Università
Ca' Foscari
Venezia

**Department
of Management**

Working Paper Series

Andrea Pontiggia and Tiziano Vescovi

**When Size Does Matter.
Trends of SMEs
Internationalization
Strategies in Chinese
Economy**

**Working Paper n. 28/2013
December 2013**

ISSN: 2239-2734

This Working Paper is published under the auspices of the Department of Management at Università Ca' Foscari Venezia. Opinions expressed herein are those of the authors and not those of the Department or the University. The Working Paper series is designed to divulge preliminary or incomplete work, circulated to favour discussion and comments. Citation of this paper should consider its provisional nature.

When Size Does Matter. Trends of SMEs Internationalization Strategies in Chinese Economy

ANDREA PONTIGGIA
<andrea.pontiggia@unive.it>
Dept. of Management
Ca' Foscari University Venezia

TIZIANO VESCOVI
<tiziano.vescovi@unive.it>
Dept. of Management
Ca' Foscari University Venezia

(May 2013)

Abstract. The strategies of internationalization have been one of hottest topics in managerial literature in the last decade. Interestingly to notice how deep and unexpected changes have challenged the mainstream of international management theories. This paper illustrates a framework and some preliminary results aim to comprehend how and why MMNEs (Medium-size Multinational Enterprise) internationalization strategies deviate from the more established strategies of multinational and global companies (MNC). We study a sample of Italian SMEs, analyzing the strategy choice and the governance models adopted in China businesses. Qualitative analysis highlights both the feasibility and sustainability of governance models (criteria and components) and forms (model execution and implementation). This paper investigates the specificities of SMEs: The adaptation process and, in some cases, the innovative governance forms analyzed in our sample of cases (described in the paper) are strongly affected by the following factors: first, the size does not fit the potential or actual dimension of market (size factor); Second, increasing difficulties to access to the countries? institutional externalities and strong reliance on the efficiency of markets in order to purchase product and services which they can not internalize (make or buy factor);. Third, negative effects of size preventing to reach arrangements with local and national government (government and local shareholders factor); Fourth, being part of the supply chain of larger firms (MNC) is a common entry mode in Chinese market. Last factor refers to the lack of resources (human, market and relational capital).

Keywords: International Management, Emerging Economies and Markets, International Marketing Strategies, Small and Medium Enterprises.

JEL Classification Numbers: F23, F63, M16, M31, D22, D21

Correspondence to:

Andrea Pontiggia Dept. of Management, Università Ca' Foscari Venezia
San Giobbe, Cannaregio 873
30121 Venezia, Italy
Phone: [+39] 041-234-8730
E-mail: andrea.pontiggia@unive.it

1. Introduction

The strategies of internationalization have been one of most relevant topics in managerial literature in the last decade. The soaring number of researchers, research projects and conferences provides a clear proof of interest. Moreover different disciplines (Sociology, business history, anthropology, law...) find in the studies of international business a common field. New perspectives are flourishing and new approaches combine different knowledge and competences. In these dynamic scenarios there is a partial "myopia" caused by a prevalent object of analysis: the Multinational Enterprise (MNE) seems to receive a much higher attention than other types of companies. Many reasons are behind this very focused object of analysis but the consequences is a lack of understanding of other company smaller but relatively strong internationalized. For example the literature on international strategy has helped us 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). And in the recent years the so-called MMNE have been one of the emergent topics; a growing interest goes to the multinational firms from emerging countries. Again these are examples of how the focus is on large companies in global market. The consequences are twofold: first, a lack of theoretical framework build on medium size multinationals and therefore evident limits of generalization of the research results coming from MNE in medium size organization; second, a narrow understanding of the roles medium size firm play outside domestic market. It follows some negative effects on the capabilities to develop economic policy to recover from crisis.

The argument to be made in this paper is quite simple: how medium size multinational enterprises (MMNE) innovate in implementing internationalization strategy? How the difference of scale and size affect the internationalization strategies? How do MMNE compete in large mar-

ket? Or in other terms what is wrong in the assumption that large market fits large firms. The results of our exploratory research clearly show that "one size does not fit all"!

In this path toward a new size paradigm the first step is to notice how deep and unexpected changes have challenged the mainstream of international management theories. Main attempts to align the theoretical contribution to the changes or to adapt the economic models based on assumptions and premises not supported by the evidences. This paper illustrates a framework and some preliminary results aim to comprehend how and why SMEs internationalization strategies deviate from the more established strategies of multinational and global companies (MNC).

In the managerial literature (for more details see the section 2 on theoretical frame), recent studies shed light on learning and unlearning of internationalization practices; challenges and changes analyzed using the lens of evolutionary economics, transaction cost analysis, resource-based view and institutional theories. Although the deep differences among them they clearly converge on the emphasis to figure out and make sense of the continuous and dynamic shift of strategic priorities. A general consensus starts from the rapid reshaping of the companies' strategic landscape. It seems a promising starting point for new research directions.

The landscape can be in very broad and comprehensive view described referring to three main drivers (Economist Unit, 2012). The first is the move of the economic center to the East — specifically towards China and other emerging markets in Asia. Economic demand is moving towards Asia

The second point is the so-called "hyper-globalization". Until now, the globalization has been ruled by developed-countries. Multinational corporations from Europe and America became global through investment in emerging markets to profit from the potential demand. In the last decade the emerging-market multinationals have left the home countries and go overseas. The international competitive players come more and more from emerging countries and not only leveraging the advantages of low labor costs.

From China, extensive investments are directed to Africa and Latin America. Some investments are directed to the advanced economies of Europe and North America as well. As a result, over the next 20 years we would expect to see emerging-market companies from China do many of the things that emerging multinational businesses from the West have done over the last 20 years. Multinational corporations from emerging countries (EMNEc) are not only growing at a faster rate than most multinational corporations (MNEs) from developed economies but, in recent years, they have also invested massively abroad. In the last decade China has played a significant role of foreign direct investment (FDI) flow.

A third global trend refers to the differences of "perspective". Some authors underline difference in the approach generates a conflict between Washington and Beijing consensus. The global economy is increasingly interconnected, yet the emergent economies achieving significant growth they differ noticeably from country to country. Some studies provide a framework for comparative strategic management across different nations. (Lou, et al. 2011). Major components of the comparative approach include (1) comparison in institutional, economic, and socio-cultural environments, (2) assessment in strategic orientation, strategy formulation, and strategy implementation, (3) judgment in capability deployment and improvement and last (4) analysis of strategic alignment and performance. This framework is a platform to deepen comparative studies of environments, organizational capabilities and strategies across emerging economies. A comparative strategic perspective may improve the understanding regularities and differences in emerging economies; it may also highlight competitive actions in these markets to optimize their strategic strength and reinforce their organizational legitimacy and institutional acceptance. Last point concerns the massive and complex changes China has experienced. Chinese institutions, including political, economic, and enterprise ownership structures, during its economic reform have strongly changed their scope and goals. 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 pivotal research questions and discussing their implications for further research on innovation put forth and yielded by international strategies.

2. Theoretical Backgrounds

For long time the evidences by empirical studies on internationalization strategies have been focused on MNE, mainly from developed economies. Only in last decade some explanation of the complex relationship between degree of internationalization and performance from an emerging countries company has been studies, but also in these studies strong emphasis is on larger companies. International business has long been seen as the 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. This is an crucial challenge to this existing and widely accepted perspective. 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 national merchandise exports in many countries. In recent years, numerous trends have emerged that make exporting and other international involvement a strongly viable alternative for the SME. To our best knowledge the understanding of how the international presence is insufficient to measure sustainability and feasibility of SME

and to track the development of MMNE, or trajectories of evolution from mainly domestic SME to a real multinational medium-seize firm.

Some differences between the MNE and the MMNE concern both the modes (how) and the actions (what) implemented. Overall the 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 in the two level: first is the 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 session 4) compels SMEs 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 an hypothesis of replication of models and routines from the home countries to overseas units. No distinction of the level of these units, branches, self-contained task unit, autonomous business unit tend to replicate the established structures and processes. Replication economies and cost saving strategies suggest and explain these common trait in the internationalization behavior.

Two sets of firms characteristics are to take into account. The first is often mentioned as a marker for small and entrepreneurial firms and have been described as flexibility, adaptability, reactivity and agility (Volberda, 1996). Second, is the 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. We refer to this broad definition recognizing that besides the stock to which we are more interested also the composition (different mix of resources), the quality and the combinative capabilities affect the competitive performance.

The debate among scholars of organization science and management considers whether corporate governance systems is moving toward a sort of Anglo-American model. One perspective is that convergence is bound to happen due to the competitive pressures of global capital and product markets. Others argue that convergence is unlikely or limited, because corporate governance is embedded in a nation's institutional context.

Researchers in international organization often pursue a dichotomous approach to examining developed (e.g., Europe, U.S. and Japan) and emerging countries, assuming high homogeneity within each class. For decades, researchers have insightfully diagnosed motives, behaviors, strategies, and practices of internationalization by developed country multinational enterprises (MNEs). At the same time, they insightfully assessed similar issues for firms from developing countries (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, heavily affecting the decisions of the companies. These two dimensions are an important point of connection between macro and industry studies and more micro researches, focused on individual companies.

The global economic system is highly integrated and characterized by fierce competition and different speeds of development. Until the 90s governmental and institutional agreements, governing the relationship between the antagonists economic systems, involved almost exclusively the MNE. Those Agreements were often marked by huge investments in new or emerging markets.

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.

In studies on internationalization strong anchor is still evident with past models, where the systems were disconnected and where political relations favoured 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 its resource base. It is a common variable related to firm performance used to control for economies and diseconomies of scale at the firm level. Large firms do not suffer from the liabilities of smallness, and they are more likely to survive in some form or the other compared to smaller firms. Foreign economic subjects, such as customers, suppliers, employees, and investors tend to feel more comfortable interacting with larger firms because size is seen as a reflective of greater reliability and ability to conduct business. In the internationalization process, access to capital may be more difficult, especially for smaller firms.

Entrepreneurship and Size: With the increasing globalization of markets, interest in international entrepreneurship (IE) 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 selfcommitment, 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 a 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 entrepreneurs 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 for a sort of cognitive blindness on strategic issues. Differently the literature about large global companies focus on 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 "stick 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. It has some advantages of the managerial structure without the risk to become too bureaucratic; decision making can not be totally centralized but without a long line of command; hierarchies exist without the disadvantages of a too complex structure based on double reporting and two or three bosses hierarchies such as matrix structures. Finally the medium size companies are neither a developed "small" firm nor a shrunken large companies. These differences and medium size specificities perform more clearly in the competition in global markets because of the competitive forces. International competition appears a natural field for investigate the real advantages and disadvantages of this organizational form and size.

Researchers interested to the relationship between entrepreneurship and internationalization are strongly engaged in theoretical and empirical investigations of the emerging phenomenon of "born-global" internationalization. Born globals are "young, small and medium-sized entrepreneurial firms that, from or near founding, obtain a substantial portion of total revenue from the sale of outputs in multiple countries" (Oviatt & McDougall, 1994). The study of born-global or early internationalization has now become an important part of the growing international entrepreneurship literature.

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 also may affect negatively the economic policies. These limitations are more evident when we approach the internalization processes. Let's consider just that from 250 employee on the firms are classified as large; without a more granular definition of medium size research and analysis lose their reliability. If we assume that medium size firms are different in the governance from very large global multinational, and these organizational differences are discrete, or in other terms can not be explained in linear and continuous way, it follows that we need to choose a different way to classify the firms' population.

Moreover international markets changes occur in the last two decades left partially useless distinctions based on political and national boundaries. The economic and financial integration and the narrowing of the economic macro - micro economic dynamics have contributed significantly to these changes. Obsolete taxonomies and a changed scenario suggest to rethink notions of size, and the growth path from small to medium size or viceversa the downsizing trend from large to medium.

If we analyse the E.U. actions, a note titled the Small Business Act (SBA) for Europe has recognised “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, a new definition of size classes is needed at least in the international trade and competition.

Definition of MMNEs. Medium Sized Multinational Enterprise (MNNE). La MNNE è un'azienda che presenta le seguenti caratteristiche: i. organico compreso tra 300 a 2500 dipendenti; ii. Presenza commerciale con unità dedicate extra Europa considerando i mercati europei come domestici; iii. Presenza produttiva fuori dal paese di origine (home country); iv. solo società di capitale privato. Per spiegare le strategie di internazionalizzazione ci siamo

concentrati sulle cosiddette MMNE e sulle loro azioni e modalità operative messe in atto. Basic assumptions are different from the small to the larger Multinationals and Global Companies.

The research propositions from the definition of MNNE

3. Research propositions and Investigation Framework

Coerently to the definition of internationalization and size, the study of the MMNE is articulated along three research propositions. The propositions are: i. ambidexterity by size, ii. mirroring and replication, iii. the informed and acquainted markets.

Ambidexterity by Size

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 ambidexterity by size refers to the capabilities shown by MMNE to enter in the global competitive arena, using a balanced mix of flexibility and stock of resources. The size seems to be not a limit for strategic and organizational agility as it's for many large conglomerate.

MNNEs 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 rec-

ognize 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 example come from Chinese markets, negative performances comes from an early entry of MNNE. The MMNEs operating in the international arenas are competing against the MNEs multinazionali leveraging specialization, agility and flexibility. We expect to observe successful MMNE in specific segment of emerging markets where stronger the demand for specialization and niche products, a growing demand for flexibility and adaptability.

In internationalization strategy the size plays a significant role in determing the innovation requested. The size paradox is drawn from a simplified framework which show the competing assets of large companies versus small ones. 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 the their entrepreneurial governance. In the same way size affects the interorganizational strategies, in other terms how large versus versus small firms approach the relationship with suppliers and customers, how they establish linkages and cooperate with other external sources of innovation. Many examples refer to decision about joint venture for co-design and co-production; size become an variable that distingues: the propensity and to open and to collaborate and the forms of cooperation.

Recent studies focused on open innovation shows the modes implemented by larger companies to manage the knowledge sources and flows across the firms boundaries. The MNE are extensively active in the open innovation; the challenge is how to improve flexibility and combinative capacity exploitation. On the contrary the limits of resources availability of small firms compel them to establish institutional agreement (associations and syndicates) on geographical basis (i.e. local districts) or industry based (i.e. automotive association).

Mirroring and Replication of Organizational Forms and Governance

The organizational forms are described as the configuration of structures, processes and routines. Each form and the resulting governance of MMNE can be observe in order to distinguish the differences from the domestic or home organization 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 forms and give an valuable perspective more realiable than strategies' statements. Organizational forms expressed economic investments of resources and clearly give a better insights about the entry and competitive modes in international new markets. From an organizational point of view two are the main characteristics of the replication: first, the nature of modularity, replication seems to working coherently with the propriety of modularity (interdependence and connections); each organizational modules are quite similar, based on the same guidelines, required shared actions and behaviors; each module is a organizatinal self-contained unit. Second, cost of replication are lower because it does not involve large amount of resources for adaptation and no specifi learning is required: somehow the saying "business as usual" leads the decision of organizational forms.

The effects of the replication is that home or domestic form (structure, proceesses and routines) are mirrored in international units. It allows an equilibrium between home and subsidiaries. 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. Final-

ly 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 need to 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 differences of markets, which are not yet global or mass markets. The second is that specific niche markets are too narrow to offer an 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" of network are similar in order to limit the organizational complexity. Less organizational complexity affects the resources devoted to manage the processes; more similar routines and structure lower the need of adaptation.

In this perspective the international strategic sustainability has to be verified on how the organizational forms matches the target environment. Some costly strategies of MNEE characterized by waiting for the emerging of acquainted markets delaying the entry becomes a clear choice to be considered as described in the next section.

When the markets drive Internationalization strategy

Some successful MNEE tend to work with a value proposition that required customers' competence, knowledge and experiences. The value perceived by the clients depends on the level of knowledge. Some competences are acquired and learnt by using and consuming of products; from simple product to more complex products in a sort of learning process. This phases and the availability of an informed and acquainted market affects the decision of MNEE about the timing, the target of entry modes. For many MNEE this means to implement a *second comer* strate-

gy. For example in B2C first player are mainly large multinational companies. In many cases this means huge investment of resources to create and to shape emerging markets. Since multinational companies acquire a presence in these "new" markets, a process of learning begins to consumers' behaviors. The literature of internationalization underlines the need to acquire the necessary knowledge about foreign markets mainly from experience in operating abroad.

More importantly, 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 (see section Findings) 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. MNNEs must collect and elaborate all the three types of knowledge to maximize the benefits of mirroring effects.

The existing customers already operating there explain the MNEEs' entry in new markets. The main driver derives from the demand to keep the same value chain configuration. In other industries the mode entry is shaped and driven directly by the final markets. Customers and their consumer's behaviors become more and more 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 MNNE 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. This explains why MNEE tend to play a role as second comers in emerging markets. In the first phase 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. 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.

Growth, Governance and Size Specificities

The three arguments address directly main issue in the theory of firms. First issue concerns with the firm's growth, the pace of growth and the factors enabling size development. Second, the relationship between size and governance and consequently the advantage of specialization, the economies of scope and scale, transaction costs. Third, the specificities coming from size in term of alternative organizational forms, the nature of discrete organizational solutions. Fourth, specular to previous point the characteristics of organization invariant to the size, the effectiveness of collective mechanism based on individual involvement. Lastly the performances of the internationalization strategies are directly correlated to the understanding of the values offered and this depends on the level of knowledge acquired by the customers. To sum up the simulta-

neous presence of all the three conditions described is foundational for international performances of MNNE.

Figure 1: An Analytical Framework of International Strategies and Competitive Postures

From the prepositions we draw a preliminary research framework outlined in the next section.

4. Field Study: Methods and Evidences

The reasearch design does not support the investigation of so called "best practices" or more effective business models; we are not interested to define some new approaches comparable to others and hopefully more successful. Our purpose is shed light and interpret the size paradigm in a context characterized of streategy driven by internationalization in China. It follows that companies that have already decided and implemented strategic action to get into new markets compose the sample of case. Companies in different stages of internationalization, strongly motivated to invest in Chinese market. Our multiple-case, multiple-level study has led us to devel-

op an analytical framework to examine innovation across firms and levels. To validate these claims we design and conduct a multiple-case, multiple-level study.

The evidences are collected from a 3-month field study of the 3 of 5 firms. The other 2 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 in different phases involving the firms' informants when possible more than once during the case analysis, in order 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 preparation, rapport building with potential respondents, interviews, and analysis last from 2011 to 2012. A second part of analysis consisted of corporate visits, the collection of archival material, and informal and formal interviews. We identified as informants senior manager who were knowledgeable about the corporate governance systems and practices of their firms.

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).

Table1 shows the firms sample. All of them are comprised in the range of 500 - 2500 employees that is the medium-size classe as we have defined in initial research design phase.

Companies	Total Employees/ Revenue (mil. €)	Products	Size in China (n. of employees/ revenue mil. €)	Year of establishment	Objectives of entry and development in China	Entry modes	International investment	Percentage of international revenues
A	750/155	Home appliance components	5/3-12	1997-2009	Following home appliance producer customers	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 materials- Automated material handling systems	80/9	1999-2004	Entering important market for ceramics, shifting to logistics	Factory	20 branches and factories	70
D	350/55	Rides and attractions	45/7	2004	Entering a Growing market	Factory	4 factories and 5 branches	98
E	150/50	Prams and strollers	3 (export)/0,9	1995 (procurement)	High end growing market	Export	10 branches	50
F	800/180	Tire changers, balancers, aligners	50/10	2010	Following automotive producer customers	Factory	8 factories	80

Table 1: Cases Description

Our study 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 and over a more extended period of time (time of entry in China).

Qualitative analysis highlights both the feasibility and sustainability of governance models (criteria and components) and forms (model 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
Research question 1: Ambidexterity by size	Evidence confirms the Ambidexterity hypothesis	Evidence confirms the Ambidexterity hypothesis	Evidence confirms the Ambidexterity hypothesis	Evidence confirms the Ambidexterity hypothesis	Evidence confirms the Ambidexterity hypothesis	Evidence confirms the Ambidexterity hypothesis
Research question 2: Mirroring Hypotheses	The project of new factory in China is facing difficulties in adapting the home model to the new market Evidence partially confirms the Mirroring hypothesis	Replication of the home model Evidence confirms the Mirroring hypothesis	Partial Replication of the home model (replication in one business of 3) Evidence partially confirms the Mirroring hypothesis	Replication of the home model Evidence confirms the Mirroring hypothesis	The project of new factory in China is a partial replication of the home model Evidence partially confirms the Mirroring hypothesis	Replication of the home model Evidence confirms the Mirroring hypothesis
Research question 3: Acquainted Markets	Following previous customers Evidence confirms the Acquainted Markets hypothesis	Entering in acquainted B2B market Evidence confirms the Acquainted Markets hypothesis	Entering in acquainted B2B market Evidence confirms the Acquainted Markets hypothesis	Entering in acquainted B2B market Evidence confirms the Acquainted Markets hypothesis	Entering in acquainted B2C market Evidence confirms the Acquainted Markets hypothesis	Entering in acquainted B2C and B2B markets Evidence confirms the Acquainted Markets hypothesis

Table 2: Case Evidences

As the figure 3 highlights, the Ambidexterity is confirmed by all the case studies, as well as the Acquainted and Informed Markets hypothesis, both in B2B and in B2C situations. Concerning the Mirroring hypothesis, it seems completely confirmed in three of six case studies and partially in the other three. In any case, however, the companies use the mirroring method for the entire or the partial business organization they replicate in the new international market.

5. Preliminary Results and Findings

This study makes some important contributions to theory and research on MNEEs governance for international strategies. Our analysis develops an original perspective focused on size and 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 tend 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 of the need to contain and control the cost of organizational adaptation to international competitive contexts.

The preliminaru 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 am 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 as following.

Research statement 1: *Ambidexterity*. The field evidence has confirmed the ambidexterity condition of MMNEs, even if emerging in an indirect way. This finding should be analysed more deeply because the state of the research does not identifies a clear evidence of the ambidexterity dimensions and how to measure it.

We assume that size affect the organizational forms in a discrete way; small and large companies are not to be analysed as the extremes The study of MMNEs shows deep discontinuities and specificities from the small and entrepreneurial firms and the MNE. The discrete scale of organizational forms does not follow a general rule about size growth, but depends upon the conditions of the specific market they address to and upon the domestic model they refer to.

Research statement 2: *Mirroring*. MMNEs use the mirroring model in their organizational design, keeping a flexible approach following three different paths:

- *A (semi) perfect replication of the domestic organizational model* with appropriate minimal modification due to the different cultural context which is mainly reflected in the HRM policies and marketing strategies;
- *A perfect replication of the production and operations model*, ruled by expatriate managers;
- *Waiting, even for for favourable 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 3: *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 confirm 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 focuses on the characteristics of the markets and 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 and Conclusions

The framework we outline strengthen the hypothesis about a future international scenario where the MNNEs 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 comer 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 being the 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 to the replication of organizational forms and governance models: Evidences from cases confirm that MNEEs can not rely on the internationalization framework adopted by MNE. The most evident 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 emerge as a quite effective way to enter in new markets but it also appear flawed and incomplete. MNEEs reproduce their organizational configuration but the process leave some spece 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 MNNEs 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 in order 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 parsimonous 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 (Knowledge clients) coherent with a second comer strategy. I

The validation of the model based on the sample suggests: First, 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 based on case evidences that internationalization is a effective drive for MMNE to innovate deeply the business models although thorough 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 innovation that 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 of MNE is to be applied also in the research in MMNE. The cross cultural analysis has its root and a long tradition in large companies. The question is if and how to adapt these methods to make them coherent with MMNE specificities. If size matters also the culture may affect performance with different intensity and strength.

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 stepping stones 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 depthness using a longitudinal approach and to improve the set of measurements which provide more details about the three main variables of our framework.

In this period of crisis of eastern economies a deeper comprehension of the roles and contributions of MMNEs may be very helpful to recover from the recent failures of economic policies. New recipes for the future come also from the MMNEs: "forgotten" and missed (at least by economic research) entities. The old Latin adage "in medio stat virtus" seems to fit also in international competition.

References

- Augier, M., D. J. Teece (2006), Understanding complex organization: The role of know-how, internal structure, human behavior in the evolution of capabilities. *Indust. Corporate Change* 15(2) 395–416.
- Bartunek, J. M., (2007), Academic-practitioner collaboration need not require joint or relevant research: Toward a relational scholarship of integration. *Academy of Management Journal*, 50: 1323–1333.
- Contractor F.J., V. Kumar, S.K. Kundu, (2007), Nature of the relationship between international expansion and performance: The case of emerging market firms, *Journal of World Business*, 42, 401–417.
- Contractor, F.J., Kundu, S.K. and Hsu, C-C., (2003), A three-stage theory of international expansion: the link between multinationality and performance in the service sector'. *Journal of International Business Studies*, 34(1), 5-18.
- Eisenhardt, K. M. (1989), Building theories from case study research *Acad. Management Rev.* 14(4) 532–550.

- Eriksson, K., Johanson, J., Majkgard, A., & Sharma, D. D. (1997), Experiential knowledge and cost in the internationalization process. *Journal of International Business Studies*, 28(2): 337–360.
- Knight G.A. (2001), Entrepreneurship and strategy in the international SME, *Journal of International Management*, 7, 155–171
- Li J.J., L.Poppo and K.Z. Zhou (2008), Do Managerial Ties in China always positive Value? Competition, Uncertainty, and Domestic vs. Foreign Firms, *Strategic Management Journal*, 29: 383-400.
- Liu, X. and B. Trevor (2007). Innovation performance and channels for international technology spillovers: Evidence from Chinese high-tech industries, *Research Policy*, 36(3), 355–366.
- Liu, H. and Li, K. (2002). ‘The strategic implications of emerging Chinese multinationals: the Haier case study’. *European Management Journal*, 20(6): 699-706.
- Luo Y, J.Sun J. and Stephanie Lu, Wang (2011), Comparative Strategic Management : An Emergent field in International Management, *Journal of International Management*, 17, 190-200.
- Mudambi, R. and Navarra, P. (2004), Is knowledge power? Knowledge Flows, subsidiary power and rent seeking within MNCs. *Journal of International Business Studies*, 35, 385–406.
- Madhok A. and C.Liu (2006), The Coevolutionary Theory of the Multinational Firm, *Journal of International Management*, 12, 1-21.
- Meyer M.W. and X.Lu (2004), Managing Indefinite Boundaries: The Strategy and Structure of a Chinese Business Firms, *Management and Organization Review*, 1:1, 57-86, 1740-8776.
- Miles, M. B. and A.M. Huberman (1994), *Qualitative Data Analysis: An Expanded Sourcebook*, Sage, Thousand Oaks, CA. Eisenhardt 1991
- Nachum, L. and Zaheer, S. (2005). ‘The persistence of distance? The impact of technology on MNE motivations for foreign investment’. *Strategic Management Journal*, 26(8): 747-767.
- Oviatt, B. and McDougall P. (1994). Toward a theory of international new ventures. *Journal of International Business Studies*, 25(1): 45–64.
- Oviatt, B. and McDougall, P. (1995). Global start-ups: Entrepreneurs on a worldwide stage. *Academy of Management Executive*, 9(2): 30–44.
- Oviatt, B. and McDougall, P. (2005). Defining international entrepreneurship and modeling the speed of internationalisation. *Entrepreneurship: Theory & Practices*, 537–553.
- Schweizer L. (2005), Concept and Evolution of Business Models, *Journal of General Management*, 31, 2, 37–56.
- Volberda HW (1996), Toward the flexible form: how to remain vital in hypercompetitive environments. *Organization Science*, 7(4):359–374.
- Yin, R. (2003), *Case study research: Design and method* Thousand Oaks, CA: Sage.
- Yin, R. (2004), *Applications of case study research*, Thousand Oaks, CA: Sage.
- Zahra, S. A. and G. George. 2002. Absorptive capacity: A review, reconceptualization, and extension. *Acad. Management Rev.* 27 185–203.
- Zhou L. (2007), The Effects of entrepreneurial proclivity and foreign market knowledge n early interntionalization, *Journal of World Business*, 42, 281-293.
- Zhou, L. and Hui, M. (2003), “Symbolic value of foreign products in the People’s Republic of China”, *Journal of International Marketing*, Vol. 11 No. 2, pp. 36-58.