The Evolution of Country and Firm Specific Advantages and Disadvantages in the Process of Chinese Firm Internationalization

*Svetla Marinova**

University of Birmingham, UK

John Child

University of Birmingham, UK

Marin Marinov

University of Gloucestershire, UK

***Corresponding Author**

The Evolution of Country and Firm Specific Advantages and Disadvantages in the Process of Chinese Firm Internationalization

Introduction

For a long time China has been attracting a huge volume of inward FDI, the stock of which has accumulated to US$758.9 billion by 2007 (CIA World Factbook, 2009). More recently outward FDI has grown steadily and in 2008 reached an annual figure of US$52.2 billion that was in sharp contrast with the global downturn in FDI flows (Davies, 2009).

A key factor in this shift has been the increasing encouragement of the internationalization of Chinese firms by the government, which in 2000 announced the "Going out" policy as a national priority (Guangsheng, 2002). The implementation of this policy is supported by a sizeable trade surplus, a positive saving-investment ratio and the attempt of the Chinese authorities to increase income from overseas ownership of fixed assets (Globerman & Shapiro, 2009). Furthermore, the accumulation of technological and marketing expertise by leading Chinese firms has accelerated the involvement of other Chinese enterprises in outward investment (Tong & Li, 2008).

However, Chinese outward FDI has only recently started to attract the attention of scholars. Studies have addressed the motives, driving forces and trends of outward FDI from China (Liu & Li, 2002; Deng, 2004; Child &

Rodrigues, 2005; Liu *et al*., 2005; Buckley *et al*., 2007; Rui & Yip, 2008, Morck *et al*., 2008).

As an attempt to account for the success or otherwise of Chinese internationalization, Rugman and Li (2007) have explored the importance of firm specific advantages (FSAs) and country specific advantages (CSAs). Little is known, however, about the evolution of firm and country specific advantages and disadvantages in the process of internationalization.

With this in mind, the aim of this paper is to identify and analyze changes in country specific advantages and disadvantages, and firm specific advantages and disadvantages that have relevance to the process of Chinese firm internationalization. Unlike previous studies, it will take account of disadvantages as well as advantages and it will also ground its analysis in six case studies. To meet its aim, the paper proceeds as follows. First, the relevant theoretical background is analyzed by summarizing mainstream views on firm internationalization simultaneously addressing the use of advantages and changes in competitive disadvantages. Issues pertaining to latecomer firms and their internationalization are also brought to light. Further on, case study data of internationalizing Chinese firms are examined. Drawing upon the theoretical perspectives and case study analysis, the paper offers propositions relating to the evolution of country and firm specific disadvantages and advantages in the process of firm internationalization. The closing discussion considers the implications of the study.

2. Theoretical perspectives

2.1. Resource based view of the firm

The resource based view of the firm affirms that internationalization strategy depends on unique resources in the home country which give the firm a competitive advantage vis-à-vis other firms operating in a host country (Tan & Vertinsky, 1996; Teece *et al.*, 1997, Prien & Butler, 2001). Wernerfelt (1984) defines firm resources as tangible and intangible assets that belong to a firm over a specific period of time. Resources underpin a firm's competitive advantage (Barney, 1991, Peteraf, 1993) depending on the specifics of the competitive environment (Tallman, 1992; Montgomery, 1995; Brush & Artz, 1999). The predominant view is that companies exploit their own competitive advantages in order to extend their operations into new markets (Dunning, 1991). However, this view overlooks the possibility that firms may also have resources that are disadvantageous and create firm specific disadvantages (FSDs) when entering new markets.

This distinction between disadvantages and advantages has been made by Cuervo-Cazurra and Un (2005), following Montgomery (1995). Advantageous resources can provide a firm with a competitive edge in the long-term if they are unique and difficult to replicate by a determined set of competitors (Barney, 1991, Amit & Schoemaker, 1993). Penrose (1959) suggests that key and enduring firm specific assets form FSAs that might support firm internationalization. Such advantages could include technological knowhow, marketing capabilities, brand image, and distribution knowhow. At a given point of time a firm may have greater strength in regard to some of these advantages compared to others and indeed it may possess some resources, which inhibit value creation and are disadvantageous for entering foreign markets (Leonard-Barton, 1992; Tallman, 1992; Hu, 1995; Rangan & Drummond, 2004). Over time there is a possibility that firm or country specific disadvantages (CSDs) may be turned into firm or country specific advantages through a process of learning or acquisition of new knowledge.

Rugman (1981) suggested a CSA/FSA matrix, which was subsequently explored in relation to emerging market multinationals (Rugman, 2007; Rugman & Li, 2007). The FSAs are seen as proprietary to the firm, and they can be technology based, knowledge based, or they can reflect managerial and/or marketing skills (Rugman & Verbeke, 2003). An important FSA can be entrepreneurship, which may be particularly significant in creating and mobilizing other FSAs into dynamic capabilities, as well as creating strategic opportunities for the firm partly through successful relationships or negotiations with external parties. There are also country factors, unique to the business in each country that can provide CSAs. They stem from natural resource endowments, labor force characteristics, cultural and economic factors as well as in some cases an appealing country brand. Rugman (1981, 2007) argues that managers of multinationals employ policies that build upon the interactions of CSAs and FSAs in order to create unique strategic possibilities.

The set of advantages and disadvantages can evolve over time due to the activities of the firm, the competitive pressure of the environment (Amit & Shoemaker, 1993), and the impact of institutional change (Child & Tse, 2001). Thus advantages are both time and context specific. Internationalization might be triggered by firm's aspirations to access and develop new FSAs, such as efficiency or knowledge, superior to those that the firm has in its host country (Dunning, 1993; Wesson, 2004). At the same time, Cuervo-Cazurra *et al*. (2007) have suggested that resources that are a source of advantages in the home market can become a disadvantage abroad. In short, firm internationalization should be viewed through an economic, social and political lens (Child & Rodrigues, 2005) considering the characteristics of the home and host context. Therefore an institutional view of internationalization, referring to social and political factors, is a complement to the more usual economic perspective.

2.2. Institution-based view of the internationalization of the firm

The institution-based view argues that institutions, which are a set of formal and informal rules and their enforcement arrangements (Schmoller, first published in 1900) play the role of creating and enforcing formal and informal constraints on the activities of firms (North, 1990 and 1993; Scott, 1995). Institutions define, enable and constrain strategic choices made by firms (Peng & Delios, 2006) as they form the institutional embeddedness of business activities (North, 1990) in a specific country context. Peng (2003, 2006) has conceptualized the relationship of firm strategy with the interaction between FSAs, industry conditions and institutions. He has analyzed choices that companies make as a consequence of the advantages and limitations of the formal and informal constraints of a particular institutional framework. Therefore, institutional factors can constitute CSAs and CSDs. This has been recognized in research on institutional constraints in internationalization (Lu & Yao, 2006; Ma *et al*., 2006; Lee *et al*., 2007; Zhou *et al*., 2006; Meyer *et al*., 2009).

Institutions define the rules and norms for functioning of firms and industries (Ring *et al*., 2005; Peng *et al*., 2008). In developed countries institutions are considered advantageous if they maintain conditions for the effective implementation of market mechanisms (Meyer *et al*., 2009). In emerging markets institutions are demoted as disadvantageous as they are less developed and not able to guarantee effective markets. Makino *et al*. (2004) found that institutional differences in emerging markets are more salient and that both formal and informal institutions impact the development of business.

A combination of not particularly advantageous CSAs and FSAs has become to characterize the internationalization of latecomer firms, which have been seeking assets rather than exploiting existing assets.

2.3. Latecomer Firms

Latecomer firms from emerging markets arguably do not possess many strong competitive advantages when compared with global rivals (Rui and Yip, 2008). The latecomer perspective provides an interesting insight into how FSAs could be developed and how latecomers' internationalization could be used to compensate for initial competitive disadvantages (Matthews, 2002).

The most important latecomer advantages lie in labor intensive production, cost leadership, flexibility and speed of adaptation in terms of production processes and products (Makino *et al.*, 2002). Some latecomer firms are embedded in a culture, such as Confucianism, that encourages continuous learning and self development vis-à-vis peers. It should be recognized though that firms from emerging markets moving into a new host market would have a number of competitive disadvantages that they should try to compensate for in the host country context (Child & Rodrigues, 2005). Such disadvantages could range from lack of knowledge of the market dynamics to lack of technological or management knowhow. Innovations, knowhow, technology, production process, marketing and managerial expertise are readily available in developed country contexts where they could be accessed by latecomer firms. Thus, latecomer firms move into developed markets with the strategic intent to acquire assets with potential to create competitive advantage.

When latecomer firms move to other emerging market contexts, they seek markets and resources having some advantages vis-à-vis multinationals from developed countries. These, coupled with support by governments (Child & Rodrigues, 2005), enable them to compete against developed-country multinationals (Dawar & Frost, 1999) in contexts with underdeveloped institutional environment and market mechanisms (Khanna & Palepu, 1997; 2000).

The internationalization of latecomer firms, including those from China, presents a challenge to international business theory to focus on the potential relevance of domestic institutional factors in transitional contexts. It also presents an opportunity to explore the evolution of FSAs and CSAs in contexts where formal institutions appear immature from western perspective. Child and Rodrigues (2005: 404) have recognized the danger of "understating the role of emerging economy governments in underwriting the process whereby their leading firms seek to achieve international competitiveness, not least when the foreign currency reserves for purchasing overseas assets are available".

Research on latecomer firms highlights the constraints of an imperfect institutional context (Boisot & Child, 1996; Tsui *et al.*, 2004). Evolving institutional change and transformation, as well as economic liberalization add to the greater dynamics and uncertainty in the institutional context of emerging economies. Therefore, government's strategic objectives, decisions and involvement have been seen as essential for the internationalization of Chinese firms (Deng, 2009).

2.4 Analytical framework

The preceding review of theoretical perspectives suggests the framework shown in Figure 1, which will guide our analysis of the case studies that are now to be considered.

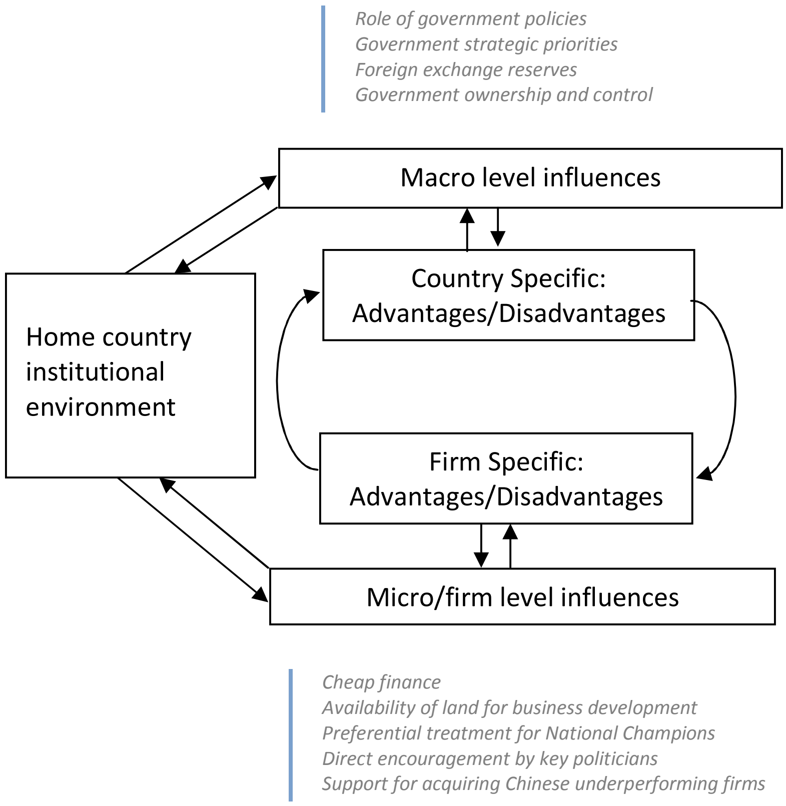

Figure 1 A framework of the evolution of CSAs/CSDs and FSAs/FSDs influenced by home country institutional environment

3. Case studies

The current study has a theory generating purpose and it draws upon secondary data in the form of descriptions, case studies, press releases, individual interviews, corporate and government publications. These have been used to formulate six case studies. The analysis followed the steps recommended by Yin (1994) and Eisenhardt (1989). The first step involved presenting and organizing the data in a case study format. The next step was to code the case data into categories according to the proposed theoretical model (Yin, 1994). Subsequently, each case was analyzed separately and independently by the three researchers. All data were analyzed simultaneously. The explanation building approach, as suggested by Yin (1994), was employed to increase the internal validity of the relationships. Discrepancies between case data and expectations called for extended data collection from previously unused sources and further theoretical evidence was intentionally sought. Finally cross-case patterns were identified and subsequently analyzed.

The six case studies were selected to be in global mature manufacturing industries, i.e. white goods, telecommunications, computing and automotive. All firms strive to be National Champions. They have market leading positions in the home market, which have been used in their endeavors to compete globally.

3.1. Case study 1 - Haier

The firm was founded in 1955 as a cooperative enterprise. It merged with a manufacturer of home appliances in 1979. The merged enterprise produced washing machines of poor quality which lacked market appeal. After 1984, the company's fortunes were turned round by its new Director, Mr. Ruimin Zhang, a member of the Central Committee of the Chinese Communist Party. The indebted enterprise on the verge of financial collapse was transformed quickly into the domestic market leader. Starting outward internationalization as an OEM[1], it eventually managed to create a worldwide presence with an internationally recognized brand name. By 2004, Haier had become the world's fourth largest white goods producer. A cumulative shift of objectives has led the firm through various stages of development. A summary of the evolution of Haier's FSAs and FSDs in a timeline since 1984 is presented in Table 1.

***************Insert Table 1 about here**************

3.2. Case study 2 - Galanz

The enterprise started its existence in 1978 as a small garment enterprise established by a visionary leader with local government support. In 1992, it began production of microwave ovens and was renamed the Galanz Enterprise Group. By the end of 1998, it became the biggest producer and the largest exporter of microwave ovens in the world. By that time it controlled almost three-quarters of the domestic market with its own brand. In foreign markets, Galanz used OEM

[1] We use the term OEM in its original meaning of a company that produces hardware to be sold under another company's brand name.

that utilized its enormous production capacity and cost leadership. The firm formed partnerships requiring that partners' production of microwave ovens was shifted to China. In 2007, Galanz generated sales securing more than 50 percent of the world microwave oven market. Since 2008, the strategic focus shifted to independent global innovations targeting world markets via own brand production. OEM has been preserved on order only. The company has developed a global network of sales representative offices; established R&D centers in the U.S.A., South Korea, and Japan developing forward and application technologies. Galanz has set up manufacturing facilities in Russia intending to extend production in other emerging markets. A summary of the evolution of the FSAs and FSDs of Galanz in a timeline is presented in Table 2.

***************Insert Table 2 about here**************

3.3. Case study 3 - Gree

Gree Electric Appliances is the world's largest residential air-conditioner manufacturer with 40,000 employees and annual production of 20 million air conditioner units. The company was formed in 1991 by the restructuring and merging of several inefficient state-owned enterprises. While initially it imported Japanese technology from Toshiba, to date Gree has developed its own brand and advanced technology. Over 2000 research engineers are involved in developing and enhancing the company's own world leading energy-saving technology using knowhow and customer-centered independent innovation.

Presently, the firm has production facilities in China, Brazil, Vietnam, and Pakistan and a technology development partnership with Daikin of Japan. A summary of the evolution of Gree's FSAs and FSDs in a timeline is presented in Table 3.

**************Insert Table 3 about here**************

3.4. Case study 4 - Lenovo

Lenovo (initially named Legend) was set up in 1984 as a spin-off from the Institute for Computer Technology at the Chinese Academy of Sciences. The firm distributed and sold personal computers produced by foreign manufacturers gaining market intelligence, management skills, and knowhow. To date, Lenovo is a multinational IT firm with production sites in the U.S.A., China and Singapore, and research centers in China and Japan. In 2005, Lenovo acquired the former IBM PC Division, and rights to the ThinkPad line trademark. The acquisition ensured knowhow transfer from IBM to Lenovo that provided worldwide access to a global customer base and increased Lenovo's bargaining power within the world PC industry. Presently, Lenovo is market leader in the Chinese PC market and the fourth largest personal computer firm in the world. A summary of the evolution of Lenovo's FSAs and FSDs in a timeline is presented in Table 4.

**************Insert Table 4 about here**************

<u>3.5. Case study 5 - Huawei</u>

Established in 1988 with a team of just seven persons, Huawei is currently a high-tech enterprise specializing in R&D, production and marketing of communications equipment and providing customized network solutions for telecommunications carriers. It has seven R&D centers in China, two in the US, one each in Sweden, India, Ireland, Russia, Indonesia, and the Netherlands. Internationalization has been the main intent since the early 1990s. The acquisition of Marconi was a means to obtain advanced technology and provide access to European markets with their local market intelligence and relationships with global giant communications companies. Huawei has formed numerous partnerships with leading multinationals such as ADI, Agere, Altera, HP, IBM, Intel, Microsoft, and Motorola. These aim to improve corporate management knowhow, launch joint research activities and improve the time to market of products. A summary of the evolution of Huawei's FSAs and FSDs in a timeline is presented in Table 5.

***************Insert Table 5 about here**************

3.6. Case study 6 - Nanjing Automobile Group

Founded in 1947 as a repair service workshop in the East China Field Army, it produced light truck vehicles since 1958 to become market leader in the home market by 1979. Using related diversification via technology acquisition from global firms, it became a market leader in China's automotive market by 1982. In 2005, Nanjing purchased the remaining assets of the MG Rover group for £53million. In 2006, the Nanjing-MG project laid the foundations of the Nanjing Pukou New High Technology Industry Development Zone. In June 2006, the first batch of MG cars was exported to Europe. In December 2007, Nanjing Automobile and Shanghai Automotive Industry Corporation merged. A summary of the evolution of Nanjing's FSAs and FSDs in a timeline is presented in Table 6.

***************Insert Table 6 about here**************

4. Propositions

In this section propositions are discussed and formulated on the basis of the theoretical perspectives introduced in the literature review and the case study findings. The evolution of advantages and disadvantages at country and firm level demonstrates that in the process of internationalization, firms and countries use their current competitive advantages to compensate for disadvantages. In this way, they create new competitive advantages, which subsequently allow them to compensate for new challenges or disadvantages arising during the course of their evolution.

4.1. Compensating FSDs

Preparation for active international involvement may entail inward internationalization (Cavusgil & Naor, 1987; Korhonen *et al,* 1994; Child & Rodrigues, 2005), which allow for inward transfer of knowledge, technology, expertise, and managerial knowhow that can subsequently become a basis for outward internationalization. At the same time, domestic acquisitions and mergers have also created economies of scale and scope that have prepared the ground for developing FSAs supporting outward internationalization. In some cases like Haier such acquisitions were supported by government, though in other cases government officials have tried to thwart this route to domestic consolidation (Meyer & Lu, 2005).

An approach to compensate for FSDs applied by companies from emerging markets is collaboration with overseas MNCs via international joint venture (IJV) formation and licensing (Lane *et al*., 2001). Similar to other developing economies (see for example Lyles and Salk, 1996) IJVs have been used as means for providing technology transfer at the time of the "Open door" policy in China. Extant research on IJVs has supplied some support for the transfer of valuable assets and knowledge such as production technology, managerial skills, and marketing expertise from MNCs to their local partners (Luo, 2002; Matthews, 2002). Knowledge transfer presumably contributes to the compensation of FSDs of indigenous firms. IJVs via inward internationalization have limited the development of technological capabilities of Chinese firms due to the propensity for indigenous firms to become overdependent on joint ventures for innovative capabilities (Gao, 2004; Li & Zhou, 2008). Thus relying on compensation for

FSDs via transfer from overseas partners can create the foundations for, but cannot ensure, endogenous and sustainable innovation in Chinese enterprises.

If an internationalizing firm from emerging markets has FSDs, it may attempt to acquire strategic resources such as technology, design, and brands from companies in developed economies (Schüler-Zhou & Schüler, 2009). This is needed as the firm does not always have the capabilities or resources to turn FSDs into FSAs on its own or in partnership with foreign firms in its home country. The acquisitions may take a variety of forms such as direct knowledge acquisition, acquisition of production facilities or acquisition of human capital and knowhow when setting up R&D centers in host markets. According to Frost (2001) firms set up R&D centers overseas to overcome locational disadvantages of the home base by tapping into locational advantages overseas. Wang (2002) reports that 70% of Chinese research subsidiaries are based in developed economies. Many of those are R&D centers exploring opportunities for technological advancements, product and design innovation. Thus outward FDI is pulled towards unavailable, complementary and compatible resources, especially in the form of knowledge that can be used as a stepping stone to accelerate independent innovation. Compensating for FSDs has become key priority for the Chinese firms and government. The rapid internationalization of Chinese companies into developed economies attempts to reduce the gap by acquiring needed capabilities (Wesson, 2004) with the intention to use them for independent internal learning.

All firms from the case studies demonstrated initial FSD in the form of a lack of production and technological knowhow. To compensate for this FSD Haier, Gree, Galanz, and Nanjing Automotive Works licensed technology from world leading MNCs from developed countries. Later on, Galanz entered into IJVs to expand original equipment manufacturing (OEM) and become the world's biggest supplier of a single product category. Gree followed a route of internal learning and only when it developed core technology outperforming that of world leading producers, did the enterprise enter into a comprehensive strategic alliance for global strategic cooperation and form an IJV with Daiking from Japan. Haier started on the basis of OEM, but quickly developed its own technological advantage and formed IJVs for market access in developing countries. Following this, they used partnerships, greenfield investment and acquisition of production facilities in developed countries. Lenovo and Huawei compensated for their initial FSD by distribution agreements and IJVs that enabled them to start production and supply of the Asia-Pacific market. Huawei later went into a number of partnerships and the acquisition of Marconi brought advanced technology and access to European markets and relationships with global communications carriers. Lenovo also used an acquisition of the PC Division of IBM for technology, management and market intelligence. Unlike Huawei, Lenovo also got access to the IBM-Lenovo brand for several years as well as the rights over the ThinkPad trademark.

Another initial FSD typical for all firms is the lack of brand recognition. The case companies dealt with this FSD in two ways. Haier, Gree, and Huawei developed their own brand mostly through internal technology development based on technology transfer, innovation and independent learning. Consequently these enterprises aimed at developing their own brands with worldwide appeal. By contrast, Lenovo and Nanjing bought brand intangibles from companies with global brand recognition. Galanz is the only case among the six in which own brand development has been deterred by the strategy of OEM. The company has only recently embarked upon developing international consumer brand equity of their product category, encouraged by the Chinese authorities and the impact of the global economic crisis.

The initial FSD of liability of foreignness is compensated for most successfully by Haier via a glocal strategy securing their presence in most markets served. Galanz have lagged behind as they have not been able to develop their own standing in global markets, i.e. their presence has been hidden behind the brand names of other company and store brands due to their OEM strategic orientation. Huawei, Lenovo, and Nanjing have managed to compensate for their liability of foreignness via targeted acquisitions and exploitation of world-known brands. Therefore:

P1: *FSDs can be compensated for in the international arena via transfer (joint ventures, licensing, etc.), acquisition (e.g. technology, design, brand, etc.), and internal independent learning (Child & Rodrigues, 2005; Rugman and Li, 2007).*

4.2. The influence of government on the evolution of FSAs

Institutional theory suggests that formal institutions in emerging economies play a major role in supporting the international expansion of enterprises. Luo *et al*. (2010) argue that government support for outward FDI helps compensate for the late-mover FSDs of emerging market MNCs such as a lack of unique capabilities and a liability of foreignness.

The role of government in a communist party driven political system is greater than that of governments in developed market-based societies. The Chinese government has defined the direction of development of Chinese enterprises from the “Open door” policy initiated by Deng Xiaoping in the late 1970s to the policy of “Going abroad” endorsed by Jiang Zemin in the early 2000s. Most recently, in his speech for the 60th anniversary of the People’s Republic of China, the President Jintao Hu has announced a policy shift from “made in China” to “created in China” in order to lead the country to an innovation-driven economy. In 2004, the State Development and Reform Commission and the Export-Import Bank of China began to promote the formation of overseas R&D centers, and mergers and acquisitions to compensate for CSDs and enhance the FSAs of Chinese enterprises (WIR, 2006). The quality of outward FDI is encouraged and closely monitored by the government in terms of investment direction and performance, and its contribution to the national economy.

Child and Rodrigues (2005) as well as Deng (2004, 2007) have emphasized that the Chinese government uses state foreign exchange reserves in directing outward FDI to developed countries. Moreover, preferential credits have been offered by state banks to promote outward FDI. The Chinese government has also recognized the need for independent innovation that is based on acquired knowledge, which has been extended by intensive and persistent own R&D effort (Yuan, 2005). This objective is typical of the National Champions that government is said to transform into modern world-class corporations. This is also a process pursued by firms with different ownership structures, including SOEs, collective and private enterprises, which strive to gain government support in the form of tax rebates and low interest or interest-free loans (Luo *et al.*, 2010).

All case study companies have received government support for the acquisition of tangible and intangible strategic assets over time. The support has been in line with government policies, which initially allowed firms to acquire technology and quality control systems or initiate production via purchase or partnerships in the form of strategic alliances and IJVs. Support has also been in the form of preferential loans, tax rebates, risk-safeguarding mechanisms, signing up of investment protection agreements with 115 countries (Luo *et al.*, 2010), and direct governmental influence in shaping the investment expansion into developed and emerging economies, as well as providing a comprehensive business support and information system. Such government support and evolving policies have allowed firms to compensate for FSDs systematically and over time as changes in firm FSDs and FSAs have also informed government financial support and investment priorities. Therefore:

P2: *FSDs can evolve into FSAs, assisted by government policies and financial support.*

4.3. Impact of CSAs on the development of FSAs

The evolution of CSDs into CSAs affects the home market business environment in which firms operate. When initial disadvantages are compensated for and turned into advantages, these assist domestic firms in using the CSAs to develop their FSAs. Thus by exploiting China's CSAs in cheap, unskilled and skilled labor, Chinese MNCs have internationalized. Formal institutions create conditions for the evolution of CSDs into CSAs that can improve the international standing of a country. For example, China's greater bargaining power vis-à-vis foreign governments can negotiate favorable terms when rescuing failed western firms such as Rover. Rugman and Verbeke (2003) suggest that FSAs and CSAs are critical parameters in describing and explaining the patterns of international expansion of an MNC. The emergence of FSAs is influenced by the home CSAs (Krishna *et al.*, 1997) embedded in the interface of home country resource endowments, demand conditions and industry characteristics (Porter 1990). It could be argued that CSAs are the foundation on which MNCs develop FSAs in global competition.

Initial CSAs included government policies to attract inward FDI on the basis of inward internationalization via licensing and IJVs that could potentially strengthen Chinese FSAs over time. CSDs that dealt with regulatory restrictions on firms going abroad in relation to approvals required and restrictions on foreign stock market listings; limited knowledge of foreign environments leading to strong liability of foreignness; and the unfavorable national image for being “cheap and nasty” have evolved into CSAs over time. Thus the country has developed advantages in offering low cost funding for foreign expansion, willingness to relax regulatory restrictions on the build-up of relevant domestic strengths, reorientation of official ideology towards internationalization, support for acquisition of supporting activities abroad (e.g. purchase of part-ownership of foreign banks) and negotiation with foreign governments of terms favorable to presence of Chinese firms in emerging regions such as Africa.

The evolution of CSDs into CSAs has created favorable conditions for FSAs that are associated with firm internationalization. This evolutionary process has supported inward internationalization through IJVs with OEMs; has made finance available for diversification in foreign markets; has encouraged firms to learn and adopt more effective modes of organization; has enhanced firm’s ability to acquire foreign assets, giving access to international brands, technologies, markets and distribution systems, and knowledge. Moreover CSAs emphasizing knowledge exploration and exploitation have set the pre-conditions for the growing ability of enterprises to innovate independently. Therefore:

P3: *The evolution of CSDs into CSAs creates a favorable environment for the development of FSAs relevant to firm internationalization.*

4.4. Importance of the relational framework between governmental institutions and firms

Political economists have long recognized the important role of formal institutions in developed economies as regulators of the national economy and the competitive environment in which businesses operate (Rugman & Verbeke, 1993; Murtha & Lenway, 1994). On their part, businesses impact the institutional environment by their ability to support national development (Boddewyn & Brewer, 1994). Such an understanding of the role of businesses, formal institution, and of governments in particular, has been justified by Moran (1985) and Boddewyn (1988) who have suggested that the interdependence of business and government creates a supportive environment for firm internationalization.

One of the characteristics of a highly institutionalized environment, such as China's, is that the intensive involvement in business affairs of government agencies and the Communist Party creates the conditions for strong "relational frameworks" between institutions and organizations (Scott and Meyer, 1983). Paradoxically, strong relational frameworks do not just provide channels for officials to exert influence; they also provide potentially valuable access to the authorities through which enterprise leaders can hope to modify unfavorable CSAs. In the case of major enterprises such as the six enterprises featured here, the links that constituted relational frameworks included membership of key government committees, visits to the enterprises by key government figures, and other regular meetings. They were supported ideologically by the favorable publicity accorded to the firms in the officially-controlled media. Their corporate entrepreneurship was celebrated so long as it did not threaten to become too autonomous from Party control. Although the dynamics of such enterprise-government interactions are highly confidential, there is little doubt that they assisted the development of CSAs in a way that has supported internationalization. Notable examples include the relaxation of rules on domestic consolidation through acquisition in order to achieve economies of scale for internationally competitive low-cost production, as in Haier's case, and the provision of finance on favorable terms for the acquisition of major overseas assets, such as Lenovo's purchase of IBM's PC division. Therefore:

P4: *The more developed the relational framework between governmental institutions and firms, the more favorable the impact of CSAs would be on FSAs.*

4.5. The role of entrepreneurship

Entrepreneurship is "concerned with the discoveries and exploitation of profitable opportunities" (Shane & Venkataraman, 2000: 217). Therefore, entrepreneurial management entails an understanding of the importance of being opportunistic, strategic, and innovative. The actions of an entrepreneurial corpora leader can be one way in which institutional support is gained and developed. Baumol (1993) suggests that corporate entrepreneurship should be analyzed by particularly focusing on the nature of the institutional arrangements that encourage the exercise of entrepreneurship and that provide incentives for it to take productive direction. Thus, in order to develop FSAs or compensate for FSDs, it is important for a firm to exploit the opportunities created by the interplay between the government and corporate entrepreneurship (Child & Rodrigues, 2005). Corporate entrepreneurial leadership promotes internationalization in close relationship with the government (Zhang & Van den Bulcke, 1996). Chinese corporate entrepreneurship is long-term oriented and represents a combination of opportunity seeking and strategic behavior (Hitt *et al.*, 2001; Child & Rodrigues, 2005) that can secure advantages in firm internationalization. Child and Rodrigues (2005) have also argued that institutional entrepreneurship at government level is important in the case of Chinese firm internationalization. Institutional entrepreneurship is associated with the role of the government in identifying opportunities overseas and in providing funds for enterprise internationalization.

Four of the case study firms bring evidence about the important role of corporate entrepreneurship on firm level. Thus Haier and Gree have been led by visionary corporate entrepreneurs who have mobilized resources and developed firm strategies based on quality improvement, introduction of innovation, establishment of technological leadership, management innovation, and own brand creation and development. The entrepreneurial leader of Galanz has managed to develop economies of scale that coupled with the innovative OEM formula have resulted in a world leadership position of the firm in the production of microwave ovens. Corporate entrepreneurship at Huawei has turned the company from a home market distributor to a world leading provider of telecommunication services. In all of these companies entrepreneurial leaders have been carefully monitored, listened to and encouraged by government officials. State leader visits to the production facilities have become synonymous with government appreciation of enterprise leadership and their contribution to the development of the Chinese economy. Such direct support is particularly evident at the time when the case companies had already become established national players. In the cases of Nanjing and Lenovo, institutional entrepreneurship coupled with corporate entrepreneurship has created conditions for technological upgrading, strategic asset acquisition and enhanced international market positions. Moreover, corporate entrepreneurship in all six cases has been helped by the political standing of firm managers who are members of the Chinese Communist Party. Such position of authority has provided additional support both at national and local institutional level. The firms' CEOs have been trusted advisors to the local and central government on business development issues that relate to the global reputation and competitiveness of China. Therefore:

P5: *Corporate entrepreneurship is a significant FSA for internationalization so long as it is tolerated, encouraged and assisted by government.*

5. Discussion and conclusions

This study provides a logical extension to the understanding of the evolution of CSAs and CSDs, and FSAs and FSDs that are relevant to the process of Chinese firm internationalization. It demonstrates the importance and impact of the institutional context in which firms are embedded. Specifically, the case study evaluation reveals the following findings. Supported by empirical evidence, we argue that the evolution of strategic resources is the key motivator behind the internationalization of Chinese firms. Decisively encouraged by the Chinese government firms with corporate entrepreneurship aspire to alter themselves from home market leaders and regional players into globally competing multinationals. This process is made possible via the development of FSAs and continuous compensation for FSDs. The aspiration for strategic asset acquisition from developed countries combined with cost leadership and independent customer-centered innovation brought about strong FSAs stimulating the internationalization process of firms. Successfully internationalizing enterprises such as Haier, Huawei, Gree, and Lenovo, which have invested in developed countries with a particular intention to develop R&D centers, have based their FSAs on innovation and technological advancement. The research brings evidence that the six studied firms had well-developed institutional relationships with the government, economies of scale, product innovation capabilities, capacities to develop market intelligence, and established leadership positions in the home market. These common FSAs have facilitated the internationalization process of the firms by creating preconditions for the development of other FSAs and compensating for existing FSDs. Firms that sought strategic assets wished to gain sustainable FSAs over time.

All case firms create advantages via accessing unavailable, complementary and compatible resources, especially in the form of knowledge that can be used as a stepping stone to accelerate independent innovation. FDI that has been used to compensate for initial disadvantages has been attracted by the country specific advantages in the form of a low-cost production base and large internal market. Subsequently, disadvantages have been compensated via outward FDI being pulled by strategic resources available overseas with a push by the corporate entrepreneurial management and state institutions. Such FDI has further enhanced the firm and country specific advantages.

We have discussed the advantages and disadvantages of internationalizing Chinese firms. The paper makes the following contributions to the literature. First, we focus on the interdependence of CSAs and FSDs and FSAs, thus recognizing the significance of the home country institutional context in Chinese outward FDI. Further studies could explore the role played by both home and host country institutional environment as suggested by Cuervo-Cazurra and Genc (2008). We argue that the Chinese government has had a key role in defining the direction of development of Chinese enterprises. Thus an active involvement as a party of the relational framework with respective institutions has a positive contribution towards the evolution of FSAs. Second, the paper recognizes that corporate entrepreneurship is a significant FSA for firm internationalization. Corporate entrepreneurship is a major force in gaining, accumulating, utilizing and leveraging resources (Floyd & Wooldridge, 1999) for transforming FSDs into FSAs. It ensures that firms develop new products, advanced technologies, strategies, management and marketing approaches that can provide firms with a sustainable position in the global competitive space. Further studies could explore the differences in institutional support and encouragement towards corporate entrepreneurship in firms with different ownership structure. Third, we argue that if the relational framework between governmental institutions and firms is more developed, the impact of CSAs on FSAs is more favorable. This assumes that the government in question espouses an ideology that is favorable to corporate entrepreneurship. In China's case, it took some twenty years since the start of the Economic Reform for this to come to full fruition with respect to internationalization. Although it is a considerable challenge to access relevant data, further study of how country (macro) and firm (micro) factors can constructively co-evolve in this way would provide valuable insights both for the agents of public policy and enterprise managers aiming to create strategic space for their firms.

References:

Amit, R. & Shoemaker, P. (1993) Strategic assets and organisational rents. *Strategic Management Journal*, 14: 33-46.

Barney, J. (1991) Firm resources and sustained competitive advantage. *Journal of Management*, 17: 99-100.

Baumol, W. (1993) *Entrepreneurship, management and the structure of pay-offs*. Cambridge, MA: MIT Press.

Boddewyn, J. (1988) Political aspects of MNE theory. *Journal of International Business Studies*, Fall: 341-363.

Boddewyn, J. & Brewer, T. (1994) International business political behavior: New theoretical directions. *Academy of Management Review*, 19(1): 119-143.

Boisot, M. & Child, J. (1996) From fiefs to clans and network capitalism: Explaining China's emerging economic order. *Administrative Science Quarterly*, 41: 600-628.

Brush, T. & Artz, K. (1999) Toward a contingent resource-based theory: The impact of information asymmetry on the value of capabilities in veterinary medicine. *Strategic Management Journal*, 20(3): 223-250.

Buckley, P., Clegg, J., Cross, A., Liu, X., Voss, H. & Zheng, P. (2007) The determinants of Chinese outward foreign direct investment. *Journal of International Business Studies*, 38(4): 499-518.

Cavusgil, S. T., & Naor, J. (1987). Firm and management characteristics as discriminators of export marketing activity. *Journal of Business Research*, 15: 221–235.

Child, J. & Rodrigues, S. (2005) The Internationalisation of Chinese firms: A case for theoretical expansion? *Management and Organization Review*, 1(3): 381-410.

Child, J. & Tse, D. K. (2001) China's Transition and its implications for international business. *Journal of International Business Studies*, 32: 5-21.

CIA World Factbook (2009) www.cia.gov/library/publications/the-world-factbook/rankorder/2078rank.html, Visited November 4, 2009.

Cuervo-Cazurra, A. & Genc, M. (2008) Transforming disadvantages into advantages: Developing country MNEs in the least developed countries. *Journal of International Business Studies*, 39: 957-979.

Cuervo-Cazurra, A., Maloney, M. & Manrakhan, S. (2007) Causes of the difficulties in internationalization. *Journal of International Business Studies*, 38: 709-725.

Cuervo-Cazurra, A. & Un, C. (2004) The bold eagle cannot find its way in the rainforest. In S. Prasad and P. Ghauri *Global firms and emerging markets in an age of anxiety*. London: Praiger: 15-36.

Davies, K. (2009) While Global FDI Falls, China's Outward FDI Doubles, *Colombia FDI Perspectives*, 5, May 26.

Dawar, N. & Frost, T. (1999) Competing with giants: Survival strategies for local companies in emerging markets. *Harvard Business Review*, 77(2): 119-129.

Deng, P. (2004) Outward investment by Chinese MNCs: Motivations and implications. *Business Horizons*, 47(3): 8-16.

Deng, P. (2007) Investing for strategic resources and its rationale: The case of outward FDI from Chinese companies. *Business Horizons*, 50: 71-81.

Deng, P. (2009) Why do Chinese firms tend to acquire strategic assets in international expansion? *Journal of World Business*, 44: 74-84.

Dunning (1991) The eclectic paradigm of international production: A personal perspective, in C. Pitelis & R. Sugden (Eds) *The nature of the transnational firm*, Routledge, London and New York, pp.117 - 136.

Dunning, J. (1993) *Multinational enterprises and the global economy*. Addison Wesley: New York.

Eisenhardt, K. (1989) Building theories from case study research. *Academy of Management Review*, 14: 532-550.

Floyd, S. & Wooldridge, B. (1999) Knowledge creation and social networks in corporate entrepreneurship: The renewal of organizational capability. *Entrepreneurship Theory and Practice*, 23(3): 123–143

Frost, T. (2001) The geographic sources of foreign subsidiaries' innovations. *Strategic Management Journal*, 22(2): 101-123.

Gao, P. (2004) Shaping the future of China's auto industry. *McKinsey Quarterly*, 3: 123-126.

Globerman, S. & Shapiro, D. (2009) Economic and strategic considerations surrounding Chinese FDI in the United States. *Asia Pacific Journal of Management*, 26(1): 163-183.

Guangsheng, S. (2002) Speech at the 16th Congress of the Communist Party of China, *People's Daily*, November 13.

Hitt, M., Ireland, R., Kemp, S. & Sexton, D. (2001) Strategic entrepreneurship: Entrepreneurial strategies for wealth creation. *Strategic Management Journal*, 22: 479-491.
Hu, Y. (1995) *The* international transferability of the firm's advantages. California *Management Review*, 37(4): 73-88.
Khanna, T. & Palepu, K. (1997) Why focused strategies may be wrong for emerging markets? *Harvard Business Review*, 75(4): 41-51.
Khanna, T. & Palepu, K. (2000) The future of business groups in emerging markets: Long-run evidence from Chile. *Academy of Management Journal*, 43(3): 268-285.
Korhonen, H., Luostarinen, R., & Welch, L. S. (1994) Inward–outward internationalisation patterns and government policies for Finnish SMEs. Paper presented at the Annual Nordic Marketing Conference, University of Umea, November.
Krishna, E., Sanjeev, A. & Kim, S. (1997) Are firm-specific advantages location-specific too? *Journal of International Business Studies*, 28: 735–757.
Lane, P., Salk, J. & Lyles, M. (2001) Absorptive capacity, learning and performance in international joint ventures. *Strategic Management Journal*, 22: 1139–1162.
Lee, S.-H., Peng, M. & Barney, J. (2007). Bankruptcy law and entrepreneurship development: A real options perspective. *Academy of Management Review*, 32(1): 257–272.
Leonard-Barton, D. (1992) Core capabilities and core rigidities: A paradox in managing new product development. *Strategic Management Journal*, 13: 111-126.
Li, J. & Zhou, C. (2008) Dual-edged tools of trade: How international joint ventures help and hinder capability building of Chinese firms. *Journal of World Business*, 43, 463-474.
Liu, H. & Li, K. (2002) Strategic implications of emerging Chinese multinationals: The Haier case study. *European Management Journal*, 20(6): 699-706.
Liu, X., Buck, T. & Shu, C. (2005) Chinese economic development, the next stage: Outward FDI? *International Business Review*, 14(1): 97-115.
Lu, Y. & Yao, J. (2006) Impact of state ownership and control mechanisms on the performance of group affiliated companies in China. *Asia Pacific Journal of Management*, 23(4): 485–503.
Luo, Y. (2002) Stimulating exchange in international joint ventures: An attachment-based view. *Journal of International Business Studies*, 33: 169–181
Luo, Y., Xue, Q. & Han, B. (2010) How emerging market governments promote outward FDI: Experience from China. *Journal of World Business*, 45: 68-79.
Lyles, M., & Salk, J. (1996) Knowledge acquisition from foreign parents in international joint ventures: An empirical examination in the Hungarian contest. *Journal of International Business Studies*, 27: 877–903.
Ma, X., Yao, X. & Xi, Y. (2006) Business group affiliation and firm performance in a transition economy: A focus on ownership voids. *Asia Pacific Journal of Management*, 23(4): 467–483.
Makino, S., Lau, C. & Yeh, R. (2002) Asset-exploitation versus asset-seeking: Implications for location choice of foreign direct investment from newly industrialised economies. *Journal of International Business Studies*, 33(3): 403-421.
Matthews, J. (2002) Competitive advantages of the latecomer firm: A resource-based account of industrial catch-up strategies. *Asia Pacific Journal of Management*, 19:467-488.
Meyer, K., Estrin, S., Bhaumik, S. & Peng, M. (2009) Institutions, resources and entry strategies in emerging economies. *Strategic Management Journal*, 30(1): 61-80.
Meyer, M. & Lu, X. (2005) Managing indefinite boundaries: The strategy and structure of a Chinese business firm. *Management and Organization Review*, 1 (1): 57-86.
Montgomery, C. (1995) Of diamonds and rust: A new look at resources. In C. Montgomery (Ed.) *Resource-based and evolutionary theories of the firm: Towards a synthesis.* Boston: Kluwer Academic Publishers; 251-268.
Moran, T. (1985) *Multinational corporations: The political economy of foreign direct investment*. Lexington, MA: Lexington Books.
Morck, R., Yeung, B. & Zhao, M. (2008) Perspectives on China's Outward Foreign Direct Investment. *Journal of International Business Studies*, 39: 337-350.
Murtha, T. & Lenway, S. (1994) Country capabilities and the strategic state: How national political institutions affect multinational corporations' strategies. *Strategic Management Journal*, 15: 113-129.
North, D. (1990) *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.
North, D. (1993) Economic performance through time, Nobel Prize Lecture. Available at http://nobelprize.org/nobel_prizes/economics/laureates/1993/north-lecture.html, visited November 7, 2009.
Peng, M. (2003) Institutional transitions and strategic choices. *Academy of Management Review*, 28(2): 275–296.
Peng, M. (2006) *Global strategy*. Cincinnati: South-Western Thomson.
Peng, M. & Delios, A. (2006) What determines the scope of the firm over time and around the world? An Asia Pacific perspective. *Asia-Pacific Journal of Management*, 23(4): 385-405.
Peng, M., Wang, D. & Jiang, Y. (2008) An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies* 39(5): 920–936
Penrose, E. (1959) *The theory of the growth of the firm*. Oxford: Oxford University Press.
Peteraf, M. (1993) The cornerstones of competitive advantage: A resource-based view. *Strategic Management Journal*, 14(3): 179-191.

Porter, M. (1990) *The competitive advantage of nations*. New York, NY: The Free Press.
Prien R. & Butler, J. (2001) Is the resource based view a useful perspective for strategic management research? *Academy of Management Review*, 26: 22-40.
Rangan, S. & Drummond, A. (2004) Explaining outcomes in competition among foreign multinationals in a focal host market. *Strategic Management Journal*, 25(3): 285-293.
Ring, P., Bigley, G., D'Aunno, T. & Khanna, T. (2005) Perspectives on how governments matter. *Academy of Management Review*, 30(2): 308–320.
Rugman, A. (1981) *Inside the multinationals: The economics of internal markets* (New York: Columbia University Press). Reissued by Palgrave Macmillan in 2006 as *Inside the Multinationals* (25th Anniversary Edition) (New York: Palgrave Macmillan).
Rugman, A. (2007) Multinational Enterprises from Emerging Markets. Presented at the Berlin Roundtable meeting on the Role of the G8 in an Endangered Global Economic and Political Climate, Berlin June 1-2, 2007.
Rugman, A. & Li, J. (2007) Will China's multinationals succeed globally or regionally? *European Management Journal*, 25(5): 333-343.
Rugman, A. & Verbecke, A. (1992) A note on the transnational solution and the transaction cost theory of multinational strategic management. *Journal of International Business Studies* 23(4): 761-772.
Rugman, A. & Verbeke, A. (2003) Extending the theory of the multinational enterprise: Internalization and strategic management perspectives. *Journal of International Business Studies*, 34: 125-137.
Rui, H. & Yip, G. (2009) Foreign acquisitions by Chinese firms: A strategic intent perspective. *Journal of World Business*, 43(2): 213-226.
Schmoller, G. (first published in 1900) (second publication 1990) Simmels Philosophie des Geldes. In *Georg Simmel*, edited by P. U. Hein. Frankfurt: Peter Lang.
Schüler-Zhou, Y. & Schüler, M. (2009) The internationalization of Chinese companies: What do official statistics tell us about Chinese outward foreign direct investment? *Chinese Management Studies,* 3(1): 25-42.
Scott, W. (1995) *Institutions and organizations*. Thousand Oaks, CA: Sage.
Scott, W. & Meyer, J. (1983) The organization of society sectors. In J.W. Meyer & W.R. Scott (eds.) *Ritual and rationality.* Beverley Hills: Sage: 129-154.
Shane, S. & Venkataraman, S. (2000) The promise of entrepreneurship as a field of research. *Academy of Management Review*, 25(1): 217-226.
Tallman, S. (1992) A strategic management perspective on host country structure of multinational enterprises. *Journal of Management*, 18(3): 455-471.
Tan, B. & Vertinsky, I. (1996) Foreign direct investment by Japanese electronic firms in the United States and Canada: Modeling the timing of entry. *Journal of International Business Studies*, 27(4): 655-681.
Teece, D., Pisano, G. & Shuen, A. (1997) Dynamic capabilities and strategic management, *Strategic Management Journal*, 18(7): 509-533.
Tong, T. & Li, J. (2008) Real options and MNE strategies in Asia Pacific. *Asia Pacific Journal of Management*. 25: 153–169.
Tsui, A., Schoonhoven, C., Meyer, M., Lau, C. & Milkovich, C. (2004) Organization and management in the midst of societal transformation: The People's Republic of China. *Organization Science*, 15(2): 133-144.
Wang, M. (2002) The motivations behind China's government-initiated industrial investment overseas. *Pacific Affairs*, 75(2): 187-206.
Wernerfelt, B. (1984) A resource-based view of the firm. *Strategic Management Journal*, 5(2): 171-180.
Wesson, T. (2004) *Foreign direct investment and competitive advantage*. Cheltenham: Edward Elgar.
WIR (2006) FDI from developing and transition economies: Implications for development. New York and Geneva: UNCTD.
Yin, R. (1994) *Case study research: Design and methods*. Second edition. Newbury Park, CA: Sage Publications.
Yuan, W. (2005) China's government R&D institutes. *Science, technology and society*, 10(1): 11-29.
Zhang, H. & Van den Bulcke, D. (1996) International management strategies of Chinese multinational firms. In J. Child and Y. Lu (Eds.) *Management issues in China: International enterprises*. London: Routledge: 141-164.
Zhou, K., Tse, D. & Li, J. (2006) Organizational changes in emerging economies: Drivers and consequences. *Journal of International Business Studies*, 37(2): 248–263.

Table 1
Timeline of the Evolution of FSDs and FSAs of Haier

Timeline	Objective	FSDs	Actions	FSAs
In 1984		Lack of production and technological knowhow Lack of brand recognition Weak quality control systems Limited financial resources		(A) Entrepreneurial leader with strategic vision (B) Well developed institutional relationships ensuring government support (C) Low-cost production capability
From 1984 To 1991	Focus on knowledge and technology acquisition to develop home market and start internationalization	Limited knowledge of foreign markets OEM limits consumer awareness of product and brand Liability of foreignness	Build new production facilities Acquire foreign knowhow Introduce TQM Product development for domestic brand building Introduce new management practices	(A), (B), (C) reinforced (D) Economies of scale (E) Production and quality control capabilities (F) Fast market responsiveness and efficiency (G) Strong financial capabilities (H) Flexibility
From 1992 To 1998	Diversification to expand operations and strengthen home market position Expand international activities	Insufficient knowledge of foreign markets Decreasing liability of foreignness Lack of internationally recognized brand	Related and unrelated diversification and integration of acquisitions in home market Product innovation and line extension Own brand development in home and host markets Export under own brand to developing and developed markets	(A) to (H) enhanced (I) Product innovation capabilities (J) Distribution system capabilities at home and abroad (K) Economies of scope (L) Development of market intelligence (M) International partnership development capabilities for entering and expansion in new markets
From 1999 to date	Achieve global market presence and international brand recognition	Gradual reduction of liability of foreignness Inconsistent global brand image	Expand international market presence via greenfield investment and acquisitions of strategic assets in developed and developing countries Create global network of own R&D centers Restructure organizational frameworks, processes and people Develop awareness of own global brand Initiate low-cost independent customer-oriented innovation	(A) to (M) further strengthened (N) Independent innovation capabilities (O) Customer driven market response and design (P) Preferential institutional support as National Champion (Q) Leveraged production and design capability across subsidiaries (R) Customer oriented competitiveness (S) Internationalisation expertise (T) Consumer brand equity in developing countries (U) Value for money consumer brand equity for niche products in developed markets

Table 2
Timeline of the Evolution of FSDs and FSAs of Galanz

Timeline	Objective	FSDs	Actions	FSAs
In 1992	Start OEM	Lack of production and technological knowhow Lack of brand recognition Lack of production resources Lack of quality control system Limited financial resources	License technology and production knowhow from Toshiba	(A) Entrepreneurial leader with strategic vision (B) Good institutional relationships ensuring local government support (C) Low-cost production capability
From 1992 To 2003	Technology transfer to exploit cost leadership in microwave production and export	Strong liability of foreignness Limited knowledge of foreign markets OEM limits consumer awareness of product and brand	Create worldwide network of partnerships securing OEM Grow production facilities Lower costs Lead price wars to gain market leadership in domestic market	(A) to (C) reinforced (D) Economies of scale (E) Production and quality control capabilities (F) Partnership development capabilities for OEM (G) OEM exporting capabilities
From 2004 To 2007	Related diversification to expand operations and strengthen home market position Expand OEM	Strong liability of foreignness Limited knowledge of foreign markets OEM limits consumer awareness of product and brand	Apply cost leadership and high volume strategy for related products Increase market share in domestic rural market Start to export own brand	(A) to (G) reinforced
From 2007 To date	Own brand development From "world's plant" to "global brand"	Strong liability of foreignness Limited knowledge of foreign markets OEM limits consumer awareness of product and brand	Focus on independent development and innovation of own brand as directed by the government Increase world market presence with own brand Establish R&D centers in developed markets Establish production sites and market development partnerships in emerging markets	(A) to (F) enhanced (H) Strengthened institutional relationship with central government (I) Economies of scope (J) Independent innovation capabilities (K) Consumer brand equity in developing countries

Table 3

Timeline of the Evolution of FSDs and FSAs of Gree Electric Appliances

Timeline	**Objective**	**FSDs**	**Actions**	**FSAs**
1991 initial position		Lack of production and technological knowhow Lack of brand recognition Weak quality control system Limited financial resources	Focus on air-conditioners	(A) Entrepreneurial leader with strategic vision (B) Good institutional relationships ensuring government support (C) Low-cost production capability
From 1992 To 2005	Focus on technology acquisition to develop home market	Strong liability of foreignness Lack of internationally recognized brand Limited experience in internationalization	Develop own brand Acquire foreign knowhow Introduce TQM	(A) to (C) reinforced (D)Economies of scale (E)Product quality and innovation (F)Market leader in air-conditioners in home market
From 2005 To 2007	Internationalization stage	Liability of foreignness Lack of internationally recognized brand Limited knowledge of foreign markets	Establish low cost production in Vietnam, Brazil and Pakistan Set up international distribution partnerships	(A)to (F) reinforced (G)Independent low-cost product innovation (H)Customer driven market response and design (I) International market intelligence (J)World leader in energy saving air-conditioning technology
From 2007 To date	Developing global brand	Decreasing liability of foreignness Limited brand recognition in developed markets outside Asia	Form technology development partnership with Daikin Corporation Penetrate emerging markets Develop brand in advanced markets	(A) to (J) enhanced (K)Brand awareness in emerging markets and developed markets of Asia-Pacific region (L)Customer-driven market response and design (M)Customer-oriented competitiveness

Table 4
Timeline of the Evolution of FSDs and FSAs of Lenovo

Timeline	Objective	FSDs	Action	FSAs
In 1984	Distribute foreign PCs in China	Underdeveloped distribution network Lack of production and technological knowhow Lack of brand recognition Strong liability of foreignness		(A)Entrepreneurial leader (B)Well developed institutional relationships ensuring government support (C)Research knowhow (D)Fast learning capabilities from competitors
From 1984 To 1998	Develop marketing expertise and enhance technological capability	Limited knowledge of foreign markets Lack of internationally strong customer brand equity Strong liability of foreignness	Distribute and sell PCs produced by foreign MNCs Form IJV for production of with a Hong Kong firm Develop own brand in home market Start exporting of own brand to Asia-Pacific region	(A)to(D) reinforced (E)Domestic market intelligence (F)Domestic marketing capabilities (G)Regional market intelligence (H)Low cost independent innovation
From 1998 To 2004	Enhance production capabilities in related products	Limited international customer brand equity Strong liability of foreignness outside the Asia-Pacific region	Related product diversification Domestic market development Continued product innovation Legend Group renamed Lenovo Enhance distribution and marketing competence	(A)to (H) enhanced
From 2005 To date	Globalize via acquisition of strategic assets	Reduced liability of foreignness	Acquire the PC division of IBM Link the brand Lenovo to IBM Use trademark ThinkPad Move from a regional player to a global MNC Leverage distribution, production, management and marketing expertise worldwide	(A)to (H) enhanced (I)High bargaining power in the global PC industry (J)Worldwide customer reach (K)Leveraged worldwide market intelligence (L)Leveraged independent customer-driven innovation (M)Global brand recognition (N)Preferential institutional support as National Champion (O)Leveraged production and design capabilities

Table 5
Timeline of the Evolution of FSDs and FSAs of Huawei

Timeline	**Objectives**	**FSDs**	**Actions**	**FSAs**
In 1988	Sell foreign communications equipment	Lack of production and technological knowhow Lack of brand recognition Underdeveloped distribution network Liability of foreignness		(A)Entrepreneurial leader with strategic vision (B)Good institutional relationships ensuring government support
From 1988 To 1996	Domestic market development	Limited production and technological knowhow Unknown brand name Underdeveloped distribution network Strong liability of foreignness	Develop and penetrate rural home market	(A)and (B) reinforced (C)Product imitation and low-cost innovation capabilities (D)Fast learning capabilities from competitors (E)Domestic market intelligence (F)Domestic marketing capabilities
From 1996 To 1999	Related diversification and internationalization	Lack of international customer brand equity Strong liability of foreignness	Penetrate urban home market Initiate internationalization under own brand Own brand development and leadership in home market	(A)to (F) enhanced (G)International market intelligence
From 1999 To date	Globalization via partnerships and own brand	Reduced liability of foreignness	Worldwide distribution growth Exporting Develop and innovate products Establish R&D centers overseas Establish partnerships for product and technology development Establish partnerships for market development and penetration	(A) to (G) enhanced (H)Global brand recognition (I)Preferential institutional support as National Champion (J)Independent customer-driven innovation (K)Global brand recognition

Table 6

Timeline of the Evolution of FSDs and FSAs of Nanjing Automotive Works

Timeline	Objectives	FSDs	Actions	FSAs
1947 founded 1958-1979		Limited technology Limited managerial knowhow	Focus on a single product category	(A)Entrepreneurial leadership (B)Good institutional relationships ensuring government support (C)Low-cost production capability
From 1979 To 1982	Serve home market	Lack of management knowhow Lack of quality control systems Limited technology No international experience and presence Strong liability of foreignness	Improve production processes Grow production capacity	(A)and (C) enhanced (D)Domestic market leadership in light trucks (E)Expertise in home market distribution (F)Production capabilities
From 1982 To 2005	Related diversification	Lack of international customer brand equity Limited international experience and presence Strong liability of foreignness	Form IJVs and licensing agreements for technological development with Isuzu, Fiat, Seat and Iveco	(A)to(F) reinforced (G)Market leader in home automotive market
From 2005 To 2007	Internationalization via acquisition of strategic assets	Limited independent innovation Reduced liability of foreignness	Acquire MG Rover assets and design capabilities International brand name acquisition (MG, Wolseley Austin, Morris, American Austin, Princess and Stirling) Acquire production knowhow and rights for engine manufacturing Create own low costs supply chain Gain distribution rights in 15 European countries, incl. Russia for the MG brand	(A)to(G) reinforced (H)Technological capability to produce a wider range of engines and vehicles (I)International market intelligence
From 2007 To date	Gain economies of scale and scope to target foreign markets as part of a larger group	Reduced liability of foreignness	Merger with SAIC Uniting the MG brand and engine production capabilities with the design for Rover 75, 25	(A)to(I) reinforced