

**INTEGRATION-RESPONSIVENESS FRAMEWORK FOR CHINESE
MNCs: AN AREA FOR FUTURE STUDY**

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Abstract

Based on a review of extant international business and management literature, this paper examines: (1) the global integration (I) and local responsiveness (R) paradigm and its impact on the adoption of international business strategy (IBS) by multinational corporations (MNCs); (2) determinants that are critical in the process of forming IBS by MNCs; and (3) the lacuna in current research with respect to strategic implications of the I-R framework for MNCs from transitional economies such as Chinese multinational corporations (CMNCs). Following a comprehensive review of prior studies on the I-R framework in the context of developed countries, the paper summarizes determinants of IBS in a three-category table. Having done so, it identifies a future research area in the field of international management; that is, how MNCs from emerging countries strive to coordinate global integration and local responsiveness when developing and implementing their international business strategies.

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INTEGRATION-RESPONSIVENESS FRAMEWORK FOR CHINESE MNCs: AN AREA FOR FUTURE STUDY

In the mid-1990s China became the largest outward investor amongst the developing countries and the eighth largest supplier of FDI in the world (World Bank, 1997). Of the 500 largest multinational corporations (MNCs), 32 were from emerging economies in 2001, and 16 of the latter were Chinese MNCs (CMNCs) (Rugman, 2005). In 2006 this figure rose to 23 after 'going global' was firmly established in 2004 as national policy (Fortune, 2007). According to *World Investment Report 2007* (UNCTAD, 2007), 52 MNCs from China are among the top 100 non-financial MNCs (ranked by foreign assets) from developing countries. China is rising as a globally influential political and economic power and CMNCs are China's engines of international business (IB). Recent reports (e.g. Zhang, 2007; Wang and Ye, 2007) indicate, however, that lack of local responsiveness and strategic planning are among the key problems of CMNCs. Luo and Tung (2007) argue that MNCs from emerging economies, especially CMNCs, face "integration difficulties" in relation to post-springboard/post-acquisition. Thus, how CMNCs handle challenges of international integration and how they deal with the need for local responsiveness and strategic planning are important research questions.

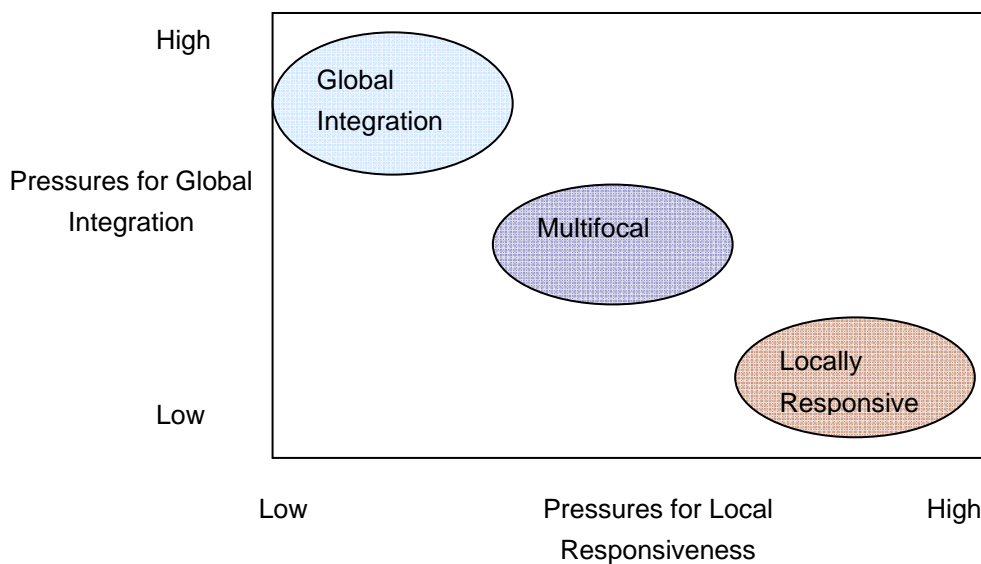
Empirical studies have shown local responsiveness and global integration can have a significant impact on the viability of MNC subsidiaries (e.g., Fong, Ho, Weng and Yang, 2007). How to reconcile the need to be both internationally integrative and locally responsive is a critical issue for MNCs (Bartlett & Ghoshal, 1989; Doz & Prahalad, 1991, Kobrin, 1991; Luo, 2001, Luo and Tung, 2007; Roth & Morrison, 1990). To confront the issue of global integration (I) and local responsiveness (R), western studies (e.g., Bartlett, 1986; Bartlett and Ghoshal, 1987, 1989; Doz & Prahalad, 1991; Prahalad, 1975; Prahalad & Doz, 1987) have developed an I-R framework that contains four basic international business strategies (namely, international, multi-domestic, global and transnational). The literature suggests these strategies have been widely adopted by western MNCs to enter and compete in the international environments.

Few studies in the international business and/or management area have examined how MNCs from emerging economies balance global integration and local responsiveness and how the choices made impact on their international business strategies. Based on a review of extant international business and management literature, this study: (1) examines the I-R paradigm and its impact on the adoption of IBS by MNCs; (2) discusses determinants that are critical in the process of forming IBS by MNCs; and (3) analyses the lacuna in current research with respect to strategic implications of the framework for MNCs from transitional. The paper is composed of four parts. The starting point is the notion of the I-R paradigm and IBS, but the main focus is to explore the underlying determinants of the paradigm and strategic implications of the I-R model for Chinese MNCs. Then a discussion on why CMNCs should be studied in terms of their choice of IBS based on the I-R mode is undertaken, and the paper concludes with research questions for future study.

THE GLOBAL INTEGRATION-LOCAL RESPONSIVENESS (I-R) MODEL

The I-R model dominates current examinations of strategy in the international context. Roth and Morrison (1990:543) point out “in considering business as the unit of analysis, the integration-responsiveness framework has been suggested as a model for ‘mapping’ or distinguishing international business strategies.” This model has been generated from prior studies (e.g., the “I-R” model in Doz & Prahalad, 1991; Prahalad, 1975; Prahalad & Doz, 1987). Recognizing business managers often share perceptions of the environment, the integration-responsiveness (I-R) framework has been suggested as a “way of capturing the pressures on a given business” (Prahalad and Doz, 1987:18). It is clear the I-R framework is based on managerial perceptions of the environment along two basic imperatives, these being the pressures for global integration and pressures for local responsiveness.

Figure 1: Prahalad and Doz’s (1987) Integration-Responsiveness Grid



Global Integration

As shown in Figure 1, the “vertical” axis of the I-R framework focuses on pressure driving global integration. The idea that there are degrees of global integration was first suggested by Fayerweather (Kobrin, 1991), who asserted that global integration (or unification) is a potential source of competitive advantage and can provide efficiencies from specialization of individual units and substantial interchange among units (Fayerweather, 1982; Fayerweather and Kapoor, 1975). Further the author suggests that the integration of activities worldwide is necessary to reap benefits from producing at optimal economic scale and from amortizing research and development costs over a broad basis. Kogut (1984) likewise, suggests integrated international firms can gain competitive advantages from exploitation of: (1) differences in national resource endowments (comparative advantage); (2) the flexibility and bargaining strength of a multinational network; and (3) economies of scale, scope and learning. In Kobrin’s (1991) terms, the benefits of transnational integration result from specialization, interchange and scale.

Kim, Park and Prescott (2003) propose four integrating mechanisms, namely, people-based, information-based, formalization-based and centralization-based integrations. The authors claim these mechanisms are “conceptually independent, collectively exhaustive, and detailed so as to tap all the important dimensions of integrating business functions across borders” (Kim, Park and Prescott, 2003: 329). It is, however, doubtful whether the authors merely focus on four aspects of internal factors of organizations that determine the global integration rather than further consider other aspects of factors, such as, some external factors (*i.e.*, environmental pressures). In addition, pressures for global integration are partially industry forces that necessitate worldwide business resource deployments for strategic pursuits. In other words, strategic decisions are made to maximize the collective organization so that activities are integrated across national boundaries (Roth & Morrison, 1990).

Furthermore, based on Theodore Levitt’s landmark article (1983), subsidiaries’ technological, social, and economic factors in host countries are combining to create a unified world marketplace that is also driving the entire corporation to develop globally standard products and pursue global economies. Like many other studies, his view was widely debated because many case studies have shown that adopting a multi-domestic strategic approach to be, *i.e.*, likely locally responsive, can also make MNCs’ economically efficient. Although global integration helps MNCs save costs and achieve global efficiencies (Chen & Cannice, 2006), it does not mean that higher global integration unilaterally assists MNCs to achieve global success. That is, determining which IBS is a better choice for a particular MNC may also depend on many other factors (to be discussed in the following sections).

Local Responsiveness

Local responsiveness, the horizontal axis in Figure 1, is also a general concept. Broadly speaking, the concept may come from both the organization and consumer levels. Lawrence and Lorsch (1967) introduced the notion of differentiation meaning, which means the difference in cognitive and emotional orientation among managers in different functional departments. To be higher locally responsive, it is clear that internal managerial practices must be adopted to fit local cultural and legally mandated expectations (Paik & Sohn, 2004). Ghoshal and Nohria (1989) assert that local responsiveness is mainly influenced by situational contingencies at the subunit level, while global integration is primarily determined by the need for internalization from the perspective of corporate headquarters.

MNC’s local responsiveness involves several factors, such as geographic diversification and demand heterogeneity. In many industries, consumers continue to demand locally differentiated products reflecting substantial divergence in standards, tastes, brand recognition and perceived needs. Thus, to balance global integration and local responsiveness, Birkinshaw (1996) suggests that MNC headquarters should be sensitive to what local managers think about indigenous contingencies in a specific environment because the local managers are in a better position to screen and appraise local dynamics and impediments. Likewise, local responsiveness pressures are industry forces (such as business specificity and component localization) that necessitate local context-sensitive strategic decisions. Responding to the pressures on local responsiveness,

management may respond predominantly to each local market or industry setting irrespective of the strategic consideration of subsidiaries in other countries or regions (Roth and Morrison, 1990).

In addition, compared with the research on global integration, little research has been undertaken to probe determinants of local responsiveness. So far the most comprehensive study which solely concentrates on the degree of local responsiveness was done by Luo (2001), who has examined several relevant factors from organizational, industrial and environmental aspects. However, since his study is based on the perspective of foreign subsidiaries in the emerging market of China, an opposite study to examine the same issue but from the perspective of MNCs from emerging economies in their outward FDI has yet to be conducted. Furthermore, it is necessary to examine other factors that are not involved in Luo's (2001) study, such as local trade barrier, local business infrastructure and control flexibility.

The theoretical contribution of Prahalad and Doz's (1987) model is that the model allows IBSs to be conceptualized through alternate contextual settings. Also it appears to account for significant variation across organizations. Apart from these strengths, the limitations of the model have been debated. The subsequent researchers (e.g. Birkinshaw, Morrison and Hulland, 1995; Jarillo and Martininez, 1990; Johnson, 1995; Luo, 2001; Roth and Morrison, 1990; Yu, 2005) are mainly concerned whether the model is valid and whether a series of particular variables can be identified because the variables may help to define the different strategies for a business facing different pressures in the global environment. Roth and Morrison (1990:545) point out "although the I-R framework establishes the general domain of a theory and specifies the basic constructs, a lack of conceptual clarity exists regarding the interaction of particular industry forces and the system states". Moreover, it is clear that the framework provides little specification of the content of business-level strategies that is appropriate depending on the different patterns of business' pressures. In addition, there was no sufficient evidence to support the framework, especially empirical evidence by end of 1980s.

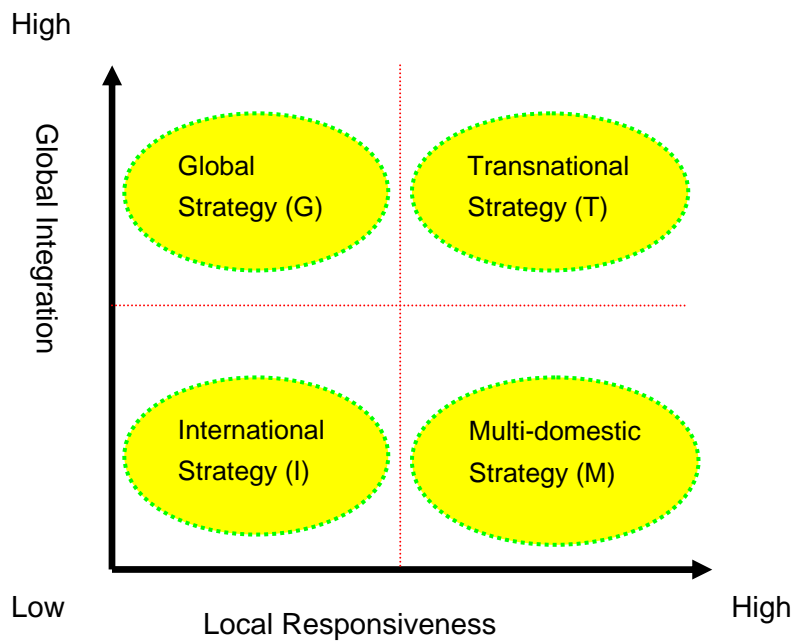
THE I-R FRAMEWORK AND IBSs

In terms of the relationship with IBSs, the I-R model owes its development to Bartlett (1986) and Bartlett and Ghoshal (1987, 1989). Bartlett (1986) distinguishes three types of MNCs, each implementing a different strategy (namely global strategy, multinational strategy, and transnational strategy). An international strategy is added in by their later studies (Bartlett and Ghoshal, 1987, 1989). Figure 2 illustrates that the I-R model compasses four types of IBSs

Strategic choice is the process of choosing from a range of strategic alternatives. As shown in Figure 2, in determining which strategy is the most relevant for MNCs, the western theories focusing on examining the orientation of global integration and local responsiveness need to be considered (Luo, 2001). Moreover, some empirical studies (Jarillo & Martinez, 1990; Roth & Morrison, 1990; Johnson, 1995; and Taggart, 1998) verify that global integration and local responsiveness are two salient dimensions articulating types of IBSs. Existing literature argues that global integration helps MNCs save costs and achieve global efficiencies (Chen & Cannice, 2006). Likewise, for the horizontal axis, Luo (2003:454) states that "to reap benefits from emerging

market opportunities, heightened responsiveness is needed”. It is worth noting that this claim is made mainly for MNCs from advanced market economies to invest in developing countries.

Figure 2: A Visual Map of International Business Strategies



Nevertheless, based on the extant literature (summarized in Table 1), typologies of IBS are quite debatable. Harzing (2000)’s study shows that three-fold typology (excluding the international strategy) of IBSs is more influential. However, in the original sense of IBSs, Bartlett and Ghoshal (1989) defined four types of IBSs rather than the three-fold typology. Also, many subsequent and significant studies (e.g., Bartlett, and Ghoshal, 1989; Ghoshal and Nohria, 1989; Leong and Tan, 1993; Macharzina, 1993; Morrison and Roth, 1992; Taggart, 1997 & 1998; Welge, 1996; White and Poynter, 1990; Wolf; 1996) support the four-type typology.

An IBS is required when a firm operates in multiple industries and multiple countries or regions. As one of central arguments in this study, a brief discussion of the four strategies of international business should be presented together with their close link to the I-R framework. The four IBSs are detailed below.

International strategy, by Bartlett and Ghoshal’s (1987) definition, means that a company takes whatever it does very well in its domestic market and attempts to repeat that success internationally. Previous research has identified MNCs (e.g. Toys “R” Us, McDonald’s, IBM, Kellogg, Procter& Gamble, Wal-Mart and Microsoft) using this strategy in an international environment (Bartlett, Ghoshal and Birkinshaw, 2004; Hill, 2006). International strategy makes sense if a firm has a valuable core competence that indigenous competitors in foreign markets lack and if the firm faces relatively weak pressures for local responsiveness and international integration.

Multi-domestic strategy, based on Kedia, Nordtvedt and Perez (2002)’s explanation, involves internationalization with locally adapted products (or service) through marketing and production

processes specific to the host markets that target country-specific customer needs. Kedia, Nortvedt and Perez (2002) assert that multi-domestic strategy is driven by a “multiple managerial philosophy” because it requires considerable strategic variety as subsidiaries of each country may pursue its own strategy. In practice, this strategy indicates that the company allows each subsidiary to operate relatively independently, each being free to customize most aspects of its operations to meet the specific needs of its local customers. Firms adopting this strategy should be able to maximize the firm’s competitive response to the idiosyncratic requirements of each market (Taggart and Hood, 1999). Multi-domestic strategy makes most sense when there are high pressures for local responsiveness, but the integration is not a big issue for firms that have adopted this strategy.

Global Strategy could simply mean that a company views the world as a single marketplace and thus offers standardized products (Kedia, Nordtvedt and Perez, 2002). Kedia, Nortvedt and Perez (2002) point out that global strategy is driven by a “shared managerial philosophy” which may be based on empirical evidence by Roth, Schweiger and Morrison (1991). In practice, this strategy is employed by firms serving multiple host country markets with internationally branded goods that are produced from a single location (*i.e.*, the home country) (Baden-Fuller and Stopford, 1991; Kedia, Nordtvedt and Perez, 2002). Roth and Morrison (1990) further reaffirm that firms may take advantage of economies of scale by adopting global strategy. Previous research findings also suggest that many Japanese firms have often pursued this strategy with success (Johaansson and Yip, 1994). That is, firms that usually adopt this strategy face high pressure of global integration, but weak or low pressure of being locally responsive. However, Rugman and Verberke (1992) argue that adopting the global strategy implies counteracting on the country-specific advantages and/or opportunities.

Transnational Strategy combines the benefits of global scale with the advantages of local responsiveness. The effective implementation of a transnational strategy often produces higher performance than either multi-domestic strategy or global strategy alone does (Luo, 1999). By adopting this strategy, a firm carefully assigns responsibilities for various tasks to the part of the organization best able to achieve both highly global integrative and locally responsive. However, some scholars express doubt such that “in reality, it is difficult to achieve a pure transnational strategy because of the conflicting goals” (*e.g.*, Hitt, Ireland and Hoskisson, 2001). Young (1997) claims that transnational strategy is “a future prospect at least”. Others argue that transnational strategy could be only a trade-off between global strategy and multi-domestic strategy (Paik and Shon, 2004).

Table 1 presented 26 articles on IBSs published from 1969 to 2002 based on two largest academic databases (Business Source Premier, with over 8,000 journals, and Proquest 5000 Intantional, with 5,500 journals) by searching the key words of international business strategy, international, global, multidomestic and transnational). Different IBSs and their focuses studied in these articles are highlighted in the table. Some explanations are supplied if articles used definitions different from those elaborated above (*i.e.*, I, G, M and T). The research conducted in these articles is mainly from western developed countries, whereas in this study, the four types of IBS are discussed in the context of CMNCs because international strategy is relevant to these newly promoted multinationals and its internationalization.

Table 1: An Overview of Typologies of IBSs

Authors	Year of Research Publish	International (I)	Global (G)	Multidomestic (M)	Transnational (T)
Perlmutter	1969		Ethnocentric	Polycentric	Geocentric
Stopford and Wells	1972	International Divisions	Product Divisions	Area Divisions	Mixed
Doz	1980		World-wide integration	National responsiveness	Administrative coordination
Poter	1986		Global industry, Purest global strategy	Multidomestic industry; country-centered strategy	Global industry; complex global strategy
Bartlett	1986		G	M	T
Bartlett and Ghoshal	1987	I	G	M	T
Prahalad and Doz	1987		Integrated product strategy, worldwide business management	Locally responsive strategy, autonomous national subsidiaries	Multifocal strategy, multifocal /matrix organization
Bartlett and Ghoshal	1989	I	G	M	T
Meffert*	1989	I	G	M	T
Gerpott*	1990		Global; High centralization	Multilocal; Low centralization	Hybrid; Medium centralization
White and Poynter	1990	Domestic functional with international division	Global product structure	Geographic area structure	Matrix Horizontal
Adler and Ghadar	1990	I	G	Multinational	
Roth and Morrison	1990		Global integration	Locally responsive	Multifocal
Jarillo and Martinez	1990		Receptive Subsidiary	Autonomous Subsidiary	Active Subsidiary
Roth, Schweiger and Morrison	1991		G	M	
Sundaram and Black	1992		G	M	T

Authors	Year of Research Publish	International (I)	Global (G)	Multidomestic (M)	Transnational (T)
Morrison and Roth	1992	Exporting, high quality offerings strategy	International, product innovation strategy	Domestic, product specialization	Quasi-global, combination strategy
Leong and Tan	1993	I	G	Multinational	T
Ghoshal and Nohria	1993	I	G	Multinational	R
Macharzina*	1993	I/Ethnocentric	Global rationalization	Multinational	Blocked global
Welge*	1996	I	G	Multinational	Dual
Wolf*	1996	Selection strategy	Integration strategy	Single market strategy	Interaction strategy
Taggart	1997	I/Quiescent Subsidiary	G/Receptive Subsidiary	M/Autonomous Subsidiary	T/Active Subsidiary
	1998				
Harzing	2000		G	M	T
Kedia, Nordtvedt and Perez	2002		G	M	

* Based on Harzing's translation

Source: Combination of the researcher's analysis and part of Harzing's research "An Empirical Analysis and Extension of the Bartlett and Ghoshal Typology of Multinational Companies" (2000).

THE UNDERLYING DETERMINANTS

Although the I-R paradigm has proven to be a robust framework both for describing and analyzing the strategies of international firms at corporate and subsidiary level, important determinants underlying this model still need to be understood (Bartlett and Ghoshal, 1989). Moreover, Doz and Prahalad (1991) point out that the underlying determinants of the I-R paradigm are not necessarily homogeneous. Responding to their calls, the determinants have been subject to vigorous empirical evaluation by, among others, Jarillo and Martinez (1990), Roth and Morrison (1990), Johnson (1995), Taggart (1997), and Luo (2001).

Table 2 contains an overview of the findings of these prior empirical studies (altogether thirteen papers). Selecting the appropriate articles is countered by utilizing two largest academic databases (Business Source Premier, with over 8,000 journals, and Proquest 5000 International, with 5,500 journals) and searching key words in two defined areas: the I-R framework and its determinants or factors. Table 3 displays some details (*e.g.* authors and publishing time) and the research design (*e.g.*, sample size and their perspectives) of each of these papers.

Table 2: Overview of the Findings of the Empirical Studies Which Focused on the I-R Model

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13
Global Integration													
Standardization		(+)			(+)		(-) *Standardization of market demands			(+)			(+)
Centralization/Centralization of Technology								(+)				(+)	
Human Resource/Employment								(+)				(+)	
Technological Intensity/R&D/Complex Innovation		(+)	(+)		(+)				(+)				
Advertising Intensity			(+)			s			(+)				
Manufacturing Scale		(+)	ns				(+)						
Transnationality			(+)										
Information Flow												(+)	
Competitors' Action				ns			(+)						
Differential Comparative Advantages between Countries							(+)						
Quality Reputation					(+)								
Premium Positioning					(+)								
Extent of Global Competition		(+)				s			(+)				
Formalization/Global Coordination of Activities									(+)			(+)	
Investment Required									(+)				
Distribution				s		s							

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13
Local Responsiveness													
Environmental Complexity											(+)		
Business Specificity											(+)		
Cultural Distance/Difference											(-)		(-)
Domestic Competition Intensity	(+)							(+)			(+)		
Demand Heterogeneity		(+)			(+)			(+)			(+)		
Component Localization											(+)		
Local Trade Barriers									(+)	ns			
Established Network/Government Support	(+)			^					(+)		(+)		
Market Orientation								(-)		(-)	(-)*		
Local Business Infrastructure									(+)				
GI/LR													
Resource Dependence	(+)/(-)												(+)/(+)
Control Flexibility													(+)/(+)
Heterogeneity of Executive Group								(-)/(+)					
Previous Experience								(+)/(-)			nt/ns		
Cost Pressure		(+)/nt		(+)/nt	(+)/nt	nt/ns			ns/(+)*	(+)/nt			

Note: + = positively related to either global integration (GI) or local responsiveness (LR); - = negatively related to GI and/or LR; s= significant; ns = not significant; nt = not tested; ^= non-significant to the other dimension

Table3: A Summarized Table of Empirical Studies Associated with Table 1

	Author(s)	Publishing Date	Sample Size	Valid Return Rate	Region	Perspectives
1	Jarillo and Martinez	1990	50	50	Spain	Subsidiaries
2	Roth and Morrison	1990	322	147	US	Headquarters
3	Kobrin	1991	56	N/A	US	Firms
4	Johansson and Yip	1994	36	36	US and Japan	Firms
5	Johnson	1995	1800	346	US	Headquarters
6	Birkinshaw and Morrison	1995	578	126	World (Subsidiaries in US, Canada, UK, France, Germany, Japan)	Subsidiaries
7	Birkinshaw, Morrison and Hlland	1995	322	147	US	Headquarters
8	Taggart	1997	500	171	UK	Subsidiaries
9	Venaik, Midgley and Devinney	2000	728	191	World (Head Offices mainly in Japan, UK,USA)	Subsidiaries
10	Grein, Craig and Takada	2001	?	?	Japan and European Countries	Firms
11	Luo	2001	500	168	P.R. China	Subsidiaries
12	Kim, Park and Prescott	2003	630	161	US	Headquarters
13	Yu	2005	600	142	China (Taiwan)	Subsidiaries

Based on the review of these empirical studies, some suggest that the assessment of these factors is a prerequisite for MNCs to make decisions about resource dispersal, strategic control, goal setting, and power delegation for a focal overseas subsidiary (Doz & Prahalad, 1981; Gupta and Govindarajan, 1991; Yip; 1995). The findings of the empirical studies support the contention that the selection of an IBS should be a function of the contextual requirements. Furthermore, distinct competitive attributes such as standardization and culture distance are found to be emphasized by each group of businesses that prefer a particular strategy. To a large scale, the above thirteen empirical studies do provide some insights into the determinants of the two salient dimensions. These determinants are grouped into three categories, namely factors that affect the degree of either global integration or local responsiveness, and hybrid factors that affect both of global integration and local responsiveness as indicated in Table 4. However, it is worth noting that prior studies only involve or concentrate on several factors without in a comprehensive perspective. Up until now, very few studies have identified all possible factors or justified the relationships of those factors and the degree of I/R.

Table 4: The Underlying Determinants Based on Findings of Empirical Studies

Factors Affect the Degree of GI	Factors Affect the Degree of LR	Hybrid Factors that Affect Both
<ul style="list-style-type: none"> • Standardization • Centralization • HR/ Employment • Technology Intensity • Ad. Intensity • Manufacturing Scale • Transnationality • Information Flow • Competitors' Action • Country Specific Advantages (CSA) • Premium Positioning • Quality Reputation • Extent of Global Competition • Formalization • Investment Required • Distribution 	<ul style="list-style-type: none"> • Environment Complexity • Business Specificity • Cultural Distance • Domestic Competition • Demand Heterogeneity • Component Localization • Local Trade Barriers • Established Network/Government Support • Market Orientation • Local Business Infrastructure 	<ul style="list-style-type: none"> • Resource Dependence • Control Flexibility • Heterogeneity of Executive Group • Previous Experience • Cost Pressure

A FUTURE STUDY AREA

By conducting literature review in the field of international business and management, it is less likely to find prior studies on strategic implication of the I-R model for Chinese MNCs. Since similar studies have been done for MNCs from developed countries (see Table 3) it potentially indicates a research lacuna. The following discussion involves our argument about a new area for future study, *i.e.*, how CMNCs coordinate the relationship between I and R and moderating factors for such a coordination. In order to illustrate the reasons and significance to conduct research in this area, we need to examine the motivation, development and performance of CMNCs.

The Motivations of CMNCs

As an important study of CMNCs, Deng (2004) concludes five motivations for Chinese outward FDI: (1) resources (to acquire and secure a continual supply of raw materials for their own industrial operations), (2) technology (to acquire advanced technology and manufacturing know-how in different industries), (3) markets (since Chinese domestic markets have reached the limits of effective demand in a number of industries, many Chinese firms must target foreign markets to sell their products), (4) diversification (to enjoy the benefit of risk diversification) and (5) strategic assets (to fulfill strategic aims set at the corporate level for the purpose of maximizing overall performance and to extend beyond setting up the most efficient affiliate in a single market). The five motivations are generic in nature, that is, they are common motivations for all Chinese firms intending to go international. However, the five motivations largely and deeply influence on the consideration of both global integration and local responsiveness, and strategic implications in consequence. For instance, CMNCs need to consider *when*, *where* and *how* to get resources and technology which

requires further consideration on local responsiveness; once CMNCs successfully receive resources and technology, the next questions for them is *how* and *to what extent* they can globally integrate the new resources and technology within their current framework. Likewise, the coordination of GI and LR applies to the other three motivations.

In addition, Du, Kang and Ke (2006) suggest that two significant characteristics of CMNCs, *i.e.*, “to be world first-class corporation” and “diversification of business positioning” have played very important roles in either its catch-up process or strategic decision making. According to the findings from 16 case studies (Du, Kang and Ke, 2006), the authors assert that some CMNCs already have comparative advantages before they invest overseas while the other may invest overseas first and then acquire advantages. In contrast, some researchers (*i.e.*, Nolan, 2004; Rugman, 2007) think that CMNCs have failed to develop firm-specific advantage (FSA). Moreover, Rugman (2007:12) criticizes that CMNCs still “lack the internal managerial capabilities to integrate foreign acquisitions to develop anything resembling dynamic capabilities”. Such arguments may indicate that it is necessary to find out what factors influence on strategic decision making of CMNCs’ internationalization process, especially when the coordination of global integration and local responsiveness is considered.

The Development of CMNCs

A multinational corporation does not grow up over night. Chinese firms follow general pattern when they change their role and become more active players in international business. The first type are those gradually emerging, large, recombined state owned enterprises (SOEs) that went abroad with gradually gained public attention. The second are the hundreds of firms, most of them are in private sector, are small and medium-sized enterprises (SMEs), principally exporters, that have invested in foreign countries. The literature indicates that Chinese MNCs’ outward FDI has progressed through three main stages: the late 1970s to the mid-1980s; 1985-1990 and after 1990 (e.g., Cai, 1999; Child, 2003; Tseng, 1994). However, the analysis of literature shows a close relationship between Chinese government policy innovations and its influence on the Chinese firms’ ‘going global’ issue, thus Zhang (2003) divides the post-1978 years into two periods: the decade of 1978-1987 and the period between 1988 and beginning of 21st century to indicate different levels of government support for CMNCs’ outward FDI. Based on the historical development of Chinese MNCs after 1949, this study sets up a more comprehensive five-stage development structure as follows:

Stage One: International operations before 1978

Stage Two: Feeling stones while crossing river: the late 1970s - the mid-1980s

Stage Three: The birth of large Chinese multinational corporations: 1985-1990

Stage Four: Adjustments and growth: the 1990s

Stage Five: A new wave in the new centuries.

The characteristics of CMNCs’ development are different at each of stages. Shi *et.al.* (1989:450) mention that “from the 1950s and 1970s, China had set up some joint ventures or wholly-owned firms engaged in ocean shipping, financial service and trading in foreign countries”. The activities were largely trade-servicing in nature (Cai, 1999; Zhan, 1995). Zhang (2003) points out that

China's foreign aid programs before 1978 as part of its foreign economic cooperation plays important roles in the later internationalization of Chinese firms. From the 1950s to the end of 1970s, the Chinese government ran extensive foreign aid projects in the Third World, particularly in Asia and Africa. More than seventy countries received Chinese aids (Zhang, 2003:84). The total number of large projects between 1954 and 1978 was 1,307 (Duan, 1995:44-7). Tens of thousands of Chinese workers and engineers were sent to work in the Third World countries from Asia to Africa (Zhang, 2003:84). These projects enabled Chinese firms to acquire not only knowledge of local conditions and project management experience but also expertise in working with a wide range of aid-recipient countries (Zhang, 2003). The internationalization process of Chinese MNCs such as those in engineering and construction industries can be served as good examples. Both China Civil Engineering and Construction Corporation and China Road and Bridge Engineering Co. Ltd were established in 1979, but ranked among the top thirty of the 225 largest firms in the international engineering and construction market by the mid-1980s due to their previous overseas experience and huge market share in the Third World countries. Therefore, Zhang (2003)'s viewpoint may well explain the reason of the rapid expansion of Chinese MNCs in today's African markets and their competitiveness comparativeness compared with other foreign MNCs in some industries and countries.

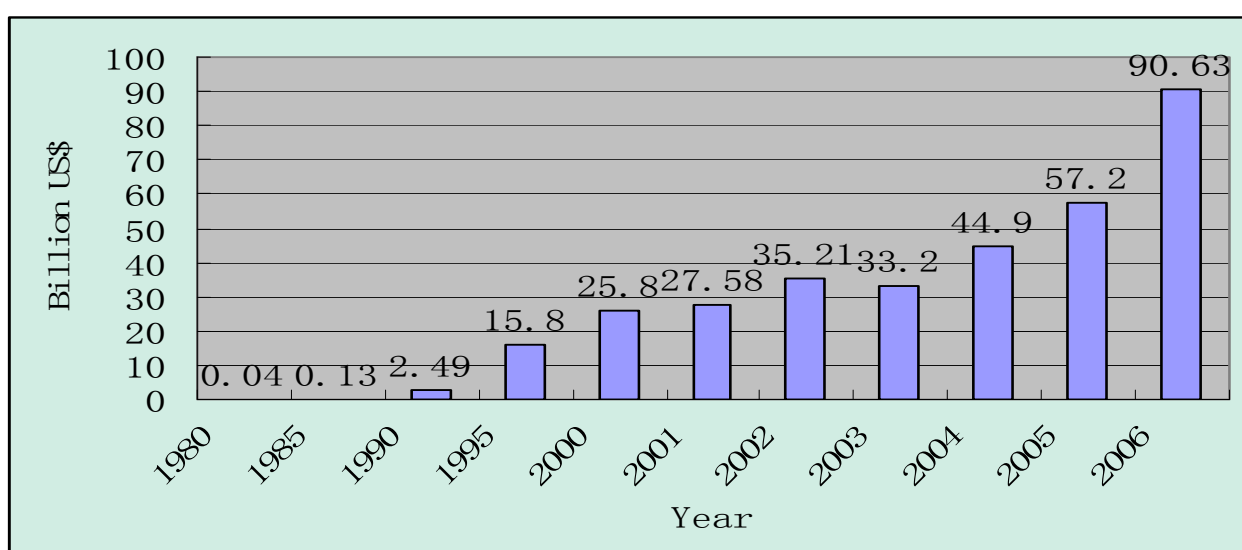
Furthermore, during the period between 1985 and 1990 (i.e Stage three), there were two characteristics of the growth of Chinese MNCs: large acquisitions in Hong Kong and the rapid growth of SOE (Zhang, 2003). Without the huge support from the central government, large acquisitions were not possibly made in Hong Kong. For example, the China International Trust and Investment Corporation (CITIC) as a pioneer Chinese MNC acquired substantial stakes in the KaWah Bank in 1986, and China Merchants acquired the Union Bank in 1987; these two acquisitions were believed to be launched by the two Chinese firms under the instruction of the central government (Zhang, 2003). Likewise, Zhang and Van Den Bulcke (1996:387) assert that the ownership advantage of Chinese SOEs, among which are a high political profile and rapid resource mobilization, is pivotal in initiating outward investment in the government-controlled investment scenario. It is worth mentioning that creative firm-level initiatives are not entirely absent from this period. Zhang (2003) claims that firm-level initiatives are crucial in determining the direction, the nature, the scope and the size of the development of early international business of individual firms. In other words, some internal determinants of its international business strategy can be tracked back to this period.

In addition, during the entire 1990s (Stage four) and after entering the new centuries, especially from year 2003 after China's accession to the WTO (Stage five), Chinese outward FDI has continually been experiencing the booming period. Although Chinese firms constantly adjust their operations to facilitate their internationalization and participate in global competition, there seems few studies to examine the strategies they have adopted to guide their international expansion. Likewise, it lacks of research on the way of their reconciling global integration and local responsiveness.

The Performance of CMNCs

By the end of 1996, the total stock of China's outward FDI reached \$18.0 billion, surpassing the \$13.8 billion of South Korea and the \$7.4 billion of Brazil. In the process, China occupies a significant share of the total FDI outflow from all developing countries. The evolution of this outward FDI over the last two decades is reflected in Figure 5. By the end of 2005, cumulative overseas investment from China was around US\$57.2 billion. It is estimated there are some 8,500 Chinese enterprises with investments in 180 countries or regions. The rapid growth of Chinese MNCs has reflected "not only that the Chinese economy is becoming increasingly integrated with the regional and global economy, but also that the country needs to invest abroad to keep the development momentum of the domestic economy" (Cai, 1999:863).

Figure 5: China's Outward FDI Stock: 1980-2006



Source: UNCTAD, *World Investment Report*, various years; MOFCOM, 2005-2006.

Although an external official report (Zhang, 2007) shows that 70% Chinese firms' overseas investment made profit or levelled out, an internal survey conducted by MOFCOM (2007, cited by Wang and Ye, 2007) indicates that overall 65% CMNCs made loss overseas. Apparently the two reports showed a contrary result, but these reports (e.g. Zhang, 2007; Wang and Ye, 2007) indicate some common problems of CMNCs, such as: lack of familiarity with international environment and lack of previous experience apart from lack of local responsiveness and lack of strategic planning as mentioned before. Clearly lack of previous experience and familiarity with international environment are two influential factors to the I-R model as indicated in Table 4. That is, how CMNCs deal with such challenges has indicated a future research area.

CONCLUSION

The rise of MNCs from emerging economies/developing countries is part of a profound shift in the world economy today (UNCTAD, 2005). This paper is one of the first that attempts to formally

propose a new research area in international business and management, that is, to seek perspectives of MNCs from emerging country contexts, such as China, on the balance of global integration and local responsiveness, and IBS to be considered. The research questions we propose for future study are:

- 1) What factors influence the I-R framework in the context of CMNCs?

Specifically, this main question could be further developed, such as, what are the forces driving CMNCs to integrate their operations globally? What are the forces driving CMNCs to localize their operations in host countries? What are forces synchronously driving CMNCs to both integrate and localize their operations? And Why?

- 2) How can factors influence on the decision making if a Chinese MNC intends to be more global integrated?

Likewise, a similar question should be studied, that is, how can factors influence on the decision making if a Chinese MNC intends to be more locally responsive?

- 3) Which IBS is more relevant to Chinese MNCs? And Why?

In addition, a further study could be done in exploring how Chinese MNCs reconcile forces for global integration and local responsiveness in order to form relevant IBSs.

To address these questions, empirical evidence will be required as our next step of the study. The investigation and its outcome will enable us to test the applicability and generalizability of IBS theories in the different context and engender some practical guidance or managerial implications for CMNCs operating in international environment.

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