# The Internationalization of Chinese Companies: Are the Traditional Resource Based Theories Valid Yet?

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*Abstract*

*Over the past two decades, Chinese multinationals have made a huge amount of foreign direct investment abroad, making China the largest outward investor among top ten emerging countries. Nevertheless only in the last years some authors have begun to study this phenomenon.. According to these considerations, aim of this paper is to analyse the recent phenomenon of the internationalisation of Chinese firms in order to verify if it offers an opportunity to extend the traditional internationalisation theories based on the experience of developed countries' firms. Combining the results obtained describing the international process of two large Chinese companies with the assumptions of the Resource based View approach and the Uppsala model, the paper shows that traditional proposed internationalisation theories cannot explain the internationalisation of Chinese firms. The international development of Chinese firms cannot be described as a gradual process direct toward near markets and aimed to exploit existing resources and to accumulate experiential knowledge. Chinese firms are forced to go abroad in order to gain the immaterial resources necessary to compete in the home and in the foreign market. The analysis of the Chinese firms' internationalisation process seems to be an opportunity for extending the traditional internationalisation theories.*

**Keywords:** *internationalization, resource based view, Uppsala model, Chinese firms*

**JEL classification: F21, F23**

## Introduction

In recent years, the flow of inward investments, combined with favourable governmental policies to foster development, have enabled emerging countries to obtain some of the fastest economic growth rates in the world, so much as that within a short period of time, enterprises in some of these countries have gathered sufficient capital, knowledge and know-how to invest abroad on their own. According to the 2008 World Investment Report by UNCTAD, the rate of outward Foreign Direct Investments (FDIs) growth by companies from emerging markets has outpaced that growth by companies from the industrialized countries.

In particular, over the past two decades, Chinese multinationals have made a huge amount of foreign direct investment abroad, making China the largest outward investor among top ten emerging countries. Chinese multinationals are present also in the top 500 Fortune companies (Unctad, 2008). The peculiarities of Chinese investment are that they are directed both towards other developing countries and towards advanced economies and, that they regard both lower end industries and higher-value adding activities.

Despite the management studies on Greater China have experienced a remarkable growth in latter years (Peng et al, 2001) only few authors have analysed the internationalisation strategies of mainland Chinese firms. Past studies about the development of Chinese enterprises described exclusively the international strategies of overseas Chinese firms coming from Hong Kong, Taiwan and Singapore (Wells, 1981; Redding, 1995). These studies have their main focus on the analysis of the characteristics of Chinese business system (bamboo networks, guanxi) and on the possibility to replicate it in other countries (Yeung, 1999).

Only in the latter years some authors have begun studying the phenomenon of recent growth of Chinese multinationals. Large part of these studies, especially conducted by Chinese authors, are empirical analysis of a single case study (Liu-Li, 2002; Du, 2003) or describe only specific aspects of the Chinese multinationals development such as the determinants of internationalisation choice or the characteristics of the destination markets (Deng, 2004; Hong and Sun, 2004; Wu, 2005).

Moreover many authors have tried to explain the internationalization strategy of Chinese companies adopting the mainstream literature on multinationals (MNEs) development. On the contrary other studies show that the Chinese companies are motivated in their internationalization process by different determinants comparing the Western Multinationals (Parmentola, 2007; Luo and Rui, 2009) and that their internationalization process seems have peculiarities that cannot be explained adopting the traditional International Business Theories (Child and Rodriguez, 2005).

According to these considerations, aim of this paper is to analyse the recent phenomenon of the internationalisation of Chinese firms in order to verify if it offers an opportunity to extend the traditional internationalisation theories focused on developed countries' firms. In particular, the analysis will be focused on the possibility to explain the internationalization process of Chinese companies trough the Resources based View approach and the Uppsala model, used by many authors to explain the firms' internationalisation.

The paper will be articulated as follows: in the first part the Resources based View approach and the Uppsala model have analysed and integrated; in the second part the internationalization process of two home appliances Chinese companies is described; in the third part the theoretical hypotheses, built starting from the above mentioned theories , are compared with empirical results in order to verify if they are able to explain the internationalization process of Chinese companies or if the traditional theories must be revised.

## 1. Theoretical background: the Resource based approach and the Uppsala Model

The resource-based view has recently emerged as an alternative model to the previously dominant transaction cost based models to describe the firms' internationalization and the entry mode choice. In this approach, entry modes are chosen to make the best use of the combination of resources held by the MNE and those available in the local environment, and to optimize the opportunities for organizational learning (Barkema & Vermeulen, 1998). The basic assumption of the Resource based View (RBW) is the definition of the firm as a collection of different resources (Penrose, 1956), Chatterjee and Wernerfelt (1991), according to the main literature, classify these 'resources' into three categories: physical, intangible and financial. There is generally no disagreement over what encompasses physical or financial resources, as there is with intangible resources. For example, Grant (1991) categorized intangible resources into four subclasses: human resources, technological resources, reputation and organizational assets. Several authors have discussed the prerequisites of resources necessary to constitute sustainable competitive advantage (see, for instance Barney, 1991; Peteraf, 1993) but, concerning the use of resource-based theory to predict growth strategy, two different traditions can be identified. The first one relates to the large stream of research on diversification strategy at the corporate strategy level, where diversification is seen as the result of excess capacity in resources which have multiple uses and for which there is market failure (Peteraf, 1993). The other tradition focuses on the business strategy level, here the resource-based theory is used within the conversation of strategy analysis and strategy formulation process (Grant, 1991).

Applied to entry modes, the RBV builds on the premise that the choice of foreign entry mode are driven by the desire to exploit existing resources in wider markets and to increase them with new resources available elsewhere (Barkema & Vermeulen, 1998; Anand & Delios, 2002).

The Uppsala model (Johanson and Vahlne 1977, 1990) can be considered the first application of the RBW to the internationalisation strategy (Andersen and Kheam, 1998). Actually to explain the internationalization process of the individual firm, Johanson and Vahlne (1977, 1990) formulated a dynamic model in which the outcome of one cycle of events constitutes the input to the next.

This theory is based on the distinction between state and change aspects of internationalization variables. The state aspects are market commitment (resources commitment to the foreign markets) and knowledge about foreign markets and operations. The change aspects are decisions to commit resources and performance of current business activities. Market knowledge and market commitment are supposed to affect both commitment decisions and the way current decisions are performed—and these, in turn, change market knowledge and commitment. The core explanation of the model is that (increased) market knowledge will lead to (increased) market commitment, and vice versa (Andersen, 1993).

The Uppsala model can explain two patterns in the internationalization process of the firm (Johanson & Vahlne, 1990). The first pattern is that the commitment to engage in operations in a specific foreign market develops according to an establishment chain, which is a sequence of stages that are made in small incremental steps with extended commitment and a higher degree of commitment for every new step. These different stages are classified as:

1. No regular export activities
2. Export via independent representatives (agent)
3. Sales subsidiary and
4. Production/manufacturing (Johanson & Wiedersheim-Paul, 1990)

The second pattern explained is that firms tend to enter new markets with successively greater psychic distance (Johanson & Vahlne, 1990; Hollensen, 2001)[1].

The authors have also made some basic assumptions in order to generalize and compose the model. First, the firm strives to increase its long-term profit. Second, the firm tries to keep the risk-taking at a low level. Third, the efforts to obtain the first two assumptions are made at all levels of the firm. Fourth, the state of the internationalization affects perceived opportunities and risks, which in turn affect commitment decisions and current activities (Johanson & Vahlne, 1977).

As postulated in the model, the best way to minimize the perceived uncertainty and to see opportunities is through experiential knowledge. Nevertheless this concept of experiential learning (learning by doing) is one of the most important limits of this model, actually if firms can increase their market knowledge only through their international experience, the internationalisation process would be too low and too limited in its geographical extension.

However, several researches made during the last twenty years put forward that knowledge can be gained not only through a learning-by-doing behaviour but also by the usage of “grafting”. Grafting means acquiring local units that have the necessary market knowledge to make faster the learning process and this type of learning enables the firm’s internationalization process to take place more quickly and gives the firm many more alternative paths to explore than the one predicted by the Uppsala model.

Other studies also show that to gain knowledge, firms can adopt an imitative-learning behaviour. By observing other firms and their internationalization actions, a firm can reduce its perceived uncertainty and internationalization investments can take place without previous experience. Moreover learning can take place also through the existing business relationships, actually a network of business relationships creates opportunities to learn from others (Forsgren, 2002).

There are other models that explain the internationalisation as an incremental process based on the correlation between market knowledge, gained

[1] The psychic distance is defined as: “…the sum of factors preventing the flow of information from and to the market. These include differences in language, education, business practices, culture, and industrial development.” (Johanson & Vahlne, 1977, in Johanson & Associates, 1994, p. 51)

through experiential learning, and market commitment, but their concept of learning is more consistent with Argyris and Shon’s (1978) “error detection and correction in theories in use” .

Another important limit of the model is that the firm is the centre of the analysis and the environment is not considered a relevant variable, but other researches have shown that also the industry characteristics have an impact on the internationalization process (Nordström & Vahlne, 1985).

At least, important limitation of the Uppsala model as well as of the other stages approaches to internationalisation is the vision of the internationalisation process as a succession of different stages. Actually modern firms bypass the initial stages and adopt immediately complex entry modes or enter at the first phase into more distant markets. According to this, the internationalisation process of the firms is becoming in the last years more rapid and less gradual, also because modern firms often use cooperative entry modes and alliances in order to gain rapidly the necessary knowledge (Calvelli, 1998).

Nevertheless the most important strength in the Uppsala model is its simplicity and predictivity: gives actually the opportunity not only to describe but also to predict the future characteristics of firms’ internationalisation process.

For example Reid (1981) describes the export behaviour of the firm as a succession of different stages/decision, export awareness - export intention - export trial - export evaluation - export acceptance. The pace from one stage to another is guaranteed by increasing market knowledge. Also Chang (1992), according to the capability based theories, describes the internationalisation in a new market as a sequential process. When a firm enters into a new market, it starts with a low investment in an area related to its home market, then it moves to another related area and the scale of investment grows. With each entry, the firm learns form past mistakes and revises its expectation.

Referring the existent theories it is possible to formulate the subsequent hypotheses:

H1) The internationalisation choice is driven by the desire to exploit existing resources in wider markets and to increase them with new available resources. Therefore only the firms that have sufficient resources and have a competitive advantage in the local market can internationalise in the foreign markets, moreover more are the available resources, more rapid will be the international expansion;

H2) Investments in a specific country are carried out cautiously, sequentially and concurrently with the firm’s accumulation of market knowledge. In other words the market commitment is directly correlated to market knowledge, consequently:

- H2a) Market commitment is initially low and firms use simple entry modes (for example they export indirectly), then increasing market knowledge induces the firms to adopt a more complex entry mode;
- H2b) The destination markets are initially countries with geographical, economic, cultural and ethnical proximity, because they enable the investing firms to take advantage of cultural and ethnical knowledge, and facilitate communications between subsidiaries and

their parents as well, in other words these markets enable the investing firms to exploit their existing resources;

H3) Market knowledge can be gained through an experiential learning (learning-by-doing behaviour or a learning from action - Argyris and Shon's (1978) "error detection and correction in theories in use").

According to these hypotheses it is possible to represent the internationalisation process of the firm as a continuing line originated from the direct relation between market knowledge and market commitment (Figure 1). Market knowledge is defined as the experiential knowledge that firms accumulate during their internationalisation process, instead market commitment is a measure of the destination market characteristics (geographical and cultural distance from the home market) and of the entry modes adopted (from more simple - indirect export - to more complex - productive Fdi).

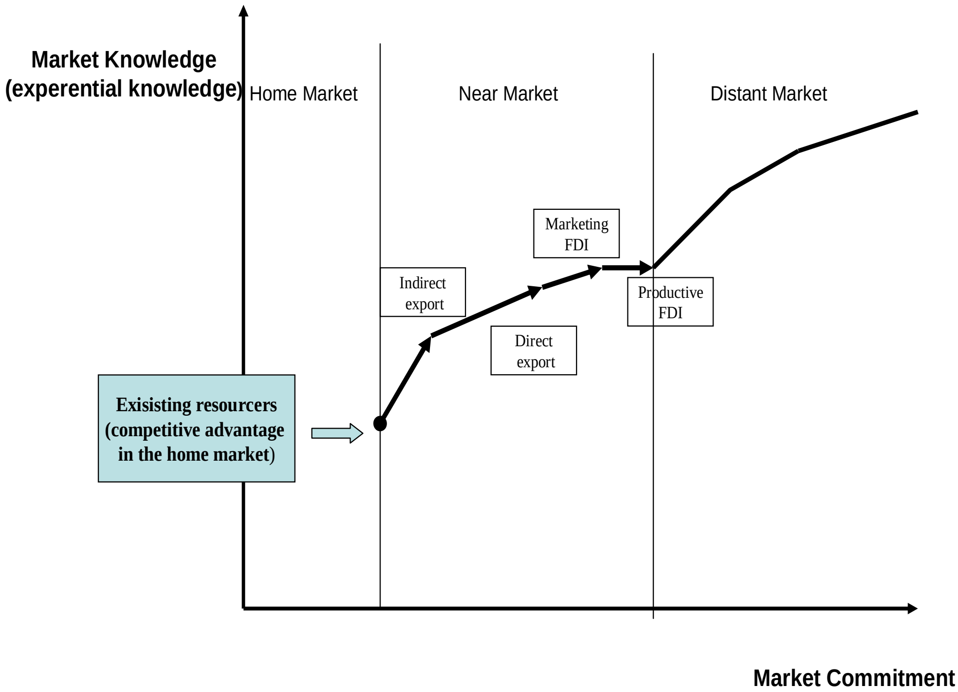


**Figure 1 The internationalisation process of the firms**

The black line represents the internationalisation process of the firms: after it has gained a competitive advantage in the home market, the firm starts its internationalisation process gradually, first toward proximal countries where, adopting different entry modes (from more simple to more complex), accumulates the necessary knowledge to enter into distant markets.

## 2. Two empirical evidences in the Chinese Home Appliances Industry

Despite of the high concentration of the home appliance industry in the hand of few MNEs as Whirlpool, General Electric and Electrolux some Chinese firms have been able, in the last years, to acquire a relevant market share.

Haier and HiSense are large Chinese MNEs that have quickly become two of the first ten producers of white-home appliance, acquiring an important position both in the Chinese market and in developed countries.

The global success of Haier and HiSense is determined by multiple factors that are in common to both the firms, actually:

- they come from the same municipality, Quingdao ETDZ (Economic and Technological Development Zone), that has attracted, during the open door policy, relevant foreign investments by American and Japanese firms also operating in the home-appliance industry ;
- they are financially sustained by the government, actually Haier and HiSense are former state companies and the central government has, even today, a relevant influence on their strategy;
- they are managed by charismatic and illuminated managers, members of the Parliament, and consequently are able to obtain Government's support;
- they have chosen Italy as European core market in order to explore the opportunity given by the Italian industrial tradition in the white-home appliance industry.

According to this, it seems to be interesting to analyse the international process of Haier and HiSense in order to verify if these firms, starting from the same conditions and having the same initial resources, have adopted the same international strategy and if it is coherent with the model built according the recent literary approaches about Chinese MNEs.

### *2.1. The Haier Group*

Haier Group is a large Chinese enterprise that started as the Qingdao Refrigerator founded in 1984. Today it is the world's 4th largest white goods manufacturer and one of China's Top 100 electronics and IT companies, in the 2005 global revenue was RMB103.9 billion (USD12.8 billion). Haier has 240 subsidiary companies and 30 design centres, plants and trade companies and more than 50,000 employees throughout the world. It is specialized in technology research, manufacture, trading and financial services. Guided by business philosophy of CEO Zhang Ruimin, Haier has experienced success in the three historic periods, noted as Brand Building, Diversification and Globalization. At the 21st anniversary of founding of the Haier Group, December 26, 2005, it announced its 4th strategic development stage of Global Brand Building. In 1993, Haier brand was officially recognized as a famous brand and in 2005 valued at RMB70.2 billion. Since 2002, Haier has consecutively been ranked first in the row of China's most valuable brands for manufacture of 16 products, including refrigerators, air conditioners, washing machines, televisions, water heaters, personal computers, mobile phones and kitchen integrations[1]. Today it has been widely recognized as a leader of 9 products in terms of domestic market shares and the 3rd player of 3 products in the world market and world-class company in the fields of home integration, network appliances, digital and large-scale integrated circuits and new materials. Haier has long attached significance to innovation in satisfying the demands of worldwide consumers, it has currently obtained 6,189 patented technology certificates (819 for inventions) and 589 software intellectual property rights. Haier has hosted and taken part in modification of about 100 China's technological standards.

The Haier development strategy is based on a global diversification aimed to become not only a global producer but, above all, a global brand. Firm's competitive advantage is based on selling good quality products at relatively low price.

The Haier's international development started in 1992 and has continued rapidly in the last years. It was founded in 1984 as a joint venture with imported production technology from Germany based on a licensing agreement. From 1984 to 1991, globalisation pressure was relatively weak. Haier first imported advanced technology in refrigeration from Germany and spent seven years building up a strong brand name in refrigerator production through a well-planned quality control system, then it launched its internationalisation strategy by exporting very creatively, following the principle "first difficult, then easy" (Du, 2003). In 1992 it first entered into the developed economies by directly exporting to Europe, Japan and US markets, to obtain prestige and to establish their brand. In particular, Haier went to Germany to sell its refrigerator branded made in China in 1992. The Germans signed contracts right on the spot for 20,000 Haier refrigerators. During its German experience Haier begins to build a highly desirable industrial image for its quality products enabled the company to compete globally. After this first stage it tried to enter into other emerging markets to exploit its resources and the knowledge gained by the German experience, in particular the firm launched its first overseas joint venture in Indonesia, on December 6, 1996, this venture failed after few years probably because the firm did not have accumulated necessary resources to begin an international strategy and to build an international image (Liu and Li, 2002).

So, in the 1999, Haier moved to the USA. It established a design center in Boston, a marketing center in New York and a manufacturing centre in South Carolina, with a total investment of US$30 million that represents the first large FDI of Chinese firm in the USA. The investment in the USA aimed to acquire technological knowledge to improve the products and to open a commercial window in the USA market, it also signed agreements with the most important American retailers. With the confidence and experience gained in the US market,

[1] Haier was ranked first of China's Top 10 Global Brands by China State Bureau of Quality and Technical Supervision (CSBTS) for refrigerators and washing machines. On August 30, 2005, Haier was ranked 1st of China's Top 10 Global Brands by the Financial Times.

in June 2001 Haier acquired the plant of Meneghetti di Rosà (Vicenza), an Italian company that produces built-in household appliances. This acquisition permits Haier to gain new knowledge referring the production of built-in household appliances, a particular market niche where Italian firms are leader. Moreover Haier has also exploited the knowledge received by Merloni (today Indesit Company) another Italian firm with whom it had signed an agreement in China. With the Italian acquisition, Haier improved its knowledge about European market and it used also the optimal logistical place of its Italian subsidiaries, to start exporting in Europe.

The Italian and the American experience allow Haier to acquire the necessary immaterial resources (technical and market knowledge, brand image) to strengthen its position in the Chinese market winning the competition with foreign MNEs. Built the competitive advantage in the home market, the Chinese MNE started newly its expansion process both developed and emerging countries: in 2001 it inaugurated a plant in Bangladesh and in 2005 it converted its Australian representative office in a wholly owned subsidiary. Moreover in June 2005, Haier Group announced to be interested in buying Maytag, a large American producer of the home-appliances, but Haier's aspiration was thwarted by Whirlpool, which foresaw the menace to its market-dominant position from this merger with a higher counter bid of US$1.35 billion which prompted Haier to abort its take-over attempt.

Summarizing the Haier's internationalisation experience, Haier starts the development process in 1992, where the competitive pressure of the foreign firms in the home market became too high. So it expanded in Germany to acquire the resources necessary to reduce its competitive disadvantage in the home market. Successively it expanded in other developed countries like US and Italy adopting more complex entry modes (acquisition, greenfield and joint venture) in order to acquire technological and market knowledge. Only in the second phase, it begun to export to these markets and, at same time, it reinforced its position in China and in other developing countries.

Grafting seems actually be Haier's best way to learn.

### *2.2. The HiSense Group*

Hisense Group was founded in 1964 as producer of radio transistor, in the 1984 it began to produce the first colour television adopting Japanese technology. With the new leadership of Houjian Zhou, HiSense experienced over 30 years of development, growing through the stages of Qingdao No.2 Radio Factory, Qingdao TV Factory, Hisense Electric Appliance Company, a large high-tech enterprise specializing in Consumer Electronics, IT, Telecomunication ("3C" in brief) and other value-added services. Hisense's main products include TVs, air conditioners, computers, mobile communication devices, software and internet equipments. Hisense Electric Co., Ltd. (HEC) was quoted in Shanghai Stock Exchange in April 1997 and, today, it is a well-known home appliance public company in China.

During the 1997, Hisense Group invested RMB 1.2 billion and established Hisense Air-conditioner Co., Ltd. (HAC) – a modern company based on cutting-edge inverter air-con technology. HAC is located in Hisense Pingdu Home Appliance Industrial Park. Driven by the concept of "High-tech, High Quality, Best Service" and the development strategy of "Global Brand", HAC set its target at "High Standard, No Defect". After launching into the market in April 1997, Hisense air-con rapidly occupied more than 50% of domestic inverter air-con market. In eight years of exploration of "Inverter Technology", HAC has launched wall-mounted inverter air-con, cabinet-type inverter air-con, multi-split inverter air-con, super inverter air-con, HI EER air-con, fixed temperature dehumidification air-con, simultaneous operation power-saving air-con and network-control air-con etc. Those products are integration of digital control technology with air-con technology, which push China inverter technology to world leading level and usher inverter air-con into the digital times. Presently, Hisense air-con has been exported to such countries and regions as EU, America, Africa, Southeast Asia and Middle East.

At present, Hisense has over 200 sales companies and more than 10000 service outlets a cross China. Over the world, it has production bases in South Africa, Hungary, France, Pakistan, Algeria, Iran and sales offices in the U.S, Europe, Australia , and Japan . The products are exported to about 100 countries and regions including Europe, America, South Asia, and Africa. In 2005, the sales volume of Hisense color TVs has reached 7.21 million, air-conditioners 1.67 million, refrigerator 0.98 million, and mobile phone 1 million. Increasing by 43%, the sales revenue of 2005 is USD 4.2 billion 33.4 billion (RMB), maintaining Hisense among the top 100 Chinese electronic manufacturers.

The internationalisation process of Hisense started in 1991 when Hisense Import & Export Co., Ltd. (HIEC) was established, it is a subsidiary of Hisense Company Limited (HCL) and a platform through which HCL has build up its global brand and exports its products. Since its establishment on January 1, 1991, HIEC has been playing a crucial role in exploring overseas market, promoting global brand and introducing advanced foreign technologies, production and testing equipment. Nevertheless only during 2001 Hisense began its expansion in developed countries, in order to acquire the necessary market and technological knowledge. In particular in 2001 Hisense USA Corporation was established, a Los Angeles based subsidiary of the Hisense Company Ltd. The aim of Hisense USA is to gradually introduce the full range of Hisense products into the North American market. As the North American marketing arm of its China based parent, Hisense USA will distribute products through major national American retailers as well as with smaller regional outlets. Hisense USA also oversees an aggressive North American Research and Development effort that works in unison with the R&D engineering teams in Mainland China. During the same year, Hisense opened also a representative office in Italy (near Grosseto) that has the mission to explore the local market. The importance of Italian market and the long tradition of Italian firms in home appliance industry have pushed the Chinese group to increase the international commitment in this market. Actually in 2003 Hisense has constituted a joint venture with Olimpia Splendid, an Italian firm specialised in the air condition production, the aim of this joint venture is for Hisense to acquire an important position in the Italian market especially regarding the segment of industrial customers.

In 2003 Hisense have also continued its international expansion in Australia establishing Hisense Australia Pty Ltd with the purpose to advertise Hisense brand in the local market. Hisense has also formed a strategic partnership with TAAC - a well-known Australian company in home appliance industry. Hisense has invested largely also in the emerging countries, creating productive subsidiaries in South Africa and in Hungary but they regards only the Tv production.

The Hisense international expansion process is similar to Haier’s ones. Also the destination markets are similar; actually Hisense invests principally in developed countries like Usa and Italy that have a strong tradition in home-appliance production. Probably Hisense has observed the behaviour of its Chinese most important competitor and it has adopted an imitative learning behaviour. The investments in new emerging countries regard only the TV production, a segment where Haier is not a direct competitor. The real difference among Haier and Hisense international strategy is the relevant attention that the latter poses on to build a strong competitive advantage based on product quality. Actually Hisense has established a R&D centre on the basis of previous Hisense Group headquarter that it is also an incubator for the development of new firms and has reinforced its cooperation in the home air-condition production market with Hitachi in order to get Japanese technology.

## 3. The internationalization of Chinese companies: a revised model

According to traditional theoretical approaches, the internationalisation choice of the firms is driven by the desire to exploit existing resources in wider markets and to increase them with new available resources. Nevertheless from the analysis of the international strategy of the two examined case studies it is evident that this assumption is not applicable to Chinese companies. The internationalisation choice of the analysed Chinese MNEs is, indeed, motivated not by the desire of exploiting existing resources but by the necessity to acquire strategic immaterial resources on the foreign markets, in order to reduce their competitive disadvantage in domestic country.

Moreover the traditional approaches describe the internationalization as a gradual and sequential process. So firms that are at the initial stage of their internationalization process and that, consequently, have low market knowledge can invest only in country with geographical, economic, cultural and ethnical proximity adopting less complex entry modes (for example they export indirectly). Nevertheless these considerations are not applicable to the analysed companies, both Haier and Hisense have invested since the beginning of their internationalization process in developed countries (US and Europe) that are geographically and culturally distant from China. Moreover they adopt complex entry modes (equity joint ventures and acquisitions) since the beginning of their internationalization process.

Finally the traditional approaches supposed that during their international process firms accumulate new knowledge about the foreign markets through an experiential learning (learning-by-doing behaviour or a learning from action). Nevertheless, observing the characteristics of the internationalisation process of Chinese companies, it is evident that they cannot gain market knowledge through a learning-by-doing behaviour. In the first phase of the internationalisation process, Chinese firms adopt an imitative-learning behaviour, observing the internationalisation choice of other Chinese firms and of foreign competitors, in order to acquire the knowledge necessary to decide the destination market.

In the second phase, when the target market has been defined, Chinese firms "buy" the knowledge about the destination market, acquiring local units that have the necessary market knowledge (ghatering) or assuming new managers or consultants that have a deep knowledge of the specific market.

According to these considerations the analysis of the internationalization of the two examined Chinese MNEs show how two traditional approaches of International Business Theories, Resource based View and the Uppsala model, are not able to explain the internationalization of Chinese companies.

To explain this emerging phenomenon can be useful to create an alternative theoretical model based on new hypotheses that in part contrast the traditional ones.

Consequently, in order to explain the internationalization of Chinese companies the present study proposes to modify the traditional hypotheses as follow:

H1) The internationalisation choice of Chinese MNEs is motivated by the necessity to acquire strategic immaterial resources on the foreign markets, in order to reduce their competitive disadvantage in domestic country.

H2) The Chinese investments in a specific country are carried out rapidly and with a high resources expense. Consequently:

- H2a) The destination markets are initially developed countries with geographical, economic, cultural and ethnical distance, because they enables the investing firms to access to complex knowledge;
- H2b) The market commitment is initially high and Chinese firms use complex entry modes (for example acquisition), then increasing market knowledge induces the firms to acquire the necessary competences that are successively exploited both in the home and in the foreign market also using more simple entry mode ( for example direct exportation).

H3) Chinese companies gain market knowledge by the usage of "grafting" and/or adopting an imitative-learning behaviour.

Considering these new hypotheses, the model presented in the first part could be modifies as indicated in Figure 2.

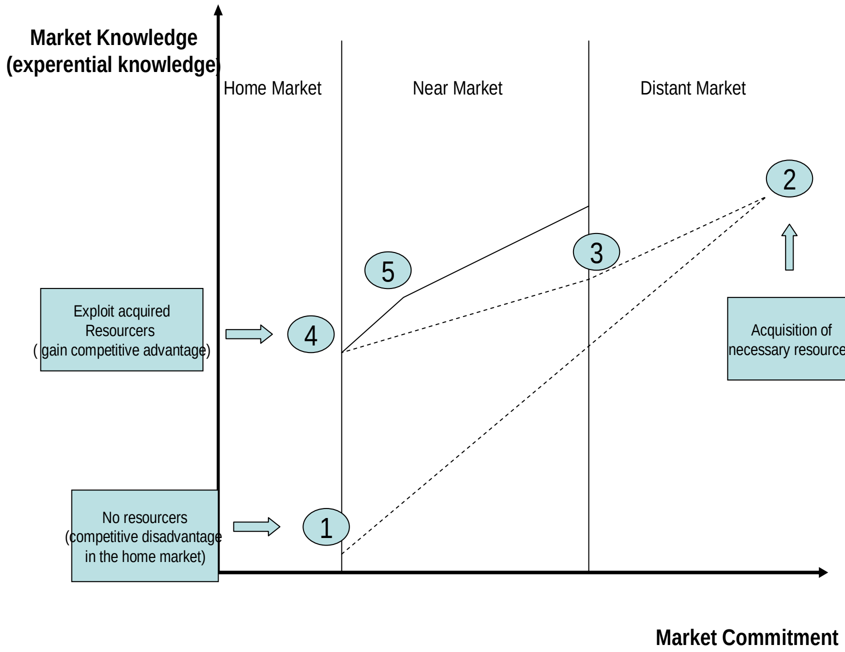


**Figure 2 The internationalisation process of the Chinese firms**

Figure 2 shows as the internationalisation process of Chinese firms cannot be illustrated with a continuing line because, at least in the first part, there is not a direct relation between market knowledge and market commitment. Chinese firms are able to adopt an internationalisation process similar to the developed countries firms only when they have accumulated the necessary experience and resources Chinese firms starts their internationalisation process from a low level of market knowledge because they have accumulate very short experience (point 1), then the first phase of the their international experience is often characterising by an entering in a developed country (distant market) using complex entry mode as acquisitions or joint ventures (marketing FDIs) in order to gain the market knowledge and the brand reputation (point 2) necessary to export in the same distant markets (point 3) and to acquire a competitive advantage in the home market (point 4). In the second phase, they begin to exploit the acquired resources entering gradually into near markets.

The model can be adopted as a starting point for future researches that could be aimed to test it through other empirical evidences in order to define a new theoretical model describing the Chinese firms' internationalisation process.

## Conclusions

Over the past two decades, Chinese multinationals have made a huge amount of foreign direct investment abroad, making China the largest outward investor among top ten emerging countries (Unctad, 2008). The peculiarities of Chinese investments are that they are directed towards other developing countries and towards advanced economies and, moreover, they regard both lower end industries and higher-value adding activities. According to these considerations, this paper is gives a preliminary description of the characteristics of the internationalisation process of Chinese firms. Combining the results obtained describing the international process of two large Chinese companies with the assumptions of the Resource based View approach and the Uppsala model, the paper shows that traditional proposed internationalisation theories cannot explain the internationalisation of Chinese firms. The international development of Chinese firms cannot be described, indeed, as a gradual process directed toward near markets and aimed to exploit existing resources and to accumulate experiential knowledge. Chinese firms are forced to go abroad in order to gain the immaterial resources (technological knowledge, brand image) necessary to compete in the home and in the foreign markets. So their internationalisation process is rapid, principally directed toward developed countries, characterised by the use of complex entry modes as acquisitions or joint ventures, aimed to accumulate knowledge not through experience but by the usage of "grafting" and/or adopting an imitative-learning behaviour.

According to these considerations, the analysis of the Chinese firms' internationalisation process could be an opportunity to extend the traditional internationalisation theories looking at the knowledge based theory usually employed to analyse strategic alliances and inter-firms cooperation.

These first conclusions will be only the starting point of future researches about the same topic that aimed to test them through other empirical evidences, in order to define a new theoretical model describing the Chinese firms' internationalisation process.

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