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MEDIUM SIZE MULTINATIONAL FIRMS INTERNATIONALIZATION STRATEGIES: WHEN SIZE MATTERS IN CHINESE MARKETS

Tiziano Vescovi - vescovi@unive.it  
CA

Andrea Pontiggia - pontiggia@unive.it  
CA

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### ABSTRACT

This paper illustrates a framework and empirical results of an investigation to understand how and why MMNEs (Medium-size Multinational Enterprise) internationalization strategies deviate from the more established strategies of multinational and global companies (MNEs). We study a sample of Italian MMNEs, analyzing the strategic and governance models adopted in Chinese businesses and markets and the relationship between the headquarters and the overseas branches in China. The qualitative analysis complies with the research requirement to collect evidences on a precise point in time (2012) and over a more extended period of time (time of entry in China). This paper investigates the specificities of medium size international firms focusing on two particular factors: "mirroring effects" and "acquainted markets". The "mirroring effects" refer to the adaptation process and in the our sample, the governance forms are strongly affected by the following features: first, the size does not fit the potential or actual dimension of market (size factor); Second, the "acquainted markets" decreases the difficulties to access to the countries' markets. Our results show that MMNEs are prone to mirror home and existing organizational forms. They tend to replicate their existing business models to enter into "informed" and "experienced" markets. Our study explains the international strategies of MMNEs leveraging the capabilities to replicate organizational and business models, and availability of accustomed and informed markets. It follows that most successful MMNEs tend to implement a second mover strategy in Chinese markets. This paper contributes to the international management studies with the following results: i. Observations of the managerial paradoxes of SMEs in large markets and how MMNEs are emerging as a critical player in the global economic scenario; ii. Development of a framework tested on preliminary evidences, fostering the interest on "size paradigm" in international competition.

Keywords:

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This paper investigates the specificities of medium size international firms focusing on two particular factors: “mirroring effects” and “acquainted markets”. The “mirroring effects” refer to the adaptation process and in the our sample, the governance forms are strongly affected by the following features: first, the size does not fit the potential or actual dimension of market (size factor); Second, the “acquainted markets” decreases the difficulties to access to the countries’ markets.

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## 1. Introduction

The strategies of internationalization have been one of most relevant topics in managerial literature in the last two decades. Although new perspectives are flourishing and new approaches integrate different knowledge and competences of several disciplines there is a sort of "myopia" caused by the object of analysis: the Multinational Enterprise (MNE). It's not the case here to debate the reasons but we need to realize some consequences: it's evident the lack of deep understanding of Small and Medium Size Enterprise (SME)

internationalization strategies. For example the literature on international strategy has helped us to understand that the optimal MNE strategy achieves cost as well as differentiation advantages by leveraging the diverse capabilities of constituent subsidiaries (Mudambi and Navarra, 2004). Moreover, a growing interest goes to the multinational firms of emerging countries entering into developed countries. Again these are examples of how the focus is on large companies in global market. The consequences are twofold: first, theoretical frameworks build on large size multinationals show limits to be adopted in studying medium size organization; second effect is a narrow understanding the economic impact of medium size firms in international markets.

The argument to be made in this paper is quite simple: how medium size multinational enterprises (MMNEs) innovate in implementing internationalization strategy? How the difference of scale and size affect the internationalization strategies? How do MMNEs compete in large market? In other terms what is wrong with the assumption that large market fits (or required) large firms. The results of our exploratory research clearly demonstrate that "one size does not fit all" and contribute to refresh the interest on "size paradigm".

This paper illustrates a framework and some preliminary results aim to comprehend how and why MMNEs' internationalization strategies deviate from the more established strategies of multinational and global companies (MNCs). Our research is focused on MMNEs in China. Two main reasons drive us to consider Chinese markets: first, it's the relevance of Chinese economy in the global competitive arena. Some observers emphasize the move of the economic center to the East — specifically towards China and other emerging markets in Asia. Until now, the globalization has been ruled by developed-countries. The second motive to focus on Chinese economy and markets because it challenges of established perspectives, as some authors underline differences generates a conflict between the so called Washington consensus versus Beijing consensus (Lou, et al. 2011).

In other terms the massive and complex changes China has experienced justify the need to

comprehend deeply how to align international strategies to Chinese institutions, including political, economic, and enterprise ownership structures. The institutional changes have weakened the constraints and limitations of the old economic systems and led to the extensive structural transformations increasing competition in many markets. The number of private firms flourishes (Zhou and Hui, 2003).

In what follows, section 2 presents the theoretical background focusing the international firms size. We offer a definition of Medium-size Multinational Enterprise (MMNE), which is our research focus. Section 3 shows the research framework. We report three main research propositions based on the specificities of MMNE. Section 4, we outline the preliminary findings and the results of field study. Then section 5 highlights managerial implications and finally, last section identifies some key questions for further research on international management.

## **2. Theoretical Backgrounds**

For long time the evidences by empirical studies on internationalization strategies have been absorbed by MNEs of developed economies. International business has long been seen as an exclusive domain of large companies. Recent evidences show that internationally small and medium-size enterprises (SMEs; defined here as firms with 500 or fewer employees, a definition used widely in industrialized countries) are becoming more active internationally. Evidence from Asia, Europe, and North America indicates that increasing numbers of SMEs are involved in international trade. Pioneering global start-ups now account for a substantial portion of growth in export in many countries. In recent years, numerous trends have emerged that make exporting and other international involvement a strongly viable alternative for the SMEs. To our best knowledge the understanding of how the international presence is insufficient to measure sustainability and feasibility of MMNEs.

Differences between MNE and MMNE can be traced both looking the modes (how) and the

actions (what) implemented in international context. Basically strategic drivers reflect the stock of resource availability and the models of exploitation. It follows that the international competitive arena size matters because it forces the innovation process of governance structure and forms. The size effects can be observed at two levels: first is the stock of resources to invest to gain new foreign, overseas markets (not limited to marketing and sales but also manufacturing and logistics); second, the organizational capabilities to combine quickly and to move faster than MNE, typical of smaller and entrepreneurial firms.

The evidences from the field (see section 4) confirm the challenge and difficulties faced by MMNEs to explore and implement new governance forms. The mere imitation of international modes from MNC is not feasible and sustainable and the data collected seems to confirm a tendency to replicate models and routines and to deploy them from the home organization to overseas units. Economies of replication and scarce resources suggest and explain these traits in the internationalization behavior of MMNEs.

Two sets of firms' characteristics are to take into consideration. The first is often mentioned as a marker of small and entrepreneurial firms and refers to flexibility, adaptability, reactivity and agility (Volberda, 1996). Second it is the limited stock of resources available or controlled. Here resources include all different types, from tangible to intangible resources, from specific and unique to resources tradable, from financial resources to intellectual property rights (Yiu et al., 2007).

**The paradigm of Size:** Some issues, in particular firm size and market size, come back as critical in choices of economic and industrial policy, and heavily affect the strategic decision making. These two dimensions are an important point of connection between macro and industry studies and more micro researches, focused on individual companies. Today internationalization strategies, because of the nature of the current political and international relations, seem not to be limited to the largest companies; increasingly in the last twenty years appeared subjects who previously were excluded to international markets.

Some studies of internationalization are strongly rooted in past models, where the systems were disconnected and where political relations favored the larger companies. The small and medium enterprises (SMEs) have begun to play a critical role in international trade. Statistics from the Organization for Economic Cooperation and Development (OECD) and other sources suggest that SMEs account for a very substantial proportion of exports from most industrialized nations (Knight, 2001).

The size of a firm is indicative of resources available and correlated performances in terms of economies or diseconomies of scale and scope. Large firms do not suffer from the liabilities of smallness, and they are more likely to survive compared to smaller firms (“too big to fail” effect). Foreign economic subjects, such as customers, suppliers, employees, and investors tend to feel more confident interacting with larger firms because size suggests greater reliability and ability to conduct business and to access financial resources.

**Entrepreneurship and Size:** With the increasing globalization of markets, interest in international entrepreneurship has grown rapidly over the past two decades (Keupp and Gassmann, 2009; Zahra and George, 2002). A major feature of the global economy during this time has been the liberalization of emerging economies and their integration into the worldwide economy. A common factor of international entrepreneurship development research is a focus on entrepreneurial characteristics such as self-commitment, self-efficacy, dynamism, experience, and motivation as mechanisms for overcoming environmental adversities when founding, managing and internationalizing firms in emerging countries. The results of these researches propose that individual level characteristics are actually more important than firm and industry level characteristics in overcoming resource and market constraints. These studies are also important from an economic policy perspective: they underscore the negative perceptions that entrepreneurs in some emerging economies have regarding the quality and/or accessibility of information provided by governmental agencies in connection to various aspects of the entrepreneurial process. Limited availability of or

access to information suggests that entrepreneurs often need to rely exclusively on their own abilities to overcome institutional deficiencies and other obstacles.

A large part of the literature of SMEs emphasizes the role of the entrepreneur as the strategy maker. In doing this some authors highlight the limits of an individual decision making centralization underlines a need for a more managerial component in order to ensure the development. The growth seems to suffer from the limits of the minor size and from a sort of cognitive blindness on strategic issues. Differently the literature about large global companies emphasizes the relationship between stockholders and managers or the agency dilemma caused by potential disagreement on strategic goals. The medium size firm may suffer the syndrome of being “stuck in the middle”. But also it presents the advantages of the flexibility of the small and the availability of resources needed to be competitive in international markets with high-end products and services. Some advantages comes from the lean managerial structure and less bureaucratic; decision making can not be totally centralized but without a long line of command; hierarchies exists without the disadvantages of a too complex structure based on double reporting and two o three bosses hierarchies such as matrix structures. Finally the medium size companies are neither a developed "small" firm nor a lean large company. These medium size specificities insinuate that MMNEs seems to fit perfectly with the dynamic and hyper competitive global economic arenas.

**Limitations of Size Taxonomy.** The size classification of EUROSTAT (Medium firms 50 to 249 employee and large firms from 250) defined and used by EU does not support the analysis and affects negatively the economic policies. These limitations are evident when we approach the internalization processes. For example if we consider European Unions actions, the Small Business Act for Europe has recognized “the central role of SMEs in the EU economy” (EU, 2008). It emphasizes the role of SMEs to promote their growth and job creating. Although the recognition of the SME is clearly too broad and biased by the size limits, it follows that a new definition of size classes is needed at least in the international

trade and competition.

There are several definitions of the medium size international company (Ruzzier et al. 2006), we consider Medium Sized Multinational Enterprise (MMNE) a firm with the following characteristics: i. number of employees from 250 to 2,500; ii. Branches (trade offices, warehouses) established in extra European markets; iii. Production plants out of the home country; iv. Private companies.

The MMNE seems to operate in international markets exploiting the advantage coming from its relative flexibility of governance and routines and overcome some of the issues created by insufficient resources. The lack of resources for internationalization is for many smaller firms an obstacle to develop and to implement international strategies. The need to join resources among different firms or to enter in new markets using inter-organizational relationships and agreement, or institutional mechanisms of alliances suffer from many limitations. The so-called ambidexterity by size refers to the capabilities shown by MMNEs to enter in the global competitive arena, using a balanced mix of flexibility and stock of resources.

MMNEs compared to MNEs suffer less from bureaucracy or high organizational cost. They are often more innovative, more adaptable, and have quicker response times when it comes to implementing new technologies and meeting specific buyer needs. The growing role of direct marketing, global transportation specialists and buyers with specialized needs support the SMEs to serve niche market segments (Oviatt and McDougall, 1995). Entrepreneurial firm seems to be capable of succeeding in the highly competitive environment of international trade. But we recognize some constraint's to compete directly in large overseas and emerging market in many industries B2C since the MMNE my not own or control resources sufficient to develop and operate in large markets. A growing demand of mass product/service or the "creation" of new markets is sustainable and feasible in term of resources at least. Many examples come from Chinese markets: low performances are caused

by early entry of MMNEs. The MMNEs operating in the international arenas are competing against the MNEs multinational leveraging specialization, agility and flexibility. We expect to observe more successful MMNEs in specific segment of emerging markets where the demand for specialization and niche products is stronger demanding flexibility and adaptability.

The size paradox is drawn from an over-simplified framework based on comparison of asset between large versus small firms. The first ones may follow an innovative path based on resources to invest in innovation. At the opposite the small firms are depicted as more effective in innovation because of their entrepreneurial governance. In the same way size affects the interorganizational strategies, in other terms how large versus small firms approach the relationship with suppliers and customers, how they establish linkages and cooperate with other external sources of innovation.

In managerial literature the internationalization is often considered as one of main driver to innovation. It is less obvious which type and modes of innovation is requested. If we considered the MMNEs we should expect that they balance some advantages of small companies (i.e. flexibility) without the disadvantages (scarcity of resources). In broad term we expect to see MNEEs to emerge as very successful in international context. This line of reasoning shows some pitfalls and partially support by the evidence. Field observation based on our sample of firms shows two characteristics we define “mirroring” and “acquainted markets” which affect the performances and the specificities of MMNEs.

### **3. Research Framework**

Our study of the MMNEs is articulated along two research propositions. The research propositions are summarized by two factors: the first is the mirroring and replication economies and the second is referred to the “informed and acquainted” markets. Mirroring and replication strategies concern the internationalization modes, and more precisely how

MMNEs exploit their internal knowledge and experience in emerging markets. Their business and organizational models are replicated with a partial adaptation to the target country. The tendency shown by the MNEEs of our sample is to leverage their core competences in term of routines and practices in Chinese markets. The second effect refers to the type of markets to which MNEEs concentrate on. Acquainted markets show a more informed demand and customers behaviors (and choices) are affected by previous experiences. From a normative perspective, MNEEs tend to have higher probability to succeed in markets “informed” implementing second mover strategies.

### *International mirroring and replication of organizational forms*

The organizational forms are defined as the configuration of structures, processes and routines. Each form of MMNE can be observed in order to distinguish the differences from the domestic or home organization (headquarters) and the overseas and international units. The implementation and execution of international strategies is largely observable in the organizational forms adopted. We expect to notice some traits of replication in the development of organizational forms in the internationalization actions. We claim the presence of economies of replication, which suggest a tendency to reproduce organizational form in a mimic way. The home model scatters with some adaptations to new markets and into new competitive environments. The replication is observable at the organizational level and offers a perspective more reliable than just the analysis of strategies' statements. Organizational forms are related to the investments of resources and clearly offer insights about the entry and competitive modes in international emerging markets. From an organizational point of view two are the main characteristics of the replication strategies: the first is the modularity, the replication is based on the advantages of modularity (i.e. interdependence and connections); each organizational modules are quite similar, based on the same guidelines, required shared actions and behaviors; each module is an organizational

self-contained unit. Second, the cost of replication is lower because it does not involve large amount of resources for adaptation and no specific learning is required. The successful module is spread and reproduced as a set of guidelines to apply in the overseas units.

The effects are that home or domestic forms (structure, processes and routines) are mirrored in international organizations. It allows equilibrium between home and subsidiaries and lower the coordination and integration costs. The similarities are also justified by the size and the growth of new markets that in many cases have overwhelmed the domestic markets. Moreover the international units have some characteristics, which make them more prone toward strong delegation, self-government and autonomy. Finally replication path seems to decrease the cost of control the subsidiaries; also it may lower the coordination costs caused by the difficulties to establish and to tune the mechanisms for managing the interdependences between the headquarters and the countries branches.

To potential pros we recognize some disadvantages: the most relevant one is the limit to the expansion generated by the misfit between the home competitive context and the target environment. This gap affects the feasibility and sustainability of the business models based on replication for two reasons: the first refer to the types of markets, which are not yet global or mass markets. The second is that specific niche markets may be too narrow to offer a positive economic return of the international investment. In some industries the process of convergence toward a global market goes so fast that in next years organizational replication may become more frequent. In other terms we don't expect the effect of "one size fits all" but a repetition of home organizational forms in different markets. The "nodes" (units) of network (structure) are kept similar to reduce the organizational complexity. Less organizational complexity requires fewer resources to manage the processes and similar routines and structures lower the adaptation costs. In this perspective the international strategic sustainability has to be verified on how the organizational forms matches the target competitive environment. Some development strategies of MMNEs characterized by waiting

for the emerging of acquainted markets delay the entry and become a clear choice to be considered as described in the next section.

### *When the “acquainted” markets drive Internationalization strategy*

We consider an Acquainted Market the market where consumers and customers' knowledge has reached a sufficient level to understand and evaluate correctly the quality differences in the offerings proposed by the competitors (Chang et al. 2010). Acquainted Markets normally are developed, differentiated, segmented markets. MMNEs generally do not refer to the mass market because of its large size and basic characteristics, but they are successful in niche markets, where the offer (product features and marketing mix components) they present contains elements of greater complexity and their value proposition requires customers' competence, knowledge and experiences. The value perceived by the clients depends on the level of knowledge (Grewal et al. 1998) and experience they have about the products and brands, in other words depends upon their ability in recognizing valuable elements of differentiation and higher quality within the offer of the MMNE, compared to the mass market products offered by the MNE, enabling to assign an adequate economic value perception to the proposal of the MMNE. Many competences are acquired and learnt by using and consuming products, from simple products to more complex products, in a sort of learning process, normally lasting for years, made by mean of a knowledge process that has been formed both individually and collectively, that we can call the “value social experience” (Sridhar and Srinivasan 2012). This social-individual process allows the evolution from a mass market, based on an offer characterized by strong standardization, to a niche market, where specificity and differentiation are dominating, following a development that constantly characterized the history of the markets. In the international context, MMNEs should cope very different levels of skills spread among customers, due to different histories of the development of national markets, as seems so evident in the case of China. MMNEs

come from very sophisticated and acquainted home markets, in other words containing marketing educated customers, where they gained the sources of their competitive advantages. In their internationalization process they are targeting markets that may appear inexperienced compared to the complexity of their offer. The availability of an informed and acquainted market affects the decision of MNEE about the timing and the target of entry modes. For many MNEE this means to implement a second mover strategy (Carpenter and Nakamoto 1996), first waiting for other companies, usually larger MNEs, contributing to build the basic skills necessary for customers in order be able to perceive value in their offering. In B2C first player are mainly large multinational companies. In many cases it requires huge investments of resources to create and to shape emerging markets. Since multinational companies acquire a presence in these "new" markets, a learning process affects to consumers' behaviors. For example, in a country like China, where the consumption of coffee has no tradition and consumers did not have knowledge about it, the work made by great multinational companies like Starbucks allows the birth and growth of a coffee market. Subsequently other smaller companies can enter it, as quality niches become possible, offering higher quality products at an understandable higher price, as Illy or Lavazza can do, coming from a sophisticated market like the Italian one, but unable to create basic competence and knowledge about coffee in China, because of their small size that prevents them from have adequate resources to create a value social experience of coffee. Moreover, the literature of internationalization underlines the need to acquire the necessary knowledge about foreign markets mainly from experience in operating abroad. But this is a major problem for the MMNEs as their international experience is limited, and the available resources do not allow them to bear the costs and the time that need takes. This difficulty, which by the way leads to the choice of mirroring and replication seen in the previous paragraph, may be reduced by decreasing the distance between the company and the customers, either through an obvious shift towards customers made by the company (gaining

skills on how to operate in a specific international market) and through a shift towards the company made by the customers (gaining the ability to understand more easily the company's offer).

What is more important, for firms without international experience, incremental internationalization has been argued to be the most efficient approach for international expansion, since it allows firms to accumulate international knowledge and experience that can be used to respond to opportunities and deal with foreign market uncertainties. We must note that the incremental development conflicts with the replication model applied by the MNEE. Foreign market knowledge is classified (Eriksson et al., 1997) in three classes: institutional knowledge, business knowledge and internationalization knowledge.

The first institutional knowledge refers to knowledge of foreign culture, institutions, rules and regulations. Business knowledge is about knowledge of customers, competitors and market conditions in particular foreign markets. The last type, internationalization knowledge, concerns with firm's know-how in terms of adapting resources and capabilities to engage in international operations. Whilst the first two assist firms in being aware of opportunities and problems in the foreign market, the third knowledge component enables the firm to take appropriate action to open up new markets (Lianxi Zhou, 2007). The MNEEs analyzed show a strategic posture based on the replication because the distance between domestic and overseas markets are perceived low enough to sustain the existing business models. Within the business model, which the company refers to, the characteristics of the market in which that model was born and was strengthened, by acquiring competitive advantages and producing profit, obviously play an important role. MMNEs must collect and elaborate all the three types of knowledge to maximize the benefits of mirroring effects.

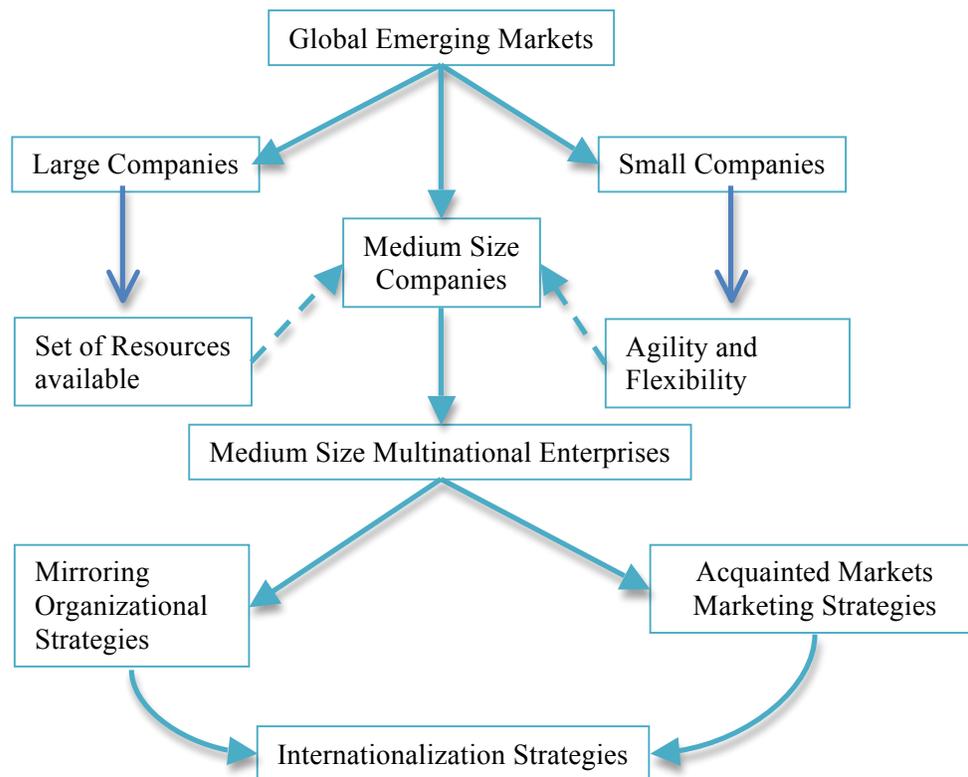
Customers and their consumer's behaviors become increasingly experiences. There is a sort of upgraded of specific segment of these market toward high end products and services. Food and beverage industries offer significant examples of the difficulties of MMNE to gain

access to emerging international large markets. The consumers' shift toward high-end products is restricted and narrows by cultural habit and retailing and distribution structure, and by the comparative costs. These are the representative situation in which the value perceptions of final consumers are dependent from the acquisition of new consumption and use of products. The high end products required experienced customers and this has clear implication on economic and strategic feasibility of MNEE entry modes in emerging markets. The existing customers already operating there explain the MNEEs' entry in new markets. This is typical of the B2B industries, where the main driver derives from the demand to keep the same value chain configuration while in other industries the mode entry is shaped and driven directly by the final markets. For example, our evidence confirm that medium-size companies, specialist suppliers of larger multinational companies, are necessarily driven to the presence in emergent markets by direct request of their customers, that are investing in those markets. Therefore it is not a free and autonomous decision to enter a new market, but rather the need to follow the big strategic customers wherever it is localized. In this sense, the acquainted market of the MMNE is relocating to an emergent country. The development process of B2B MMNEs shows how they are leaded to internationalization first following the customer and then gaining the local market as this becomes acquainted. This explains why MNEE tend to play a role as second movers in emerging markets. In the first stage B2C large companies open and create new markets (supply side development) then experienced and acquainted customers seems (demand side development) to breed a more demand in specific high-end niche. In the case of B2B markets, the customer companies (normally MNEs) decide to enter as first mover and then MMNE follow them, with a second level decision. In this sense we can define them second movers. So the timing of entry mode seems to impact deeply the MNEE performances. In this perspective the exploration of new markets for specific high-end niche requires a deep understanding of how fast is the learning diffusion process of final consumers behavior and the B2B market development in accepting

high quality, and therefore high price, products, moving from a cost-driven strategy to a performance-driven strategy.

*Performances, strategies and size specificities*

The two factors address directly some issues in the theory of firms. First issue concerns with the firm’s growth, the pace of growth and the factors enabling development. Second, the relationship between size and governance and consequently the advantage of specialization, the effects of economies or diseconomies of scope and scale, the effects of size on coordination and transaction costs. Third, the specificities and constrains posed by the size in term of alternative organizational forms and solutions. Fourth, specular to previous points the characteristics of organization, which are invariant to the size, the effectiveness of collective and individual involvement depending on the firms' size.



**Figure 1: An Analytical Framework of MMNEs’ International Strategies**

Figure 1 refers to the research framework we considered in developing our study. In the

markets, following the dimension paradigm, we have three archetypes of companies: large, medium and small. The definition of the boundaries between the three (turnover, employees, etc.) are still under discussion, but in this context what should be underlined is that Large companies rely mainly on resources (financial, human, technological, etc.) availability and, on the opposite side, Small companies rely mainly on their agility, while medium size firms look for an ambidexterity mixture of resources (not so huge as large companies) and agility (not so flexible as small companies). Resulting from these preconditions, the internationalization model of the MMNEs should find its strength on two conditions of simplification: “mirroring” organizational strategies, an internal based condition, and “acquainted markets” marketing strategies, an external based condition. From the factors we draw the field study outlined in the next section.

#### **4. Field Study: Methods and Evidences**

Our purpose is shed light and interprets the size paradigm in internationalization strategies of MMNEs in China. It follows that companies that have already decided and implemented strategic action to get into Chinese market compose our sample. We study firms in different stages of internationalization, which are strongly motivated to invest in China. Our research is designed using a multiple-case and multiple-level analysis. The evidences are collected in a 3-month field study of the 3 of 8 firms. The other 5 cases are studied using interviews to entrepreneurs and managers and analysis of the documentation on public sources and if available private records. The field study has conducted involving the firms' informants when possible more than once during the case analysis, to collect deeper information.

For this study we use qualitative research design, which is congruent with the emergent nature of our knowledge of internationalization strategies. We adopt a multiple-case, multiple-level study design because it enhances complex and dynamic analysis and facilitates the induction of a richer and grounded framework than a single-case, single-level

study (Eisenhardt 1989; Yin, 2004). The building of theory on the basis of multiple case studies involves replication logic, because each case is a distinct experiment that stands on its own, and researchers search for recurring patterns.

Data collection was based on interviews with top managers, internal documents, meeting with management and information from public sources. For three of six cases the researchers before interview and collect data, have the opportunity to use participant observation. The interview permitted the collection of both factual information (for example, dates, events, incidents, policy, and actors involved) and open-ended narrative data.

The documentary research, field interviews and analysis have been accomplished from 2011 to 2012. A second part of our analysis consisted of corporate visits, the collection of archival material, and informal and formal interviews. We identified as informants senior and top-managers that were knowledgeable about the corporate governance systems and practices of their firms.

Companies	Total Employees/revenue (mil €)	Products	Size in China (n. employees/revenue)	Year of establishment	Objective of entry in China	Entry Mode	International presence	% of international revenues
A	750/155	Home appliance components	5/12*	1997-2009**	Supply big customer	Export-factory project	Brazil, Mexico	80
B	2,800/650	Weaving machines	150/40	2003	Entering important market	Assembling and adapting products	Swiss	75
C	1,200/300	Ceramics material handling systems	80/9	1999-2004**	Entering important market	Factory	20 branches and factories	70
D	350/55	Rides and attractions	45/7	2004	Entering growing market	Factory	5 branches, 4 factories	98
E	250/50	prams and strollers	3/1*	2000	High end growing market	Export	10 branches	50
F	800/180	Tire changers, balancers	50/10	2010	Supply big customers	Factory	8 factories	80
G	2,100/201	Food & Beverage - restaurants	70/2.3	2008	Entering important market	Restaurant Points of sale	200 PoS in 10 countries	30
H	1,280/150	Menswear, clothing – production and retail	90/9	1996	Entering important market	Menswear retail	246 PoS in 70 countries	75

\* export; \*\*new factory.

**Table 1: Sample: Cases Description**

We follow the approach suggested by Schweizer (2005) to address the typical concerns over the qualitative research design. To improve the construct validity, we triangulate data with other sources whenever possible (Yin 2003). Secondary data concern the corporate governance (structure and reform measures), firm characteristics (ownership structure, keiretsu affiliation, corporate history, industrial environment, and exposure to foreign markets). The source of these data are: the academic literature; the annual reports of firms; reports from government, banks, research institutes, and industry and professional associations; websites and when available newspapers and business journals (Eisenhardt 1989).

Table 1 describes our sample. Firms size are comprised in the range of 500 - 2500 employees that is the medium-size class as we have defined in research design phase.

Our investigation focuses on a sample of Italian MMNEs, analyzing the strategy choice and the governance models adopted in businesses, and the relationship between the headquarters and the local branches or firms. The qualitative analysis complies with the research requirement to collect evidences on a precise point in time (2012) and over a more extended period (time of entry in China). Qualitative analysis highlights both the feasibility and sustainability of governance models (criteria and components) and forms (model of execution and implementation).

Research Questions	Evidence from Case A	Evidence from Case B	Evidence from Case C	Evidence from Case D	Evidence from Case E	Evidence from Case F	Evidence from Case G	Evidence from Case G
RQ 1: Mirroring description	The project of new factory in China is facing difficulties in adapting the home model to the new market the staff in China is waiting for the suitable conditions for the production.	Replication of the home model, in manufacturing processes, products and management Expatriates from home Country control all the critical processes	Partial replication of the home model (2 of the 3 business of the company: ceramics and storage systems) The partial replication is due to characteristics of competition	Replication of the home model. Commercial strategies in China reflects the routines established with minor adaptations	The project of a new factory in China is a partial replication of the home model, concerning the internal operation and avoiding the external network operation they have at home Country, considered too difficult to be replicated in a short time	Replication of the home model. A pure replication of the human resource management practices and sales models	Keeping the homeland model with 13 types of locations in Airports, Railway stations and downtown Same product offer (pasta, pizza, coffee). Small differences in the service system. Same organization of the point of sales	The same homeland retail model for the point of sales – layout, communication, atmosphere, shopping experience
RQ 1: Mirroring comment	Evidence partially confirms the Mirroring Hypothesis	Evidence confirms the Mirroring Hypothesis	Evidence partially confirms the Mirroring Hypothesis	Evidence confirms the Mirroring Hypothesis	Evidence partially confirms the Mirroring Hypothesis	Evidence confirms the Mirroring Hypothesis	Evidence confirms the Mirroring Hypothesis	Evidence confirms the Mirroring Hypothesis
RQ 2: Acquainted market description	The company (B2B) is in the China market following their previous customers	Entered in a B2B acquainted market, increasing the quality of the offer. Local Customers moving from cost to performance approach	Entered in B2B acquainted markets, moving to a more sophisticated product due to Customers moving from cost to performance approach	Entered in a B2C acquainted market, as the Chinese consumers desires and wants became similar to the Western ones	Entered in a B2C acquainted market, as the Chinese consumers desires and wants became similar to the Western ones	Concerning the B2B part of the business The company is in the China market following their previous customers Concerning the B2C part of the business they are entering the acquainted part of the market	Entered in a B2C acquainted market as second mover, after the fast food (pizza) and coffee Markets development made by the MNEs. Offering higher level quality food and service	Entered in a B2C acquainted market as second mover after the big brands of high end fashion industry, targeting the second tier cities as they became acquainted
RQ 2: Acquainted Market comment	Evidence confirms the Acquainted Market Hypothesis	Evidence confirms the Acquainted Market Hypothesis	Evidence confirms the Acquainted Market Hypothesis	Evidence confirms the Acquainted Market Hypothesis	Evidence confirms the Acquainted Market Hypothesis	Evidence confirms the Acquainted Market Hypothesis	Evidence confirms the Acquainted Market Hypothesis	Evidence confirms the Acquainted Market Hypothesis

Table 2: Case Evidences

As the table 2 highlights, acquainted and informed markets proposition is confirmed in all the eight cases, both in B2B and in B2C situations. The mirroring proposition is confirmed in five of eight cases and partially in the other three. It's interesting to notice that the replication concerns every practice in different functional domains (sales, human resource management, operations, logistics, purchasing). The organizational strategies based on replication seems to be consistent with the goals to lower the investment required to internationalize at one hand, at the other hand it decrease the coordination and the integration cost among international units and the headquarters. Top managers and entrepreneurs of firms studied state that the duplication of the organizational routines is very effective to lower the time required to exploit market opportunities and to enter quickly in emerging markets. Again the evidence seems to underline the timing as one of most relevant factor in internationalization strategies. Despite these advantages the question is whether the minor adaption of routines and practices is sufficient and sustainable in the long term and what are the risk to fall in a sort of "competence trap" hindering the innovative capabilities and efforts. The so called "ambidexterity by size" which is to be considered one of the advantage of medium size can be seriously restrained by the tendency to reproduce or merely adapt routines to different competitive context.

## **5. Results and Findings**

This study makes some important contributions to theory and research on international strategies of MMNEs. Our analysis develops an original perspective focused the effects of size (in our analysis medium-size firms) on internalization strategies. Our study also suggests that the evolution of corporate governance is more complex than portrayed by the convergence-divergence debate. The convergence-divergence tends to view the process of governance innovation in a continuous and linear: from small to large companies, from

domestic to international, from international to global. Our findings underline that changes in governance are discrete and the medium size companies exploit competitive capacity leveraging the "ambidexterity by size"; they prefer to replicate existing structures, processes and routines in acquainted markets.

Cases studies highlight that corporate governance changes can be depicted as fluid and nonlinear evolution in response to both internal and external pressures despite the need to contain and control the cost of organizational adaptation to international competitive contexts.

The preliminary findings extend the conventional focus of international strategies research on the innovation across MNEEs. In this way we gain a better understanding of need for an economic policies to sustain the MNEEs in their international strategies and to show the impact and contribution of MNEEs to increase the competitive capabilities of the different economic systems.

Considering the three research hypotheses we propose, we can describe the main findings from the field evidence in term of research statements.

**Research statement 1: *Mirroring*.** MMNEs use the mirroring model in their organizational design, keeping a flexible approach articulated by three different paths:

- *A (semi) pure replication of the domestic organizational model* with appropriate minimal modification mainly due to the different cultural and institutional context. Adaptation concern HRM policies and marketing strategies; this organizational configuration seems to promote hybrid structures and forms.
- *A pure replication* of the sales, production and operations routines, manage by expatriate managers; persons with a several years of experiences in home firms accomplish the top management and most relevant jobs. In some cases this is a clear outlined and communicated strategy since the first attempt to internationalize. The evidences also suggest a strong linkage between the domestic and the overseas routines concerning

business processes (i.e. sales and marketing, or accounting and financial reporting...)

- *Waiting for more favorable conditions* in replicating the domestic model in the new international market, preferring to avoid the development of new models they are not able to perfectly manage and control. Considering these strategic conducts, we define it as a “prudent mirroring approach”.

**Research statement 2: *Acquainted Markets*.** The field evidence suggests that MMNEs enter acquainted and informed markets in three different ways depending on their specific situation:

- *In B2B markets*, following their existing customers (mainly large companies) entering the new international markets as mass producers; the large companies represent the acquainted and informed market of the MMNEs;
- *In B2B markets*, as their potential customer become “acquainted” (mainly because of the modifications of the consumer markets, becoming “acquainted” as well) about the value of the MMNEs offer based on sophisticated quality and performance proposals;
- *In B2C markets*, when the consumers perceive the different quality and performance offered by MMNEs, being acquainted and informed about the products and brands.

To sum up, our analysis contributes to International Management theory in two ways: First, we define the MNEEs’ characteristics and roles in the international competition; the sample of cases confirms the three-variable model of the research. The three variables refer to: i. a specificity of MNEE defined as “ambidexterity by size”, ii. Organizational strategies based on replication of organizational forms and governance, iii. Emerging of informed and acquainted markets. We distinguish these variables as structural one (size), strategic (replication) and environmental (markets). Second, we provide new insight about the exploration of international context in order to support strategic decision of entry and

development of emerging and growing overseas markets. The scouting activities focus on markets opportunities and to assess the feasibility of organizational replication. Markets must be explored in term of customers' knowledge and experiences and consumers behaviors. The feasibility depends on the fit between the home organizational forms to be duplicated and the international context. Exploration covers institutional, business and international setting information for each market target.

## **6. Managerial Implications**

Our framework strengthens the hypothesis about a future international scenario where the MMNEs will play a more significant role. Some global trends in high-end products will hasten the MNEEs presence. We expect to see a shift of attention also in economic policies backing the internalization of MNEEs; the growing awareness of the MNEEs as a valuable asset of each country industrial structure suggest to deepen the understanding of medium-size firms and facilitate their internalization process.

Evidence confirms the need of acquainted markets in order to entry a new international market. For managers this means that the MMNEs should follow the second mover strategy, waiting for the cultural growth of the market. For cultural growth of the market we intend the establishing of a diffused knowledge about the product category and about the quality and performances among the offers of the competitors, making the customers able to perceive and evaluate the differences. For example in Chinese market this is the story of the wine and of the coffee industries. MNEs were first comers shaping the market and diffusing the knowledge of the product. Otherwise the MMNEs could enter the competitive arena with their niche high-end offers only after the acquaintance of the consumers. Managers should monitor the international markets they intend to enter, looking for the informed and experienced market conditions enabling the MMNE's valuable offer to be acknowledged by the customers.

Another implication concerns with the replication of organizational forms and governance models: Evidences from cases confirm that MNEEs cannot rely on the internationalization framework adopted by MNE. The most critical reason concerns the availability of resources and the level of investment required to compete in global markets. This fact and the level of flexibility may suggest a different path of international development based on replication of organizational forms. The replication of organizational forms in term of configuration emerges as a quite effective way to enter in new markets but it also appears flawed and incomplete. MNEEs reproduce their organizational configuration but the process leave some space for variation due to resources available in different environment. The failure of perfect reproduction can be seen as a source of strategic flexibility. Organizational forms appear to be quite invariant configuration (in their main components) but leave some autonomy in the resource choice and allocation. Managers of MMNEs should pay attention to the replication process to assess sustainability and feasibility of the organizational forms, to evaluate the fit between the organizational configuration and the foreign environment.

These findings imply that MNEEs should consider alternative strategic choices for competing in emerging economies, whether by leveraging their global resources or replicate their operations to the particular country. Our results also suggest that MNEEs need to be incisive in their entry timing strategies to facilitate value-creation. Timing depends of emergence of acquainted markets and replication of existing organizational forms. The first point refers to consumer behaviors learning in different overseas context; the second one to the fit between home and foreign environments.

Even though our research is still in first stages, the paper offers some initial and novel insights on the significant implications of analyze the international strategies using a parsimonious model based on two set of variable, referring to:

- i. The use and exploitation of existing resources and models following a replication posture, in an attempt to reduce the cost of coordination and adaptation in large

markets.

- ii. The external factors based on the level of informed and competent markets coherent with a second mover strategy.

The validation of the model based on the sample suggests: the size matters for specificities of medium size, (ambidexterity by size) expressed by both a set of competing goals and the flexibility and adaptability of the small firms and the stock of resources available of the large companies.

Second, the paper shows that internationalization is an effective drive for MMNE to adapt deeply the business models although through the replication of organizational forms and governances in new markets. The innovation emerges from the reciprocal interplay among domestic markets and overseas markets, home countries and target countries more than from a mere one-way relationship, like the move from home to other countries.

Finally one important aspect of adaptation, we did not discuss in detail, is the cultural distance between home country and the target countries; this factor is often found to influence firm's internationalization decision and performance. The cross-cultural view is to be applied also in MMNEs research. The cross-cultural analysis has its root and a long tradition in MNEs. The question is if and how to adapt research methods to match the MMNE specific setting.

## **7. Further Research Steps and Additional Research Directions**

As this study is based on a small sample of firms, the generalizability of the analytical framework remains to be tested. The focus on a small sample and the research on field were necessary to explore the complex and dynamic process of internationalization across firms. Also, the advantage of using a small sample of cases to generate theories is increasingly recognized in organization science (Eisenhardt 1989). Our research offers some insight about the research approach to be applied and more effective to study MMNEs. There is a need to

explore more deeply hybrid research design in which different methods must be blended and mixed (qualitative, quantitative, simulation, quasi-experiment).

Although this study is limited in scope, these limitations can serve as steppingstones to guide future research. Another limitation is the time span. Our study covers a short time horizon. We only observe the implementation of strategies in the last two years. This suggests to strengthen and amplify the deepness using a longitudinal approach and to improve the set of measurements, which provide more details about the three main variables of our framework. In a period of crisis a deeper comprehension of the roles and contributions of MMNEs may be very helpful to guide economic policies. New recipes for the future come also from the MMNEs somehow "forgotten" and missed (at least by economic research) entities.

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