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## ABSTRACT

Beth Zuech Schneider

Perceptions of Emerging Market Foreign Direct Investment: The case of Chinese FDI in the United States

There is an ongoing debate in international business research as to how and where theory should be directed or changed to address the evolution of the internationalization process as it relates to the rise in emerging market firm activity. While all firms face challenges in any foreign venture, identifying and addressing the factors unique to emerging nation firms such as those from China is necessary for management to develop strategic plans for sustainability and for governments and investment agents to attract, encourage and aid these firms through the investment process. Through analysis of U.S managerial perceptions of Chinese foreign direct investment in the U.S., this research provides additional insight on factors affecting the internationalization process of Chinese firms in the U.S. Since the Chinese firms are deemed deficient in certain firm-specific assets in comparison to advanced counterparts, it is posited that acquiring strategic resources provides a strong motivation for investing in developed economies. This dissertation argues that the process of foreign direct investment by emerging market firms in developed economies varies from the processes presented in traditional internationalization and cannot be directly evaluated on extant theory. It also addresses the proposition that while institutional and industry factors are influences on strategic intent and entry mode, firm-specific assets play a crucial role in foreign investment. Therefore this study contributes to the international business literature by exploring and isolating factors unique to Chinese firms confirming that existing frameworks need to be extended for future empirical analysis and theory building regarding emerging market firms investing in developed economies.

DURHAM UNIVERSITY: DURHAM UNIVERSITY BUSINESS SCHOOL

# Perceptions of Emerging Market Foreign Direct Investment: The case of Chinese FDI in the United States

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A dissertation submitted by  
Beth Zuech Schneider M.B.A

For the award of  
Doctorate in Business Administration (DBA)  
Durham University Business School  
Durham University

2013

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## LIST OF ABBREVIATIONS

Acronym	Page
CFIUS - Committee on Foreign Investment in the United States .....	25
CMM 5 - Capability Maturity Model: Level 5 .....	136
CSAs - Country-specific advantages .....	107
DEs - Developed economies .....	7
EEs - Emerging economies .....	7
EM MNE - Emerging market multi-national enterprise.....	7
FDI - Foreign direct investment .....	7
FSA - Firm-specific advantage .....	14
FSD - Firm-specific disadvantage .....	19
G - Greenfield .....	18
GDP - Gross domestic product .....	11
HR - Human resources .....	25
IB - International business.....	18
IBV - Institutional based view .....	50
INV- International new ventures .....	45
ISO - International Organization for Standardization.....	136
JVs - Joint ventures .....	18
LOF - Liability of Foreignness .....	7
LOO - Liability of Outsidership .....	65
M&As - Mergers and acquisitions .....	10
MNE - Multi-national enterprise .....	7
MOFCOM - Ministry of Commerce (Government of the People's Republic of China).....	16
NC - North Carolina.....	97
OFDI - Outward foreign direct investment .....	8
PIPA - Personal Information Protection Assessment .....	136
R&D - Research and development .....	38
RBV - Resource based view .....	50
RQ - Research question .....	76
SOE - State-owned enterprises .....	13
UNCTAD - United Nations Conference on Trade and Development.....	7
U.S. - United States of America .....	7



## CHAPTER 1 - Introduction

Even with the global market facing its worst recession since World War II, global activity showed a steady increase in 2011 and 2012. Global foreign direct investment is expected to moderately increase to US\$1.8 trillion in 2013 and US\$1.9 trillion in 2014 (UNCTAD 2012) as many firms seek to expand, diversify, and enhance their strategic capacity (see Buckley & Casson 1976; Porter 1998; Hitt, Keats & DeMarie 1998). In seeking out international opportunities, the use of Foreign Direct Investment (FDI) is a mainstay for many multi-national enterprises (MNEs) in order to fulfil this global initiative. But finding the right foreign investment is more than simply looking at bottom line profit. Building a sustainable FDI strategy hinges on creating competitive advantage to overcome challenges associated with foreign operations (Hymer 1960; Buckley & Casson 1976). Incorporating FDI as a strategy is a multi-dimensional decision-making process that capitalizes on core competencies to exploit opportunities in the global marketplace (Johanson & Vahlne 1977; Prahalad & Hamel 1990) while overcoming potential "Liabilities of Foreignness" (LOF) (Hymer 1960; Zaheer 1995).

Historical research has been done to evaluate the competitive strategies implemented in FDI by firms, usually from developed economies (DEs) into emerging economies (EEs). However, a new trend is emerging in FDI flows. Firms from emerging markets are now leading the charge in FDI, with China, India and Brazil taking the top three positions and dropping the United States (U.S.) to fourth (A.T. Kearney 2012). Inward investment into developed nations by EE firms has also steadily increased, up 21% from 2010 to 2011 (UNCTAD 2012). As the pattern of investing in DEs is a relatively new phenomenon there is a paucity of research on the FDI process, especially on activity generated by firms from emerging markets. Some of the most notable FDI activity is from the Chinese MNEs' investment of US\$6.5 billion in the U.S. in 2012 (Hanemann 2013), setting a new record up 12% from former record in 2010 with the trend expected to continue. With this rapid expansion into foreign investments by emerging market MNEs (EM MNEs), many studies are addressing this topic, yet little has been done to determine the strategies and assets needed to reduce or negate the risks of foreign investment (Peng 2004; Petersen & Pedersen 2002) in order to achieve sustainability (Ricart et al. 2004).

Therefore, this research project will address FDI by EM MNEs in a DE by focusing on Chinese FDI in the U.S. through three pieces of work: 1) A systematic literature review to determine what connections or variances exist between extant FDI theory and the process for EM MNEs, and specifically for Chinese MNEs in DEs, 2) An exploratory piece of research to isolate and determine if patterns emerge on how firm resources, institutional and knowledge-based strategies impact the process and challenges of Chinese FDI in the U.S. to determine how this specific practice relates or departs from extant FDI literature, and 3) a micro investigation of a Chinese firm in the U.S. to further examine FDI factors based on motivational factors in relation to existing research findings specifically relates to EM MNE FDI.

## 1.1 CONTEXT OF RESEARCH

The global marketplace continues to change, most notably with the recent global economic crisis (UNCTAD 2010), and therefore the players in FDI have also changed (Nigam & Su 2010). The motivations for FDI have evolved and the rules of the game are no longer the same. With the sharp insurgence of investment from emerging markets, there is an increasing concern on an investing firm's ability to develop sustainable strategies as well as an increased interest by foreign entities on how to attract and sustain foreign investment in their localities. The focus of this research will examine the process of FDI of EM MNEs in DEs through an inductive analysis of Chinese MNEs' FDI in the U.S to unearth patterns or insight into firm level practices.

### 1.1.1 FDI Trends of Emerging Market Firms

Although there have been marked fluctuations in outward foreign direct investment (OFDI) due to the global crisis, international investments are not going to disappear (UNCTAD 2010). With the lingering economic slump and with emerging economies showing signs of stagnation, the U.S. is once again becoming an attractive target for investing (A.T. Kearney 2012), especially for EM MNEs seeking strategic assets (Luo & Tung 2007; Kedia, Gaffney & Clampit 2012). Inward FDI trends in the U.S. tend to occur in higher-paying industries and focus more on knowledge-seeking ventures (Nachum & Zaheer 2005). While investing in the U.S. may provide distinct opportunities, it also creates a unique challenge for

many EM MNEs as their strategies previously used in emerging markets will need adjustments to be utilized in a developed market (Rugman & Li 2007). It has been proposed by Rugman & Verbeke, (2007) that inter-regional expansions (i.e. Asia to U.S.) will face greater challenges than intra-regional ventures (i.e. China to Korea). Some of the FDI challenges denoted as unique to EM MNEs by Luo & Tung (2007) are 1) poor corporate governance, 2) post-spring-board integration and organisation difficulties, 3) lack of global experience, managerial competence and professional expertise and 4) weak product/process innovation. And although these themes do not explicitly include culture, conflicts based on the "fundamental divergence of interests existing between multinationals and their host environment..." (Shenkar, Luo & Yeheskel 2008 p.912) play a role in FDI success. Therefore, examining how FDI practices can be improved is a topic of much importance.

Examining the strategic process for these EM MNEs is essential as they are unique in their FDI process and there is a notable gap in extant research directly addressing the trend of EE firms investing in DEs (Yamakaw, Peng & Deeds 2008). The movement from an inferior position (EE) to an advanced environment with many superior resources (DE) will challenge these firms who have not had the time or experience to catch up (Luo & Tung 2007). These challenges may have evolved as EM MNEs tend to have less firm-specific advantages honed in their home operations (Rui & Yip 2008; Burke 2011; Yi & Ye 2003) and have relied heavily on country advantages such as low-cost labour and manufacturing as a competitive base for internationalizing (Rugman & Li 2007; Teagarden & Cai 2009; Wei 2010). But as home country advantages are being diluted through new FDI trends, the ability to learn and build sustainable policy is crucial. These challenges may also be magnified in developed nations as they expose the firm's lack of global experience, creating outsiders who are unable to make connections with stakeholders in the host countries (Johanson & Vahlne 2009; Kostova, Roth & Dacin 2008).

Springboarding entry strategies (Luo & Tung 2007) used by EM MNEs bypasses the experiential learning needed to access the tacit knowledge of industry and environments, further contributing to post-entry issues (Barkema & Drogendijk 2007). Kogut & Zander's option theory of international experience (1993) further expresses that learning and commitment are required to move beyond the initial entry phase for FDI strategic improvements implicating that EM MNEs limited

experiences and quick strategic actions may contribute to long-term FDI challenges. The motivation behind EM MNEs strategic actions also seems to be changing with a move towards strategic asset-seeking and market-seeking in relation to efficiency or natural resource-seeking (Barnard 2010). This is evidenced by the 34% decrease in greenfield value in 2012 marking a decline for the fourth year in a row and the increasing cross-border merger and acquisition (M&A) activity by EM MNEs up 37% in 2012 to reach US\$115 billion; 75% of this activity was from Asian investors investing in DEs (UNCTAD 2012b). As these firms lack advanced abilities and experience in these competitive environments, gaining insight into patterns, tactics and rationale for engaging in FDI will help to build theory and recommendations for managing this emerging trend.

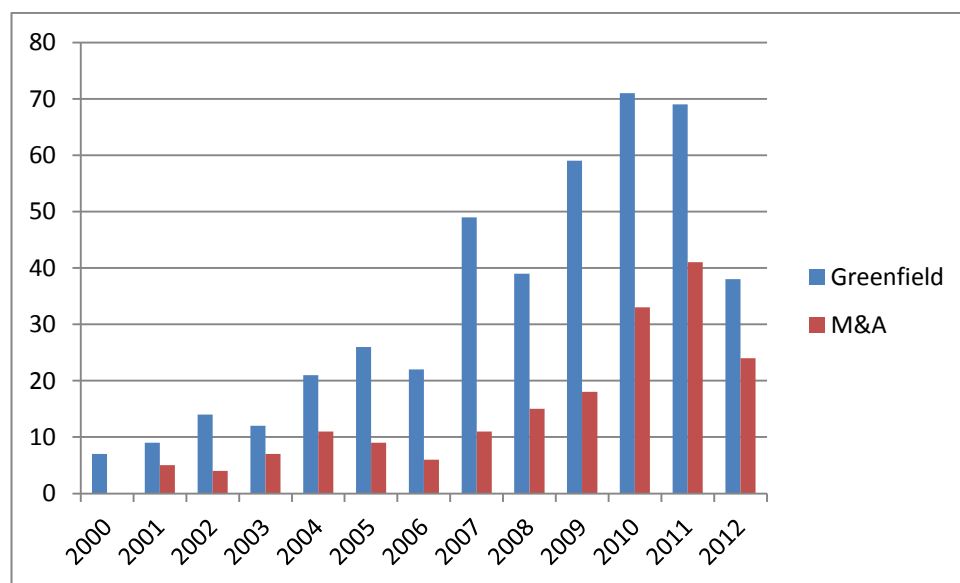
### **1.1.2 Understanding Chinese Outward Foreign Direct Investment**

*1.1.2.1 History/Background* Since 1993 China has remained one of the most important destinations for inward FDI, which totalled US\$185 billion in 2010 (The World Bank 2012). China's continuance to top the Foreign Direct Investment Confidence Index list (A.T. Kearney 2012) denotes that the attractiveness of the country is not waning any time soon. Chinese OFDI began in 1984 as a result of near economic collapse and a need for economic reform, however, the objective of this activity was mainly to gain foreign exchange. Yet due to stringent regime control, FDI was still fairly limited in scope and size. In the 1990s when OFDI became a part of the national economic development plan, outward investment began to evolve although it was still highly debated and regulated by the Chinese government (Kelley, Coner & Lyles 2013). With knowledge spillover occurring as a by-product of years of inward FDI (Tong & Li 2008) and with China officially launching its "Go Global" initiative in 2000 and its acceptance into the World Trade Organization in 2001, the environment changed in support of acquisition of foreign assets with a stronger push for internationalization (Marinova, Child & Marinova 2011).

Even with the severe global economic crisis and a decrease in global FDI by nearly 40% in 2009, China still hit US\$43.3 billion in OFDI which is predicted to reach US\$150 billion by 2015; equating to a 17% annual increase during its current five-year plan (12th) (MOFCOM 2012). Chinese OFDI in the U.S. is relatively recent

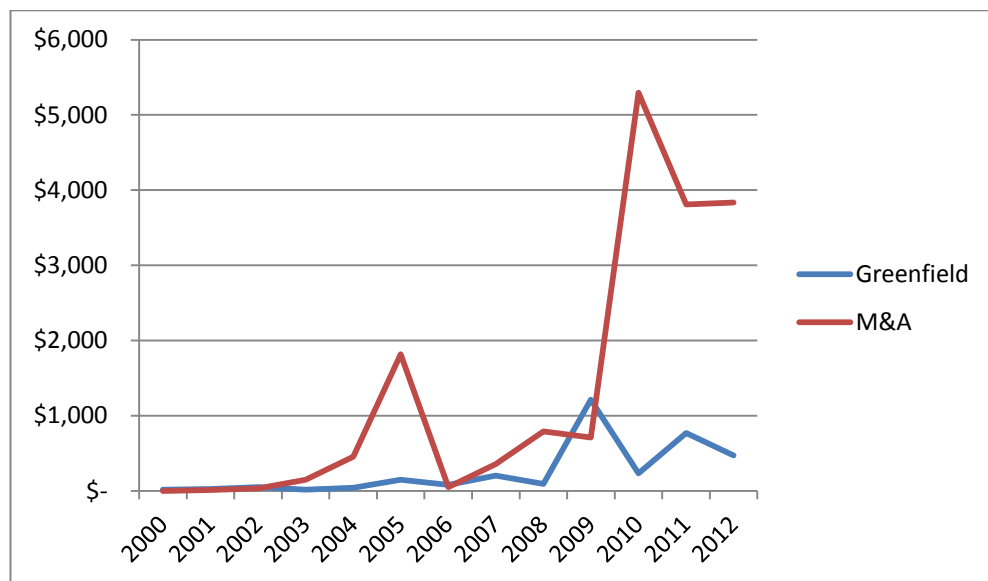
and small in comparison to its GDP and to the U.S's 2010 investment of US\$60.5 billion into China (Office of US Trade Representative 2012). Even though 88% of Chinese FDI is targeted towards emerging nations, developed nations such as the U.S. are becoming increasingly attractive, seeing a 38.5% increase in 2011 (ChinaScope Financial 2012). Chinese firms had a record setting investment in the U.S even with a noticeable decline in the number of deals in the last quarter of 2012 (see Figure 1.1) mainly blamed on the struggling economy of China and the stagnant consumption in the U.S. With time and with China's continued growth and expansion, Chinese FDI is expected to increase in volume as well as in industries and location (Morck, Yeung & Zhoa 2008) (see Figure 1.2) and with US\$5 billion worth of investments just waiting for regulatory approval by U.S. officials, the future for Chinese FDI in the U.S. is predicted to remain strong (Hanemann 2013).

**Figure 1.1** Chinese Direct Investment in the United States, 2000-2012(# of Deals)



Source: data from Rhodium Group: China Investment Monitor 2012, <http://rhgroup.net/interactive/china-investment-monitor>.

**Figure 1.2** Chinese Direct Investment in the United States, 2000-2012(US\$ mil.)



Source: data from Rhodium Group: China Investment Monitor 2012, <http://rhgroup.net/interactive/china-investment-monitor>.

With the rapid expansion and the change in investment patterns, Chinese firms will not only find opportunities in DEs, but will also face new challenges. Voss, Buckley and Cross (2010) have identified four considerations specifically related to Chinese MNEs movement into new market locations as 1) the creation of flexible internal investment strategies, 2) the ability to overcome domestic capital market imperfections, 3) the ability to build international networks, and 4) the ability to manage the pressures from domestic institutions. Creating or acquiring the abilities to address these challenges will be critical for sustainability and for the future of Chinese FDI actions in DEs.

*1.1.2.2 Push/Pull Factors* Chinese FDI is influenced by both push and pull factors (Nigam & Su 2010) from the home (Morck, Yeung & Zhoa 2008; Boisot & Meyer 2008) and host (Buckley et al. 2007) environments (Goldstein & Pusterla 2010). China's momentum to expand abroad is partially attributed to the government's push to acquire and develop strategic resources due to its concern for resource allocation and expansion of economic reform as current managerial and innovative deficiencies threaten the fulfilment of the social and economic needs of the rapidly expanding home market (Deng 2009). However, it must be noted that even though Chinese officials have recently stressed the importance of OFDI to reach a balance between outward with inward investment by 2015 - as denoted in the 12th Five Year Plan

(Davies 2012) they are still highly selective and strategic in steering their support and actions: "Priority investments would include those that expand markets for Chinese companies, obtain critical know-how and technology and secure resources for China's internal growth" (Scheltema, Yang & Chan 2012). Developing countries such as China also tend to place more stringent restrictions on outward investment as they attempt to preserve their internal growth by deterring outward flow of capital (UNCTAD 2010). So while there is a concerted push to internationalize, non state-owned firms will face scrutiny through a formal approval process with additional levels of analysis to assure the investments fit with the government's broad strategic goals (Scheltema, Yang & Chan 2012).

While the Chinese government has provided a strong push factor for FDI, outward investment to overcome home country disadvantages (Rui & Yip 2008; Boisot & Meyer 2008) has also played a role in the attraction to foreign ventures. This has been especially true for smaller firms facing high levels of domestic competition or who are privately held and lack the benefits of direct government support or funding which serves as a home advantage to state-owned enterprises (SOEs) (Morck, Yeung & Zhao 2008). The deficiencies associated with the home government, societal instability, high levels of corruption, and the lack of a formalized governance system can create institutional hazards for operating within the country (Slangen & Beugelsdijk 2010). Findings showed that imperfections of governance factors tended to have a stronger negative impact on native businesses than unsettled socio-cultural factors. Therefore, for many Chinese firms, an attractive option is an economy with a more transparent environment such as that of the U.S. where they can build competitive advantage (Witt & Lewin 2007) which could even overshadow the increased risk of challenges from geographic and cultural distance (Luo, Xue & Han 2010) associated with foreign ventures. Yet others have posited that since the Chinese are experienced in working through bureaucratic systems, they would be best suited in similar institutional environments (Morck, Yeung & Zhao 2008) or hence, more attracted to other emerging markets with unstable or even corrupt practices.

Chinese firms initially felt the pull to internationalize on the prospect of accessing natural resources, cheap labour or the chance for substantial investment gains in

emerging nations. The pull was strong, even in countries where risk factors were high due to political or environmental instability (Buckley et al. 2007; Ramasamy, Yeung, & Laforet 2012) and the support from the Chinese government (if it matched their economic initiatives), was a positive push factor making the option even more attractive (Wei 2010). Also, for firms that were able to build a strong home country base as a result of strong government support, they obtained a strong home country advantage to exploit in international ventures (Luo, Xue & Han 2010). Recent trends have demonstrated that many Chinese MNEs are drawn to countries with "large market size, favourable institutional environments (Morck, Yeung & Zhao 2008) and a high level of economic development" (Melitz, & Ottaviano 2008). As home markets become more competitive, access to new markets for exploiting existing firm or location-specific advantages, becomes more attractive (Cantwell, Dunning & Lundan 2010). Yet as many of these firms tend to lack certain firm-specific advantages (FSAs) in comparison to their rivals from DEs, many of these firms are pulled towards DEs for the opportunity to explore and obtain superior assets (Tihanyi, Griffith & Russell 2005). Even though the pattern of Chinese OFDI is mainly directed at emerging economies (EEs) (ChinaScope Financial 2012), the increasing level of mergers and acquisitions (M&As) in the U.S. seems to highlight the attractiveness of the U.S. market (Schüler-Zhou & Schüller 2009) especially when there is the possibility for high levels of equity participation. The U.S. has also increased in appeal as outside from higher wages the advanced infrastructure found in the U.S. is now cheaper than the insufficient infrastructure found in areas of China (Burke 2011). Having an established U.S. base also gives these firms direct access to the American market for avoiding or overcoming trade barriers and legislative issues while providing a public or political base to frame products and services from a "Made in America" position.

It is premised that the development of China's laws and regulations to support and create a more stable investing home environment (Casey 2010) has in turn encouraged inward FDI. This has shown to be especially true in eastern China where high levels of FDI have resulted in a crowding out effect on domestic investment (Zhipeng & Zinai 2004). The boon in the development of large scale SOEs and the extensive build up of small firms controlled by local municipalities has also created a highly competitive environment within China. In order for firms



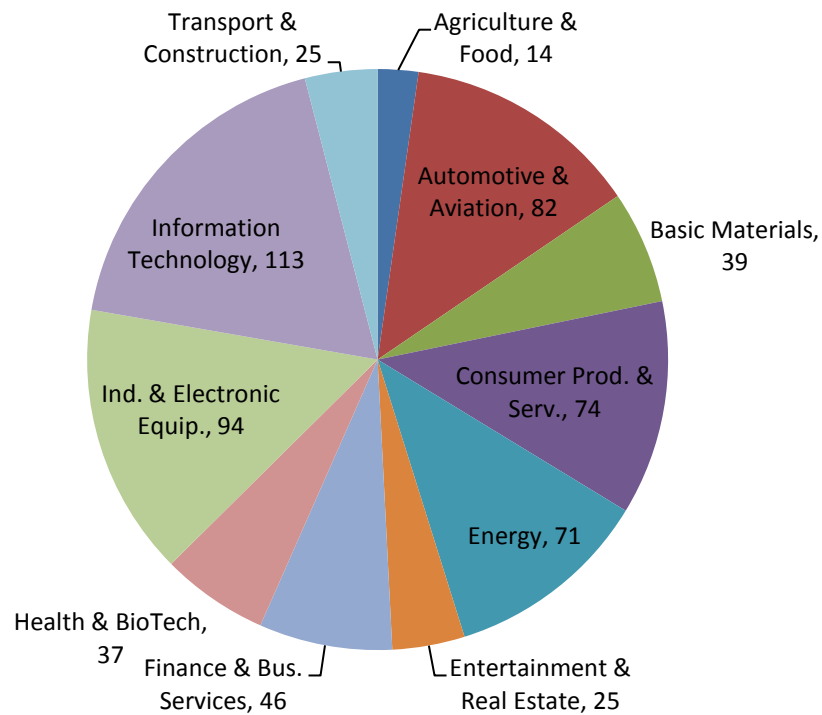
to grow and increase market share in a tightening home environment, firms look outside of China for opportunities (Boisot & Meyer 2008). However, in order to sustain this practice they will need to counterbalance the cost of internationalization with the opportunities from the foreign market (Caves 1982). As domestic costs - transaction, operational, administrative- seem to be increasing, firms must find a means to become more competitive. Even though they will face liabilities of foreignness in overseas operations, they will be able to balance this with the benefits of tapping into location-based assets from the home base in China. This can make them more competitive than foreigners in China as they will have domestic advantage as well to exploit in foreign ventures. Therefore, for Chinese firms with the ability to internationalize, the opportunity of a dual process can be highly beneficial. However public debate in the U.S. regarding the motives and implications of Chinese FDI in the U.S. (Globerman & Shapiro 2009) and continuing concerns and tensions between the U.S. and Chinese government still threaten FDI transactions. FDI policy while deemed to be neutral and equal may not always be a rational based dimension (Casey 2010) and provides a degree of uncertainty for future investing.

*1.1.2.3 Strategic Intent* In the 1990s there was a focus on natural resource-seeking especially for minerals and oil to support the demand of China's double digit economic growth. This FDI activity was supported and conducted mainly by SOEs. Chinese FDI was traditionally attracted to manufacturing or resource allocation through exploitation (Lu, Liu & Wang 2010) or for exploration of natural resource in emerging markets. In 2000, firms were urged by the Chinese government to obtain or gain access to advanced technologies and managerial know-how to improve competitiveness in the world market. Strategic asset-seeking and market-seeking was becoming readily apparent in Chinese MNEs strategic actions. According to Child and Rodrigues' (2005), Chinese firms' main motivation for FDI in the last decade tends to be towards overcoming competitive disadvantages rather than for exploitation. Studies show that Chinese firms strive to create strategic alliances to improve brand recognition and establish global acceptance (Hong & Sun 2006), to maintain and improve competitive positioning (Dong & Glaister 2006) or to gain technological and innovative knowledge (Ramasamy, Yeung & Laforet

2012). In achieving this initiative, Chinese firms became more attracted to developed countries with high concentrations of superior capabilities.

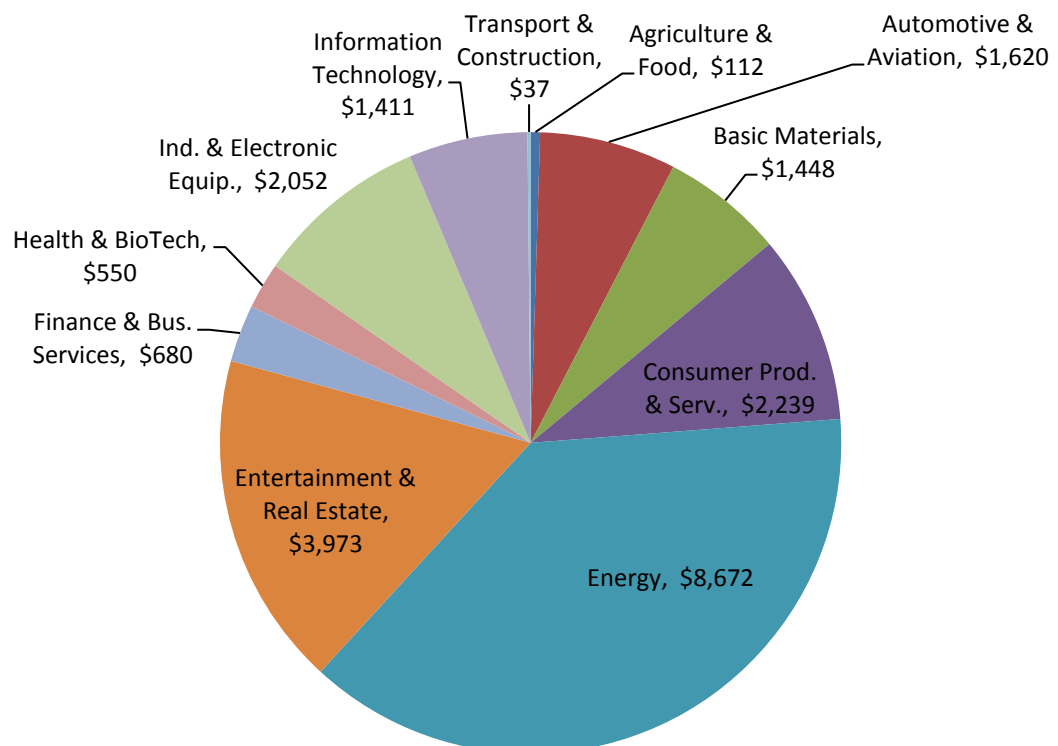
There is evidence that domestic factors such as increasing transaction costs (Boisot & Meyer 2008), stiff levels of domestic competition (Costinot 2009), pressure to expand (Kolstad & Wiig 2009) to promote home country resources (Yeung & Liu 2008), and the need for new markets and assets (Deng 2009) provide the impetus for the rapid growth in Chinese foreign ventures. Many Chinese firms are now seeking long-term investments to gain access to distribution channels for their products (Buckley et al. 2007; Makino, Lau & Yeh 2002) or gain knowledge resources in furthering their technological goals (Deng 2009; Rabbiosi, Elia & Bertoni 2012; Mathews & Zander 2007). The trend for strategic asset or market-seeking has made developed nations such as the U.S. an attractive target. The 44% annualized increase of global M&As as reported by the Ministry of Commerce (MOFCOM) (2012b) indicated a trend moving towards asset-seeking (Deng 2007). Market seeking in DEs is apparent by large investments by Chinese firms through greenfield operations (Kedia, Gaffney & Clampit 2012) to gain access to large customer markets and to diversify risk of home market competition (Hong & Sun 2006). Chinese recent investment in the U.S. in high-tech manufacturing and energy with a noticeable increase in the service sectors such as finance, entertainment and information technology (Hanemann 2012) also denotes a changing pattern of interest as a gradual change in sectoral diversification (Davies 2012) (See Figure 1.3 & 1.4). With the majority of the investments in the U.S. being typically small scale investments and therefore seen as low risk, investment barriers do not seem to be an issue (Melitz & Ottaviano 2008). Therefore, the shift in investments towards asset and market-seeking in DEs to improve global competitiveness of Chinese firms and boost the firm's home market positioning is reflective of the change in strategic intent (Ramasamy, Yeung & Laforet 2012).

**Figure 1.3** Chinese FDI in the United States by Industry by Deals, 2000-2012



Source: data from Hanemann, T 2013, 'Chinese FDI in the US: Q4 2012 Update', Rhodium Group, <http://rhgroup.net/notes/chinese-fdi-in-the-united-states-q4-2012-update>.

**Figure 1.4** Chinese FDI in the United States by Industry by Value (US\$ mil.), 2000-2012



Source: data from Hanemann, T 2013, 'Chinese FDI in the US: Q4 2012 Update', Rhodium Group, <http://rhgroup.net/notes/chinese-fdi-in-the-united-states-q4-2012-update>.

*1.1.2.4 Entry Mode* Since most FDI has been an outflow from developed countries, most international business (IB) studies have focused on traditional patterns of entry mode and strategic intent and little empirical evidence has addressed the process and impact of Chinese FDI (Kolstad & Wiig 2012). As the motivation for Chinese OFDI is evolving as they enter developed economies, entry mode patterns are showing variances from mainstream literature. Chinese firms as latecomers (Li 2007) have taken varied strategic actions to compensate for unique environmental and industry factors (Luo & Tung 2007).

From a resource perspective, entry mode will be reflective of resource capabilities. Entering a market through an alliance such as M&As or joint ventures (JVs) might be more feasible for Chinese firms when they lack the necessary abilities (Andersson & Svensson 1994). However if the firm has the necessary skills or are larger or more experienced in FDI, a wholly owned approach through greenfield (G) entry will be chosen (Cui & Jiang 2009). Transactions costs (Brouthers, Brouthers & Werner 2003) of the venture and post-integration costs associated with merging U.S.-China cultures (Kogut & Singh 1988), and the liability factors from the host and home environment (Slagen & Beugelskijk 2010; Boisot & Meyer 2008) will also impact the entry mode decision. However, the increase in M&As (MOFCOM 2012b) towards investment opportunities in developed nations (Klossek, Linke & Nippa 2012) indicates the need to quickly gain strategic assets (Deng 2007) is having a major impact on Chinese MNE entry mode decisions. While Chinese MNEs still mainly invest in EEs, the concentration of advanced knowledge resources and market size will continue to make the U.S. an attractive location for Chinese OFDI (Schüler-Zhou & Schüller 2009) through either greenfield or M&A.

*1.1.2.5 Issues of LOF, FSA/FSDs* Chinese firms investing in DEs will be faced with liabilities of newness as they are inexperienced in these markets and will also face issues of LOF as they lack certain resources and networks in comparison to domestic counterparts (Johanson & Vahlne 2009). In the case of LOF these firms may lack the experience and legitimacy to operate in the foreign environment (Bell, Filatotchev & Rasheed 2012). As latecomers in relation to their competition, they lack relational and knowledge assets (Marinova, Child & Marinov 2011; Rui & Yip 2008) putting them at a disadvantage in the DE's highly competitive market. While it has been shown that Chinese MNEs have been able to exploit home-country

advantages in EEs with poor regulatory conditions (Cuervo-Cazurra, Maloney & Manrakhan 2007), these advantages do not translate into the highly regulated environments of DEs. The lack of strong firm capabilities, smaller asset bases or disadvantages inherited from the parent firm (Barnard 2010) will make OFDI in DEs even more risky (Jones & Coviello 2005). Therefore, Chinese MNEs will need to devise strategic actions to address firm-specific disadvantages (FSDs) in order to become competitive in the global marketplace.

## 1.2 THE PROBLEM STATEMENT

With global FDI shifting towards an increase in activity by emerging market firms, the question becomes whether traditional or extant FDI theory sufficiently explains the new process and players. Some studies suggest that current theories are applicable while others believe it is still applicable but needs moderate modifications to include specific variables distinctly related to emerging market internationalization (Buckley et al 2007; Ramamurti 2012). Other researchers suggest that since emerging market FDI is so unique that new theory must be developed (Mathews 2002; Luo & Tung 2007; Luo & Rui 2009) to explain the new parameters of EM MNE FDI. Cuervo-Cazurra (2012), proposed these variant views create a type of "Goldilocks Debate". He relates the new activity of EM MNEs to the fairy tale of being cold and therefore sufficiently explained by existing theory or as a hot topic as a virtually new phenomenon wherein new theory is needed to explain the changes, or that it is just right and existing theory is helpful with some minor adjustments or extensions. With a lack of consensus and conclusive studies, further investigation into the FDI process of EM MNEs is needed to direct future studies and investigations.

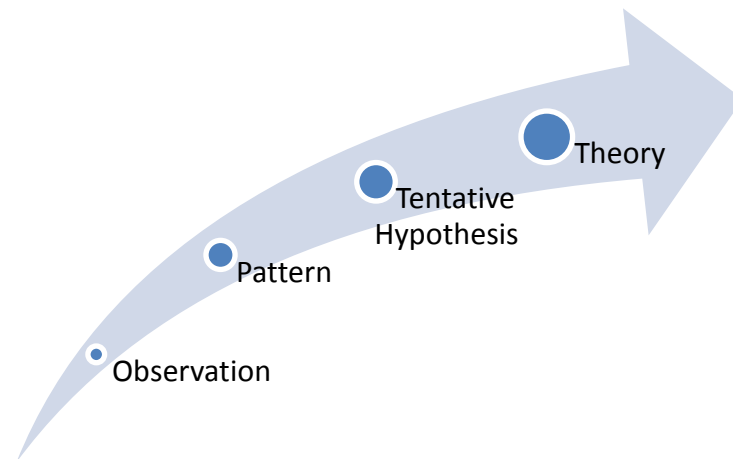
In the U.S., at least for most of the states, attracting FDI is a hot topic (Kelley, Coner & Lyles 2013). The competition to attract EM MNE OFDI, particularly Chinese investment, is seen by many U.S. states as a key for their future economic plans. The competition is becoming fierce as New York State has attracted two-fifths of Chinese investment in the U.S. and Texas has 12 percent (Scissors 2013). Many states on both coasts have developed trade centres, both at home and abroad to focus specifically on building trade and investment relations with China and Chinese firms and this trend is only expected to intensify as many U.S. states are desperately

seeking external investment to strengthen their economic recovery. Therefore, understanding why and how EM MNEs or Chinese MNEs invest, expand and survive in the U.S. is just as much a critical question for industry and government agents as it is to academic researchers. Being able to attract and maintain FDI will require identifying and addressing the motives underlying why foreigners invest in the U.S. as well as how to make the process as smooth and successful as possible. Although there is an increased interest in Chinese FDI, their process successes and failures have yet to be fully examined (Yamakawa, Peng & Deeds 2008) and the motivation and process are still rather opaque. And while there are many questions to be examined from a managerial perspective and as well as from an academic base for either applying, extending or developing theory, this paper will focus on examining the process of Chinese firms within the U.S. to examine the relation or variance from extant theory. The research was garnered from the perspective of American managers to assess the role and factors that relate to theories focused on the ability to use or obtain firm resources, knowledge resources (Cuervo-Cazurra 2012), or U.S. location-specific resources to build competitive advantage and minimize challenges.

### 1.3 RESEARCH METHODOLOGY

It is posited that historical IB theory does not provide direct insight into the concepts of latecomer status, home country idiosyncrasies, limited FSAs and varied strategic intents due to the uniqueness of EE firms expanding into DEs (Kedia, Gaffney & Clampit 2012). Even though the topic of EE firms into DEs is gaining notice, studies are limited in scope and few theories or frameworks exist for testing the FDI process. This opens up the question to debate on how and where theory needs to move for explaining this new FDI pattern. While the studies on Chinese FDI have increased there is still very little firm-level data analyzing FSAs and implications of strategic actions (Wei 2010) for Chinese firms investing in a developed nation such as the U.S.

**Figure 1.5 Inductive Reasoning Process (Research Methods Knowledge Base)**



Source: Trochim, WM 2006, *The research methods knowledge base, 2nd Edition*, [www.socialresearchmethods.net/kb](http://www.socialresearchmethods.net/kb).

Therefore, an inductive or bottom up approach will be utilized in this thesis (Figure 1.5). As theory direction and building is more relevant and significant at this stage than theory testing (Eisenhardt & Graebner 2007), the use of an inductive process to gain primary research through qualitative methods will allow for a more open-ended or exploratory study. Hence this project is based on inductive reasoning. Project 1, based on the gaps found through the literature review, provided specific observational research which concluded in emerging patterns and insight. The observational research was obtained through a series of qualitative interviews at Chinese-owned firms in the U.S. Several trends and patterns emerged on which to base some tentative hypotheses as garnered from the perspectives and opinions of U.S. managerial reflection on Chinese parent firm's actions in the U.S. Project 2 sets forth tentative propositions as a more micro-analysis based on the patterns and implications from Project 1 interview results. Through a case study on an individual Chinese owned firm, propositions were analyzed to produce some general conclusions as a basis for which theories and frameworks can be examined in relation to Chinese and EM MNE FDI.

### **1.3.1 Conceptual Research Focus**

The issue of what is the next big question for IB research (Peng 2004 p.100) proposes that we need to "determine what causes the international success and failure of firms." At the basis for making decisions on international investing, learning and knowledge are keys to creating sustainable strategies. In order to

provide rigor in IB research there are three criteria - Continuity, novelty, and scope (Peng 2004). The data from this study provides continuity by providing more evidence on the extant studies on EM MNEs in DEs (Buckley et al. 2007; Luo & Tung 2007, Peng 2012; Lu, Liu & Wang 2010) as it resurveys key dimensions of earlier studies on the impact of firm assets and knowledge resources on FDI process (Simonin 2004; Hurzschenreuter, Pedersen and Volberda's 2007; Petersen & Pedersen 2002; Barkema & Drogendijk 2007). It provides novelty in that while many of the variables are pre-tested, this study provides tacit knowledge on a unique market sample which has little existing data. The scope of this research provides insight into a relevant market segment that shows promise for future expansion as highly debated in political and economic circles (Chinese firms in the U.S.) and will also provide a baseline of data for future testing to determine if the findings are generalized or specific.

In order to address the problem statement, a literature review was conducted in international journals to understand the conventional theories on internationalisation and then to examine the literature findings on the process and behaviour of EM MNEs in FDI and specifically on studies devoted to Chinese FDI. This approach allowed for the examination as to what theory exists, what theory is inconclusive or contradictory, and therefore how or what to investigate on the gap through subsequent research projects. This research is critical as firms become more global. The mode of entry patterns have changed, and wherein firms historically looked to internationalize in a gradual pattern such as that explained in the Uppsala evolutionary theory (Johanson & Vahlne 1977) or path dependency theory (Kogut & Zander 1993; Sydow, Schreyogg & Koch. 2009; Ellis 2007), the driving forces behind FDI call for new or modified initiatives. Firms no longer look to simply invest in locations with close psychic distance or similar environments (Brouthers & Brouthers 2001), and therefore, the need to understand how learning happens and how to create new policy for reducing potential obstacles is imperative (Asmussen, Pedersen & Dhanaraj 2009; Calhoun 2002). Isomorphic actions are no longer enough. Developing firm-specific assets is requisite for effectively competing in foreign markets (Tseng et al. 2007). Understanding the knowledge gaps that occurs in foreign environments is crucial to addressing LOF and building sustainable FDI practices (Tallman et al. 2004).



With a paucity of research focused on Chinese FDI process, this paper explores some of the key questions to build a foundation for developing theoretical propositions and practical applications for devising effective managerial strategy. New or expanded theories on issues of springboarding (Luo & Tung 2007) and strategic intent in developed markets (Rugman 2009) are needed for overcoming unique disadvantages faced by these emerging market firms in order to build global competitiveness through acquisition of strategic assets (Child and Rodrigues 2005).

Therefore, the structure of the thesis follows the hermeneutic or constitutive theory on pre-understanding through building dialogue followed by an interpretation of the dialogue (Smith & Hollis 1990) to examine international relations. The process of using an exploratory study in this case will help to achieve a post or new interpretation based on what is actually happening in the Chinese FDI process in the U.S. for a new level of understanding. These new understandings or findings can then be used to isolate the gaps in internationalization theory to explain the variances arising from the new FDI pattern of EM MNEs and specifically for the Chinese in developed economies. In order to use this structure a practice based approach will be used to gain subjective and qualitative statements to get at the motives and grounds for the actions and behaviors of these firms. Since knowledge and learning are social and cultural aspects embodied at the firm level this research needed to start with an investigation at the source, at the firms themselves, as a means to codify the actual firm's processes and experiences to get to the tacit knowledge (Galbraith 1969).

As an inductive process, this study will begin to analyze general practices and issues impacting FDI. Starting with the premise of liability of foreignness as an initial analysis will incorporate multiple variables from a FDI strategic process of environmental scanning and strategic motivation all the way through to strategic implementation (see Appendix A). This process will help to isolate patterns and factors that specifically impact Chinese FDI in the U.S. The resulting patterns or general findings can then be modified to add or eliminate particular variables for a closer examination with propositions to move towards the development of new theory and practice or determination of which extant theories are most appropriate for future testing.

### 1.3.2 Limitations

The limit of focusing the initial study on the concept of FDI stemming from the challenges may present a concern for this research. Wherein Liability of Newness, Emergence, Outsidership, and Foreignness are consistent themes through much of FDI literature, the focus on the factors associated with this concept may have eliminated other relevant variables. The connotations associated with these concepts tend to focus more on problems than on solutions, lending a negative tint. Some models (Oviatt & McDougall 2005) have taken these concepts to now focus on enablers in globalization rather than on disadvantages, however as it is presumed that EM MNEs tend to be deficient in many requisite abilities and at a disadvantage moving from an emerging market into a more advanced developed market, challenges may be more readily noticeable in the results. Therefore it was noted that while foreign firms can have advantages as well as disadvantages in foreign ventures, this study will address the FDI process on the effects of disadvantages. From this data, I hope to extrapolate the most effective means and position them as positive results so practitioners can improve the strategic FDI process.

As FDI has increased most notably in just the past decade from emerging countries in developed nations, limited longitudinal information exists. Obtaining reliable FDI data for China is also a challenge and it is still a debated issue as to the credibility or reliability of the reported data from government sources (Jormanainen & Koveshnikov 2012). While irregularities have been exposed in longitudinal data over the years (Scissors 2012) there are some that feel that manipulation of the data to such a degree when reporting to the world stage could not be possible and therefore relatively reliable. Yet even those who believe the data holds some levels of credibility still warn of relying solely on this information for accurate statistical analysis (Chow 2005). Due to the system of reporting in China, as well as to the control and limited release of data by MOFCOM, getting accurate numbers is not always possible. With over 70% of OFDI from China reported as going through Hong Kong or tax-havens to disguise investments, round-tripping by Chinese firms can also skew and distort the actual figures (Goldstein & Pusterla 2010). Obtaining inward investment figures from the U.S. is also an issue. As the U.S. has little regulation on greenfield investment and as only about 3-7% of acquisitions is vetted due to national security issues by the Committee on Foreign Investment in the

United States (CFIUS) (Burke 2011), the national government does not have a complete database and therefore, investment data must be obtained from each individual state. Some states have a better recording data system and therefore no central clearinghouse of information is available and working with an incomplete data set is a distinct possibility. However, for this research, obtaining primary, qualitative data by going directly to the Chinese firms will help to diminish this limitation on my findings.

Other limitations of this study may arise due to sample size and response rate. Relying on a specific market segment can also pose issues for generalisability of the research findings. Using only firms from the Southeast U.S. may only reflect certain practices or tactics that may be more or less prevalent than in other parts of the country: i.e. racial bias, acceptance of various human resource (HR) practices, limited types of firms based on location choice. Basing the study on one specific country for home (China) and host (U.S.) environments may not be applicable to other country combinations and therefore not generalizable for other EM MNEs or other DEs. The results were also based on the specific sample of those firms willing to participate. The non-response bias must be considered as many firms declined interviews.

The topic itself is limiting in that evaluation of abilities and knowledge transfer process is context specific and complex. Attempting to gain information regarding tacit knowledge is difficult at best so using the reductionist approach through the use of qualitative data may be problematic. Using the interviews as a first project is an attempt to reduce the risk to gain more richness of information into the social complexities of learning. However, while using qualitative data will alleviate some research issues, responder bias is an issue. Evaluations of abilities and processes are based on perceptions of the individual employee and from a U.S. perspective as well. Also, even with the assurance of anonymity, employees are reluctant to provide some inside information, especially if it might present the firm in a negative light. It should also be noted that the extent to which problems or disadvantages exist may be masked by loyal or concerned employees. Qualitative data is also subject to interviewer bias or perception in categorizing responses and observations.

## **CHAPTER 2 - Literature Review: INTERNATIONALIZATION THROUGH FOREIGN DIRECT INVESTMENT**

Foreign Direct Investment (FDI) for this review is defined as an organisation's strategic intent to create partial or full ownership in a foreign enterprise. Yet embarking on foreign investment is more than a basic economic proposition (Chiao, Lo & Yu 2010; Buckley 2002). FDI decision making is a multidimensional process including the economic or financial considerations, the legal or political landscape, and the socio-cultural immersion factors of the international marketplace.

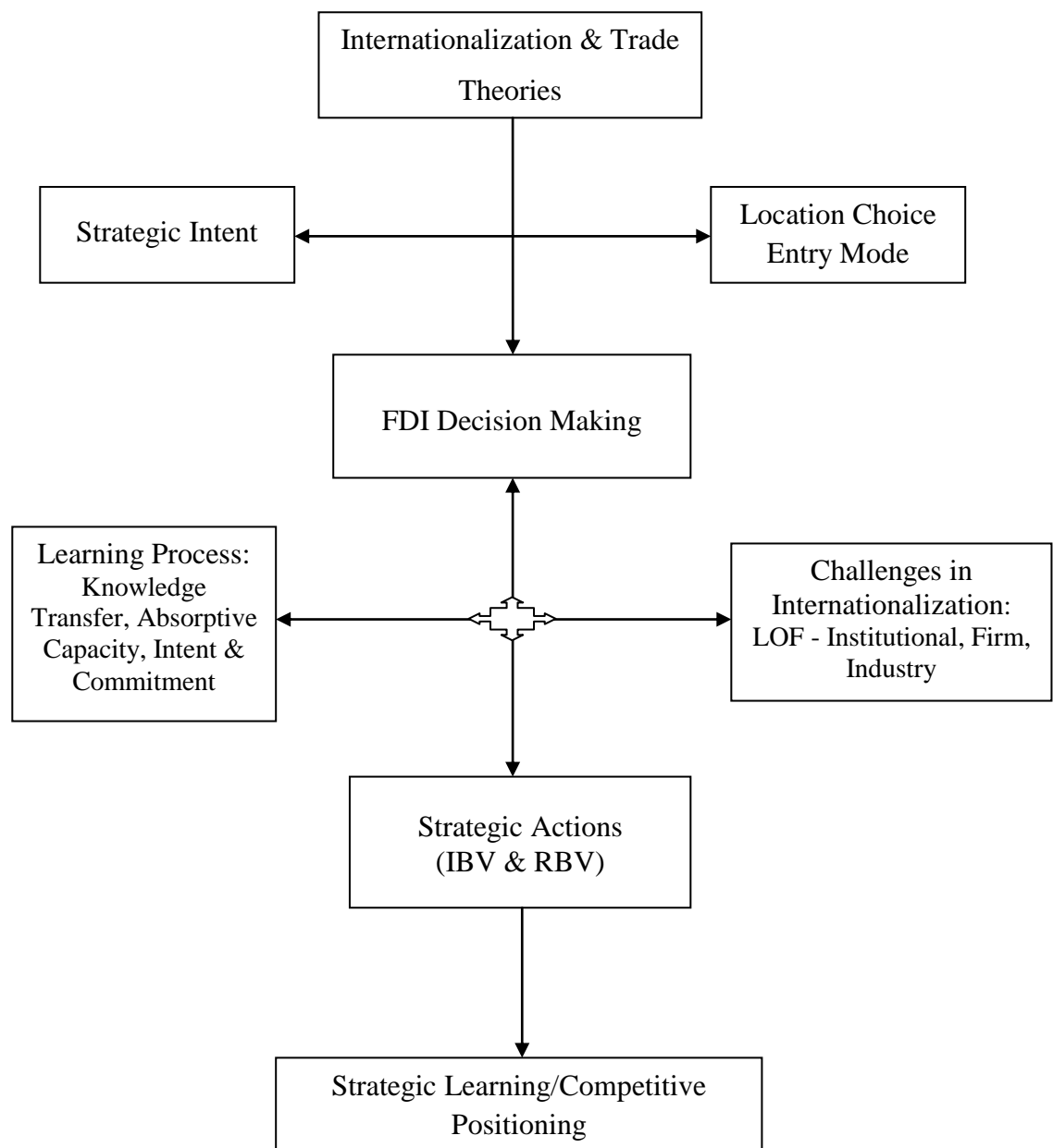
Challenges can arise from the duality of the process stemming from pressures and practices from both the home environment as well as the host environment (Lin 2010; Voss, Buckley & Cross 2010). This phenomenon of "Liability of Foreignness" (Hymer 1960; Zaheer 1995) can impose increased transactional and informational costs on the foreign firm in comparison to domestic counterparts and hence impact the investor's competitive advantage (Buckley & Casson 1976; Dunning 2000). And since liability of foreignness assumes that foreign firms are limited to access of resources, including lack of connection to information and networks, this exclusion can put foreign investors at a distinct disadvantage (Vithessonthi 2010). This lack of knowledge and connection to the new environment can then lead to uncertainty and subsequently impact the development of sustainable short-term and long-term decisions (Pedersen & Petersen 2004).

The theory and practice of FDI is further complicated by the uniqueness of the players. Many of the conventional FDI theories were developed around the patterns and behaviours of early investors with most participants typically from the more developed nations. FDI has gone through various stages of evolution and currently the increasing trend is composed of emerging market firms not only going to other emerging markets but increasingly competing in developed economies (Nigam & Su 2010). Analysis of theoretical insight into this new trend is further complicated as while these EM firms "share a number of features that set them apart from their developed world counterparts" (Jormanainen & Koveshnikov 2012), emerging markets have varying demographics and characteristics making it hard to lump emerging market research all together and hence hard to generalize findings.

Therefore, in order to analyse the FDI process, this review will examine the existing literature on the motivations and factors of internationalization through FDI, the

challenges and practices associated with FDI, as well as the role of the learning process on FDI to determine the gaps between historical or conventional theories to the more recent findings or questions surrounding EM MNE and Chinese investors (see Figure 2.1). The review will address how these factors might filter into FDI and identify the variances or unknown elements that will be essential for future IB research.

*Figure 2.1 Outline of Literature Review*



## 2.1 THEORETICAL PERSPECTIVES ON FOREIGN INVESTMENT

An early perspective on foreign ventures proposed by Vernon (1966) looked at foreign trade from a product life cycle wherein advantages originated with leading innovative countries and then flowed to other developed countries and eventually to emerging countries. This theory based on the early assumptions that comparative advantages do not change over time (Heckscher 1919; Ohlin 1933), while applicable in the mid 1900s, is flawed for today's global markets when we see innovations and products being launched from both emerging and developed nations (Ramamurti 2012). The Internalisation Theory (Buckley & Casson 1976; Rugman 1981) which was also based on Coasian principles (1937) examines why firms conduct transactions internally rather than in open markets and has remained a strong base for many studies. However, with the evolution and varied practices in FDI, from semi-globalization (Ghemawat 2003), regional strategies (Kolk 2010) and the complex variables associated with strategic intent and location-specific factors has been re-examined to determine the specific application of the theory. Even Buckley and Casson denote that this is only one faction and the theory must be expanded with other theories to devise explanations for FDI actions for "dynamic new agenda for the investigation of the development of MNEs in more flexible forms" (2009, p. 1575).

Building on the internalization theory, Dunning's eclectic paradigm (1998) or OLI theory, prescribed FDI as a means for companies to leverage ownership, in attractive locations, by using organisational assets to gain competitive advantage. However, this theory has been criticised that it "explained why internationalization occurred but neglected the dynamic process of internationalization" (Sim & Pandian 2007 p. 254). Therefore this theory when applied to EM MNE FDI would be limited in explaining why emerging market firms which lack FSAs are not waiting to gain experience or assets, but moving rapidly into new ventures at a distinct disadvantage and taking aggressive steps (M&As) to gain these advantages (Rugman & Li 2007). The OLI model also fails to take into consideration that EM MNEs possess unconventional FSAs (Ramamurti 2012) and many of these resources tend to be location advantages that may not be readily available to foreign investors (Hennart 2012) or if they are readily available they lose their firm-specific value. Therefore, the OLI theory does not present an exact fit for examining the new wave of FDI.

If one prescribes to the assumption that emerging economies will only produce weak firms which provide the basis for their OFDI and would therefore be unable to gain competitive advantage, there could not be FDI results similar to the type described in Porter's Diamond Model (1990). Porter's original diamond also does not take into consideration the learning impact of multinational activities of firms as well as limits the inclusion of host country advantages as a factor in FDI practice (Hennart 2012). This theory has been expanded into a generalized double diamond (Rugman & D'Cruz 1993) to examine domestic and foreign factors (Dunning 1998) which has more practical applications for today's research in that it requires an inclusion of firm, industry and environmental factors. So while it can be argued that these theories present a strong base on IB process early on, as the FDI stages have evolved, questions arise as to the direct application of today's new practices and new players. It is clear that the multitude of exogenous and endogenous factors associated with FDI call for re-examination of almost all extant theories to determine their accuracy and relevance to IB practice.

From these base theories on internationalization and foreign trade, research streams have developed in three major categories for FDI (Deng 2012): 1) antecedents or drivers of FDI, 2) processes or operations for FDI and 3) the outcomes or consequences of FDI. Since this paper is concerned with a very distinct group in FDI, Chinese firms specifically going into the U.S., the literature review will focus on the second category to determine if the general suppositions regarding FDI process varies (and by how much) from the actual practice by the Chinese firms in the U.S. in order to determine how future research and theory can be developed, applied and tested to understand and advise EM MNEs and stakeholders on improving the FDI process.

### **2.1.1 Motivation for Foreign Direct Investment - Strategic Intent**

The motivation behind a firm's international intent provides the rationale and objectives associated with the "why" in FDI strategy. Matching an organisation's goals or objectives with a particular foreign opportunity is then based on a company securing some type of competitive advantage through the use of FDI. Hymer (1960) proposed that MNEs used FDI to leverage their ability to create monopolistic situations to achieve extensive profits, wherein Buckley and Casson (1976) posited

that FDI was based on overcoming market imperfections by securing knowledge transfer and access to new market channels. Boisot and Meyer (2008) proposed that firms seek international expansion to escape home country pressures or disadvantages. Dunning's eclectic paradigm (1998) or OLI theory, prescribed FDI as a means for companies to leverage ownership, in attractive locations, by using organisational assets to gain competitive advantage. However, the strict interpretation of this premise would only allow for firms to invest abroad at the same or lower level of development in order for advantages to apply (i.e. DE to DE, DE to EE or EE to EE) and by limiting the possibility of FDI activity if one of the three factors is lacking as is the case presumed for many EM MNEs. As there are many theories on why firms engage in FDI, motivation for adapting a FDI strategy has traditionally been classified into four domains by using Dunning's (2000) driving force labels: market-seeking, resource-seeking (natural), efficiency-seeking, or strategic asset-seeking (Hong & Sun 2006; Buckley et al. 2008).

*Resource-Seeking*, also referred to as vertical activity, has spurred FDI through an increased need for natural resources and energy (Dunning 1995). Gaining access to natural resources helps firms and markets limit supply risks while reducing supplier bargaining power (Porter 1985). This has been an important first step for many emerging economies in order to balance rapidly expanding internal economic growth with dramatic increases in export-driven activities (Luo & Tung 2007). And while there seems to be variance in the push for resource-seeking in recent years (Nigam & Su 2010), obtaining control over resources remains a strong motivation for most economies and still seen as a driving factor for Chinese state-owned enterprises (SOE) (Yan, Hong & Ren 2010) as well as other developing economies.

*Efficiency-seeking* is another form of vertical activity (Caves 2007; Zaheer 1995) used to manage the cost of production in outward FDI (Kobrin 1991). MNEs from developed countries traditionally sought out markets that provided cost-effective labour pools to exploit potential for economies of scale (Cantwell, Dunning & Lundan 2010; Porter 1985). Efficiency in FDI was initially in the manufacturing sector, yet increasingly the establishment of overseas service and production centres have also been an important component for cost cutting (Driffield & Love 2007; Sethi et al. 2003). Efficiency-seeking is also a strong motivator when market



competition intensifies (Hitt, Keats & DeMarie 1998), however long-distance control issues and fluctuating costs can negate the potential benefits (Tong & Reuer 2007). Therefore, efficiency is a factor that also impacts EE firms as home environments become more competitive or resources become scarce, efficiency drives outward expansion.

*Market-Seeking* also referred to as horizontal activity (Brouthers, Brouthers & Werner 2003; Nachum & Zaheer 2005), is the impetus for FDI in certain locals where firms desire better access to consumer markets for profit maximization or export expansion. MNEs seeking to reduce transaction costs by way of controlling transportation costs to markets or from suppliers, or for gaining closer proximity to customers for better awareness of trends, tastes, and business customs, will base FDI decisions on penetrating specific market locations. However, learning, knowledge sharing and technology have diminished the need for market proximity in many cases (Zaheer & Manrakhan 2001). Wherein certain markets may be attractive based on market size, purchasing power, or GDP, an increase in trade barriers and foreign protectionism can also negate many of the potential advantages of gaining market proximity (Sethi et al. 2003). Market-seeking is also associated with EM MNEs as they try to expand their market share or gain global standing, however their ability to compete in highly competitive marketplaces with more advanced players remains a concern for success and sustainability.

*Strategic Asset-Seeking*, based on the need for knowledge and industry positioning has prompted firms to seek markets that will enable them to source and transfer industry or strategic knowledge (Dunning 1995; Chung & Alcacer 2002). Asset-seeking is also relevant when firms are able to find better opportunities or more valuable assets in a foreign location in comparison to what is available in their home environment (Wesson 1999). In recent years firms have developed an increased need to gain access to better branding and management many times through the use of M&As and joint ventures (Zollo & Meier 2008; Pappu, Quester & Cooksey 2007; Hamel 1991). This trend for seeking knowledge in order to gain industry standing is indicative of the increased movement by firms from emerging markets into developed or more advanced economies (Nachum & Zaheer 2005; Nigam & Su 2010). It must be considered that these firms take these FDI actions and will not only absorb the benefits and risks of immediately acquiring the assets but more

importantly, the long term gains that will arise from the new advantage and opportunity (Madhok & Keyhani 2012) and continue to impact the global FDI evolution.

As the motivation for FDI progresses from resource-seeking in developing countries to market and knowledge-seeking in developed countries, the risks and challenges of foreignness will also change (Nigam & Su 2010). It is clear that multiple factors beyond the domains presented by Dunning (2000) impact the ability to effectively determine how, when, and where to internationalise. The changing landscape of global markets and the increase in activity from emerging market MNEs (EM MNE), i.e. China, India, Russia, and Vietnam, and from newly industrialized economies such as Korea, Taiwan, and Hong Kong (Peng 2005), will continue to shift FDI trends. Technological, economic, and social changes provide opportunities for all types and sizes of firms to internationalize using varying strategies and patterns (Oviatt & McDougall 2005). "Push" forces from the home country, or "pull" forces from emerging opportunities in foreign markets, will continue to serve as motivators for future FDI (Nigam & Su 2010).

The trends in FDI flows and strategies have traditionally been examined using determinates that influence the patterns or processes of implementation. Some research suggests that in order to gain a more accurate understanding of FDI, the strategy of individual firms must be examined in conjunction with the changes in the FDI destinations or location selection process (Ramasamy, Yeung & Laforet 2012; Buckley, Devinney & Louviere 2007; Sethi et al. 2003; Makino, Lau & Yeh 2002; Chung & Alcácer 2001). The type of industry may also dictate the FDI strategy (Ghahroudi, Turnbull & Hoshino 2010; Peng 2004; Nachum & Zaheer 2005) so, as organisational goals change in relation to industry, technological, infrastructural, and knowledge needs, and as cultural learning evolves, the attractiveness of markets will also change (Lu, Liu & Wang 2010). In some cases, FDI is undertaken by some firms in order to overcome misalignments between their organisational needs and their home country's constraints (Boisot & Meyer 2008; Rugman & Verbeke 1992; Dunning 1998). FDI becomes an attractive strategy for institutions to overcome domestic economic, legal, or political constraints (Witt & Lewin 2007). Hence, the offerings of particular locations then become a more impactful force behind FDI

strategy for aligning organisational needs to maximize competitiveness (Dunning 2000).

As companies move away from simply needing natural resources or low cost labour, and as the need for knowledge or higher level technological resources increases, the attractiveness of locations evolves as well (Park 2000). It is posited that low wages are no longer enough when choosing FDI locations (Meyer & Sinani 2009).

Organisations may relocate to other locations if the combination of elements (economic, labour pool, political, infrastructure, etc.) is more favourable to the overall strategic goals (Amaro & Miles 2006). Therefore, firms are now migrating from emerging market locations which historically held the greatest draw to developed countries as investment options in order to create greater strategic fit with efficiency (Amaro & Miles 2006). Location trends are no longer easily predictable and other variables besides location attractiveness, impact the decision process (Buckley, Devinney & Louviere 2007). It is even posited that information technology lowers the cost of doing business at a distance and therefore continues to change the patterns and motivation for FDI (Zaheer & Manrakhan 2001) and for location possibilities. In order to make FDI beneficial, firms will need flexibility to exploit international opportunities while incorporating globalisation with long-term vision (Hitt, Keats & DeMarie 1998).

When predicting FDI patterns, research suggests that historical studies of globalization cannot accurately predict future trends since internationalization is impacted by moderating variables dependent on each individual location as the variances in individual locations in each time period can quickly create a totally new marketplace (Kolk 2010). Others posit that FDI forecasts are difficult because global business is essentially only 'semiglobalisation' (Ghemawat 2003) where firms remain in a state of in-complete cross-border integration. Many companies fail to fully integrate corporate strategy with location-specific strategy and simply find ways to cope with cross-border issues as a quick fix to make the daily operations functional. This then raises the question on how research has examined means for developing a successful internationalisation strategy if in fact it is only a semi-strategy or regionalization rather than globalization. How can temporary tactics then be a base for conclusive research on sustainable FDI practices? It is hard to make generalizations or even support the notion of global strategy when in reality, MNE's

are more driven by firm-level decisions focused on a regional strategy (Kolk 2010; Rugman & Verbeke 2003a). Other research expanding on the premise of semi-globalisation stresses that the ecology of the firms and the location environment are most critical to the FDI process (Ricart et al. 2004). Since a firm's FDI strategy is determined by understanding the destination in conjunction with each marketplace's multi-dimensional or unique structural and cultural layers, the environmental complexity makes it impossible to use this data when developing a generalizable formula for strategic development. These variables associated with motivation demonstrate how managerial decision making and environmental knowledge become a crucial dimension on examining the FDI process.

Strategic intent while seeming quite basic is really complex as it is impacted by so many variables. In considering the application of extant strategic intent research to EM MNE FDI actions, many questions arise. As more and more EM firms seek out opportunities in DEs the answers seem to become even less clear. Is it home pressures (Boisot & Meyer 2008; Kolstad & Wiig 2009), is it because these firms have some type of resource to exploit (Kolstad & Wiig 2009) and are seeking new markets (Deng 2009; Buckley et al. 2007; Makino, Lau & Yeh 2002) or are they driven to quickly gain strategic industry assets (Deng 2009; Rabbiosi, Elia & Bertoni 2012; Mathews & Zander 2007). More analysis in this area is still needed to explain the impetus for EM MNE FDI.

### **2.1.2 The Role of Location Choice and Entry Mode**

The determination of where to invest and how to enter the market are two other concepts that have developed as streams of research to examine the FDI process of EM MNEs. However, while many studies have been conducted to provide an explanation for where FDI occurs and how it is embarked upon in current practice, determination of research variables is still granular at best (Boeh & Beamish 2012) and therefore variances exist when applying extant theories on EM MNE activity. In accordance with the transaction cost theory (Williamson 1979) location choice would be based on minimizing the cost factors. However, as these costs can diminish over time and if they are readily available to other firms, cost will not provide a competitive advantage or if it does, not for long (Singh 2012). Since EM MNEs were first tagged for using FDI based on their advantage of low cost

production, the cost factor is not a direct application. From an internalisation basis, it is presumed that firms choose a location to maximize their utility (Chung & Alcacer 2002), however in applying Dunning's OLI theory (1998), for EM MNEs lacking certain ownership advantages to capitalise on for competitive advantage is still unexplained. Decision making on spatial expansion has also been associated with strategic intent beyond technical activity or low cost factors towards strategic access to knowledge or markets (Makino, Lau & Yeh 2002). Market-seeking (Buckley et al 2007; Kolstad & Wiig 2012) and strategic asset or knowledge-seeking (Chung & Alcácer 2002; Pradhan 2010) can require physical proximity in order to access tacit knowledge (Kogut & Zander 1992) or market entrance. Based on the availability of potential resources as well as whether these firms are exploring for new knowledge (Deng 2007; Chung & Alcácer 2001) or wanting to exploit their existing advantages will influence location choice and more specifically whether to invest in a DE or EE (Makino, Lau & Yeh 2002).

The presumed risky (Rugman & Li 2007) and many times quick moves by EE firms into DEs (Luo & Tung 2007) have further spurred the theoretical examination on FDI location choice of EM MNEs. Some studies have related location choice of Chinese FDI to market size (Buckley et al. 2007; Cheng 2007) while others have focused on industry factors (Wang et al. 2012) as criteria on where firms can access the resources necessary to augment industry competitiveness (Lu, Liu & Wang 2010). The level of uncertainty and the amount of risk associated with these ventures has also been examined with elements associated with organizational fit (Cui & Jiang 2009) and liability of foreignness (Hymer 1960; Zaheer 1995). The amount of friction to be faced due to cultural proximity or environmental similarities may also drive the location choice (Deng 2012). Choice of location based on incremental internationalization models tends to rely on the experience of managers or the firm's internationalisation knowledge (Vera & Crossan 2004). Geographic distance can also impact location choice and the ability to manage in diverse environments (Tihanyi, Griffith & Russell 2005; Brouthers & Brouthers 2001; Shenkar 2001) not to mention the increased transaction costs of managing at a further distance (Petersen & Pedersen 2002; Zaheer 1995). Political factors from the home and host environment can also impact the location decision (Oertel & Walgenbach 2009). However, it is posited that Chinese firms are experienced in

handling the state controlled environment and therefore may prefer to enter locations that resemble their own; their ability to deal with opaque situations makes them well-equipped to work in other emerging environments (Buckley & Casson 1998; Calhoun 2002). While this seems to hold true for the early expansion phases of many EM MNEs and especially Chinese foreign investors, the aggressive expansion actions by many of these firms today seems to counter the rationale associated with fit (Rui & Yip 2008) or foreign risk. So as studies have shown that only some aspects of psychic distance and fit impact Chinese internationalization strategies, this concept seems to be more context specific and not universal (Blomkvist & Drogendijk 2012). For location choice the decision must also go beyond the national level of the market to address the potential sub-national variations of a country or region which may have an even greater impact on location choice (Singh 2012) and success.

Yet as much of the extant FDI literature is based on paradigms in relation to DE firms, the factors that specifically affect host country choice for EM MNEs is still unclear. Therefore while costs alone cannot be an explanation for location choice, it is presumed by some that market size or access to strategic assets is a more dominant factor for EM MNE expansion into DEs (Shenkar, Luo & Yeheskel 2008). Firms will determine which location will provide the resources sought if focusing primarily on strategic intent. As knowledge and technology differ over locations (Cantwell, Dunning & Lundan 2010), with more advanced or technical knowledge being more prevalent in DEs (Klossek, Linke & Nippa 2012), it becomes a stronger basis for explaining why EM MNEs are rapidly expanding in DEs (Luo & Tung; Rugman & Li 2007; Rui & Yip 2008; Deng 2009) even when geographic and cultural distance provide additional challenges (Barkema, Bell & Pennings 1996). Even with the increased risk of investing in unfamiliar environments which might increase LOF factors (Rugman & Li 2007), the opportunity to gain assets for improving competitive advantage overshadows the risk factors for many emerging market firms (Johanson & Vahlne 2009). Therefore strategic intent or strategic fit alone do not seem to provide a clear explanation. With EM MNEs rapidly expanding in widely diverse environments and DEs, a combined way of examining location choice with multiple variables seems more appropriate (Cui & Jiang 2009) as location choice is further expounded and modified by the factors of strategic intent,

cultural and geographical factors as well as entry mode process (Boeh & Beamish 2012; Luo & Peng 1999). Therefore Boeh and Beamish (2012) propose that examining all the spatial issues associated with distance, location, and country choice need to be researched in conjunction with entry mode decisions.

In understanding the impetus for pursuing FDI and location choice, the means of market entry is an integral part of the strategic process for examining the "how" in international expansion. The three modes of entry for FDI in this study focused on equity ownership through joint ventures, mergers or acquisitions, or the development of wholly owned affiliates known as Greenfield investments. An important consideration for successful integration and sustainability is determining how the mode of entry will impact short and long-term strategy (Buckley 2004). Research has shown that the entry mode selected can have a direct impact on organisational performance (Li, 1995; Hennart & Reddy, 1997) as the mode of entry sets the stage for the implementation of strategic measures. Therefore, the mode is selected based on company goals and objectives including costs, access to resources, market penetration, control, level of risk, cultural assimilation, and even exit strategies in order to balance the trade-off of risks and returns in the most cost-effective way (Dunning 1995; Buckley & Casson 1998).

*Joint Ventures (JVs)* have been used by MNEs to quickly penetrate a foreign market while allowing for differing levels of integration based on ownership agreements (Buckley & Casson 1998). The use of JVs can allow for flexibility in deploying resources to deal with the risks of LOF (Ghahroudi, Turnbull & Hoshino 2010) as a means for acquiring local expertise and rapid transfer of technological and marketing knowledge (Buckley & Casson 1996). This mode of entry can allow firms to develop new tactics as they learn and make necessary connections to manage within the new environment (Kogut 1988). If regulatory pressures are high, many firms will rely on establishing a JV with local partners to overcome this concern (Yiu & Makino 2002). From an institutional viewpoint, if environments are perceived as heterogeneous, firms will also prefer to work with a native firm to smooth the culture transition (Chiao, Lo & Yu 2010). However, JVs are plagued by high risks as many firms are unable to manage the coordination of merging cultures while dealing with conflicts resulting from new ownership and management structures (Thornton 2001). Firms will need to balance the possible marketplace

advantages with the post-integration costs (Reuer & Koza 2000) and be able to make post-entry adjustments to overcome mode instability associated with the new venture (Gomes-Casseres 1987).

*Mergers and Acquisitions* (M&As) allow companies to quickly buy into a network, especially for firms with extensive financial resources (Johanson & Vahlne 2009). With an established level of legitimacy and a significant boost on the learning curve, foreign investors can use M&As to secure market position. MNEs with more firm-specific resources including strong R&D and more international experience tend to feel comfortable following the customer into new markets via M&As (Chiao, Lo & Yu 2010). The ability to create value through existing brand reputation or expertise can be a valuable asset, however, as most studies are based on short-term results, they may fail to consider how value propositions can change or diminish with time (Zollo & Meier 2008), greatly impacting the cost-benefit proposition of buying market share or assets. Post-integration challenges will also require extensive managerial skills in blending the organisational and cultural differences of the two firms to create a new blended culture (Sarala & Vaara 2010). However, for firms desiring to quickly gain control of assets, M&As can help them gain resources for competing in highly competitive industries (Lu, Liu & Wang 2010).

*Wholly -Owned Subsidiaries or Greenfield* ventures are attractive to firms with superior firm-specific assets such as high levels of R&D or extensive global experience as they tend to enter markets on their own (Chen & Hennart 2002; Chiao, Lo & Yu 2010). Greenfield operations can help companies guard proprietary knowledge as these firms need less local resources in order to maintain competitive advantage. In accordance with the eclectic theory (Dunning 2000), wholly-owned firms should have the highest sustainability rates. However, while domestic and foreign-owned firms both will face high mortality rates as a result of the liability of newness (Stinchcombe 1965; Freeman, Carroll & Hannon 1983), some research shows that foreign-owned firms can suffer a higher rate of failure with greenfield entry (Caves 1982; Li & Guisinger 1991) due to added elements of LOF. Yet some research shows that with greenfields foreign-owned firms will have greater control over strategic actions and less post-entry integration issues and therefore should be able to deal with LOF more quickly (Ghahroudi, Turnbull & Hoshino 2010) improving their level of sustainability.



Each mode has its advantages and challenges. Many studies have compared the risk and failure rates of the three modes, but mainly as a static process, focusing more on the antecedents and not on the changes that occur over the long-term process (Chiao, Lo & Yu 2010; Yiu & Makino 2002). It is important to examine the initial mode of entry to include longitudinal evidence on how firms evolve over time and how they may even learn or change as they vary their selected entry mode in subsequent ventures (Guillen 2003). Understanding the "when" in the process can also be crucial in FDI research to examine firms as their strategies unfold. Kogut (1988) viewed FDI as a sequential process with the initial mode of entry as a temporary tactic that evolves over the course of time. Understanding how global experience or learning plays a role in entry mode decision making is also key in investigating how sequential decisions change and evolve over time (Nadolska & Barkema 2007; Chang & Rosenzweig 2001). If companies start with joint ventures and experience success, they may move to a more concerted strategy such as greenfield, and conversely, if they failed with an earlier attempt, they may become more conservative. Other studies that have examined the sequence of entry mode selections (Chang & Rosenzweig 2001) then fail to look at all types of markets or to look at long term performance results based on each entry in conjunction with the mode changes. But as FDI operations are unique and face a differing degree of cultural distance, level of integration, and encounter a varied supplier and customer base in each activity, it makes measurement difficult in truly determining the cause-and-effect factors for performance (Barkema & Drogendijk 2007; Haunschild & Sullivan 2002).

Determinants for which mode of entry is most appropriate in various situations has been highly researched and has evolved as process needs have changed. Entry mode decisions may be tied to the strategic intent or motivation of the firm; however, extant research correlating the two is very limited (Child & Rodriguez 2005). Many early entry mode theories for FDI tended to be based on resource allocation (Dunning, 2000), in fitting the resource needs of the firm with potential markets, but as the markets and the players have evolved, the strategic intent has expanded as well. It's been surmised that when resource-seeking is the base motivation, this predominate need for low cost resources impacts as to whether an organisation chooses partial or full ownership (Dikova & van Witteloostuijn 2007). If firms

simply need a source for base resources and can outsource or rely on others to manage the process, they may select partial ownership, but if the need is based on loyalty, intangible resources, or technology, they may prefer greenfield or acquisition to maintain control of the operation (Hennart & Reddy 1997). As the need for R&D increases or if preservation of proprietary knowledge comes into play, firms may prefer to select a greenfield approach rather than purchase or join with an existing firm (Rugman 1981).

In keeping with the transaction cost theory (Williamson 1979) entry mode is also influenced by location choice in relation to host country challenges (Maekelburger, Schwens & Kabst 2012) and can be driven to minimize costs through ownership, structure and control decisions (Meyer et al. 2009). Choosing between full or shared ownership can be based on opportunities or challenges presented in the internal and external environments. Boeh and Beamish (2012) posit that low transaction costs will encourage the use of more hierarchical entry modes. This poses an interesting factor in examining the level of transactional cost and LOF faced by EM MNEs in DEs in relation to the entry mode selection. From the institutional perspective, the host country environment, regulations (Yiu & Makino 2002) and level of uncertainty (Demirbag, McGuinness & Altay 2010) can create costs or challenges related to overall organisational performance (Brouthers, Brouthers, & Werner 2003). From the resource perspective the level of the firm's capabilities in management and knowledge networks impact the organisational and cultural transaction costs of entry modes (Kotabe, Jiang & Murray 2011) wherein firms with more international experience will prefer modes with more control, but if lacking FSAs or high levels of diversity, modes with shared control may be more attractive (Nielsen & Nielsen 2011). For many EM MNEs, the use of acquisition becomes a vehicle for creating an entrepreneurial venture that helps to limit the liability of newness and emergence (Madhok & Keyhani 2012).

In addressing the risk factors and costs of a selected entry mode, the level of control over the foreign operation is also a consideration (Brown, Dev & Zhou 2003) regardless if control and ownership are perceived as correlated or separate factors. Firms can select JVs and M&As and based on the equity investment can either maximize or limit their level of ownership and subsequently the level of control over the distant operation. However evaluated, the trade off between cost of resource

commitment and the level of desired control (Cui & Jiang 2009b) can depend on the formal and informal challenges of managing post-integration stages and the potential costs of inertia and resistance that can arise in blending organisations (Sarala & Vaara 2010; Gomes-Casseres 1987; Hennart 1991). The ability to create safeguards to minimize privacy expropriation hazards regarding internal knowledge concerns and address external institutional risks factors will also impact the decision as to the level of equity investment (Maekelburger, Schwens & Kabst 2012).

Entry mode can also be tied to the factors of the host and home environment (Xu, Hu & Fan 2011; Shaver 1998). The pressures from home countries on firms to gain global standing and the rapid changes in technology has spurred quick investments and many have worked to use established firms within the U.S. to overcome the learning cycle through the use of joint ventures and M&As (Li & Yue 2008). When market penetration or cultural assimilation becomes important factors and reliance on third-party connections is strategic in building local connections for overcoming challenges, joint ventures are more attractive (Chen, Chen & Ku, 2004). As cultural and national distance can be consideration (Brouthers & Brouthers 2001), the exact impact on the decision is contradictory where some studies point to increased cultural distance issues related more closely favouring greenfield selection (Shane 2000; Andersson & Svwensson 1994) and others premise links to prefer more cooperative entry modes (Kogut & Singh 1988) while some have found no real impact of cultural distance on the entry decision either way (Tihanyi, Griffith & Russell 2005).

International experience, strategic knowledge, and learning can also impact entry mode selections. Path dependency as a learning process can have a marked influence on entry mode selection process as well (Kogut & Zander 1993; Sydow, Schreyogg & Koch. 2009; Ellis 2007). If a firm has used joint venture in prior activities or if firms within the foreign country in a particular industry have predominately used joint venture, mimetic pressures may push new venture decisions to follow the same pattern (Guillen 2003). This dependant pattern can impact strategic decisions (Yiu & Makino 2002) and can even lead to clustering of firms (Tallman et al. 2004), either through proximity to other units of the firm (Maitland, Rose & Nicholas 2005) or towards other firms within the industry (Baum & Haverman 1997). Yet for EM MNEs that lack global experience or knowledge

resources, path dependency is not a factor as they lack precedents for building strategy (Luo & Wang 2012).

According to the Uppsala evolutionary theory (Johanson & Vahlne 1977) the amount of multinational experience may also determine the mode of entry. Firms with extensive experiential knowledge in international activity should have acquired stores of process knowledge and therefore be willing to select higher levels of integration. However, other studies have shown that some companies can take large steps and move quickly in international ventures even without prior experience, wherein they may have lower productivity at first, but can compensate and improve performance over time with learning and experience (Barkema & Drogendijk 2007; Holmqvist 2004). Studies have shown that these firms can overcome the challenges and be successful in environments if they have strong internal resources and capabilities (Chang & Rhee 2011). For those firms in industries where all competitors are rapidly globalizing the pressure to do so is high, but if they have the FSAs to compensate for the higher risk, rapid can be effective in meeting the competition. Most research still contends that experience and sequential process can be very important (Chang & Rosenzweig 2001); firms select entry modes to balance their need for improving practices through exploitation with the desire and opportunity to expand operations through exploration in seeking new assets (Prange & Verdier 2011; March 1991; Miller, Zhao & Calantone 2006; Barkema & Drogendijk 2007)

The resources a firm possesses or can transfer also impact the viability of entry modes (Zhao, Luo & Suh 2004). Based on the resource dependence theory (Pfeffer & Salancik 1978) firms will overcome environmental risks by capitalizing on the strengths or resources the company possess (Hennart & Reddy 1997). Therefore, the resources a firm possesses or lacks, either for internal or external strategies, can determine the mode of entry that will be best suited for success (Pfeffer 1982; Casciaro & Piskorski 2005). The resource dependence theory calls for a more resource-specific approach to managing FDI, requiring a firm to possess unique abilities in dealing with international operations as well as the ability to transfer these skills across distance and cultures (Rugman & Verbeke 1992; Inkpen & Tsang 2005). The entry mode decision, while based on the parent's firm ability to transfer the competitive advantage but also on the ability and trust in the subsidiaries ability

to absorb and leverage the capabilities for the firm's benefit (Brown, Dev & Zhou 2003). Others (Yiu & Makino 2002; DiMaggio & Powell 1983; Bockem & Tuschke 2010) stress the impact of isomorphic pressures on entry mode selection along with manager's limited perceptions of entry mode appropriateness when the host country has strong moderating effects (Dikova & van Witteloostuijn 2007). This allows for the institutional based approach of adapting to the foreign environment to have a great influence on mode of entry selection.

In reality, many factors contribute to the initial mode of entry decision. Studies may be flawed if they assume that domain and mode selection are based on the same criteria, since each location is unique, the company is unique, and the entire decision-making process is further bounded by the rationality of managers (Buckley, Devinney & Louviere 2007). As all forms of entry present risks and opportunities and the levels of complexities associated with the FDI process make it difficult to create a concrete paradigm for entry mode selection (Buckley & Casson 1998; Zhao, Luo & Suh 2004). And while most studies show that entry mode selection is more complex than any of these theories or factors alone, using any of these as evaluation criterion in the entry mode decision-making process by the firms is usually correlated to firm performance (Brouthers, Brouthers & Werner 2003).

Others analysing mode of entry have identified that most studies while examining the implications of mode selection, fail to address how self-selection and endogeneity impact the strategic decision (Shaver 1998). It was denoted that many empirical studies may be flawed in their conclusions because the internal influence by organisational management is an unobservable characteristic and therefore hard to precisely measure (Reuber & Fischer 1997). This presents the issue of managerial intent and commitment's impact on process selection and strategic success. Subsequent research by Harzing (2002) approached mode of entry by examining the management practices on the actual strategy implemented throughout the process. The study showed how different management applications and leadership styles impacted the strategic choice of either acquisition or greenfield operations (Buckley, Devinney & Louviere 2007). These observations push research to look beyond the initial entry mode decision and to look at how FDI plans are operationalised over time to determine the impact on sustainability. While this is another important consideration, most of these studies have focused on the

manufacturing industry so more research is needed in drawing a generalizable conclusion on the managerial impact on strategic success. Therefore entry mode advantages and disadvantages are not universal and will fluctuate based on unique firm attributes and specific industry conditions (Chen & Hennart 2002).

Mata and Portugal's (2000) research raised another interesting question surrounding modes of entry by looking at the full term of FDI. Examining the relationship between entry and exit modes by specifically focusing on which type of ownership form was more likely to close or disband rather than divest, found that majority owned joint ventures or fully owned subsidiaries had a lower failure rate over all compared to minority owned investments. As the mere existence of these international organisations is a multi-dimensional examining whether these firms exited due to failure, reorganisations (Welch & Welch 2009), change in organisational strategies, or due to the emergence of new opportunities needs to be considered in the overall equation when looking at determinants for sustainability in relation to entry mode (Chan, Makino & Isobe 2006). However, understanding what they learned from earlier experience and how this impacted subsequent entry is relatively unknown and hard to measure making it difficult to assess the experiences and knowledge base needed for EM MNEs. Therefore the only solid conclusion on entry mode can be that there is a need for flexibility in strategy dependent on firm cultures focused on continuous learning (Hitt, Keats & DeMarie 1998). Firms must learn from past experiences in FDI and from the experiences of others, adapt the necessary strategy for future ventures (Chang & Rosenzweig 2001). The extant research shows that location choice and entry mode are impacted by many variables, and as EM MNEs are taking actions that vary from mainstream theories (Luo & Tung 2007) questions still remain regarding the new wave of FDI. Emerging market firms, especially the Chinese are showing an increased usage of M&As (MOFCOM 2012b) in DEs even though some statistics denote high risk and failure rates with this process. Many of the attempted M&As by Chinese firms in the U.S., reported at around two thirds (Lee 2010), do not make it past the proposition stage. Little is known about the process or reasons for success or failure of the implemented M&As over time and to date very few studies have provided empirical data to show how a particular entry mode and location choice impact sustainability (Kolstad & Wiig 2012).

## 2.2 FDI DECISION-MAKING PROCESS

It is clear that the FDI decision-making process is multi-dimensional wherein goals, needs, and motivations play an integral part in contributing to the success of FDI strategies. Determining why to internationalize as well as where and how are a crucial part of the process. As reported in a study by the Economist Intelligence Unit (Lee 2010), while Chinese investors recognized their desire or benefit from OFDI, over 70% had how to move forward with the process. Therefore, an examination on how knowledge and learning impacts the decision process can fill a critical research gap for academics and for practitioners. The question of what knowledge is needed, how this knowledge is acquired, and what impact managerial perceptions have on the overall process are important for examining strategic success. The decision-making process used for determining how or when incorporating FDI strategies to internationalise has historically been explained by a staged theory of evolution (Hymer 1960) as demonstrated by process of initial MNEs in the twentieth century. The stages started when companies had a need for resource allocation or had outgrown their domestic opportunities and would begin with low risk international strategies (exporting, importing, outsourcing) and then incrementally take on greater risks or investments. Eventually large domestic firms would incorporate global expansion with direct investment as a means for growth in market presence and power. The Uppsala Process Model prescribed that firms enter markets based on costs and risks associated with the market environments in conjunction with their firm-specific resources (Johanson & Vahlne 1977; Zahra 2005). According to this model firms enter markets slowly and as they gain experience they intensify their presence in a staged or established chain (Johanson & Vahlne 1977). The internationalization process theory assumed that firms will gain knowledge over time and learn from experience. The model has since been adjusted to address the process changes presented by emerging MNE patterns (Johanson & Vahlne 2009).

While the sequential entry theories explained a traditional FDI decision-making process, internationalisation has changed as have the determinants in foreign strategy. Much research has shown that this simplified explanation for foreign investment does not provide an accurate description of the process in today's global market. Many new firms labelled international new ventures (INVs) by Oviatt &

McDougall (2005) have a global focus and commit resources towards being an international firm from inception. The concepts of 'born globals' (Fan & Phan 2001) and international entrepreneurship (Wright & Ricks 1994; Jones & Coviello 2005) also demonstrate how economic and competitive factors of home markets in conjunction with certain market opportunities allow for entry mode variations. Oviatt and McDougall (2005) proposed that the process of internationalization itself is changing due to the changes in the environments. The existence of global communication and developed marketplaces has changed the dimensions of the process. New ventures can begin and compete in the international arena without having to first establish a large domestic company (Mathews & Zander 2007). They proposed that a new framework consisting of the elements of internationalization of transactions, alternative governance structures, uniqueness, and a focus on knowledge resources would allow global ventures to develop an effective strategy for rapid internationalisation (Knight & Cavusgil 2004). However, Lopez, Kundu & Ciravegna (2009) found that relatively few of the firms are true born globals and suggest more are 'born regionals' by developing new regional business and therefore, more classification is needed to clump MNEs into this category.

Fan and Phan (2007) take a further investigation into this theory wherein companies are classified as international new ventures or 'born-global' firms. While there are firms that start out as international companies, it may be more important to move beyond just confirming that these firms exist, and rather examine their entire process and business operations to determine how important the environments - sociocultural, economic, legal - are in the global expansion process as well as study the survival and success rates of foreign versus domestic firms (Knight & Cavusgil 2004). Cuervo-Cazurra's (2011) findings propose that non-sequential internationalization is a distinct strategy rather than a mere exception as 33% of the firms he studied followed a non-sequential internationalization strategy. The study also found that this non-sequential process required certain firm knowledge and ability to allow for skipping steps in the internationalisation process and still be effective. This then expounds the question on whether EM MNEs can be successful when they are presumed to lack certain FSAs.

Another study, while showing that because FDI location decision making is a complex process impacted by bounded rationality, waivers from the traditional



models (Buckley, Devinney & Louviere 2007). It posited that organisational members use a set of rational rules based on an FDI evaluation process in accordance with the firm's interests at hand. Therefore, the effectiveness of decision making will rely on experienced managers, with credible data which is more firm-focused than individual-manager focused (Thomas, Sussman & Henderson 2001; Petrick et al. 1999). However, in order for that experience to be applicable and valuable, it must result from accurate inferences and cannot be clouded by ambiguity or rational or cognitive limitations (Zeng et al. 2013). With so many investors in EM reporting uncertainty or inexperience in FDI process, especially in DEs, the success rate of these proposed expansions is suspect. In furthering this study to provide insight into the process, it must consider how managerial bias and behaviours in the decision-making process (Vera & Crossan 2003) will impose the need for research using multiple means of study.

Another perspective as proposed by Porter (1998), posits that the decision-making choices of competitors may play a role when selecting mode of entry or locations as explained by a bandwagon approach or development of clusters. Mere proximity to other firms can cause a spillover of knowledge that causes organisations to form clusters and remain there in order to increase competitive advantage (Baum & Haverman 1997). The success of others seems to increase the attractiveness of a location and can have an impact on managerial decision making (Porter 2000). Yet some now question the viability or long term sustainability of existing in these clusters. While benefits are derived from knowledge sharing, formally or informally, some contend that the benefits can be limited to the type of knowledge shared; whether it is component knowledge or architectural knowledge (Tallman et al. 2004). Organisational knowledge tends to be tacit and hence more difficult to transfer and gain from outsiders (March 1991). So while learning experiences by self or others may impact the FDI process, to what degree it impacts success rates, is yet to be proven.

We must also consider that the benefits of previous or even current experience may depreciate over time (Guillen 2003). Knowledge gained from earlier experiences may become obsolete as environments change and since it is tacit in nature, it may become lost in the process. The pressures from internal and external sources also create a strategic imperative for firms. Knowing when to conform to external

requests or respond to corporate mandates is crucial for FDI success (Hamel & Prahalad 1983). Therefore, when, how, and by whom decisions are managed are important components of an effective decision-making process. Oviatt & McDougal (2005) emphasised the need for knowledge resources to overcome the difficulties companies face in internationalization, such as culture, governmental barriers, and even competitive disadvantages held by domestic firms. By having a knowledge base to infuse and share in the foreign market, firms can create value in insuring long-term survival and worth.

The cultural environment then becomes a key knowledge base in FDI. Cultural distance, defined as the cultural distance between home and host country (Kogut and Singh 1988) is another force on FDI decision making (Buckley & Casson 1998). Research demonstrates how access to networks and linkages can influence foreign market selection and the mode of entry to overcome cultural distance (Coviello & Munro 1997). Potential cultural barriers as a result of the cultural distance and the firm's learning capacity may also influence the entry mode choice and location decision of firms (Barkema, Bell & Pennings 1996). Therefore many firms begin international expansion in markets in which they have cultures similarities or closeness (Kogut & Singh 1988; Brouthers & Brouthers 2001). Instilling management teams with international experience can also be used to differentiate the issues of LOF. And while a manager's level of experience and familiarity with the host country can provide insight into strategic integration (Dikova & van Witteloostuijn 2007), perception of familiarity can also be a negative factor on decision making if the perceived awareness or level of skills are inaccurately measured and fail to prioritize the requisite resources and actions needed to accomplish strategic objectives.

Effective FDI decision making requires that firms possess the ability to gain knowledge and insight into foreign business environments to manage the complex process of internationalisation (Hymer 1960). In accordance with the knowledge-based view of the firm (Kogut & Zander 1993), knowledge and learning become important resources for FDI sustainability. Learning must occur in organisations in order for decisions to guide future initiatives for improved performance and sustainability. Knowledge helps firms overcome uncertainty in identifying and

exploiting opportunities (Johanson & Vahlne 2009) to commit to a greater depth in the marketplace (Petersen & Pedersen 2002; Johanson & Vahlne 1977). Yet as geographic and cultural distance in FDI can be problematic for knowledge transfers between firms and business units (Cohen & Levinthal 1990) understanding how learning and knowledge transfers occur becomes critical for overcoming FDI challenges. Creating an organisation that is capable of absorbing and positively transferring knowledge into commercial practice through effective decision making can be the key to sustainable competitive advantage (Inkpen & Tsang 2005; Martin & Salomon 2003). The ability to harness and replicate existing knowledge and create new knowledge can determine if firms can make the necessary decisions that ultimately impact FDI ventures (Martin & Salomon 2003). Therefore, examining the learning process of firms is essential to understand how well these firms bridge the entire process from the initial strategies and drivers of FDI to the outcomes and consequences of their decisions and actions.

## 2.3 THE ROLE OF LEARNING, KNOWLEDGE, AND MANAGERIAL COMMITMENT IN THE FDI PROCESS

### 2.3.1 Learning

Strategic learning (Kuwada 1998), defined as "learning behaviours and processes that enable long-run adaptive capabilities" (Thomas, Sussman & Henderson 2001 p.331) is the basis for decision making in the FDI process. Effective organisational learning (Vera & Crossan 2004) must incorporate not only knowledge management and creation (Chen, Liang & Lin 2010; Bresman, Birkinshaw & Nobel 1999), but absorptive capacity (Minbaeva et al. 2003), knowledge transfer (Simonin 2004; Bresman, Birkinshaw & Nobel 1999), intraorganisational and interorganisational learning (Rabbiosi & Santangelo 2013; van Wijk, Jansen & Lyles 2008), as well as the ability to create outcomes and new knowledge for exploration (Holmqvist 2004; Tallman et al. 2004). Information seeking becomes one of the most critical modes for international integration (Kim, Park & Prescott 2003) and strategic intents and therefore understanding how learning and knowledge transfers can be enhanced are keys to sustainable FDI (Zou & Ghauri 2008; Shaver, Mitchell & Yeung 1997).

The organisational learning process incorporates both the "assimilation of new learning (exploration) and integrating of what has been learned (exploitation)"

(Chen, Li & Shapiro 2012; Vera & Crossan 2004). Knowledge acquisition can occur from experiential learning or from learning transferred from others - individuals, groups, and organisations (Crossan, Lane & White 1999). The use of experiential learning can allow companies to increase commitment within a market place as they increase the knowledge regarding the host environment (Johanson & Vahlne 2009; Holmqvist 2004). Experiential learning of firm members acquired through previous international ventures can be helpful in developing FDI strategies; allowing firms to move quickly and appropriately within the host environment. From an Institutional Based (IBV) perspective, having insight into the business environment prior to entry for quick assimilation would be beneficial. From a Resource Based View (RBV) perspective, being able to distinguish the necessary competencies for competitive advantage could also reduce the initial impacts of liability of foreignness and newness while positioning the firm in obtaining market share (Chen, Liang & Lin 2009). However, it has been found that while international experience in multiple locations develops institutional knowledge helpful in strategic initiatives, experience in a specific country does not necessarily translate into generalizable knowledge (Chetty, Eriksson & Lindbergh 2006). Therefore, the type and amount of previous knowledge may or may not be impactful. Experiential learning for international decisions may also be limiting as research has shown that learning decreases marginally with the amount of accumulated experience (Yelle 1979). For some firms with strong current competencies that tend to base all their learning on these existing patterns they may fail to devote resources into new learning and directions and can fall into a "competency trap" (Wilkinson et al. 2008).

Since new ventures are novel experiences, especially for EM MNEs investing in DEs, it will require new learning. Learning through new experiences is time-based learning wherein opportunities allow firms to explore and assimilate information into practice (Martin & Salomon 2003). Some firms may also need to unlearn old practices while allowing for the development of novel approaches for variation in the new environment (Autio, Sapeinza & Almeida 2000); learned behaviour can become rigid and hinder a firm's ability to overcome calcified practices and make necessary adjustments. This time lag can intensify the 'liability of newness' (Freeman, Carroll, & Hannan 1983) and hasten a firm's mortality (Le Mens, Hannan,

& Pólos 2010). However extant research is inconclusive on performance impact as learning is mainly studied as a static rather than a dynamic process that changes overtime (Jones & Coviello 2005). As many of these firms from EM MNEs are venturing on a new process, openness to learning through experience or from alliances can be a benefit in this instance in comparison to established firms from DEs.

Transfer based learning occurs through experiences and through network sharing as a result of the experiences of others. Learning from others can allow firms to improve positioning and skills, however, not all firms have the same capacity to learn or networks or abilities to learn as presumed of many EM MNEs and therefore the learning relationship may not be equal (Hamel 1991). Researchers have investigated how companies build local relationships, termed strategic networks (Inkpen & Tsang 2005), as an investment to build competitive advantage (Jack 2005; Chen, Chen & Ku 2004; Dunning 1998). It is posited that effective transfer of knowledge can create industry competencies that can potentially supersede firm-level assets (Tallman et al. 2004) to create architectural knowledge for the industry, such as the "rules of the game" to aid new firms in overcoming LOF. If smaller firms, INVs, or EM MNEs are able to develop mechanisms to learn from existing firms, they may be able to eliminate comparative disadvantages with larger or more experienced firms (Elango & Pattnaik 2007; Reuber & Fischer 1997). In this case, JVs and M&As can become attractive modes of entry for many firms in order to instantaneously gain access to local networks and markets (Vithessonthi 2010; Zou & Ghauri 2008; Nadolska & Barkema 2007) regardless of size or past experience.

The need to combine knowledge garnered from experience, market and technological knowledge with knowledge gained from linkages and networking is essential for decision making in the international process (Fletcher & Harris 2012). However, many new firms have sparse networks or lack the opportunity to quickly develop connections (Johanson & Vahlne 2009). As spillover is an indirect result of externalities developed from new technology, employee transfer, and observable competitive behaviours, indirect spillovers are created through linkages or the development of relationships. The quality, quantity and scope of these linkages can also have an impact on global expansion (Giroud & Scott-Kennel 2009) denoting a crucial step for EM MNEs to build or access networks for knowledge transfer in

unfamiliar environments. However, research is limited in denoting the impact of networks and knowledge transfer in the success factor for EM MNEs (Giroud & Scott-Kennel 2009).

While there are some definite advantages to building these relationships with customers or supplier, building networks takes time and added effort which is usually not allotted for in integration plans, which is confirmed by the premise of semiglobalisation (Ghemawat 2003). In the case of born globals, the concept of network is also critical (Knight & Cavusgil 2004) as in the pre-founding stage these firms will rely heavily on the knowledge of other players in order to quickly develop their international new venture (INV) (Coviello 2006). This can be problematic for some firms as they need to develop fluid processes by acquiring tacit knowledge or strategic resources that simply does not exist in their markets (Petersen & Pedersen 2002). While some posit that newness can be an advantage for these firms as they grow with the new experience and do not have as much unlearning to do as well established counterparts (Autio, Sapienza & Almeda 2000), these potential learning advantages still do not fully overcome the issues of liability of newness (Porter 1985) such as the need for knowledge resources, reputation and social capital (Freeman, Carroll & Hannan 1983).

As investing firms have a critical need for resources, access to networks can impact productivity (Hite & Hesterly 2001). Firms that exist in producer-driven networks and are able to build linkages can positively use these networks for influence with other firms in furthering their strategic positions (Chen, Chen & Ku 2004; Crossan, Lane & White 1999). For EM MNEs becoming a larger firm or entry via JV or M&A can provide more advantages through linkages as they gain the access and resources needed for exploiting opportunities (Chen, Chen & Ku 2004). It must also be noted that the ability to build local linkages will also depend on relational capital. When managing and leading in cross-cultural situations, managers of MNEs must consider the predominate culture and make appropriate adjustments to leadership style and the existing business model. Therefore, building linkages will require a high level of global awareness along with well-developed interpersonal skills (Tung 1981; Bass 1990; Liu 2008) which poses an additional concern if EM MNE managers or investors lack the requisite knowledge. As cultural awareness seems a basic premise for successful FDI, research shows that many companies are still

unable to assimilate the appropriate knowledge and basically remain semiglobals (Chen, Chen & Ku 2004; Chen, Wang & Chu 2011) and unable to gain global influence. It has also been proposed that until "companies learn what part of their knowledge about national cultures and entry modes can successfully be applied to new settings will they not become truly successful abroad" (Nadolska & Barkema 2007 p.1181).

'Organisational learning theory' posits that learning is most effective when the new knowledge is neither too far nor too similar to the existing knowledge (Barkema & Drogendijk 2007; Cohen & Levinthal 1990). This further questions the ability of EM MNEs in progressing into unfamiliar environments of DEs. From this perspective learning should be more effective if the psychic distance is not too great and there is an overlap in the culture blocs (Hayward 2002). The amount of learning is then dependent on the level of integration into a culture and level of social capital within a network (Tsai 2000). Developing effective relationships will require social embeddedness (Granovetter 1985) allowing firms to gain insidership (Johanson & Vahlne 2009) and lower transactional costs associated with LOF (Tallman et al. 2004). How learning occurs to overcome LOF during the period of entry and initial expansion will depend on the firm's ability to understand and assimilate practices to the host environment. Therefore in order to rate the effectiveness of decision making and learning in FDI by EM MNEs, close evaluation of the parent-subsidary transfer (Drogendijk & Holm 2012) will be critical in relation to outcomes

Absorptive capacity then becomes central to a firm's ability to learn; it requires firms to be able "to acquire, assimilate, adapt, and apply new knowledge" (Tallman et al. 2004 p.262). High levels of absorptive capacity require both ability and motivation (Minbaeva et al. 2003) in accumulation and assimilation of knowledge transfer (Bresman, Birkinshaw & Nobel 1999). Firms will therefore need to invest in and commit to creating a learning structure (Thomas, Sussman & Henderson 2001; Cohen & Levinthal 1990) to create a learning environment. In facilitating knowledge transfer, according to Simonin (2004) there must be learning intent and capacity which can be derived from three components: resource-based learning capacity, incentive-based learning capacity, and cognitive-based learning capacity. Resource-based capacity requires skilled personnel adept at learning in conjunction with a structure and system capable of processing and creating relevant information

and knowledge. Incentive-based capacity accesses rewards to steer members towards achieving desired objectives. Cognitive-based capacity utilizes cognitive attitudes and beliefs that value a learning environment to facilitate knowledge transfers. If EM MNEs are deficient in these abilities (Ambos & Ambos 2009), they must commit to improving their ability to insure overall organizational learning (Lu, Liu & Wang 2010). As knowledge can be the most powerful resource (Kogut & Zander 1993), firms must include the creation of a learning environment in strategic initiatives.

Another important concept in learning and knowledge transfer for EM MNEs investing in DEs is the issue of trust (Cohen & Levinthal 1990; Lane, Salk & Lyles 2006). Trust exists in relationships and when examining the absorptive capacity of knowledge, whether internally i.e. managers to subordinates, headquarters to subunits; or externally i.e. parent companies to joint partners; customers and suppliers to foreign providers, the amount of trust correlates to the capacity for learning (Lane, Salk & Lyles 2006). Trust will be an investment in relationships in order to facilitate a shared vision necessary for knowledge sharing and for global integration (Li 2005). The availability of qualified or trustworthy sources (Brown, Dev & Zhou 2003) could have an impact on isomorphism and strategic decision making and therefore critical for EM MNEs in DEs to find means for accessing networks and industry relationships (Park 2012). Obtaining access to interorganisational knowledge and specifically tacit knowledge via transfers from parent to subsidiary and from subsidiary to parent will require trust to build these alliances (Becerra, Lunnan & Huemer 2008). The ability to develop social capital or relationships that allow for knowledge transfer (Inkpen & Tsang 2005) will also depend on the acceptance and trust firms build within a network which can be complicated with foreignness. Relationship building and trust will therefore become important for operational fluency between the parent firm and subsidiary, which can be even more difficult for EM MNEs when investing in culturally distant environments (Sarala & Vaara 2010).

As absorptive capacity is just as dependent on attitude and ability as on experience, EM MNEs can compensate for latecomer status. The firm's mindset and attitude towards learning will be an important dimension in achieving overall performance (Nigam & Su 2010). Effective learning will require firms to develop policies that



promote adaptive learning allowing for individual investigation and network sharing for making necessary adjustments to environmental demands (Davidson-Hunt 2006). Adaptive learning is requisite to reading environmental signs and creating appropriate strategies, yet not all firms, and directly relevant to EM MNEs (Li & Yue 2008; Kogut 1988), do not or cannot allocate the necessary resources. Openness to new knowledge and flexibility in blending existing and new learning (Perez-Nordtvedt et al. 2008) will be imperative to improved positioning in a foreign environment (Le Mens, Hannan, & Pólos 2010). However, blending new and existing knowledge can create an antagonistic environment. Managers in cross-cultural ventures will need to take additional actions to bridge the gap (Junni 2011) but few studies have examined the resource availability in organizational process.

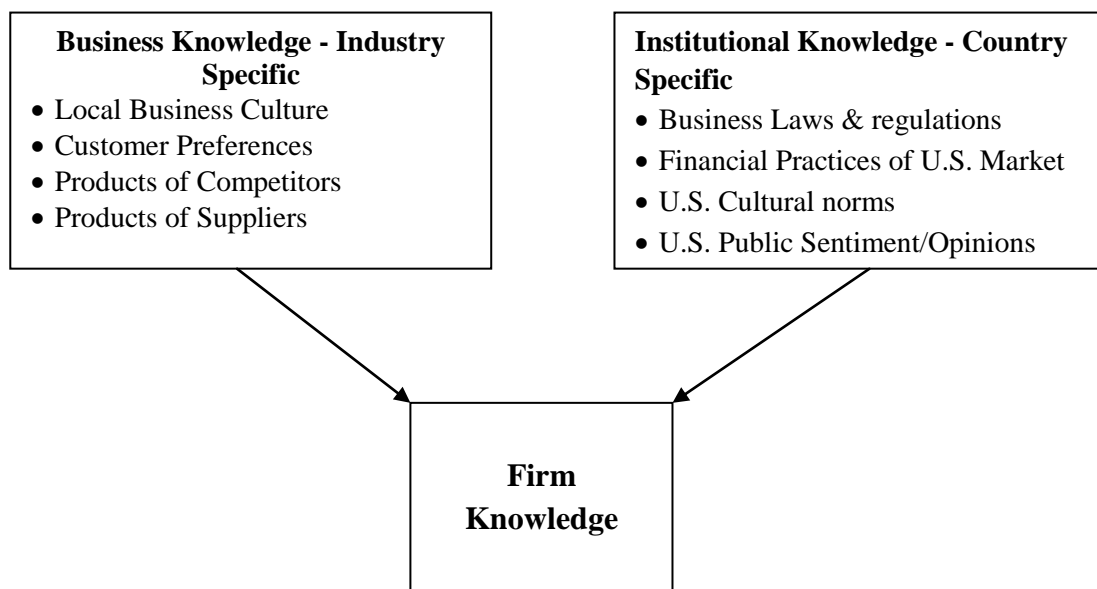
Organisational memory also impacts learning experience. The tacit nature of business information and path dependence of business practice can hamper the ability and speed of knowledge transfer (Volberda, Foss & Lyles 2010). If firms do not have a culture of transparency as related with many EM MNEs, knowledge transfer can become even more difficult or even a non-existent practice. Incentives and means for encouraging internal and external knowledge transfers are needed (Chen, Liang & Lin 2010); but if firms have a culture based more on protectionism than on sharing the challenges will increase. However since it is premised that EM MNEs are seeking strategic knowledge they should tend to be more open to building networks and sharing information (Zou & Ghauri 2008) so the needs and willingness of firms within an industry or network can vary, greatly hampering new entrants.

### **2.3.2 Knowledge**

Extant research proposes that experience and knowledge are keys for successful FDI (Nadolka & Barkema 2007; Petersen & Pedersen 2004; Mudambi & Navarra 2004; Petersen & Pedersen 2002; Shaver, Mitchell & Yeung 1997). In this perspective, two types of knowledge are essential: 1) country-specific knowledge which allows a company to understand the appropriate architecture for managing a firm in the foreign environment, and 2) industry-specific knowledge which combined with the country-specific knowledge, will allow the firm to compete within the industry in this location (Figure 2.2). Some contend that country-specific or market-specific knowledge is the most critical for FDI (Luo & Peng 1999; Petersen, Pedersen &

Sharma 2003). This further questions how EM MNEs that lack these knowledge bases will be able to OFDI in unfamiliar or diverse environments. Yet while this adds more insight into the FDI process, extant research has not investigated how knowledge is actually obtained and how first-hand experience or spillover knowledge ultimately impacts success rates (Rabbiosi & Santangelo 2013). Studies have failed to isolate the key determinants of effective knowledge exclusive of moderating variables making it difficult to determine the direct impact on EM MNEs.

*Figure 2.2 Types of Firm Knowledge*



Knowledge can also be explicit or tacit and differentiated by formality and coding. Explicit knowledge is information that can be codified, formalized, and easily translated for transfer. Explicit knowledge is more readily accessed and associated with lower levels of risk as it is associated with a firm's architecture, product, manufacturing, or industry trends which can be transferred verbally (Becerra, Lunnan & Huemer 2008). Implicit or tacit knowledge (Kogut & Zander 1993) is non-codified, complex, and "not readily communicated in written or symbolic form" (Bresman, Birkinshaw & Nobel 1999 p.446) so it will be more difficult to transfer. Gaining access to tacit knowledge will require a more direct contact with organisational members or gained through direct observance, requiring higher levels of risk and trust (Becerra, Lunnan & Huemer 2008) posing additional concerns for

industry outsiders or new entrants. Therefore, initial knowledge transfers will most likely be articulated or consist of architectural knowledge, wherein time and relationship building will be necessary for the transfer of tacit knowledge. For EM MNEs investing in DEs the initial learning goals may be limited and can impact the short and long-term process if not resolved (Mäkelä, Andersson & Seppälä 2012).

Tacit knowledge is a critical component of competitive advantage for firms as it is hard to duplicate (Zou & Ghauri 2008). Cultural knowledge is imbedded in each unique cultural bloc as is tacit, therefore it must be experienced for a true understanding (Barkema & Drogendijk 2007). Research has shown that the more integration in a culture, the higher the level of learning (Cohen & Levinthal 1990). Building relationships and experience will be a key part of the process for EM MNEs in gaining access to tacit knowledge. Since tacit knowledge can be difficult to gain, mimic and incorporate with IBV tactics, ambiguity becomes an issue for foreign firms in addressing LOF. For effective organisational learning into LOF, tacit knowledge and explicit knowledge will need to be converted and integrated into organisational learning. Having tacit knowledge for building relational social capital for all FDI activities is therefore instrumental in developing an effective learning environment (Mäkelä, Andersson & Seppälä 2012). Tacit knowledge will need to be externalized by converting it into explicit knowledge through models, rules, and goals, while explicit knowledge needs to be internalized by making tacit knowledge concrete through discussion and dialogue (Alipour, Idris & Karimi 2011). This can become a crucial factor since many EM MNEs, and especially the Chinese firms, have adapted a *laissez-faire* approach when entering DEs, especially noted when using M&As (Zhang et al. 2011).

Strong learning capability is critical for addressing the issues of internationalization (Hull & Covin 2010), yet not all knowledge will be applicable or even beneficial in new ventures. Since each situation is unique, organisational members must determine which prior knowledge applies and how it needs to be modified for successful future application (Nadolska & Barkema 2007) and if there is unfamiliarity with the environment, even if the information is available, the parent firm's management may not know what knowledge is relevant (Vahlne, Schweizer & Johanson 2012). Even though firms may suffer issues of LOF in the initial stages of FDI, by applying the appropriate learning to modify strategies, the companies can

create new routines for current and future applications. The question for EM MNEs in DEs will be whether they can create learning engagements that allow knowledge to become knowledge creation for overcoming LOF (Bresman, Birkinshaw & Nobel 1999).

### **2.3.3 Managerial Intent and Commitment**

Decision making and resource commitment can occur as a result of learning and knowledge transfer (Jones & Coviello 2005). Therefore knowledge must be accurately interpreted (Zeng et al. 2013), targeted at organisational goals, and then translated into capabilities for improved performance (Thomas, Sussman & Henderson 2001). An effective learning process for EM MNEs will require learning intent defined as "prioritization placed on resource allocation necessary for creating organisational learning in conjunction with commitment to achieving organisational goals" (Simonin 2004 p.423). Since managerial skills and initiatives impact learning in leveraging organisational competencies to gain competitive advantage (Vera & Crossan 2004) and as the level of these competencies is unclear within EM MNEs, developing an understanding the relationship that knowledge and learning has on managerial decision making will help to determine the effectiveness of the FDI process.

As research has shown that learning intent is positively correlated to knowledge transfer it is also an important factor to consider when evaluating foreign-firm's learning engagements in gaining familiarity with host environments (Perez-Nordtvedt et al. 2008). This is not to say that one necessarily causes or determines the other (Petersen, Pedersen & Sharma 2003), but that they influence one another (Johanson & Vahlne 2009). Take into consideration the "effectuation process" wherein entrepreneurs employ certain decision-making principles in order to deal with uncertainty (Sarasvathy 2001). In the case of FDI, there is uncertainty and the individual managers can move from merely predicting the future to potentially controlling it or at least take actions to adjust to challenges of LOF. Having knowledge of the foreign environment will influence the actions and levels of commitment of managers based on the belief that they have control over events and needs to be accessed for understanding FDI success. Therefore, learning engagements are important for EM MNE managerial commitment as firms need to

push decision making towards onsite managers to balance between global integration and local responsiveness (Li, Yu & Seetoo 2010).

Therefore, it is important to consider the role managers play in strategy from conception through performance when firms operate between emerging and developed economies. Effective strategic formulation and implementation will assume direct coordination in carrying out plans rather than through a process driven by random behaviour or autonomous actions (Farjoun 2002). Covin & Slevin (1990) point out that individual level behaviour and perceptions impact the organisation's actions and are many times the final actions themselves, yet most research tends to focus on firm-level decision making and not the inputs. And, since strategic choices can be incorrect, it is important to consider the conditions under which these decisions were made as well as understand the perceptions, biases, and intent of the people making them (Shaver 1998). It must also be noted that in most cases, decisions are not always reliant on the knowledge or learning capacity of just one individual (Volberda, Foss & Lyles 2010), however they may influence or be gatekeepers in the decision-making process. Some call for learning environments that build social capital as a value in its culture (Mäkelä, Andersson & Seppälä 2012), but also create non-linear learning where major organisational decisions are diffused and reviewed throughout the firm (Hitt, Keats & DeMarie 1998) to neutralize the decision process. Being able to build relationships between the foreign parent with the host stakeholders is an important part of the process to examine.

According to Buckley, Devinney & Louviere (2007), a missing element in many studies is not taking into consideration that managerial decisions and commitment to strategic actions are idiosyncratic and subject to bias, which can be compounded by cultural diversity. Managers' perceptions of situations and environments will be viewed through their own 'cognitive lenses' (Volberda, Foss & Lyles 2010) becoming an important factor in developing learning engagements in addressing cultural issues of LOF. Global decision making is considered to be a multi-level process based on Reference Point Theory (RPT) wherein "managers need to match global environmental conditions with certain reference points" (Harvey et al. 2011 p.178). Managers at all points of the foreign operation will need to take information and cues from the individual, group, organisation, and society and blend this with

the global conditions to make decisions. Therefore, perceptions and past experiences become important variables in managerial decision making when bounded rationality, biases and judgments can play a key role (Aharoni, Tihanyi & Connelly 2011) and lead to greater risk. However, if EM MNEs have not taken the steps to address these issues, FDI success must be evaluated through other variables

Wherein firms are highly influenced in their strategies and decisions based on home country environments (Li & Yue 2008; Kogut 1988), individual's perceptions and intent can also be greatly embedded in home culture. And although the new environment will call for flexibility and willingness to learn about the nuances of the foreign environment and culture, many times, individuals tend to fall back on what is familiar or comfortable. Until dissatisfaction occurs with a process, many will not seek new alternatives (Holmqvist 2004). Therefore a stronger push to define problems and a greater commitment of resources will develop as the amount of challenges a firm faces in a foreign country increases or if a manager perceives a wider psychic distance (Cohen & Levinthal 1990).

Managerial perceptions impact the learning process at all stages from the early consideration stage in examining FDI opportunities to the investment stage of developing strategies to taking action through the entire implementation stage (Thomas, Sussman & Henderson 2001). In examining managers intent and commitment to gaining familiarity with foreign environments, the 'when' then becomes as much of a critical variable as the 'what'. Managers must intend to and commit to encouraging feed-forward learning for exploration on issues of LOF and on incorporating feedback learning for exploitation of existing knowledge (Vera & Crossan 2004). A manager's role becomes critical as an effective learning system must be institutionalized by a champion to insure future value (Crossan & Berdrow 2003).

### 2.3 ADDRESSING CHALLENGES IN INTERNATIONALISATION

Even as firms work diligently to make effective FDI process decisions with strategic learning and evaluation, internationalisation has inherent risks. The MNE theory of competitive advantage provides that domestic firms have distinct advantages within their home country due to better access to local resources (Dunning 1979; Buckley

& Casson 1976). In applying these advantages to opportunities, firms must become efficient (Hennart 2001) and overcome market imperfections in order to compete (Hymer 1960, Caves 1982). Within this context, MNEs are structural institutions that try to overcome the imperfections or costs of foreign competition by gaining control over markets, resources, or industry positioning to obtain competitive advantage. Adept knowledge and insight for developing sustainable practices is required for MNEs to strategically implement these advantages internationally.

If knowledge capability is essential for success, it raises several questions. What knowledge do these emerging market firms have about globalisation or what knowledge are they lacking in this area? How do they learn of challenges and means for minimizing the negative effects? And how does the level of knowledge impact the learning engagement process? Firms must first have clear insight into the challenges and risks present in the foreign business environment. Understanding the challenges of foreign investment and how MNEs have developed strategies will begin to unearth how learning and knowledge or lack thereof impacts a firm's operations in a foreign setting.

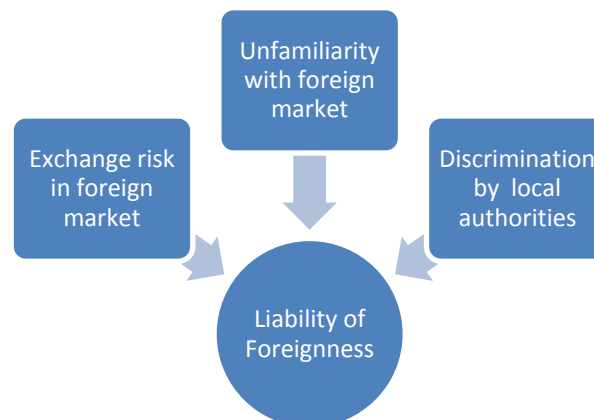
#### **2.4.1 Assessing Liability of Foreignness**

MNE's face many challenges in the process of outward foreign direct investment (FDI). These challenges arise from the duality of the process stemming from pressures and practices from the home environment as well as the host environment (Lin 2010; Voss, Buckley & Cross 2010; Cheng & Yu 2012). Studies have shown that foreign firms can be disadvantaged in comparison to domestic firms when competing in foreign markets (Caves 1982; Nachum 2003). One explanation for domestic firm competitive advantage is provided by the phenomena of 'Liability of Foreignness' (Hymer 1960; Zaheer 1995). 'Liability of Foreignness' (LOF) suggests that foreign firms incur increased transaction and information costs from either a lack of familiarity with the new environment or because they are limited in access to resources which are more readily available to their domestic counterparts (Buckley & Casson 1976; Dunning 2000). This lack of access to resources can directly limit a firm's ability to gain knowledge of the foreign environment (Vithessonthi 2010). As firms are faced with both internal and external forces, the benefits of

internationalizing must overcome the costs associated with cross-border expansions; otherwise they look towards domestic options (Kling & Weitzel 2011)

The theory of MNE competitive advantage (Dunning 1998) further lends to this premise of competitive disadvantage. It posits that the origin or location of the domestic firm is an innate benefit as it allows companies to readily access resources and pre-emptive favourable status for developing a competitive advantage over foreign competitors. It is then assumed that a lack of connection impacts the amount of knowledge or even access to learning a firm needs to manoeuvre in the foreign domain, putting them at a distinct disadvantage. A lack of knowledge can lead to uncertainty, and therefore when firms are faced with uncertainty in a foreign environment, decision making and strategies can be impeded (Calhoun 2002). This can lead to costly errors impacting short-term and ultimately to long-term success (Pedersen & Petersen 2004).

**Figure 2.3 - Hymer's Dimensions of Liability of Foreignness**



According to Hymer (1960) the 'liability of foreignness' (Figure 2.3) occurs from 1) the risks or costs associated with running a business in a foreign market, 2) the discriminatory actions of governments, customers, or suppliers, and/or 3) the firm's unfamiliarity with the foreign market. Others have expanded LOF's concept of costs associated with running a foreign business to include issues of (Pedersen & Pedersen 2002; Zaheer 1995) spatial distance which encompasses travel coordination and the issues of working in multiple time zones, firm-specific weaknesses including a lack of networking connections or limited management experience in international markets, factors stemming from the environment such as



a basic lack of understanding of the foreign environment, a lack of industry legitimacy, high levels of economic nationalism, or even the span of cultural distance, and the home country environment (Voss, Buckley & Cross 2010) which may pose legal or cultural restrictions. And while most of these issues can be denoted for all firms from the basic premise of 'liability of newness' (Stinchcombe 1965), it is posited that for cross-border operations, these issues become amplified by cultural and geographic distance (Tihanyi, Griffith & Russell 2005; Brouthers & Brouthers 2001; Shenkar 2001). With this broad array of issues facing foreign investors, it appears that most if not all foreign firms will be challenged by some form of LOF.

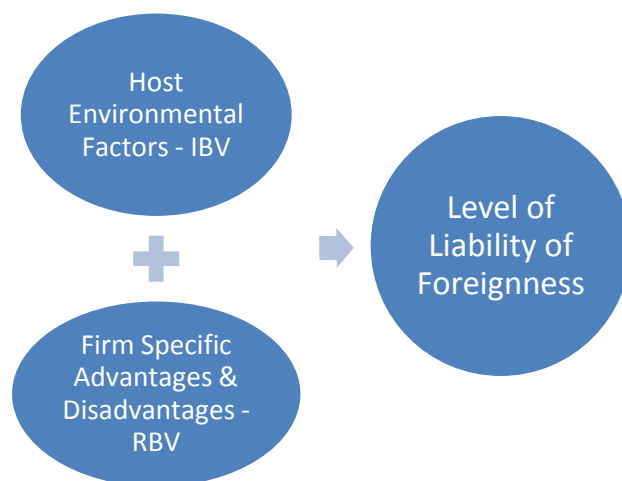
Further compounding a firm's unfamiliarity with environments is the principle of the 'liability of outsidership' (LOO) (Johanson & Vahlne 2009) which posits that as a result of LOF, firms are unable to build networks or linkages with other firms to share information or essentially unable to become an insider. The lack of these networks limits the learning and knowledge wherein firms can overcome LOF. It seems that LOF and liability of outsidership have an interdependent relationship. Without networks in a foreign market, foreign investors will face liability of outsidership, and struggle with learning and hence managing the liabilities of foreignness. And while research suggests that MNEs seem more capable of transferring knowledge and maintaining effective communication across borders than in cross-border arm's length transactions (Hennart 1991; Caves 1982; Kogut & Zander 1993), historical studies provide evidence that many large MNEs are not always successful in the long-term and there seems to be limitations in the knowledge transfer process (Elango 2009; Johanson & Vahlne 2009; Barkema & Drogendijk 2007; Lane, Salk, & Lyles 2001). The inability to recognise the factors of LOF either through firm knowledge or through networks in order to become an insider, will impact the sustainability for all foreign firms.

#### **2.4.2 Perspectives on FDI Decision Making for Addressing LOF**

Decisions must be made to reduce or solve difficulties with the internationalisation process in relation to foreignness. As prescribed in literature (Cuervo-Cazurra, Maloney & Manrakhan 2007), there are three dimensions that generate these difficulties: 1) the loss of an advantage occurring in transferring a home advantage into the host country, 2) creation of a disadvantage which occurs when home

resources conflict with host attributes, or 3) lack of complementary resources where firms do not possess the requisite resources needed for effective operations. In prescribing strategies for addressing these difficulties which filter into LOF, firms will either need to imitate the actions used by the successful, existing firms or will need to utilize firm-specific advantages (Peng 2008; Harzing 2002; Zaheer 1995). These two streams of action have evolved into distinctive perspectives: the Institutional Based View and the Resource Based View (see Figure 2.4). And while each of these views presents options for dealing with LOF, they also serve as a force or pressure towards developing tactics for managerial decision making.

**Figure 2.4 - Determinates and Moderators of Liability of Foreignness**



**2.4.2.1 Institutional Based View: Isomorphism and LOF** The host country environment can have a substantial impact on FDI strategies and success (Li & Yue 2008). Government regulations, levels of competition, and cultural norms of the foreign market all play a role in helping or hindering international expansion (Porter 1990; Kogut 1988). The Institutional Based View (IBV) theory (Cyert & March 1963) proposes that organisations should develop strategies that focus on the external institutions within the environment to create sustainable competitive advantage (Rozenzweig & Singh 1991; Haveman, Rao & Paruchuri 2007). Through utilizing this institutional approach, firms will mimic or adapt practices used by existing firms within the market to obtain legitimacy within the industry and become an accepted player within the marketplace (Suchman 1995; Bockem & Tuschke 2010). From this perspective, companies must adapt local practices or become

"similar" to local firms in order to minimize risk and uncertainty in a new environment (DiMaggio & Powell 1983; Meyer & Rowan 1977).

According to Prahalad and Doz (1987) due to imperfect understanding of the new environment, and pressures from the host environment to conform, firms tend to adapt to local conditions to achieve legitimacy. Yet this practice of *isomorphism* counters the basic premise of competitive advantage since doing something different or better than a competitor is what is prescribed to provide competitive advantage (Porter 1998; Rugman & Verbeke 2003a). This then raises the question of how can organisations gain competitive advantage if unique characteristics or tactics are lost through IBV (Zaheer 1995). And if sharing knowledge and learning from one another is the norm, what happens to innovation through this information sharing process (Jack 2005). The premise of IBV is also based on the premise that local firms are the exemplar firms (DiMaggio & Powell 1983), which may not always be the case; domestic firms may not always be the best model for a mimetic strategy.

There are three forms of institutional isomorphism impacting firms. *Regulatory or coercive isomorphism* is derived from the mandates of laws or regulations which can dramatically alter the environment (Haveman, Russo & Meyer 2001). *Normative or 'sociological institutionalism'* (Hall & Taylor 1996) can result from industry standards or norms or from the cultural expectations and norms prescribed by the regional community, becoming a powerful force especially when there is a strong sense of economic patriotism (Hillman & Wan 2005; Ikenberry 1988). *Mimetic isomorphism* occurs when foreign firms follow the actions of established or successful firms. Mimicking the practices of local exemplars is prevalent when there are high levels of free market trade in conjunction with a lack of formal restrictions on competition (DiMaggio & Powell 1983). Isomorphism is appealing in FDI as firms are embarking on these ventures not only for economic opportunities but to obtain high levels of performance and industry positioning within the marketplace (Ivery, 2007). This may be especially true for firms from emerging markets as "the survival chances of an organisation increases with an increasing degree of legitimacy" (Oertel & Walgenbach 2009 p.263). However, the decision to mimic may be tampered within less risky countries such as the U.S. or within more stable markets or industries (Bockem & Tuschke 2010) where transparency levels out the playing field within a marketplace (Haveman, Russo & Meyer 2001). Utilizing IBV

will require firms to understand the external institutional environments as well as the internal cultural environment of the host country (Calhoun 2002).

*Laws/Regulations* - Firms are faced by pressures from internal (MNE) and external (host country) sources to conform in order to gain legitimacy (Oertel & Walgenbach 2009). This 'institutional duality' causes firms to create political strategies using informational, financial or networking resources (Hillman & Wan 2005). While the U.S. legal environment seems more transparent than that of many emerging economies, the U.S. system is influenced by societal norms that shape organisational behaviour. Consequently, U.S. international policy is a system-centred process derived from pressure from political party politics, society-centred policy impacted by public sentiment, as well as state-centred structure based on the U.S. legal system and rules of democracy (Ikenberry 1988). Transparency can be a benefit to many (Boisot & Meyer 2008) as some firms seem to flourish in more opaque environments and are less impacted by political risk (Buckley & Casson 1998) or even corruption (Calhoun 2002). According to Stinchcombe (1965), change will not come unless the benefits of a new system will outweigh the weaknesses of the new structure. So while critical incidents such as September 11 renewed the belief in patriotic protectionism (Scheve & Slaughter 2007), the global economic crisis and need for investment has altered or misaligned policymaking (Golub 2009) with many seeking foreign investment. As studies have shown that foreign subsidiaries within the U.S. will face more labour lawsuit judgments they must also be able to "identify and successfully implement accepted HR practices" (Mezias 2002 p.242) in order to survive U.S regulations.

*Cultural Norms* - The characteristics of various cultures can create normative pressures (Kogut & Singh 1988) which may increase transactions costs as a result of communication barriers (Hennart & Larimo 1998). When observing the issue of economic patriotism, political protectionism, and public perceptions of foreignness, the resulting trend can be a liability or a benefit. While the general public does not always understand all of the nuances of globalization, they will have some knowledge base or perceptions many times based on emotional factors such as fear of job replacement or the threat of livelihood which outweighs the benefits of consumerism (Hoffman 2010; Edwards 2006). Normative pressures are also impacted by whether the foreign firm is dealing with industrial buyers or private

consumers (Insch & Miller 2005), wherein commercial markets tend to have a more open view on foreign investment. The country of origin can also have a profound impact on success or failure of a firm or product as well (Porter 1990). Country image or country-specific attributes associated with products or services can either be a help or a hindrance. For example, German beer, Swiss watches, or Italian leather universally carry a positive association of quality which can help companies sustain within the global marketplace wherein many emerging market nations will need to overcome negative connotations related to quality and reliability.

*Industry Standards* - Firms may attempt to blend in by adapting the practices of established firms within the host environment. In order to do so, firms will need to build networks or webs of connected business relationships to exchange the necessary knowledge (Anderson, Hakansson & Johanson 1994; Johanson & Vahlne 2009). Since today's global marketplace is a web of networks linking firms (Johanson & Vahlne 2009), being inside the network is crucial to surviving internationalisation and reducing the effects of LOF. Building relationships and trust (Li 2005) within the market and industry will help to avoid the issues of "liability of outsidership". These networks can provide social capital and spur learning by tapping into resources (human or informational) helping to increase competitive advantage (Buckley, Devinney & Louviere 2007). For many foreign firms, being able to locate in an area where they can become a part of a network may also override the concern of cultural distance (Johanson & Vahlne 2009). Pre-entry learning (Petersen & Pedersen 2002) via the transfer of knowledge from other firms or from prior international experience can also help to reduce the impact of LOF (Hull & Covin 2010; Tan 2003). However, accessing a network may be difficult as not all learning is reciprocal when firms have varied learning capacities and some firms may have more competitive than collaborative aims (Hamel 1991).

The reliance on IBV approaches can arise from the level of concern firms have with blending as determined by their motivation for internationalization. While it was premised that as economic, cultural and regulatory distance increases so will the reliance on isomorphism (Salomon & Wu 2012). Yet as EM MNEs tend to be driven more by asset-seeking and opportunity-seeking (Luo & Tung 2007) this will also impact the amount of isomorphism and reliance on knowledge sharing. The question becomes as to whether country or industry-specific modes and adapting to

local practices can help these firms deter backlash which has become even more pronounced due to poor economic times in developed countries (Leung et al. 2005).

*2.4.2.2 Resource Based View: Firm-Specific Assets and LOF* The second perspective, the Resource Based View (RBV) posits that internal actions or a firm-specific resource such as leadership or management initiatives (Penrose 1959; Hamel & Prahalad 1983; Peteraf 1993) are key determinates for sustainable FDI (Rugman & Verbeke 1992). This perspective proposes that having knowledge of the environments is not exclusive and therefore cannot provide unique opportunities necessary for attaining competitive advantage (Shane 2000). As denoted by Penrose (1959), firms are 'a collection of production resources' and these need to be honed and coordinated to integrate industry-specific, firm-specific, and location-specific advantages (Tan 2003). This heterogeneity should provide a firm a unique competitive advantage and is the premise for RBV (Peteraf & Bergen 2003). Since organisations are considered heterogeneous it must be determined which resources organisations have and how they have been applied in the foreign market. Resources are only considered to be firm-specific if they are uniquely available to that one firm and are not available to a set of firms (Teece 1997).

By effectively matching firm-specific resources to environmental opportunities it is presumed that organisations with superior resource utilization will achieve superior performance and therefore a competitive edge (Wernerfert 1989; Prahalad & Hamel 1990). This does not mean that they will not have overlap in resources, but rather the functionality or use of the resource provides the "rareness" (Peteraf & Bergen 2003). By developing a competitive edge through firm-specific resources they could presumably reduce or limit the impact of LOF. A study of Japanese firms within the U.S. showed that those that "provided internal and international managerial resources to their U.S operations tended to achieve higher growth rates in the U.S. industries than those who had a limited international presence" (Tan 2003 p.579). However, this was proven for a study on Japanese firms only, so unless these internal resources are truly unique, it cannot be determined if these finding can be generalised. Yet some believe the modification of firm-specific resources can open up FDI possibilities in many new locations (Dunning 1998) which would be highly relevant in examining EM MNE FDI.

Based on the premise of Edith Penrose's (1959) work, an organisation's growth is based on competencies honed through its history. Yet measurement of resource-based activities in studies focused on exemplars or outliers rather than the average firm within an industry, thus making it difficult to generalize RBV for FDI success (Hansen, Perry & Reece 2004). In order to measure the impact of RBV, competencies and capabilities will need to be separated to distinguish the heterogeneity of the firms by determining ownership specificity to a firm (Rugman & Verbeke 2002). Two categories of resource-based assets that gain competitive advantage have been identified (Penrose 1959; Tseng et al. 2007): Productive or property-based resources and Administrative or knowledge-based resources.

*Productive Resources:* Firms can deploy productive resources such as physical location, organisational structuring, branding, and even R & D (Rugman 1981; Tseng et al. 2007) in order to gain advantage in foreign markets. Financial advantages can also be an important variable in sustaining OFDI. Firm-specific advantage can be created by a firm's ability to control costs in exploiting low-cost location resources (Dunning 1998) or through economies of scale (Porter 1985). For example, it is posited that the Chinese have a financial advantage over foreign firms due to the imperfections of their domestic capital markets. With poorly regulated or inefficient banking and investment practices in China, many companies have received "preferential treatment in obtaining cheap and abundant funding"; allowing them to capitalize on financial benefits in international operations (Voss, Buckley & Cross 2010). The location-specific advantages can also be important for boosting growth when infrastructure, labour pools, and distribution channels are capitalized on for exploiting a firm's position (Chen 2005). Organisational structures that allows for the adoption of new practices and licensing requirements will also be of value in setting the firm apart from its competitors (Hwang & Gaur 2009).

*Administrative Resources* - While firms may have unique resources, 'productive resources' must be differentiated from 'administrative resources' as managerial decisions determine how to use knowledge-based resources (Penrose 1959). The ability to tap these resources and transfer the knowledge through managerial or organizational skills across borders and subunits is a core factor for competitive advantage in RBV (Conner & Prahalad 1996). Managerial ability takes firm-specific knowledge and translates it over to country-specific advantages (Hennart

1991; Rugman and Verbeke 1992) overcoming the costs connected to communication barriers by building linkages between the two necessary fields of knowledge. While some studies show that firms are able to transfer this knowledge (Hwang & Gaur 2009; Rugman 1981; Tseng et al. 2007) others have found that many firms are unable to translate this in foreign opportunities, losing the potential for advancement (Connor & Prahalad 1996).

With the challenges of global management, a core competency is having global leaders who can be productive, efficient, morale leaders while being adaptive and innovative at the same time (Tan 2003). Leaders who have mastered high levels of behavioural complexity and build this core competency are critical for long term sustainability (Petrick et al. 1999). Managerial capabilities in obtaining and utilizing resources - building relational capital (Chen, Chen & Ku 2004) - to generate advantage can provide extensive bargaining power in the international arena for not only the firm, but for the individual managers as well (Coff 1999). Being able to manage cross-borders by boosting reputational capital can be the differentiating factor in sustainable competitive advantage (Hamel 1991). The learning capacity of managers must also be considered. The ability of new managers to learn from previous managers, processing static knowledge from previous practices to lay the foundation for future learning through dynamic knowledge will help to provide competitive advantage (Teece, Pisano & Shuen 1997). The ability to decipher the environmental setting and blend what is needed in the environment, with the organisations resources will allow the firm to embark on marketplace opportunities (Conner & Prahalad 1996). Employee skills will therefore become an important factor in RBV in surviving knowledge-based economies (Newbury, Gardberg & Belkin 2006).

Knowledge-based information from innovation and entrepreneurship may also be a key asset to RBV as they are hard to imitate (Tseng et al. 2007; Petrick et al. 1999) and can provide a tremendous amount of bargaining power (Coff 1999).

Technological advantages held by firms such as manufacturing processes or patents (Chen & Hennart 2002) can be a means for firms to take a pre-emptive position in a foreign market (Tseng et al. 2007). Reputational capital as an outcome of firm's actions can create a sense of competency for stakeholders (Fombrun & Shanley 1990) and the recognition or acceptance of a brand can therefore moderate



the impact of foreignness (Newburry 2010). Creating a brand image is then not only crucial for EM MNEs from a firm standpoint but also from a country standpoint as consumers attach connotations to brands based on country image (Pappu, Quester & Cooksey 2007) providing a firm-specific advantage.

While RBV may set a strong strategic base many times firm-specific advantages are hard to transfer across boundaries and can be limited in scope within the host environment. These home advantages may need to be adjusted and many times EM MNE firms lack the flexibility or managerial awareness to denote the necessary changes (Li & Yue 2008). Regardless, firm-level initiatives from either IBV or RBV are necessary in addressing the issues of LOF. While organisation theory emphasizes isomorphic actions in adapting to new environments and resource theory prescribes unique actions instead, many believe these two must occur simultaneously in dealing with environmental challenges (Cantwell, Dunning & Lundan 2010; Chiao, Lo & Yu 2010). According to Mathews (2006), firms will need to be able to complete the LLL process: linkage, leverage, and learn. This will require that EM MNEs have the ability to scan and adjust to the environments to make the linkages, and once they do so, they will then need the internal skills to be able to leverage the knowledge into some type of advantage and sustain this through effective learning.

The extent of the institutional interactions from the host or home environment can push a firm or subsidiary to lean towards either IBV or RBV (Cheng & Yu 2012). It has been proposed that overcoming LOF can potentially be achieved by locating in countries with similar institutional environment (Holburn and Zelner 2010). However, for EM MNEs locating in DEs this has reduced this proposition. Entry mode is also a means for addressing LOF (Martin & Salomon 2003), yet studies are inconclusive on developing distinct correlations to LOF and entry mode chosen as is the lack of evidence to tie networks and alliances with host country agents (Kostova, Roth & Dacin 2008). And while it seems logical that firm advantages could greatly address the issues of LOF, evidence is still inconclusive on which advantages or what degree is needed as well as questioning whether EM or Chinese firms have the FSAs that are necessary for fending off LOF in DEs. Therefore, in this study, these two approaches, IBV and RBV will be incorporated in examining the FDI process

and accessed as forces on decision makers when addressing LOF through learning engagement (Harzing 2002; Rosenzweig & Singh 1991).

Extant literature has provided a solid base for the understanding of the antecedents, the process and to some degree their impact on outcomes for foreign direct investment. Yet as these theories have grown out of early stage FDI focused on the actions of DE firms, many questions arise when comparing this to the variances denoted with EM MNEs and especially with their increased presence in DEs. Therefore, using some of the components of existing theories along with some suppositions associated with recent publications, this thesis will attempt to examine the FDI practice of Chinese firms within the U.S. to confirm their relevance or variance from actual practice to extend the existing western-based perspective (Child & Rodrigues 2005).

## **CHAPTER 3 - Project 1: Inquiry on impact of FSAs for Chinese FDI in the U.S.**

### **3.1. INTRODUCTION**

Even with the global market facing its worst recession since World War II, China is expected to ship US\$1-2 trillion in direct investment abroad by 2020 (Rosen & Hanemann 2010). Chinese firms are reliant on Foreign Direct Investment (FDI) as continued global activity is a necessity for expanding, diversifying, and enhancing their strategic capacity (Chung & Alcácer 2001; Buckley & Casson 1976; Porter 1998; Hitt, Keats & DeMarie 1998). Emerging Market Multinational Enterprises (EM MNEs) are no longer mainly expanding in other emerging markets, but EM MNEs, especially those from China are building momentum in developed countries (Deng 2009; Buckley et al. 2007). But successful investment in any foreign market is more than simply looking at bottom line profit. Building a sustainable FDI strategy hinges on creating a competitive advantage to mitigate challenges associated with foreign operations (Hymer 1960; Buckley & Casson 1976) and "Liabilities of Foreignness" (LOF) (Hymer 1960; Zaheer 1995) while capitalizing on core competencies to exploit opportunities in the global marketplace (Johanson & Vahlne 1977; Prahalad & Hamel 1990). Developing a sustainable strategy will therefore necessitate the development and exploitation of firm-specific advantages (FSAs) (Rugman & Verbeke 2003) and hence the ability of the parent to transfer this knowledge to the new subsidiary (Hull & Covin 2010) to leverage its opportunities (Mathews 2006) and reverse the knowledge flow for global understanding (Rabbiosi & Santangelo 2013).

Research on Chinese outward foreign direct investment (OFDI) has gained increased attention in recent years as it was virtually non-existent prior to 2000 but has rapidly increased with China ranking among the top 10 outward investing countries (Davies 2012) and positioned to become the world's largest economy in GDP by 2020. Early research on international business ventures tended to focus on using mainstream theories (Dunning 1998; Porter 1985; Johanson & Vahlne 1977) when investigating the internationalization of China. While many of these theories provide a base for IB research, Chinese OFDI, especially in developed economies is unique in practice and results (Luo & Tung 2007; Nigam & Su 2010; Barkema & Drogendijk 2007)

questioning whether existing research is adequate for explaining their FDI process (Cuervo-Cazurra 2012). Therefore, there is a paucity of research directly focused on this unique combination for EM MNEs in developed nations (Yamakaw, Peng & Deeds 2008; Rugman & Li 2007). With so many unanswered questions, this paper will begin to explore the level and types of foreign liabilities faced by Chinese owned firms within the U.S from the U.S. management's perspective. In doing so, I will explore whether it is perceived if the FSAs these Chinese parent firms possess FSAs needed to fend off LOF in DEs and if so, are they subsequently able to transfer these FSAs in international ventures, and what organisational tactics U.S. management feels have been instrumental in the knowledge transfer and learning process that may mitigate challenges of LOF.

## 3.2. RESEARCH QUESTIONS BASED ON LITERATURE REVIEW

### 3.2.1 Premise of Liability of Foreignness

MNE's face many challenges in outward foreign direct investment (FDI) arising from the duality of the process stemming from pressures and practices from both the home and host environment (Lin 2010; Voss, Buckley & Cross 2010). Research confirms that MNEs are not only exposed to Stinchcombe's premise of 'liability of newness' (1965), but it is also posited that for cross-border operations, these issues become amplified by cultural and geographic distance (Tihanyi, Griffith & Russell 2005; Brouthers & Brouthers 2001; Shenkar 2001) creating a potential disadvantage for these firms in accessing resources (Vithessonthi 2010) in comparison to domestic firms within the foreign markets (Caves 1982; Nachum & Zaheer 2005). This disadvantage deemed as the phenomena of 'Liability of Foreignness' (Hymer 1960; Zaheer 1995), suggests that foreign firms incur increased transaction and information costs from either a lack of familiarity with the new environment or limited access to resources which are more readily available to their domestic counterparts (Buckley & Casson 1976; Dunning 2000).

Based on the existing LOF literature (Hymer 1960; Zaheer 1995) it is presumed that Chinese firms will face a unique set of pressures in outward foreign direct investment (OFDI) (Gaur, Kumar & Sarathy 2011; Child & Rodrigues 2005) since they are relatively new and few in number into the process, especially in developed

nations (Morck, Yeung & Zhao 2008). Limited experience for these firms tends to translate into limited managerial experience in highly competitive nations (Barnard 2010), which for Chinese firms, is further compounded by the high degree of protectionism from the Chinese government, which still exists and creates its own set of challenges especially when dealing with developed nations (Wei 2010). For Chinese firms working within the U.S., it would therefore be presumed that the vast geographic and cultural distance of the two nations (Hofstede & Hofstede 2005, House et al. 2004 ), in conjunction with the pressures from the home and host environments (Barnard 2010) have a higher risk of facing elements of LOF (Gaur, Kumar & Sarathy 2011). Yet while Gaur, Kumar, and Sarathy (2011) posit that the highest risks of LOF may be faced by emerging market multinational firms (EM MNEs) expanding into developed economies (DEs), others propose that while they may face LOF in the host environment, it is preferable to the high degrees of disadvantage these firms face in their home environments, especially in China - i.e. lack of transparency, high levels of competition (domestic and foreign), or governmental control (Boisot & Meyer 2008; Cheung & Qian 2009). Cultural distance and the threat of LOF are therefore not the only determinants for internationalization or mode of entry as the possibility of opportunities can become a more potent factor if they are perceived to be able to override the costs (Tihanyi, Griffith & Russell 2005).

While researchers (Hennart, 1991; Caves 1982; Kogut & Zander 1993) suggest that MNEs seem more capable of transferring knowledge and maintaining effective communication across common borders than in cross-border arm length transactions, historical studies provide evidence that many large MNEs are not always successful in the long-term in either venue and there seems to be limitations in the knowledge transfer process (Elango 2009; Johanson & Vahlne 2009; Barkema & Drogendijk 2007; Lane, Salk, & Lyles 2001). Emerging market MNEs (EM MNEs), especially those from China, are perceived to lack the experience for acquiring the knowledge for managing within foreign cultures (Barkema & Drogendijk 2007; Peng 2005) and therefore would be more susceptible to the liabilities resulting from an unfamiliarity of the host environment. Chinese firms also continue to lack many of the firm-specific advantages (FSAs) critical for operating within developed nations ultimately impacting productivity (Rui & Yip

2008; Rugman & Li 2007). As latecomers, Chinese FDI is also relatively new and limited within the U.S. (Child & Rodrigues 2005) which further limits the network connections for linking Chinese MNEs to other foreign or domestic firms (Peng 2012). This lack of access or inability to build networks or linkages with other firms to share industry information hinders these firms as they remain outsiders (Johanson & Vahlne 2009). The inability to reduce the factors of LOF either through enhancing firm knowledge or through networks to become an insider, could impact the sustainability for Chinese firms in DEs (Rugman & Li 2007; Marinova, Child & Marinov 2011).

While extant research acknowledges the generalized existence and complications of LOF associated with basic cultural distance (Dikova & van Witteloostuijn 2010; Kogut & Singh 1988; Hofstede & Hofstede 2005), there is a paucity of research that provides the precise implications for FDI actions or results (Dow & Karunaratna 2006; Tihanyi, Griffith & Russell 2005; Brouthers & Brouthers 2001; Shenkar 2001) distinct for EM MNEs in developed nations. Therefore imposing mainstream theories on the Chinese OFDI process (Wei 2010) may not provide an accurate account of their experience (Ramamurti 2012; Hennart 2012; Cuervo-Cazurra 2012). Luo and Tung (2007) denote some of the FDI challenges unique to the Chinese as 1) poor corporate governance, 2) post-spring-board integration and organisation difficulties, 3) lack of global experience, managerial competence and professional expertise and 4) weak product/process innovation. Others feel that since Chinese firms are relatively new and sparsely distributed in the developed markets with limited ethnic networks to rely upon (Marinova, Child & Marinov 2011; Johanson & Vahlne 2009), LOF may be higher in a developed marketplace such as the U.S. (Gaur, Kumar & Sarathy 2011; Child & Rodrigues 2005). As it is posited that the highest levels of LOF will be experienced by emerging market firms going into developed markets (Gaur, Kumar & Sarathy 2011), this phenomena is a crucial consideration for Chinese OFDI. With the lack of clear insight and a broad array of issues facing foreign investors, this study addresses the following initial key research question (RQ):

**RQ1:** To what degree and which factors of LOF impact Chinese firms in the U.S. marketplace?

### 3.2.2 Firm Specific Advantages

Strategies must be devised to address difficulties with the internationalization process in relation to foreignness (Rui & Yip 2008; Rugman & Li 2007). In prescribing strategies for addressing these difficulties firms will either imitate the actions used by the successful, existing firms (Bockem & Tuschke 2010; Lin 2010; Voss, Buckley & Cross 2010; Haveman, Rao & Paruchuri 2007) or capitalize on internal resources (Shane 2000; Tan 2003; Peteraf & Bergen 2003; Tseng, Tansuhaj, Hallagan & McCullough 2007; Hwang & Gaur 2009) to provide a unique competitive advantage. Imitation is addressed through the Institutional Based View (IBV) theory (Cyert & March 1963) which proposes that organisations should develop strategies that focus on the external institutions within the environment to create sustainable competitive advantage (Rozenzweig & Singh 1991; Haveman, Rao & Paruchuri 2007). Through utilizing this institutional approach, firms will mimic or adapt practices used by existing firms within the market to obtain legitimacy within the industry (DiMaggio & Powell 1983) to become an accepted player (Suchman 1995; Bockem & Tuschke 2010). From this perspective, companies must adapt local practices or become "similar" to local firms in order to minimize risk and uncertainty in a new environment (DiMaggio & Powell 1983; Meyer & Rowan 1977).

The IBV approach would then be seen as an essential practice as many firms from emerging markets tend to lack experience and connections within developed markets. Acceptable industry standards should be readily available to foreign firms as industry knowledge is explicit and relatively easy to garner from their domestic counterparts (Porter 2000) however, if they lack the network connection, this approach can be hindered (Buckley et al. 2007). According to Mathews (2006), the Chinese firms would need to be able to create linkages, then leverage the knowledge and learn (LLL) from the process when relying on isomorphism as a means to becoming a legitimate competitor in the new environment. This raises the question as to whether the Chinese firms even have the internal abilities (Barnard 2010) to complete the LLL process to make IBV a viable option. It must be presumed that some degree of comparative skills must exist in order for IBV to be effective for EM MNEs (Peng 2012) and premises the notion that IBV cannot succeed in isolation and would require a level of firm capabilities and networks in order to remain

competitive. And, as the practice of isomorphism counters the basic premise of competitive advantage (Porter 1998; Rugman & Verbeke 2003), it raises the question on how these organisations can gain superior positioning if unique characteristics or tactics are lost through IBV (Zaheer 1995) in highly competitive developed markets.

With institutional knowledge universally available, the IBV approach is not exclusive (Bockem & Tuschke 2010) and therefore cannot solely provide unique opportunities necessary for these firms to attain competitive advantage (Shane 2000). It must be assumed that Chinese firms will need to adapt many acceptable practices beyond IBV to overcome LOF and become competitive within the U.S. which may be explained through its high numbers of JVs and M&As in industries such as sales or distribution (Schüler-Zhou & Schüller 2009; Rui & Yip 2008; Rabbiosi, Elia & Bertoni 2012) where access to market and industry knowledge has been provided from the domestic partner (Deng 2007). Hence, the Resource Based View (RBV) may be more definitive in examining the unique means necessary for addressing localized LOF issues through the utilization of firm-specific advantages (Peng 2008; Harzing 2002; Zaheer 1995) to counterbalance the cost of global expansion (Boisot & Meyer 2008). It seems as if these firms used M&A activity in order to gain or use the FSAs of the subsidiary to instantly improve their competitiveness.

The Resource Based View Theory (RBV) posits that internal actions or firm-specific tangible or intangible resources (Penrose 1959; Hamel & Prahalad 1983; Peteraf 1993) and organisational capabilities are key determinates for sustainable FDI (Rugman & Verbeke 1992). If firms can develop superior resources that are unique or difficult to replicate (Tan 2003), firms can use these proprietary resources (Peteraf & Bergen 2003) to improve performance through a competitive edge (Barney 1991; Wernerfert 1989; Prahalad & Hamel 1990). For example, it is posited that the Chinese have a financial advantage over foreign firms due to the imperfections of their domestic capital markets (Voss, Buckley & Cross 2010). With poorly regulated or inefficient banking and investment practices in China, many companies have received preferential treatment in obtaining cheap and abundant funding; allowing them to capitalize on financial benefits in international operations (Wei 2010). Others have posited that Chinese firms have more



competitive advantages in countries with weak institutions as they are more accustomed to navigating the uncertainty of opaque environments (Yeung & Luo 2008; Buckley et al. 2007) therefore reducing FDI risk for them in countries with less regulation which tend to overlook questionable practices (Witt & Lewin 2007). This however illustrates that firm advantages may be location-specific and while proving a benefit in one location, may not result in an advantage in other FDI ventures. An EM MNE may possess an advantage that is considered superior in their home or another emerging economy, but if it is considered general or routine in an advanced economy, it will lose its impact (Madhok & Keyhani 2012). If so, this would further indicate that the Chinese MNEs might be more greatly hampered by LOF in a more tightly controlled environment such as that of the U.S where their location-specific advantages are limited (Morck, Yeung & Zhao 2008) in scope and depth.

Based on the premise of Edith Penrose's (1959) work, an organisation's growth is based on competencies honed through its history. While more established Chinese firms or state-owned organisations (SOEs) may have financial advantages (Morck, Yeung & Zhao 2008), many inexperienced or born-global firms will need to deploy other internal abilities to enhance their positioning (Peng 2012). Yet at the same time, organisational structure that allows for the adoption of new practices and licensing requirements will also be of value in setting the firm apart from its competitors (Hwang & Gaur 2009). Relatively new firms, many which are privately owned (Wei 2010), will tend to be more flexible without the cultural rigidity or stringent policies imposed by the Chinese government (Freeman, Edwards & Schroder 2006; Wei 2010). However, home advantages may need to be adjusted for each host environment and many times these inexperienced firms lack the flexibility or managerial awareness (Conner & Prahalad 1996; Hennart 1991; Rugman and Verbeke 1992) to accomplish the necessary changes (Li & Yue 2008).

It is therefore posited that Chinese firms tend to have less firm-specific advantages and have traditionally relied on country-specific advantages in order to internationalize (Rugman & Li 2007; Marinova, Child & Marinov 2011). However, it has been proposed that latecomers or born-globals do not have or have not had the luxury of developing strong home position and must focus more on host country gains than on past knowledge (Mathews & Zander 2007). This lack of global

experience may expose these firms to LOF if they are unable to make connections with stakeholders in the host country (Johanson & Vahlne 2009) and these challenges may be magnified in competitive, developed nations, especially in the U.S. This lack of insight by EM MNEs can also be contributed to the rapid springboard pattern of entry used by emerging market firms wherein they take large steps and move quickly and aggressively into international ventures (Luo & Tung 2007). This quick entry strategy has not allowed for experiential learning and access to the necessary tacit knowledge (Park 2012) to fully integrate with the new environment (Ricart, Enright, Ghemawat, Hart, & Khanna 2004) which can lead to post-entry complications (Barkema & Drogendijk 2007).

The ability to decipher the environmental setting and blend what is needed in the environment with organisations resources will allow EM MNEs to embark on marketplace opportunities (Conner & Prahalad 1996). Chinese firms will be faced with understanding both the external institutional environment as well as the internal or cultural environment of the host country (Calhoun 2002). It must also be noted that LOF, while usually studied as an exogenous variable or one that is focused on the host environment as the cause of challenges, can also be an endogenous variable as the FDI experience of a firm combines the firm's interactions with both the host and home environment (Gaur, Kumar & Sarathy 2011). Therefore, when addressing internal issues of firm-specific advantages (FSAs) or firm-specific disadvantages (FSDs) for Chinese companies, the focus will be on the ability of these firms to hone or garner more firm-specific assets (Rugman & Li 2007) to create effective policy (Shenkar 2001; Teagarden & Cai 2009) in dealing with both environments. This becomes a central question as EM MNEs are perceived as deficient in firm-specific strengths in dealing with environmental familiarity (Rugman & Li 2007). And while RBV may be the core basis for developing such a strategy, many times firm-specific advantages are hard to transfer across boundaries and therefore the abilities they do have will be limited in scope within the host environment (Rabbiosi & Santangelo 2013; Chen, Li & Shapiro 2012). Some studies have shown that EM MNEs are able to transfer this knowledge (Hwang & Gaur 2009; Rugman 1981; Tseng et al. 2007) while others have found that many firms are unable to translate this in foreign opportunities and hence losing the potential for advancement (Connor & Prahalad 1996).

As EMNEs are unique in strategic intent and form, and presumed to be attempting to overcome FSDs by gaining access to knowledge resources and markets through FDI (Kedia, Gaffney & Clampit 2012), most would concur that Chinese firms may either be lacking of FSAs (Rugman & Li 2007; Voss, Buckley, & Cross 2010; Barnard 2010) or at least severely deficient (Peng 2012) in comparison to established, domestic firms. This provides the supposition that these shortcomings evoke at least some difficulties in managing within the host environment (Rabbiosi & Santangelo 2013). As prescribed in literature (Cuervo-Cazurra, Maloney & Manrakhan 2007), there are three dimensions that generate these difficulties: 1) the loss of an advantage occurring in transferring a home advantage into the host country, 2) creation of a disadvantage which occurs when home resources conflict with host attributes, or 3) lack of complementary resources where firms do not possess the requisite resources needed for effective operations. The variances in China's environment in comparison to that of a developed economy may vary the applicability of FSAs relevant in China to the foreign operations (Morck, Yeung & Zhao 2008; Yeung & Luo 2008) Literature suggests that the lack of FSAs will alter their strategic intent and actions based on whether they are asset-seeking or market-seeking (Rui & Yip 2008; Lu, Liu & Wang 2010; Chen, Griffith & Hu 2006). Yet as it is shown that FSAs may be non-location bound, these firms can exploit them in the host environment (Rugman & Verbeke 2007), but at what cost? If these firms have specific FSDs it would also lend to more focus on exploration than on exploitation and entry mode selection would hinge on whether these firms have FSAs or FSDs that allow them to operate effectively in the new environment (Kedia, Gaffney & Clampit 2012). Therefore, based on the entry mode chosen, the FSAs readily available to the new firms can vary greatly.

As there is a paucity in research as to a clear denotation of FSAs for Chinese MNEs not just in the U.S. but overall and while questions still remain as to what FSAs are essential for success in the U.S. market (Ramamurti 2012), it is difficult to determine how to investigate the issues associated with FSAs. Therefore, this study intended to investigate the following research question:

**RQ2:** Which firm specific advantages are being effectively deployed by Chinese MNEs' in the U.S. marketplace?

### 3.2.3 The Role of Knowledge Transfer

In accordance with the knowledge-based view of the firm (Kogut & Zander 1993) that MNEs are considered knowledge-based entities, knowledge and learning are important resources for FDI sustainability. Learning must occur in organisations in order to guide future initiatives for improved performance and sustainability (Mathews 2006). Knowledge helps firms overcome uncertainty in identifying and exploiting opportunities (Johanson & Vahlne 2009) to commit to a greater depth in the marketplace (Petersen & Pedersen 2002; Johanson & Vahlne 1977). Successful FDI as prescribed in the option theory of international experience (Oviatt & McDougall 2005) requires learning and commitment to move beyond the initial entry stage in order to develop and effectively strategize for continuous improvements (Kogut & Zander 1993). Therefore, it is not only critical to possess FSAs, but the ability to transfer these into the foreign business environment is requisite for overcoming LOF and managing negative complications (Hymer 1960; Nadolka & Barkema 2007; Petersen & Pedersen 2004; Mudambi & Navarra 2004; Petersen & Pedersen 2002; Shaver, Mitchell & Yeung 1997). Yet geographic and cultural distance in FDI can be problematic for knowledge transfers between firms and business units (Cohen & Levinthal 1990). Firm-specific advantages are hard to transfer across boundaries and may be limited in scope within the host environment (Elango & Pattnaik 2007). These parent advantages may need to be adjusted for host country effectiveness and many times firms lack the flexibility or managerial awareness to denote the necessary changes (Li & Yue 2008). Yet, since foreign firms have been in existence in the U.S. for centuries, it is imperative to determine how they gain the necessary knowledge and devise a strategic posturing (Elango 2009). However, very little IB research addresses how firm's learning and knowledge transfers impact FDI success or failure (Zou & Ghauri 2008), let alone how it impacts LOF (Johanson & Vahlne 2009; Barkema & Drogendijk 2007).

An inability to transfer knowledge in cross-border operations can result in increased transaction and communication costs (Buckley & Casson 1976). These costs associated with accuracy and variance in the communication systems will directly impact the deployment of FSA and country-specific advantage (CSA) activities, greatly diminishing the benefits of FSAs. Studies have concluded that Chinese firms may have difficulty in transferring FSAs from either a lack of international

experience, poor management skills, or from differing labour and human resource practices (Rugman & Li 2007). It is also posited that they lack the ability to transfer any organisational routines and capabilities to operate across borders (Kostova & Roth 2003). The issue of geographic and cultural distance between China and the U.S. can evoke conflicts based on the "fundamental divergence of interests existing between multinationals and their host environment..." (Shenkar, Luo, & Yeheskel 2008 p.910) further diminishing knowledge transfer. Even with all of the insight into the technical application of FDI, it is critical to include the cultural impact and psychic distance when evaluating the process (Chen, Wang, & Chu 2011) as research also suggests that interpersonal dissimilarity can hinder knowledge sharing (Mäkelä, Andersson & Seppälä 2012). However, while Chinese management is seen as deficient in some essential managerial skill sets, it has been noted that the Chinese recognise the need to learn from developed economies (Peng 2012). As the Chinese are faced with a unique FDI process to the U.S., it is also imperative to directly examine the knowledge transfer process in this study to determine the following question:

**RQ3:** Are Chinese firms able to transfer FSAs to U.S. subsidiaries?

### **3.2.4 Impact of Learning Capacity and Commitment**

As extant research proposes that experience and knowledge transfer are keys for successful FDI (Nadolka & Barkema 2007; Petersen & Pedersen 2004; Mudambi & Navarra 2004; Petersen & Pedersen 2002; Shaver, Mitchell & Yeung 1997), creating an organisation that is capable of absorbing and positively transferring knowledge into commercial practice can be the key to sustainable competitive advantage (Inkpen & Tsang 2005; Martin & Salomon 2003). The ability to harness and replicate existing knowledge and create learning can determine if firms can overcome LOF, ultimately impacting FDI (Martin & Salomon 2003). It is proposed that in order to use knowledge to adjust to the local culture and apply the knowledge to commercial ends in order to overcome LOF, there must be some overlap between a firm's knowledge base and the operational knowledge (Barkema & Drogendijk 2007). Therefore, Lane, Salk, & Lyles (2001) propose that an organisation's absorptive capacity is crucial for FDI success based on its ability to "1) understand new external knowledge, 2) assimilate it, and 3) apply it to commercial ends." This

premise also ties closely with Mathews (2006) premise of LLL in the final two stages of leveraging and learning.

In addressing environmental challenges, firms will be confronted by two types of knowledge: "institutional knowledge" and "business knowledge" (Eriksson et al. 1997). These two types of knowledge have also been categorised as explicit and implicit knowledge (Johanson & Vahlne 1977). Explicit knowledge or institutional knowledge is more easily obtained and is associated with laws, regulations, and basic industry standards. As this knowledge can be fragmented, it will be readily observable so foreign and domestic firms will tend to have the same access and be able to create policy to deal with these distractions (Becerra, Lunnan & Huemer 2008). On the other hand, intrinsic or business knowledge is more subtle and tacit (Kogut & Zander 1993); buried in the cultural practices and sub-levels of the foreign environment (Bresman, Birkinshaw & Nobel 1999) which will pose a challenge for Chinese firms entering the U.S. marketplace.

In assuming the need for resource-based advantages and or a more regionalized approach for success in DE ventures, it is theorized that the Chinese parent firm needs to be connected in the strategic process in order for subsidiaries to be effective internally and externally within the new environment (Vahlne, Schweizer & Johanson 2012). Hence, managerial commitment will be required in creating effective learning engagements in dissecting the layers of the cultural environment (Simonin 2004) especially if the firm is a greenfield operation which lacks the advantage of existing networks (Ghahroudi, Turnbull & Hoshino 2010) already established through absorption with a M&A (Johanson & Vahlne 2009; Barkema & Drogendijk 2007). Yet as greater autonomy to the subsidiary can reduce tensions (Asakawa 2001), there are certain kinds of support and activities that create greater knowledge ties (Gnyawali, Singal & Mu 2009) Therefore, it is important to understand the challenges faced by foreign investors, evaluate their level of knowledge and process of learning, and develop strategies for managers to implement in not only overcoming, but reducing or eliminating the negative effects of LOF (Johanson & Vahlne 2009).

Successful knowledge transfer in international ventures will therefore be reliant on the level of commitment and intent by the parent firm's management (Vera &

Crossan 2004) and on the absorptive capacity of the subsidiary (Simonin 2004). The desire to obtain knowledge will not be enough (Peng 2012). The Chinese parent organisations will need to recognise the importance of developing the learning process and will need to take directed actions towards enhancing knowledge transfer through resource-based, incentive-based and cognitive-based learning capacity (Simonin 2004). As managerial commitment and view on learning can be biased by personal perceptions and experiences (Volberda, Foss & Lyles 2010; Buckley, Devinney & Louviere 2007), the degree of resources committed to creating the learning and absorptive environment must be examined. For Chinese MNEs, limited experiences or environmental knowledge shortfalls may be a concern when making decisions regarding resource (Li & Yue 2008; Kogut 1988). It is posited that internationalization knowledge cannot be gained by experience alone, and therefore the ability to garner knowledge from networks and linkages with other firms and government advisors and consultants (Fletcher & Harris 2012), combined with existing market and technological knowledge, is essential for the international process (Child & Rodrigues 2005). The lack of linkages for Chinese MNEs may limit this ability (Park 2012) however, as the Chinese are noted for their strong relational ability in their home environment, they may quickly adapt a better posturing (Peng 2012). Yet, as many of the Chinese firms within the U.S. involve knowledge transfer from Chinese management still embedded in home country culture to U.S. or third country management, it is not clear which practices impact inter-firm knowledge transfer and learning capacity. In order to determine where Chinese firms with FDI in the U.S. should focus and allocate learning resources for the best return, it is important to determine:

***RQ4:*** Which learning engagements have been the most effective in encouraging knowledge transfer and increasing absorptive capacity in Chinese FDI?

### 3.3. METHODOLOGY

#### 3.3.1. Research Design

This study was designed to determine if U.S. management perceived that Chinese parent firms possess and are subsequently able to transfer (Adler & Hashai 2007) FSAs for addressing issues related to LOF (Petersen & Pedersen's 2002; Barkema &

Drogendijk 2007; Chen, Chen & Ku, 2004). Since LOF is a localized issue, specific to the home and host environment, firm-level analysis (Rugman & Verbeke 2007) is needed to address the complexity of the institutional hazards (Slangen & Beugelsdijk 2010) unique to Chinese firms within the U.S. Modern internationalisation also seems to have more characteristics of semi-globalization (Ghemawat 2003) with more regional or localization strategies calling for firm-level analysis for insight (Rugman & Verbeke 2007). Therefore, qualitative interviews were highly instrumental for this study in order to gain primary data from the managers and firms (Rugman & Verbeke 2003b). Qualitative methods were also more appropriate for this research as I was attempting to gather the nature of phenomenon to see if patterns or trends emerged.

In order to begin the examination on the issue of LOF, firm or micro level analysis was required (Rugman & Verbeke 2007). Understanding “how” and “what” organisation's learn regarding foreign environments is crucial to a firm's intent and commitment in developing policy for reducing LOF (Crossan & Berdow 2003). Also, as learning is defined in international business environments as acquiring “skills, knowledge, and abilities that result in a relatively permanent change in behaviour” (Luthans & Doh 2009 p. 523) attaining this tacit knowledge through qualitative analysis (Kogut & Zander 1992) was needed to find unique and subtle practices such as policy decision making and firm-specific resource allocation within the organisations (Rouse & Daellenbach 1999). Using semi-structured interviews to gain insight into the tacit knowledge derived through managerial experience (Bryman 2008) will help to prescribe which strategic actions are most impactful on FDI sustainability. As qualitative measures address these firm-level issues, semi-structured interviews were used in this study as an initial means to extract firm-level data through active involvement of managerial participants (Yin 1989) to determine the most central questions of how Chinese firms learn from their FDI experience (Chapman et al. 2008) within the U.S. (Tsang 2002).

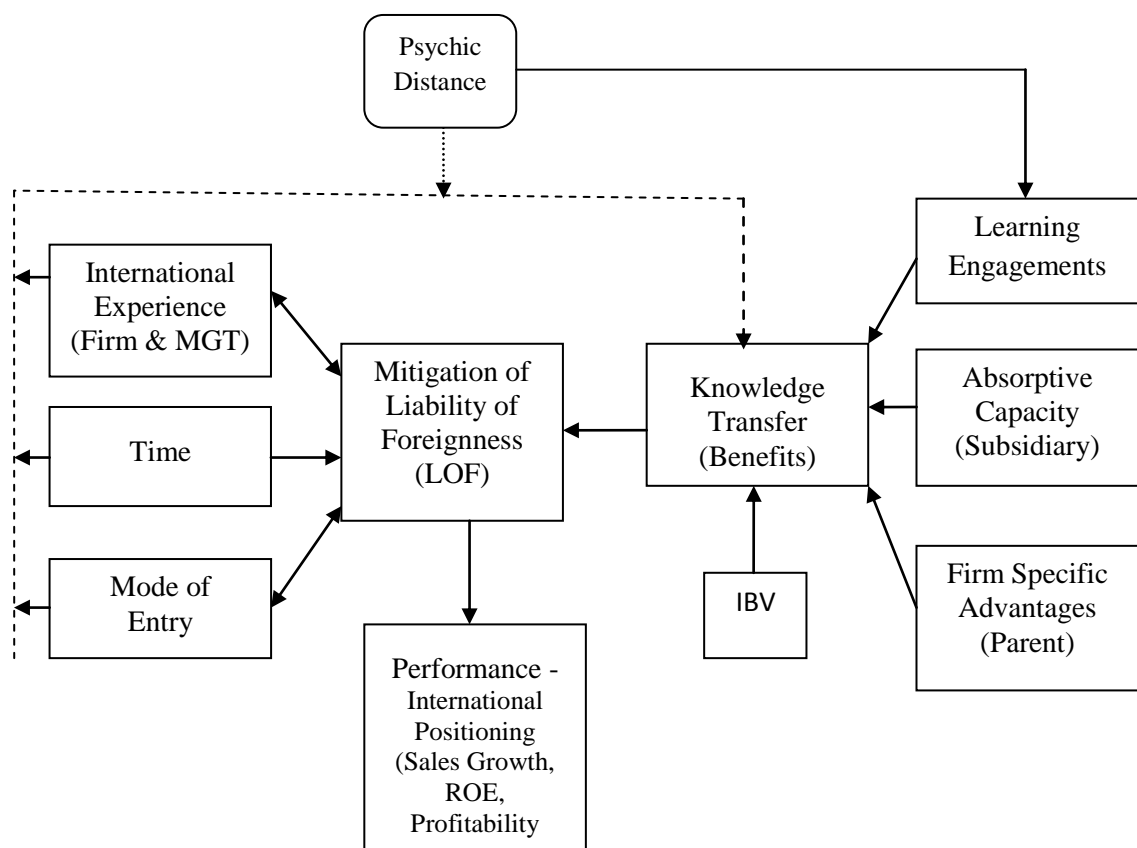
### **3.3.2 Research Framework**

Effective FDI requires the knowledge to develop strategy to overcome the issue of distance and culture to become competitive in a foreign environment. For internationalization, knowledge and knowledge transfer becomes one of the most



critical resources for sustainability (Bresman, Birkinshaw & Nobel 1999). Therefore, an interdisciplinary framework combining internationalization theory with learning theory was needed to examine the multi-dimensional factors that impact strategy and decision making (Shenkar 2004) for Chinese FDI in developed economies. The initial research framework (See Figure 3.1) serves as a grounding point to examine the dynamics of FDI from the premise of liability of foreignness in relation to internal and external factors as impacted by knowledge transfer and learning.

*Figure 3.1 Conceptual Framework of Study<sup>1</sup>*



In order to confirm if the Chinese practices within the U.S. correlate or diverge from existing FDI theory, the following concepts were used to decipher the FDI experience.

<sup>1</sup> The conceptual model for this study has been adapted incorporating elements from the models of Petersen & Pedersen 2002 and Hutzschenreuter, Pedersen & Volberda 2007.

*3.3.2.1. Liability of Foreignness* The operationalisation of the LOF based questions was adopted from Pedersen & Petersen (2004) to allow for interpretation on the firm's possession of necessary institutional and business knowledge needed to address any foreignness. The data used to determine if the subsidiaries perceived liabilities of foreignness within the U.S. specific to their operation was based on Hymer's (1960) LOF areas of classification 1) the risks or costs associated with running a business in a foreign market, 2) the discriminatory actions of governments, customers, or suppliers, and/or 3) the firm's unfamiliarity with the foreign market. Coding for these three categories used expanded LOF concepts such as spatial distance including travel coordination and time zones (Petersen & Pedersen 2002), firm-specific weaknesses due to a lack of networking connections or limited management experience in international markets, factors stemming from the environment such as a basic lack of understanding of the foreign environment, or a lack of industry legitimacy (Zaheer 1995), and high levels of economic nationalism, the span of cultural distance, and even the home country environment (Voss, Buckley & Cross 2010; Peng 2012) which may pose legal or cultural restrictions.

*3.3.2.2 Firm Specific Advantages* In order to evaluate the parent firm's FSAs, respondents were asked to what degree either the parent firm or the subsidiary was able to contribute to the U.S. operations in nine key functional areas (Ambos & Ambos 2009; Tseng et al. 2007). FSAs were operationalised and evaluated as to how it was perceived to whether the parent or the subsidiary had the greatest impact in the areas of management /leadership, adaption of products/services to local market, establishment of relationships with foreign customers, collaboration/communication with companies abroad, branding and marketing, R&D, financial management, purchasing and distribution, technological advancements (Rugman & Verbeke 2003; Rugman & Li 2007). As mentioned earlier, this question was re-phrased to allow respondents to denote whether the parent or subsidiary possessed a FSA as an outcome without the subsidiary managers making negative statements regarding parent abilities.

*3.3.2.3 Knowledge Transfer* In assessing the effectiveness of knowledge transfer, it was questioned as to whether the knowledge transferred was of potential benefit or usefulness in the U.S. operations from the perspective of the receiver (Minbaeva et

al. 2003). This determined if knowledge from the parent firm was beneficial in the nine operational areas (Ambos & Ambos 2009; Tseng et al. 2007) when managing the subsidiary within the host environment (Simonin 2004; Gupta & Govindarjan 2000). Focusing on the benefits to the operation was a more holistic means for assessing the practice of knowledge transfer (Ambos & Ambos 2009).

*3.3.2.4 Learning Engagements* In order to have effective knowledge transfer there needs to be intent, managerial commitment and resource commitment as well as absorptive capacity of the receiver. Intent and commitment were examined by adopting Simonin's (2004) scales evaluating resources committed to learning from a resource, incentive and cognitive stance (Hull & Covin 2010; Foss & Pedersen 2004). Absorptive capacity was measured by determining emerging capabilities due to acquired knowledge from the parent firm (Kotabe, Jiang & Murray 2011; Wong et al., 1999; Zahra & George, 2002) as well as the implementation of HR practices directed at learning engagements (Minbaeva et al. 2003). And while knowledge can be gained through networks, for the issue of LOF, this research could not be gauged through secondary sources (Johanson & Vahlne 1977). Therefore in this study to deal directly with the unique challenges of LOF, this knowledge factor was observed through the learning activities engaged upon while doing business within the host environment (Wilkinson et al. 2008).

To account for the uniqueness that occurs from each individual firm in its FDI experience, several general FDI factors were also included. Based on the literature review, the following FDI factors were most relevant to this study.

*3.3.2.5 Mode of Entry Structure* in this research measured mode of entry via joint venture (JV), merger & acquisition (M&A), or greenfield/wholly-owned venture (G) as a response to learning and accumulated knowledge of the business environment (Yiu & Makino 2002). As entry mode decisions are based on knowledge transfers from internal or external sources (Yiu & Makino 2002; DiMaggio & Powell 1983; Bockem & Tuschke 2010), they can have a direct bearing on the learning and knowledge process of a new venture (Chen, Chen & Ku 2004) that may aid firms in overcoming LOF (Zhao Luo & Suh 2004). Therefore, it must be considered that firms that select greenfield entry may be limited in access to foreign environmental knowledge (Ghahroudi, Turnbull & Hoshino 2010) readily available to firms using

M&As or JVs, hence exposing them to different aspects or levels of LOF. In line with this assumption, respondents were also asked to determine what they perceived as the main motivation or strategic intent for the parent firm to invest in the U.S.: efficiency, knowledge resources, market access or natural resources (Dunning 2000).

*3.3.2.6 Length of existence within the US* Since the learning process is fluid and unfolds over time, the concept of time is critical to show how cultural learning may change with existence and experience within a cultural setting (Shenkar 2004; Delios & Beamish 2001). Extant research on the impact of time is inconclusive as some have found experience to decrease the impact of LOF (Johanson & Vahlne 2009; Luo & Peng 1999), while others have found time in a location and international experience to have little or no benefit in overcoming cultural barriers (Brouthers & Brouthers 2001). And while age of the firm itself is used in many research studies, in the case of Chinese firms' experiences within the U.S., the duration of existence within the U.S. marketplace is a more appropriate measure to determine if length of existence impacts the degree of LOF experienced by these foreign-owned firms (Freeman, Carroll, & Hannan 1983) as other factors such as transaction or coordination costs may counteract the effect (Lu & Beamish 2004). Time and learning are essential in IB learning (Petersen & Pedersen 2002), but since Chinese firms are relatively new to OFDI in developed nations, it must be considered if time provides the ability to deal with cultural risk and uncertainty (Wilkinson et al. 2008).

*3.3.2.7 Psychic Distance* Psychic distance and cultural distance, while both integrated in FDI, are two separate constructs (Sousa & Bradley 2006). Cultural distance is the gap in values and practices from one country to another and many researchers use cultural distance as a moderating variable (Kogut & Singh 1988; Kostova & Roth 2003; Leung et al. 2005), however, since this study was extracted from the perceptions of the U.S. management's perceptions, I focused on the more precise factor of psychic distance (Magnusson et al. 2008). It has also recently been proposed that the term 'distance' may not be the best metaphor, as 'friction' is a better descriptor when dealing with perceptual evaluations, yet still limiting by pure definition (Shenkar, Luo, Yeheskel 2008). Therefore, the study focused on psychic

distance in denoting that for LOF, being unfamiliar with the host environment will include issues of friction.

Since cultural distance measurement within this study was all based on one standard distance- Chinese to US - psychic distance (Beckermann 1956) "defined as factors that make it difficult to understand foreign environments" (Johanson & Vahlne 1977) was more of a concern to LOF and the perception on the need for knowledge transfer and learning engagements (Petersen & Pedersen 2002. Some believe that the issue of psychic distance becomes an even greater factor as cultural distance increases (Hofstede & Hofstede 2005; Tihanyi, Griffith & Russell 2005), imperative for this study with the extensive cultural distance between China and the U.S. "The larger the psychic distance, other things being equal, the more difficult it is to build new relationships" (Johanson & Vahlne 2009 p.1414). Yet studies have shown that psychic distance does not always negatively impact success (Shenkar 2001; Dow & Karunaratna 2006). Johanson & Vahlne (2009) acknowledge that the issue of psychic distance even on a global level will still tend to be more of a firm-level issue impacting market entry order or managerial commitment. As experience and time within a foreign environment increases, the perceived threat of cultural distance can change perceptions (Wilkinson et al. 2008) and hence the devotion of resources or attention. So assessing the psychic distance perceptions of managers is necessary to determine if perception levels have any impact on commitment of resources when addressing LOF.

*3.3.2.8 Nationality of Subsidiary Managers* As with the variances found in mode of entry, the same may hold true for the experience and nationality of the subsidiary manager (Mudambi & Navarra 2004). The demographics of the labour force and predominately the managerial employees comprising the U.S. location could play a role in the Chinese firm's ability to adjust to the U.S. business environment whether for managing, cultural integration or blending, as well as acceptance of foreign ownership by internal and external stakeholders (Newburry, Gardberg & Belkin 2006). In the sample group, the majority of the managers were American, and even in the two firms where the managers were inpatriates, due to their extensive global experience and length of time they had lived in the U.S., there did not seem to be any type of stigma (Harvey et al. 2005) or directly related issues of LOF that could be assigned to nationality.

*3.3.2.9 State or Private Ownership* Controlling for the distinction of whether these firms were State-owned enterprises (SOEs) or privately owned could relate to both the levels of LOF and to the type of FSAs. As some have found state ownership to provide advantages such as funding and support (Rui & Yip 2008) not readily available to private firms, this has mainly been shown as a strong advantage in emerging economies (Yiu, Lau & Burton 2007). Other studies have shown state ownership it to be a disadvantage due to their inability to establish industry linkages as well as many are characterized by low levels of absorptive capacity (Girma & Gong 2008). Also, in developed nations such as the U.S., there remains a level of suspicion of SOEs from China as to intentions and security (Scheve & Slaughter 2007; Qingguo 2005). State-ownership must be considered to understand how involvement with the Chinese government can impact the issues of LOF especially in developed nations (Gaur, Kumar, & Sarathy 2011; Cui & Jiang 2009) and be a potential consideration for generalisability.

### **3.3.3 Data Collection**

*3.3.3.1 Sample* For this research foreign direct investors consists of Chinese firms with the strategic intent to create partial or full ownership in a foreign enterprise through joint venture, merger or acquisition, or wholly-owned venture. The sample for the interviews consisted of business owners and managers from subsidiaries of Chinese multinational firms<sup>2</sup> within the tri-state area of North Carolina, South Carolina, and Virginia. The database was obtained using firm registration information from each state's Department of Commerce. The managers or senior officers were interviewed in each case as they had the knowledge of the firm's interactions with the parent firm and many had insight from the entry period through the on-going process (Barringer, Jones & Neubaum 2005). Interviewing managers from a single country (Easley, Madden & Dunn 2000) provide the fieldwork needed to combine theoretical and practical findings for addressing the research questions earlier presented. As consistent with other studies, it seems that most of the investments are relatively small (less than US\$5 million) and while some were the results of M&As or JVs, most were greenfield operations with the majority in the establishment of overseas representative or sales offices (China Council 2010). The

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<sup>2</sup> MNE in this study follows the definition by Rugman and Verbeke, 2001 as a firm with value-added activities in at least two countries.

descriptions of the entry mode along with the description of the operation type and major business sector, the number of years in operation within the U.S., the nationality of the lead manager, and the type of ownership (state-owned or private) is provided in Table 3.1. This sample is representative of the Chinese-owned firms for the tri-state area based on the database devised from the government information. Of the 57 ventures reported by Rhodium Group for 2000-2012 (Rhodium Group 2012) for the research area, 82% were greenfield while 79% were privately owned. This can also be extrapolated to the entire U.S. as of the total 593 deals reported, 66% were greenfield and 75% were private in relation to the study sample where 70% was greenfield and 70% were privately owned. It must be noted that the size and value of the deal was not addressed, but most of the sample, as are most of the firms within the research area within the US\$1-5 million range.

**Table 3.1 - Interviewee Sample Codes and Descriptions**

Case #	Operation/Product Type	Sector	Entry Mode	Yrs in US	MGR Comp	Ownership
MNE1	Shipping/Transportation	Sales	GF	12	US	State
MNE2	Heavy Equipment Production	Manufacturing	M/A	4	Other	Private
MNE3	Chemicals/Textiles	Manufacturing/Sales	GF	4	US	State
MNE4	Furniture	Manufacturing/Sales	GF	6	US	Private
MNE5	Mechanical Equipment	Sales/Distribution	M/A	13	US	Private
MNE6	Electronic	Manufacturing/Distribution	JV	8	US	Private
MNE7	Computer Hardware	Sales/Distribution	GF	5	US	Private
MNE8	Chemicals/Textiles	Sales/Distribution	GF	12	Other	State
MNE9	Furniture	Manufacturing/Sales	GF	6	US	Private
MNE10	Automotive	Sales/Distribution	M/A	7	US	Private

Note: Firms interviewed were coded 1-10 to insure anonymity - Abbreviations: Entry Mode: JV=Joint Venture, M/A= Merger or Acquisition, GF=Greenfield; MGR Comp. denotes the managerial composition: US= home country national, Chinese = Chinese Expat, Other = Third Country

**3.3.3.2 Interview Protocol:** This study used a qualitative design to investigate the tacit organisational knowledge (Kogut & Zander 1992) for determining the degree and impact of LOF on foreign-owned firms in the U.S. The script consisted of 25 directed questions (see Appendix B) in a semi-structured interview designed to address the four research questions: 1) To what degree and which factors of LOF impact Chinese firms in the U.S. marketplace? 2) Which firm specific advantages are being effectively deployed by Chinese MNEs' in the U.S. marketplace? 3) Are

Chinese firms able to transfer FSAs to U.S. subsidiaries?, and 4) Which learning engagements have been the most effective in encouraging knowledge transfer and increasing absorptive capacity for Chinese firms? Interviewing was used as the method for extracting the firm-level data (Rugman & Verbeke 2007). The interviews were conducted using a semi-structured format in face-to-face interviews. The respondents were voice recorded for transcription accuracy purposes and were assured of their anonymity in that the interviewees, subsidiary, and parent firm's names would not appear in any research publications, therefore the respondents were coded as a case number as denoted in Table 3.1. In a few cases, follow-up telephone and e-mail conversations were necessary to check for clarity or accuracy in the responses.

*3.3.3.3 Interview Design:* A series of semi-structured questions were asked of all participants. Questions 1 through 6 were designed as a soft opener to the interview addressing the facts related to general OFDI factors including mode of entry, level of parent firm international activity, management demographics (nationality), strategic intent, and time existence within the U.S. market. In order to address the first issue of the study (RQ1) in determining how liability of foreignness was perceived and to what degree it provided a competitive disadvantage to these foreign-owned firms was the focus of questions 7-16. These questions were designed to incorporate issues related to all three potential areas of LOF. Question 17 addressed nine areas for respondents to discuss aspects of firm-specific advantages (RQ2) which allowed respondents to provide a wide-range of observations that correlated with coding categories (Seppanen & Makinen 2007). Questions 18 through 21 were used to determine if these FSAs originated with the parent firm and if and how they were transferred to the subsidiary (RQ3). The final set of questions, 22-25 focused on the learning capacity, commitment and tactics used to manage the learning process (RQ4) and the potential for impacting absorptive capacity.

The questionnaire was pre-tested by interviewing two Chinese firms to ensure validity in the interviewing process, question design, and initialization of coding. As a result of the pilot study a few changes were made in phrasing, ordering, and coding design. The wording for determining if the parent firm possessed FSAs was rephrased as it was apparent in the pilot interviews that respondents were hesitant to



rate the parent firm in the possession of certain FSAs as it may have seemed like a judgment statement of "good" or "bad" in relation to parent firm skills. The question was then presented as a choice between the parent or subsidiary on who possessed the most strength or who was more instrumental in initiating FSAs. Participants easily made determinations as to whether the parent or the subsidiary was the source of the advantage, allowing for a determination of whether it could be classified as a Chinese FSA. The question relating to whether firms were private or state-owned also seemed to add a level of discomfort for the state-owned operations as there still seems to be sensitivity regarding this status within the U.S. culture. A few respondents seemed slightly defensive and went on to clarify that the firm was traded on the Chinese stock market as a means for providing legitimacy. This question was therefore moved to the end of the questionnaire to make sure respondents were not defensive or uncomfortable in answering the subsequent questions. Also as a result of the pilot study, the coding for the FSAs needed to be more clearly denoted beyond basic categories typically used in some research. For this study it was more productive to approach questioning of FSAs based on nine broad areas commonly found in extant research (Ambos & Ambos 2009; Tseng et al. 2007) and by then using the expanded 36 FSA items created by Seppanen & Makinen (2007) the Chinese FSAs could be accurately classified and coded into the seven resource components by Hunt and Morgan (1995): physical, financial, organisational, relational, human, informational, and legal (see Appendix C).

*3.3.3.4 Data Analysis* The interview scripts were coded using software to number and colour code responses into themed categories: 1) general FDI information on background of the company 2) potential factors associated with the existence of LOF, 3) the types of FSAs provided by the parent firm, and 4) the ability and effectiveness of knowledge transfer through the existence of learning engagements and the level of absorptive capacity (see Appendix D). The coding was done by clustering responses into macro-categories and then filtered into sub-categories as prescribed by Strauss (1987). The coding was then verified for consistency by two independent colleagues to insure stability in response evaluation and reliability in categorical coding by providing suggestions on interpretation of phrases and statements. The coding details allowed for denoting specific subsections associated with each of the four question topics (see Appendix E). Comments relating to

general FDI factors such as age, entry mode, and cultural distance were also evaluated to see if these related to the main perspectives or presented trends or patterns.

### 3.4 FINDINGS

The following qualitative results emerged from the interviews.

**3.4.1 RQ1:** In evaluating the existence of LOF from Hymer's three categories - 1) the risks or costs associated with running a business in a foreign market, 2) the discriminatory actions of governments, customers, or suppliers, and/or 3) the firm's unfamiliarity with the foreign market - all of the firms faced challenges in at least one of the areas. The liability of foreignness for this study was explained to the respondents as a potential advantage for domestic firms within an industry in comparison to foreign-owned counterparts (Hymer 1960; Zaheer 1995). When asked if they felt that domestic firms had a competitive advantage over foreign-owned firms, most felt they were not overly disadvantaged in comparison to other U.S. firms as most respondents initially stated "no." This systematic underestimation of foreign barriers is consistent with other studies (Petersen & Pedersen 2002) and therefore the analysis of the specific responses was more relevant in detecting LOF. When discussing the specific issues, it was clear that discrepancies were noted in at least one, if not all categories of LOF for each of the ten MNEs. Only two firms lacked impacts as a result of overall LOF; both have been in the U.S. for over 12 years which supports research finding LOF to be negatively correlated with existence within an environment (Wilkinson et al. 2008). This also supports the truncation of firms with over 15 years experience within the U.S. for studies on LOF.

In addressing the basic risks associated with doing business in a foreign market, 70% of respondents reported dealing with some issues associated with geographic distance. Many commented on the time zone factor and the impact for communication as far as waiting for confirmation or simply contacting the right person for clarifying or addressing issues. Others commented on the issue of geographic distance as a factor "they will always have to work around when you have international partners." One manager did state that once they were able to get the right technology implemented, it resolved many of the issues.

[MNE5] "We will always have to do some type of adjusting, but figuring out how and when is best for contacting the people in China you work closely with, makes all the difference...using technology has helped with the travel load."

With respect to discriminatory or legal issues, most did not feel that they faced greater disadvantages than other foreign firms (from other regions) but most made it clear that the parent firm put strong emphasis on doing everything by the book. Several managers felt that the U.S. government is open to foreign investment but commented on having to prove legitimacy (Haveman, Rao & Paruchuri 2007). It was expressed that they felt the need to follow the letter of the law and to remain "squeaky clean" when it came to regulations.

[MNE2] "We had to go through a lot of scrutiny when we first purchased - a lot of it was where is your product coming from - components, the labour force. We are probably more comprised of U.S. based product than we were before ... we became much more prudent and much more discerning as to who we we're buying components from - so we are above board we want to be 'squeaky clean' so we can go to the US government and say "hey we are really a US based entity - our production is here."

[MNE8] "My company is very big on the pure government guidelines absolutely, they are very, very strict in-house on procedures with any government - state, local entity -plain and simple, they are not going to have any problems with that. Very above board, 'squeaky clean.'... I think a lot of foreign companies get stickler about doing things the right way, have to go by the book, don't care. My company is big on it and is not going to have any controversy; they don't need it."

For these companies, conforming to U.S. regulations is one way to avoid potential issues of foreignness. It was also commented that the state government played such a huge role in smoothing any legal issues they face. "NC [State Government] welcomed us and pushed for our business, so the feds were not a big concern [MNE3]." Here localization seems to be a big determinate for these smaller Chinese firms. It was also expressed that if companies had the ability to create value (Cuervo-Cazurra, Maloney & Manrakhan 2007) within the U.S. marketplace it seemed to limit disadvantages greatly. Manager also expressed how their company's value is

proven within the U.S. market through the high number of U.S. dealers [MNE 5 & 9] as well as by the reputation and acquisition of a trusted U.S. recognised brand [MNE2 & 5].

As for public opinion as a discriminatory issue, managers typically feel that the general public in the U.S. has negative connotations associated with foreign-owned businesses, especially Chinese or Asian, and the sentiment increases if they perceive the foreign presence is a threat to U.S. jobs (Kaltenthaler, Gelleny & Ceccoli 2004). One manager also stated that:

[MNE9] "I personally don't have an issue, but I think there are some of our employees who are uncomfortable letting other know who [Chinese firm] really owns this place. All you have to do is listen to how they portray the Chinese in the political ads ... Some people are still really prejudice...I'm not sure but maybe it is worse in the South or in our rural area - go to New York City and they may not care."

However, even with the existence of negative public sentiment, the majority of companies interviewed deal only with commercial customers where foreign ownership is common knowledge and more highly accepted throughout the industry.

[MNE6]"Customers care about cost and service - so many of the U.S. based companies are foreign anymore so it doesn't really matter to them [commercial customers] who owns it, as long as they get their product moved."

The final category of LOF hinges on the lack of understanding of the foreign environment. 70% of the respondents felt this was an issue, however, it must be noted that in further discussion, the remaining three interviewees all made some comments as to the lack of cultural expertise by the parent firm. The strong agreement with environmental understanding being an issue was also highly correlated to entry mode wherein 5 of the 6 greenfield firms supplied specific connections to LOF and only 1 of 4 M&As/JVs felt lack of cultural knowledge really played a role. MNE3 stated that, "Sometimes they have trouble seeing how US practices are really different...in a way we are dealing with novices and we have to educate them about everything we do." MNE10 commented that, "we are all

different and need to deal with it, but some days are easier than others to accept it" shows that cultural distance can create distractions.

[MNE7] "Many times it seems as if they (parent firm managers) really don't understand what is going on in the U.S. economy. They give us plans and direction that we all (U.S. managers) know will not work here; maybe it has worked in China, but just not here. They think the solutions are simply. They are not here, they do not give us what we need and with the U.S. economy still as it is, we can only do so much. It is hard for them to give us what we need when they don't understand why we need it."

**3.4.2 RQ2:** Many studies suggest that EM MNEs lack several FSAs for global expansion (Rugman & Li 2007; Peng 2012; Voss, Buckley, & Cross 2010; Barnard 2010), and the results of this study show that while Chinese firms seem to be limited in managerial and leadership assets they have been able to position the strengths they do have to provide a unique advantage (to at least some degree) for these localized activities. The firms interviewed had strong responses in the area of physical, financial, organisational, informational, and legal abilities, yet were limited in the areas of management, leadership, human resources, and in relationships. While most seemed to have some areas of strengths, two in the sales/distribution area and both being greenfield operations perceived the parent to be lacking in all but one or two areas. In response to benefits the parent could provide the subsidiary, MNE7 stated that "Not at this time. They are not doing much to help us here in the U.S. We rely on what we know and what we have." It also be noted that both of these firms reported negative growth and profitability in the past three years.

*Physical* - 100% All firms felt the parent had substantial strength with regards to location and capital assets. As these firms were all located in the Southeast corridor of the U.S. with good infrastructure and relatively low costs, the physical location and facilities are equally available and so essentially would not be a unique FSA.

*Financial* - Consistent with other studies (Buckley et al. 2007), it seems that financial stability is a definite advantage for the Chinese firms. 80% of the subsidiaries considered the parent firm's financial position to provide an advantage. While these firms seem to have relative financial strength, this may be heightened by the current economic crisis of the US.

[MNE2] "They have spent a bunch of money to be competitive - talking about infrastructure, IT systems, in 13 years dramatically changed in-house systems... anything to compete in the world. The Chinese are proactive to be competitive - they have to be multinational, they invest more than the US firms. They don't spare the dime to be competitive."

[MNE6] "They are pretty aggressive and willing to take risks if it will provide long -term returns... they are willing to do different things so they have that same expectation from us - which is a bit of a challenge."

The proposition that the Chinese are long-term oriented (Hofstede & Hofstede 2005) in comparison to the short-term orientation of the U.S. culture may also be relevant. The basic consensus was that the parent firm would financially support actions that would provide competitive edge in the long-term. This tendency was also related in statements regarding the amount of long-term planning that was required of the subsidiaries. [MNE9] "I do more five year plans than I have ever done for an American firm. And once I send it off, they want another five years done."

*Organisational* 60% It must be noted that most positive responses related to organisational structure and routines within the US. As some alluded and stated by MNE10, "they [parent firm] made little changes to our routines after the acquisition so there are no problems." Yet as one manager expressed,

[MNE2]"We are fine here, the issues come in when we work with the home office. They change management constantly, bringing in new junior managers and it is like we are starting and training all over again almost once a year."

As many of these firms handle the day-to-day management they perceived it as an asset that the parent recognised that the U.S. way might be the best way in managing the U.S. operations side of the business (Yi & Ye 2003).

*Management/HR* 30% As many EM MNEs lack managerial or operational expertise necessary for operating within more sophisticated or developed marketplaces (Kedia, Gaffney, & Clampit 2012), eight of the subsidiaries were managed by a U.S. native and the other two were third country nationals, both with extensive global management experience. MNE4 stressed the importance that the management teams truly need to have a cross-cultural awareness; to be able to serve as a "buffer"

between the foreign owner and a U.S. workforce. This finding is consistent with other studies that show that managerial and leadership abilities seem to be lacking from a U.S. perspective and are one area where the Chinese firms need to gain knowledge on managing the venture.

*Relations* Only 30% of respondents felt the parent firm had superior or well-honed skills in interpersonal aspects of the business. This finding is also consistent with earlier studies for Chinese FSDs in OFDI.

"[MNE1] They [Chinese] think different, there is the American way and there is the other way... Much is controlled in China - a dual thing - they listen to America because of our culture, our system is completely different ... I don't particularly care for their philosophy of government. I did have some animosity about it when I first went to work for them. But I am doing my thing, providing a service and I couldn't ask for folks that treat me any better."

MNE4 also discussed that Asians have a great advantage when it comes to production but still seem to be "befuddled by the customer interaction - human interaction piece." However, 60% felt that the parent had a good understanding of the industry and process information and did have good process, industry and supplier information. 70% also felt that licensing, copyrights and legal agreements were clearly taken care of by the parent firm. This possibly correlates with the responses to a lack of discriminatory actions by the government being an issue in LOF as previously discussed.

**3.4.3 RQ3:** The study was able to show that there are some areas wherein Chinese firms are perceived to possess FSAs yet it is inconclusive as to if and how these have definitively contributed to the subsidiary's competitive advantage. Only 40% of the firms felt that they had benefited greatly from the transfer of knowledge from their parent firm in the areas of financial management, purchasing and distribution, technology, R&D and market data on product adaptation. Only one of these firms felt they benefited in the area of competitor know-how with relation to other foreign firms. None responded positively to benefiting on market data on customers or on branding or marketing. The limited results must be considered in relation to whether they even feel that the parent has these advantages to transfer. However, the

correlations do not match up to the knowledge transferred. While some noted that the parent had these strengths, they did not necessarily perceive these as beneficial in the U.S. marketplace. MNE7 stated that "they know how to do things in China, but they just don't seem to know what will work here [U.S.]". Yet MNE1 felt that "they have so much international experience in this industry that we listen to what they have to say - after all, they are a world leader." The results seem to support the need for collaboration from both parent and subsidiary for transfer to bridge the knowledge gaps (Hong & Nguyen 2009). The respondents were able to recognise the international experience that their parent was able to contribute for global operations, yet they felt they then felt that the managers at the subsidiary were better at making localized decisions.

"[MNE3] I know they are more worldly and have a good idea of the big picture, but if we need to make our division successful, we need to have a greater degree of input. We build the relationships with suppliers and customers and while they give us great products, we are the ones that really understand how to adapt them for customer needs. I'm not trying to sound superior, it's just that it seems it will take too long to do it their way - ours seems better and faster and honestly, sometimes I think I am so unclear on what they are suggesting, I make decisions on what I feel is right."

**3.4.4 RQ4:** To further investigate the knowledge transfer process, it was important to see how the process was impacted by the level of absorptive capacity as well as the resources directed at learning. 30% of the firms felt there was really no emphasis by the parent firm to devote resource, incentive or cognitive based actions to promoting the need for learning. All of these firms were also in the sales and distribution sector. MNE10 stated that "I don't feel as if this is about learning but rather about hitting our quotas and they will make the decisions for us on what is right...but now that you mention it, learning for all of us would be important for developing a long range plan. I want to stay here and be successful, but we need to have a better two-way communication to make us all successful." 50% of the respondents did feel that the firm was committed to putting resources in place to build good communication, while 40% felt there were clear incentives and rewards for wanting to learn and 60% felt that they could easily learn and teach others about what was needed in the foreign environments.



As effective communication requires a give and take environment, the ability to receive information or the absorptive capacity is crucial for effective knowledge transfer. It has been found (Rugman & Li 2007) that the ability to build absorptive capacity can be hindered by a 1) lack of international experience, 2) poor management skills and 3) differing labour and HR practices. Therefore, since there were FSDs noted for the majority of the firms in several of these areas, it must be surmised that there will be deficiencies in developing highly effective learning processes. In examining which HR practices had been implemented to enhance learning engagements, 50% recognised the existence of training programs, 40% felt performance appraisals contributed to learning, 30% stated promotions were dependent on ability to learn, and 30% felt compensation and direct communication enhanced the need for learning engagements. It must be noted that the same three respondents that felt that there was no emphasis on absorptive capacity activities also felt the firm took no actions through HR practices to encourage or enhance any type of learning engagement. Only one firm had positive responses to both absorptive capacity tools and to the existence of HR practices. One manager stated:

[MNE1] "Is everything perfect all the time? No way, but there is an effort on both sides to learn from what we do in order to keep improving. We cannot compete in this market unless we do. We know it and they know it - just simple business basics."

It can be noted the level of commitment will be related to the perception that the cultures are different and there is a need for managing the gap. While 70% of respondents stated that they believed the management at the parent firm was aware of the cultural distance there is disconnect to the amount of resources devoted to improving knowledge transfer. As one manager stated on the aspect of psychic distance;

[MNE6]"They're aware of the distance in our cultures, but it is not so much about them knowing, but about caring. I feel they think it just should not be an issue - this is business and that is what is important. Culture shouldn't play a big role."

This is therefore relevant to the issues of LOF as well. If Chinese firms do not perceive culture or learning as critical risk factors then it would only be logical that

actions or resources need not address these issues and therefore for them, FSAs or even their FSDs will not play as much of a role.

## 3.5 DISCUSSIONS AND CONCLUSIONS

### 3.5.1 Discussions and Recommendations

This research provides some important confirmations on existing IB theory.

*3.5.1.1 Liability of Foreignness* The variances in the findings on factors of LOF for firms in the same relative location, further shows that LOF is not just endogenous (Gaur, Kumar & Sarathy 2011) and therefore it is impossible to create an LOF checklist let alone a distinct strategy to counter the challenges. It must be concluded that pinpointing and creating a distinct definition for LOF in the case of Chinese firms within the US is not possible. The variances in responses and the levels to which LOF impacted each firm in the different forms, shows that LOF will never be a stable set of factors; it will vary depending on the dynamic combination of the host environment (Voss, Buckley & Cross 2010; Peng 2012), the home environment (Boisot & Meyer 2008; Cui & Jiang 2009; Cuervo-Cazurra, Maloney & Manrakhan 2007) in conjunction with the unique characteristics of the individual firm (Wang et al. 2012; Peng 2012; Rugman & Li 2007) however, this study pinpoints some common challenges that can be addressed. And while we cannot create exact finding, the results can be generalized to show that LOF impacts FDI. However it confirms theory that posits LOF as a unique set of factors based on whether the challenges arise as a result of internal weaknesses or from external discriminating factors (Barnard 2010).

This study does support the finding proposed by Ghemawat (2001) that distance and culture still matter; understanding the cultural impact is not always straightforward. Research continues to show that psychic distance and cultural dimensions (Hofstede & Hofstede 2005) do not always provide the precise explanation for FDI actions or results (Dow & Karunaratna 2006; Tihanyi, Griffith & Russell 2005; Brouthers & Brouthers 2001; Shenkar 2001). Studies have been done to predict or determine how age/experience (Nielsen & Nielsen 2011; Shenkar 2004; Delios & Beamish 2001) and psychic distance (Barkema, Bell & Pennings 1996; Shenkar 2001) have impacted profitability of foreign firms without conclusive results. However, the

findings imply that a high percentage of Chinese firms struggle with the impact of cultural distance (Barkema & Drogendijk 2007; Peng 2005). Perhaps this is based on cultural distance (Hofstede & Hofstede 2005), or on the issue of the newness of EM MNEs in developed markets (Park 2012; Ricart, Enright, Ghemawat, Hart, & Khanna 2004), or that they lack the FSAs necessary for managing in these environments (Rugman & Li 2007; Voss, Buckley, & Cross 2010; Barnard 2010). As expressed by Li & Meyer (2009), "Experience gained elsewhere, for example in Asia, is not relevant for operating in North America. NA business environment creates a unique challenge for entrants that render other experiences irrelevant." The findings indicate that in investing in the U.S because of its market size, high levels of competitiveness and complex regulatory structure for inward investment, Chinese firms will need to seriously invest in navigating the cultural gap to overcome existing issues of LOF. However, the mode of entry and the establishment of a subsidiary with local experience or by using U.S. management can modify the effect of psychic distance on performance (Dikova 2009).

The study also suggests that LOF does not have to be a critical factor in internationalization when actions are taken to address the impacts (Johanson & Vahlne 2009) using directed strategies. It was evidenced that firms make numerous adjustments or changes in strategies to deal with the U.S. environment. It seems that the respondents were able to minimize the impact of LOF as they felt that direct government (Hymer 1960) or consumer discrimination (Peteraf & Bergen 2003) had little or no impact on them. As most of these firms were relatively small in size and did not deal with national security issues or anti-trust laws, they did not face opposition in establishing their existence within the U.S. The sentiments of firms that go through extensive scrutiny by the Committee on Foreign Investment in the United States (CFIUS) may have a very different perception of LOF with regards to government regulations. However, I must surmise that LOF will continue to be an issue with increased trade protectionism (Evenett 2010). As the findings show that firms will face some LOF challenges, it possibly lends to the concept of escapism (Witt & Lewin 2007; Cuervo-Cazurra, Maloney & Manrakhan 2007; Yamakawa, Peng & Deeds 2008). As proposed by Boisot and Meyer (2008), when the costs of domestic operations and expansion is higher than foreign challenges or when evaluating the best opportunity to obtain the resources or assets sought are not

available in the home environment (Yeung & Liu 2008), the impetus for internationalization will be more attractive than domestic expansion.

**Proposition1:** *The beneficial and dysfunctional characteristics of the host, home, firm and industry environments will determine the unique degree of LOF experienced and perceived in Chinese FDI.*

Since LOF is an endogenous and exogenous process impacting LOF (Slagen & Beugelskijk 2010) this study expounds on the propositions of other studies (Lu, Liu & Wang 2010; Yamakawa, Peng & Deeds 2008; Wang et al. 2012) for a varied approach by using all three perspectives - institutional based view (IBV), industry based view, and resource based view (RBV) - when investigating the process of addressing LOF. RBV and IBV approaches failed to provide an accurate solution for dealing with LOF as country factors of the host and parent firm create a unique process (Lee & Rugman 2012). Another important illustration of this study shows that Chinese firms and EM MNEs will face factors of liability of foreignness and newness (Rabbiosi & Santangelo 2013) with varying levels based on experience within the US but also dependant on the levels of FSAs or FSDs. This may infer that perhaps for FDI within the U.S., we must examine how these companies have faced challenges associated with Liability of Newness (Porter 1985) or even the Liability of Expansion (Penrose 1959) as well. And since it has also been observed that Chinese firms are used to working in challenging home conditions (Buckley 2007, Boisot & Meyer 2008) and thus have a dynamic capability (Yiu & Makino 2002; Wei 2010), they will evaluate risk factors differently creating a different balance when weighing opportunities and risks in decision making (Makino, Lau & Yeh 2002) and hence on where to focus resources. Therefore, getting the parent firm's perceptions on what risks are most critical would be helpful in knowing what FSAs are truly needed and what level of commitment they have for dealing with potential issues of LOF.

**Proposition 1b:** *For Chinese firms investing in developed economies, mitigating both the exogenous and endogenous issues of LOF will require utilizing strategic tactics which combine RBV, isomorphic (IBV), and industry practices.*

*3.5.1.2 Firm-specific advantages* The findings also show there is not a clear explanation or conclusive evidence on whether unique FSAs impact performance

(Lee & Rugman 2012; Delios & Beamish 2001). While most of the firms were deficient in FSAs, the majority (70%) of the firms reported three year trends of positive sales growth, ROE, or profitability. Some believe the modification of firm-specific resources can open up FDI possibilities in many new locations (Dunning 1998). However, from the findings which confirm the premise by Tong and Reuer (2007), I must conclude that the resource gap for the Chinese firms may play a part in addressing LOF and increases risk, at least in the short-term as the more established firms reported the lowest levels of LOF (Johanson & Vahlne 2009). In developed markets, there are certain location or country-specific advantages (CSAs) such as skilled workforces, advanced infrastructure, technological knowledge and buying power that may counteract the need for FSAs (Dunning 1998). While these seem positive factors, they may pose a challenge as EM MNEs may not be as able to access them leading to increased LOF (Asmussen, Pedersen, & Dhanaraj 2009). If the CSAs are not readily accessible to the Chinese firms, they will be less effective in developed markets such as the U.S. and these firms will need to rely back on FSAs and focus and devote resources to improving management, marketing and production or R& D abilities (Rugman & Li 2007). It also raises the question if the rapid expansion by EM MNEs has caused them to skip stages (Luo & Tung 2007) and miss out on the necessary learning, therefore exposing FSDs. By starting at a disadvantage and then being limited in the ability and time to gain the necessary FSAs what implication does this have for short-term and long-term success? As many Chinese firms are successful within their industries and yet deficient in many ownership assets (Ramasamy, Yeung & Laforet 2012), it is clear that RBV alone is not the answer. Consistent with Park's (2011) findings on Korean firms where learning is highly dependent on the parent firm having the requisite capabilities and on Hull and Covin's (2010) premise that learning capabilities on both sides are needed for cooperative innovation.

**Proposition 2:** *Chinese firms investing in developed economies tend to be deficient in managerial and leadership FSA which increase short-term issues of LOF.*

Future research should consider Rugman and Verbeke's (1992) distinction between non-location bound advantages (those available to all MNEs) versus location bound advantages (available to select MNEs for either host or home environments). As location bound advantages will limit transferability of knowledge, this could limit

the options for exploitation (Rugman & Verbeke 2007). This is another important by-product of the findings. The strategic intent of the firm may play an important part in the analysis of FSAs and in the learning process. Depending on whether the intent is exploitation or exploration, may determine the type of FSAs or whether they are even necessary for certain types of internationalization. It must also be considered that the motivation for entering a country may determine if learning and commitment of resources to the knowledge process is a priority. The results also further demonstrate the need to include the industry factors as a possible influence on the strategic intent and even on entry mode. With the findings suggesting a pattern with all greenfield operations noting market access as a main motivator and all M&As and JVs included knowledge assets as one of the top priorities, the role of strategic intent and entry mode may be crucial variables (see Table 3.2 ). These are important questions for future research on Chinese MNEs in DEs by analyzing the entire strategic process from inception to implementation.

**Table 3.2** Study Results Comparing Strategic Intent to Entry Mode and Industry Info

Case #	Strategic Intent	Entry Mode	Operation/Product Type	Sector
MNE1	Market/ Efficiency	GF	Shipping/ Transportation	Sales
MNE2	Market/ Knowledge	M/A	Heavy Equipment Production	Manufacturing
MNE3	Market	GF	Chemicals/Textiles	Manufacturing/Sales
MNE4	Market	GF	Furniture	Manufacturing/Sales
MNE5	Market/ Knowledge	M/A	Mechanical Equipment	Sales/Distribution
MNE6	Knowledge/ Market	JV	Electronic	Manufacturing/ Distribution
MNE7	Market/ Knowledge	GF	Computer Hardware	Sales/Distribution
MNE8	Market	GF	Chemicals/Textiles	Sales/Distribution
MNE9	Market Efficiency	GF	Furniture	Manufacturing/Sales
MNE10	Knowledge	M/A	Automotive	Sales/Distribution

We must also consider that the US provides pull factors that overcome the lack of FSAs and could therefore be more pertinent than the push factors. Studies (Barnard 2010) have supported that in overcoming LOF, while FSAs are instrumental, that market-based resources from the host environment garnered either through direct acquisition (Inkpen & Tsang 2005) or from knowledge transfer or linkages play an

extensive role for EM MNEs in developed nations. The results show that some form of location-specific advantages are available to all the respondents, but a more discriminative approach is needed to classify which have more impact on competitiveness or sustainability within the US. This would provide a better determination as to whether these firms have the right FSAs for their location, market, or industry and possibly the role they play in sustainability or performance.

*3.5.1.3 Knowledge Transfer* Another confirmation of this research addresses the process of knowledge transfer and the implication of investing in learning mechanisms (Rabbiosi 2011; Khalid & Larimo 2012). Strategic learning (Kuwada 1998) is the foundation for FDI success (Thomas, Sussman & Henderson 2001; Vera & Crossan 2004) and if there is a lack of FSAs or if the requisite FSAs do exist, firms must be able to ensure successful knowledge transfer (Rabbiosi & Santangelo 2013; Simonin 2004; Bresman, Birkinshaw & Nobel 1999). And while generalizations have been derived from existing research on LOF and learning (Chetty, Eriksson & Lindbergh 2006), examining how environmental learning has progressed or changed, how learning engagements occur for the specific case of EM MNEs in the U.S., and how manager's insight impacts intent and commitment, it has yet to be accessed for improving FDI success. The results show that the lack of developed knowledge transfer systems is an ongoing issue at all of the firms. This is important as the development of networks and organisational structure can lessen the impacts of LOF (Gaur, Kumar & Sarathy 2011).

**Proposition 3:** *For Chinese firms investing in developed economies, absorptive capacity of subsidiary members will be positively related to knowledge transfer. .*

It is clear that knowledge transfer is an issue in both the transfer of FSAs and learning capacity and may be partly due to the cultural divide and lack of proximity (Lee & Rugman 2012). However the results show that we must consider Kogut and Zander's (1993) implication that internal knowledge transfers are not the only explanation for effectiveness. Examining both upward and downward knowledge streams can determine if spillover and reverse knowledge are impacting goal attainment (Rabbiosi & Santangelo 2012; Chen, Li & Shapiro 2012). Future research can also examine how FSAs or location-specific advantages can be obtained through external networks (Giroud & Scott-Kennel 2009) as well as

through third parties including JVs and M&As (Simonin 2004; Bresman, Birkinshaw & Nobel 1999) which can substitute and just as meaningfully provide the basis for effective learning. More research on the exact mechanisms and resources that will enhance knowledge flow is a key consideration as knowledge transfer will ultimately lead to goal achievement and bottom line.

*3.5.1.4 Learning Engagement* These firms must invest in building social capital through the development of relationships, and unless resources are devoted to the process, problems may continue to permeate the interaction ultimately impacting the strategic mission (Li 2005). While cultural distances may play a role in relationships and therefore on the knowledge transfer process between subsidiary and parent (Drogendijk & Holm 2012), it must also be considered how shared vision, strategic intent and even the levels of commitment and intent (Drogendijk & Holm 2012) impact and determine the outcomes on LOF and on sustainability. For Chinese firms in order to overcome shortcomings and the lack of FSAs, they may need to move beyond the focus on IBV or RBV to exploit strategic resources, but also must be able to integrate this knowledge once it is acquired (Lu, Liu & Wang 2010) by expanding the framework of the eclectic paradigm to include these factors (Dunning 1998). The LLL framework such as the one proposed by Mathews (2006) on linkage, leverage and learn, may be a practical application for managing the international process.

The findings also suggest that it is important to start with strategic intent which is the driving force behind the impetus for FDI. In order to gain more clarity on the process we need to start at the founding strategic phase to further analyze the potential issues of LOF, the impact of FSAs as well as to determine the level of commitment, resources, and intent needed to create an environment for effective knowledge transfer. In doing so we need to consider other factors such as the strategic intent and the factors that influence the decision making on strategic intent (Rui & Yip 2008) by using a three perspective approach (Lu, Liu & Wang 2010; Yamakawa, Peng & Deeds 2008; Wang et al. 2012).

This study also has several implications for managers and leaders in the international process. In all cases, the one consistent issue of LOF was that the parent firms lacked necessary cultural knowledge which implies the need for location-specific



strategies. The lack of environmental knowledge from a position of outsidership may preclude foreign managers from knowing how to transfer FSAs or even knowing which FSAs to acquire (Vahlne, Schwizer & Johanson (2012). For China/US operations there needs to be a level of regionalism (Ghemawat 2003; Rugman and Verbeke 2003), at least initially, to manage through the cultural and organisational issues that can surface in LOF. Constructing strategies that can develop capabilities and FSAs throughout the broad spectrum of the organisation are crucial for global enhancement (Rugman & Li 2007). The findings also suggest that transfer mechanisms and the commitment to knowledge resources are crucial to addressing LOF and improving operations (Ambos & Ambos 2009). The internalization and level of receptiveness can be impacted by many factors; cultural beliefs (Brock 2005), sender and recipients' perceptions and relationship (Kogut & Zander 1992), incongruence of knowledge application from parent to subsidiary (Cummings & Teng 2003), and commitment and intent (McDougal & Oviatt 2000). If organisational learning as prescribed by the organisational learning perspective is necessary to reduce FDI barriers (Rabbiosi, Elia & Bertoni, 2012) then future studies should examine how the level of involvement by the parent firm relates to resources allocated and the relation of intent to learn from the subsidiary is correlated to the amount of support for learning it receives (Tsang 2002). Managerial training on IB leadership and culture are needed as it impacts the perceptions and actions of parent and subsidiary partners as a lack of mutual understanding can create biases and will diminish interpersonal-level knowledge sharing (Mäkelä, Andersson & Seppälä 2012).

**Proposition 4:** *For Chinese firms in developed economies, managerial intent and commitment of resources are positively correlated to learning engagement, absorptive capacity, and knowledge transfer.*

As close relationships foster knowledge flow, it is imperative for cultural and strategic understanding to lower potential barriers and enhance communication (Minbaeva et al. 2003; Gupta & Govindarjan 2000). Creation of compatible values and norms to enhance absorptive capacity ability is essential to assimilate and exploit knowledge (Kotabe, Jiang & Murray 2011). Consistent with other studies, cultural convergence by means of reducing cultural differences as well as the establishing a new corporate culture through crossvergence, will play an important

part in establishing effective knowledge transfer systems (Sarala & Vaara 2010). And while firms may not have the know-how to develop these learning processes (Perez-Nordtvedt et al. 2008), they must enhance connections with internal and external sources (Autio, Sapienza & Almeida 2000) that can provide these capabilities. Management must recognise that interaction with other firms in building networks (Giroud & Scott-Kennel 2009) or connecting with government advisors and consultants within the host country is a basis for building international knowledge (Fletcher & Harris 2012) and in developing social capital (Tsai 2000; Ireland, Hitt & Vaidyanath 2002) to tie the parent and subsidiary together (Adler & Hashai 2007; Granovetter 1985).

### **3.5.2 Limitations and Conclusions**

This study intended to explore some of the current practices and issues for Chinese OFDI in relation to extant findings and assumptions of Chinese and emerging market firms. As Hamel and Prahalad (1996 p.239) stated, "Experience is of value only to the extent that the future is, more or less, like the past." As markets and industries are changing so fast for both China and the U.S, experience can quickly become irrelevant and even misleading for future decisions. This study applied semi-structural interviews and so human subject bias and error must be included. Issues of bounded rationality on the part of the respondents and interviewer must be considered in impacting the responses and the analysis of meaning to the responses. The theory based questions and even the country-context of the research can have serious limitations (Cheng 2007). In questioning employees of firms, even with the assurance of anonymity, issues of self-interest and concern for exposing internal flaws can alter the responses. The responses were also based on U.S. manager's perceptions only. While managers may have prior international experience, they may not have the right knowledge for the U.S. marketplace or fully understand the intent of the foreign parent (Kogut 1988) and believing they have the right knowledge or approach, might bias them or limit their interpretations of appropriate actions for managing in the new marketplace (Covin & Slevin 1990).

The sample was also a result of those firms willing to participate and so the non-response bias factor must be considered. While the findings are the result of interviews from ten firms, these were several firms that were not willing to

participate. Several Chinese-owned operations that were contacted did not grant interviews with a few stating that the parent firm would not allow interviews regarding their foreign process. One prominent firm's local management stated they were directed by the parent firm to have no conversations with me after the parent firm reviewed the question script. Also, two interviews that were conducted had to be discarded as it was deemed that the managers were unable to provide sufficient information related to the research questions.

Due to the size of the study and the sample dynamics, while some findings may be generalizable, the results should be tested through follow up surveys on a larger scale to determine higher correlations. However, since the sample of the ten firms correlates closely with the Rhodium Group's (2012) characteristics for Chinese FDI within the entire U.S., these findings could be highly representative of the entire sample of smaller investment firms and provide some insight for developing new studies. Limiting the study to one area of the country may also represent only localized issues and therefore other areas or regions need to be examined. The responses to knowledge transfer and to LOF are regionalized at the firm level as most MNEs must focus on a local or intraregional approach rather than global or interregional approach (Rugman & Verbeke 2006) further limiting the determination of generalizable factors. Also, as FSAs can be localized and are firm and industry-specific, the numerous combinations of factors that can contribute to competitive advantage are inconclusive as well. The concepts of learning, knowledge transfer and spillover are also very hard to quantitatively measure as the results are based on individual perceptions (Buckley, Wang & Clegg 2007). However, as this study was designed for investigative stage work, it lays the foundation for determining critical factors such as strategic intent and entry mode for future study on the FDI process. It also calls for longitudinal studies to further analyze the factors of this study on the entire strategic process from analysis through to implementation and evaluation not only from a strategic business approach but to include the concepts of strategic learning.

Future streams of research can extend these findings in multiple ways. Studying the environmental factors impact on strategic intent and entry mode can provide more insight into the motivation of why and how these emerging market firms are changing trends. Devising a comparative study on firms from other EEs could also

expose stronger patterns on many of the FDI factors. Expanding this to a longitudinal study to track the outcomes by incorporating the learning process could also be beneficial for IB theory building and managerial applications as this study presented several interesting process issues from a firm-level viewpoint beyond the extant findings based on quantitative results. The statements from the subsidiary could also be compared to responses from managers with the Chinese parent. This would give insight into intent and commitment to evaluate the actions or resources needed to achieve the firm's goals.

As knowledge is seen as a key component of FDI success (Nadolka & Barkema 2007; Petersen & Pedersen 2004; Mudambi & Navarra 2004), this is an important finding for future study. The low rate of beneficial knowledge being transferred does pose the question as to where the issues stem in the FDI process.

Improvements in the process are needed in order to enhance competitive advantage and further mitigate LOF with knowledge transfer effectiveness levels only at 40%. Is it an issue of cultural translation? Is it the amount of international experience or the composition of the management? Is it the level of absorptive capacity? If there is critical knowledge associated with FSAs and since the findings support that some assets or capabilities are already held by the parent firms, then the knowledge transfer process needs to be carefully examined to determine the inefficiencies.

The issues in this study had been selected as they are highly relevant to current IB trends in the FDI practice. The world market is experiencing a new rebalancing (Rosen & Hanemann 2011), wherein emerging economies are not only used for excessive exporting of low-cost goods, but using FDI to build domestic income and consumption (Buckley & Casson 2003). Globalization by new players, such as Asian firms, is the new wave (Peng 2005). The impetus for knowledge and asset-seeking is pushing foreign investors to change investment strategies and therefore further research is needed to examine the current trends (Nigam & Su 2010; Nachum & Zaheer 2005) applicable for this unique market. While capitalizing on infrastructure, labour pools, and distribution channels that exploit a firm's position (Chen 2005) has been successful in the past in emerging markets, Chinese firms will need to hone new strategies (Kedia, Gaffney & Clampit 2012; Wu & Ding 2009) to obtain knowledge assets (Deng 2009; Rabbiosi, Elia & Bertoni 2012; Mathews & Zander 2007) and gain market share (Buckley et al. 2007; Makino, Lau & Yeh

2002) in developed economies. And while this study was conducted on Chinese firms, as the variables selected in this study are basic to all EM MNEs activities in DEs, many of the finds could be considered for studies on EE firms as a whole. By not focusing on state ownership which is the one distinct variable for Chinese firms in comparison to other EM MNEs, the findings can also serve as a base for future studies on isolating trends or relation to existing IB theories and or extending or building new EE theory.

## **CHAPTER 4 - Project 2: Strategic Asset Seeking by Chinese MNEs through Acquisition: the hiSoft Case Study**

### **4.1 INTRODUCTION**

While the findings from the interviews in Project 1 present new questions, it also developed some interesting perspective for further analyzing Chinese FDI in a DE such as the U.S. From the findings, I must conclude that Chinese MNEs FDI decisions are based on multiple factors that do not directly fit with historical theories as proposed in many studies (Mathews & Zander 2007; Morck, Yeung & Zhao 2008). Therefore, the proposition that firms must have strategic proprietary assets to exploit in international operations (Caves 1982; Hymer 1960) does not correlate for Chinese firms in DEs and yet the variances in exogenous and endogenous challenges that were denoted in project 1 also show that Chinese FDI do not truly correlate to the theories on LOF (Hymer 1960; Zaheer 1995 Barnard 2010) either. As these firms are surviving, they may not have advanced firm advantages but they must have some that are unique and provide some basis in international ventures (Ramamurti 2012). Also, as Chinese firms are more likely to be asset-seeking in DEs rather than driven by the possibility of exploiting ownership advantage, Dunning's OLI theory (1995) does not accurately fit the Chinese FDI process either. Transaction cost approaches (Williamson 1979; Buckley & Casson 1976) fail to explain why risks are taken when transaction costs in DEs are assumed to be most costly and risky (Yamakaw, Peng & Deeds 2008) and the traditional entry perspectives based on a staged or evolutionary entry pattern (Johanson & Vahlne 1977; Andersson & Svensson 1994) is discounted by the springboarding (Luo & Tung 2007), latecomer (Li 2007; Mathews & Zander 2007), born global (Fan & Phan 2001; Knight & Cavusgil 2004), and international new venture (Oviatt & McDougall 2005; Coviello 2006) actions of some of these Chinese firms further confirming that extended or new models are needed for Chinese FDI research.

Consistent with prevalent assertions (Rugman & Li 2007; Peng 2012; Voss, Buckley, & Cross 2010; Barnard 2010), Project 1 confirmed that most Chinese MNEs lack or are deficient in certain FSAs in comparison to firms from DEs and it seems they are making aggressive moves as latecomers (Marinova, Child & Marinov 2011; Li 2007; Mathews & Zander 2007) by strategically seeking assets

to improve competitiveness (Luo & Tung 2007; Rugman & Li 2007; Rui & Yip 2008). This infers that strategic intent such as strategic asset-seeking would be a highly relevant factor in examining Chinese FDI behaviour (Cui & Jiang 2009b) and in the FDI process as intent may be seen as more important than strategic fit (Rui & Yip 2008). Therefore, new paradigms and theories for examining this unique FDI pattern requires a broader approach that incorporates internal resources such as FSAs with industry dynamics and institution factors (Lu, Liu & Wang 2010; Yamakawa, Peng & Deeds 2008; Wang et al. 2012; Xie et al. 2011) when analyzing this trend. Going back and taking into account some critical antecedents that impact the FDI process (Deng 2012) may provide more insight into the findings from Project 1. This project will therefore build on the questions from these findings through a more in-depth case study that investigates strategic intent through the lens that blends the three perspectives of the "strategy tripod" (Peng 2002).

#### 4.2 FDI - STRATEGIC INTENT PERSPECTIVE

Strategy in the business sense is the determination for a plan of action to fit with organisational and environmental elements (Farjoun 2002) to achieve organisational objectives. A strategic plan of action helps to focus the entire firm towards maximising overall performance (Deng 2007). Strategic intent is then the motivation behind the actions of management (Hamel & Prahalad 1996) in formulating and implementing tactics necessary for achieving this success. Strategic focus is an important component in the international process for EM MNEs as they are quickly attempting to catch up to competing firms (Luo & Tung 2007). To be successful, these firms must quickly become efficient and effective. According to Knight and Cavusgil (2004 p.136), "international performance and the ultimate survival of the firm appear to hinge on well-conceived manipulation of strategic variables." Since a firm's strategic intent determines the goals they want to achieve in accordance with the firm's resources and the industry structure as moderated by the institutional forces (Peng, Wang, & Jiang 2008), a strategic intent perspective will be helpful in examining Chinese MNEs objectives, choices, and decisions in their FDI process (Rui & Yip 2008). As there is a paucity of research on the strategic intent of Chinese MNEs (Shenkar, Luo & Yeheskel 2008), starting with the

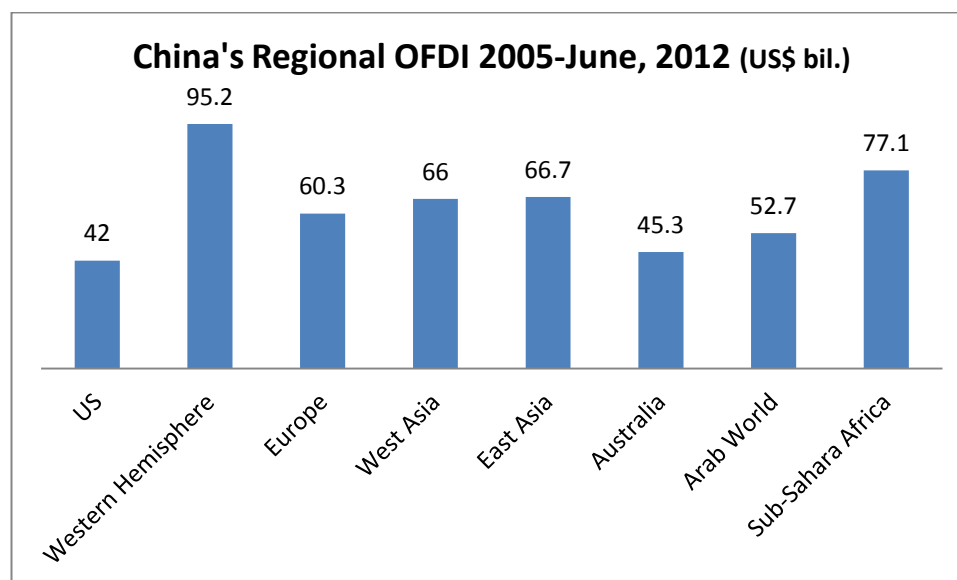
motivation behind the decisions on internationalization and global positioning helps to understand the posturing of Chinese strategies

Chinese firms initial strategic intent in FDI was fuelled by the Chinese governments push to obtain natural resources through expansion into emerging nations to compensate for its rapidly increasing domestic consumption. For natural resource asset-seeking, especially in emerging nations, rent-seeking allowed for exploitation of home-country and firm specific advantages (Buckley et al. 2007; Cui & Jiang 2009). One of China's great strengths is its propensity for saving, and financial viability which pays and encourages foreign investment (Morck, Yeung & Zhao 2008). Exploitation of financial viability was a factor in early Chinese FDI in emerging economies (Cantwell, Dunning & Lundan 2010) as competition for market share and resources tightened (Hitt, Keats & DeMarie 1998) within China further spurring firms into efficiency-seeking (Deng 2009; Driffield & Love 2007; Sethi et al. 2003). With the increased competition in the home marketplace in combination with a challenging business environment, some research points towards home-country factors that have pushed these firms to internationalize (Boisot & Meyer 2008). Yet other research feels internationalization theory needs to expand, allowing for the view that firms are not just exploiting, but also exploring away from government dictated needs (Klossek, Linke & Nippa 2012), illustrating a new wave of FDI in search of innovation pulled by opportunities rather than pushed by cost or negative environmental factors. Therefore, it must be assumed asset resource-seeking and market-seeking drive strategic intent for Chinese MNEs, especially in developed economies.



Several studies have concluded that strategic-asset seeking and exploration are major motivations for Chinese firms, especially for FDI into developed markets (Kedia, Gaffney & Clampit 2012; Wu & Ding 2009). Recent FDI as tracked by The Heritage Foundation (2012) while showing a varied dispersion of OFDI since 2005 (see Figure 4.1) it should still be noted that for Chinese OFDI, the U.S. is the fastest-growing recipient of Chinese investments (Scissors 2012). As developed markets such as the U.S. do not offer low cost labour or resources, the impetus for expansion must be for strategic assets or market allocation. "As MNEs expand into culturally diverse but developed markets, new knowledge and resources can lead to enhanced MNE performance" (Tihanyi, Griffith & Russell 2005 p.273). Upstream asset-seeking is primarily used to gain technological and innovative knowledge to make Chinese firms more advanced in global competitiveness. Downstream strategic asset-seeking is mostly focused on brand recognition and marketing (Deng 2007). The recent increases in greenfield investments (Table 4.1) and acquisitions (Table 4.2) by Chinese firms in the US seem to support the idea that strategic intent by EM MNEs in DEs is a changing variable.

**Figure 4.1** China's Regional Distribution of OFDI (Private Estimates\*)



Source: data from The Heritage Foundation's Global Investment Tracker dataset, updated July 2012 <http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>. \*The data shown is considered private estimates as they have triangulated data from several sources and adjusted where discrepancies varied from just the official reporting from MOFCOM. This was done in order to provide a more realistic data set based on samples from multiple sources. .NOTE: Western Hemisphere comprises all of the Americas minus the US.

**Table 4.1 Major Investment/Greenfield Projects - Chinese in U.S.**

<b>Year</b>	<b>Investing Firm</b>	<b>Project</b>	<b>Location</b>	<b>Industry</b>
1994	Wanxiang Group Corp	Manufacturing - Base for Expansion/Acquisitions	Illinois	Automotive components
1999	Haier	Manufacturing Facility	SC	White Goods
2000	Huawei	Est. 4 R&D Centres	NY, NC	Telecom
2000	China Telecom	US Corporate HQTR	VA	Telecom
2007	Suntech	R & D, Manufacturing	CA, AZ	Solar Power
2007	Sany Group	Manufacturing	GA	Heavy Equip.
2009	GCL-Poly	R&D Centres	WA, CA	Green Energy
2011	Nanshan Group	Manufacturing Facility	IN	Metals Mftg.

Source: U.S. Chamber of Commerce: "Faces of Chinese Investment in the United States", <http://www.uschamber.com/sites/default/files/international/asia/files/16983>

**Table 4.2 Major Acquisition Projects - Chinese in U.S.**

<b>Year</b>	<b>Acquiring Firm</b>	<b>Target Firm</b>	<b>Value (US\$ Million)</b>	<b>Industry</b>
2002	Shanghai Haixin Group	Glenoit Corp Fabrics	14	Textiles
2005	Lenovo	IBM Computing	1250	Technology
2007	Beijing West Indies Co	Delphi Corp - Global Suspension	100	Industrials
2007	Sichuan Kailboa Plant	US Energy Biogas Corp	122	Energy & Power
2008	Mindray Med Intl Ltd	Datascope Corp Patient Monitor	209	Healthcare
2009	China Investment Corp	AES Corporation	1,580	Energy & Power
2010	Shanda Games Ltd	Mochi Media Inc	80	High Technology

Source: Thomson Reuters - Acquisitions data

Strategic intent has also been tied to the motive of exploration of new possibilities and the exploitation of existing assets (March 1991). Entry mode choice will then be based on "the most efficient and effective way to either exploit or explore the knowledge base" (Chang & Rosenzweig 2001 p.751). Exploitation is based on the premise that firms either have proprietary FSAs they can capitalize upon (Hymer 1976; Caves 1971) or rent-yielding resources (Buckley & Casson 1976) to exploit in a foreign country. Chinese firms have used exploitation in emerging economies where they have been able to obtain natural resources and where their financial and efficiency strengths have provided a significant advantage over the foreign firms

(Lu, Liu & Wang 2010). However, most of the FSAs that the Chinese possess are derived from country-specific advantages, specifically low labour costs, so in industries where they can internationalize and use the home base for manufacturing or processing, they can successfully leverage these strengths (Luo & Tung 2007). However, as the Chinese firms' FSAs tend to be country-specific, they are limited to the home region and cannot be integrated throughout global operations (Rugman & Verbeke 2003a; Williamson 1979), especially in developed or highly advanced environments. In essence, most of the exploitation especially in EEs has been efficiency-seeking or natural resource-seeking.

Exploration is based on the premise that firms seek out resources to overcome their disadvantages. Exploring in EEs suggests that firms will most likely be seeking natural resources or efficiency factors that don't exist in their home environment. Conversely, exploration in DEs will be based on the premise that firms need resources that are superior to their own (Luo & Wang 2012). For EM MNE firms' explorations in DEs it seems to be for gaining competitive advantage through acquisition of strategic assets (Cui & Jiang 2009) either in advanced technologies, industry know-how, and management expertise (Deng 2007; Chung & Alcácer 2001) or for access to markets or brand recognition. As Chinese firms are found to be deficient in many FSAs in comparison to advanced competitors (Marinova, Child & Marinov 2011; Li 2007; Mathews & Zander) and because they are latecomers and need to take quick aggressive action to catch-up, they tend to mainly seek technology, human capital, and brands (Luo & Tung 2007). As a result, most of the exploration in DEs has been motivated by market or strategic asset-seeking.

It must also be considered that exploitation and exploration while they are two separate factors, in the case of Chinese MNEs, may be complementary (Wu & Ding 2009) in determining strategic intent. While Chinese firms are highly focused in DEs in order to gain access to valuable assets (Wesson 1999) they have been able to exploit their existing FSAs for rent-seeking in EEs, providing them with an even stronger financial base (We 2010; Cui & Jiang 2009). As they are latecomers with varied needs, Chinese MNEs need to find a balance between exploration and exploitation in international expansion (Lu, Liu & Wang 2010) to compete at the same level as their global competitors. Therefore strategic intent may have a dual or ambidextrous focus (Luo & Rui 2009) which may differ over time as EM MNEs

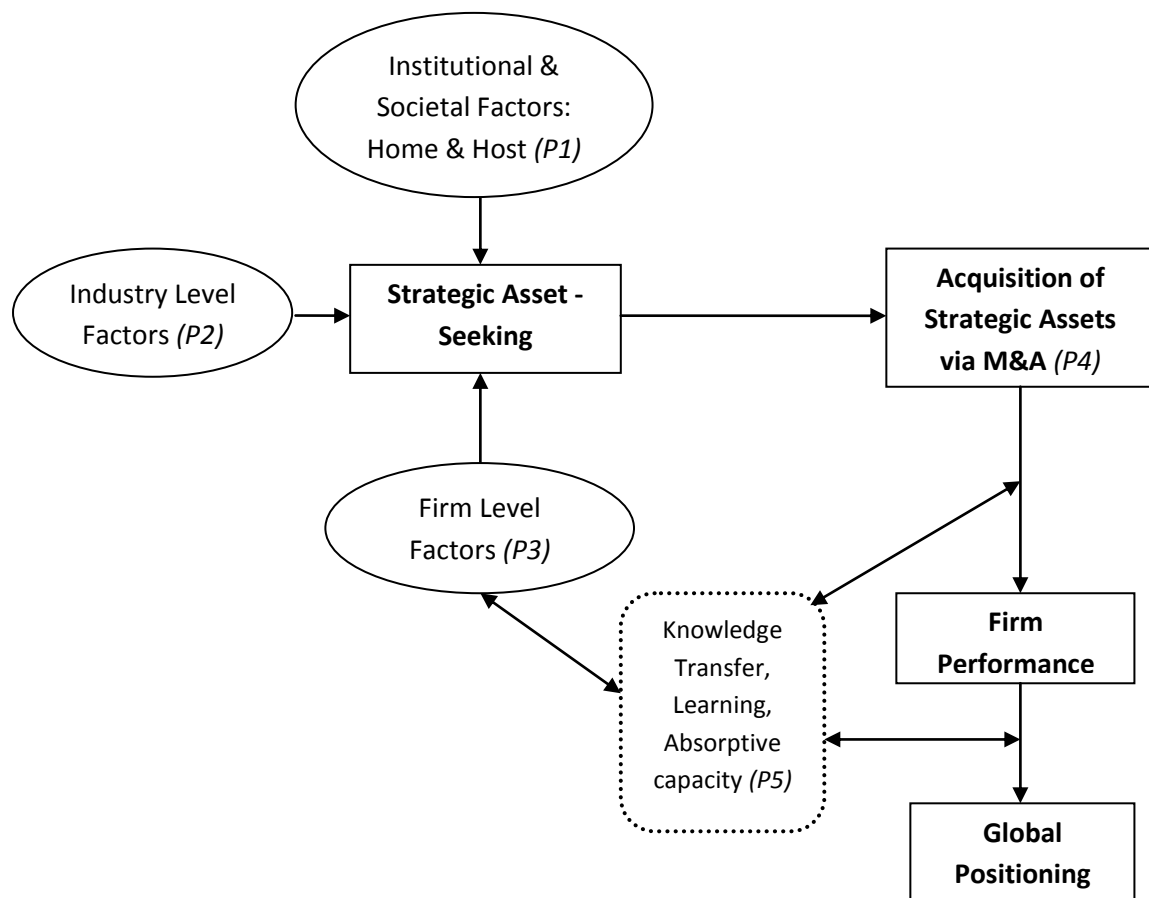
lacking FSAs are initially motivated to explore via strategic asset seeking or market seeking, converting to a course of exploitation once they learn to leverage the acquired assets (Mathews 2006).

#### 4.3 THEORETICAL FRAMEWORK AND PROPOSITIONS

Chinese MNEs as latecomers are faced with the challenge of closing the gap with competing firms from developed markets. In this paper, I contend that the main motivated for strategic asset-seeking by Chinese firms in the U.S. is based on the objective of obtaining high level resources to quickly compensate for their FSDs through the acquisition process to build firm performance and ultimately global positioning. Building on extant literature, the ASAP research model (Asset-Seeking, Acquisition, and Performance) shown in Figure 4.2, incorporates three theoretical perspectives reflecting the multiple factors that influence FDI decisions and actions: firm specific attributes (RBV), industry level factors and institutional factors from the host and home environment. Positioning factors as forces on strategic decision making as prescribed in Hutzschenreuter, Pedersen and Volberda's (2007) coevolutionary model of internationalization moves beyond the neoinstitutional view to a more blended approach for incorporating internal, external and industry components into the process (Kostova, Roth & Dacin 2008). This model also suggests that learning, knowledge transfer, and absorptive capacity are critical for strategic realization to occur as a result of the acquisition process. The learning cycle (parent to subsidiary, subsidiary to parent) must be complete to realize the reciprocal benefits of the acquisition.

**Figure 4.2** *Asset-Seeking through Acquisition Research Model*

**ASAP Model (Asset-Seeking, Acquisition, Performance)**



**4.3.1 Strategic Asset-Seeking & Firm Level Factors**

By effectively matching firm-specific resources to environmental opportunities it is presumed that organisations with superior resource utilization will achieve superior performance and therefore a competitive edge (Wernerfert 1989: Prahalad & Hamel 1990). As premised by Tong and Reuer (2007), the lack of requisite capabilities increases risks and costs, not only for doing direct business, but also in the value chain. If firms are unable to deploy the necessary managerial and industry skills, they suffer in process and cultural aspects. So "while being a multinational may confer a number of advantages, becoming a multinational without the requisite capabilities and deliberation may be risky" (Tong and Reuer 2007 p.226). Since Chinese firms fall behind their counterparts from developed economies in possessing firm capabilities (Mathews & Zander 2007), the prospect of strategic

asset-seeking is valuable for gaining competitive advantage within the competitive environment (Barnard 2010). As firm-specific resources such as leadership or management initiatives (Penrose 1959; Hamel & Prahalad 1983; Peteraf 1993) are key determinates for sustainable FDI (Coff 1999), it is presumed that organisations with superior resource utilization will achieve superior performance and therefore a competitive edge (Wernerfart 1989; Prahalad & Hamel 1990). As many Chinese firms are deficient in the requisite technological, managerial and brand assets, they need to acquire these resources for operating internationally (Buckley et al. 2002). Since the availability of these necessary assets is scarce in their home environment, Chinese firms need to expand into new markets in order to gain the necessary skills and resources (Hitt, Keats & DeMarie 1998, Boisot & Meyer 2008).

For latecomers, strategic intent also impacts location selection (Makino, Lau & Yeh 2002). Since Chinese MNEs do not have access to the technology and the R&D of their experienced counterparts, they will therefore be directed to acquire it from developed nations (Luo & Tung 2007; Kedia, Gaffney & Clampit 2012; Wesson 2004) with significant intellectual and human capital. Even though EM MNEs will be faced with LOF (Rugman & Li 2007) and the risks tend to be escalated in DEs, they must enter developed markets to gain access to the requisite skills for competing in the global marketplace.

The need to develop legitimacy and to build quality perceptions is also a force in asset-seeking in DEs (Bell, Filatotchev & Rasheed 2012). As it is posited that "the survival chances of an organisation increases with an increasing degree of legitimacy" (Oertel & Walgenbach 2009), the perception that Chinese products are 'cheap, low in quality and disposable' (Yi & Ye 2003) presents a clear case for asset-seeking. For a large Chinese firm such as Haier, in order to gain brand legitimacy, engaging in knowledge asset-seeking in DEs improved quality, brand recognition and enhanced their global image (Liu & Li 2002). With the negative home environmental pressures and reputational constraints (Milhaupt 2008), obtaining legitimacy is a crucial asset for Chinese firms (Haveman, Rao & Paruchuri 2007). The need to obtain assets that provide effectiveness and credibility in the global environment will direct strategic activity (Deng 2009) towards strategic asset-seeking.

**Proposition 1:** *Chinese firms with limited firm specific assets will be motivated for strategic asset resource-seeking in developed economies.*

#### **4.3.2 Strategic Asset-Seeking & Institutional Factors**

Chinese firms embarking on FDI will be faced with pressures from the external environment (North 1990) including host (Zaheer 1995) and home environmental factors (Boisot & Meyer 2008) as well as internal factors such as isomorphic pressure from the parent firm in being a global partner (Harzing 2002). In dealing with the "rules of the game", the isomorphic practices overcome regulations through establishing legitimacy from an economic standpoint or from a socio-cultural stance (Peng 2002). Studies have shown the framework of the host and home environments will have a direct impact on decisions of the firm in developing acceptable practices (Chen & Tan 2012; Chen & Hennart 2002.) Firms will need to adapt to the degree of LOF through formal and informal actions to reduce uncertainty enabling them to create value through international ventures.

From an institutional or IBV perspective, firms will make adjustments to meet the cognitive, normative, and regulative structures of the host environment (North 1990). However, doing so will require environmental and industry knowledge as well as certain firm level skills that guide the process. For Chinese MNEs embarking in the arena considered the most risky - emerging firm into developed economy (Jones & Coviello 2005) - where they will face issues of LOF (Rugman & Li 2007), and since they are deficient in FSAs, they will need to move forward quickly and strategically to obtain the necessary resources. As today's marketplace is dealing more with intangible assets (Dunning 1998; Wesson 1999) and as strategic intent is pushed towards strategic asset-seeking, the investment opportunities are evolving in developed nations (Klossek, Linke & Nippa 2012). With the threat of LOF for EM MNEs in DEs, they will need to weigh the benefits of internationalization against the impact of the threats to their operations.

Wherein firm and industry factors help to determine where firms will position themselves in the market, the institutional factors have a direct impact on strategic intent of these firms for entering a certain market; hence, the benefits of investment must overcome the transaction costs of LOF. As stressed by Peng, (2002), "environment matters." As empirical studies do not provide a consistent theory on

how the host environment impacts FDI decisions, firms will be faced with varying issues and levels of LOF. Yet for Chinese firms as latecomers with a strong need to catch up (Marinova, Child & Marinov 2011), the potential of attaining competitive FSAs dilutes the risk. The hope becomes that the challenges will diminish with asset attainment and experience (Johanson & Vahlne 2009; Rugman & Li 2007; Luo & Peng 1999). Therefore, while the risks and transaction costs in entering a developed market may be substantial, they can be overshadowed by the need for asset resources allocation.

**Proposition 2:** *For Chinese firms investing in developed economies, the concern regarding the level of international risk from institutional factors is inversely related to the firm's need to compensate for their competitive disadvantage.*

#### **4.3.3 Strategic Asset-Seeking & Industry Factors**

The strategic motivation of investing firms is impacted by the level of competitiveness and technology associated with an industry. In industries with relatively low levels of competition, isomorphic practices through IBV seem to be most impactful (Xu, Hu & Fan 2011). In contrast, industries with high levels of competition, especially those in DEs, will require unique advantages as firms attempt to compete with established firms (Hitt et al. 1996). The level of industry competitiveness or rivalry (Porter 1985) in the race for global positioning also requires firms to gain or develop firm-specific assets quickly in order to remain viable (Chang & Rhee 2011). Chinese firms who lack certain skills will be faced with higher entry barriers in highly competitive industries that require higher level skills (Porter 1985). As FDI is necessary for EM MNEs to obtain the high tech opportunities in advanced industries (Wang et al. 2012), asset-seeking will be imperative for overcoming existing disadvantages (Lu, Liu & Wang 2010) to compete in the rapidly changing industry. Therefore the level of competitiveness will influence strategic intent and determine the importance and timeframe for obtaining FSAs.

Industry competitiveness influences how firms position themselves in the marketplace through strategic posturing; whether to be a generalist or a specialist and whether they will be competing in the periphery or in the market centre (Carrolls 1985). The targeted market position in conjunction with market



classification will impact the type of firm resources needed (Freeman & Hannan 1983). Competing in the market centre directly facing the highest level of competition, will require superior skills (Xu, Hu & Fan 2011) in comparison to smaller niche markets at the periphery. Yet the desire to compete in the market and the possibility of beneficial knowledge spillovers in areas of high competitor concentration (Rabbiosi & Santangelo 2013) still makes FDI attractive even in industries with dauntingly high levels of competitiveness (Liu & Buck 2007). However, the potential benefits from spillover and linkages are directly correlated to the firm's skills for developing learning abilities and absorptive capacity (Chen & Shapiro 2012; Chen, Chen & Ku 2004; Crossan, Lane & White 1999). Therefore, obtaining high level attributes quickly to remain competitive in highly competitive or concentrated markets within the U.S. will push Chinese MNEs towards asset-seeking.

**Proposition 3:** *For Chinese firms, the competitive nature of the industry will be positively correlated to the degree of asset-seeking.*

#### **4.3.4 Strategic Asset-Seeking and Entry Mode**

In FDI, firms will need to overcome the barriers to entry (Porter 1985). Entry mode challenges and decisions have been tied to the investing firm's type of industry - manufacturing, service, technological etc. (Ghahroudi, Turnbull & Hoshino 2010), network linkages and knowledge transfer (Inkpen & Tsang 2005; Coviello & Munro 1997), firm and managerial assets and experiences (Johanson & Vahlne 1977; Kogut & Zander 1993; Sydow, Schreyogg & Koch 2009; Ellis 2007) as well as the level of market engagement - whether multi-domestic, multinational or global (Porter 1985). However, extant research explaining entry mode choice in relation to strategic intent, especially in the case of EE firms investing in DEs, is very limited (Child & Rodriguez 2005). Therefore, in order to develop successful strategies for Chinese MNEs in DEs, it is imperative to study the entry patterns based on strategic objectives (Brouthers & Hennart 2007) as well as tracking the long-term results of these actions.

Due to the latecomer status of EM MNEs, they are motivated to seek strategic assets in developed markets. Through exploration of these assets, EM MNEs seek to fill the gap from location-specific advantages with their DE counterparts (Luo & Tung

2007) by obtaining advanced resources, skills, and technologies (Buckley & 2007; Rabbiosi, Elia & Bertoni 2012). As these assets are not available in home environments (Makino, Lau & Yeh 2002) acquiring local market knowledge allows for organisational learning to reduce LOF, improve market responsiveness, and boost brand image as a base for building competitive advantage. Entry mode selection is therefore imperative to improve capabilities that will fulfil strategic intent and objectives (Zhao Luo & Suh 2004) through investment in these strategic rich locations (Buckley et al. 2007; Makino, Lau & Yeh 2002).

For EM MNEs, the decision to enter a foreign market can have far-reaching implications for performance and survival. Entry mode selection has been connected to factors such as ownership (Cui & Jiang 2009) and control (Brown, Dev & Zhou 2003), transaction costs (Zhao, Luo & Suh 2003; Brouthers, Brouthers & Werner 2003), industry type or level of competition (Elango & Pattnaik 2007), culture (Kogut & Singh 1988) or cultural distance (Tihanyi, Griffith & Russell 2005), management experience (Demirbag, McGuinness & Altay 2010) and decision-making (Nielsen & Nielsen 2011), firm level skills and experience (Chang & Rosenzweig 2001), regulatory, normative or isomorphic forces ( Yiu & Makino 2002) and risk factors and LOF in the host environment (Xu, Hu & Fan 2011; Shaver 1998). While all of these factors may play a role in entry mode decisions, it is widely assumed that the Chinese firms are mainly entering DEs to obtain strategic assets (Luo & Tung; Rugman & Li 2007; Rui & Yip 2008; Deng 2009), through either greenfield or acquisition entry.

MNEs that feel they have the requisite assets or sufficient international experience tend to be more comfortable in independent ventures through a greenfield entry mode (Cui & Jiang 2009b) and from a RBV perspective, greenfield entry would be the best way to transfer existing competitive advantages (Schüler-Zhou & Schüller 2009). By starting a new venture the firm is reliant on its own resources as an initial means for building the foreign entity (Kogut & Singh 1988) and can focus on exploitation of the assets they possess. This can also be a more effective strategy when the firm desires to maintain high levels of control, especially between the HQ and the subsidiary (Cui & Jiang 2009). Firms such as Haier and Huawei are examples of firms investing in large greenfield operations. Greenfield entry has allowed them to maintain control while developing sales or distribution centres in

order to gain market access. Establishing a new venture preserves the ability to hire and train new staff which may lower organisational costs associated with cultural integration and change (Delios & Beamish 2001). Setting a new culture from the start provides the means for creating a brand image and corporate culture (Child & Rodrigues 2005). However, the lack of environmental knowledge and networks obtained through an alliance may be a disadvantage (Park 2012) especially in developed markets. Unless these firms possess the assets that match those of their DE competitors or can be successful through an isomorphic approach (Harzing 2002), the liabilities of foreignness and outsidership may deter them in tapping relational benefits. When the environments of the home and host country are more similar, the perceived cultural distance and level of risk are reduced and therefore tend to encourage greenfield entry (Demirbag, McGuinness & Altay 2010), yet when there is greater perceived risk or further distance, cooperative strategies such as acquisition is more attractive.

The ability to access advanced assets such as technology, brand image, & R& D imbedded in firms in developed markets is also better achieved through a takeover strategy (Dunning 2000). Acquisition allows firms to directly obtain tangible and intangible assets (Dunning 1998) including knowledge resources (Wesson 1999) to boost competitive advantage (Deng 2007) in environments that require higher level complementary assets. Acquisition can also be a quicker strategy when market position is desired in a fast growth industry or developed market (Cui & Jiang 2009) when the speed of asset possession can impact FDI expansion options and the performance of the firm (Chang & Rhee 2011).

Acquisition strategy can also be beneficial when cultural distance is high and the foreign firm lacks environmental knowledge to overcome LOF. The parent firm can use the acquired firm's standing to gain legitimacy to overcome the liability of outsidership (Vahlne, Schweizer & Johanson 2012). However, it is also posited that acquisition may be more costly with increased cultural distance as firms may be faced with a "double-layered acculturation problem from the national cultural distance factor and from the differences between the parent and subsidiary's corporate culture" (Barkema, Bell & Pennings 1996 p. 154). In acquisitions the new firm will acquire characteristics of the parent firm (org culture, strategic direction, management style, etc.) and yet maintaining the status as capitalizing on the assets

of the acquired brand is a major objective (Child & Rodrigues 2005). How well they are able to blend and manage the acquired assets with its existing culture and architecture (Klossek, Linke & Nippa 2012) will determine the integration costs. As integration through acquisitions can be difficult and lengthy, the transaction costs can be high, so for acquisition to be successful they will need to compensate with large market size, high demand, high revenue potential or with projected high rates of growth to recover the costs (Hennart & Reddy 1997; Buckley & Casson 1998). Therefore, while it may be risky for Chinese MNEs investing in DEs, the high costs of post-merger integration may be outweighed by the market or resources gained through acquisition (Chung, & Alcácer 2001).

Markets with the prospect of monopoly power can also override the cost and risk factors associated with acquisition, especially in large markets (Eicher & Kang 2005). As noted by Ramasamy, Yeung & Laforet (2012 p.19) on their study of Chinese MNEs, "The desire to augment such an advantage is so strong they are willing to adopt aggressive, high risk targets". For firms with global aspirations, the means for acquiring assets becomes more central than organisational fit (Cui & Jiang 2009). Firms will use acquisitions as a means to obtain knowledge resource assets or market share to develop a competitive platform for further penetration in the global marketplace (Morck, Yeung & Zhao 2008). However, moving towards a global strategy is a complex process as firms must deal with the issue of localizing and globalizing at the same time requiring extensive firm level assets. As Chinese firms do not have these abilities, they will need to gain knowledge first before they are able to leverage themselves in the marketplace (Mathews 2006). Therefore, if these firms have global aspirations they will need to quickly overcome their shortcomings and lack of FSAs, making acquisitions highly attractive.

With UNCTAD (2012b) reporting greenfield value declining for four straight years with a 34% decrease in 2012 while acquisitions by EE firms was up 37% setting a record high US\$115 billion in 2012, it is clear that motives of EM MNEs for FDI are changing. Greenfield and acquisition entries into the U.S. from 2003-2010 by Chinese firms were about even in number yet M&As have increased in recent years and acquisitions accounted for about 77% of the revenue which equated to US\$9 billion (Rosen & Hanemann 2011). MOFCOM (2012b) also reported a 44% annualized increase in M&A OFDI from 2008-2011 showing a continuing trend

towards asset acquisition. It is premised by Kedia, Gaffney & Clampit (2012) that EM MNEs will use acquisition strategies when primarily seeking resources for R&D, technology and management expertise, but prefer greenfield when seeking market or customer access or natural resources. 33% of greenfield investment in the U.S. was in energy and 29% was in metals as the majority of wholly-owned investments are directed more towards natural resource access (Hammer & Jones 2012). Also, many of the emerging technologies are being developed by small U.S. firms which are too small to invest in China but have a strong desire to partner with someone that can help them rapidly grow and therefore have become attractive targets to Chinese investors. The recent acquisitions of these small high-tech firms in the U.S. by Chinese MNEs further shows a change in motivation towards technology asset allocation (Szamosszegi 2012).

The increasing trend in M&A activity over greenfield operations indicates a distinctive change in investment motivation towards asset-seeking (Deng 2007). As entry mode choices are based on a firm's strategic assets (Hennart & Reddy 1997; Andersson & Svensson 1994), for Chinese firms the issue is on newness (Stinchcombe 1965) and their lack of access to FSAs. In order to compensate for their lack of unique or extraordinary rent resources, M&A becomes a type of strategic entrepreneurship for quickly gaining advantage (Madhok & Keyhani 2012). Chinese MNEs need to catch up quickly to other global firms (Rui & yip 2008). Yet an internal development process to build firm abilities to the level of international market and global competitiveness requires taking large steps (Autio, Sapienza & Almeda 2000). Therefore, in order to take advantage of opportunities in DEs, acquisition is an effective means for obtaining strategic assets (Chung & Alcácer 2001).

**Proposition 4a:** *For Chinese firms motivated by asset resource-seeking, acquisition strategy will be the preferred entry mode in developed economies.*

**Proposition 4b:** *For Chinese firms with high global aspirations and motivated by asset resource-seeking, acquisition strategy will be the preferred entry mode in developed economies.*

#### 4.3.5 Strategic Asset-Seeking and Learning

Knowledge is critical in managing foreign acquisitions (Kedia, Gaffney & Clampit 2012). The complexities of national and corporate cultural differences will require creating a framework to transmit power, control and communication (Shenkar, Luo & Yeheskel 2008) in blending the two environments (Zhao, Luo & Suh 2004). Since the main objective of MNEs investing in DEs is to explore and obtain advanced knowledge resources, the ability to extrapolate the acquired assets (Driouchi & Bennett 2011) is essential. However, as EM MNEs are relatively inexperienced and they lack the knowledge and management skills to coordinate global activities (Chen & Shapiro 2012). Therefore, enhancing their learning abilities will be essential for deploying acquisition strategies.

Knowledge and learning are based on the amount of developed absorptive experience a firm possesses (Cohen & Levinthal 1990). It is also assumed that the level of absorptive experience is associated with the ability to acquire and integrate strategic assets; as learning increases, so should the ability to learn (Makino, Lau & Yeh 2002). Therefore, through acquisition of firms in DEs, EM MNEs will seek to accumulate resources overtime to develop new capabilities to exploit in new opportunities for enhancing competitive advantage (Rabbiosi & Santangelo 2013). For these strategic goals to be realized, a learning network must result in effective forward and reverse knowledge transfer (Chen, Li & Shapiro 2012). Based on Kogut and Zander's (1993) evolutionary view of firms as knowledge-based entities, the knowledge cycle must be complete for organisational effectiveness. Knowledge from the parent must be translated to the subsidiary, infused with local knowledge and then transferred back to the parent so the information can become strategic learning and ultimately transmitted to the entire firm network.

For Chinese firms to realize the benefits of the strategic assets acquired from the U.S. firms, it will require development of absorptive capacity (Chen & Shapiro 2012) to obtain intraorganisational (Simonin 2004) and interorganisational knowledge transfer (Holmqvist 2004). Knowledge acquisition, while important is not enough to make these firms competitive (Kotabe, Jiang & Murray 2011). Firms will need to possess or obtain the necessary FSAs for developing absorptive capacity (Volberda, Foss & Lyles 2010) so knowledge can be exploited (Foss & de Santos

2011) for enhancing firm performance. Hence, the ability to learn and become competitive is tied to a firm's FSAs or FSDs. Therefore, Chinese firms' ability to absorb, transfer and integrate the assets sought through firm acquisition will be dependent on their level of FSAs and their ability to improve the process.

**Proposition 5:** *For Chinese MNEs, the ability to obtain, transfer and integrate assets through acquisition is positively correlated to the level of the firm's FSAs, learning, and experience.*

#### 4.4 RESEARCH METHODOLOGY

To shed light on strategic asset-seeking by Chinese firms through acquisition, the case method was used to gain inferences on the stated propositions. As this thesis is based on inductive research, proposition testing is needed to examine some of the patterns and variables denoted from Project 1. Project 1 also demonstrated that qualitative data is needed when investigating Chinese FDI as historical theories cannot be directly applied and theory or explanations of this unique sample, especially at the firm level is limited. The case method provides the tacit knowledge - the how's and whys - to build much needed theoretical knowledge (Eisenhardt & Graebner 2007; Gibbert, Ruigrok, & Wicki 2008). As there is a scarcity of research in this area, qualitative research was better for focusing on research building through proposition testing to develop a basis for theory development. Therefore, this case study was imperative to continue the inductive analysis research and examine the multi-dimensional dynamics (Eisenhardt & Graebner 2007) of strategic intent which needs to be analyzed and sorted over time (Siggelkow 2007).

A unique contribution of this research was to gain subjective material only found through insight of key stakeholders such as executives, analysts and employees of Chinese firms within the U.S. The case study method allowed me to go beyond the limitations found in much of the extant literature which relies on statistical databases, which can be inaccurate, incomplete, or even biased as much of the reporting and distribution of information on Chinese activity is either non-existent or flawed as demonstrated by the Chinese revisions or suspension of data released in recent years (See Chow 2005; Roberts 2012; ChinaDaily 2012). This study fulfils the need for research on strategic intent beyond the limitations of statistical database

figures (Jormanainen & Koveshnikov 2012). This case study was built by using data from a variety of sources to provide rich empirical descriptions (Eisenhardt & Graebner 2007). The use of interview and archival data such as documents collected from government, firm and third party agents provided a unique opportunity for proposition testing. Interviews were conducted with managers and executives at various levels within the organisation and at multiple subsidiaries of the parent firm, hiSoft Technology International Limited (see Appendix F). Archival data from firm and third-party sources containing opinion statements and analysis were used in conjunction with interview content from government and investment consultants familiar with the firm's actions and practices of Chinese investment in the U.S.

Since this study was to develop theory, theoretical sampling was more appropriate rather than random sampling (Eisenhardt & Graebner 2007). Therefore, the company selected for the case study, hiSoft was appropriate as it demonstrated the logic and relationships of the propositions related to acquisition strategies and strategic intent of Chinese MNEs in the U.S. Many of the existing case studies are based on a few large, top Chinese firms which by sheer size and expanse have already developed certain FSAs (Wei 2010). This case study focused on a lesser known firm which provides a clear example of strategies and challenges related to asset resource-seeking aimed at obtaining FSAs and global status in mid-process. Examining the process of a smaller firm in its evolutionary stage will be more generalizable in relating the experience to the majority of smaller Chinese investors and other EM MNEs in the U.S. However, it must be noted that the perceptions of actions as presented by U.S. partners may be biased but many times, archival data was used to support the suppositions.

## 4.5 CASE STUDY

Based on personal interviews and archival data, this section contains a case study to examine strategies related to strategic asset-seeking by a Chinese firm in the IT outsourcing industry.

### **4.5.1 Background: Setting the Foundation**

*4.5.1.1 Industry Information:* The IT outsourcing service industry in the 1990s was primarily dominated by Indian firms capitalizing on the country advantage of low



cost labour. These Indian firms experienced incredible growth as they established centres in developed nations and quickly dominate the western markets. However, Chinese firms in the past ten years have been gaining steam. The trend is expected to continue as the Chinese government hopes this industry will create millions of jobs and therefore has developed incentives for local firms including the allowance of paying no business tax on offshore contracts until 2014. Yet the Chinese firms in this particular industry are late-comers by definition, not only in developed economies but behind the Indian competitors in global positioning. The Chinese firms have many challenges to overcome in catching up to their Indian counterparts in size and competitiveness in a highly competitive industry with established, dominate players.

In order to compete with the established Indian firms, IT outsourcing companies need to be large entities as the industry is characterized by consolidation as a result of strong industry pressures (Wright 2009). Through aggressive M&A strategic ventures, Chinese IT outsourcing companies have been able to capitalize on low cost labour at home to become large enough to directly compete in DEs. Chinese firms have been able to dramatically increase market share in the U.S. and Europe market which accounts for about 75% of the IT business (Lucintel 2013). In an industry characterized by pressures to consolidate, the practice of M&As is expected to continue. However, the Chinese firms are expected to face the same challenge as their Indian counterparts in gaining global share [NC4]. As China is experiencing increasing labour costs, their home country advantage is evaporating with increasing prices and decreasing margins (Fersht & Snowdon 2013). This will necessitate a change in a firm's strategy to evolve from a cost-based to a value-based business. However, as Chinese IT firms are highly fragmented and cost-focused as a result of their rapid expansion (Wright 2009), sustainability will require them to become more operationally and organisationally mature [NC5].

North America was the fastest growing region during 2006-2011 for IT outsourcing and represents 42% of the global market with the Asia Pacific region expected to have the greatest expansion from 2012-2017 (Lucintel 2013). The industry is expected to reach US\$216 billion by 2017 as a result of increased expenditures due to declining talent pools in DEs and increasing economic growth in EEs. This case

will examine the IT outsourcing service industry through the strategic actions of the Chinese firm hiSoft as they have utilized acquisition strategy in the U.S.

*4.5.1.2 Company History:* Founded in 1996 in Dalian, China, hiSoft Technology International Limited (NASDAQ: HSFT)<sup>3</sup> now known as Pactera (NASDAQ:PACT as of Nov. 2012), was established as an IT consulting, solutions and outsourcing services firm. In its early existence, the primary focus was on establishing a strong market presence through development in the quality assurance and security sectors deriving most of its business from the Japanese market. With a majority of revenue derived from Japan, and the desire to expand beyond home borders and the tightening competition from VanceInfo, a fierce Chinese competitor, they established a subsidiary in Tokyo in 2002. Companies can use greenfield activity to expand their market presence by embedding themselves in local markets and for hiSoft, the subsidiary further expanded its market presence and developed a platform for global expansion outside of China. This initial expansion allowed the company to gain better access to international clients through its budding reputation within the competitive Japanese market and escape some of China's restrictive regulations (Jinsong 2007). Although hiSoft quickly gained industry standing within China as well as in Japan its brand struggled to compete with other IT outsourcing firms from China and India who not only had a majority of the market within their home countries, but held a majority of market share in Europe and the U.S. In order to strengthen its brand for global recognition, hiSoft gained international legitimacy by becoming the first GE Global centre in China, achieved level 5 certification through CMM and established its credentials with Six Sigma, ISO and PIPA( hiSoft 2010b).

In order to remain viable in an increasingly competitive industry, hiSoft followed its competitors' actions and began an aggressive acquisition and expansion strategy to gain market access and technical resources to directly compete in the industry (see Appendix G). Prior to the latest merger with VanceInfo, hiSoft had 17 offices and delivery centres worldwide and were driven to compete with the following firms which they denoted as their top 3 direct competitors (Hoovers 2013):

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<sup>3</sup> hiSoft Technology International Limited was incorporated in the Cayman Islands on May 27, 2004, as a holding company with the same identical shareholders.

VanceInfo Technologies whose largest clients consisted of Microsoft and IBM, used acquisition and investment to build its base in China and to establish subsidiaries in the U.S. and the U.K. to have direct access to the largest IT markets. By 2012, VanceInfo held the majority market share of IT outsourcing services to the U.S. by a Chinese firm. In 2007 it raised US\$65 million with its IPO on the New York Stock Exchange.

Cognizant Technology Solutions Corporation, a JV between Dun & Bradstreet Corporation and Indian firm Satyam Computers, derives 80% of its revenue from the U.S. Listed on the NASDAQ in 1998, its main goal was to have access to U.S. clients to outsource back to India to capitalize on low cost labour where it has over 40 IT development centres and to overcome the U.S. VISA status issue and outsourcing legislation by initially established as a U.S. firm. With development centres in the U.S., Canada, China, India, and the Philippines it has been able to develop close connections to customers.

Infosys Technologies Limited from India is the second largest IT outsourcing firm in terms of revenue. The firm gained industry standing by developing subsidiaries in the U.S. & U.K. and strategically acquired smaller competing firms. They derive 2/3s of revenue from the U.S. market and have remained a viable competitor since listing on the NASDAQ in 1999.

#### **4.5.2 Asset and Market Access through U.S. Expansion**

The IT outsourcing industry was based on the ability to establish and leverage a flexsourcing strategy model with direct access to the US and Europe with services delivered from low-cost labour development centres mainly based in India and China. Although hiSoft was partnering with several U.S. based firms on IT projects in non-equity ventures, they needed to gain control and acquire new skills and legitimacy to really compete in the market [NC4]. In an industry where proximity to customers and where overcoming the negative factors of perception and government regulations are mainstays, firms would need direct access to the U.S. and European companies which by 2006 accounted for 75% of the world's US\$30 billion IT outsourcing market (Wright 2009). In 2003, hiSoft established a subsidiary in Atlanta, Georgia to penetrate the highly profitable U.S. market and localize its services [GA3].

The U.S. subsidiary helped hiSoft gain some market share through contracts with a few Fortune 500 firms, yet they still lacked the brand recognition and sheer size to grow in industry standing. This greenfield operation did not help them penetrate the U.S. marketplace to the degree they had hoped. hiSoft's U.S. executive noted:

[[NC1]"The main advantage the Atlanta branch gave us was to bypass U.S. regulations on offshoring - other than that we really did not get much new business but were able to service the existing clients we had here [U.S.]. The acquisitions were what helped us boost our market share."

Until 2006 most of the clients and revenue was from high-tech Japanese firms. hiSoft lacked the strategic positioning and the technical and managerial resources needed to compete with the larger firms experienced across many industry sectors (Wright 2009). In late 2004, hiSoft's directives were developed to include strategic global acquisitions to move up the value chain. This however would require extended capital and therefore they established a holding company in the Cayman Islands so they could raise capital outside of China (hiSoft 2010). This restructuring initially freed up approximately US\$20 million in 2004 for organic and inorganic growth (PacificEpoch 2004) and another undisclosed amount in 2006 that was reported as the largest investment in IT outsourcing to date (PRNewswire 2006). As firms expand internationally beyond their prior experiences, management and leadership abilities must meet the new demands. In June 2006, the firm hired Tiak Koon Loh formerly an executive at Hewlett-Packard as CEO and Director to manage and drive geographic diversification and growth. Many firm insiders consider this an initial key move for the company to become the global provider it is today. To capitalize on an industry expected to increase annually at a rate of 50.2 percent, the director built a leadership team and established a plan for inorganic growth through a series of M&As with a concentrated focus on U.S. firm from 2007-2010 primarily to move beyond its reliance on the Japanese market. hiSoft used greenfield to obtain access to the U.S. marketplace in order to exploit its advantages [GA1]. Therefore, it must be premised that asset-seeking or exploration was the main motivator in the use of acquisitions as having experience in greenfield operations but with limited success.

Acquisitions are used by EM MNEs to quickly access technological assets and market share of acquired firm. With the U.S. passing more legislation on foreign

outsourcing, having U.S. based operations would allow hiSoft to secure these revenues. In response to its strongest competitor setting up a European office in London, hiSoft acquired Envisage Solutions, a California based consulting firm in December, 2006. This action was a shortcut to access the U.S. and European markets through Envisage's existing client base that was spread between the two markets [CA1]. Analysts noted this as a move to boost their scope and growth as illustrated by the CEO's statement "The merger will greatly boost our client base in the US and European markets. Meanwhile the complementary mix of our services will also benefit the new company" (PRNewswire 2006). This acquisition not only provided access to some of Envisage's Fortune 1000 customers, it also provided consulting skills in the telecom, high-tech pharmaceutical and financial sectors which hiSoft lacked. As a result of this deal, more than 50% of hiSoft's revenue was being generated from the U.S. market, up from a previous 35% (Xu 2007).

To have expertise in both emerging and developed markets to reach global competitive level, the larger IT outsourcing providers have multi-vendor support and continuous service coverage. In order to remain competitive in the full-service IT outsourcing industry, in 2008, hiSoft acquired Wave, an Oracle application and enterprise resource planning provider from Texas. This acquisition was for strategic asset-seeking to boost its skill base to complement its new R&D and offshore delivery centres in China and Singapore (hiSoft 2010). hiSoft was seeing results from its strategic alliances by jumping from 68th in 2006 to 34th in 2007 in the industry and broke the top 20 on the International Association of Outsourcing Professionals in the leaders category in 2008 (China Sourcing 2010). With the industry sector expected to grow at an annual rate of over 50%, hiSoft's new management planned to grow faster than the market, with a target of over 8,000 employees by 2009.

The expansions allowed hiSoft to attract customers such as General Electric, Microsoft, and UBS and revenues grew from US\$17.5 million in 2005 to US\$91.5 million in 2009 with 59.6 percent of the revenue now generated from U.S. clients (hiSoft 2010b). However, while they were able to build their dual-shore delivery method to target key global markets and build technical expertise, rapid expansion can also lead to challenges. While technical expertise had improved, they were plagued by managerial issues. The company had quickly become geographically

dispersed and they were having difficulty integrating many of their acquired firms. This was especially true in the U.S. where while they become wholly-owned subsidiaries they still sought to maintain much of their previous status. Both Envisage and Wave retained their company name and personnel and tended to see the acquisitions as more of partnering deal rather than a takeover. As one manager [CA3] stated, "They got access to our clients and know-how and we got we wanted - a platform for global operations." And while formal and complete takeover is not always the answer for post-integration, the failure to create one cohesive culture (Vahlne, Schwizer & Johanson 2012) at the time of the acquisitions would hinder them in moving forward.

#### **4.5.3 Push for Accelerated Growth**

Exogenous and endogenous factors present liabilities of foreignness for firms during global expansion. The global economic crisis exacerbated the issues plaguing hiSoft as a result of their aggressive expansions. Earnings dropped 10% but the firm attributed much of this to the global recession. However, while the firm had grown in size and geographic distance, so did its inefficiencies due to a lack of organisational and procedural control which contributed to its decreasing margins. The firm was so dispersed that while it was able to maintain low labour costs in home processing centres, its inability to manage the growth of its China domestic strategic expansion caused an increase in operational and managerial expenses. Recruitment and retention of skilled middle management also became a factor in organisational efficiency and even with the development of a management training program, still plaques them today [NC2]. The concentration in a limited set of industries due to a lack of connections, skills and experience stagnated growth and hiSoft's reliance on a limited number of clients for the majority of its revenue was also increasingly becoming a threat[NC1].

hiSoft's leadership was quickly realizing that with increased international expansion, greater international management skills were needed. Early acquisitions, while providing some new IT offerings and a stronger presence within the U.S. still did not provide the returns expected. While net revenues increased from US\$10 million to US\$100 million from 2004 to 2008, the firm suffered US\$10 million, US\$1million and US\$11 million losses in net income for 2006, 2007 and 2008 respectively

(hiSoft 2011). Limited leadership and management potential greatly hindered the ability to integrate acquired subsidiaries, obstructing hiSoft from fully capitalizing on the acquired assets. In order to compete in the growing financial and insurance sectors, establishing global delivery platforms and developing talent would require several strategic moves. Therefore, in 2009, Cheng Yaw Sun, the former managing director of China Hewlett-Packard, was brought on as Executive Chairman for his corporate expansion experience in China and with US firms. hiSoft quickly moved to acquire a financial process outsourcing centre in Guangzhou to boost home capacity and acquired insurance providers in Singapore and Japan to gain international access into the insurance industry. In 2009, its revenue dropped but it finally posted a net profit of US\$7.4 million after four straight years of net losses.

While hiSoft's acquisitions opened up another market segment, in an industry with global competitors with extensive market share in multiple market sectors, they still lacked critical skill components and size for greater diversification. The competition had offerings in technical expertise where hiSoft was lacking. Evolving software, internet and cloud-based services offered by competitors forced hiSoft to seek out more diverse technological abilities. In 2010, it acquired a SAP specialist in China and continued to enhance its technical competencies through acquiring Echo Lane, a cloud computing company in San Francisco. This action was considered the most aggressive push into the cloud computing market by a Chinese based firm [CA3]. CEO Loh stated;

“Echo Lane brings an impressive portfolio of cloud computing knowledge and experience. This, combined with hiSoft’s deep engineering expertise, extensive delivery capabilities in China, and broad CRM experience within enterprise customers in the financial services, technology, and manufacturing sectors, will allow us to provide our global customer base a whole new level of innovative and cost-effective cloud deployment service” (Top U.S. Salesforce.com 2010).

Acquisition was used as a tactic to mainly gain control of computing technology but the specific target was even more attractive as hiSoft also got market access to Echo Lane's Global 2000 customers in the U.S., Asia and Europe. The acquisition agreement termed Echo Lane as a 100% wholly owned subsidiary but Echo Lane

saw it more as a partnership to utilize hiSoft's home-based global span to push their brand name to global prominence in onshore and offshoring services (Azuri 2010). The decision to maintain the firm name and industry identity after the acquisition was reflected in the manager's statement [CA2]: "The power of our cultures working together will allow Echo Lane to leverage hiSoft's reach, technical prowess and resources, and offer our hands-on-expertise to a wider global market." Even with the 100 percent acquisition of all its U.S. firms, hiSoft was not one fully integrated company but rather a conglomerate of individual units working globally [NC1].

With the establishment of its presence in the U.S., hiSoft became the 144th Chinese firm to be listed on NASDAQ public exchange on June 30, 2010 (Libretto 2010). Its IPO raised US\$74 million on the NASDAQ global market which fell short of its desire to raise US\$111 million blamed on the sliding U.S. trading market. However the IPO was expected to provide the branding and capital needed to gain ground on its competitors. The company set aside US\$54 million from its IPO for subsequent acquisitions and investments that would complement its current operations and expansion (hiSoft 2010b). At this point, they were the second largest China-based IT outsourcing provider but still far behind Indian competitors. hiSoft was still suffering from inefficiencies from its fragmented company structure. The lack of control and post-integration struggles kept profit levels around 12% which is low in comparison to Indian firms' at 20%.

The firm kept growing in size and in access to key clients but lacked the management expertise that eluded them in integration. In 2011, they acquired 100% of the equity interest in NouvEON, a business and technology consulting firm (PRNewswire 2011). NouvEON management [NC1] noted that the acquisition was important for the Chinese firm for two key reasons: "1) to acquire the key U.S customer especially in the financial and energy sectors, and 2) to gain a management platform within the U.S to run U.S. operations to hopefully help with integration issues." While the U.S. management stated that they were really not in the market to sell, the deal would help NouvEON extend its end to end technology abilities and to provide them with hiSoft's offshoring capabilities that they were too small to possess.



[NC2] "We provided the management and professional acumen they lacked; our ability to develop management and leadership platforms, marketing, and the ability to position the firms our services in the U.S. marketplace. Earlier acquisitions had not been as successful as planned - integration and economic situations - so needed U.S. based management talent; leadership/management ability in a U.S. management team. They provided the knowledge and ability for tech projects offshore. We did not have this expertise, so they provided the framework to develop offshore sites and services for presales and delivery offshore."

New U.S. management positions were created and attempts to address the post-integration issues from the U.S. acquisitions were started. Wherein the earlier acquired firms did not take over the name, NouvEON changed the name on day one [NC3] "to show the customers and employees we are a new firm." This also allowed them to leverage the hiSoft global brand. However, they did keep most of the operations, processes and management platforms the same as they felt this [NC1] "was a better fit for the U.S. and the existing clients."

#### **4.5.4 New Era**

hiSoft built a strong foundation through an aggressive acquisition strategy. As hiSoft is an outsourcing firm, acquiring U.S. based operations helped to get around the legislation directed at limiting offshoring. As one executive [NC3] noted, "As China is made the scapegoat in political elections, it is ironic as more volume of outsourcing goes to India." The pattern of M&As provided an entry approach that allowed them to get past the regulatory and visa issues to establish operations in the U.S. and filter business back to China as offshore operations. They expanded their technical abilities and market share by targeting smaller U.S. firms that had strategic assets and a desire to have a presence in China but were too small to go global on their own. In an interview in 2010, CEO stated "China is definitely competing to be the hub of outsourcing. I think this is motivated by the fact that international companies need to increase their presence in China both as a manufacturing base but more importantly as an end market"(Baldwin 2010). This sentiment was echoed by a U.S. manager:

[[NC2] "There is one big advantage to being a Chinese firm. Most clients are Fortune 500 or Global 2000 so they need to do business in China as it is the fastest and largest market - need to leverage your company by having contacts and partnerships - need diverse firms."

So while hiSoft was able to get access to the resources and markets it wanted in the U.S., its U.S. subsidiaries were able to internationalize through the parent's offshoring experience and capabilities.

Although hiSoft has established the technical aspects of the business, integration of so many firms has remained a challenge for management with the biggest challenge in merging of cultures. Most of the interviewees reported disconnect between subsidiaries and the centres in China. U.S. employees at three of the four acquired units continue to complain that Chinese practices do not relate well to US standards. There is a high level of employee turnover reported at all the subsidiaries and the company has a 15% attrition rate overall with trouble hanging on to senior and mid-level managers [GA2]. While they feel the company is a good place to start a career, they don't feel that the compensation is comparable to other U.S. providers and it was expressed that the leadership at the U.S. divisions is lacking [GA1]; "Big dreams, poor execution". One employee described the management as [NC3] "shaky, unskilled, disorganised, ineffectual in building moral and lack sales and networking ability." Another employee [CA2] felt there is a lack of vertical and horizontal communication and the lack of transparency before and after mergers made it a difficult place to work. A senior U.S. executive expressed [NC2] that because many of the U.S. acquisitions were of relatively new firms who already lacked certain firm assets, especially in the leadership and management areas, this only added to the difficulty in the integration of cultural and implementation of change.

Another factor for hiSoft is that with the focus on growth in an industry with tight margins, its cost-cutting strategies have impacted value delivery of services in other areas. As noted by a manager at Envisage:

[CA1] "They have taken actions to keep costs down without realizing that they may cut costs in the short-term but damage employee morale and customer satisfaction in the long-run. This has been an issue since the acquisition. While they have opened the door for us for internationally, they need to be able to support the operations at U.S. levels."

A Chinese investment consultant [NC6] stated that hiSoft and other Chinese IT outsourcing providers still lag in the industry because they remain highly fragmented even with all their strategic actions impacting competitiveness.

hiSoft's latest action reflects its driving goal to solidify the U.S. market and provide a greater operating scale to be more client-centric. In November 2012, hiSoft merged with VanceInfo, the leading Chinese offshore provider for the U.S. market. The merger created Pactera<sup>4</sup> Technology International Limited as the largest China based offshore service provider by revenue. It was framed as a merger between equals however VanceInfo was the larger firm with market value of US\$444 million compared to hiSoft's US\$373 million (Doulatramani 2012). With fierce industry competition and challenging economic conditions the merger was a move to get closer to global competitiveness despite VanceInfo's 34.5% decrease in revenue in 2011 (see Appendix H). The company's press release stated that the merger will "provide a powerful array of offerings to customers worldwide as the new company is a premier world-class IT services provider in China, with extensive global reach". The merger made hiSoft - Pactera the largest IT outsourcing firm in China as well going from 17 offices and delivery centres to 55 locations.

hiSoft and VanceInfo have been severally limited in contract bidding on large-scale outsourcing projects due to a lack of capacity. The merger with VanceInfo provided a giant step in global competitiveness as a move to grow in size and funding to get closer to the Indian industry leaders. However they are still small in comparison to

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<sup>4</sup> The research on this case study was compiled prior to and during the initial stages of the merger between hiSoft and VanceInfo to become Pactera Technology International. The writing of the case was approximately two months after the merger and several changes should be noted. The full integration and name change occurred for all locations within the U.S. and several of the U.S. executives that were interviewed have been replaced or no longer in their key U.S. management positions. Therefore, the perceptions of the management recorded in the interviews on the strategies behind the acquisition or mergers in relation to asset-seeking for US management talent, may not be relevant.

the top Indian firms still making the revenue and size gap a critical issue (see Table 4.3). A U.S. firm executive noted:

[NC1] "There is big difference in this industry- they [hiSoft] have global offices and essentially are operating globally, but not as a global company. Despite the growth of hiSoft, they still are considered very small in comparison to Indian competitors. To truly operate as a globally integrated firm, you need to be a certain size - this requires integration of all the subunits into one firm - not there yet, but that is what the latest merger is about."

**Table 4.3** *Top IT Outsourcing Service Providers - 2012*

<b>Company</b>	<b>Annual Revenue US\$ (2012)</b>
Tata Consultancy Svcs	10.17 Bil
Infosys	7.0 Bil
Wipro	5.8 Bil
HCL Technologies	4.4 Bil
VanceInfo	444 Mil
hiSoft	373 Mil

*Source: data from HooversOnline.com 2013*

hiSoft and VanceInfo obtained exponential growth through strategic investments and acquisitions, yet growth comes at a price. External funding was obtained to finance the merger in lieu of dilution of ownership. GGV, a venture capital firm, now has a 25% ownership stake and the International Finance Corporation controls 12% (PRNewswire 2012). Some analysts are wary of the intensified debt situation on the new firm's future in the face of strong competitors in a still struggling economy. U.S. managers and employees also expressed concerns on the practices and results of the mergers. The U.S. Operations President [NC2] felt the key to acquisitions is "what does the integration look like; what are the results." The new firm has evolved, and all global offices and delivery centres have been consolidated under the new name, Pactera, as well as a merging of all contact information under one website. As a result of the merger, several of the U.S. executives were removed from their titled positions or replaced. This was an unpredicted move as several U.S. interviewees saw the latest acquisition as a tactic to gain a stronger management platform through the existing U.S managers [hisoft's], however it is

clear the merger integration plan has not moved in this direction. As surmised by a Merrill Lynch financial advisor:

[NC5] "The prominent placement of the VanceInfo management into the new U.S. management positions infers that the hiSoft U.S. management was ineffective in integrating the firms in the past and achieving the desired results. Since Vance was considered the largest Chinese IT player in the U.S. they must have felt they have better odds of going with the Vance experience. The U.S. companies might have given them the technology they needed and the clients they desired, but management still was not making the grade. I'm sure they felt their investors will feel more secure with going with the higher ranked firm [VanceInfo Executives]."

The future will show if the firm has the ability to adjust its management team in integrating two distinct corporate cultures. It is predicted that if the merger can improve delivery, reduce management costs and consolidate through post-integration, profits should improve at a 2-3% rate (Cao, Giron & Barnes 2012). While this industry is moving towards consolidation to overcome the issue of decreasing margins, the ability to manage the human resource cost after expansion is essential for long term growth (Fersht & Snowdon 2013). Here the firm's acquisition experience may play a role in lowering the risks in the post-integration period. Regardless, the new company should be able to improve international standing and be more visible to MNE clients if not to other firms seeking out yet another major merger [NC7]. Taking the literal translation from its last U.S. acquired firm NouvEON, hiSoft (Pactera) proclaimed its new tagline and new strategies as - "New Era."

## **4.6 FINDINGS AND DISCUSSIONS**

In this section, I explain how the propositions related to the case findings.

*4.6.1 Chinese firms with limited firm specific assets are motivated for asset resource-seeking in DEs with market-seeking opportunities.*

Firms faced with FSDs will seek out advanced capabilities in developed markets to gain competitive advantage. hiSoft's investments in the U.S. were motivated by obtaining the critical IT capabilities possessed by its competitors to gain legitimacy and competency for gaining and maintaining clients. hisoft's motivation as

presented by U.S. partners is similar to that of other Chinese firms such as Lenovo. Lenovo's acquisition of IBM, according to their chairman was to, "catch-up to the competition to compete with peers at home and abroad, acquire global brand recognition, develop a world-class network and have an international and diversified base" (Rui & Yip 2008; Burke 2011). Three of the four acquisitions by hiSoft in the U.S. seem to follow the same pattern as primary and archival sources confirmed they were poised to primarily gain technical and managerial assets.

While exploration and exploitation are very distinct, for many Chinese firms they both play a role in asset-seeking. As other studies suggest (Makino, Lau & Yeh 2002), exploitation or exploration may need to be examined as they are linked in developing competitive advantage as a result of a dual or ambidextrous purpose to attain short-term resources that will provide long-term benefits (Luo & Rui 2009). hiSoft's acquisitions were strategically devised to obtain firms that would provide specific capabilities but who had also established a market share they wanted to reach. From the RBV perspective we can also include the exploitation of some type of existing ownership advantages (Ramamurti 2012) with the exploration for new FSAs (Lu, Liu & Wang 2010). With hiSoft's base of IT operations in China, they were able to leverage home-advantage to complement the FSAs of the acquired firm and use this again to their advantage in subsequent acquisitions. They were able to exploit or leverage complementary resources to obtain the assets and through exploration were able to learn how to adapt and gain competitiveness (Kedia, Gaffney & Clampit 2012). It must also be noted that strategic purpose varies and not all firms seeking assets are laggards or deficient in resources. As premised by Chung and Alcácer (2003), market leaders can also seek additional spillovers from competitors through asset-seeking to further competitive positioning. hiSoft and VanceInfo have certain proprietary advantages especially from the base operations they created in China but in the rapidly changing and highly competitive IT industry, keeping up or ahead of the competition pushes the need to constantly acquire new assets.

It becomes the chicken and the egg - which came first? As confirmed by other case studies on Chinese firms such as Haier, Lenovo, Huawei, and Shanghai Electric (Rui & Yip 2008; Liu & Li 2002; Wu & Ding 2009), they were able to gain brand recognition, improve technology and upgrade their abilities which allowed them to

dramatically increasing market share in the U.S. Most Chinese firms have yet to establish global legitimacy (Cui & Jiang 2009) and will seek strategic assets to assure future global positioning (Morck, Yeung & Zhao 2008). The need for ownership advantages seems to be a pre-cursor for market-seeking. However, a broader definition and evaluation are needed as the resources for EM MNEs to internationalise may be different; it does not essentially mean they are inferior or cannot provide a unique advantage (Ramamurti 2012). For these firms as with hiSoft, obtaining assets through direct investment in the U.S. gains industry legitimacy yet market access also contributes to this objective (Yong & Hong 2012). As firm size is also an important factor in the IT outsourcing industry to compete for larger contracts and clients, acquiring a larger employee base with diversified capabilities is a strategic asset in itself for hiSoft to ultimately increase market share.

Therefore, while firms with limited strategic assets will need to seek assets found more readily in developed markets, the need for market access in developed markets cannot be dismissed as it continues to surface as a powerful motivator. While many studies tend to separate market access and strategic resource-seeking it seems for these firms within the US the lines are blurred (Wu & Ding 2009). For EE firms, entering the U.S. will come with extensive challenges and transaction costs proposing that if you just need assets are there not less risky means through possible alliances to achieve your goal? The motivation for hiSoft to enter the U.S. seems to have a dual purpose combining asset and market-seeking as a strong motivator in decision making to balance out international risk (Liang, Lu & Wang 2012). Proposition 1 is therefore adjusted as the findings confirm Luo & Rui's (2009) ambidexterity perspective to denote strategic intent for asset-seeking and market-seeking do not have to be mutually exclusive. While hiSoft clearly invested in the U.S. to overcome its FSDs, asset-seeking in this case is multi-faceted to include other benefits or opportunities for exploration and exploitation as underlying motivations.

*4.6.2 Chinese firm's need to compensate for competitive disadvantages counters the level or perception of challenges from institutional factors.*

The case demonstrates that hiSoft's actions have been impacted by host and home environments (Boisot & Meyer 2008). hiSoft needed to establish legitimacy (Peng 2005) in the U.S. and in Europe environments as the Chinese firms tend to suffer from negative perceptions associated with Chinese capabilities (Barnard 2010) and in the IT industry in particular, they suffer in comparison to the Indian firms which lead the industry. At home in China the level of competition in technological industries has been rapidly increasing as the government has been supporting innovations in this sector (Scheltema, Yang & Chan 2012) forcing hiSoft to take aggressive actions to grow in size and capabilities. Constrictive government regulations (Deng 2007) at home also forced hiSoft to establish a holding company in the Cayman Islands in 2004 to gain access to capital markets and to provide the freedom to quickly and easily acquire and establish subsidiaries necessary to remain viable in the industry. The increasing labour costs in China are also eroding home-advantage and with the narrow profit margins in the IT outsourcing, they must continue to grow to gain more clients and larger contracts to improve revenue streams.

The global economic crisis has also impacted hiSoft by moderating industry growth, driving actions towards gaining management talent and U.S. locations to improve delivery service and options. The IT outsourcing market concentration in the U.S. and the IT capabilities and client base of small start-up firms in the U.S. seeking expansion partners also drove hiSoft's aggressive acquisition strategy. In using acquisitions and mergers to quickly gain strategic assets (Deng 2007) hiSoft faces increased transaction costs (Brouthers, Brouthers & Werner 2003) and is presented with extensive post-integration issues associated with merging U.S. - China cultures (Kogut & Singh 1988) as well as corporate cultures. Goals were not the same between hiSoft and their acquired firms triggering cultural responses (Shenkar, Luo & Yeheskel 2008). Allowing Envisage, Wave and Echo Lane to retain autonomy, including their company name, is indicative of the strategy used by many Chinese firms in U.S. acquisitions (Peng 2012; Zhang et al. 2011) further deters post-acquisition integration. hiSoft took a more passive approach to integration and focused more on the technical exchange to allow the business in the U.S. to operate



as usual to avoid cross-cultural issues. However, this lack of direct action in establishing an integrated company has resulted in the limitation on knowledge transfer and inability to leverage the management talent it acquired (Birkinshaw, Bresman & Nobel 2010). Managing from a distance and reliance on U.S. management to integrate across subsidiaries seems to have impacted overall firm effectiveness and ability to leverage new capabilities.

Transaction costs increased for hiSoft as it was perceived that its acquisition decisions were based mainly on the need to acquire assets rather than a concern for strategic fit (Buckley & Ghauri 2002) and its lack of managerial expertise throughout post-integration. The main focus of asset-seeking did not allow for the consideration of the partner related criteria needed to ensure operational stability and financial sustainability (Dong & Glaister 2006). hiSoft's perception that the benefits of M&As outweigh any environmental or post-integration costs is consistent with the finds of Bell, Filatotchev & Rahseed (2012) on other Chinese MNEs actions as latecomers in trying to overcome the lack of relational and knowledge assets (Marinova, Child & Marinov 2011; Rui & Yip 2008). Results are also consistent with the findings of Buckley et al. (2007) showing Chinese firms evaluate and react to risk differently than firms from developed economies so the degree to which risk factors are weighted against opportunities will be a matter of unique perception (Yiu & Makino 2002; Wei 2010). The acquisition of technological capabilities and client markets, the ability to increase in size and service delivery to diversified sectors, along with obtaining legitimacy in the concentrated IT marketplace motivated hiSoft to get the assets in any means possible to win the race for global positioning, regardless of the environmental challenges they would face in the U.S. (Jones & Coviello 2005) or at home.

#### *4.6.3 The competitive nature of the industry correlates to the degree of asset-seeking for Chinese firms*

hiSoft's actions are consistent with strategies of other Chinese MNEs that are faced with high levels of industry competition and with a need to work within high levels of socio-economic development (Parmentola 2011). The IT outsourcing industry has allowed Indian and Chinese firms to gain market dominance in exploiting home-country advantage of low cost labour to complete the outsourced work. With 75%

of the clients located in the U.S. or Europe, these firms are forced to compete in a restricted competitive environment. The concentration of competitors can lead firms to mimic strategic actions of industry leaders pushing them to obtain greater assets, resources and market share to remain competitive (Yamakawa, Peng & Deeds 2008). hiSoft's pattern of aggressive acquisitions and the latest merger with VanceInfo directly correlates to the consolidation trend of the IT outsourcing industry. Consistent with other studies, it is common for firms in turbulent high tech industries to acquire knowledge externally to compete in the dynamic environment (Zou & Ghauri 2010). hiSoft's growth strategy demonstrated that acquiring technological and managerial assets from U.S. based firms is the means for remaining competitive and laying the foundation for becoming a global player. Therefore, firms that need advanced technology are forced towards asset-seeking in order to catch up to the technological leaders (Lu, Liu & Wang 2010).

The level of technological intensity also pushed hiSoft towards asset-seeking thorough internationalization (Knight & Cavusgil 2004). As the technology of the IT industry changes rapidly and requires extensive knowledge and capabilities, these firms will need to quickly acquire assets (Jones & Coviello 2005). hiSoft's actions in gaining cloud computing and industry certifications are consistent with the results of the Korean FDI study by Chang & Rhee (2011 p.990) showing "that rapid FDI expansion enhances firm performance in industries where globalization pressures are high, and when it is done by firms with superior internal resources and capabilities." This potentially generalizes the findings on this factor for other EM MNEs in highly competitive industries where asset-seeking and internationalization are a necessity to remain competitive. Yet again, the high cost of advanced technology will need to be offset by access to large markets to justify the necessary investments and risks (Yamakawa, Peng & Deeds 2008). Therefore, the competitiveness of the IT outsourcing industry positively correlates to hiSoft's need for asset-seeking and when size of the firm and market size are important criterion for the industry, it can also be positively correlated to market-seeking motivations in FDI (Buckley et al. 2007).

4.6.4a *Chinese firms use an acquisition strategy to gain proprietary strategic assets in developed economies.*

hiSoft's actions illustrate that acquisition is an effective entry mode to quickly gain FSAs to compete in highly competitive industries. Acquisitions allowed hiSoft to take larger steps (Johanson & Vahlne 1977; Barkema & Drogendijk 2007) to overcome market limitations and to gain alliances that provided core competencies to build competitive advantage (Ireland, Hitt & Vaidyanth 2002). While hiSoft had the home-advantage of low cost labour, they were deficient in IT technology capabilities (Ghahroudi, Turnbull & Hoshino 2010), management and leadership experience in the U.S. (Johanson & Vahlne 1977; Kogut & Zander 1993; Sydow, Schreyogg & Koch. 2009; Ellis 2007) and lacked network linkages (Inkpen & Tsang 2005; Coviello & Munro 1997) and brand legitimacy (Bell, Filatotchev & Raheed 2012) for competing in the competitive environment. Acquisitions therefore allowed for exploration to enhance its FSAs.

hiSoft's entry mode choice of acquisition over greenfield in the U.S. was a direct result of the internal and external factors (Yiu & Makino 2002; DiMaggio & Powell 1983; Bockem & Tuschke 2010). From an RBV perspective, hiSoft's 100% equity acquisition of Wave and Echo Lane allowed them to move beyond arms length collaboration (Buckley & Casson 1998) to having proprietary control of software and cloud computing ability. The acquisition of Envisage and NouvEON also compensated for hiSoft's lack of managerial and consulting knowledge in multiple industries. While a high level involvement mode such as greenfield would presumably be desired to centralize decision making for implementing global strategies (Xu, Hu & Fan 2011), hiSoft's lack of certain FSAs and the need to quickly acquire assets was more suited for acquisitions. As pointed out by an investment analyst, hiSoft was so driven to complete the deal in obtaining the assets of Echo Lane and Envisage they overpaid in the transaction which is a noted problem for many EM MNEs in the U.S (Durney & Kim 2007).

The lack of FSAs and experience made greenfield in the U.S even more difficult (Cui & Jiang 2009b). hiSoft's initial entry into the U.S. was through greenfield operations which provided proximity to the market to channel business back to its processing centres in China while overcoming regulatory issues (Xu, Hu & Fan

2011; Yiu & Makino 2002). However, the subsidiary was unable to provide the legitimacy it needed or gain the spillover knowledge from linkages requisite for tapping into the industry's technological knowledge. So while greenfield was the best way to transfer hiSoft's home competitive advantage through creation of a direct channel), acquisitions were more effective in obtaining assets and in overcoming industry pressures. Acquisition was the best strategy for hiSoft to improve market position (Chang & Rhee 2011) as they did not have the time to develop the assets needed to compete in the competitive environment (Cui & Jiang 2009). However, as they have been successful at the acquisition route in terms of making strides forward, it is still not clear if they will become more successful in post-acquisition integration (Child & Rodrigues 2005) as the case demonstrated that there are still definite challenges ahead and they have not yet mastered the process.

While many factors played a role in entry mode decisions, hiSoft mainly used an acquisition strategy in both developed and emerging economies to obtain strategic assets (Luo & Tung 2007; Rugman & Li 2007; Rui & Yip 2008; Deng 2009) and build legitimacy within the industry (Vahlne, Schweizer & Johanson 2012). While hiSoft's related acquisitions in the U.S. helped them gain familiarity with U.S. operations (Rabbiosi, Elia, Bertoni 2012) the acquisitions presented extensive post-integration issues not faced in their greenfield entry (Shenkar 2001). For hiSoft, higher risk factors arose as its strategic intent to gain assets was the driving force behind the acquisitions rather than a concern for strategic fit (Buckley & Ghauri 2002). The acquisitions provided short-term benefits in market share and increased valuations due to enhanced skill levels, but they have had difficulty in creating synergy or controls to encourage global integration (Harzing 2002). International growth and performance for hiSoft seems that although rapid expansion may be advantageous for short-term market share and eventually long-term growth, it may be detrimental to medium-run performance (Outreville 2010; Khalid & Larimo 2012). The predominate need to obtain strategic capabilities clearly overpowered any other factors and sequential acquisitions, including the latest merger with VanceInfo in the emergence of the new firm Pactera, was the best means to quickly fulfil objectives.

4.6.4b *Chinese firms (in global business models) with high global aspirations use acquisitions to gain strategic asset resources*

To become a global competitor firms need to take advantage of scope economies and locational advantages (Porter 1986). hiSoft used acquisitions to gain asset and market resources in the U.S. marketplace relying on their home competencies to build a global firm through exploration (Vahlne, Schweizer & Johanson 2012). Acquisitions seemed to be strategic moves to extend its products and market reach (March 1991) to build a network to maximize global synergy (Cui & Jiang 2009). While Child and Rodrigues (2005 p.391) proposed that "while such acquisitions may eventually support a strategy of global competition, they [EM MNEs] currently do not appear to be motivated by this consideration." Wherein this may be true of other or earlier Chinese MNEs, it was perceived and conveyed that hiSoft's acquisitions were clearly for the goal of becoming a global leader. In the IT outsourcing industry, the global leaders have tremendous size and employee capacity with access to the most advanced technology available to acquire the large contracts and clients. Although hiSoft used greenfield for some DE and EE operations, as a means to expand their offerings and global base, each subsequent acquisition and merger was fiercely and pointedly directed at obtaining resources necessary for the global stage.

It can be questioned if mere expansion whether acquisition, merger or JV is related to global aspirations, however as key trends in the IT outsourcing industry has shown, that global business service models, those with global footprints tend to be more aggressive in their approach (Fersht & Snowdon 2013). This has also been true in the transportation, pharmaceutical and life sciences industries as M&As are increasing used by Chinese firms to obtain global reach (Globerman & Shapiro 2009). The actions of hiSoft also relate to Contractor's proposition that "A 'global mindset' is an ownership advantage for some EM firms" (2013, p. 315.) Therefore, for this case sample, acquisition was the most aggressive approach. Making the distinction on global aspirations also seems relevant in relation to Rugman and Verbeke's (2004) findings showing that out of the top 500 MNE only nine were truly global and the majority of firms operated regionally with a home region orientation. With the evidence that so many MNEs are not truly global but merely regional, it

makes sense in some industries such as the IT service industry to examine a firm's definition of "global".

*4.6.5 Chinese firm's success in asset acquisition is correlated to the level of FSAs, learning, and experience.*

hiSoft's repeated use of acquisitions has taken a path dependency trajectory (Chang & Rosenzweig 2001) based on its past experiences in order to quickly gain the assets and market access it needed. However, as the FDI decisions have been based mainly on asset-seeking rather than organisational fit, they have suffered from post-integration issues (Buckley & Ghauri 2002). hiSoft has sacrificed performance by assuming risk in early ventures to quickly gain access to new assets and markets which seems to have limited exploration. While hiSoft has extensive experience in acquisition in the U.S. (four) and in other locations (four: foreign - three: China), they are still deficient in integrating the subsidiaries into functioning as a united global enterprise. hiSoft's lack of involvement in the acquired U.S. firms has allowed for only superficial experiential learning resulting in a limiting immediate gain of technical and market knowledge through vicarious learning (Tsang 2002).

It was presented that hiSoft learned from its experiences with its first three acquired firms in the U.S. that in order to continue in technological advancements and in guarding R&D, they needed to be able to monitor and control the acquired operation (Morck, Yeung & Zhao (2008). The lack of skills in managing the transfer process (Hong & Nguyen 2009) and on the limited capability and commitment to knowledge transfer (Doz & Prahalad 1991) was perceived to be the motive for hiSoft in acquiring NouvEON to gain a platform for integrating and managing U.S. operations. And while they have taken actions to improve process, hiSoft is still embryonic and continued integration struggles demonstrate its lack of FSAs and internal transfer mechanisms needed to realize reverse spillover for developing the parent firm's capability (Chen, Li & Shapiro 2012).

hiSoft's limited advancements in managing from subsequent acquisitions highlights that the international experience process matters (Barkema & Drogendijk 2007) in building a firm over the long domain (Marinova, Child & Marinov 2011). The lack of knowledge and learning capabilities has been a deterrent in creating a unified, global firm (Rugman & Li 2007; Li 2005). It is one thing for hiSoft to possess the

resources, but these only will be valuable when they can become capabilities (Teece, Pisano & Shuen 1997) transformed into internal knowledge. The tactical and management changes implemented through the latest merger with VanceInfo seem to suggest learning from past experience (Barkema, Bell & Pennings (1996). The forced integration into one firm, in name and in re-structuring management may create indigenous realized capacity, but if the new process does not improve integration it will not fit the firm's needs and therefore lack the desired impact (Kotobe, Jiang & Murray 2011). As hiSoft has benefitted from its FDI experiences and consistent increase in total revenues, if it can continue to transform skills and experience into greater knowledge intensity in the near future, it should experience overall growth in total and in international sales (Autio, Sapienza & Almeda 2000).

#### 4.7 CONCLUSIONS

This study supports previous finding that some Chinese firms are motivated towards asset-seeking in developed economies (Cui & Jiang 2009; Makino, Lau & Yeh 2002; Wesson 1999). Chinese firms that are deficient in the FSAs that provide competitive advantage in their industry may be forced to take the risk and address the environmental challenges as the availability of strategic resources are concentrated in developed nations. Therefore, the need to overcome disadvantages in order to build global competitiveness (Child and Rodrigues 2005) make acquiring these resources a necessity and not just an option (Cui & Jiang 2009). The intent to gain strategic assets in DEs though attributed to Chinese firms, might be generalized for other MNEs from other emerging nations with an urgent strategic need to compensate for FSDs.

Another important confirmation to the IB literature is the potential need for a broader description of Dunning's strategic intent options (2000) for Chinese firms entering DEs. For some firms motivation may not be exclusively asset-seeking or market-seeking but more of an interrelated need (Makino, Lau & Yeh 2002). Many Chinese firms are seeking knowledge resources to further their technological goals (Deng 2009; Rabbiosi, Elia & Bertoni 2012; Mathews & Zander 2007) as a primary or immediate concern while the investment serves a part of the long-term strategic plan to gain access to distribution channels for their products (Buckley et al. 2007; Makino, Lau & Yeh 2002) which denotes confirmation of an ambidextrous

perspective as propositioned by Luo & Riu (2009). FDI in any form is risky and for EM MNEs going into DEs it is considered even more so (Rugman & Verbeke 2007), therefore, the ability to capitalize on more than one opportunity through a venture - assets and market - may not only be practical but necessitated by the industry and environmental pressures (Hsu, Lien & Chen 2013). Determining if market-seeking or even market size is an important determinate in asset-seeking needs to be examined from an industry level as market size or accessibility as competitive criterion may be industry specific. However the study on Chinese and Indian FDI in Europe by Yong & Hong (2012) showing increased market-seeking by firms in a second or later time period in the study suggests that after the initial asset-seeking in the short-term to gain competitive advantage, market-seeking played a long-term strategic role. So in instances where technological advantages are central to the firm and industry, FDI can correlate to both asset-seeking and market-seeking in developed economies (Makino Lau & Yeh 2002).

The findings also confirm the integration of the three perspective frameworks - firm, industry and institutional - when analyzing strategic intent as presented in other recent studies (Lu, Liu & Wang 2010; Yamakawa, Peng & Deeds 2008; Wang et al. 2012; Xie et al. 2011, Rui & Yip 2008). The institutional factors of the home (Morck, Yeung & Zhoa 2008; Boisot & Meyer 2008) and host environment (Buckley et al. 2007) provided the push and pull (Nigam & Su 2010) for the "why" and "where" of strategic intent as well as the "how" in the entry mode decision. The level of competitiveness, the amount of rivalry and the competitive capabilities in the industry had a direct impact on the drive for asset or market-seeking and while I can conclude that industry and institutional environment are key considerations, this research demonstrated that firm-specific resources have a direct and moderating effect on asset-seeking (Eisenhardt & Graebner 2007) and the critical role FSAs play in Chinese FDI.

The study infers that FSAs play an integral role in determining Chinese MNEs' ability to globalize and not just localize (Rugman and Li's 2007). Deficiencies in requisite technological and managerial abilities serve as an initial and direct motivation for asset-seeking. In addition, firm based advantages or disadvantages determine if the firm has the ability to moderate and adapt to the threats from the institutional and industry environments (Klossek, Linke & Nippa 2012). FSAs also



play a reciprocal role in the post-entry stage in learning for improved firm performance and global positioning. With many Chinese MNEs lacking in experience or capabilities are unable to absorb and recognise the potential of the acquired assets (Rugman & Li 2007) they will be hindered in regional and global competitiveness. The imperative for these firms is to devote directed efforts at the acquisition of strategic resources.

The case also illustrates that Chinese firms are entering developed markets which possess advanced assets - R&D, technological and managerial - usually through M&As when asset-seeking is the primary motivation (Luo & Tung 2007; Rugman & Li 2007; Rui & Yip 2008; Deng 2009). The industry pressure to gain assets quickly in a highly competitive environment does not allot the time for gradual learning through greenfield entry. The advanced knowledge sought by Chinese MNEs in the U.S. tends to be more strategically resource based making it harder to simply gain these from market interaction (Elango & Pattnaik 2007; Chen, Chen & Ku 2004). The competitiveness in high-tech industries also exposes the Chinese firm's vulnerability to outsidership and a lack of industry linkages. Therefore greenfield will not be a practical entry mode if a firm needs quick access to knowledge or market access, especially if they lack connections. EM MNEs entering DEs through greenfield will either be comfortable with the competencies they have or tend to be primarily motivated by market access if they have or don't need linkages to reach the target market. These finding then confirm Makino, Lau & Yeh's (2002) proposition that for EM MNEs the "why," "how" and "where" for internationalization are really not separate.

Acquisition strategy allowed them to obtain access to information, leadership skills, and technology as well as market share (Ireland, Hitt & Vaidyanth 2002). Current research has shown that mid-market IT outsourcing enterprises are highly motivated by strategic needs (Fersht & Snowdon 2012). Market size and firm size were therefore found to be significant factors for acquisitions in the high tech industry sector. Size also matters as these firms need technological, financial and managerial skills in the portfolio for continual growth and without these, opportunities through acquisition strategy for EM MNEs could be limited (Pradhan 2010). Compensating for the risk factors of acquisitions and the firm's limited experience or success with past ventures suggests that the benefits gained need to be extensive or long-term to

include some type of market benefit beyond the initial asset allocation (Eicher & Kang 2005). With the expense and risk associated with M&As, other collaborative actions may be more practical for some firms if assets are the main goal. Therefore the implications of the study is then two-fold for future examination of strategic intent for Chinese MNEs in DEs in 1) the use of acquisitions in the U.S for asset-seeking and 2) the role of market size or access. Perhaps the strategic intent classifications for studying the patterns of EM MNEs in DEs should be broadened to include an ambidexterity perspective by assuming dual or multiple motivations (Luo & Rui 2009; Hsu, Lien & Chen 2013). In this case, a re-named variable combining asset- market seeking when asset seeking is the primary motivation and market-asset seeking when the primary factor is market access. It could be posited that with post-integration making acquisition strategy so risky, the use of acquisition will be most closely tied to asset-market when obtaining assets is the primary motivation. However if market-seeking is the main motivation, while firms could use acquisition to get the market, the trends seem to suggest firms would take a more controlled entry through wholly-owned operations.

M&A strategy was also found to be consistent with the concept of global aspirations. For firms with a vision of global positioning, obtaining firm abilities will be the determinate of international sustainability (Rui & Yip 2008). Acquisitions can quickly provide capabilities, and a sequence of acquisitions can compile higher levels of capabilities and firm size to provide credibility and financial leverage making future acquisitions and actions even more successful. Therefore, global standing and global expansion can be attainable for Chinese firms through acquisitions (Kling & Weitzel 2011). However, when global aspirations push decision making, strategic intent becomes more central and the concern for strategic fit becomes a lower priority (Cui & Jiang 2009b; Dong & Glaister 2006). As post-integration from M&As requires a level of organisational fit for cultural integration, transaction costs can greatly increase when management becomes complacent and minimizes the affect of cultural organisational differences (Magnusson et al. 2008). Failure to successfully manage the acquisition process limits the value obtained from the strategic actions hindering short and long-term productivity (Morck, Shleifer & Vishny 2012). Therefore, the challenge for Chinese

firms is still on gaining and developing FSAs for strategic implementation, control and institutionalization to ultimately reach global status through acquisitions.

This research also found the learning and knowledge process to be a crucial variable for the success of Chinese MNEs. Chinese firms need to gain bargaining power in developed economies though building intangible assets of knowledge resources and by building a system of knowledge flows (Mudambi & Navarra 2004). The findings implied that even if the firms use acquisition as an aggressive strategy to obtain strategic assets, they must have FSAs that allow the transfer and absorption of knowledge (Dunning 2006; Bartlett & Ghoshal 2000; Rabbiosi, Elia, & Bertoni 2012) as a type of ownership-specific advantage (Dunning 1992). They cannot only acquire the knowledge but need the ability for knowledge exploitation and transformation (Kotabe, Jiang & Murray 2011). Based on the resource based perspective, if firms can create opportunities for knowledge transfer and engage in learning engagements and work to increase absorptive capacity they will have increased scope economies. Realized absorptive capacity can provide measurable benefits and results through new knowledge for development of new products, services and applications and for process revision and change innovations essential for performance (Kotabe, Jiang & Murray 2011).

As studies have shown that learning occurs over a long domain of experiences (Marinova, Child & Marinov 2011; Crossan & Berdrow 2003) it presents a challenge for Chinese MNEs. Since many Chinese firms are still embryonic and lack experience and abilities, it questions the success and sustainability for these firms in competing on the global stage as they will struggle with absorbing and integrating knowledge. They need to quickly develop learning abilities to reduce barriers so they can learn and reap the benefits from each subsequent acquisition (Barkema & Drogendijk 2007). In developed markets knowledge tends to be more important for strategic actions and the findings suggest that they are still struggling with the process. The inability to build ties among subsidiaries throughout the globally dispersed organisation (Li 2005), impacts the learning network in sharing and leveraging the essential knowledge for developing global competitive advantage (Gnyawali, Singal & Mu 2009).

An important consideration for the relation of FSAs and learning is the firm's ability and absorptive capacity to retrieve and integrate the knowledge assets for spillover to occur from parent to subsidiary (Minbaeva et al. 2003; Lane, Salk & Lyles 2001) but also for the subsidiary to evolve into a bargaining power for the MNE (Gnyawali, Singal & Mu 2009) and be able to then reverse the knowledge transfer for the benefit of other subsidiaries and parent for ultimate overall firm development (Chen, Li & Shapiro 2012). In order to generate positive knowledge spillovers for forward and reverse flows, we cannot ignore the anastomotic relationship between learning and firm-specific assets in the integration process. Chinese firms need strategic assets to compete, if they lack the assets they will seek them out quickly through acquisition, but in order to acquire them, they need learning. Learning needs knowledge assets which can feed on one another. If the process is successful they can improve performance and continue to learn to further enhance firm abilities which will increase learning to reverse knowledge back into the process to improve global positioning. The imperative for learning, experience and FSAs in the process raises the question on the realized reverse knowledge transfer (Rabbiosi & Santangelo 2013). When Chinese firms start with a deficiency in skills and experience and struggle with the knowledge transfer from parent to subsidiary as concluded through the case study, it must be inferred that if an effective system is not in place for the initial process that reverse flow will be limited in transferring assets back to China.

Since this case study was based on the acquisition strategy of one firm, the findings may not be relevant for other entry modes or firms in other industries. Many EM MNE firms still follow the international patterns and behaviour founded in conventional IB theories, and therefore the plurality of the expansion paths cautions against homogenizing all firms into the same theoretical solutions (Jormanainen & Koveshnikov 2012). Further research on other firms with consideration on firm variances could expand these findings to find consistent variables for Chinese firms or even other EM MNEs in the FDI process regardless of entry modes. This could potentially further support on the propositions on the relationship between entry mode and strategic intent. Although the case showed the evolution of a firm over time, only longitudinal studies on several firms can truly establish new theory on strategic actions in international ventures. With the finding based on a Chinese firm

in a high tech industry, they may not be generalizable to Chinese firms in other industries or to other EM MNEs. However, as the issue of firm and institutional factors would be fairly consistent, the framework could be used for Chinese firms using industry level data to determine the variations in this variable. Since the variable of state-ownership was not used, the firm and institutional factors would be fairly similar to other EM MNEs allowing for some generalizable findings on factors for strategic intent, entry mode and learning implications.

As the case study was based on personal interviews, interviewees' perceptions and biases may impact the results. Only U.S. employees were interviewed so there is a level of assumption based on interpreting intent of the parent firm, however, archival data was used to support many of the statements. Even with the assurance of anonymity, loyalty and concern for what information was being presented can cause reluctance or filtering in responses to avoid characterising company's past or present actions in a negative light. Also, since this is a publically traded firm, several of the interviewees noted that they would be cautious in disclosing sensitive firm and industry knowledge. However, to overcome this limitation, data was gathered from a cross-sampling of firm employees from multiple locations in conjunction with soliciting external observations and cross-referenced with archival firm and third-party data. This information was also provided from just the subsidiary perspective. The parent firm perceptions on globalization strategies, intent, risk and decision making in relation to FSAs or FSDs from could impact the findings.

Future studies can extend this research in multiple ways. The use of a multi-case approach on this framework could find correlations to clarify findings in providing a stronger base for theory building (Yin 1994). Since the firm and institutional factors are relatively similar for most Chinese firms, studies using a varied industry approach could further explain the correlation between strategic intent and entry mode. With the creation of a theoretical model, quantitative studies can be completed on Chinese firms as well as other MNEs to test explanatory theories on strategic process. With the concept of market size and market access being a notable finding, analysing the impact of market characteristics on the process for various entry modes can help to further denote causal relationships and isolate key variables. Lastly, the imperative for knowledge and learning on the strategic process can lend

to further studies on absorptive capacity, forward and reverse spillovers, and elaborate on methods and techniques that affect the effectiveness of asset realization.

## Chapter 5 - Thesis Conclusions

Traditional IB theory has postulated that the internationalization of firms has followed certain patterns in relation to strategy, entry mode, and location choice. With the changing patterns in FDI denoting an increased role by EM MNEs, it has been posited that emerging nation firms such as these firms from China, have not followed the same path and therefore much of the existing theory may not accurately explain their OFDI (Yamakaw, Peng & Deeds 2008; Li 2007). To date, very little research exists to conclusively develop theory on the new face of IB and there is little or no primary research specifically on Chinese owned firms in the U.S. The research projects in the thesis have moved beyond the macro view and potentially flawed statistical data to obtain firm-level information for a closer analysis on the factors of internationalization by EM MNEs into DEs. Using elements of traditional IB theory for observation rather than testing existing theories allowed for a more fluid analysis in determining the unique factors relevant to Chinese MNEs in a developed economy and hence, the development of a framework and propositions to continue analysis on MNEs from other emerging markets as well. This research has extended the IB literature in confirming the how's and why's specific to Chinese firm in the U.S. and in supporting the findings that indicate the need for mainstream theories to be adjusted to explain location determinants and strategic activities of Chinese companies and potentially other EM OFDI (Ramasamy, Yeurng, Laforet 2012). Therefore this thesis provides several contributions to the extant literature and the findings provide insight into practical applications for managers and governmental agencies.

### 5.1 Theoretical Implications: Rigour

The research makes several confirmatory contributions to the literature. The first contribution provides insight into the challenges or liabilities of foreignness and the relation of firm and institutional impact for Chinese firms in the U.S. The findings are consistent with Hymer's (1960) suggestion that foreign firms are disadvantaged in comparison to domestic firms, yet the findings showed that there is no consistent pattern for each firm suggesting other variables must be considered beyond his three primary factors. From the transaction-cost economies approach (Williamson 1979) even with risk factors of LOF in the U.S., if the perceived benefits outweigh the

costs, international activity remains attractive for EM MNEs. As transaction cost factors are needed to determine the potential contributors to the pros and cons of internationalisation (Zou & Ghauri 2008; Shaver, Mitchell & Yeung 1997) separating the source of the disadvantages or advantages were difficult as they are impacted by the ability to transfer knowledge (Kogut & Zander 1992) making it a firm level issue based on the individual FSAs of each firm. The existence of LOF and the limited ability and commitment to improve or implement factors to address the issues highlights the premise that variances in cultural perceptions of Chinese management impact the view of how and to what degree risk influences FDI decisions (Makino, Lau & Yeh 2002).

In detecting which factors present the greatest challenges for Chinese firms, the findings show they are unique not just to the exogenous factors but to the endogenous aspects the individual firm as well (Slagen & Beugelskijk 2010). Including home and host country factors as consistent with other studies (Voss, Buckley & Cross 2010; Peng 2012; Boisot & Meyer 2008; Cui & Jiang 2009; Cuervo-Cazurra, Maloney & Manrakhan 2007) provides a better determinate for the levels of LOF. I can conclude that in some instances Chinese firms have been able to use home advantages to gain initial competitiveness as presented in the OLI framework (Dunning 1995) but as the variations in challenges suggest, the theory needs to become a multi-dimensional framework at both the country and firm level (Wei 2010). The findings confirm the emphasis on organisational learning to leverage capability for developing FSAs, suggesting that Mathew's LLL model (2006) provides a more firm level approach to analyzing how these firms are able to embed their existing advantages for future asset augmentation. While organisation theory emphasizes isomorphic actions in adapting to new environments and resource theory prescribes unique actions instead, these two approaches in conjunction with industry factors at the firm level must occur simultaneously in dealing with environmental challenges (Cantwell, Dunning & Lundan 2010; Chiao, Lo & Yu 2010). Therefore, with the range of variables impacting the process, one factor alone - firm, industry or institutional - is not enough to explain Chinese OFDI (Wang et al. 2012). This research then infers that both confirmatory and exploratory elements from the three pronged perspective approach should be included when converging factors from the three environments for analysing strategic actions



(Yamakawa, Peng & Deeds 2008; Wang et al. 2012; Deng 2009; Lu, Liu & Wang 2010). With every FDI venture is unique, this three factor approach can help to isolate some common elements for EEs to find elements that can potentially be generalisable when analysing any MNE from a developing nation.

Second, this research extends on the growing studies regarding strategic capabilities of Chinese MNEs (Rugman & Li 2007). The findings confirm that many of the Chinese firms lack certain technological and management capabilities (Ramasamy, Yeung & Laforet 2012). And while there is no clear causal tie for certain FSAs to performance results (Lee & Rugman 2012; Delios & Beamish 2001) the evidence showed that these FSDs impacted organisational management and competitiveness in the short-term (Johanson & Vahlne 2009) supporting the importance of strategic assets for creating initial competitive advantage (Rugman & Li 2007; Dunning 1998) and as latecomers for quickly reaching the level of industry leaders (Li 2007) as well as lending to the need for enhancing learning abilities and absorptive capacity to quickly improve existing operations. Therefore these findings support the proposition that for firms that lack FSAs not readily available in the home or firm environments, they will need to garner them from the host environment or from other industry agents (Barnard 2010).

As an outgrowth on the lack of FSAs, this research supports the extant research by providing a potential framework to assess EM MNEs needs and tactics for obtaining strategic resources for rapidly improving their competitive positioning. This research presented propositions and a potential model (the ASAP model) as a base to further move research on asset-seeking via acquisition strategy regarding EM MNEs in DEs. The model incorporated initial observational findings with recent propositions that EM MNEs as latecomers are taking aggressive actions to explore strategic assets (Marinova, Child & Marinov 2011; Li 2007; Mathews & Zander 2007). This study was able to build on the framework proposed by Yamakawa, Peng & Deeds (2008) for EE firms investing in DEs by analysing the three environmental factors by incorporating the FDI factors of entry mode (Cui & Jiang 2009; Xu, Hu & Fan 2011; Nielsen & Nielsen 2011; Kogut & Singh 1988; Harzing 2002) and strategic intent (Rui & Yip 2008; Luo & Tung 2007; Hitt et al. 1995) propositions; providing a forward push towards developing theory. These findings are similar to those of Ramamurti (2012) in that we cannot assume all EM MNEs approach FDI the same

as a result of coming from an emerging nation. It is clear that the global environment, the stage of development and the FSAs of the individual firm and industry factors influence FDI behaviour.

This research further adds to IB theory by supporting Peng's (2012) argument for the three environmental factors having significant ramifications for firm FDI activity and need for understanding the relations and having the ability to deal with challenges arising from all dimensions. I conclude that the institutional, industry and firm factors have an impact on strategic intent and entry mode. However, from the model used in this research, it seems in asset-seeking through acquisitions, firm level factors play a more dominant role (Khalid & Larimo 2012). While institutional factors from the home and host environment impact the need and type of assets required to sustain FDI, and the industry factors determine the assets the firm needs for competing and positioning itself in the market, the FSAs or FSDs not only determine which assets need to be acquired (Peteraf & Bergen 2003), but the mere existence or development of these can in turn moderate the institutional and industry factors (Shane 2000). As learning, knowledge transfer and absorptive capacity were denoted as an important variable in the process, the connection of FSAs to the effectiveness of the learning process also elevates the importance and centrality of firm level factors in this model (Hwang & Gaur 2009; Tseng et al. 2007). Firm level factors become a central theme in the research further supporting the proposition for asset-seeking motivation when firms are deficient in capabilities.

The case analysis using the model confirms some findings on acquisition strategy but also presents additional considerations for the entire process. While there is strong support for strategic asset-seeking by Chinese firms (Cui & Jiang 2009b) as an aggressive means to catch up (Marinova, Child & Marinova 2011) the findings show that acquisitions have been hindered in effectiveness for acquiring strategic assets (Rui & Yip 2008). Post-integration challenges have emphasised the necessity for FSAs in managing M&A ventures (Mathews 2006). Results exposed that when firms lacked FSAs such as market and knowledge based resources, they struggled with strategic learning and therefore were unable to fully explore and reap the rewards from acquisitions (Rabbiosi, Elia & Bertoni 2012), falling short of achieving strategic development.

The model analysis also provided another key insight into the strategic intent factor. As there was evidence to support propositions on strategic asset-seeking as a motivator through acquisitions, it demonstrated that motivation in the case of these Chinese firms is not a one-dimensional variable. While a primary motive for exploration may be evidenced, there seemed to be other strong motivations such as market-seeking to develop competitive advantage (Makino, Lau & Yeh 2002). These tactics follow in Luo and Tung's (2007) assertions that asset-seeking for emerging firms can readily connect to opportunity-seeking wherein the firm will not only get the knowledge assets but attain advantageous by-products such as access to niche markets, preferential financial or regulatory treatments, and other relational opportunities through a packaged deal from the acquired operation. Therefore, re-defining or broadening the parameters on strategic intent in studies may push us closer to developing applicable theories. Allowing for a dual or ambidextrous perspective (Luo & Rui 2009) may provide greater insight into motivation as well as clarification on the need for certain FSAs (Liang, Lu & Wang 2012) and the impact on performance outcomes (Hsu, Lien & Chen 2013). Strategic intent could be modified in applying the model, as it can be surmised that the entry mode variable can potentially be expanded to include analysis on other entry modes (Klossek, Linke & Nippa 2012) to further solidify the assertions on entry mode-strategic intent relations.

A final confirmation on expanding IB literature is on the importance and integration of the learning and knowledge transfer process in the research not only for developing FSAs but for strategic realization. The post-integration problems denoted by the lack of effective communication and limited resources devoted to improving the process provided implications that these issues need to be considered in future research; analyzing and accounting for the learning process is critical in using the proposed framework. It is evident that the ability to learn from one experience can impact other experiences (Barkema & Drogendijk 2007) supporting the premise that the international process experience still matters (Prange & Verdier 2011).

However, some cases showed firms with strong internal resources or capabilities were able to overcome the lack of knowledge and address factors of LOF (Chang & Rhee 2011). The existence of these learning abilities was also consistent with the study of Korean firms showing IB learning as dependent on the parent firm's

capabilities (Park 2011) or from local or industry knowledge residing with the acquired firm further supporting the propositions on the importance of developing or acquiring FSAs.

The research indicates that the integration and development of learning systems can be essential for the future of Chinese MNEs in integrating the obtained strategic assets. In accordance with Mathew's (2006) LLL theory, linking is obtained through the acquired firm's network gaining industry legitimacy allowing in turn for accessing additional industry and environmental knowledge. The findings indicate that building these learning capabilities requires development or attainment of requisite FSAs to sustain and leverage these firms towards becoming global competitors. This learning can then circle back to the realisation of goals through asset-seeking and acquisition (Peng 2012). As latecomers if they are deficient in capabilities and have not had the time and experience for developing or internalizing higher level capabilities (Marinova, Child & Marinov 2011; Rui & Yip 2008), the findings make us question how Chinese firms or other EM MNEs that start at a disadvantage will be able to become more successful than any other domestic or advanced foreign firms let alone move towards global competitiveness? It must be noted that to address this question we need to know at what point and how does absorptive capacity fully integrate the knowledge throughout the entire firm and if asset-seeking MNEs realize the full circle of rewards through reverse spillover (Chen, Li & Shapiro 2012; Rabbiosi & Santangelo 2013). Therefore, this study ascertains the inclusion of strategic learning as a research variable in examining how learning occurs to integrate knowledge throughout the firm for internalizing the acquired assets so the firm itself can possess and utilise the realised FSAs to provide market efficiencies that allow them to become competitive global players (Rugman & Li 2007).

This research, while using Chinese firms as the base for study, has implications for the EM MNE literature as a whole. The premise that asset-seeking is correlated to limited FSAs also suggests that the findings and framework could be generalizable for MNEs from other emerging nations as well. As most EM MNEs lack ownership and access to superior capabilities and are also latecomers, many of the variables in the model could be relevant to general practice by emerging market investors as these reflect many of the same FDI patterns. The host environment will have most

of the same conditions for all investors - unless there are country-to-country specific governmental agreements - the industries will be relatively stable across domains, and therefore only the home environment may have some unique implications on the process. As firms from Taiwan, Singapore, Korea and Indonesia continue to show steady increases in FDI in the U.S. (US Department of Commerce 2012) they may be faced with many of the same LOF, FSA, FSD and entry mode issues experienced by the Chinese.

## **5.2 Managerial Implications: Relevance**

This thesis provides significant relevance for managers and other FDI agents from or working with EM MNEs in managing and improving the success of the FDI process. The findings infer that for Chinese firms that are over-reliant on their skills and capabilities alone in the decision making process, need to recognise their limitations in the new environment and evaluate their decisions with knowledge through collaboration and by seeking input from local managers (Klossek, Linke & Nippa 2012) as many times local knowledge, in order to be highly applicable, needs to be developed locally (Li & Meyer 2009). As demonstrated, each FDI case is varies depending on the internal and external environments and the firm factors in conjunction with the strategic actions of the entire process. The lack of consensus in the findings concludes that strategic priorities need to be matched to the situational variables requiring good external analysis of the environments to isolate potential moderating factors. Therefore, as path dependent strategies and past FDI experience will not necessarily be generalisable making it potentially irrelevant in subsequent situations (Chetty, Eriksson & Lindbergh 2006) managers need to analyse every activity separately. Choosing entry modes that will allow for asset acquisition will be dependent on the capabilities in knowledge transfer and strategic learning for long-term global development (Cui & Jiang 2009). Firms should note that entry mode selection requiring extensive planning and considerations need to match environmental factors to the firm's mission and strategic intent when utilising limited resources for building internal resources (Rugman & Li 2007).

The research framework further emphasised that for OFDI decision making, considerations must include not only the firm level strengths and weaknesses (Ghahroudi, Turnbull & Hoshino 2010) and the external demands of the host and

home environments (North 1990; Zaheer 1995; Boisot & Meyer 2008) but also the competitiveness and risk factors from industry (Chang & Rhee 2011; Porter 1985). Therefore, managers need to be cognisant in their decision-making process of the risks in uncertain markets when implementing rapid expansion through acquisition if they have not obtained and developed the requisite skills (Chang & Rhee 2011). The challenges posed by exogenous and endogenous LOF and the constraints of integrating cultures increase the transaction costs which can impact bottom line. Firms need to be cognisant that dangers in aggressive strategic actions can come when putting more emphasis on strategic intent than on strategic fit (Cui & Jiang 2009b) and in failing to recognise that post-integration failure or success can be a considerable transaction cost and impact on strategic plans.

The clarification on the existence and potential impact of liabilities of foreignness from this thesis can help managers to understand the cultural, industrial and institutional factors that will impact the FDI operations. As investing firms are working within a state of uncertainty as they are always to some degree outsiders (Vahlne, Schweizer & Johanson 2012) they need to internalise the experiential knowledge from the venture to address their global agenda while overcoming LOF and LOO. Managers should commit to building a trusting culture with its subsidiaries by developing core values that encourage knowledge sharing on a cognitive and behavioural level (Michailova & Minbaeva 2012). While they will be faced with inertia, training and incentives are needed for not only learning and developing new organisational processes, but also for unlearning of old factors embedded in former organisational cultures (Bettis & Prahalad 1995). In being able to effectively manage through post-integration and internationalisation challenges, the firm needs to be able to leave old patterns behind and accept and internalise a new vision for the organisation which requires high value placed on knowledge transfer, absorptive capacity, and a commitment and intent to learning resources (Cohen & Levinthal 1990; Autio, Sapienza & Almeda 2000). Firms must also develop means for accurately examining the results and outcomes from experiences to correctly learn and interpret the results in an unbiased or correct conclusion for application in future ventures (Zeng et al. 2013)

This study provides important implications for manager to focus on process which creates knowledge advantage by not only creating parent-subsidary ties, but in

developing a knowledge network that provides centralized support to create goal congruency with all organisational partners (Gnyawali, Singal & Mu 2009). If organisational members and subsidiary units don't understand each other's intent, goals, strategy and purpose, they cannot achieve strategic learning (Hitt et al. 1995). Managers therefore need to analyse and create direct lines with all organisational members to dispel issues and concerns which impact knowledge acquisition and cultural blending through means which institutionalise learning and encourage innovative change. While some have found that allowing autonomy of the subsidiary diminishes the knowledge transfer process in the short and long-term (Birkinshaw, Bresman & Nobel 2010) others have suggested that firms need to develop autonomous systems in order to spur creativity, leadership and a deeper knowledge base (Rabbiosi 2011; Gupta & Govindarjan 2000). Hence the need to integrate the appropriate developmental process is acutely relevant in addressing the challenges in acquisitions which many times stem from the inability to communicate and manage through cultural differences (Sarala & Vaara 2010). Being able to break down barriers poised against cultural convergence and cross-convergence from the standpoint of national and organisational cultural distance is necessary to create a new singular, shared, corporate culture (Junni 2011). Firms need to recognise that managing cultural factors in acquisitions directly impacts the ability to realise synergies as it is reliant on the ability to integrate and share resources (Brock 2005). The reality is that while firm's can accumulate FSAs that translate and integrate into some positive performance results in the short-term, overall firm enhancement for integrating learning and experience will take time (Lee & Rugman 2012).

The implications are vast for managers in developing a learning environment to deal with the challenges of the acquisition process. As evidenced by the research the limited firm success in post-integration requires extensive attention by managers to blend the firms to achieve effectiveness over time (Rabbiosi, Elia & Bertoni 2012). Managers need to be aware that cultural and psychic distance plays a role in the acquisition process (Becerra, Lunnan & Huemer 2008) and firm level and individual motivations for transferring knowledge need to be addressed. Issues can arise out of a fear of exploitation (Empson 2001), uncertainty and ambiguity which can make members hesitant to comply to new methods when there are cultural and practice

dissimilarities and uncertainty. This heightened suspicion can diminish interpersonal-level knowledge sharing (Mäkelä, Andersson & Seppälä 2012) limiting the willingness to transfer the explicit knowledge on practice, market and customers along with the tacit knowledge needed to integrate the intricate advantages that can be reaped from the merger. Many employees revert back to old ways and routines evoking a phase of unlearning (Tsang 2002) when they don't identify with the new firm and resist in building a new culture out of a fear of contamination. Therefore, consistent with other studies (Junni 2011) if managers recognise the variances in the cultures they can build a sense of trust by devoting resources and actions towards formal and informal methods to bridge the gap. Clarity and transparency in the acquisition process through frequent communication (Bresman, Birkinshaw & Nobel 1999) can lead to social integration and cultural crossvergence resulting in a new blended culture (Sarala & Vaara 2010). While using American or in-patriate managers rather than Chinese expatriates seems to be a common practice for these firms, as it may help with the flow of information within the U.S. subsidiary, the findings show it has not overcome the post-integration issues faced by the Chinese firms with the U.S. workers and market. Therefore, foreign management must find the right balance of control to create a complete learning system to provide incentives and consistency for forward and reverse knowledge transfer (Rabbiosi 2011). Yet while some advocate a softer or autonomous approach for the acquisition in order to open avenues for learning and reduce resource costs (Madhok & Keyhani 2012), a complete hands-off or distance approach which is common for many Chinese firms in acquisitions (Zhang et al. 2011) may not build the necessary social capital (Birkinshaw, Bresman & Nobel 2010).

From a practitioner's standpoint, managers need to understand that the level of learning capabilities impact not only structural processes but also how it can preclude innovation and technological parity (Hull & Covin 2010). The ability to develop R&D capabilities is a direct measurement and correlation to a firm's success in knowledge transfer and strategic learning (Cummings & Teng 2003; Perez-Nordtvedt et al. 2008). Therefore developing superior FSAs as a result of a learning system which effectively transfers knowledge-based assets can provide EM MNEs with competitive (Newburry, Gardberg & Belkin 2006) and legitimate bargaining



power (Tseng et al. 2007). So as resources that enhance absorptive capacity and encourage knowledge transfers are essential for firms lagging in abilities (Lane, Salk, & Lyles (2001) managers must be cognisant and committed to enhancing the form and structure of the transfer process (Cummings & Teng 2003) by taking corrective actions against weaknesses and by capitalizing on the FSAs of the parent and subsidiaries.

Managers also need to recognise and commit (Perez-Nordtvedt et al. 2008) to incorporating transfer activities that deal with geographic and cultural distance factors (Pederson and Petersen 2004; Shenkar 2001) which can interfere with overall learning effectiveness. As it is shown that active practices that include resources, routines, and positive attitudes and beliefs towards learning (Foss & Pedersen 2004; Simonin 2004) are keys for effective organisational learning in reducing FDI barriers (Rabbiosi, Elia & Bertoni 2012) knowledge transfer should be of high priority to these managers. Regardless of strategic intent, in order to be a global enterprise, the learning must be embedded (Michailova & Minbaeva 2012) and therefore strategic goals should devote and commit high levels of resources to promote and motivate learning (Simonin 2004). Close analysis should be done in developing HR programs to incorporate mechanisms to develop a learning environment (Minbaeva et al. 2003). As firm and managerial experience tends to be context specific managers need to recognise and reward the development and transfer of knowledge especially for tacit knowledge which is hard to transfer but can be crucial for firm advancement (Alipour, Idris & Karimi 2011). Considerations also should be taken in instilling intensive communication mechanisms over time as they are necessary for transferring codified knowledge (Bresman, Birkinshaw & Nobel 1999). Managers should create communication and decision making procedures that enhance and support absorptive capacity (Kotobe, Jiang & Murray 2011) and devote resources aimed at building learning capacity (Cohen & Levinthal 1990). This can be achieved by joint actions of the parent firm and subsidiaries through establishing social and operational mechanism (Bresman, Birkinshaw & Nobel 1999) and incentives and rewards (Gupta & Govindarajan 2000; Minbaeva, et al. 2003) aimed at overcoming individuals' resistance (Sarala & Vaara 2010; Junni 2011; Minbaeva et al. 2003; Tsang 2002) while boosting motivation to collaborate and build cohesion.

EM MNE managers must also recognise that effective transfer and development of intangible assets such as leadership skill, market know-how and global capabilities, takes more than artificial or formal structure (Pucik 1988). The findings in this thesis support Vahlne, Schwizer & Johanson (2012 p.226) proposition that, "HQs [headquarters] of contemporary global firms cannot rely only on formal mechanisms of control and coordination, nor formulate goals and make decisions based simply on hierarchy, but rather need to rely on control that emanates from an organisational culture of shared norms and values and the socialization of its employees to support these values." While developing formal mechanisms is essential for organisational learning, based on socialisation theory wherein interaction builds social capital and social capital shapes economic actions (Granovetter 1985), managers should strive to develop a globalized clan culture where informal norms and actions enforce learning into practice. Therefore the challenge is in making learning generalisable throughout the organisation to enhance competitive advantage (Pucik 1988) by improving internal and external governance mechanism for value creation (Kling & Weitzel 2011) by establishing trust, quality perceptions, and legitimacy (Bell, Filatotchev & Rasheed 2012). Only then will absorptive ability and knowledge transfer be effective in (Liu & Buck 2007) insuring spillover and reverse learning to close the strategic loop and enhance the overall growth of the parent firm. In comparing the Chinese process to that of the Japanese, the benefits derived by Japan's investments overseas, especially in the US, not only created stronger firms in the long run but also benefitted the Japanese home environment (Rugman & Verbeke 2007). Therefore, this research provides additional support for developing and devoting resources towards learning systems through corporate socialisation mechanisms to develop interpersonal ties (Tsai 2000) and encourage knowledge sharing as this becomes a tremendous long-term benefit to multiple stakeholders.

### **5.3 Future Implications**

This thesis presented propositions as well as a potential base framework for further investigating the EM MNE internationalisation process. As most studies focus on unilateral or myopic aspects of strategic intent, entry mode, FSAs or of knowledge transfer this research stressed the need for addressing the entire strategic process with full-circle implications. While the findings extended aspects of prior research, there are still extensive avenues for future studies. More research on strategic intent

and on entry mode decisions for Chinese firms is needed to provide support for the tie between motivation and entry mode as well as clearer parameters for classifying strategic intent when selecting developed or emerging economies as a location choice. Comparing the entry modes of these firms in developed and emerging economies for strategic asset-seeking by possibly merging the ASAP model presented in the case study with a new framework such as the one designed by Cui & Jiang (2009b) will help to integrate FDI process with the dynamic of global motivation.

With the realisation of the rewards and limitations of the various entry modes, it is clear that both M&As and greenfield can have advantages and disadvantages unique within a developed economy for EM MNEs. However, a determination of what is the greatest priority for these firms in these locals - strategic assets or centralized process - is needed for moving forward in theory and practice when strategic intent is the preface for entry mode selection. As it is clear that EM firms lack certain FSAs and tend to struggle in these ventures, understanding the role of motivation will help to clarify the issues and tactics for managing future ventures. And as this study was limited in scope and as measurement of resource-based activities in extant studies has failed to connect specific skills to performance for average firms, it is difficult to generalise what assets are needed for FDI success (Hansen, Perry & Reece 2004). Therefore in future studies, in order to measure the impact of firm assets on the process, competencies and capabilities will need to be separated to determine proprietary specificity (Rugman & Verbeke 2002) by developing a scale on constructs that include all the components of strategic actions in FDI for EM MNEs.

As the trend of EM MNEs investing in DEs is gaining notice and as this pattern of investment is considered one of the most risky (Gaur, Kumar, and Surathy 2011), the variables of risk and psychic distance need to be re-examined as they may be pertinent to sustainability. Perceptions of transaction costs and risk impact entry mode decisions but firms need to recognise that risk factors can have implications for the entire FDI process beyond the initial entry, especially on asset and market-seeking activities. While much research has been done to evaluate the competitive strategies implemented in FDI, little has been done to determine the strategy needed to reduce or negate the risks of foreign investment (Peng 2004; Petersen & Pedersen

2002) let alone on the relevance of perception or attitude towards risk on the overall FDI process. As some studies have suggested that Chinese firms do not react or assess risk in the same ways as firms from industrialised nations, future studies could examine the risk factors associated with entry modes and location choice (DE or EE) in relation to Chinese or other EM MNEs perceptions to improve overall process decision making. Analysing FDI patterns and ventures against risk factors from the Corruption Perceptions Index or Confidence Index list (A.T. Kearney 2012) to correlate to Hofstede's dimension on risk aversion (Hofstede & Hofstede 2005) for the Chinese and other emerging cultures could provide insight into the perceptions and level of impact associated with risk. With the suggested divergence on perceptions of risk on FDI actions for the Chinese MNEs from traditional theory findings on industrialised firms (Makino, Lau & Yeh 2002), determining the level of correlation can help to understand the actions and outcomes of EM MNE FDI.

Even though Chinese FDI is relatively new and small in developed nations, it is expected to grow making research and the development of theories important in explaining how they have been or will be able to create successful FDI strategies. As Rugman and Li (2007) question whether China will be successful locally or globally, becomes dependent on the firm's ability to improve the knowledge process and reap the rewards of the strategy. As the former PR manager from Haier stated "you have to localise. Do it the American way ... It minimises cultural misunderstandings and gets the job done better and faster" (Yi & Ye 2003 p.9). For Chinese firms and most likely for all EM MNEs, the hard part of doing business in the U.S. is to localise first by overcoming liabilities of foreignness and newness before being able to address long-term or global aspirations. Future research should ascertain firm-level activities aimed at semiglobalisation (Kolk 2010; Rugman & Verbeke 2003a; Ghemawat 2003) and how these actions contribution to long-term strategic intent. Basing the process on simple entry mode is not the question as this is just a step in the process to developing and obtaining long-term objectives. As latecomers these firms needed to overcome their disadvantages to make quick adjustments to the host environment in the short-term (Hull & Covin 2010) but research needs to understand how and if strategic realisation occurred as a result of this action (Marinova, Child & Marinov 2011) and if so, how it relates to short and long-term co-alignment or performance (Farjoun 2002). Building theory on Chinese

MNEs will require defining the ability or limitations as well as the effectiveness in using aggressive actions through an ambidextrous approach in asset and market-seeking in DEs (Luo & Rui 2009) by first exploring on a national level to build an asset base with the ultimate goal of exploiting on a global level for future positioning.

It is clear that the learning process of knowledge transfer and absorptive capacity are important variables in FDI. Some have found foreign experience to have positive residual impacts (Caves 1982; Andersson & Svensson 1994) as firms can learn from their experiences (Casson 1995) or have greater success in the same country (Barkema, Bell & Pennings 1996) based on experiential learning within that same country (Johanson & Vahlne 1977) while others have found that international experience has not been a contributing factor (Barkema & Drogendijk 2007; Brouthers & Brouthers 2001). As relatively new players longitudinal analysis is needed to determine how critical learning and experience is for Chinese firms and EM MNEs within DEs. Most of the extant FDI research focuses on strategic planning and formulation and to some degree the implementation tactics, but very little exists in examining the outcomes of acquiring of assets - knowledge resources, market access - in relation to the effectiveness of the strategic process. A new framework is needed to operationalise learning as an outcome to determine if strategic implementation has been successful through expanded evaluation and control measures. Studies can determine if a learning system has evolved by examining if the parent was able to transmit directives and technical knowledge and if through the process was the subsidiary able to disseminate the local knowledge. Determining if these firms have transferred FSDs into FSAs or evolved with new FSAs (Barley & Tolbert 1997) via their international and strategic actions (Marinova, Child & Marinov 2011) would also provide insight into the importance of experience and learning on the realization of strategic intent goals (Kotabe, Jiang & Murray 2011).

There is a paucity of research on measuring end results as most extant research is still examining how Chinese firms have been able to position themselves locally, but yet to see if they are able to be competitive globally (Cui & Jiang 2009). In examining if strategic learning has occurred so firms can close the strategic loop to intensity global positioning, future analysis needs to determine if assets gained have

been internalized throughout the organisation resulting in reverse spillover (Chen & Shapiro 2012). As expressed by Freidson (1986 p.xi) on the implications of institutionalising knowledge for legitimising, “while institutionalization of knowledge is a prerequisite for the possibility of its connection to power, institutionalisation itself requires the transformation of knowledge by those who employ it.” Research should therefore study the patterns of interaction to link the actions of firms and managers that lead to a new modified or blended organisation. The research must analyse the connection among actors as much as the actors themselves to determine how new processes and interaction translate knowledge leading to institutional change (Gnyawali, Singal & Mu 2009). This type of a multidimensional study tracking learning outcomes and knowledge transfer (Osborn & Hagedoorn 1997) in the FDI process can provide not only an institutional perspective on international factors but strategic and economic perspectives for firms as it provides a reversal examination on goal realisation.

Finally, future research should strive to hone the three perspective framework presented to create a generalizable base for developing theory for all EM MNEs. As many variables can impact the FDI behaviour of EM MNEs (Ramamurti 2012), multiple factors need to be included in research and therefore focusing on one traditional theory will not provide the necessary insight. However, by not focusing on the factor of state ownership throughout this research, there may be components that will be relevant for other EE firms as the role state ownership of Chinese has been shown to have an impact on FDI process that deviates from traditional IB theories (Cui & Jiang 2012). Future studies can use some components of the new framework in a comparative study to find generalisable factors for other emerging firms OFDI as it is posited that emerging market firms share several common traits that vary from those of developed firms (Luo & Tung 2007). However, comparative studies on various EE firms will provide needed insight as EE firms and countries all have unique factors (Jormanainen & Koveshnikov 2012). The industry and firm characteristics should provide some insight for other EE firms when controlling for industry type and for firms at comparable stages of development from emerging nations. As for institutional environments, the host environment will have many of the same factors except for regulatory factors between the two nations and the home environments may have several of the same dimensions except for the unique impact

from the government's role as found in China. As the patterns and trends in the global marketplace continue to change and merge, creating frameworks for researching future activity will not only be of concern for Chinese firms and other EM MNEs, but for the global economic future as well.

**APPENDIX A - PROJECT 1: FDI RESEARCH**

## PROJECT 1 - Contextual Constructs relevant to FSAs and learning on LOF

<b>Factors</b>	<b>Rationale</b>	<b>Supporting Studies and Extant Research</b>
Liability of Foreignness	Foreign firms can be disadvantaged in comparison to domestic firms due to an unfamiliarity with the host environment	Hymer 1960; Zaheer 1995 Barnard 2010; Petersen & Pedersen's 2002; Barkema & Drogendijk 2007; Chen, Chen & Ku, 2004; Johanson & Vahlne 2009;
Perceived Psychic Distance	Managerial perception of how much cultural distance exists between the home and host environment impacts the intent and commitment to learning and knowledge transfer	Xu & Shenkar 2002; Dow & Karunaratna 2006; Shenkar 2001; O'Grady & Lane 1996
Mode of Entry	<p>The knowledge and experience of the parent firm can impact the mode of entry selected</p> <p>Joint ventures can provide a knowledge base in FDI to address issues of LOF</p> <p>Mergers &amp; Acquisitions can be used to gain knowledge bases within a foreign environment</p> <p>Wholly-owned/Greenfield strategy will rely on alternative sources for seeking knowledge</p>	<p>Tallman, Jenkins, Henry &amp; Pinch 2004; Barkema &amp; Drogendijk 2007; Holmqvist 2004; Guillen 2003</p> <p>Ghahroudi, Turnbull &amp; Hoshino 2010; Chiao, Lo &amp; Yu 2010; Buckley &amp; Casson 1996</p> <p>Chiao, Lo &amp; Yu 2010; Harzing 2002; Johanson &amp; Vahlne 2009</p> <p>Chen &amp; Hennart 2002; Chiao, Lo &amp; Yu 2010; Ghahroudi, Turnbull &amp; Hoshino 2010</p>
Time/Existence in US	The length of existence in an environment may reduce LOF	Gaur, Kumar, & Sarathy 2011; Johanson & Vahlne 2009
Nationality of Management	Dependant on the nationality of the managers can impact the knowledge base and experience available; influence the intent and commitment based on level of psychic distance	Newburry, Gardberg & Belkin 2006
Internal Forces - Firm Specific Advantages	RBV - Firm-level assets role in LOF	Rugman & Verbeke 2003; Rugman & Li 2007; Shane 2000; Tan 2003; Peteraf & Bergen 2003; Tseng et al.2007; Hwang & Gaur 2009; Ambos & Ambos 2009



<b>Factors</b>	<b>Rationale</b>	<b>Supporting Studies and Extant Research</b>
External Forces	IBV - External or isomorphic environmental pressures	Bockem & Tuschke 2010; Lin 2010; Voss, Buckley & Cross 2010; Haveman, Rao & Paruchuri 2007
Learning Engagements	Incorporating learning engagements can impact the degree of LOF	Holmqvist 2004; Elango 2009; Johanson & Vahlne 2009; Barkema & Drogendijk 2007
International Experience	Whether parent firm's international experiences and knowledge is critical for subsequent IBVs	Li & Meyer 2009; Xie, Zhao, Xie & Arnold 2011
Knowledge Transfer	The ability to transfer knowledge (institutional or tacit) from parent to subsidiary can play a role in creating international scope economies	Kotabe et al. 2007; Holmqvist 2004; Jack 2005; Chen, Chen & Ku 2004; Dunning 1998; Becerra, Lunnan & Huemer 2008; Bresman, Birkinshaw & Nobel 1999
Absorptive Capacity	The subsidiaries ability to absorb knowledge can impact the knowledge transfer process	Hull & Covin 2010; Williams & Lee 2011
Managerial Intent & Commitment	Based on perception of needs for effective knowledge transfer will impact the flow of knowledge, absorptive capacity of the subsidiary, and the commitment given to utilization of learning engagements	Vera & Crossan 2004; Perez-Nordtvedt et al. 2008; Simonin 2004; Hurzschenreuter, Pedersen and Volberda's 2007; Buckley, Devinney & Louviere 2007

## APPENDIX B - PROJECT 1: INTERVIEW GUIDE

### Interview Questions:

INTRO: Running a business in a foreign country can be a challenging experience. Many times the challenges faced by foreign owned firms differ from those faced by U.S. or domestic firms. This is referred to as the Liability of Foreignness which can lead to higher costs to the foreign firm and provide a competitive advantage to the domestic firm. I am trying to find out what unique challenges your company has faced here in the U.S. and what actions your company has taken to overcome these challenges. I am particularly interested in the interaction between your parent firm and how you transfer knowledge regarding all aspects of your operation.

### INTERVIEW TOPICS

1. How many years has your firm been conducting international activities?

-How many foreign countries does your company operate within? Where?

2. What mode of entry was used for establishing your operation within the U.S. Joint venture M&A Wholly-owned affiliate (Greenfield)

3. Strategic Intent - What would you say was the main reason the parent firm wanted to expand in the U.S.? Market Seeking, Resource Seeking, Efficiency Seeking, Strategic Knowledge Seeking

4. The composition of the management in the U.S. (host country) is \_\_\_\_\_ (U.S. - Home country nationals; Chinese - Expats; Others - Third country or Inpats) (Mudambi & Navarra 2004)

5. How long has your firm been operating within the U.S.? Firm Size \_\_\_ Number of Employees \_\_\_\_\_

7. To what extent has \_\_\_\_\_ impacted your firm in operating within the U.S. (Pedersen & Petersen 2004)

- Business laws and rules of the foreign market (Institutional Knowledge - LOF)
- Financial practices of the foreign market (Institutional Knowledge - LOF)
- Lack of familiarity with U.S. culture (Institutional Knowledge - LOF)
- U.S. public sentiment or opinion (Institutional Knowledge - LOF)
- Local business culture (Business Knowledge)
- Customer's product preferences in the foreign market (Business Knowledge)
- Products of suppliers in the foreign market (Business Knowledge)
- Products of competitors in the foreign market (Business Knowledge)

8. How many years of personal experience do you have (U.S. Manager) in international business operations?

9. To what extent do you believe the U.S. market differ from Chinese market (Home country) 1=similar 7=very different (Psychic distance - Pedersen & Petersen 2004)

10. To what extent do you "know" your customer 1= Well-known customer  
7=completely new
11. To what extent do you believe your parent firm feels the U.S. market differs from Chinese market (Home country) 1=similar 7=very different
12. To what extent do you believe the parent firm "knows" your customer  
1= Well-known customer 7=completely new
13. To what degree do 1)you & 2)your parent firm see benefit in learning about the foreign environment (*Perez-Nordtvedt et al. 2008*)
14. To what degree do 1)you & 2)your parent firm see benefit in adapting processes as a result of learning regarding the foreign environment.
15. To what degree do 1) you & 2) your parent firm feel your firm should devote resources to learning about the host environment.
16. When entering this venture, 1)you & 2)your parent firm had a strong desire, determination, and will to learn about the foreign environment. (*Simonin 2004*)
17. (FSAs) To what degree does your parent firm have abilities for:
- Management /leadership
  - Adapting products/services to local market
  - Establishing relationships with foreign customers
  - Collaboration/communication with companies abroad
  - Branding and Marketing
  - R & D
  - Financial management
  - Purchasing and distribution
  - Technological
18. The U.S. unit has benefited greatly (agree or disagree) from the transfer of knowledge on (*Ambos & Ambos 2009*):
- Market data on customers (relationship to customers)
  - Market data on product adaptation
  - Competitor know-how (linkages/Networks)
  - Branding/Marketing know-how
  - R & D know-how
  - Technology know-how
  - Purchasing/distribution know-how
  - Management/leadership know-how
  - Technological know-how

19. To what extent has 1) your personal experience or 2) parent firm insight been most useful in managing your foreign operations regarding: (*adapted from Pedersen & Petersen 2004; Simonin 2004; Bresman, Birkinshaw & Nobel 1999*)

- Business laws and rules of the foreign market (LOF Institutional Knowledge)
- Financial practices of the foreign market (LOF Institutional Knowledge)
- Culture, norms and practices of the host environment (LOF *Simonin 2004*)
- Local business culture and management systems and procedures (Tacit/Business Knowledge) (*Gupta & Govindarjan 2000*)
- Products of customers in the foreign market (Business Knowledge)
- Products of suppliers and distribution know-how in the foreign market (Tacit/Business Knowledge) (*Gupta & Govindarjan 2000*)
- Products of competitors in the foreign market (Business Knowledge)

20. Speed: The rate at which knowledge was acquired or transferred from the parent firm was

1=Slow 7= quickly (*Pedersen & Petersen 2004*)

21. So would you say: (*Michailova & Minbaeva 2012*)

- You have gained knowledge on running the operations in the U.S. from your home firm
- You have gained knowledge regarding operations in the U.S. from U.S. colleagues
- You have used the knowledge from the home firm for competitive advantage
- You have used the knowledge from domestic employees in gaining competitive advantage

22. Would you say: (*Simonin 2004*)

(Resource based learning:)

-Your company has committed a lot of personnel to this venture

-The staff assigned by your company to this venture is composed of highly trained and talented personnel.

- Your company has committed a lot of physical, financial, organisational, and logistical resources to support the seeking, diffusion and sharing of information regarding the foreign environment.

(Incentive-based:)

-There are clear incentives or a well-developed reward system designated to encouraging employees to seek and repatriate information regarding the foreign environment.

(Cognitive-based:)

-In general, your staff believes they have less to learn from, than to teach others about the foreign environment

-Whenever we have needed to develop new skills to work within the host environment, we have been able to do so quickly and easily. (*Hull & Covin 2010*)

-The learning of new skills and the acquisition of knowledge relating to the host environment comes easy to us. (*Hull & Covin 2010*)

-We are good at covering the distance between what we know and what we need to learn to adjust to the host environment. (*Hull & Covin 2010*)

23. What actions have been taken to learn of the foreign environment?  
What actions have been taken to adjust practices to the new environment?

24. Has the parent firm implemented HR practices directed at enhancing learning engagements (Minbaeva et al. 2003)

- Training programs
- Performance appraisals
- Promotions
- Compensation tactics

25. Performance Measures

3 year trends

Sales Growth \_\_\_\_\_

Return on Equity \_\_\_\_\_

Profitability changes \_\_\_\_\_

\*5. Is your parent firm state or privately owned?

**APPENDIX C - PROJECT 1: FSA TRANSLATION GUIDE**

<b>FSA CATEGORY</b>	<b>RESPONSE DESCRIPTORS</b>
Physical	<ul style="list-style-type: none"> <li>✓ Machinery</li> <li>✓ Geographic location</li> <li>✓ Equipment</li> <li>✓ Real estate</li> <li>✓ Raw materials</li> <li>✓ Land</li> </ul>
Financial	<ul style="list-style-type: none"> <li>✓ Internal funds</li> <li>✓ External funds</li> <li>✓ Other funding sources</li> </ul>
Organisational	<ul style="list-style-type: none"> <li>✓ Organisational process</li> <li>✓ Organisational reputation</li> <li>✓ Organisational routines</li> <li>✓ Organisational structure</li> <li>✓ Corporate culture</li> <li>✓ Brand image</li> </ul>
Relational	<ul style="list-style-type: none"> <li>✓ Customer relationships</li> <li>✓ Internal relationships</li> <li>✓ Supplier relationships</li> <li>✓ External stakeholder relationships</li> <li>✓ Competitor relationships</li> </ul>
Human	<ul style="list-style-type: none"> <li>✓ Individual/manager experience</li> <li>✓ Personal characteristics</li> <li>✓ Personal networks</li> <li>✓ Education</li> </ul>
Informational	<ul style="list-style-type: none"> <li>✓ Customer information</li> <li>✓ Internal knowledge/information</li> <li>✓ Product knowledge</li> <li>✓ Industry knowledge</li> <li>✓ Process knowledge</li> <li>✓ Supplier information</li> </ul>
Legal	<ul style="list-style-type: none"> <li>✓ Trade secrets</li> <li>✓ Trademarks, patents, copyrights</li> <li>✓ Licenses</li> <li>✓ Government regulations/agreements</li> </ul>

*Sources:* Coding process devised from using research coding from: Ambos & Ambos 2009; Tseng, Tansuhaj, Hallagan & McCullough 2007; Seppanen & Makinen 2007; Hunt and Morgan 1995.

**APPENDIX D - PROJECT 1: CATEGORY COLOR CODING**

Response Coding	Descriptive Content
<b>General Factors</b>	
ENTRY = Mode of Entry	1= JV 2=M & A 3 = Greenfield
STRAINT = Strategic Intent	1=Efficiency 2=Market 3=Natural Resources 4=Knowledge Assets
MGT = Nationality of Subsidiary Management	1= U.S. 2 = Chinese 3 = 3rd Country
EXIST = Existence in US (time in years)	1 = 0-5 2= 6-10 3= 11-15
State OW = Ownership	1=State-owned 0= Private
<b>LOF Factors - US Managerial Perspective</b>	
LOFda - Discriminative actions	MNE4 MNE6 MNE7
LOF - Exchange risk	MNE2 MNE3 MNE4 MNE7 MNE8 MNE9 MNE10
LOF - Unfamiliarity of foreign environment	MNE3 MNE4 MNE7 MNE8 MNE9 MNE10
LOF - if any form of LOF exists	MNE2 MNE3 MNE4 MNE6 MNE7 MNE8 MNE9 MNE10
LOF overall - number of LOF categories	0-3
<b>Behavioural and Results factors based on US Manager's perceptions</b>	
PD MGR Subsidiary Managers level Psychic Distance	MNE1 MNE2 MNE3 MNE4 MNE5 MNE6 MNE7 MNE8 MNE9 MNE10
PDPar - Parent Firms level Psychic Distance	MNE1 MNE2 MNE3 MNE4 MNE6 MNE7 MNE9 MNE10
LearnBeSub - Subsidiary perception of Benefit in Learning	MNE2 MNE3 MNE6 MNE7 MNE8 MNE10
LearnBePar - Parent perception of Benefit in Learning	MNE3 MNE6 MNE10
LearncommS - Subsidiary belief in learning resource commitment	MNE4 MNE7
LearncommP - Parent belief in learning resource commitment	MNE7
FSA (Firm Specific Resources)- Physical	MNE1 MNE2 MNE3 MNE4 MNE5 MNE6 MNE7 MNE8 MNE9 MNE10
FSA - Financial	MNE1 MNE2 MNE3 MNE5 MNE6 MNE8 MNE9 MNE10
FSA -Organisational	MNE1 MNE2 MNE4 MNE5 MNE6 MNE9
FSA - Managerial/Human Resource	MNE1 MNE6 MNE9
FSA - Relational	MNE1 MNE2 MNE6
FSA - Informational	MNE1 MNE2 MNE3 MNE5 MNE6 MNE9
FSA - Legal	MNE1 MNE2 MNE3 MNE4 MNE5 MNE6 MNE9
Ability to transfer FSA	MNE1 MNE2 MNE5 MNE6
AC resource - Absorptive Capacity - Resource Based	MNE1 MNE2 MNE4 MNE6 MNE9
AC incentiv - Absorptive Capacity - Incentive Based	MNE1 MNE2 MNE5 MNE6
AC Cognit - Absorptive Capacity -- Cognitive	MNE1 MNE2 MNE4 MNE5 MNE6 MNE8

LE Train - Learning Engagements - Training	MNE1 MNE2 MNE5 MNE8 MNE9
LePer App - Learning Engagement Performance/Appraisals	MNE1 MNE2 MNE5 MNE9
LEPromot - Learning Engagement - Promotions	MNE1 MNE4 MNE5 MNE6 MNE9
LE Direct Co - Learning Engagement - Direct Contact	MNE1 MNE5 MNE6
Profitability	MNE1 MNE2 MNE6 MNE9(Flat)



**APPENDIX E - PROJECT 1: INTERVIEW BASE CODES (MAXQD10):**

1. Mode of entry - 1.1= JV 1.2=M & A 1.3 = Greenfield
2. # of Foreign Operations - 2.1 = 0-3 2.2= 4-6 2.3=7-9 2.4 = >10
3. Composition of management 3.1= U.S. 3.2 = Chinese 3.3 = 3rd Country
4. Existence in U.S. 4.1 = 0-5 4.2= 6-10 4.3= 11-15
5. Ownership - 5.1 State or 5.2 private
6. LOF
  6. 1 - Discriminative actions
  6. 2 - Exchange risk
  6. 3- Unfamiliarity of foreign environment
7. Psychic distance
  - 7.1 Manager
  - 7.2 Parent Firm
8. FSAs of Parent Firm
  - 8.1MGT/Leadership
  - 8.2Product Adaptation
  - 8.3Customer Relations
  - 8.4Linkages/Networking
  - 8.5Branding/Marketing
  - 8.6R & D
  - 8.7Financials
  - 8.8Purchasing/Distribution
  - 8.9Technological
9. Transfer of FSAs
  - 9.1MGT/Leadership
  - 9.2Product Adaptation
  - 9.3Customer Relations
  - 9.4Linkages/Networking
  - 9.5Branding/Marketing
  - 9.6R & D
  - 9.7Financials
  - 9.8Purchasing/Distribution
  - 9.9Technological
10. Absorptive Capacity
  - 10.1 = Resource based
  - 10.2= Incentive based
  - 10.3 = Cognitive based
11. Learning Engagements
  - 11.1Training
  - 11.2 Performance/Appraisals
  - 11.3Promotions
  - 11.4 Direct Contact

**APPENDIX F - PROJECT 2: CASE STUDY INTERVIEWEES**

<b>Interviewee</b>	<b>Location</b>	<b>Response Code</b>
Firm Division Manager	CA	CA1
Firm US Executive	NC	NC1
Firm PR Representative	GA	GA1
Firm Commerce Specialist	NC	NC2
Firm HR Executive	GA	GA2
Firm Consultant	NC	NC3
Firm Consultant	GA	GA3
Firm Consultant	CA	CA2
FDI Consultant (3rd Party)	NC	NC4
Investment Firm Analyst (3rd Party)	NC	NC5
Chinese Investment Consultant (3rd Party)	NC	NC6
State Commerce Rep (3rd Party)	NC	NC7

*(Confidential - General titles are used in place of names as confidentiality and anonymity were guaranteed to interviewees)*

**APPENDIX G - PROJECT 2: HISOFT MILESTONES AND TIMELINE**

FOUNDATION STAGE (From US\$0 to US\$10m, 1996 – 2004)	GLOBAL STAGE (From US\$10m to US\$100m, 2004 – 2008)	GROWTH STAGE(2009 and beyond)
<ul style="list-style-type: none"> <li>○ Oct 1996 – Founded in Dalian</li> <li>○ 1998 – Established presence in Tokyo</li> <li>○ 2002 – Gained accreditation as the first GE Global Development Centre in China</li> <li>○ 2002 – Set up subsidiary in Tokyo</li> <li>○ Mar 2003 – Became the first Chinese IT outsourcing company to be company-wide CMM 5 certified</li> </ul>	<ul style="list-style-type: none"> <li>○ Nov 2003 – Set up subsidiary in Atlanta, GA, USA</li> <li>○ Dec 2005 – Acquired Tian Hai, an R&amp;D centre in Beijing, and Teksen, Oracle-based services in Hong Kong</li> <li>○ Jun 2006 – Appointed an independent, professional CEO to drive global growth</li> <li>○ Dec 2006 – Acquired Envisage Solutions, a consulting services company based in Irvine, California</li> <li>○ Dec 2007 – Acquired T-est, an R&amp;D centre in Singapore</li> <li>○ Jan 2008 – Acquired Wave, an Oracle / enterprise resource planning provider in Dallas, Texas</li> </ul>	<ul style="list-style-type: none"> <li>○ Jan 2009 – Constructed the Wuxi offshore delivery centre in China</li> <li>○ Aug 2009 – Appointed the Executive Chairman (August 2009 – July 2011)</li> <li>○ Oct 2009 – Acquired a financial services and insurance business process outsourcing centre in Guangzhou, China</li> <li>○ Dec 2009 – Acquired Alliance SPEC, a financial services and insurance quality assurance service provider based in Singapore</li> <li>○ Feb 2010 – Acquired Horizon, a test centre for mobile technology in Beijing, China</li> <li>○ Apr 2010 – Acquired Echo Lane, a cloud computing company in San Francisco, California</li> <li>○ Jun 2010 – Listed on the NASDAQ stock exchange</li> <li>○ Jul 2010 – Acquired the Japanese insurance IT consulting and system development firm, Insurance Systems Laboratory</li> <li>○ Nov 2010 – Acquired Shenzhen Besure Technology Co., a SAP specialist in China</li> <li>○ July 2011 – Acquired NouvEON, an award winning Management Consulting Firm based in Charlotte, North Carolina</li> <li>○ July 2012 - Acquired BearingPoint Australia</li> <li>○ Nov 2012 - Merger with VanceInfo Technologies - creation of Pactera</li> </ul>

(Source: hiSoft Company Website)

**APPENDIX H - PROJECT 2: FINANCIALS****hiSoft***Net Revenues based on Location of Clients' Headquarters*

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011		Year-over-Year % Change
	(US\$ in thousands, except percentages)				
United States	99,608	45.9%	77,601	50.4%	28.4%
Greater China	50,374	23.2%	26,213	17.0%	92.2%
Japan	41,395	19.1%	27,401	17.8%	51.1%
Europe	14,112	6.5%	13,943	9.0%	1.2%
Asia South	11,340	5.3%	8,895	5.8%	27.5%
Total Net Revenues	216,829	100.0%	154,053	100.0%	40.7%

**VanceInfo***Net Revenues based on Location of Clients' Headquarters*

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011		Year-over-Year % Change
	(US\$ in thousands, except percentages)				
Greater China	135,167	48.8%	92,151	47.0%	46.7%
United States	94,268	34.0%	63,937	32.6%	47.4%
Europe	28,846	10.4%	31,439	16.0%	-8.2%
Japan	12,032	4.3%	6,606	3.4%	82.1%
Others	6,780	2.5%	1,816	1.0%	273.3%
Total Net Revenues	277,093	100.0%	195,949	100.0%	41.4%

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