The Implications of Springboard Strategies for Chinese Firms

by

Xuecong Li

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Abstract

Chinese firms' internationalization during the recent decades has attracted increasing interest from international business researchers. Despite recognition of the important role of the home country of Chinese multinational enterprises (MNEs), there are insufficient studies that pay attention to unfolding their complex internationalization strategies and related outcomes. In particular, how Chinese firms use their domestic market as a preparatory base and a testing ground is an interesting research question which remains unexplored.

Building upon the springboard perspective, this thesis investigates the sources of international experience which Chinese MNEs can exploit to confront their deficiency of international knowledge in the process of internationalization. I examine the inward internationalization experience which is the original source of international experience which Chinese firms obtain from their domestic market. Moreover, extending the springboard perspective, I combine the Uppsala model by adding the exporting experience as the complementary source of international experience. Further, the moderating effects of the international experience of members of top management teams have been investigated. Using data on Chinese listed firms from 2009 to 2018, I find that the propensity of Chinese firms conducting OFDI is positively associated with their inward international experience and exporting experience. The exporting experience has a complementary effect on inward internationalization. International experience that members of a top management team hold can enhance the positive

effects of exporting experience on the propensity of Chinese firms' OFDI.

Drawing on the compositional springboard view, the thesis further examines the factors affecting cross-border acquisitions by Chinese MNEs. I investigate two factors, compositional springboarding capacity and external support for in-house innovation from the home-country government, as well as their effects under the contingency of home-country regional innovation performance. I find that the number of foreign acquisitions by Chinese MNEs is positively associated with the firms' compositional springboarding capacity, but negatively associated with innovation funds from the home-country government. Moreover, the impact of external support of in-house innovation from the home country government on foreign acquisitions by Chinese MNEs is contingent on the sub-regional innovation performance. Strong regional innovation performance weakens the negative relationship between external support for in-house innovation and cross-border acquisitions by Chinese MNEs.

Finally, this thesis borrows the economic concept of market power which has been widely applied in economic and financial research to test the effects of Chinese firms' OFDI. The propensity score matching technique and the difference in difference method are applied to capture Chinese MNEs' market power changing post-OFDI. The results demonstrate that Chinese MNEs' market power would decline post-OFDI. Further, this decrease can be eased if they are equipped with more technological capabilities and operate in industries with less competitive intensity.

Dedication

To my family, my supervisors, friends and everyone who supports me to get through the darkest time

With all my love and gratitude

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List of Publications

Conference papers:

Li, X., Han, X. & Liu, X. (2019), The determinants of Chinese cross-bordered mergers and acquisition: From the composition-based view, The 45th European International Business Academy Annual Conference *(EIBA 2019), Main Track*, Leeds Business School, 13-15 December 2019.

Li, X., Han, X. & Liu, X. (2020) Foreign acquisitions by Chinese MNEs: a Composition-based view, the Academy of International Business Online Conference (AIB 2020), Main track, 1-8 July 2020.

Acronym List

AAA	Amalgamation, Ambidexterity and Adaptability
BRI	The Belt and Road Initiative
CBAs	Cross-border Acquisitions
CBV	The Composition-based View
CIA	The Conditional Independence Assumption
CNBS	The Chinese National Bureau of Statistics
CSMAR	The China Stock Market & Accounting Research Database
CSRC	The Chinese Securities Regulatory Commission Industry Classification
DID	Difference-in-Difference
DMNEs	Developed Multinational Enterprises
EMNEs	Emerging Multinational Enterprises
FDI	Foreign Direct Investment
HHI	The Herfindahl-Hirschman Index
IB	International Business
LOE	Liabilities of Emergingness
LOF	Liabilities of Foreignness
MNEs	Multinational Enterprises
MOFCOM	Ministry of Commerce of the People's Republic of China
OBM	Original Brand Manufacturing
ODM	Original Design Manufacturing
OEM	Original Equipment Manufacturing
OFDI	Outward Foreign Direct Investment
OLI	Ownership Location Internalisation
OLS	Ordinary Least Squares
PSM	Propensity Score Matching
R&D	Research and Development

RBV	The Resource-based View
RIP	Regional Innovation Performance
TMT	Top Management Team
UNCTAD	The United Nations Conference on Trade and Development
VRIN	Valuable, Rare, Inimitable, and Non-Substitutable
WIR	World Investment Report

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1. Introduction

1.1 OVERVIEW

Outward foreign direct investment (OFDI) from emerging markets has become the catalyst for emerging countries to develop their competitive capabilities. Emerging markets in this thesis refer to countries or economies with lower levels of economic development, institutional governance quality, and standard of living than developed countries, and have experienced significant institutional and market reforms (Hoskisson, Eden, Lau, & Wright, 2000; Khanna & Palepu, 2010; Marano, Tashman, & Kostova, 2017). Emerging market multinational enterprises (EMNEs) are defined as firms from emerging markets/countries that conduct OFDI to 'exercise effective control and undertake value-adding activities in one or more foreign countries' (Luo & Tung, 2007, p. 482). Although the dominant volume of OFDI still inclines towards developed countries, the share of OFDI by EMNEs has rapidly risen in recent decades (Buckley et al., 2007, 2017; Ramamurti & Hillemann, 2018). In 2019, the stock of OFDI reached 1313.77 billion dollars, and OFDI made by emerging countries accounted for more than one-third of the overall global OFDI flow (World Investment Report, 2020). In the past two decades, due to the slowing growth of developed economies and the growing volume of foreign investment from emerging economies, EMNEs have increasingly become important players in the global market.

The rise of EMNEs has received increasing scholarly attention from the world (Aulakh, Kundu, & Lahiri, 2016; Buckley et al., 2007; Chen, Zhan, Tong, & Kumar,

2020; Fu, Hou, & Liu, 2018; Gaur, Ma, & Ding, 2018; Huang, Xie, Li, & Reddy, 2017; Huang, Xie, & Wu, 2020; Li, Strange, Ning, & Sutherland, 2016; Li, Liu, Yuan, & Yu, 2017; Luo & Bu, 2018b; Paul & Benito, 2018; Ramamurti & Hillemann, 2018; Shi, Sun, Yan, & Zhu, 2017; Tang, Gu, Xie, & Wu, 2020; Zhao, Liu, Andersson, & Shenkar, 2021). Particularly, Chinese firms' international expansion has not only attracted media coverage, but also stimulated academic debates on the distinct characteristics of their OFDI behaviours. In this thesis, the author uses China as the research setting to examine the determinants and outcomes of Chinese MNEs' OFDI. The research context will be explained in the following section.

1.2 RESEARCH CONTEXT

Within OFDI from emerging markets, Chinese OFDI has grown more rapidly than that from other emerging economies. Chinese MNEs are engaging in the global competition proactively due to the Chinese government's 'Going Global" strategy. For example, in 2019, Chinese firms invested 136.91 billion dollars through OFDI and ranked as the second place globally. By the end of 2019, 275, 000 Chinese firms had established more than 440,000 subsidiaries in 188 countries. According to the report issued by the Ministry of Commerce of the People's Republic of China (MOFCOM), the total foreign assets of those Chinese firms have achieved 7,200 billion dollars, and the accumulated net OFDI has reached 2,198.88 billion dollars (MOFCOM, 2019).

A rapid increase in Chinese OFDI is the result of China's 40 years of economic reform and opening-up during which China has achieved remarkable success in terms of its economic development and technological catch-up. From 1978 to 2018, the GDP

growth of China climbed from eleventh place to second place, and per capital GDP rose from the 131st place to the 68th place (World Bank, 2019).

In addition, China has reached a leading position in terms of foreign currency reserves, total trade, investment rate and the savings rate in the world. Further, in the past four decades, manufacturing technologies, labour quality, managerial skills, education and medical care have been improved dramatically. The economic development mode has been transformed from simply relying on natural resources and traditional manufacturing to an innovation-driven economy.

During the reform and opening-up period, economic cooperation with foreign countries also increased in terms of quantity and scale through numerous bilateral and multilateral trade and investment agreements. The process and consequences of globalization have resulted in an improvement of the standardization, facilitation and liberation of global investment. Although, in recent years, deglobalization has been on rise, globalization is still the dominant trend for emerging countries (Luo & Witt, 2021; Wang & Xie, 2021). With the prerequisite of rapid and sustained development of the Chinese economy, and the proactive movement of China's "One Belt & One Road" initiative, China and Chinese companies have a willingness to participate in global cooperation and overseas investment.

It is widely recognized that OFDI by Chinese MNEs is used as a channel for strategic asset-seeking in order to compensate for their lack of advanced technology, as well as reinforcing their competitive advantages (Bertrand, 2009; Cassiman, Colombo, Garrone, & Veugelers, 2005; Fu et al., 2018; Guo & Clougherty, 2020; Herzer, 2011; Jiang, Jiao, Lin, & Xia, 2019; Kafouros, Buckley, Sharp, & Wang, 2008; Li et al., 2016;

Li et al., 2017; Schiffbauer, Siedschlag, & Ruane, 2017; Wu, Wang, Hong, Piperopoulos, & Zhuo, 2016; Xie, Zou, & Qi, 2018; Yakob, Nakamura, & Ström, 2018). However, limited research attention has been paid to the links between Chinese MNEs' home country and their OFDI behavior, as well as related outcomes. Thus, in this thesis, the author focuses on examining the relationship between international knowledge, Chinese MNEs' OFDI decisions and the impact of OFDI on market performance in the home country. The detailed research rationale of this thesis will be explained in next section.

1.3 RESEARCH RATIONALE

The international expansion of emerging-market companies through OFDI has received substantial interests from academia and policy makers. There is wealth literature on OFDI conducted by EMNEs from different perspectives (Chen et al., 2020; Fu et al., 2018; Gaur et al., 2018; Huang et al., 2017, 2020; Li et al., 2016; Li et al., 2017; Luo & Bu, 2018b; Paul & Benito, 2018; Ramamurti & Hillemann, 2018; Shi et al., 2017; Tang et al., 2020; Zhao et al., 2021). EMNEs are latecomers in the global arena who started their international expansion process at a late stage compared to MNEs from developed countries (Li & Kozhikode, 2008; Li, 2007). They suffer from the latecomer disadvantages, such as a lack of international experience, a deficiency of competitive technological knowledge and a shortage of advanced managerial capacity (Deng, 2007; Fu et al., 2018; Huang et al., 2020; Kotabe, Jiang, & Murray, 2011; Li & Kozhikode, 2008; Li, 2007; Lu, Liu, & Wang, 2011; Luo & Bu, 2018a; Luo, Maksimov, & Bu, 2020;

Luo & Tung, 2007; Meyer, 2018; Ramamurti & Hillemann, 2018). Compared to MNEs from developed countries, Chinese MNEs behave in a distinctive way when they undertake OFDI. They would prefer to take the radical route rather than the incremental route to gain resources through OFDI, and behave aggressively through a high-commitment entry mode, for example, mergers and acquisitions (Ramamurti & Hillemann, 2018). It is interesting to investigate Chinese firms' distinctive internationalization behaviours: although Chinese firms struggle with a deficiency of international knowledge, they act aggressively and radically to conduct OFDI. The springboard perspective is an international business theory which specifically focuses on EMNEs' internationalization activities. It proposes that compared to MNEs from developed countries, firms from emerging markets undertake OFDI as a springboard to overcome their latecomer disadvantages, upgrade their capabilities and eventually equip with competitive abilities to win their position in their domestic market and global market while competing with rivals (Luo & Tung, 2007, 2018; Luo & Witt, 2021).

There is fast growing body literature investigating the determinants of OFDI and considering various motives, including resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking (Dunning, 2008; Franco, Rentocchini, & Vittucci Marzetti, 2008; Meyer, 2015). When exploring OFDI behaviours, researchers are more likely to identify the specific goals of MNEs which they aim to achieve (Deng, 2009; Elia & Santangelo, 2017; Luo & Park, 2001; Sutherland, Anderson, & Hertenstein, 2018; Sutherland, Anderson, & Hu, 2020). However, in recent years, studies have found

that behind every OFDI project, EMNEs may have different goals or assign different weight or priority to different goals (Luo & Tung, 2007, 2018). The springboard perspective proposes that the reasons impelling EMNEs to conduct overseas investment are overcoming latecomer disadvantages, filling the deficiency of competitive advantages, and developing strong competitiveness to confront the challenge from global rivals in both their domestic markets and foreign markets (Li, Prashantham, Zhou, & Zhou, 2021; Luo & Tung, 2007, 2018; Luo & Witt, 2021). Therefore, no matter how they set up the goals of each OFDI project, the assets that they aim to acquire must bolster EMNEs' requirements on economic and social development, compensate for EMNEs' firm-level competitive disadvantages, fortify their home market, and further sharpen their capabilities to defeat their rivals domestically and internationally (Kumar, Singh, Purkayastha, Popli, & Gaur, 2020; Li et al., 2021; Luo & Tung, 2007, 2018). Existing studies tend to focus on the antecedents which support EMNEs to skip the home market but obtain resources from the global market. However, there is insufficient research which explicitly investigates what type of resources firms are motivated to obtain from the international market through OFDI.

EMNEs have a shortage of international knowledge which may increase their uncertainty with regard to further business operations even though they would still prefer to rapidly invest in foreign countries with distant psychic distance (Luo & Bu, 2018b; Luo et al., 2020). Therefore, it is important to understand what type of previous experience can enable them to confront this uncertainty. Firms from emerging markets receiving investment from foreign companies and cooperating with foreign firms in their domestic markets are defined as engaging in inward internationalization activities

(Luo & Tung, 2018; Luo & Wang, 2012; Luo & Witt, 2021; Young, Huang, & McDermott, 1996). China has a massive market size and has opened up to receive inward FDI (Buckley et al., 2017). It has attracted a large number of foreign companies (Chen et al., 2020; Gu & Lu, 2011; Li, Yi, & Cui, 2017). Local Chinese firms have great opportunities to cooperate with foreign firms without going abroad. In addition, as the largest "Global Factory", China plays an important role on global exporting activities (Buckley, 2009, 2018; Buckley & Ghauri, 2004; Buckley & Munjal, 2017; Buckley, Munjal, Enderwick, & Forsans, 2016c). They have accumulated a wide range of knowledge of how to interact with foreign consumers. Previous research identified that participating inward internationalization helps to accelerate firms' technological capability development (Young et al., 1996; Zhao, et al., 2021). More specifically, the inward internationalization enables Chinese firms to upgrade their technological and managerial capabilities through managing international joint ventures which can serve as the initial foundation for them to undertake OFDI (Buckley, Munjal, et al., 2016c; Luo & Bu, 2018b; Satta, Parola, & Persico, 2014; Young et al., 1996). Simultaneously, before engaging in OFDI, the market-related feedback through exporting activities is also associated with capability upgrading where firms gained international market knowledge. Both inward internationalization and exporting activities enable Chinese firms to solidate their international experience which provides the foundation for undertaking OFDI (Buckley, Munjal, et al., 2016c; Luo & Bu, 2018b; Young et al., 1996).

Thus, it may limit our understanding if international business (IB) research ignores the impact of experience accumulation on EMNE OFDI decisions by only considering OFDI as a business activity motivated by seeking resources which are not available from the home base. *To remedy this research gap regarding the impact of previous cumulative experience on Chinese MNE OFDI decisions, this thesis applies the springboard perspective and Uppsala model to reveal the effect of the prior experience Chinese MNEs gained through interaction with foreign companies in their home market on their propensity to conduct OFDI.*

The other attribute of Chinese MNEs' OFDI is that they tend to use cross-border acquisitions (CBAs) to accelerate their internationalization. Compared to other entry modes, taking CBAs is viewed as a radical OFDI behaviour (Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018). Chinese MNEs are not highly concerned with psychic distance which is related to cultural and business differences with the focal countries (O'Grady & Lane, 1996; Ramamurti & Hillemann, 2018). They tend to take multiple acquisitions at the same time in order to obtain crucial resources and enhance competitive capabilities more radically (Li, Cui, & Lu, 2017; Luo & Bu, 2018b). Parallel with an unprecedented increase in CBAs by EMNEs, there are a large number of studies on EMNEs' CBAs (Buckley, Munjal, Enderwick, & Forsans, 2016b; Buckley, Yu, Liu, Munjal, & Tao, 2016; Cao & Alon, 2021; Choi, Cui, Li, & Tian, 2020; Deng & Yang, 2015; Enderwick & Buckley, 2021; Guo & Clougherty, 2020; Kim, Wu, Schuler, & Hoskisson, 2020; Li, Strange, Ning, & Sutherland, 2016; Morck, Yeung, &

Zhao, 2008; Rui & Yip, 2008; Tao, Liu, Gao, & Xia, 2017; Wu & Deng, 2020). CBAs are considered an appropriate approach for Chinese MNEs when accessing the core technologies from target firms to compensate for their deficiency of advanced knowledge (Deng & Yang, 2015; Fu et al., 2018; Luo & Tung, 2018). However, this line of research has reached a consensus that radical CBAs are costly and highlight the liabilities of foreignness and liabilities of emergingness (Cao & Alon, 2021; Cuervo-Cazurra, Maloney, & Manrakhan, 2007; Madhok & Keyhani, 2012; Zaheer, 1995). Apart from liabilities of foreignness which MNEs will unavoidably experience when they expand globally, EMNEs also need to deal with the liabilities of emergingness which refers to the additional costs of emerging market firms' international expansion associated with the nature of their home country (Cui & Xu, 2019; Elia & Santangelo, 2017; Kim et al., 2020; Kumar et al., 2020; Luo & Zhang, 2016; Madhok & Keyhani, 2012). Given the unavoidable liabilities of foreignness and emergingness, conducting multiple CBAs implies that Chinese MNEs act aggressively and take more risk when entering the global market (Li et al., 2017).

Some studies have determined that EMNEs should be equipped with certain abilities to identify, organize and assimilate the resources they acquired from the global market to avoid the potential risk and uncertainty (Buckley, Munjal, Enderwick, & Forsans, 2016a; Enderwick & Buckley, 2021; Luo & Tung, 2007, 2018; Luo & Witt, 2021). However, there is limited research on the relationship between EMNE's capabilities and the extent of their radical CBA activities. In other words, existing research has not

clearly classified what would affect the radicalness of EMNEs' foreign acquisitions. There is also a shortfall of research on the impact of the external factors which affect the extent of radicalness of EMNEs' risk taking by shifting from the home market to seeking resources from the global market, for instance, external government support to in-house innovation and sub-regional innovation intensity. *To remedy this research gap, this thesis intends to disclose the internal and external factors affecting the radicalness of EMNEs to conduct CBAs.*

In terms of the outcome of post OFDI, there are a sufficient number of studies on EMNEs' post-OFDI performance, including financial performance, productivity, survival, growth and innovation performance (Mudambi & Zahra, 2007; Schiffbauer et al., 2017; Tao et al., 2017; Wu et al., 2016). Previous studies have shown that OFDI activities influence firms' financial performance regarding both short-term and long-term operations (Cui & Xu, 2019; Du & Boateng, 2015; Tao et al., 2017; Xie, Reddy, & Liang, 2017). OFDI activities also impact on firms' innovation performance (Cui & Xu, 2019; Li et al., 2016; Wu et al., 2016). Despite the insights into the outcomes of OFDI from previous studies, the market-related performance of Chinese firms' overseas investment activities has not attracted sufficient academic attention. Chinese

firms tend to upgrade their capabilities to enhance their market power which refers to the power that a firm is able to monopolize its specific industry and behave dominantly during bargaining with consumers no matter by increasing prices or reducing the cost (Asongu, Nting, & Nnanna, 2020; Lerner, 1934). There is a lack of research which

explores the extent to which OFDI activities enable Chinese firms to secure their competitive position in the home market(Luo & Bu, 2018b; Luo et al., 2020; Luo & Tung, 2007, 2018; Satta et al., 2014). *To remedy this research gap, this thesis intends to examine the impact of OFDI activities on Chinese MNEs' market-related performance.*

1.4 RESEARCH QUESTIONS

This study follows the logic of the upward spiral model which is introduced by Luo and Tung (2018) in their updated springboard perspective. Originated from a largest emerging market, Chinese MNEs have benefited from cooperating with MNEs from developed countries in their home market (Luo & Tung, 2007, 2018; Young et al., 1996). They have gained advantages by serving a large domestic market for decades. However, they are still the latecomer when they go global. Therefore, it is necessary to unfold their internationalization process by looking into the effect of their accumulated international experience, their home-built capabilities and the role of their home market post OFDI. Undertaking the springboard strategies to achieve internationalization is not be a short-term process which immediately alters their latecomer disadvantages and enables them to catch up with DMNEs (Li et al., 2021; Luo, 2021; Luo & Tung, 2018). Chinese MNEs can apply their accumulated experience which they gain through cooperating with foreign companies at home at the early stage of seeking opportunities in the global market and testing their acquired resource in their home base (Buckley, Munjal, et al., 2016c; Luo & Tung, 2018; Luo & Witt, 2021; Young et al., 1996).

Despite engaging in OFDI, Chinese MNEs still need to maintain their competitive position in their home market as they rely heavily on their domestic performance, and eventually they compete with their global rivals once they have upgraded their capabilities through OFDI (Luo & Child, 2015; Luo & Tung, 2018). Following this logic, this thesis adopts the springboard perspective as this home-centric approach which enables the author to systematically examine antecedents and outcomes of Chinese MNEs' OFDI. Based on the explanations above, this doctoral research project intends to study the determinants and outcomes of Chinese MNEs' OFDI based on empirical analysis. More specifically, I aim to answer the following three questions:

(1). What is the impact of inward internationalization and exporting experience on Chinese firms' OFDI decisions? How does such an impact vary with top management teams' international experience?

(2). What are the internal and external factors determining the radicalness of CBAs by Chinese MNEs? What is the sub-national boundary condition of these determinants?

(3). What is the impact of OFDI activities on Chinese MNEs' market power in their home market? To what extent do their internal technological capabilities and industrial competitive intensity alter such impacts?

The first two research questions mainly focus on investigating the impacts of pre-owned experience and capabilities on Chinese firms' decisions of OFDI. Whether these factors affect Chinese firms' willingness to undertake OFDI and the extent to which these factors determine the radicalness of OFDI are empirically estimated in this thesis. Moreover, conducting OFDI would lead to organizational outcomes for Chinese MNEs,

and thus the third research question considers the impact of OFDI on the firms' market power performance in their Chinese home market.

1.5 INTENDED CONTRIBUTIONS

To answer the first question, this thesis intends to extend the literature on the antecedents of OFDI conducted by Chinese MNEs. More specifically, I aim to extend the springboard perspective by combining the Uppsala model to reveal that inward internationalization is not the only source for Chinese firms to obtain international experience without operating abroad. The exporting activities would perform as the complementary source for firms to gain international experience as it can contribute to the market knowledge of host countries for Chinese MNEs. In particular, bringing the exporting activities into consideration, the impact of inward internationalization on encouraging Chinese MNEs to conduct OFDI will be reinforced. In addition, the findings from investigating this research question will also provide a new insight into the moderating effect of international experience of top management team members due to their responsibilities of organizing and managing the resources which their firms possessed in order to cope with the unfamiliarity and uncertainty of operating in host countries. The findings broaden our understanding of the sources of gaining international experience by Chinese MNEs.

To address the second research question, built upon the compositional springboard theory which proposes that within the internationalization process Chinese firms will dynamically shift between the compositional logic and springboard logic (Li et al.,

2021; Luo & Witt, 2021), the thesis examines firm-level attributes which affect the radicalness of foreign acquisitions from both internal and external perspectives. Moreover, this thesis moves beyond the generic propositions about overcoming latecomer disadvantages by conducting CBAs but investigates the impact of Chinese MNEs' compositional capabilities which refer to the ability of firms to bundle ordinary resources in their domestic market and to identify their needed resources from the global market (Li et al., 2021; Luo & Child, 2015; Luo & Witt, 2021; Sun, Maksimov, Wang, & Luo, 2021), and external support for in-house innovation on sharping their CBAs radicalness. Additionally, the thesis also intends to extend our understanding of how the sub-national environment alters the impact of the firm-level attributes. This research helps to advance this line of inquiry by capturing the interrelationship between firm characteristics, sub-regional innovation features and foreign acquisitions.

To address the third research question, the author adopts the springboard perspective and extends the literature on the impact of OFDI on the home market-related performance, particularly Chinese MNEs' market power in the home country. The thesis attempts to consider a new dimension and offer an indicator of firm performance post-OFDI. The findings will unfold the Chinese post-OFDI performance of EMNEs in their home market following the home-centric logic introduced by the springboard perspective. This thesis will shed new light on Chinese MNEs using their home base as a testing ground. Furthermore, this thesis will also provide new insights into the factors which offset the challenge and uncertainty caused by OFDI activities

1.6 THE STRUCTURE OF THIS THESIS

This thesis consists of five chapters. Combining the springboard perspective and the Uppsala model, Chapter 2 analyses the impact of inward internationalization experience and exporting experience on Chinese MNEs decision of conducting OFDI. In addition, the author investigates the moderating effect of the international experience of members of top management team.

In Chapter 3, building upon the compositional springboard perspective, the author investigates the impact of compositional springboard capabilities and external support of in-house innovation on the radicalness of Chinese MNEs implementing CBAs. The boundary condition of sub-regional innovation performance in the home country is also considered. This study will apply the negative binomial regression model to conduct panel data analysis.

Chapter 4 adopts an advanced regression model which combines the propensity score matching technique with the difference-in-difference approach to evaluate the impact of OFDI on the market power of Chinese MNEs in their home country. The market power is an economic concept in this chapter which has been applied in economic or finance research, but it has drawn little attention from IB research. Moreover, this chapter adds the moderating effect of Chinese MNEs internal technological capabilities and external industrial competitive intensity to evaluate the extent to which OFDI affects Chinese MNEs' market power in their home base.

Chapter 5 concludes the thesis by summarizing the main findings, contributions, and research limitations. It will also offer managerial implications and suggest directions for future research.

2. The Impact of Inward Internationalization and Exporting Experience on Chinese Firms' OFDI Decision: A Combination of the Springboard Perspective and the Uppsala Model

2.1 INTRODUCTION

In the past decades, outward foreign direct investment (OFDI) made by firms from emerging markets has attracted increasing attention from international business scholars. When discussing OFDI activities conducted by the emerging multinational enterprises (EMNEs), previous studies have identified the latecomer roles and the catch-up orientation which motivate EMNEs to undertake OFDI (Child & Rodrigues, 2005; Choi et al., 2020; Cui, Fan, Liu, & Li, 2017; Cui, Meyer, & Hu, 2014; Meyer, 2018). One of the most commonly mentioned attributes of EMNEs is their catch-up motive in technological development (Awate, Larsen, & Mudambi, 2015; Child & Rodrigues, 2005; Choi et al., 2020; Cui et al., 2017, 2014; Meyer, 2018). These firms often struggled with the deficiency of competitive advantages due to the lack of knowledge and advanced technologies. Some studies show that firms from emerging markets such as China often adopt aggressive approaches to obtain resources rapidly from the global market to overcome their disadvantages as late-comers (Lavie, 2006; Lu et al., 2011; Oliver, 1997; Peng, 2001; Peng, Wang, & Jiang, 2008). Compared with MNEs from developed countries, EMNEs joined the internationalization journey at a late stage. Therefore, they tend to suffer from latecomer disadvantages while competing

with their rivals from developed countries in global markets.

The latecomer disadvantages include their weak competitive advantages in terms of advanced technology and manufacturing know-how, the deficiency of international knowledge of global cooperation and managerial expertise (Luo & Bu, 2018b; Luo & Tung, 2007; Mathews, 2006; Rui & Yip, 2008). Thus, they aim to acquire critical resources from aboard to catch up with global market leaders (Cui et al., 2014). At the same time, due to the massive market size and the increasing demands in their home countries, emerging markets have attracted a large number of MNEs from developed countries (Buck, Liu, Wei, & Liu, 2007; Chen et al., 2020; Luo, Sun, & Wang, 2011). Emerging market firms suffer from both the deficiency of competitive advantages in the global markets and the fiercer competitive environment in the domestic market, making it harder for them to survive (Kotabe & Kothari, 2016; Luo et al., 2011; Luo & Tung, 2007; Zhao et al., 2021). Therefore, they are seeking for a radical route to obtain critical assets externally from the global market in order to overcome these disadvantages and catch up with and compete with global rivals, as well as eventually win more market share and become more profitable from internationalization (Luo & Tung, 2007, 2018; Luo & Witt, 2021). Such a phenomenon has been reflected in the springboard perspective which pinpoints that EMNEs use OFDI as a springboard strategy to upgrade their capabilities in order to compete effectively with their global rivals in both their domestic and overseas markets (Luo & Tung, 2007; 2018). Differing from previous research which emphasized that firms take OFDI to leapfrog and catch

up with MNEs from developed countries in the internationalization process (Mathews, 2006; Meyer, 2018), the springboard theory emphasizes the importance of emerging market firms' home base which means that even though firms engage in internationalization such as OFDI, they still highly depend on their home market performance (Luo & Tung, 2007, 2018; Luo & Wang, 2012; Luo & Witt, 2021). OFDI serves as a springboard for EMNEs to acquire resources they need in order to upgrade their capabilities. In other words, the springboard perspective infers that the springboard OFDI is a tool for firms to obtain the resources which enable them to develop competitive advantages and compete against their global rivals in both home markets and the global market (Li et al., 2021; Luo & Tung, 2007, 2018; Luo & Witt, 2021; Sun, Maksimov, Wang, & Luo, 2021).

Emerging markets have attracted enormous interest from the developed markets as they have cheap labour and resources to produce low-end products and export those products to meet the demands of global customers (Cuervo-Cazurra et al., 2018; Young et al., 1996). Therefore, although firms from emerging markets start the internationalization process at the late stage, they have gained experience through exporting activities and cooperating with foreign companies who invested in their domestic emerging markets (Cuervo-Cazurra et al., 2018; Li, 2007; Young et al., 1996). The traditional Uppsala model has been widely applied to explain the internationalization behaviours of DMNEs and proposes that firms gain market knowledge from exporting activities by interacting with local customers (Buckley, Munjal, et al., 2016c; Elango & Pattnaik,

2011; Johanson & Vahlne, 1977, 2009). Firms can build their exporting channel, establish their subsidiaries and eventually achieve internationalization through foreign operations (Johanson & Vahlne, 1977, 2009). Although this involves an incremental process to accumulate international knowledge from exporting, firms can increase their market commitment over time (Johanson & Vahlne, 1977). The latest springboard theory to underpin the internationalization behaviours by firms from emerging markets also emphasizes the same logic of international knowledge accumulation process (Luo & Bu, 2018b; Luo & Tung, 2018; Luo & Witt, 2021). The springboard theory proposes that although firms from emerging markets lack international experience and technological capabilities, they can partially obtain and accumulate international experience in the domestic market, specifically through inward internationalization (Luo & Tung, 2007, 2018; Luo & Witt, 2021). Firms' inward internationalization refers to EMNEs receiving foreign direct investment from MNEs outside their home countries (Chen et al., 2020; Child & Rodrigues, 2005; Gu & Lu, 2011).

This phase is identified as the first step of EMNEs' internationalization process in the upward spiral model which is a major component of the springboard theory (Luo & Tung, 2018; Luo & Witt, 2021). Emerging markets have attracted a large number of developed country MNEs because of the large domestic market and the increasing demands of local customers (Chen et al., 2020; Luo & Bu, 2018a). Although the entry of foreign MNEs leads to fiercer competition and makes it harder for local firms to

survive as the former possess more advanced technology and managerial skills, MNEs investing in emerging markets simultaneously provide EMNEs opportunities to cooperate with foreign firms in their domestic markets which helps local firms to accumulate financial assets and upgrade their technological capabilities and organizational skills (Child & Rodrigues, 2005; Cui et al., 2014; Zhao et al., 2021).

While extant literature has examined the role of inward internationalization in EMNEs' OFDI, the majority of these studies tend to focus on inward FDI at country level or subregion level and industry level (Gu & Lu, 2011; Kang, Scott-Kennel, Battisti, & Deakins, 2021; Li, Li, & Shapiro, 2012; Liu, Buck, & Shu, 2005). Few studies have investigated inward internationalization at firm level. Particularly, little research has built on the springboard theory to unpack the role of the home base in EMNEs' OFDI. Therefore, this study empirically delineates whether the cumulative benefits gained from previous home-based international activities motivate emerging market firms to undertake OFDI.

In addition, it should be noted that inward internationalization is not the only way of gaining international experience and managerial capability by emerging market firms. Those firms often are exporters and have been involved in international trading for a long period of time and their home countries, such as China, are regarded as the global factory due to comparative advantages and intensified globalization in the past decades (Buckley, 2009; Buckley, Chen, Clegg, & Voss, 2020). This, thus, raises an important research question as to whether the other international experience which emerging

market firms have obtained from exporting serves as a complementary source of international knowledge which enhances the impact of inward internationalization on OFDI.

International experience associated with exporting activities overseas can be underpinned by the Uppsala model (Johanson & Vahlne, 1977; Kim et al., 2020). As a conventional model of internationalisation, the Uppsala model is applied to explain the internationalisation process of developed multinational enterprises (DMNEs). It is claimed that OFDI is the result of an incremental expansion which firms start through exporting activities and then moves onto OFDI once they have accumulated more international experience (Johanson & Vahlne, 1977; Kim et al., 2020). Following the logic of the Uppsala model, firms can gain experiential knowledge from their exporting activities, which contributes to their basic understanding of the nature and size of the international market (Buckley, Munjal, et al., 2016c; Johanson & Vahlne, 1977) first, then they will establish the sale of subsidiaries to further extend their selling channel. Eventually, firms will produce in host countries to meet local demands (Johanson & Vahlne, 1977). The Uppsala model identifies exporting activities as the first step of firms' internationalization. Differing from the springboard model, the Uppsala model emphasizes the experiential knowledge that firms could gain from exporting activities and that contributes to their understanding of foreign markets (Buckley, Munjal, et al., 2016c; Johanson & Vahlne, 1977, 2009). EMNEs have been cooperating with global buyers and customers through exporting. Thus, EMNEs with plentiful exporting

4activities can learn from their previous exporting experience, and this in turn affects their international strategies (Love & Ganotakis, 2013; Lu et al., 2011; Lu, Liu, Wright, & Filatotchev, 2014).

Both the Uppsala model and the springboard theory share the agreement of knowledge accumulation process. Compared with the traditional Uppsala model which treats exporting activities as a gradual market knowledge accumulation process to enhance further market commitment (Johanson & Vahlne, 1977, 2009), springboard theory claims that the international knowledge firms gained from inward internationalization could rapidly build up firms' non-experiential knowledge which does not need the actual cooperation experience in the focal countries in order to facilitate high market commitment (Buckley, Munjal, et al., 2016c; Luo & Tung, 2018; Luo & Witt, 2021). Although the springboard theory is applied to analyse unconventional but radical internationalization through OFDI, the Uppsala model is a more incremental and gradual approach towards the internationalization of MNEs from developed countries, both emphasize that before operating in foreign countries, firms need to be equipped with certain knowledge of the global market.

Inward internationalization is more likely to contribute to knowledge of how to work with foreign partners (Child & Rodrigues, 2005; Luo & Bu, 2018a; Luo & Tung, 2007; Luo & Witt, 2021), while the exporting experience is more likely to enable firms to obtain experiential market knowledge of the foreign markets (Buckley, Munjal, et al., 2016c; Johanson & Vahlne, 1977). The knowledge and experience through exporting

constitute firms' capabilities to identify and evaluate the potential opportunities in the global market where they could acquire resources needed in order to further upgrade their competitive advantages (Buckley, Munjal, et al., 2016c; Lu et al., 2011; Madhok & Keyhani, 2012; Yiu, Lau, & Bruton, 2007).

Thus, both the springboard perspective and the Uppsala model share the same logic of knowledge accumulation when firms consider venturing overseas (pre-OFDI phase), the springboard perspective does not pay sufficient attention to the accumulated market knowledge firms gained from their previous trading with foreign partners while the Uppsala model does not consider the option of gaining international knowledge through cooperating with foreign companies in the domestic market. Therefore, this research integrates both the springboard perspective and the Uppsala model to underpin the roles of firms' international experience from inward internationalisation and exporting activities in OFDI.

Furthermore, both the springboard theory and the Uppsala model demonstrate that the personnel with international experience affect the managerial capacity of MNEs. Whether the members in the top management team (TMT) have the knowledge to apply previous international experience Chinese firms acquired from previous international interactions will be another interesting question to explore. The springboard theory asserts that Chinese firms lack international managerial talents to build up their familiarity with different culture and business norms (Luo & Tung, 2018). This will lead to more liability of foreignness (LOF) (Cuervo-Cazurra et al., 2007) and liability

of emergingness (LOE) (Madhok & Keyhani, 2012). The Uppsala model identifies hiring personnel with an international background as the alternative source of international experiences (Johanson & Vahlne, 1977, 2009) without specifying how the international experience will affect firms' OFDI decisions. The inward internationalization experience and exporting experience are firm-level experiences that firms own which cannot be transferred to another firms. However, there is an alternative individual-level source of international knowledge firms could grasp if they hire the personnel with international experience (Cui, Li, Meyer, & Li, 2015; Fu, Hou, & Sanfilippo, 2017; Johanson & Vahlne, 1977, 2009; Luo & Tung, 2007, 2018).

Different from the inward internationalization experience and exporting experience, employing managers with an overseas background would determine whether firms can effectively apply the international experience they have acquired (Cui et al., 2015; Fu et al., 2017). Managers with international experience could increase firms' managerial capabilities with regard to international operations as they have more knowledge and familiarity of working with the global market (Cui, Li, & Li, 2013; Filatotchev, Liu, Buck, & Wright, 2009; Fu et al., 2017; Lin, Lu, Liu, & Zhang, 2016; Zhang & Greve, 2019). They are equipped with better understanding and more confidence on how to utilize the EMNEs' international knowledge gained from inward internationalization and exporting experience (Zhang & Greve, 2019). Their experience will facilitate the exploitation and the implementation of OFDI (Fu et al., 2017; Cui et al., 2013; Li, Yi, & Cui, 2017). It is imperative to clarify whether the TMT's international experience

will have an impact on the effectiveness of EMNEs' exploitation of their pre-owned firm-level international knowledge. Therefore, in this research, the author identifies and tests TMT's international knowledge as a boundary condition of firms' international experience affecting EMNEs' OFDI decisions.

Taken together, the author aims to examine three research questions: (1) whether inward internationalization experience and exporting experience during the pre-OFDI phase will affect firms' decisions on undertaking OFDI; (2) whether the enhancing role of firms' exporting experience exists while testing the effect of inward internationalization experience on the propensity of Chinese firms to make the decision of global expansion through OFDI; (3) whether a TMT's international background moderates the effect of inward internationalization and exporting on the propensity of conducting OFDI. The author suggests that both inward internationalization experience and exporting experience will directly raise the intention of firms to adopt OFDI. As the main source of international knowledge firms could gain by operating domestically, exporting experience will play the role of the magnifier which could collaboratively enhance the magnitude of inward internationalization on the propensity of conducting investment abroad. In addition, the effectiveness of inward internationalization experience and exporting experience will be strengthened if firms employ a top management team with more international experience.

This chapter contributes to the literature on OFDI by Chinese MNEs in the following ways. First, although previous research has clarified that Chinese firms should develop

their capabilities before undertaking OFDI to further assimilate the advanced knowledge they acquired from foreign target firms (Jansen, Van Den Bosch, & Volberda, 2005; Kafouros & Aliyev, 2016; Lu et al., 2011), insufficient attention is paid towards whether and where firms can gain pre-OFDI international experience without operating abroad in order to develop their certain required capabilities. Building upon the upward spiral model based on the springboard perspective, the author emphasizes the central logic, or the role of the home base of OFDI, and asserts that Chinese firms could learn international knowledge from inward internationalization without actually going abroad.

Secondly, this study will extend the springboard theory by highlighting the necessity of considering previous exporting experience as the first step of the upward spiral model, as exporting experience is a complementary source of gaining international knowledge from previous interaction with global customers. Although the knowledge Chinese firms gained from exports is non-relationship specific knowledge which does not enable those firms to access the heterogeneous resources of their international partners (Johanson & Vahlne, 2009), they gain the basic market knowledge which could work together with the relationship-specific knowledge which firms learned from inward internationalization (Buckley, Munjal, et al., 2016c). Without considering the effect of exporting experience, the magnitude of the impact of inward internationalization may be underestimated without taking into account a complementary source which simultaneously enhances EMNEs' international experience through inward

internationalisation.

Third, the springboard theory considers the organizing and managing capabilities which EMNEs' lack, leading to difficulties in coping with cultural differences and business norms so hindering their efforts to manage abroad, and further integration (Luo & Tung, 2018). Underpinned by the Uppsala model, hiring personnel with international experience would be the alternative resource for firms to build up their international experience (Johanson & Vahlne, 1977). This study asserts that a top management team with more international experience will be more able to utilize their firm-level international experience when they implement OFDI strategy.

This chapter is organised as follows. Section 2 presents the theoretical framework and hypotheses, followed by describing the sample and data sources in Section 3. Section 4 presents the results of hypothesis tests. Finally, Section 5 discusses the implications of the findings.

2.2 THEORETICAL FRAMEWORK AND HYPOTHESES

2.2.1 The Springboard Theory

Previous research on the determinants of OFDI has considered various motives, including resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking (Dunning, 2008; Franco et al., 2008; Meyer, 2015). Thus, when exploring OFDI behaviours, researchers are more likely to identify the specific goals of MNEs (Deng, 2009; Elia & Santangelo, 2017; Luo & Park, 2001; Sutherland et al., 2018,

2020). However, according to the springboard perspective, the reasons impelling EMNEs to conduct overseas investment are overcoming latecomer disadvantages, filling the deficiency of competitive advantages, and taking a strong competitive approach to confront the challenge from global rivals in both their domestic markets and foreign markets (Li et al., 2021; Luo & Tung, 2007, 2018; Luo & Witt, 2021).

The springboard perspective highlights three attributes of EMNEs - amalgamation, ambidexterity and adaptability (AAA) - which firms should utilize while considering undertaking the springboard activities to expand internationally (Li et al., 2021; Luo & Tung, 2018). *Amalgamation* refers to firms' abilities which enable them to composite all the available resources to create products which could have a high price-value ratio to match the demands of both domestic and global markets (Luo & Child, 2015; Luo & Tung, 2018), while *ambidexterity* demonstrates firms capabilities to create and balance the contradictory goals to achieve the long-run success (Li et al., 2021; Luo & Tung, 2018). EMNEs should also be equipped with *adaptability* to alter their strategies, which allows them to fit in with the changing global environment for the long-term survival (Luo & Tung, 2018). Reviewing previous studies which applied the springboard perspective to analyse the first phase of EMNEs' OFDI, it can be seen that the concept of composition is similar to amalgamation (Li et al., 2021; Luo & Bu, 2018a). It refers to the fact that EMNEs can combine all the beneficial resources that they retained to first upgrade their capabilities in their home market to withstand the further liability of foreignness when they started their OFDI overseas (Li et al., 2021; Luo & Bu, 2018a;

Luo & Child, 2015; Luo & Tung, 2018; Luo & Witt, 2021).

When undertaking OFDI, EMNEs are not be constrained by the psychic distance (Li et al., 2021; Luo & Tung, 2018). In some contexts, the word "springboard" is used to describe firms that build the springboard by investing in countries which have a short psychic distance first, and then leapfrog to countries with long psychic distance (Andersson & Forsgren, 1996; Pla-Barber, Botella-Andreu, & Villar, 2021; Wang, Luo, Lu, Sun, & Maksimov, 2014). The springboard in this context refers to MNEs which aim to transit to developed markets with less cognitive distance so as to partially reduce the liability of foreignness due to the unfamiliarity of foreign markets. In doing so, MNEs can build familiarity with their final targeted host countries with huge psychic distance (Pla-Barber et al., 2021). In contrast, the springboard perspective adopted in this study is predominately used to explain the motives and pattern of OFDI undertaken by EMNEs. More specifically, it identifies OFDI as a springboard which enables EMNEs to obtain critical assets and upgrade their capabilities as well as catching up and competing with global rivals from advanced countries (Enderwick & Buckley, 2021; Luo & Tung, 2007, 2018).

The springboard model also represents an aggressive and risk-taking behaviour for emerging market firms if they have the intention to acquire strategic assets from the global market to develop their capabilities (Luo & Bu, 2018b; Luo & Tung, 2007). It differs from other IB theories in the sense that it considers the springboard OFDI a long-term process. EMNEs implementing springboard strategies not only catch up with firms

from advanced countries, but also seek for opportunities to compete with the global rivals in both domestic markets and global markets (Luo & Tung, 2007, 2018; Luo & Witt, 2021). It is noted that firms from emerging markets rapidly get engaged in internationalization while their home markets also attract a large number of MNEs from the global market (Hertenstein, Sutherland, & Anderson, 2017). EMNEs heavily rely on their domestic market as this has a substantial size, and they have a privileged position in such markets due to their familiarity with local markets (Luo & Tung, 2007; Luo & Wang, 2012; Madhok & Keyhani, 2012). Therefore, the springboard perspective suggests that the home base of EMNEs should be put in a central position while attempting to aggressively acquire critical resources from the global markets through OFDI activities (Li et al., 2021; Luo & Tung, 2007, 2018; Luo & Witt, 2021). In other words, the springboard theory emphasizes the central role of the home base of EMNEs in their outward activities, and thus studies of the motives of EMNE's OFDI should take a close examination of ways in which the home base of EMNEs affects their OFDI decisions (Luo & Tung, 2007; 2018).

The springboard theory is novel as it claims that EMNEs' OFDI has multiple goals, including getting critical technology from the global markets, exploiting their unique home-grown advantages and capabilities and escaping from the unsophisticated institutional environment of home countries (Kumar et al., 2020; Luo & Tung, 2007, 2018; Satta et al., 2014).

The intention to overcome competitive disadvantages will motivate firms to consider

the OFDI option to obtain required resources from abroad (Cui et al., 2017; Lu et al., 2011; Rui & Yip, 2008) even though they should also consider whether they are equipped with the basic skills and capabilities which could be gained through previous internationalization experience and internal knowledge development. These skills and capabilities would enable them to implement OFDI in order to swiftly obtain their required resources to improve their competitive advantages (Fu et al., 2018; Johanson & Vahlne, 1977; Lu, Liu, Wright, et al., 2014; Rabbiosi, Elia, & Bertoni, 2012). The eclectic paradigm proposes that ownership advantages endow firms with the abilities that they could exploit outside their home country to offset the extra costs when operating in unfamiliar host countries (Dunning, 1980). It has been argued that firms from emerging market, as latecomers, do not intrinsically possess sufficient ownership advantages and so lack these advantages (Cuervo-Cazurra & Genc, 2008; Cuervo-Cazurra et al., 2007; Cui et al., 2014; Cui & Xu, 2019). Thus, their home-built or home-grown internationalization knowledge, which constitutes a form of ownership advantage, has not received sufficient attention.

Different from the ownership, location and internalisation (OLI) framework which proposes that firms should have the pre-owned advantages (ownership advantages, location advantages and internalization advantages) before they take OFDI, the springboard theory emphasizes the importance of the pre-OFDI phase in which firms have to build up their basic skills and capabilities in their home countries first through cooperating with foreign companies or participating in international activities such as

exporting, before they consider expanding internationally through OFDI (Luo & Tung, 2007; 2018). This pre-OFDI phase is defined as the first step of the upward spiral model in the springboard theory which emphasizes that inward internationalization is essential for firms from emerging markets as the resources they obtain from outward activities will be integrated with their inward activities in the home market (Child & Rodrigues, 2005; Luo & Tung, 2018). This involves a learning process which requires EMNEs to have sufficient understanding and knowledge to manage further cooperation and interaction with their foreign partners (Li et al., 2017). Although EMNEs are latecomers who have the deficiency of internationalization experience in the international arena, inward internationalization provides them with an alternative option to bolster their knowledge of coping with foreign markets and foreign partners (Luo & Wang, 2012). These home-built skills and capabilities by interacting with global players could be leveraged in the subsequent stages of internationalization (Li et al., 2017; Satta et al., 2014).

Many studies have confirmed that internationalization through OFDI will assist firms with the liability of foreignness (LOF) when they are operating in host countries (Cuervo-Cazurra et al., 2007). Particularly, firms from emerging markets will also encounter the liability of emergingness because of their emerging market background (Madhok & Keyhani, 2012). If firms have adequate home-built international knowledge which allows them to better grasp how to cooperate or integrate in unfamiliar local markets of host countries, they will suffer less from LOF (Child &

Rodrigues, 2005; Satta et al., 2014; Zaheer, 1995). Simultaneously, their previous cooperation with foreign companies in their home market will also enlighten them regarding how to set up with a more credible presence during internationalization and overcome the LOE associated with their emerging background, which is stereotypically viewed as less credible and legitimate (Luo & Wang, 2012; Madhok & Keyhani, 2012).

The presence of an increasing number of DMNEs in emerging markets offers EMNEs great opportunities to cooperate with them through inward internationalization. Working with DMNEs in their domestic markets could be beneficial for EMNEs as DMNEs could act as the role model for them to improve their production standards and business norms (Luo & Tung, 2007). Furthermore, the interaction with the foreign partners serves as a knowledge transfer channel through which EMNEs can learn more about the advanced technology in their home market (Zhao et al., 2021). The inward internationalization could also help EMNEs to gain more international knowledge of how to cooperate with foreign partners.

Following the springboard perspective, EMNEs should have the ability to amalgamate the resources that they captured from previous international activities to upgrade their capabilities to reduce the foreseeable LOF and LOE (Li et al., 2021; Luo & Bu, 2018a; Luo & Tung, 2018). Therefore, the inward internationalization experience which enables firms to gain more international knowledge, and partially overcome the unfamiliarity of operating in a foreign market, should be taken into account while examining firms' OFDI decisions. To rapidly overcome the liabilities of foreignness

and liabilities of emergingness, and to obtain the critical resources from the global market, emerging market firms should be prepared with, or possess sufficient managerial capabilities and international knowledge obtained from previous inward internationalisation, before engaging in OFDI (Luo & Tung, 2007, 2018).

2.2.2 The Upward Spiral Model

The springboard theory contains an upward spiral model which could summarize the complex internationalization process to five steps. The five-step upward spiral model is a specific refinement of the springboard theory. As the springboard theory emphasizes the important role of the home base plays in internationalization, the upward spiral model consistently highlights the focal role of a home base in each step

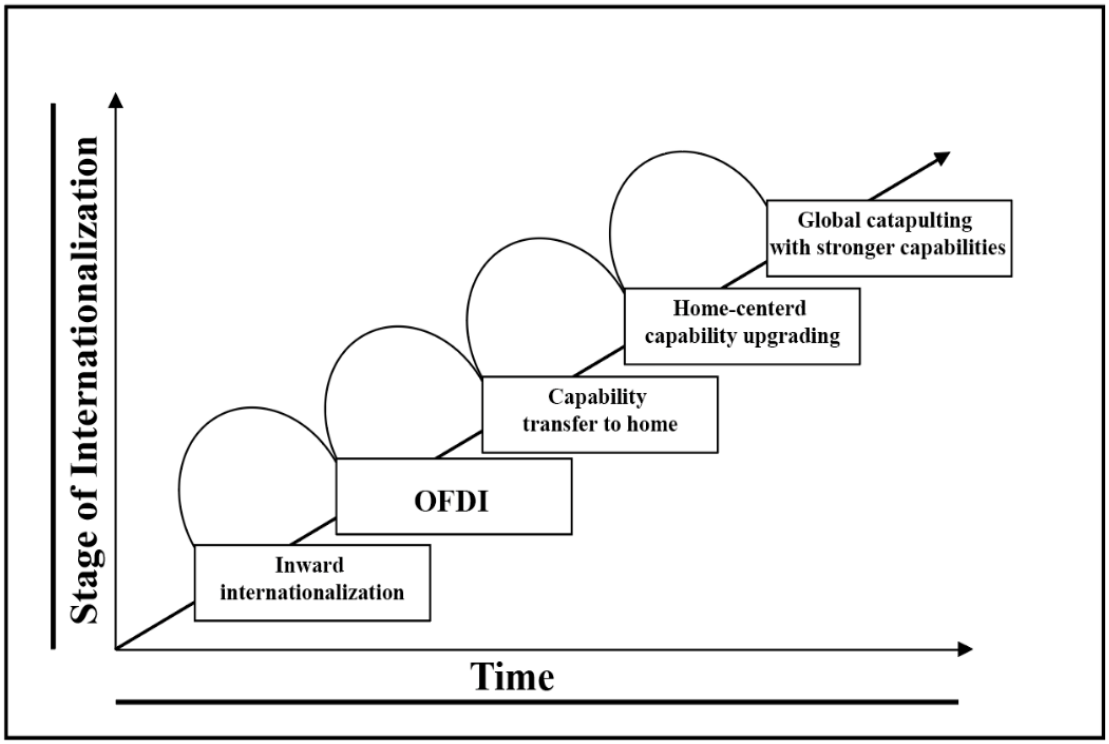

Figure 2.1 The upward spiral model

Note: The schematic diagram of the upward spiral model. Adapted from "A general theory of springboard MNEs," by Y. Luo and R.L.Tung, 2018, *Journal of International Business Studies, 49(2)*, p. 144. Copyright 2017 by Academy of International Business

of EMNEs' internationalization (Luo & Tung, 2007; 2018). Step one, as figure 2.1 shows, identifies that before conducting OFDI firms should first consider whether they have the essential capabilities which are generated from inward internationalization and could be exploited in further OFDI activities. After directly investing abroad, EMNEs would consider transferring their acquired assets to their home countries and move to the orchestration period in which to experiment with the resources acquired overseas to upgrade their capabilities in home markets (Luo & Tung, 2018). Due to the massive size and great potentiality in their emerging home market, EMNEs could enhance, combine and leverage their upgraded capabilities and advantageous knowledge to gain

their competitiveness at both domestic markets and international markets (Luo & Bu, 2018a; Luo & Child, 2015; Luo & Tung, 2007, 2018). Following this route, EMNEs will eventually achieve global competitiveness through internationalization.

The springboard theory provides a novel perspective from which to view firms from emerging markets with their OFDI activities by introducing the upward spiral model. Applying the upward spiral model of the springboard theory to explain the behaviours of emerging MNEs is to recognise the crucial role of the home base in EMNE internationalization. The upward spiral model can be regarded as the first internationalization model which systematically and comprehensively integrates the home base into the consideration of the internationalization strategy of EMNEs.

In this chapter, the author aims to examine the first step of the upward spiral springboard model, which is the relationship between previous inward internationalization of EMNEs and their OFDI decisions. As latecomers, EMNEs are not able to accumulate sufficient international experience from outward investment in foreign countries (Madhok & Keyhani, 2012). However, in their domestic markets, there are alternative opportunities for these firms to gain knowledge through cooperating with foreign partners via inward internationalization (Child & Rodrigues, 2005; Gaur, Kumar, & Singh, 2014; Gaur et al., 2018; Li et al., 2017; Satta et al., 2014). As one of the largest emerging countries, China has attracted a large number of MNEs from different countries, thus providing the opportunities for Chinese firms to participate in collaboration with foreign firms at home. Therefore, this study focuses on the impact

of Chinese MNEs' previous inward internationalization experience on firms' OFDI decisions.

2.2.3 Applying the Uppsala Model to Emerging Market Firms

The Uppsala model has been applied to explain the gradual route of the FDI behaviour of developed countries (Kim, Wu, Schuler, & Hoskisson, 2020). It proposes that firms from developed countries started their internationalization from exporting activities to establish exporting channels and selling subsidiaries, eventually operating in the host countries through OFDI. The accumulated exporting experience will induce further internationalization while cultivating their perception of foreign markets (Johanson & Vahlne, 1977). MNEs could gain general knowledge and market-specific knowledge through engaging in exporting (Li et al., 2017). Exporting experience can also contribute to the international knowledge pool of how to operate in foreign countries with limited familiarity (Buckley, Munjal, et al., 2016c). Specifically, the exporting experience contributes more to the understanding of the global market rather than the knowledge of how to cooperate with foreign partners (Johanson & Vahlne, 1977, 2009).

EMNEs retain the benefit of MNEs from other countries because they have more opportunities to cooperate with MNEs if they show plentiful interest and take proactive investment in the emerging markets (Luo & Tung, 2007). Knowledge obtained through their inward internationalization experience will be more applicable for firms' further international expansion as they cannot only learn experiential knowledge by cooperating with the MNEs in their local markets, but also externally acquire non-

experiential knowledge transferring from MNEs to upgrade their technological capabilities (Buckley, Munjal, et al., 2016c; Zhao et al., 2021). However, the market knowledge where firms gain from actually operating in the foreign market could not be replaced because it is learned from specific experience of individuals, organizations, and markets (Johanson & Vahlne, 1977). Generating market knowledge through exports is the most cost-effective way while the emerging markets have taken a heavy exporter role during global trading. They have substantial exporting experience which refers to the fact that they have plenty of accumulated market knowledge which they can utilize for further radical foreign investment (Buckley & Casson, 1998; Love & Ganotakis, 2013; Lu et al., 2011).

The original springboard perspective asserts that the Uppsala model describes the common conventional internationalization route of developed country MNEs because they would be more likely to process their global expansion incrementally (Luo & Tung, 2007). That is why the springboard perspective did not pay enough attention to the effectiveness of the market knowledge firms learned from previous exporting experience. Although EMNEs would prefer to engage in radical internationalization through OFDI in order to rapidly obtain strategic assets from the global market to improve their capabilities, the previous preparation phase may not be a radical decision. They have to develop their capabilities in their domestic market (Luo & Tung, 2018; Luo & Witt, 2021). However, they need to concentrate all their international knowledge and evaluate and identify the potential cooperative opportunities in their domestic

market (Li et al., 2021; Luo & Child, 2015).

Meanwhile, the Uppsala model defines internationalization as an incremental process as firms could gain market knowledge over time from operating in foreign markets. It starts from exporting to establish export channels, then acts as a selling subsidiary, and eventually produces in the host markets (Johanson & Vahlne, 1977, 2009). The market knowledge contributes to their understanding of working with different cultures, business norms and levels of legitimacy (Buckley, Munjal, et al., 2016c; Cui et al., 2014). Therefore, from this perspective, the exporting experience could positively influence firms market knowledge to reduce the liability of foreignness initially (Johanson & Vahlne, 2009). Cooperating with foreign companies in the domestic markets would also equip firms with this ability. Therefore, the market knowledge EMNEs gain from export will partially contribute towards the further cooperation between EMNEs and DMNEs in their home markets (Buckley, Munjal, et al., 2016c).

The recent revisiting of the Uppsala model by Johanson & Vahlne (2009) raises the concern of the business relationship which could be applied to explain why the inward internationalization is imperative for EMNEs at the first phase. The upgraded Uppsala model takes the knowledge firms gain from cooperating with a business network into the consideration. Johanson & Vahlne (2009) defined the relationship knowledge as the knowledge firms create from the interconnection with their partners in the business network. The knowledge creation process does not simply rely on their own business activities. The business relationship also contributes to firms' knowledge base (C.

Cheng & Yang, 2017; Liu et al., 2005; Yli-Renko, Autio, & Sapienza, 2001). They claim that knowledge gained when seeking to understand the common or specific characteristics of the targeted markets through current business activities is important for the firms when they intend to globalize their business (Johanson & Vahlne, 2009). The interaction with foreign buyers will help firms to develop their experiential knowledge and thus affect their OFDI decisions (Buckley, Munjal, et al., 2016c; Cui et al., 2013; Johanson & Vahlne, 2009; Lu, Liu, Wright, et al., 2014). Such experiential knowledge could be alternatively acquired by hiring personnel with previous related market experiential knowledge (Johanson & Vahlne, 1977; 2009).

2.2.4 A Combination of the Springboard Perspective and the Uppsala Model

The springboard perspective identifies AAA capabilities that EMNEs should be equipped with when considering global extension, EMNEs should not only apply the knowledge gained from previous inward internationalization activities, but also their prior exporting experience which should equally play an important role when firms consider undertaking OFDI. The knowledge from inward internationalization activities includes both non-experiential knowledge which could boost firms' technological capabilities and experiential knowledge which could allow firms to rapidly learn how to cooperate with the focal companies. In contrast, the previous exporting activities contribute to firms' experiential market knowledge which they gained from their actual experience by serving the focal markets (Buckley, Munjal, et al., 2016c; Young et al.,

1996).

To ensure that EMNEs utilize their amalgamation, firms should not only take the resources they gained through inward internationalization into account but they should also consider the substitute resources gained through other previous international interaction when making their decisions to expand overseas (Buckley et al., 2020). More specifically, firms should collect the information and utilize their cumulative knowledge of the host market which they gained from previous exporting activities (Buckley, Munjal, et al., 2016c). The market knowledge EMNEs obtained from plentiful exporting activities could be exploited as either complementary or substitute resources (Li et al., 2021; Luo & Child, 2015; Luo & Tung, 2018). In this study, the author argues that either the springboard theory or the Uppsala model in isolation is not sufficient when examining the effect of inward internationalization and exporting on OFDI, given that without integrating the two models, it is difficult to fully capture the impact of previous international experience of emerging market firms on their OFDI decisions in pre-OFDI phrase.

Building upon the logic of the Uppsala model, the inward internationalization could be viewed as the business relationship EMNEs developed in their domestic markets which enables them to rapidly learn international knowledge and technological knowledge to upgrade their capabilities (Cui et al., 2014; Enderwick & Buckley, 2021; Kumar et al., 2020; Zhao et al., 2021). The original Uppsala model emphasizes that the amount of market knowledge firms retained will decide the level of market commitment. From

firstly engaging in internationalisation by exporting, MNEs gain basic market knowledge and it will impel the commitment of MNEs to further establish their exporting channel (Johanson & Vahlne, 1977). Continuously deepening the operations in the foreign markets will extend MNEs' knowledge base through building on their own experience and strengthening the business network with foreign partners (Johanson & Vahlne, 2009). This dynamic knowledge accumulation process will enhance MNEs' market commitment to conduct further internationalization. That is why the Uppsala model demonstrates international expansion as an incremental process in which the knowledge creation process is dynamic, and firms could only incrementally accumulate international knowledge from operating in foreign markets (Elango & Pattnaik, 2011; Li, Brodbeck, Shenkar, Ponzi, & Fisch, 2017). However, it does not consider the exempted situation that EMNEs aim to leapfrog to overcome their latecomer disadvantages. Because their home markets have attracted plentiful investment from MNEs overseas, they can build a business relationship with foreign companies through inward internationalization in their domestic market to obtain international knowledge and technological knowledge rather than incrementally build the relationship with foreign firms by operating in foreign countries (Cui et al., 2014; Liu, et al., 2016; Zhao et al., 2021).

From the springboard perspective, emerging market firms with amalgamate ability are likely to engage in OFDI activities. The amalgamation ability in the first phase of internationalization (inward internationalization) refers to firms' ability to identify

needed resources and amalgamation opportunities (Luo & Tung, 2018). Therefore, for firms which have already had home-build internationalization knowledge, top management team's particular experiential knowledge and global mindset could enhance firms' amalgamation during the identification period before OFDI (Cui et al., 2013; Gupta & Govindarajan, 2002; Liu, & Giroud, 2016). The ambidexterity is another key feature of Chinese MNEs as they prefer to harmoniously and simultaneously achieve two diverse or even conflicting goals (Luo & Tung, 2018). To achieve the ambidexterity, Chinese MNEs need a better strategic preparation before conducing OFDI activities (Luo & Tung, 2018). Therefore, more oversea returnees in a top management team with a deep understanding of both home countries and global markets possess more ambidextrous ability compared to those managers without international experience (Lu, Liu, Filatotchev & Wright, 2014).

Taken together, the explanations above demonstrate the necessity of combining both the springboard perspective and Uppsala model to examine the role of inward internationalization and previous exporting experience in EMNEs' OFDI decisions.

2.2.5 Hypotheses Development

2.2.5.1 Internationalization experience from inward internationalization and exports

According to the upward spiral model, inward internationalization plays an imperative role in developing basic international knowledge in the home country and understanding of how to cope with foreign partners at home and operate in foreign markets. There are multiple routes for EMNEs to gain international knowledge through

engaging in inward internationalization, including forming foreign equity joint ventures or alliances in their home countries (Child & Rodrigues, 2005; Li et al., 2017; Luo & Wang, 2012).

According to the springboard theory, firms involving in cooperative alliance or joint ventures in their domestic market could accumulate their international understanding and knowledge without participating in the global business arena to compete with rivals from foreign countries (Gaur et al., 2018; Luo & Tung, 2007; Satta et al., 2014). It would be risky for Chinese firms to directly take radical OFDI strategies as latecomers do not have sufficient basic understanding of how internationalization works. Inward internationalization through forming strategic alliances and joint ventures with foreign firms could build a closer link between local firms and their foreign partner in domestic markets compared to other modes (Simonin, 2004). Inward internationalization activities will have the knowledge spillover effect which enables Chinese firms to gain international knowledge at home to develop their competitive advantages (Li et al., 2017; Zhang, Li, & Li, 2014).

Moreover, due to the lack of outward internationalization and their latecomer's status, Chinese firms are deficient in terms of the managerial capabilities needed to manage their foreign operations without developing their basic international experience from inward internationalization. Knowledge and experience gained from inward investment activities could enhance Chinese firms' resource fungibility which could be further applied when they invest abroad (Li et al., 2017; Luo & Wang, 2012). This closer link

through international joint ventures will build a more effective and efficient channel through which foreign partners may transfer technology to the local Chinese firms.

Further, inward internationalization experience could reduce the LOF and LOE when Chinese firms invest abroad. It provides more opportunities for local firms to learn international standards and advanced managerial skills (Child & Rodrigues, 2005; Luo & Tung, 2007). Conducting business overseas will lead to additional cost for MNEs due to the LOF which is caused by spatial distance, the lack of international experience, and the unfamiliarity of the host country environment (Zaheer, 1995). In addition, emerging market firms also suffer from the liability of emergingness due to the status of their home country.

An increasing number of DMNEs operating in emerging markets offers EMNEs great opportunities to cooperate with them through inward internationalization. Working with DMNEs in their domestic markets could be beneficial for EMNEs as DMNEs serve as the role model for EMNEs to learn how to respond to local customers and how to deal with challenges of operating in a host emerging market as well as develop appropriate business norms which can be utilize to undertake OFDI activities (Luo & Tung, 2007). The inward internationalization also helps EMNEs gain more knowledge of how to cooperate with foreign partners, which will enable them to overcome LOF and LOE when venturing abroad through forming effective partnerships with local firms in host countries (Li et al., 2017; Liu, Gao, Lu, & Lioliou, 2016). Additionally, interaction with the foreign partners at home also serves as a knowledge transfer channel which enables

emerging market firms to learn more about the advanced technology when operating domestically (Liu, et al., 2016; Zhao et al., 2021).

Lastly, export experience constitutes another source of international experience (Child & Rodrigues, 2005; Luo & Tung, 2007, 2018). Compared to other modes of gaining international experience, exporting is low-risk and advantageous with fewer requirements for organizational resources and more flexibility of management (Lu et al., 2011). In the early stages of international business studies, the Uppsala model has clarified that as a non-equity choice, exporting is where internationalization starts. Exporting contributes to the market knowledge of foreign countries and help the firms to understand the nature of foreign markets (Johanson & Vahlne, 1977, 2009). Although exporting would not build up particular knowledge of how to operate in host countries, the general knowledge of how to meet the global standards by improving their products quality and how to trace the changing demands of global markets could be obtained by being involved in the global supply chain (Gaur et al., 2014, 2018; Singh, 2009). Firms from emerging markets are discriminated against due to their unsophisticated customers' demands and underdeveloped domestic markets. When they have more prior experience of interacting with international customers through low-risk exporting activities, they can gain more knowledge of cultural differences and legitimacy while building their networks with host markets, as well as establishing their brand and reputation in host countries (Madhok & Keyhani, 2012; Yiu et al., 2007).

As discussed above, both inward internationalization experience and exporting

experience are important for EMNEs' OFDI decisions. Therefore, I hypothesize that both inward internationalization experience and exporting experience will be positively related to the propensity of Chinese MNEs to undertake OFDI activities.

Hypothesis 1a: Chinese firms engaging in inward internationalization will have a higher propensity to conduct OFDI

Hypothesis 1b: Chinese firms with export experience will have a higher propensity to conduct OFDI

2.2.5.2 The supressing effect of exporting experience

In this research, the author considers the suppressing mediation effect of the exporting experience on the relationship between inward internationalization experience and the propensity to conduct OFDI. This is because without taking the previous international experience EMNEs gained from exporting activities into account, the effectiveness of inward internationalization experience would not be fully displayed.

From the springboard perspective, more inward internationalization experience would offer firms more opportunities to conduct investment abroad. The non-relationship specific knowledge firms gained from exporting activities will act as the complementary source which will contribute to firms' foreign market knowledge even though it might not motivate firms to conduct OFDI in the global market (Buckley, Munjal, et al., 2016c). In other words, exporting activities would not rapidly affect firms' global expansion strategies, but could build up Chinese firms' understanding of how to

cope with different cultures, legitimacy and international knowledge (Li et al., 2017; Satta et al., 2014). This international knowledge and understanding could create more ownership advantages before they move to take more OFDI (Luo & Tung, 2018). Thus, EMNEs can combine basic skills and capabilities from exporting experience with the experiential knowledge gained from inward internationalization to boost their intention to conduct OFDI activities (Li et al., 2021; Luo & Child, 2015). More specifically, firms with more exporting experience have more basic market knowledge of the host market which allows them to have a better understanding of how to utilize their experiential knowledge gained from the inward internationalization and how to leverage their existing resources and advantages to further internationalize (Buckley, Munjal, et al., 2016c; Luo & Child, 2015; Luo & Tung, 2018).

Drawing on the logic of how exporting activities progressively stimulates firms' intention to conduct OFDI, the mediation effect could be predicted since without considering firms' previous exporting experience, the effect of inward internationalization would be suppressed because the extent of their previous basic knowledge of the global market would be ignored. The springboard theory emphasizes the importance of the amalgamation while EMNEs consider expanding aboard (Luo & Tung, 2018). Without applying the basic market knowledge they gained from previous interaction with global buyers, which is more cost-effective, firms' ability to identify and evaluate the potential opportunities in international markets would be overlooked (Buckley, Munjal, et al., 2016c). As an alternative source of international knowledge,

exporting experience is essential if firms wish to be equipped with basic global market knowledge and to understand and apply the knowledge they gained from inward internationalization experience. Instead of only taking the experience firms gained from inward internationalization into account, the author hypothesizes that with more exporting experience, the effect of inward internationalization on firms' propensity to conduct OFDI will be enhanced.

Hypothesis 2: *Export experience acts as the cooperative enhancer of inward internationalization which will boost the effect of inward internationalization on a Chinese firm's propensity to conduct OFDI.*

2.2.5.3 The moderating role of TMT's international experience

From the springboard perspective, whether EMNEs could achieve success in their internationalization also depends on their managerial capabilities. Their cross-cultural management skills will affect the implementation of further international process as EMNEs suffer from a deficiency of international experience of operating abroad, such as cooperating with foreign focal firms hence leading to a lack of familiarity and understanding of business patterns in the host countries. *Haigui (oversea returnees)*, which refers to people who returned from foreign countries with oversea advanced education experience, or working experience, could build up the soft power of the EMNEs to overcome the shortage of international talents and a company's unfamiliarity with the host markets. Previous research has noted that the oversea returnees could directly increase the propensity of firms to get involved in internationalization (Fu et

al., 2017; Reuber & Fische, 1997). Based on the Uppsala model, accumulated foreign experiential knowledge is strongly associated with a firm's internationalization progress and provides firms with the necessary capabilities to perceive and discern further developing opportunities (Johanson & Vahlne, 1977). Top managers' international experience is taken into account as the knowledge source which could crucially affect firms' internationalization as it contributes to firms experiential knowledge (Fu, Hou, & Sanfilippo, 2017). Although the international experience of top managers was taken as compensation for firms with a lack of international experience (Fu et al., 2017), the author argues that their experiential knowledge is more likely to be utilized to bolster the stimulating effect of firms' pre-owned international knowledge on OFDI decisions. Firms' international knowledge which has been generated from previous inward internationalization activities is essential as it helps firms to reduce the liability of foreignness for EMNEs (Luo & Tung, 2007, 2018). The non-relationship specific knowledge which firms gain from exporting enables them to understand that the host market could be taken into account as a complementary source of knowledge to work with the knowledge obtained from the inward internationalization. However, without personnel with experiential know-how to leverage the general international knowledge, firms will not be able to effectively utilise their inward internationalization experience (Lu, Liu, Filatotchev, et al., 2014). Therefore, this study considers the extent to which the managers with international experience in a top management team (TMT) moderates the impact of firms' international experience on OFDI decisions in three main ways.

First, TMT members with international experience are more likely to gain market-specific knowledge about host countries which firms could combine with their general understanding of global markets obtained in their domestic market in order to bolster the effectiveness of inward internationalization experience. The market-specific knowledge requires firms to have operating experience in the particular markets (Johanson & Vahlne, 1977). Although EMNEs have accumulated basic international experience, as latecomers, they are deficient in experience of operating in foreign markets. In terms of their disadvantageous position with regard to market-specific knowledge, top managers' are more likely to build upon their international experience and their understanding of specific host markets if they have educational or working experience there (Lu, Liu, Filatotchev, et al., 2014).

Second, top managers with international experience could also transfer their global mindset to their firms, which would enable firms to have more capabilities to recognize and filter the opportunities from the global market for their further development (Cui et al., 2013; Filatotchev et al., 2009). The TMT's international experience may benefit Chinese firms' OFDI activities from a network perspective. Human mobility enhances the global network, and managers with international experience can bring their overseas knowledge and network-based resources to their firms (Gao, Liu, & Zou, 2013). Chinese firms' international knowledge developed through inward activities combining with the international network developed by their top managers will reduce the uncertainty and risk of operating in foreign countries and enhance firms confidence

taking OFDI activities (Fu et al., 2017; Gao et al., 2013).

Third, the springboard theory indicates that adaptability is the one of the three main characteristics of Chinese EMNEs and this refers a firm's adaptability to change market and environment (Luo & Tung, 2018). Although firms have internationalization experience gained from inward activities, the information asymmetries might lead to a misjudgement of the complexity of foreign environment (Child & Rodrigues, 2011). More experiential knowledge from top management team will reduce the asymmetries and allow firms to better navigate the changing global environment. Then they could more efficiently adjust their OFDI strategies to respond to the complexity (Lu, Liu, Filatotchev, et al., 2014; Luo & Tung, 2018). Therefore, hiring more top managers with international experience allows Chinese firms more resources to combine with their basic skills and capabilities gained through inward internationalization experience. The stimulating effect of firms' inward international experience on the propensity of conducting OFDI activities will be strengthened when the top management team of the Chinese firm have more international experience. Based on the reasoning above, the author proposes the following hypotheses

Hypothesis 3a: *The level of top management teams' international experience will positively moderate the relationship of export experience and the propensity of conducting OFDI activities by Chinese firms.*

Hypothesis 3b: *The level of international experience of top management teams will positively moderate the relationship between inward internationalization experience*

and the propensity of conducting OFDI activities by Chinese firms.

2.3. METHODOLOGY

2.3.1. Data and Sample

The author constructed a dataset of outward foreign direct investment activities by Chinese firms that were listed on the Shanghai and Shenzhen Stock Exchanges from 2009 to 2018. In 2009, The Ministry of Commerce of People's Republic of China released the measures for foreign investment management (Ministry of Commerce & People's Republic of China, 2009), which has been applied as a fundamental policy to regulate Chinese overseas investment. It standardized and promoted Chinese firms to participate in the global market and engage in OFDI activities. A large number of CBAs by Chinese firms took place after these policies were issued. The data on OFDI information was manually collected from multiple sources, including the China Stock Market & Accounting Research Database (CSMAR) database and WIND database. The CSMAR database and WIND database have been widely used when analysing Chinese listed firms (Buckley et al., 2020; Du & Boateng, 2015; Huang et al., 2017, 2020; Zhang & Greve, 2019; Zhou & Guillén, 2015). They are regarded as high-quality databases, given that the databases have been compiled by following the same standards of globally authoritative data providers, namely CRSP, COMPUSTAT, TAQ and THOMSON. In particular, the CSMAR database collected the up-to-date OFDI deals made by Chinese listed firms with detailed information on each deal (Du & Boateng, 2015). The sample firms used in this research should meet the following criteria: (1)

listed firms in the Shanghai or Shenzhen stock market; (2) if firms conducted overseas investments, their OFDI activities should have been completed during the observed period from 2009 to 2018; (3) overseas assets from foreign target firms are located outside mainland of China. Investments in Hong Kong, Macau, Taiwan and countries known as tax havens were excluded. In total, there are 882 firms with 7053 observations included in the dataset

2.3.2. Variables

The propensity of Chinese firms to conduct OFDI activities, as the dependent variable, is measured as a dummy variable regarding whether a Chinese firm made a decision to undertake OFDI in the sample period. The dummy variable of OFDI equals 1 if the Chinese firms made OFDI decision and zero otherwise.

In this study, a firm's *inward internationalization experience,* the independent variable, is measured as a dummy variable which captures whether a sample firm received foreign capital and has international equity joint ventures or alliances with foreign firms in their domestic market. To measure the inward internationalization experience, I collected data from the CSMAR database and the WIND database. The dummy variable of inward internationalization experience equals one if the firm has received foreign capital and was involved in international equity joint ventures or alliances with foreign firms, and zero otherwise (Luo & Bu, 2018b; Satta et al., 2014).

Chinese firms' *export experience*, another independent variable and suppressing mediator, is measured as the ratio of the firm's annual export sales to its total annual

sales (Lu et al., 2011).

To measure the *top management team's international experience*, which is the moderator, the author firstly collected background information of members in firms' top management teams to detect the number of managers in the top management team with (1) overseas education experience; (2) overseas working experience; (3) both overseas education and working experience. The top management team's overseas experience in this study equals the number of top managers with overseas experience to the total number of managers in the top management team (Cui et al., 2013; Lu, Liu, Filatotchev, et al., 2014).

In this chapter *firm size, age, ownership, location, industrial concentration level and research and development (R&D) expenditure* were controlled for heterogeneity. Firm size was measured by the logarithm of a firm's total employees (Cui, Jiang, Lin, & Fuming, 2012). As older firms can have more resources and experience in conducting acquisitions abroad, we controlled for firm age which was measured as a firm's total years since its inception (Lu et al., 2011). Ownership may affect firms' resource accessibility (Gaur et al., 2018). Therefore, the author included a control variable of firms' ownership using the percentage of shares held by the central and local governments, or government-related institutions. Firms in coastal cities compared to those allocated in inland cities may have more internationalization knowledge as they participated the opening-up policy earlier than inland cities (Choi et al., 2020). In addition, R&D expenditure may motivate firms to engage in OFDI activities (Lu et al.,

2011). The industrial concentration level is measured with the Herfindahl index which determines that an industry with a lower Herfindahl index is more competitive. High industrial competitiveness might motive Chinese firms to acquire needed resources from the global market (Cui et al., 2014).

2.3.3. Analytical Approach

The author uses fixed-effects panel data regression to track the time-related effect of Chinese firms' internationalization experience in their home base on shaping their OFDI decisions. The panel data estimation allows the author to capture the dynamic changes of the sample firms because it includes both firm-specific and year-specific effects. Applying the panel dataset is the most appropriate approach for this research as it enables the author to control the unobserved heterogeneity (Buckley, Munjal, et al., 2016c). Panel data analysis also helps address the issue of omitted variables which are caused by unobservable individual differences (Zhang et al., 2014). In particular, when the heterogeneity does not vary over time, panel dataset could easily offset the omitted variables which cannot be achieved using a cross-sectional dataset. Additionally, the panel dataset may help to overcome potential collinearity among independent variables compared to time-series estimation. Using panel data enables us to take account of the individual heterogeneity. Conducting logistic analysis on the propensity of Chinese firms' OFDI, the independent variables, moderating variable and control variables are lagged by one year to avoid possible reverse causation.

A typical mediation effect refers to the magnitude of the dependent variable and

independent variable will be reduced while adding the mediator into the regression model. In this research, the author adopted the novel suppressing model which shared the same equations with the conventional mediation model but was not used to identify the mediation channel (MacKinnon, Krull, & Lockwood, 2000). Bringing the suppressing mediator into the regression model is necessary because a suppressor is not defined by its own regression weight but rather by its effects on other variables in a regression system (Conger, 1974). The definition of the suppressing model does not emphasize the relationship between suppressor and the independent variable but highlights it is "a variable which increases the predictive validity of another variable by its inclusion in a regression equation," (Conger, 1974, p. 36-37; MacKinnon et al., 2000, p.3) where predictive validity is assessed by the magnitude of the regression coefficient. Thus, a situation in which the magnitude of the relationship between an independent variable and a dependent variable becomes larger when a third variable is included would indicate suppression (MacKinnon et al., 2000). In this case, if the exporting experience would not be considered when testing the relationship between inward internationalization and propensity of OFDI activities, the coefficient would appear smaller.

The author predicts that (1) inward internationalization experience will positively affect firms' propensity to adopt OFDI; (2) exporting experience will positively affect firms' propensity to conduce OFDI; (3) exporting experience will suppress the relationship between inward internationalization experience and firms' propensity to conduct OFDI;

(4) TMT's international experience will strengthen the positive effect of inward internationalization experience on the OFDI decision and (5) TMT's international experience will positively moderate the positive impact of exporting experience on OFDI adoption. As the dependent variable is a dummy variable of whether Chinese firms conducted OFDI activities, the author uses the binary logistic (logit) model to conduct the data analysis. The estimated models are shown below:

$$OFDI_{it} = \beta_0 + \beta_1 Inward\ internationalization\ experience_{i,t-1} + \sum \beta_i\ Controls_{i,t-1} + \mu'_{it} \qquad \textit{(Equation 1)}$$

$$OFDI_{it} = \beta_0 + \beta'_1 Inward\ internationalization\ experience_{i,t-1} + \beta_2 Exporting\ expereince_{i,t-1} + \sum \beta_i\ Controls_{i,t-1} + \mu_{it} \qquad \textit{(Equation 2)}$$

$$OFDI_{it} = \beta_0 + \beta_1 Inward\ Internationalization\ Experience_{i,t-1} + \beta_2 Export\ Experience_{i,t-1} + \beta_3 (Inward\ Internationalization\ Experience_{i,t-1} \times TMT's\ International\ Experience_{i,t-1}) + \beta_4 (Export\ \ Experience_{i.t-1} \times TMT\ International\ Experience_{i,t-1}) + \sum \beta_i Controls_{i,t-1} + \mu_{it} \qquad \textit{(Equation 3)}$$

Where $OFDI_{it}$ represents the OFDI decision by sample firm i in time t; Inward Internationalization $Experience_{i,t-1}$ and Export $Experience_{i,t-1}$ are the independent variables which the author hypothesizes have direct effects on the dependent variable; TMT International Experiencei,t-1 represents the moderating variable; $Controls_{i,t-1}$ is a vector of control variables; μ_{it} is the error item, β_0 refers to the constant term of the model. Equation 1 is the logit modelling to test the main direct effect while equation 2 is adapted to examine whether the suppressing effect exists. Equation 3 refers to the

full model which contains the moderators.

The data consists of a relatively short panel which contains many individual units but few time periods. The default standard errors method treats disturbances as independent and identically distributed items. In this case, it assumes that the disturbances among different firms are independent. However, each firm will contain a time-series data set which may have a correlation within a group because of the shared traits. Each firm is taken as an individual clustered unit (Abdi & Aulakh, 2018; Cameron, Gelbach, & Miller, 2008; Luo & Wang, 2012). Therefore, in order to eliminate any inaccuracy resulting from using the default standard error treatment, the author undertook the block bootstrap method to re-sample the individual units and leave the dataset within the clusters unchanged (Cameron et al., 2008). It means that if an individual unit is resampled, the time-series data within this group will be selected at the same time. To deduct the potential existence of heteroskedasticity, applying the bootstrap method to estimate the standard error could get a more accurate estimation of the standard error for data with a small sample size compared to the robust standard error.

2.4. RESULTS

Table 2.1 presents the descriptive statistics and correlation matrix. Variance inflation factors among the variables were well below the acceptable level of 10 (Neter, Wasserman, Kutner, & Kutner, 1985), which suggests that multi-collinearity is not a major concern.

Table 2.1 Descriptive statistics and Correlation matrix

	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. OFDI	0.5	0.5	1								
2. Inward internationalization$_{t-1}$	0.01	0.08	0.014	1							
3. Export experience$_{t-1}$	0.15	0.22	0.195***	0.002	1						
4. TMT's international experience$_{t-1}$	0.06	0.11	0.104***	0.001	0.158***	1					
5. Firm age$_{t-1}$	2.62	0.47	0.167***	-0.012	-0.036***	-0.049***	1				
6. Firm size$_{t-1}$	22.11	1.42	0.229***	0.004	-0.098***	-0.032***	0.226***	1			
7. Firm R&D intensity$_{t-1}$	0.03	0.05	0.111***	-0.010	0.043***	0.132***	-0.111***	-0.193***	1		
8. SOE$_{t-1}$	0.04	0.13	-0.073***	0.005	-0.068***	-0.063***	-0.042***	0.179***	-0.084***	1	
9. Location$_{t-1}$	0.75	0.43	0.030**	-0.002	0.100***	0.066***	-0.067***	-0.028**	0.080***	-0.088***	1
10. Industry concentration level$_{t-1}$	0.14	0.16	-0.017	0	-0.076***	0.078***	-0.031***	0.082***	-0.101***	0.064***	-0.0140

* p<0.1, ** p<0.05, *** p<0.01

Table 2.2 Results of the binary logistic regression analysis

	Model 1	**Model 2**	**Model 3**
Dependent variable	***OFDI(Dummy)***	***OFDI(Dummy)***	***OFDI(Dummy)***
Control variables			
Firm age $_{t-1}$	5.1899***	5.2004***	5.0985***
	(0.8431)	(0.8434)	(0.8386)
Firm size $_{t-1}$	1.3128***	1.3166***	1.3439***
	(0.2411)	(0.2405)	(0.2331)
SOE $_{t-1}$	-1.8479**	-1.8495**	-1.9361**
	(0.7809)	(0.7778)	(0.7608)
Location $_{t-1}$	0.5329	0.5577	0.5101
	(0.4655)	(0.4766)	(0.4834)
Industry concentration level $_{t-1}$	-0.3404	-0.3480	-0.2468
	(0.6589)	(0.6573)	(0.6541)
Firm R&D intensity $_{t-1}$	2.3028	2.3071	2.4667
	(2.0453)	(2.0451)	(2.0682)
Independent variable			
Inward internationalization $_{t-1}$		0.9980***	1.0362***
		(0.3554)	(0.3601)
Suppressor			
Export experience $_{t-1}$			3.0517***
			(0.6417)
Constant			
Observations	7,006	7,006	7,006
Number of firms	878	878	878
Log likelihood	-1753	-1751	-1716
Chi-square	231.8	243.9	280.1
Pseudo R-squared	0.392	0.393	0.405
Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1			

	Model 4	Model 5	Model 6	Model 7
Dependent variable	***OFDI(Dummy)***	***OFDI(Dummy)***	***OFDI(Dummy)***	***OFDI(Dummy)***
Control variables				
Firm age $_{t-1}$	5.0587***	5.0610***	5.0323***	5.0351***
	(0.8385)	(0.8381)	(0.8326)	(0.8324)
Firm size $_{t-1}$	1.3272***	1.3267***	1.3653***	1.3646***
	(0.2329)	(0.2328)	(0.2286)	(0.2285)
SOE $_{t-1}$	-1.9962***	-1.9936***	-2.0898***	-2.0875***
	(0.7701)	(0.7709)	(0.7817)	(0.7829)
Location $_{t-1}$	0.4908	0.4826	0.4962	0.4876
	(0.4900)	(0.4870)	(0.4962)	(0.4929)
Industry concentration level $_{t-1}$	-0.2470	-0.2532	-0.2213	-0.2274
	(0.6506)	(0.6512)	(0.6551)	(0.6557)
Firm R&D intensity $_{t-1}$	2.4553	2.4474	2.3523	2.3444
	(2.0652)	(2.0651)	(2.0675)	(2.0674)
Independent variable				
Inward internationalization $_{t-1}$	1.0377***	0.7584*	1.0447***	0.7566*
	(0.3597)	(0.4278)	(0.3609)	(0.4304)
Suppressor				
Export experience $_{t-1}$	2.9964***	3.0012***	2.4287***	2.4319***
	(0.6278)	(0.6274)	(0.5724)	(0.5723)
Moderator				
Top management team's (TMT) international experience $_{t-1}$	1.8252*	1.8093*	0.3548	0.3385
	(0.9509)	(0.9538)	(0.9938)	(0.9951)
Moderating effects				
Inward internationalization $_{t-1}$ * TMT's international experience $_{t-1}$		5.2146		5.3494
		(11.9050)		(12.1705)
Export experience $_{t-1}$ * TMT's international experience $_{t-1}$			7.9146**	7.9194**
			(3.9209)	(3.9159)
Constant				
Observations	7,006	7,006	7,006	7,006
Number of firms	878	878	878	878
Log likelihood	-1712	-1712	-1706	-1705
Chi-square	282.5	274.7	276.6	268.4
Pseudo R-squared	0.406	0.407	0.409	0.409

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

Table 2.2 presents the results of the regression analysis. Model 1 contained the control variables only. Model 2 included the main direct independent variable, inward internationalization experience. Model 3 included both independent variables and tested whether the suppressing effect exists. Models 4 to 6 estimated the interaction effects. Model 7 is a full model, including all the variables.

Hypothesis 1a suggests that there is a positive association between inward foreign direct investment and the propensity of Chinese firms to conduct OFDI activities. The statistical results in Models 2, 3 and 7, show that firms with inward internationalization experience will be associated with a larger propensity to conduct OFDI. (β=0.9980, $p<0.01$; β=1.0362, $p<0.01$; β=0.7566, $p<0.1$). Thus, Hypothesis 1 is supported.

Hypothesis 1b posits that firms' propensity of OFDI are positively associated with their export experience. In Models 3 and 7, the variable of export experience is positive and statistically significant, indicating its positive impact on the propensity of OFDI decisions made by the sample firms (β=3.0517, $p<0.01$; β=2.4319, $p<0.01$). This suggests that firms that have more export experience will be more likely to conduct OFDI. Therefore, the result confirms Hypothesis 1b.

Hypothesis 2 posits that the suppressing effect exists if the regression does not contain exporting experience when testing the relationship between inward internationalization experience and firms' propensity of OFDI. The exporting will enlarge the magnitude of the inward internationalization coefficient. Comparing Model 2 and Model 3, the coefficient of inward internationalization experience increased from β=0.9980, $p<0.01$ to β=1.0362, $p<0.01$. This suggests that the suppressing effect does exist, and that exporting experience works as the reciprocal suppressor (cooperative enhancer) in the full suppressing model. Therefore, the result confirms Hypothesis 2.

The results for the moderation effects of TMT international experience on firms' inward international experience and export experience are presented in Models 4-7. Hypothesis 3a postulates that TMT with more international experience will strengthen the positive effect of inward internationalization experience on the propensity of OFDI activities conducted by Chinese firms. The coefficients of their interaction terms are positive but statistically insignificant in Models 4 and 7, so do not support Hypothesis 3.

For Hypothesis 3b, it is proposed that TMT international experience will strengthen the positive association between firms' export experience and their likelihood to make OFDI decision. The interaction term between firms' export experience and TMT international experience is positive and statistically significant in Model 6 (β=7.9146, $p<0.05$) and Model 7 (β=7.9194, $p<0.05$). This suggests that if a firm has more export experience, it is more likely to get engaged in OFDI activities. Hence, Hypothesis 3b is supported.

For the control variables, state ownership shows a negative and statistically significant sign in Models 1 – 7 ($p<0.05$). Moreover, firm size and firm age are positive and statistically significant at the 1 percent level ($p<0.01$).

2.5. DISCUSSION

Firstly, this research confirmed that the inward internationalization will positively affect firms' propensity to invest abroad. Previous research building upon the resource-based view (RBV), the OLI or other theories repeatedly emphasized that Chinese firms should be equipped with certain resources or capabilities while they are considering undertaking OFDI activities in order to access their needed resources from the global market. However, the springboard perspective draws more attention to the amalgamative capabilities which indicates that firms will utilize all the resources they possess while undertaking OFDI. In this case, the pre-OFDI phase indicates the preparation of firms to obtain all the resources they need from their home markets. EMNEs

might demand different resources from the global market as the extent of deficiency of their capabilities varies, and they have different strategic priorities. Internationalization is a long-term process that not only intends to seek certain overseas resources, for example, natural resources, strategic resources, and marketing resources. Learning from the inward internationalization experience, before taking actual investment overseas, to address their specific shortage of required resources and knowledge and develop their deficient capabilities at the home base first could partially release them from struggling with processing further OFDI. Drawing insights from the springboard theory, this chapter highlights that inward internationalization experience could bolster Chinese EMNEs' understanding of and knowledge about cooperating with global players, which will result in a higher propensity for them to conduct OFDI overseas and to pursue advanced resources they need for their further development and expansion.

Secondly, the author examined the influence of exporting experience on the propensity of OFDI and how it enhances the effectiveness of inward internationalization experience. The Uppsala model was established to explain the international behaviour of firms from developed countries which started engaging in exporting activities. Although China is still an emerging country, it has been regarded as the most important exporter and a world factory in the global market. Due to Chinese firms' abundant exporting activities, they have gained and accumulated plentiful market knowledge on how to collaborate with global buyers and how to respond to customers without venturing abroad. From the springboard theory, EMNEs should composite the resources they have to assess whether they can undertake OFDI in the first phase. Therefore, the basic market knowledge they acquired from previous exporting activities should not be ignored but should be taken into the consideration when examining the factors affecting Chinese firms' OFDI. The result indicates that firms with exporting experience are more likely to increase the propensity of undertaking OFDI overseas. In addition, although the exporting

experience is positively associated with Chinese EMNEs' OFDI decisions, the knowledge they obtained from exporting is basic market knowledge which could not totally replace the other source of international knowledge, such as inward internationalization. Including the exporting experience into the consideration is necessary, as it is the alternative source of international knowledge which firms could gain from operating domestically. However, it could only become the complementary source of knowledge as exporting experience can only provide firms' basic understanding of how to collaboratively work in the global market rather than rapidly build up specific advanced capabilities which can be utilized for further OFDI progress. This research demonstrates that exporting experience serves as the cooperative enhancer which can enlarge the effectiveness of inward internationalization experience on firms' propensity of conducting OFDI.

Furthermore, despite the knowledge Chinese firms obtained from inward internationalization or exporting experience, they should have the professional personnel who have the ability to perceive, distinguish and utilise the knowledge to further advance internationalisation such as OFDI. Although this study evaluated the moderating role of overseas experience of managers in the top management team in the inward internationalization and exporting, the results do not confirm that their abundant international experience could alter the effectiveness of inward internationalization. However, the increasing number of senior managers with international experience that Chinese MNEs hired in their top management team helps to enhance the positive effect of exporting experience on the propensity of Chinese firms' OFDI decisions.

Top management teams' international knowledge could support them in setting up an effective system to organise and utilize Chinese MNEs' existing knowledge because they have certain experience in the host countries (Cui et al., 2013; Lu, Liu, Filatotchev, et al., 2014). Their experiential international knowledge would provide them with the mindset to understand the market conditions in the specific host countries (Lu, Liu, Filatotchev, et al., 2014). Moreover,

building upon their overseas experience they would have a personal network that could collaboratively work with the experiential market knowledge Chinese MNEs gained from exporting activities (Buckley, Munjal, et al., 2016c; Cui et al., 2013). Different from the experiential knowledge Chinese MNEs gained through actual experience in the host countries, the knowledge Chinese gained from inward internationalization could rapidly enhance their international knowledge base without practising in the host countries (Buckley, Munjal, et al., 2016c). The inward internationalization could contribute to Chinese MNEs non-experiential knowledge. Due to the international mindset of TMT members being built with their experiential knowledge, they would probably filter out new information which is different from what they have experienced, and struggle to cope with the new knowledge gained without having actual operational experience in foreign countries (Bogner & Barr, 2000; Cui et al., 2013).

2.6. CONCLUSION

In this chapter, I adopt the springboard perspective and the Uppsala model to empirically examine the extent to which previous international experience shapes Chinese firms' propensity to conduct OFDI. Using the longitudinal data collected from Chinese listed firms from 2009 to 2018, this study has found that inward internationalization experience and exporting experience boosts Chinese firms' intention to invest overseas. Meanwhile, exporting experience which is not considered the main source of advanced market knowledge cooperatively enhances the effectiveness of inward internationalization. Furthermore, this research has confirmed the important role of hiring professional personnel with international experience as it gives firms more opportunities to utilize their knowledge and experience gained from exports. This study broadens the springboard theory as it empirically validates the central role of inward internationalization while demonstrating the necessity of adding exporting experience into the upward spiral model to more accurately capture the effectiveness

of inward internationalization regarding Chinese MNEs' OFDI decisions. This study enriches the literature on the springboard perspective and provide the new insight into the mechanism of the application of the upward spiral model.

3. Determinants of Foreign Acquisitions by Chinese MNEs: A Compositional Springboarding Perspective

3.1. INTRODUCTION

Previous research has predominantly proposed that a lack of heterogeneous resources prompts EMNEs in general, and Chinese firms in particular, to conduct acquisitions abroad to compensate for their resource deficiencies and compete against established rivals (Deng, 2009; Rui & Yip, 2008; Zhao et al., 2021; Zhu & Zhu, 2016). It has been found that cross-border acquisitions provide EMNEs with quick access to internationally recognized brands, managerial skills, and technologies in overseas markets, hence fostering their innovative capabilities (Deng & Yang, 2015; Fu et al., 2018; Luo & Tung, 2018).

Despite recognizing the competitive disadvantages of EMNEs as the main driver of their foreign acquisitions, extant research has paid little attention to other firm-level attributes which motivate EMNEs to obtain resources from the global strategic factor market through cross-border acquisitions (Cuervo-Cazurra & Ramamurti, 2014; Mathews, 2006). On the one hand, existing studies have recognized that not all firms in this category pursue such a rapid international strategy (Buckley et al., 2016; Fu et al., 2018). On the other hand, a growing body of literature proposes that these new players must possess some pre-existing strengths or capability to internationalize (Buckley, Munjal, et al., 2016a; Enderwick & Buckley, 2021; Luo & Tung, 2007, 2018; Luo & Witt, 2021). For example, although Chinese firms, as latecomers, lack heterogeneous resources, at the early or resource-poor stage, they may have developed a compositional springboarding capability which enables them to identify and organize whatever resources are available, either internal or external, to create compositional advantages (Luo & Child, 2015; Zhou, Li, Zhou, & Prashantham, 2020). The compositional springboard capability refers to EMNEs' ability to composite their ordinary resources to develop the usefulness of

their products to incrementally respond to the diverse environment in the pre-internationalization phase (Li et al., 2021). It generally depicts a firm's abilities to combine resources, leverage goals and respond to the changing environment (Li et al., 2021; Luo, 2021; Sun et al., 2021). However, little research has been carried out on whether compositional springboarding capability drives the radical international strategy of Chinese firms, such as CBAs.

Research building upon the resource-based view (RBV) may not be sufficient to explain the underlying mechanisms driving EMNEs' foreign acquisitions as the RBV assumes resource heterogeneity as the source of firms' competitive advantage. Particularly, there is a lack of clarity about the extent to which EMNEs' competitive advantages, and lack of external support of in-house innovation from the home-country government shape their acquisitions abroad (Luo & Tung, 2018; Ramamurti, 2012). Such an omission may significantly hinder our understanding of EMNEs' international strategy through foreign acquisitions, especially the impact of the different sources of resources on such a strategy, as the external resources associated with governmental support will induce the diverse strategy at firm-level (Luo & Zhang, 2016).

In addition, cross-border acquisitions may reflect the ambition of EMNEs to combine externally acquired resources with their existing in-house competencies (Luo & Bu, 2018a). The positive external economies generated by firms' immediate geographic milieu may provide them with business support and material inputs (Zhou & Li, 2008), which in turn influence the role of firm-level capability and resources in EMNEs' acquisitions abroad. This highlights the contingent effect of geographical locations, specifically regional innovation dynamics, in allowing firms to optimize resources over space, and utilize locational advantages. Hence, there may be certain boundary conditions which interact with firm-specific attributes, and jointly affect EMNEs' foreign acquisitions. Previous research has investigated the impact of host-

country regional innovation on Chinese firms' foreign acquisition decisions (Yakob et al., 2018). Yet, the role of home-country sub-regional innovation performance has tended to be neglected. Therefore, we know little about the contingent role of sub-regional innovation performance in the home country and how it affects EMNEs' acquisitions abroad.

To fulfil the above research gaps, the author investigates the following research questions. (1) What is the impact of unique firm-level attributes, such as compositional springboarding capability and external support of in-house innovation on EMNEs' foreign acquisitions? (2) To what extent is such an impact contingent on subregional innovativeness in the home-country? The author addresses these questions by combining the composition-based view (CBV) and springboard perspective (Li, et al. 2021). The CBV focuses on how firms with ordinary resources or generic resources can create competitive advantages through their unique compositional capability (Luo & Child, 2015), whereas the springboard perspective highlights the motivations of EMNEs' international expansion (Luo & Tung, 2007; 2018). Most recent research has argued that the CBV and the springboard perspective should be combined while analysing EMNEs internationalization because during the process of internationalization EMNEs can exploit their compositional advantages to combine both ordinary resources and critical resources and develop their capabilities to balance the price-value ratio and novelty (upgraded products with critical resources) during the internationalization (Li et al., 2021; Luo & Witt, 2021). The final goal of EMNE internationalization is to overcome their latecomer disadvantages in the global market, increase their competitiveness in their home market and achieve a solid position when competing with their rivals in both domestic market and global market (Li et al., 2021). The concept of compositional springboarding refers to a meta-dual perspective involving both the CBV and the springboard theory (Li et al., 2021; Luo & Witt, 2021). It demonstrates that during the different phases of EMNEs' internationalization, the dominant logic of the OFDI will shift between the compositional logic and springboard logic.

Integrating the CBV and the springboard model helps to underpin the motivation of Chinese firms to engage in radical CBAs.

China is selected as the research setting, given that there has been a recent surge in cross-border acquisition deals made by Chinese companies (Deng & Yang, 2015; Rui & Yip, 2008; Tao et al., 2017), which raises the question of what lies behind such foreign acquisitions. The author proposes that Chinese firms' compositional springboarding capability which combines various resources to upgrade domestic technology and knowledge may motivate them to acquire strategic resources from the global factor market at the early stage of their internationalization (Dutta & Snehvrat, 2020; Luo & Child, 2015; Sun et al., 2021; Zhou et al., 2020). To survive in the fierce competition with global rivals in both the domestic and international markets, Chinese firms would need a springboard to overcome their deficiency of advanced technologies because the compositional advantages would not support them to maintain a solid position permanently (Enderwick & Buckley, 2021; Luo & Tung, 2007, 2018; Luo & Witt, 2021).

This study contributes to the literature on foreign acquisitions by EMNEs in the following ways. First, although research has investigated the post-acquisition outcomes, insufficient attention has been paid to the extent to which firm-level attributes affect their radicalness of foreign acquisition in the first place. Such an omission constrains our understanding of the complexity of foreign acquisitions made by EMNEs. Building upon the CBV and springboard perspective, this research fills this gap by proposing that foreign acquisitions serve as a composition and springboard strategy which enables EMNEs to obtain resources from the global strategic factor markets by utilizing their compositional capability and pre-existing advantage. Their cross-border acquisition strategy is compatible with their existing competencies. In doing so, this study provides a more complete account of what drives foreign acquisitions by Chinese MNEs.

Second, this study moves beyond generic propositions about EMNEs' lack of competitive

advantages, which drives their acquisitions of foreign companies, by explicitly examining the extent to which two factors, compositional springboarding capacity and lack of external support for in-house innovation, shape the radicalness of Chinese firms' foreign acquisition. This approach helps to provide a nuanced understanding of the importance of firm-level attributes and government support in Chinese firms' foreign acquisitions. In particular, it is widely recognized that Chinese firms' cross-border acquisitions are supported by the Chinese government due to their desire to move up the technological ladder and compete for global technological leadership at country level (Tao et al., 2017). However, there is a lack of research on whether external support from the home country government in the form of innovation funds serves as an enabler or barrier to Chinese firms' foreign acquisitions. The findings help to bridge this gap and provide new insights into the complex relationship between innovation resources from the home-country government and foreign acquisitions.

Third, this author examines the boundary conditions of sub-regional innovation performance in the home country by highlighting the role of locational factors and their interaction with firm-level attributes on the radicalness of foreign acquisitions by Chinese firms. This research helps to advance this line of inquiry by capturing the interrelationship between firm characteristics, sub-regional innovation features and foreign acquisitions.

This chapter is organized in the following way. Section 2 presents the theoretical framework and hypotheses, followed by describing the sample and data sources in Section 3. The results of hypothesis tests are presented in Section 4. Finally, Section 5 discusses the implications of the findings, and concludes with future research directions.

3.2. THEORETICAL FRAMEWORK AND HYPOTHESES

3.2.1. The Theoretical Framework: The Compositional Springboarding Theory

The springboard perspective has been widely applied to explain emerging market firms' OFDI activities. It proposes that EMNEs use radical OFDI as a springboard to acquire the critical resources needed to upgrade their capabilities and overcome their latecomer disadvantages to survive in competition with their rivals in both domestic markets and the global market (Enderwick & Buckley, 2021; Luo & Tung, 2007, 2018; Luo & Witt, 2021). Research applied the springboard perspective has clarified that EMNEs that undertake springboard strategies would not be restrained by the psychic distance (Wang et al., 2014). They seek for the higher-level geographic dispersion to acquire their needed resources from the global market radically (Luo & Bu, 2018b; Luo et al., 2020). In other words, EMNEs act more aggressively in terms of their internationalisation compared to firms from the advanced markets. Li et al. (2021) identified that the springboard perspective emphasizes the contexts of the critical resources, which are valuable, rare, inimitable, and non-substitutable (VRIN). The CBV simultaneously defined acquiring resources from the global market as the way for firms to upgrade their capabilities. However, different from the springboard theory, CBV claimed that resources obtained from the global market do not have to be the cutting-edge technologies but the suitable technologies for firms to further combine with their current products or services to reduce the cost, while strengthening the price-value ratio (Luo & Child, 2015). The springboard perspective emphasizes the logic that EMNEs conduct radical OFDI to acquire critical resources (Luo & Tung, 2007) while the CBV asserts that ordinary resources could also grant firms with compositional advantages which result from firms' compositional capabilities. Such capabilities enable the firm to identify, acquire, organize and assimilate the ordinary resources to upgrade their business (Luo & Child, 2015; Zhou et al., 2020).

Although the springboard perspective places the home market in a central position when analysing the internationalization activities of EMNEs, the literature which applied the springboard theory does not fully explore EMNEs' engagement with the home market (Li et

al., 2021; Luo et al., 2020; Luo & Zhang, 2016; Malhotra, Lin, & Farrell, 2016). The original springboard perspective stated that EMNEs aim to achieve different goals through radical internationalization (Luo & Tung, 2007). However, it did not give enough consideration regarding how EMNEs acquire suitable technologies from the global market, rather than frontier technologies, to harmonize their home base (Luo, 2021; Luo & Witt, 2021; Zhou et al., 2020). On the other hand, the CBV focuses on the home market operations of firms with compositional capabilities. It adopts the home market as a firm's main battlefield. However, it does not consider that investing overseas is an alternative source to rapidly obtain resources to upgrade their home-based capabilities (Li et al., 2021; Luo, 2021; Sun et al., 2021; Zhou et al., 2020). Therefore, integrating the CBV with the springboard perspective enables researchers to more fully capture the utilization of firms' compositional capabilities which EMNEs developed from reconfiguring their ordinary resources in their home market.

More specifically, the CBV addresses how firms with ordinary resources may boost their competitive advantages through combining and reconfiguring various resources (Luo & Child, 2015; Zhou, Li, Zhou & Prashantham, 2019). 'Ordinary' resources refer to resources that are neither heterogeneous nor costly to copy which may be acquired from the global strategic factor market (Barney, 1986). The CBV provides the foundation to explain a firm's capability to acquire a wide range of resources and knowledge to its own advantage (Luo, 2021; Luo & Child, 2015; Sun et al., 2021; Volberda & Karali, 2015; Zhou et al., 2020). Differing from the RBV which emphasizes the possession of heterogeneous resources in allowing firms to take global technological leadership and internationalize (Barney, 1986, 1991; Wang, Hong, Kafouros, & Boateng, 2012), the CBV does not assume the role of resource-based advantage in shaping firms' trajectory of international expansion. Instead, an underlying logic of the CBV highlights a firm's capability to acquire and organize multiple contributing resources, domestic and international, by engaging in internationalization (Luo & Bu, 2018a). Most EMNEs are

characterized by a lack of superior resources in brands, market power and technology, which hinders them in effectively competing internationally. As a result, acquiring assets from abroad provides these new players with the opportunity to absorb disparate resources for growth (Mathews, 2006). EMNEs tend to be outward looking and proactively searching for opportunities to acquire whatever resources are available (Luo & Child, 2015). Their ability to identify and absorb knowledge from various sources allows them to access and leverage global resources through foreign acquisitions to achieve composition-based advantages (Luo & Child, 2015; Peng, Lebedev, Vlas, Wang, & Shay, 2018). Therefore, the author adopts the CBV and springboard model to examine the extent to which the compositional springboarding capabilities and external support obtained by Chinese firms affect their radicalness in conducting foreign acquisitions.

Moreover, the compositional springboard perspective identifies that firms can combine the compositional logic and springboard logic during their international expansion. At the early stage of their internationalization, firms will accumulate original resources from their domestic markets to composite and establish their compositional advantages and then take a radical approach to obtain resources from the global market (Li et al., 2021; Luo & Witt, 2021). Although Chinese firms can acquire resources from the global market, the pursuit of such a strategy requires a clear understanding of their strategic demands and accumulated capacity in order to succeed in international activities (Fu et al., 2018; Luo & Child, 2015). At the early stage which is the first step in the springboard upward spiral model, the external environment would influence the utilization efficiency of their compositional springboarding capabilities which is imperatively related to their aggressiveness in conducting radical OFDI (Sun et al., 2021). The literature in economic geography proposes that the regional configuration of economic activities and knowledge may generate externalities to influence firms' utilization of their existing resources and capabilities (Zhou & Li, 2008). This highlights the role of regional

innovation dynamics in shaping firms' accessibility to external networks for relevant resources and services (Yakob et al., 2018).

The compositional springboarding perspective describes the logic of Chinese EMNEs as the meta-duality which would switch between the compositional logic and the springboard logic due to the changing environment (Li et al., 2021). In other word, although the dominant logic of the first step is the compositional logic, the external environment may motivate Chinese firms to tilt to the springboarding logic (Li et al., 2021; Luo & Witt, 2021). Specifically, the level of sub-regional innovation performance may affect competition and the extent to which Chinese firms are motivated to seek external resources through cross-border acquisitions (Sun et al., 2021). If the sub-regional innovation intensity remains at a high level, firms will display a higher demand to acquire resources from the open global market as it serves as a more rapid approach for them to obtain resources to upgrade their capabilities (Luo & Witt, 2021). In other words, the relationship between compositional springboard capability, innovation resources from the home country government and foreign acquisitions is contingent on sub-regional innovation performance in the home country.

3.2.2. Hypotheses development

3.2.2.1. Compositional springboarding capability

The CBV and springboard perspective provide a foundational understanding of the impact of EMNEs' resource characteristics on cross-border acquisitions (Luo and Child, 2015; Luo & Tung, 2018). To combine ordinary and VRIN resources, leverage the balance between the usefulness and novelty and respond to the changing external environment, Chinese MNEs can use CBAs as the springboard, and grant the full scope of their compositional capabilities to achieve the capabilities augmentation (Li et al., 2021; Luo & Witt, 2021). The author suggests that compositional springboarding capability or compositional springboard logic, especially EMNEs' ability to identify and obtain needed resources, should be extended to explain their

radicalness in foreign acquisitions. This is because EMNEs' compositional springboarding capability reflects the unique strength of these firms to tap into and absorb knowledge from established players at the early (resource-poor) stage (Guan & Yam, 2015; Mathews, 2006). Chinese MNEs adopting compositional springboarding strategies may display dynamic but harmonious logic to balance between incrementally composition and rapid springboard based on their accumulated internal resources and diverse external environment (Li et al., 2021; Luo & Witt, 2021). The radicalness of CBAs may reflect which side of the balance Chinese EMNEs would tilt between the two logics. Hence, it is important to examine EMNEs' internal resource characteristics, such as compositional springboarding capability. The springboard theory identifies that the EMNEs which conduct OFDI are equipped with three capabilities: amalgamation, ambidexterity and adaptability (AAA) (Luo & Tung, 2018) as introduced in Chapter 2. Integrating the CBV with the springboard perspective, the AAA capabilities identified in the springboard model have been extended to a meta-duality involving the compositional logic and the springboard logic (Li et al., 2021) which can be used to explain the radical CBAs of Chinese MNEs.

The compositional springboarding perspective depicts the dominant logic of each step in the upward spiral model based on the springboard perspective. The upward spiral model has been introduced in the Chapter 2. More specifically, the compositional springboarding perspective proposes that each upward spiral phase of EMNEs' internationalization process would shift between the compositional logic and the springboard logic (Li et al., 2021; Luo & Witt, 2021). In this research, the author aims to investigate the first phase of EMNEs' springboarding behaviours which is the stage of preparing for radical OFDI. In the compositional springboard theory, the dominant logic of this time has been identified as the compositional logic (Li et al., 2021; Zhou et al., 2020). However, it does not imply that Chinese MNEs would exclusively follow the compositional logic. When their intention inclines to the springboard logic, they

would act more aggressively on conducting radical OFDI or CBAs (Luo & Witt, 2021).

Chinese MNEs' foreign acquisitions may exhibit a different tendency from the conventional approach (Cui, Meyer & Hu, 2014; Meyer et al., 2009). As those firms are experiencing an increasingly globalized competitive market, it is common for many of them to rely substantially on improvising ordinary resources from multiple sources (Peng et al., 2018). In the original CBV, the presence of resources in the global factor market may spur firms' purchase decisions, but such a purchase transaction may not lead to competitive advantages. It is a firm's capability to identify and specify the interconnections between its in-house competencies and prospective resources that motivates firms to conduct cross-border acquisitions. However, in the compositional springboard perspective, rather than exclusively combining VRIN resources (the springboard logic) or ordinary resources (the compositional logic), the compositional springboard capabilities conveys firms' ability to leverage the combination of VRIN resources and ordinary resources (Li et al., 2021). The capability of the exploitation and composition of the ordinary resources and VRIN resources determines whether firms are able to create their advantages (Sun et al., 2021; Zhou et al., 2020). This suggests that the more compositional springboard capabilities they possess the more motive they would have to engage in radical CBAs in order to obtain strategic resources from the global market to composite with their ordinary resources to create products with a high cost-value ratio to match the requirements of the customers from both domestic markets and global markets (Luo, 2021; Luo & Bu, 2018a; Luo & Child, 2015; Luo & Tung, 2018; Luo & Witt, 2021; Zhou et al., 2020)

Additionally, the original CBV emphasises the collaboration between strategic intent and resource endowment to seek access to whatever resources from the global market they can to further composite and upgrade their products to meet the demands of the domestic market (Luo & Child, 2015; Zhou et al., 2020). While in the springboard contexts, firms should be equipped with the ability to leverage two contradictive goals to achieve long-term success and win

competitiveness in both domestic and global markets (Choi et al., 2020; Luo et al., 2020; Luo & Tung, 2018) Resources available from the global strategic market provide Chinese firms with the opportunity to address their knowledge deficiencies and may substitute for in-house innovation or internal knowledge development (Luo & Tung, 2018; Peng et al., 2018). Thus, from the compositional springboarding perspective, the compositional springboard capabilities refer to the vital capability that EMNEs can shift between these two logics in their internationalization process (Li et al., 2021). For example, whether they should focus on compositing the acquired resources to provide "good enough" products to satisfy the domestic demands (Luo, 2021; Luo et al., 2011) or raise their concerns to upgrade their capabilities and technologies to compete with global rivals (Enderwick & Buckley, 2021).

Compared to CBAs in the context of the springboard perspective which impels EMNEs to radically unlearn their traditional operation routines and adopt the new routines to fit in the fierce competition with global rivals in both domestic and global markets (Luo & Tung, 2018; Zahra, Abdelgawad, & Tsang, 2011), the compositional logic focuses more on domestic competition without the intention to unlearn. Emerging market firms have the urgent need to obtain resources from the global market to combine and upgrade with their products to adapt to the diverse environment in their domestic markets (Luo & Bu, 2018a; Luo & Child, 2015). Therefore, the compositional springboarding strategy requires firms to develop the flexibility to shift between incremental unlearning (compositional logic) and radical unlearning (springboarding logic) during the internationalization process to respond to the dynamic environment (Li et al., 2021; Luo & Witt, 2021). They can achieve such a balance through radical foreign acquisitions.

According to Li et al. (2021), compositional springboarding capability at the first stage refers to the ability of a firm to recognize the value of new and external information, assimilate and then apply it to commercial ends (Luo & Child, 2015; Luo and Tung, 2018). Compositional

springboarding capability highlights a firm's willingness to identify and obtain knowledge resources from external sources (Luo & Child, 2015). Thus, the possession of a compositional springboarding capability may assist EMNEs in identifying needed resources at the pre-acquisition stage while also serving as an enabler in driving them to rapidly acquire assets and knowledge from the global factor market. Particularly, firms with such a capability are more likely to identify the constraints of internal knowledge development and aggressively seek access, and leverage external resources (Fu et al., 2018; Luo et al., 2011). Differing from previous research based on the RBV (Deng, 2009; Peng, 2012), the author argues that compositional springboarding capabilities as a latent capability prompts emerging market firms to conduct radical foreign acquisitions. While EMNEs may lack cutting-edge knowledge and world-class managerial expertise, their compositional springboarding capabilities, their willingness to learn, and their strong background in reverse engineering, may boost their confidence in conducting rapid foreign acquisitions (Luo & Tung, 2007; 2018; Luo & Child, 2015).

Lastly, the CBV and springboard perspective also suggest that the possession of compositional springboarding capability in driving Chinese firms' radical foreign acquisitions is congruent with the Chinese philosophy which appreciates embracing differences and diversity (Zhou et al., 2020). Under such a philosophical tradition, paradoxical values such as different organizational systems, technologies and cultures may co-exist and co-evolve (Luo & Child, 2015). Chinese firms tend to be resilient in absorbing and extending externally acquired knowledge (Luo & Tung, 2018). Thus, the author proposes that Chinese firms with a strong compositional springboarding capability more radically engage in foreign acquisitions.

Hypothesis 1: Chinese firms with a higher level of compositional springboarding capability will more radically conduct CBAs than those with a lower level of compositional springboarding capability.

3.2.2.2. External support of in-house innovation

As discussed above, the compositional logic is dominant in the first step of internationalization, and EMNEs focus more on providing products with more usefulness rather than novel products (Luo, 2021; Zhou et al., 2020). Seeking usefulness refers to firms that look for scale-base technology to develop their products and reduce their costs and prices to suit massive mid-end and low-end market (Luo, 2021). Therefore, the resources to composite with their existed resources do not have to be world-leading but low-cost and efficiency-related (Li et al., 2021; Luo & Child, 2015; Zhou et al., 2020). Different from obtaining frontier technologies which request firms to radically upgrade their technologies, developing the usefulness to provide "good enough" products could be done in the home market by conducting in-house innovation (Fu et al., 2018; Li et al., 2021; Luo & Witt, 2021; Sun et al., 2021). According to the compositional logic, it requires firms not only to seek resources from the open global market, but also local resources as the sources of composition at the same time (Luo & Bu, 2018a; Sun et al., 2021). If EMNEs can develop suitable technologies in their home countries to meet the demands of domestic markets, they will receive compensation for in-house innovation.

Foreign acquisitions represent an alternative approach for Chinese firms seeking required assets which are conducive to overcoming innovation bottlenecks (Fu et al., 2018). However, a resource shortfall may expose these firms to a trade-off situation where they acquire strategic resources from the global factor market or develop (make) those strategic assets in-house where the latter is more likely to receive home-country government support for in-house innovation (Guan & Yam, 2015). The Chinese government has developed various funding schemes to support firms that undertake indigenous innovation activities and reduce their reliance on foreign technology (Guo, Guo & Jiang, 2016). However, as most Chinese firms at the developmental stage demand suitable technologies rather than seeking to overtake a global champion, organic knowledge development or engaging in in-house innovation may be risky

and time consuming (Fu et al., 2018). As a result, firms may pragmatically acquire and adopt needed knowledge from the global factor market to fulfil technological gaps rather than pursuing a start-from-scratch approach powered by the external support of in-house innovation.

Moreover, the strength of most Chinese firms tends to lie in their ability to compose existing resources from various sources in a timely and cost-efficient manner that allows them to serve the global mass market (Luo & Child, 2015). Hence, they may be more willing to acquire foreign technologies which are unavailable at home in order to magnify their strengths when there is a lack of home-country government support. In particular, when financial backing for in-house innovation from the government is insufficient, Chinese firms may adopt a composition-based strategy and springboard approach and use foreign acquisitions as an alternative way to access external knowledge. There may be a substitutional relationship between purchasing needed strategic resources from the global factor market and in-house knowledge exploration using innovation funds from the home-country government. Therefore, I hypothesize that

> *Hypothesis 2: Chinese firms with less external support of in-house innovation will more radically conduct CBAs than those with more external support of in-house innovation*

3.2.2.3 The moderating role of regional innovation performance

EMNEs' foreign acquisitions not only depend on internal compositional capacity and innovation funds from the home-country government, but also the sub-regional innovation environment (Yakob et al., 2018). The authors suggests that sub-regional innovation performance in the home country may generate knowledge spill-overs which influence the types of resources, learning opportunities and knowledge available to EMNEs. There may be interrelationships between the firm's absorptive capacity, innovation funds from the home-country government and foreign acquisitions. A higher level of regional innovation

performance may generate positive economic externalities by providing firms with new ideas and learning opportunities that sharpen a firm's ability to absorb knowledge and boost their confidence in acquiring resources abroad. Moreover, firms which reside in regions with a stronger innovation performance may benefit from the location-specific advantage by fostering their international market knowledge, thus motivating firms with sufficient innovation funds to conduct foreign acquisitions.

Regional innovation performance and firms' compositional springboarding capability

Regional innovation performance is defined as external economies accruing from clustered innovative activities in the region (Zhou & Li, 2008). Stronger innovation performance at regional level may enhance firms' compositional springboarding capability and accelerate their foreign acquisitions in the following ways.

First, strong regional innovation performance may produce a positive knowledge spill-over effect that heightens firms' compositional springboarding capability to assimilate externally acquired knowledge (Lau & Lo, 2015). Regions which enjoy greater commercial success in selling new products tend to attract investment in upgrading local business infrastructure, such as upstream and downstream supply chains, logistics, and intermediary services (Liu, Wang & Wei, 2009; Luo & Child, 2015). These provide firms with new ideas in the region allowing them to develop their ability in reverse engineering. As a result, firms may devote more resources to R&D activities that can boost their confidence to acquire and leverage resources from the global market.

Second, stronger regional innovation performance may create a more level playing field which can promote learning and collaboration among firms (Zanello, Fu, Mohnen, & Ventresca, 2016). Regions which have achieved greater commercial success in developing new products may cultivate an innovative culture. Firms residing in that region may be more willing to engage in

collaboration and joint R&D activities (Sun et al., 2021). This may stimulate an increased flow of social capital, talents, and business ideas that afford firms the opportunities to learn and combine useful resources with their in-house competencies (Liu & Buck, 2007; Nieto & Quevedo, 2005). The benefits of knowledge diffusion from regional collaborators may enhance firms' absorptive capacity to value the importance of knowledge and technologies from external sources (Luo, 2021; Sun et al., 2021). Hence, they are more likely to embrace foreign knowledge and resources through cross-border acquisitions.

> *Hypothesis 3: The positive relationship between Chinese MNEs' compositional springboarding capabilities and the radicalness of foreign acquisitions is stronger when there is stronger regional innovation performance at home.*

Regional innovation performance and external support of in-house innovation

The level of regional innovation performance can influence the trade-off between foreign acquisitions and in-house innovation using innovation funds from the home-country government. Even though Chinese firms are playing a catch-up role in the global technological competition, the technological gap between Chinese firms and advanced frontiers has been diminishing in recent decades (Fu et al., 2018). Stronger regional innovation performance leads to a stronger compositional capability which may enable firms to more effectively transform the external sourcing into their own knowledge system (Luo & Child, 2015). The regions that have higher levels of innovation performance have a relatively higher requirement on innovation development. Thus, higher requirements may motivate firms not only to conduct in-house R&D activities through the utilisation of external support or innovation funds received from the home-country government, but also undertake acquisitions aboard. In doing so, Chinese MNEs can synergistically utilize innovation funds received from the home-government to gain access to foreign assets and technology by engaging in cross-border acquisitions (Luo & Child, 2015).

Consistent with the compositional springboarding perspective, Chinese firms located in regions with a high level of innovation performance are equipped with a relatively stronger original innovation resource and require new technologies to catch up or even leapfrog rivals (Fu et al., 2018). Strong regional innovation performance enables the Chinese firms to achieve a synergetic effect between innovation funds provided by the home country government and foreign acquisitions.

Conversely, located in a region with a low level of innovation performance, firms with sufficient innovation funds are more likely to conduct in-house innovation to overcome external barriers to technological development. In other words, a weak sub-regional innovation performance may push them to upgrade their technology internally through utilizing external support or innovation resources from the home-country government to achieve suitable imitation first before innovation (Li et al., 2021; Luo, 2021; Luo & Child, 2015; Sun et al., 2021). Thus, the author proposes

> *Hypothesis 4: The negative relationship between Chinese MNEs' access to external support of in-house innovation and the radicalness of foreign acquisitions is weaker when there is stronger regional innovation performance at home.*

3.3. METHDOLOGY

3.3.1. Data and Sample

The author constructed a dataset of foreign acquisitions by Chinese firms listed on the Shanghai and Shenzhen Stock Exchanges from 2011 to 2017. The year 2011 was selected as the starting point of the sample period because (1) the size and volume of foreign acquisitions conducted by Chinese companies considerably changed a decade after the government introduced the 'go-global' policy (Financial Times, 2017); (2) the Chinese government has prioritized innovation as a national strategy and broadly requested listed firms to disclose innovation-related

expenditure and income in their annual report since 2011.[1] The author manually collected information about Chinese firms' foreign acquisitions from a number of sources, including leading commercial information providers (e.g. CSMAR), firms' annual reports and the press media. The use of these multiple data sources enabled the author to create a comprehensive database in relation to Chinese firms' acquisitions abroad (Greve & Zhang, 2017; Huang et al., 2020; Reus, Lamont, & Ellis, 2016; Zhou & Guillén, 2015). In addition, we removed acquisition deals in Hong Kong, Macau, and tax havens, including the British Virgin Islands and Cayman Islands. As a result, our sample includes 293 Chinese firms which undertook 492 foreign acquisitions during the sample period, with a total of 1,253 observations.

3.3.2. Variables

Dependent variable

The dependent variable is the radicalness of foreign acquisitions which was measured by the number of complete foreign acquisition deals made by the sample firms each year. The CBAs are a radical OFDI approach to obtaining resources from foreign target firms. It enables Chinese firms to have direct access to critical assets (Deng, 2009). However, entering the host market to acquire resources through CBAs is costly with a higher takeover premium (Slangen & Hennart, 2007) and more risk (Luo & Bu, 2018b, 2018a). Therefore, the number of CBAs can reflect the urgency of Chinese firms to utilize the open global market resources. To address the deficiency of resources they need to upgrade their capabilities, firms may undertake CBAs aggressively (Luo & Tung, 2007, 2018). Additionally, using the number of foreign acquisitions by each firm to measure the frequency or level of acquisition activities enables the author to avoid observations of extreme size or values.

Independent variables: Compositional springboarding capabilities

A firm's *compositional springboarding capabilities* indicates its internal ability to identify and

configure external resources, technologies, and knowledge to its own advantage (Fu, 2008; Xia & Liu, 2017). Following the previous research, the author measured firms' *compositional springboarding capabilities* as the ratio of a firm's annual R&D expenditure to its total revenue (Cassiman & Veugelers, 2006; Li, et al.,2021). During the first phase of the upward spiral model, Chinese firms tilt more towards the compositional logic. Therefore, the compositional springboard capabilities are referred to Chinese firms' capabilities to combine their ordinary resources to produce a blend of imitation and innovation (Luo & Bu, 2018a; Luo & Child, 2015; Sun et al., 2021). In this regard, firms' c*ompositional springboarding capabilities* is underpinned and reflected by their innovation capacity (Sun et al., 2021). It helps to capture Chinese firms' ability to develop basic and applied R&D. Different from conventional imitating capability, firms' innovation capacity determines whether firms equip with a certain ability to identify proper opportunities to selectively and creatively modify and improve the imitation with their existing resources to achieve innovation (Luo & Child, 2015; Sun et al., 2021). Due to the compositional springboard perspective being a novel IB theory, the measurement of compositional springboard capabilities could be further adjusted or modified, depending on the stage of firms' internationalization process.

Independent variables: External support of in-house innovation

External finance is important for firms carrying out innovation projects. A large portion of innovation activities by Chinese firms depends on their access to government funding support (Guan & Yam, 2015). I measured firms' access to external support of in-house innovation as the percentage of received innovation funds from the government to the total revenue of the focal firms. The innovation funds from the home-country government included financial support or awards to firms' innovative activities from the central and/or local governments. The data about the firms' access to home-government innovation-related funds were manually collected from the CSMAR database. These funding schemes include tax credits and financial

awards to firms for their achievements in technological and R&D activities.

Moderating variable: *Regional innovation performance*

The introduction of new products and their commercial values may indicate a direct link between a region's overall capability to convert new ideas and technological opportunities into innovative sales and competitive market advantages (Fu et al., 2018). Thus, we operationalize regional innovation performance as the proportion of new product sales revenue generated by each province to the total national new product sales.

Control variables

The author controlled for firm size, age, ownership, and industries for heterogeneity. Firm size was measured by the logarithm of a firm's total employees (Cui & Jiang, 2012). As older firms can have more resources and experience in conducting acquisitions abroad, the author controlled for firm age which was measured as a firm's total years since its inception (Buckley, Munjal, et al., 2016a). Ownership form may affect firms' resource accessibility (Cui et al., 2012). Therefore, the author included a control variable of firms' ownership using the percentage of shares held by the central and local governments, or government-related institutions. The author also controlled for the influence of foreign companies, which is captured by the percentage of shares owned by foreign firms (Luo & Bu, 2018a).

Moreover, the High-tech Industry Classification issued by Chinese National Bureau of Statistics (CNBS) and Chinese Securities Regulatory Commission Industry Classification (CSRC) were combined to control for industry effects. In order to develop a finer-grained measurement of firms operating in the high-tech industries, information based on firms' high-tech certification and their CSRC code was collected. Based on the High-tech Industry Classification provided by the CNBS, the author categorized a firm as being in the high-tech industry if it (1) has high-tech certification and, (2) its CSRC code is under the high-tech

industry classification issued by CNBS (1 = high-tech industry, 0 = otherwise).

In addition, foreign acquisitions may be conducted for the purpose of increasing geographical influence or transferring domestic overcapacity (Cheng, 2016). The author included a dummy variable to control for acquisitions that took place in countries along China's Belt & Road Initiative (BRI), i.e. 1 = the host country is located along China's BRI route, 0 = otherwise.[2] In addition, Israel and Singapore were excluded from the BRI list, given that the two countries constantly outperform China in relation to their innovation performance according to the Global Innovation Index since its inception in 2007.

3.4. RESULTS

3.4.1. Estimation Model

The author used panel data regression to display the time-related effect of Chinese firms' compositional resources on shaping their foreign acquisition activities. The panel data estimation allows the author to capture the dynamic changes of the sample firms. Additionally, the panel dataset may help to overcome potential collinearity among independent variables compared to time-series estimation. Using panel data also enables the author to take account of individual heterogeneity. Conducting data analysis on cross-border acquisitions, some researchers consider the potential issue of endogeneity due to possible reverse causation when they test the impact of foreign sources or post-acquisition activities on foreign acquisitions (Buckley et al., 2016; Xia & Liu, 2017). However, the dependent variable used in this study is the number of cross-border acquisitions by Chinese firms, whereas the independent variables are firms' internal absorptive capacity and innovation resources which they have received before engaging in foreign acquisitions. Therefore, the reverse causal relationship should not be a threat. Particularly, the author conducted the Davidson-MacKinnon test and obtained a non-significant p-value which indicated that there were no endogeneity issues in our model

(Davidson & MacKinnon, 1993). As the dependent variable is a discrete variable, the author uses the negative binomial regression to conduct the data analysis. The estimated model is shown below

$$MAN_{it} = \beta_1 x_{it} + \beta_2 (x_{it} * m_{it}) + \beta_3 C_{it} + \alpha_i + \mu_{it}$$

Where MAN_{it} represents the number of foreign acquisitions by the sample firm i in time t; x_{it} are the independent variables which the author hypothesizes have direct effects on the dependent variable; m_{it} represents the moderating variable; $x_{it} * m_{it}$ is the vector of interaction while C_{it} is a vector of control variables; μ is the error item, and α_i refers to the constant term of the model.

The data consist of a short panel which means the data contain many individual units but few time periods. The default standard errors method treats disturbances as independent and identically distributed items. In this case, it can be assumed that the disturbances among different firms are independent. However, each firm will contain a time-series data set which may have the correlation within a group because of the shared traits. Each firm should be taken as an individual clustered unit. Therefore, in order to eliminate any inaccuracy resulting from using the default standard error treatment, the author undertook the block bootstrap method to re-sample the individual units and leave the dataset within the clusters unchanged (Cameron, Gelbach & Miller, 2008). It means that if an individual unit is resampled, the time-series data within this group will be selected at the same time.

3.4.2. Empirical Results

Table 3.1 presents the descriptive statistics and correlation matrix. Variance inflation factors among the variables were well below the acceptable level of 10 (Neter, Wasserman & Kutner, 1985), which suggests that multi-collinearity is not a major concern.

Table 3.1. Descriptive statistics and correlation matrix

	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. Number of foreign acquisitions	0.39	0.84									
2. Compositional springboarding capability	0.05	0.04	0.04								
3. External support of in-house innovation	0.01	0.01	-0.047*	0.279***							
4. Regional innovation performance	0.08	0.05	-0.011	-0.016	-0.072**						
5. State ownership	0.08	0.17	0.019	-0.243***	-0.046	-0.135***					
6. Foreign ownership	0.03	0.12	-0.025	0.044	-0.045	0.056**	-0.117***				
7. Firm size	7.87	1.32	0.093***	-0.264***	-0.150***	0.02	0.425***	-0.049*			
8. Firm age	14.61	5.63	0.097***	-0.126***	0.007	-0.019	0.204***	-0.074***	0.121***		
9. Industry	0.58	0.49	-0.037	0.284***	0.059**	0.124***	-0.207***	0.037	-0.135***	-0.090***	
10. BRI countries	0.04	0.19	0.267***	-0.024	-0.035	-0.007	0.044	-0.033	0.032	0.092***	-0.002

* p<0.1, ** p<0.05, *** p<0.01

Table 3.2 presents the results of our regression analysis. Model 1 contained the control variables only. Model 2 included the independent variables, compositional springboarding capacity and external support of in-house innovation, as well as the moderating variable of regional innovation performance. Models 3 and 4 estimated the interaction effects. Model 5 is a full model including all the variables.

Hypothesis 1 suggests that there is a positive association between compositional springboarding capability and foreign acquisitions conducted by Chinese firms. The statistical results in Models 2 and 5, show that a higher level of compositional springboarding capability is associated with a larger number of foreign acquisitions by the sample firms. ($\beta=0.049$, $p<0.01$; $\beta=0.045$, $p<0.05$). Thus, Hypothesis 1 is supported.

Hypothesis 2 posits that firms' acquisitions abroad are negatively associated with their access to the external support of in-house innovation. In Models 2 and 5, the variable of innovation-related funds from the home government is negative and statistically significant, indicating its negative impact on the number of foreign acquisitions by the sample firms ($\beta=-0.149$, $p<0.05$; $\beta=-0.412$, $p<0.01$). This suggests that firms that received less innovation-related funds from their home government conduct more foreign acquisitions. Therefore, the result confirms Hypothesis 2.

The results for the moderation effects of regional innovation performance on firms' compositional springboarding capability and external support of in-house innovation are presented in Models 3-5. Hypothesis 3 postulates that stronger regional innovation performance will strengthen the positive effect of compositional springboarding

capability on the number of foreign acquisitions conducted by Chinese firms. The coefficients of their interaction terms are positive, but statistically insignificant in Models 3 and 5, so do not support Hypothesis 3.

For Hypothesis 4, it is posited that stronger regional innovation performance will weaken the negative association between external support of in-house innovation and their foreign acquisitions. The interaction term between firms' received innovation funds and regional innovation performance is positive and statistically significant in Model 4 ($\beta=0.032$, $p<0.05$) and Model 5 ($\beta=0.030$, $p<0.05$). This suggests that if a firm is from a region with stronger innovation performance, it would experience a positive impact of innovation-related funds on foreign acquisitions. Sub-regional innovation performance not only reduces the negative impact of innovation funds on foreign acquisitions, but also turns its negative impact into a positive one. Hence, Hypothesis 4 is supported.

For the control variables, state ownership shows a negative and statistically significant sign in Models 1 – 5 ($p<0.01$). Moreover, firm size, firm age, and countries along China's BRI route are positive and statistically significant at $p<0.01$. Additionally, firms in high-tech sectors are negatively related to foreign acquisitions, but only reached the 10% level of statistical significance in Models 2 – 4.

Table 3.3 Results of negative binomial regression analysis

	Model 1	Model 2	Model 3	Model 4	Model 5
Control Variables					
State ownership	-0.011***	-0.009***	-0.010***	-0.010***	-0.010***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Foreign ownership	-0.000	-0.001	-0.001	-0.001	-0.001
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Firm size	0.148***	0.163***	0.160***	0.160***	0.159***
	(0.048)	(0.049)	(0.050)	(0.050)	(0.050)
Firm age	0.039***	0.040***	0.041***	0.041***	0.041***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.009)
Industry	-0.105	-0.162*	-0.171*	-0.156*	-0.160
	(0.091)	(0.095)	(0.098)	(0.095)	(0.097)
BRI countries	1.457***	1.442***	1.444***	1.434***	1.435***
	(0.098)	(0.103)	(0.103)	(0.104)	(0.104)
Independent Variables					
Compositional springboarding capability		0.049***	0.036**	0.050***	0.045**
		(0.010)	(0.017)	(0.010)	(0.018)
External support of in-house innovation		-0.149**	-0.149**	-0.423***	-0.412***
		(0.071)	(0.072)	(0.143)	(0.144)
Moderator					
Regional innovation performance (RIP)		0.002	-0.009	-0.011	-0.014
		(0.009)	(0.013)	(0.010)	(0.013)
Interactions					
Compositional springboarding capability*RIP			0.002		0.001
			(0.002)		(0.002)
External support of in-house innovation*RIP				0.032**	0.030**
				(0.014)	(0.015)
Constant	-1.404**	-1.666***	-1.574**	-1.529**	-1.500**
	(0.561)	(0.640)	(0.669)	(0.703)	(0.747)
Observations	1,253	1,253	1,253	1,253	1,253
Log Likelihood	-979.6	-970.4	-969.9	-967.6	-967.5
Wald chi-square	321.3	305.8	307.1	314.8	317.3

Standard errors in parentheses. * p<0.1, ** p<0.05, *** p<0.01

3.4.3. Robustness Tests

A number of additional tests were conducted to ensure the robustness of our results. First, the author followed Brambor, Clark and Golder (2006) to examine the marginal effects of the independent variable, i.e. Chinese firms' access to innovation funds at different values of the moderating variable through plotting graphic display.

Figure 3.1 presents the marginal effect of external support of in-house innovation on the number of foreign acquisitions conducted by Chinese firms when regional innovation performance becomes stronger. As shown in Figure 3.1, both the upper and lower bounds of the 95% confidence intervals were located on the same side of the zero-line when regional innovation performance was below 8.12%. The marginal effect between these two variables becomes insignificant when the regional innovation performance is above 8.12%. This suggests that stronger regional innovation performance reduces the negative association between external support of in-house innovation and the number of foreign acquisitions made by the sample firms. Thus, it corroborates the result of our main regression analysis.

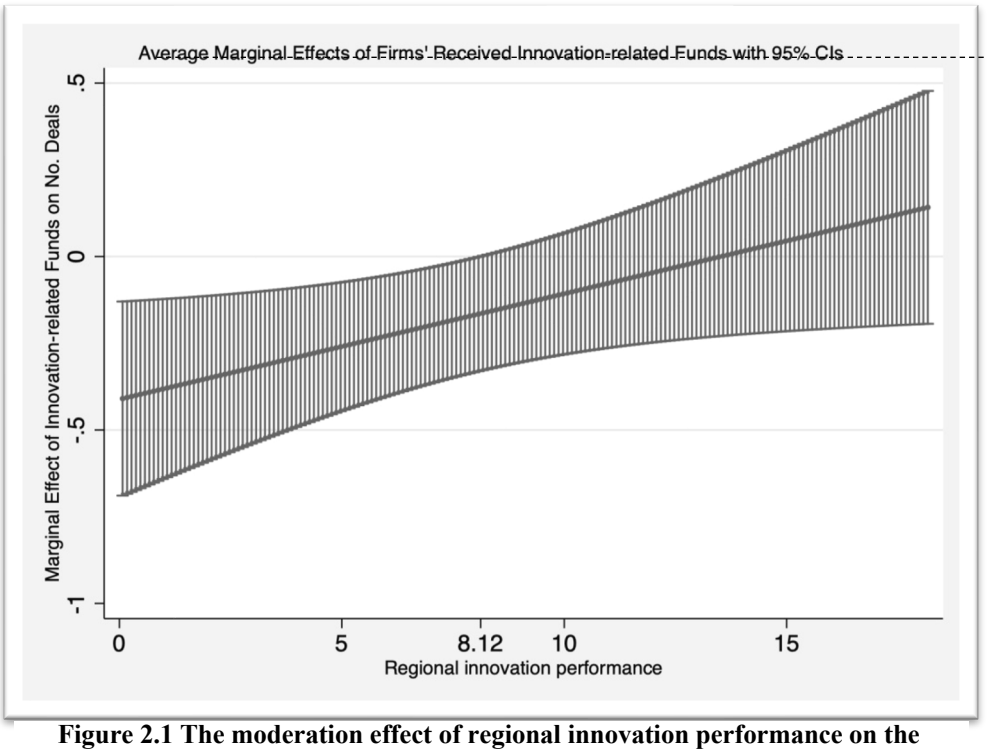

Figure 2.1 The moderation effect of regional innovation performance on the relationship between Chinese firms' foreign acquisitions and their external support of in-house innovation

Second, the regional dummy variable was used as the moderator to test the robustness of the results (i.e. 1 = Firms locate in China's coastal provinces; 0 = otherwise). As shown in Table 3.3, the results of the independent variables and interaction effects remain similar to our main regression.

Table 3.4 Robustness test

	Model 1	Model 2	Model 3	Model 4	Model 5
Control Variables					
State ownership	-0.011***	-0.009***	-0.009***	-0.010***	-0.010***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Foreign ownership	-0.000	-0.001	-0.001	-0.001	-0.001
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Firm size	0.148***	0.163***	0.161***	0.167***	0.166***
	(0.048)	(0.049)	(0.049)	(0.049)	(0.049)
Firm age	0.039***	0.040***	0.041***	0.042***	0.042***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Industry	-0.105	-0.167*	-0.177*	-0.162*	-0.163*
	(0.091)	(0.096)	(0.098)	(0.095)	(0.095)
BRI countries	1.457***	1.441***	1.440***	1.446***	1.446***
	(0.098)	(0.102)	(0.102)	(0.102)	(0.102)
Independent Variables					
Compositional springboarding capability		0.049***	0.042***	0.052***	0.052***
		(0.010)	(0.014)	(0.010)	(0.014)
External support of in-house innovation		-0.147**	-0.147**	-0.421**	-0.419**
		(0.072)	(0.072)	(0.166)	(0.168)
Moderator					
Regional dummy		0.052	-0.033	-0.117	-0.123
		(0.112)	(0.161)	(0.134)	(0.165)
Interactions					
Compositional springboarding capability*Regional dummy			0.016		0.001
			(0.019)		(0.018)
External support of in-house innovation*Regional dummy				0.421**	0.417**
				(0.178)	(0.182)
Constant	-1.404**	-1.677***	-1.629**	-1.615**	-1.612**
	(0.561)	(0.639)	(0.639)	(0.673)	(0.668)
Observations	1,253	1,253	1,253	1,253	1,253
Log likelihood	-979.6	-970.3	-970.0	-966.9	-966.9
Wald Chi-square	321.3	310.0	310.4	321.0	321.1

Standard errors in parentheses. * p<0.1, ** p<0.05, *** p<0.01

3.5. DISCUSSION

Although the RBV provides a useful lens to understand whether and how firms' resource endowments drive their developmental path for growth, it may not adequately explain EMNEs' foreign acquisitions for a number of reasons. First, while EMNEs have proactively sought acquisitions abroad, an important impetus driving these deals can be attributed to these firms' capabilities in identifying and absorbing needed resources in the global market (Luo & Child, 2015). Previous research built upon on the RBV has assumed that resource deficiencies stimulate firms to augment their assets through cross-border acquisitions (Meyer, Wright, & Pruthi, 2009). However, EMNEs' possession of non-traditional advantages, for example their capability to link with existing players and identify the interdependency between within-firm and prospective resources in shaping their foreign acquisitions, has been underexplored (Mathews, 2017). Second, it has been suggested that foreign acquisitions provide firms with the opportunity to access proprietary knowledge, thus bundling with their existing competencies (Kedia, Gaffney, & Clampit, 2012). By contrast, EMNEs tend to acquire a broader range of resources that may be combined with firms' existing capabilities to offset innovation bottlenecks, time pressure, as well as financial pressure in undertaking in-house innovation (Luo & Child, 2015). Hence, instead of pushing the technology frontiers, EMNEs' acquisition activities are influenced by pragmatically using existing resources, knowledge and technologies from domestic and international sources to magnify their strengths and minimise any weaknesses.

Although the lack of strategic resources at home has been recognized as the main driver

for Chinese firms' cross-border acquisitions, there are variations in firms' engaging in such an international strategy. This raises the interesting and underexplored research question of what firm-level attributes drive foreign acquisitions by Chinese MNEs. Accordingly, this chapter investigates the impact of firm characteristics on EMNEs' foreign acquisitions and specifies sub-regional innovation performance as the boundary condition. Examining Chinese listed firms' compositional springboarding capability and external support of in-house innovation, a number of interesting findings have been obtained.

First, the results show that strong compositional and springboarding capability encourages Chinese companies to engage in acquisitions abroad. This corroborates the argument that EMNEs must possess some unique strength before and during their internationalization (Luo & Tung, 2007; Luo & Tung, 2018; Luo and Child, 2015). An underlying assumption of previous research built upon the RBV concerned EMNEs' innovation deficiency or weakness in technological development so prompting them to acquire heterogeneous resources abroad (Zhu & Zhu, 2016). Drawing insights from the CBV and springboard perspective, the author highlights that EMNEs with strong compositional springboarding capability may pursue cross-border acquisitions to access resources from the global strategic factor market that are compatible with their existing competencies. Their internationalization trajectory differs from their Western counterparts in the way that EMNEs aim to enhance competitive advantage by adopting the compositional strategy (Luo, 2021; Sun et al., 2021; Volberda & Karali, 2015; Zhou et al., 2020).

Second, it is found that Chinese firms which receive a low level of external support of in-house innovation aggressively engage in acquisitions abroad. This contrasts with the proposition about the positive association between Chinese companies' foreign acquisitions and the generic financial support they receive from the home-country government (Hoskisson, Wright, Filatotchev, & Peng, 2013). Accessing government innovation funds tends to be subject to approval at various levels of the government in China and may indicate that firms without funding support for innovation from the home-country government tend to use foreign acquisitions as an alternative to gain access to advanced technology which can substitute for in-house innovation. In other words, conducting in-house innovation activities, and the availability of technological resources in the global market, may lead firms to a 'make or buy' decision. Chinese firms' strategic objective of upgrading domestic technological bases and minimizing the risks of failure from innovation-related activities may prompt them to rely on foreign acquisitions to access readily available international knowledge and technologies.

Third, it is found that sub-regional innovation performance in the home country and its interaction with firms' resource characteristics affect Chinese companies' acquisitions abroad. The result indicates that firms locating in regions characterized by greater commercial success in selling new products tend to undertake foreign acquisitions when receiving sufficient innovation funds from the home-country government. Sub-regional innovation performance serves as an enabler to firms with sufficient innovation funds to seek resources from the global factor market through foreign

acquisitions, thus expanding their knowledge base.

In addition, the author did not find support for the promotional effect of sub-regional innovation performance boosting Chinese firms' compositional springboarding capability. This non-significant result may indicate that internal compositional springboarding capability is an important driving force regardless of sub-regional innovation performance. Regional externalities associated with regional locations through innovation performance have little impact on firms' internal compositional springboarding capability in relation to their foreign acquisitions. This further demonstrates that compositional capability measured by compositional springboarding capability is one of most important driving forces behind Chinese firms' cross-border acquisitions.

3.6 CONCLUSION

In this chapter, the author adopts the CBV and springboard perspective to address the extent to which the firm-level compositional capability shapes Chinese firms' radicalness in conducting acquisitions abroad. Testing the longitudinal data collected from Chinese listed firms over the period of 2011-2017, the author finds that Chinese firms' compositional springboarding capability and the amount of external support for in-house innovation from their home government substantially influence their acquisitions abroad. Additionally, the negative association between external support of in-house innovation and their foreign acquisition decisions may be contingent upon home-country regional innovation performance. This study provides new insights into

the role of firm-level compositional resources in explaining Chinese firms' cross-border acquisitions.

4. OFDI activities of Chinese MNEs and market power

4.1. INTRODUCTION

The international expansion of emerging-market companies through outward foreign investment (OFDI) activities has become a popular research topic. There is a fast= growing body of literature in this research area (Gaur, Ma, & Ding, 2018; Jian Li, Strange, Ning, & Sutherland, 2016; Li, Liu, Yuan, & Yu, 2017; Lu, Liu, Wright, & Filatotchev, 2014; Ramamurti & Hillemann, 2018; W. S. Shi, Sun, Yan, & Zhu, 2017; Tang, Gu, Xie, & Wu, 2020; Tao, Liu, Gao, & Xia, 2017; Witt & Lewin, 2007; Xia & Liu, 2017; Zhao, Liu, Andersson & Shenkar, 2021), parallel with an unprecedented increase in OFDI by EMNEs. Previous research has mainly examined EMNEs' post-OFDI performance in terms of financial performance, productivity, survival, growth and innovation performance (Mudambi & Zahra, 2007; Schiffbauer et al., 2017; Tao et al., 2017; J. Wu et al., 2016). The main findings of previous research can be summarized as follows. Firstly, existing studies propose that OFDI activities influence firms' financial performance for both short-term and long-term operations (Cui & Xu, 2019; Du & Boateng, 2015; Tao et al., 2017; Xie et al., 2017). The event analysis method has been widely used to evaluate the short-term financial performance, which takes cumulative abnormal return as the indicator (Du & Boateng, 2015; Tao et al., 2017; Yang, 2015). Secondly, OFDI activities will impact firms' innovation performance. For instance, OFDI is found to increase a number of patents and intangible assets of EMNEs (Cui & Xu, 2019; Li et al., 2016; Wu et al., 2016). Despite the insights into the outcomes

of OFDI from previous studies, the market-related performance of Chinese firms' oversea investment activities has attracted little academic attention.

Previous research on the motivations of emerging market MNEs conducting foreign investment proposes that OFDI strategies are increasingly adopted by these firms to obtain their needed resources from the global market, including natural resources, marketing resources, efficiency and strategic assets (Buckley et al., 2017; Cui et al., 2014; Deng, 2009). Particularly, the springboard perspective regards OFDI as a strategy that firms take to acquire multiple resources in line with the firms' heterogeneous strategical goals (Luo & Child, 2015; Luo & Tung, 2007; Luo & Tung, 2018). It defines the OFDI strategy and its integration as a multiple-stage process of firm internationalization. After rapid international expansion through OFDI, EMNEs will experience capability transferring to home, and so enhance and upgrade existing capability rooted in the home country with newly acquired overseas assets (Luo & Tung, 2018).

The home market of sizable emerging economies, such as China, plays the central role in firms' springboard strategy due to its large scale, huge potential and the firms' well-established market understanding. It is also taken as the experimental field for further competing in the global market (Luo & Child, 2015; Luo & Tung, 2007, 2018). In other words, firms could acquire resources and knowledge through OFDI, and juxtapose with existing capabilities in their home country operations in order to upgrade firms' capabilities, compensate for firms' weaknesses, fortify their home base and, eventually, catch up their global competitors (Luo & Tung, 2018).

The outcome of EMNEs' OFDI activities can be considered the final stage performance of OFDI from the springboard perspective (Luo & Bu, 2018a; Luo & Tung, 2018). However, there is a lack of systematic research on the relationship between OFDI activities by EMNEs and their post-OFDI home market performance by taking account of the drivers of emerging market firms' global expansion and the important role of enhancing competition within the home market. The omission of examining home market performance of OFDI largely limits our understanding of the complexity and outcomes of EMNEs applying OFDI strategies for achieving global expansion (Luo & Tung, 2018). Therefore, this chapter aims to examine the EMNEs' home market performance post OFDI by explicitly focusing on the impact of OFDI activities on EMNEs' market power within the home market.

Market power is a firm's pricing power reflecting whether, and to what extent, the firm can arbitrarily decide the price of a commodity (Asongu et al., 2020; Barthel, 2018; Lerner, 1934; Shaffer & Spierdijk, 2020; Xue-hong, Hai-ling, Mei-rui, Yu-lin, & Yi-jun, 2018). A firm with higher market power than their rivals means that it could fix the price at the level which enables the firm to boost its profitability. The impact of the internationalization behaviour of financial institutions on their market power has drawn increasing interest from finance researchers. However, in international business research there are few studies concerned with the relationship between market power and MNEs' global expansion (Clougherty, Kim, Skousen, & Szücs, 2017).

Based on the eclectic paradigm theory, the market power implies that firms' monopoly position within the home market should be viewed as their ownership advantage which

motivates them to undertake OFDI to extend their market dominance overseas (Dunning & Pitelis, 2008). However, emerging-market firms are deemed to suffer from a deficiency of ownership advantages (Clougherty et al., 2017). There are not sufficient market-power related interpretations to explain their OFDI behaviour regarding what they could exploit and gain from the global market. Conversely, EMNEs are viewed as latecomers in the global market and look for advanced resources and capabilities instead. Previous research shows that OFDI boosts EMNEs' innovation performance and capabilities (Cui & Xu, 2019; Li et al., 2016; Wu et al., 2016). However, the question is that innovation resources, as firm specific advantages, can eventually be used to upgrade firms' production in order to compete with their rivals to enhance their market position (Luo & Child, 2015). Therefore, this study pays particular attention to the direct market-related outcome associated with firms' OFDI activities.

Furthermore, OFDI activities will incur the liability of foreignness for MNEs. Firms can only benefit from internationalization after compensating for the extra cost of the liability of foreignness (Zaheer, 1995). This liability of foreignness is generally regarded as one of the causes of firms' difficulties during internationalization as it increases MNEs extra costs from different dimensions compared to firms that just focus on their local market. Differing from developed country firms with tremendous accumulated overseas experiences, firms from emerging markets are latecomers in the international market. The level of the LOF of Chinese firms is commonly recognized to be higher, attributable to a principally peculiar business culture and country of origin, which can be defined as the liability of emergingness (Luo, Shenkar, & Nyaw, 2002;

Madhok & Keyhani, 2012). In the contexts of emerging market, the Chinese consumers are more price sensitive because compared to the inhabitants in developed countries, they remain the low average income (Luo et al., 2011; World Bank, 2019). Their demands on lower-cost or affordable productions with more functions and better performance (Ernst, Kahle, Dubiel, Prabhu, & Subramaniam, 2015; Luo et al., 2011) constrained Chinese firms on pricing dominance. Therefore, the extent to which OFDI activities affect firms' market power is underpinned by the liability of foreignness and liability of emergingness associated with post OFDI activities.

Lastly, previous research has examined interactions between OFDI and multiple dimensional cross-national distance (Berry, Guillén, & Zhou, 2010; Xie et al., 2017), for example, cultural (Cheng & Yang, 2017; Li, Li, & Wang, 2016), geographic (Shi, Hoskisson, & Zhang, 2016) and institutional distance (Du & Boateng, 2015; Pinto, Ferreira, Falaster, Fleury, & Fleury, 2017). Departing from existing studies in this area, the author attempts to highlight how the home country factors, for example, firm-level technological capabilities and industry-level competition intensity, interact with EMNEs' OFDI activities to jointly affect their market power. Although Chinese firms lack heterogeneous resources, their pre-owned technological capabilities may enable them to identify and organize whatever resources are available, either internal or external, to work to their advantage which will mitigate the negative effects of liability of foreignness (Luo & Child, 2015). However, previous research has neglected the contribution of firm-level internal technological attributes to offsetting the negative effects of OFDI strategies.

The market power in this research is defined as firms' capabilities to extract profits from its customers with few changes on the demand side (Asongu et al., 2020; Barthel, 2018; Lerner, 1934; Shaffer & Spierdijk, 2020; Xue-hong et al., 2018). These capabilities grant firms more advantages in determining price to gain higher profitability in their industries. The industrial competitive environment may indirectly determine firm endurance and imperviousness towards the extra cost due to OFDI (Hou & Robinson, 2006). Therefore, the interaction between the industry competitive intensity with OFDI strategies should be considered by capturing the indirect effect of different degrees of industry competition. While there are sufficient studies testing OFDI impacts on firms' performance in particular industries (Ahuja & Katila, 2001; Hurtado-Torres, Aragón-Correa, & Ortiz-de-Mandojana, 2018; Wan, Williamson, & Pandit, 2020), few studies examine the moderating effect of industry competition on the relationship between OFDI activities and EMNEs' market power. Therefore, the author investigates the boundary condition of the industry-level competitive attributes under which OFDI activities affect market power (Boisot & Meyer, 2008; Lu et al., 2011;Peng & Luo, 2000; Peng, Wang, & Jiang, 2008).

To address the above research gaps, this chapter will focus on the relationship between Chinese firms' OFDI activities and market power at home, as well as the boundary conditions of such a relationship. More specifically, the author investigates the following research questions:

(1) Whether, and to what extent, does outward foreign investment affect Chinese MNEs' domestic market power?

(2) To what extent is such an impact contingent on firm-level technological capabilities?

(3) To what extent is such an impact contingent on the industry-level intensity of market competition?

To examine these questions, the author uses secondary data of Chinese listed firms from 2009-2018. A difference-in-difference method combined with multiple period propensity score matching technique is applied to resolve the selection bias and endogeneity in the empirical analysis. In this context, the effect of OFDI on MNEs' market power is captured via the comparison with firms which had similar conditions before taking OFDI strategies but did not choose to participate in OFDI activities. The results show that MNEs' market power is reduced after internationalization, whereas stronger technological capabilities and less industry competition can partially mitigate the negative effect of OFDI activities on firms' market power. This research fills the gap in the literature on OFDI effects on market-related performance and highlights the importance of interaction between firm-level heterogeneity, industry competition and firms' OFDI activities.

4.2 LITERATURE BACKGROUND AND HYPOTHESES

4.2.1 The Springboard Perspective and Home Market Power

As I have discussed in Chapter 2, following the logic of the springboard perspective, the first step of EMNEs' internationalization is to accumulate international experience to reinforce their ability to deal with international cooperation and reduce the uncertainty of further global expansion (Luo & Bu, 2018b; Luo & Tung, 2018; Zhao et

al., 2021). After the cumulative international knowledge phase (first step) and implementation of OFDI (second step), the next stage of EMNEs' springboard strategies is in the home-centred capabilities transferring, combining and upgrading phase where EMNEs would test or try out resources acquired from the global market through OFDI in their home market first, and then improve and upgrade their capabilities (Li et al., 2021; Luo & Tung, 2018; Luo & Witt, 2021). Differing from those MNEs from the developed countries, EMNEs heavily rely on the performance of their home market due to the massive market size, the familiar institutional environment, suitable products to local customers, and the established business eco-system (Enderwick & Buckley, 2021; Luo & Tung, 2018).

The springboard perspective proposes that undertaking the upward spiral path, EMNEs aim to attain a competitive position to confront the threat of the intense market competition due to the entry of global players to their domestic market (Luo & Tung, 2018; Luo & Witt, 2021). They have to rapidly upgrade their capabilities to maintain their market power at home (Enderwick & Buckley, 2021). Although the springboard perspective identifies EMNEs that transfer international resources back to their home base to amalgamate with their existing products to upgrade their capabilities (Li et al., 2021; Luo & Child, 2015; Zhou et al., 2020), studies that applied the springboard perspective have not paid sufficient attention to investigating the impact of OFDI on EMNE performance in their home market even though they concede that the springboard strategy is the home-centric approach. Examining the domestic market performance is necessary due to the fact that Chinese MNEs not only rely heavily on

their domestic market given the size of their home base, but also they utilize their home market as a test field for the acquired resources (Li et al., 2021; Luo & Tung, 2018; Luo & Witt, 2021). Clarifying whether transferring their acquired resources back to their home operations can compensate their disadvantages and whether their acquired resources can contribute to their capability upgrading will help Chinese MNEs to decide if they are ready to move to the final internationalization stage to compete with their rivals in both the domestic market and global market (Luo & Tung, 2018). Therefore, it is imperative to understand the extent to which OFDI activities affect EMNEs' home market-related performance.

Market power is a widely used economic concept which evaluates a firm's market bargain power (Asongu et al., 2020; Bremus, 2015; Carb-Valverde, Rodrguez-Fernndez, & Udell, 2009; Lerner, 1934; Maudos & Fernández de Guevara, 2004; Shaffer & Spierdijk, 2020). It reflects the power that a firm is able to monopolize its specific industry (Lerner, 1934). From the springboard perspective, Chinese MNEs are motivated to acquire resources from the global market to compensate for what they are not good when competing with their rivals (Enderwick & Buckley, 2021; Li et al., 2021; Luo & Tung, 2007, 2018). They can utilize their acquired resources to upgrade their products in order to meet market demand and increase their market share (Luo & Tung, 2018). The springboard strategy can rapidly assist Chinese firms to obtain resources from the global market to survive fierce competition and outperformance their competitors in the industries they operate (Enderwick & Buckley, 2021; Luo & Tung, 2007, 2018). Therefore, the springboard strategies help to underpin the process of

Chinese firms upgrading their capabilities and building their heterogeneous advantages in order to increase their market power to dominate the industry. Following the springboard perspective, before actually competing in the global market, Chinese firms tend to experiment with the resources they obtained from the global market at home first (Li et al., 2021; Luo & Tung, 2018; Luo & Witt, 2021). They have developed certain capabilities to orchestrate the acquired resources and existing resources (Cuervo-Cazurra et al., 2018; Luo & Bu, 2018b; Luo & Child, 2015; Luo & Tung, 2018). In doing so, they can prevail over their intra-industrial rivals with competitive domestic market power (Li et al., 2021; Luo & Tung, 2018; Luo & Witt, 2021). It also implies that they will be ready to move to the final step of internationalization to compete with global players (Hobdari, Gammeltoft, Li, & Meyer, 2017; Luo & Bu, 2018b; Luo & Witt, 2021).

International experience EMNEs gain from their inward internationalization and exporting activities can support them to partially overcome the unfamiliarity and uncertainty operating with the global resources. However, it is time-consuming for EMNEs to transfer, absorb and integrate the resources they obtained from the global market (Li et al., 2021; Luo & Tung, 2018). Participating in the global market, EMNEs face the challenge of liabilities due to their risk-taking OFDI activities before successfully completing the experiment in their home market and upgrading their capabilities with the resources they obtained from the global market (Cuervo-Cazurra et al., 2007; Luo & Tung, 2018). In other words, despite EMNEs' inward internationalization experience and exporting experience, the liability of foreignness

and the liability of emergingness would not totally vanish when firms invest and operate overseas (Cuervo-Cazurra et al., 2007; Cui & Xu, 2019). Furthermore, EMNEs will have to seek an appropriate balance in their business operations between their home market and host countries (Li et al., 2021; Luo & Tung, 2018). Therefore, compared to those firms only operating in the local market, it is more challenging for EMNEs to achieve success domestically and internationally before they can totally upgrade their capabilities with their acquired resources from the global market.

The latest development of the springboard perspective highlights that operating in the emerging markets, EMNEs are at an advantage when providing products with a high price-value ratio, which refers to the products with suitable technologies and affordable prices (Li et al., 2021; Luo et al., 2011; Luo & Witt, 2021; Sun et al., 2021; Zhou et al., 2020). Luo and Tung (2018, p.145) clarified that "an upward spiral path is by no means linear nor can execution be expected to be seamless. The process may well encounter enormous difficulties as an upward spiral requires immense planning and cross-border orchestration of resources, knowledge, and capabilities". The orchestration capabilities are the key point regarding whether firms could successfully blend the global resources to provide the products to meet the demands of domestic markets (Luo, 2021; Luo & Bu, 2018a). After conducting OFDI, EMNEs will be concentrating to pursue novelty by creating a distinctive orchestration. This may damage their market power as they may fail to ensure whether the upgrade still suits the local consumers (Li et al., 2021; Luo & Tung, 2018).

Likewise, EMNEs cannot guarantee that the cost could be under control due to the

liability of foreignness and liability of emergingness associated with their OFDI. Due to their eagerness to seek strategic assets, they may give less attention to the unfamiliarity hazard. Previous research based on the springboard perspective has found that compared to MNEs from developed countries, EMNEs show less interest in the avoidance of long geographic, economic, and psychic distance (Luo et al., 2020; Wang et al., 2014). Operating in an unfamiliar environment, EMNEs are required to be equipped with high ambidexterity and adaptability advantages which demonstrates that their radical OFDI would necessitate EMNEs to leverage their resources to deal with the new operation in host countries and discard their conservative routine operating in their familiar home environment in order to succeed in both the domestic market and host markets (Choi et al., 2020; Li et al., 2021; Luo et al., 2020; Tang et al., 2020).

As latecomers, EMNEs lack experience in cooperating with global companies. Operating in an unfamiliar environment would incur extra costs for EMNEs even though they could thrive under hardship with their ambidexterity and adaptability (Luo & Tung, 2018). Moreover, EMNEs would benefit more from their springboard activities if they increased their preference of geographic dispersion in which they seek more OFDI opportunities with a diverse and distant set of host countries (Luo & Bu, 2018b; Luo et al., 2020). However, it increases the stress for EMNEs to cope with the liability of foreignness and the liability of emergingness because they need to enter multiple countries to achieve geographic dispersion (Eden & Miller, 2004).

In addition, undertaking OFDI to acquire resources from the global market is a risk-taking behaviour for EMNEs. Instead of incrementally expanding in the global market,

EMNEs have expanded aggressively when seeking resources from the uncertain global market, especially when resources are critical strategic resources (Luo & Bu, 2018b). Their risk-taking behaviours can obtain the needed assets but meanwhile bring more uncertainty which obliges EMNEs to reinforce their capabilities to control the unknown situation (Cuervo-Cazurra et al., 2007). It can compel EMNEs to allocate more resources to deal with internal and external coordination. This may weaken EMNEs' ability to control their costs, hence harming their market power. Overall, the IB research need not only to recognize the positive outcome of OFDI but also to consider the challenge or constraints that OFDI activities impose on their home market performance.

4.2.2. Liability of Foreignness, Liability of Emergingness and Market Power

The liability of foreignness originally refers to the cost of doing business abroad (Hymer, 1976) though a variety of studies have expanded the concept (Barnard, 2010; Cao & Alon, 2021; Goerzen, Asmussen, & Nielsen, 2013; Zaheer, 1995, 2002). The liability of foreignness could directly generate increasing costs associated with spatial distance, the lack of international experience, unfamiliarity with the host country environment and constraints of home country government (Zaheer, 1995). More specifically, the liability of foreignness can be divided into three dimensions, including unfamiliarity hazards which refer to 1. the additional costs related to the lack of knowledge or experience in the host countries; 2. discrimination hazards where the liability of foreignness occurs due to the discriminatory treatment in host countries by host country stakeholders; 3. relational hazards that MNEs' organizational costs

increase internally and externally when they engage in the global market caused by the uncertainty of both intra-organizational relations and cross-country differences (Eden & Miller, 2004). The sources of the liability of foreignness could be multiple but the impact or the result of the liability of foreignness is the additional cost to firms with OFDI activities comparing to those firms that did not operate in the overseas market (Zaheer, 2002). The certain extra cost caused by the liability of foreignness has been explicitly examined in previous research, and results in the reduction in profitability, a lower probability of survival and generating difficulties for firms post-OFDI operations (Cuervo-Cazurra et al., 2007; Lu & Beamish, 2001; Zaheer, 1995).

As latecomers, firms from emerging markets lack experience and knowledge in internationalization which is another disadvantage for them to offset as a liability of foreignness. They are new players in the global market and thus it takes time for them to develop a systematic understanding of host countries and capabilities of operating in new markets abroad, especially under different languages and cultures (Cuervo-Cazurra et al., 2007). This lack of experience and capabilities generates more difficulties for firms from emerging markets. While MNEs from emerging markets may choose OFDI activities as their getaway to escape from home country institutional constraints (Lu et al., 2011; Shi et al., 2017; Witt & Lewin, 2007), the difference in institutional contexts may be related to the discrimination due to political hazards (Henisz & Williamson, 1999). It will require MNEs from emerging markets to put in more investment to offset the difficulties (Kostova & Zaheer, 1999). The liability of foreignness will possibly happen because of the cultural distances (Cuervo-Cazurra et al., 2007). As mentioned

previously, the relational hazard, an element of the liability of foreignness, will raise the cost as the intra-organizational difficulty on communication and interaction will be more intensive (Cheng & Yang, 2017). As latecomers seek opportunities to cooperate with firms from developed economies, Chinese MNEs have disadvantages on cultural unfamiliarity which hinders them from utilizing their networking advantages and thus leads to a greater liability of foreignness (Child & Rodrigues, 2005).

Apart from the liability of foreignness which is related to the firm's burden caused by entering foreign countries, the liability of emergingness concerns the handicap incurred due to EMNEs' emerging market background (Madhok & Keyhani, 2012). There are three sources of the liability of emergingness, including the underdeveloped market environment, a deficiency of managerial capabilities, legitimacy restrictions and credibility scrutiny (Madhok & Keyhani, 2012). As latecomers, MNEs from emerging markets face the liability of emergingness because of their latecomer disadvantages (Cuervo-Cazurra et al., 2007; Kumar et al., 2020; Madhok & Keyhani, 2012). MNEs from emerging markets generally suffer from the lack of competitive advantages, such as advanced technology, reputable brands and advanced managerial knowledge, although they are have advantages with regard to price competition and labour-intensive production (Child & Rodrigues, 2005). This increases EMNEs' liability of emergingness as these disadvantages impede their adequate insights in a more sophisticated and competitive global market (Kumar et al., 2020; Madhok & Keyhani, 2012). In addition, the liability of emergingness for MNEs from emerging markets is also related to different legitimacy, given that host country authorities have less

information to set a fair judgement or standards for firms from emerging countries (Madhok & Keyhani, 2012). Instead, they may stereotypically assume the legitimacy from a particular country. The negative stereotype may delay the legitimation from the operations of OFDI activities by EMNEs (Kostova & Zaheer, 1999). Above all, as latecomers, compared to those early joiners from advanced economies, MNEs from emerging markets will have a more intensive challenge and suffer from an extra liability of emergingness in addition to the liability of foreignness.

The market power in this study refers to its intra-industry pricing power and the degree to which a firm can determine the price at a level to make greatest value, which relies on the firm's particular elasticity of demand (Asongu et al., 2020; Barthel, 2018; Lerner, 1934; Shaffer & Spierdijk, 2020; Xue-hong et al., 2018). In other words, the market power captures the divergence between a price and marginal cost, scaled by the price which is called the Lerner Index (Lerner, 1934). It emanates from the firm's ability to extract abnormal rents (higher prices) from its customers with little impact on demand, thus conferring a competitive pricing edge to the firm (Datta, Iskandar-Datta, & Singh, 2013). The market power of a firm does not only relate to industrial elasticity, but more relies on the firm's specific managerial skills in dealing with their operating resource, cost and efficiency. In this case, the market power of a firm contains more information to illustrate a firm's profitability (Ailawadi, Borin, & Farris, 1995). A great market power indicates that firms have the capability to control their price and cost. Eventually, an outperformed position of market power could reduce competition, compromise allocative efficiency, and ultimately decrease consumer welfare (Hymer, 1982). In fact,

it has been argued even monopolism is harmful as it offers an unequal price and leads to a social loss, but a strong market power provides a firm with a dominant position in the business competition (Lerner, 1934). Previous research also proposed that a firm's sustainable growth rate could be related to strong market power that could allow firms to obtain more market share (Varadarajan, 1983).

In the international business research, early IB theories treated market power as an ownership advantage of MNEs from advanced economies, which could be further be transferred to international markets through OFDI to boost their profitability (Clougherty et al., 2017). In the studies of EMNEs, market power in their home countries is identified as ordinary resources firms temporarily own for further juxtaposing with their purchased asset from the global market (Luo & Child, 2015; Peng et al., 2018). EMNEs' OFDI is motivated by maintaining their market power because of the increasingly intensive competition in their home market (Li et al., 2021; Luo & Child, 2015; Luo & Tung, 2018; Luo & Witt, 2021). The market power would affect firms' profitability and competitiveness (Clougherty et al., 2017). However, OFDI also incurs extra costs due to the liability of foreignness and liability of emergingness (Kotabe & Kothari, 2016; Madhok & Keyhani, 2012; Zaheer, 1995). Therefore, it is not sufficient if IB studies only consider the motivation of OFDI activities by EMNEs to pursue market power without taking account of costs of OFDI on EMNEs' market power.

Strategy represents a consistent array or configuration of activities, aiming at creating a specific form of competitive advantage, including low cost and differentiation (Porter,

1991). Existing studies argue that firms from emerging markets choose to participate in overseas investment since they are deficient in firm specific advantages or competitive advantages (Lu et al., 2011). They choose to purchase their required resources from the global market in order to meet the increasing demands of customers in their domestic market or provide higher price-value products to defeat their competitors in their domestic market (Luo & Child, 2015; Peng et al., 2018). From this perspective, firms that undertake OFDI activities aim to enhance market power through obtaining their needed resources from the global market and then develop their capabilities to maintain or improve their products differentiation to make more profit. However, we should make the causality clearer in that the cost position is the outcome of firms' strategies; if firms take extra activities, the following cost could be reduced with managerial practice but not be fully vanished (Porter, 1991). If EMNEs ignore or fail to reduce the effect of extra costs, such as the liability of foreignness and liability of emergingness caused by their international expansion, such OFDI activities will damage their market position. Therefore, studying firms' post-OFDI market power is essential to gain a good understanding of the outcome of firms' internationalization strategy.

A great market power could work as a firm's natural hedge instrument to smooth out the volatility and decrease the uncertainty if they do not conduct risk-taking external activities (Gaspar & Massa, 2006). When firms participate in OFDI activities, they will experience a cost shock as they will incur extra liabilities which would adversely influence firms' market power. Previous studies agreed that compared to customers from developed economies, customers from emerging markets are very price sensitive

(Li et al., 2021; Luo et al., 2011). Even though the economies of these emerging markets have rapidly grown, the customers in these markets maintain their preferences on consumption while they stick with looking for affordable products with a high price-value rate (Ernst et al., 2015; Luo et al., 2011). Local firms have to persevere to stabilize their prices, or even reduce their prices, to keep their exist market power if they cannot reduce their marginal cost. However, when firms engage in internalization, the liability of foreignness and emergingness will lead to an extra cost for MNEs to mitigate. The irrational expansion will also aggravate the pressure on firms to reduce their marginal costs as firms from emerging markets lack managerial skills and international experience to overcome the imbalance between increasing new market demands and their producing capabilities (Hitt, Hoskisson, & Kim, 1997; Penrose, 1995). As I mentioned earlier, with competitive disadvantages and particular local customer preferences, compared to experienced global players who may suffer less from the liability of foreignness, Chinese MNEs as latecomers will encounter more difficulties in offsetting both the liability of foreignness and liability of emergingness in order to maintain their domestic market power (Barnard, 2010; Cuervo-Cazurra et al., 2007; Luo et al., 2002;Zhou & Guillén, 2015). Therefore, the arguments above lead to the following hypothesis:

Hypothesis 1: Compared to those Chinese firms without outward foreign investment abroad, OFDI will have a negative effect on Chinese MNEs' market power in the home market.

4.2.3 The Moderating Effect of Technological Capability

The springboard perspective indicates that during the fourth step of EMNEs' internationalization, the orchestration is important (Luo & Tung, 2018; Luo & Zhang, 2016). Whether firms are capable of exploiting their newly obtained resources to combine with their original resources may determine the success of their home market experiments (Luo & Child, 2015; Luo & Tung, 2018; Luo & Witt, 2021). Additionally, the springboard perspective postulates that during the fourth step of the upward spiral path, whether EMNEs can successfully apply an amalgamative ability to combine their ordinary resources with critical resources they obtained from the global market can determine whether EMNEs are able to produce the distinctive offerings to meet local consumers demands (Li et al., 2021). In this case, EMNEs endowed with stronger technological capabilities would retain more knowledge of how to utilize their newly acquired resources from the global market (Luo, 2021; Luo & Witt, 2021; Zhou et al., 2020). Therefore, they are in a more advantageous position to offer creative orchestration to successfully complete the market experiment and upgrade their capabilities (Luo & Tung, 2018). Although they would still have to experience the liability caused by OFDI, the negative impact of this risk-taking investment would be eased for following reasons.

Firstly, to overcome the effect of the liability of foreignness and emergingness associated with OFDI, firms with more firm-specific advantages will suffer less from the reduction of their market power. Firm-specific advantages refer to the functional and production-related assets which are hard to imitate, especially technology-related knowledge and cutting-edge knowhow. They could also contain the managerial skills

that allow firms to efficiently coordinate and control their investments abroad (Rugman & Verbeke, 2001). It is derived from the resource-based view. The firm-specific advantages should have their heterogeneity which is valuable, extraordinary, irreplaceable, and hard to imitate (Barney, 1991; Herzer, 2011; Oliver, 1997). Specifically, resource heterogeneity is a concept from the firm-specific perspective and emphasizes the importance of sustained competitive advantages and how to build the competencies through the heterogeneous resources (Barney, 1991; Li et al., 2017). Resources in domestic markets could not meet the requirement of emerging market firms that aim to develop their technology or knowledge to achieve a world-leading position (Kotabe et al., 2011; Xie et al., 2017). It illustrates that MNEs from emerging markets may not have enough firm-specific advantages that they could transfer internationally to their oversea subsidiaries. To overcome the negative effect of liability of foreignness on market power, firms should consider their pre-capabilities and resources which will interact with their acquired resources abroad (Barnard, 2010). Strong capabilities will benefit the synthetization and ease challenges of the liability of emergingness (Madhok & Keyhani, 2012).

Existing research has investigated emerging markets and how their affordable value innovation works (Ernst et al., 2015). Compared to the developed markets, customers in emerging markets are concerned more about affordability. Therefore, firms focus more on searching for new opportunities from the engagement of OFDI activities to combine with their existing resources while looking for more resources from the global market which could upgrade their products and provide higher price-valued

products (Ernst et al., 2015; Luo & Child, 2015; Luo et al., 2011; Madhok & Keyhani, 2012). Thus, firms with more technological assets will have better understanding, more knowledge, clearer orientation on discovering global resources which are suitable and economical for their further upgrading. Their accumulated technology-related assets will work with their obtained resources and create more scope effects compared to those firms without enough technological resources (Tang et al., 2020). Firms with more technological resources and knowledge will suffer less from the liability of foreignness due to OFDI activities.

Secondly, pre-owned technological assets could limit managerial risk from the liability and partially protect firms from losing market power. The transfer of competitive resources will take time to integrate with firm operations. Their previous operations and coordination dealing with the knowledge-related assets can provide them with a stronger managerial capacity to synthesize and integrate disparate resources gained from OFDI (Ernst et al., 2015; Luo & Child, 2015). More efficiency on exploiting their pre-owned resources to integrate and combine their purchased resource from OFDI activities will overcome the extra cost incurred by the liability of foreignness and emergingness (Luo & Child, 2015; Luo et al., 2011; Madhok & Keyhani, 2012). Thus, the author proposes that MNEs with stronger technological capabilities will suffer less from the loss of market power caused by their OFDI activities:

Hypothesis 2: Stronger technological capabilities will weaken the negative effect of OFDI on Chinese MNEs' market power.

4.2.4 The Moderating Effect of Intensity of Industry Competition

MNEs conducting OFDI are influenced by their industry attributes because their decisions on pricing policy, innovation intensity and investment strategy would be affected by the industrial environment and industry structure (Scherer & Ross, 1990; Spanos, Zaralis, & Lioukas, 2004). Industrial competition is defined as the degree of competition that a firm faces in its industry and is characterized by the number of rivals and their market share (Porter, 1998). Different from intra-industry level market power, industry competition is a structural indicator which reflects a systematic competitive risk all firms experience in their industries. As mentioned above, MNEs use OFDI to acquire resources from the global market. Those acquired resources from the global market could be used to compete with their rivals at home (Luo & Bu, 2018a; Luo & Child, 2015).

The springboard perspective introduced the concept of ambidexterity which implies that EMNEs could balance their domestic market gain for short-term survival while upgrading their capabilities for long-term success (Luo & Tung, 2018; Luo & Witt, 2021) Compared to EMNEs competing in industries with intensive competition, the low competition intensity in an industry can ease the stress of EMNEs regarding the management of their domestic market gain because of the small number of incumbent firms (Li et al., 2021). They could leverage more resources focusing on the capabilities upgrade. Moreover, ambidexterity also identifies that EMNEs can adjust their goals between innovation and imitation (Li et al., 2021; Luo et al., 2011; Luo & Tung, 2018). EMNEs from an industry with a high intensity would be eager to focus more on novelty

than usefulness as the increasingly intensive industrial competition motivates them to pursue the development of their competitive capabilities (Sun et al., 2021). Fiercer price competition, abundant substitutions and increased consumer needs would incline the ambidexterity towards risk-taking innovation rather than safe imitation (Luo et al., 2011; Sun et al., 2021). EMNEs in the industry with low competitive intensity would benefit from exploiting the resources they obtained from the global market and developing their imitation to fit their domestic market in order to alleviate the extra cost of OFDI caused on liabilities and recapture their market share more quickly than EMNEs in a high competitive intensity industry (Luo et al., 2011; Sun et al., 2021).

Furthermore, EMNEs operating in such an industry should be able to price significantly above marginal cost without fearing new entries. As a result, firms' financial benefits would be increased (Bain, 1954; Hou & Robinson, 2006). The large potential of generating monopoly power can further support EMNEs from a more highly concentrated industry which has more capacity to control prices independently (Spanos et al., 2004). Therefore, firms can gain more advantages when facing less intense industry competition which offers them more capacity of dominating pricing. Therefore, the author proposes the following hypothesis.

Hypothesis 3: A low intensity of industry competition will weaken the negative effect of OFDI on Chinese MNEs' market power.

4.3. METHODOLOGY

4.3.1. The Sample and Data

The datasets used in this chapter are the same as those introduced in Chapter 2. The same method has been used to clean the relevant data and select the sample firms. In total, there are 3,738 firms which are included in the dataset amongst which 1,423 firms conducted OFDI activities.

4.3.2. Analytical Approach

This study aims to test the extent to which OFDI activities influence Chinese firms' market power in their domestic market. The selection bias should not be ignored when testing the impact of OFDI. Previous research did not address adequately the issue related to the selection bias which may lead to inaccurate and unreliable results. For example, a firm with more strategic assets might start with a better position when participating in OFDI activities, and more ownership advantages to smoothly operate in host countries (Buckley, Munjal, et al., 2016a). Thus, the author applies a difference-in-difference method (DID) with multiple time periods combined with the propensity score matching (PSM) technique due to the limitation of the ordinary least squares (OLS) regression on resolving the potential endogeneity issue. Firstly, the PSM method is adopted as a technique to match the comparable firms which did not engage in OFDI activities with those which did such activities. Then, the difference-in-difference method is applied to mitigate the effect of selection bias and test the changes of firms' market power before and after engaging in OFDI activities. The combination of these two advanced statistical techniques has been ratified with their preponderant advantages to mitigate the selection bias (Arnold & Javorcik, 2009; Blundell & Costa dias, 2000; Chang, Chung, & Moon, 2013; Cui & Xu, 2019; Rosenbaum & Rubin,

1983).

The propensity score is defined as "the conditional probability of receiving a treatment given pre-treatment characteristic" (Rosenbaum & Rubin, 1983). To implement the PSM method, all the observations are catalogued as a treatment group which conducted OFDI in the observing period and a control group which did not conduct OFDI. In this research, the OFDI treatment dummy variable D_i=1 if it had OFDI activities and zero (D_j=0) otherwise. The reverse causality is considered the main reason causing endogeneity. In this case, the change in firms' market power might be caused by firms' previous performance which could also predict OFDI. Ideally, if one can get the estimates of propensity score through a selection of covariances which have been proved to indicate the potential of firms' undertaking OFDI, how OFDI can affect a firm's market power can be estimated by the differences of the market power between the MNEs which have conducted OFDI and those local firms which did not conduct OFDI (Becker & Ichino, 2002). However, one cannot estimate the treatment effect of OFDI directly, even though the propensity scores have been estimated, as firms' heterogeneity in this case may probably be ignored. Thus, the combination of the difference-in-difference method and propensity score matching method is adopted in this research. The PSM technique enables the author to build a comparable control group for firms that had overseas investment (treatment group) and had a parallel trend of market power growth before they undertook OFDI. Similarly, the author can find comparable firms which did not conduct OFDI (as a control group) but have the possibility of taking part in oversea investment as the treatment group did. This

estimation procedure more clearly predicts a potential outcome if firms did not participate in the OFDI activities by considering their dissimilar features (Arnold & Javorcik, 2009; Chang et al., 2013; Cui & Xu, 2019). The nearest neighbour matching method is to search the closest control sample from the estimated propensity score values of the treatment group. In this case, the endogeneity caused by reverse causality could be minimized as it takes account of the heterogeneity of firms and predicts the potential market power without OFDI activities based on all their previous performance. The equation to calculate the predicted values of the propensity score is as follows:

$$p(X_i) = \Pr(D_i = 1|X_i)$$

Where X_i is the multidimensional vectors of covariances, and D_i represents whether firms conduct OFDI.

The panel data is usually used to observe a time-continuous phenomenon among individual firms. The advantages of applying panel data analysis have been discussed in Chapter 2. Additionally, panel dataset also allows the usage of the DID methods combined with the PSM technique. In this study, a continuous treatment effect of OFDI on firms' market power is taken into account. In a longitudinal study, the PSM method itself needs sufficient covariances to calculate the propensity score which could support the matching process (Arnold & Javorcik, 2009; Blundell & Costa dias, 2000; Chang et al., 2013; Imbens & Wooldridge, 2009) Some of covariances might not be observable or not continuous in the period. Therefore, the difference-in-difference approach could be applied to address the limitation of PSM by offsetting the similar time-related factors

and unobserved features.

The difference-in-difference method is often applied to test the treatment effect. The treatment year always impacts on all the involved individual firms at a fixed time. However, a firm's OFDI activities do not occur at a same time point, instead the activities took place in different years in the sample period. Therefore, to detect the real direct effect of OFDI on firms' market power in a continuous time period, a difference-in-difference method with multiple time periods combined with PSM technique is appropriate and should be applied in this study.

In order to capture the continuous effect of firms' OFDI activities, the author will only observe firms which have more than one year continuous experience of participating in OFDI till the end of observed time period. The author also takes the one-year forwarded value of firms' market power to avoid the endogeneity.

Previous research that combined both the PSM technique and DID method may have mistreated the usage of panel data. For example, the research contained firms in the observation pool only if they implemented one OFDI project during the observing period to test the before and after effect on firms' R&D activities (Bertrand, 2009), but excluded firms that did multiple FDI during the observation period. Firms with continuous OFDI activities in a particular time span were matched to define how overseas investment affected firms' profitability (Cui & Xu, 2019). After obtaining the commensurate observation pool, DID will be implemented to mitigate the time-effected changes of firms' market power which is not attributed to OFDI activities in order to

identify the direct effect of OFDI (Lu, 2016). In this research, the author codes OFDI=1 if a sample firm has OFDI activities and "Year 2010-2018" =1 if the observed year is between 2010 and 2018, and zero otherwise. The difference-in-difference model is expressed as

$$Y_{i,t+1} = \alpha_0 + \beta_1(OFDI_{it} \times Year\ 2010-2018_{it}) + \beta_2 CV_{it} + \lambda_i + \nu_t + \varepsilon_{it} \quad (1)$$

where in the equation (1), $Y_{i,t+1}$ represents the one-year forward market power of the sample firm i in time t. CV contains the set of control variables, λ_i is the firm individual effect and ν_t is the time effect.

To test the moderating effect, the author splits the sub-sample pool from the full sample which only contains firms that had OFDI activities. The estimated model is shown below:

$$Y_{i,t+1} = \alpha_0 + \beta_1 OFDI_{it} + \beta_2(OFDI_{it} \times M_{it}) + \beta_3 CV_{it} + \varepsilon_{it} \quad (2)$$

where $OFDI_{it} \times M_{it}$ indicates a vector of moderating terms in the equation (2). All the models are computed with robust standard error estimation.

4.3.3. Selection of Covariances for the PSM Model

The important assumption of the propensity score matching is the ignorability which is also known as the conditional independence assumption (CIA). It states that if a group of covariances which contain adequate information to determine the selection of a treatment or a control group cannot be found, the potential outcome will be an independent value. In this research, it means if the author could find covariances which

determine firms' participation in OFDI activities, this decision and firms' market power will be independent to each other. Therefore, a rich set of covariance is necessary for the further propensity score matching procedure. However, it should be noted that it is almost impossible to capture all the related variances which could relate to the decision of firms' OFDI behaviours. When we selected covariances, we preferred that the indicators contained adequate information rather than subdivided indicators.

Different from the selection of the control variables for the main DID regression equation, the PSM method requires selecting covariances to calculate the propensity score to find the comparable local firms which have not conducted OFDI but have a parallel trend of changes in market power as EMNEs. Accordingly, the author applied time lagged firm size, firm age, state ownership, firm locations, R&D intensity and firms' international experience before conducting OFDI activities for the selection of observables. This step is used to compute the propensity score for each firm. The author will explain the detailed measures of those variables in the next subsection.

4.3.4. Measurements

4.3.4.1 Dependent variable

The market power of a firm was measured by one-year forward industry-adjusted Lerner Index to capture the change in market power post-OFDI. Conceptually, the Lerner index equals to a firm's monopoly revenue to total receipts. In other words, it is the ratio of the divergence of price from marginal cost to price (Lerner, 1934). It is a non-structural indicator referring to a firm's direct response to the changes in demand

and supply without taking market structure in account (Fungáčová, Shamshur, & Weill, 2017). It is a popular concept in the finance research area, but the author attempts to bring this concept to the IB research as it is more appropriate and accurate to capture the factors which drive firms' market power (Carb-Valverde et al., 2009). To obtain firms' industry adjusted Lerner indices, the author collected industries' Lerner indices which are computed by the sales-weighted price–cost margin of all the firms within an industry. Based on a firm's Lerner indices, the firm's industry adjusted market power can be captured by the difference between its own Lerner index and the Lerner index of the industry in which the firm operates (Datta et al., 2013). The author followed the 3-digit industrial code categorized by the China Securities and Regulatory Commission (CSRC). The measurement of adjusted Lerner index eliminates the structural effect of an industry and manifests a more directly pertinent intra-industry market power of firms.

4.3.4.2 Moderating variables

Technological capability

In this study, the author measured firms' technological capabilities with the count number of firms' newly granted patents. Different from the R&D inputs which need time to see the transformation to innovation outcomes, patents could be more applicable to capture firms' technological capability based on innovation output (Guo et al., 2016).

Intensity of industry competition

The author measured industry competition using the Herfindahl-Hirschman Index (HHI) to capture the extent to which the industry competition firms encountered moderated

the relationship between firms' market power and OFDI activities. The Herfindahl-Hirschman Index is calculated as the sum of the squares of market shares for all firms in the industry, which is commonly used to measure industry-level concentration (Lee & Kim, 2016; Xia & Liu, 2017). A higher HHI refers a higher concentration for an industry and thus less competition for a firm. This measurement is a prevalently used structural indicator, demonstrating different intensity of competition among various industries (Fungáčová et al., 2017).

4.3.4.3 Variables for calculating covariances in the PSM model and control variables the main DID regression model

I used the time lagged firm size, firm age, state ownership, firm locations, R&D intensity and firms' international experience before conducting OFDI activities to calculate the covariances or the propensity score for each firm. Firm size was measured by the logarithm of a firm's total assets (Cui & Xu, 2019) which could indicate the overall capabilities of a firm. As older firms can have more resources and experience in conducting investment abroad, as well as a long history which enables the firms to accumulate more managerial knowledge, we controlled for firm age which was measured as a firm's total years since its inception (Buckley, Munjal, et al., 2016c). Ownership may affect firms' resource accessibility (Cui & Xu, 2019). Therefore, the author included a control variable of firms' ownership using the percentage of shares held by the central and local governments, or government-related institutions. Firm location is measured with a dummy variable whether the firm is located in a coastal area or inland. This variable could reflect local institutional governance and the level

of regional openness (Cui & Xu, 2019). The author measures firm internalization experience with the ratio of sales of export to total revenue. This variable captures the impact of firms' previous global engagement and participation through exporting experience. Greater engagement in exporting will enable firms to gain more international knowledge to proficiently interact with host markets (Cui & Xu, 2019). Firms' R&D intensity was also selected for which is measured with the ratio of R&D input to total revenue. R&D intensity will determine firms' incentive to undertake OFDI activities as a higher R&D intensity will motivate firms to look for more strategic assets overseas (Lu et al., 2011).

I also controlled firm size, age, ownership, location, international experience and R&D expenditure for heterogeneity. However, they are not related to covariances as the time-lagged variables were used to calculate the propensity score for the further matching process. In these control variables, I take the one-year forward value to control the likeliness of spurious relationship in the difference-in-difference processing model the moderating effect regression model. A larger size of firm may bring firms more opportunities to gain market power from scale of economies (Buch, Koch, & Koetter, 2013). However, firms with a long history may suffer more from increasing costs as they are prone to inertia which is an obstacle for them when seeking to adjust their strategies (Lu & Beamish, 2006). In addition, a higher state ownership which refers to more state intervention may also constrain the strategy readjustment to recover the extra cost of liability of foreignness (Haveman, Russo, & Meyer, 2001). As mentioned previously, firms in coastal cities compared to those allocated in inland cities may have

more internationalization knowledge of dealing with post-OFDI changes, as well as international experience. Although R&D expenditure may motive firms to engage in OFDI activities, the long-term input that could not be transferred to firm specific advantages probably adds more costs on firms' operations and leads to the loss of market power post OFDI (Zaheer, 1995).

4.4. EMPIRICAL RESULTS

Table 4.1 presents the descriptive statistics and correlation matrix. Variance inflation factors among the variables were well below the acceptable level of 10 (Neter, Wasserman & Kutner, 1985), which suggests that multi-collinearity is not a major concern.

To satisfy the assumption of ignorability, the author tested the effects of selected covariances on firms' OFDI decisions and firms' market power. The results are presented in Table 4.2. The probit model was applied to test the effect of covariances on OFDI decisions and a panel fixed effect with robustness standard error model was applied to test the covariances on one-year forward firms' market power. The results show that the selection of covariances could pass the assumption of ignorability statistically.

The author then estimated the treatment effect of OFDI with multiple difference-in-difference methods combining with the propensity score matching method. The results are reported in Table 4.3. More specifically, the OFDI treatment effect is the interaction item of OFDI treatment and year treatment because the impact of OFDI on market

power could only be displayed after EMNEs engaged in investment overseas (both OFDI treatment and year treatment equal 1 at the same time). The author examined the treatment effect of OFDI over time from one year to five years. Hypothesis 1 suggests that compared to firms that did not engage in the OFDI activities, the OFDI treatment effect (OFDI*Year2010-2018) is negatively associated with MNE's market power (β_{t+1}=0.0312, p<0.01; β_{t+2}=0.0282, p<0.01; β_{t+3}=0.0268, p<0.01; β_{t+4}=0.0244, p<0.01; β_{t+5}=0.0170, p<0.1).Thus, Hypothesis 1 is supported. Moreover, the variable of firm size is positive and statistically significant at p<0.01. Additionally, firm age is negatively related to firms' market power with a changing significance in Models 1 – 4.

To test the moderating effect of technological capabilities and intensity of industry competition on the relationship between OFDI and market power, the author separates the sub-sample pool from the total sample which only contains firms with OFDI activities. The moderating effects are reported in Table 4.4. The results for the moderating effects of firms' technological capabilities are presented in Models 3-5. Hypothesis 3 postulates that firms with stronger technological capabilities will weaken the negative effect of OFDI activities on MNEs' market power. The coefficients of the interaction term between technological capabilities and OFDI activities is positive and significant in Models 4 (β=0.0089, p<0.05) and 5 (β=0.0081, p<0.05), so they support Hypothesis 3 empirically.

Hypothesis 4 proposes that a low level of intensity of industry competition weakens the negative association between conducting OFDI activities and MNEs' market power.

The interaction term between firms' OFDI treatment effect on their market power and the intensity of industrial competition is positive and statistically significant in Model 4 (β=0.0975, $p<0.05$) and Model 5 (β=0.0836, $p<0.1$). This suggests that if a firm is located in an industry with less competition, it would experience a less negative impact of firms' OFDI activities on their market power. Hence, Hypothesis 4 is supported. For the control variables, firms age and locations show a positive and statistically significant sign in Models 1 – 5 ($p<0.01$).

Table 4.1 Descriptive statistics and correlation matrix

	Mean	S.D.	1	2	3	4	5	6	7	8	9
	0	0.15	1								
2. FDI (dummy)	0.22	0.42	0.027	1							
3. Firm size(log)	22.07	1.52	0.11	0.185	1						
4.Firm age(log)	2.7	0.45	-0.129	0.034	0.155	1					
5. State ownership	0.05	0.15	0.011	-0.09	0.156	-0.047	1				
6. Location	0.7	0.46	0.06	0.111	0.007	-0.041	-0.074	1			
7. Ratio of export to total sale	0.21	0.24	0.009	0.236	-0.116	-0.028	-0.075	0.123	1		
8. Ration of R&D expenditure	0.05	0.08	-0.078	0.041	-0.162	-0.07	-0.037	0.047	0.007	1	
9. Industry competition (Industry Herfindahl index)	0.14	0.16	0.024	-0.023	0.124	-0.009	0.087	-0.004	-0.036	-0.087	1
10. Patents (log)	2.86	1.44	-0.053	0.225	0.502	0.025	0.1	0.024	-0.039	-0.002	0.076

Table 4.2 Treatment (OFDI decision) and outcome (firms' market power) models

	Model 1	Model 2
	OFDI	Market power (T+1)
L. Firm size (log)	2.0405***	-0.0275
	(0.1106)	(0.0174)
L. Firm age (log)	4.0067***	-0.0044
	(0.3329)	(0.0227)
L. State ownership	-1.4042**	0.0264
	(0.6379)	(0.0173)
L. Location	1.1849***	-0.0129
	(0.3828)	(0.0281)
L. Ratio of export to total sale	3.6047***	-0.0855*
	(0.4913)	(0.0499)
L. Ration of R&D expenditure	4.9320***	0.0490
	(1.1848)	(0.0396)
Constant	-60.4079***	0.6295*
	(2.5193)	(0.3329)
Observations	4,870	4,096
R-squared		0.027
Number of Firms	883	852

Model 1 applied the random-effect probit model; Model 2 applied the fixed-effect panel regression with robust standard errors.
Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

Table 4.3 Test the main effect of OFDI on market power with multiple period PSM-DID

	Model 1 Market power (T+1)	Model 2 Market power (T+2)	Model 3 Market power(T+3)	Model 4 Market power (T+4)	Model 5 Market power (T+5)
OFDI*YEAR 2010-2018	-0.0312***	-0.0282***	-0.0268***	-0.0244***	-0.0170*
	(0.0092)	(0.0071)	(0.0065)	(0.0073)	(0.0091)
OFDI	0.0260***	0.0215*	0.0148	0.0181*	0.0096
	(0.0099)	(0.0111)	(0.0093)	(0.0096)	(0.0106)
Firm size(log)	0.0225***	0.0208***	0.0154***	0.0132***	0.0145***
	(0.0041)	(0.0039)	(0.0038)	(0.0037)	(0.0042)
Firm age(log)	-0.0453***	-0.0251	-0.0318**	-0.0307*	-0.0311*
	(0.0147)	(0.0189)	(0.0153)	(0.0169)	(0.0187)
State ownership	-0.0071	-0.0023	-0.0138	-0.0426*	-0.1107***
	(0.0199)	(0.0205)	(0.0171)	(0.0240)	(0.0399)
Location	0.0034	0.0039	0.0026	-0.0018	-0.0115
	(0.0076)	(0.0075)	(0.0083)	(0.0093)	(0.0097)
Ratio of export to total sale	0.0236	0.0265	0.0468	0.0629	0.0527
	(0.0524)	(0.0543)	(0.0428)	(0.0567)	(0.0479)
Ratio of R&D expenditure	-0.1856	-0.1781	-0.4563	-0.9569*	-0.8112
	(0.1477)	(0.1457)	(0.3024)	(0.5047)	(0.5230)
Constant	-0.3758***	-0.3993***	-0.2575***	-0.1918*	-0.2148*
	(0.0873)	(0.0806)	(0.0939)	(0.1051)	(0.1214)
Time fixed effect	Yes	Yes	Yes	Yes	Yes
Observations	3,550	2,864	2,245	1,671	1,095
Number of firms (Matched)	778	735	676	636	593

Robust standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

Table 4.4 Test moderating effects of technological capabilities and industry competition

	Model 1	Model 2	Model 3	Model 4	Model 5
Control Variables					
Firm size(log)	0.0267	0.0409**	0.0419**	0.0416**	0.0424**
	(0.0171)	(0.0199)	(0.0199)	(0.0199)	(0.0199)
Firm age(log)	-0.1090***	-0.0982***	-0.1010***	-0.1001***	-0.1023***
	(0.0241)	(0.0265)	(0.0267)	(0.0264)	(0.0266)
State ownership	-0.0254	-0.0336	-0.0278	-0.0258	-0.0214
	(0.0215)	(0.0252)	(0.0247)	(0.0245)	(0.0242)
Location	0.0259***	0.0253***	0.0258***	0.0218***	0.0225***
	(0.0050)	(0.0040)	(0.0047)	(0.0050)	(0.0055)
Ratio of export to total sale	-0.0173	-0.0124	-0.0110	-0.0091	-0.0082
	(0.0636)	(0.0628)	(0.0625)	(0.0628)	(0.0625)
Ratio of R&D expenditure	-0.1016	-0.0844	-0.0831	-0.0819	-0.0810
	(0.0966)	(0.0851)	(0.0852)	(0.0871)	(0.0871)
Independent Variable					
OFDI (1-year lagged) = 1		-0.0218**	-0.0320***	-0.0501***	-0.0564***
		(0.0092)	(0.0124)	(0.0153)	(0.0158)
Moderators					
Patents(log)		-0.0027	-0.0027	-0.0079	-0.0075
		(0.0044)	(0.0044)	(0.0055)	(0.0055)
Herfindahl-Hirschman index (HHI)		-0.0407	-0.0811*	-0.0308	-0.0663
		(0.0389)	(0.0431)	(0.0382)	(0.0417)
OFDI*Patents(log)				0.0089**	0.0081**
				(0.0039)	(0.0039)
OFDI*HHI			0.0975**		0.0836*
			(0.0482)		(0.0503)
Constant	-0.3055	-0.6306	-0.6432	-0.6261	-0.6374
	(0.3444)	(0.3935)	(0.3928)	(0.3906)	(0.3903)
Observations	1,681	1,532	1,532	1,532	1,532
R-squared	0.065	0.068	0.071	0.073	0.075
Number of firms	585	545	545	545	545

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

4.5. DISCUSSION

This study explicates the mechanisms of liability of OFDI that reduces MNEs' domestic market power. Chinese firms have played an important role in internationalization globally over the past decades accompanied with the rapid growth and development of the Chinese economy. Chinese MNEs have drawn increasing attention from international business researchers in terms of determinants and the post-entry performance of OFDI activities, including finance performance and innovation performance. However, there is limited research on the impact of OFDI activities on Chinese firms' market performance in their domestic market. Since it is recognized that Chinese firms want to integrate the acquired resources to improve their competitive position and enhance their profits by providing a higher price-value product to meet the increasing demands of domestic customers and outperform their rivals in the fierce domestic competition (Luo and Child, 2015; Luo and Tung, 2018), it is important to investigate post-OFDI market performance. This study examines the changes in firms' market power after OFDI activities, and the empirical results indicate that because of the extra costs incurred in OFDI activities, Chinese MNEs lost their market position compared to those firms that just focus on their domestic market development without engaging in OFDI operations. Differing from MNEs from developed countries, Chinese MNEs do not have strong capabilities and international experience to offset the extra costs caused by the liability of foreignness, the liability of emergingness and control for the balance between their home market and overseas markets. Participation in OFDI activities has a significantly negative effect on their home market power.

Moreover, it is found that firms' technological capabilities are able to partially, but significantly, overcome the reduction in their domestic market power. As knowledge-related assets are hard to imitate, stronger technological capabilities offer MNEs a better understanding of, and more knowledge on, exploiting and exploring their needed resources from global markets to gain the positive effects of OFDI eventually. In addition, compared to those MNEs without enough knowledge-related resources, MNEs which are better equipped with technological capabilities will suffer less from the liability-related market power loss. Their previous operations and coordination dealing with the knowledge-related assets provide them with a stronger managerial capability to integrate disparate resources which they gained from their overseas investments.

Lastly, the nature of industrial advantages will allow firms to overcome the loss of market power after OFDI activities. The findings demonstrate that a low level of industry competition will partially offset the negative effect of conducting OFDI. If firms are located in a less competitive industry with a high concentration, it implies that they will have fewer incumbent rivals and more capacity achieving pricing domination. In this case, even though they will experience extra costs due to engaging in OFDI activities, compared to those located in industries with intensive competition, they will have more market power to set prices more independently. Therefore, encountering the unavoidable extra costs, MNEs located in a less competitive industry will have more resilience when defending their domestic market power.

4.6. CONCLUSION

This chapter adopts the springboard perspective and the notion of market power to examine the impact of OFDI by Chinese MNEs on market power in their home country. Based on a sample of Chinese listed firms from 2009-2018 using a difference-in-difference method combined with multiple period propensity score matching technique, the empirical results indicate that OFDI activities have reduced Chinese MNEs' market power. However, stronger technological capabilities and less industry competition can help to reduce the negative impact of OFDI activities on firms' market power. The findings contribute to new insights into the outcomes of OFDI by EMNEs and have important managerial implications.

5. Conclusion

5.1 INTRODUCTION

The rapid increase in OFDI by emerging market firms has stimulated academic research on this topic. Joining the academic debates on EMNEs, in this thesis I examine the determinants and outcomes of Chinese MNEs based on panel data analysis and have obtained some interesting results. This chapter concludes the thesis by summarizing the main research findings and highlighting the contributions and managerial implications. It also presents research limitations and suggests potential avenues for future research. The chapter is organized as follows. Section 5.2 summaries the main findings of the thesis. Section 5.3 presents the major contributions followed by managerial implications in Section 5.4. Finally, Section 5.5 discusses the limitations and points to directions for future research.

5.2 RESEARCH FINDINGS

5.2.1 The Main Findings from the Study of the Impact of Inward Internationalization and Exporting Experience on Chinese Firms' OFDI Decisions

In Chapter 2, I adopt the springboard perspective and the Uppsala model to empirically examine the extent to which various previous international experiences shape Chinese firms' propensity to conduct OFDI. Using the longitudinal data collected from Chinese listed firms from 2009 to 2018, this study has found that inward internationalization experience and exporting experience boosts Chinese firms' intention to invest overseas. Meanwhile, the exporting experience which is not considered the main source of

advanced market knowledge cooperatively enhances the effectiveness of inward internationalization. Furthermore, this research has confirmed the important role of hiring professional personnel with international experience as it gives firms more opportunities to utilize their knowledge and experience gained from exports. This study broadens the springboard theory as it empirically validates the central role of the inward internationalization while demonstrating the necessity of adding exporting experience to the upward spiral model to more accurately capture the effectiveness of inward internationalization regarding Chinese MNEs' OFDI decisions. This study enriches the literature on the springboard perspective and provides the new insights into the mechanism of the application of the upward spiral model.

5.2.2 The Main Findings from the Study of Determinants of Foreign Acquisitions by Chinese MNEs

In Chapter 3, the author adopts the CBV and springboard perspective to address the extent to which the firm-level compositional capability shapes Chinese firms' radicalness in conducting acquisitions abroad. Testing the longitudinal data collected from Chinese listed firms over the period of 2011-2017, the author finds that Chinese firms' compositional springboarding capability and the amount of external support of in-house innovation from their home government substantially influence their acquisitions abroad. Additionally, the negative association between external support of in-house innovation and their foreign acquisition decisions is contingent upon home-country regional innovation performance. This study provides new insights into the role of compositional resources in explaining Chinese firms' cross-border acquisitions.

5.2.3. The Main Findings from the Study of OFDI Activities of Chinese MNEs and Market Power

Chapter 4 adopts the springboard perspective and the notion of market power to examine the impact of OFDI by Chinese MNEs on market power in their home country. Based on a sample of Chinese listed firms from 2009-2018 using a difference-in-difference method combined with multiple period propensity score matching technique, the empirical results indicate that OFDI activities have reduced Chinese MNEs' market power. However, stronger technological capabilities and less industry competition can help to reduce the negative impact of OFDI activities on firms' market power. The findings contribute to new insights into the outcomes of OFDI by EMNEs and have important managerial implications.

5.3 RESEARCH CONTRIBUTIONS

5.3.1 The Research Contributions from a Study of the Impact of Inward Internationalization and Exporting Experience on Chinese Firms' OFDI Decisions

This study contributes to the literature of OFDI in a number of ways. Although extent literature on EMNEs have confirmed the logic of the springboard perspective that firms conduct OFDI for multiple goals, and the home-base is the main concern of Chinese OFDI, the process of the springboard strategy underpinned by the upward spiral model has been overlooked, especially the pre-OFDI phase. This research firstly shows that inward internationalization experience increases firms' inclination to undertake OFDI. I adopt the springboard logic which posits the home market at the central position when uncovering Chinese EMNEs' internationalization behaviours. Chinese firms build up their capabilities at home which they could further apply to their OFDI activities through interactive learning from foreign companies which operate in EMNEs' home market. International activities they engage in domestically increase their potential

OFDI involvement.

Secondly, this research finds that the mechanism supporting exporting activities (which is introduced as the first step of internationalization and an effective way of accumulating international knowledge in the Uppsala model) and inward internationalization (which is proposed as the first phase of EMNEs' internationalization process in the springboard strategy) work collaboratively. The exporting experiences which generate firms' basic market knowledge of the global market can cooperatively enhance the role of inward internationalization in EMNEs' willingness of bringing OFDI into action. Rather than the original upward spiral model which only takes the inward internationalization experience into consideration, emphasizing the important role of the amalgamation, the original upward spiral model should be expanded further by adding the exporting experience in order to manifest the true magnitude of the inward internationalization experience in OFDI decisions.

This study also explores the boundary conditions through which the previous international experience of the top management team influences their firms' OFDI strategies. Senior managers in the top management team constitute the managerial capabilities of EMNEs, and thus their international experience enables their firms to more effectively apply the basic international market knowledge gained from exporting activities. The Uppsala model identifies hiring professional personnel with international experience as an alternative resource for gaining international knowledge while the springboard perspective clarifies that Chinese MNEs lack managerial talent without specifying the mechanism which affects EMNEs' OFDI strategies. The finding provides new insights into the interrelationship between exporting experience, TMT managers' international experience and OFDI decisions by Chinese firms.

5.3.2 The Research Contributions from the Study of Determinants of Foreign Acquisitions by Chinese MNEs

This research contributes to the literature on EMNEs' foreign acquisitions in a number of ways. First, the author looks at EMNEs' compositional springboarding capabilities, as well as resource characteristics, in driving their foreign acquisitions. It is proposed that the adoption of the compositional and springboard logic of capability and resources prompts these new players to acquire whatever resources are available from the global strategic factor market. This study departs from the existing research which builds upon the RBV and assumes that EMNEs' resource deficiency motivates them to conduct acquisitions in overseas markets. Instead, the author adopts the compositional springboard perspective which offers a novel insight by harmonizing two different logics and suggests that although Chinese firms would take CBAs as a springboard to address resource deficiencies at the resource-poor stage (stage 1 of the upward spiral model), firms would rationally balance their radicalness to conduct CBAs by taking their compositional springboarding capabilities and the accessibility of external alternative sources in the home country into account. Thus, this study complements extant research by providing a different underlying assumption in explaining the antecedents of EMNEs' foreign acquisitions.

Second, this study moves beyond the generic propositions that suggest either the possession or the lack of competitive advantages drives EMNEs to engage in foreign acquisitions. Instead, the author explicitly examines the importance of compositional capacity and funding support for in-house innovation from the home-country government. The author adds to this line of inquiry by unpacking firm attributes and financial support for innovation from the home-country government in driving

acquisitions abroad. More specifically, the author highlights the fact that compositional springboarding capabilities serve as a filtering mechanism which enables EMNEs to search, identify, acquire and organize external resources. It also allows firms to take pre-emptive action and engage in resource augmentation activities by tapping into the global strategic factor market. In addition, by taking into account innovation funds from the home-country government, this research captures the tension between the make and buy decisions and sheds light on the different knowledge development trajectories of EMNEs.

Third, the author examines the contingent effect of sub-regional innovation performance in the home country in changing the strength of association between firms' innovation funds from the home-country government and their foreign acquisitions, thus specifying the boundary condition through which EMNEs' resource characteristics affect cross-border acquisitions. The finding provides new insights into the complex inter-relationship between innovation resources from the home-country government, sub-regional innovation performance and foreign acquisitions.

Taken together, this study contributes a nuanced understanding of firm-level attributes, resource characteristics and the sub-regional innovation environment in jointly affecting foreign acquisitions by Chinese MNEs and presents a more complete account of what lies behind such a prevalent international strategy adopted by these firms.

5.3.3 The Research Contributions from the Study of OFDI Activities of Chinese MNEs and Market Power

This study contributes to the literature on the outcomes of emerging MNEs' outward foreign investments in several ways. First, the author looks at the changes in the home-country market power of Chinese MNEs post-OFDI activities. Departing from the

existing research which exclusively investigates emerging MNEs' financial performance, innovation performance, productivity and profitability, this study examines the outcome of EMNEs' OFDI from a market power perspective, thus broadening our understanding of the impact of OFDI on firm performance and highlighting the direct effect of OFDI on market performance. In particular, conducting OFDI activities will cause the loss of intra-industry market power perhaps due to the increasing cost of the liability of foreignness and the liability of emergingness. Building upon the difference between MNEs from developed countries and emerging markets, this research emphasizes the importance of studying the post market power of emerging MNEs by considering their latecomer status and particular domestic market attributes. Thus, it adds new knowledge to the impact of OFDI activities on firms from the market power perspective.

In addition, this study also affirms the prominent role of firms' technological capabilities in offsetting the loss of market power due to the engagement of OFDI strategies. Technological capabilities, which could be taken as firms' specific advantages, will not merely interact with knowledge-related performance and integration, but also could be exploited to mitigate the negative effect of internationalization on firms' market performance. Stronger technological resources allow emerging market MNEs to gain more specific advantages in their home market to overcome their reducing market power and preserve their domestic pricing independency. Moreover, this study also investigates the interrelationship between OFDI activities, the intensity of industry competition and firms' market power. In doing so, the author is able to specify the boundary conditions through which EMNEs' OFDI strategies affect their home-country market power by taking account of both firm characteristics and industry conditions.

Finally, this study demonstrates its empirical rigor and provides reliable and much needed empirical evidence on this topic. Methodologically, a difference- in-difference method with multiple time periods combined with PSM technique is applied in this study. The combination of these two advanced statistical techniques has been ratified with its preponderant advantages to mitigate the selection bias. It helps to eliminate the selection bias and endogeneity through tracking and separating the individual effect and time effect, and then examining the authentic treatment effect of OFDI activities.

5.4 IMPLICATIONS

5.4.1 The Implications from the Study of the Impact of Inward Internationalization and Exporting Experience on Chinese Outward FDI Decisions

The findings from Chapter 2 may have important implications for practitioners. Firstly, when Chinese firms have the intention to expand internationally, they should start to obtain international experience from their domestic market instead of taking the radical OFDI option initially as the international experience they accumulate from their domestic market can help them overcome both LOF and LOE. Secondly, with regard to amalgamative capabilities, Chinese firms ought to pay attention to their exporting experience to evaluate the basic global market knowledge they have learnt. As the complementary source of international knowledge, overlooking the exporting experience will lead to the underestimation of the effectiveness of inward internationalization. The more global knowledge they have accumulated through exporting, the stronger their capabilities to learn from their interaction with foreign firms in their home market. Furthermore, by hiring more international personnel while considering investing overseas, Chinese firms can argument their managerial

capabilities by utilizing previous knowledge learnt from their exporting experience.

5.4.2 The Implications from the Study of Determinants of Foreign Acquisitions by Chinese MNEs

The findings from Chapter 3 provide important implications for practitioners. First, the results indicate that stronger compositional springboarding capability encourages Chinese firms to conduct more foreign acquisitions. Thus, managers at these companies should foster their in-house competencies, such as R&D, that may help them to effectively identify and acquire useful technologies and knowledge from the global market. Second, firms which receive less innovation funds from their home-country government tend to use foreign acquisition as an alternative channel to access strategic assets and technology which are unavailable at home. Hence, they should carefully search and evaluate the kind of resources that may be obtained from the targeted companies abroad. Third, a stronger regional innovation performance may alleviate the negative relationship between firms' access to innovation-related funds and their foreign acquisition decisions. This implies that firms should take advantage of their geographical proximity with home-region collaborators, especially the regional clustering effect, to facilitate their innovation activities at home and their opportunity of acquiring new knowledge through acquisitions abroad.

5.4.3 The Implications from the Study of OFDI Activities of Chinese MNEs and Market Power

Chapter 4 may provide a number of important implications for practitioners. First, the results indicate that Chinese firms have suffered the loss of market power due to their liability of foreignness and the liability of emergingness when participating in OFDI activities compared to those firms which focus on their domestic market only. Thus,

the managers of these firms should consider their OFDI strategies more carefully to avoid irrational expansion. If the outward investments are necessary for firms' development, managers should conscientiously assess their capabilities and the affordability of the extra costs to be better prepared and then amend their strategies for the upcoming incurrence of losing market power. Second, firms which are equipped with less technological capabilities tend to use the OFDI strategy as an alternative channel to access resources from the global market. Hence, they should carefully evaluate their market position. Compared to those firms with more technological capabilities, it is more important for firms with a low level of technological capabilities to formulate comprehensive and precise plans for further integration in order to enhance their technological capabilities and be more efficient, which can mitigate the loss of market power. Third, a low level of industry competition may alleviate the negative impacts of OFDI on EMNEs' market power. This implies that firms should take advantage of industrial concentration which offers them more independency on pricing. If they are able to precisely obtain their needed resources from the global market to upgrade their production, they can speed up the recovery from the loss of market power and more swiftly benefit from international expansion through OFDI.

5.5 LIMITATIONS AND FUTURE RESEARCH RECOMMENDATIONS

This study has a number of limitations which represent opportunities for further research. In the second chapter, firstly, I focus on Chinese firms by examining their OFDI decisions. However, the findings based on a sample of Chinese firms may not be generalised to EMNEs from emerging economies. While the link between inward internationalization and OFDI decisions is a common phenomenon in the majority of

emerging economies, emerging economies are heterogeneous and differ in many aspects such as the levels of economic growth, institutional stability, and protection of property rights and contract enforcement. The mechanisms through which inward internationalization affects OFDI may vary. Therefore, it is necessary to verify the findings based on firms from other emerging market countries.

Secondly, the measurement of inward internationalization should be broadened. In the original and revised springboard perspective, whether firms have inward internationalization refers to whether firms received direct investment from foreign firms in their domestic markets. This includes various formal cooperative forms, ranging from original equipment manufacturing (OEM), original brand manufacturing (OBM) or original design manufacturing (ODM) to strategic alliances and equity joint ventures (Child & Rodrigues, 2005; Luo & Tung, 2007). Due to the limitation of datasets used in this study, the information on (OEM), OBM and ODM contracts is unavailable. Thus, it is important that future research should examine a variety of forms of inward internationalization as mentioned above. Thirdly, this research addresses the relationship between internationalization experience and OFDI propensity by applying the static model. Further research could consider exploiting the dynamic model to expand the springboard perspective further.

The third chapter has a number of limitations which can provide opportunities for future research. First, the measurement of compositional springboarding capabilities should be improved. This capability changes in the internationalization process over time. In the first step of internationalization, while firms lack resources, the dominant logic is the compositional logic. The author applied the R&D expenditure to measure the compositional springboarding capability as it could display the firm's ability to identify, organize and assimilate the original resources. However, this measure can only capture

technological and learning capabilities due to the availability of data. Sun et al. (2021) conducted their research applying a questionnaire survey to measure the compositional capabilities. They blended imitation and innovation as one manifestation of compositional capabilities. Further research can apply multiple methods to collect both survey and secondary data to measure the compositional capabilities. Second, the author focused on Chinese firms' foreign acquisitions. It is important for future research to look at acquisitions by firms from other emerging markets to test the generalizability of our findings. Third, listed firms in China are required to disclose their innovation-related incomes and expenditures at a relatively late stage. Thus, the sample firms and their annual reports generally stated the amount of innovation-related fund received from the government. Future research may develop a finer-grained measurement to capture funding sources by distinguishing between central and local governments. Lastly, the author investigated firm-level factors that can impact Chinese companies' radicalness with regard to foreign acquisitions. Future research may examine the role of host-country factors on such activities.

The study of OFDI and EMNEs' home market power in Chapter 4 has a number of limitations that provide opportunities for future research. First, the market power in this research only reflects and captures the economic perspective of market power. Future research could expand this concept from the marketing perspective by incorporating brand awareness and consumers' perception. Second, the selection of covariance could be extended when calculating the propensity scores. Third, this research only examined the Chinese MNEs, and the findings may not be generalized to EMNEs from other emerging economies. Therefore, it is important that future research should investigate the impact of OFDI on the market power of EMNEs originating from other emerging economies. Finally, given that upward spiral springboarding path is a long-term

strategy, it is necessary for future research to test the market power changes of EMNEs with a longer time period.

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