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INTERNATIONALIZATION OF GERMAN COMPANIES INTO THE CHINESE MARKET – AN EVENT STUDY ON THE CONSEQUENCES ON FINANCIAL PERFORMANCE FROM A RBV PERSPECTIVE

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ABSTRACT
After its economic opening in 1978, China has become more and more attractive for foreign direct investments and has developed into a strong internationalization target for other countries. This study analyzes the internationalization-performance relationship of German companies entering the Chinese market. The analysis is carried out for a sample of 257 announcements of the internationalization of German firms into China between 1978 and 2005. The event study methodology is used to measure the German stock market reaction to this event in order to enable a conclusion on the creation or destruction of shareholder value of German firms internationalizing into China.

Keywords: Internationalization, market entry, China, financial performance

1. Introduction and Motivation

In 1978, after almost 30 years of being a communistic state, Deng Xiaoping (former head of the party) and the Chinese government have reached the decision to release the economic frontiers to out-side trade, and thereby shifted China from an autarkic system, with a low level of trade and foreign in-vestment to become a state extremely engaged in global commerce. Ever since the opening of its econ-omy, China had to undergo dramatic economical and social changes (Zweig, 2002). Economic reforms were introduced that lessened boundaries and brought greater freedom of movement from and to China (Gao, 2004). Nevertheless, these positive events were also accompanied by repeated setbacks and cy-clical uncertainties. As a result to this ubiquitous development, China has become a big target for foreign direct investment and other internationalization activities by foreign companies (43,664 US$ in 2004). Among the companies that have decided to progressively internationalize into the soaring market, Ger-man companies account for the top 10 investor of total foreign direct investments in China in 2004 (US-China Business Council).

For firms seeking sustainable competitive advantage, internationalization has increasingly be-come an important strategic option. Thus, the necessity for international development is apparent in order to ensure the company's competitiveness in the global economy (Hamel and Prahalad, 1985; Porter, 1986). This perception and the rapid developments on the Chinese market have led to the belief that in-ternationalization into China is a significant strategy to follow. On the other hand, do companies that in-ternationalize into the Chinese market really achieve higher and more positive financial performance than companies which do not tend to undergo this step? Using the event study methodology, the present study focuses on the assessment of this central question. By evaluating the immediate stock market reactions of German companies to the announcement of internationalization activities into the Chinese market, we seek to investigate and evaluate the existence of the relationship between the companies' financial per-formance and their market entry into China.

We have structured the present paper as follows: Section 2 describes the theoretical framework and recent research on the correlation of internationalization and performance. Most studies of organiza-tional performance see performance as a dependent variable and inquire about variables that produce variations in performance (March and Sutton, 1997). Therefore, the impacting factors which will be used as moderators are introduced and the research hypotheses are formed. Subsequently, the research de-sign is presented in section 3. Following, the empirical findings are illustrated and discussed in section 4. The final section focuses on a short conclusion.

2. Theoretical Background and Hypotheses

"How does internationalization into the Chinese market impact the financial performance of firms?" To take a first step into addressing this question, we draw on the resource-based view (RBV) (Barney, 1991) and the Uppsala approach or learning theory by Johanson and Vahlne (1977). Before we outline the hypotheses deriving from these theories, the RBV and the Uppsala approach are introduced and discussed briefly.

2.1 The Resource-based View

When a firm takes the decision to internationalize it intends to find a strategy where it is possible to attain sustained competitive advantage in the new location. Since the 1980s research on sources of these, sustained competitive advantage has become a most important area in the field of strategic man-agement (Porter, 1985; Rumelt, 1984). Wernerfelt (1984) brought in resources as one source of competi-tive advantage and thereby started an ongoing discussion on this topic. In this matter, it is important to put a focus on discussing the heterogeneity among resources (Peteraf, 1993; Barney, 1991) e.g., knowl-edge (Grant, 1997; Kogut and Zander, 1996), and dynamic capabilities (Teece et al., 1997). The variety of resources demonstrates the inequality among them and shows that they contribute differently to the competitive advantage of a firm.

The model of the resource-based view of the firm assumes that firms within an industry may be heterogeneous due to their possession of different strategic resources. Also, the model supposes that these resources may not be perfectly transferred across firms and therefore the heterogeneity or the source of competitive advantage can be sustained (Barney, 1991). Generally, it can be said, that firm resources include assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. These resources enable firm strategies to improve the firm's efficiency and effectiveness (Daft, 1983). The diversity of resources is often classified in three categories: (1) physical capital resources (Williamson, 1975), human capital resource (Becker, 1964), and organizational capital resources (Tomer, 1987). Still, not all resources held by a firm may lead to a sustained competitive advantage. A firm resource needs to have four attributes to fulfil the requirement for a sustained competitive advantage: 1) it must be valuable, 2) it must be rare, 3) it must be imperfectly imitable, and 4) it must not be substitutable (Barney, 1991).

In case a firm wishes to follow the internationalization strategy the aim is to attain such resources in the entered country which lead to sustained competitive advantage.

2.2 Uppsala Model / Learning Theory

In research there have been a great number of scholars who have dealt with the topic of internationalization (e.g., Dunning, Aharoni, Rugman, Porter, and Vernon). The term internationalization comprises "the process of increasing involvement in international operations" (Welch and Luostarinen, 1988). In this study the learning theory is used to further expand the analysis of the before stated research question. Johanson and Vahlne (1977) have precisely stated the intention and goal of their model as "... a model of the internationalization process of the firm that focuses on the development of the individual firm, and particularly on its gradual level of acquisition, integration, and use of knowledge about foreign markets and operations, and on its successively increasing commitment to foreign markets" (Johanson and Vahlne, 1977). The model has its theoretical background in the behavioural theory of the firm (Cyert and March, 1963; Aharoni, 1966) and is also influenced by Penrose's theory of the growth of the firm (Penrose, 1959). It discusses that the internationalization process of a firm is an incremental process which can be performed in two patterns, namely the establishment chain, the firm's experiential knowledge of the specific foreign market, and the psychic distance, the distance of the new country to the home country of the firm. Johanson and Vahlne also propose a dynamic aspect to the model indicating different steps in the internationalization activities of a firm. They distinguish between the state and the change aspect. The state aspects include resource commitments to the foreign markets and foreign market knowledge, whereas the change aspects represent market commitment decisions and the performance of current business activities. The state aspects, market knowledge and commitment, affect the change aspects, business activities and commitment decisions and vice versa (Johanson and Vahlne, 1977).

After this brief introduction of the two theories underlying our study, some hypotheses are formulated to answer the research questions which we wish to answer:

1) 'How does internationalization into the Chinese market impact the financial performance of firms?'

2) 'Which variables moderate the relationship between international-lization into the Chinese market and financial performance?'

2.3 Hypotheses

As firms increasingly broaden their scope of business abroad, the performance impact of internationalization has become an important research interest of scholars in strategy and international business. Internationalizing firms may gain economic benefits through economies of scale and scope, power enhancement, and diversification of revenues (Kim, Hwang and Burgers, 1993). However, internationalization activities can also lead to high costs of managing locational diversity when these activities expand into inhomogeneous markets (Gomes and Ramaswamy, 1999). Overall, international business research-

ers have observed that the correlation between internationalization and performance depends on the proportional relationship of benefits versus costs associated with going international (Ruigrok and Wagner, 2003). Based on the theoretical foundation for the advantages of internationalization, many scholars have concluded that a positive internationalization-performance relationship exists (Errunza and Senbet, 1981). This connection can be explained by a variety of theoretical research streams: the resource-based view (Barney, 1991; Chandler and Hanks, 1994; Wernerfelt, 1984), the learning theory (Johanson and Vahlne, 1977), and the theories of foreign direct investment (Dunning, 1981; Rugman, 1982; Hymer, 1976).

As mentioned before, the resource-based view of the firms describes the prospect of economic rents as a result of international dispersion and exploitation of core competencies, considering the retention of value of the resources as a premise (Amit and Schoemaker, 1993). Moreover, a firm has the opportunity to attain resources by means of internationalizing that might be otherwise inaccessible or gain possibilities for proactive establishment of further resources. Nonetheless, one should not forget to also take into account the costs which a company faces with its increasing degree of internationalization. The growing occurrence of financial and political risk, as well as the transaction costs that arise from the internationalization process increase exponentially and thus might weigh out the before stated benefits. In the worst case, the growing degree of internationalization can lead to the exhaust of all material capacity, as researchers from the field of transaction cost and agency theory such as Jones and Hill (1988) have described.

In their learning theory, Johanson and Vahlne (1977) describe internationalization as an incremental process that advances organizational learning and knowledge development over time. These learning and knowledge advantages are not available to merely domestically operating firms. Thus, internationalization gives the opportunity to gain additional knowledge and experience which in turn lead to competitive advantages in form of more innovations or higher quality product at competitive cost and services, which companies with less internationalization activities are unable to offer. Consequently, it is expected that these advantages lead to superior firm performance.

Finally, the objective of the theories of foreign direct investment is to draw out the settings under which it might be promising for a company to do business abroad. These theories are primarily economics-driven and consequently focus on factors located in the firm's external environment. Market imperfections are proposed to benefit firms that internationalize (Morck and Yeung, 1991). Additionally, it is stated that multinational firms may benefit from transaction cost advantages (Williamson, 1975) or production cost advantages from international markets (Capar and Kotabe, 2003; Porter, 1985). Location theory stresses advantages from local sourcing and production (Kogut, 1985), while capital market theory emphasizes on diversification advantages (Rugman, 1976).

In brief, it is essential to view the above mentioned costs in conjunction with the positive impact of international strategic settings and firm resources, such as an optimal configuration of market entry, strategically suitable organization forms and growing international experience. We therefore hypothesize a positive link between internationalization into China and financial performance.

H_1: The overall relationship between internationalization into the Chinese market and a firm's financial performance is positive.
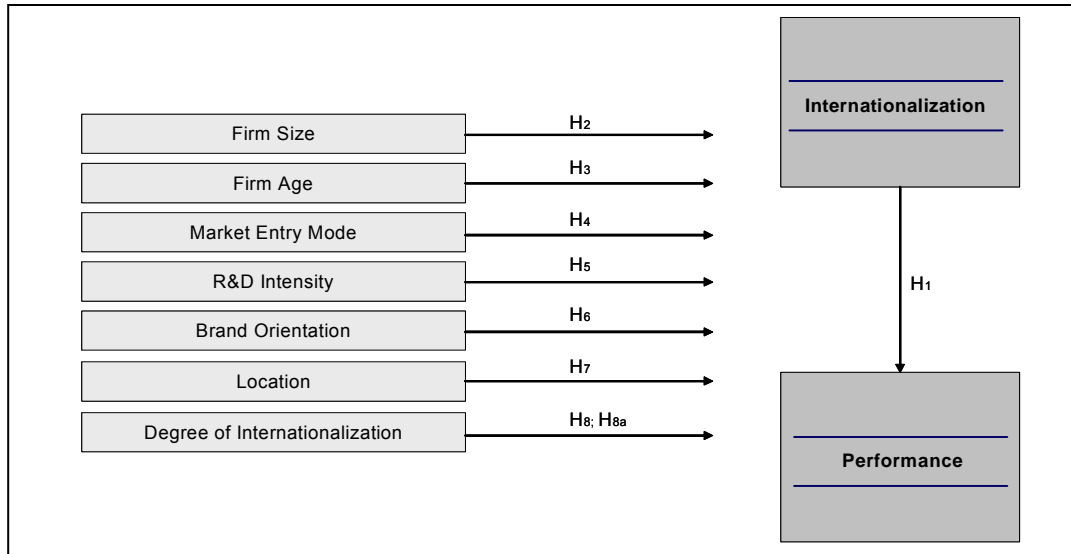
FIGURE 1
Conceptual model - The relationship between internationalization into the Chinese market
and the firm's financial performance

2.4 Impacting Variables

Although there has been an extensive discussion in strategic management and the international business literature on the relationship between internationalization and corporate performance, the current state of research is often described as being "inconsistent" (Harveston, Kedia and Francis, 1999) and "contradictory" (Geringer, Tallman and Olsen, 2000). The inability to reach a broad consensus regarding this challenge may be due to the fact that the internationalization-performance relationship is believed to be context-dependent, so that a certain effect occurs only under a certain circumstance. In this case, it is significant to put the focus on the identification of moderators – variables that can be seen as impacting factors of the internationalization-performance relationship. As existing empirical studies show, the performance impact of internationalization activities of firms are typically influenced by factors concerning a firm's external and internal environment. In relatedness to the contingency and consistency theory, it is said that the successful performance of a firm depends on an inherent fit between its environmental and structural characteristics (Chandler, 1962).

Recent empirical studies on internationalization and performance have classified several factors that have an impact on the financial performance of a firm on the verge of internationalization. In accordance with existing research this study will concentrate on firm size, firm age, market entry mode, R&D intensity, brand orientation, firm location in China, and degree of internationalization as impacting variables (figure 1).

Firm Size

Various researchers have proved that growth of the firm from higher levels of internationalization lead to higher firm performance (e.g. Daniels and Bracker, 1989), up to a point, after which performance begins to decrease with increasing internationalization (Geringer, Beamish and daCosta, 1989). Consistent with the traditional focus of strategic management and international business research, these empirical findings were based on studies of large firms (McDougall and Oviatt, 1996; Dana, Etemad and Wright, 1999). However, Shuman and Seeger (1986) have experienced that small businesses differ fundamentally from large companies. Not only do differences in ownership and organizational structure and processes exist, but also strong differences were found in resource availability, which is needed for internationalizing business (Carrier, 1994). In this respect Bloodgood, Sapienza and Almeida (1996) maintain the idea of the significance of resource availability when a firm decides to internationalize. Therefore, they

believe that a positive relationship between size and performance exists as resource constraints are not given. Also, Dhanaraj and Beamish (2003) consider firm size as a factor of financial resource availability. In regard to Penrose (1959), they explain that those firms who have excessive access to resources will use these resources as competitive advantage and will decide to internationalize in order to utilize their resources abroad. Additionally to these arguments, Coviello and McAuley (1999) have shown that many small firms often lack financial resources which are necessary to invest into a foreign country and are therefore unable to overcome barriers like the liability of foreignness. These findings support the notion of size as an impacting factor for performance in the internationalization process. Thus it can be said, that firms which are of larger size and consequently most often possess larger stocks of resources are more capable of operating at higher degrees of internationalization and thus yield higher success rates in turning their investment into financial performance. In accordance to the current research we therefore propose:

> H_2: Firm size moderates the relationship between internationalization and financial performance, so that larger firms own a quantitative high number of valuable resources and have a competitive advantage and therefore achieve higher financial performance through their internationalization process than smaller firms.

Firm Age

In the literature there exist many studies that have shown that there is a strong correlation between a firm's entrepreneurial orientation and its performance. Lumpkin and Dess (1996) have identified five dimensions of entrepreneurial orientation: autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness. All these factors can be strongly seen in association with younger firms. Generally, it is known that entering a foreign market involves high risks and uncertainties. The behavior needed to overcome these hurdles are more often displayed by younger and more entrepreneurial oriented firms as they are yet flexible enough to face the risk and still remain proactive and innovative (Lumpkin and Dess, 1996; Sapienza, Autio and Zahra, 2003). They try to exploit new opportunities (Penrose, 1959) which they are meeting when entering new countries. Due to their high flexibility, younger firms have the advantage to adapt to the needs set by internationalization.

The "New Venture Internationalization Theory" (McDougall and Oviatt, 1996) emphasizes market knowledge on and understanding of a foreign country as a key success factor when it comes to internationalization. They believe in the importance of knowledge resources and organizational learning in the process of new opportunities. Thus, they stress that the inflexible structures of an older firm may hinder success in internationalization. Another argument that supports this idea is the fact that older firms who have grown in a domestic setting for a longer period, may not be able to reach up for the opportunities in the new markets or may not be able to turn these into financial performance. Whereas younger firms that have not yet developed this rigid mind set of a domestic setting are rather able to learn how to deal with the advantage of newness (Autio, Sapienza and Almeida, 2000).

The increasing interest in entrepreneurial orientation and evidence from diverse studies reflect the sense that such activity leads to higher firm performance (Zahra, 1991; Zahra and Covin, 1995; Smart and Conant, 1994). We therefore formulate the hypothesis:

> H_3: Firm age moderates the relationship between internationalization and financial firm performance, so that younger firms with strong entrepreneurial orientation operate more flexible and have a competitive advantage and therefore are expected to achieve higher financial performance through their internationalization process than older firms.

Market Entry Mode

There has been a tremendous surge in joint venture activities in China since 1983 (Hennart, 1988). The prospect of failures deriving from investment involves rigorous impacts on the performance of a firm (Beamish, 1999; Eisenhardt and Schoonhoven, 1990). But, all firms are yield to the liability of foreignness when making foreign investments (Hymer, 1976). When a firm has established the destination of its internationalization activities it has to think about the most appropriate entry mode. The different types of entry modes differ in the degree of control which remains in the internationalizing firm. Benito and Welch (1997), Hill, Hwang and Kim (1990) and Lau (1992) give general considerations on the convenience of various types of entry mode. Nevertheless, the literature states that a priori no particular mode of entry gives a higher probability of success than another. The best way to enter a market is dependent on the specifics of the respective foreign market (Yip, Biscarri and Monti, 2000) and the strategic ambitions. Since the right choice of market entry mode can determine the prosperity or the failure of an investment, it is important to analyze the particularities of the Chinese market, in this connection. Even today, after many years of open frontiers, the joint venture strategy is still often seen as a good entering mode. When partnering with a local firm, the partner can be used as a direct source of local knowledge. The findings from the field research support the popularity of this strategy. This issue is one of central concern, and forming alliances with other firms was identified as one of the means by which the deficiency issue of foreignness could be addressed. Consistent with Luo (1998), partnering with local firms was a means to gain access to information about the local business environment and to local partner's other resources, tangible or intangible. In agreement with these argumentations we propose:

> H_4: The market entry mode moderates the relationship between internationalization and firm performance, so that firms that direct invests into China with a local partner get access to existing resources of the local partner and are therefore expected to achieve higher financial performance than companies who do not internationalize by means of a joint venture.

R&D Intensity

Morck and Yeung (1991) assess that investors believe that the strategic option to internationalize itself is not value creating. However, they argue that the consequence of research and development (R&D) expenditures increases with the degree of internationalization of firms. R&D expenditure is often used as a proxy to measure for a firm's technology-based know-how (R&D intensity) (Caves, 1982) and innovative capabilities (Hitt, Hoskisson, Ireland and Harrison, 1991). Further, in his review of the theory of multinational enterprise Caves (1982) noted that R&D intensity and advertising intensity have developed into the most used measures for intangible assets in the internationalization literature. Therefore, we used R&D intensity (R&D expenditures expressed as a percent of sales) as our measure of technology assets such as technological know-how and patents in this analyzes. Generally said, intangible assets like technological know-how do not tend to depreciate when exploited in several markets (Morck and Yeung, 1991). Consequently, we believe that internationalization holds special benefits for firms with a high stock of resources of technological-based know-how and develops into major competitive advantage over their competitors. Hence, we state that internationalization should be a more valuable option for firms with high R&D efforts and conclude:

> H_5: Technological-based know how or R&D intensity moderate the relationship between internationalization and firm performance, so that high-technology firms use this intangible resource as competitive advantage and are therefore expected to achieve higher financial performance than low-technology companies.

Brand Orientation

Like high tech intensity, brand is another intangible asset that does not deteriorate when applied by multiple products or in multiple countries. Also, multinational firms need to adapt their brand to the dif-

ferent expectations and needs in diverse cultural, societal, and economic regimes. Therefore, the overall impact of advertising expenditure is expected to increase with the expansion of degree of internationalization (Delios and Beamish, 2001). Consequently, advertising require adaptation to the settings of the various host countries (Anand and Delios, 2002) in order to make the brand knowledgeable to the inhabitants of the host countries or to advance the knowledge of the brand. The brand awareness of a global brand increases with the number of people recognizing it all over the world and is hence seen as a resource that leads to competitive advantage over competitors who do not own such intangible assets. This is even more effective when the resource is objected to more people and countries through internationalization. We use advertising intensity (advertising expenditures expressed as a percent of sales) as our measure of advertising assets such as brand names and goodwill.

> H_6: Brand orientation and market awareness moderate the relationship between internationalization and firm performance, so that firms owning a global brand use this intangible resource as competitive advantage and are therefore expected to achieve higher financial performance than companies with low brand awareness.

Location: Special Economic Area

Special economic areas were formed to further develop special areas into economic fruitful districts in countries or cities. The government intended to convince companies to settle in these areas by allowing particular arrangements concerning e.g. lower tax costs or declined administrative work. These agreements should decrease entry barriers into the regions. Through the end of the 1970s and the beginning of the 1980s, the Chinese government formed these special economic regions to attract foreign direct investments into China and to increase China's worldwide economic perspective. Afterwards, these areas developed rapidly in an economic sense, so that large companies such as Volkswagen entered China soon after the opening of the economic borders. Though, due to the regional restrictions the gap between strong economic areas with richer people and the more neglected districts grew (China Aktuell). The success of these spots leads to the presumption that these special economic areas affect the performance of entering firms.

> H_7: Firm location moderates the relationship between internationalization and firm performance, so that firms operating in a strong congested special economic area have access to special resources from this area and use these resources as competitive advantage and are therefore expected to achieve higher financial performance than firms operating in other areas.

Degree of Internationalization

As economic activities become more and more global, and firms compete in a global environment, the degree of internationalization has become an essential dimension of a firm's strategy and is believed to support the improvement of firm performance (Dunning, 1993; Johanson and Vahlne, 1977; Melin, 1992). By means of increasing their degree of internationalization or the experience in internationalizing, firms go through several steps, namely export, licensing and franchising, joint ventures and acquisitions and foreign direct investment. Benefits of internationalization that are gained can be categorized in: economies of scale, market seeking, risk reduction, experiential learning benefits. With a rising degree of internationalization these benefits also increase (Li, 2001). When regarding the experiential learning benefit, one can say that internationalization represents a unique opportunity to be exposed to different market economies and to learn how to adapt to a competitive global business environment (Johanson and Vahlne, 1977). The learning benefit also impacts all other three benefits and it can be argued that through learning benefits a firm will gain greater responsiveness to the competitive forces from the environment. Furthermore, firms learn how to use their resources in a more efficient matter and develop managerial effectiveness through experience. Hence, a firm acts more effectively. These improvements in turn enhance organizational performance (Li, 2001). Nevertheless, we have to differentiate between the different internationalization experiences, taking into account psychic distance towards the entered market and whether the entering firm has local support through a partner. Therefore, the different options will

be tested: former internationalization activities abroad, former internationalization activities in Asia Pacific and former internationalization activities in China. These three options will be tested for joint venture and non-joint venture market entries. The considerations lead to:

H_8: The degree of internationalization moderates the relationship between internationalization and firm performance, so that firms with a strong degree of internationalization are expected to achieve higher financial performance than firms with no or little foreign experience.

H_{8a}: Learning experience as a degree of internationalization moderates the relationship between internationalization and firm performance, so that the financial performance of a firm increases / becomes even better with the decrease of psychic distance in former internationalization experience.

3. Research Design

3.1 Performance Measures

The goal of capital market theory is to explain the doing of investors and thus describe the price equilibrium on the capital market. One significant aspect of this theory is the systematic taking into account of unsure expectations by the investors (Glaum, 1996).

Firm performance is one of the central issues that is researched on in the field of strategic management as can be seen by the broad theoretical perspective of for example the RBV (Barney, 1991; Porter, 1980). In spite of its important matter, defining and assessing performance has been a great challenge in literature over the past years (Venkatraman and Ramanujam, 1986). Nowadays, there are three approaches to conceptualize and assess performance: accounting reports, market valuations, and key informant descriptions (Glaum, 1996).

For the current study, the approach to assess performance through the current market value of a firm is most relevant. When analyzing the performance of a firm, market analysts not only regard the stock prices on the market, but further reach for all available archival information and spend considerable time and attention to quarterly earning calls, site visits, and reports from other analysts. In analogy, researchers have shown that stock prices are sensitive to the particular framing of adverse earning announcements (Hutton, Miller and Skinner, 2003). Even if some researchers may empirically and theoretically treat firm performance as uni-dimensional (Glick, Washburn and Miller, 2005), the core of firm performance's possible dimensions is firm financial performance (Venkatraman and Ramanujam, 1986). Specific dimensions include: short-term and long-term profitability, growth in market value, innovation, Return on Assets (ROA), Return on Equity (ROE), Return on Investment (ROI), Tobin's Q, cost advantage, efficiency, productivity, free cash flow, stock market returns, sales growth, and economic profit. The three types of performance dimension appearing frequently are: accounting reports (e.g., profitability or growth), market valuations (e.g., risk-adjusted returns, unadjusted market value, abnormal returns), and key informant descriptions (e.g., operational, survival, overall performance, relative performance). Most common firm performance measures such as ROA, abnormal returns, or effectiveness (Glick, Washburn and Miller, 2005). Combs, Crooks and Shook (2005) have analyzed in their study that 11 % of studies in the literature empirically test organizational performance with stock market returns or stock market values. 83 studies or 34% out of their overall sample of 238 were using the cumulative abnormal return (CAR) as their performance measure tool, showing the development of share prices that shareholder perceive following specific events that can be tied to a single firm activity (Combs, Crook and Shook, 2005). Following these results, the event study methodology is used for this study, taking the cumulative abnormal return of a firm's share price as measurement for a firm's financial performance. Former studies have shown that this performance measure is widely used and accepted in research.

3.2 Methodology

Event study methodology is an important analytical tool used in market based empirical financial research. The usefulness of such a study comes from the fact that, given rationality in the marketplace, the effect of an event will be reflected immediately in asset prices. Thus, the event's economic impact can be measured using asset prices observed over a relatively short time period. The purpose of an event study is to assess whether there is an abnormal stock price effect associated with an unanticipated or exogenous event (Peterson, 1989; McWilliams and Siegel, 1996). Consequently, it offers the possibility to give a profound evaluation of the firms' performance by identifying and analyzing the impact of the announcement of an unforeseen internal or external event by monitoring the development of the stock prices of the firm in the given timeframe on the capital market (Bowman, 1983). As stock prices are generally not subject to manipulation by insiders, they are supposed to reflect the true firm value, as they are assumed to reflect the discounted value of all future cash flows and incorporate all relevant information (McWilliams and Siegel, 1997). As an event can be seen as information, it is important to elaborate on the concept of information efficiency on the capital market. Fama (1970) defines a market as efficient if all market prices reflect all available information at all time as the market participants are enabled to react immediately with an according buying or selling behavior to new information being lanced on the market. Therefore, the reason for ongoing price changes, can be seen as the reaction of the continuous and random arrival of information (Fama, 1970).

The present event study involves the computation of the risk adjusted returns (Singh and Montgomery, 1984) on the stock of German companies which announce to internationalize into the Chinese market. The first step involves the identification of the exact time frame of the occurrence of the event. Following this step, the length of the event period has to be defined for which the abnormal returns should be calculated. In this present study we have defined an event period of 80 days around the announcement day t_0. Compared to existing studies this time frame reflects an average length (Peterson, 1989).

A security's price performance can only be considered 'abnormal' relative to a particular benchmark. Thus, it is necessary to specify a model generating 'normal' returns before abnormal returns can be measured (Brown and Warner, 1980). The standard approach is based on estimating a market model for each firm through which the adjustment for risk is done. The abnormal returns are the difference between the anticipated estimated stock returns and the actual on the stock market observed return. These abnormal returns are calculated to reflect the reaction on the stock market to the arrival of new information (McWilliams and Siegel, 1997).

The parameters of the market model are determined by means of the estimation period, which is usually preliminary to the event period. Using the share prices of the performance index, the forecast value can be evaluated. A performance index measures the development of the price value of capital investments assuming the flow back of reinvestments and is thus adjusted (Jansen and Rudolph, 1992). The CDAX is used as it represents all listed German companies and as a result reflects an overall picture of the population of the used companies.

For this present study an estimation period from t_{-200} to t_{-41} was defined. The 160 days time frame of estimation period can again be regarded as average practice (Peterson, 1989).

The method is as follows:
The rate of return on the share price of firm i on day t is expressed as

$$R_{it} = \alpha_i + \beta_i R_{mit} + \varepsilon_{it}$$

where:
R_{it} = rate of return on the share price of firm i on day t
R_{mit} = the rate of return on a market portfolio of stocks (a performance index) on day t
α = the intercept term
β = the systematic risk of stock i
ε_{it} = the error term, with $E_{(\varepsilon it)} = 0$

Deriving from the above equation, the researcher estimates the abnormal return (AR_{it}) for the firm using the following equation. The abnormal return is calculated by taking the difference between the observed normal return during the event period and the expected return, calculated through the appraisal.

$$AR_{it} = R_{it} - (a_i + b_i R_{mt})$$

Hereby, a_i and b_i are the ordinary least squares (OLS) parameter estimates. These are obtained from the regression of R_{it} on R_{mt} over an estimation period preceding the event. Any significant difference from the "normal" actual return is seen as abnormal, or excess, return. The abnormal return needs to be measured for all firms and events for the set period around the event (McWilliams and Siegel, 1997).

The calculated abnormal returns for each event and each firm must then be aggregated to a portfolio so that it is possible to study the performance differences. Therefore, an equal-weighted portfolio needs to be build by aggregating the individual AR_{it} from each event. Given N events, the sample aggregated abnormal returns for each day t is:

$$AAR_t = \frac{1}{N} \sum_{i=1}^{N} AR_{it}$$

where:
N = number of events on the portfolio
AAR_t = average residual for the portfolio at day t
AR_{it} = abnormal return of share i on day t

The effect on the portfolio over time will then be obtained by cumulating these portfolio residuals. These cumulative average returns can be aggregated for any interval in the event window (Fama, Fisher, Jensen and Roll, 1969). The accumulation is conducted through the daily average abnormal return. Thus, the average cumulative effect of the event of the defined portfolio can be identified for a certain time interval v to w:

$$CAR_{v,w} = \sum_{t=v}^{w} AAR_t$$

For the present study the largest possible interval includes 81 event days and goes from v = -40 to w = 40, resulting in a $CAR_{-40,40}$.

A conclusion about the randomness or systematic of the examined results can only be made after the AAR_t and the $CAR_{v,w}$ are tested on their statistical significant difference to the value zero. Consequently, the calculation of the event study is then finalized by testing the significance of event related performance by using the t-test (Brown and Warner, 1985).

3.3 Sample and Data Description

The study at hand is based on a sample of 257 announcements on the decision or intention of listed German companies to internationalize into the Chinese market in the years 1978-2005. 148 further events had to be excluded from the study due to the impossibility to retrieve the needed daily common stock returns or other company data of the announcing firms, needed for additional calculations. Internationalization is defined as a market entry into the Chinese economic market that a company attempts in order to actively do business on the Chinese market. The German company might be present through a representative office, a subsidiary or a production site. This internationalization process can be executed either with a Chinese partner through e.g. a contractual agreement or equity joint venture or solely in form of a wholly foreign owned subsidiary (greenfield investment). The study includes 82 companies from 13 sectors, following the definition of the 18 sector indices of Prime Standard of the Deutsche Boerse.

The announcements of the researched event are attained by a manual search through the Handelsblatt papers of the observed time period. Additional information about the event is gathered from the press archive of the respective firms. Handelsblatt.com, Yahoo Finance and the Deutsche Boerse are

used to obtain the relevant stock prices of the firms that announced their internationalization activities into the Chinese market within the observation period. The objective of this paper is to determine the course reaction of a firm's stock price after the announcement of the firm's intention to enter the Chinese market.

4. Results and Discussion

First, the overall impact of internationalization into China on the performance of firms is examined for the entire sample of 257 events.
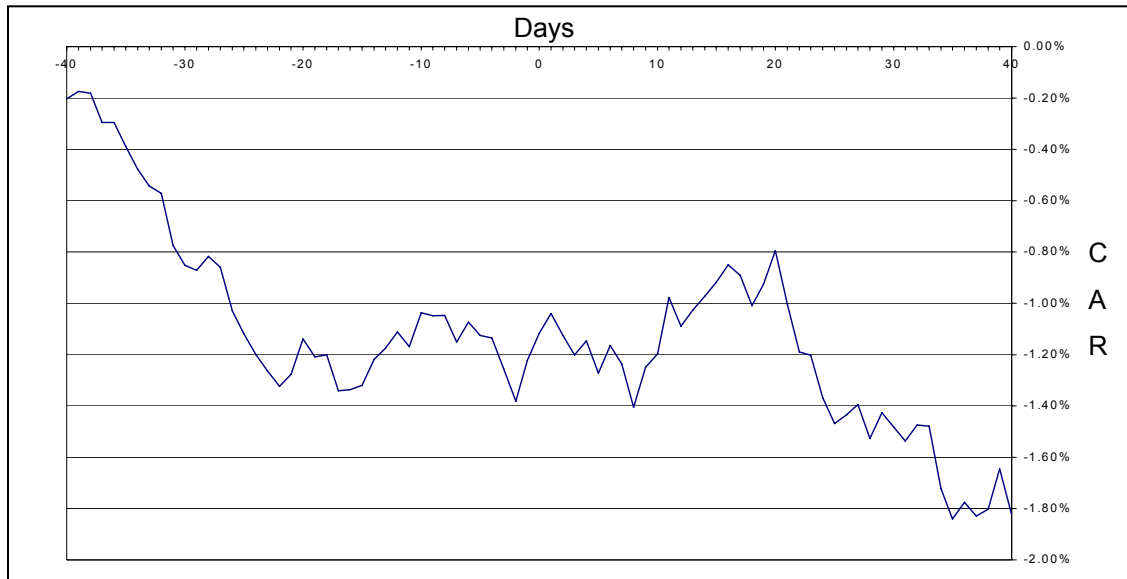

FIGURE 2
Development of the cumulated average abnormal return of internationalizing firms into the
Chinese market

Figure 2 shows the stock price development of the cumulated average abnormal return of the total sample for the event period of 81 days. The curve expresses the cumulated wins and losses which were evoked by the announcement of the internationalization activities. Despite the presumption of H_1 a $CAR_{-40,40 \text{ total sample}}$ of -1.82% is calculated. This result is significant at a 5% level (t = -1.88639). When regarding the development of the curve one can observe that the cumulated average abnormal return is negative at all times during the observation period. Nonetheless, it decreases eminently shortly before the event day and rises slightly on the event day itself before finding a low point at -1.40% on day t_7. After a short recovering, the curve remains declining. Nevertheless, the finding of a positive cumulated abnormal returns can be monitored for shorter time frames: For the 3 days period around the event a finding of $CAR_{-1,1}$ = 0.35% at a 5% significance level (t = 1.8583) is realized.

But, for the majority and for more lengthy time frames, we observe results that show, contrarily to the prior expectation, that the information about a market entry into China leads to generally negative reactions on the stock market and therefore rejects H_1. For the shorter time windows positive CAR are calculated leading to the assumption that market entries into China lead to positive stock reaction right around the event date. This is further supported by the graph depicted in figure 2.

Despite the prior assumption, this effect might emerge from a large degree of liabilities of foreignness. The cultural distance of Germany and China might be perceived as too extreme. Consequently, some shareholders might recognize this kind of investment as risky and evaluate it negatively. Also, a lack of knowledge about the Chinese market by the shareholders themselves and their belief of a lack of knowledge by the internationalizing firm may produce these results. Another reason for such reaction may

be the disagreement of the timing of the market entry or the form in which the internationalization process was conducted.

In order to find more in depth explanations for the afore depicted display, a differentiation of the sample into sub-samples is executed. In the following, the results of the moderating variables, which are considered to be impacting factors on the internationalization-performance relationship, are discussed in more detail regarding the overall research question. Table 1 (Appendix) presents the cumulated abnormal returns and the significance for selected results of the entire analysis.

Firm Size

The American Small Business Administration and prior studies differentiate large and small businesses by e.g. the number of employees, defining a company with less than 500 employees as a small business (Lu and Beamish, 2001). However, given that all companies included in this study have employed between 1,000 and 500,000 people, this general classification of large and small firms does not apply. Considering the sample, we decided to classify companies with 1 to 50,000 employees as medium sized companies and companies with above 50,000 employees as large.

Table 1 (Appendix) presents selected results for the analysis of the impact of the variable size on the performance of German companies internationalizing into the Chinese market.

Deriving from the whole sample, we are able to examine a sample of 90 events in medium companies and a sample of 177 events related to large companies. Some events have to be excluded, since we are not able to insight the needed information. Again, we observe that the announcement of internationalization activities into China is perceived negative for both large and medium companies when regarding the whole event period. Nevertheless, it is very interesting to note that the cumulated average abnormal return $CAR_{-40,40 \text{ large firms}}$ which is calculated as -0.57% (not significant) for large firms stays about 4.01% points behind the cumulated average abnormal return $CAR_{40,40 \text{ medium size firms}}$ = -4.58% (significant at 5% level (t = 1.7207)) for medium firms. Consequently, it is apparent that a negative reaction and thus a negative correlation between the announcement of the internationalization and the financial performance of the firm can be observed. Yet, the difference between these two groups is tested significant at a 5% level (z = 1.7850). While, the consideration of a smaller time frame closer around the event day presents a difference of 0.08% point between $CAR_{-1,1 \text{ medium size firms}}$ = 0.26% for medium firms (not significant) and $CAR_{-1,1 \text{ large firms}}$ = 0.34% for large firms (significant at a 5% level (t = 1.7552)). The difference is tested not significant. The analysis shows that larger firms that internationalize into China achieve higher performance than medium size firms. This conclusion leads to the support of H_2 and follows the preceding descriptions and findings of prior research. It can be assumed that medium size firms are recognized as being exposed to more risks than larger firms, as they are presumably deficient of necessary resources or lack the possibility to obtain these resources when they are required in the internationalization process. This postulation applies even more to a country like China with its completely different market structures and the high regulations.

Firm Age

As we have identified from previous existing studies, age is one of the variables that moderate the performance of internationalization activities. The sample was divided into a sub-sample of 229 events, representing older companies with less entrepreneurial orientation (> 12 years of age at the announcement of the event) and into a sub-sample of 28 events, including younger companies with stronger entrepreneurial orientation (< 12 years of age at the announcement of the event). The definition of young firms and old firms follows the standards of prior research (Covin, Slevin and Covin, 1990). As table 1 (Appendix) demonstrates the results for greater time frames that are attained in this analysis again reject the overall hypotheses of a positive correlation between internationalization into China and financial performance. The data shows a $CAR_{-40,40 \text{ older firms}}$ of -1.30% (t = -1.2542) tested significant at a 10% level and a $CAR_{-40,40 \text{ younger firms}}$ of -6.12% tested very significant at a level of 5% (t = -2.1458). The difference between these groups account to 5.18% points and is significant at a 5% level (z = 1.6890). Therefore,

we can state that H_3 is rejected, as the announcement of internationalization activities from younger firms result in a more negative financial performance than the one from older firms. Hence, younger firms do not achieve higher financial performance. A similar result can be observed when regarding a smaller time slot. A three days time window $CAR_{-1,1 \text{ older firms}}$ results in 0.44% tested at a 5% significance level (t = 2.2026) for older companies compared to $CAR_{-1,1 \text{ younger firms}}$ = -0.41%, not tested significant for younger companies. The difference of 0.85% points between these CAR is tested significant at a 10% level (z = 1.6377).

These results might stem from the possibility that the flexibility and entrepreneurial orientation of a firm are expected to have less impact on the financial performance of a firm than the experience of an older firm. This explanation finds its root in the learning theory of Johanson and Vahlne (1977). The theory states the existence of the state variable knowledge. Johanson and Vahlne hereby differentiate between internal firm knowledge, e.g. knowledge about corporate governance and knowledge about the different internal processes, and specific market knowledge. Presuming that both older firms and younger firms have the same degree of market knowledge, it is obvious that older firms hold more firm knowledge. In regard to internationalization, this knowledge can be gained from previous activities in different countries. As this kind of knowledge is transferable to other foreign markets, the availability of such knowledge is classified as competitive advantage. Yet, these insights were not viewed afore. When considering the findings it may be assumed that knowledge of older firms play a stronger role in the context of internationalization into China than the assumed higher flexibility of younger firms. At best, the older firms already have the knowledge on how to manage the internationalization process and thus need to overcome fewer obstacles than younger firms. The preceding argumentation proofs that the age of a firm is often used as substitute for cumulative knowledge and experience of a firm (Durand and Coeurderoy, 2001).

Firm Size _ Firm Age

In the literature, the internationalization-performance relationship is also analyzed from a size and age combination perspective. This analysis of the age and size combination can further give a conclusion on the different impact of these variables.

The results of this matrix calculation of the age/size variable as impacting factor on the financial performance of German firms internationalizing into China show a highly negative CAR for both young and small firms (N = 26). We are able to observe a $CAR_{-40,40 \text{ young and small}}$ = -17.17% tested highly significant at a 1% level. The CAR for young and large firms (N= 16) $CAR_{-40,40 \text{ young and large}}$ results in -24.92% (1% significant (t = -6.6648). Older firms, on the other hand, lead to a $CAR_{-40,40 \text{ old and small}}$ = -2.41% for smaller firms (N = 64) and $CAR_{-40,40 \text{ old and large}}$ = -0.46% for larger firms (N = 142). These results are both not tested significant. The short term analysis of the age/size variable of one day before and after the event day show that young and smaller firm are rated at a $CAR_{-1,1 \text{ young and small}}$ = -3.79% which is tested significant at a 1% level (t = 4.9060). Unlike all other results the $CAR_{-1,1 \text{ young and large}}$ comes to a strong positive result of 5.78%, also tested highly significant at a 1% level (t = 8.0388). Both combinations of older and smaller firms or of older and bigger firms come to a slight positive result of $CAR_{-1,1 \text{ old and small}}$ = 0.66% for smaller firms, tested at a 10% significance level (t = 1.5804) and $CAR_{-1,1 \text{ old and large}}$ = 0.38% for bigger firms tested at a 5% significance level (t = 2.0387).

As a consequence, we can state that the analysis of these two variables show that younger firms no matter of their size are perceived as negative performer when regarding the 81 days time frame around the internationalization process. This result can stem from the fact that again the entrepreneurial orientation of firms is overrated by the experience of older firms. Also, the resources of larger firms cannot overcome the negativeness of the impact of age and therefore increase the financial performance. The same assumption can be presumed for the analysis of the smaller time frame of $CAR_{-1,1}$. The outlier in this analysis can be found in the, for this study unusual strong positive CAR for younger and larger firms. A possible answer to this occurence might be the little size of the sample and therefore the unwontness of these.

Market Entry Mode

Further, the market entry mode used by the internationalizing firm is tested as a moderator for its impact on performance in the process of internationalization. In this study we differentiate between those companies that partnered with a Chinese company and thus applied the joint venture strategy as market entry form from those companies that applied another possible market entry strategy, e.g. the wholly foreign owned subsidiary. As shown in table 1 (Appendix) a sample of 128 events where a joint venture strategy was followed is identified compared to a sample of 131 events where the companies decided to persecute a different market entry mode. Those events with a lack of the needed information for the present calculation are excluded. The $CAR_{-40,40\ JV}$ for this consideration develops to -2.58% tested at a 5% significance level (t = -1.9760). The contra analysis shows a negative CAR. $CAR_{-40,40\ no\ JV}$ = -1.72% tested at a 10% significance level (t = -1.2890). When the difference of the two groups is examined more closely the outcome of a difference of 0.86% points is not tested significant. The results show that the financial performance for both market entry strategies develop into a negative cumulated abnormal return. However, the financial performance of companies following a non joint venture strategy is less negative than the one of companies which do not partner with a local firm. Therefore, these exhibited results reject H_4.

H_4 is even further rejected by the determination of $CAR_{-1,1}$, since we are again, able to note a positive and significant cumulated abnormal return for this shorter examination period for non joint ventures $CAR_{-1,1\ no\ JV}$ = 0.43% tested significant at a 5% level (t = -1.6875) compared to a lesser outcome for joint ventures $CAR_{-1,1\ JV}$ = 0.27% which is not tested significant. However, the difference of 0.15% points for these two groups is tested not significant. This result rejects the hypotheses that joint ventures achieve higher financial performance, but approves H_1 concerning the positive internationalization-performance relation. It further rejects the earlier discussion about the positive impact of partnerships when entering a foreign market. The outcome might stem from the fact that the joint venture strategy is in some respective seen as negative strategy, in regards to giving resources and knowledge to a partner that might use the learning to overcome the advantage of the foreign firm and have a negative consequence of the financial performance.

R&D Intensity

When analyzing the impact of internationalization on firm performance it is also important to regard the technological resources of firms as impacting variable. We use R&D expenditure as a proxy to analyze this variable. The sub-samples relate to 112 events where firms spent high R&D expenditures in the year of the event and 47 events by firms that spent low effort in R&D. All further identified events have to be neglected due to missing data. Looking at the -40 to 40 days time frame around the event firms with high R&D expenditures come to a $CAR_{-40,40\ high\ tech\ intensive}$ = -1.08%, not tested significant. For firms with low R&D expenditures the result comes to a slightly more negative CAR for the same time frame and derives at $CAR_{-40,40\ not\ high\ tech\ intensive}$ = -2.98% tested significant at a 10% level (t = -1.3316). The difference of 1.90% points is not tested significant.

The analysis of this variable mostly results in negative CAR for the different longer time frames around the event. Nevertheless, most of these are tested not significant. The shorter time frames around the event lead to slightly positive CAR, which are also tested insignificant. All results lead us to the assumption that the hypotheses that firms with higher R&D expenditures achieve higher financial performance is approved. However, the outcome for both groups is calculated mostly overall negative.

The approval of H_5, shows that high tech resources of firms are very important for the internationalization project of firms. Firms that internationalize into China with a strong high tech intensity are seen as representing higher financial performance. We can thus say that high technology resources support a firm and therefore the firm's financial performance.

Brand Orientation

Brand orientation and brand awareness are another form of resources that can be seen as a moderator that impact the internationalization-firm performance relationship. Therefore, it is significant for this study to look more closely into it. Hereby, the marketing expenditure of a firm is used as a proxy for brand awareness. We identify a sub-sample of 98 events by firms with strong brand orientation and 80 events where firms internationalized into China with little brand orientation. The results found do not support the hypotheses H_6 and show that those firms with little brand orientation are seen as having more potential for greater financial performance than those firms with stronger brand orientation. Though, again we are able to identify a negative relationship between internationalization into China and financial performance for the majority of results. The calculations show a $CAR_{-40,40 \text{ strong brand orientation}}$ = -2.88% tested at a 5% significance level (t = -1.7321) for the firms with high brand orientation and a $CAR_{-40,40 \text{ low brand orientation}}$ = -1.90% tested at a 10% significance level (t = -1.4274). The difference of 1.02% points is measured not tested significant. The same idea of result can be monitored for a shorter time frame around the event $CAR_{-1,1 \text{ strong brand orientation}}$ = 0.01% and $CAR_{-1,1 \text{ low brand orientation}}$ = 0.29%. Here, we can note a positive cumulated abnormal return for both kinds of firms. This result indicates that a strong brand orientation is not seen as significant towards the financial performance of internationalizing firms into China, giving the idea that the performance of firms is not impacted by brand orientation. Therefore, we come to the conclusion that for market entries into China brand orientation and brand awareness is not perceived as a strong resource, especially in regard to a firm's financial performance. This finding could also derive from the fact that many brands need a special adaptation when coming into the Chinese market. These changes might be a reason that these brands cannot act as sustainable competitive advantages and hence, do not advance the financial performance as strongly as expected. As some brands do not apply the regular characteristics in China than in other countries, the amenities of these brands cannot be adopted to the Chinese market. Recapitulation, we conclude that firms who have high marketing expenditures and are brand oriented are not perceived as strong performer by the shareholders when internationalizing into China.

Location: Special Economic Area

Location is a factor that we acknowledged as a further variable that can impact the financial firm performance of internationalizing firms. We are able to relate 117 events to firms that settled in a special economic area when entering China and 46 events of firms that settled in a non special economic area. The calculation of the event study shows a $CAR_{-40,40 \text{ special economic area}}$ = -0.31% which was tested not significant and $CAR_{-40,40 \text{ non special economic area}}$ = -3.16% tested at a 10% significance level (t = -1.4572) for the latter kind of firms. The further calculation of the mean of these two results is not tested significant. Looking into these results gives an indication that firms settling in non special economic area clearly perform financially worse than firms in special economic area who have access to all the existing resources and advantages of these areas.

Further identification of the three days time frame around the event result in $CAR_{-1,1 \text{ special economic area}}$ = 0.29% not tested significant and $CAR_{-1,1 \text{ non special economic area}}$ = 0.38% not tested significant either. This shows a slightly more positive and significant result for firms in a non special economic area. For this short time frame around the event analysts seem to perceive this variable as a positive impacting factor towards the internationalization-performance relationship. As the result for the special economic area is not tested significant and since the difference is not very strong, we can disregard the more positive result of firms in non special economic and remain with our overall analysis stating that the results approve the hypotheses and lead to the answer that firms face and attain strong sustained advantages when working in the special economic areas of China.

Degree of Internationalization

When thinking about factors that might impact the internationalization-financial performance relationship the former internationalization experience naturally comes to mind. One would suggest that firms with strong internationalization experience would gradually perform better with the increase of experience

and the decrease of psychic distance. Also, one would believe that owning a production site or not or internationalizing with a local partner would have a consequence on the financial performance of the firm.

In this analysis we are able to identify 173 events representing firms that had had experience in internationalizing into a foreign western country before entering China by building a wholly owned production site. A sample of 143 events is identified where firms were experienced in internationalization into Asia Pacific (without China) before entering China with the same mode and 166 events by firms where the firms had entered China before.

The results show that the degree of internationalization namely the formerly obtained internationalizing experience has an effect on the financial firm performance. Although the results for a bigger time frame around the event day (-40 – 40) all present a negative cumulated abnormal return, CAR increases with the decrease of psychic distance. Thus, $CAR_{-40,40 \text{ for foreign subsidiaries}}$ = -2.38% which was tested significant on a 5% level (t = -2.2469), is more negative than $CAR_{-40,40 \text{ for Asia Pacific}}$ = -2.32%, tested significant on a 5% level (t = -2.3218). Finally, $CAR_{-40,40 \text{ for China}}$ = -1.28% is even less negative than for those firms with experience in Asia Pacific. However, this result is not tested significant.

The same string of results is identified for those firms which entered China with the joint venture strategy as mode of entry. Here again, we can notice an increasing financial performance with a decreasing psychic distance. The sample of 95 events for firms who internationalized into a western foreign country is evaluated to a $CAR_{-40,40 \text{ for foreign subsidiaries}}$= -3.54%. This result is tested significant at a 1% level (t = -2.4424). For the 77 events with firms with experience in entering a country in Asia Pacific a similar result can be observed. $CAR_{-40,40 \text{ for Asia Pacific}}$ = -2.44% which is tested significant at a 5% level (t = -1.7890). For previous experience in China we have identified 66 events and calculated $CAR_{-40,40 \text{ for China}}$ = -2.09% tested at a 10% significance level (t = -1.5698). Here again, the results remain negative for the calculation conversely become greater with the decrease of the psychic distance of the country the firm experienced in before.

This shows that former experiences definitely have an impact on the performance, especially when regarding the different regional distinction. These results are in line with the hypotheses that we proposed in the beginning. Yet, when regarding the same structure of analysis for events of internationalizing into China without a production site the complete opposite reaction can be observed. In this situation the expected financial performance for firms that had entered countries with closer distance to China or even China itself is worse and strongly negative in comparison to the one of those firms whose only experience before the event had been a market entry in a foreign western country. 60 events are recognized for firms with internationalization experience in a western country and the $CAR_{-40,40 \text{ for foreign subsidiary}}$ = -2.32% tested significant at a 5% level (t = -2.3218). The 82 events for those firms with former experience in China lead to a $CAR_{-40,40 \text{ for China}}$ = -3.79% which is tested significant at a 5% level (t = -2.0218). The same can be seen for the firm entries that took place with a JV partner. Here we are able to find 25 events for firms with experience in a foreign subsidiary. $CAR_{-40,40 \text{ for foreign subsidiaries}}$ = -1.44% is not tested significant. 43 events are seen for firms with experience in Asia Pacific and develop to $CAR_{-40,40 \text{ for Asia Pacific}}$ = -4.47% tested significant at a 5% level (t = -1.7790). Finally, the sample of 9 events for firms with previous experience in China produces a $CAR_{-40,40 \text{ for China}}$ result in -4.19%, not tested significant. These results may lead to the idea that previous experiences of firm entries into China without a production site are generally viewed as little supporting for the market entry and for the financial performance of the firm. This expectation is even more supported when comparing all results in a profile of those firms with a former experience in China.

All in all we can conclude that testing the degree of internationalization as impacting variable leads us to supporting H_8 and $H_{8a.}$ As expected former internationalization experience supports the current internationalization activity and even more so when the previous experience has been in China itself or another Asia Pacific country.

5. Conclusion

In this research we identified an overall negative internationalization-performance relation concerning the internationalization of German companies into the Chinese market. Companies entering the Chinese market were generally not able to create additional shareholder value. The consideration of the different moderators support and explain these findings in more detail. Most of the results, especially those coming from a long term calculation of 80 days around the event (event period) reject the proposition of a positive relationship between internationalization into the Chinese market and the financial performance of the firms. Single results for shorter time frames around the event however, also exhibit significant positive creation of shareholder value indicating a first and positive reaction towards the announcement of firms making their internationalization process public. This can additionally be supported by regarding figure 1 about the cumulated abnormal returns for the entire sample showing an increase of the graph on the event day. All in all, the reaction of shareholders is mostly negative, making it clear that the intention of firms to internationalize into China is still perceived as a strategic step that has a negative impact on the firm's financial performance. For many people internationalizing into China still involves a great amount of risk and insecure factors that might be hard to overcome on the short run. The last 30 years of experience have supported these arguments and displayed the many different firms which were not able to sustain these risks and barriers and had to abort. Nevertheless, we can follow a consistence and continuously growing trend towards market entry into China. This observation shows the importance of this analysis and the overall hope to be able to overcome the negative effects and to finally come to a positive financial performance in the long run or with the next trial.

6. Appendix:

Variable		N	CAR -40,40	CAR -30,30	CAR -20,20	CAR -10,10	CAR -5,5	CAR -3,3	CAR -2,2	CAR -1,1	CAR -1,2
	all events	257	-1.82%**	-0.72%	0.53%	0.01%	-0.20%	-0.09%	0.12%	0.35%**	0.25%
Firm Size	medium	90	-4.58%**	-2.03%	-0.71%	-1.09%	-1.34%**	-0.86%*	-0.39%	0.26%	0.07%
	large	177	-0.57%	-0.05%	1.23%**	0.53%	0.32%	0.20%	0.31%	0.34%**	0.29%*
Firm Age	young	28	-6.12%**	-4.01%*	-0.22%	-1.39%	-1.68%*	-2.15%***	-1.64%**	-0.41%	-0.87%*
	old	229	-1.30%*	-0.31%	0.62%	0.18%	-0.02%	0.16%*	0.33%*	0.44%**	0.38%**
Size_Age	medium_young	26	-17.17%***	-7.56%**	4.06%*	-0.14%	-1.45%	0.05%	1.77%**	3.79%***	2.89%**
	medium_old	64	-2.41%	-0.86%	0.28%	-0.20%	-0.64%	-0.22%	0.22%	0.66%*	0.56%
	large_young	16	-24.92%***	-11.51%***	7.81%***	0.02%	-3.14%**	-0.75%	2.42%***	5.78%***	4.20%***
	large_old	142	-0.46%	0.08%	1.06%*	0.73%*	0.68%**	0.49%**	0.55%**	0.38%**	0.52%**
Market Entry Mode	joint venture	128	-2.58%**	-1.16%	0.77%	0.21%	-0.54%	-0.16%	0.00%	0.27%	0.11%
	no joint venture	131	-1.72%*	-0.87%	-0.16%	-0.35%	0.06%	-0.04%	0.21%*	0.43%**	0.37%*
R&D Intensity	high	112	-1.08%	-0.58%	0.60%	-0.07%	0.32%	-0.03%	0.02%	0.18%	0.17%
	low	47	-2.98%*	-1.48%	-0.42%	0.07%	-0.44%	-0.47%*	-0.13%	0.10%	0.27%
Brand Orientation	high	98	-2.88%**	-1.93%*	-0.34%	-0.69%	-0.53%*	-0.44%	-0.26%	0.01%	-0.16%
	low	80	-1.90%*	-0.89%	-0.14%	0.09%	-0.53%	0.04%	0.25%	0.29%	0.48%**
Location	special economic area	117	-0.31%	-0.29%	1.04%	-0.03%	-0.36%	-0.16%	0.00%	0.29%	0.04%
	no special economic area	46	-3.16%*	-1.66%	-1.15%	-0.67%	-0.80%	-0.20%	0.39%	0.38%	0.61%*
Degree of Internationalization	Foreign_Production	173	-2.38%**	-1.40%*	0.14%	-0.28%	-0.39%	-0.14%	0.05%	0.25%	0.22%
	Asia_Production	143	-2.32%**	-1.68%**	-0.12%	-0.45%	-0.42%	-0.12%	0.01%	0.08%	0.16%
	China_Production	166	-1.28%	-0.80%	0.28%	0.02%	-0.30%	-0.06%	0.20%	0.27%*	0.32%*
	Foreign_no Production	60	-1.97%	0.34%	1.10%	0.44%	0.66%	0.13%	0.18%	0.51%*	0.00%
	Asia_no Production	63	-1.12%	0.36%	1.66%	0.27%	0.46%	-0.12%	0.04%	0.68%**	0.30%
	China_no Production	82	-3.79%**	-1.35%	0.35%	-0.25%	-0.18%	-0.32%	-0.25%	0.50%*	-0.04%
	JV_Foreign_Production	95	-3.54%***	-2.19%**	-0.14%	-0.74%	-1.03%**	-0.48%	-0.18%	0.00%	-0.12%
	JV_Asia_Production	77	-2.44%**	-1.35%	0.68%	-0.02%	-0.73%*	-0.21%	-0.03%	-0.07%	-0.10%
	JV_China_Production	66	-2.09%*	-1.25%	0.41%	0.17%	-0.71%*	-0.26%	0.03%	-0.12%	-0.14%
	JV_Foreign_no Production	25	-1.44%	1.35%	3.21%**	2.43%**	0.46%	0.16%	-0.23%	0.78%*	0.00%
	JV_Asia_no Production	43	-4.47%**	-2.06%	0.12%	-0.40%	-0.80%	-0.61%	-0.50%	0.52%	-0.16%
	JV_China_no Production	9	-4.19%	-1.49%	1.53%	-2.89%	-1.78%	-1.08%	-1.44%*	-0.42%	-0.64%

*significant at 10% level; **significant at 5% level; ***significant at 1% level

TABLE 1
Selected results - Internationalization into China and the financial performance of the firms

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