

How do dynamic capabilities and institutions
influence the post internationalisation performance
of Chinese State-Owned Firms?

Lan Gao

Xiaohui Liu

Huan Zou

Business School, Loughborough University

Lisen Tu

CITIC Securities Co., Ltd.

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PhD student (4th Year): Lan Gao

Supervisors: Prof. Xiaohui Liu; Dr. Huan Zou

Business School, Loughborough University

1 Introduction

International operations are highly uncertain (Shenkar, 2001) and subject to risks and failures (Bausch and Krist, 2007). Despite the attraction of internationalisation, the performance of companies who invest overseas, through no matter M&A transactions, joint ventures or green-field, has been rather disappointing. In a study of 1,700 companies in the USA, Europe and Japan, Harding and Rovit (2004) quote a failure rate of 70 percent of M&As. Similar studies of joint venture failure suggest that they are highly unstable as well, in that almost a quarter are terminated within the first three years (Kogut, 1988). An estimated 37-70% of international joint ventures are reported to suffer from performance problems leading to costly failures (Cullen, 2002; Fedor and Werther, 1995; Parkhe, 1991). Although green field investments normally outperform the joint venture mode, which performs better than the acquisition mode (Li and Guisinger, 1991, Woodcock *et al.*, 1994), they are also accompanied by high risks thanks to the large initial investments required.

In light of the growing number of FDI projects and the rather high rate of foreign entry failure, academics and managers have become extremely interested in understanding the factors that affect the post internationalisation performance. However, despite a large number of studies that have examined the internationalisation performance, there is no consensus on the factors determining internationalisation success. Previous studies on internationalisation success fall into two groups. The first group has examined internal factors, such as resources, capabilities and firm specific factors (e.g. Bruton *et al.*, 1994; Chatterjee *et al.*, 1992; Datta, 1991; Krishnan *et al.*, 1997; Uhlenbruck, 2004). The studies in the second group have investigated the role of external factors, such as host country specific factors and institutional factors (e.g. Luo, 2003; Demirbag *et al.*, 2007).

Differing from the previous studies, this paper takes the first step toward investigating the effect of dynamic capabilities and institutions on the post internationalisation performance of MNEs from emerging markets, Chinese SOEs, and provides new insights into the factors leading to overseas success.

Chinese SOEs provide an existing opportunity to examine how internal factors and institutions jointly affect internationalisation performance. The SOEs dominates China's OFDI, as their average investment size is much larger than that of enterprises of other ownership types (OECD, 2008). By the end of 2008, SOEs contributed 69.6% of Chinese OFDI stock. Among the 40 largest Chinese companies by OFDI stock, 37 are SOEs (MOC, 2009). The services sector has attracted the largest sectoral share of China's OFDI, followed by the primary and manufacturing sectors (China Statistic Yearbook, 2009; OECD, 2008). Therefore, it is important to study the performance of the SOEs' internationalisation in order to enhance the understanding of Chinese OFDI activities and shed light on the theoretical development of OFDI from emerging economies, which has not been adequately studied.

During the thirty years economic reform, many medium and small SOEs have been privatised and transformed. However, SOEs in some fundamental industries and sectors have been preserved, and developed into giant enterprises through merging and restructuring. These SOEs are supervised (directly or indirectly) and regulated by the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council. Many of these SOEs were previously government institutions before becoming enterprises. Therefore, they inherit many characteristics from their ancestors, the government institutions, such as bureaucracy and high power distance. Since these SOEs are supervised by the government, or even certain form of extension of some government department, they provide a perfect sample to study the influence of government institutions on firms' performance because the SOEs will be the first group of firms to response to government's regulations thanks to the close relationship.

2 Theory Development and Conceptual Framework

In order to capture the influence of both internal and external factors, a combined perspective of dynamic capability theory and institution-based view has been chosen as the theoretical framework in this study, since an integrated approach that brings together various theories may be more fruitful

in explaining firms strategic decisions in a changing environment (Wright *et al.*, 2005).

Although many factors have been identified influencing firms' post internationalisation performance, the mechanisms by which they affect the performance remain mystery. Therefore, dynamic capability theory provides a flexible framework for capturing firms' capabilities to response to a changing environment in order to create and/or sustain competitive advantages. Meanwhile, institution-based view sheds light on how firms are influenced by their remote environment.

2.1 Internal Factors

Dynamic capability theory was developed with respect to “assisting in the understanding of how and why certain firms build competitive advantage in regimes of rapid change (Teece *et al.*, 1997)”. Although dynamic capability has been defined by different researchers using different wordings, these definitions share some common characteristics. Dynamic capability has been considered as the “ability” to “generate or modify the operating or strategic routines” in order to more effectively “configure resources” in response to “a rapidly or slowly changing environment” with the aim of “achieving a sustained competitive advantage” (Eisenhardt and Martin, 2000; Teece *et al.*, 1997; Zollo and Winter, 2002). It is concerned with how firms create and/or access new knowledge, make investment choices, sense and seize new opportunities, and achieve necessary business model and organisational transformation (Augier and Teece, 2009). In this study, a resource perspective has been adopted to identify dynamic capabilities as dynamic capability framework is considered as an extension of RBV.

Eisenhardt and Martin (2000) identify three categories of dynamic capabilities, namely, integration of resources, reconfiguration of resources, and the gain and release of resources. However, this classification ignores the difference between different types of resources. We argue that firms deal with internal resources and external resources by different routines. Internal resources can be allocated, reallocated and coordinated within the firm. However, external resources need to be identified, accessed or acquired first in order to be

brought into the firm. Therefore, in order to emphasize the different types of resources, incorporate competence and opportunity perspectives, take consideration of factors identified in previous studies to achieve a more comprehensive approach, in this study, dynamic capabilities has been disaggregated into four categories: internal resource (re-)allocation, external sourcing, coordination and integration, and managerial mindset.

2.1.1 Internal Resources Allocation and Reconfiguration

How firms allocate and re-configure resources according to rapidly changing environments is vital in creating value and minimising cost caused by changes (Amit and Schoemaker, 1993; Teece *et al.*, 1997). Especially when firms invest in foreign markets, new-established subsidiaries have to compete against local rivals who have already built local recognise and reputation, and possessed strong customer, supplier and distributor networks in the local market. This will put the overseas subsidiaries at a vulnerable and competitive disadvantage position. Resource support from the parent company counterbalances the vulnerability, stabilises subsidiary operations, and increases a subsidiary's competitive advantages in local market (Luo, 2003). Therefore, parental resource support is essential in overseas subsidiaries' success in local markets.

Besides initial resource investment, firms need to upgrade and re-configure existing resources and capabilities according to an environment of rapid political, economic and institutional changes in order to survive in the long run, especially in emerging economies (Wright *et al.*, 2005). Managers' flexibility in re-configuring, developing and using resources has been identified as a crucial factor in achieving success in emerging economies (Uhlenbruck *et al.*, 2003). However, high power distance, which is a common characteristic for emerging countries, such as China (Hofstede, 2001), can cause more resource sharing difficulties (Brock, 2005). The capability to overcome all the restrains to allocate existing resources according to a changing environment may well distinguish the successful firms from the unsuccessful ones in emerging markets.

International experience, which has been considered as a key factor in overseas success, can also be allocated to overseas subsidiaries through human resource reconfiguration. Managers with previous international experience can help overseas subsidiaries reduce transaction costs and facilitating the identification and integration of resources (Haspeslagh and Jemison, 1991; Hitt *et al.*, 1998). Experienced managers can apply the knowledge and skills learnt from previous experience to improve overseas subsidiaries' operational efficiency and performance.

2.1.2 External Sourcing

External sourcing, which brings into the firm new resources which are unavailable internally, such as alliance and acquisition routines, has been identified as a key dynamic capability which may drive superior performance and growth (Eisenhardt and Martin, 2000; Jarillo, 1989; Teece *et al.*, 1997). The integration of the external environment, including activities and technologies, has become increasingly important in creating strategic advantage (Teece *et al.*, 1997). Therefore, the ability of identifying and accessing valuable external resources has become a crucial one to achieve competitive advantages.

Different from firm-specific assets, external resources are those which are used by the firm in its pursuit of growth, but over which the firm has or had no direct ownership (Jarillo, 1989), such as networks (e.g. Jarillo, 1989) and market opportunities (e.g. Luo, 2003). External resources need to be identified first. Then, firms may decide to explore the resources directly, such as networks and market opportunities, or acquire and integrate the resources into the firm to convert them into internal resources, such as technologies and human resources.

When entering a foreign market, a firm may not have all the resources and knowledge needed for the local operation, including finance, human resources, and local market knowledge etc. Being able to externally source the resources needed to meet the local market demand is important for overseas subsidiary to survive and integrate in the local market.

2.1.3 Coordination/Integration

This type of dynamic capability refers to the ability of managers/entrepreneurs to coordinate economic activities of various parts of the firm to achieve the synergistic resource combinations of both internal and external resources (Augier and Teece, 2009; Eisenhardt and Martin, 2000). Firms operating in multinational markets rely extensively on intra-firm coordination across business units to achieve corporate performance (Kim and Mauborgne, 1991).

After identifying, accessing and acquiring the external resources, firms need to internalise these resources in order to integrate them with the existing internal resources for enlarging the firms' resource pool. These coordinating capabilities, together with the resource allocating capabilities, shape markets, as much as markets shape firms (Augier and Teece, 2009; Chandler, 1990; Teece, 1993; Simon 1991). Therefore, this type of dynamic capability has two facets. One is the coordination of operations of different parts of the firm based on the internal resource allocation to address the changing environment. The other is the integration of the acquired external resources through external sourcing.

Firms' resources and their uses are dynamic in nature (Volberda, 1996). The 'flexibility in coordinating the use of resources', jointly with 'the inherent flexibility of resources available to the firm', leads to the strategic flexibility (Sanchez, 1995, p.138), which should help firms take advantage of existing and new strategic opportunities to address the continuously changing market conditions (Uhlenbruck *et al.*, 2003).

2.1.4 Managerial mindset

Managerial global mindset, or the cognitive capabilities of key decision-makers, is a critical success factor affecting various organisational outcomes and a key source of long-term competitive advantage (Gupta and Govindarajan, 2002; Levy, 2005; Levy *et al.*, 2007). As Govindarajan and Gupta (1998:2) argue: "success is all in the mindset". Global mindset has been defined by (Levy *et al.*, 2007:244) as "a highly complex cognitive structure characterised by an openness to and articulation of multiple cultural

and strategic realities on both global and local levels, and the cognitive ability to mediate and integrate across this multiplicity”.

As globalisation intensifies, senior managers of MNEs are simultaneously dealing with integrating and coordinating geographically dispersed operations globally (Bartlett and Ghoshal, 1990) and managing inter-organisational relationships with governments, strategic partners, customers and suppliers locally (Rosenzweig and Singh, 1991). The complex task of meeting demand at both global and local level requires senior managers to possess the global mindset including proactiveness on international markets, commitment to internationalisation and an international vision, which have been proven relevant to international performance (Nummela *et al.*, 2004).

However, for managers from emerging markets, they may not have necessarily developed such a positive global mindset thanks to the limited international experience (Nummela *et al.*, 2004). Therefore, the extent to which the managers have developed their cognitive capability to adjust to the changing environment they have to face in the internationalisation is crucial in dealing with the complexity caused by multiple organisational environment, structural indeterminacy and cultural heterogeneity.

2.2 External Factors

The institution-based view has become an increasingly relevant and insightful tool when considering the international strategy and performance of firms in emerging economies (Peng, *et al.*, 2008). Although formal and informal institutions have been featured as “background” conditions in international business researches, the deficiency of this treatment emerges in researches of understanding firms’ strategic behaviour and performance in developed economies (Oliver, 1997), and becomes more striking in researches concerning emerging economies (Child and Tsai, 2005; Chung and Beamish, 2005; Narayanan and Fahey, 2005; Wan, 2005). In previous researches, there has been inadequate consideration given to the unique contexts of the emerging economies (Wan, 2005). The mechanism how institution factors, especially considering both home and host countries, matter in terms of firms’ performance in overseas market is still under-investigated.

2.2.1 Home government support

The characteristics of MNEs' home countries play a role in their performance which is at least as important as the characteristics of the foreign countries that host their operations (McGahan and Victor, 2009). However, how institutional factors and the environmental dynamics in home countries, especially emerging economies, influence domestic firms has been largely overlooked in previous research (Wright *et al.*, 2005).

Emerging countries have different institutional and economic environment, comparing to developed countries (WIR, 2007). Firms from emerging countries have to deal with not only the changing economic environment, but also the changing institutional environment, which can influence firm performance both directly and indirectly (Luo, 2003). The evolution of modern corporate governance in emerging economies is accompanied by the new 'rules of game' set by the government which is also searching their roles and developing monitoring systems according the changing environment (Peng, 2004; Phan, 2001).

The effect of institutional factors on internationalisation strategies and outcomes of post internationalisation of firms from emerging economies is even more serious than those in developed countries, given that government intervention represents an important factor affecting the economic behaviour of Chinese firms, especially SOEs.

2.2.2 Host country institutional environment

Host governments' attitudes towards foreign investment play an essential role in impacting the success of local subsidiaries (Pangarkar and Lim, 2003). Especially in emerging economies, government policies and institutional arrangements have important implications for survival and success of foreign subsidiaries (Chung and Beamish, 2005; Gomes-Casseres, 1990; Hoskisson *et al.*, 2000).

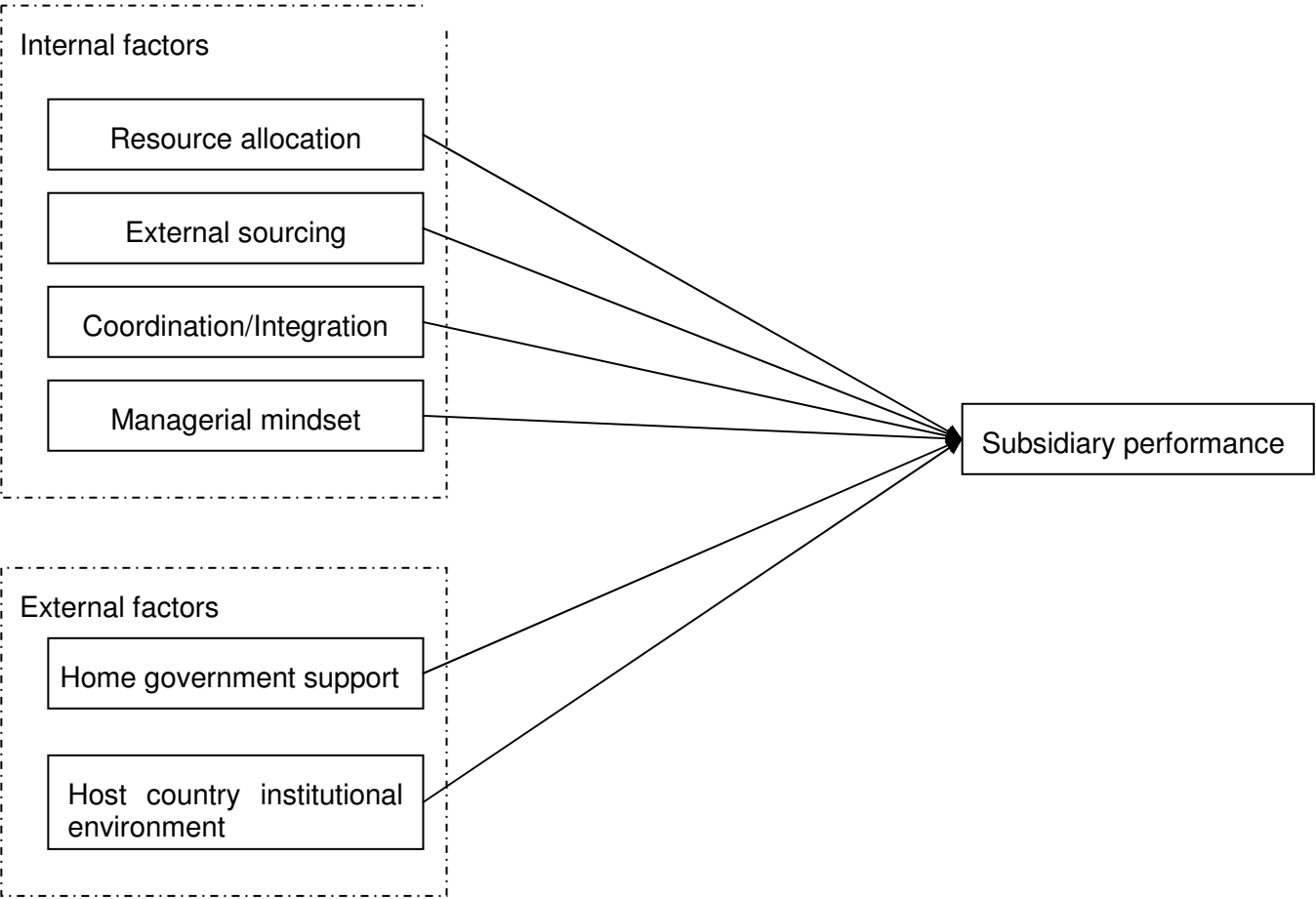
Researchers find that, foreign firms' strategic choices change accordingly when FDI policies change in both host countries and home countries (Hoskisson *et al.*, 2000; Peng, 2002, 2003), which result in a material impact

on subsidiary performance. Firms with the capabilities and corporate strategies appropriate for a specific country environment are more likely to achieve higher levels of performance (Wan, 2005).

Child *et al.* (2003, p. 243) argue that “firms operating under more favourable external circumstances have a better chance of prospering.” Child and Markoczy (1993) find that lower political risk means that firms need to expend fewer resources to counter government-induced discontinuities and hence exhibit better performance.

Based on the discussion above, the proposed theoretical framework is presented in Figure 1.

Figure 1 Conceptual Framework



3 Research Design

The case study method is favoured when 'how' and 'what' questions are asked, when the researchers have little control over events and when the phenomenon under investigation is difficult to study outside its real-life context (Yin, 2003). Due to the descriptive nature of this study and the objective of generating a descriptive model of a phenomenon which is yet to be comprehensively documented, the case study approach is the most appropriate (Yin, 2003). Meanwhile, the limited data availability also leads the researcher to the case study approach. There is no database tracking the factors which influence firms' internationalisation performance at the corporate internal level. The sensitive nature of strategic and personal aspects implies that firms may be reluctant to publish any information regarding their internal operation and strategic problems, and mechanisms applied to overcome them. The complex relationship between Chinese SOEs and their 'supervisor and supporter', the government, may also limit the managers' willingness to publicly give opinions on the influence of the institutional environment on firms' internal operation. Therefore, the case study approach will provide the researchers an opportunity to dig deep into the case in order to gather abundant first hand information to achieve the objective of this study.

Four Chinese SOEs have been chosen for this study. The first is an electronics manufacturing company with overseas manufacture plants in Europe, North America, Asia, Oceania and Africa. The second is a leading telecommunication company with global network and overseas subsidiaries in Asia, Europe and America. The third is a trade company, with 14 overseas subsidiaries, one international trade centre and eight overseas representative offices in Asia, Latin America and Africa; and the fourth is a telecommunication construction company with 11 overseas subsidiaries in Asia, Africa and Europe. Table 1 contains a list of cases studies in this research, followed by detailed description of the four firms.

Table 1 Description of Cases Studied

Case	Industry	Time	of	No. of Overseas
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		Internationalisation	Branches
A	Electronics manufacture	1996	14
B	Telecommunication	2000	5
C	Trade	1994	23
D	Telecommunication Construction	1995	11

Semi-structured interviews were conducted in this study, which gave respondents the freedom to talk and give their opinions and understanding of the phenomenon. This freedom may help researchers to identify the hidden factors to explain the phenomenon in an exploratory study. The authors did not limit the number of respondents in order to maximise the primary data collection and have a more comprehensive understanding of the research questions. The interviewees are either the directors of the international business departments at headquarters, or CEOs of major overseas subsidiaries. Their abundant experience and involvement in Chinese SOEs' internationalisation enable them to provide rich information needed for this study.

All interviews were conducted face to face in mandarin in order to free the interviewees from the language obstacle and generate a comfortable conversation communication. Because of the specific culture of SOEs, interviewees did not agree to be recorded. Therefore, in order to ensure the accuracy of the transcription, two or three researchers participated in each interview with the leading researcher focusing on interview and the rest notes taking. Transcriptions were done shortly after each interview and reviewed by all the researchers who participated in order to guarantee the integrity of the transcriptions. The interview schedule is presented in Table 2.

Table 2 Description of Interview Schedule

Case	Respondent Position	Interview Locations	First Round Interview Date	Second Round Interview Date
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A	Director of Strategy Development Department and Secretary of the Board	Beijing, China Face-to-face Interview	20/3/2008	6/1/2009
B	Director of International Business Department	Beijing, China Face-to-face Interview	21/3/2008	6/1/2009
C	Uganda Subsidiary CEO	Beijing, China Face-to-face Interview	25/3/2008	8/1/2009
D	Director of International Department;	Beijing, China Face-to-face Interview	27/3/2008	8/1/2009

Besides the first hand data collected in the two rounds interview, the secondary data was also used in this study in order to provide more information and details to enrich the analysis. The secondary data used includes existing academic research, websites, press releases, newspaper reports, internal company presentations, and annual year reports. The suitability and validity of all the data used was evaluated, taking into consideration of reliability of the sources and possible existing bias. The advantages of the secondary data include their tendency to be more comprehensive and less subject to memory-based bias. These documents also serve as substitutes for records of activities which cannot be observed directly by researchers (Stake, 1995). This use of multiple sources of evidence creates a more convincing and accurate case study (Yin, 2003). The amount of relevant documents differed by firm.

4 Individual Case Analysis

4.1 Case 1: Firm A

4.1.1 Internal factors

Internal resource allocation

Firm A has been very generous towards overseas operations in terms of resource allocation, including finance, time and human resources. Long-term

knowledge learning about overseas markets has been considered as integrant and necessary, and given high priority by Firm A's management team in Firm A's international investment strategy.

“Local research is related to not only one project, but also the firm's international investment experience and post-entry integration.”

----Interviewee A (2008)

Many senior employees are sent to overseas subsidiaries, not only for research purpose, but also for training purpose. Firm A's regional specialists are all brought up in local markets. Many experienced managers have been sent to overseas subsidiaries in order to “bring Firm A's good ‘genes’ to” overseas subsidiaries.

“We always try to improve human capital structure and allocate specialists to key positions.....the subsidiary CEOs sent by the headquarter must be specialists in both management and accounting.”

----Interviewee A (2008)

Besides allocating resources for the marketing purpose, Firm A has also heavily invested in R&D in order to achieve technology advantage by building innovation centres in different countries. The localised R&D teams have served the local market effectively by meeting specific local customers' need. As a result, Firm A has built its reputation in Europe, Australia and South Africa very quickly.

External sourcing

Besides internal resource supply, Firm A also satisfies overseas subsidiaries' needs through external sourcing, especially when acquiring knowledge of local markets and expertises in international operation.

Besides doing local research by itself, Firm A often acquired local market knowledge using the following two approaches: government agents in the home country and business partners. Firm A often seeks guidance from the Ministry of Commerce and overseas Chinese embassies. Information from

government agents helps Firm A to obtain a clear idea about the macro economic situation of overseas markets, investment policies and political relationships between China and host countries. This kind of information is essential when it comes to evaluate investment risks and prepare the firm for integration.

Firm A has been learning from MNEs from Japan, America and Europe who have accumulated many experiences from previous M&As. A business alliance was formed in order to learn from these mature MNEs and benefit from their existing international networks.

“Firm A built a long-term strategic partnership with one of the world top 500 enterprises and used its channel to penetrate overseas markets.”

----Interviewee A (2008)

Accompanying the external network building, Firm A chases talents in the international human resource market in order to bring in international professional managers to help complete the firm’s internal internationalisation. In order to speed up the internationalisation of the firm, Firm A made some essential moves hiring talents from the international human resource market. A few specialists in international production have been invited to join Firm A. By bringing in the international professional managers, Firm A started its internal internationalisation alongside its international investment. These managers have brought in new perspectives, advanced technology and management knowledge and their international experience, which helped Firm A to strengthen its international competitive capability.

Coordination/Integration

“At early stage of ‘go abroad’, Firm A’s international expansion is project-driven. We paid much attention to project organisation and execution, but ignored marketing research.”

----Interviewee A (2008)

Firm A’s investment department was set up specifically for planning, organising and executing international investments. It was setup as a long-

term mechanism to organise pre-investment research, support investment decision making, execute international investments and supervise post-investment integration. After years' development, the investment department has changed from a pure execution team to strategic international expansion department, in charge of pre- and post-investment coordination. Following the increasing international investment experience and awareness of the importance of marketing research, the investment department started to take the responsibility of coordinating the whole international investment process, including market selection, market research, feasibility review, project initiation, investment execution and post-investment operation support.

After thirteen years of international investment, Firm A has summarised three tests that it needs to pass in post-internationalisation integration. The first test is the internal integration of the representative team from the headquarters. Since Firm A has a strong believe in strictly controlling the human resources and finance of overseas subsidiaries, the representative team normally composes of personnel from different departments or different subsidiaries. Although they are all from China, they do not have much experience of working with each other. The second test is the integration of the representative team and local employees, including language, culture, belief, etc. The different cultural background has increased the difficulty of communication in daily operation. Language barrier made the situation even worse. The representative team and local employees have to be patient and try to understand each other fully in order to make sure the subsidiaries function normally. The third test is the integration of the overseas subsidiaries and the local markets. Firm A operates its overseas subsidiaries and markets its products according to local market environment in order to overcome 'culture shock' and settle in local markets.

"Passing the three tests is the objective requirement of overseas operation success."

---Interviewee A (2008)

Since Firm A has identified the areas that need managerial attention in the integration stage, it has taken various measures to pass the three tests stated

above. First of all, the investment department was setup to coordinate the whole integration process. Second, Firm A has given local research high priority in order to identify problems and provide solutions. Third, Firm A has prepared itself to adjust its organisational culture and management mechanism according to host countries' condition.

Managerial mindset

“Firm A is very market-oriented now. The credit should go to our CEO. He is very open-minded. He has changed the firm with very high market orientation.”

---Interviewee A (2008)

The openness of the CEO initiated the revolution of Firm A's internal internationalisation. In SOEs, without managers' approval and support, the execution of strategies, or even simple daily management and communication, can be delayed and neglected. As the top management team becomes more open towards new perspectives, new management styles and new cultures, the coordination and integration have become easier, even in situations where conflicts are in place, especially in overseas markets.

Since managers have devoted much of their attention to market requirements, it is easy to understand why they strongly emphasise the importance of local market research. This strong emphasis has led to a high priority of market research when it comes to resource allocation. Attention given to resource allocation to internationalisation by top tier managers can significantly accelerate the execution process. Procrastination is eliminated in order to boost the efficiency.

4.1.2 External factors

Unlike the other three firms chosen for this study, Firm A is the only one that is not directly supervised by the central government, but the local government. The pressure from the central government on Firm A is far less than that on other SOEs which are directly under the microscope of the central government.

“In Firm A’s internationalisation, the influence from the government is much smaller than the SOEs supervised by the central government.”

----Interviewee A (2008)

Less attention from the government has created a relatively loose environment which allows Firm A to focus on its business development rather than spend much of its energy dealing with the government.

Firm A has been very cautious in all its international investments, especially those in emerging markets, because of the unstable institutional environment. The technology advantages and sound product quality have given Firm A the confidence to take the dominant position in its international investment negotiation. Firm A always goes ahead steadily and cautiously due to the under-developing character of emerging markets. Firm A normally starts exporting technologies and components and using local brands, followed by taking control of the joint venture and using both local partners’ and Firm A’s own brands. At the end, if Firm A is satisfied with local environment, it would inject capital to take complete control, and in that case, only Firm A’s brand would be used.

“For example, in Egypt, we allow the local partner to use our brand, our technology and our components. This is a test. If the cooperation is able to produce synergies, we will expand the investment at a later stage.”

----Interviewee A (2008)

4.1.3 Summary

Thanks to the open door policy in the white good manufacture industry in China, Firm A has to face the fierce competition with much less or even no government support, especially after the ‘reform and open-door’ policy was set as the fundamental economic strategy of the country. To survive these changes, Firm A has developed into an enterprise with capabilities of resource acquiring and allocation, network building, international management coordination and integration.

Now, Firm A is very confident and proud of its open-minded internal management mechanism, which has led to a more smooth overseas operation. Managers' supportive and positive attitude, towards international investments and the firm's capability development, has certainly boosted the delivery of the firm's dynamic capabilities in the internationalisation of the firm.

4.2 Case 2: Firm B

4.2.1 Internal factors

"We try to improve our competitive capability and management skills, penetrate the market and encourage innovation, in order to become the main provider of information service between China and overseas markets and contribute to the reformation of our firm."

----Interviewee B (2008)

Internal resource allocation

As the one with the shortest international investment history among the four cases, Firm B's resource allocation towards its overseas subsidiaries has been focused on infrastructure development. In the past fifteen years, Firm B invested enormous amount of resources into network building, which provides the infrastructure foundation for its international service operation.

In 2006, Firm B increased investment in international cooperation of international data service, which attracted more international operators to use Firm B's network to provide service to their international customers. This effort results in a large increase in the revenue of the international data service business. In the same year, Firm B built various data ports of its international network in Europe, Asia and North America, which led to the accomplishment of its international network which covered the three most developed regions of internet service.

Overseas subsidiaries make full use of the strong resource support from the parent firm to provide telecommunication services, such as international audio service, international line rent and internet connection and exchange. This

adequate and solid resource support gives overseas subsidiaries the confidence and capability to compete in overseas markets and settle in.

Besides the investment in infrastructure, Firm B also commits itself into the internationalisation by allocating resource towards human capital development, especially in early stages. Certain human capital has been committed to local market information collection, research and networking. By doing so, overseas subsidiaries have become the frontier of market knowledge learning and specialists cultivate centres. However, because of the high uncertainty and risk accompanying international expansion, Firm B is reluctant to allocate senior managers to overseas subsidiaries. Although Firm B possesses a physical cable network which is capable of providing worldwide telecommunication service, the lack of human capital investment has significantly limited the expansion of overseas subsidiaries. At current stage, Firm B's overseas operation is merely supporting domestic customers overseas, rather than explore local customers.

After the breakout of the global financial crisis, although Firm B is still committed to its internationalisation strategy, it has become more cautious about the amount of resources allocated to the overseas investments in order to avoid the risk of capital loss.

“The internationalisation strategy has not been changed. However, for SOEs, the government has clearly defined the requirement of return on capital (ROC). ROC has been raised as a very key indicator, which means that no SOEs can steer clear of the specified indicator.”

----Interviewee B (2009)

External sourcing

Firm B has mainly externally sourced three types of resources in its internationalisation process: the physical cable network, relationship network and expertise who can understand both host markets and Chinese culture.

In terms of physical cable network expansion, Firm B started by cooperating with telecommunication operators in surrounding countries and building more

cross-boarder underground cables, in order to make Firm B the data exchange centre of the Asia-Pacific telecommunication. Meanwhile, by acquiring large capacity and high efficient seabed cable network, Firm B successfully connected its own cable network with North America network. This worldwide network coverage provided solid foundation for overseas subsidiaries to provide high quality 'one-stop' service to their customers.

Firm B has business partners in Asia, North America, South America, Europe and Oceania. Firm B has more than 80 internet business partners and more than 40 international data service business partners globally. The cooperation not only helps Firm B learn about overseas markets, but also become one of the reasons to setup overseas subsidiaries at the first place.

"The central Asia office mainly focuses on becoming the bridge and increasing the cooperation between us and other telecommunication operators in central Asia region."

----Interviewee B (2008)

When establishing overseas subsidiaries, Firm B intended to copy its management system abroad rather than adapt its organisation behaviour according to the overseas markets. Therefore, in order to keep the overseas subsidiaries' organisation behaviour coherent to that of the headquarters, Firm B's overseas subsidiaries prefer hiring employees from local Chinese ethnic group. The common cultural background can reduce communication barriers and develop common understanding. These personnel who understand both Chinese and local culture also help Firm B understand local market customary and overcome the 'culture shock' in the early stage of internationalisation.

Coordination/Integration

Firm B has been struggling with its international operation because of the internal bureaucracy and low efficiency. When Firm B invested in foreign markets with different cultures from its own, the firm encountered significant culture shock. However, instead of being open-minded to readjust its management mechanism according to local markets, Firm B's inflexible

management system and its management team which is lack of international management experience and capability are incapable to respond to the changing environment in an appropriate manner.

“Some Chinese overseas managers cannot even do the most basic daily management because of the changing environment and different culture.”

----Interviewee B (2009)

Although Firm B has been supporting overseas subsidiaries successfully through internal resource allocation and external sourcing, its coordination and integration capability development is still far from satisfaction. Because of lack of overseas management experience and open-minded organisational culture, overseas subsidiaries and offices have difficulty in settling in different cultures, and have struggled with low management efficiency. These struggles have clearly added on managers’ concerns about further international investment. When talking about the possible ‘bargain hunt’ in the economic downturn, Interviewee B has stated that *“even if we hunted bargain, I am not sure whether we have the capability to manage the operation.”*

Managerial mindset

Although Firm B is very committed to international investment in terms of financial capital, it is very conservative towards high level human capital commitment, especially experienced managers.

“We have many concerns about sending managers to overseas representative offices to do the exploration work.”

----Interviewee B (2008)

This is related to the uncertainty avoidance element in its organisational culture. Considering the huge amount of risks and uncertainties accompanying international investments, there is a high possibility that managers, who are sent to overseas, will not be able to create immediate returns. Meanwhile, managers, who are capable of being in charge of the overseas subsidiaries and offices, are normally at a higher level in the organisation’s hierarchy. This short-term un-awarded work can have negative

impact on not only overseas managers' confidence and attitude, but also their future promotion opportunities. Especially in SOEs, where there is a low level tolerance of failure, managers may put their jobs at risk if they cannot improve the finance performance of the subsidiaries.

“SOEs with overseas investment deficit are under huge pressure, especially the managers in charge. Managers start to reflect (on past investments) and become more cautious. This economic downturn will definitely influence future decision making.”

----Interviewee B (2009)

4.2.2 External factors

Home country institutions have also played an important role in Firm B's internationalisation. There are mainly two types of influence from the central government, providing support and guidance and supervising performance, on Firm B's internationalisation.

“We need more instructions and guidance from the central government in terms of the general economy environment.”

----Interviewee B (2009)

Although in 2008, China Export and Import Bank published “The Analysis of Investment Risks by Countries”, which is a very useful reference, Firm B has a very strong preference for more official guidance from the government. One major reason is that managers believe that more guidance from the government, less responsibility they take in performance evaluation at a later stage, because, if overseas investments are successful, managers can argue that their decisions were made based on the guidance from the government. Especially in the post financial crisis stage, SOEs' supervision body, SASAC, is paying more attention to the financial performance of overseas investments.

“The main effect of the financial crisis on internationalisation strategy is that managers become even more cautious.”

----Interviewee B (2009)

Being cautious in a volatile market may not necessarily be a bad thing for a multinational firm. However, this cautiousness has clearly restrained Firm B's development. Because of the high priority given to financial performance, managers start to pay more attention to solely numbers on the balance sheets rather than the all-round capability development of the firm. The evaluation system for managers and the definition of entrepreneurship have been twisted.

Because the career future of managers is based on the evaluation of SASAC, the emphasis of finance performance of SASAC has induced managers to focus on short-term return on capital rather than long-term firm development. This change of focus has significantly added on managers' hesitation on local knowledge learning, which is a long-term project with possible little short-term return.

“The political and career future of the SOEs' managers is directly related to the performance of the firm. Managers will first consider whether they can meet the requirement of finance performance, which focuses more on now than future.”

----Interviewee B (2009)

This complexity of the local institutional environment puts Firm B at a comparatively vulnerable position in the local market. Firm B is forced to do more local research in order to reduce the risk level. From Firm B's point of view, this has not caused too much trouble, considering most Firm B's overseas investments taking place in developed countries. However, it is undeniable that the complex institutional environment in developing countries is causing more difficulties for subsidiaries operating in these countries to achieve overseas investment success.

“The politics, culture and operation environments in emerging markets are very complicated. In order to insure the success of M&A and later operation, we must send representatives to deeply learn about local situation and gather knowledge.”

----Interviewee B (2008)

4.2.3 Summary

After a decade development, Firm B has successfully achieved its first step in internationalisation. Its strong capital and human resources have built the foundation for successful international investments. Firm B also accumulated knowledge about overseas markets through its own research and many types of external sourcing. Although its capabilities of internal resource allocation and external sourcing have enabled Firm B to learn knowledge of overseas markets and settle in local markets, the low coordination and integration capability has set some barriers to achieving further success.

Meanwhile, although Firm B has developed great capability of internal resource allocation and reconfiguration and external sourcing, the change of managerial attitude, due to the change of SASAC's policy, has clearly negatively influenced the extent to which the established dynamic capabilities which contribute to overseas success.

So far, Firm B mainly invests in developed countries where institutional environment is relatively stable and comprehensive. However, subsidiaries and representative offices in developing countries have been influenced by the complex local institutions. As a SOE supervised by SASAC, Firm B can never escape from the influence from the home country institutions. However, this interventionist has restrained the autonomy of Firm B as an enterprise. Although the certain level of government support helps Firm B to learn about the macro and political environments, too much intervention has tied Firm B up from taking any necessary risk in investments in order to seize opportunities and accumulate knowledge.

4.3 Case 3: Firm C

4.3.1 Internal factors

“At early stage, SOEs do not have international experience and international human resource pool, and understand international market by imagination. However, the fact is that SOEs' capability, especially the 'soft capability', is far behind mature international MNEs. Finance resource cannot be compared to the MNEs either.

SOEs do not have any international operation or capital operation experience.”

----Interviewee C (2008)

Internal resource allocation

At the very early stage of its internationalisation, Firm C recognised the importance of the all-round resource support in overseas subsidiaries' survival, including not only finance support, but also human capital investment and autonomous.

“We need to give international investments more support and unveil the mystery of international investment through long-term local research and proactive involvement.”

----Interviewee C (2008)

At the early stage of the development of overseas subsidiaries, Firm C's headquarter provides a great deal of support to representatives, especially the autonomous operation of the overseas subsidiaries. Overseas representatives are not under pressure of generating immediate return, which allows them to adjust to working condition and living environment, and learn about the local culture gradually. Although overseas subsidiaries have their independence in operation and headquarters' support in resource, they are not out of the radar of the headquarters. Firm C strictly controls its overseas subsidiaries' finance management in order to lower the risk of corruption. Accountants are rotated by the headquarter on a regular base. By doing so, the headquarter can have a clear picture of the overseas subsidiaries' finance situation without interference of overseas operation.

Besides the operation independence enjoyed by overseas subsidiaries, Firm C also invests generously in human capital building. Firm C sends a number of senior managers to overseas subsidiaries. This is not a short-term overseas training scheme, but a major part of Firm C's long-term global human capital reserve.

“We give our overseas representatives training about local culture, in order to have our own expertise of local culture. They not only

understand the cultural difference, but also work according to local culture.”

----Interviewee C (2009)

External sourcing

Since Firm C's overseas targets are developing countries and emerging markets, it has competitive advantages in technology, project operation experience and finance capital, compared with local rivals. What is missing in order to achieve success in the local market is that Firm C lacks knowledge about the local market and reputation in local customers. Therefore, Firm C has been cooperating with local firms to acquire necessary local market knowledge in order to understand local situation more quickly and comprehensively. By doing so, Firm C can not only accumulate knowledge about local markets, but also build up its networks in the local markets.

Besides closely working with local firms for knowledge learning, Firm C also recruits local specialists in order to reduce the costs of training firm's own specialists about the local market.

“Overseas subsidiaries should rely more on local employees, and it has been proved to be easier to solve local conflicts through local employees.”

----Interviewee C (2008)

Firm C's African subsidiaries not only bring in local market specialists, but also invite local personages to join the subsidiaries in order to boost the subsidiaries' reputation and recognition in local markets.

“In Africa, Chinese do get some respect for being the investor. However, they show much more respect to local leaders and heroes. It can be more efficient if we can invite these people to join the firm to be managers.”

----Interviewee C (2008)

Coordination/Integration

“SOEs have never separated from the government management mechanism. Even the organisation structure is still the extension of upper government supervision department.”

----Interviewee C (2008)

Firm C has been struggling with its inherent management mechanism throughout the internationalisation process. Thanks to the organisational overlapping and overstaffing, decision making is often a complicated compromising process in order to satisfy many different departments' individual interest. Coordination among departments within the firm has been difficult because few of the departments were willing to compromise or follow other department's lead.

“Sometimes, strategies are set by different departments, which lead to very low management and execution efficiency.”

----Interviewee C (2008)

In the early years of its international investments, Firm C was clinging to its very old management ideology and had very limited coordination capability. Although the firm was a pioneer of SOEs starting internationalisation process, it did not have the capability to coordination operation at the international level. Therefore, this lack of coordination capability is answerable to the extremely low efficiency, which leads to the loss of some very good investment opportunities and unsuccessful overseas operation.

Fortunately, under the pressure of profit generation and future development, Firm C started a revolution starting from the top management team. After conducting long-term local research, summarising the experience of its own and other firms' international investment, Firm C started to improve its management ideology and coordination capability in order to build appropriate organisation structure, make marketable strategies and develop emergency response system. The headquarter has improved its decision making procedure based on the feedbacks from overseas subsidiaries. Although this revolution does not happen overnight, Firm C has already started to see some

positive results, such as improved efficiency and more open-minded organisational culture.

Managerial mindset

Firm C has a very active and positive attitude towards cooperating with local firms in overseas markets in order to gather information and learn about local customs. Although this is a positive sign towards external sourcing, it does not mean all resources acquired externally have been treated appropriately.

In Firm C's culture, there is a very deep belief in '*ZI JI REN*', which means 'one of our own'. This mainly refers to personnel who have been working for the firm for a long time, or who are Chinese at least. Foreigners recruited from the international market will not be considered as '*ZI JI REN*', in other words, not trusted. Therefore, although Firm C relies on local employees to solve certain local issues, they do not get the opportunity to explore their full potential since they are not fully trusted by the firm.

"SOEs believe in and trust 'people' rather than the 'system', which means that SOEs do not have the real trust in foreign professional managers."

----Interviewee C (2008)

As Firm C goes deeper into the international market, more and more top managers start to accept international conventions and become more open-minded. As a result of further internationalisation, foreign employees have been more accepted by the firm since '*we start to realise that international investment does not follow managers' will, and the rules of the game are not set by us (Interviewee C, 2008)*'.

4.3.2 External factors

In the interview, the interviewee C mentioned policies or political relationship 21 times in total. This strong emphasis shows how important institutional environment is in Firm C's internationalisation.

“International political condition is the first compulsory lesson. International political condition is normally the issue that we consider first but do not have a very clear idea about.”

----Interviewee C (2008)

Firm C always tries to follow the central government's policies and win supports of both home and host governments in order to ensure the success of investment and operation. Meanwhile, attention has also been given to the influence from western countries and local influential religions, especially in Muslim countries.

“We must have a very clear idea about host countries' policies in order to do business in local markets.”

----Interviewee C (2008)

A long-term good political relationship between China and host countries helps Firm C to avoid the hostile attitude of local people and the disturbance of host countries, because China may have more influence on these countries' policies thanks to the stable positive relationship.

However, Firm C is aware of some uncontrollable risks linked to host country institutions. So far, Firm C's international investments have all gone to developing countries, mainly in Africa and Asia. For some developing countries, especially in Africa, after the general election, the policy may change from 'for China' to 'against China'. This has added a huge amount of uncertainty to Firm C's investments.

4.3.3 Summary

Firm C has successfully built its ground in the international market, especially in Africa. Firm C has gone through the painful taking-off stage and looked for steady development and expansion in the international market. Firm C has been very generous in its human capital investment, including training its existing employees and employing suitable personnel from overseas markets. Being able to send the right person to the right position, or recruiting the right person for the right position, has helped Firm C to solve management

problems, especially in overseas markets. Now Firm C relies on local employees to solve local problems.

Although Firm C did experience some difficulties in the early stage of its internationalisation because of the low efficiency of coordination, the situation has been improved due to the fast development of coordination capability by going through an internal reformation

Besides pursuing overseas success by developing its dynamic capabilities, Firm C also takes international political condition and government's policies into consideration while pursuing stable development in a market. Good political relationships between host countries and China and stable political environment of the host countries certainly help Firm A to settle in the local markets.

4.4 Case 4: Firm D

“Firm D has achieved initial success in international expansion. Our technology, management style, behaviour and thinking style have all changed. This up-side-down reformation has shaped Firm D's competitive advantages and increased Firm D's international competitive capabilities.”

----Interviewee D (2009)

4.4.1 Internal factors

Internal resource allocation

In terms of internal resource allocation, Firm D has established a successful mechanism within the organisation in order to allocate the appropriate resources to where they are most needed.

Firm D started this system reconstruction by breaking the rules set by the government supervision department, SASAC, in order to give overseas subsidiaries and representatives financial support. As early as in 2003, Firm D broke the expense claim standard of going abroad set by the central government, according to which overseas representatives could not even

afford any accommodation and subsistence. The abandon of this restriction freed all overseas representatives from being restrained by the expense claim standard of going overseas. Therefore, all representatives may focus on the work rather than worrying about filling 'over-standard' expense claim form after coming back.

"The out-of-pocket expense claim standard is reset based on the real situation."

----Interviewee D (2008)

While Firm D is further down the line of internal expansion, the internationalisation process has changed the entire management perspective concerning international business. Previously, international business trips were considered as 'benefits' related to higher level management positions, which took long time to organise and were very costly. Now, international business trips have been down-graded to normal business trips, which means Firm D will respond to the situation as quick as possible, send as few people travelling as possible, and spend as little money as possible. Resources will be allocated to where they are most needed.

"Relevant people hold valid visas all year round. If there is any need, one or two persons will go to the 'frontline' by passing easy application process within the shortest time window. Even if senior managers visit abroad, everything is based on project needs."

----Interviewee D (2008)

Beside the changes of the finance resource allocation system, Firm D has also allocated certain amount of human capital to overseas subsidiaries to support local research in order to gather comprehensive knowledge about local markets.

"We invest certain human capital, material and finance resources into overseas research, pay necessary 'tuition' fee for 'go abroad', and provide support for local research."

----Interviewee D (2008)

Firm D not only allocates resources to overseas subsidiaries knowledge learning and development, but also contributes to local welfare creation. Firm D often gets more involved locally through charity and help with local infrastructure development. These activities have helped the firm to build its reputation and increase publicity.

External sourcing

In the early stage of internationalisation, Firm D experienced many difficulties because of limited understanding of local culture and limited knowledge about local conventions.

“From paying rent deposit to paying government commission according to local convention, no matter how small or big the issue is, it is extremely difficult for the representatives in overseas subsidiaries to work efficiently.”

----Interviewee D (2008)

Besides investing human and finance resources into overseas market research, in order to speed up the knowledge learning process in overseas market, Firm D has been cooperating with local partners, who have strong local background and competitive advantages in the local market. By doing so, Firm D was able to understand local markets better, settle in local markets quicker and share potential operation risks with its local partners.

“We form cooperation relationship based on common interests with local firms, and use their local advantages to penetrate local markets and share risks.”

----Interviewee D (2008)

Local partners can not only help Firm D to gather detailed information about the local market, but also introduce Firm D to the local government and channel operators. All these help Firm D extend its networks. This knowledge learning process generates benefits in both pre- and post-investment stages. After the overseas subsidiary is setup in the host country, local partners are very helpful in understanding local culture, solving conflicts and improving the relationships with the local government and local firms.

Besides cooperating with local firms, Firm D's overseas subsidiaries often employ local people to solve local problems and ease local conflicts. Although representatives from the headquarter are still holding overall control of the overseas subsidiaries, local professional managers are very much welcomed in Firm D's overseas subsidiaries in order to improve the management efficiency.

"We employ some local professional managers in order to manage local employees more effectively and efficiently."

----Interviewee D (2009)

Coordination/Integration

Firm D setup the international department specifically for international projects to coordinate the internationalisation process of the firm. The department's responsibilities include exploring opportunities, executing projects, providing supports to overseas projects and subsidiaries, and monitoring overseas projects' and subsidiaries' performance. By setting up this specialised coordination department, Firm D is able to avoid the frustration and inefficiency which occur when issues related to overseas subsidiaries are bounced among departments and not resolved promptly. The establishment of the international department is also a signal showing that Firm D has preceded from passive response to active planning regarding its internationalisation strategy.

"At the beginning, we were forced to go abroad in order to survive, but, now, we have changed from passive response to the market to actively planning (according to the market environment)."

----Interviewee D (2008)

While Firm D was still in the exploration stage of internationalisation, there were many conflicts between Firm D's representatives and local employees because of working style, culture and management mechanism. After a period time of adapting and compromising, conflicts vanished gradually. This conflict-vanishing progress has taught Firm D a precious lesson in their post internationalisation integration.

“The changing has brought Firm D shocks and changes to organisation culture and our perspectives.”

----Interviewee D (2008)

In one of Firm D's main overseas markets, Africa, although Firm D has technological advantages comparing to its local competitors, it cannot just copy its Chinese management style to the African market because of different culture and development paths. Firm D has learnt to adopt appropriate approaches and strategies according to the local situation by gathering more information about local market and doing local market research.

Firm D has made a great effort to localise their overseas subsidiaries in order to integrate them with local markets. The management team sent by the headquarter is required to operate the subsidiary according to local culture and conventions.

“The local team helps the headquarter and local employees to understand each other better and localise the subsidiary in order to build a solid foundation for the development of the overseas subsidiary..”

----Interviewee D (2008)

Managerial mindset

“The closer headquarter managers' feeling is to the reality, the easier overseas representatives' work is. If top managers only sit in the headquarters and give orders, overseas subsidiaries cannot even survive. First, senior managers have to be pragmatic and have the willingness to do business. Second, managers need to comprehensively understand the real situation. These are the two premises for an enterprise's overseas success.”

----Interviewee D (2009)

Clearly, even when the firm has the resources to support overseas investments and the capability to coordinate overseas operation, it is difficult for overseas subsidiaries to succeed while top managers are not at their side.

SOEs are risk avoiding firms. Before firms set any strategy, managers first concern whether they can take responsibility of the outcome. The outcome, success or failure is related to not only 'face' and reputation, but also the position and job. Therefore, at the beginning stage, Firm D just exported its Chinese style of management to its subsidiaries and was very cautious due to the fear of losing control.

Thanks to a few open-minded managers, such as the ex-CEO of the Wuhan subsidiary (current director of the international department), opportunities have been given to the firm and individuals to explore and expand the overseas markets by the top managers.

"The reformation started in the international department. The involvement of our CEO has influenced the whole firm."

----Interviewee D (2009)

4.4.2 External factors

"Political relationship can affect economic relationship to a large extent. Therefore, we should learn about the political relationships among China, target countries and western countries."

----Interviewee D (2009)

Firm D prefers to invest in countries with the stable political environment because this normally leads to stable investment environment. In these countries, economic development is the focus of the government, which sends out positive messages towards investors. Firm D has been paying attention to local governments' policies and trying to build deep bounding with local governments in order to get more support.

"For example, in Africa, without local government support, projects with the investment over \$10 million are hardly able to succeed."

----Interviewee D (2008)

In order to take full advantage of government support, Firm D invites the local government to join the investment to become shareholders, even if it has enough financial resources. By doing so, on one hand, Firm D can get the

government's attention by taking it on board. On the other hand, Firm D can share the investment risk with the local government, especially in some developing countries where there is a higher level of potential risks.

4.4.3 Summary

Firm D has committed itself to doing whatever is needed in order to compete in the international market. The firm even broke some of the rules set by the SASAC, such as the overseas out-of-pocket expense claim standard. Necessary changes have been made to ensure that resources are allocated to where they are most needed.

Firm D's overseas subsidiaries have opened its door to local professional managers, though these managers have yet reached higher management position in the subsidiaries. This approach and cooperation with local firms have opened up the local markets for Firm D, and helped its network building.

The efficiency achieved by setting up the international department has encouraged Firm D to reform the ideology of the firm. This pragmatic, flexible and supportive internal environment have allowed different management styles to coexist and created space for overseas managers to do whatever is needed to integrate into local markets.

Political relationship between host countries and China is also emphasised by Firm D, because the firm prefers host countries with good political relationship with China in order to obtain more support from host countries' government, especially in developing countries.

5 Cross-case Discussion and Propositions

All four firms have committed themselves in international investments, even after the world economy slide into recession after the breakout of the finance crisis. Various resources, including finance, human capital, and materials have been injected into overseas subsidiaries in order to support their daily operation.

Comparing to other internationalisation routes, such as exports, OFDI requires large amount of initial capital investment. All four firms have

committed in the necessary finance resources. They have been investing heavily in infrastructure, R&D and marketing research. After more than a decade internationalisation, these firms are able to identify the needs of finance resource, and capable of meeting the needs with sufficient capital supply. The sufficient finance resource supplied by the headquarters to overseas subsidiaries provides the fundamental financial foundation for overseas subsidiaries' success in local markets.

Besides the financial investment, human capital has been recognised as a key resource which plays an important role in overseas subsidiaries' success in local markets. Assigning the right person to execute the strategy is as, if not more, important as choosing the right strategy. Firm A, C and D have all been generously investing in overseas human capital building by assigning senior managers to overseas markets and setting up overseas training centres. However, Firm B has hesitation in high-end human capital investment in overseas markets in order to avoid the high cost. As a result, Firm B is the one with the smallest international investment scale among the four cases, and struggling with its international expansion.

Time is another resource which has been identified in this study to be crucial to firms' overseas success. Thanks to the low tolerance of failure in SOEs, managers of overseas subsidiaries and their in-line managers in headquarters are under the pressure of generating profits shortly after the subsidiaries are established. This short-term orientation forces managers to focus solely on profits and suppress the learning curve necessary for long-term success in local markets. Firm B is particularly focus on ROC. In order to achieve a good ROC rate, Firm B's overseas subsidiaries are mainly focus on serving domestic customers overseas because these projects can generate steady cash flow without massive investment in market exploration. In comparison, the other three firms do not emphasise on short-term return. Managers have been given time (normally two to three years) to learn about local markets. The knowledge and experience accumulated in on particular market is not only used to serve this market, but also contribute to the firm's international expansion in other markets.

Therefore, in order to achieve post internationalisation success, it is necessary for firms to identify resource requirements, including finance, human capital and time, of overseas subsidiaries and meet the necessary needs promptly. These investments are considered necessary for achieving long term success of internationalisation. All these resource commitments help overseas subsidiaries to accumulate knowledge and experience and expand in overseas markets. Hence, a proposition is derived as follows:

P1: The capability to allocate necessary resources, including finance, human capital and time, to overseas subsidiaries helps overseas subsidiaries to succeed.

When Chinese firms enter a foreign market, they do not necessarily possess all the resources and knowledge needed for international operation. The information asymmetry problem is especially severe comparing to other resource shortage. In order to compensate the disadvantages caused by the shortage of local market knowledge, all four SOEs have cooperated with local firms and government agents to acquire local market knowledge and extend their networks in local markets. These SOEs also tried to bring in international professional managers and local employees in order to boost the internal internationalisation and smooth local operation.

In all four cases, local partners have played an important role in these SOEs' international investment. Cooperating with local firms has not only helped SOEs with knowledge learning in local markets, but also opened up the door to the local networks. Local governments have also been playing a key part in SOEs' local network building, especially in some African countries.

Although all four firms have brought in external human capital to a certain extent, they have gone down different routes to recruit different levels of human resources to meet the firm's strategy. For example, Firm A recruited managers from the international human capital market, and appointed many experienced managers from developed countries. These high-end professional managers helped Firm A develop its own management mechanism based on internationally accepted principles, and utilised their experiences to familiarise Firm A with the complex international operations.

Firm A, then, applies this management mechanism formed according to common principles to overseas markets with minor adjustment.

Firm B, which has a much smaller scale of international investment than the other three, has started to recruit local employees with Chinese cultural background, but yet to bring in more experienced professional managers. Firm B generally exports or transfers its own management mechanism developed in China to its overseas subsidiaries. Therefore, local employees from the Chinese ethnic group can better understand the established management system according to Chinese culture, which makes the communication within the firm easier.

Firm C and D prefer to appoint local managers to manage local employees. These managers bring in more knowledge about local markets, and help solving local problems. Although the top management team assigned by the headquarters are still holding control of the overseas subsidiaries, middle-level managers and other employees recruited locally help to readjust the operation and management mechanism of overseas subsidiaries according to local culture and market environment.

Knowledge and information that SOEs acquired through their external networks including local business partners, government agencies and international organisations help them understand local markets in order to serve local consumers better. Human capital with extensive international operation experience and local knowledge contribute to SOEs' knowledge learning and help overseas subsidiaries to settle in local markets. Hence, the author propose:

P2: The capability of externally sourcing knowledge, through business partners, governments and local personnel according to host country environment, helps overseas subsidiaries to settle in local markets.

As latecomers in the global market, Chinese SOEs have limited capability of coordination and integration due to the lack of international operation experience. The bureaucracy and low efficiency have cost Chinese SOEs

many good investment opportunities and lead to some unsuccessful overseas investments, especially at the early stage of their internationalisation.

Except Firm A, all the other three firms explicitly admitted that, at the early stage of their internationalisation, they suffered from the low efficiency caused by the lack of coordination capability. Firm A's coordination capability has been developed in the fierce competition of the white good manufacture industry of the home country, before the firm went abroad. Furthermore, it is undeniable that the capability to coordinate different departments to meet the requirements of overseas operation is essential for overseas success. The original SOEs' organisation structure is confusing and bureaucrat. Firm's strategies can be generated by different departments or subsidiaries with conflict of interests or resource demands. How to coordinate different departments to serve overseas investments has been a struggle for many SOEs. As discovered in the cases, establishing a department to take responsibility of coordination and persuade different departments to compromise and put the firm's whole welfare as the top priority are essential in enhancing coordination capability in international investments.

Besides the coordination capability before, during and after the international investments, firms also need effective post-internationalisation integration in order to achieve overseas success. Three levels of integration have been identified in the cases studied. The first level is the integration within the representative team sent from the headquarters. The second level is the integration between the representative team, managers and employees recruited from local markets. The third level is the integration of the overseas subsidiaries and local markets. Hence, it leads to the following proposition.

P3: The capability of coordination and integration contributes to a higher level of efficiency and smoother overseas operations, which leads to better performance.

In Chinese SOEs, managers' mindset is playing a decisive role in firms' daily operations. Traditional Chinese SOEs managers' mindset is highly risk averse and bureaucratic. Managers are not willing to take any risk which could possibly lead to capital loss, because any capital loss will be considered as a

failure which would leave a negative mark in their career development path because of the low tolerance of failure and short-term oriented evaluation system. Unfortunately, these standards are set by top managers who do not have a real understanding of the front line daily operations. As a result, in some cases (Firm B especially), firms are reluctant to send managers to overseas subsidiaries. Meanwhile, managers are unwilling to take on the responsibility to be in charge of overseas operations in order to avoid the potential risk of a negative effect on their individual career development. This conservative character has significantly limited firms' overseas expansion.

However, some top-tier managers started to realise the negative effect of the traditional mindset on firms' internationalisation. As top tier managers start to become more market-oriented and more aware of the real situation of overseas operations, there is a chain effect in the firm. First, top tier managers become more open-minded and understanding, and willing to give managers the opportunity and time to explore new markets. Second, overseas managers and employees are gradually getting more effective and efficient support from the headquarters thanks to top management team's attention and understanding, because tasks which managers give more attention to are often given higher priority and accomplished more efficiently.

Thus, this study reveals that managerial mindset has been playing a role of catalyst in the process of capitalising dynamic capabilities into overseas success. If managers do not have the positive and collective attitude towards resource allocation, resource acquired externally and coordination, these dynamic capabilities' contribution to overseas success will be weakened. Hence, the following proposition is derived.

P4: Managerial mindset towards dynamic capability development and application moderates the extent to which dynamic capabilities contribute to overseas success.

Embedded in their gens, Chinese SOEs are heavily influenced by the institutional environment because of the long history associated with the Chinese government. All SOEs are under supervision of SASAC. SOEs do get certain support from the government, such as policy, finance and

information. However, they are also under the surveillance of and restrained by the SASAC. If the investment is going well, everyone is happy. Otherwise, SOEs are under huge pressure, and start to become reserved. When the government becomes too interventionist, SOEs becomes very conservative, and reluctant to take on any opportunity accompanied by uncertainties.

P5a: Home country government support is helpful in achieving overseas success. However, too much intervention leads to firms' being cautious towards international resource commitment.

Complicated institutional environment in host countries, especially some emerging markets, has become a concern of Chinese SOEs. Firms become more cautious about their investments in these countries. There are two major concerns about the institutional environment of host countries. One is that it is difficult for Chinese SOEs to gather information about and understand the complicated institutional environment of host countries. The other is the uncertainty caused by the unstable institutional environment in some developing countries. The host government's mindset towards Chinese investors may take a U-turn after the change of the persons in power.

That is why firms emphasise the political relationship between host countries and China, because it is easier to get host country government support when there is a long-term good political relationship. For firms, it is favourable to have local government's support in a complicated institutional environment.

P5b: Complicated host country institutional environment increases the difficulty of Chinese SOEs' achieving success in local markets.

6 Conclusion

To answer the key question 'how do dynamic capability and institutional environment influence Chinese SOEs' post internationalisation performance?', the authors systematically investigated the effect of the resource allocation, external sourcing, coordination and integration, managerial mindset and the institutional environment on the performance of SOEs' overseas subsidiaries.

When Chinese SOEs enter unfamiliar foreign markets, being able to support overseas subsidiaries by identifying the resource needs and satisfying these needs promptly through either internal resource allocation or external sourcing is essential for overseas subsidiaries to settle in the local markets. The resources needed for overseas subsidiaries' success include finance, human capital and time. Meanwhile, coordination among different departments within the firm and integration of overseas subsidiaries at multiple levels are also important for firms to succeed in overseas markets. However, the extent to which dynamic capabilities determine the overseas success is influenced by managerial mindset towards the application of dynamic capabilities.

In terms of the influence of institutional environment on Chinese SOEs' post internationalisation performance, the study finds that complicated host country institution environment has a negative impact on overseas subsidiaries' development. This study also reveals that the relationship between home country government attentions given to SOEs' overseas investments is not linear. The government's support to SOEs' overseas investments, especially in the early stage, has a positive impact on SOEs' overseas performance. However, too much interference from the government significantly restrains SOEs' freedom to do business entrepreneurially.

The paper makes a number of contributions to the existing literature. First, this study is among the first to apply the combination of dynamic capability theory and institution-based view on the post internationalization performance of firms. This approach allows us to examine how the characteristics of firms and institutional dynamics jointly affect the outcomes of internationalisation and provides a better understanding of factors affecting overseas success. Second, this study is among the first to examine the factors influencing the overseas success of firms from emerging markets. The findings of this study help us to better understand the internationalisation performance of the latecomers in the global market. Third, we consider a wide range of internal factors, such as resources and managerial mindsets on internationalisation performance and add new evidence on this issue which has been underexplored in existing studies. Last but not least, we take into consideration of both home and host country institutional environments, which

provides a comprehensive picture of the influence of firms' remote environment.

Our research also has some limitations, including the lack of generalisability of the case studies. Due to delicate circumstances, limited questions were allowed to ask in the interviews. Interviewees have hesitation about releasing information about certain delicate areas, such as corruption. Limitations also result from the narrow selection of cases. It may be of greater interest to conduct researches about private firms in order to compare and contrast, and test the theoretical framework empirically. So far, insufficient attention has been given to the factors that influence post internationalisation performance of Chinese firms.

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