

Stages and Patterns of Internationalization of the Chinese-Owned Firms: Market-Seeking versus Resource-Seeking Firms

by

Roberto Curci

Butler University, Indianapolis, IN

Ling-Yee (Esther) LI

Lingnan University, Hong Kong

Robert Mackoy

Butler University, Indianapolis, IN

This study compares and contrasts Chinese firms with internationally active value chains that started their internationalization efforts by engaging in international revenue generation or downstream value chain activities (defined as market-seeking firms) versus those that began through international sourcing or upstream value chain activities (defined as resource-seeking firms). Face-to-face survey interviews conducted with firm managers during the autumn of 2011 yielded complete data for 308 Chinese firms. Our findings suggest firms that start their internationalization process by engaging in “market-seeking” behavior showcase better performance than those that begin by engaging in “resource-seeking” activities. In addition, financial indicators are found to be strong factors that discriminate between market-seeking and resource-seeking Chinese firms.

1. Introduction

This study contributes to the understanding of the stages and patterns of the internationalization of mainly privately owned small and medium-size enterprises (SMEs) headquartered in Hong Kong and China’s Pan-Pearl River Delta Region. All firms, including those described in this study, may be deemed domestically focused or internationally engaged; specifically, firms may have value chains reliant on domestic markets (upstream and downstream value chain activities associated exclusively with Chinese markets) or they may have internationally dependent value chains (upstream and/or downstream value chain activities linked to international markets). International path movements followed by Chinese firms as they move from being domestically focused to internationally engaged are identified and the “market-seeking” and “resource-seeking” patterns are selected for study.

Face-to-face survey interviews conducted with firm managers during the autumn 2011 yielded complete data for 308 Chinese firms. Our findings suggest firms that start their internationalization process by engaging in market-seeking behavior showcase better performance than those that begin by

engaging in resource-seeking activities. In addition, financial indicators are found to be strong factors that discriminate between market-seeking and resource-seeking Chinese firms.

With an annual gross domestic product (GDP) growth rate averaging 10 percent in the last two decades, China is now one of the world's largest economies and a major trading partner with multiple economic unions and countries (e.g., the EU, the U.S. and Japan). In 2007, worldwide exports reached US\$13.7 trillion, and that year China became the largest exporter, with US\$1.22 trillion in exports, surpassing for the first time the United States with US\$1.14 trillion (see the World Fact Book published by the U.S. Central Intelligence Agency). China began to liberalize its economy for trade and investment in the late 1970s, and since then it has been deepening its integration with the global economy. It became an excellent value creation platform as well as a strategic location for firms to create value and improve performance (Gao et al., 2010). In the 1980s and 1990s, multinational companies from around the world began establishing manufacturing operations in China to capitalize not only on its strong economic growth and huge market size but also on its relative lower labor cost. During those decades, a substantial portion of the exports from China to the rest of the world could have been associated with the activities of foreign multinational companies operating in China; however, this trend has been changing in the 2000s. Specifically, thousands of Chinese-owned firms (large corporations as well as SMEs) are nowadays extremely active players in worldwide export markets. Indeed, the government in China has not only adopted a nontraditional flexible and practical approach to regulate the international business activities of Chinese-owned firms but also promoted heavily such internationalization efforts (Liu & Li, 2002). As a consequence, today many Chinese-owned firms have become emerging multinational corporations (so-called EMNCs). This study is one of the first to comprehensively evaluate the internationalization processes of many of these firms.

The rest of this paper is organized as follows: first, the literature review discusses firm internationalization within the Asian context, firms' degree of internationalization, and the internationalization patterns of firms; second, the research methodology explains the approach adopted to implement this study; third, the research findings present the characteristics of survey respondents (e.g., firm size and industry representation), their stage of internationalization, their management attitudes toward internationalization, their patterns of internationalization, and also performance indicators for survey respondents classified as market-seeking and resource-seeking Chinese firms; and lastly, the conclusions section presents managerial implications and recommendations regarding future research.

2. Literature Review

In spite of substantial levels of cross-border trading and investment activities originating in emerging markets such as China, most prior internationalization studies focus on the internationalization processes of companies from developed economies rather than from emerging markets (Dunning 1998; Dunning 2008). In addition, secondary data is not typically available for SMEs (from developed or emerging markets), which has traditionally limited the number of studies and as such our knowledge and understanding of the development processes for these types of firms (studies that have focused on the internationalization of SMEs include Jansson and Sanberg, 2008; and Knight, 2001). Existent studies (e.g., Buckley et al., 2007) that used secondary aggregated data from China's Ministry of Commerce, were unable to explain the locational choices of individual Chinese outward foreign direct investment

(OFDI) decisions. Moreover, previous empirical studies used official data up to the 2001 period to report Chinese OFDI undertaken by state-owned enterprises, and hence did not cover Chinese private enterprises' OFDI decisions when the ban on private enterprises was lifted in 2003. Therefore, a deeper understanding of how SMEs from emerging markets such as China become internationally integrated over time is still needed.

In line with the strategic behavior theory of foreign direct investments (Dunning 1977), firms may invest abroad in order to capture location-specific advantages such as cheap labor, abundant material inputs, proximity to market, sizable local demand, etc. According to strategic management scholars (Buckley 2007, Luo 2007, Lin 2009), the outward foreign direct investment (FDI) decisions made by EMNCs could be explained by two types of strategic motivations, namely market-seeking motives and resource-seeking motives. For instance, motivated by the importance and size of developed economies (like the U.S., Japan, and the EU), Chinese multinationals enter into these markets by setting up sales and marketing subsidiaries. Alternatively, attracted by the abundant availability of raw materials and supplies in other emerging markets or less developed economies (such as African countries), Chinese multinationals establish sourcing and/or production operations in those types of host economies. In essence, emerging market multinationals such as those developing in China may be driven by different strategic motives; they expand internationally sometimes by engaging in downstream value chain activities and other times by engaging in upstream value chain activities. We expect the more advanced firms will orchestrate value chain activities by simultaneously engaging in both downstream and upstream value chain activities internationally.

While market-seeking Chinese firms pursue downstream value chain activities internationally (e.g., setting up sales and marketing subsidiaries abroad), resource-seeking Chinese firms focus on carrying out upstream value chain activities (e.g., setting up sourcing and production subsidiaries abroad). Furthermore, in keeping with the concept of a smile curve of value creation (Matthyssens and Vandenbempt, 2008), a firm can create additional value for its international customers by pursuing downstream activities in overseas countries and at the same time by assuming “business-process-integration,” which may imply offering extra administrative, financing, or logistic support to its foreign clients. Alternatively, a firm can add value for its international customers by pursuing upstream value chain activities abroad and assuming “technical-process-integration” in terms of fine-tuning standard technical solutions to cater to specific requirements of its foreign clients.

In light of the shortcomings of previous approaches for studying the internationalization processes of business organizations, this study provides a new scheme of understanding this dynamic phenomenon. In support of the strategic behavior view on FDI, the present study examines Chinese firms that engage in international business by: (a) applying a typology of the firm's value chain internationalization process to identify the stage of internationalization of Chinese firms, ranging from domestically focused to an intermediary stage of internationalization (e.g., engaged in upstream or downstream value chain activities internationally) to a more advanced stage of internationalization (e.g., engaged in both upstream and downstream value chain activities internationally); (b) identifying the patterns of internationalization of Chinese firms by ways firms migrate from being domestically focused to internationally engaged; and (c) comparing and contrasting firms that have reached an advanced stage of internationalization by following two strategic patterns: the market-seeking and the resource-seeking patterns across performance, structural, and attitudinal profiles.

The Uppsala Model (Johansson and Vahlne 1970) is a theory that suggests firms first accumulate knowledge and experience within a domestic context before they expand internationally (which represents one of the earliest efforts to model the underlying processes in a firm's international expansion). This theory suggests that as firms engage in business activities in more distant or dissimilar foreign markets, they accumulate more complex knowledge and experience. A higher state of international sophistication makes firms more likely to increase their level of international market commitment that typically requires more resource-intensive market entry modes. Therefore, according to this theory, a firm's internationalization process can best be conceived as a "chain of establishment" that exposes the firm to increasingly sophisticated market entry modes such as indirect and direct exporting, licensing or franchising agreements, joint ventures, and foreign direct investments. More advanced or sophisticated foreign market entry modes require firms to commit higher levels of resources; however, such modes also provide firms with higher levels of control. Despite its logical deduction, the Uppsala Model has been criticized in several ways (Johansson and Vahlne, 2009). For instance, it is argued the model is too static and does not capture or explain new phenomena such as the so-called born-global firms (Knight and Cavusgil, 1996; Rennie, 1993).

Additional research effort is called for to go beyond the adoption of increasingly committed market entry modes and to do in-depth investigation into businesses' many other internationalization activities and processes up and down the value chain when they operate abroad (Adler et. al., 2009; Fillis, 2001; Griffith et. al., 2008). In contrast to the gradual internationalization process conceptualized under the Uppsala school, Sullivan (1994) focused his investigation on the Fortune Global 500 multinational corporations and measured firms' degree of internationalization (DOI) by identifying firms' performance, structure, and management attitudes towards internationalization. According to his findings, DOI can be measured by an index that takes into account performance levels in terms of export intensity, structural characteristics in terms of the percentage of subsidiaries and employees located outside the home country, and attitudinal attributes in terms of top management's international experience and cultural comfort level encountered when operating overseas. Although the DOI index sheds light on those sophisticated international businesses by profiling their very high export intensity, their foreign-based subsidiary and employment network, and their managers' international experience and cultural mix, the index in itself does not explain any cause-effect relationships. The DOI approach may be deemed to have major shortcomings in that: (1) the index might be more applicable in assessing very big multinational organizations' profound activity profile than those just starting to internationalize such as mini-multinationals or EMNCs; and (2) the index does not identify how MNC's managerial attributes affect its decision-making process, including the scope of subsidiary location, scale of resource commitment, etc. This conceptual connection is important since such decisions affect firm performance. Future research is needed to examine the drivers, the processes, and the outcomes of the internationalization phenomenon. This study, nevertheless, uses DOI performance, structural, and attitudinal variables to compare and contrast the patterns of the internationalization of Chinese firms.

3. Hypotheses

The market-seeking pattern of internationalization includes firms whose value chain activities were originally focused in Hong Kong or Chinese markets that subsequently began engaging in international downstream value chain activities (selling products/services internationally) and that later

expanded internationalization efforts through international upstream value chain activities (e.g., international sourcing). The resource-seeking pattern of internationalization includes firms whose value chain activities were also originally focused in Hong Kong or Chinese markets that subsequently began engaging in international upstream value chain activities (e.g., sourcing raw materials internationally) and that later grew internationalization efforts through international downstream value chain activities (selling products/services internationally).

To compare market-seeking and resource-seeking patterns of internationalization, we propose hypotheses that are related to a firm's degree of internationalization and are derived from the extensive literature on international business. Specifically, according to Sullivan (1994), "The degree of internationalization (DOI) of a firm has three attributes: performance (what goes on overseas, Vernon [1971]), structural (what resources are overseas, Stopford and Wells [1972]), and attitudinal (what is top management's international orientation, Perlmutter [1969])." In general, the hypotheses are structured to compare the attributes, characteristics, and/or degrees of internationalization of firms across two major internationalization patterns that we refer to as the market-seeking and the resource-seeking patterns of internationalization. The measurements of performance, structural, and attitudinal variables will be compared between the two groups. In general, we expect that market-seeking firms will perform better than resource-seeking firms; that market-seeking firms will have different organizational structures than resource-seeking firms; and that the attitudes toward the internationalization of market-seeking managers will be different from those of resource-seeking managers.

3.1 Performance Hypothesis

The survey instrument asked respondents to indicate how much they believe their company's management team would agree or disagree with a series of statements that measure the extent to which international activities have contributed to firm performance. The following perceptual performance related hypothesis is developed:

(H1) Firm Performance: Managers of market-seeking firms will agree more strongly with statements that suggest international business (IB) activities have had a positive effect on firm performance than managers of resource-seeking firms. We argue firms that start their internationalization process by seeking markets internationally are more likely to generate value and as a result they will have better profits and performance. Higher profitability levels may be associated with higher revenues generated from international downstream value chain activities than from lower cost of operations incurred by engaging in international upstream value chain activities. Thus, hypothesis 1 is stated as follows:

H1: Managers of market-seeking firms will identify a greater positive effect of internationalization on firm performance than managers of resource-seeking firms.

3.2 Structural Hypothesis

The survey instrument asked respondents to indicate whether their company has committed resources to international business activities and the extent of such commitments. The kinds of resource commitment for a firm's international business operations under the current investigation take many shapes consisting of: percentage of the company's stock and shares owned by foreigner investors,

percentage of subsidiaries located in foreign countries, percentage of employees stationed overseas, percentage of purchasing costs incurred overseas, and percentage of total liabilities owned to foreign entities. According to the Uppsala school, as a firm increases its international experience, it would step up its resource commitment by entering foreign markets with resource-intensive modes such as acquiring foreign companies or setting of wholly owned subsidiaries. It is argued, however, that a firm's resource commitments for a foreign market should not be mixed with its market entry mode strategies for the specific market under concern. In fact, a firm can increase its resource commitment in varied ways to cater for its different purposes when entering into different foreign markets. Whereas foreign acquisitions is a legally legitimate method for a firm to gain access to raw material resources available in specific country locations, importing and exporting modes are alternative viable modes for the firm to gain access to demands and sales orders from various foreign country markets. In short, different kinds of resource commitment for different foreign markets are to be expected. Nonetheless, it is worthwhile noting that a growing number of multinational corporations tend to configure its international business operations in favor of a pattern of disperse value chain activities (Hill 2012). Such a dispersed value chain configuration usually involves a combined approach with concentrating the firm's production in a few country-specific locations to capture low-cost factor endowment effects in the first place, and followed by using exporting to deliver the concentrated production outputs to cover a large number of foreign markets in a subsequent place. It is therefore expected that resource-seeking firms that buy off foreign resources through resource-intensive acquisition modes, could have a small number of foreign subsidiaries. They restrict their foreign sourcing and production operations to just a few countries for the sake of location-specific advantage as well as low-cost advantage through concentrated production and experience-curve effect. In contrast, market-seeking firms that follow a market spreading strategy could enter many countries through setting up of a large number of foreign sales subsidiaries. We hence anticipate that the proportion of resources committed to internationalization will be higher for market-seeking firms than for resource-seeking firms. Therefore, the following structural-related hypothesis is developed:

(H2) Foreign Subsidiaries: market-seeking firms will showcase a higher percentage of ownership of foreign subsidiaries than resource-seeking firms. We argue Chinese firms that start their internationalization process by engaging in international downstream activities are more likely to own foreign subsidiaries. We hypothesize that a firm's ownership of foreign subsidiaries will be positively associated with the market-seeking pattern of internationalization. Therefore, hypothesis 2 is stated as follows:

H2: Market-seeking firms will own a higher percentage of foreign subsidiaries than will resource-seeking firms.

3.3 Attitudinal Hypothesis

The survey instrument asked respondents to indicate how much they believe their firm's management team would agree or disagree with a series of statements that measure the extent to which managers are internationally oriented and globally minded. We expect market-seeking managers will be more internationally knowledgeable and oriented and will have a higher level of commitment to internationalization than resource-seeking managers. We argue firms that start their internationalization process by downstream value chain activities are more likely to be globally minded and knowledgeable. In general, we argue it is more difficult to start the internationalization efforts by selling internationally

than it is by sourcing internationally. The following perceptual attitudinal related hypothesis is developed:

(H3) Perceptions on international competition: Managers of market-seeking firms will perceive a higher degree of international competition than resource-seeking managers. We expect that firms that start their internationalization efforts by engaging in international downstream value chain activities will be more likely to perceive the level of competition in overseas markets as more intense than resource-seeking managers. These managers may have more comprehensive and diverse international experiences and therefore may be in a better position to judge the level of firm competition in overseas markets. Thus, hypothesis 3 is stated as follows:

H3: The perception of a firm's level of overseas competition will be higher for market-seeking managers than for resource-seeking managers.

Some internationalizing firms engage in international market-seeking behavior (international downstream value chain activities) exclusively and others focus on international resource-seeking activities exclusively (international upstream value chain activities); however, a higher potential for value creation exists when firms orchestrate international upstream and downstream value chain activities simultaneously. Firms may achieve higher levels of revenue and/or lower levels of cost by tapping into strategic markets around the globe; nevertheless, we recognize in some instances domestic markets may be sufficiently large and efficient for firms to optimize value creation within them. Today, as global market conditions change, firms are required to adjust their international value chain networks to remain competitive.

4. Research Methodology

The present study defined its population as manufacturing firms which have production facilities set up in mainland China, and that internationalize downstream, upstream, and/or both types of value chain activities through exporting/importing activities and/or outward foreign direct investment activities (e.g., setting up sales and marketing subsidiaries, production subsidiaries, or research and development subsidiaries). This study collected its data from two major international trade shows held in Hong Kong whereby Chinese exporting manufacturers came and participated as exhibitors in the international trade shows to establish or manage business relationships with foreign buyers and sellers. Only respondents who indicated they were headquartered in either Hong Kong or mainland China were included in the sample.

4.1 Sample Design and Selection

A face-to-face survey (available in English and traditional Chinese) was administered to collect data from respondents who represented business owners and/or managers of Chinese firms that participated as exhibitors in one of two major international trade shows held by the Hong Kong Trade Development Council (HKTDC). Managers could answer the survey based on the firm as a whole or based on the firm's most important line of products/services or strategic business unit (SBU). If the firm operated multiple strategic business units (SBUs) or lines of products/services managers were asked to provide their answers focusing on the most important strategic business unit or line of products/services.

The current study focuses on two globally competitive industries: the electronics industry and the clocks and watches industry. In the last couple of decades, these two industries have become major export sectors of the Chinese economy. For firms to compete in these global industries, they are required to be innovative and to have internationally orchestrated value chains (two conditions considered critical for firm performance and competitiveness). The exhibitor directory of the Hong Kong Clocks and Watches Fair (September, 2011) was used as one of the sampling frames. As the largest timepiece exhibition in Asia, this trade fair attracted a total of 700 clock and watch manufacturers consisting of 500 from Hong Kong, another 100 from Mainland China, and the remaining 100 from the rest of the world. In addition, this study used the Directory of the Hong Kong Electronic Fair (October 2011) as its sampling frame for this trade fair which is the largest of its kind in Asia and the second largest in the world, attracting 3,150 exhibiting firms in autumn 2011, out of which 2,030 were exporting firms from Hong Kong and China. As the events of choice for the selected industries, these fairs represent a good venue for the current survey of firms doing international business out of China. The total population of the combined sampling frame added up to 2630 firms that is composed of 600 Hong Kong or mainland-based clocks and watches manufacturers and 2030 Hong Kong or mainland-based electronics manufacturers. Out of this sample frame of 2630 manufacturers, one out of 13 was randomly drawn, and 348 companies were selected and interviewed. The final sample used for analysis was further reduced, however, as only 308 companies were deemed to have provided us with complete answers to the questionnaire.

Given that sampled firms participating in each trade show were headquartered in either Hong Kong or Mainland China, and that there may be relevant significant differences between firms based on location of firm headquarters, we conducted difference of means tests for all variables included in this study. There were no statistically significant differences between Hong Kong based firms and Mainland China based firms for any of the variables analyzed and reported in this study. Therefore, firms based in each location were combined into a single sample for further analysis.

4.2 The Survey

A survey questionnaire was developed first in English, then translated into traditional Chinese, and finally translated back into English following standard multilingual and multicultural research methods. Several revisions of the translation were made to modify the wording of some questions to increase equivalence and clarity. The final questionnaire contained over 75 items related to the international business engagement of respondents, their internationalization of value chain activities, the characteristics of their businesses, and the attitudes of managers.

This research project included both qualitative and quantitative methods. Qualitative research methods in this project were especially useful for evaluating topic coverage, modifying question wording, determining the relevance of response categories, and adding issues of concern to businesses. The questionnaire was pretested with managers whose firms are representative of the group of firm respondents from Hong Kong and mainland China. Managers' feedback was very valuable to improve the clarity and sequence of the final questions.

Quantitative research was used to make estimates about the population of interest, for determining how widespread characteristics, perceptions, and opinions are within this population, and for

identifying key differences among subgroups of interest. Briefly, the research process included the following:

- 1) Researchers reviewed relevant literature and previous work on firms' internationalization stage, patterns, and performance.
- 2) The draft questionnaire was prepared.
- 3) The draft questionnaire was reviewed by faculty members with expertise in international business.
- 4) The draft questionnaire was pre-tested with a small sample of business managers deemed to be representative of potential survey respondents.
- 5) Exhibitors of the HKTDC's Clocks & Watches Fair and Electronics Fair (autumn 2011) constituted the sample frame.
- 6) The final questionnaire was administered face to face during the trade shows.
- 7) The data was analyzed and the report written.

The questionnaire was designed to inquire the extent to which respondents are pursuing internationalization efforts, and the scope and the strategies followed by firms as they pursue internationalization efforts.

Questionnaire development included three distinct stages: question generation, question refinement using expert feedback, and pretesting. Questions were generated using relevant literature sources, especially for the attitudinal questions. The information required to classify businesses according to the proposed conceptual framework also yielded questions. Finally, basic business classification and performance questions were proposed.

4.3 Stage of Internationalization Framework

To identify the stage of internationalization of Chinese-owned firms, Curci, Mackoy, and Yagi's (2012) value chain internationalization framework is utilized. The framework categories are: (1) firms with upstream and downstream value chain activities domestically focused; (2) firms engaged in international resource-seeking or upstream value chain activities; (3) firms engaged in international market-seeking behavior or downstream value chain activities; and (4) firms engaged in both international upstream and downstream value chain activities.

4.4 Key Variables

Different types of variables were collected through this survey: the extent of firms' downstream and upstream value chain activities performed domestically and internationally (framework classification variables), performance, organizational or structural characteristics, attitudinal and motivational variables, and those variables concerning the extent to which firms engage in special value-adding activities.

4.4.1 Framework Classification Variables

These questions were used to classify respondents into the value chain internationalization framework (please see Figure 1). These variables included questions regarding, for example, year of first attempt to market (and/or source) internationally, year of first successful international sale (and/or sourcing) activity, percentage of revenues (and/or costs) associated with international business, and foreign markets for selling (and/or sourcing) activities.

4.4.2 Performance Variables

Respondents from framework categories two, three, and four were asked their perception of the degree to which international activities have (or have not) contributed to sales growth, share growth, profit margins, operational efficiency, earnings volatility, and image. These were measured on 7-point Likert scales ranging from “strongly agree” to “strongly disagree.”

4.4.3 Organizational or Structural Characteristics Variables

Respondents were asked standard organizational characteristics such as revenue, number of employees, company age, industry category, and also the extent to which the respondents have foreign subsidiaries, foreign employees, and/or expatriates working in the home market or abroad.

4.4.4 Attitudinal and Motivational Variables

Numerous authors (e.g., Sullivan 1994; Hassel et al., 2003) have addressed the issue of management attitudes toward international business. Such attitudes include perceptions about the importance of internationalization for future success, the internationalization of competitors, the dispersion of potential customers internationally, and the role of internationalization in growth opportunities. Attitudes were measured on 7-point Likert scales ranging from “strongly agree” to “strongly disagree.”

4.5 Sample Characteristics and Limitations

The final sample includes 308 firms headquartered in either Hong Kong or Mainland China. With respect to *ownership types*, while an absolute majority of the firms (i.e., 94.1 percent) were private firms that operated as limited liability companies (49.8 percent), proprietorships (33.7 percent), or partnerships (8.3 percent), only about 5 percent of them were publicly listed firms. Regarding *firm size*, most firms are considered to be small or medium-sized enterprises (SMEs) with fewer than 500 employees (83.6 percent) while only about 16.4 percent were large firms with more than 500 employees. In addition, when we evaluate *sales revenues*, we find that most firms (82 percent) earned less than 30 million dollars (US) in the last fiscal year, and only 18 percent of them earned more than 30 million dollars. In regard to *firm age*, approximately two-thirds of the firms were set up on or before 2001 (64.9 percent), while about one-third of the firms (35.1 percent) are less than 10 years old, meaning they were established after China’s entry into the World Trade Organization (WTO) in 2001. In summary, the study’s sample includes mostly privately owned SMEs with less than 30 million dollars in annual sales; in addition, firms were mostly established before China’s insertion into the WTO.

This study uses a convenience sample that only includes exhibitors participating in one of Hong Kong Trade Development Council (HKTDC)'s premier annual trade shows during autumn 2011 (either the Clocks and Watches Fair in September 2011 or the Electronics Fair in October 2011); therefore, the sample doesn't necessarily represent or reflect the general population of businesses in Hong Kong or mainland China. References to statistical significance are presented for illustrative purposes only. In addition, a formal assessment of non-response bias could not be performed. Therefore, it may be possible that firms who responded to our survey may be systematically different from those who did not.

5. Research Findings

Figure 1 showcases the Chinese firms' stage of internationalization. The 308 survey respondents (firms or SBUs) are classified into the framework categories based on actual international business practice. There were 28 firms in category one (9 percent), 11 in category two (4 percent), 127 in category three (41 percent), and 142 in category four (46 percent).

Figure 1: Value Chain Internationalization Framework

Intensity of Upstream Activities	Domestic (Home Market)	International (Host Markets)
Domestic (Home Market)	1 Domestically Focused Firms	3 Downstream Internationally Linked Firms
International (Host Markets)	2 Upstream Internationally Linked Firms	4 Downstream and Upstream Internationally Linked Firms

We conducted a chi-square test to determine whether the distribution of firms among the four categories was related to the two industries being examined. The distributions were statistically equivalent (Pearson Chi-Square = 5.2185, d.f.=3, $p > 0.10$). For the clock and watches fair respondents 14 (13.9%) were in category one, 5 (5.0%) were in category two, 39 (38.6%) were in category three, and 43 (42.6%)

were in category four; for the electronics fair respondents 14 (6.8%) were in category one, 6 (2.9%) were in category two, 88 (42.5%) were in category three, and 99 (47.8%) were in category four.

5.1 Stage of Internationalization

To classify firms into this framework, survey respondents were asked to indicate whether their firm's upstream and downstream value chain activities were linked to their home/domestic market exclusively (Hong Kong or China) or if they also included foreign markets (Hong Kong-based respondents were asked to treat China as a foreign market and Mainland China-based respondents were asked to treat Hong Kong as a foreign market). Under the 'One Country Two Systems' philosophy, in spite of Hong Kong's handover to China since 1997, the territory continues to run business and economic activities under its own legal jurisdiction independently. Hong Kong and China are two different country/territory entities, and they represent two different members at various global institutions including the World Trade Organization, the International Monetary Fund, the United Nations, etc. Despite the geographical proximity of Hong Kong and China, each has its own customs and duties, health and safety measures, labor and environmental policies. In practice, no matter whether firms originated from Hong Kong or China, when they cross the border and do business in the neighboring territories, they are treated as "foreign firms".

The firm's pattern of internationalization in terms of level of upstream/downstream activity being held in foreign markets was determined by asking questions about year of first successful sale (and/or sourcing) activity internationally, percentage of current revenues (and/or costs) associated with international activity, and countries of marketing (and/or sourcing) activities.

Out of the total, the *Domestically Focused* category includes 28 firms (which represent 9 percent of the sample) classified based on actual international business practice.

- 1) **Domestically Focused (firms with upstream and downstream value chain activities domestically focused):** This category includes firms whose upstream and downstream value chain activities are focused on markets in Hong Kong or domestic markets in China. This implies that firms in this category exclusively target customers in domestic markets and provide them with products and/or services that are exclusively produced and/or sourced with domestic input factors such as raw materials and labor.

There were only 11 firms classified in category two and they represent 4 percent of the total sample, based on actual international business practice. This category is characterized as follows:

- 2) **Upstream Internationally Linked (firms engaged in international upstream value chain activities):** This category includes firms whose downstream value chain activities are focused on markets in Hong Kong or China while upstream value chain activities are at least partially connected to overseas markets. This implies firms in this category primarily target Hong Kong or Mainland China customers but provide them with goods or services that are either sourced internationally or produced at least partially with international factors of production such as research and development, raw materials, and labor.

The firms classified in categories three (**downstream internationally linked**) and four (**upstream and downstream internationally linked**) engage in downstream value chain activities not only in domestic markets but also internationally. Thus, firms in categories three and four may have a potential to generate higher revenue or returns on financial investments than firms classified in category one (**domestically focused**) or category two (**upstream internationally linked**).

There were 127 firms classified as *downstream internationally linked* and they represent 41 percent of the total sample. The downstream internationally linked category is characterized as follows:

- 3) **Downstream Internationally Linked:** This category includes firms that target overseas customers to provide them with products and/or services that are primarily produced and/or sourced in Hong Kong or Chinese markets and with Chinese input factors such as raw materials and labor. Firms in this category are considered to be downstream internationally linked because they deliver Hong Kong or Chinese products and/or services to the global community.

There were 142 firms classified as *upstream and downstream internationally linked* and they represent 46 percent of the total sample when we classified companies based on actual international business practice. This category is characterized as follows:

- 4) **Upstream and Downstream Internationally linked:** This category includes firms with upstream and downstream value chain activities simultaneously linked to international markets. Firms in this category target foreign customers to provide them with goods and/or services that are produced and/or sourced with international factors of production such as research and development and capital.

In addition to the above conceptual distinctions of firms based on their respective intensity of engagement over international upstream and/or downstream value chain activities, this section provides empirical evidence regarding how these four categories of firms differ in accordance with international business practice, firm size, foreign ownership structures, and top management's attitudes toward international upstream and downstream activities (see Table 1).

Table 1: Firm Characteristics and International Business Practice

	Domestically Focused Firms	Upstream Internationally Linked Firms	Downstream Internationally Linked Firms	Downstream and Upstream Internationally Linked Firms	TOTAL
Percentage of Foreign Revenues	0	0	76%	74%	65%
Percentage of Foreign Sourcing	0	36%	0	43%	20%
Firm Size (sales revenue)	<5 million	5 – 10 million	5 – 10 million	>10 Million	>10 million
Percentage of Foreign ownership	0	0	3%	16%	9%
Sourcing focus	Focus on China/HK sources, but we also consider foreign sources	Focus about equally on both China/HK and foreign sources	Focus on China/HK sources, but we also consider foreign sources.	Focus about equally on both China/HK and foreign sources	Focus about equally on both China/HK and foreign sources
Revenue focus	Focus on foreign markets for revenue generation, but we also consider the China/HK market	Focus about equally on both the China/HK market and foreign markets	Focus on foreign markets for revenue generation, but we also consider the China/HK market	Focus on foreign markets for revenue generation, but we also consider the China/HK market	Focus on foreign markets for revenue generation, but we also consider the China/HK market

Domestically Focused Firms were characterized by an actual lack of participation in upstream and downstream value chain activities internationally. Firms in this category were small in size (earning less than 5 million dollars [US] in annual sales) and did not have foreign owners. When asked about their attitudes or mindset, managers of domestically focused firms suggested they focus on sourcing locally but they also consider foreign sources. Yet contrary to our expectation, managers of domestically focused firms indicated they primarily target foreign markets for revenue generation. However, they did not do it in actual practice. This is a potential area for future research; specifically, there is a need to understand the barriers faced by SMEs to market their products/services globally.

Upstream Internationally Linked Firms only engaged internationally in upstream value chain activities. To serve markets in Hong Kong or China, firms in this category were engaged in a rather high level of sourcing activities internationally that involved approximately one third of total sourcing expenses. Firms in this category were mostly small and medium-sized enterprises (SMEs) earning 5 to 10 million dollars (US) on an annual basis, and did not have foreign owners, either. When presented with statements that measure attitudes or mindset, managers indicated they focus about equally in domestic and foreign markets for upstream value chain activities. Contrary to our expectation, the attitudes of managers in this category suggest they intended to be engaged in downstream value chain activities about

equally in domestic and foreign markets; however, they did not actually generate any revenue internationally. Again, future research could study the barriers faced by SMEs to market globally.

Downstream Internationally Linked Firms only engaged internationally in downstream value chain activities. To serve international markets, firms in this category were also engaged in a rather high level of revenue generation internationally, which involved approximately three-fourths of total revenues. Please note: firms in this category did not source overseas, but rather relied on domestic sources to deliver Hong Kong or Chinese products and/or services to the global community. Firms in this category were medium-sized companies with annual sales in the range of 5 to 10 million dollars. In contrast to firms in categories one and two, in category three, firms did have foreign ownership with holdings of about 3 percent of total equity. Consistent with our expectations, the attitudes of managers in this category suggested they were focused on domestic markets for sourcing while they clearly emphasized foreign markets for revenue generation; these findings are consistent with actual firms' international business practices.

Upstream and Downstream Internationally Linked Firms engaged in both international upstream and downstream value chain activities simultaneously. As shown in Table 1, firms in this category were engaged in high levels of revenue generation and sourcing activities internationally. Specifically, international revenues accounted for approximately three-fourths of total revenues while international sourcing represented 43 percent of total sourcing expenses. Firms in this category were relatively large entities with annual sales greater than 10 million dollars. In category four, firms did have foreign ownership with holdings of more than 15 percent of total equity. As expected, managers' attitudes in this category suggested for sourcing they were focused in domestic and foreign markets about equally; however, for revenue generation, they emphasized foreign markets. These findings are consistent with their actual international business practice.

In the next section, we will discuss the patterns of internationalization that firms may follow as they move from being domestically focused to being upstream and downstream internationally linked. Equally importantly, the internationalization patterns for market-seeking and resource-seeking firms are analyzed.

5.2 Patterns of Internationalization Findings

Internationalizing firms accumulate knowledge and experience in multiple ways as they serve or take advantage of foreign markets. For instance, firms may engage in international revenue generation (market-seeking behavior or international downstream value chain activities) exclusively or they may focus on international sourcing activities (resource-seeking behavior or international upstream value chain activities) exclusively. However, as firms sell their products or services in foreign markets, they may potentially learn about sourcing opportunities that could allow them to become even more efficient. Similarly, as firms access foreign markets to source input factors they may also learn about opportunities to market and sell their offerings in foreign markets. Indeed, a higher potential for value creation exists when firms are able to develop and orchestrate global upstream and downstream value chain activities. It is possible, however, that in large emerging markets such as China, firms may potentially optimize value chain activities domestically. Nevertheless, in today's climate as market conditions change around the world, firms must constantly adjust their international value chain networks to remain competitive.

As the value chain internationalization framework suggests, firms may be domestically focused or they may have some degree of internationalization. In this paper, we argue firms that are classified in categories two (upstream internationally linked firms) or three (downstream internationally linked firms) are engaged in what we may consider to be an intermediary stage of internationalization. On one hand, upstream internationally linked firms venture into international markets, among many reasons, to seek resources and build efficiencies; on the other hand, downstream internationally linked firms target customers internationally to become or remain globally competitive; they are market seekers. In contrast, category four (upstream & downstream internationally linked) firms are deemed to be at a more advanced stage of internationalization or to have a higher degree of internationalization than firms in categories one, two, or three. Indeed, we anticipate managers in category four firms are more globally minded and their firms will have more complex international structures¹.

The rest of this paper will focus on evaluating the patterns of internationalization of firms that have reached category four. As we discussed in the stage of internationalization section, category four firms (upstream and downstream internationally linked) are deemed not only to have a higher degree of internationalization but also to perform better than firms in categories two and three (results not reported here).

To reach category four, firms may follow multiple patterns: specifically, a firm may start in category one (domestically focused), move first to category three (downstream internationally linked), and then to category four (upstream and downstream internationally linked); a firm may start in category one (domestically focused), move first to category two (upstream internationally linked), and then to category four (upstream and downstream internationally linked); a firm may start in category one (domestically focused) and then move directly to category four (upstream and downstream internationally linked); a firm may start in category two (upstream internationally linked) and then move to category four (upstream and downstream internationally linked); a firm may start in category three (downstream internationally linked) and then move to category four (upstream and downstream internationally linked); and lastly, a firm may actually start in category four (a kind of “born global” firm).

Out of these potential patterns, two are chosen for study: 1) the market-seeking pattern, which includes firms born in category one (originally focused in Hong Kong or Chinese markets) that subsequently migrated into category three (by first selling their products/services internationally) and that later advanced into category four (further expanding their international engagements through international sourcing); and 2) the resource-seeking pattern, which includes firms born in category one (originally focused in Hong Kong or Chinese markets) that subsequently migrated into category two (by first engaging in international sourcing) and that later progressed into category four (further advancing their internationalization efforts by selling internationally). One could argue it should not make any difference whether firms first engage in downstream or upstream value chain activities internationally; however, as we will discuss in the next few paragraphs, in this study, we find statistically significant differences between the companies that follow these two patterns. In essence, it appears the first step in a firm’s internationalization process affects its future performance.

¹ Firms classified in categories two, three and four were compared along a series of performance, structural, and attitudinal measures previously found to be associated with degree of internationalization; results (not reported here for space consideration) suggest there are statistically significant differences among firms classified in those categories.

5.3 Hypotheses Testing Results

Table 2: Market-Seeking Versus Resource-Seeking Patterns Comparisons

	Market Seeking Pattern	Resource Seeking Pattern	Statistical Significant Differences
Above average rate of growth in market share	2.74	4.27	.015
Higher profit margins as a result of selling products/services internationally	2.35	3.47	.007
Higher profit margins as a result of sourcing raw materials, goods, or services internationally	3.13	4.20	.057
A positive effect on our company's profitability	2.35	3.13	.077
A better overall performance than competitors	3.04	3.80	.254
Less volatility in earnings	3.00	4.67	.007
More diversified and less risky operations	2.52	4.00	.010
A positive effect on our company's or SBU's image	2.48	3.13	.068
A positive effect on the development of our company's expertise	2.26	3.60	.005
STRUCTURE:			
What percentage of your COMPANY/SBU's common or preferred stock was held and/or owned by foreign investors in the last fiscal year?	10.00	20.83	.550
Approximately what percentage of your COMPANY/SBU's subsidiaries is located in foreign countries?	13.57	50.00	.040
In how many foreign countries does your COMPANY/SBU own subsidiaries?	1.29	2.22	.328
Approximately what percentage of your COMPANY/SBU's employees was stationed outside China/HK in the last fiscal year?	26.25	30.50	.828
In the year when you first purchased from a foreign vendor in a foreign country, approximately what percentage of your COMPANY/SBU's purchasing cost was incurred overseas?	16.43	48.93	.000
Approximately what percentage of your COMPANY/SBU's purchasing costs was generated outside China/HK in the last fiscal year?	33.41	50.36	.118
Approximately, what percentage of your COMPANY/SBU's total liabilities were owed to an entity in a foreign country or owed in a currency other than your local currency in the last fiscal year?	0.17	0.33	.271
ATTITUDE*:			
Internationalization is the only way to achieve our growth objectives	4.17	4.40	.692
The company's management uses a lot of time for planning international operations	3.26	3.47	.668
We adopted international expanding strategies to avoid serious trade barriers (for e.g. quota controls, antidumping fines, special tariff penalty)	3.26	4.00	.260
We adopted international expanding strategies to gain preferential treatment provided by our local government	2.83	3.87	.083
In your opinion, what is the intensity of competition your COMPANY/SBU faces in overseas markets?	4.26	4.07	.709
In our industry, a company cannot succeed unless it is able to constantly bring something new to the market.	2.00	2.80	.066
We know how to purchase from prospective suppliers in foreign markets	3.39	4.47	.106
We will go beyond the typical services provided to customers and will support our customers with: Specific administrative task	3.09	3.20	.851
We will go beyond the typical services provided to customers and will support our customers with: Specific financing task	3.17	3.27	.877
We will go beyond the typical services provided to customers and will support our customers with: Specific logistics task	2.39	2.60	.643

* These were measured on 7-point Likert scales ranging from "strongly agree" to "strongly disagree."

As you can see, Table 2 compares mean responses of market-seeking and resource-seeking firms' managers to survey statements/questions in the areas of firm performance, organizational structure, and managerial attitudes towards internationalization. The findings suggest firms that follow these internationalization patterns are different mostly in terms of performance; however, they are also found to be at least partially different in terms of organizational structure and managers' attitudes toward internationalization. The major differences between the three categories can be explained in the following ways:

- 5.3.1) **Performance Hypothesis:** When market-seeking and resource-seeking firms are compared in terms of performance indicators, many statistically significant differences are found. Specifically, managers of market-seeking firms associate a higher level of performance with internationalization than managers of resource-seeking firms; for instance, market-seeking firms' managers more strongly agree with statements such as "international business (IB) activities have contributed to above average growth in market share" and "IB activities have contributed to higher profit margins as a result of selling products/services internationally." In addition, these managers also suggest they have more diversified and less risky operations, and that internationalization has had a positive effect on the company's profitability, image, and expertise. Therefore, we may argue that market-seeking managers are more likely to create value internationally than are resource-seeking managers; therefore, hypothesis 1 is supported.
- 5.3.2) **Structural Hypothesis:** When market-seeking and resource-seeking firms are compared in terms of structural factors, only a few statistically significant differences are found. Specifically, resource-seeking firms have a higher percentage of foreign subsidiaries than market-seeking firms—50 percent versus 14 percent, respectively. In addition, when they first source internationally, resource-seeking firms buy a relatively larger percentage of sourcing overseas than market-seeking firms—49 percent versus 16 percent, respectively. Therefore, it appears resource-seeking firms have an initial desire to source internationally a higher proportion of input factors than market-seeking firms, and they also end up developing more advanced international structures; therefore, hypothesis 2 is not supported.
- 5.3.3) **Attitudinal Hypothesis:** When market-seeking and resource-seeking firms are compared in terms of attitudinal factors, we find that managers of market-seeking firms are almost always more agreeable to the general idea that internationalization is or has been good for their firms than are resource-seeking managers. However, only a few marginally statistically significant differences are found. For instance, market-seeking firms' managers more strongly agree with statements such as "We adopted international expanding strategies to gain preferential treatment provided by our local government," or "In our industry, a company cannot succeed unless it is able to bring something new to the market." Contrary to our expectation, however, managers of resource-seeking firms perceive a higher level of international competition than managers of market-seeking firms; however, those differences are not statistically significant. Nevertheless, looking at the overall pattern of responses rather than the statistical significance of individual attitude measures, we may argue that market-seeking managers are more globally minded or have a better perspective about the benefits of internationalization than resource-seeking managers; therefore, hypothesis 3 is partially supported.

It seems that the performance difference between the two patterns can be explained by the management mindset in two ways:

- First, market-seeking firms attach much higher importance to the principle of constant innovation than do resource-seeking firms. This implies that market-seekers go beyond aggressive selling to offering innovative, creative, and hence differentiated products/services to customers and may be doing so on a persistent basis. Innovation may be the driver behind superior performance of market-seeking firms.
- Second, market-seeking firms display a much stronger motivation for internationalization. It appears market-seeking firms are more savvy in taking advantage of government incentives and such phenomena may partially explain a superior performance.

5.4 Discriminant Analysis

As Figure 1 showcases, there were 142 respondents classified into category four; of those, we were able to trace the pattern by which each arrived in category four of 126 firms. By investigating the order in which firms adopted international downstream value chain activities (international selling) and international upstream value chain activities (international sourcing), we determined that 36 (28.6 percent) arrived via category three while 25 (19.8 percent) of those in category four arrived via category two. The remainder either moved from category one to category four directly (15, or 11.9 percent), or originated in category four (50, or 39.7 percent).

We systematically evaluated attitudinal, operational, and financial variables to determine which, if any, might be useful in discriminating between firms utilizing market-seeking versus resource-seeking pathways to category 4. The analysis of attitudinal and operational variables each identified a single significant variable; however, the associated classification tables indicated that the improvement in classifying cases using the discriminant function was minimal for each. Only the financial variables were able meaningfully to discriminate between these two; please see Table 3 for wording of financial variables entered into the discriminant analysis.

Table 3: Financial Variables Entered Into Discriminant Analysis

Does your COMPANY/SBU own assets in a foreign country or in a currency other than RMB/HK\$? What percentage of your <u>COMPANY/SBU's</u> total assets were located in a foreign country or held in a currency other than <u>RMB/HK\$</u> in the last fiscal year?
Does your COMPANY/SBU own any financial investments in a foreign country or in a currency other than RMB/HK\$? Approximately what percentage of your <u>COMPANY/SBU</u> financial investments were located in a foreign country <u>or</u> held in a currency other than <u>RMB/HK\$</u> in the last fiscal year?
Does your COMPANY/SBU owe any liabilities to an entity in a foreign country or in a currency other than RMB/HK\$? Approximately what percentage of your <u>COMPANY/SBU's</u> total liabilities were owed to an entity in a foreign country <u>or</u> owed in a currency other than <u>RMB/HK\$</u> in the last fiscal year?
Does your COMPANY/SBU have any financial obligations (debt) to an entity in a foreign country or in a currency other than RMB/HK\$? Approximately what percentage of your <u>COMPANY/SBU's</u> financial obligations were owed to an entity located in a foreign country <u>or</u> owed in a currency other than <u>RMB/HK\$</u> in the last fiscal year?
Does your COMPANY/SBU have any equity (common or preferred stock) which is held and/or owned by foreign investors? Approximately, what percentage of your <u>COMPANY/SBU's</u> common or preferred stock was held <u>and/or</u> owned by foreign investors in the last fiscal year?

Stepwise discriminant analysis was performed to identify which financial variables might be used to differentiate between firms in the market-seeking and the resource-seeking patterns. All analyses used the Mahalanobis D² distance criteria for the stepwise portion of the analysis. Table 4 showcases the result of the discriminant analysis. Only one of the financial variables yielded significant and meaningful results.

Table 4: Standardized Canonical Discriminant Function Coefficients

						Function 1			
Does your COMPANY/SBU own assets in a foreign country or in a currency other than RMB/HK\$? What percentage of your COMPANY/SBU's total assets were located in a foreign country or held in a currency other than RMB/HK\$ in the last fiscal year?						.932			
Wilk's Lambda									
Step	Number of Variables	Lambda	df1	df2	df3	Exact F			
						Statistic	df1	df2	Sig.
1	1	.868	1	1	66	10.043	1	66.000	.002

The resulting discriminant function (see Table 5) is significant (0.002). The canonical correlation of 0.363 indicates that approximately 13.2 percent of the variance in market-seeking or resource-seeking path membership is accounted for by this single financial variable.

Table 5: Discriminant Analysis Results – Eigenvalues

Function	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation	
1	.152 ^a	100.0	100.0	.363	
a. First 1 canonical discriminant functions were used in the analysis					
Functions at Group Centroids					
Paths to Downstream and Upstream Internationally Linked (Category 4)			Function		
			1		
Via Upstream Internationally Linked (Category 2)			.504		
Via Downstream Internationally Linked (Category 3)			-.293		
Unstandardized canonical discriminant functions evaluate at group means					
Classification Results^a					
			Predicted Group Membership		
		Path to 4	Via Category 2	Via Category 3	Total
Original	Count	Via Category 2	11	17	28
		Via Category 3	4	40	44
		Ungrouped cases	40	196	236
	%	Via Category 2	39.3	60.7	100.0
		Via Category 3	9.1	90.9	100.0
		Ungrouped cases	16.9	83.1	100.0
a. 70.8% of original grouped cases correctly classified					

Since 59 percent of the sample is in the market-seeking path, the 70.8 percent of firms correctly classified by the discriminant function represents an improvement over the proportion that would be correctly classified using the maximum chance criterion of 59 percent.

One obvious limitation of this analysis is that we had an insufficient number of firms in the two paths to support the use of a holdout sample to further validate the discriminant function. Thus, while these results are promising, a definitive test of the function is not possible at this time.

6. Conclusions

This study has analyzed the stage and patterns of internationalization of Chinese-owned firms. We find that out of 308 firms surveyed in this study, 28 were deemed to be domestically focused (9 percent), 138 were classified at an intermediary stage of internationalization (45 percent, either upstream or downstream internationally linked), and 142 were classified at a more advanced stage of internationalization (46 percent, both upstream and downstream internationally linked). Therefore, most firms surveyed in this study were internationally active and about half of them were engaged in selling their products/services internationally and at the same time sourcing input factors internationally.

Multiple internationalization patterns were identified; of those, this study compared and contrasted firms that follow two of them: the market-seeking and the resource seeking patterns. Statistically significant differences between firms that follow these two patterns are found; specifically, managers of market-seeking firms are more agreeable with statements suggesting international business activities have had a positive impact on performance. In addition, these managers also appear to be more global minded and to have superior attitudes toward internationalization. On the other hand, however, resource-seeking firms appear to have better-developed international structures and appear to be highly focused in international sourcing. Some managerial implications follow:

- Managers should recognize that to orchestrate value chain activities internationally they need to become great at developing efficiencies and core capabilities that are valued by customers around the world. To achieve such an objective, leaders must develop a management team that sees the view from two angles simultaneously: the management team must be globally minded and also capable of orchestrating value chain activities internationally. To gain market share in internationally diverse and competitive markets, it is imperative that firms simultaneously satisfy customer needs and build operational efficiencies.
- Resource-seeking firms should recognize the need to become more market driven by, for instance, developing corporate structures (e.g., subsidiaries, employees deployed overseas) that allow them not only to source efficiently but also to cater to the international customers' needs. In other words, seeking only efficiency gains in international markets is not enough for firms to be successful and achieve superior performance; they need to strengthen downstream value chain activities internationally.

- On the other hand, market-seeking firms should also recognize the need to become more efficiency-driven by, for instance, developing and deploying capabilities that allow them to provide superior value in terms of offering customized technical/service solutions to customers.
- The higher the level of internationalization, as measured by upstream, downstream, or both types of activities, the better the firm performance; therefore, we suggest managers should seek to orchestrate value chain activities internationally.
- Neither upstream internationally linked firms (category two) nor downstream internationally linked firms (category three) excelled as much as firms deemed to be at a more advanced internationalization stage (category four); therefore, managers should recognize there is value to be created by further advancing their internationalization efforts. In other words, managers cannot just focus on one side of the internationalization phenomenon (selling internationally or buying internationally) but rather in both.
- Our findings suggest financial factors are able to discriminate between market-seeking and resource-seeking firms. Future studies should further explore the role of financial factors in the internationalization processes of SMEs.

Finally, the international business literature has focused disproportionately on large firms and MNCs; this study has looked at key internationalization issues as they relate primarily to SMEs. In addition, the international business literature is biased toward the understanding of firm internationalization efforts in the areas of sourcing and selling separately. This study contributes to the literature by simultaneously evaluating the extent of firms' internationalization efforts in both areas. We suggest more research must take this approach so that this phenomenon is studied more comprehensively.

The development of performance measures that comprehensively capture the impact of upstream and downstream value chain activities on firm performance is needed. We suggest there is a need to develop performance measures that disaggregate the extent of value creation contributed by downstream and upstream value chain activities.

The use of longitudinal data associated with firms' international engagements may be useful to more fully understand the dynamic aspects of internationalization; a firm's path of internationalization appears to be highly influenced by its history in terms of factors such as original international engagements, the ability to attract foreign equity, managerial motivations, and organizational structure.

The value chain internationalization framework is useful not only to classify companies based on their stage of internationalization, but also to understand the patterns that companies follow as they integrate into international markets. Future research is needed to test the framework across different markets, industries, and institutional environments.

References

- Adler, N. J., Boddewyn, J. J., Contractor, F. J., Aharoni, Y., Dunning, J. H., & Lenway, S. A. 2009. Six AIB fellows in search of the future of IB research. *AIB Insights*. 9(1) : 13–16.
- Buckley, P. J.; Clegg, L.; Cross, A. R.; Liu, X.; and Voss, H. 2007. Determinants of Chinese Outward Foreign Direct Investment. *Journal of International Business Studies*. 38(4) : 499–518.
- Curci R, Mackoy R, and Yagi, N. 2012. The Internationalization of Businesses in the Greater Indianapolis Area: Understanding Their Scope and Strategies. *Journal of Management Policy and Practice*. 13(1) : 67–90.
- Dunning, J. H. 2009. Location and the multinational enterprise: John Dunning's thoughts on receiving the. *Journal of International Business Studies 2008, Decade Award. Issue, 40* : 20–34.
- Dunning, J. H. 2008. New directions in international-business research: A personal viewpoint. In J. J. Boddewyn, (Ed.), *International business scholarship: AIB fellows on the first 50 years and beyond*: pp. 247–57. Bingley, UK: Emerald.
- Dunning, J. H. 1998. Location and the multinational enterprise: A neglected factor? *Journal of International Business Studies*. 29(1) : 45–66.
- Dunning, J. H. 1977. Trade location of economic activity and the MNE: A search for an eclectic approach. In B. G. Ohlin, P. Helleborn, & P. M. Wijkman, (Eds.). *The international allocation of economic activity*. Proceedings of a Nobel symposium held at Stockholm, pp.395–418. London: Macmillan.
- Fillis, I. 2001. Small firm internationalization: An investigative survey and future research directions. *Management Decision*. 39(9) : 767–83.
- Gao, G.Y., Murray J.Y., Kotabe M., Lu J. 2010. A “Strategy Tripod” perspective on export behaviors: evidence from domestic and foreign firms based in an emerging economy. *Journal of International Business Studies*. 41(3) : 377–396.
- Griffith, D. A., Cavusgil, S. T., & Xu, S. 2008. Emerging themes in international business research. *Journal of International Business Studies*. 39 : 1220–35.
- Hill, C.W.L., and Hernandez-Requejo, W. 2011. Global Business Today. 7th edition. *McGraw-Hill*. New York.
- Hymer, S. 1960. The international operations of national firms: A study of direct foreign investment. *Unpublished Ph.D. dissertation*, Massachusetts Institute of Technology, Cambridge, MA.
- Jansson, H. & Sandberg, S. 2008. Internationalization of small and medium-sized enterprises in the Baltic Sea Region. *Journal of International Management*. 14 : 65–77.

- Johanson, J., and Vahlne, J.E. 2009. The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership, *Journal of International Business Studies, suppl.* The JIBS 40/AIB50 Anniversary Issue: Innovations in 40 (9) : 1411–1431.
- Johanson, J., and Vahlne, J.E. 1977. The internationalization process of the firm: A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies.* 8 : 23–32.
- Knight, G. A. 2001. Entrepreneurship and strategy in the international SME. *Journal of International Management.* 7 : 155–71.
- Knight, G. A. & Cavusgil, S. T. 1996. *The born global firm: A challenge to traditional internationalization theory.* In S. T. Cavusgil & T. Madsen, (Eds.), *Advances in international marketing*, pp.11–26. Greenwich, CT: JAI Press.
- Liu, H. & Li, K. 2002. Strategic Implications of Emerging Chinese Multinationals: The Haier Case Study. *European Management Journal.* 20(6) : 699–706.
- Matthyssens, P., and Vandenbempt, K. 2008. Moving from basic offerings to value-added solutions: Strategies, barriers and alignment. *Industrial Marketing Management.* 37(3) : 316–328.
- Nummela, N., Saarenketo, S., & Puumalainen, K. 2004. A global mindset - A prerequisite for successful internationalization? *Canadian Journal of Administrative Sciences.* 21(1) :51–64.
- Perlmutter, H. V. 1969. The tortuous evolution of the multinational corporation. *Columbia Journal of World Business.* 4 (January-February) : 9–18.
- Rennie, M. 1993. Born global. *McKinsey Quarterly.* 4 : 4–52.
- Rugman, A. M. 2009. *Rugman reviews international business.* Basingstoke/New York: Palgrave Macmillan.
- Rugman, A. M. & Verbeke, A. 2008. *Internalization theory and its impact on the field of international business.* In J. J. Boddewyn, (Ed.), *International business scholarship: AIB fellows on the first 50 years and beyond.* Pp.155–74. Bingley, UK: Emerald.
- Stopford, J. M. & Wells, L. T. 1972. *Managing the multinational enterprise.* New York: Basic Books.
- Sullivan, D. 1994. Measuring the degree of internationalization of a firm. *Journal of International Business Studies.* 25(2) : 325–42.
- Vernon, R. 1971. *Sovereignty at bay: The multinational spread of U.S. enterprises.* New York: Basic Books.