Strategies of Chinese Multinational Enterprises: Observations and Preliminary Conceptualization

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This paper presents a conceptual framework for analyzing differences in the motives and strategic choices of Chinese multinational enterprises (CMNEs) entering developed versus developing countries. Strategic choices focus on entry mode selection, governance structure and local marketing arrangements in the host country. Our central argument is that the motives and strategic choices of CMNEs in developed countries are more consistent with latecomer theorizing whereas the motives and strategic choices of CMNEs in developing countries are more consistent with the classic eclectic paradigm. The major contribution of this paper is to consider host country development stage as a key contextual variable in the internationalization strategies of CMNEs.

INTRODUCTION

Chinese multinational enterprises (CMNEs) are actively pursuing global market opportunities. CMNEs have responded to policy measures implemented by the Chinese government and favorable foreign market conditions and have expanded rapidly into a number of developed and developing countries and sectors. It should be recognized, however, that the international market expansion of Chinese firms is a relatively new phenomenon and consequently research on Chinese overseas direct investment (ODI) has only recently attracted attention in the academic literature (Luo & Tung, 2007; Buckley, Clegg, Cross, Liu, Voss; Zheng, 2007; Yan, Hong Ren, 2010 & Voss, Buckley & Cross, 2010). In particular the relationship between host country environment and the internationalization strategies of Chinese multinational enterprises (CMNEs) is not well understood. For example, are CMNEs more likely to pursue an acquisition or Greenfield strategy when entering a developing country? How will their entry mode strategy change when targeting a more advanced country? Are CMNEs more likely to use an ethnocentric or polycentric governance structure when entering a developed country? Will the same governance structure apply if the CMNE subsidiary is established in a developing country environment? Will CMNEs utilize Chinese marketing and communication professionals when entering developed country markets or rely on the services of host country professionals? How will these marketing and communication arrangements change when CMNEs target developing country markets? Is there a relationship between host country environment and CMNE subsidiary profitability?

Some writers, it should be noted, have attempted to incorporate host country stage of development into their analyses (see for example Parmentola, 2011). Despite these efforts, however, a comprehensive understanding of the relationship between host country environment and internationalization strategy remains a gap in the literature. Clearly, such an understanding is important to Chinese policy makers concerned with promoting outward direct investment (ODI) as well as to the executives of CMNEs, and other developing country multinationals, focused on the development and execution of effective international marketing strategies which maximize corporate returns and shareholder value.

The objective of this paper is to develop a conceptual framework to analyze differences in the internationalization strategies of Chinese companies entering developed versus developing countries. The focus is on understanding the relationships between host country environment and the strategic choices made by CMNEs. The motives of CMNEs are considered as well as their strategic choices in the areas of entry mode selection, governance and the implementation of local marketing arrangements. Prior research indicates that the internationalization strategies of Chinese firms cannot be satisfactorily explained by any of the established theories in the international business (IB) literature (Rui & Yip, 2008). CMNEs, in the process of internationalization, exhibit behavior which is not consistent with established models such as Dunning's OLI and the evolutionary process theory, both of which were formulated to explain the behavior of multinationals from the developed world (Johanson & Vahle, 1977, & Dunning, 1980). The "Springboard" model proposed by Luo and Tung (2007) is more recent and is focused specifically on the internationalization of emerging market multinationals. The emphasis of this perspective, however, is on how these firms overcome their latecomer disadvantages when investing in advanced economies. The authors do recognize that emerging market multinationals may use internationalization as a springboard to capitalize on their competitive advantages in pursuing low cost manufacturing opportunities in developing countries. However, the "Springboard" model does not attempt to predict or understand the strategic decisions of emerging market multinationals when entering underdeveloped host country markets, and the performance implications. This is an important limitation given that the weaker institutional environments of Third World countries convey advantages on developing country multinationals relative to their counterparts based in the developed world (Cuerco-Cazurra & Genc, 2008). The relationships between strategy, performance and host country environment need to be better understood.

This paper contributes to the literature by examining the impact of host country environment on the internationalization of CMNEs. The framework developed investigates differences in the motives, strategic decisions, and relative performance of CMNEs entering developed versus developing countries. This paper uses company level case studies to illustrate the proposed relationships between the host country environment and the strategic choices made by CMNEs. Examples of CMNE strategy in both developed and developing country environments and in a range of industry sectors highlight our propositions. The conceptual framework developed in this paper lays the foundation for a more systematic and quantitative analysis of this research issue.

The paper is organized into six major sections. Following the introduction is presented an overview of the development of CMNEs and their pattern of geographic expansion. The third section briefly reviews the theoretical literature on foreign direct investment and the process of internationalization. A conceptual model of the strategic decisions made by Chinese firms entering developed versus developing countries, and their motives for entry, is presented in the fourth section. The fifth contains a discussion of the managerial implications of the proposed framework and directions for future research. Finally, the sixth section offers some concluding observations.

THE GLOBALIZATION OF CHINESE ENTERPRISES

United Nations data presented in Table 1 of the appendix suggest that both the number and net value of cross border purchases by Chinese firms have increased significantly over the period 1990 to 2009. Number of cross border purchases has increased from 4 in 1990 to 97 in 2009 while the net value of these transactions increased from $1.3 billion to well over $21 billion. While these numbers are significant in absolute terms it should be recognized that, for a country of its size, China's ODI is still relatively small (Morck, Yeung & Zhao, 2008). As illustrated in Table 2 China's outbound FDI stock in 2009 was only 4.9% of GDP. This is up from 1.1% in 1990 but well below the country's performance in terms of inbound FDI.

China's integration into the global economy is generally regarded to have commenced in the late 1970s when the Chinese government initiated its "Open Door" policies (Taylor, 2002). The 1979 State Council document that gave effect to the Open Door policies recognized the establishment of overseas enterprises by Chinese companies as one of the thirteen polices needed to liberalize the economy. Prior to this initiative the Chinese government pursued an *ad hoc* and inconsistent approach to outward direct investment. Also significant in terms of government policy was the establishment of rules and procedures in the mid-1980s for the formal approval of overseas projects. It should be noted that from 1979-1984 state owned trading companies dominated China's overseas investment activity and that the strategic decisions of these entities were driven more by the government's political agenda than by commercial considerations (Hong & Sun, 2006). Expanding China's influence in the trade, political and economic spheres were the major factors driving country selection and the industry focus of these firms.

China's approach towards outward direct investment became more liberal post-1985 as the country's economy became more decentralized. From 1985 a new directive from the Chinese government allowed enterprises with sufficient capital, technological know-how and a suitable overseas partner to invest abroad. Initially these ventures were primarily in finance, consultancy and trading services although the Government has since outlined other priorities (see Taylor, 2002 p. 215). The orientation of these firms was decidedly different, i.e. focused on the acquisition of assets and technology and the realization of economic gains from investment. China's ODI accelerated throughout the 1990s in response to a range of policy measures instituted under the government's *zou chu qu* (Go Global) initiative (Buckley, et.al., 2007). The basic objective of this initiative was to enhance the international competitiveness of Chinese firms by reducing administrative bottlenecks as well as by alleviating foreign exchange and fiscal constraints faced by these companies. The Go Global strategy covers three areas: outbound direct investments by Chinese firms, the provision of contracting services on overseas construction projects and the provision of international services (United Nations, 2006). Under the initiative Chinese firms involved in the manufacture of household products and textile machinery received concessions from the government for investing overseas in assembly operations in Africa, Central Asia, the Middle East, Eastern Europe and South America. To further facilitate this process the Chinese government established management mechanisms to mitigate risk in regions such as Africa and Latin America. Chinese companies, in response to the new policy environment, have also made significant investments in manufacturing abroad with companies such as China No. 1 Automobile Im/Ex Corporation and Jincheng Motorcycle Group Corporation producing their own products and marketing them internationally under their own brand names (Taylor, 2002). This strategy has given Chinese firms access to technology, managerial expertise and also allowed them to circumvent trade barriers to entering third countries. The Chinese government has also relaxed foreign exchange controls and provided market intelligence to local firms as part of its Go Global initiative. The Go Global strategy is recognized as a major contributor to China's ODI performance (Asia Pacific Foundation of Canada, 2005).

The geographical expansion of Chinese firms has apparently followed a pattern similar to their counterparts based in other developing countries. These firms are observed to first enter neighboring, economically and politically comparable markets and then move to remote, economically more sophisticated Western markets. However, according to Morck, Yeung & Zhao (2008) Hong Kong remains the major destination for Chinese ODI today. Table 3 reports survey data from a study of the geographic distribution of foreign markets targeted by 500 of China's largest firms (Chen, 2006). According to the author of the study, CMNEs' location strategy can be summarized as follows: setting foot in Southeast Asia, attending to developed areas in Europe, North America and Oceania, and actively exploring opportunities in developing areas in Mid-east, Russia and Africa (Chen, 2006: 24). As illustrated in Table 3 of the appendix more than 25% of CMNE overseas target markets were located in the developed world.

THEORETICAL BACKGROUND

This section of the paper reviews the theoretical literature on foreign direct investment and the process of internationalization. Johanson and Vahlne (1977) have argued that the process of internationalization reflects a gradual acquisition, integration and use of knowledge about foreign markets and overseas operations. The process of internationalization is conceptualized as a gradual increase in the firm's commitment to foreign markets. The Uppsala or U model of internationalization posits that knowledge is a key barrier to market expansion and that an increase in knowledge will lead to an increase in market commitment and a subsequent increase in knowledge (Ellis, 2008). The Uppsala model suggests that firms will internationalize in small incremental steps beginning as exporters to a host country. These firms will subsequently transition to the establishment of a sales subsidiary and finally establish production facilities in the host country. The Uppsala model also suggests that the order in which the firm will expand into additional foreign markets will be related to the psychic distance between the home and the host countries. The model in essence represents an evolutionary process in which companies may be expected to first enter markets that are close in a cultural sense and as their experience grows these firms will expand into psychically more distant markets (Ellis, 2008). According to Johanson and Vahlne (1977) interaction between the firm and the host environment exposes new problems that must be resolved, necessitating the acquisition of new knowledge. Lack of knowledge due to differences between the home and host countries is a major obstacle to the development of international operations.

Dunning's eclectic (OLI) paradigm has provided important insights into the determinants of FDI flows and the process of internationalization. The theory argues that there are three drivers of a firm's foreign investment decisions (Dunning, 1980). Firms are driven by the need to own foreign production facilities as these confer a strategic advantage over competitors who do not have control of such productive assets and must resort to less efficient methods of serving international markets. According to Dunning (1980) firms are also motivated by the need to achieve location advantages in their foreign investment decisions. The ability to operate in a low tax jurisdiction, capitalize on a stable industrial relations climate or take advantage of host government incentives are among the firm's considerations. The OLI paradigm also suggests that firms are motivated to achieve internalization advantages in their foreign investment decisions. Dunning has argued that it must be more profitable for the firm itself to operate in the foreign country when compared to the alternatives that are open to it, such as licensing or the establishment of a contract manufacturing arrangement with an entity in the foreign market. Firms have the opportunity to internalize the gains from their technologies, managerial skills and other productive assets by investing directly in a foreign country.

Scholars engaged in research on the process of internationalization have traditionally appealed to transactions cost analysis (TCA) to understand which aspects of company operations the firm would seek to internalize and which would be carried out via arms-length exchanges in the open market. This approach, which owes much to the pioneering work of Coase (1937), argues that the firm would expand until the cost of carrying out an extra transaction internally equates with the cost of executing that transaction in the open market. Firms are viewed as rational optimizers which internalize transactions when it is cost effective to do so and rely on external markets when such is not the case. When entering foreign markets TCA has been used to explain critical strategic choices such as the selection of an appropriate entry mode.

The general theories on FDI and internationalization outlined above were conceptualized largely from the perspective of multinational enterprises based in the developed world. While still relevant CMNEs are subject to different motivations and influences. These need to be identified and incorporated into the established frameworks. It should be noted that in general the emergence of multinational companies from developing countries has historically not received a great deal of attention in the academic literature (Wells, 1983; Lecraw, 1993; Erramilli, Srivastava & Kim, 1999; Deng, 2000). The field is, however, beginning to attract renewed interest among international business and marketing researchers with new approaches such as the "latecomer" perspective being proposed. As noted previously according to this perspective MNEs from emerging markets such as Korea and Taiwan seek to overcome competitive disadvantages, instead of attempting to exploit competitive advantages, when they expand internationally (Luo & Tung, 2007, Mathews, 2002, & Child & Rodriques, 2005).

In summary, while both classic FDI theories (e.g., OLI) and the latecomer perspective offer insights into Chinese overseas direct investment neither seems to have provided satisfactory explanations of the process of international expansion. We believe that the problem is not with these theoretical frameworks but the way they have been employed in prior studies. Previous research has largely omitted a critical contextual condition - host country development stage in relation to the MNEs' country of origin. This omission is corrected in our proposed conceptual framework (see Figure 1) which attempts to capture the nuances of the strategic choices made by CMNEs in different host country environments. We argue that the motives and strategic choices of CMNEs in developed markets are more consistent with latecomer theorizing, whereas the motives and strategic choices of CMNEs in developing markets are more consistent with the classic eclectic paradigm.

CONCEPTUAL FRAMEWORK

This paper is concerned with differences in the strategic decisions made by CMNEs entering developed versus developing countries, and the resulting performance outcomes. The literature suggests that host country environment has an impact on the performance of multinational enterprise (MNE) subsidiaries. Studies have examined, for example, the relationship between host country experience and the performance of MNE subunits and the moderating impact of host country environmental influences on parent-subsidiary linkages (Luo, 2003, Luo & Peng, 1999). Other studies have sought to incorporate host country environmental considerations into the structure and processes of the multinational firm (Rosenzweig & Singh, 1991). Research has also been conducted on the relationship between host country environment, MNC strategic transition and the performance of subsidiaries (Liu, 2006). Notwithstanding these and other contributions such as Parmentola (2011), the influence of host country environment on the strategic decisions of CMNEs is not well understood and remains a gap in the extant literature.

CMNE Motives

CMNEs may be motivated to engage in ODI for a variety of reasons. These motives would likely differ for firms entering developed as opposed to developing countries. Several studies have examined motives to engage in cross-border transactions. Research suggests that firms may be motivated to internationalize in order to learn (Barkema & Vermeulen, 1998, Vermeulen & Barkema, 2001). These latter authors argue that firms that remain fixated on one industry in one country do not benefit from the organizational learning that comes from confronting a range of new challenges. The performance of these firms eventually suffers. Firms may, therefore, be driven to internationalize in order to take advantage of learning opportunities. This may well be a motive for CMNEs. In order to grow these firms require access to new managerial skills and technologies that are only available in western developed countries (Wang & Boateng, 2007). Firms seeking opportunities for organizational learning are therefore, more likely to pursue ODI in developed countries/regions such as the US, Canada or Western Europe. The same is true of CMNEs that seek to better understand larger and more sophisticated markets. Such firms may be expected to pursue opportunities in developed countries to overcome their competitive disadvantages.

Dunning (1980) suggests that firms may be driven to internationalize in order to capitalize on ownership advantages. CMNEs with internally-endowed competitive advantages such as low cost manufacturing expertise, mining or oil exploration experience may be motivated to undertake ODI in order to exploit these advantages. This motive will lead such CMNEs into developing countries and into the ownership of projects involving natural resource extraction or the manufacture of low technology products for mass markets. For example, in terms of resource extraction developing country host markets such as those in sub-Saharan Africa, Latin America or the Middle East have in the last several years become strategically important to China due to their abundance of natural resources (Tull, 2006, Zweig & Jianhai, 2005). These regions possess the oil and mineral wealth needed to support China's economic development but also allow CMNEs to exploit their internally endowed competitive advantages in the resource extraction industries.

These arguments lead to the following proposition:

P_1: CMNE subsidiaries entering developed countries are more likely to be driven by the desire to explore locally-embedded strategic assets (e.g., advanced technologies), whereas CMNE subsidiaries entering developing countries are more likely to be driven by the desire to exploit internally-endowed competitive advantages (e.g. low cost manufacturing expertise or resource extraction experience).

The mining industry illustrates how CMNEs exploit their competence developed in domestic markets. Consider the example of China Non Ferrous Metals Mining and Construction Company (NFC) which is active in the Chambishi underground mine in Zambia. In the late 1990s NFC purchased a majority stake in this mine from state-owned Zambia Consolidated Copper Mines (ZCCM). At the time of the acquisition the Chambishi mine was abandoned due to low copper prices. The mine has reserves of 33.5 million tonnes at a grade of 2.55% total copper. [1] The Chinese government (operating through NFC) invested some £83.4 million in the venture. The output from the mine is targeted to the Chinese and South African markets. Similar motives underlie joint oil exploration arrangements between China National Petroleum Corporation (CNPC), the parent company of China's largest oil producer, and Venezuela's state oil company, Petroleos de Venezuela SA (PDVSA). These companies have signed an agreement to develop the Zumano oilfields in eastern Venezuela; a move no doubt driven by China's need for energy and the need for Chinese companies to exploit their internal competitive advantages (Zweig & Jianhai, 2005).

In developed countries CMNEs' motive to explore locally embedded strategic assets is best exemplified by their desire to invest in advanced technologies. In September 2001 Holly, a CMNE evolved from a township enterprise, acquired the CDMA hand-set reference design operation from Philips Semiconductors in the U.S. This acquisition allowed Holly to access Philips's know-how, intellectual property rights and key silicon components for further development of licensed products. In this process, Holly made it very clear that the success of its internationalization will rely on acquiring competitive competencies in its specialized field (Warner, Ng & Xu, 2004).

Entry Mode Selection

One of the first and most crucial decisions in international marketing is the firm's investment approach, i.e. should an acquisition or Greenfield strategy be used. We argue that, everything else being equal, CMNEs are more likely to consider a Greenfield strategy when entering a developing country, but an acquisition strategy when entering a developed country. Several reasons may be advanced. Firstly, acquisitions make sense when FDI is used to augment a firm's capabilities (Anand & Delios, 2002). CMNEs are more likely to seek learning opportunities in developed than in developing countries where they can acquire knowledge and skills through interaction with firms based in more advanced economies (Child & Rodriques, 2005). Second, CMNEs might have to utilize a Greenfield strategy (as opposed to making an acquisition) when there are not many suitable acquisition targets. This is more likely to be the case in developing than in developed countries.

Transaction cost analysis suggests a third reason for the use a Greenfield strategy in developing countries and acquisitions in the developed world. A multinational firm's choice of entry mode will be dependent on its ability to transfer its firm specific assets (FSAs) across national borders (Coase, 1937, Demirbag, Tatoglu & Glaister, 2008). This capability is, however, dependent upon the difficulty of transferring such FSAs (Harzing, 2002) and the complexity of internally replicating locally-embedded complementary assets (LCAs) (Chen, 2008). The more difficult it is for a firm to transfer its FSA across borders and to replicate locally embedded complementary assets, the more likely it will prefer an acquisition over a Greenfield strategy. The converse is also true. We believe that CMNEs will face greater difficulty in transferring their FSAs to developed countries because of the greater gap in economic development. Industry experience and technical skills acquired by firms in China are likely to be more applicable to developing host country environments as opposed to developed country environments. For example, when entering a Western economy a CMNE is likely to feel tremendous pressure to adapt its low-cost business model to the local environment, or abandon the strategy all together. However, a low-cost operation could well be a major competitive advantage for the CMNE when entering a developing country (Cuervo-Cazurra & Genc, 2008). CMNEs will also face greater difficulty in duplicating internal locally embedded complementary assets in developed compared to developing countries because of the effect of host country development stage. By definition, developed economies are more sophisticated and thus it is more difficult for a CMNE to copy the complementary assets owned by indigenous firms. However, the CMNE is likely to be able to replicate the capabilities possessed by a developing-country firm since they operate in similar environmental conditions (Cuervo-Cazurra & Genc, 2008).

Based on the above discussion the following proposition is offered:

> P_2: CMNEs entering developing countries are more likely to utilize a Greenfield strategy while CMNEs entering developed countries are more likely to consider acquisitions.

The focus on utilizing an acquisition strategy by CMNEs when entering developed countries is observed, for example, in the well-known case of Lenovo (Liu, 2007). Originally named Legend, Lenovo was the number-one PC vendor in China in 2005 with about one-third of the market. In December 2004, the company announced that it would acquire IBM's global PC business for US$1.25 billion. The acquisition was aimed at capitalizing on the synergies between the two entities so as to create added scale and operating efficiencies for Lenovo. More importantly, the company believed that an acquisition strategy offered a more effective way than other entry mode to achieve its global ambition. Clearly, acquiring IBM PC was designed to speed up foreign market expansion and reduce cost, allowing Lenovo to rapidly acquire the necessary capabilities to compete in the more developed Western markets.

In contrast, most instances of Greenfield investment by CMNEs are observed in developing countries. Over the years, Chinese firms in domestically mature and competitive industries such as textile, home electronic appliances, and machinery have started establishing production facilities overseas. Almost all of these operations are situated in Asia, Latin America, and the former Soviet Union. Compared to the U.S. and Europe, it is relatively easy for Chinese firms to enter these emerging markets as they have access to financing, technology and equipment. It should be emphasized, however, that a major objective of CMNEs in setting up manufacturing facilities in developing countries is to build their capabilities to undertake further internationalization initiatives in the future (Chen, 2006).

Governance Structure

A key strategic decision for the CMNE relates to corporate governance in the host country. According to the knowledge-based view of the firm, enterprises combine their knowledge assets with physical, financial and other resources to create rents (Ranft & Marsh, 2008). Knowledge-based assets are inherently difficult to codify and are generally bound up in the human capital of the firm. Key experts or specialized teams within the firm may be repositories of this knowledge that has been built up over time. Further, industries will vary in their level of knowledge intensity. In entering new markets multinational companies must be cognizant of the importance of building and preserving their access to these critical knowledge assets. When MNEs succeed in gaining control of such assets in cross border transactions they are, therefore, unlikely to embark on significant management changes (Ranft & Lord, 2002). Such operations are likely to be left free to function as autonomous units with their existing host country managers.

CMNEs entering developed countries are focused on the acquisition of new information, technologies and skills. The objective of entering such markets is to interact with developed country firms and to learn. It may, therefore, be expected that in order to minimize organizational disruptions CMNE subsidiaries in these markets will utilize primarily host country managers in their operations. Host country managers embody the technical expertise and market knowledge sought by the CMNE and they are, therefore, unlikely to be replaced following a cross border transaction. CMNE subsidiaries operating in developing countries will, however, tend to utilize Chinese managers as there is no pressing need to preserve knowledge assets.

This argument leads to the following proposition:

> P_3: CMNE subsidiaries entering developed countries are likely to adopt a polycentric approach to the management of their new ventures. CMNE subsidiaries entering developing countries will likely adopt a more ethnocentric governance structure.

The CMNE's approach to governance in developing host countries is seen in the case of both Xiamen Zijin Tongguan Development Co. Ltd, and China Non Ferrous Metals Mining and Construction Company (NFC). In both of these cases company acquisition targets are managed by Chinese executives. In the case of Monterrico, the Peruvian mining company acquired by Xiamen Zijin Tongguan Development, four of the seven directors and senior managers of the company are Chinese. Further, Chinese executives hold the key positions of CEO, Technical Director and Finance Director. Based on information posted on the Monterrico website the firm is managed by expatriates.

In the context of developed countries the case of China International Marine Containers (CIMC) illustrates the approach many CMNEs have taken to manage their international operations. CIMC is the world's largest manufacturer of dry-cargo and refrigerated containers. The most important sea- and land-based logistics systems in Asia, Europe, and North America use its products, which range from regular containers to shipping equipment for energy, chemicals, and food. In 2007, the company had sales of about 50 billion renminbi ($7.14 billion), owned over 100 domestic and international subsidiaries, and employed nearly 60,000 people. According to the CEO, the company's international expansion relies on a human-resource management approach that stresses the retention of local talent to run its overseas operations, especially in the developed Western marketplace. This approach serves well the firm's aggressive domestic and global M&A program and its relentless push to innovate. For example, after CIMC acquired Burg Industries, it did not send Chinese executives to run the European unit. Instead, CIMC retained 1,600 Burg staff members in Europe to continue running the company's operations (Joerss & Zhang, 2008).

Local Marketing

CMNEs operating in developed countries are more likely to rely on outside professional services firms in the host country in order to reach their target markets. These outside professional services firms would include advertising companies and marketing research firms with deep understanding of sophisticated consumers. They will also include public relations companies with expertise in communicating with various stakeholders and established government and industry contacts. CMNEs are unlikely to possess the marketing skills to effectively reach sophisticated developed country consumers and initially are more than likely to retain outside professionals in the host country to perform that function. They are also unlikely to possess the communication skills needed to build their corporate image in advanced countries. Here again we are dealing with knowledge assets which are difficult to codify and replicate for CMNEs but which are central to the success of their marketing and communication strategies. The most effective way for CMNEs to tap this knowledge is by retaining the services of host country marketing and communication professionals. Over time CMNEs may be expected to learn and will eventually undertake these advanced marketing functions on their own.

It is reasonable to argue that when marketing to consumers in developing countries CMNEs may well utilize their own Chinese marketing and communication professionals. While some assistance from local professionals may be necessary CMNEs are more likely to already possess the marketing skills needed to reach relatively unsophisticated consumers in developing countries and communicate with relevant stakeholders. CMNEs' range of experience in marketing to consumers in their domestic market should be readily transferable to other institutionally immature host country environments.

This argument leads to the following proposition:

> P4: CMNE operating in developed countries are more likely to utilize the services of host country partners in marketing and communications to reach their target markets. CMNEs operating in developing countries are more likely to be self-reliant in marketing and communications to reach their target markets.

Huawei, China's largest telecommunications equipment manufacturer, has consistently maintained a customer-focused strategy across international markets. However, the ways by which the company "gets close to customers" are noticeably different for developing versus developed markets. These marketing strategies have been described as "direct marketing" in developing countries and "borrowed boat" in developed countries, respectively (Chen, 2006 p. 293-316). In Africa, for example, Huawei has been effective in communicating with potential customers and marketing its original, low-cost technological products directly. This strategy is appropriate not only because local customers are relatively undemanding but also because there exists a generally trusting relationship between the two people. By contrast, the company has to go to market via alliances with local companies in developed countries in light of the stiffer competition and more demanding customers. In North America, for example, the company formed a joint venture with 3Com and attempted to use the latter's distribution channels as well as brand image to enter the U.S. market. To by-pass the prolonged and complicated certification process, the company also formed a joint venture with Nortel, letting the latter to market its products to users. When Huawei began looking at the North American market, local customers tended to be very suspicious of the qualifications of Chinese suppliers.

CMNE Subsidiary Performance

There is a substantial body of literature on the financial performance of acquiring firms in cross-border merger and acquisition deals (Wang & Boateng, 2007). There has also been some work done on host country influences on parent-subsidiary relationships (Luo, 2003; Luo & Peng, 1999). The literature is, however, relatively silent on the importance of the host country environment to the performance of multinational firms. Major theoretical models such as the ecological theory, resource dependence theory and institutionalization theory do not explicitly consider the firm in a cross border context (Rosenzweig & Singh, 1991). These models do not explicitly link MNE subsidiary performance to host country environment.

The host country environment is, based on institutional economics, comprised of factors (e.g. endowed natural resources, advanced factors such as physical infrastructure and human factors) and institutions (Wan & Hoskisson, 2003). Institutions may be less tangible than factors but nonetheless play a significant role in defining the political, economic and regulatory risk factors in the host environment. The institutional environment also influences transactions costs in the host country (Demirbag, Tatoglu & Glaister, 2008). An underdeveloped institutional environment increases risk and raises transactions cost for the MNE. This will be a particularly acute problem in the context of developing country host environments.

The CMNE operating in a developing country is unlikely to be adversely affected by an underdeveloped institutional environment (Morck, Yeung & Zhao, 2008). Because CMNEs have developed under a burdensome and highly regulated institutional home environment they are far more likely to have established coping mechanisms that allow them to function in such an environment. Further, CMNEs operating in developing countries face a business environment that is relatively unsophisticated and one in which markets are less competitive. In the context of developed countries, however, it may be argued that the degree of sophistication of consumer and industrial markets and the intensity of domestic competition are likely to make profitability for CMNE subsidiaries more challenging in the short run. CMNEs in this environment must negotiate a steep learning curve in these markets and will likely exhibit weaker financial results relative to CMNEs operating in developing countries.

These arguments lead to the following proposition:

> P5: CMNE subsidiaries operating in developed countries will exhibit weaker financial performance than CMNE subsidiaries operating in developing countries.

Overall, the strategic decisions made with respect to host country selection, entry mode, governance structure and local marketing will result in a set of performance outcomes. In the case of CMNEs operating in developed country environments and which are seeking to imbibe new managerial skills, technologies and market knowledge, economic performance at least in the short run, is likely to be weak compared to their counterparts operating in developing host countries. Greater market and operational complexity and a more competitive host country environment will likely retard the financial profitability of these CMNEs. The same is not expected for CMNEs which locate projects in developing countries. As noted above these firms are motivated by the need to exploit their own internal competitive advantages and will utilize a Greenfield strategy as their preferred entry mode. They will also make heavy use of Chinese management in the host country. Without the need to learn complex managerial systems, technologies and markets it is expected that CMNEs in this group are more likely to demonstrate greater financial profitability than their counterparts operating in developed country markets.

DISCUSSION

According to our conceptual framework international managers should realize that they may face "different" CMNEs depending on where they are located. They should not, therefore, expect one solution to be effective for all situations involving Chinese firms. For example, a developing country based firm may want to explore collaborative opportunities with a CMNE that holds competitive manufacturing technologies and is anxious to expand horizontally. However, it may be very difficult to convince such a CMNE to share ownership or managerial responsibilities. CMNEs tend not to consider shared control to be necessary in a developing country context. In contrast, a developed country based firm will face a CMNE that is interested in ownership but which is flexible in terms of allowing local managers to control the day to day operations of the company. CMNEs operating in developed countries will be focused on accessing Western partners' managerial knowledge and skills.

This paper has offered observations and a preliminary conceptualization of the relationships between host country environment and CMNE strategic choices. The major limitation of the study is its reliance on published case studies and other secondary sources (e.g. corporate websites) as empirical evidence. Case studies are a useful and necessary first step in the early stages of research but the propositions advanced have to be tested with more substantive data. Before further data collection effort, however, the conceptualization advanced in this paper has to be refined and perhaps expanded. For example, we need to identify the salient dimensions of corporate governance above and beyond executive appointment. Future studies may also compare the experience of CMNEs with MNEs from other developing countries to ascertain the areas wherein CMNEs are truly unique. Such a comparison should ultimately contribute to the formulation of new theory with respect to internationalization of developing country based MNEs.

CONCLUSIONS

This paper has presented a conceptual framework of the strategic decisions made by CMNEs in developed versus developing country environments, focusing on their motives, entry strategy, corporate governance, local marketing strategies and performance. Much of the existing research on CMNEs has drawn on two perspectives – the classic eclectic paradigm and the newly proposed latecomer theorizing to advance a conceptual base. The contribution of this paper is to consider host country development stage as a key contextual variable in such conceptualization, and suggest where each of these perspectives is more appropriate.

NOTES

[1] See http://www.worldreport-ind.com/zambia/mining2.htm for additional details.

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APPENDIX

TABLE 1
NUMBER AND NET VALUE OF CROSS BORDER PURCHASES, 1990 -2009

Year	Number of Cross Border Purchases			Net Value of Cross Border Purchases ($m)		
	China	*Hong Kong*	*Taiwan*	*China*	*Hong Kong*	*Taiwan*
1990	4	16	12	1,340	501	1,387
2000	12	107	27	-307	37,704	1,776
2007	61	116	10	-2,282	-7.980	949
2008	69	110	21	37.941	-1.048	-993
2009	97	88	25	21,490	7,461	552

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics)

TABLE 2
FDI STOCKS AS A PERCENTAGE OF GDP

Country/Region		1990 (%)	2000 (%)	2009 (%)
China				
	Outbound	1.1	2.3	4.9
	Inbound	5.1	16.2	10.1
China, Hong Kong				
	Outbound	15.5	229.6	396.1
	Inbound	262.3	269.3	433.2
Taiwan, Province of China				
	Outbound	18.4	20.4	47.8
	Inbound	5.9	6.0	12.7

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics)

TABLE 3
TARGET FOREIGN MARKETS BY 500 LARGEST CHINESE FIRMS

Target Markets	Number of Chinese Firms	%
USA	107	11.40
Canada	11	0.01
EC	134	14.27
New Zealand and Australia	47	0.05
Japan and South Korea	119	12.67
Hong Kong and Macao	72	0.08
Taiwan	10	0.01
Other Southeast Asia countries	141	15.02
South America	115	12.25
Mid-west Asia	22	0.02
Africa	66	0.07
Russia and Mid-east	95	10.12
TOTAL	939	100

Source: Chen (2006).

Note: Based on a survey conducted in 2006 in which participating firms were invited to identify multiple target foreign markets.

FIGURE 1
CONCEPTUAL FRAMEWORK

Host Country Environment	Motives and Postulated Strategic Choices				Predicted Subsidiary Performance
	Motives	*Entry Mode*	*Governance Structure*	*Local Marketing & Communication*	
Developed Country	CMNEs will be motivated to explore locally embedded strategic assets and learning opportunities.	CMNEs will utilize an acquisition strategy.	CMNEs will utilize host country managers to preserve the knowledge assets of the acquired firm.	CMNEs will rely on host country partners to reach their target markets and communicate with stakeholders.	CMNEs in developed countries will experience lower profitability relative to CMNEs in developing countries.
Developing Country	CMNEs will be motivated to exploit internally endowed competitive advantages.	CMNEs will utilize a Greenfield strategy.	CMNEs will utilize Chinese managers in new ventures.	CMNEs will be self-reliant in reaching their target markets and communicate with stakeholders.	CMNEs in developing countries will experience higher profitability relative to CMNEs in developed countries.

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