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FORMS AND INSTRUMENTS OF INTERNALIZATION STRATEGIES FOR EMERGING MARKET MULTINATIONALS: THE CASE OF CHINA

The international presence of multinational companies from emerging countries presents new issues and challenges existing theories. The internationalization of multinationals from emerging countries (ECMNC) has undoubtedly become a real challenge for the existing knowledge of multinational companies. However, studies of ECMNC are be limited to reasoning on the difference by compared to multinationals in developed countries (DCMNC), but rather seek opportunities to develop a more comprehensive theory of internationalization. Among these ECMNCs, those of China seem to be the most active at present in internationalization. Linking the flow of FDI and international management help to understand how Chinese multinationals go international without possessing the necessary resources or at least, conventionally considered necessary with regard to existing theories. The strategic choice plays a vital role in successful development of the internalization of Chinese companies.

Ключові слова: internalization, development strategy, multinationals, foreign direct investments.

Problem statement. The internationalization of multinationals from emerging countries (ECMNC) offers us an important opportunity to study internationalization, because it could reveal to us elements that have been ignored in the research of the past. In general, it is increasingly recognized, both by practitioners than by researchers, that an emergence of the activities of multinationals from this which is traditionally considered the periphery of world trade is in the process of reshaping the structure of international business. Indeed, the term "multinational emerging economy" increasingly reflects a positive value in terms of its contributions to the global economy. ECMNCs probably offer us this chance to discover how a firm since its birth becomes a MNC through the development of the world. Studying Chinese MNCs has unique advantages and important opportunities in the enrichment and development of existing theories and/or news relating to the field of FDI.
and international management. In particular, it would help to understand how Chinese multinationals go international. ECMNC from China could help us to expand existing theories of several perspectives. They would shed light on the latecomer perspective (latest entrants) and the catch-up strategy, but also on the role of institutions, the interaction between entrepreneurship and the institutional environment, or the handicap of being a foreigner.

**Literature review.** The corporate strategy of international development research is widely presented in the economic and management publications. Regarding the specific issues of the corporate policies of investing the works of Gammeltoft P. D., Wang H. Meyer K., Xie Z.. The Ukrainian authors K. Deieva, M. Saenko, A. Nalivaiko, I. Nyenno. Inspired by the theory of transaction costs, Dunning integrates the notion of the specific advantage of internalization developed by Buckley. The advantage I relies on the imperfect market for intermediate products. The company struggles to assess the values of these intermediate products, it prefers to keep them inside in order to maximize the benefits it derives from it. Internalization refers to the benefits of controlling and coordinate O-benefits and L-benefits inside the company instead of selling a license to use these benefits to another. Johnson J, and Vahlne J.-E. developed the Uppsala Internalization Process Model to describe the motives for internalization paths of multinationals.

**Results and discussions.** In the case of Chinese MNCs, local institutions have “flaws” that produce at some level market failures. Market and institutional conditions do not meet probably not optimally to business needs. These constraints and pressures (eg legal uncertainty, barriers internal acquisitions, regional protectionism, etc.) contribute to the production international. On the other hand, the institutional environment in emerging countries does not favor not the protection of intellectual property, even if the technologies are available on square. It is difficult to internalize them, whereas the ECMNC try to develop in accessing technologies abroad.

The empirical study on Chinese MNCs by N. Zhou and Guillen shows that advantages of the host country are positive and significant in attracting FDI from different types. ECMNC investments are thus directed towards developed countries, these correspond well with "escape investment" - escape investment in English, escape from the institutional limits offered by their own country [10]. However, the explosion of Chinese FDI has sparked economic, political and managerial debates with regard to the involvement
of Chinese authorities in MNCs.

Moreover, the hierarchical division of the administration in geographical terms, in particular between the different provinces and cities, generates considerable transaction costs for the companies, sometimes even higher than those of internationalization [1].

However, Chinese institutions started to play a positive role after the implementation of place devices that support FDI since the 1990s. These mechanisms were then reinforced in the early 2000s by the policy of “going global " through the financing of certain investment projects at low rates interest rates, favorable exchange rates, certain tax exemptions, etc. These encouragements from the government are primarily accessible to state-owned companies (SOE – State-Owned Enterprises) part of which is strongly in line with the political objective, but they have little commercial freedom. SOEs differ in terms of type of ownership (Central State, Provinces, Municipalities), governance and percentage of shares controlled by the State. Depending on their hierarchical nature, central SOEs owned by the Chinese government and SOEs owned by regional governments differ in their international strategies as well as in their expectations, objectives and resources. Thereby, mixed-capital SOEs can more easily build competitive advantages and organizational skills than purely state-owned SOEs [6].

Since 2006, Chinese state-owned enterprises have undergone a new wave of reforms, terms of shareholding structure, which obliges them in certain cases to be taken over by collective and non-public capital, in other words a reform of partial privatization of public companies, whose ownership by SOE becomes mixed. Then, in the same way, private companies are also influenced by local institutions in terms of behavior and incentive policies. This paradox indicates that the company needs retain sufficient strategic freedom and take advantage of certain institutional supports in their internationalization.

The local institutional environment, itself, presents a double face for MNCs Chinese: on the one hand, it prevents their internationalization through artificial regulations (eg capital controls), and flaws in the design of certain incentive policies (eg round tripping investment). At the same time, he induces them on the other hand by rewards institutional (eg policy of going global) and by its nature of emergence (eg perspective from latecomer). In addition, the institutional aspect has strongly influenced the environment Chinese economy.
Thanks to China's economic opening in the 1990s, many companies foreigners were able to enter the Chinese market. Companies have also been able to forge links with MNCs from developed countries in the Chinese market. Experiences accumulated through contacts with DCMNCs inside China, ranging from import-export, ODM (Original design manufacturing), OEM (Original equipment manufacturing) or OBM (Original brand manufacturing) to the strategic alliance and the joint ventures (JVs) stimulated the internationalization of Chinese MNCs. These experiences allow Chinese companies to familiarize themselves with DCMNCs, their methods, and their high value-added products. On the other hand, the partnerships with the DCMNCs, which are favored by the Chinese authority as a condition of entry for these companies, offer companies transfer of knowledge, skills, practices and standards international exports and FDI. In addition, Chinese companies have achieved economies of scale and have been able to accumulate financial resources through export and OEM activities. Following this intentional analysis, we find 3 possible forms of links (group, networks, and peer company) that the company uses during internationalization. These overlapping shapes form an ecosystem that shapes the behavior of Chinese companies in their international development. Let us study each of these 3 forms in turn.

Group: Compared to private enterprises in China, the resources involved in the process of internationalization can be internalized by large groups of state-owned enterprises and then disseminated within them, to their various subsidiaries. Business groups in emerging economies play a partial role institutional role by creating economic value and compensating for voids institutions. The group provides the skills to overcome the gaps institutions, promote trust-based transactions, mitigate the lack of international experience and provide greater connections to networks. On their internal market, ECMNCs often obtain a certain competitiveness in relation to their ability to deal with institutional inefficiencies. This capability can to some extent be transferable to other emerging economies and can therefore be a force that pushes ECMNCs to invest in countries with structures similar institutions. The same type of mechanisms in the case of large Japanese groups until the 1990s of the last century.

According to the State Council of China (Guo Wu Yuan - the highest state authority), the formation of these enterprise groups is intended to restructure large state-owned enterprises (SOEs) into groups. inter-
industrial, inter-regional, and to transform them into national champions who will be competitive in the domestic market and in the global market. Enterprise groups, being an intermediary mechanism, allow stakeholders to share resources to reduce uncertainty institutional, to promote transactions based on trust as indicated, to transmit international experiences and resources acquired through these experiences, and provide a better network up and down the value chain. When a member becomes international, it can rely on the group's resources and thus accelerate its international development. These shared resources can create advantages, but the group can also generate disadvantages for the member companies; for example, they must support certain collective strategies and degree of freedom in internationalization is thus reduced.

Networks: A second business-to-business link focuses on social networks and professionals described by the term “Guanxi”, which also play an important role during the process of internationalization of Chinese companies. This is especially true for SMEs by contributing to the identification of opportunities in terms of information and knowledge. Other empirical studies have in particular underlined the importance of the networks of the country of origin in the creation of subsidiaries in abroad while reducing information asymmetry. The network differs from the business group, in that the links within the network are not about ownership, but rather about personal relationships, organizational or trust. Chinese companies were strong dependent on ethnic, linguistic and cultural networks, in other words on the assets relationships, however this seems less obvious now, and the Chinese companies behave more riskily.

Peer company: Third, the “Copycat” phenomenon has been widely discussed in work on MNCs in emerging countries. Neo-institutional theory considers institutions as shared rules, beliefs and norms that contribute to the legitimacy of business behaviors. In a relatively stable international environment, companies can adopt a behavior of isomorphism relative to those which seem to them legitimate within their organizational field. The ECMNCs, especially those in China, seem to maintain a follower strategy - "follow the leader " . They take the DCMNCs as models in order to launch their own international development in terms of standards, practices, etc., to reduce the LOF. Gammeltoft et al. [4] and Xie and Li [9] specify that ECMNC does not (only) follow leaders who have maximum resources internal, but rather those who most resemble them in terms of
internationalization. Furthermore, the DCMNC are not only examples for learning, but also a strength of significant competition which has a huge impact on the operation of their main market, the Chinese market. In fact, despite the protectionist institutional mechanisms, these DCMNCs have more and more penetrated, sometimes even dominated the Chinese market. So the companies Chinese companies, being weak, either collaborate with DCMNCs (JVs, OEMs, etc.), or enter into competition with them. But, whatever the case, they probably suffer from an inequality of distribution of profits in a macroeconomic environment where the integration of the global economy is proving to be increasingly strong [7]. This prompted companies Chinese companies to internationalize as a latecomer to catch up with DCMNCs while adopting probably a different path depending on their idiosyncratic resources. Here, the principle of «follow the leader» is not in contradiction with idiosyncratic development, provided the leader is considered as legitimate in the structure. Especially since the institutional environment in China is currently not stable due to the economic transition (e.g. mixed ownership reform, belt and road initiative) that stimulates FDI.

As mentioned before, these risky behaviors only seem legitimate to us by combining the different contexts (institutional, social, economic) in which Chinese companies are rooted. In summary, the environment of Chinese MNCs can be considered as an ecosystem, which interacts with Chinese companies under different forms (competitive/collaborative) influenced by the institutional environment and the efficient market mechanisms.

Although the international activities of Chinese companies are mainly based on certain country specific advantages) such as low cost labor, combined in some cases with assets accumulated during the post-liberalization period of the market Chinese, these assets do not seem sufficient to reduce the liability on foreignness, when the company operates in a new market, especially that of a developed economy. They can face cultural, linguistic, strategic conflicts, etc.

The internationalization of Chinese companies requires new knowledge of management and coordination of a larger and more complex structure in order to counter the persistent disadvantages in their international development.

Since 2009, China has been one of the most important exporting countries in the world, its trade with Europe is increasing year after year.
Therefore, the barriers to entry established by the governments of the host countries have also favored Chinese FDI, with FDI being a means of circumventing obstacles to international trade.

**Internal motives.** As for the study of Chinese companies' motivations for internationalization, there are several, which can mostly be included in the typologies proposed by Dunning and Lundan, with a few exceptions: market research; efficiency; assets strategic and natural resources [3].

With the rise of Asian MNCs, the patterns have clearly caught the attention of researchers. The perspective of asset exploitation no longer seems the only point of view to understand internationalization phenomena. Since adopting the asset exploration perspective, the link between firm specific advantages and a firm's internalization strategy no longer seems necessary. In other words, instead of exploiting its own resources and assets, FDI allows them to develop them to better exploit them. Thereby, the exploitation of resources can be considered as a factor of internationalization for the companies that own them. On the contrary, resource exploration can be considered as a factor of internationalization for the companies which try to obtain. In the case of China, Chinese MNC seem to take both approaches. They engage in emerging economies to exploitation of assets, and in developed economies for the exploration of other assets and resources in order to reduce their disadvantages or build a competitive advantage.

Y. Wang and Suh suggested that the internationalization of firms can mainly be studied in two approaches: 1. the operation of the assets which includes the market research; 2. Asset exploration which includes finding resources of strategic assets [8]. FDI for research market is one of the most important motives. In fact, companies from China have realized that it has become necessary to internationalize, because the market domestic has become part of the global market. Moreover, it seems that they seek to access nearby markets, particularly in other markets emerging.

Through internationalization, these Chinese enterprises exploit their advantages from their country of origin (eg low-cost labour, etc.) and the know-how accumulated during the export process. They were able to accumulate savings scale, after reducing distribution costs and overcoming barriers commercial. The experience in exporting encourages Chinese companies to seek new opportunities in the face of strong competition in the local market. As for the presence of DCMNC, one of the main challenges
for ECMNC is to establish an advantageous position in the host market despite their latecomer status. Of similarly, the imitator perspective - "copycat" - sees them as actors weak that do not have competitive advantages over DCMNCs. However, ECMNCs outperformed their counterparts from developed countries, when they enter other emerging markets. These companies seem less blocked by existing systems, they have a capacity to transformation that allows them to generate capacities that correspond better to the requirements of the new global environment. These capabilities can be those from their affiliate groups and networks, but also managerial and technological capacities adapted to the conditions of the host country.

In different typologies mentioned in the literature, the commercial reason for example, downstream value chain extension, the growth, or the motive to sell more, all correspond to the market research in the as businesses seek to increase revenue and reduce costs units by increasing their sales. For export-intensive sectors, the market-seeking motive of Chinese MNCs is becoming a strategic consideration, as the Chinese market has become a part of the world market. In other words, some companies that pursue the search for market, do not tend directly to obtain economies of scale, but rather in a way indirect. The company, which wishes to obtain market knowledge (eg marketing, advertising, branding, sales, after-sales service) downstream of the value chain, could be classified by the motive of seeking downstream knowledge – “downstream knowledge seeking”. Through merger and acquisition (M&A) cases, acquirers can benefit from acquired capabilities during the purchase and post-purchase period, which will contribute to the consolidation of their competitiveness not only in local and host markets, but also in markets long-term third party. The stories mentioned above seem to be linked more to the search for assets strategic than market research.

The search for strategic assets is one of the most important motives in Chinese investment. Chinese companies being latecomers that are little competitive in the global market, FDI allows them to close the gap with the leaders of their markets while building networks and acquiring assets and resources strategies. These acquired assets and resources help them reduce the disability with regard to the lack of O advantages. This type of investment often involves upgrading technologies, as evidenced by Lenovo and ZTE, who see FDI as a way to obtain technology and human resources. To be able to create competitive advantages from technologies, a sufficient
absorptive capacity relative to the strategic assets acquired is necessary. By example, companies like Lenovo and Hai'er, have developed a solid base of know-how that allows them to absorb technologies from developed markets.

These assets and resources are obviously in companies in developed countries, which often position themselves upstream of the value chain, in particular in technology-intensive sectors. In the case of M&A, the companies are engaged in a process of learning technologies in order to catch up delays. In addition, the lack of managerial capacities and knowledge of environment encourage them to preserve the target company.

Apart from finding strategic assets in terms of technology, there are other resources that are often downstream in the value chain, such as the brand, sales networks, etc. These assets are also considered a source of competitiveness, but they differ from those of technologies in several respects. First, these assets do not require absorptive capacity to acquire them, but often can be combined with company assets. For example, Lenovo conducted an acquisition of 80% of the German company Medion to consolidate the European market and expand its distribution network in shopping centers. Secondly, these assets are not only found in developed economies, but also in emerging or underdeveloped economies. For example, Liugong Machinery, a manufacturer major construction equipment company, acquired a division of Huta Stalowa Wola in Poland and its distribution subsidiary, Dressta, in 2012. Finally, the company that acquires these assets is registered for the purpose of exploiting them, so it does not need to preserve the target company.

Similar to the search for strategic assets, the institutional circumvention pattern – escape motivates – which leads a company to go and do elsewhere what it cannot do at home for institutional reasons, provides an external perspective explaining the investment international. In this case, the activities of the company in the country of origin can be reduced.

In the context of technology research, Chinese companies are collaborating with DCMNC through OEM and joint venture activities in China/ To protect their resources, DCMNCs limit technology transfers to their Chinese partners. To circumvent this constraint, Chinese companies engage in FDI in the form of M&A projects and/or organic expansion. The search for strategic assets linked to foreign markets is more a continuation of export activities. This is consistent also to the Uppsala model, while the links forged with the DCMNCs in the market domestic serve, in our view, as
a catalyst that accelerates the internationalization of Chinese companies. These links have more effects in natural resource seeking and efficiency motives.

Chinese companies follow Chinese government requirements; they continue the research of natural resources by investing in foreign countries in order to support the economic development of China. Several Chinese companies link their international expansion to the pursuit of political goals. In the idea that some resources of a country are not mobile, companies, especially those that produce from natural resources, tend to secure their upstream sourcing through internalization. They seek out or exploit the resources and capacities available in the host country. To buy better – buy better, these companies transfer their capacities to their units abroad and integrate into the development of their competitive advantages. So, unlike research market, the company may reduce operations in the domestic market to support the increase of its activities abroad. For example, the phenomenon of relocation of Chinese factories to countries such as Vietnam, Cambodia or Africa.

To promote a more efficient division of labor, or to specialize a portfolio of existing assets, MNCs engage in efficiency-seeking type FDI that are often sequential, after investments of natural resources and search for market. On the one hand, although research investment of efficiency, at a macroeconomic level, is part of the idea that countries underdeveloped countries with relatively low labor costs attract MNCs from more developed, from the micro point of view of the companies considered, however, research efficiency occurs when the investor and the company in which he invests are at approximately the same position in the value chain in order to reduce the cost of production. This type of investment is still infrequent in the internationalization of Chinese companies, because they are just starting out in internationalization. In our opinion, once they reach a certain level in this process, investments will be oriented more towards increasing efficiency than towards search for markets and natural resources. On the other hand, some Chinese companies have done well in internationalization, and possess many resources of different activities and various geographical areas. The overall level of integration of their resources leads them either towards specialization as shown above, or towards trans nationalization. The latter aims to better penetrate local networks and transmit knowledge acquired by other subsidiaries in order to
better adapt to different markets.

For example, after an internationalization phase, the Hai'er company has adopted a localization strategy in each country where it operates and this strategy allows it to obtain more market share through a process of personalization of activities according to local characteristics relating to their culture and their consumption behavior.

Overall, the motives of Chinese companies in internationalization can be classified almost all in Dunning's typology. Exploitation and exploration of assets coexist in the case of Chinese investments. The reasons for exploration of the assets are established: under the conditions precedent relating to the activity export, in the search for distribution networks and foreign market knowledge; in the relationship established in the internal market with the DCMNCs in the search for assets strategic in terms of technologies, brands, etc.; in the relationship established with certain foreign companies from emerging and underdeveloped countries and in the pursuit of government policies in the search for natural resources. For the exploitation of assets, in general, Chinese companies: use type O competitive advantages to maintain their market research in emerging economies or in underdevelopment; they use assets linked to their country of origin for research market in developed economies.

However, some companies develop a variety of activities abroad simultaneously with a set of different patterns. One need not be more important than others. In addition, for various competitive reasons, some of the companies are unable or unwilling to disclose their investment motives to abroad.

**Conclusions.** Strategic policies have played an important role on the internationalization of Chinese companies for both state-owned and private companies, whether it is a force that prevents certain companies from develop internationally, or whether it is a factor in the promotion of Chinese FDI in from the 2000s. Some of the companies are part of a classic perspective operating competitive advantages like Western companies. While others rather adopt a catch-up strategy in order to gain competitive advantages. They then strive to acquire existing structures rather than implementing organic development, because adopting M&A as a mode of entry makes it easier to obtain assets strategic. Some companies that have a certain capacity entrepreneurial either because of their nature of activity or because of the international experience of their leaders. This type of
company was able to internationalize very early thanks to personal networks and professionals who have been built before as lifted in both frames theories mentioned above. A few companies from China continue their international activities in developed countries to better consolidate their internal market. Companies use a recursive «inside-out and outside-in» approach to pursue their development. When Chinese companies adopt a merger strategy and acquisition, the risks of failure are found upstream and downstream of the project. In phase preparatory to the acquisition, the Chinese firm sometimes takes little account of the state of acquired company, which could often place it in a critical situation. In the post-acquisition period, the lack of managerial skills and experience proves important and is a concern for Chinese firms regarding the management of problems related to the difference in context and culture.

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**ФОРМИ ТА ІНСТРУМЕНТИ СТРАТЕГІЙ ІНТЕРНАЦІОНАЛІЗАЦІЇ МУЛЬТИНАЦІОНАЛЬНИХ КОМПАНІЙ З КРАЇН, ЩО РОЗВИВАЮТЬСЯ – ПРИКЛАД КИТАЮ**

Інтернаціоналізація транснаціональних компаній із країн, що розвиваються (ECMNC) пропонує нам важливу можливість для вивчення інтернаціоналізації, оскільки вона може відкрити нам елементи, які були проігноровані в дослідженнях минулого. Загалом, як практиками, так і дослідниками, все більше визнається, що поява діяльності транснаціональних корпорацій із цього місця, яке традиційно вважається периферією світової торгівлі, перебуває в процесі зміни структури міжнародного бізнесу. Дійсно, термін «мультінаціональна компанія з країни, що розвивається» все більше відображає позитивне значення з точки зору її внеску в глобальну економіку. ECMNC, ймовірно, пропонують нам цю можливість дізнатися, як фірма з моменту свого народження стає багатонаціональним підприємством через розвиток світу. Вивчення китайських МНК має унікальні переваги та важливі можливості для збагачення та розвитку існуючих теорій та/або новин, що стосуються сфери ПІІ та міжнародного менеджменту. Зокрема, це допомагло б зрозуміти, як китайські транснаціональні компанії виходять на міжнародний рівень. ECMNC з Китаю може допомогти нам розширити існуючі теорії з кількох точок зору. Вони пролила б світло на перспективу тих, хто запізнився (нові учасники) і стратегію назгодання, а також на роль інституцій, взаємодію між підприємництвом та інституційним середовищем або недоліки статусу іноземної компанії.

Страте́чна політика зіграла важливу роль в інтернаціоналізації китайських компаній як для державних, так і для приватних компаній, незалежно від того, чи є вона силою, яка перешкоджає новим компаніям розвиватися на міжнародному рівні, чи це фактор сприяння китайським ПІІ з 2000-ті роки. Деякі з компаній є частиною класичної перспективи, що використовує конкурентні переваги, як західні компанії. У той час як інші радше приймають стратегію назгодання, щоб отримати конкурентні переваги. Тоді вони прагнуть придбати існуючі структури, а не впроваджувати органічний розвиток, тому що прийняття М&A як способу входу полегшує отримання стратегічних активів. Деякі компанії, які мають певну підприємницьку здатність або через характер своєї діяльності, або через міжнародний досвід їхніх лідерів. Цей тип
компанії змог вийти на міжнародний рівень дуже рано завдяки особистим мережам і професіоналам, які були створені раніше. Кілька компаній з КНР, які продовжують свою міжнародну діяльність у розвинених країнах, щоб краще консолідувати свій внутрішній ринок. Компанії використовують рекурсивний підхід «зсередини назовні та ззовні всередину», щоб продовжувати свій розвиток. Коли китайські компанії приймають стратегію злиття та поглинання, ризики невдачі виявляються на початку та на прикінці проекту. На етапі підготовки до придбання китайська фірма часом мало враховує становище придбаної компанії, що часто може поставити її в критичну ситуацію. У період після придбання недолік управлінських навичок і досвіду виявляється важливим і викликає занепокоєння китайських фірм щодо управління проблемами, пов’язаними з різницею в контексті та культурі.

**Ключові слова:** інтерналізація, стратегія розвитку, мультинаціональна компанія, прями іноземні інвестиції.

**Список використаної літератури**