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# Outward Foreign Direct Investment from Emerging Countries: Theoretical Extension and Evidence from China

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**Abstract**

Emerging market firms (EMFs) Internationalization is challenging preeminent theories. This article argues that no single existing theory adequately explains EMFs pattern for investing overseas. Instead, using case studies and a multi-level approach, our research suggests that EMFs can be categorized into four different clusters based on different rationales, objectives, and motivations. Our findings suggest that while existing theories apply to EMFs internationalization, this holds only for specific clusters. This is of particular importance in EMFs since the presence of the state in the overall economy, and on firms internationalization in particular, is both critical and diverse from developed economies.

**Keywords**: outward FDI; China; institutions; internationalization; ownership structure.

## INTRODUCTION

The internationalization of a large number of emerging market firms (EMFs) is a recent phenomenon. As Ramamurti (2012) stated, these are exciting times for the international business (IB) research agenda, as we find out how these firms internationalize. At this stage, we are facing entire *countries* that have only recently started their firms' internationalization processes. This new phenomenon has brought attention to the debate about two issues: 1) "How do emerging market firms internationalize?" and 2) "How well do theories that were established for the internationalization of firms from developed countries explain the internationalization of emerging market firms?" Prior researchers have pointed out that Western theories do not often fit the emerging market situation (Alon et al. 2011, Deng 2012). Furthermore, the study of emerging market firms' internationalization needs to take into account their developmental stage, since this is still a very recent proposition for them.

Having this in mind, we delved into the largest and most prominent emerging market economy, the Peoples' Republic of China (China), to foster the academic debate. China's unprecedented economic growth over the past thirty years has attracted the attention of many scholars (e.g., Bhasin and Paul 2016, Buckley et al. 2007, Child and Marinova 2014, Child and Rodrigues 2005b, Deng 2009, Lattemann et al. 2017, Paul 2016, Paul and Mas 2016, Peng 2005, 2012). This economic growth has been driven by a variety of factors including investment in real estate, infrastructure, and other development projects, as well as the privatization of state-owned enterprises. In addition to infrastructure investment and privatization, other significant contributors to China's growth include an increasing volume of international trade and investment flows. In 2015, China was the recipient of over $US 136 billion in inward foreign direct investment (IFDI), making it the largest beneficiary of IFDI in the world that year (UNCTAD 2016). Furthermore, in 2015, China's exports

amounted to US $2.28 trillion (MOFCOM 2016), making China the largest exporter in the world (CIA 2016, Paul 2016). More recently, a diminishing growth in export-oriented manufacturing due to increasing production costs, a stronger currency, a limited number of alternative investment options, and declining or flat real estate values has led many of China's wealthy to invest outside of China for growth and return (Torres de Oliveira 2017).

By the end of 2016, The People's Bank of China had amassed over US $3 trillion in foreign reserves (SAFE 2017), primarily as a result of its unusually high domestic saving rate (Kuijs 2006). Given the economic limits on China's central government's ability and/or willingness to invest this capital productively internally, China is expected to continue to make increasing strategic direct investments in other countries around the world, namely through well-orchestrated state-owned enterprises (SOEs). In 2015, the value of Chinese Outward Foreign Direct Investment (OFDI)[1] grew to US $128 billion, making Chinese multinational corporations (MNCs) the largest overseas investors among developing countries (UNCTAD 2016). In large measure, China's OFDI is a reflection of a purposeful and well-organized government policy, which debuted in 1999 with the Chinese 'Go Out' policy' (Freeman 2007). This plan emphasized a combination of targeted strategic IFDI along with OFDI, which were essential to propel China forward from its status as a developing economy to a developed one[2], and it is expected that both strategic IFDI and OFDI will continue for the foreseeable future (Luo, Xue and Han 2010, Rosen and Hanemann 2011).

There are now a number of key research articles which have been influential in the area of Chinese OFDI (Buckley et al. 2007, Child and Rodrigues 2005b, Hong and Sun 2006, Huang and Wang 2011, Lattemann et al. 2017, Parmentola 2011, Zhang and Daly 2011).

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[1] OFDI is defined as "an investment involving a long-term relationship and reflecting a lasting interest and control by a firm in an enterprise resident in a foreign country" (UNCTAD 2007).

[2] The definition of developed and developing countries is based on the International Monetary Fund's (IMF) definition.

However, researchers are still asking "How do Chinese firms internationalize?" and "Do established theories explain the internationalization of emerging market firms?". For example, Lattemann et al. (2017) recently explored the globalization of Chinese multinational enterprises (MNEs), in which they developed a dynamic embedded, multilevel framework integrating a range of established theories. Whilst they developed a multilevel framework based on a number of theoretical views, they did not specifically test this model and call on future researchers to examine these issues in their empirical work. Taking the lead from their work, and to add to the research literature, we conduct a preliminary multi-level study by examining four cases of Chinese firm internationalization, which includes large non-natural resource seeking SOEs, large natural resource seeking SOEs, private public share issuing (PPSI) firms, and large unlisted private firms, and their experience with internationalization. Examining this is important because emerging markets have different institutional, cultural, and economic environments which are unique and distinctive, and typical theories of and explanations for OFDI may not apply, as within our case context – China (Storz et al. 2013).

Based on the above discussion, we develop the two following research questions: 1) "How do emerging market firms internationalize?" and 2) "How well do theories that were established for the internationalization of firms from developed countries explain the internationalization of emerging market firms?" This article adds to the literature by exploring the characteristics, motivations, and methods of emerging market firms' OFDI by using four case studies in the context of China. The article is organized as follows. After reviewing the literature, particularly regarding the history and development of Chinese OFDI, we discuss our empirical framework and data. Finally, we present the findings that are followed by the conclusion.

## HISTORY AND DEVELOPMENT OF CHINESE OFDI

In order to frame our case studies, we present the context of China and briefly describe the evolution of Chinese OFDI and its three stages, which is presented in Table 1. As can be seen in the table, the policy towards Chinese OFDI has changed over the various stages, as did the types of investment, the scope of investment, and also the amount of investment and the types of issues that Chinese enterprises faced.

***Insert Table 1 around here***

## LITERATURE REVIEW

OFDI is one of the options firms use in managing their portfolio of investment opportunities (Iversen 1935), which they can choose for a variety of reasons. From a production point of view, OFDI can be seen as a way for a firm to leverage its competitive advantage by transferring it from the home country to overseas facilities and markets (Kogut and Zander 1993). In addition, OFDI can be used as a risk diversification strategy (Rugman 1981) or a following strategy for leading corporations (Whitley 1999). From the international business literature, OFDI is often viewed as a production or transaction cost reduction strategy (Buckley and Casson 1976, Hennart 1982) as well as a strategy for acquiring foreign resources and capabilities (Dunning 1980).

Although there is a broad consensus regarding the theories used to explain the motivation for OFDI in developed countries, the same cannot be said with regard to developing economies (Buckley et al. 2007, Child and Rodrigues 2005b, Narula 2006, Ramamurti 2012). Although some authors have used classical theories to explain China's OFDI (Cai 1999, Tolentino 1993, Zhang and Daly 2011), others believe modifications and extensions are necessary in order to be applicable to a developing country context (Dunning

2006a, b, Gammeltoft 2008, Ramamurti 2012, Yan, Hong and Ren 2010). However, others argue that traditional theories or frameworks cannot be used to model OFDI in developing countries, particularly using the example of China (Alon et al. 2011, Kolstad and Wiig 2012, Ramamurti 2012, Ramamurti and Singh 2009, Williamson et al. 2013). These scholars argue that new paradigms are required due to unique institutional, economic, and cultural characteristics. On this note, some scholars (Luo and Tung 2007, Mathews 2006) have already proposed frameworks and theories.

There is a general consensus in the literature that OFDI in a developing country should be analyzed from a multi-level approach. For example, Lattemann et al. (2017) argues that the reasons and influences on internationalization stem the firm's institutional environment (Peng, Wang and Jiang 2008, Scott 2013), industry level factors (Lu, Liu and Wang 2011, Luo, Xue and Han 2010, Wang et al. 2012), and firm level factors (Barney 1991, Peng, Wang and Jiang 2008, Porter 2008). We acknowledge the influence of the three levels of factors on EMFs' OFDI, and we focus on the theoretical frameworks that may explain the influence of each level.

**Country/Industry Level Analysis - Institutional Theory**

Theorists Peng, Wang and Jiang (2008), Scott (2013) suggest that home country institutions affect the firm's strategies and behaviors. Buckley et al. (2007) and Dunning (2006a) explored developing country OFDI using an institutional theory framework, arguing that the unique institutional environment in developing countries requires an alternative approach. For EMFs, governments have far more influence on the country's business strategy and business activities than firms in most other developed economies (Walton 2008). For example, the overseas investment strategies of private Chinese MNEs are governed by approval processes, documentation, and government agencies, all of which have the ability to

shape private activity and strategy (Cui and Jiang 2010). Often those firms internationalizing are SOEs themselves. Although the government can slow and complicate the process of overseas investment, it can also stimulate and accelerate activity through the introduction of policies and other support designed to streamline the process (Buckley et al. 2007, Deng 2004, Morck, Yeung and Zhoa 2008). Because emerging market firms are generally late in entering international markets, direct or indirect government support is often critical to the success of their internationalization strategies (Child and Rodrigues 2005a). This is particularly true in the case of SOEs that are naturally linked with governments and its overseas investment strategy, such as industries engaged in securing and developing strategic natural resources (Bhaumik and Yap 2011). As Lattemann et al. (2017) explains, country level factors (i.e., government support, political stability, and economic growth), are operationalized as country specific advantages (CSAs), and CSAs are particularly important for emerging firms. However, Lattemann et al. (2017) makes an interesting observation that CSAs can turn into country disadvantages depending on the host country. For example, SOEs wanting to own resources in Australia or provide services to a foreign national broadband network may pose as a country specific disadvantage. In our study, we argue that institutions can explain EMFs' internationalization.

### Firm Level Analysis - Resource Based View

Based on the resource based view of the firm (Barney 1991), a firm's international expansion will be motivated by its firm specific assets, such as proprietary resources or managerial capabilities (Peng 2001). The key firm level distinction with respect to EMFs' OFDI is related to ownership structure - whether firms are SOEs, private publicly share issuing (PPSI) companies, or unlisted private firms. It is argued that SOEs have an abundance of resources to internationalize, whilst PPSIs/unlisted private firms do not have as much

abundance (Buckley et al. 2007). This is interesting because, given China's lack of economic development, it may be difficult for Chinese firms to have any firm-specific advantages (FSAs), as they are seen to have inferior technologies, production processes, and brand names (Lattemann et al. 2017). However, Ramamurti and Singh (2009) highlight that EMFs do have advantages, they are just different from developed country MNEs. These include EMFs' understanding and flexibility in adapting to customer needs, functioning in different environments, and the ability to develop "good enough products." Prior researchers note that EMFs' ability, in particular, Chinese firms acquire resources and build them into their own competitive advantages in international market helps these firms achieve success (Kotabe and Kothari 2016, Paul 2015). Based on the above, we argue that firm level factors, such as the level/type of resources, may explain EMFs' internationalization.

### Firm Level Analysis - OLI Paradigm

Dunning (1988, 2001) developed the Ownership, Location, Internalization (OLI) paradigm, which involves identifying the ownership-specific advantages that each firm possesses, the advantages of a particular location with respect to special taxes or tariffs, raw materials, or other benefits, and internalization advantages that each company possesses given a particular mode of market entry. Depending on the advantages, the firm will choose particular entry modes that will suit them. Buckley et al. (2007) make the important point that location advantages for EMFs mainly surrounds being one of the following: a) foreign market, b) efficiency, or c) resource seeking FDI (including strategic asset seeking FDI). Ownership advantages can include the resources that give firms their advantages (discussed above), and internalization advantages for EMFs relates to the best ownership structure that EMFs wish to use abroad. We argue that OLI theory may be explanatory for EMFs' internationalization.

**Industry/Firm Level Analysis - LLL Model**

Mathews (2006), for example, explored the efficacy of the linkage, leverage, and learning (LLL) framework to explain the success of latecomer and newcomer firms from developing countries. The LLL paradigm encompasses the *linking* advantages with external parties, for example networking, the *leveraging* that relates to the ways that links are or can be established in order to leverage resources, for example knowledge, and the *learning* by repeating the linkage and leverage processes that will inevitably help firms perform more efficiently, by having knowledge and networks. Recent research by Hertenstein, Sutherland and Anderson (2015) showed that existing network ties was a catalyst for rapid internationalization, and this became more useful if these network ties had been involved in FDI and had access to networks within a global value chain. In addition, Kotabe and Kothari (2016) find that organizational learning and knowledge is important for sustained competitive advantage for EMFs. The above research indicates that there is a role for networks in EMFs' internationalization.

In the next section, we extrapolate on our method to examine four different case studies and which theories are relevant for their internationalization. Rui and Yip (2008), using China as a case study, realized that there were four distinctive groups of firms. However, the authors did not analyze the differences between the different groups, nor did they verify if they would present different patterns on internationalization. The four groups were: (1) large non-natural resource seeking SOEs, (2) large natural resource seeking SOEs, (3) Private publicly share issuing companies, and (4) unlisted private companies. These four groups will form the focus of our data collection and analysis.

## RESEARCH METHODOLOGY

This study employs a multiple case study approach (Yin 2014) focusing on four different types of firms as suggested by Rui and Yip (2008): (1) large non-natural resource seeking SOEs, (2) large natural resource seeking SOEs, (3) private publicly share issuing companies, and (4) large or small unlisted private companies. We use a case study approach to develop further insights, to gain a more in-depth approach into how the internationalization of these emerging firms occurs, and also to determine whether Western based developed country theories apply to the emerging market context. This approach should assist in advancing our understanding of the internationalization of EMFs and the finer details about how each type of firm embraces their internationalization process, what motivates them, and how this compares with the others. As Ghauri (2004), Ghauri and Grønhaug (2005), and Stake (1995) explained, these methods are appropriate for exploratory research or when the area of research is relatively less known. Lattemann et al. (2017) also encourages scholars to conduct qualitative research to explore these issues.

As articulated by Yin (2014), we employed six methods for collecting data: documentation, archival records, interviews, direct observations, participant observations, and physical artifacts. For interviews, a semi-structured interview protocol was used (Torres de Oliveira and Figueira 2017). All interviews were audio-recorded when authorized; otherwise, notes were taken during the interviews. The number of interviews was determined by the point of theoretical saturation in which subsequent interviews failed to yield significantly unique responses (Eisenhardt 1989, Glaser and Strauss 1967). Interviews at each case firm began with senior managers who drive strategic decision-making for the firms (Hambrick and Mason 1984). We also examined a variety of secondary data including company presentations, articles from newspapers and magazines, company reports, stock market information, and the company website.

Template analysis (King 2012) was employed using computer-assisted qualitative data analysis software (CAQDAS) and NVivo to organize, codify, and triangulate the multiple sources of data (Ghauri 2004). This was necessary to mitigate the potential problem of anecdotalism that qualitative research may occasionally present (Sinkovics and Alfoldi 2012). In addition, given that English language proficiency varied considerably across respondents, a professional translator was used, following the Brislin (1970) translation and back-translation method. During the transcription process, an entirely different professional Chinese translator was used to verify the efficacy and reliability of the interviews. In our research, and since we had a semi-structured interview that was similar to all participants, we could compare a specific subject from different interviews or even from secondary data.

The four firms chosen as case studies for this analysis follows two main considerations: 1) the four classifications from Rui and Yip (2008); and 2) the sector that each company belongs to and the selective policies promoted by the government with the Go Global initiative (Luo, Xue and Han 2010). The firms are summarized in Table 2.

For the SOEs, we first study a large non-natural resource seeking SOE, which we call Firm A. Firm A is among China's oldest and largest state-owned groups composed of more than 100 individual businesses. Firm A has interests in a variety of industries including services, manufacturing, construction, real estate, and banking. This study focused on Firm A's real estate business division only.

Next, we study a large natural resource seeking SOE, which we call Firm B, which has interests in natural resources and energy. Firm B operates in 23 countries, the majority (20) of which are developing.

For the PPSI company, Firm C, we chose Joyson Electronic Corp. (Joyson). Founded in 2004, Joyson is a supplier of electronic automotive components. In April 2011, Joyson acquired a German firm called Preh GmbH. and in January 2016, Joyson acquired the

TechniSat Automotive division from TechniSat Digital GmbH. One month later, Joyson also acquired the American Key Safety Systems Corporation. In 2016, Joyson was expected to produce US $3 billion in revenues, just twelve years after it was founded. We classified this company as privately owned, but it has been listed in the Shanghai Stock-Exchange since December 2011.

For the private company, Firm D, we chose Zhejiang Everyflourish Electrical Co., Ltd. Firm D is a Ningbo, Zhejiang-based privately-owned Chinese owned firm that is one of the world leaders in the manufacturing of electronic timers, LEDs, switches, and sockets. The company has distribution and sales teams in 25 countries and operates offices in 3 countries.

***Insert Table 2 around here***

For the interview portion of this study, we interviewed twenty-nine senior managers, owners, and CEOs at Everflourish and Joyson, and ten senior managers from Firms A and B. All interviewees were engaged in the development of strategy and strategic decision-making. The first and second collection of interviews took place in China during October and November of 2013 and July of 2014, respectively; the third collection occurred in Germany in November of 2014; and a final collection occurred in March of 2015, both face-to-face in China and virtually through Skype. As a follow-up, we also conducted a fifth and sixth collection of interviews in China in April and May of 2015 and May of 2017, respectively, to address outstanding questions and confirm the analysis of information. The collection of secondary data occurred between November of 2013 and May of 2017.

As we only investigated four case study organizations, we argue that this is not generalizable to the population of Chinese firms who internationalize; however, we do argue that our results display analytical generalization (Yin 2014) where our results can be compared and generalized against theories in the area. The next section presents the findings of our research.

**FINDINGS**

Table 3 provides an overview of how the EMFs internationalized and the theories that explained their behaviors.

****** Insert Table 3 around here ******

**State owned enterprises (SOEs)**

SOEs are arguably more strategically important in emerging markets than in developed countries. For example, the top ten best performing MNEs in China are all SOEs (Morck, Yeung and Zhoa 2008).[3] Most senior managers at Chinese SOEs are appointed by the Chinese Government or Chinese Communist Party, who often use their firms' international investments to demonstrate their management skills and accomplishments (Song, Yang and Zhang 2011). The senior managers at both Firm A and Firm B confirmed this during our interviews. As an example:

> *Today I am here, but do not ask me where I will be in one year because I do not know the answer. There is this huge competition among public managers that make us fight to be in international positions, so as not be overpassed.* (Senior Manager, Firm A)

However, the pressure among public officials is not translated into the maximization of profit for firms. It was found that many SOE managers did not face the same performance pressures as managers in growing private enterprises. This finding is similar to Song, Yang and Zhang (2011) work, who found that SOE managers behave in such way because they are rewarded based on a mix of governmental, economic, and political considerations which

[3] Please refer to Yang, Jiang, et al. (2009) for a more thoughtful discussion on this matter.

maximize their personal interest and utility. Moreover, financial losses are often subsidized by the government (Globerman and Shapiro 2009), and institutional bribery and corruption is widespread (Song, Yang and Zhang 2011). Finally, senior managers at many Chinese SOEs may boost their compensation by positioning themselves as international managers. As one senior SOE manager stated:

> *For sure it is important the fact that I am a Senior Manager of a multinational firm that is living abroad. Not many can say that and this is an advantage…* (Senior Manager, Firm B)

As a result, many Chinese SOEs face little pressure to maximize value or performance (Globerman and Shapiro 2009), and the incentive to innovate or improve efficiency is minimal (Song, Yang and Zhang 2011). In addition to the advantages discussed above, many of China's SOEs often enjoy other benefits including better access to private and public equity, protection from Chinese authorities (Child and Rodrigues 2005b), better quality information about investment opportunities, superior training opportunities (Rios-Morales and Brennan 2010), government supported regulations (Song, Yang and Zhang 2011), a more efficient application process and domestic tax breaks, and direct and indirect government subsidies (Yiu 2011).

Despite these advantages, government and bureaucratic influence and involvement with Chinese SOEs also creates constraints and limitations in terms of development, strength, and orientation when these firms internationalize (Buckley et al. 2007). For example, the decision process is often very lengthy because approval is required by many agencies at various levels (Luo, Xue and Han 2010). In addition, many SOEs make international investment decisions based on government objectives rather than on commercial viability and market orientation (Yang, Lim, et al. 2009). Many of these investments should therefore be '*viewed as institutionally mediated interactions between different nation-states that extend*

*beyond profit motive and economic efficiency'* (Yeung and Liu 2008, p. 58). As a result, managers are encouraged or required to have a different set of management skills and abide by an alternative set of performance standards (Yang, Lim, et al. 2009).

***Firm A: Non-natural Resource Seeking SOEs***

Our research suggests that Firm A, a non-natural resource seeking Chinese SOE, was focused on competitiveness, efficiency, and value in order to become globally competitive. Our discussions with the managers of Firm A suggested that being a Chinese SOE has important advantages such as providing easy access to cheap capital and privileged contacts, as well as production and distribution advantages. This demonstrates that being a SOE allows access to resources that were rare, un-imitable, valuable, and non-substitutable (Barney 1991), meaning that these SOEs could gain advantages that private firms could not get access to. However, having the state back them was not always an advantage, as the following demonstrates:

> *Being associated with the Chinese state has advantages and disadvantages. We have a privilege relation with the banks… we can have (internal) approvals fast. I can use the embassies and some emigrants to work for me because I am the state. I can get privilege information's from our (Chinese) government. If I need very cleaver people or other type of resources I am in a better position. But all that is here in China. As I said, particularly in big acquisitions, the local (host) states can ask us much more questions and create problems when compared with other non-state firms. We have many advantages but we are sometimes penalized, and that is unfair because we just want to do business.* (Senior Manager, Firm A)

As a result, CSAs may not translate into advantages in a foreign country, where SOEs face skepticism as an international player and where the SOE faces the liabilities of

foreignness (Zaheer 1995). This has also been identified by Lattemann et al. (2017). Furthermore, managers and government officials in target countries often deal with Chinese SOE managers as if they are government officials rather than as managers of profit-oriented enterprises. This leads us to consider these types of firms as having strong institutional influences, which is supportive, but also a constraint. As one manager reported:

> *They think that we are the Chinese government. I understand such thinking and I know that this exists in other SOEs, but this is not our case and is very unfair to treat all on the same way. We want to become a truly global firm and we fight everyday…* (Senior Manager, Firm A)

This demonstrates evidence that being a SOE can cause perception problems in international markets where the role and existence of SOEs is low, suggesting a cultural gap between home and host countries. In terms of motivations, the primary objective of most Chinese non-natural resource seeking firms is to expand markets, acquire soft skills, enhance managerial competency, attract human capital, and expand brand recognition. Furthermore, they seek to create or develop technology centers in places where they trust in the rule-of-law, and, with that, leverage a high level of internal recognition:

> *We do not internationalize because we do not have a good market in China. We do have. But we recognize that we lack on other managerial skills, such as marketing for example. The managerial skills of developed countries human resources are as well usually better than the ones we can find in China, and this is particular important for managing foreign subsidiaries. We still do not have the tradition of have international managers.* (Senior Manager, Firm A)

This suggests that this SOE lacks the international managerial skills and experience that developed country MNEs have. In terms of industry, this firm is diversified, and the

industrial constraints are dependent on which companies we are referring to, but it was reported as usually strong since they entered into markets that present strong competitors. Unlike natural resource- seeking Chinese SOEs, non-natural resource seeking firms tend to be profit-seeking and generally employ an OLI framework and strategic-asset seeking strategies. The different representatives of this firm believed that because they were a large, highly recognizable Chinese firm, possessing strong financial capabilities and a good brand name in China, this would make them successful in foreign markets, which can be referred to as their ownership advantages. They also believed that if they can be successful in a low institutionalized market, such as China, then they will be well prepared to navigate in more institutionalized markets. In terms of location advantages, these firms were setting up business in countries that had specific resources they needed, and they were market seeking. From an internalization perspective, they believed that it was important to "control their subsidiaries," which was namely due to path dependent reasons. From the interviews and analysis of the different investments pursued by Firm A, we concluded that they prefer an entry strategy of mergers and acquisitions (M&A), and when this strategy is not possible or too costly, the joint venture (JV) strategy is often used. This suggests that internalization of operations is the preference, however when this cannot be done, a JV will suffice. The strategy is focused on innovation, efficiency, and performance. Their ultimate goal is to become global leaders in their industry. The results lead us to the conclusion that Dunning (1980), Dunning (1988) OLI framework is explanatory for this firm's internationalization. This leads us to the following propositions:

> ***Proposition 1a.*** *Non-natural resource seeking Chinese SOEs will be more likely to use its brand name/reptuation to build success in international markets.*

***Proposition 1b.*** *Non-natural resource seeking Chinese SOEs will more likely choose locations that have resources, skills, and markets that it needs.*

***Proposition 1c.*** *Non-natural resource seeking Chinese SOEs will more likely use M&A and JVs as their preferred entry strategy.*

***Firm B: Natural Resource-Seeking SOEs***

China's state-sponsored natural resource seeking investment activities have expanded significantly in recent years, primarily as a response to rapidly increasing internal demand driven by China's significant economic growth and expansion (Deng 2004), which requires cheap and easy access to abundant natural resources (Ramasamy, Yeung and Laforet 2012). Government involvement in natural resource oriented investments is important in China for two main reasons. First, many natural resource investments are located in developing countries characterized by a weak institutional environment that often requires significant official government involvement or influence. As discussed by Buckley et al. (2007), a considerable amount of Chinese investment has been directed towards countries with high political risk levels, poor institutions, and high levels of natural resources. Many of these investments are in Africa (ICRG 2012, World Bank Development Indicators 2012) where Chinese investments are associated with a high level of corruption (Cheung et al. 2012, Kolstad and Wiig 2011, 2012).

Secondly, natural resource industries are characterized globally by high levels of government control. For example, throughout Africa, corruption is rampant, and government officials frequently control the most profitable industries (Transparency International 2014). In Angola, for instance, the central government directly controls most of the natural resource firms including Sonangol, a state-owned oil company, and Endiama, a state-owned diamond

mining firm. In countries like Angola, natural resource seeking Chinese SOEs thrive as they exploit glaring institutional efficiencies (Child and Rodrigues 2005b) and leverage their understanding of personal relationships and the importance of "*guanxi*." Our research on Firm B supports this view with Firm B's managers indicating that the primary motivation is not focused on profit but rather to insure a regular and efficient supply of resources to China:

> *I'm not worried with profits. I'm worried with controlling the costs and increase the reserves of my country. The profits is (sic) for the Chinese people and to Chinese firms.* (Senior Manager, Firm B)

From an industry perspective, it was clear that the firm was dealing with strong pressures. The firms' industry is globally dominated by a small group of large transnational corporations, such as Firm B, that are frequently competing for scare available resources. Regarding a market entry strategy, the managers of Firm B stated that M&A or greenfield strategies were preferred, in which majority control remains in Chinese hands:

> *For us we would prefer to start from scratch even because in the majority of the times the existing conditions and companies are messy. However, many times for time reasons or political reasons we are incentivized to acquire local firms. (*Senior Manager, Firm B)

This suggests that the choice is to internalize their operations, rather than use external markets. In sum, Chinese natural resource-seeking firms engaging in OFDI are not profit-oriented because their main objective is to ensure that China has sufficient resources needed to accomplish its internal objectives. The resource-based view (RBV) (Barney 1991) may explain this firm's behavior, as the strong resources given by the Chinese government may assist and give advantages in their internationalization:

*For us, being 'the government' (of China) is very advantageous. We only make business with developing countries so being from the Chinese government can open all the doors that I need to make the deal. I can talk directly with the President of the country if it is necessary. That will help decision making in the end of the day. Who has this kind of power?* (Senior Manager, Firm B)

Based on the above results, we develop Proposition 2:

***Proposition 2:*** *Chinese SOEs that are natural resource-seeking firms are more likely to secure natural resources through greenfield and M&A, and are less likely to be profit orientated.*

**Non-State-Owned Firms**

Chinese SOEs and private firms follow their own internationalization patterns and paradigms (Hehui and Yingyi 1998). Sutherland and Ning (2011, 53) interviewed the Wuxi PharmaTech firm and noted that '*privately-owned firms do not receive the same level of advice and assistance (in internationalization process) from domestic (Chinese) institutions as do SOEs*.' Our research also suggests that there are significant differences in institutional support between private and state-owned firms.

***Private Share Issuing firms (PPSI)***

Due to institutional constraints, PPSI firms are different from SOEs and other private firms that are not publicly listed. In China, private firms can pursue public listing on one of the Chinese stock exchanges (Shanghai or Shenzhen) or on the Hong Kong exchange. Public listing provides visibility and prestige, which provides an important source of "*guanxi*" (Liu and Roos 2004). As a result, PPSI firms have the ability to recruit and retain superior management talent and have far greater access to capital than their non-publicly listed

counterparts. In addition, publicly listed firms have access to services and support not available to their private counterparts (Liu and Li 2002). As highlighted by Joyson's Chairman and CFO in separate statements (Firm C):

> *For sure that we enjoyed the government and banks support, otherwise we weren't able to internationalize…Yes, we had privileged financial conditions to purchase Preh.*

As another Joyson board member stated:

> *Our entrance in the stock market as a listed firm changed our firm. Stakeholders and officials now look at us differently. It was not only a question of equity but specially a question of image that in China is very, very important.*

It was interesting to learn that this firm is still dependent on local and central institutions, as in the case of the OFDI approvals process that is more stringent as compared to that of non-listed firms. In terms of industry pressures, we verified that the automotive industry pressures highly influenced the strategic decision process of the firm, but this might change depending on the industry involved.

In terms of OFDI, our research suggests that Chinese publicly listed firms internationalize to acquire resources that would take much longer to develop internally:

> *We have our own advantages: we have capital and we have an internal huge market that no one better than us know how to operate … We couldn't have other strategy than an M&A since we needed their internal resources that we were lacking.* (CEO, Joyson, Firm C)

The LLL framework fits quite well for Firm C's case in the sense that the firm is focused on acquiring resources that it does not hold externally while leveraging its own

resources with the acquired resources to become more competitive. There were physical observations of internal improvements of Firm C, namely due to the acquisitions with the German firm.

This leads us to Proposition 3:

> ***Proposition 3a: P****PSI firms are more likely to rely on institutional support to become global companies when compared with private firms.*

> ***Proposition 3b:*** *PPSI companies are more likely to use M&As and, occasionally, JVs; they will use their internal strategic assets to leverage their internationalization, and they follow asset and market-seeking strategies.*

***Unlisted private firms***

Chinese unlisted private firms have many reasons to internationalize. Some private firms choose to pursue OFDI in order to avoid government constraints or protectionism (Boisot and Meyer 2008). Other reasons include a lack of available specialized human resources, a lack of innovative spirit and environment, high transportation costs, and lack of legal protection of intellectual property. Unlisted private Chinese firms are particularly focused on acquiring technology, realizing operating efficiencies, acquiring brands, and developing market channels.

> *What we lack the most is related with research & development capabilities, sales channels, and marketing. This is why we felt the necessity to go abroad.* (CEO, Everflourish, Firm D)

For unlisted Chinese private firms, home country network linkages are critical (Yiu, Lau and Bruton 2007). Our research suggests that this firm is attracted to host countries with cultural proximity to China, as well as countries with high levels of exports from China.

The CEO and CFO of Everflourish did comment on the use of personal networks to assist with internationalization, as the following quotations specify:

> *Why did I go to Germany? Because of a friend that started to do business there and then moved there. The same with the U.S. It is very important to have people that understand the way you think. And do not forget that my English is not perfect, special (sic) with more specific terms (laughs).* (CEO, Everflourish, Firm D)

> *There are many things that we do not know about foreign markets. We need to be very careful in financial terms since these expansions can create problems in our overall structure. So we need to have someone in the country where we will invest to help us and to whom we can trust.* (CFO, Everfloursih, Firm D)

Moreover, the entry mode is usually gradual. The natural strategy for such companies in terms of OFDI is incremental in order to reduce risk. Firm D was clearly a market seeker:

> *We started many years ago with only sales and with very small foreigner offices in the places to where we were exporting. Then we have been growing using such platforms.* (CEO, Everflourish, Firm D)

In contrast to PPSI firms, unlisted private firms often find obtaining access to institutional capital markets difficult[4] (Liu and Li 2002). Fortunately, because of the high rate

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[4] Financial regulated enterprises that in the Chinese case are all the commercial banks.

savings of firms and population, access to capital in China through informal 'shadow-banking' channels is widely available:

> *In the beginning we could not rely on any bank loans. They are not open to talk with firms as ours … but we had other ways.* (CEO, Everflourish, Firm D)

The findings demonstrate that this firm continued to utilize an incremental approach as a strategy in order to reduce their risks and at the same time had the support, which was leverage, from the host country's network and acquired firms. This leads to the following propositions:

> ***Proposition 4a.*** *Unlisted private firms are more likely to rely on their network and Chinese diaspora to develop international ventures and are less likely to rely on Chinese institutions.*

> ***Proposition 4b:*** *Unlisted private firms are more likely to follow an incremental approach and be market seeking.*

Having now presented the findings, we will discuss these in the next section, along with a presentation of a conceptual framework.

## DISCUSSION AND CONCEPTUAL FRAMEWORK

The article has two research questions, which include 1) "How do emerging market firms internationalize?" and 2) "How well do theories that were established for the internationalization of firms from developed countries explain the internationalization of emerging market firms?" We used four case studies of firms who internationalized from China to answer these research questions. To answer the first question, it was apparent that

the role of government was highly important in providing resources to the firms that were SOEs, and as a result, the government gave advantages to these firms in their internationalization. However, once the SOE reached host markets, this (government) advantage turned into a disadvantage, as host country nationals (HCNs) grappled with the existence of SOEs operating as international businesses. HCNs neither understood nor trusted it. Based on the findings of this research, we coin two terms: 1) the "bureaucratic approach to internationalization," which signifies the internationalization of these SOEs, and 2) the "liability of bureaucracy," where being a SOE can make it difficult for the firm to obtain legitimacy in the host market.

Interestingly, the internationalization of the private firms varied between SOEs and the PPSI and/or unlisted private firms. The main variation point was the diminishing role and support of the Chinese government, with the increasing role and support of the firm's own networks. So whilst the firms did not gain as much advantage by having copious amounts of government support or resources, they did not have to face the "liability of bureaucracy" that SOEs faced.  We represent this relationship in the following two-by-two matrix (Figure 1), which demonstrates that as government support diminishes, the role of networks increase.

****** Insert Figure 1 around here ******

To answer the second research question, "How well do theories that were established for the internationalization of firms from developed countries explain the internationalization of emerging market firms?," our overall finding is that the theories and frameworks are appropriate, but dependent on the firm's ownership, which links us to the role of governments, as discussed in relation to research question 1.

To summarize and present our theory of EMF internationalization, Table 3 indicates that for the non-resource seeking firm (Firm A), Dunning's eclectic theory, OLI (1980, 1988), assisted in explaining this firm's behaviors. This firm possessed specific ownership advantages, and it went to external markets due to the specific local attractiveness which they exploited through the control of subsidiaries. Although, we did highlight that being a Chinese SOE could pose a disadvantage in international markets where government-run firms were not well accepted or understood by HCNs.

****** Insert Table 3 around here ******

Table 3 also indicates the role of the RBV of the firm (Barney 1991, Wernerfelt 1984) in explaining the internationalization of the Chinese resource-seeking SOE (Firm B), as the government support gave this firm access to resources that were valuable, rare, non-imitable, and non-substitutable which the firm could use to create competitive advantages in foreign markets. Firm C, the Pfirm, demonstrated elements of a LLL framework, as the focus of the firm was to acquire externally based resources that the firm did not hold. Furthermore, it leverages their own resources, and it acquired firms in international markets as a way to gain a competitive advantage. Finally, Firm D, the private company, demonstrated a LLL framework (Mathews 2006) as they relied on their networks in the internationalization process, and their internationalization took an incremental approach, as explained in part by the Johanson and Vahlne (1977) stages model. We now present directions for future research and conclusions.

## DIRECTIONS FOR FUTURE RESEARCH

To extend theory in this area, and given this preliminary case study research, we believe that there are many ways for future researchers to build on this research. First,

researchers could use our two-by-two matrix model to investigate the internationalization of these firms, i.e., does government support versus networks vary in a large population of SOEs (resource seeking and non-resource seeking), and PPSI and private firms. Since we are still in the infancy of emerging market firms' internationalization, researchers could keep focusing on utilizing qualitative research to develop a deeper understanding of these firms' strategies. However, to develop more conclusive evidence about the relationships between variables, researchers could test our model using a quantitative approach. In this study, our main assumption was that ownership structure influenced internationalization, hence our classification of four firm types; however, there are many other variables that influence this relationship. Other variables could include industry, firm size, the types of resources that the firms have, and whether they are innovative or have an entrepreneurial orientation, and this investigation could assist in understanding the unique capabilities that emerging country firms have. We also believe that a contingency approach to Chinese firm internationalization could hold merits for future researchers to consider. For example, these contingencies would not only take into account the company's ownership, but also the degree of state control of the industry, the Chinese business system and how it compares to a host country's business system, and externalities such as economic conditions during the time of research, for example the 2008 to 2009 global recession. In addition, relating these models to performance may also highlight whether following a particular way of internationalizing is in fact successful for a firm. Finally, this research can and should be tested in other country contexts, for example, developing economy countries such as India, Russia, and Brazil could be examined to determine whether the matrix and propositions developed in this research also apply to these contexts.

## CONCLUSIONS

Our research confirms the existence of four unique clusters characterized by different behaviors, objectives, motivations, ownership structures, and issues in internationalization. These include non-natural resource seeking SOEs, natural resource seeking SOEs, PPSI firms, and unlisted private firms. Moreover, each of these groups consists of two clusters, resulting in four different and non-homogenous types of firms. These clusters possess major differences, and as such, a singular theory for explaining their approaches to internationalization would not be appropriate. These results come in accordance with Liang, Lu and Wang (2012) who demonstrate that the LLL theory applies to MNEs, but not SOEs. However, our research goes further by explaining that even within the previous clusters, differences exist. As a result, we find that each of the EMFs in the different clusters internationalize in different ways. We also make a range of propositions about how each of these EMFs internationalize. We believe the findings are also useful for managers. Depending on the type of EMF they are, based on the two-by-two matrix, and the propositions developed, these firms will have a better understanding of how they might internationalize and the paths they can follow to successfully internationalize.

Therefore, to treat all Chinese OFDI as equal would be a mistake. In the future, Chinese OFDI might possibly follow a unique theoretical approach, as we can observe in developed countries' firms, but it currently flows with its own particular patterns and multiplicity of theories since four very different clusters can be observed. Using four cases of internationalization from China, we can now understand that the country's institutional environment is unique and profoundly influences the characteristics that shape its firms' OFDI with alternative ownership structures. For example, the institutional environment may influence the resources that the firm has available to it and how host country nationals may perceive of the firm. We also find that, depending on the ownership structure of the EMF,

there was varying use of government support versus networks. Moreover, we found that SOEs were more reliant on government support when compared with PPSI and unlisted private firms that were more reliant on networks.

This article has limitations. The fact that we only analyzed one firm in each cluster and in one unique market is the article's important limitation, but this must be seen as a first step since this is a preliminary study on a long-term research project that will continue to analyze a larger group in each cluster and a larger number of emerging countries to confirm the results presented here. In addition, in this study we only sort analytical generalization (Yin 2014), and future studies should seek statistical generalization.

Finally, emerging market firms' OFDI is not only a management discussion, but also an economic and political one. This discussion affects not only emerging markets, but the host countries as well. Since some of the emerging market firms' OFDI entails managerial and planning deficits that in some cases are allied with cheap and easy money from home, developed countries need to verify whether such investments will destroy, rather than create, value in the society. Such discussion is novel and pertinent, but must be made by academics and supported with data; otherwise, the data can easily be misleading and based on personal, cultural, or political preconceptions. Having a better understanding of this will assist EMFs in knowing whether their internationalization is important for society, both in their home and host countries.

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