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Internationalization of Middle Size Multinational Enterprises in Chinese Markets: Mirroring Back Effects

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Abstract. In this paper, we focus on the internationalization strategies implemented by Middle Size Multinational Enterprises (MMNE) in Chinese markets. We assume that these strategies differs from those of the large multinational companies. Differences explained by the size of the company (medium) compared to the size of the potential market (large). The hypothesis is that in the internationalization strategy of Medium size Multinational Enterprises (MMNEs) is recursive and based on two-way innovation process. This processes is defined as a mirroring back phase and its shown by companies prone to innovate the business model because of the international exposure. Culturally distant and large markets may support firms to increase their strategic innovation rate. Evidences based on case studies show the content and the modes of the internationalization of MMNEs.

Keywords: put keywords here, management, finance, economics.

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

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Introduction

In this paper, we study the internationalization strategies of Middle Size Multinational Enterprises (MMNE) in Chinese markets. Differences between the MNC (MultiNational Companies) and the MMNE can be traced both looking the modes (how) and the actions (what) implemented in international context. Basically strategic drivers reflect the stock of resource availability and the models of exploitation. It follows that the international competitive arena size matters because it forces the innovation process of governance structure and forms. The size effects can be observed at two levels: first is the stock of resources to invest to gain new foreign, overseas markets (not limited to marketing and sales but also manufacturing and logistics); second, the organizational capabilities to combine quickly and to move faster than MNC, typical of smaller and entrepreneurial firms. The evidences from the field (Pontiggia and Vescovi, 2013) confirm the challenge and difficulties faced by MMNEs to explore and implement new governance forms. The mere imitation of international modes from MNC is not feasible and sustainable and the data collected seems to confirm a tendency to replicate models and routines and to deploy them from the home organization to overseas units. Economies of replication and scarce resources suggest and explain these traits in the internationalization behaviour of MMNEs.

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

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

The so-called ambidexterity by size refers to the capabilities shown by MMNEs to enter in the global competitive arena, using a balanced mix of flexibility and stock of resources. MMNEs compared to MNCs 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, 2005).

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

Our analysis moves from recognizing one dilemma derives from a lack of adequate explanation of how MMNEs move into large and growing markets seeking for knowledge. This study aims to identify major factors that influence the innovation of business models generated by internationalization (O'Cass and Weerawardena, 2009) in a dynamic and growing foreign market. We outline these consequences of international learning in a set of action we call "Mirroring Back".

The focus is not limited to replication strategy in Chinese Market or product adaptation to local needs we analyze and recognize how MMNEs may develop from a internationalization in large and growing markets knowledge to modify and innovate the original business models. We explain using a qualitative study how internationalization may be driven also by other strategic objectives than market opportunities or cost of resources, and but how it can contribute and support the transformation of the business models. The general research question is if and how internalization may leverage the organizational capabilities towards innovative business models and more precisely how this may happen in midsize organizations.

The international management (IM) studies suffer from some limitations as many fast growing research areas (Gammeltoft et al., 2012). The first limit derived from the historical scenario IM studies are referring to. A large part of the theories on which research is based are born, establish and broaden make sense and explain a economic systems of relationship

deeply changed in last two decades. It's possible and easy to see these limitations when we just compare the roles play by different countries in the international exchanges. The globalization can be seen as a test for the international managerial and economic models and theories. Test and verify existing theories deserve an increasing effort by researchers. Some changes of the globalization concern the size of emerging markets, the speed of the development of new consumers models and behaviors. And it's not only size, but deeper changes are connected to social and cultural differences. Moreover global and large markets are emerging on the supply of new products and services, at least new for a large segment of the demand. Customers involve for the first time in buying and consuming completely new for them, without any previous experience. The effects are evident and can be described in term of large and new market. This is the competitive challenge face by many European and western firms when they got into the Chinese markets. The evidence that China now has become a crucial engine of global growth let us with new questions: What does China now mean for medium size multinational companies? How MMNEs are recalibrating their China operations in reaction to new realities? In other terms how these firms are developing international capabilities and how their international strategies may differ from the Multinational Companies?

International business scholars have conducted substantial research on many different issues: internationalization process (Dunning, 2001), multinational companies' (MNCs) strategy (Kogut, 1995; Rugman, 2003) and foreign direct investment. Some research has shown the linkage between innovation and internalization. An example is the so called "reverse innovation" effects: the development of products in emerging countries and then distributing them globally. The flow of innovation (i.e. in term of product or delivery system) is moving from developed countries to emerging countries and the other way around. But in tracking the innovation flow among different countries the observation mainly concern the experiences of MNCs or the called Emergent Countries Multinational Enterprises (ECME). Differently our research focuses on MMNEs and how their business models is innovated by the internalization process. The opportunities offered by the size of the markets in emerging economies and their growth has hastened attempts by MMNEs to enter them. Large markets for consumer goods with a high potential growth look attractive for international development of MMNEs. Recent Chinese Economic policies are oriented towards an increase of domestic demand and

consuming propensity. At the same time, many of the competitive capabilities needed in emerging economies are context-specific. Emerging markets emphasize how managerial competencies of the MMNEs has become a irreplaceable and crucial factor.

A first dimension is linked to the cultural, linguistic, institutional differences between a firm's country of origin and other countries to which it may internationalize (Johanson and Vahlne, 1997). These differences can increase the 'liability of foreignness'. China's distinctive cultural political and institutional assets (Chen and Chen, 2004) may increase the liability of foreignness.

Conceptual Foundations of MMNEs and Research Model

Two major approaches to the internationalization of the firm have been widely applied and tested. The first is a "stage approach" (companies start selling products in their home markets followed by looking at new countries); the second is mainly focuses on "born global" approach (companies start their international activities from their birth). Neither the first nor the second seems to be effective to describe and to explain some international strategies executed by the MMNEs. To understand what distinguish the linear and sequential or the entrepreneurial models suggested by the mainstream of international management studies and the approaches followed by some MMNEs is useful to go back to some conceptual foundations of the IM studies and to draw how these models may or not fit with the evidences of MMNEs operating in Chinese markets. In the followings parts we outline some conceptual foundations of our research framework. These are approaches and theoretical contributions, which seem to be invariant to size. The review briefly shows also the originality of the *mirroring back* effects and actions defined in latter sections of the paper.

Uppsala Model. In the U-model, the process of internationalization is described as a gradual and incremental acquisition, integration and use of knowledge about foreign markets. The contribution from Johanson and Wiedersheim-Paul (1975) describes internationalization as a slow and incremental process described by four distinctive stages. Each phase showing different degrees of involvement in the foreign country: no regular export activities, export

via independent representatives, establishment of an overseas sales subsidiary and finally overseas production / manufacturing units. Johanson and Vahlne (1997) developed a model that looks internationalization as causal cycles in which knowledge about foreign markets and market commitment are affected by the firm's current activities and commitment decisions. MMNEs may use comparative advantages in order to seek the knowledge and capabilities to develop the firm-specific advantages that will help them become and remain globally competitive. In the Uppsala model, internationalization is modeled as a process of incremental resource commitments, driven by increasing experiential knowledge. (Johanson and Vahlne, 2006). The process starts from domestic markets, moves on to culturally and/or geographically closer countries, and then moves to culturally and geographically more distant countries. Foreign activities move from exports to foreign direct investment.

Ownership, Location, and Internalization OLI. Dunning's (1988) paradigm is the most widely known theory of the multinational firm. It explains that an MNCs overcome the costs and disadvantages of competing with domestic rivals in a host country by using a source of advantage that exploits internalized asset transfers and access to global value chains. Much of the rationale for FDI is based off this paradigm. Insufficient home markets, global competitive pressures, and/or government policies spur decisions to internationalize from firms who, naturally, wish to protect or increase their profitability and/or capital value. These firms then choose to engage in FDI (as opposed to exporting or licensing) based on the belief that they can exploit existing firm-specific competitive advantages abroad (i.e., asset-exploitation). A widely debated criticisms of the this model is its ineffectiveness to explain new firms and the dynamic nature of competitive advantage. Other approaches suggest that international expansion oriented to acquire new capabilities (asset-augmentation by exploration) requires a different framework than expansion designed to exploit existing capabilities (asset-exploitation).

Knowledge Transfer and Diffusion. Traditionally MNCs have played a crucial role in transferring technology and other forms of knowledge among countries. Studies recognize that creating value through international knowledge management is not simply about cross-border transfers of technology but also about the related process of knowledge development, which includes knowledge integration. The process by which MNCs create value from

knowledge was initially conceptualized as a linear sequence and though no *mirroring back* effects are revealed.

Knowledge transfer tended to be internalized within the firm to avoid the transaction costs associated with market contracts in knowledge assets. We refer to this characterization of knowledge creation and transfer as the “knowledge diffusion” model of the MNC. The idea that a firm might gain knowledge through its international operations is not new, but it has often been considered to be a pleasant side effect rather than as a key motivation of FDI. Johanson and Vahlne (1977) developed a model of the internationalization process suggesting that firms incrementally increase their international commitments via a gradual process of acquisition, integration, and subsequent utilization of knowledge related to operating abroad. Firms may supplement their existing technical capabilities by expanding internationally and that such expansion would allow them to access new technology, skills, or knowledge. Empirical evidence shows (Almeida, 1996) that firms may be increasingly motivated to expand internationally with the primary intention of acquiring valuable knowledge that resides abroad, rather than to exploit existing competencies. This is especially true for MNC that are latecomers (Mathews 2006). These evidences show some of the initial effects mirroring back, but mainly concerning specific set of resources, less evident the consequences at business model level.

Knowledge-based view. Knowledge-based theory of the firm, conceptualizes firms as a nexus or bundle of knowledge (Kogut and Zander 1995) and integrates complementing the resource-based theory (Barney 1991, Amit and Schoemaker 1993) and the dynamic capabilities theory (Nelson and Winter 1982), in which the unique and hard-to-imitate resources provide the basis for firms’ competitive advantages.

Research into knowledge management and the following the knowledge-based view of the firm states the complementarity of knowledge generation (or “exploration”) and knowledge application (or “exploitation”) even if they are conceptually distinguishable. Cohen and Levinthal’s (1990) study of knowledge transfer shows that if the capacity of the recipient organization to absorb new knowledge (absorptive capacity) is a function of that recipient’s knowledge base, then the use of knowledge cannot be separated from its creation. Hence, the ability of an MNC to transfer knowledge from its home base to its overseas subsidiaries

depends, inter alia, upon the extent to which those overseas subsidiaries are themselves engaged in knowledge development (Kogut, 2000).

This view of the MNC as an international network that creates, accesses, integrates, and applies knowledge in multiple locations provides a wider view of the processes through which MNCs create value from knowledge. Although there are advantages of firms in the production and deployment of knowledge, knowledge tends to be “sticky” within firms (Szulanski 2006) and transferring it overseas is costly (Teece, 2009). MMNEs show some differences: the lower organizational complexity compared to MNCs and the inherent flexibility of midsize organizational forms affect the costs on knowledge transfer.

Resource-based View of internationalization. From the resource-based perspective a firm’s competitive advantage comes from its superior resources. A firm is therefore advised to choose its strategy based on its resources (Barney, 1986; Dierickx & Cool, 1989). The resource-based view of strategic management focuses on sustainable and unique costly-to-copy attributes of the firm as the sources of economic rents, i.e. as the fundamental drivers of the performance and sustainable competitive advantage needed for internationalization. A firm’s ability to attain and keep profitable market positions depends on its ability to gain and defend advantageous positions with regard to relevant resources important to the firm. Resource-based models recognize the importance of intangible knowledge-based resources in providing a competitive advantage. They address not only the ownership of resources, but also the dynamic ability for organizational learning required to develop new resources.

By looking at the attributes and qualities resources should possess to sustain a long-term competitive advantage, authors have proposed different characteristics. Barney (1991) states that strategic resources must be valuable, rare, imperfectly imitable and not substitutable. Grant (1991) considers strategic resources in term of durability, transparency, transferability, and replicability. Resources in general can be considered stocks of available tangible or intangible factors that are owned or controlled by the firm and converted into products or services, using a variety of other resources and bonding mechanisms. By definition in the case of MMNEs we observe a limitation of the stock of available resources. But this does not consider the strategic characteristics and qualities of the resources available.

Dynamic Capabilities for International Strategies. Dynamic capabilities are the capacity to obtain rents from current resources and to create new competencies (Prange 2001). In different terms, Eisenhardt and Martin (2000) describe dynamic capabilities as processes that firms can use to obtain, integrate, reconfigure and release resources, leading to new resources and resource configurations. Dynamic capabilities have a direct effect on firm performance and competitive advantage, as well as an indirect effect through resource recombination. Deploying dynamic capabilities involves both capability of exploitation and capability of creation. In MMNEs Capability exploitation concerns the extent to which a firm exploits rent-generating resources that are firm specific, difficult to imitate, and able to generate abnormal returns. Capability building involves the extent to which a firm commits to building new capabilities through learning from other organizations, creating new skills, or revitalizing existing skills in new situations. Both are important in today's turbulent business environment. Capability exploitation is critical for gaining competitive advantages and determining strategies for exploiting such advantages. Capability building ensures the growth of sustainable advantages and generates new bundles of resources. Collectively, dynamic capabilities determine a multinational enterprise's (MNC's) ability to create and use organizationally embedded resources in pursuit of a sustained competitive advantage in a global marketplace.

Rent-yielding resources arising from unique firm endowments or global experience provide MNCs with competitive advantages, which can be used to drive subsequent strategies and continued development of new capabilities needed for international expansion. Distinctive capabilities such as technological and marketing skills encourage firms to diversify into new businesses or new foreign markets to exploit their economic value. Similarly, classical MNC theories argue that firms are motivated to go overseas to exploit ownership-specific advantages.

International expansion provides learning opportunities through exposure to new markets, internalization of new concepts, assimilation of ideas from new cultures, and access to new resources. An MNC has a collection of valuable options that permit it to move real economic activities or financial flows from one country to another. The diverse environment facing an MNC exposes it to multiple stimuli, allowing it to develop diverse capabilities and providing

it with broader learning opportunities than are available to a purely domestic firm. The enhanced capability building that results from organizational learning and combinative innovations ensures ongoing growth of the firm, while the firm's initial stock of knowledge may well be the strength that allows it to be present in a target market in the first place.

Entry modes. This stream of research is focused on factors affecting entry mode decisions. Different theoretical approaches are used to explain how firms enter in emerging and large markets. Transaction cost theory, internalization theory (Buckley & Casson, 1993), the resource based view among many others contribute to the comprehension of the factor enabling or inhibiting the entry in new markets. Although an increasing number of research on entry mode choice, empirical results are conflicting and not conclusive. Direct effects of isolated factors might not necessarily provide a satisfactory explanation of the selected market entry strategy due to the existence of relationships between them. Also, contextual factors moderating market entry can be regarded as a relevant theme for entry mode research. More than that generalization of the results is constrained by the difference within a large and differentiated market as the Chinese one.

Emerging Markets Enabling Innovation

Govindarajan and Ramamurti (2011) underline innovation originating in emerging markets by the MNCs, which increase their role of contributors in global innovations. These evidences seem not confirm past assumptions that MNCs have knowledge-based assets, unique resources, and core technologies, while local firms do not.

This implicit assumption is that Multinational organizations are substantially different from domestic firms. These differences are not only limited "in term of level of sophistication" but also they represent a different type (Westney & Zaheer, 2001). The main distinction derives from combined effects of multidimensionality and heterogeneity. Large MNCs and MMNEs share the same complexity of internal and organizational context with different scale. Geographic, cultural and organizational distance, language and cultural barriers and complex relationship between units are some of the most common issues that affect both traditional large MNCs and the Middle Size Multinational Firms.

Export is a common way of firm growth for MMNEs. It's perceived as a fast way and low

risk way to enter foreign markets (Zucchella and Siano 2014). It requires less resource investment than foreign direct investment. Even if exporting reduces also the organizational complexities posed by establishing a foreign subsidiaries and units, there are evident limitations of this line of action. In a foreign and “distant” market any indirect presences seems to affect negatively the possibility to gain access to information and knowledge. If exporting strategies provide a faster access to a foreign market it lacks to breed a learning process; it seems to lower the probability that international presence may generate some sort of innovations. In many cases it makes difficult also the adaptation to the emerging markets needs. But in large markets the size, in term of resources availability, clearly limits the development opportunities. Foreign direct investment by establishing subsidiaries and internalizing markets for proprietary asset exchange enables firms to minimize transaction-related risks and gather benefits of direct contact with the evolution of markets needs (Rugman, 2003).

The dilemma of size: Not big enough for large markets seems to be a barrier to the implementation of MMNEs strategies in large and growing markets; moreover opportunities of innovation are hindered by exporting. These are some of challenges face by MMNEs and in the remainder of this paper we provide a literature review identifying different set of models which help to explain how size limits may affect the internationalization strategies.

Replication, Standardization, and Adaptation. Proponents of the so called standardization approach view the globalization trends as a tendency toward a greater market similarity and higher convergence of consumer needs, tastes, and preferences. This line of thought claims that standardization is further facilitated by the growth and the emergence of global market segments. Typically the benefits of a strategy based on standardization are: significant economies of scale in all value-adding activities, particularly in research and development, production, and marketing; the presentation of a consistent corporate/brand image across countries, especially in light of the increasing consumer mobility around the world; and reduced managerial complexity due to better coordination and control of international operations.

At the opposite we see an adaptation approach. It states that the increasing globalization

trends does not affect the deep differences between countries. Consumer needs, use conditions, purchasing habits, commercial and delivery infrastructure, culture and traditions, laws and regulations are still too different to implement a unique approaches. It emerges the need to adjust firms' marketing and competitive strategy to the idiosyncratic and specific conditions of each foreign market.

In this view strategy standardization suffers from an oversimplification of reality, and contradicting the marketing concept. It reminds that goals of the firm is not cost reduction through standardization, but profitability through higher sales accrued from a better exploitation of the distinctive consumers' needs across countries.

A third approach offers a contingency perspective to the replication/standardization versus adaptation debate. It states that standardization or adaptation two ends of the same continuum, where the degree of the firm's marketing strategy standardization/adaptation can range between them, in other terms they are not a discrete choice. Second, the decision to standardize or adapt the marketing strategy depends on specific market at a certain time or period. Third the appropriateness of the selected level of strategy standardization/adaptation should be judged and measured on its impact on company performance in international markets.

Firms may expand from their home countries to foreign countries by setting up replicas of their value chains and business model. Widely cited are the examples of such organizations which have replicated a "format and model" (p.e. McDonald's, Starbucks and IKEA in China) using a clear branding strategy. The replication of a fixed format is associated with benefits, such as economies of scale and brand recognition (Winter & Szulanski, 2001).

Jonsson and Foss (2012) clearly explain how the IKEA international strategies have not been an exact replication as recommended by the replication-as-strategy literature. IKEA try to get the advantages of both: format standardization with local adaptation. The acquisition and internal transfer of the knowledge that results from such learning is coordinated and systematized through organizational means. These include dedicated units that are responsible for intra-firm knowledge sharing, as well as organizational principles, such as corporate values that stress the importance of co-workers questioning existing solutions and continuously engaging in knowledge sharing.

The Replication Strategy and Imitation Effects The founding contribution to the replication as-strategy view are in Winter and Szulanski (2001) and Szulanski and Jensen (2006). Winter and Szulanski (2001) provide a two phase model of replication in which an initial phase of exploring in the space of possible formats for replication is followed by a phase of exact exploitative replication of the decided-upon format.

The general picture that emerges is that a firm is especially oriented to imitate, in terms of market entry and consolidation. There is a broad tendency to replicate the business models from the domestic configuration towards new markets, but at the same some pitfalls are recognizable: a sort of “competences trap” which constitutes an obstacle to innovation from internationalization. Firms show to be less prone to mirror back using knowledge generated in their international investments.

The research framework

The research framework is presented in exhibit 1. The MMNE develops its original business model in its home market and, normally following the Upsala model, the company uses the same business model in foreign markets that are similar to the home one. The same happens when the company decides to enter such a distant market as China, even if the characteristics are totally different. So the company enter the *Mirroring* phase, replicating the original business model. After the first period, the performances of the company are not as good as expected and the business model seems not working as in other foreign markets, so the company enters the *Exploration* phase, trying to understand if the market is enough acquainted to be able to analyze and appreciate properly the offer. As temporary solution, the company can decide to wait for the moment the new market will be acquainted, keeping the offer the same as in the other markets. It is obviously a risk, first because the market can mature in a different way compared to the others, second because other competitors can exploit the situation of “absence”. Alternatively the MMNE can start the *Adaptation* of the business model and the offer to the characteristics of the market, in order to be successful. Therefore the company develops new models and new solutions, in other words it develops strategic innovation by mean of the *Mirroring back* phase, in which it introduces innovation

acquired through the experience it had in the new foreign market to the original business model it had in the home market.

Exhibit 1. Research Framework: Variables and Relations

Research Methods

In order to define and verify the notion of *mirroring back* we conducted an in-depth historical analysis of three MMNEs operating in three different industries with a common international exposure to emerging markets. We focused on the internationalization strategies executed in Chinese Markets. We used the following criteria to select the MMNEs from a core group of 15 companies operating in the Chinese market we analyzed. Out of this group we selected three companies, we consider the three case studies emblematic (Gibbert, 2008; Yin, 2008; Zivkovic, 2012) for explaining the phases of the internationalization process presented in Exhibit 1. Four of the 15 companies were in the *mirroring* phase, five were in the *exploration* phase (two of them *waiting for the acquainted market*), four companies were in the *adaptation* phase and two in the *mirroring back* phase. The three companies we describe in this paper were chosen because of their specific characteristics according with Larsson (1993) where already familiar before generating the hypotheses, we analyzed with different search strategies covering several sources, having enough information, we list below, that we consider perfectly suitable with the framework we propose and representative of the sample of 15 companies we included in the research.

Firms Profile:

- A) Multinational medium size enterprises (MMNE);
- B) Companies having a not large home market, and having cultural homogeneity as market common bases. We decided to consider Italian companies for easier gathering of information.
- C) Companies with a strong presence in the traditional international markets, and already

accustomed to markets other than the home one. Their export turnover should be at least 40%;

D) Companies acting in different industries (food, baby gear, Winery).

Firms Requirements and Characteristics:

E) Companies with presence in the Chinese market for more than 3 years.

F) Companies at different stages of the entry process and development in the Chinese market;

G) Companies individually using different and multi-channel distribution structures , from large retail grocery and department stores to specialized stores and convenience store;

Culture:

H) The Country of Origin image should be relevant in the definition of the product system and in the brand image perception;

I) Companies producing consumer goods (durable and nondurable). They have to find consistency with cultural consumption patterns and customer buying behavior;

K) Companies producing categories of products (cakes , strollers, wine) that are new in the market and have not any tradition. It requires a process of learning by the customer and a consequent change in consumption patterns with respect to the tradition of the market, whereas the required change has a strong cultural connotation.

J) the corporate culture is strongly product-oriented. There are strong components related to the tradition; expertise and tradition of the product are company values. Adaptation is required to the consumer and modifications operated by the company are often limited to marginal elements; the attitude towards the market is educational and not based on learning. Therefore the sample has the characteristics allowing making emblematic research results and the resulting model.

The information were collected a) by mean of in-depth interviews (3 per each company) with the top management (we implemented an interview guide of 19 open-ended questions) with duration range between 90 and 120 min, b) by mean of an in-depth interview with each of the

importers in China each one with duration between 90 and 100 min, c) by mean of visiting the outlets in China (12 for Company A , 53 for the company B, 14 for the company C).

Comparing and complementing the findings with company reports and other internal data sources achieved the triangulation of data.

Small-N research designs are often regarded as somewhat suspect, as heavy sample bias implies problems of external validity (Jonsson and Foss, 2012). However, a basic lack of knowledge about which variables matter, how they are causally related, etc., often warrants explorative research based on small-N samples. As noted by Doz (2011: 588), “qualitative research methods offer the opportunity to help move the field forward and assist in providing its own theoretical grounding”. In the next sections we describe each cases analyzed.

Case studies

Case A

The company was founded in Italy in 1968 and from the beginning has been specialized in the production of wafers. In the 80s they add more biscuits to the assortment. Company A produces both for its own brands and for private labels, especially for large retailers. The current strategy is to phase out the production for private labels and focus on their own brands. The total turnover is 50 million Euros; employees are about 150. The main competitor is an Italian company, four times larger.

Since 2002, Company A has embarked on a strategy of international expansion. The main markets are the Middle East, North Africa, Southern Europe, and Russia. Overall, it is present in 71 countries. Foreign markets account for 40 % of turnover, 60% of this comes from non-European countries . International expansion is a strategic goal of the company. Company A has a strong international presence in established markets, where the product category is well known and much appreciated (mainly the Middle East and the Mediterranean area). Its internationalization follows a logical expansion of the local market rather than developing new market. The Chinese market concerning the consumption of sweets and baked goods is only at the beginning of a process of education that is growing rather quickly, but that is not

yet consolidated. We can therefore speak about a not acquainted market. The company has been present in China since 2008, through an importer for HoReCa and specialized retail, and with an exclusive importer for large retailers and supermarket chains, which uses about 200 merchandisers acting constantly and permanently in the main selling points of the Chinese and international distribution chains, taking care of the product display. The presence of the products on the shelf is in fact good, but the range and characteristics of the products are exactly the same you can find in traditional markets, according to a typical logic of mirroring. Through an in-depth interview conducted in 2013 with the Chinese importer some evidences have been highlighted: 1) the importer does not know the consumers' behavior concerning the use of the products; 2) the importer has no marketing suggestions to propose, if not related to the logistics of the shelf; 3) the importer is focused only on traditional distribution and display management; 4) there is no marketing plan for the product; 5) the importer is asking for a brand in Chinese language

The presence on the Chinese market follows a mirroring strategy based on the relationship between the producer and the distributor, following the paradox of the "not educated market", where the manufacturer gives directions to the distributor about the marketing proposal in a market that he does not know. The normal approach of a MMNE in a not acquainted concerns mirroring and the importer, who has no experience on the product category, welcomes the manufacturer's recommendations, confident that mirroring is correct and this simplifies the task. He has no marketing skills but only generic sales techniques skills, even if carried out correctly. The problem, however, regards often the marketing mix that neither the importer, because without skills, nor the producer, because far and confiding in a mirroring, ethnocentric strategy, are able to deal with.

In particular, A uses the same packaging in terms of size it is used in the acquainted markets, based on the "family" size, with unit prices of the product convenient when compared to the unit price of the competition, but too high in absolute terms due to the pack size used, designed for a quick and strong consumption, while the new consumer needs to try and test the product on lower quantity and price.

Company A did not make any marketing research on the Chinese market until the end of 2013. A is now testing the product from a Chinese point of view and analyzing the distribu-

tion process in order to increase the knowledge of the market aiming to define a more correct marketing mix, realizing that the mirroring strategy showed very clear limits. Company A is now at the end of the mirroring strategy and is entering the exploration phase.

Case B

B is a family company founded in 1963. The assortment of products offered by the company comprises of prams , modular systems " 3 in one" , strollers, car seats , high chairs, changing tables, safety guards, camping cots, baby carriers and other accessories for babies. The first model of pram produced was inspired by the English tradition .The company B in 2013 had a turnover of € 48 million, € 34 million from sales in EU countries and € 14 million from non-European markets .

Company B has 143 (+ 120 in related small companies) employees in Italy and three subsidiaries in Romania , USA and China , the latter to select and manage suppliers in the Chinese market . Company B sales its products in different 60 countries.

The company has begun the phase of internationalization in 1980, almost casually. Subsequently, in order to saturate the production and reduce inventories began exporting in Mediterranean countries such as Cyprus, Greece, Lebanon. Due to the contraction of the domestic Italian market in 1998, the role of exports has been re-evaluated as a key strategy for business growth. The approach followed was the expansion of the domestic market rather than the development of a really new market. The Country of origin, reflected in the " Italian way of life " rather than the "made in " , plays a key role in its international communication.

Company B has entered China in 2004 by relying on an importer and distributor, which markets the product in sixty five own shops, located in eight cities of the first and second tier of the east coast, while in third tier cities it is supported by external agents.

Company B has divided its entry strategy in two different phases. A first phase of brand consolidation from 2004 to 2006 and a second phase of brand diffusion from 2007 to 2011 . In the first two years , from 2004 to 2006 , the company has tried to build its image in the Chinese market as a company of high-end products by mean of the distribution of articles in leading department stores in Beijing and Shanghai. From 2007 to 2011, they tried to get into second-tier cities of the east coast. In 2013, the company has hired an Italian country manager

resident in China to coordinate the marketing activities. While the prices of the strollers are in line with the market, the prams appears to be completely out of the market in China, both for the price and the product type. B, however, continues to distribute these products and focus on them its image in the point of sale as a result of a typical mirroring strategy. In fact, the Chinese consumer does not recognize the product, typical of the European market, and does not consider it convenient for the type of use to which it refers, the first few months of baby's life, preferring products with greater versatility and duration of use, as the strollers are.

In the market they identified two main targets: young Chinese families who buy a stroller for their personal use, and relatives and friends who give them to the new parents. In the Chinese tradition the gift is intended to tighten the relationship between two families, in this case the gift should have both high brand awareness and price. Achieving a high level of brand awareness in China requires strong investments and specific strategies. For example, the celebrity endorsement is critical for high-end products.

The "Italian Style" refers to an ethnocentric approach that could represent an advantage in those countries that recognize the value in the Italian Style, but appears strange and inconsistent in countries where that feeling does not exist. More correct can be the reference to the importance of family, emphasized by the history of the company itself, part of the Italian tradition, a factor of commonality with the Chinese culture. The Made-in-Italy notion is not known and is conceptually inserted in the Made in Europe concept. So the value of the pay-off related to the Country of Origin is not very effective and not related to the values and codes system in China. After a few mistakes due to the *mirroring* strategy, B is now at the end of the *exploring* phase and it is developing a corporate communication strategy more suitable for Chinese cultural codes: a) Recalling the importance of family values, b) implementing activities of celebrities endorsements, c) developing appropriate online and social media communication, d) engaging in charity activities towards the Chinese people, especially babies and children, e) developing the e-commerce , widely used by Chinese consumers.

Case C

The Wine House C was founded in 1921. The company developed its national and interna-

tional development mainly from 1970 to 2000, with the purchase of wineries in different Italian regions and in Virginia U.S.A. (1976). Company C has now a distribution network in over 100 countries around the world, the largest team of winemakers and agronomists in Europe. The total turnover is of 145 million Euros, 70% coming from international markets, employees are 300. In key countries, as the U.S. and the UK, they have been set up two imports and distribution subsidiaries. They also have shares in a company for import and distribution in Japan and planned major investments in China and Brazil, which are considered emerging wine markets.

C was the first Italian company to enter the wine market in China in 1995-96. And in 1998 was hired the first Chinese resident manager. The company is considering the possibility of opening a direct branch in China devoted exclusively to marketing and sales. The entry approach to China has followed a mirroring strategy, by mean of importing in China high quality products according to a European and U.S. approach (full-bodied red wines , sparkling white wines and prosecco). The Chinese market has historically been dominated by French brands and the second position is held by the Australian ones . More recently emerged important local producers who are acquiring increasingly important positions and market shares.

The Chinese market represents a priority for company C. In China, the company is pursuing a path of restructuring and investment began in 2005. It is a market that works with a very different logic from those of the European markets, and for that reason the company has local managers in China, able to understand the peculiarities of the market, which deal respectively with the distribution of high quality wines and manage the marketing activities. In this way, they want to cover properly the market territory and help importers.

Company C holds the 4% of the market share of Italian wine exported to China, a share that the company wants to increase significantly. The request of the Chinese consumer is evolving at quickly, but does not follow the Western demand path, having its own lines, both for the novelty of the product, and both for the Chinese food culture. In order to analyze the market, in 2013 has been carried out important research to understand the tastes and lifestyles of the Chinese consumer, which covered 18 cities and a great number of people. As a result of this research, the company decided to launch in the Chinese market two new lines of wine that

will be on sale in 2014. The two product lines are specially designed for the Chinese market both in content and organoleptic taste and in the pack, both in the brand.

According to the Vice President for International Markets, "in order to address a new foreign market and especially the Chinese one, we must know how to be organized to meet different needs. Such an organization, considering the costs it may have, hardly fits with the small size. Secondly, the Chinese market is very big and should be make acquainted to the consumption of wine and to that culture. Finally, we must strive to understand the logic of the distribution. In this sense, strategic alliances may be a valuable support to accelerate market penetration." In 2005, company C started a project, named G3, with a Spanish and a French producer aiming to promote the excellence of European wines in emerging markets through events, tastings and press conferences, in order to create a stronger network to penetrate the new markets.

The internationalization process and positions of the three companies are summarized in exhibit 2.

Exhibit 2. Positions of the companies in the different phases.

Discussion

The three cases can be referred to the stages in the process of internationalization that seem typical of MMNEs: 1) *Mirroring*/entry strategy-export , 2) *Exploring*/looking for acquainted market, local organization, 3) *Adapting*/modifying the offer and the business behavior, and 4) *Mirroring* back/new business model.

Phase 1 that identified with the *mirroring*/entry strategy-export defines a simplified access to the new market, simply by exporting existing products, that have been designed in other markets (usually the home market), the key role is the importer. There is no direct presence of the company. On one hand the company tends to simplify the approach to foreign markets,

because of limited resources availability (human, financial, knowledge), relying on the experience previously got in international markets. The company wants to minimize or even ignore possible differences encountered in the new market following strategy we might call "hope strategy", hoping that the new market is very similar to the others. On the other hand, the importer plays exclusively a sales management role, since this is his competence, managing the logistics and distribution and placing the product in the best stores, but not offering any support to strategic marketing. Although this role is fully consistent in a traditional acquainted market where the consumer has high expertise about the product and established consumption patterns. Having no expertise in strategic marketing, the importer is acting as a "cap of knowledge" to the new market, not being able to formulate marketing suggestions to the MMNE that is facing a blind market highly different from the known markets. For MMNE the importer has an extremely effective role in the case of traditional acquainted markets, severely limited role in the case of a not acquainted market. This situation has been verified through direct interviews in all the three cases. All the three companies have gone through or are going through this phase. The company B is located at this stage.

Phase 2, *Exploration*/looking for acquainted market, is entered by the company after some time of presence on the market, typically 3-5 years, when the company realizes that its expansion is blocked, its growth is lesser than the rate of market development and that the strategy of mirroring has obvious limitations in the expansion of sales. The company is looking to increase its knowledge of the market in order to fit the marketing mix to the consumer expectations. It works in two dimensions, the market and the organization ones. From the market point of view the company tries to identify the level of acquaintance of the market, selecting the target and analyze the competition, and change the marketing communication mix, such as developing flexible and innovative distribution, overcoming the distributor limits in terms of market expansion. It switch to a multi-channel sales. The company develops a direct presence in the market, most often by means of expatriate managers, able to read the local market, but strongly culturally anchored to the home market of the company. For MMNEs it is even more important to understand the company than it is to understand the market. The company is taking a strategic decision about what are the key markets in which to invest for the future. Company B is at this stage because of decisions is considering if

adapting the communication and distribution, to overcome the mirroring strategy. This phase requires a strategic decision in relation to two possible alternative: a) wait and see until the market will assume the conditions existing in traditional markets, keeping the mirroring strategy, or move towards a policy of adaptation to the market, changing its business behavior. At this stage the MMNE begin the process of internationalization , that is, it begins to take on an international culture. The organization choice is still dominated by the head quarters, so the management is composed of expatriate managers or temporary managers coming from the home market.

In phase 3 , *Adaptation*- modifying the offer, the company takes the decision to change its offer or business mode in the foreign market, compared to the initial strategy of mirroring. It is evident that the business model derived from the home market is not working. At this point the alternative, after the exploration of the market, is to adapt its offer to the specific situation, by changing the starting model, changing the business behavior, to make it compatible with the specific conditions of the market, which are very different from the home-market. Company C has been in this situation and decided to adapt its offer to the Chinese market in a non-marginal way, changing the product content and characteristics, the product design, the brand. At this point it broke the glass wall that culturally prevents a radical innovation. He laid the groundwork for the next phase. The management is recruited locally, because it is more important to increase the market sensitivity than is the link with the company.

Stage 4 , *Mirroring Back*/new business model, is characterized by an increasing internationalization of the company, which constructs a new business model, or change the existing business model according to the new market, that takes on the characteristics of second home market. For the management becomes more important to understand the market than to understand the company. It remains a bond with the importer, but driven by an organization composed by the managers of the company, sharing strategic alliances with other actors (local and/or international) to cope with the market challenges. The development of specific products for new markets and distribution choices are modeled using innovative solutions. The communication and branding strategies are strongly localized. The product often follows a logic of "good enough" and not of "absolute top quality", typical of the acquainted markets.

In this phase the company learns from its experience in the new market and brings to the first home market some of the strategic models, readjusting them. Therefore, the company enters a state of continuous mirroring back between first and second-home market producing strategic innovation. The company C has just entered this phase, after going through phases 1, 2 and 3, it began the reconfiguration of the business model and is beginning the process of mirroring back. Its market requires strong adaptations of the marketing mix, the direct presence of the company through its own organization is absolutely necessary manage it. The offer will be completely new in terms of product and brand, showing characteristics considered as "International Chinese".

At this stage, the process of internationalization conceptually passes from the extension of the domestic market (mirroring) to the development of a new market (adaptation), to the learning from the new market (mirroring back).

Research Limitations

Like any other empirical research paper, this study is also confronted with a set of methodical limitations. First, due to the qualitative character of the study, it is affected by all limitations which are discussed in methodological literature, especially a limited generalizability or trustworthiness of empirical findings.

Second, it can be discussed whether a grounded theory oriented approach (or a qualitative approach) is well suited for this research question. On the one hand, we tried to overcome some of the weaknesses of grounded theory approaches with the aforementioned heuristic framework guiding our research. On the other hand, within methodological research it is approved that the most important indication of research methods lies in the information needs and therefore in the objectives of the researcher (Flick, 2009; Wrona & Fandel, 2010; Wrona & Gunnesch, 2012).

We believe this study has theoretical implications for several important domains of international management theory. In terms of international management, although many studies have examined the potential value of subsidiary-level initiatives in MNCs (e.g., Birkinshaw, 2000; Ling, Floyd, & Baldrige, 2005; O'Donnell, 2000), none of them has demonstrated how that

potential is realized. This study represents the missing link in the chain in that it shows the conditions under which entrepreneurial efforts by subsidiary managers can influence headquarters attention, which in turn may result in significant changes to the roles of particular subsidiaries and a rethinking of the broader priorities of an MNC (Birkinshaw & Hood, 1998).

The paper also raises questions for further research. Many of our suggestions are based on qualitative case research, which may be further deepened by quantitative research investigating the relationships proposed. Nevertheless, the number of case studies should be enlarged in order to refine and generalize the findings.

Conclusions and Managerial Implications

This paper offers some insight about MMNEs strategic posture in Chinese markets and offer an explanation of the new concept of *mirroring back set of action*. The main results follow:

1. Structural arrangement in terms of units affect the possibilities to get back information and knowledge which may support the improvement of the business models.
2. The MMNEs should choose, after the first steps of internationalization process if enter a more involving phase (adaptation), including organizational and investment decisions, or “wait and see” for an acquainted market.
3. International development may offer some knowledge, which contribute to change and to innovate (sometime deeply) the original business models.
4. This innovation in term of single component or all the elements of the business model produced by the internalization works only if some transfer mechanisms are designed to internally explore and exploit the knowledge acquired in the emerging markets.
5. The knowledge transfer must be designed in order to enrich the original business models of some features originated or suggested by the international experiences. Replication strategies are feasible for firms that, as the midsize companies are, suffer from scarce (and not sufficient) resources to be invest in emerging and large markets.

6. The gap of effectiveness between MMNEs and MNCs increase if no MMNEs do not implement what we have defined as mirroring back strategies. They are condemned to "wait and see" strategies, delaying direct actions until the markets become more and more acquainted and informed to appreciate their offerings.

The gap of effectiveness between MMNEs and MNCs increase if no MMNEs do not implement what we have defined as mirroring back strategies. They are condemned to "wait and see" strategies, delaying direct actions until the markets become more and more acquainted and informed to appreciate their offerings. Also the role of the importer differently influences the position of the company. The MMNE, because of limited resources availability, is forced to rely on the importer as almost unique reader of the foreign market. But the importer, structurally and culturally, could not play a marketing role, only a sales management one. Passing the *Mirroring* phase means for the MMNE starting a cultural and strategic innovation process. MMNEs, being the distance between the company and the market dimension so large, are strongly influenced by the market and this apparent weakness can be turned in an opportunity if the *Mirroring Back* process will be constantly included in their internationalization strategy.

Four are the main managerial implications:

- Enter new large markets means not only increasing sales and revenues, but opening the strategic innovation "window", that for a MMNE could be really important in term of growth and learning. But learning is leverage by direct action coherent with *mirroring back* effort.
- Entrepreneurs and managers should choose to enter those markets also for the indirect, but strategic benefits arising from the internationalization.
- The mirroring phase of internationalization should be as short as possible. Timing seems to be one most relevant factor influencing the effectiveness of the circular process (see Exhibit 1)
- The managerial decisions concerning international investment should be coherent with the *mirroring back* perspective. The second order effects is to increase the probability of strategic innovations of the business models.

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Exhibit 1. Research Framework: Variables and Relations

Company/Phase	Company A	Company B	Company C
Mirroring	P r o d u c t s , packaging, sales strategy	Products, sales strategy , communication	High end products, distribution, sales strategy
<i>Organization</i>	Importer	Importer	Importer
Exploring		Market analysis, consumer behaviour, communication and sales strategies consis- tency	Market analysis, consumer be- haviour, product cultural consis- tency
<i>Organization</i>		Expatriate managers	
Adapting		Sales and communication	New and specific products
<i>Organization</i>			Local (Chinese) managers
Mirroring back			International strategy, product innovation process, sales & dis- tribution
<i>Organization</i>			Strategic alliance

Exhibit 2. Patterns of Internationalization