

A comparative analysis of the internationalization of Chinese and Japanese firms

Xiaohua Yang · Yi Jiang · Rongping Kang · Yinbin Ke

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Abstract This paper integrates institution-, industry-, and resource-based views of internationalization and demonstrates that industrial characteristics, firm resources, and institutional factors can significantly explain the differences and similarities of international expansion of Chinese and Japanese multinational enterprises (MNEs). In particular, this paper maps the growth of Chinese MNEs since economic reforms in 1978 and that of Japanese MNEs after World War II. We illustrate the similarities and differences between Chinese and Japanese MNEs with two case studies: foreign direct investment (FDI) of Haier and Matsushita. We suggest that how firms internationalize, in addition to being influenced by industry- and resource-based considerations, is inherently shaped by the domestic and international institutional frameworks governing these endeavors.

Keywords Internationalization · MNEs · Outbound FDI · China · Japan · Institutions · Industry · Resource-based view

X. Yang (✉)
School of Management, Queensland University of Technology,
2 George Street, Brisbane QLD 4001, Australia
e-mail: x3.yang@qut.edu.au

Y. Jiang
College of Business and Economics, California State University,
East Bay, 25800 Carlos Bee Blvd, Hayward, CA 94542, USA
e-mail: yi.jiang@csueastbay.edu

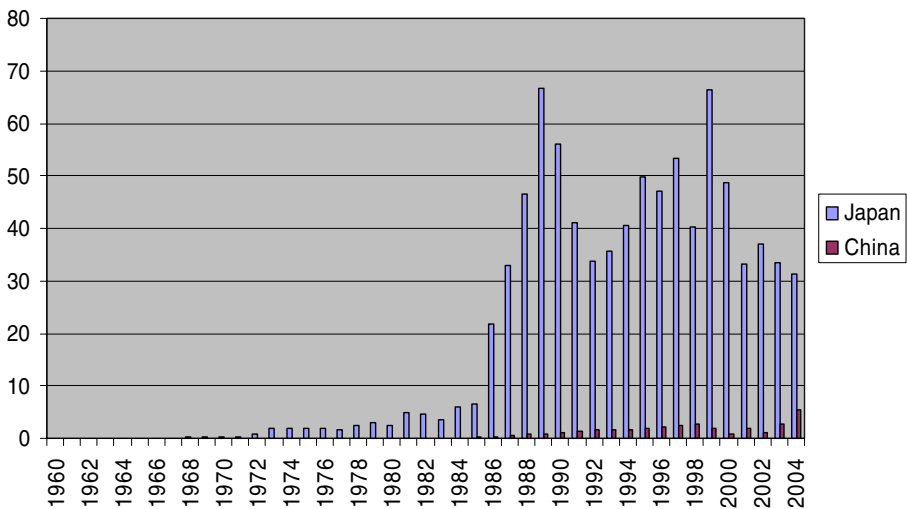
R. Kang · Y. Ke
Institute of World Economy Research, Chinese Academy of Social Sciences,
5 Jiannuei Da Jie, Beijing, People's Republic of China 100732

R. Kang
e-mail: krp@sina.com

Y. Ke
e-mail: oldke1963@tom.com

For over half a century, internationalization has been associated with Western multinational enterprises (MNEs) investing in developing countries. This is not surprising as the bulk of pre-1980s foreign direct investment (FDI) came from North America and Western Europe and was directed to developing Asia and Latin America (Boyce & Ville, 2002). However, internationalization of firms from emerging economies is on the rise. For instance, China recently became the eighth largest supplier of outbound foreign direct investment (OFDI) in the world and the largest outbound investor among emerging countries. Chinese MNEs have outbound FDI in virtually every country in the world. The 12 largest Chinese MNEs now control over \$30 billion in foreign assets across the whole spectrum of business activities, with over 20,000 foreign employees and over \$30 billion in foreign sales. Recent examples include (1) Haier, a household appliances company, which has established manufacturing facilities and R&D centers in the United States, (2) Lenovo, a leading PC maker that acquired IBM's PC division, and (3) TCL, an electronics company that acquired a majority interest in the television division of France's Thomson and the handset division of France's Alcatel SA. The popular press has debated on the rise of China's OFDI and even raised the question, "Is China the new Japan?" (EIU Viewswire, 2005).

Are Chinese MNEs following the footsteps of Japanese MNEs? How does the rise of Chinese MNEs compare to that of Japanese MNEs? A quick glance at the growth trend of OFDI in the two countries suggests that there is still a long way for Chinese MNEs to catch up with Japanese MNEs (see Figure 1). But are there similarities and differences? We currently know very little about how Chinese firms internationalize. This study intends to fill the gap in the literature on international expansion from emerging economies, especially China and to suggest a schema for understanding the conditions under which Chinese MNEs grow. A comparative analysis of the contexts for MNEs in both countries will not only help us to understand the



Source: Ministry of Commerce, China, reports from various years.

Figure 1 Chinese and Japanese firms' outbound FDI by year (US\$ billion)

drivers, patterns and strategies of MNEs from these two countries, but also address the outcry for examining MNEs from emerging economies (Dunning, 2000; Hoskisson, Eden, Lau, & Wright, 2000; Peng & Delios, 2006).

Meyer (2006) argues that comparative research holds potential for advancing Asia management research. He further suggests that “comparative management research extends context-specific knowledge... there is huge potential to gain new insights for management from comparative research within Asia” (p.125). By comparing Chinese and Japanese MNEs’ path to internationalization, we contextualize motivations, strategies and patterns of international expansion (Table 1). The importance of contextualizing when examining phenomena is emphasized in Yang and Terjesen (2007). Such a comparative study could also aid us in building theories on internationalization of firms so that we generate propositions and hypotheses for future theory testing (Yin, 1994). Chinese and Japanese MNEs represent two major groups of MNEs from Asia. Understanding the parallels and asymmetries in internationalization processes between Chinese and Japanese MNEs provides us with a basis for comparing MNEs from emerging economies and developed economies.

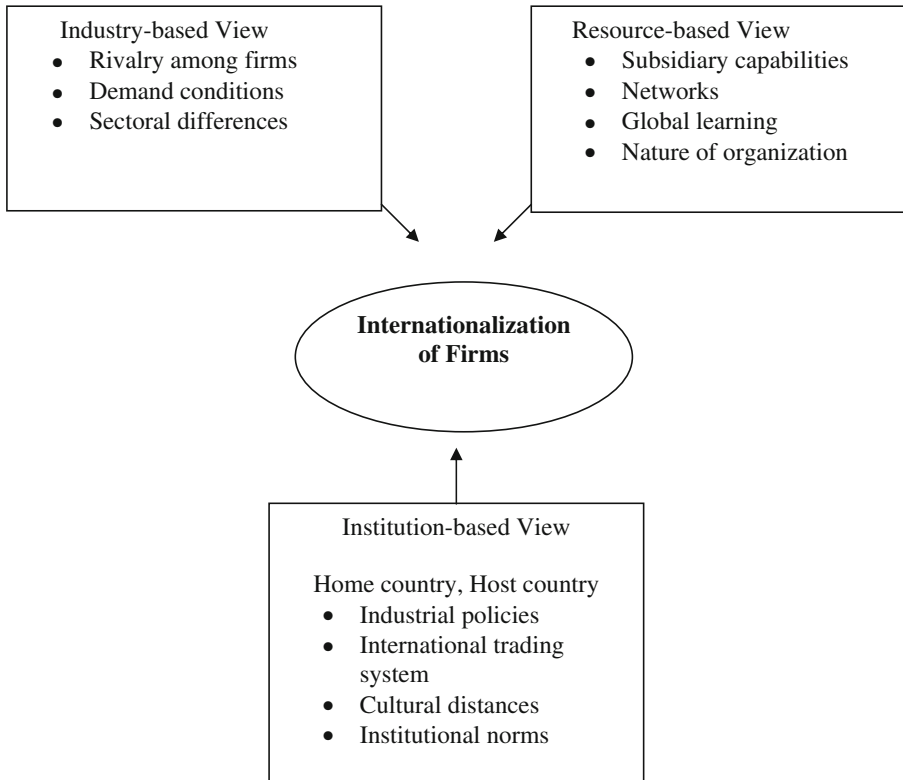
This paper first reviews internationalization theories from three levels: institution, industry, and firm. We then apply the theories to compare MNEs from China and Japan, and discuss how national institutions, industry structures, and firm resources affect Chinese and Japanese companies’ internationalization. In the next section, we use case study method and apply the theories to two cases: Haier and Matsushita’s internationalization. Finally, we provide implications for future research and practices.

Literature review

Why did Japanese firms internationalize? Why did Chinese firms internationalize? To address such questions, we build on the comprehensive Y model of institution, industry and resource views of Peng (2006) to explain the internationalization of Chinese and Japanese firms (see Figure 2). Existing research on firm and international competitive strategies generally focus on one or two views. For example, Porter (1990) focuses on industry analysis and argues that industry factors determine

Table 1 Stages of MNE growth in Japan and China.

Japan			China		
Stage	Period	Characteristics	Stage	Period	Characteristics
One	1950–1978	Government restriction on imports and direct investment, OFDI concentrated on resource-seeking.	One	1978–1990	Preliminary international business activities.
Two	1979–1985	Revision of the Foreign Exchange and Foreign Trade Control Law. Restrictions on internationalization lifted.	Two	1991–2000	Large SCEs granted OFDI permit. Increasing international IPO and M&As.
Three	1986–Present	Cost reduction and market expansion OFDI. Asia took over as the second largest recipient of FDI.	Three	2001–Present	Entry to WTO. Internationalization further accelerated.



Source: Adapted from Peng (2006).

Figure 2 The Y model of internationalization of firms

a nation's competitive position in the world economy as well as a firm's competitive advantages in the global market. The explanations of Barney (1991) rest on a firm's internal resources and capabilities. In contrast, institutional factors have long been treated as background context and been taken for granted by management scholars. There is very little attempt to integrate all three views—institution, industry and resources—in management research (Peng, 2003; Wright, Filatotchev, Hoskisson, & Peng, 2005; Peng, Wang, & Jiang, 2008). Institutions determine the international expansion of firms from emerging economies (Peng & Delios, 2006; Yamakawa, Peng, & Deeds, 2008). It is the research on emerging economies that pushed the institution-based view to the cutting edge of strategy research (Peng et al., 2008). Institutional environments are particularly germane to research on Chinese firms since the Chinese institutional environment shapes FDI decision-making in Chinese state-controlled enterprises (SCE)¹ (Yang & Stoltenberg, 2008). This research integrates

¹ We use the term state controlled enterprises (SCEs) instead of state-owned enterprise (SOEs) since many of Chinese state-owned enterprises are being corporatized and part of the equity being liquidated on stock market. Lin and Sun (2005) found that the state effectively controlled all Chinese listed companies through majority shareholding (an average of 82%) and appointment of board directors.

institution-, industry-, and resource-based views to compare the internationalization process of Chinese and Japanese firms.

Institution-based view

The institution-based view conceptualizes national institutions as the rules of the game that affect firm strategic choices (North, 1990). Government policies, including regulations targeted at the MNEs and changes in tariff and non-tariff barriers in the host country are formal institutions that affect FDI. Cultural distances, norms and values are informal institutions that affect FDI (Hofstede, 2007). Firms gain country-specific knowledge in order to overcome the liability of foreignness (Hymer, 1976). Although the nature of MNE-host government relations is incrementally shifting from conflictual toward cooperative (Luo, 2001), non-tariff barriers such as antidumping are still important (Schuler, Schnietz, & Baggett, 2002; Peng et al., 2008). While companies in the host country can obtain government assistance through antidumping penalties, entering firms may react to antidumping barriers through “tariff jumping”—that is, using FDI to bypass (or “jump over”) antidumping tariffs (Blonigen, 2002). The formal regulations and informal norms in host countries affect companies’ decisions to internationalize and their strategies to enter foreign markets.

The competitive advantages of MNEs are also related to the home country, depending on the national institutions (Dunning, 2000). Governments may have regulations encouraging companies to seek international expansion. Buckley and Casson (1976) view internationalization as a response to the changes in institutional environment and argue that a nation with a comparative advantage in entrepreneurship will be able to renew firm-specific advantages through sustained innovation and international expansion, but a nation without such comparative advantage will not. Witt and Lewin (2007) propose that the extent of OFDI is associated with the institutional adjustments in the home country. Firms in emerging economies face rapid institutional changes, including changes in levels of government involvement, ownership patterns, and enforcement of business laws (Wright et al., 2005; Yamakawa et al., 2008). These environmental uncertainties may contribute to the explanation of strategic decisions of firms from emerging economies.

Industry-based view

According to Porter (1990), firm internationalization is influenced by underlying industry structures, while competitive advantage of an industry derives from the national “diamond”: domestic factor conditions, domestic demand conditions, related and supporting industries, and firm rivalry in the industry. These four conditions influence a firm’s propensity to expand overseas. A firm requires supplies in its home base if it is to be successful abroad. A change in demand conditions may compel a firm to expand internationally. Related and supporting industries provide a network for firms to grow abroad. High competition in domestic market motivates firms to seek new foreign markets.

Different industries have different globalization potentials and firms tend to adopt a global strategy consistent with the industry conditions (Yip, 1992). According to

the index of transnational integration of Kobrin (1991), the top global industries are: computer equipment, communications equipment, electronic components, and motor vehicle industries. Other studies have also considered these industries global industries (Bartlett, 1986; Flaherty, 1986; Hout, Porter, & Rudden, 1982; Johansson & Yip, 1994; Roth & Morrison, 1990; Takeuchi & Porter, 1986). Industries may provide “a repertoire of possible strategic frameworks” for firms (Huff, 1982, p.125), and firms in the same industry thus follow each other in expansion of geographic scope. Each industry’s unique competitive pressure is likely to result in different levels of globalization, which in turn affect the strategies firms utilize in these industries (Prahalad & Doz, 1987; Yip, 1992). Some firms may standardize their products and globally integrate the value-added activities to lower costs (Bartlett & Ghoshal, 1989). Others may customize value-added activities to a foreign environment, which is referred to as local responsiveness (Prahalad & Doz, 1987).

Resource-based view

The resource-based view (RBV) proposes that firm-specific resources are a source of sustained competitive advantage when they create unique value, when they are rare, when they are imperfectly imitable, and when they reside in an effective organization (Barney, 1991). For firms to operate in a foreign country, they need to utilize resources to overcome inherent disadvantages in the new environment (Hymer, 1976). A firm’s international experience represents firm-specific tacit knowledge that is difficult to imitate (Barney, Wright, & Ketchen, 2001). RBV advocates the deployment of resources in new markets, and provides insights to internationalization strategies such as market entry, subsidiary capability development, and international alliances (Peng, 2001). Management capability plays an important role in MNEs since they are both valuable and imperfectly imitable, and can create firm-specific competitive advantages (Barney, 1991). Top management’s experience with international diversification leads to greater knowledge (Calori, Johnson, & Sarnin, 1994). Experience provides path-dependent organizational capabilities, and firms with more international experience are more likely to enter foreign markets via FDI (Geringer, Tallman, & Olsen, 2000).

Hoskisson, Eden, Lau and Wright (2000) note the importance of using a RBV framework in the context of emerging economies. They focus on the traditional research stream of Western MNEs in emerging economies. Research on FDI from Western economies in emerging economies notes that MNEs equip their subsidiaries with administrative heritage (Bartlett & Ghoshal, 1991), gain competitive advantages through global learning (Bartlett & Ghoshal, 1989), and reap the benefits of first mover advantages (Hoskisson et al., 2000). MNEs from emerging markets search for markets and technologies to compete in the global economy (Yeung, 2000). This is consistent with RBV, which recognizes knowledge flows within the MNEs through subsidiary capability building (Barney et al., 2001).

While any one view does not fully explain the internationalization of firms, an integrated view based on institutional, industry and resource drivers is needed to advance the extant literature in internationalization (Peng, 2006).

Research method

We undertake a comparative study of internationalization of Chinese and Japanese firms for several reasons. First, the size and the phenomenon of Chinese OFDI have caught the attention of the world. China's current OFDI level nearly reaches that of Japan's in the early 1980s and China's OFDI growth rate suggests a similar trend as that of Japan's OFDI at that time. Second, the influence of Japanese industrial policies on Chinese policy making and Japanese management philosophy on Chinese management practices is observed in a few contexts. Third, there is an assumption in the West that China is becoming the new Japan (EIU Viewswire, 2005). We are particularly interested in understanding what drives internationalization of both Chinese and Japanese firms and whether Japanese approaches to internationalization are being adopted by Chinese firms.

We collected both country level and firm level data from personal interviews and published sources. The use of multi-level analysis reflects our objective to contextualize the internationalization process of MNEs and develop a testable model for future studies. Prior research also suggests the need to incorporate different factors that influence firm internationalization processes (Anderson, 2000).

We collected firm level data to identify resource drivers in internationalization processes and the interaction between resource drivers and institutional and industry drivers. Given the exploratory nature of our study, the case method is adopted. Case method has been used in previous studies on internationalization (e.g. Sim & Pandian, 2003, Brookfield & Liu, 2005), and it helps us reach our research goal of understanding the firm internationalization process.

We present accumulative observations through various channels over the years. The primary data is collected from a combination of semi-structured interviews with managers of Haier and Matsushita. Secondary data is from company annual reports, published sources including materials from business and professional periodicals and journals, United Nations reports, company websites, and other websites.

The choice of two firms from the home appliance industry was motivated by our observation that many of the firms that joined the first wave of international expansion in 1996 in China were home appliance producers that began to feel the pressure of an increasingly saturated domestic market.² We chose to study Haier Group as it is one of the largest home appliance producers in China and is one of the most active in international expansion. Matsushita in the same industry in Japan is chosen as a comparable case on account of its significant international expansion. By studying two firms in the home appliance industry, we seek to minimize cross-industry variation.

Growth of MNEs in China and Japan

The growth of Chinese MNEs

Internationalization is a major dimension of the growth of a firm (Peng & Delios, 2006). Internationalization of Chinese firms can be traced back to pre-economic

² Many of these firms were part of a large group of enterprises that were established after 1978 economic reforms.

reforms in 1978. After the establishment of the communist regime, the Chinese government established a few overseas enterprises in Hong Kong to support necessary import-export business. This was followed by pre-internationalization activities (e.g., providing economic and technical aid to the Third World countries in their independence movements: development project support, technical aids, material supply aids and financial aids) which started to develop during the 1950s.

Several studies have discussed the development of Chinese MNEs in the post-reform era (e.g., Cai, 1999; Warner, Ng, & Xu 2004; Wu & Chen, 2001). Unlike the previous studies, we map the growth of Chinese MNEs based on both the major shifts in the patterns of their internationalization and government policies on FDI. We divide the growth of Chinese enterprises into three major historical stages.

Stage one: 1978–1990 This stage marks the transformation of Chinese firms. The major demarcation for internationalization of Chinese firms came when the Chinese government clearly established “Open Door” economic policies in 1979. This was the first time China included OFDI in national economic development programs. The first OFDI project was a joint venture between Beijing Friendship Commercial Service Corporation and Japan Commercial Conglomerate, named Jin He Sharing Holding Limited Company in 1979 in Tokyo, Japan. Other main international activities involved construction and engineering firms setting up subsidiaries to bid for overseas project contracts and exporting labor. Contractual agreements for construction projects and labor export reached 755 in 45 countries in Asia, Africa, Latin America and Europe during this period of time, with a total contract value worth US\$1.2 billion. While these activities were preliminary and simplistic international business activities, they laid the foundation for further international expansion.

In this phase, the Chinese government only granted permits to large state and provincial trading houses to set up overseas operations. Many of the OFDI projects were set up in developing countries, primarily in Southeast Asia. Wu and Chen (2001) suggest that the government’s diplomatic agenda drove the growth of the first group of Chinese multinationals. However, their earlier experience abroad was not as glorious as their goal was. Many FDI projects were poorly managed and underperformed.

Stage two: 1991–2000 This period marks the first wave of Chinese firms starting initial international expansion. The Chinese government further liberalized the economy and began to grant permits to large SCEs (since 1991) to allow these firms to directly invest in international markets. This move contributed to competitive growth of these SCEs in the international markets (Luo, Zhou, & Liu, 2005). During this phase, the government’s motivation to promote OFDI was driven by the recognition of natural resource constraints to further development as well as the desire to shift mature technologies and industries to other developing countries to maximize profits (Wu & Chen, 2001).

The Ministry of Foreign Trade and Economic Cooperation (MOFTEC) started formalizing administrative measures on outbound FDI projects. Many firms started international expansion in 1996. The number of overseas Chinese subsidiaries reached 5,356 dispersed across over 140 countries by the end of 1997 (Warner et al., 2004).

A significant development during this stage was the increased number of firms listed on developed country stock exchanges. Those firms were listed abroad to raise

equity capital and to establish international brand image and reputation (Hong & Sun, 2006). Capital raised through highly publicized IPOs gradually allowed transnational mergers and acquisitions (M&As) to become the main form of Chinese OFDI and, in the process, led to further privatization of state-owned enterprises (SOEs). As Hong and Sun (2006) point out, the increased M&As by Chinese companies can be explained mainly by the need to access natural resources, overcome the low brand image of Chinese products, and obtain as quickly as possible advanced distribution networks and R&D operations in developed countries.

Stage three: 2001–present This stage marks the acceleration of overseas expansion activities in the form of mergers and acquisitions. It is believed that such an acceleration of internationalization can be partially explained by the perceived onslaught of foreign competition in China after China's entry to the WTO in 2001. In 2004 alone, Chinese firms engaged in 13 cross-border M&As, including Lenovo's acquisition of IBM's PC division at US\$1.75 billion as a response to the government policy to go global (Liu, 2007).

The growth of Japanese MNEs

After World War II Japan's industries recovered quickly and many Japanese firms had expanded overseas by the early 1960s (Lorrinan & Kenjo, 1996). The influence of government policy on the growth of Japanese firms has been widely noted (see Callon, 1995; Hemmert & Oberlander, 1998). Japan is considered one of the world's most active developed economies subsidizing multinational investment through cheap loans and credit to serve its industrial policy goals (Solis, 2003). The phrase "Japan Inc." coined in the 1960s precisely captures the image of close linkage between the Japanese government and large MNEs (Kotabe, 1984). Even in the late 1990s, there remained strong influence of policies on firm activities through institutional arrangements and administrative guidance (Hemmert, 2004). Below, we explore the different stages of Japanese firms' internationalization.

Stage one: 1950 to 1978 This period was characterized by natural resource-seeking investment. The OFDI during this stage concentrated on resource-seeking to supplement its resource poor economy (Park, 2003). The two basic laws—the Foreign Exchange and Foreign Trade Control Law of 1949 and the Foreign Capital Law of 1950—directed Japanese firms in their international expansion activities. Another policy was Japanese government restriction on imports and direct investment in Japan, which was not liberalized until 1964. Without the option to export or directly invest in Japan, foreign firms had to invest through licensing their technology (Odagiri & Goto, 1993). Combined with other incentives such as subsidies, preferential tax measures, and the supply of low-interest loans, these laws facilitated transfer of technology and provided protection to still uncompetitive domestic firms. Many of these domestic firms later became large MNEs and strong competitors in the global market (Sakakibara & Cho, 2002). The introduction of a floating currency exchange system in 1973 further encouraged Japanese companies' overseas expansion.

Stage two: 1979 to 1985 This period was characterized by market expansion investment. Japanese FDI outflow began to surge in the late 1970s. This period saw some significant increase in outbound FDI: The total OFDI reached its peak at \$67.5 billion in 1989. The surge in outbound FDI were concurrent with the revision of the Foreign Exchange and Foreign Trade Control Law in Japan in 1979 (Yoshida, 1987), which marked a shift in the Japanese government policy. For about three decades, Japanese firms were restricted in their international expansion activities by the Foreign Exchange and Foreign Trade Control Law of 1949 and the Foreign Capital Law of 1950. The revision of the Foreign Exchange and Foreign Trade Control Law in 1979 ushered in the era of “freedom” in OFDI for Japanese firms, as contrasted with the era of “prohibition” of OFDI. These policy changes facilitated the overseas market expansion of Japanese firms and, in fact, market expansion was cited as the number one reason for Japanese firms’ investment in the United States (Yoshida, 1987).

Stage three: 1986 to present This period experienced a combination of cost-reduction and market penetration investment. Japanese OFDI increased tremendously since 1985 because of the rapid appreciation of the yen that followed the G-5 Plaza Accord of late 1985.

Since the 1980s, Asia overtook Europe as the second largest recipient for Japanese FDI, behind the US (Peng, Lee, & Tan, 2001). The appreciation of the yen forced Japanese firms to invest in Asia to maintain their cost competitiveness (Fukuda, 1993). Japanese FDI in China increased \$4.4 billion in 1995 and \$5.7 billion in Association of South East Asian Nations (ASEAN) in 1997. The main motive of Japanese OFDI in Asia and other developing countries was cost reduction, as contrasted with market and technology seeking motives in developed economies (Yoshida, 1987). Japanese OFDI increase in Europe in the 1980s and again in the late 1990s may also indicate market penetration motivation, given that Europe was preparing for the formation of a unified single European market (Park, 2003).

Japanese firms’ expansion into the US has been identified as the most successful model among Asian competitors (Willard & Savara, 1988). Such success is linked to Japan’s industrial policies. The Ministry of International Trade and Industry consistently rejected applications by foreign investors to set up wholly-owned subsidiaries or foreign majority-owned joint ventures in Japan (Yamamura, 1986). This effectively allowed Japanese firms to muster all the strengths in the domestic markets without having to divert attention to fight against foreign investors coming to Japan.

Table 1 summarizes various stages of MNE growth in Japan and China and the major characteristics associated with each stage.

Comparing the growth of Chinese and Japanese MNEs

The following section compares the driving forces and nature of firm internationalization in these two countries from institution-, industry-, and resource-based views.

Institutional drivers of internationalization Nolan and Zhang (2002) suggest that the government’s industrial policy and the perceived onslaught of global competition after China’s accession into the WTO in 2001 are the major drivers of international

expansion. This was echoed by a statement made in July 2001 by Bai Rongchun, General Director of Industrial Planning Department, State Economic and Trade Commission, which emphasized the government's resolution to develop 30 to 50 large internationally competitive SCEs from 2001 to 2005.

Institutional drivers can also be seen in China's early inbound FDI (IFDI) policies. In China, IFDI preceded outbound FDI. As early as 1978 (the beginning of Chinese economic reforms), the Chinese government purposefully devised IFDI to prepare Chinese firms to become multinational corporations in the competitive global market (Yang, 2006). Since 1979, inbound FDI has been legally permitted in China. In just 25 years, FDI inflow rose from US\$2.43 billion per year in the early 1980s to US\$153.47 billion in 2004, and China became one of the world's largest FDI recipients in 2002 (The US China Business Council, 2005).

The large injection of foreign capital played a crucial role in China's economic liberalization, and hence the rise of Chinese multinationals (Steinbock, 2005). In the 1980s and part of the 1990s, the Chinese government devised foreign investment laws to enable SCEs to receive foreign capital, technology, and management systems through joint ventures, licensing agreements and other forms of strategic alliances. These large SCEs became sought-after partners of MNEs from developed countries. Over the two decades, foreign firms helped these SCEs adopt latest technologies, western management systems and market practices. They also helped these SCEs acquire foreign capital and international contacts and networks through various partnership arrangements (Zhou, Yim & Tse, 2005).

In contrast, outbound FDI preceded inbound FDI in Japan. The Japanese government and firms resisted the inflow of foreign capital for a long period of time after World War II through the Foreign Exchange and Foreign Trade Control Law, the Foreign Capital Law, and the corresponding administrative mechanisms. Instead, the government policy encouraged domestic firms to expand abroad (Odagiri & Goto, 1993). This facilitated Japanese MNEs to accumulate international market experiences in a protected environment.

While the sequence of the internationalization process in China and Japan differed, regulatory institutions played an important role in firm international expansion in both countries.

Industry drivers of internationalization According to the industry-based view, the size and the nature of industry in the domestic market could affect the growth of a firm. Compared to Japan's 130 million population, China has a 1.3 billion population, which provides the largest domestic market in the world. This may explain in part why many Chinese firms were less motivated to expand abroad than Japanese firms. For instance, Legend Group, known as Lenovo since 2003, was established in 1984 and entered the Hong Kong market in 1988 but decided to move back to focus on the domestic market and became the market leader in 1996. Lenovo did not implement an international strategy until 2004 when it acquired IBM's PC division (Quelc & Knoop, 2006).

The domestic market in Japan is much smaller compared to China, but more competitive and sophisticated (Japanese consumers demand high quality products). It allows firms to acquire critical capabilities, but inhibits them from further growth domestically. For instance, Sony was established in 1945 and entered the US market

years later after the domestic market limited its growth. Japanese firms also closely monitor and imitate their rivals. When companies expand abroad, their competitors are compelled to do the same, not necessarily out of a direct imitation, but so that they pay attention to the strategies employed by competitors (Hanssens & Johansson, 1991). When large firms in a *keiretsu* expand abroad, their suppliers in Japan are compelled to follow them overseas (Banerji & Sambharya, 1996), which may be called the “*keiretsu*-ization” of Japanese FDI (Peng et al., 2001).

Resource drivers of internationalization The RBV literature on subsidiary capability-building suggests that capability flows in MNEs are not necessarily a one-way process originating from headquarters and that subsidiaries can develop firm-specific advantage (Luo & Peng, 1999; Peng & Wang, 2000). MNEs accumulate managerial resources in the new market and contribute further to its advantage (Birkinshaw, Hood, & Jonsson, 1998; Ghoshal & Nohria, 1989; Gupta & Govindarajan, 2000). That is, a firm is not just reactive, it is also proactive in that it creates new management techniques (Birkinshaw, 1996; Horaguchi & Toyne, 1990). Research also looks at FDI as networks that access technology from different subsidiaries and share such technology within the organization (Bartlett & Ghoshal, 1989).

Resource-seeking motives are evident in both Chinese and Japanese firms' internationalization. Li (1993) found that 94% of subsidiaries of Japanese firms were joint ventures and only 6% were wholly-owned subsidiaries. Similarly, Chinese MNEs tended to prefer joint ventures. Kang and Ke (2005) reported that 79% of Chinese MNEs' operations abroad were joint ventures and only 21% were wholly-owned subsidiaries. Joint ventures allowed Chinese MNEs to exploit necessary assets through their partners. Both Chinese and Japanese firms started mergers and acquisitions at a much later stage than their Western counterparts. Japanese MNEs started M&As 35 years after their initial international expansion, whereas Chinese MNEs started 25 years after their initial internationalization.

It should also be noted that the cluster model worked differently in China and Japan. Global learning has been effective in close knit Japanese *keiretsus* through their overseas subsidiaries. This *keiretsu* advantage comes from cooperative specialization among member firms (Peng et al., 2001). This may not be true for Chinese MNEs, because the state-owned enterprise system does not easily lend itself to allow the existence of networks made up of small medium size firms allying with large MNEs.

In summary, industry-, resource-, and institution-based views help explain the growth of Chinese and Japanese MNEs and delineate their similarities and differences.

Haier's and Matsushita's internationalization

Having outlined the generic similarities and differences between Chinese and Japanese firms' internationalization, we now present two case studies to explore institution-, industry- and resource-drivers of internationalization and illustrate the similarities and differences in the internationalization process between Haier and Matsushita.

Haier Electronics Group

Haier Electronics Group, the leading electronics company in China and the world's sixth largest home appliance maker, was established in 1984. Haier's predecessor was the Qingdao Refrigerator Plant, and Mr. Zhang Ruimin was appointed as the plant director in 1984. Haier's internationalization strategies were formulated from the initial stage of its development. It imported technology and equipment from Liebherr, a German company, to produce several popular refrigerator brands in China. Meanwhile, the company expanded cooperation with Liebherr by manufacturing refrigerators based on its standards, and then they were exported back to Liebherr, as a way of entering the German market. In 1986, Haier's total exports reached US\$3 million. Zhang Ruimin commented on this strategy: "Exporting to earn foreign exchange was necessary at that time. However, it was only one of two purposes. The other purpose was to make our brand names famous internationally."

After a number of years of experience as an exporter, Haier started greenfield investments in Indonesia and the Philippines in 1996. This was followed by a few more FDI projects in other developing countries before launching its first operation in the United States in 1999. Starting in 2001, Haier embarked on the process of acquiring other companies overseas.

Haier set up its North American division in New York City in 1999, and targeted at acquiring Maytag Corporation in 2005, but withdrew from the bid. In 2007, Sanyo Electric Co. and Haier agreed to launch a joint venture to develop and sell refrigerators. Sanyo will own a 40% stake and Haier will hold 60% in the Tokyo-based joint venture named Haier Sanyo Co.

Although Haier manufactures 250 product lines at home, its US entry, started in 1994, side-stepped market leaders such as GE and Whirlpool by focusing on a very narrow segment. Haier has so far concentrated on a niche market in the United States—mini-fridges that serve hotel rooms and dormitories and wine coolers. In 2000, Haier established a design center in Los Angeles, and a manufacturing facility in Camden, South Carolina, which bypass the non-tariff barriers imposed by the United States on imports of appliances.

Matsushita Electric Industrial Co., Ltd

Matsushita Electric Industrial Company, known as a worldwide leader in the development and manufacturing of electronics products, was established in 1918. The company actively built up its *keiretsu* earlier than its competitors in Japan such as Toshiba, Hitachi, Sharp, Sanyo and Mitsubishi. Matsushita established its export trading department in 1932, and in 1939, 21 years after the establishment of the company, it first attempted an overseas venture in Shanghai, China. Matsushita established its first FDI after WW II—a manufacturing facility in Thailand in 1961 and opened many operations in developing countries in East Asia and Central and South America, at the requests of host governments.

In the 1970s, US manufacturers became concerned about the increasing sales of imported Japanese color TVs and filed an antidumping suit. Matsushita was forced to respond and established a color TV plant in Canada in 1972, and acquired Motorola TV Division in 1974 (Ghoshal, 1990). During the 1980s, the company

launched an “Operation Localization” project in an attempt to boost overseas production from less than 10% to 25%, or half of overseas sales, by 1990. By the mid-1980s, overseas subsidiaries were allowed to purchase minor parts locally. Matsushita’s history witnessed some major expansion, including the US\$1.6 billion acquisition of MCR in 1991. Another major strategic shift was moving production to low-cost Asian countries. The company continued to restructure its management and operations to achieve global competitiveness throughout the 1990s and early this century.

Comparison of the internationalization of Haier and Matsushita

Although Haier and Matsushita started international expansion at different times, their process was very similar, albeit the length of time to reach each stage varied a great deal (see Figure 3). Both firms started with greenfield investment and then moved to acquisitions. Matsushita started small-scale acquisitions in 1973 and launched large-scale M&As in 1990. Similarly, Haier started small-scale M&As and attempted to acquire Maytag in 2005. However, it took Haier 6 years to expand from exporting to building an overseas plant whereas it took Matsushita 29 years to do so. It took Haier 3 years to expand FDI from developing countries to developed countries. In contrast, it took Matsushita 7 years to do the same. It took Haier 5 years to move from building the first overseas plant to the first acquisition, whereas it took Matsushita 12 years to do so. While Matsushita spent 35 years to establish its first R&D center overseas and the number of such centers reached 14 in 1997 with over 300 employees, Haier spent less than 10 years after its first foreign venture to build

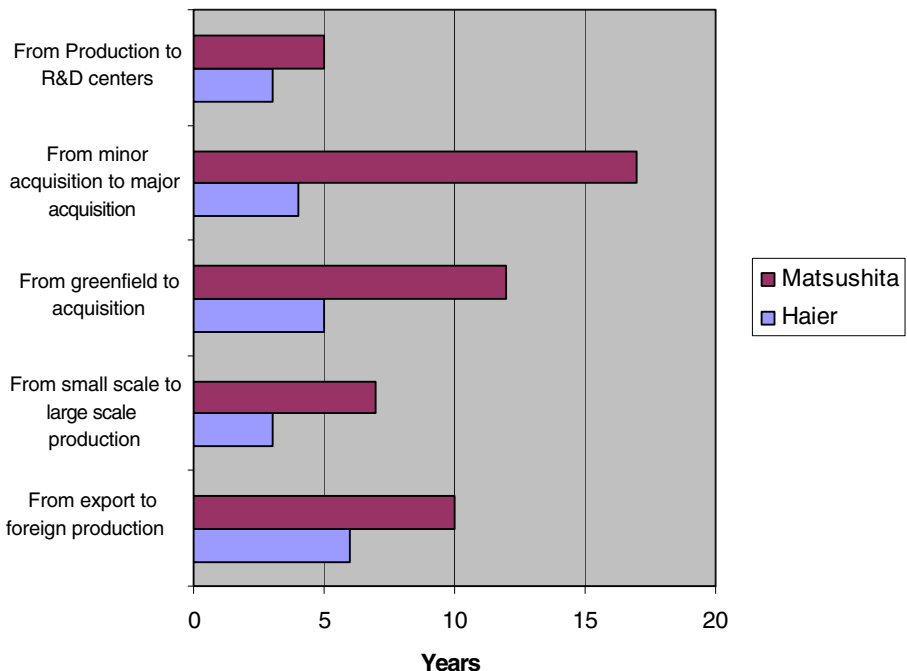


Figure 3 Comparison of internationalization process in Haier and Matsushita

nine R&D centers. Firms such as Haier are labeled as “latecomer MNEs,” and they have pursued accelerated internationalization and acquired global reach much faster than their predecessors (Mathews, 2006: 10).

Institutional drivers Both firms started with experimenting exportation and then established export departments to manage exporting regularly, and finally engaged in FDI activities. They both started FDI to bypass trade barriers on exporting. In the case of Matsushita, the company entered into culturally close countries in Southeast Asia first before entering the US market, which reduced the problem of cultural differences between home and host countries at the beginning of foreign entry. Haier followed the path of Matsushita in terms of FDI sequence: Haier’s initial stage of internationalization also focused on Southeast Asia to build volume and accumulate international experience. This is because resources may be more readily applied to institutional settings similar to the home setting.

As a MNE’s home country’s institutional framework becomes better developed, the MNE is more likely to engage in rule-based and market-centered strategies in its FDI (Carney, 2005; Peng, 2003; Yeung, 2006). A significant feature of the institutional framework in China is that it is subject to contextual change and transformations due to the rapid interpenetration of globalization during the 1980s and 1990s (Yeung, 2006). Chinese MNEs, such as Haier, are not only products of the institutional changes, but also key players in affecting the changes in China (Peng, 2003). Haier’s first overseas joint venture was launched in Indonesia on December 6, 1996. It demonstrates that Haier took an important step towards internationalization. This was followed by a few more investment projects in developing countries before it invested in the US in 1999.

In emerging economies, with the institutional context characterized by low resource munificence, international venturing requires a firm to engage in activities for new business creation in a foreign country (Yiu, Lau, & Bruton, 2007). Haier’s FDI in the US manifested this type of venture. Instead of distributing their existing products in the US, Haier innovated new products for the US market.

The establishments of a refrigerator plant in South Carolina and a design center in Los Angeles in 1999 helped Haier bypass non-tariff barriers and expand its market in the United States. With a total investment of US\$30 million, it became the largest foreign investor from China in the US. Haier is illustrative of the trend of R&D units being located in developed countries. This bears similarities with Matsushita’s expansion into North America in the 1970s.

Industry drivers From an industry perspective, each industry’s unique competitive pressure is likely to result in different levels of globalization (Prahalad & Doz, 1987; Yip, 1992). Chang and Rosenzweig (2001) posit that industry growth rate and the speed of industry globalization is related to FDI. The similarity between Haier and Matsushita is that both were pressured to internationalize as the industry globalized. Because of the underlying structure of the electronics industry, firms are pressured to adopt more innovative strategies (Miles & Snow, 1978), and to internationalize (Kobrin, 1991).

The limited domestic demand was an impetus for Matsushita to expand overseas—a push effect from the domestic industry. When the domestic market was saturated, and the Japanese Yen appreciated, Matsushita was pushed to seek markets abroad.

In contrast, a pull effect from the foreign industry—firm rivalry in the industry in foreign markets—can be applied to Haier. FDI from emerging economies may be pulled to the developed economies. Since China joined the WTO, almost all the international major competitors have entered China, establishing wholly-owned companies. In order to gain direct access to natural resources, overcome the poor brand image of Chinese products, and obtain advanced marketing and R&D operations in developed countries, the setting up of FDI in its competitors' backyards is a necessary strategy for Haier. Instead of making standardized products, Haier entered into the US with customized products: the mini-fridge. This decision was affected by the industry development in the host country. Given the mature nature of the industry in developed economies, MNEs from emerging economies have to create a niche market to survive; that means these MNEs have to be more concerned about local responsiveness (Pralhad & Doz, 1987) than global integration (Bartlett & Ghoshal, 1989).

Resource drivers Haier owes its success to its president and CEO Zhang Ruimin, who set the target (and succeeded) for the company to become China's first multinational firm. Zhang, a former bureaucrat in charge of overseeing state factories, has been called a Confucian capitalist for his success in innovation and employee motivation. Haier also hires local managers in FDI. Haier hired a local American to be the managing director when it built its plant in 1999 in the US and the managing director remains with the company. In fact, all employees from its general manager and assistant managers to office staff are Americans. Only the chief financial officer has been sent from head office.

In contrast, Matsushita has never hired any locals for such senior positions (Liu & Li, 2002). Matsushita's president Yoichi Morishita states: "I think it is important to be firmly anchored in Japan. This means that the principle source of innovation must continue to be our domestic operations. We must come up with new technologies and methods in Japan that can be applied in our global undertakings." Ryoji Mita, General Manager of the International Cooperation Office at Matsushita adds, "In our case, as an electronics manufacturer, basic R&D will definitely stay in Japan, to compete with other corporations. But as for more short-range R&D, such as product design, we want to transfer this as much as possible to the area where production is done."(Mainichi Daily News, 1996).

The different approaches to hiring managers in FDI manifest the differences between FDI from emerging economies and advanced economies. The RBV literature on subsidiary capability-building recognizes that firm-specific advantages can be developed in subsidiaries and flow to headquarters (Luo & Peng, 1999; Peng & Wang, 2000; and Elango & Pattnaik, 2007). Exploring US advantages through subsidiaries is more important for MNEs from emerging economies where technology still lags behind. Hiring local managers in Haier is consistent with exploring local competitive advantages and facilitating knowledge flow from the subsidiaries. In contrast with FDI from emerging economies, home advantage exploitation is more important for MNEs from developed economies (Kogut & Chang, 1991). This could explain the reasons that Matsushita sent expatriates to subsidiaries for senior management positions and kept innovation in the domestic operation to maintain firm specific advantages in the early stages of internationalization.

Discussions

Path to internationalization: Similarities and differences

This paper contributes to our understanding of the similarities and differences in the internationalization process in Chinese and Japanese MNEs through lenses of industry-based, resource-based and institution-based views. Indeed, our study suggests that the Y model of internationalization (Peng, 2006), when applied to Chinese and Japanese MNEs, has the potential to explain differences and similarities in country regulations and norms, industry structure and development, and firm characteristics.

Both China and Japan actively adopted industrial policies, which provided impetus for domestic firms to expand abroad. However, the implementation process of internationalization and the nature of the firms in these two countries are different. In China, IFDI preceded OFDI and the Chinese government proactively attracted inbound FDI since the beginning of economic reforms; whereas in Japan, outbound FDI preceded inbound FDI and the Japanese government restricted inbound FDI for a long period of time. The leading Chinese MNEs are primarily state-owned or state-controlled enterprises, whereas Japanese MNEs are non-government owned or controlled firms.

It is also important to note that while national and host country governments play an important role in MNEs international expansion, the supernational institutions, such as the international trading system, also have a bearing on MNEs' international expansion. While many Japanese firms shifted from export-based operation to foreign production as a result of the pressure from the international trading system, many Chinese MNEs went abroad in anticipation of China's accession to the WTO in 2001 and the imminent cut-throat global competition in the domestic market.

The size and sophistication of the home market may impact the motivation to expand overseas. Chinese firms appear to be reluctant to shift their attention to global market at the expense of losing focus on the huge domestic market. When they do expand abroad, they are more interested in establishing global brands which further consolidate their competitive position in the domestic market (where they have to compete with leading global brands). Another major motivation of Chinese MNEs is to transfer technological and managerial know-how back home through their overseas subsidiaries. Unlike Chinese MNEs, Japanese firms appear to be more motivated by overseas market expansion because their domestic market size is limited. Their sophisticated technologies and marketing skills allowed them to quickly penetrate the international market and establish brand names. Thus, for many years, Japanese MNEs were reluctant to have core technologies developed in their overseas subsidiaries.

These differences and similarities are manifested in companies' paths to overseas expansion, entry mode, and subsidiary management. The two case studies on Haier and Matsushita further illustrate the impact of institutional environments, industry structures, and firm resources on companies' international expansion. Haier's internationalization underpins resource-seeking motivations, coupled with the need to build a global brand. However, Matsushita was primarily motivated by avoiding trade barriers and antidumping charges. Both firms took very similar paths to

internationalization, but with different speeds. Latecomer MNEs like Haier have to speed up their international expansion and be quick in global learning through their own subsidiaries to discover new opportunities (Mathews & Zander, 2007) and acquire critical assets from mature MNEs (Luo & Tung, 2007).

Conclusions

We contribute to the literature by building on the Y model of Peng (2006) to address the influences of institution, industry, and resource drivers on the firm internationalization process. We suggest that how firms internationalize, in addition to being influenced by industry- and resource-based considerations, is inherently shaped by the domestic and international institutional frameworks governing these endeavors. To study firms' international expansion, one needs to understand the institutional changes and the environmental dynamics over time. In addition, we suggest that the integrated Y model provides a holistic view to study the interaction among institution, industry, and resource drivers in firms' international expansion. We call for future studies to investigate the influences of industry, resource and institutions on the behaviors and outcomes of Chinese firms' international expansion in longitudinal studies. Furthermore, we may gain more insights from studies that compare and contrast the internationalization of firms in China and other Asian countries.

We hope that our comparative analysis will provide insights to Chinese policy makers as to how to devise conducive outbound FDI policies in the future. We also hope to provide insights to international managers on how to successfully internationalize their business. However, we would like to caution that successful experiences of their predecessors, mainly Japanese MNEs, may not be duplicated without substantial modification. The industry conditions, resources and capabilities, and institutional environments are no longer the same for Chinese firms today as they were for Japanese firms decades ago. To succeed in today's competitive international marketplace where nearly all the turf has been carved up, latecomers like Chinese multinationals have to move up the learning curve quickly, follow the international rules of the game, and turn disadvantages into their competitive advantages. Chinese firms that have the intention to internationalize need to acquire a strong foothold in the domestic market as Japanese firms did. Doing so will allow them to build brand recognition, and formulate investment strategies, as well as acquire the necessary organizational, financial, strategic, and technological capabilities needed to compete successfully in the global market.

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Xiaohua Yang (PhD, University of Kansas) is a Senior Lecturer in the School of Management at Queensland University of Technology. She has presented and published her work in the leading management journals and conferences around the world. She has taught in the United States, Australia, China, and Taiwan and lectured in Europe. Her research interests are in the areas of global strategy, expatriate management and corporate social responsibility. Her current research is on internationalization of firms in emerging markets.

Yi Jiang (PhD, The Ohio State University) is an Assistant Professor at California State University, East Bay. She has published her research in leading management journals and presented her papers in management conferences. Her research interests are in the areas of international business, corporate strategy and corporate governance. Her recent research interests include privatization and corporate governance in emerging economies.

Rongping Kang is a Senior Researcher at Institute of World Economics & Politics, Chinese Academy of Social Sciences. His research interests are in the areas of Chinese corporate strategy. His current research is on internationalization of Chinese firms.

Yinbin Ke is an Assistant Chief Editor, Peking University Business Review. He graduated from Dalian University of Technology with a BSc. His research interests are in the areas of Chinese corporate strategy. His current research is on internationalization of Chinese firms.