market and setting up oversea subsidiaries.

2.4 Summary

The process model and other models like “IPLC” have been instrumental in explaining the internationalization of firms, which emphasizes the outward activities as the most important part of internationalization and knowledge development as a key prerequisite for the outward process. Such knowledge can help firm to leverage their competitive advantages in the international marketplace. However, these researchers examine the internationalization of firms primarily as an outward process; they have largely ignored the role of inward activities in the internationalization process. Recent studies of the New Industrialized Countries and the internationalization of SMEs and

born-global companies suggest that there may be alternative paths to internationalization.

Although several researchers have proposed inward activities as alternative of internationalization, they have not developed a meaningful theory to provide coherent explanations of the process. Nor is there enough empirical evidence to suggest that the inward activities will eventually lead to outward activities. In other words, an explanation is needed to shed light on the question why some firms have begun the internationalization process while others have not, despite the fact that both groups of firms have engaged in inward activities. Thus, research on the internationalization of Chinese firms may offer an excellent opportunity for theoretical extension in this area (Child and Rodrigues, 2005).

CHAPTER 3. A MODEL OF INTERNATIONALIZATION BASED ON INWARD ACTIVITIES

This section first introduces the development of inward activities in China. Second, this thesis reviews the organizational learning theory to describe the link between inward and outward activities. The third part examines the weaknesses of RBV in explaining the difference of internationalization process in China. Fourth, this study proposes a theoretical framework and hypotheses based on the contingent resource theory.

3.1 The Role of Inward Activities in China

While previous research on the internationalization of firms has focused on the outward activities: exporting or setting up overseas subsidiaries, several researchers recognized that there is clearly an equivalent process of inward activities as firms engage in the foreign sourcing activities. Inward activities cover a multiplicity of forms— such as imports of goods and service, finance and technology through various forms including franchising, licensing, direct investments, alliance agreement, and the like (Luostarinen and Welch 1990). More recently, several researchers have explored the role of inward activities in the internationalization of firms (Welch and Luostarinen, 1993). They suggest that domestic firms can begin the knowledge development

process by engaging in inward activities, such as becoming a distributor of foreign products or forming a joint venture with a foreign company. Firms may also be integrated into the global economy through inward internationalization (Loustarinen and Welch, 1997) or up-stream internationalization (Kuada and Sorensen, 2000).

Under the Open Door policy of China, many new ventures are clearly export-oriented, while others still focus on the domestic markets. In fact, many Chinese firms had their first international contacts as customers of foreign companies: importing machinery, technology, goods, services, and finance, which are all activities of an inward nature. Many of them formed joint ventures with foreign companies to acquire new technology and management know-how, putting them in a better position to start or extend outward foreign operations at a later time (Karlsen et al., 2003). After these inward activities, some firms enter the international market by exporting and setting up oversea subsidiaries, albeit engaging in outward activities, while others still focus on domestic market without the requisition or capability to extend to foreign markets. For the firms that have started the process, the inward activities clearly represent an important first step in the process toward internationalization.

Previous studies on inward activities proposed that the impact of the inward activities could have a significant effect on the outward

developments (Welch and Luostarinen, 1993). Based on exporting studies, it is evident for firms to extend contact network into the international area, eventually result in export inquiries or even ‘fortuitous’ orders in the process of importing (Johanson and Mattsson, 1988, Johanson and Vahlne, 1990). Therefore, the research question is: what role do inward activities play in the internationalization process, or how do firms move from inward activities to outward activities? More importantly, why have some firms become internationalized after inward activities but others not, even though they have engaged in inward activities such as joint ventures and OEM operations? Answers to these questions can help shed light on the internationalization of Chinese enterprises.

3.2 Organizational learning theory for inward activities and outward activities

Inward activities alone do not lead to outward activities or internationalization. Based on the organizational learning theory, “trial-and-error experimentation” (learning from direct experience) and “organizational search” (learning from others) in inward activities create a base for potential outward movement: better knowledge of foreign market; stronger international outlook; chance of fortuitous foreign contacts leading to foreign orders (Welch and Luostarinen, 1993). Organizational learning theory explains the incremental process of

knowledge development from inward activities. Inward activities may provide a good opportunity to learn about foreign trade techniques, foreign operation characteristics and ways of using different operation modes, by which, the firms should be in a better position to undertake outward operations in a foreign market. Knowledge is often “sticky” and difficult to spread (Szulanski, 1996). Organizations not only hold specialized knowledge, but also have the opportunity to learn from other organizations. However, not all organizations have the same capability of learning. An organization may want to obtain knowledge from other organizations or other sources, but may not be able to access it. Even though the knowledge is available, organizations may not have the capacity to absorb and apply it for its own use. Different absorption capability seems useful to explain the probability of firms moving from inward activities to outward activities.

But, the organizational learning theory fails to explain the extent that the effects of the kinds of knowledge on outward activities, and how to measure which knowledge is helpful to outward activities and internationalization in some situations or not in others. Any learning process involves cost, such as time. Why have some firms become international so soon after inward activities compared to other firms with same size or history in the same industry? Organization learning theory cannot answer the questions.

3.3 RBV theory for inward activities and outward activities

Based on the concept of economic rent, the resource-based view (RBV) suggests that the performance of firms is determined by the sustainable competitive advantages, which derive from the resources the firms control that are rare, valuable, imperfectly imitable, and not substitutable (Barney, 1991). Firms can enhance their performance by acquiring or developing intangible rent-generating assets through preempting scarce and valuable resources and monopolistic power. In international business research, some researchers use RBV theory to establish a connection between inward activities and outward activities. They propose that by engaging in inward activities, firms can acquire the critical resources that cannot be accessed in the local market or developed within a short period (Cui and Ma, 2006). These resources, at the early stage of transition to a market economy, are rare and valuable. They can be acquired via various inward channels, such as becoming a distributor of foreign product, importing equipment and technology, or forming a joint venture with a foreign company. As time goes on, firms may have integrated these resources and developed their own capabilities that are imperfectly imitable and not substitutable. These resources and capabilities have helped firms to become fierce competitors in the domestic market and prepared them for expansion overseas (Cui and Lui, 2005).

Despite its explanatory power and increasing applications in management research, the resource-based view suffers several weaknesses, most notably its difficulty in specifying the types of valuable resources and its insensitivity to different contexts, i.e., what types of resources can evolve into competitive advantages under what contexts? While context specificity is incorporated in the theory by requiring that resources be “valuable,” the theory is less instructive in identifying the contingencies that might make the same resources valuable in some contexts and not in others (Brush and Artz, 1999). Recent development of the RBV suggests that whether resources acquired by a firm can turn into competitive advantages depends on several factors (Cui and Lui, 2005). A number of researchers have attempted to improve the RBV by stressing that the rent-generating resources may be subject to the influences of uncontrollable environment factors (Pfeffer and Salancik, 1978). External factors such as industry structure and growth may influence the availability and cost of such resources. These uncontrollable factors make certain resources more valuable in certain conditions, under which they become the sources of competitive advantages (Miller and Shamsie, 1995).

Furthermore, researchers have strengthened the theory by emphasizing firm capabilities as more intangible and inimitable resources, which stem from the integration of resources that are more likely to

produce a competitive advantage, because such capabilities are often rare and socially complex (Peteraf, 1993). While exogenous resources are more likely to be procurable and separable from the firm, capabilities developed from within the firm become firm-specific assets that are difficult to be substituted or imitated. Thus, other resources of the firms provide complementary assets for them to develop stronger capabilities. In addition, resources form the basis of firms' strategies and are critical in the implementation of those strategies as well (e.g., Barney, 1991). In other words, firm resources and strategies interact to produce competitive advantages and positive returns for firms (Hitt et al. 2001), like being leading competitors in local markets and aggressive movers to overseas markets. Several recent studies have examined the conditional effects of firm resources on performance and found strong empirical support for the contingent resource perspective (Hitt et al. 2001; Miller and Shamsie, 1995).

3.4 The Contingent Resource Perspective and hypotheses

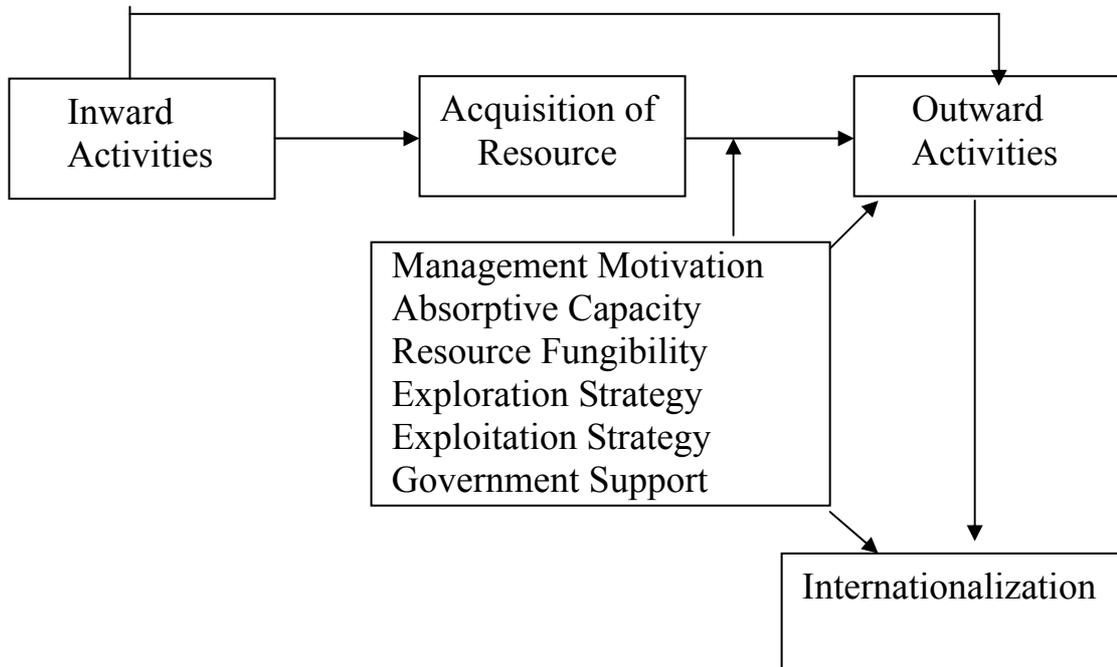
The contingency perspective can help to improve the context-specificity of the RBV by identifying the factors that may compensate, enhance or depress the advantages of inward activities. The contingent resource perspective provides plausible explanations for the effects of inward activities on outward activities (Cui and Lui, 2005). These two theoretical perspectives can be integrated to provide more

coherent explanations of the link between inward and outward activities.

The contingency resource perspective is particularly relevant for explaining the internationalization process of Chinese firms based on inward activities. The investment development path has stepped into outward FDI as China has made the transition to market economy (Yong, Huang and McDermott, 1996). By the resource acquired from inward activities, some MNEs' performances in outward internationalization are excellent. For example, Haier group, one of the biggest home appliance makers in China, has exported their products to over 160 countries and established over 30 overseas subsidiaries (www.haier.com).

However, not all firms that have engaged in inward activities will eventually expand overseas and become internationalized. By applying the contingent resource theory, we posit that a number of key moderating factors influence the effect of the acquired resources on the effect of outward activities and internationalization of firms. They can be divided into two groups: firm-specific factors (management motivation, absorptive capacity, the fungibility of the acquired resources, exploration strategy and exploitation strategy) and environmental factors (government support). Based on the contingent resource perspective and the existing studies of inward activities, we propose a theoretical framework to examine the internationalization based on inward activities (Figure 5).

Figure 5: A Contingent Resource Model of Internationalization based on Inward Activities



First, consistent with the model of knowledge development (Johanson and Vahlne, 1990) and recent research on inward activities (Welch and Luostarinen, 1993; Korhonen, Luostarinen, and Welch, 1996), we argue that aside from incremental export activities, inward activities provide an alternative route to knowledge development and help firms acquire the critical resources for internationalization, such as advanced technologies and management know-how, and indirectly learn about foreign market trends. To some extent, inward activities may be seen as a mirror image of outward activities (Luostarinen and Welch, 1990). The impact of the inward process can have a significant effect on outward activities (Welch and Luostarinen, 1993). Based on the existing studies of inward activities and outward activities (Karlsen, Silseth,

Benito, and Welch, 2003; Yang, 2006), we propose the following main effect hypotheses to re-test and examine the role of inward activities in the internationalization process of firms:

Hypothesis 1: Inward activities have a positive effect on firms' acquisition the resources for internationalization.

Hypothesis 2: Inward activities have a positive effect on firm's outward activities.

The connection between inward activities and outward activities and how it affects the internationalization process of the firm has received much attention in recent years (Korhonen *et al.*, 1996; Welch and Luostarinen, 1993). Inward activities potentially diminish perceived obstacles and lower uncertainty about export move by increasing knowledge and experience in the internationalization arena-in a similar manner to the effect on the outward side (Korhonen, Luostarinen, and Welch, 1996). We take the resource (knowledge, experience and *et al.*) from inward activities as the link of inward-outward activities. The quality of resource may mediate the effect of inward activities on outward activities, and finally internationalization.

Hypothesis 3: The acquisition of resources has a positive effect on firms' outward activities.

Hypothesis 4: The acquisition of resources mediates the effect of firms' inward activities on outward activities

Hypothesis 5: Outward activities have a positive effect on firms' internationalization.

Inward activities create a base for potential outward movement: better knowledge of foreign market, stronger international outlook and chance of fortuitous foreign contacts leading to foreign orders (Welch and Luostarinen 1993). However, inward activities alone do not lead to outward activities or internationalization. Based on the contingent resource perspective, it is suggested that a number of firm and environmental factors affect the internationalization process and also moderate the effect of resource acquisition. First, it has been suggested that internationalization can be an entrepreneurial act of managers. This study suggests that the internationalization-oriented strategy made by management in the initial phase of development of firms, the attitude of management facing the risk of oversea markets, and the internationalization experience of management are propitious to the internationalization of firms (Reuber and Fischer, 1997).

Hypothesis 6: Management motivation for internationalization has a significant positive effect on a) outward activities and b) internationalization.

Hypothesis 7: Resource acquisition has a greater positive effect on a) outward activities and b) internationalization for firms high in management motivation for internationalisation than for firms low in

management motivation.

The incremental process of knowledge development from inward activities partly explains the link between inward activities and outward activities. Learning from direct experience and Learning from others in inward activities provide a good opportunity to firms to learn foreign trade, and to operate overseas by put the firms in a better position to undertake outward operations in a foreign market. Knowledge is often “sticky” and difficult to spread (Szulanski, 1996). An organization may want to obtain knowledge from other organization or other sources, but may not be able to access it because of the different capability of learning. Even though the knowledge is available, the organization may not have the capacity to absorb and apply it for its own use. The absorption capacity seems useful to explain the probability of firms to acquire knowledge. To some extent, absorptive capacity represents the organization’s ability to learn. The prior knowledge from inward activities in international business field includes foreign markets operation skill, foreign trade technology and foreign advanced management skill. Organizations with high absorptive capacity possess the high degree of ability to learn that knowledge above, and to use them efficiently for the future development. Some researchers suggest that organizations with high levels of absorptive capacity will tend to be more proactive, exploiting opportunities present in the environment

(Cohen and Levinthal, 1990). We take the absorptive capacity as the second moderating factor:

Hypothesis 8: Absorptive capacity has a significant positive effect on a) outward activities and b) internationalization.

Hypothesis 9: Resource acquisition has a greater positive effect on a) outward activities and b) internationalisation for firms with high absorptive capacity than for firms with low absorptive capability.

Whether the acquired resources (technology and knowledge) during the inward process are applicable to overseas markets or can be successfully transferred to overseas locations are important factors when firms expand overseas. Montgomery and Wernerfelt (1991) find that a firm with an advantageous resource position is protected to the extent that its resources are specific to certain applications. A firm fails when resources are inadequate to meet the demands of environment, which means the applicability of resources in new countries and markets is critical in a manner. We propose that resource fungibility (i.e., the attributes of the resource that allow or inhibit their deployment or alternative uses) is another important moderating factor to influence the effect of inward activities on outward activities and internationalization. The ability to shift resources to alternate uses allows managers to adapt existing practices to the foreign market and increases the adaptability of firm strategies. Resource fungibility creates the capability with existing

resources (Sapienza *et al.*, 2006). Specifically, the fungibility of the acquired resources affects the effectiveness in the firm's internationalization process (Sapienza *et al.* 2006).

Hypothesis 10: Resource Fungibility has a significant positive effect on a) outward activities and b) internationalization.

Hypothesis 11: Resource acquisition has a greater positive effect on a) outward activities and b) internationalisation for firms with high resource Fungibility than for firms with low resource transferability.

Business strategies and orientations such as exploration and exploitation strategies have a significant effect firm's expansion in overseas markets (March, 1991). Exploration involves experimenting with ideas, paradigms, technologies, strategies, and knowledge in hope of finding new alternatives that are superior to obsolete practice (Lewin, Long & Carroll, 1999). Exploration includes things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, and innovation (March, 1991). Exploitation involves improving existing capabilities, processes, and technologies, as well as rationalizing and reducing costs (Lewin, Long and Carroll, 1999). Exploitation includes such things as refinement, choice, production, efficiency, selection, implementation, and execution (March, 1991). Exploration adaptations have theoretically effects on an organization's performance. Exploration increases the likelihood of achieving

performance levels significant above or below the historical trend line. Exploitation adaptation, on the other hand, is likely to maintain the historical performance trend line. A sustained strategy of exploration can be expected to yield new wealth creation gains and above average returns in the long run (Lewin, Long and Carroll, 1999). Firms pursuing an exploration strategy are more likely to assume risk and look for market opportunities beyond the traditional and current pool of markets (Levinthal and March, 1993), like entering into foreign market to acquire bigger market for their products, at the same time, to be internationalized. Firms pursuing an exploitation strategy prefer to search market opportunities locally or in familiar markets (Levinthal and March, 1993), which may indicate that firms with exploitation strategy are prone to conservative in their internationalization development. Therefore, we posit the exploration strategy and exploitation strategy as the fourth and fifth moderating factors

Hypothesis 12: Exploration strategy has a significant positive effect on a) outward activities and b) internationalization.

Hypothesis 13: Exploitation strategy has a significant negative effect on a) outward activities and b) internationalization.

Hypothesis 14: Resource acquisition has a greater positive effect on a) outward activities and b) internationalisation for firms with a high degree of exploration strategy than the firms with a low degree of

explorative strategy.

Hypothesis 15: Resource acquisition has a greater negative effect on a) outward activities and b) internationalisation for firms with a high degree of exploitation strategy than the firms with a low degree of exploitative strategy.

Government supports play an important role in support of the internationalization of firms, especially in SMEs. Many governments both in developed and less developed countries provide programs to assist firms to internationalization (Chaudhry and Crick, 2002). It is general rule that national government enters into a partnership with business in the effective promotion of outward FDI (Taylor, 2002). China is not the exception. Since the beginning of 21st century, under the ‘Going Global’ policy launched by Chinese government, Chinese firms were encouraged to invest more overseas to establish and develop their position in oversea markets (Child and Rodrigues 2005). The “Going Global” policy reinforces the government’s efforts to support the rapid development of technological skills and know-how, as well as new markets and global brands (www.accenture.com). Chinese government policies have important influences on the firms’ outward activities and internationalization (Yong, Huang, and McDermott 1996).

Hypothesis 16: Government support has a significant positive effect on a) outward activities and b) internationalisation.

Hypothesis 17: Resource acquisition has a greater positive effect on a) outward activities and b) internationalisation for firms with a high degree of government support than for firms with a low degree of government support.

CHAPTER 4. RESEARCH METHODS

The purpose of this part is to introduce the research methodologies used in this study. In this part, we present two research approaches: qualitative and quantitative method. Qualitative method implies an emphasis on process and meaning that are not measured in terms of quantity, amount, intensity or frequency. Quantitative research emphasizes the measurement and analysis of causal relationships between variables (Guba and Lincoln, 1994). There are several reasons why we used the two research methods in this thesis. First, the data on the international activities of Chinese firms are scarce and there are few official sources of information from the government. To ensure that we have some in-depth understanding of Chinese firms' outward activities and internationalization efforts, we adopted the qualitative study approach. On the other hand, qualitative studies alone are not enough or sufficient to examine the relationships between variables without rigorous data analysis. Thus, we also conducted a survey of Chinese firms and used to the quantitative data to explain relationship between some moderating factors, such as absorptive capacity, exploration strategy and exploitation strategy, and the dependent variable, i.e., the degree of internationalization.

4.1 Data collection

4.1.1 Qualitative Study

First, we define Chinese firms as those who are state-owned firms, private firms without any foreign capital investment and the JV firms in which the Chinese side is the majority shareholder. Second, we define internationalization as having international scope of operations, namely, in at least six countries, and the inward activities as acquiring foreign technology, expertise, materials, and partnerships with foreign companies.

A number of firms from Mainland China have been included in the lists of multinational corporations such as the Fortune 500 and Fortune 1,000 companies. Most of these firms are either financial institutions like Bank of China or large state-owned enterprises such as COSCO. They are not the focus on this study. Therefore, we have selected the firms for our study based on the reported internationalization activities in the media. After an extensive search for such information, we finally choose four Chinese firms for our study: *Haier group*, *Lenovo group*, *TCL Corporation*, *Founder group*. They are all well-known companies in the home appliance, and IT industries in China. Even so, detailed international activities of these firms are difficult to locate. The international activities of firms are often related to their overseas subsidiaries and thus not reported in details in the company reports. We

have used secondary sources to collect data on these companies: 1) the Internet, including government and firm website, in both Chinese and English, 2) the databases including Proquest, Ebscohost, and LexisNexis, 3) from the research report of other researchers who have studied the internationalization of Chinese firms, and 4) research reports from government agencies in China.

4.1.2 Quantitative method

We conducted a questionnaire survey in Mainland China in 2006. The aim of the questionnaire survey is to find empirical support for the total 17 hypotheses. The sampling framework was based on the manufacture firms in 11 economics and technique development zones (ETDZs). We interviewed and mailed over 300 questionnaires to middle and high level managers in marketing and sales departments of Chinese manufacturing firms including food, textile, chemical products, petroleum and refining, metal and non-metal products, industry machine, electronics and transportation industries. Marketing and sales department is always a core for each company. Managers in the department of are involved in the strategy and decision making of firms. We assumed that they would provide more precious information for our survey. We had planed to collected data only from high level managers. But considering the difficulty of doing academic research in Chinese firms, we finally enlarged the level of respondents in firms to middle level.

We designed the questionnaire in English, and translated in Chinese. Before we showed the questionnaire in Chinese to respondents, we had done back translation to ensure the accuracy. The respondents were required to answer the questions according to the information of parent companies.

Samples were distributed in cities and provinces with high development of economics and industry, like Guangdong, Zhejiang, Sichuan, Shandong, Shanghai, and Beijing, where major firms are located.

4.2 Measures

The questionnaire includes 10 variables: inward activities, resource from inward activities, outward activities, 6 moderating factors, and the degree of internationalization.

Inward Activities: Based on Luostarinen and Welch (1990), inward activities were divided to 6 categories in this paper: importing goods (including semi-products) or service, importing capital, importing technology, equity joint venture in China, franchising and licensing. Besides the type of inward activities, we requisite the respondents to indicate the level of their firms in engaging in inward activities compared to leading competitors, which is named in degree of inward activities in the questionnaire.

Resource from Inward Activities: The application of RBV and

Organization Learning theories in internationalization used by some scholars (Barney 1991, Welch and Luostarinen 1993) provide the clue that what kinds of resource will be achieved from inward activities: capital, technology, management skill, human resource and knowledge.

Resource Fungibility: Xu (2006), Isobe, Makino and Montgomery (2000) mentioned the scale to measure the transferability of resource in their papers. We combine them all in the questionnaire. Respondents recorded their responses to 7 items on a 7-point scale from 1 (absolutely disagreement) to 7 (absolutely agreement).

Management Motivation: Reuber and Fischer (1997) emphasized the role of international orientation and experience of management on internationalization. Respondents recorded their responses to 7 items on a 7-point scale from 1 (absolutely disagreement) to 7 (absolutely agreement).

Government Support: Young, Huang and McDermott (1996) and Korhonen, Luostarinen and Welch (1996) design the measures of government support in their papers. This study summarized them to five items. Respondents recorded their responses to 5 items on a 7-point scale from 1 (absolutely disagreement) to 7 (absolutely agreement).

Absorptive Capacity: We integrate the items from Pak and Park (2004), and Nieto and Quevedo (2005) to 11. Respondents recorded their responses to 11 items on a 7-point scale from 1 (absolutely disagreement)

to 7 (absolutely agreement).

Exploration & Exploitation Strategy: We borrow the scale from Kyriakopoulos and Moorman (2004), and design other items on the basis of description about exploration and exploitation from March (1991), and Lewin, Long and Carroll (1999). Respondents recorded their responses to 11 items on a 7-point scale from 1 (absolutely disagreement) to 7 (absolutely agreement).

The degree of Internationalization: How to measure the degree of internationalization is a big problem in this study. Many scholars prefer the single-item measure: the percentage of foreign sales on total sales (FSTS). Sullivan (1994) proposed “Degree of Internationalization Scale” (DOI*ints*) as a multi-item measure. In this study, I adopt two ways to measure the degree of internationalization: the definition of internationalization from the result perspective using a subjective measure and another objective measure using the financial data. On the one hand, the respondents recorded their attitude to the degree of internationalization about capital, human resource, management skills, products, and marketing operation in their firms on a 7-point from 1 (absolutely disagreement) to 7 (absolutely agreement) (Morgan and Katsikeas 1997). On the other hand, we adopted the single-item measure scale (FSTS) used by many scholars as objective measure. Since many firms in China have not established the cooperative relationship with

academy yet, it is possible that some respondents wouldn't provide financial data to avoid being accused of leaking secret information by their companies. Subjective measure will prevent our study from failing if we don't receive enough financial data.

Control Variables: We include the firm-specific variables to control for the firm variations. Firm-level variables are the size of firm and the category in which the firm belongs to. We measure the size of firm by the number of full-time employees within the organization, was transformed to its natural log to overcome its positive skew (Guthrie and Datta, 1997; Pablo, 1994; Subramaniam and Youndt, 2005). Respondents are required to classify the categories (total 28, based on the Chinese Industrial Classification Code) in which the firms they work for belong to. We use code as 1 (heavy industry) and 0 (light industry) in regression test.

CHAPTER 5. RESULTS

5.1 Result of qualitative study

When Chinese household electrical appliances industry began to develop in 1980s, the world household electrical appliances industry was already in the mature stage with high competition. Before the middle of 1990s, the domestic market of household electrical appliances could not be satisfied. In 1985, China imported 4.99million colorful TV sets. Over the last 20 years, Chinese household electrical appliances industry has developed rapidly and improved their production capability and efficiency. Some firms in the field became international, for instance, Haier Group Ltd and TCL Corporation. Haier, for example, a leading Chinese home appliance manufacturer, has invested aggressively in a number of developed as well as developing countries in the last few years and has achieved a significant market share in those countries (Liu and Li, 2002).

Compared to other industries, IT industry in China is very young but developed very rapidly. Chinese IT highway is advanced in the world. Although some crucial technologies are controlled by foreign MNEs, many IT companies in China grew up fast to be the powerful competitors for foreign MNEs, and to be internationalized. Lenovo and Founder are

two of the Chinese IT firms that achieved remarkable success in internationalization. The basic characteristics of the 4 firms are presented in Table 2.

Table 2: Profiles of the four companies.

Company	Hair	TCL	Lenovo	Founder
Date of establishment	1984	1981	1984	1986
Location of HQ	Qingdao	Huizhou	US	Beijing
Core Business	Home Appliance	TV, PC, MP	PC Software	Laser Typesetting
Turnover	*16.5	*51.6	**103.6	*22
Exports	*3	*27.7	**66.3	*0.6
Exports as % of turnover	23.7%	53.7%	64%	2.7%

*Billion & CNY

**Billion & HKD

Note: All turnover, profits and percentages of overseas sales refer to the year of 2005 except for Founder, for which only the figure of 2004 overseas sales is available.

The detailed inward and outward activities the four companies involved in are presented in Figures 6, 7, 8, and 9.

Figure 6: Hair Group

Brief Introduction

Haier began in 1984 as a collectively owned enterprise- the Qingdao refrigerator factory. Over the past 20 years, Haier with over 50,000 employees throughout the world manufactures a wide range of household appliances of 96 different models includes various white goods, air conditioners, microwave ovens, and color TVs and exports its products to more than 160 countries and regions, and owns 13 factories outside China (SinoCast, 2006). Haier is the China's largest household appliance manufacturer (Liu and Li, 2002). Haier was ranked the ninth in the world in the home electric appliances industry (Appliance manufacturer, Feb. 2001) and the first of China's Top 10 Global Brands by the Financial Times in 2005.

Stages in International Development-Based on inward activities

In 1984, Haier bought an assembly line from a Germany company, Liebherr, to access to the high technology and leading equipments in the world. Meanwhile, Haier expanded cooperation with Liebherr by manufacturing refrigerators based on its standard (Liu and Li 2002)

Stages in International Development -Based on outward activities

From the early 1990s, Haier started to export its own products to Europe, Japan and USA.

On 1996, Haier established its first overseas joint venture in Indonesia.

Since 1996, it has set up 30 oversea factories and developed a network of 58,800 sales agents in Germany, US and other countries.

Haier was one of the first Chinese companies to expand internationally, setting up factories in Algeria, Mexico, Iran and Southeast Asia before it opened its first U.S. factory in 2000 (The Associated Press 2005).

In the late 1990s, Haier invested US\$40 million in a manufacturing in South Carolina that started operation in 2000. It established a design center in Los Angeles and a trader center in New York (Child and Rodrigues 2005).

In 2001, Haier purchased a refrigerator factory in Italy.

In 2005, Haier submitted a bid to purchase Maytag.

In the world market, Haier has gained first place in the United States for sales of compact refrigerators and wine coolers, in Iran for washing machines and Cyprus for air-condition (www.haier.com).

So far, Haier has established a manufacturing and marketing system worldwide.

Figure 7: TCL Corporation

Brief Introduction

Founded in 1981, TCL Corporation is one of the biggest consumer electronic groups in China, manufacturing televisions, PCs, and mobile phones. TCL has more than 63 thousands employees in 145 countries. In 2005, the value of TCL brand has exceeded CNY 33.6 billions (www.tcl.com). In the first half of 2005, TCL exported 5.64million colorful TVs to foreign market. Domestic market only accounts for the 36% in total colorful TV business profit, with foreign markets accounting for 64% (European market: 27% and North-American market: 24%).

Stages in International Development -Based on inward activities (www.tcl.com)

As the one of first Sino-foreign joint ventures, TCL acquired foreign capital, technology and brand to develop the domestic market.

In 1985, TCL Telecommunication Equipment Co., Ltd was established as JV with a Hong Kong investor

Since 1990, TCL has produced TV sets by importing the semi-products and being an OEM supplier

Stages in International Development-Based on outward activities (www.tcl.com).

1993 TCL Electronics (Hong Kong) Co., Ltd. was established.

After 1997, TCL started expanding overseas. First, TCL purchased a factory in Vietnam. Then, TCL set up the factories and subsidiaries in Singapore, Indonesia, Philippines, India, Thailand and Russia. TCL entered into the Southeast Asia markets with much success.

In 2002, TCL bought Schneider, which is a famous TV maker in Germany and the “Go-video” in US.

In April 2004, TCL Mobile has signed an MOU with Alcatel to form a joint venture in producing mobile phones.

In July 2004, TCL and Thomson of France jointly set up TTE Corporation, the biggest global TV manufacturer.

In 2005, TCL merger 3 manufacturing in Mexico.

Figure 8: Lenovo Group Ltd.

Brief Introduction

In 1984, 11 engineers and researchers founded a company named Legend, which provided computer maintenance and training services in Beijing. In early 1990s, Legend began to sell own-brand computers. In 1996, Legend accounted for 9.4% of the PC market in mainland, outpaced IBM (8.4%). Since then, Legend has had the largest market share of computers in China for eight consecutive years with a 25% market share in 2004. Now, Lenovo has 19,000 employees and its business covers the 3C areas: computers, communications, and consumer electronics. Lenovo has transformed itself from a local company to a global player, and become the third largest PC maker in the world with annual revenue of 13 billion US dollars by the end of 2005.

Stages in International Development -Based on inward activities

Since 1987, Legend has been the distributor of HP and AST in China. By cooperating with these famous foreign companies, Legend has accumulated a wealth of the experiences in marketing computing products.

From 1990-1996, one of the primary businesses of Legend, trade agent for PC, CAD and others plays important role to make profit in the development of Legend.

On 1997, Toshiba notebook that was surrogated by Legend accounted for 27.4% in China market.

On 1997, Legend established JV with CA, a company in US to start its business in software industry in China.

Stages in International Development -Based on outward activities

In April 1988, Legend established its first oversea sales branch in Hong Kong.

By 1994, Legend was trading on the Hong Kong Stock Exchange.

In 2003, Legend changed its brand name to Lenovo.

In May 2005, Lenovo paid \$ 1.75 billion to buy the ThinkPad brand and the rest of the PC business from IBM, and established its new headquarters in Purchase, New York with principal operations in Beijing, China, and Raleigh, North Carolina, USA.

Lenovo also has major research centers in Japan, China and USA and four sales headquarters worldwide. Beside five manufacturing centers in China, Lenovo has one in Pondicherry, India.

Figure 9: Founder Group

Brief Introduction

Founded in 1986 with the investment from Peking University, Founder is now one of the most successful and important software enterprises in China. Founder Group has over 20,000 staff now and 5 listed public companies on the securities exchanges of Shanghai, Shenzhen, Malaysia and Hong Kong. In 2006, Founder ranked the 10th in the top 100 state Electronic & Information Enterprises. With its world-class laser typesetting technology, Founder has 85 percent of the domestic market share. Founder now exports its products to more than 30 countries in Asia, Europe and Americas (www.founder.com).

Stages in International Development -Based on inward activities

In 1989, Founder cooperated with Hong Kong's Kingsoft to co-invest in the development of the Founder Super Chinese Character Board.

Stages in International Development -Based on outward activities (www.founder.com)

In 1992, the first overseas branch, the Founder (Hong Kong) Co., Ltd. was established.

On August 2000, Founder worked with Yahoo! and other operators to acquire the Hong Kong listed Rongwen Technologies (holding) Co., Ltd. At the end of the year, the Rongwen Technologies (holding) Co., Ltd. was renamed the Founder Digital (holding) Co., Ltd.

Now, Founder runs five listed public companies in China, Malaysia and Hong Kong as well as over 20 wholly-owned and joint-ventures worldwide, including 6 overseas subsidiaries in Hong Kong, Japan, Canada, Malaysia, and Taiwan.

Today, Founder Laser Typesetting Technology has covered over 90% Chinese language market overseas; Founder RIP has more than 100 global cooperative partners; Founder Easiprint chain store entered into Canadian market in November, 2005

Based on the above qualitative studies, we compared the four firms in their internationalization efforts based on the contingent resource perspective (Table 3). First, we described the inward activities of these firms to acquire resources and discussed the quality of these resources. These four firms have invariably engaged in inward activities, including importing machinery, acquiring foreign technology and capital

Table 3: Summary of the Firms' Inward Activities, Acquired Resources and moderating Factors

Dimension/Company	Haier	TCL	Lenovo	Founder
1, Inward Activities				
Importing Machinery	√	√		
Importing Goods and Service	√	√	√	
Importing Technology	√	√	√	
Foreign Capital	√	√	√	√
Joint Venture/Foreign companies	√	√	√	√
Agent/Distributor of foreign product		√	√	
2, Contingency Factors				
Resources Fungibility	H	H	M	L
Management motivation	H	H	H	H
Government Support	H	M	H	M
Absorptive Capacity	?	?	?	?
Exploration Strategy	?	?	?	?
Exploitation Strategy	?	?	?	?

Note: √ = yes, considered a major factor, L=low, M=medium, and H=high

through joint ventures, and acting as an agent or distributor of foreign product. Initially, all these inward activities focus on the domestic market. Apart from importing hardware, these firms have also adopted modern management practices, installed innovative programs in various

areas including operations management, training, and quality control. Through acquisition of these resources, these firms have become very successful in the domestic market. Each of them has become an industry leader in their own industry or product category.

Second, we applied the contingent perspective to examine how the firms have taken on the internationalization process. As for fungibility of the acquired resources, the first three firms fared pretty well in this area as they all make products based on standard technologies in their product areas. By acquiring technology, manufacturing operations and management practices from their overseas partners, their capabilities are largely transferable to the overseas markets. As for Founder, although it operates in a high-tech industry, since it focuses on making software for the domestic market, fungibility of domestic capabilities is rather limited.

Haier and Lenovo are large corporations and have received a lot of support from the government, which wants to set up examples for firms in the same industry. Haier, previously a collectively owned company, has benefited from financial and other support from the Chinese government. In early days 1990s, Haier raised funds from state-owned banks and government agencies to restructure, and to merge and acquire many domestic firms to become one of the largest home appliances firms in China (Child and Rodrigues 2005). As for Lenovo, the Chinese

government's stake in it has given the firm certain advantages including privileged access to domestic government and educational markets, which have made Lenovo a more attractive partner for IBM (Child and Rodrigues 2005). Under the "Going Global" policy announced in March 2001 by Former president Jiang Zemin, the Chinese government already supports 22 companies with global potential including Lenovo and Haier in removing some of the roadblocks in their path, such as tedious project approval processes, stringent foreign-exchange controls, and a state monopoly over exports (Zeng & Williamson 2003). TCL and Founder received government support in certain degree. In August of 2005, TCL secured a loan of CNY 8 billion from China Development Bank for the company's overseas expansion projects involving multimedia, mobile communication and home appliances (Comtex News Network 2005). Founder has drawn on several technologies produced by state-funded research projects at Beijing University (Ming & Williamson 2003). Compared with the Haier and Lenovo, TCL and Founder have received limited government support. All four firms have demonstrated strong motivations for expanding overseas. Only from this qualitative study, we couldn't acquire enough evidence to judge the effect of absorptive capacity, and exploration or exploitation adaptation on internationalization of firms.

Based on Table 4, we can assess the extent of internationalization of

these four firms and to what extent they have been successful. All four firms have direct investment in foreign countries and export a large percentage of their sales to other markets. While Haier has mainly focused on direct export and direct investment in overseas markets, TCL and Lenovo have resorted to mergers and acquisitions. Both TCL and Lenovo have achieved a very high the percentage of foreign sales. Although the percentage of foreign sales is relatively low for Haier, it has been ranked one of the top ten appliance manufacturers in the world. Founder, on the other hand, has achieved only limited success in this area. As for other indicators of internationalization, all four firms have demonstrated the ability to integrate the resources from various countries in terms of human resources, financing, and raw materials or supplies. Both Haier and Lenovo have established R&D centers in overseas markets. More importantly, the first three firms have achieved leading quality and established well-know brands for their products.

Table 4: The Degree of Internationalization of the four Firms

Dimension/Company	Haier	TCL	Lenovo	Founder
The number of oversea subsidiaries	Over 30	Over 8	Over 100	Over 6
Percentage of overseas sales*	23.7%	53.7%	64.2%	2.7%
No. of countries exported to	Over 160	Over 100	Over 100	Over 30
Global resource integration	√	√	√	
Leading product quality	√	√	√	√
Capability of world-class R&D	√		√	√
Having well-known brand(s)	√	√	√	

Note: All percentages of overseas sales refer to the year of 2005 except for Founder, for which only the figure of 2004 overseas sales is available.

The qualitative studies provide preliminary evidence that by engaging in inward activities, firms may acquire the critical resources that can lead to the outward activities and internationalization process. Whether firms can succeed in internationalization is contingent upon several firm-specific and environmental factors, like management motivation, resource fungibility, and government support. Although the results of the qualitative studies are somewhat informative, they do not lend us an opportunity to measure some of the latent factors systematically, such as absorptive capacity and exploration and exploitation strategies. Thus, a survey of firms with a systematic measurement instrument would be desirable.

5.2 Description of survey data

Totally, we received 289 responses, of which, 190 are valid without missing values. Luckily, we had full answers for both subjective and objective measure to internationalization. We did separate hierarchical regression for the two sets of data. The results were presented in next section.

Of total 190 responses, 38.4% has over 1000 employees, and 16.3% has over 5000. In sample age, 58% of the firms are over 10 years, 25% is over 20 years, and 10% is over 30 years. 29.5% samples are in industries of Electrical Machinery and Equipment, Electronic and Communication Equipment. The industry of Clothing and Other Fibre Products is in

second rank by 10.5%. 77.4% respondents are in the middle level of management, and 27% of respondents work in the firm for over 5 years. 76.8% samples are collected in the South China; the others are in the East and Middle China, and North China by the percentage of 11.1% and 11.6%.

5.3. Regression Analysis

The reliability of each measure toward the key variables was assessed by Cronbach's alpha. After reliability test, the measures demonstrated adequate reliability: 0.783 for the degree of inward activities, 0.890 for resource acquisition, 0.886 for the degree of outward activities, 0.894 for government support (GS), 0.907 for resource fungibility (TF), 0.884 for management motivation (MM), 0.896 for absorptive capacity (AC), 0.779 for exploration strategy and 0.823 for exploitation strategy, 0.931 for the degree of internationalization (subjective perspective).

To test the construct validity of the role of moderating factors to the degree of internationalization, we adopted confirmatory factor analysis (CFA) by the structural equation modeling software AMOS. The constructs of total 5 moderating factors were tested separately. Every CFA model has one latent factor representing moderating factor influencing the degree of internationalization. Each category latent factor has indicators ranged from 4 to 8, which are those items after

purification process in which the items with relatively low item-total correlation are deleted. Although there is not significant difference for reliability test between pre-purification and post-purification, the result of validity test is improved significantly after purification. The results shown in the table 6 demonstrate the factor loadings are strong. The results also suggest indicate that the CFA models have adequate fit of the data. The value of SRMR, NFI and CFI presented in table are used to be representatives of well or bad-fitting model (Bentler, 1992).

Table 5: Reliability and Validity for Key Variables

Variables	Reliability	Validity	
	(Alpha)	NFI	CFI
Inward Activities	0.783	0.894	0.913
Resource Acquisition	0.890	0.910	0.925
Outward Activities	0.886	0.870	0.895
Internationalization	0.931	0.917	0.922
Management	0.884	0.919	0.935
Motivation			
Absorptive Capability	0.896	0.891	0.912
Resource Fungibility	0.907	0.936	0.952
Exploration Strategy	0.779	0.855	0.864
Exploitation Strategy	0.931	0.957	0.962
Government Support	0.894	0.956	0.964

Since we have several groups of variables as predictors, including both main effects and interactions, we adopt hierarchical regressions to test the hypotheses. First, we begin our analysis by running a regression equation with the resources acquisition as dependent variable and the degree of inward activities as independent variable (Hypothesis 1). Our data show that this regression model is significant (adjusted R-Square=.17, F=15.324, P<.001). Next, we ran the second regression equation with the degree of outward activities as dependent variable and the degree of inward activities as independent variable. This model is significant (adjusted R-Square=.232, F=20.050, P<.001). The third regression equation with the degree of outward activities as dependent variable and the acquisition of resources as independent variable (Hypothesis3) is significant too (adjusted R-Square=.13868, F=13.868, P<.001). Thus, hypothesis 1, 2 and 3 are supported.

We ran a hierarchical regression analysis for hypothesis 4 regarding the mediating effect of resource acquisition on outward activities. At step one, we regressed the dependent variable on all covariates (firm size and category code). At step two, we regressed the dependent variable on all the covariates and the degree of inward activities. The degree of inward activities on its own contributes 16% of the variance in the degree of outward activities and is a significant predictor (P<.001). At the third step, we regressed the dependent variables on all covariates and all

predictors (the degree of inward activities and the acquisition of resource). From R square Change statistic and the Sig.F change value that the acquisition of resources makes a unique contribution of 2.6% to the variance of the degree of outward activities. And the degree of inward activities in this model is still a significant predictor with a reduced standardized coefficient value (from 0.407 in mode2 to 0.332 in model3, $p < .001$). In other words, the acquisition of resource partially mediates the effect of firms' inward activities on outward activities. The next regression equation with the degree of internationalization as dependent variable and the degree of outward activities as independent variable is significant by $F = 35.625$ ($P < .001$). Hypothesis 4 and 5 are supported.

Hierarchical regression analysis was then conducted for outward activities and internationalization. The multicollinearity tests show that there is serious multicollinearity among several terms ($VIF > 10$). Therefore, we used standardized scores to correct the multicollinearity problem. After correction, all the variables of VIF are smaller than 10 and most of them range from 1 to 2, which indicate that the correction procedure is effective. Since our sample size is not very large, we reported the results with significant level lower than 0.1 (Luo, 1998).

Table 6 shows the results of regression analysis with the degree of outward activities as the dependent variable. In the first step, we

regressed the dependent variable on all covariates (e.g. firm size and industry category code). In the second step, we regressed the dependent variable on all covariates and two predictors: the degree of inward activities and resources acquisition. In the third step, we regressed the dependent variable on all covariates and all predictors (including independent variables and moderating factors). In the last step, we regressed the dependent variable on all covariates, all predictors and interactions between resource acquisition and moderating factors. The high adjusted R-Square (0.461) of model 4 implies that fit of the regression model is very good. In the model 3, except that the degree of inward activities and management motivation have main positive effects on the degree of outward activities, the main effects of other variables on the degree of outward activities are not significant, which means only hypothesis 6(a) was supported in this model. In model 4, after added the interaction of resources acquisition, the degree of inward activities and management motivation still have significant main effect on the degree of outward activities. The interaction between resource acquisition and exploration strategy (Standardized Beta = 0.317, $P < .01$) is significant and the coefficient is positive, which means resource requisition with high exploration strategy can lead to greater effect on outward activities, thus Hypothesis 14(a) is supported.

5.3.1 Regression Analysis on the Subjective Measure of Internationalization

In table 7, the results of hierarchical regression analysis for the degree of internationalization as dependent variable are presented. In the first step, we regressed the dependent variable on all covariates (e.g. firm size and industry category code). In the second step, we regressed the dependent variable on all covariates and three independent variables: the degree of inward activities, resources acquisition and the degree of outward activities. In the third step, we regressed the dependent variable on all covariates and all predictors (including independent variables and moderating factors). In the last step, we regressed the dependent variable on all covariates, all predictors and interactions between resource acquisition and moderating factors. The high adjusted R-squared (0.645) of model 4 shows the good fit of the regression model. In model 3, the main effects of the degree of outward activities, resources fungibility, and absorptive capacity on the degree of internationalization are significant and the coefficients are positive and the coefficients are positive, which means hypotheses 8(b) and 10(b) were supported. Exploitation strategy also has a significant main effect in this model, but the coefficient is positive (Standardized beta=0.141, $P < 0.05$). The coefficient of exploration strategy is negative, but this variable is not significant (Standardized beta=-0.091, Sig.=1.85). We assumed in the hypotheses part that the relation between exploitation strategy and

internationalization should be negative. Thus, Hypothesis 12(b) and 13(b) are not supported, since the interaction between exploitation strategy and the degree of internationalization is in the opposite direction.

In model 4, after we added the interactions between resources acquisition and moderating factors, the interaction between resources acquisition and government support is significant and the coefficient is positive (Standardized beta=0.143, $P<0.05$), which means hypothesis 17(b) is supported. The interaction between resources acquisition and resources fungibility is significant, but the coefficient is unexpectedly negative (Standardized beta=-0.213, $P<0.05$), which means hypothesis 11 (b) is not supported. The interaction between resources acquisition and absorptive capacity is significant, but the coefficient is negative (Standardized beta=-0.173, $P<0.05$), which means hypothesis 19(b) is not supported. The interaction between resources acquisition and management motivation is significant and the coefficient is positive (Standardized beta=-0.159, $P<0.05$), which means resource acquisition has a greater positive effect on internationalization for firms with higher management motivation for internationalization and hypothesis 7(b) is supported. The interaction between resource acquisition and exploration strategy is significant and the coefficient is positive (Standardized beta=0.156, $P<0.05$), which means resource acquisition has a greater positive effect on internationalisation for firms with a higher degree of

exploration strategy and hypothesis 14(b) was supported. The interaction between resources acquisition and exploitation strategy is significant and the coefficient is negative (Standardized beta=-0.105, $P < 0.1$), which means resource acquisition has a greater negative effect on internationalisation for firms with a higher degree of exploitation strategy and hypothesis 15(b) is supported.

Table 6: Hierarchical regression analyses for outward activities

Dependent Variable	Outward Activities			
	Model 1	Model 2	Model 3	Model 4
Model Fitness				
R-Square	0.085	0.270	0.403	0.461
Adjusted R-Square	0.075	0.255	0.369	0.411
F Value	8.642	17.135	12.066	9.235
Sig. Level	0.000	0.000	0.000	0.000
Sig.F Change	0.000	0.000	0.000	0.007
Firm Size	0.290**	0.214**	0.230**	0.241**
Industry Category	0.037	0.061	0.028	0.013
Inward Activities		0.332**	0.294**	0.290**
Resource Acquisition (RA)		0.178*	-0.055	0.027
Management Motivation (MM)			0.371**	0.305**
Absorptive Capacity (AC)			-0.038	0.016
Resource Fungibility (RF)			0.037	0.038
Exploration Strategy (ER)			0.080	0.093
Exploitation Strategy (EI)			0.106	0.093
Government Support (GS)			-0.073	-0.117^
Interaction between RA and MM				-0.033
Interaction between RA and AC				-0.054
Interaction between RA and RF				-0.119
Interaction between RA and ER				0.317**
Interaction between RA and EI				0.053
Interaction between RA and GS				-0.106

Note: *: Sig.<=0.05, **: Sig.<=0.01, ^.Sig.<=0.1

Table 7: Hierarchical regression analyses on subjective measure of internationalization

Dependent Variable	Internationalization			
	Model 1	Model 2	Model 3	Model 4
Model Fitness				
R-Square	0.044	0.438	0.598	0.645
Adjusted R-Square	0.034	0.423	0.573	0.610
F Value	4.352	28.657	24.049	18.364
Sig. Level	0.014	0.000	0.000	0.000
Sig.F Change	0.014	0.000	0.000	0.001
Firm Size	0.208*	0.036	0.051	0.047
Industry Category	0.045	0.042	-0.004	-0.025
Inward Activities		0.072	0.033	0.068
Resource Acquisition (RA)		0.257**	0.054	0.067
Outward Activities		0.473**	0.330**	0.309**
Management Motivation (MM)			0.093	0.110
Absorptive Capacity (AC)			0.259**	0.218*
Resource Fungibility (RF)			0.168*	0.176*
Exploration Strategy (ER)			-0.091	-0.071
Exploitation Strategy (EI)			0.141*	0.096
Government Support (GS)			0.075	0.155*
Interaction between RA and MM				0.159^
Interaction between RA and AC				-0.173*
Interaction between RA and RF				-0.213*
Interaction between RA and ER				0.156*
Interaction between RA and EI				-0.105*
Interaction between RA and GS				0.143*

Note: *: Sig.<=0.05, **: Sig.<=0.01, ^:Sig.<=0.1

5.3.2 Regression on the objective measure of internationalization

Before doing regression, we transformed the value of FSTS to its natural log to overcome its positive skew (Guthrie and Datta, 1997; Pablo, 1994; Subramaniam and Youndt, 2005). In table 8, the results of hierarchical regression analysis for the degree of internationalization as dependent variable are presented. In the first step, we regressed the dependent variable on all covariates (e.g. firm size and industry category code). In the second step, we regressed the dependent variable on all covariates and three independent variables: the degree of inward activities, resources acquisition and the degree of outward activities. In the third step, we regressed the dependent variable on all covariates and all predictors (including independent variables and moderating factors). In the last step, we regressed the dependent variable on all covariates, all predictors and interactions between resource acquisition and moderating factors.

The adjusted R-squared (0.192) of model 4 shows the good fit of the regression model. In model 4, the main effects of the degree of outward activities, management motivation on the degree of internationalization are significant and the coefficients are positive, which means hypotheses 6(b) is supported. Absorptive capacity, government support, and exploration strategy have significant main effects too in this model, but the coefficients are negative. Therefore, hypotheses 9(b), 14(b) and 17(b)

are not supported. The main effect of exploitation strategy on the degree of internationalization is significant, but the coefficient was positive and in the opposite direction as predicted. Thus, hypothesis 15(b) is not supported. We assumed in the hypotheses part that the relation between exploration strategy and internationalization is positive, whereas the relation between exploitation strategy and internationalization is opposite. The result is contrary to the assumption.

However, the interaction between resources acquisition and exploration strategy is significant and the coefficient is positive (Standardized beta=0.321, $P<0.01$), which means resource acquisition has a greater positive effect on internationalisation for firms with a higher degree of exploration strategy and hypothesis 14(b) is supported. The interaction between resources acquisition and exploitation strategy is significant and the coefficient is negative (Standardized beta=-0.320, $P<0.01$), which means resource acquisition has a greater negative effect on internationalisation for firms with a higher degree of exploitation strategy and hypothesis 15(b) is supported. The interactive effects of management motivation, absorptive capacity, resource fungibility, and government support with resource acquisition are not significant.

Table 8: Hierarchical regression analyses on objective measure of internationalization

Dependent Variable	Internationalization			
	Model 1	Model 2	Model 3	Model 4
Model Fitness				
R-Square	0.001	0.111	0.195	0.270
Adjusted R-Square	-0.001	0.085	0.141	0.192
F Value	0.067	4.253	3.619	3.439
Sig. Level	0.935	0.001	0.000	0.000
Sig.F Change	0.935	0.000	0.011	0.016
Firm Size	-0.026	-0.113	-0.082	-0.027
Industry Category	0.009	-0.010	-0.040	-0.072
Inward Activities		0.044	0.067	0.093
Resource Acquisition (RA)		0.010	-0.075	-0.022
Outward Activities		0.318**	0.197*	0.170^
Management Motivation (MM)			0.321**	0.444**
Absorptive Capacity (AC)			-0.015	-0.121*
Resource Fungibility (RF)			0.122	0.107
Exploration Strategy (ER)			-0.156	-0.205*
Exploitation Strategy (EI)			0.123	0.188*
Government Support (GS)			-0.139^	-0.163^
Interaction between RA and MM				-0.052
Interaction between RA and AC				0.086
Interaction between RA and RF				0.063
Interaction between RA and ER				0.321**
Interaction between RA and EI				-0.320**
Interaction between RA and GS				-0.015

Note: *: Sig.<=0.05, **: Sig.<=0.01, ^:Sig.<=0.1

CHAPTER 6. DISCUSSION

6.1 Findings and Conclusions

Based on the inward-outward link, we fill the gap in the existing literature by integrating several theoretical frameworks, i.e., organizational learning, resource-based view (RBV), and the contingency approach. This study examines the role of inward activities in the internationalization of firms in China and proposes a theoretical framework of internationalization using the contingent resource theory. Being grounded on the empirical study and qualitative studies of Chinese enterprises, the study shows that the inward activities will eventually lead to outward activities and internationalization. By engaging in inward activities, firms may acquire the critical resources that can lead to the outward activities and internationalization process. Moreover, the resource acquired from inward activities partially mediates the degree of inward activities on outward activities, and then internationalization. This finding provides strong support for the proposed role of resource acquisition as a critical link between inward activities and outward activities in the internationalization process.

By analyzing the history and operational data of these Chinese firms and doing quantitative analysis, we demonstrate how these

enterprises have acquired the necessary resources by engaging in inward activities to embark on the path to internationalization. Whether firms can succeed in internationalization is contingent upon situational factors. In the process from inward activities to internationalization, some factors, like management motivation, exploration strategy, exploitation strategy and government support, do moderately affect the degree of inward activities on internationalization.

There are several puzzling and interesting findings in our study. As for main effects, exploitation strategy positively affects the internationalization of Chinese firms, whereas the relation between exploration strategy and internationalization is negative. The findings are contrary to the OLI theory. On the other hand, one may argue that exploitation strategy positively affecting the extent of internationalization of firms is accord with development of Chinese firms. The assumption of OLI theory is that MNE exists because of their possession of superior resources, like ownership, location and internalization advantages. Chinese firms often lack ownership advantage in technology or other resources at the beginning of development. Due to limit resources, they focus on exploitation strategy much more than exploration strategy, relying on their existing technologies and processes to develop overseas markets. However, this is not to say that exploration strategy does not contribute to the

internationalization of Chinese firms. After obtaining the resources that are useful for developing oversea markets from inward activities, Chinese firms have developed advantages in ownership or other aspects to explore overseas markets that are relatively less developed than China, like those in Southeast Asia, Africa and South American in comparison with North America and Europe. The firms' ability to pursue exploration strategy is dependent on the stock of knowledge possessed and the ability to acquire new knowledge (Levinthal and March, 1993). By absorbing and using the resource acquired from inward activities, Chinese firms started to engage in exploration to ensure their future viability in global markets, like pursuing novel business ideas, utilizing new technology and entering new geographies (Armagan and Ferreira, 2005). More and more leading Chinese firms were involved in international activities associated with innovation, building new capability, developing new skills, variation and risk taking, which are main characteristics of exploration strategy (Koza and Lewin, 1998; March, 1991). Overall, exploration strategy do has important influence on the internationalization of Chinese firms based on inward activities.

The role of management motivation for internationalization on the effect of inward activities on the internationalization of Chinese firms is supported in this study. Firms with higher management motivation for internationalization use the resource from inward activities much better

and more efficiently, which ultimately promote the degree of internationalization. But the effect of government support is not consistent across the different dependent variables. It may be due to limited scale and small sample size of the study. When the objective measure of internationalization is used, the coefficients of several parameters are theoretically unexpected. Moreover, the interactive effects of management motivation, absorptive capacity, resource fungibility, and government support with resource acquisition are not significant. Since we adopted the mean-centered measures of all the independent variables to avoid the multicollinearity problem, these counterintuitive results may be due to the small sample size and/or the subjective measure of internationalization, which may vary greatly across industries and other situational variables.

6.2 Implications

The present study contributes to both theoretical and practical implications on the internationalization of firms. Theoretically, by adopting the contingent resource perspective, this study provides a coherent framework to explain how inward activities can lead to outward activities and internationalization. The contingent resource theory helps to examine the pre-requisite input for internationalization. With the contingency variables, we can explain why some Chinese firms have been successful in outward activities and internationalization, perhaps

more so than others those have also engaged in inward activities. These findings help to advance the development of theory of internationalization of firms.

Practically, the findings of this study have meaningful implications for government on public policy making and for firms on strategy development and their internationalization endeavors. The Chinese Government has long realized that inward moves are important to outward activities and internationalization. To some extent, this study provides support the government policy of “inviting in and going out”, in that inward activities can play a critical role in promoting outward activities and internationalization. By developing more promotion for inward activities to satisfy the capital and technology needs of Chinese firms, especially for SMEs, it is possible to shorten the period of import substitution in the domestic market, to strengthen their capabilities to develop overseas market, and to expedite their outward activities and internationalization process.

It may be necessary for the upper level management of Chinese firms to think more strategically and effectively about the role of inward activities in the outward activities and the internationalization process. Inward activities should have the same level of strategic importance as the outward activities, which may improve the effectiveness of the internationalization strategies of firms. Management motivation,

government support, and exploration strategy provide an important impetus for these firms to expand outward. Managers should apply these factors more effectively to the internationalization process, albeit acquiring more political and financial support from governments, recruiting manager's people with international experience into high-level management, and putting more resources in research and development.

In the mean time, for firms that have not acquired the critical resources to apply the exploration strategy to develop overseas market, it does not mean that internationalization is not within their reach. On the contrary, exploitation strategy can be an effective strategy for these firms to develop overseas market. Exploitation is related to improving the use of existing capabilities, technologies, assets, and products that the firm possesses (March, 1991). It is easier for firms that have not acquired the critical resources to use an existing set of resources and capabilities than to explore new opportunities to develop oversea markets (Armagan and Ferreira, 2005).

6.3 Limitations and Suggestions

Despite the interesting propositions and findings, readers need to be aware of the limitations of the study. First, in the qualitative study, only four Chinese firms were discussed, and they represent only a small number of Chinese companies and a few industries. Second, the quantitative study did not provide strong support for some of the

hypotheses due to the limited scale and small sample size of the study. The sample heterogeneity, particularly the industry variations, may affect the parameter estimates and reliability of the results. Third, we relied on multiple regressions to perform the analyses and did not adopt the structural equation modeling method (SEM) in data analysis given the limitation of SEM in testing models with moderating factors that are continuous variables.

There are a number of meaningful directions for future research in this area. First, future research needs to collect more quantitative data from primary sources to arrive at more convincing results. Researchers may either focus on one or two industries to minimize the industry variations or use a larger sample to have enough firms in various industries to control for such variations. Secondly, we only provide the finding based on the situation of Chinese firms. To generalize our theoretical framework, data from other countries should be used in future research. The hypotheses should be tested using data from other developing countries to help validate the research findings. Such studies could provide more convincing support of the hypotheses proposed in this study. Thirdly, the effects of exploration strategy and exploitation strategy on the internationalization of firms and their interactions with resource acquisition are worthy of further investigation and can be cross-validation with the investment data from another source. Data on

the types of investment and overseas locations can help reinforce the hypotheses proposed here and the distinctive paths to internationalization that firms may have embarked on. Overall, both theory development and empirical studies in this area can potentially furnish stronger evidence and support for the inward activities-based approach to internationalization and meaningful implications for managing the internationalization processes of firms from developing nations.

APPENDIX THE QUESTIONNAIRE

Chinese Firms and Internationalization: A Contingent Resource Perspective

Section 1. General Information

1. Your Company Name: _____

2. Company location: Province: _____ City: _____

3. Your Position/Title: _____

*Please check the level of management position you are in: 1) Top level
2) middle level

4. Number of years you have worked at this company: _____ years.

5. Telephone: _____

(Please be assured that you will not be contacted again for more questions. Your phone number is requested to confirm a very small number of randomly selected participants ONLY.)

Instruction for Completing the Questionnaire

Please read the questions carefully and follow the instructions when answering the questions.

1. Please note that we define “inward activities” as “a multiplicity of forms— such as imports of goods and service, finance and technology: through franchising, licensing, direct investments, alliance agreement, and the like”.
2. We define “outward activities” as “firms start with no regular export activities, begin to export via agents, and then establish their own foreign sales subsidiaries, and finally move to production by investing in foreign market.”
3. We define internationalization from result perspective, “having manufacturing operations in multiple regions/countries, integration of resources globally, leading product quality, world-class R&D capability, and well-known brand in the world market”.
4. Base on Stopford’s (1992) criterion that a firm is multinational if it has sales or production in at least three foreign countries.

Section 2 General Information about Your Company

Please note that the following “company” means the parent firm. It doesn’t matter if you don’t work in the parent firm because what I need is the related information you provide.

1. What is the legal character of your company? Please check only one answer.

- | | |
|---|---|
| 1. State-Owned Enterprises | 7. Other Collective-Owned Enterprises |
| 2. Collective Enterprises | 8. Wholly State-Owned Enterprises |
| 3. Joint-Equity Enterprises | 9. Limited Liability Company in other forms |
| 4. Joint State-State Enterprises | 10. Company Limited by shares |
| 5. Collective Joint Ownership Enterprises | 11. Privately-Owned Enterprises |
| 6. Joint State-Collective Ownership Enterprises | 12. Other Domestic-Funded Enterprises |

2. How many full-time employees does your company totally have now?

_____ employees

3. When was your company started?

_____ Year

4. Which industry is your company’s primary business activity? Please circle only one answer.

1. Mining and Forestry
2. Manufacture of foods
3. Beverage Manufacturing
4. tobacco processing
5. Textiles
6. Clothing and Other Fibre Products
7. Leather, Fur, and Feather (Down) Products
8. Wood Processing and Bamboo, Rattan, and Straw Products
9. Furniture manufacturing
10. Paper manufacturing and Paper Products
11. Educational and Sports Products Manufacturing
12. Oil Processing and coking
13. Chemical Raw Material and Chemical Products
14. Medicine Manufacturing
15. Chemical Fibres Manufacturing
16. Rubber Products
17. Plastic Products
18. Non-metal Mineral Products
19. Ferrous Metals Smelting & Rolling Processing
20. Metal Products
21. General Machinery Manufacturing
22. Special Equipment Manufacturing
23. Transportation Equipment Manufacturing
24. Electrical Machinery and Equipment

- 25. Electronic and Communication Equipment
 - 26. Instruments, Meters, Educational and Office Equipment
 - 27. Other Manufacturing
 - 28. Others
-

**5. So far, what kinds of inward activities adopted by your company?
Please circle all the answers that apply to your company.**

- A. Importing goods (including semi-products) or service.
- B. Importing capital.
- C. Importing technology.
- D. Equity Joint Venture in China
- F. Franchising.
- G. Licensing.
- H. Others, please specify: _____

6. Compared with top competitors, to what extent, your company has engaged in “inward activities”? Please evaluate using a 7-point scale.

Please note:	1=Much less	2=Less	3=A bit less	4=Same	5=A bit more	6=More	7=Much more
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6.1	Importing goods (including semi-products) or service.	1	2	3	4	5	6	7
6.2	Importing capital.	1	2	3	4	5	6	7
6.3	Importing technology.	1	2	3	4	5	6	7
6.4	Joint Venture in China	1	2	3	4	5	6	7
6.5	Franchising.	1	2	3	4	5	6	7
6.6	Licensing.	1	2	3	4	5	6	7
6.7	Compared with top competitors, we have carried out more inward activities.	1	2	3	4	5	6	7

7. Overall, the development of companies have extremely benefited from inward activities. Please indicate your level of agreement/disagreement on the following statement using a 7-point scale.

Please note:	1=Absolutely Disagreement	2=Strongly Disagreement	3=Somewhat Disagreement	4=Neutral	5=Somewhat Agreement	6=Strongly Agreement	7=Absolutely Agreement				
7.1	We acquired the capital from inward activities.				1	2	3	4	5	6	7
7.2	We acquired advanced technology in our industry from inward activities.				1	2	3	4	5	6	7
7.3	We acquired management skill and human resource with international level from inward activities.				1	2	3	4	5	6	7
7.4	We acquired information about oversea markets from inward activities.				1	2	3	4	5	6	7
7.5	We acquired the knowledge for marketing strategy to develop oversea markets from inward activities.				1	2	3	4	5	6	7
7.6	Compared with top competitors in China, we have learned more international knowledge and information from inward activities.				1	2	3	4	5	6	7
7.7	Compared with top competitors in China, we have acquired more international resource from inward activities.				1	2	3	4	5	6	7

8. Please indicate your level of agreement/disagreement on the following statement using a 7-point scale.

Please note:	1=Absolutely Disagreement	2=Strongly Disagreement	3=Somewhat Disagreement	4=Neutral	5=Absolutely Agreement	6=Strongly Agreement	7=Somewhat at Agreement				
8.1	Chinese government made policies to encourage our company to develop oversea trading.				1	2	3	4	5	6	7
8.2	When our company met the entry barriers made by host country, Chinese government would help us to negotiate with host country.				1	2	3	4	5	6	7
8.3	Chinese government kept close relation with host countries to help our company to develop smoothly in host markets.				1	2	3	4	5	6	7
8.4	Chinese government helped our company to find out the investors.				1	2	3	4	5	6	7
8.5	Chinese government provided favorable loan policy to our company to help our development in oversea markets.				1	2	3	4	5	6	7

9. Please indicate your level of agreement/disagreement on the following statement using a 7-point scale.

Please note:	1=Absolutely Disagreement	2=Strongly Disagreement	3=Somewhat Disagreement	4=Neutral	5=Somewhat Agreement	6=Strongly Agreement	7=Absolutely Agreement
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9.1	Our physical resources in China can be easily applied to oversea markets.	1	2	3	4	5	6	7
9.2	Our human resource management in China can be easily applied to oversea markets.	1	2	3	4	5	6	7
9.3	Our managerial knowledge in China can be easily applied to oversea markets.	1	2	3	4	5	6	7
9.4	Our knowledge system in China can be easily applied to oversea markets.	1	2	3	4	5	6	7
9.5	Our technology in China can be easily applied to oversea markets.	1	2	3	4	5	6	7
9.6	The structure of our company in China can be easily applied to oversea markets.	1	2	3	4	5	6	7
9.7	The characteristic of our company in marketing operation can be easily applied to oversea markets.	1	2	3	4	5	6	7
9.8	The characteristic of our company in products can be easily applied to oversea markets.	1	2	3	4	5	6	7

10. Please indicate your level of agreement/disagreement on the following statement using a 7-point scale.

Please note:	1=Absolutely Disagreement	2=Strongly Disagreement	3=Somewhat Disagreement	4=Neutral	5=Absolutely Agreement	6=Strongly Agreement	7=Somewhat Agreement
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10.1	We have the strategy to explore oversea markets since established.	1	2	3	4	5	6	7
10.2	All of our senior executives support the strategy to export products to oversea markets when time is ready.	1	2	3	4	5	6	7
10.3	Our senior management positively faces the risk in developing oversea markets.	1	2	3	4	5	6	7
10.4	Our senior management is capable to deal with the impediments met in exploring the oversea markets.	1	2	3	4	5	6	7
10.5	Senior management has entrepreneurial mentality	1	2	3	4	5	6	7
10.6	Compared with leading competitors, our managers have more international experience.	1	2	3	4	5	6	7
10.7	We think that the only way to develop our company is to explore oversea markets.	1	2	3	4	5	6	7

11. Please indicate your level of agreement/disagreement on the following statement using a 7-point scale.

Please note:	1=Absolutely Disagreement	2=Strongly Disagreement	3=Somewhat Disagreement	4=Neutral	5=Absolutely Agreement	6=Strongly Agreement	7=Somewh at Agreement
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11.1	We have the academic background to understand the partner's knowledge	1	2	3	4	5	6	7
11.2	Compared with leading competitors, we have better capabilities for adopting new techniques.	1	2	3	4	5	6	7
11.3	We provide various education programs for employees	1	2	3	4	5	6	7
11.4	We allocate financial resources for new ideas.	1	2	3	4	5	6	7
11.5	We provide frequent training opportunities abroad.	1	2	3	4	5	6	7
11.6	We often conduct frequent market research so as to be aware of customer needs.	1	2	3	4	5	6	7
11.7	Most of time we are ahead of our competitors in developing and launching news products	1	2	3	4	5	6	7
11.8	We normally go to other bodies (consultants, universities) to find out about fresh opportunities for introducing new products.	1	2	3	4	5	6	7
11.9	We have considerable capacity for technological development.	1	2	3	4	5	6	7
11.10	We invest a great deal in training.	1	2	3	4	5	6	7
11.11	We innovate by improving competitors' products and processes.	1	2	3	4	5	6	7

12. Please indicate your level of agreement/disagreement on the following statement using a 7-point scale.

Please note:	1=Absolutely Disagreement	2=Strongly Disagreement	3=Somewhat Disagreement	4=Neutral	5=Absolutely Agreement	6=Strongly Agreement	7=Somewh at Agreement
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12.1	The risk-taking of our company is very high.	1	2	3	4	5	6	7
12.2	We pursue technological variation and Flexible management style.	1	2	3	4	55	6	7
12.3	We insist on the exploitation for products much more.	1	2	3	4	5	6	7
12.4	We suggest that keeping stable development is much better than taking risk policy to acquire unpredictable but maybe result in large development.	1	2	3	4	5	6	7
12.5	We suggest that keeping stability of technologies and management style is much better than adopting versatile technologies and flexible management style.	1	2	3	4	5	6	7
12.6	We improve our prior skills and procedures with respect to product design and quality.	1	2	3	4	5	6	7

12.7	We improve our prior skills and procedures with respect to the structure of company.	1	2	3	4	5	6	7
12.8	We improve our prior skills and procedures with respect to marketing research and development.	1	2	3	4	5	6	7
12.9	We challenge and/or change our prior thinking with respect to product design and quality.	1	2	3	4	5	6	7
12.10	We challenge and/or changed our prior thinking with respect to the structure of company.	1	2	3	4	5	6	7
12.11	We challenge and/or changed our prior thinking with respect to marketing research and development.	1	2	3	4	5	6	7

13. So far, what kinds of outward activities does your company have? Please check all the answers that apply to your company.

- A. Exporting.
- B. Franchising.
- C. Licensing.
- D. Establishing the overseas sales department.
- E. Joint Venture in overseas markets.
- F. Wholly owned foreign investment. (Merge and Acquisition)
- G. Wholly owned foreign investment. (Greenfield)
- H. Setting up overseas manufacturing or operation.

14. Compared to other companies in the same industry, to what extent, your company has engaged in “outward activities”? Please evaluate using a 7-point scale.

Please note:	1=Much Less	2=Less	3=A little Less	4=Same	5=A Little More	6=More	7=Much More
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14.1	Exporting.	1	2	3	4	5	6	7
14.2	Franchising.	1	2	3	4	5	6	7
14.3	Licensing.	1	2	3	4	5	6	7
14.4	Establishing the overseas sales department.	1	2	3	4	5	6	7
14.5	Joint Venture in overseas markets.	1	2	3	4	5	6	7
14.6	Wholly owned foreign investment. (Merge and Acquisition)	1	2	3	4	5	6	7
14.7	Wholly owned foreign investment. (Greenfield)	1	2	3	4	5	6	7
14.8	Setting up overseas manufacturing or operation.	1	2	3	4	5	6	7
14.9	Compared with top competitors, we have carried out more outward activities.	1	2	3	4	5	6	7

15. Overall, please indicate your level of agreement/disagreement on the following statement regarding the role of “outward activities” on development of your company using a 7-point scale.

Please Note:	1=Absolutely Disagreement	2=Strongly Disagreement	3=Somewhat Disagreement	4=Neutral	5=Absolutely Agreement	6=Strongly Agreement	7=Somewh at Agreement
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15.1	We acquire the high profit from outward activities.	1	2	3	4	5	6	7
15.2	We have established the position of our products or technologies in oversea markets as we expected	1	2	3	4	5	6	7
15.3	We acquire the management skills and human resource with higher international level from outward activities.	1	2	3	4	5	6	7
15.4	We promote our brand identity in oversea markets.	1	2	3	4	5	6	7
15.5	We accomplish the oversea market strategy very successfully.	1	2	3	4	5	6	7
15.6	Compares with top competitors, we have products with higher international level.	1	2	3	4	5	6	7
15.7	Compared with top competitors, we have human resource with higher international level.	1	2	3	4	5	6	7
15.8	Compared with top competitors, our marketing operation is higher in international level.	1	2	3	4	5	6	7

16. What percentage does the foreign sales account for the total sales? (Based on the latest annual report)

_____ %

17. What percentage do the foreign assets account for the total assets? (Based on the latest annual report)

_____ %

18. How many countries where your company has subsidiaries? (Based on the latest annual report)

19. How many foreign countries does your company operate?

20. What percentage do the overseas subsidiaries account for the total subsidiaries? (Based on the latest annual report)

_____ %

21. How many oversea manufacturing or operations does your company have among the oversea subsidiaries?

_____ %

22. How many average years of international experience do top managers in your company have?

(Please note: TM is defined as the top two tiers of executives, including all chairmen, presidents, CEOs, and the first level of vice presidents of its equivalent (Wiersema & bantel, 1992).. International Experience is defined as the average number of years the TM members have spent abroad on assignment and/or in higher education, or in an international division (Sambharya, 1996)

_____ Years (Please Note: The number could be a approximate number)

23. What percentage does the sales from all overseas subsidiaries account for the total sales? (Based on the latest annual report)

_____%

24. What percentage does the productions from overseas manufacturing account for the total productions? (Based on the latest annual report)

_____%

25. How much turn over do your company (including all subsidiaries) have? (Based on the latest annual report)

_____ RMB

26. How many assets do your company (including all subsidiaries) have? (Based on the latest annual report)

_____ RMB

**Thank you very much for participating in the study!
If you wish to receive a copy of the research report, please kindly leave your mailing or email address. It will be used only for sending you the report!**

**Your name:
Street Add:
City/Province:
Zip Code:
Email:**

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