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Internationalization of Firms from Developing Economies: A Brief Review in Chinese Perspective

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Abstract: *Last two decades witness the tremendous growth in China. Given the outstanding growth in the economy; Chinese firms invest considerable amount of capital in the foreign countries. The quest of Chinese business is continuously growing at international level. In this study we try to find the determinants of Chinese firms going abroad. After reviewing bunch of literature we found that Chinese multinational corporations (MNCs) growing rapidly by investing in foreign countries. Our assessments of the great number of research on Chinese firms found that international experience, government incentives, ownership structure are the major determinants that trigger the worldwide expansion of Chinese firms.*

Keywords: *MNCs, Internationalization, Experience, and Performance.*

1. INTRODUCTION

Firms that seek resources at the early stages get many strategic advantages [1], [2]. There are many opportunities like timely positioning in the market and gaining competitive advantage. Internationalization exposes the firm to the external world [2], [3]. Firm's seeking internationalization move significantly improves the venture performance and future growth [4], [3]. However firms operating in international environment have some disadvantages such as newness to the market and face the liability of foreignness [5].

This is more true when new venture seeking foreign entry [5]. New firms must know the strategic actions by plotting some of them to overcome the liability of foreignness. The more successful firms very sharply adapt after entering into the foreign environment [1].Firms operating overseas market focus on learning the market quickly to gain competitive position[3]. Scholars in the field of strategy declare that there are many strategic actions that an emerging firm takes to adapt in the foreign market [1]. For example, firm can make strategic alliances with other competing firms [1].

Moreover, firms can share experiences at the time of international expansions [6].Furthermore, technological alliances are the most important determinants of success for a new venture operation abroad [6].However, firms can also develop profound marketing alliances with other market players [7], [8], [9]. There are scant studies that describe the attributes of the new firms that influence the organizational and institutional learning of the new entrants [1].Scholars describe that there are still gap remains in the field of international expansion of international entrepreneurial firms [2], [6].The important gap is the learning approaches of the new venture in the international setting [10].

Given these studies an important research question emerges; how would the antecedents of new firms influence its learning ability in the overseas markets? A growing body of research point out many strategies that international entrepreneurial firms take after international expansions. Such as organizational learning, understanding country of origin, entry pace in the countries, and the exposure of the internationalization on the firms future survival [2], [6], [9], [11], [12], [3].

International business scholars still examine few pre-entry factors that lead a firm to expand internationally [11]. For instance, firm size, firm age, strategic need and gaining experience of the international market might be the potential characteristics of the new venture that trigger for international expansion [13, 14].

Top managers of the firm with international work experience gets considerable information and resources overseas that helps new ventures entry in the foreign market [15]. Strategy scholars postulate many advantages of top mangers' international work experience [16]. Top managers bring information sources, make foreign strategic alliances, set future direction for sustainable competitive advantage in the foreign market, and increase the sales volume [1].

Managerial international experience plays a vital role in the expansion of the new venture in the international market[14]. Firms are more inclined to make foreign entry strategy intent with managers having foreign work experience [16], [17]. However, not all international entrepreneurial ventures have the advantage of pre-entry international experience [11].

There are few firms that have the advantage of direct managerial and firm level international experience. International experience of the top management includes foreign work experience, international education, and foreign exposure [14]. Despite the many advantages of international experience, firms from emerging economies still faces the liability of foreignness and liability of newness in the foreign market [5].

The country of origin is the important factor that increases the cost of liability of foreignness [18, 5]. Moreover, firms from emerging economies without direct international experience face many obstacles in the internationalization process [19], [20].

2. LITERATURE REVIEW

Multinational corporations face significant risks of distance from home country to host country [21].Entering in new markets poses many risks that cannot be present while operating at home country [2].Firms operating in the home market are very familiar with business environment but it lacks the familiarity advantage in the foreign country [22], [5].

The unfamiliarity in the host market is due to political risks in that country [23]. The uncertainty and unfamiliarly is rising quickly and make less effective the organizational strategic tactics [24], [25]. Uncertainty is associated with commercial challenges that pose risk in the internationalization process of the entrepreneurial firms [25].The increase in political risks in the international environment has direct effects on firm's strategic actions[23].

Due to lack of international experience or foreign ownership firms are vulnerable. This is more accurate when MNCs come from developing countries [20]. Previously scholars have described that Chinese firms are at disadvantage as compared to their rival firms from developing countries with less insufficient international experience and international ownership [26].

Scholars have advice many ways to overcome the risks associated with internationalization of firms. Similarly, another part of research has suggested some tricks to overcome the risks relevant to internationalization of the firm [14].For example firms can use distinctive resources that can get the positive favor of stakeholders. These distinctive resources can be international experience, or the nature of ownership of the firm [23], [27], [28].

Firms can gain information resources from developed countries to enhance organizational learning [2].In the meantime MNCs from developing countries can establish strong mechanism to cope with the international challenges and opportunities[21].Eventually, these tactics will improve the learning process of the organization and favorable outcomes [29], [30].In the previous studies scholars have defined the organization learning as a continuous system and process that gather information sources from international environment and bring it to firm.

This process can mitigate the disadvantage of international business experience and ownership. Organizational learning only comes through proper assemblage of emerging knowledge and transferability to the new firm [11].MNCs can seek competitive advantage in the foreign market by improving organizational learning [11].

Thus firms from developing countries must trigger their organizational learning to succeed in the foreign market [31], [5], [32]. Chinese MNCs can attain sustainable competitive advantage in the host market by developing its technology, knowledge sharing, and moving towards excellence [33].Up-gradation of technological learning can leverage the firm's trust in the host market and positive firm performance [34], [31].

In conclusion Chinese firms especially, and firms from developing country generally; can improve organizational learning by knowledge seeking from international environment, gaining international experience and resource advantage to eliminate the risks of being internationalized venture [35], [21], [33].

In the previous research scholars have pointed out many factors that make Chinese MNCs successful in the world markets. For instance location is one of the major determinant of Chinese MNCs success [36].Other factors include large firm size, limited opportunities in the home market trigger to move out, seeking financial resources from external markets and tax advantages over the host countries [20].

Meanwhile, Chinese firms are also attracted by host country government favorable policies to Chinese MNCs. For example, in Pakistan Chinese manufacturing firms are getting contracts without international bidding. Chinese firms are at great advantage in Pakistan where country is facing tremendous power crises that Chinese firms are going to overcome by getting favorable policies from the local governments reported in the local newspaper.

On the other hand in developed economies Chinese firms are getting advantage of high growth in the market, technological advancement and higher buying power of the customers [2].Scholars also noticed that exploitation of natural resources in the host market is a big lucrative to Chinese MNCs [6],[21], [33].Chinese influence in the Asian countries is continuously increasing by investing in natural resources [2].Similarly the regional development in Asian countries is a big opportunities for Chinese MNCs to cultivate resources in the regions with abundance of natural resources [37], [21].

Chinese MNCs possess some unique characteristics that are not so prevalent in the developed countries. Chinese MNCs adopt some distinct strategies that make them attractive in the host markets. On the other hand some researchers have found that Chinese firms are at disadvantage because of complex ownership structure within the firm. Ownership structure is not only the disadvantage of Chinese firm but also lack managerial capabilities in the international business and lack of exposure to the foreign markets [38], [2].

Scholars also describe that despite the deep knowledge of product development in the local market Chinese MNCs are lacking the process to overcome obstacles while operating in developed markets[6], [21], [33].The Chinese government has a big role in the economic development of the countries. Chinese government largely influences Chinese firms [2].The home country business environment is carefully modernizing with the passage of time under the gaze of Chinese government [40].

Historically, Chinese government openly discouraged foreign entries in the home markets during 1990s [2].Chinese entry in the World Trade Organization in 2001 opens plenty of opportunities for both foreign firms and local firms [6]. Chinese government favors local firms to operate internationally. Given these incentives (for instance, tax advantages) by Chinese government, Chinese MNCs expand in all over the world [33], [38].

3. FUTURE DIRECTION

For future research we recommend more or less in line with previous studies that the emerging firms from developing economies (e.g. China) should find some ways to accumulate international experience prior to intending abroad [2], [6], [14].In this way new firms have chance to amplify organizational learning. Direct international experience increases the chances of foreign success and organizational development. Thus, a potential question might be under consideration for future scholars; how would new firms with less international experience cope with the internationalization of the firm and enhance organizational learning? [2, [6], [14].

4. CONCLUSION

As Chinese local market grows, more and more Chinese firms are seeking foreign opportunities [40], [2].A large number of Chinese firms are internationalizing rapidly. Chinese government plays an important role in the internationalization of Chinese firms [40], [2].For example Chinese government play an important role when Chinese automobile Geely acquires Volvo [39]. The purpose of acquiring Volvo was to develop new brand with sophisticated technology acquired from developed market[39].The big reason of internationalization of Chinese firms is the enthusiasm in the management to compete in the world market despite technological and knowledge gap between developing and developed nations [40].

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