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**CHINESE SUBSIDIARIES IN THE UK:
NATURE AND MOTIVES FOR INVESTMENT AND
LEARNING PROCESSES**

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PhD

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2013

DECLARATION

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ACKNOWLEDGMENTS

I would like to thank my supervisor, Professor Nick Oliver who has unstintingly given me time, ideas and support during my PhD research; without his help I would not be able to produce this piece of work.

I also want to thank to some staff members of Edinburgh University Business School, in particular Dr Ling Liu (my second supervisor), Professor Markus Pudelko, Dr Tony Kinder, Dr Omaira Hatem, Professor Chris Carr, Dr Rick Woodward and Dr Stephen Harwood who have kindly shared their expertise. I am also grateful to Christine Proudfoot and the PhD Support Office.

Thank you to my survey informants and interviewees in Chinese MNCs, without their help I would not be able to conduct my research.

My colleagues Yigui Ma, Christine Soh, Jia Li, Shariq Zia Sheikh, Jeong-Yang Park and Siriluk Prasunpangsri and Hoang Ho, shared the journey and made my PhD excursion less lonely.

My heartfelt thanks to my parents and my husband for their unconditional love and unfailing support, without which I would not have succeeded or become the person that I am. Thank you.

Yan Zhuang

February 2013

ABSTRACT

China is one of the largest outward foreign-direct-investors (OFDIs) and is rapidly internationalising. There are numerous studies about the internationalisation of Chinese MNCs, in particular their development, determinants, motivations and performance. Many scholars in international business argue that one of the major reasons for firms from emerging markets such as China to invest in developed economies is to assimilate new knowledge and resources; exploring learning by Chinese MNCs in the developed countries is therefore significant. However, there is little research about Chinese MNCs learning abroad and even fewer studies on the processes of learning.

This thesis analyses these processes and the motivations of Chinese OFDI in the UK and explores how their subsidiaries learn, exploit knowledge, develop capabilities, and how they transfer knowledge and capabilities to the headquarters (HQs). In order to explore the learning of Chinese subsidiaries in the UK, it is crucial to understand the nature and motives of their OFDI to ensure the existence of learning in these firms. This dataset includes the largest survey (30 respondents) of Chinese subsidiaries in the UK and qualitative interviews with 40 employees in 15 subsidiaries and seven HQs of Chinese MNCs.

Based on the resource-based view of the firm, absorptive capacity, knowledge transfer and Andersson, Forsgren and Holm's (2001) processes of capabilities development in a MNC, a conceptual framework is developed, which guides data collection and analysis: this is then revised, based upon the study's findings.

This new framework suggests a unique process of capabilities development within a Chinese subsidiary and their HQs, two different learning circles. The longer learning circle presents Chinese subsidiaries exploiting new knowledge to develop capabilities and transfer the new capabilities to the HQs. The shorter learning circle shows Chinese subsidiaries sometimes transferring unexploited information and knowledge to the HQs.

Whilst HQs develop capabilities through directly absorbing new knowledge created by subsidiaries, HQs also inhibit subsidiaries from collecting knowledge useful in developing new capabilities. Therefore, the learning and knowledge transfer in the subsidiaries is mainly based on the HQs' interests and requests; thus under-utilising the absorptive capacity of subsidiaries.

There are other important findings. The scope of learning in subsidiaries is restricted by the scope of their operations, especially in human resources, sales and marketing. There is also dissonance between the intent to learn and the actions of learning, which arises from the majority of these Chinese MNCs not having formal and systematic approaches towards learning, knowledge exploitation and knowledge transfer.

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LIST OF ABBREVIATIONS

CEA – China Enterprises Association

FCL – Full Container Load

HQs – Headquarters

HRM – Human Resource Management

JV – Joint Venture

M&A – Merger and Acquisition

MNC – Multinational Company

OFDI – Outward Foreign Direct Investment

R&D – Research & Development

SME – Small and Medium Enterprise

SOE – State Owned Enterprise

UK – United Kingdom

WTO – World Trade Organisation

Chapter One: Introduction

1.1 Background

As China's economy rapidly develops, Chinese outward foreign direct investment (OFDI) is growing significantly; in particular with the push factor of Chinese government policies motivating domestic firms to invest overseas. In 1999, the 'Go Global Policy' was initially announced, followed by a range of programmes under the China Council for the Promotion of International Trade to encourage and support OFDI by Chinese companies. Since 2004, three years after China acceded to the World Trade Organization (WTO), indigenous firms have faced increasing competition from an influx of inward investment of many world leading firms, spurring the Chinese Government to issue a circular that can encourage domestic firms to establish overseas R&D centres and to utilise advanced internationally technologies, managerial skills and professionals. The government has also encouraged international mergers and acquisitions (M&As) as a way of enhancing the international competitiveness of Chinese enterprises and accelerate their entry into foreign markets (UNCTAD, 2006). In late 2004, Premier Wen Jiabao formally announced: 'The Chinese government encourages more enterprises to go global' (Williamson and Raman, 2011), and the race to invest overseas began in earnest.

According to MOFCOM in 2009, the annual OFDI flow by Chinese companies tripled from \$ 5.5 billion in 2004 to \$ 17.6 billion in 2006 and reached a peak of \$ 50 billion in 2009, and by the end of 2009, the cumulative stock of China's OFDI reached \$ 245.75 billion, making China the fifth largest OFDI investor worldwide. The number of overseas M&As made by Chinese firms also rose dramatically from 40 in 2003 to 298 in 2008.

Europe has become the leading overseas investment destination for Chinese companies, accounting for 34% of all outbound M&A activity in 2011 (Back, 2012). As the number one gateway to Europe, UK has attracted FDI from 54 source countries, with China having the biggest project numbers among the emerging markets. According to the World Bank Report 'Doing Business 2011', UK is the top easiest place in Europe and fourth easiest place in the world to do business. An Ernst & Young European Attractiveness Survey 2011 reveals that UK is the most attractive destination for FDI. Since Bank of China established its first overseas branch in London in 1929, UK has become one of the most attractive destinations for Chinese OFDI, and the statistics released by the Chinese Ministry of Commerce (MOFCOM) in 2009 show that the stock of Chinese OFDI in the UK ranked 17th out of 177 countries or territories (including Hong Kong and Macau).

1.2 Motives for Chinese OFDI

One of the main motives of these OFDI into the UK is strategic asset-seeking i.e. to seek advanced managerial skills, local talent and technology (Liu and Tian, 2008). In another words, learning new knowledge and experiences is a crucial reason for Chinese firms investing in the UK. In order to discover the learning processes, it is important to firstly understand the pattern and motives of Chinese OFDI. The resource-based view of the firm begins with the proposition that firms are not best viewed as land, labour and capital; rather they are social constructs of competences, contrived to commercially exploit knowledge. From this perspective, what differentiates one firm from another and gives it strategic opportunity, is how it learns and exploits its learning.

In addition to push motivations (i.e. Chinese government policy of Going Global), Buckley *et al.* (2008) suggest that Chinese OFDI is also driven by pull factors encapsulated in Dunning's (1993 and 2000) four motivations of OFDI (i.e. natural

resource-seeking, market-seeking, strategic asset-seeking and efficiency-seeking). Buckley *et al.*'s (2008) empirical results indicate that the motivation for China's OFDI is explicable using at least one of the four categories. Wu and Chen (2001) focus upon the geographical distribution of China's OFDI suggesting that spatial distribution is mainly determined by the motives for internationalisation, for example the developed countries can provide Chinese OFDI with a favourable investment such as sound financial markets and consumer markets, highly developed technology, advanced management practices and superior infrastructure.

It has been argued that one of the critical reasons for OFDI from emerging markets that invest in developed countries is to seek strategic assets i.e. to assimilate new knowledge, resources and capabilities (Deng, 2007). Williamson and Raman (2011) support this argument by identifying the new approach of Chinese acquisition is looking for firms that have state-of-the-art technologies and global R&D facilities. Researchers have studied the nature of Chinese MNCs worldwide in terms of the development, motivations, overall benefits and performance (e.g. Wong and Chan, 2003; Wu and Chen, 2001). According to He and Lyles (2008), Chinese OFDI into the US develops the interplay between of China fever and China fear showing how the liability of foreignness has led to M&A bids being withdrawn (for example CNOOC's offer for Unocal, Haier's bid for Maytag and Huawei's takeover bid for 3Leaf) or delayed (like Lenovo's bid for IBM PCs). Under this circumstance, some Chinese MNCs look to other parts of the world. For instance, when Huawei's successive bids in the United State (including US server firm 3Leaf) were blocked by the Committee of Foreign Investment in the United States (CFIUS) as a result of concerns about the national-security issues, from 2011 Huawei started to heavily invest in Europe and has planned to double its UK payroll to over 1,000 employees over three years and also to increase its marketing activities (HUAWEI, 2011).

1.3 The Significance of This Research

As China's economy develops; research interests in Chinese MNCs' increase, in particular whether Chinese OFDI follows the similar patterns to the earlier American and Japanese generations of OFDI. It has been argued that one of the critical reasons for the OFDI from the emerging markets such as China, investing in the developed countries, is to assimilate new knowledge, resources and capabilities (Deng, 2007). However, there is little research about Chinese MNCs abroad and even less study on the processes of learning. In order to fill this gap, this study collects the original evidence from the Chinese OFDI in the UK and their HQs.

There are numerous researchers (e.g. Buckley *et al.*, 2008; Luo *et al.*, 2010; Peng, 2012; Wong and Chan, 2003; Wu and Chen, 2001; Yiu, 2010) have studied the pattern of Chinese MNCs worldwide in particular the entry modes, motives, development, and performance. There is little research about the Chinese MNCs investing in the UK. As the sixth largest economy in the world, UK is recognized its world's leading position in the field of creativity and innovation (including both commercial and academic R&D), which provides the Chinese OFDI with new knowledge and R&D opportunities (Liu and Tian, 2008). In 2010, the flow of Chinese OFDI into the UK reached £1.36 billion ranking 4th among the European countries (UKTI, 2012).

This study investigates the attempt of Chinese companies to learn from UK practices, systems and technologies, to adopt these to create competitive advantages in Chinese, UK and other markets. Buckley *et al.* (2008) have found that Chinese firms establish research-oriented subsidiaries in developed countries such as the US and UK to assist in development of high technology, knowledge intensive products manufactured at home. In doing so, Chinese firms are subverting an international division of labour consigning them to low-cost manufacturing and instead aspiring to climb the ladder

of international value creation towards becoming a knowledge-based economy with the associated social benefits in terms of contributing to human welfare and enjoying high living standards.

This thesis examines the pattern and motives of Chinese OFDI in the UK and explores how the subsidiaries learn knowledge, exploit knowledge, and develop capabilities and transfer knowledge and capabilities to the HQs. The processes of learning and capabilities development are non-linear and give rise to qualitative and complex issues; therefore this research heavily upon inductive approach from generated research data. Utilising Andersson, Forsgren and Holm's (2001) work on the processes of competence development within a MNC, this thesis synthesises theories including the resource-based view of the firm, knowledge transfer, absorptive capacity and concepts including knowledge gaps, capabilities, motivations and psychic distance into an integrative conceptual framework (see figure 3.2) that is used to guide the empirical work and also to analyse the learning and capabilities development processes.

All these processes, theories and concepts have been developed based on industrialised countries, and the extent to which these theoretical approaches and the synthesised framework are applicable to emerging markets such as China is insufficiently evidenced. This study uses qualitative in-depth interview data to seek the evidence and eventually a revised framework (figure 8.1) is developed indicating the specific learning and capabilities development processes within Chinese MNCs.

1.4 Research Questions

As mentioned, there is little research about the Chinese MNCs investing in the UK, and even less study about learning and capabilities development undertaken by UK subsidiaries of Chinese firms. Research (e.g. Andersson, Forsgren and Holm, 2002;

Teigland and Wasko, 2009) on learning and capabilities development undertaken by subsidiaries focuses on measuring the relationships between learning, capabilities development and relative influencers, neglects the processes on how learning occurs and capabilities are created. Chinese and host country policy-makers and business strategists will wish to know the exact pattern of Chinese OFDI in the UK, and how capabilities are developed within UK subsidiaries. This research explores these issues through four research questions.

The motivation for this study is the desire to fill a gap in knowledge about how capabilities relating to learning are created in Chinese subsidiaries, and also to develop a theoretical framework that explains how learning occurs and capabilities developed in the subsidiaries. According to Winter (2000: 983), an organisational capability is ‘a high level of routine that, together with its implementing input flows, confers upon an organisation’s management a set of decision options for producing significant outputs of a particular type’. This study examines what Grant (1996b) termed task-specific capabilities and/or broad functional capabilities such as operation capability, marketing capability and HRM capability. In order to explore the learning and capabilities development, it is essential to ensure the learning occurs in the UK-based Chinese firms.

Given the very limited research (Liu and Tian (2008) being an example) about Chinese OFDI into the UK, the author needed to identify the existence of learning herself; therefore another objective is added into this study. Therefore, this research does not begin by assuming that Chinese OFDI firms are learning from being located in the UK, but begins by seeking evidence that learning is occurring and only then look at why and how the learning is taking place and with what impacts on the Chinese subsidiaries and their HQs.

The two research objectives and four concrete research questions are presented in table 1.1.

Table 1.1: Research Questions and Objectives

Objectives	Research Questions
1. To identify and investigate the characteristics and motivations of Chinese OFDI in the UK, aiming to build foundation stones for the second objective.	1. What is the pattern and main motivations of Chinese OFDI in the UK?
2. To explore and examine the learning processes and capabilities development in Chinese MNCs in the UK.	2. How does the learning occur in Chinese MNC' subsidiaries in the UK?
	3. How do UK subsidiaries exploit learning and develop capabilities?
	4. How do UK subsidiaries transfer the knowledge and developed capabilities to the HQs?

The research questions (shown in table 1.1) began by exploring the pattern of Chinese OFDI in the UK. The first research question and its answer are fundamental to the subsequent three research questions, because it is essential to understand the nature of Chinese OFDI before the processes of learning are explored. The survey result reveals that seeking the knowledge mainly on marketing and management is one of the major motivations. This result emphasises Deng (2007) and Williamson and Raman's (2011) argument of Chinese OFDI's knowledge seeking motivation.

The second research question concerns how the learning occurs in Chinese MNC's subsidiaries in the UK. The approach is processual: centring on managers and staff as cross-cultural learners, both as individuals and as actors at an organisational level. The activity of learning in organisations tends to be purposive (to commercial goal) and not haphazard; learning is often aligned with expectations of enhancing competitive advantage; therefore it is important to look at how UK subsidiaries exploit learning and develop capabilities. The particular interest is in how the

subsidiaries create new knowledge and develop capabilities through exploitation of individual learning and knowledge.

In their recent study about China's global acquisition, Williamson and Raman (2011) identify that Chinese MNCs use overseas resources to strengthen the firms' competitive positions in the domestic market rather than in foreign market. Their claim emphasises the significance of the last research question, how do UK subsidiaries transfer the knowledge and developed capabilities to the HQs? There are no single yes or no answers; each of these research questions requires a multi-layered answer. These answers involve reviewing appropriate literature, referencing empirical data and constructing a conceptual framework to enable a full analysis.

1.5 The Structure of This Thesis

This thesis is organised into eight chapters, with three appendices providing supplementary materials (i.e. company list, questionnaire sample, and interview schedule). The structure is shown in Table 1.2.

The research objectives and questions are outlined in chapter one. Chapter two is the first part of literature review section, which establishes a theoretical foundation for Chinese OFDI in the UK. It analyses the three main theoretical frameworks (i.e. Dunning's eclectic paradigm, Uppsala model and Mathews' leverage-linkage-learning framework) used to understand international business activities i.e. changing international and domestic drivers of internationalisation and patterns of OFDI (such as size, sector, entry mode, etc.), motivations, and the relationship between the HQs and the subsidiary. Chapter three is the second part of literature review section and establishes a theoretical evidence for the processes of learning and capabilities development within MNCs. The argument is based on the resource-based view of the firm, highlighting the MNCs' absorptive capacity in learning and knowledge

transfer from both the internal (the HQs) and external networks (competitors, customers, consultants, local communities, etc.) in the UK to develop the firms' capabilities. It concludes with a conceptual framework (figure 3.2) that guides the qualitative data collection and is also used to analyse the empirical findings.

Table 1.2: Structure of the Thesis

Chapter		Chapter Content
Introduction	1.	Background information, the significance of the research, research objectives and questions, and the structure of the thesis.
Literature Review	2.	Literature review on Chinese OFDI
	3.	Literature review on learning and capabilities development in MNCs
Methodology	4.	Inductive approach
Empirical Data, analysis and discussion	5.	Survey findings and analysis on the pattern and motivations of Chinese OFDI, discuss the findings with the literature to address research question one.
	6.	Interview findings on learning and capabilities development in Chinese MNCs
	7.	A full analysis on interview findings, discuss the findings with the literature to address research questions two, three and four.
Conclusion	8.	Evaluation of the study, summary of findings, answers to research questions, a revised framework, theoretical and empirical contributions, future research, and implications for management practices and policy.

The methodology is presented in chapter four. Chapter five is to address research question one through presenting and analysing the survey results from the 30 respondents of Chinese OFDI in the UK. Chapter six presents the qualitative data from empirical work in 15 subsidiaries and seven HQs.

Guided by the conceptual framework (figure 3.2), it commences with identifying knowledge gaps, followed by Chinese subsidiaries learning from internal and external networks, emphasising capabilities development in the subsidiaries and knowledge transfer from the subsidiaries to the HQs. In chapter seven, the interview data is analysed the findings are discussed in relation to the general literature and conceptual framework, and also answer the research question two, three and four.

Chapter eight begins with evaluation of the study, followed by summary of findings, answers to research questions, a revised conceptual framework (figure 8.1) that represents learning processes in Chinese MNCs. Additionally, theoretical and empirical contributions, future research, and implications for management practices and policy are also discussed.

Chapter Two: Literature Review - Chinese Outward Foreign Direct Investment (OFDI)

The literature review is in two chapters. This is the first part analyses literature on Chinese OFDI, establishing the fundamental context for the review of a second field of literature relating to learning and capabilities development in MNCs. This study adopts Luo and Tung's (2007) definition of MNCs, looking at China-based international companies which 'are engaged in outward FDI, where they exercise effective control and undertake value-adding activities in one or more foreign countries', using this definition to mean subsidiaries of Chinese MNCs of overseas, the definition excludes joint-ventures (JVs) minority-owned by Chinese firms, Chinese trading companies or state-owned enterprises (SOEs) whose roles are entirely to pursue political objectives designated by the Chinese government are excluded. In this chapter, the applicability of the existing theories of OFDI is evaluated and the argument supports the resource-based view of the firms. The following chapter explores the processes of MNCs creating (and/or reshaping) their capabilities in particular using knowledge flows between headquarters and subsidiaries and active learning by subsidiaries, placing learning at the centre of understanding these flows.

2.1 Introduction

Relative to first generation OFDI players (principally from the US, Japan and EU), later OFDIs, also called latecomers by Mathews (2002a and 2002b), face different +domestic and international environment. Patterns of OFDI have resulted in sets of institutional arrangements (e.g. finance, IP law, WTO regulations) established by and resulting from the activities of the first generation OFDI players. In reviewing general frameworks about OFDI, it has been found that Dunning's (e.g. 1980, 1988,

2000) eclectic paradigm (or OLI model) and Uppsala model (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) are less relevant to later generation OFDI since institutional arrangements have already been established and investing outwardly from emerging economies involves quite different processes and outcome targets than investing from developed economies. The OLI model also underplays the importance of the state in supporting OFDI; for example in China's case, government policy (for example 'Go Global Policy') and support for OFDI are crucial.

In contrast, Mathew's (2002a and 2002b) linkage, leverage, and learning (LLL) framework, better conceptualises OFDI from the perspective of late OFDI actors, however, it alone is inadequate to explain China's OFDI. This chapter begins with a country-level perspective of OFDI, followed by the current country-level evidence of OFDI from China, then a firm-level perspective of the internationalization processes and the evidence, finally the conclusion stresses the importance of learning in Chinese MNCs.

2.2 Outward Foreign Direct Investment: a Country-level Perspective

2.2.1 Dunning's Eclectic (or OLI) Paradigm

Classically, internationalisation theory argues that, OFDI presents companies with the opportunity to exploit the sunk costs of R&D or operational capacity by extending the organisation's reach into foreign markets (Buckley and Casson 1976; Rugman and Verbeke 1992). This eclectic paradigm was first introduced by Dunning in 1976 at a presentation to a Nobel Symposium in Stockholm on 'The International Allocation of Economic Activity'. Dunning (1980; 1988; and 2001) stated that internationalisation processes are determined by the configuration of three sets of advantages: ownership advantages (i.e. a firm's competitive advantages

should outweigh the disadvantages faced in the host country), location advantages (i.e. the advantages of the host country as a location are sufficiently attractive to a firm to invest its ownership advantages rather than to sell the advantages to the local firms) and internalisation advantages (i.e. internalisation of ownership and location advantages). In last three decades, Dunning continued to revise the OLI framework, altering it from addressing static strategy tripod (Dunning, 1977) towards conceptualising dynamic competitiveness and the upgrading of core competencies (Dunning, 1995, 1998 and 2000).

Dunning (1981a) developed a stages theory of investment development path (IDP) adding to internalisation (I) two further theoretical parameters location advantages (L) and ownership advantages (O) to constitute his OLI eclectic paradigm, explaining that following the country's economy development, the conditions for domestic and foreign firms alter, affecting the flows of inward and outward FDI. According to Dunning's IDP theory, a country's investment development evolves through five stages (Dunning, 1981a, 1981b, 1986; Dunning and Narula, 1996, Buckley and Castro, 1998).

According to Dunning and Narula (1996) and Buckley and Castro (1998), at the first stage, inward and outward FDI flows are almost negligible because the country's economy is underdeveloped with small domestic market and inadequate infrastructure. At the second stage, as the country's economy develops the domestic market attracts more inward FDI, however its outward FDI flow remains little because domestic firms lack ownership advantages. At the third stage, the domestic firms develop ownership advantages and become more competitive, outward FDI begins increasing eventually overtaking inward FDI. The fourth stage is deepening the trends of third stage because both location and ownership advantages are superior. The fifth stage corresponds to today's situation in the leading developed

countries with permanently high stocks of both inward and outward FDIs. In response to criticisms of economic determinism, Dunning later (1995 and 2000) revised his model to include human capital investment.

To what extent this stage theory is applicable to the developing countries is criticised by several researchers (such as Kuada and Sorensen, 2000; Syetlicic, 2003), for example, Svetlicic (2003) has discovered that some leapfrogging MNCs especially from the transition countries have experienced an accelerated investment development rather than followed exactly the predicted sequence. Stoian's (2012) study of the domestic institutional determinants in explaining OFDI supports Dunning's Investment Development Path's (IDP) main propositions, whilst pointing out deficiencies in the IDP framework such as importance of accounting for home country institutional factors. Gao, Liu and Zou's (2012) empirical study provides support to Dunning's IDP framework in terms of China's OFDI as positively influenced by its domestic economy growth. However, Gao, Liu and Zou (2012) have identified another weakness in Dunning's IDP, the impact of human mobility on China's OFDI, citing studies by Filatotchev *et al.*, (2011) and Jean, Tan and Sinkovics, (2011), which find that human mobility has significantly influenced the knowledge dissemination cross borders between OECD countries and emerging economies like China.

Gao, Liu and Zou's (2012) conclusion is that 'the ownership advantages of Chinese are based more on financial capacity than knowledge assets'. Barnard (2010) and Peng (2012) support their statement pointing out that amongst the challenges faced by Chinese MNCs investing overseas is in the absence of superior technology and management capabilities. It is found that the technologies in Chinese semiconductor wafer industry are 'at least two generations behind those of Taiwan, the United States, Japan, and South Korea' (BusinessWeek, 2009:42). Some empirical research

(e.g. Buckley and Castro, 1998; Dunning and Narula, 1996) supports Dunning's IDP in terms of a country's OFDI is strongly associated to the level of its economic development, however, Gao, Liu and Zou (2012) also point out that a country's economic development (nominal GDP) alone is inadequate to address OFDI.

Though Dunning's OLI model is widely used to explain internationalisation processes, it neglects the specific institutional issues of emerging economies, underplays the impact of human mobility on the development of OFDI, and is unable to explain the (technological/market) leapfrogging phenomenon by some MNCs from emerging markets. Therefore, it seems fair to conclude that without significant amendments, Dunning's (2000) framework cannot simply to be applied as a framework with which to analyse the internationalisation of firms from emerging markets. In particular MNCs from emerging not developed markets, characterised by technological inferiority rather than superiority do not readily align with Dunning's OLI theory.

2.2.2 Motivations of Chinese OFDI

Push Explanations of Chinese OFDI motivation

China continues to save some 50% of its GDP, far higher than other countries (Kuijss 2006), in particular SOEs are dividend-averse. Since 2007, the Chinese Securities Regulatory Commission has dictated that profitable companies paying below 20% of net profits dividends are ineligible to seek refinancing; therefore many companies have announced dividends precisely equal to 20% (Witt and Lewin 2007). Most SOE directors continue to be appointed by the PRC Communist Party Organisational Department (Schipani and Liu, 2002). Nevertheless, high savings rates and stocks are a push factor in seeking profitable investment outlets abroad, since some two-thirds of domestic company equity remains non-tradable. The alternative to capital export is often corporate feather bedding, disguised

unemployment or corruption. Distortion in China's capital markets mean that its four large state-owned banks (Bank of China, Industrial and Commercial Bank of China, China Construction Bank and Agricultural Bank of China), which hold over half of all bank deposits, make most of their loans to SOEs and government agencies. As Allen, Qian and Qian (2005) point out, much of the small and medium-sized (SME) business start-up and development is funded by private loans and informal capital, unsurprisingly obtaining higher returns on capital invested (as Dollar and Wei (2007) show) than SOEs.

A survey conducted by the Asia Pacific Foundation of Canada and the China Council for the Promotion of International Trade shows that The Going Out Policy has contributed to Chinese firms' overseas investment and is the second most important motivation for the Chinese OFDI (Asia Pacific Foundation of Canada, 2005). Since 1997, Chinese state policy has encouraged OFDI (Lei, 2000; Lü, 2000 and Zang, 2000) using M&As or JVs to secure extended markets, circumvent tariff barriers or quotas and to secure the knowledge and technologies necessary to compete with inward FDIs at home. Instead of pursuing communist ideology, China's government aims to provide employment and rising living standards using market solutions (Li and Deng, 2000). Policies promoting OFDI are translated into preferential interest rates on bank facilities (Yang and Wu, 2000); special permissions to retain earning from OFDIs (Nie, 2000) and a flurry of inter-governmental investment protection agreements.

Pull Explanations of Chinese OFDI motivation

Lei (2000) argue that Chinese companies are better at finance, operations and continuous improvement than product innovation, marketing/branding and human resource management. Additionally, Child and Rodrigues (2005) also emphasise the ownership advantages of Chinese firms in finance and through using financial

strength to secure other ownership advantages by purchase and associated opportunities to learn. Kuada and Sorensen (2000) argue that OFDI provides emerging market companies with access to the soft management skills and company competences (design, HR, R&D, marketing and brand exploitation) appear particularly apposite in China's case. In summary, pull motivations for Chinese OFDI (see Wu and Chen 2001) include: natural resources, technology transfer, management experience, access to funding and market access.

Buckley *et al.* (2008) suggest that Chinese OFDI is also driven by Dunning's (1993 and 2000) four basic motives, namely natural resource-seeking (i.e. to gain access to natural resources such as minerals, agricultural products and unskilled labour), market-seeking (i.e. to satisfy a particular foreign market or set of foreign markets), efficiency-seeking (i.e. to promote a more efficient division of labour or specialization of an existing portfolio of foreign and domestic assets by MNCs), and strategic asset-seeking motives (i.e. to protect or augment the existing ownership specific advantages of the investing firms, for those latecomer firms who have ownership disadvantages is to gain access to foreign-owned assets, both tangible like technological equipment and machinery and intangible such as information and knowledge).

Some recently successful overseas M&As like Chinalco's acquisition in Peru and CNOOC's acquisition of Nexen (see table 2.1) are examples showing Chinese firms seeking minerals, oil and other raw resources. Some studies about Chinese internationalisation (Buckley *et al.*, 2008; 2007; Deng, 2004; Taylor, 2002; Zhang, 2003) find the increase of market-seeking OFDI is the result of policy liberalisation in China. Liu and Tian (2008) also find that market-seeking is the major motive for Chinese OFDI into the UK. Strategic asset-seeking occurs when OFDI acquires advanced technology, managerial skills, brand names, local talents, etc. from the host

countries in order to gain competitive advantages (Buckley, 2008; Dunning, 1993). Scholars like Buckley *et al.* (2007 and 2008) have witnessed an increase of China's OFDI in strategic asset-seeking. Liu and Tian (2008) also find that local talents and advanced management skills seeking are the major motivations for Chinese OFDI in the UK, with efficiency-seeking and resource-seeking being the least important motivations. Efficiency-seeking indicates OFDI seek for low cost locations, however, given the current domestic market situations, this factor is less important (Buckley *et al.*, 2008).

Table 2.1: Examples of Recent Chinese OFDI

Year	Value (\$ bn)	Chinese company	Product	Target
2002	\$0.08.2	TCL	Electronics	Schneider Electronics, Germany
2003	\$2	Chinese Netcome	Teleco	PCCW, Hong-Kong mobile operator
2003		TCL (Lenovo)		Thompson chip manufacturer
2003	0.380	BOE Technology	PC monitors	Hydis Semiconductor, Korea
2003	n.a	Shanghai Electric	Machinery	Akiyama Publishing Machinery, Japan
2005		TCL (Lenovo)		IBM's PC division
2008		Zoomlion		CIFA (Italian construction equipment manufacturer, takeover)
2009		Sichuan Tengzhong Heavy Industrial Machinery Company		Hummer (GM's off-road vehicle division)
2009	\$19.5	Chinalco		Australia's Rio Tinto (18% share)
2009	\$1.7	Minmetals		Oz Mineral takeover
2009	\$2.2	Chinalco	Copper mine	Mine and logistics development in Peru
2009	\$10	China Development Bank and Sinopec (Oil)	Refined oil	Petrobras (Brazilian Oil Company)
2011	\$1.7	Sinopec	Refined oil	Australia's APLNG (15% share)
2011	\$2.1	ChemChina	Chemical products	Elkem from OrklaASA
2012	\$15.1	CNOOC	Offshore oil	Nexen, Canada

Source: trade press, MOFCOM and *Economist* 15 August, 2009:20

2.2.3 Summary

This section has investigated the applicability of Dunning's eclectic/OLI paradigm (e.g. 1980; 1988; 2000) to explain Chinese OFDI. The analysis indicates that Dunning's IDP model has been criticised for its western-focus and the inability to explain the leapfrogging investment of Chinese firms. Dunning's (1993 and 2000) four categories of motives emphasise the pull factors of Chinese OFDI's motivation, however it underestimates the importance of the specific institutional factors and human mobility in explaining Chinese OFDI. Therefore, Dunning's OLI model can only partly address the OFDI from China.

2.3 Outward Direct Investment from China: Current Country-level Evidence

2.3.1 Is China's OFDI Unexpected?

Rapid growth in Chinese exports (the top thirty companies grew exports by 300% between 1994 and 1998) compared with the more modest (117%) expansion in home sales (Schlevogt 2000), led an early group of commentators to predict that Chinese business growth would not follow earlier patterns of capital export, but rather one confined to product internationalisation. Vernon-Wortzel and Wortzel (1988) argued that Chinese internationalisation was confined to contract manufacturing and unlikely to create the branded goods capable of competing in developed economy markets; a theme supported by Leonidou and Katsikeas (1996) who argued that the institutional setting in China was not capable of creating the strong home base (Porter's 1990) from which capital exports would flow. Young, Huang and McDermott's (1996) study of major Chinese companies also concluded that OFDI was unlikely to significantly replace product export growth. In an even later paper, Hussain and Jian (1999) continued to argue that Chinese OFDI would remain insignificant, citing state control over capital export institutional arrangements. As late as 2002, Brouthers and Xu repeated the argument that a high growth in Chinese OFDI is unexpected for reasons of institutional barriers and inability to shift from a cost to differentiation strategy; in their case citing successful examples in the same

paper (Konka's manufacturing of televisions in India and Haier's production of washing machines in Europe).

Just as China's trading size and patterns have altered in the last ten years (Economist 2007) so too is its OFDI patterns. Despite the significant growth of China's OFDI in terms of flows and stock, Nolan (2012) points out nevertheless by size China has many large companies, China has not yet developed competitive national champion MNCs with leading global technologies and brands. Yet, large and innovative Chinese companies have increasing brand recognition and equity. Examples include Huawei (increasingly found in telecommunications infrastructure, Lenovo laptops and companies such as Sinopec and China National Petroleum found in oil and gas projects worldwide).

Table 2.2 places China's OFDI in perspective, showing that it remains a small fraction of total flows and stock of FDI (3.8% and 1.7%) in 2011, however, it is rising at a faster rate than other emerging economies. Figure 2.1 shows that Chinese OFDI flow grew slowly with two peaks in 1993 and 2001 before beginning rising dramatically from 2004 (US\$5.5 billion) to 2011 (more than US\$65 billion).

Annual flows of China's OFDI was only US\$0.8 billion in 1990, rose to US\$5.5 billion in 2004 (Buckley, *et al.*, 2008), then dramatically grew before reaching the peak point US\$65.1 billion in 2011 (MOFCOM, 2012; UNCTAD, 2012). Figure 2.1 graphically illustrates this trend of Chinese OFDI flows in last three decades. In 2006, Chinese OFDI stock remains 0.7% of total FDI and its flow at 2.3% of total flows (Morck, Yeung and Zhao, 2008:339), however, both flows and stock are rising suggesting that as China's economy continues to grow, so its OFDI will also grow in significance.

Table 2.2: Comparison of OFDI between countries

Comparison of outward FDI across countries (US\$ billion)					
	Annual OFDI flow				
	2005-2007 (Pre-crisis annual average)	2008	2009	2010	2011
Global Outward FDI	1500.5	1969.3	1175.1	1451.4	1694.4
China OFDI total	18.6	52.2	56.5	68.8	65.1
China OFDI % of global	1.2%	2.7%	4.8%	4.7%	3.8%
Developed country OFDI					
Japan	56.5	128	74.7	56.3	114.4
UK	146.5	161.1	44.4	39.5	107.1
US	211	308.3	267	304.4	396.7
Developing countries OFDI					
Brazil	12.6	20.5	-10	11.5	n/a
India	12.3	19.3	15.9	13.2	14.8
South Korea	12.4	20.3	17.2	23.3	20.4
Singapore	22.4	6.8	17.7	21.2	25.2
Russia	27.3	55.6	43.7	52.5	67.3
Comparison of outward FDI across countries (US\$ billion)					
	Stock of OFDI				
	1995	2000	2009	2010	2011
Global Outward FDI	3790.1	7952.9	19325.7	20864.8	21168.5
China OFDI total	17.8	27.8	229.6	298.4	366
China OFDI % of global	0.5%	0.3%	1.2%	1.4%	1.7%
Developed country OFDI					
Japan	238.5	278.4	740.9	831.1	962.8
UK	304.9	897.8	1674	1626.9	1731.1
US	1363.8	2694	4287.2	4766.7	4500
Developing countries OFDI					
Brazil	44.5	51.9	164.5	180.9	n/a
India	0.5	1.7	80.8	96.4	111.3
South Korea	10.2	21.5	120.4	139	159.3
Singapore	35.1	56.8	267.9	317.9	339.1
Russia	3.3	20.1	306.5	366.3	362.1

Source: United Nations Conference on Trade and Development (UNCTAD), China Ministry of Commerce; Morck, Yeung and Zhao, 2008

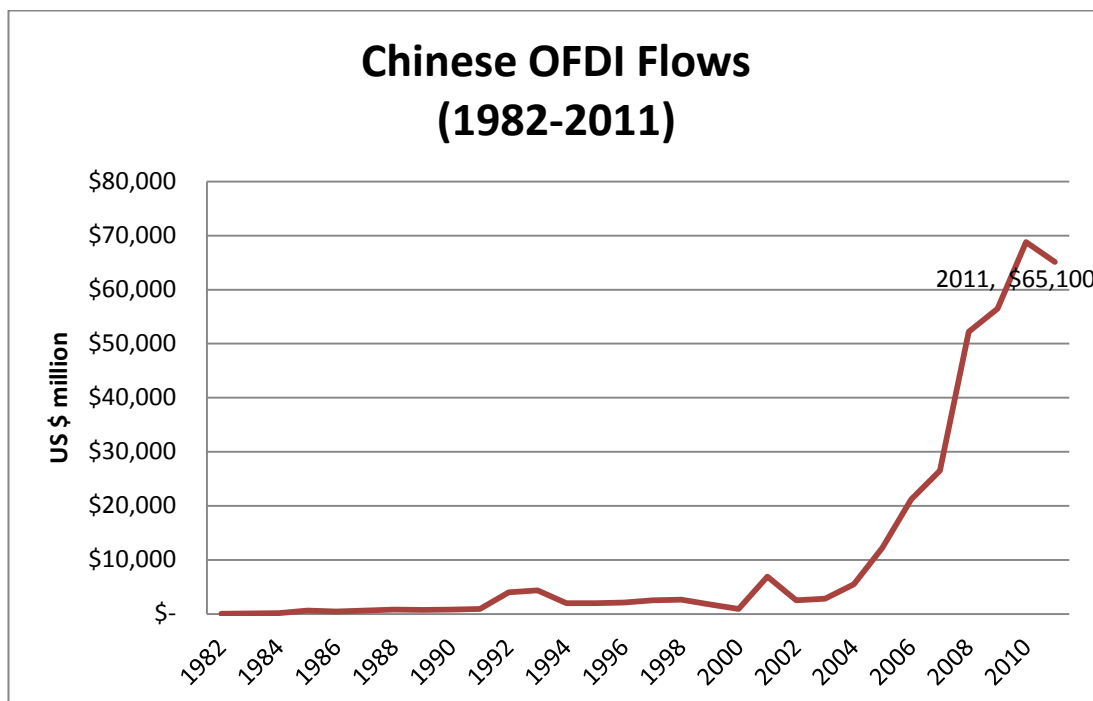


Figure 2.1: Chinese OFDI Flows
 Source: United Nations Conference on Trade and Development (UNCTAD)

2.3.2 Chinese OFDI into the UK

As the world’s sixth-largest economic entity (measured by nominal GDP) as well as a gateway to the European market, UK has maintained its strong competitive advantage in attracting foreign investment. In 2010, it ranked the seventh largest recipient with FDI inflows of US\$46 billion (UNCTAD 2011). In the same year, the flow of China’s OFDI into the UK was £1.36billion ranking 4th among EU market (UKTI, 2012). According to table 2.3, although the stock of China’s OFDI in the UK was only \$1.36billion; it increased 17 times from 2003 to 2010. Since the Bank of China initially established its first overseas branch in London in 1929, the number of Chinese companies investing in the UK had risen to over 300 by 2009 (UKTI 2010), many of which appear long-standing trading companies.

Table 2.3: Stock of China's OFDI across Countries

Stock of China's OFDI across Countries (US\$ billion)								
Countries/Regions	2003	2004	2005	2006	2007	2008	2009	2010
Total	33.22	44.78	57.21	75.03	117.91	184.97	245.76	317.2
Asia	26.60	33.48	40.95	47.98	79.22	131.32	185.55	228.1
Hong Kong	24.63	30.39	36.51	42.27	68.78	115.85	164.50	199.06
Macau	0.45	0.62	0.60	0.61	0.91	1.56	1.84	2.23
Indonesia	0.05	0.12	0.14	0.23	0.68	0.54	0.80	1.15
Japan	0.09	0.14	0.15	0.22	0.56	0.51	0.69	1.11
Philippines	0.009	0.01	0.02	0.02	0.04	0.09	0.14	0.39
Africa	0.49	0.90	1.60	2.56	4.46	7.80	9.33	13.04
Europe	0.49	0.68	1.27	2.27	4.46	5.13	8.68	15.71
Russia	0.06	0.12	0.47	0.93	1.42	1.84	2.22	2.79
Germany	0.08	0.13	0.27	0.47	0.85	0.85	1.08	1.50
UK	0.08	0.11	0.11	0.20	0.95	0.84	1.03	1.36
Latin America & Caribbean	4.62	8.27	11.47	19.69	24.70	32.24	30.60	43.88
Virgin Islands (UK)	0.53	1.09	1.98	4.75	6.63	10.48	15.06	23.24
North America	0.55	0.91	1.26	1.59	3.24	3.66	5.18	7.83
US	0.50	0.67	0.82	1.24	1.88	2.39	3.34	4.87
Canada	0.05	0.06	0.10	0.14	1.25	1.27	1.67	2.60
Oceania	0.47	0.54	0.65	0.94	1.83	3.82	6.42	8.61
Australia	0.42	0.49	0.59	0.79	1.44	3.36	5.86	7.87

Source: MOFCOM, 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

Numerous papers comment on overall levels of Chinese OFDI into the UK: Young *et al.* (1998), Deng (2004) and Morck, Yeung and Zhao (2008) being examples. Only one piece of academic work (Liu and Tian, 2008) investigates these companies using an emailed questionnaire, responded to by twenty Chinese companies investigating motivations to internationalise. The survey found that 45% were in logistics or financial services, 25% relate to engineering or textile; all were wholly-owned subsidiaries of large companies and entry motivations were market-seeking i.e. access UK and EU markets, and strategic asset-seeking i.e. to seek advanced managerial skills and local talents.

2.3.3 Domestic Institutional Change Supporting Chinese OFDI

In the past three decades, China's OFDI has experienced a rapid growth from complete insignificance to today raising such a controversial question: 'Is China buying the world?' (Nolan, 2012). One prominent reason being argued widely is the crucial role played by the Chinese government (Buckley *et al.*, 2008), just as Nolan (2001:193) suggesting, 'without continued state support they were most unlikely to be able to build on their considerable entrepreneurial achievements, and mount a serious challenge to the global giants in their respective sectors'. Therefore, in order to understand China's OFDI, the primary task is to explore the domestic institutional environment and policies change over the last three decades.

Dunning's (e.g. 1988) OLI framework, even the adjusted model taking account of human capital issues (Dunning, 1995 and 2000) pays little attention to the institutional environment in which firms operate. Historical surveys (Mokyr 1990; North 1990; and Landes 1998) each emphasise the inter-relationship between firms, markets and institutions in explaining China's economic development. Recent studies of national systems of innovation emphasise the difference to economic development made by differing sets of institutional arrangements (Freeman and Perez 1988; and Porter 1990).

Chinese government worrying about the loss of state assets over SOEs reform is another reason of encouraging SOEs internationalisation (Luo *et al.*, 2010). The government changed foreign exchange policy from 'earn to use' to 'buy to use' (Buckley *et al.*, 2007; Luo *et al.*, 2010). The introduction of a document termed 'Measures of Capital Support for Small- and Medium-sized Enterprises to Develop International Markets' officially motivated SMEs to go global (Luo *et al.*, 2010). Phase III (2001 – present), in 1999, the Chinese government announced a new 'Go Out Policy' (also referred to as the Going Global Strategy, a new policy launched in

1999, aiming to promote international trade and to encourage and support Chinese OFDI.) launching a range of programmes under the China Council for the Promotion of International Trade to encourage and support OFDI by Chinese companies. For example, in October 2004, the National Development and Reform Commission (NDRC) and the Export-Import Bank of China (EIBC) jointly issued a circular to promote overseas investment in specific areas:

‘(i) resource exploration projects to mitigate the domestic shortage of natural resources; (ii) projects that promote the export of domestic technologies, products, equipment and labour; (iii) overseas R&D centres to utilize internationally advanced technologies, managerial skills and professionals; and (iv) M&As that could enhance the international competitiveness of Chinese enterprises and accelerate their entry into foreign markets.’

Amongst the reasons cited for this policy change were exploiting WTO membership: increasing competitiveness in order to reshape the impact of inward FDI on China’s economic growth and shifting from contract manufacturing towards own-label branding. At this stage, Chinese government revoked the quota of OFDI purchasing foreign exchange, moved its focus from amount to performance with regulations monitoring OFDI’s performance, and changed its role from regulating to supporting OFDI (Luo *et al.*, 2010). By 2010, Chinese OFDI reached a stock of US\$317 billion and an annual flow of nearly US\$70 billion (see table 2.2 and figure 2.1).

2.3.4 Geographic and Sector Distribution

Wu and Chen (2001) thoroughly elaborate the geographical distribution of China’s OFDI in a study about an assessment of China’s OFDI, a conclusion could be drawn from their analysis is that three factors shape the geographic distribution of Chinese OFDI. First, Chinese OFDI seeks natural resources and is therefore drawn to resource-rich countries, from 2003 to 2010 stock rising by 46 times in Russia, by 26 times in Africa, by 18 times in Australia and by 9 times in Latin America & Caribbean (see table 2.3). Second, Chinese OFDI seeks advanced technologies,

R&D and design knowledge and advanced managerial skills; and is therefore drawn to developed economies (see table 2.3, from 2003 to 2010 stock going up by 17 times in the UK and by almost 10 times in US). An empirical study conducted by Wong and Chan (2003) shows some 40% of Chinese OFDI (by value) is in developed economies in 2001.

However, He and Lyles' (2008) study of Chinese OFDI into the USA develops the interplay between of China fever and China fear showing how the liability of foreignness has led to M&A bids being withdrawn (CNOOC's offer for Unocal and Haier's bid for Maytag) or delayed (Lenovo's bid for IBM PCs). Liability of foreignness is broadly defined as 'all additional costs a firm operating in a market overseas incurs that a local firm would not incur' (Zaheer, 1995). They also refer to the industrial relations difficulties at Haier's Carolina plant. Third, with lower logistics and entry costs and psychic distance Chinese OFDI is drawn to its East Asian neighbours (figure 2.3 showing the stock from 2003 to 2010 rising by 23 times in Indonesia and by almost 44 times in the Philippines).

Taylor (2002) suggests that 60% of Chinese OFDI (by numbers not value) is in (often trading) services, 19% in resources and 11% in manufacturing. Growth in manufacturing is now most pronounced exemplified by Haier in the US, Indonesia, the Philippines and Malaysia. Liu, Buck and Shu (2005) cite Chinese sources suggesting that 57% of OFDI is in trade and services, 22% manufacturing and 18% resources. Deng (2007) identifies what may prove to be an interesting trend: Chinese OFDI into R&D and design facilities citing Galanz (from Shunde) \$20 million R&D labour in Seattle; Huawei's \$1 billion investment in over ten R&D labs in Bangalore and other sites and Huawei's JV with 3Com in a Hong Kong R&D lab. Chinese companies have acquired R&D facilities from IBM (Lenovo), France's Sagem and Korea's LG

(Ningbo Bird Co). It is not clear whether any of the OFDI into the UK similarly targets R&D and design assets and capability.

2.3.5 State Owned Enterprises (SOEs)

Some scholars (e.g. Buckley *et al.*, 2008) suggest that a large amount of Chinese SOEs are involved in OFDI is the result of the government policies' influence in Chinese OFDI. Deng Xiaoping's landmark journey to the South in 1992 strengthened the liberal politicians in China's Communist Party (CCP) and bureaucrats in government agencies (Buckley *et al.*, 2007). After containing inflation in the early 1990s, the Chinese government encountered difficulty of implementing reforms among SOEs (Luo *et al.*, 2011). Under this circumstance, Zhu Rongji, the premier during 1998–2002 set up the guidelines of China's SOEs reform with the purpose to 'seize the big and free the small', as a result, a group of national monopolies emerged, such as China National Offshore Oil Corporation (CNOOC), China Cereals, Oils and Foods Company (COFCO), and China Minmetals Corp (Luo *et al.*, 2010).

SOEs with national monopolies became the most common of Chinese OFDI enterprises, and because they lacked strict limitations in the light industry (e.g., textiles, machinery, and electrical equipment), were encouraged to globalise in this period (Wong & Chan, 2003). Cai (1999) also finds that most OFDI firms remain SOEs and their preferred model in manufacturing and resource projects is JV, since this circumvents local opposition and binds in local management expertise. In services, 60% of OFDIs, the preferred model is wholly Chinese ownership. Similarly, Liu and Tian (2008) also find that nearly 60% of the subsidiaries in the UK are wholly owned. In the case of resources, Cai (1999) cites three oil-related JVs with Kazakhstan, resource extracting and processing are often associated with major infrastructure development projects. This model applies to resource-related

projects in South America: the Economist (2009) cites a JV with Brazil's Petrobras oil company though direct acquisition (e.g. Venezuela's YPF oil by CNOOC).

2.3.6 Summary

In summary, though Chinese OFDI has been considered as insignificant by many researchers over years, it has recently been raised significantly. The increase mainly attributes to the policy support of Chinese government that particularly favours the internationalisation of the SOEs. Chinese OFDI is scattered worldwide and geographic distribution of is apparently driven by its motives (i.e. resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking).

2.4 The Process of Internationalisation: a Firm-level Perspective

2.4.1 The Uppsala Model

An alternative perspective, the Uppsala model, was considered by Dunning (2001) as a useful addition to his eclectic paradigm, developed partly in response to the deterministic critique of Dunning by group of Scandinavian researchers (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) who studied the internationalisation process of a group of Swedish firms and used Beckerman's (1956) idea of psychic distance to explain foreign investment patterns, Uppsala model suggested that a firm should begin internationalisation with entering an overseas market that it was most familiar with and simultaneously strengthened knowledge, and then moved on to less familiar markets.

Assuming the internationalisation is an development path of absorbing knowledge and resources, Johanson and Wiedersheim (1975) divided a firm's internationalisation process into four stages: '1. no regular export activities; 2. export via independent representatives (agent); 3. sales subsidiary and 4.

production/manufacturing’, the latter three phases are claimed to be dependent on the level of the incremental increase of knowledge and the development of the organisational structure. The definition of psychic distance in the original Johanson and Vahlne’s (1977:24) study was ‘the sum of factors (such as differences in language, education, culture and business practices) preventing the flow of information from and to the market’; later this definition was updated from a more learning perspective by Nordstrom and Vahlne (1992:3) as ‘factors preventing or disturbing firms’ learning about and understanding of a foreign environment’.

Kogut and Singh (1988) and Hofstede (1991) later developed the Uppsala model to prominently feature culture and the idea of psychic distance as explanations for patterns and motivations of OFDI and they argue that empathy and shared understandings increase the positive outcomes from OFDI for firms. Like Dunning’s IDP, Uppsala model faces similar criticism; Cantwell and Narula (2003) argue that this internationalisation sequence statement whereby companies first export and then followed by OFDI has recently been abandoned, because some firms especially in certain industrial sectors proceed directly into OFDI by skipping export stage. Furthermore, Child and Rodrigues (2005) also find that the advanced Chinese MNCs like Hair and Lenovo skip the other Asian countries directly invest in the developed economies for strategic asset-seeking.

There are some critiques of the Uppsala model as it has evolved. Young *et al.* (1996), and Liu and Tian (2008) stress the Swedish origin of the theory, arguing that it does not apply to latecomer firms from emerging economies. This critique has less force than (for example) Gao, Liu and Zou’s (2012) criticism of Dunning, because the Uppsala emphasis is on belonging to networks, in particular knowledge networks such as M&As and JVs (Nordstrom and Vahlne, 1992); networking can overcome the disadvantages of lateness where new entrants can leverage the knowledge

resources of mature firms (Mathew, 2006a). However, such incremental stages theories of entry modes and OFDI both face criticism (Liu, Buck and Shu, 2005), citing Luo and Tung's (2007) argument that multinational firms from emerging markets pay attention to incremental learning through global experience but their process of internationalisation may not follow the incremental approach.

Additionally, Child and Rodrigues' (2005) case studies show the internationalisation of the Chinese firms leapfrog directly from export to manufacturing subsidiaries in high psychic distance countries like the US. Zhao (2000) also suggests that OFDI by Chinese companies into Bangladesh and Turkey is a new model of skipping export stages and moving almost directly into OFDI manufacturing to capture emerging markets. Therefore, since Uppsala model is western-focus and unable to explain the leapfrogging investment of Chinese firms, it still needs modification in order to address the internationalisation path of Chinese firms.

2.4.2 Mathews' Linkage, Leverage, and Learning (LLL) Framework

Based on a resource-based view of a firm, Mathews (2002a and 2002b) developed a framework to explain how and why latecomer firms (such as Taiwanese PC firms) that lack ownership advantages can gain competitive advantage via network linkage, resource leverage and learning. Linkage is the capacity of the OFDI as Mathews (2002a) argues to extend into new cross-border activities via inter-firm relations, stressing the power of strategic networking (Gulati et al., 2001) such as OEM contracting, local sourcing, second sourcing and technology licensing. He gives as an example, (Mathews 2002b), OEM contracting which has been generalised to encompass the notion of global commodity chains (Gereffi, 1999) or global production networks (Best, 2001), or global value chains (Humphrey and Schmitz, 2000).

Along similar lines, Child and Rodrigues (2005) suggest that OEM could be a more effective route than JVs allowing Chinese firms to learn about international production even before going abroad and to build up an independent international reputation. Mathews (2002a) defines leverage as ‘the outward reach by the firm for resources beyond it, which may be contained in firms and institutions out there in the global economy and with which it must form linkages of one kind or another, and to the inward process of capability enhancement that the firm engages in after absorption of new resources’. Mathews (2002b) claims the concept of resource leverage (Prahalad and Hamel, 1990; Hamel and Prahalad, 1994) precisely matches the theoretical requirements of the latecomer firms. A third notion of LLL is learning, ‘is the enhancement of capabilities that results from the repeated application of linkage and leverage strategies’ (Mathews, 2002a).

Two learning related concepts absorptive capacity and combinative capabilities are adopted by Mathews (2002b) to explain the needs and activities of the latecomer firms. According to Cohen and Levinthal (1990), absorptive capacity is ‘the ability to evaluate and utilise outside knowledge is largely a function of the level of prior related knowledge.... to recognise the value of new external information, assimilate it, and apply it to commercial ends’. A combinative capability is ‘the intersection of the capability of the firm to exploit its knowledge and the unexplored potential of the technology’ (Kogut and Zander, 1992). Mathews (2002b) also finds that learning undertaken in the latecomer firms in East Asia such as Korea and Taiwan is accelerated and guided by an institutional framework. Child and Rodrigues (2005) used Hair’s OFDI in the USA as an example showing that Chinese OFDI in developed economies is a means of learning.

Mathews (2002a and 2002b) developed the linkage, leverage and learning (LLL) framework based upon a criticism of Dunning’s OLI as inadequately addressing the

particular situation of firms from emerging markets, which as latecomers of OFDI are unlikely to possess the ownership advantages of firms from developed countries. Dunning (1988) also noticed that companies in developing countries rarely have the superior firm-specific advantages that justify internationalisation as an explanation of OFDI. Both cases that Haier's investment in the US (Child and Rodrigues, 2005) and Daewoo's acquisition of a British car design firm (Hennart, 2001) indicate that latecomer firms' investment in the developed economies is to augment their ownership advantages not to exploit the ownership advantages. Mathews' (2002a and 2002b) LLL indicates that a latecomer firm undertakes learning principally through networks linkage and resources leverage, however, this statement is challenged by Dunning (2006) and Narula (2006), who argue that latecomer firms still need to develop capabilities in order to establish linkages, leverage and learn from the network partners of developed countries. It shows that for the firms that lack of knowledge and capabilities it is difficult to establish linkage and leverage for learning purpose until they possess these capabilities. Yiu (2010) suggests that such kinds of capabilities have not been explicitly addressed in either Mathews' LLL model or Dunning's OLI framework. Narula (2006:149) criticises the LLL model for 'a group of firms that are hard to classify either in terms of industry, technology, size, age or organization'. Therefore, it may be as Narula (2006) suggests, Mathews' LLL is only applicable to certain dragon MNCs rather than all MNCs from emerging markets.

Both Dunning (2006) and Mathews (2006b) agree that the OLI and LLL are complementary rather than substitute to each other. Yiu (2011) mentions: 'the OLI framework emphasizing the possession of ownership advantages and the LLL framework emphasizing the strategic ways of mitigating the lack of ownership advantages'. Yiu (2011) suggest combining Dunning's OLI and Mathews' LLL to explain China's OFDI. Dunning's approach is further criticized by Alon *et al.*

(2011) who suggest that a body of theory established for the incumbent firms in the developed economies is not applicable to explain Chinese OFDI since Chinese corporate context is distinctive from the western firms, pointing out that Chinese firms grow in a complex institutional environment where market and state are interpenetrated and where firms and government are interlinked. In contrast, Alon *et al.* (2011) go on to argue, the best practice governances of the developed countries' MNCs are established by and result from a stable, lower-risk business environment with lesser level of government involvement). They further argue China's complex institutional environment, cultural distance and capital requirements (Morck, Yeung and Zhao, 2007) are unique features of Chinese internalisation should be considered when introducing new theory.

In summary, the OLI and LLL frameworks either focus on advantages possessed before firms' internationalisation or advantages augmentation through internationalisation but with no evaluation of how OLI advantages and LLL opportunities developed in the domestic market (Yiu, 2011). Child and Rodrigues (2005) also point out that 'the mainstream perspective on the internationalisation of the firm focuses strongly on the firm as an actor and less on its embeddedness in its wider society', further highlighting the fact that context is important for all social activity: in this case, the context from which firms internationalise shapes the patterns and results of the internationalisation. Therefore, numerous researchers (Alon *et al.*, 2011; Lu *et al.*, 2011; Luo and Tung, 2007; Yiu, 2011) suggest that the new theory is used to explain China's OFDI and internationalisation should consider the distinctive institutional issues and domestic market environment in China.

2.4.3 Summary

This section has examined the applicability of the two dominant theories from a firm-level perspective to explain Chinese OFDI and found them wanting. Like Dunning's IDP, Uppsala model (Johanson and Vahlne, 1977; Johanson and

Wiedersheim-Paul, 1975) has also been criticised for its western-focus and its inability to explain the leapfrogging investment of Chinese firms. Although Mathews' (2002a and 2002b) LLL framework was developed within the resource-based view of the firm and stresses the emerging market firms' abilities in learning and augmenting ownership advantages through linkage and leverage, many latecomer firms are neither able to establish linkage and leverage with advanced firms in the developed countries nor able to learn via the linkage and leverage. Thus, Mathews' theory too does not adequately explain Chinese OFDI.

2.5 The Process of Internationalisation: Current Country-level Evidence

2.5.1 Evolution of Chinese OFDI

The statement of Chinese domestic institutional change underlines that evolutionary stages of China's OFDI do not happen randomly, but they occur from a particular time and space. Wu and Chen's (2001) evolution of OFDI in China features four stages: 1979-1983 trading companies; 1984-85 early manufacturing and processing; 1986-1992 rapid OFDI growth in manufacturing and resources and 1993-present growth in services, resources and manufacturing. They compute by value of OFDI and emphasise the importance of internal institutional change as enabling OFDI (Wu and Chen, 2001).

However, Child and Rodrigues's (2005) case studies support what Zhang and Van Den Bulcke's (1996) finding that it is impossible to distinguish clear stages of internationalisation of Chinese multinationals. Child and Rodrigues (2005) have discovered that the most China's OFDI has gone to the low psychic distance locations: the other Asian countries, whilst the leading Chinese firms such as Haier, Galanz and Lenovo are more prone to invest in the developed countries exploiting long-term globally-oriented strategies. Whilst this pattern may alter, currently only

the minority of Chinese MNCs target developed countries, instead they seek profit in Africa and other emerging economies.

Considering the rapid changing pattern and government policies, Yang *et al.* (2009) classify the evolution of Chinese OFDIs into three stages: 1978-1990 transformation of Chinese firms; 1991-2000 first wave of initial international expansion of Chinese firms and 2001-present rapid internationalisation growth in the form M&As. This result corresponds to a later study by Luo *et al.* (2010) about the evolutionary domestic policies on China's OFDI. Therefore, the correlating GDP growth and OFDI (as OLI model presumes) just does not fit the facts: significant OFDI occurred prior to high levels of GDP growth (Liu, Buck and Shu, 2005). In China's case, particularities affecting the growth of OFDI include international networks of Chinese expatriate entrepreneurs (Yeung, 1998), the particular need for natural resources (Duran and Ubeda, 2001) and strategic assets-seeking (Child and Rodrigues, 2005) and rapidly changing institutional arrangements in China (Bevan, Estrin and Meyer, 2004).

2.5.2 Size and Entry Mode

Like other economies, China's original OFDIs were small in size (averaging \$1 million) reflecting a sectoral focus on trading and services. Liu and Tian (2008) find that 80% of the subsidiaries are small-size firms. Taylor (2002) suggests that 80% of China's OFDI are JVs, with 90% of funding being raised on international capital markets. Liu and Tian (2008) find that 60% of Chinese firms establish wholly-owned subsidiaries in the UK and the rest of 40% are JV affiliates. More recently, as TCL (Lenovo), Zoomlion, Sichuan Tengzhong, Minmetals and Chinalco in table 2.1 illustrate high profile M&As are replacing JVs as the preferred entry mode (Child and Rodrigues, 2005). For example, Nanjing Automotive acquired British car manufacturer MG Rover in 2005. As Wong and Chan (2003) show, the size of

OFDI is rising as more investments in resources are linked to infrastructure projects and as they target developed economies.

2.5.3 Summary

In summary, the analysis of evolution of Chinese OFDI indicates that the OFDI from China experienced the transformation of firms and the first round of international expansion has begun significant growth. Establishing wholly-owned and JV subsidiaries were found as two main entry modes of Chinese OFDI and recently more evidences show that M&As have become the preferred entry mode instead of JVs.

2.6 Conclusion: the Importance of Learning in the MNCs

Compared to the earlier OFDI players (such as USA and Japan), China's international investment begun late, in contrary, it has developed dramatically. Dunning's IDP in the OLI model is widely used to analyse countries' investment development in the last forty years, however it is not readily applicable to Chinese internationalisation processes since as Dunning acknowledged in using it to explain examples of the developed economy internationalisation, the framework neglects the latecomer OFDI from emerging markets, who normally lack of ownership advantages. His framework also neglects the influence of institutional factors which plays a significant role in China's OFDI development i.e. influences such as government policy. Similarly, Uppsala model established on a group of firms from high-income economy, which attracts criticism on, whether it is applicable to the latecomer firms.

Additionally, as stages theories both Dunning's and Uppsala model are criticised for inability to explain the phenomenon of leapfrogging OFDI. Mathews' LLL model underlines the process of latecomer OFDI from the resource-based view of the firm,

emphasises the significance of learning which is particularly important for China's OFDI in the developed markets. However, Mathews' framework stresses the importance of network linkage and resources leverage for learning, neglects the firms who still need develop capabilities for establishing linkage and leverage. The evolution of Chinese OFDI does not happen randomly but it follows the evolutionary process of China's policy changing. The policies such as 'Go Out Policy' and the guidelines of China's SOEs reform have considerably affected the development of OFDI in particular the SOEs' internationalisation, be considered as the second most important motivation for China's OFDI. Geographic distribution is driven by motivations (e.g. resource-seeking, market-seeking and strategic asset-seeking), the high-income countries' advantages of advanced technology, local talent, advanced managerial skills etc. draws attention of China's OFDI.

In summary, both the pattern and main motivations appear different from the early generation of the OFDI from the developed countries. China's rapidly increasing OFDI is the result of the precipitous economic development and changing institutional arrangements that encourage and support the OFDI from China. Dunning's OLI paradigm, Uppsala model and Mathews LLL framework that each neglects the distinctiveness of the Chinese institutional environment and inadequately explains China's OFDI pace and patterns. In order to explain Chinese firms' internationalisation, a new framework might be in need. The first research question (i.e. what is the pattern and main motivations of Chinese OFDI in the UK?) will be examined in chapter five via a comprehensive analysis of survey data.

Generally speaking, China's OFDI is still at early stage of internationalisation and the pattern of Chinese OFDI in terms of geographical and sectoral distribution and entry modes, is significantly influenced by the firms' motivations. The main motivation of the Chinese OFDI into the developed countries such as the UK is

strategic asset-seeking. All three main theories emphasise the significance of gaining ownership advantages in the processes of Chinese OFDI. Additionally, Mathews stresses the importance of learning for possessing and augmenting ownership advantages: in order to gain strategic asset advantages, learning plays a significant role within the firms. The next chapter analyses literature on learning and capabilities development in MNCs and suggests a new synthetic framework for analysing the motivation for Chinese OFDI.

Chapter Three: Learning and Capabilities Development in MNCs

3.1 Introduction

This chapter critically evaluates previous research relating to learning and capabilities development within MNCs identifying weaknesses and inconsistencies that may constitute gaps requiring further research. Dunning's and Uppsala theories emphasise the importance of gaining ownership advantages within processes of firm internationalisation. Mathews' (2002a and 2002b) LLL framework, based on the resource-based view of the firm, developed specifically with latecomer firms in mind (and based upon that dataset), emphasises ownership augmentation by learning via network linkage and resource leverage with the incumbent firms.

This chapter emphasises learning and adopts the resource-based view of the firm. Peng (2006) developed a strategy tripod through synthesising three leading perspectives (i.e. institution-based, industry-based and resource-based views) to explain international strategy relating to institutional issues, industry competitions and learning and capabilities. This strategy tripod model of internationalisation is applicable to explain the internationalisation of the firms from emerging economies to developed countries (Yamakawa, *et al.*, 2008) and even the characteristics of China's OFDI (Cui and Jiang, 2010). Among these three perspectives, only the resource-based view, as Cui and Jiang (2010), Peng (2006) and Yamakawa *et al.* (2008) argue centre-stages knowledge, learning and capabilities in the firms. This chapter outlines extant knowledge relating to research question two, three and four.

3.2 How MNC Subsidiaries Learn

This section (3.2) examines extant research that provides the knowledge to the study's second research question: 'How does the learning occur in Chinese MNC subsidiaries in the UK?'

3.2.1 The Resource-Based View

In international business studies, both the transaction cost economics (Buckley and Casson, 1976; Caves, 1996) and the *eclectic* perspective (Dunning, 1993) emphasise that MNCs need to equip their international subsidiaries with firm-specific resources (including capabilities) and advantages to overcome the liability of foreignness. Lee and Slater (2007:245) argue: 'outward FDI is a mode of diversification that takes place at international level and is an effective vehicle to absorb and generate new resources and capabilities, leading to improved performance'. The resource-based view emphasises the OFDI's ability to assimilate and exploit new resources. According to Peng (2001), the resource-based view has developed these perspectives by subdividing these forms of knowledge and capabilities into for example administrative heritage (Bartlett and Ghoshal, 1989; Collis, 1991), organisational practices (Tallman, 1991, 1992; Zaheer, 1995; Zaheer and Mosakowski, 1997), and bargaining power (Moon and Lado, 2000). Lee and Slater (2007) further summarise three items particularly for MNCs: experience with product diversification (Hitt *et al.*, 1997), experience of innovation and R&D (Bettis and Hitt, 1995) and international experience of top management teams (Sambharya, 1996).

Introducing her 'Theory of the Growth of the Firm', Penrose (1959:1) argues that the neoclassical (rational economic) model of the firm has 'no notion of an internal process of development leading to cumulative movements of knowledge in any one direction'. Firm growth 'is essentially an evolutionary process and based on the cumulative growth of collective knowledge, in the context of a purposive firm'

(Penrose 1959: xii). Resource learning or the resource-based view of the firm takes the perspective that innovation affecting processes and performance is not *out there*, rather, to a certain degree are endogenous to the firm depending upon its ability to generate, transfer and exploit knowledge relevant to market productive opportunities.

In practice, in contrast to the neo-classical view of the firm as a passive recipient of technology from its environment, the resource-based view enables it to substitute labour for capital. The resource-based view sees the firm as an active-actor, deliberately seeking to learn and to exploit knowledge, therefore this study explores whether this narrative can be confirmed in practice. Unlike the neoclassical view of firms as all similarly composed of land, labour and capital, as Barney (1991) argues in his classic paper, the resource-based view envisages firms as diverse and draws attention to what are now called dynamic capabilities. Following Nelson and Winter (1982), the resource-based view considers firms as learning and evolving.

Early researchers (e.g. Caves, 1980; Barney, 1991 and 2001) defined the firm's resources as both 'tangible and intangible assets' (such as managerial skills, organisational processes, firm attributes and knowledge). Barney (1991) also categorized firm resources into 'physical capital resources' (Williamson, 1975), 'human capital resources' (Becker, 1964) and 'organizational capital resources' (Tomer, 1987). The strength of resources could help firms' to build up 'resource position barriers, creating a situation where its own resource position directly or indirectly makes it more difficult for others to catch up' (Wernerfelt, 1984). This indicates that not all resources are a source of competitive advantage. Similarly, through examining the correlation between firm resources and sustained competitive advantage, Barney (1991) concluded that only those 'valuable', 'rare', 'imperfectly imitable' and 'non-substitutable' firm resources are a source of sustained competitive advantage leading to improved performance.

Minbaeva *et al.* (2003:587) argue that for MNCs the competitive advantage 'is contingent upon their ability to facilitate and manage inter-subsidary transfer of knowledge'. In order to sustain competitive advantage, developing new resources is as important as exploiting the existing resources (Penrose, 1959; Rubin, 1973; Wernerfelt, 1977 and 1984). This perspective suggests that it is crucial to acquire new resources and learn new knowledge to gain competitive strength (from outside MNCs and the different units inside MNCs). Schlegelmilch and Chini (2003) point out that most researchers (such as Henderson and Cockburn, 1994; Almeida, 1996; Lee *et al.*, 2001) have focused on technological knowledge (including R&D) as resources. However, they and Pahlberg (2001) suggest that learning can also occur in other functional areas (e.g. marketing, manufacturing and logistics), thus resources can be formed in brand names, marketing skills, trade contacts, machinery, efficient procedures, etc.

Most research on organisational learning (for example Levitt and March, 1988; Huber, 1991) emphasises on the assimilation and creation of organisational knowledge. Spender (1989: 185) defines 'the organization as, in essence, a body of knowledge about the organization's circumstances, resources, causal mechanisms, objectives, attitudes, policies, and so forth'. This perspective is challenged by several researchers, for example Johanson and Vahlne (1977) argued that a firm's experience could be gained either through recruiting personnel with experience or through advice from people with experience.

Later, Simon (1991:125) also observes, 'all learning takes place inside individual human heads; an organization learns in only two ways: (a) by the learning of its members, or (b) by ingesting new members who have knowledge the organization didn't previously have'. March (1991) also argues that organisations accumulate the

knowledge stored in their procedures, norms and forms over time learning from their staff. Later, Grant (1996) also points out that individuals assimilate and create knowledge, and organisations only apply existing knowledge to production process. Therefore, this research explores to what extents to Chinese subsidiaries embed their learning in new procedures and routines or alternatively does learning remain enhanced individual competences.

To connect with the research theme, the narrative in the resource-based view is that Chinese MNCs are longing for knowledge and to learn; this study will investigate the extent to which this narrative reflects actual practice. Do Chinese subsidiaries systematically seek learning, pass it to the headquarters and do headquarter ensure that learning is exploited. In short, is the resource-based view of the firm practiced by Chinese MNCs?

3.2.2 Types of Knowledge that are Resources for MNCs

Based on the resource-based view of the firm, numerous researchers (such as Kogut and Zander, 1992, 1993 and 1995; Simonin, 1999; Gupta and Govindarajan, 2000; Becerra-Fernandez and Sabherwal, 2001; Ambos *et al.*, 2006) argue that knowledge is seen as the most strategically important resource by MNCs. Since knowledge is so important to firms, this section now turns to explaining more deeply what knowledge is and how it is created. Knowledge encompasses ‘information’ (e.g. declarative knowledge) and ‘know-how’ (e.g. procedural knowledge) (e.g. Kogut and Zander, 1992, 1993 and 1995; Simonin, 1999; Gupta and Govindarajan, 2000; Becerra-Fernandez and Sabherwal, 2001; Ambos *et al.*, 2006) Kogut and Zander (1992, 1993 and 1995) further define information is a ‘factual statement’ (e.g. factory consists of 500 machines); and know-how as ‘a recipe describing how activities are carried out’ (e.g. machines need maintenance every six months).

Von Hippel (1988) also offered the definition that ‘know-how is the accumulated practical skill or expertise that allows one to do something smoothly and efficiently’, which implied a dynamic process how know-how is cumulated through tacit learning. Later, Grant (1996) identifies ‘knowing how as tacit knowledge’ (i.e. knowledge that cannot be codified, can only be revealed through application, and acquired through practice; learning by doing) and ‘knowing about facts as explicit knowledge’ (i.e. knowledge that is codified and can be articulated in formal and systematic language). Spender’s (1996) argument supports his perspective by pointing out knowledge may be tacit or explicit and may be situated at individual or collective levels. In order to absorb knowledge, China’s MNCs tend to take an accelerated approach through linkage and leverage, for example a contractor to an incumbent MNC (Mathews, 2006a) or adopt an aggressive path rather than the conventional joint venture approach (Cui and Jiang, 2008 and 2010; Luo and Tung, 2007).

In his classic study of US MNCs, Badaracco (1991) argues that ‘migratory’ knowledge is packaged (i.e. codified or embedded in technological artefacts or processes). Such knowledge becomes capable of exploitation (i.e. potential users possess the absorptive capacity and resources to exploit the transferring knowledge); that users are incentivised to use the knowledge (i.e. it aligns with profit opportunities) and that barriers to use are less than the cost of utilisation (patents, psychic distance etc.). In contrast, ‘idiosyncratic knowledge’ also termed as ‘knowledge of the particular circumstances of time and place’ by Hayek (1945:521), and ‘specific knowledge’ by Jensen and Meckling (1992) is difficult to transfer. Barney (2001) argues that ‘significant international experience by top managers represents firm-specific tacit knowledge, which is difficult to imitate’.

Simonin (1999) classifies knowledge into a number of categories, such as technological knowledge, market knowledge, managerial knowledge, and industry-specific knowledge. The evolutionary economics explicitly postulates that knowledge is scattered across organisations and individuals, and needs to be managed through routines (Becker 2004, Becker *et al.*, 2005). This study hopes to shed light on whether the knowledge learned by Chinese subsidiaries is migratory as Badaracco (1991) or alternatively contextually specific to particular market as Barney (2001).

From the viewpoint of the MNC, knowledge is embedded in products, services or the processes for sale on international market. This study looks at technological knowledge, market knowledge, managerial knowledge (including operations management, human resource management, etc.), and industry-specific knowledge in both explicit and tacit forms and also in individual and organisational levels. Within a particular MNC or networks of companies (here meaning Chinese MNCs), knowledge is likely to be further narrowed in definition by the socio-technological paradigms constituting their sectoral system of innovation (Geels, 2004). This means that Chinese firms are notoriously pragmatic and short-term (e.g. Chow, 2007) and therefore they might invest in the UK only for capturing certain knowledge that is immediately exploitable, however this does not happen in all cases.

3.2.3 Subsidiary's Networks

Firms, perhaps particularly MNCs, have to manage many relationships (with partners, competitors, suppliers and customers) both at domestic level and international level. It has been widely argued that firms are embedded in social networks along with other actors (for example, Holm, Johanson, and Thilenius, 1995; Dyer and Singh, 1998; Gulati, Nohria, and Zaheer, 2000). As Geppert (2005)

points out: ‘MNCs develop new organizational forms that enable knowledge sharing and competency development across functional and national borders’. MNC is seen as ‘differentiated network’, where knowledge is created in various units of the MNC and transferred to inter-related parts (Hedlund, 1986; Bartlett and Ghoshal, 1989; Nohria and Ghoshal, 1997). This argument subverts the conventional concept that knowledge is normally created in the headquarters and transferred to the subsidiaries. Viewing the MNC as a differentiated network has inspired a group of research on the creation, assimilation, and diffusion of internal MNC knowledge emphasising the role of subsidiaries in these processes (Holm and Pedersen, 2000).

Later Ambos *et al.* (2006) also consider multinational subsidiaries as network actors. McEvily and Azheer (1999) argue that each subsidiary has a unique and idiosyncratic network, which exposes it into different new knowledge and opportunities. Phene and Almeida (2008) also suggest that subsidiaries can learn from various sources within and outside MNC. Thus, it can be assumed that subsidiaries undertake learning through the interactions with network partners.

Easterby-Smith *et al.* (2008b) suggests that informal, social ties between members of the same organisation (Hansen and Lovas 2004) or different organisations (Bell and Zaheer 2007) are superior channels for knowledge transfer between geographically distant locations and could help to alleviate (corporate or national) cultural differences. In their research on possible extension of the model of the differentiated MNC, Nohria and Ghoshal (1997) emphasise that MNC as a differentiated network should include not only the internal network (e.g. HQs); it must also include its external network (e.g. customers, suppliers, competitors and regulators). Later, Andersson *et al.*'s (2002) empirical result confirms this perspective, and further explains the two primary reasons that the external network needs to be inclusive. First, the external network is as important as internal network for a subsidiary's daily

life and competitiveness; and second, the external network is a major source of learning leading to subsidiary's capabilities development.

Phene and Almeida (2008) summarise six exhaustive and mutually exclusive learning sources (learning networks), three internal sources including the subsidiary itself, its HQs and the other subsidiaries (within the MNC) and three external sources consisting of other firms in the host country, other firms in the home country and firms in other countries

Knowledge Transfer within Internal Networks

An early research on MNCs, subsidiaries were often considered as 'appendages' in the MNCs from developed countries for example Japan and America (Stopford and Wells 1972). According to Phene and Almeida (2008), recent studies emphasise the interdependent relationship between subsidiaries and the MNC. Kogut and Zander (1993) argue that MNCs are social networks that specialise in knowledge transfer and integration. Phene and Almeida (2008:903) further emphasise the positive impact of internal networks on learning by suggesting that 'the presence of a unified organizational context provides a set of processes and routines within the firm that enable the smooth flow of knowledge from different parts of the firm and its utilization. In addition, the boundaries of the firm create a common social structure, with the presence of shared knowledge, values and assumptions'. Not all internal networks within the MNC are alike. Internal networks of MNCs take diverse forms and differ in processes. For example, Ghoshal *et al.* (1994) identify two types of internal networks: vertical form (between the subsidiary and the HQs) and horizontal form (between the subsidiary and other subsidiaries).

Later Chini and Ambos (2005) finds three forms of knowledge flows within MNCs: 'forward' (from headquarter to subsidiary), 'reverse' (from subsidiary to

headquarter) and ‘lateral’ (between subsidiaries) knowledge transfer. This is a formal approach to analysing organisations, whereas Hansen *et al.* (2005) alternatively argue that differential subunits of social networks within the firm have different impacts on knowledge sharing i.e. informal structures are more important for knowledge flows. Later Phene and Almeida (2008) suggest that the vertical ties are often stronger and more directly in line with the organisational structure. This research centres on the subsidiary and explores the ‘forward’ and ‘reverse’ knowledge transfer within the ‘vertical’ form i.e. internal network between HQs (parent company in China) and its subsidiary in the UK, and also learning and knowledge codification within the subsidiaries.

Hocking *et al.* (2004) and Harzing (2001) argue that the most important reason for MNCs to send expatriates is to transfer knowledge among the internal units. Through international assignments, expatriates can not only fulfil the task of forward knowledge transfer, but also implement reverse knowledge flow through learning in the foreign subsidiary (e.g. Dunning, 2003). Although this argument emphasises the importance of expatriates’ learning to MNCs, it shows a major neglect of attention of non-expatriates’ learning (i.e. host country workforce). Through examining a taxonomy of twelve categories of host country national learning at three primary employee levels (i.e. operative level, supervisory and middle management, and upper management), Vance and Paik (2005) found that non-expatriates’ learning makes a great contribution to increased absorptive capacity. Researchers such as Takeuchi and Nonaka (2004); Nonaka and Takeuchi (1995) argue that in order to gain competitive advantage, firms need to widely distribute knowledge to their all internal units and employees rather than only to relevant managers and experts. This study will explore learning undertaken by both expatriates and non-expatriates, and also the learning impact on increase of absorptive capacity and development of capabilities.

Knowledge Transfer within External Networks

Traditionally, the MNC 'is conceived as a device for the formation and exploitation of internal markets' (Blanc and Sierra, 1999:193; Rugman, 1980:376; Schmid and Schurig, 2003:762). Parent company has also been assumed the sole resources of critical capabilities within MNC (Birkinshaw and Hood, 1998; Birkinshaw *et al.*, 1998; Lipparini and Fratocchi, 1999; Schmid and Schurig, 2003). This perspective has been challenged by several international business researchers, for example Andersson and Forsgren (1996) and Andersson and Pahlberg (1996) argue, external network partners (e.g. competitors, external market suppliers and customers) become increasingly significant resource for developing subsidiary's core competences. It has been argued that '80 per cent of the most important relationships have been identified as being external to the MNC' (see Schmid and Schurig, 2003:763; also see Andersson, Holm and Holmstrom, 2001:186).

Schmid and Schurig's (2003) empirical work shows that relationship to internal network actors, particularly to the parent company is as important as the relationship to the external networks for the development of core competence. Makino and Inkpen (2003) point out the importance of local external network is for successful knowledge seeking FDI: the external network is not only a source of knowledge for innovation (von Hippel, 1988), also enables the subsidiaries to capitalise on assimilated knowledge and resources for both production and commercial application in host country (Nobel and Birkinshaw, 1998). This external network is considered as 'linkage' in Mathews' (2002a) linkage-leverage-learning (LLL) model, the ability of the subsidiary 'to extend into new cross-border activities via inter-firm relations'. Mathews (2002b:476) further identifies the four forms of the linkage: 'outsourcing/OEM (original equipment manufacturers) contracting; local sourcing; second sourcing; and technology licensing, in the context of high technology

industries like semiconductors and cellular telephony'. Child and Rodrigues (2005) find many Chinese companies learn from the advanced firms through OEM even before their overseas investment.

Von Hippel (1988) argues that long-lasting and close relationships with external partners have a positive effect on learning process. Closeness of relationship with the local network actors has a positive influence on a subsidiary's performance (i.e. the expected sales growth, market share and profitability) and other MNC's entities' competence development (Andersson, Forsgren and Holm, 2002). Bjorkman, Barner-Rasmussen and Li (2004), Forsgren, Johanson and Sharma (2000) and Foss and Pedersen (2002) classify knowledge assimilated from the interaction between firms and their external business environment, into 'cluster knowledge' (reflecting the general local environment such as level of education, quality of institution), and 'network knowledge' (referring to the subsidiary's interaction with specific external business partners). The research is concerned with subsidiary's learning from its specific external business partners (see figure 3.1).

3.2.4 Motivations

Gupta and Govindarajan (2000) argue that knowledge transfer within MNCs crucially depend on the motivation of the units to acquire and share knowledge. Osterloh and Frey (2000) also point out that both extrinsic and intrinsic motivations are important for knowledge transfer, and also pointed out the interactive relationship between those two motivations. Their arguments 'place a great deal of emphasis on firm organization, where the incentive structure of unit managers needs to be carefully designed' (Mudambi and Navarra's, 2004). However, there is a complex relationship between extrinsic and intrinsic motivations. From the perspective of networked learning and change (within MNCs), this distinction is less valid since learning and knowing in networks requires firms to accept network learning goals

and at the same time pay attention to learning and knowledge that will support their own profit-seeking activities. Whilst Teigland and Wasko (2009) find that intrinsic factors motivate individuals in knowledge-intensive and creative employment in MNCs, it cannot be deduced that less professionally qualified or creative staff in MNCs will also be so motivated.

3.2.5 Psychic Distance and Cultural Distance

Organisational knowledge transfer is facilitated by similarities in organisational structures and compensation practices, in dominant logics (Lane and Lubatkin, 1998 and Mowery *et al.*, 1996), and in businesses (Lane *et al.*, 2001). Hence the more similar firms are in structures, norms and style then the easier it is for them to work closely and engender trust. Therefore, shared vision and systems facilitate organisational knowledge transfer (Van Wijk, *et al.*, 2008). Since compatible norms and values can differ much more broadly (Lane *et al.*, 2001), various studies have focused on cultural similarities or differences between partners. The Uppsala model (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) stresses 'psychic distance', a term later considered similar to 'cultural distance' by Kogut and Singh's (1988), and the significant impact of 'psychic distance' on a firm's internationalisation process.

The concept of 'psychic distance' was first introduced by Beckerman's (1956:38), explaining 'the manner in which the purchases of raw materials by a firm are distributed geographically will depend partly on the extent to which foreign sources have been personally contacted and cultivated'. He also used an example (i.e. though the transport costs remain the same, an Italian entrepreneur is more likely to choose to purchase a raw material from Swiss suppliers rather than Turkey firms, because Switzerland is closer to him in a psychic evaluation.) to describe this term. In Uppsala model, psychic distance was defined as 'factors preventing or disturbing

the flows of information between firm and market' (Johanson and Wiedersheim-Paul, 1975:308). Building on these studies, Hakansson and Ambos (2010) give psychic distance a full definition as 'the sum of factors (cultural or language differences, geographical distance, etc.) that affect the flow and interpretation of information to and from a foreign country'.

Using Hofstede's (1980) four cultural dimensions (i.e. power distance, uncertainty avoidance, masculinity/femininity and individualism), Kogut and Singh's (1988:430) 'cultural distance' index was formed based on the deviation along each of the four dimensions of each country from the United States ranking. 'The deviations were corrected for differences in the variances of each dimension and then arithmetically averaged'. Kogut and Singh's (1988:430) suggest that 'cultural distance is, in most respects, similar to the 'psychic distance' used by the Uppsala school'. Hakansson and Ambos (2010) also argue that in recent international business studies the difference between psychic distance and cultural distance becomes increasingly blurred. However, Sousa and Bradley (2006) differ these two similar terms from each other; they argue 'psychic' is derived from the Greek word 'psychikos', which means the mind or soul (Simpson and Weiner, 1989), indicating something in the mind of individuals, therefore psychic distance is shaped by individuals' perception of differences between the home country and foreign country (Sousa and Bradley, 2005 and 2006).

In contrast, cultural distance refers to the cultural level and is defined as 'the degree to which cultural values in one country are different from those in another country' (Sousa and Bradley, 2006:52). Several scholars argue that cultural distance has an influence on psychic distance (Earley and Mosakowski 2000; Lee and Jang 1998; Sousa and Bradley, 2006; Swift 1999). In addition, Sousa and Bradley (2006) have found that psychic distance is determined by cultural distance and also the individual

values of the managers, therefore it can be concluded that the key factors such as cultural and language differences and geographical distance are also key elements to cultural distance.

Cultural distance increases the cost of entry, and hinders the firm's ability to transfer core competencies to foreign markets (Palich and Gomez-Mejia 1999). Cultural distance also increases operational difficulties that emerge from a lack of understanding of the norms, values, and institutions and hinder knowledge exchange (Mowery *et al.* 1996). Van Wijk's (2008) findings also support this argument, and they further suggest that units within organisations are likely to transfer knowledge with the familiar individuals or units, therefore differential cultural aspects may be more detrimental to knowledge sharing. Cultural distance between foreign partners may lead to misunderstandings that can limit the sharing of important organisational knowledge (Lyles and Salk, 1996 and Szulanski *et al.*, 2004).

3.2.6 Summary and Implications for This Study

The resource-based view of the firm highlights the firms' (here meaning MNCs) ability through endogenous learning and innovation to alter its competitiveness and performance and thereby its relationship to its markets and competition. Knowledge and its exploitation is a pivotal to this perspective on firms and markets. The point is whether learning by subsidiaries and knowledge flows with commercial benefit are important in practice to Chinese MNCs, in short is the narrative of resource-based view of the firm actually applied, can it be evidenced? As section 3.2.1 has argued, the resource-based view is pivotal to this research and applying to the case of Chinese MNCs; therefore this study hopes to reveal the degree to which Chinese MNCs are knowledge seeking, the extent to which the OFDI stimulates endogenous knowledge creation leading to capabilities development, and whether learning in Chinese MNCs is systematically.

This section has also defined and differentiated knowledge at the level of the firm's capabilities, including explicit knowledge (codified knowledge, information or migratory knowledge) and tacit knowledge (or know-how). The analysis will indicate the degree to which learning by Chinese subsidiaries is codified knowledge or know-how, and secondly the extent to which it is migratory or context-specific. The importance of these differentiations will become clearer in section 3.4, which explores knowledge transfer.

Additionally, this section indicates how important the network partners as learning sources are to MNC knowledge transfer, and the internal source is as important as the external source to subsidiary learning. As shown in figure 3.1, the research centres the UK-based Chinese subsidiary, exploring the degree to which knowledge transfer between subsidiary and the internal and external networks.

The arrows indicate the direction of knowledge flows. Within the external network, this study will explore how knowledge flows from such as customers, suppliers, competitors, distributors and regulators (policy makers) into the subsidiary. For the internal network, the research will identify the forward and reverse knowledge flows between the HQs and the subsidiary, and to what degree the expatriates and non-expatriates contribute to knowledge transfer.

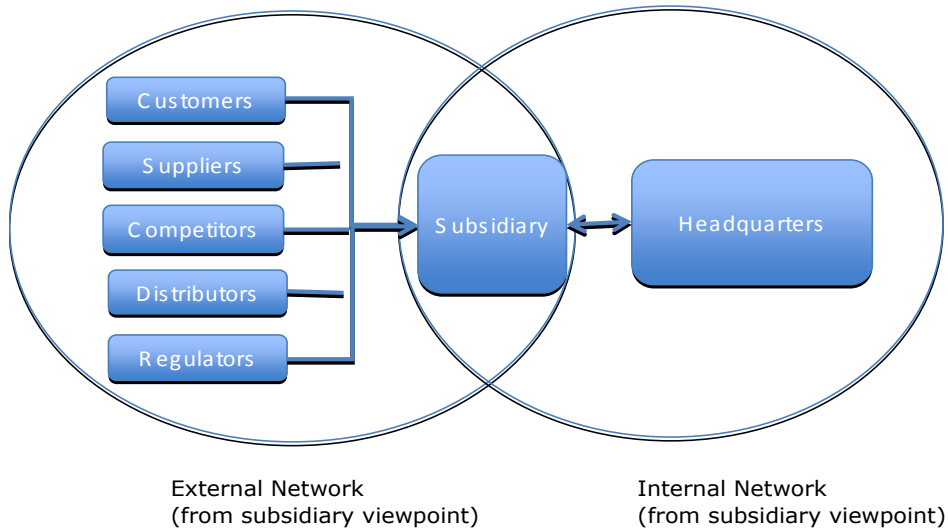


Figure 3.1: Knowledge Transfer in Subsidiary’s Networks

Since the differentiated network perspective emphasises knowledge flows in MNCs between subsidiaries and HQs, this study will adopt this perspective by investigating knowledge absorption and exploration in the UK-based subsidiaries, knowledge flows between the subsidiaries and their HQs, and knowledge adaptation by the HQs.

Since the research centres the UK-based Chinese subsidiary and explore the knowledge transfer between the subsidiary and the HQs, this research will exclude the other subsidiaries, the other firms in home country and other countries. Otherwise, it will expand the scope of this study into diverse contexts, inhibiting the deep understanding of relationships that the author proposes to do (UK-based study). Figure 3.1 illustrates the internal and external sources this research will focus on.

This section has highlighted the key theory (i.e. the resource-based view) and concepts (i.e. types of knowledge, subsidiary’s networks, motivation and psychic distance), which will be adopted to address the second research question, concerning how MNC subsidiaries learn.

3.3 How MNC Subsidiaries Exploit Learning and Develop Capabilities

This section explores extant research that provides the knowledge to the study's third research question: How do UK subsidiaries exploit learning and develop capabilities?

3.3.1 Absorptive Capacity

Many studies have emphasised on the importance of absorptive capacity for knowledge transfer (e.g. Lyles and Salk, 1996; Lane and Lubatkin, 1998; Lane *et al.*, 2001; Minbaeva *et al.*, 2003). As Cohen and Levinthal (1990:128) argue a key determinant of the firm's ability to learn and exploit knowledge is its absorptive capacity 'the ability to evaluate and utilise outside knowledge is largely a function of the level of prior related knowledge...to recognise the value of new external information, assimilate it, and apply it to commercial ends'. They emphasise that the absorptive capacity is a function of prior related knowledge from two perspectives: first, learning is cumulative; second, learning performance is best when the object of learning is related to what is already learned.

Later, Pavitt (1991) importantly points out that absorptive capacity is cumulatively causal: the more that is known, the more focused are new searches and the more readily new knowledge can be exploited. 'The notion that learning performance is greatest when learning extends existing knowledge, suggests that learning will be most difficult in novel domains' often occurs in MNC' international market expansion (Makino and Inkpen, 2003).

To be useful the absorptive capacity inside the heads of managers (Nelson and Winter's 1982 phrase) must link knowledge and markets, learning and customers: the effective use of absorptive capacity requires cognitive intervention – the learning moment when someone or some team says that with this knowledge, we could satisfy

our customers in this new way. Cohen and Levinthal's (1990) interpretation of absorptive capacity explains the ability of firms (in ownership hierarchies or networks) to identify, transfer and cumulate useful knowledge transfers. Since Cohen and Levinthal (1989) introduced the concept of absorptive capacity, a number of studies (e.g. Cockburn and Henderson, 1998; Dussauge *et al.*, 2000; Jones and Craven, 2001; Lane and Lubatkin, 1998; Van den Bosch *et al.*, 1999 and 2003) have studied absorptive capacity, the definition maintains the same, only until a decade later, Zahra and George (2002) reconceptualise absorptive capacity 'as a dynamic capability pertaining to knowledge creation and utilisation that enhances a firm's ability to gain and sustain a competitive advantage'. This reconceptualization is supported by several studies (e.g. Easterby-Smith, *et al.*, 2008; Jones, 2006).

Three studies of absorptive capacity (by Easterby-Smith *et al.*, 2008; Jones, 2006; Zahra and George's, 2002) have developed a process view of absorptive capacity. Zahra and George (2002) suggest absorptive capacity to be a dynamic capability embedded in an organisation's routines and processes, and define absorptive capacity 'as a set of organizational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capability...the four organizational capabilities of knowledge acquisition, assimilation, transformation, and exploitation build on each other to yield ACAP-a dynamic capability that influences the firm's ability to create and deploy the knowledge necessary to build other organizational capabilities (e.g., marketing, distribution, and production)'. These diverse capabilities give the firm a foundation on which to achieve a competitive advantage leading to superior performance (Barney, 1991; Zahra and George, 2002).

Zahra and George (2002) further classify the absorptive capacity into two subsets of potential absorptive capacity (comprising knowledge acquisition and assimilation

capabilities) and realised absorptive capacity (including knowledge transformation and exploitation capabilities). These two forms of absorptive capacity respectively indicate Szulanski's (1996) implementation and ramp-up out of his four-stage process of knowledge transfer. Potential absorptive capacity captures Cohen and Levinthal's (1990) description of a firm's capability to value and acquire external knowledge but does not guarantee the exploitation of this knowledge (Zahra and George, 2002). Realised absorptive capacity indicates the firm's capacity to apply and commercialise the knowledge that has been absorbed. These two forms of absorptive capacity are linked by social integration mechanisms that facilitate knowledge sharing and exploitation, and other elements such as activation triggers (similar to motivations) can also influence the process of absorptive capacity (Zahra and George, 2002).

Jones (2006) extended Zahra and George's (2002) model through incorporating three factors from agency perspective: gatekeepers, boundary spanners and change agents. Building on these two studies, Easterby-Smith *et al.* (2008) use case studies drawn from three distinguish sectors to identify the process of absorptive capacity and discover the role of power need to be inclusive. Knowledge exploitation needs the sharing of relevant knowledge among members of the firm (Spender, 1996) in order to develop mutual understanding and comprehension (Garvin, 1993). Zahra and George (2002) suggest social integration mechanisms can facilitate the sharing and eventual exploitation of knowledge and can be either informally (e.g. social networks) or formally (e.g. use of coordinators); informal mechanisms are good at exchanging ideas, but formal mechanisms are more systematic. In addition, Kinder and Lancaster (2001) also point out that absorptive capacity is contextually specific.

3.3.2 Capabilities and Core Competences

Whereas in neoclassical thinking the building blocks of the firm are factors of production: land, labour and capital; the resource-based view (Penrose, 1959) or evolutionary theory of the firm (Nelson and Winter, 1982) emphasised connectivity between innovativeness and markets. In part, this is a shift in timeframe, from short-term microeconomic models that take markets, products and processes as given, to one in which technologies and markets change as a result of exogenous and endogenous influences. Also, as Freeman (1982) emphasised, shortening innovation cycles i.e. closing the time gap between science and technology embedding new knowledge, imposed the mantra innovate or die on firms: evolution is the only option when competitors are continually change competitive advantage.

As Itami and Roehl (1987) pointed out, the notion of invisible assets presents a new way to value firms and evaluate their further value. Prahalad and Hamel (1990) highlight further changes in emphasis from the neoclassical to the resource-based approach in their important work on core competences: the idea that longer-term innovation potential is supported by focused area of knowledge and skills – competences. For Prahalad and Hamel (1990), firms have a basic set of competences, using that they create shorter-term capabilities (products, channels, business models), resulting at any point in a level of production capacity. Winter (2000:983) defines a capability as ‘a high level of routine that, together with its implementing input flows, confers upon an organisation’s management a set of decision options for producing significant outputs of a particular type’.

To be of business value, core competences must be relevant to markets that are substantial, growing and evolving; connect dynamically with current and novel ways of solving customers’ problems; and give the firm competitive advantages that are difficult to imitate (skills, know-how, tacit knowledge, design insight etc.). Teece

and Pisano (1994) support this perspective and they introduce the idea of ‘dynamic capabilities, emphasizing firms as appropriately adapting, integrating, and re-configuring internal and external organizational skills, resources, and functional competences toward changing environment’. They also argue that firm-specific capabilities and renew competences (to respond to changing business environment), closely linked to the firm’s business processes (i.e. the way things are done in the firm), market positions (i.e. current endowment of technology and intellectual property, customer base and relations with suppliers and competitors) and expansion paths (i.e. the strategic alternatives and the attractiveness of the opportunities to the firm). They further argue that capabilities and competences can be found throughout the firm: on the factory floor, in the R&D labs, in the executive suites or the way things are integrated.

Grant (1996b) argue that the essence of organisational capability is the integration of individuals’ specialised knowledge, and he has also developed a hierarchy of integration, showing the hierarchical levels of individual knowledge is integrated into lower level single-task capabilities, then the task-specific capabilities are integrated into broader functional capabilities such as operations capability, R&D and design capability, marketing and sales capability and human resource management (HRM) capability, and even a higher level cross-functional capability, for example new product development, customer support capability and quality management capability). Firm-specific capabilities are difficult to acquire and need to be built within the firm: hence the importance of learning, since capabilities (as post M&A performance often shows) are difficult to purchase. In short, a core competence must differentiate from the competition; it must be distinctive (Leonard-Barton, 1992). Core competences relate to potential outputs and are not measured in input metrics such as expenditure on R&D, size or fixed to variable cost ratios. Hitt

and Duane (1985) found a clear correlation between having distinctive core competences and performance.

In the era of the MNCs' networks, in which supply chains or value network consortia of firms compete rather than individual firms (Porter 1992); core competences are best evaluated at the level of the key development network(s) to which the firm belongs, rather than only its in-house competences. Apple's innovation pipeline is an example of such a network core competence model: relying upon innovation by chip and device manufacturers, whilst maintaining strict control over design and business model competences.

Counter examples might be Sony, or more recently Toyota who have arguably lost core competences by (Sony) outsourcing design and (Toyota) outsourcing without sufficiently overseeing key component manufacture: similar examples from earlier technological phases (semiconductor manufacturing) are given by Prahalad and Hamel (1990). Cooper's (1995:5) point is that there are no sustainable competitive advantages: competitors innovate (product innovation and continuous improvement), markets alter (expectations, customer discernment, new business models) and new technologies become available (new complementarities and barriers) and continually evolving. In this sense, a key element of the core competences approach is alignment between the firm's strategy and its evolving competences. As strategy and opportunities evolve so must core competences: one important way of doing this is to continually refresh 'deutero-learning' (Bateson 1973) i.e. to find new ways of learning new things, often terms building absorptive capacity. This emphasises the impact of absorptive capacity on capabilities development.

3.3.3 Summary and Implications for This Study

This section indicates how important the absorptive capacity is to learning and knowledge exploitation, and how absorptive capacity evolves from a firm's ability to become a dynamic capability in a process view. This section is to address research question three (i.e. how MNC subsidiaries exploit learning and develop capabilities). Absorptive capacity is characterised by a learning capability and the possession of cognitive problem-solving skills. Learning is the absorption of knowledge, and problem-solving is application to commercial effect. These skills can equally be embodied within the individual or the organisation (Langlois 1997) often exploiting what Pavitt (1991) terms firm-specific capabilities. To what extent absence of absorptive capacity inhibits the impact of knowledge transfers?

This research synthesises Winter's (2000:983) definition of organisational capabilities, as 'a high level of routine that, together with its implementing input flows, confers upon an organisation's management a set of decision options for producing significant outputs of a particular type', and Prahalad and Hamel's (1990), to explore a certain level (could be high or low) of routine that generalised from learning, confers upon an organisation's management a set of decision options for better performance. The organisational capabilities that this work will explore in Chinese MNCs are as Grant (1996b) suggested single-task capabilities and broad functional capabilities. The reason why the higher level of cross-functional capabilities will not be included is due to the limit of the case sample, the majority of them are small sale organisations highly relying on their HQs for products development and supply.

As mentioned in chapter two, a number of scholars (e.g. Buckley *et al.*, 2007 and 2008) have found that more and more Chinese MNCs invest overseas for strategic asset-seeking (e.g. advanced R&D, managerial skills, local talents). Deng (2007)

argues that the main motivation of Chinese MNCs investing in advanced economies is to seek strategic knowledge and capabilities, and Chinese MNCs need to expand their international market to seek proprietary technologies and managerial know-how to strengthen their competitive advantages. Liu and Tian (2008) also identify that both market-seeking and strategic asset-seeking are the two major motives of Chinese OFDI into the UK. Therefore, the learning and capabilities development will occur in the areas relating to the subsidiary's key motives, including R&D, HRM, operation management and marketing.

3.4 How Subsidiary's Learning and Capabilities are Transferred to MNCs as a Whole

This section examines extant research that provides the knowledge to the study's second fourth research question: How do UK subsidiaries transfer the knowledge and developed capabilities to the HQs?

3.4.1 The MNC as an Agglomeration for Knowledge Transfer

Dunning (1958) and Vernon (1966) initially emphasised the importance of knowledge transfer from HQs to a subsidiary. Later, numerous researchers (e.g. Becerra-Fernandez and Sabherwal, 2001; Gold *et al.*, 2001; Gupta and Govindarajan, 2000; Kogut and Zander, 1993; Tsai, 2001) focus on knowledge flow within MNCs in general. Until today there are still limited scholars (e.g. Ambos *et al.*, 2006; Zhou and Frost, 2003) who study how knowledge is transferred from a subsidiary to HQs.

In line with their evolutionary theory of MNCs, Kogut and Zander (1993) argue that the MNC can be seen as a knowledge integrating organisation that has the ability to integrate, combine and create new knowledge throughout its subunits (HQs and subsidiaries). Doz and Santos (1997:4) later argue, 'leveraging internationally the

know-how advantages derived from a home country competence cluster is no longer sufficient to underpin competitive advantage unless the home base remains the only crucible of new technologies, competencies and leading customers'. This conventionally interprets Ambos *et al.*'s (2006) argument that HQs increasingly act as a recipient of knowledge from their worldwide subsidiaries.

Zhou and Frost (2003:4), however, observe that reverse (from a subsidiary to HQs) knowledge flow is 'a realistic and perhaps even necessary 'stepping stone' in the evolution of the multinational toward a true distributed innovation network, one that may not necessarily involve a coordinating centre'. Therefore this research will seek evidence whether Chinese MNCs systematically gather knowledge and systematically seek to disseminate and exploit it in their organisations.

Knowledge transfer is a non-linear process, as Minbaeva *et al.* (2003:587) argue: 'the key element in knowledge transfer is not the underlying (original) knowledge, but rather the extent to which the receiver acquires potentially useful knowledge and utilizes this knowledge in own operations'. Foss and Pedersen (2002:54) further point out that 'transfer of knowledge is often associated with modification of the existing knowledge to the specific context'. Even the simplest technological processes or systems require adaptation in a new social-cultural setting; the transfer of knowledge is necessarily linked to the generation and socialisation of knowledge. Such learning is likely to be continuous, for as Szulanski (1996:28) argues that 'the movement of knowledge within the organization is a distinct experience, not a gradual process of dissemination, and depends on the characteristics of everyone involved'.

Szulanski (1996) further identifies intra-firm knowledge transfer as an unfolding process consisting of initiation (i.e. the discovery of the need and search for potential

solution that leads to the discovery of superior knowledge), implementation (i.e. the physical flows of knowledge from the source to the recipients), ramp-up (i.e. the recipients using the transferred knowledge often ineffectively in the beginning then ramping up to achieve a satisfactory result) and integration (i.e. the use of transferred knowledge becomes routinized and eventually institutionalised. According to Argote *et al.* (2000), in an organization knowledge is transferred through a number of mechanisms, and they summarise these mechanisms as personnel movement (Almeida & Kogut, 1999; Gruenfeld *et al.*, 2000); training (Moreland and Myaskovsky, 2000; Thompson *et al.*, 2000); communication (Levine *et al.*, 2000; Rulke, *et al.*, 2000; Stasser *et al.*, 2000); observation (Nonaka, 1991); technology transfer (Galbraith, 1990); replicating routines (Szulanski, 2000b); patents, scientific publications, and presentations (Appleyard, 1996); interactions with suppliers and customers (von Hippel, 1988); and alliances and other forms of inter-organizational relationships (e.g. Darr, *et al.*, 1995; McEvily & Zaheer, 1999).

Later, Easterby-Smith *et al.* (2008) also identify some mechanisms of knowledge transfer from one organisation to another for example training programs, social events, transferring experienced personnel, providing documents, etc. Sammarra and Biggiero (2008) further suggest that the more mechanisms supporting both formal and informal interactions between individuals and groups of the firms are adopted, the more likely will be knowledge transfer.

Quality of knowledge flow is quite different from quantities of (raw) data or (unfiltered from value-addedness) information sharing. According to Ambos and Ambos (2009:2), for the MNCs the value of knowledge transfer for the recipient unit (HQs or subsidiary) 'should be assessed by evaluation the benefit of the received knowledge to the recipient unit, rather than by measuring the quantity of knowledge flows'. Easterby-Smith *et al.* (2008) also suggest, 'knowledge transfer can be

measured by changes in knowledge, levels of innovativeness, or performance of the recipient firm'. They further argue that a significant amount of knowledge acquired by firms may be implicit (tacit) knowledge that cannot be easily measured. This wider framework of knowledge transfer challenges the Simon tradition of understanding knowledge transfer from an information theory perspective. This perspective with roots in quantitative sciences suggests that the quantity of information flows reflects knowledge transfer processes.

Andersson *et al.* (2002) identify three problems that make tacit, non-codified and specific knowledge difficult to transfer within subsidiary's networks. First is the difficulty of separating such knowledge from the entities that the knowledge is embedded in and transferring to another organisation (Jensen and Meckling, 1992; Kogut and Zander, 1992; Szulanski, 1996; Zander and Kogut, 1995; Grant, 1996; Spender, 1996; Hansen, 1999). Later Simonin (2004) also suggests that the ambiguity is related more with tacit knowledge than with explicit knowledge, and the ambiguity of knowledge has a direct and negative impact on knowledge transfer. Another two difficulties are the knowledge receivers' ability and willingness to absorb new resource (Cohen and Levinthal, 1990; Szulanski, 1996). The former refers to absorptive capacity, and Van Wijk *et al.* (2008) further argue that organisational characteristics such as size and absorptive capacity positively affect knowledge transfer. Some scholars (e.g. Lane and Lubatkin, 1998; Gupta and Govindarajan, 2000; Minbaeva *et al.*, 2003) have observed that the level of knowledge transfer in MNCs is positively associated with the absorptive capacity of the receiving units. Szulanski's (1996) empirical result suggests that the recipient lacks absorptive capacity is the most significant impediment to knowledge transfer.

In addition to absorptive capacity, Gupta and Govindarajan (2000) have also discovered that the richness of transmission channels and motivation to absorb

knowledge have a positive impact on knowledge transfer. The latter is concerned with a subsidiary's motivation to learning. Huselid (1995: 637) emphasises the importance of motivation by arguing, 'the effectiveness of even highly skilled employees will be limited if they are not motivated to perform'. It has also been argued that the recipient's motivation to learn is a central determinant to the extent of knowledge transfer (Hamel 1991); the donor's intent to teach is another key element (Ko *et al.*, 2005). Easterby-Smith *et al.* (2008) further identify the two factors may affect each other. Many MNCs subsidiaries have the status of small to medium sized enterprises; therefore, codification of knowledge into standard working procedures (Nonaka and Takeuchi 1995) may not be the main driver of learning. This highlights the importance of identifying how the three issues of subsidiary's networks, absorptive capacity and motivation affect knowledge flow, particular tacit and specific knowledge flow.

3.4.2 Summary and Implications for This Study

This section indicates how important knowledge transfer is to MNC innovation processes and how these processes are invariably adaptable. This research will adopt Szulanski's (1996) process view, because 'a process view allows a closer examination of how difficulty evolves over stages of the transfer. It can also provide insight into the working of different organizational arrangements to transfer knowledge, inform managerial interventions and help design organizational mechanisms that support knowledge transfer' (Szulanski, 2000a:10).

This study hopes to give knowledge transfer concrete meaning in terms of the relationships between Chinese subsidiaries and HQs by exploring the questions highlighted in this section. Is knowledge embedded in subsidiary routines and processes or does it remain an individual competence? Does knowledge seeking motivate Chinese OFDIs? If so, is knowledge systematically gathered, disseminated and exploited by subsidiaries and HQs? Do Chinese HQs have systems in place to

consider how learning from subsidiaries may be adapted to other market contexts? How much of the information flowing from a subsidiary to HQs is actually knowledge and is there evidence that it impacts on their capabilities? Finally, the analysis will explore Easterby-Smith *et al.*'s (2008) proposition that HQs absorptive capacity can limit the importance of knowledge transfer on their business. Invariably, the creation and adaptation of knowledge are rooted in learning processes. In summary, this section has addressed the research question four (i.e. how subsidiary learning and capabilities are transferred to the MNCs as a whole).

3.5 Learning and Developing Capabilities in MNCs: Development of the Conceptual Framework

This section shows how learning and capabilities (affecting performance) in MNCs interrelate, concluding with the three gaps in literature, which have chosen as the study's research questions two, three and four.

Over the past twenty-five years, the role of MNC subsidiaries has been developing from traditional downstream activities (e.g. sales, service and assembly) to comprise upstream activities, for example R&D, component production and strategic marketing, (Bartlett and Ghoshal, 1998; Gupta and Govindarajan, 1991; Mudambi and Navarra, 2004). Thus the development of learning in both subsidiary and headquarter levels has replaced the traditional implementation of learning solely happening in headquarters (e.g. Birkinshaw and Hood, 1998, Birkinshaw and Fry, 1998, and Bouquet and Birkinshaw, 2008).

Mudambi and Navarra (2004) later also point out that 'as multinational corporation (MNC) subsidiaries have become more closely linked to international networks, their knowledge intensity has risen, and some of their R&D has gained a more creative role'. Numerous studies (e.g. Minbaeva *et al.*, 2003; Mudambi and Navarra, 2004;

Schmid and Schurig, 2003; Szulanski, 1996; Van Wijk *et al.*, 2008; Wang *et al.*, 2004) on learning in MNCs emphasise measuring the correlation between learning with related factors, for example Minbaeva *et al.* (2003) study the relationship between HRM practices and absorptive capacity, Mudambi and Navarra (2004) use the high-technology subsidiaries in the UK to test the impacts of subsidiary power and rent-seeking within MNCs on knowledge flows. Given the numerous studies on learning in MNCs emphasise the importance of learning in MNCs and the role of subsidiaries-to-headquarters for learning, this study into these relationships in Chinese companies gains importance, especially since no previous research has focused on knowledge flows between UK-based Chinese subsidiaries and the HQs.

In their paper of knowledge flow within MNCs, Mudambi and Navarra (2004) emphasise four categories of knowledge flows: from subsidiary to parent, from location to subsidiary (from host country to subsidiary), from subsidiary to location (from subsidiary to host country), and from the parent (and other MNC units) to the subsidiary. This study focuses on knowledge transfer within Chinese MNCs, therefore from subsidiary to location will be excluded. Knowledge flows from a subsidiary to HQs enables a MNC to exploit locally-developed capabilities, acting as a knowledge integrator - locally-developed, in this context, means subsidiaries learning from their experiences in the foreign location. Whilst home-based R&D and new product development is likely to always be important to the subsidiary, the important point here is that knowledge flow from the subsidiary to HQs can result from the subsidiary actively listening to and scanning the environment in its foreign location: this presumes that the subsidiary has absorptive capacity and that HQs is prepared to learn and innovate (Mudambi and Navarra, 2004). From a resource-based view, 'subsidiary capability building facilitates more knowledge flows within the MNC' (Barney, 2001).

For Cohen and Levinthal (1989), absorptive capacity is the prior related knowledge that enables a firm from scanning its environment to select and commercially exploit new knowledge that helps solve customers' problems. Based on their 'experiential learning theory', Kayes *et al.* (2005) summarise cross-cultural absorptive capacity into seven categories: 'valuing different cultures, building relationships within the host culture, listening and observing, coping with ambiguity, translating complex ideas, taking action and managing others'. They also argue that absorptive capacity across national boundaries and cultures becomes significantly important for MNCs successfully managing innovation internationally. Minbaeva *et al.* (2003) found that the absorptive capacity of subsidiary positively correlates to the level of knowledge transfer within the MNCs. Kayes (2002) and Kayes *et al.* (2005) point to the importance of language for cross-cultural absorptive capacity. According to Kayes *et al.* (2005), learning the host country language is crucial for improving absorptive capacity (Dunbar, 1992) and developing meaningful relationships (Dean and Popp, 1990).

Kayes *et al.* (2005) have studied different cohorts of Japanese managers working in the US subsidiaries; the result shows that the process of development of absorptive capacity moves from generating competencies to action taking and organising competencies, which is distinctive from the US managers. This result also supports Yamazaki (2004)'s theory: the development of cross-cultural competencies is always culturally-specific (i.e. within a specific host environment). Wang *et al.*'s (2004) study assumes a traditional linear transfer model, the variable in which is the absorptive capacity of the Chinese subsidiary to receive knowledge from HQs. However, this approach potentially diminishes the learning ability of the Chinese subsidiary. If this is the case, then the Chinese subsidiary will operate on an old passive model, as the recipient of knowledge from the parent company rather than the generator of knowledge resulting from its interaction in the foreign location.

This study will seek to reveal the extent to which Chinese subsidiaries are knowledge generating.

Andersson *et al.* (2001) argue: ‘an MNC subsidiary often functions as a link between competence development in the external environment and in the corporate environment.’ The assimilation and commercialisation of new knowledge is carried out through the relationships with both external and corporate counterparts. They further argue that the processes behind competence development within an MNC are located at three different levels - the business relationship level, the subsidiary level and the corporate level.

This study explores knowledge transfer in Chinese MNCs at these three levels. It begins with subsidiary absorption of knowledge through members’ learning and ingesting new members (here indicates expatriates and local talents), followed by subsidiary exploration of knowledge leading to capabilities development. The third level, the corporate level is concerned with that subsidiary transfers the new knowledge and developed competences to HQs might aid developing HQs’ capabilities. Derived from the resource-based view of the firm, guided by this three-stage assumption, this study develops a conceptual framework, shown in figure 3.2, and uses this framework to explore learning in the UK-based Chinese subsidiaries and knowledge transfer from the subsidiaries to their HQs.

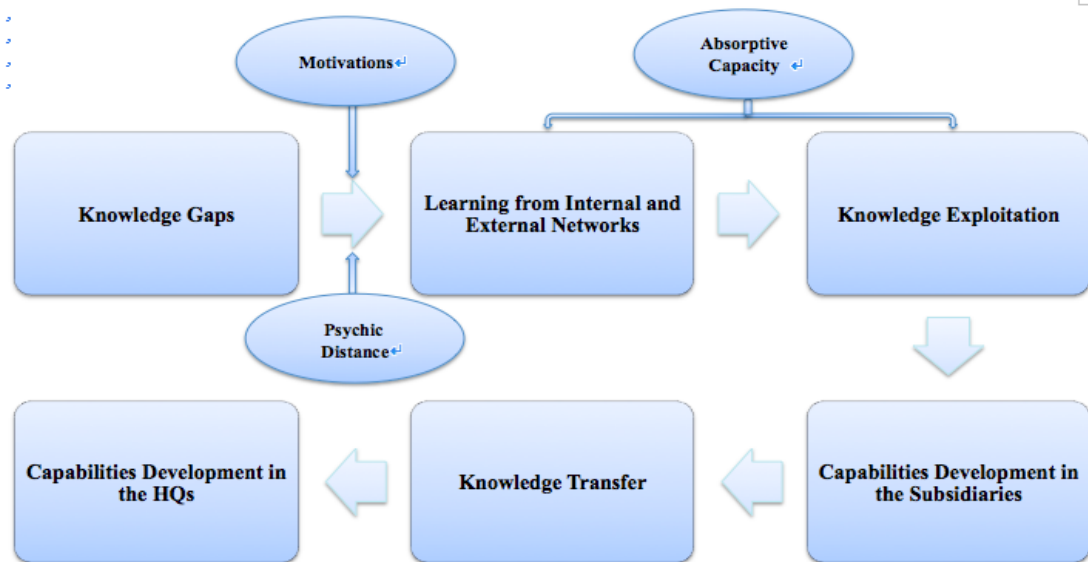


Figure 3.2 The Processes of Capabilities Developments in Chinese MNCs

Figure 3.2 depicts the conceptual framework. It begins with knowledge sources and knowledge gaps. This aligns with March's (1999) early study of knowledge gaps, and Peterson *et al.* (2008) later definition of them as 'knowledge gaps in foreign markets as discrepancies between the knowledge possessed and the knowledge needed for successful business ventures abroad'.

This study will explore to what degree that a subsidiary identifies the knowledge (or sources, or capabilities) that it lacks and needs to strengthen its competitive advantage. Based on the discussion about the major motivations of Chinese OFDI into the developed countries and even the UK, this knowledge is mainly scattered in four areas i.e. operational management, HRM, marketing and R&D. Peterson *et al.* (2008) suggest that knowledge gaps motivate actions to fill up the gaps. As indicated in figure 3.2, motivation links knowledge gaps to the second stage: the subsidiaries learn from the internal and external networks, just as Gupta and Govindarajan (2000) suggest that knowledge transfer crucially depends on the motivation of the organizations to learn.

Psychic distance is also emphasised at this phase, since numerous scholars in international business area, (such as Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Singh, 1988 and Hakansson and Ambos, 2010) highlight the importance of the degree psychic distance prevents the flow of information between the OFDI subsidiaries and the local market, sometimes referred to as the liability of foreignness. As there is clearly significant psychic distance between the UK and China, psychic distance is likely to affect learning by Chinese subsidiaries.

In accordance with Simon's (1991) argument on organisational learning, the second phase of this study explores how subsidiaries undertake learning using existing staff and also through recruiting new employees who have new knowledge from their internal and external networks. As figure 3.1 illustrates, knowledge networks consist of both internal networks (i.e. the HQs) and external networks (e.g. customers, competitors, business consultants and regulators/policy makers). In practice, this study will analyse how the existing employees learn through the subsidiary's internal and external networks, and how the subsidiaries absorb new knowledge via recruiting the expatriates and local talent.

Deng (2007) argues that Chinese MNCs such as TCL, Huawei, Haier, Lenovo that have strong absorptive capacity, have a strong tendency to invest overseas targeting the absorption and exploitation of strategic resources. Absorptive capacity (Cohen and Levinthal, 1990; Zahra and George, 2002) emphasises a firm's ability to recognise, assimilate and exploit the new knowledge to commercial ends. Therefore, the absorptive capacity has an impact on the subsidiary's learning and knowledge integration/exploitation. The first two phases in figure 3.2 indicate the business relationship level introduced by Andersson, *et al.* (2001), which is followed by knowledge exploitation/integration. To what extent explicit and implicit knowledge

is exploited/integrated within the subsidiaries? For example, March (1991:85) argues that ‘the essence of exploitation is the refinement and extension of existing competencies, technologies and paradigms’.

Exploitation reflects a firm’s ability to harvest and incorporate knowledge into its operations. Various researchers including Tiemessen, Lane, Crossan, and Inkpen, (1997); Van den Bosch *et al.* (1999); Peterson *et al.* (2008); and Zahra and George (2002), suggest that integration mechanisms can facilitate knowledge sharing and eventual exploitation of knowledge. Grant (1996b) argues the specialised knowledge can be integrated into certain level of capabilities. Therefore, knowledge exploitation leads to stage four, new capabilities development. These two stages emphasise on the subsidiary’s ability to exploit knowledge resulting to organisational capabilities enhanced, which refers to Andersson, *et al.*’s (2001) subsidiary level.

Once the subsidiary has developed new organisational capabilities, then it is able to share these with the HQs. Knowledge transfer from the subsidiary to the HQs begins with initiation, as Szulanski (1996) illustrated ‘a transfer begins when both a need and the knowledge to meet that need coexist within the organization, possibly undiscovered. The discovery of the need may trigger a search for potential solutions, a search that leads to the discovery of superior knowledge’. Minbaeva *et al.* (2003) suggest the key outcome of knowledge transfer is not the amount of knowledge being transferred; rather the receiver absorbs and exploits the useful knowledge to improve its operations. Thus the transferred knowledge is exploited and eventually becomes organisational capabilities (shown in the last stage). The framework is a little mechanical and linear since the study presumes that this is how Chinese MNCs work; empirical research will reveal whether other complexities feature in practice.

3.6 Overall Conclusion and Implications for This Study

In summary, these arguments address the second research objective i.e. exploring and examining the learning and capabilities development in Chinese MNCs in the UK focusing upon three related research questions. First, how does the learning occur in Chinese MNC' subsidiaries in the UK? As Andersson *et al.* (2001) research illustrates, simply measuring inputs and outputs fails to gain rich data on how knowledge is learned; therefore, the approach will be processual: centring managers and staff as the learners. Second, how do UK subsidiaries develop the capabilities? The study will be identifying the process that subsidiaries commercialise learning to develop their capabilities. Third, how do UK subsidiaries transfer the developed capabilities to their parent companies?

The resource-based view emphasises that firms are able to build competitive advantages through learning new knowledge. Through comprehensive analysis the concept of knowledge, from a business perspective, a new definition of knowledge has been developed (i.e. learning capable of purposive commercial deployment between HQs and subsidiaries over time) for MNCs, and expects to test the proposition via the empirical work. The main challenges of knowledge transfer, in particular for tacit knowledge flows are a firm's absorptive capacity and motivation. Derived from Andersson *et al.*'s (2001) three levels of capabilities development in the MNCs, this research develops a conceptual framework to demonstrate the learning process in Chinese MNCs.

Within MNCs, Barney *et al.* (2001) argue that the resource-based view 'has helped to specify the nature of resources required to overcome the liability of foreignness and provided a bridge to investigate the resources that provide the foundation for product and international diversification'. It because from resource-based view, OFDI is an effective vehicle to assimilate and generate new resources leading to

improved performance (Lee and Slater, 2007), therefore MNCs overcome the liability through continuously absorbing and exploiting new resources.

According to Zaheer (1995), the liability of foreignness is ‘broadly defined as all additional costs a firm operating in a market overseas incurs that a local firm would not incur’. In another word, the liability of foreignness is the propensity of companies to trade with and relate to other firms enjoying shared culture and languages, what Beckerman (1956) called psychic distance. Psychic distance was initially adopted in Uppsala model (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) and is now widely used in comparative trade (Kogut and Singh, 1988) and wider social comparison studies (e.g. Brouthers and Brouthers, 2001).

In order to overcome the liability of foreignness, Child and Rodrigues (2005) argue that leading Chinese firms tend to acquire advanced technological resources through internationalisation; or even assimilate knowledge (for example international production or quality standards) via contracts or partnerships with successful foreign firms before internationalising. Deng (2009) also finds that Chinese firms adopt cross-border M&A to access and source strategic assets to strengthen their competitive advantages.

This study adopts Ambos and Ambos’ (2009) and Easterby-Smith *et al.*’ (2008) qualitative measures of knowledge transfer rather than quantity of information flows. It looks at the impact of knowledge transfer on capabilities development in Chinese MNCs, not simply the accumulation of information. The research will map the quantity knowledge flows from UK subsidiaries to the HQs, in order to explore the deeper qualitative issue of how much of the knowledge flow actually impacts upon the HQs’ business.

Chapter Four: Methodology

4.1 Introduction

This research examines the pattern and the processes of learning, capabilities development and knowledge transfer of Chinese OFDI in the UK, from which it draws the methodology. This chapter presents an account, which explains why the methodology is used and how it is used. The chapter is organised into six parts: the next section presents the research questions drawn together at the end of the literature review sections (chapter 2 & 3) and derived from the conceptual framework. Section 4.3 discusses the choice of the philosophical approach that underpins the methodological choice in this study. Section 4.4 illustrates a detailed research design of the empirical work including quantitative and qualitative research designs, each covers questionnaire or interview schedule design, data collection, data presentation and data analysis. The ethical issues are presented in section 4.5, followed by the conclusion chapter in section 4.6.

4.2 Research Questions

Since the first Chinese subsidiary established in 1920s, UK has become one of the most attractive overseas investment markets for Chinese MNCs. Within the last decade, China's OFDI has grown dramatically in the UK, research interest in Chinese MNCs increases, in particular the overall pattern of the UK-based Chinese subsidiaries and their operations in relating to knowledge and capabilities. It has been argued that one of the critical reasons for the OFDI from the emerging markets such as China, investing in the developed countries is to assimilate new knowledge, resources and capabilities (Deng, 2007). Researchers have studied the pattern of Chinese OFDI worldwide in terms of the development, motivation, overall benefits and performance (e.g. Wong and Chan, 2003; Wu and Chen, 2001). However, there

is little research about the Chinese MNCs investing in the UK, and even fewer studies of learning and capabilities development undertaken by the UK-based subsidiaries. Given the insights gained from the literature review, and guided by the conceptual framework, two research objectives and four research questions have been generated (shown in table 4.1). As figure 3.2 shows, knowledge flows arising from knowledge gaps and capabilities development is at the heart of this research: it is this that informs the research design, the data and the methods for data gathering and analysis all of which are detailed in this chapter.

Identifying the learning and capabilities development in Chinese MNCs (in the UK) is the main objective of this research. The question whether learning occurs and capabilities are enhanced becomes a pivotal and fundamental issue; the whole research will be pavilion in the air if there is no learning undertaken by Chinese subsidiaries based in the UK. However, there is only one piece of work (by Liu and Tian, 2008) that studies Chinese MNCs investments in the UK and it focuses on entry modes and motives for internationalisation. In order to explore learning, it is crucial to understand the general pattern of Chinese OFDI, therefore another objective is developed: to identify and investigate the characteristics and motivations of Chinese OFDI in the UK, aiming to build foundation stones for the second objective (see figure 4.1). In order to achieve objective one, the first research question (figure 4.1) is constructed to understand the overall population of Chinese firms in the UK. Another three research questions (see figure 4.1) are developed to achieve objective two.

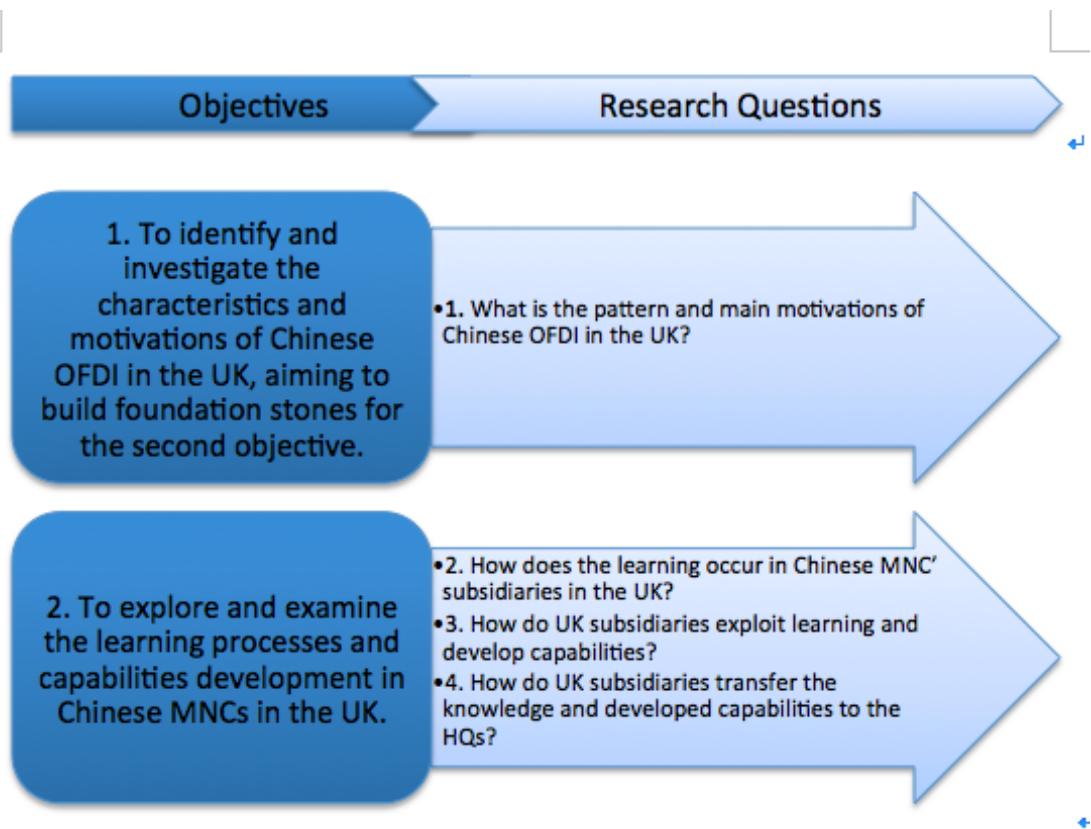


Figure 4.1 Research Objectives and Questions

In order to answer these research questions, appropriate philosophical and methodological methods are needed, which are presented in the following sections. Returning to figure 3.2; the first research question establishes whether the presumptions in my conceptual model are correct, questions two, three and four are derived from figure 3.2: ‘how’ does learning occur and become exploited in the subsidiaries, and then (bottom left of figure 3.2) ‘how’ is learning and new capabilities shared with the HQs. From the conceptual model, this study asks conceptual not descriptive questions, though the answers will be derived from distilling the qualitative data into patterns and themes and the quantitative data into significances.

4.3 Philosophical Approach

For Neuman (2003:71) positivism is ‘an organized method for combining deductive logic with precise empirical observations of individual behaviour in order to discover and confirm a set of probabilistic causal laws that can be used to predict general patterns of human activity’. This suggests that a positivist approach can be adopted to explore the context and the trend of Chinese OFDI and the processes of learning and capabilities development in Chinese MNCs. Though deductive research strategy ‘derives its ontological and epistemological assumptions from critical realism’, it adopts positivist ontological assumptions. Thus both inductive and deductive strategies are based on positivist ontology assumption (e.g. Harre and Secord 1972).

According to Blaikie (2000), in order to see whether the data matches the hypotheses to answer the ‘why’ questions, in the ‘deductive’ strategy, data collection need to be guided by the hypotheses that are derived from theories. Unlike the ‘deductive’ strategy, hypotheses are not required in the ‘inductive’ strategy; instead generalisations and even theories are developed from the data. Blaikie (2000) argues, the ‘inductive’ strategy is used for two purposes: to pursue exploratory and descriptive objectives to answer ‘what’ questions. Research question one (what is the pattern and main motivations of Chinese OFDI in the UK?) is a straightforward ‘what’ question, thus, the ‘inductive’ strategy is appropriate. Research question two, three and four are ‘how’ questions: (2) How does the learning occur in Chinese MNC’ subsidiaries in the UK? (3) How do UK subsidiaries exploit learning and develop capabilities? (4) How do UK subsidiaries transfer the knowledge and developed capabilities to their parent companies?), however, they can be simply transformed into ‘what’ questions ((2) what is the learning process in Chinese MNC subsidiaries in the UK? (3) What is the process of UK subsidiaries exploiting learning and developing capabilities? (4) What is the process of UK subsidiaries transferring the knowledge and developed capabilities to their parent companies?)

without changing the meanings. Therefore, an ‘inductive’ strategy can be used to answer all the research questions.

Whilst this study intends to induct conclusions from an assemblage of facts, some of these facts are quantitative and are therefore contrived using positivist methods, other qualitative material is constructed into a narrative explaining ‘why’ and ‘how’ Chinese subsidiaries act as they do in relation to knowledge flows. Since chapters Two and Three have established no existing theory is readily applicable to the case of Chinese subsidiaries, it is not possible to use a conventional descriptive method of analysis. Hence given the emergent nature of the subject, an exploratory approach, which as Bryman and Bell (2011) supports new insights and understandings, capable of supporting further research, is adopted. Without greater conceptual clarity the author is unable to conduct confirmatory research, (in)-validating hypotheses by drawing strong inferences from empirical testing; rather as Jaeger and Halliday (1998) suggest seeking sufficient understanding to provide a platform for further research into Chinese subsidiary learning and Chinese MNC knowledge flows.

Primarily therefore, this research aims to achieve an internal (logical, conceptual robustness) validity, providing the scaffolding for further research, testing these concepts as hypotheses in a wider array of cases for external validity using cross-sectional analysis.

4.4 Research Design

In order to answer the multi-dimensional and complex research questions, a mix of methods is used, i.e. quantitative and qualitative methods to gather data. Attributing to the nature of the two objectives, though both quantitative and qualitative methods are considered in the initial research design, a comprehensive research design for qualitative study is not completed until the survey data has been collected and

analysed. Therefore, quantitative and qualitative research designs are discussed in two sections.

4.4.1 Stages of Research Design

The structure of the research design was represented in thirteen stages (see table 4.1). The quantitative research design constitutes stages I through IV, while the qualitative research design constitutes stages V through XIII. The following two sections will explain these stages in detail.

Table 4.1 The Process of Research Design

Stages	Description of Stages
Stage I: Questionnaire design	Designing the self-completion questionnaire
Stage II: Identification of companies & constructing dataset for Chinese OFDI in the UK	Firm identification from varied sources (official documents, websites, officers from Chinese Embassy in the UK, etc.); the total 100 Chinese subsidiaries identified in the dataset
Stage III: Survey data collection	Sending out survey, chase-up and visit some of the companies
Stage IV: Data analysis	Analysis of adequacy of explanation and identification of gaps. SPSS as a tool being adopted.
Stage V: Initial plan for case studies	Planning to conduct 3-5 case studies
Stage VI: Interview schedule design	Designing semi-structured interview schedule
Stage VII: Initial approach to potential case companies	Contact the potential case companies to express the willingness for case study, being rejected
Stage VIII: Changing plan from case studies to larger number of interviews	Having identified the difficulties of conducting case studies, changing the initial plan to conduct interviews from all the accessible organisations (subsidiaries and HQs)
Stage IX: First round interviews	Average of 90 minutes interviews of 40 interviewees from Chinese subsidiaries and HQs
Stage X: Data coding	Coding of all data against coding categories from the research conceptual framework
Stage XI: Data analysis and reduction	Analysis of adequacy of explanation and identification of gaps. Data reduction by focusing, discarding, abstracting and transforming data.
Stage XII: Second round interview	Average of 90 minutes interviews of eight managers in the subsidiaries
Stage XIII: Overall analysis and re-evaluation	Analysis of adequacy of explanation and observation of gaps

4.4.2 Quantitative Research Design

Bryman (2004: 62) defines quantitative method ‘as entailing the collection of numerical data and as exhibiting a view of the relationship between theory and research as deductive, a predilection for a natural science approach (and of positivism in particular), and as having an objectivist conception of social reality’. Blaikie (2000) also suggests that quantitative approach generally focuses on counting and measuring aspects of social life. This emphasises the superiority of quantitative method in identifying behavioural patterns. In order to draw a clear pattern about Chinese OFDI in the UK, a self-completion questionnaire (the mostly commonly used quantitative method for gathering data with large sample) was chosen. Neuman (2003) suggests two main stages for conducting survey: planning and collecting data; the stage of planning mainly includes designing questionnaire and deciding the target population and drawing the sample. In summary, questionnaire design, samples and data collection, also data analysis is presented in this section.

Questionnaire Design

This section presents stage I: questionnaire design. Questionnaire design is essentially about asking questions. Bryman (2004) believes that the issue of how to ask questions is a major concern for all survey researchers, and whether to ask open or closed questions is another significant issue. Open questions give much freedom and flexibility to respondents on how to answer questions; thus, researchers will be able to receive unusual replies and fresh ideas. However, coding answers of open questions can be very time-consuming, and great demanding of effort from respondents may lead to low response rates (Bryman, 2004). Since the questions of overall patterns of Chinese OFDI demands a large variety of facts, open questions appear inappropriate, thus, the majority of questions in the survey are designed as closed questions.

This study has followed Bryman's (2004) 'general rules of thumb' to design the survey questions, always bearing in mind the research question, being precise with every question and practising answering the questions. The questionnaire was designed in four parts: background information of the company and participant, the information of the UK-based subsidiary (in the past, present and future), the parent company in China and the relationship between parent company and the subsidiary (see Appendix II for details). Design of the background information of the company and participant aimed at gaining the contacts in for the subsequent qualitative interviews.

Guided by objective one, the survey questions were designed in two themes. Given the insights of the first part of the literature review, derived from the work of Liu and Tian (2008) and Wu and Chen (2001), first set of descriptive questions were developed related to the pattern of Chinese OFDI: the questions covering the characteristics of the subsidiary such as its size, sector, entry year, entry mode, ownership and target markets. Guided by objective two, and inspired by the work from Liu and Tian (2008), Edwards *et al.*' (2002), Taggart and Hood's (1999), Wu and Chen (2001) and Witt and Lewin (2007), the second set questions were designed to cover firm's motives, overall benefits, recruitment methods, and also the relationship between the subsidiary and the HQs.

Drawing upon Dunning's (1988 and 1993) classification of the OLI advantages and four motivation categories, and also Liu and Tian's (2008) survey about entry modes and motives of Chinese MNCs investment in the UK, 16 variables were identified to examine the motivations for Chinese OFDI into the UK. These were two variables related to market-seeking i.e. more expansion opportunities in the UK and access to EU markets; four variables related to strategic asset-seeking i.e. to seek technology/R&D capabilities, to seek or advance managerial skills, to seek local

talent and to seek renowned brands; two variables related to efficiency-seeking i.e. lower operation cost in the UK and increasing production cost in the home country; one variable related to resources-seeking i.e. to see raw materials; three variables related to British local advantages i.e. lower political risks in the UK, easier access to financial markets in the UK and cultural and languages proximity; and also four other variables of Chinese government's policy support, sufficient capital to be invested, competitive pressure at home and investment incentives in the UK. These variables are adopted on a 5-point Likert scale where 1 represents not important and 5 very important.

Building upon Wu and Chen's (2001) work of an assessment of outward foreign direct investment from China's transitional economy, and also Liu and Tian's (2008) motivation variables, 10 variables were identified with which to investigate the overall benefits of Chinese OFDI into the UK. These include two variables related to market access i.e. new market and export market; three variables related to strategic asset access i.e. managerial skills, advanced technology, advance equipment; one variable related to efficiency access i.e. lower operational cost in the UK; one variable related to resource access i.e. natural resources; and also the other three variables of overseas funding, securing foreign exchange and contributing to stronger economic ties with the UK. Like the variables used for motivation, these variables are also used on a 5-point Likert scale where 1 represents not important and 5 very important.

Taking inspiration from Taggart and Hood's (1999) decision-making approach and Edwards *et al.*' (2002) autonomy variables, 13 variables were identified to examine UK-based Chinese subsidiary's degree of decision autonomy. These are three variables related to financial management i.e. annual budget, monthly expenditure and long term investment; three variables related to recruitment i.e. choice of hiring

new staff, permission about recruitment of staff, and replacement of senior managers; four variables related to management of products and services i.e. control of products or services quality, introduction of new products or services, establishment of new department, and pricing of products or services; and three variables related to market and investment i.e. choice of markets, choice of sales channels, and choice of investment projects. Similar to the variables of motives and overall benefits, these variables are also adopted on a scale from 0 to 5, 0 being 'not a consideration', 1 being very weak and 5 being very strong.

Samples and Data Collection

This section represents stages II (identification of companies & constructing dataset for Chinese OFDI in the UK) and III (survey data collection). To date, there is no database on Chinese OFDI in the UK, a view that was confirmed by two senior officers from Economic and Commercial Counsellor's Office of Chinese Embassy in the UK and Asian Department of London and Partners (the official promotional organisation for London). Therefore several public sources were used to identify UK-based subsidiaries of mainland Chinese MNCs. Most firms were identified through using the varied published business resources: the websites of Chinese Embassy in London, UK Trade and Investment (UKTI), 'Think London' (the predecessor of London and Partners), in addition to documents from China Enterprises Association in Britain. Using the same resources and also the homepage of UK Business Directory, some Chinese MNCs' webpage and business press such as Financial Times, augmented company contact details. From these sources, 145 subsidiaries of mainland Chinese MNCs in the UK were identified operational in 2009. This number was subsequently reduced to 121 as dissolved, dormant and liquidated firms were excluded from the database. The database was further reduced to 102 companies after removing those companies without a valid postal address. The returned mails and the telephone calls led to the exclusion of a further two

companies for the reasons that they originated from Hong Kong (that is not in the scope of this research). Therefore, the total identifiable population of Chinese subsidiaries is 100.

The remaining 100 UK-based subsidiaries received the questionnaires and cover letters (explaining the objectives of the research) in English and Chinese, as well as the support letter from the author's supervisor, Professor Nick Oliver (Head of the school) and a prepaid return envelope with the return address by post. The mails were sent to the senior managers of the UK-based subsidiaries. The first round of questionnaire was sent out in the beginning of October 2009 and chased up with telephone calls and even some visits (in November 2009) by the author. Eighteen completed questionnaires were returned before the second round of reminding questionnaires being sent out in the beginning of December 2009. In some cases, the questionnaires were re-sent either by mail or email, depending on the participant's request. Twenty-six completed questionnaires were received by February 2010; another four responses were received in the following four months by June 2010. In total, 30 useable responses were received, giving a response rate of 30%.

Data Presentation

Survey data (see chapter five) was presented in a similar structure as the first part of literature review (in chapter two) i.e. beginning with matters of fact (i.e. descriptive factors about subsidiary's size, year of subsidiary's establishment, entry mode, sector, ownership and geographic markets); followed by the factors of opinions and interpretations including expectations for subsidiary's future development, recruitment methods, motives and overall benefits. Figures and tables were used to assist with the words explanation.

Data Analysis

This section presents stage IV: data analysis. Blaikie (2000:236) argues that quantitative analysis methods contain four main categories: description, association, causation, and inference. The main quantitative data analysis approach was distribution frequencies (including means and deviations), range analysis, variables, correlations and cross-correlations, which were presented using qualitative statistical methods. SPSS was adopted to assist in quantitative data analysis. When using SPSS toolkit, variables were divided into four groups: nominal variables, ordinal variables, interval variables and dichotomous variables; different approaches were also adopted for various types of analysis, for example, frequency tables and diagrams were highly used for univariate analysis. Means and deviations were adopted to explore the degree of recruitment methods (tables 5.13 and 5.14), motives (see tables 5.15 and 5.16), and overall benefits (refer to tables 5.17 and 5.18).

4.4.3 Qualitative Research Design

Eisner (1979) defined qualitative research as concerned with processes rather than consequences: the researcher aimed to discover the whole situation rather than analysed reality by designing an independent-dependent variable model, whilst carefully choosing samples the hold variables. Burns (2000) argues that qualitative research approaches have a tendency to be based on recognition of the significance of the subjective and to ‘understand events from the viewpoint of the participants’. In other words, qualitative interviewers pay attention to the interviewee's viewpoint; in order to gain rich and detailed data, encouraging the informants to talk about what they believe is relevant and important, guided by the interview schedule. This study emphasised on exploring the processes of learning, knowledge transfer and capabilities development in Chinese MNCs, using recorded conversations to identify emergent theory. The methodological approach to questions two, three and four was essentially qualitative, since quantitative approaches failed to differentiate between

the weight attaching to data arising from its source (important in Chinese companies) paying more attention to the size than typicality of the data and emphasised consequence rather than processes, to test rather than generate theory.

The Process of Changing Initial Plan of Case Studies to Interviews

This section states the stages of V (initial plan for case studies), VII (initial approach to potential case companies) and VIII (changing plan from case studies to larger number of interviews). According to Hartley (1994:208), a case study was ‘a detailed investigation, often with data collected over a period of time, of one or more organisations, or groups within organisations, with a view to providing an analysis of the context and processes involved in the phenomenon under study’. In line with the qualitative research method, a small number of in-depth case studies were considered initially. As mentioned, the data collection and analysis of survey were completed before the qualitative research design, which allowed the author to be able to identify the potential firms for case study. The number of respondents was restricted to 30, across 14 industrial sectors (see table 5.4). Only the sector of transport had five subsidiaries (including two subsidiaries belonging to one parent company).

It rapidly became clear that identifying a cross section of sectors, each with subsidiaries and HQs granting research access would be difficult. This was especially so since in sectors such as transport learning and knowledge innovation levels were relatively lower than more high-tech industries such as electronics, telecommunication, and pharmaceuticals. The second criterion for case selection was the existence of extensive operational functions, particularly R&D activity. Whilst six subsidiaries claimed to be involved in R&D activity (see table 5.5) most had only a limited range of operational functions. It was therefore decided to interview HQ and subsidiaries most of whom were not connected. Gaining access to

Chinese companies, especially to investigate deeply into their processes, remains difficult.

Once the potential firms were chosen, the survey respondents were contacted and using personal 'Guanxi', five of these six companies were solicited for in-depth study in both the subsidiaries and their headquarters, but without success, even with less restricted criteria, such as only focusing the size of the subsidiaries. The major difficulty was gaining access to the HQs to conduct observations. Thirteen subsidiaries agreed to be interviewed; personal contacts introduced another two subsidiaries. Two interviewees from the subsidiaries helped interviews to be conducted at their HQs, however the majority interviewees from the subsidiaries indicated unwillingness to help, or that they were in too low status to have Guanxi (connection) with the managers in the HQs. It was therefore decided to deviate from the original plan and to conduct a larger number of interviews with semi-structured and in-depth interviews and without observations.

Interview schedule design

This section presents stage VI: interview schedule design. According to Bryman (2004), a semi-structured interview is characterised by the researcher having a list of questions based on their research topics, allowing the interviewees freedom in how they respond to the questions; although all questions should be covered, questions may not follow on precisely in the sequence outlined in the guide and supplementary questions or requests for examples will be made. The interview schedule became a guideline rather than a rigid script. In contrast to a self-completion questionnaire, the semi-structured interview offered more freedom to both interviewers and interviewees; for example, the interviewer had opportunities to gain more extensive and in-depth information and to further discuss the information brought up by interviewees.

At the stage of preparing for semi-structured interview, Lofland and Lofland (1995) suggested researchers to ask themselves the question: ‘Just what about this thing is puzzling me?’ According to Bryman (2004), the puzzling factor can come from random thoughts in various contexts; from discussion with supervisors, peers, and relatives; and also from the relevant literature. Following his guide on how to prepare a good interview, the topic areas were ordered and interview questions formulated, using comprehensive and familiar languages but avoiding leading questions. In addition, background information such as name, gender and position were also recorded. At the preparation stage, once the interview topics have been decided, the issue of designing questions turn to be important. Based on Charmaz’s (2002) different phases of qualitative interview, three different types of questions were developed, initial open-ended questions such as interviews in UK subsidiaries, started with questions like ‘what knowledge gaps (between your own company and local companies) have you seen?’, intermediate questions such as ‘does the whole company encourage staff to learn? If yes, how?’, and ending questions such as ‘can you give me an example (a story) of your learning to improve your work?’

Referring back to the conceptual framework in figure 3.2, from the upper left of the diagram the connections between knowledge gaps and learning from internal and external networks were mediated via the psychic distance of the subsidiary to its host environment and its motivation to learn. Gaps and motivation were therefore identified in the early phase of the interviews with the subsidiaries, linking then via questions on absorptive capacity to the extent to which new knowledge could be integration, especially in the form of developed capabilities by the subsidiary. Only then was it possible to inquire if and how knowledge was transferred to the HQ (the mid-point in the bottom line of figure 3.2), and after that, whether from the transfer HQs developed new capabilities.

Conscious of the distinctive of background context and knowledge between subsidiaries and HQs and guided again by the conceptual framework (see figure 3.2), two different sets of interview schedules for the interviewees in the headquarters and the subsidiaries respectively were designed (see Appendix III for details).

The interview schedule designed for the subsidiary focused on Andersson *et al.*'s (2001) first two levels of the processes of capabilities development in a MNC: the business relationship level and the subsidiary level. Guided by the conceptual framework (figure 3.2) the interview schedule included themes such as identifying knowledge gaps, learning from internal and external networks, subsidiary learning via existing staff's learning and/or through recruiting new employees with specific new knowledge, using absorptive capacity to absorb exploit and commercialise knowledge to develop new capabilities, and transferring knowledge and capabilities to the HQs. The interview schedule developed for the HQs emphasised Andersson *et al.*' (2001) third level of capabilities development: the corporate level: investigating knowledge dissemination, exploitation, and motivations by the HQs enabled to strengthen the capabilities within the MNC, with both 'forward' and 'reverse' knowledge transfer between the headquarters and the subsidiary.

Interviews

This section illustrates stage IX (first round interviews) and XI (second round interviews). Lofland and Lofland (1984:25) suggested that when negotiating access to a research setting it was necessary to be 'armed with connection, accounts, knowledge and courtesy'. The issue of accessing informants was particularly crucial in this study due to specific culture issue of Guanxi (i.e. Chinese approach of networking), which played a significant role in relation to gaining trust and further connections. The quantitative approach was intended to establish an empirical

platform for the study (were Chinese subsidiaries learning from their location and activities in the UK); it was hoped that this it would open doors to an interview sample for the qualitative study, as well contacts with the UK-based subsidiaries.

All 30 companies that responded with questionnaires were contacted through phone and/or email (depending on the contact details) to arrange interviews. Eleven of the UK-based subsidiaries agreed to be interviewed, and through the introduction of the survey participants, 23 managers within these 11 firms were interviewed. Later, five further managers from another four subsidiaries were introduced to the study by the interviewees. Thus, interviews were undertaken with 28 people including 22 expatriate managers, two expatriate staff, three local Chinese employees and one local British employee from the UK-based Chinese subsidiaries. Through the introduction of two subsidiaries' Managing Directors, four managerial staff from two HQs based in China were interviewed.

The main difficulty for qualitative data collection was obtaining access to the HQs. After accessing the 15 subsidiaries, it was hoped to enter HQs through the introduction these subsidiaries, since these subsidiaries supported the survey; however only two subsidiaries did this. It was interesting that even with a recommendation from inside the company (subsidiary or HQs); other parts of these companies remained inaccessible for this study.

In order to interview more HQs, other approaches were used. Through personal contacts, a further eight interviewees from another five HQs, so 12 people (all Chinese) from seven Chinese HQs were interviewed in total. In summary, four Chinese MNCs (with both HQs and their UK subsidiaries), three Chinese MNCs (HQs only) and 15 UK Chinese MNCs (subsidiaries only) were interviewed (see table I in chapter six for details). Therefore, 40 interviews in total were conducted,

39 in Chinese and one in English. Interviews lasted one and a half hours on average, although some lasted up to two and half-hours.

Arksey and Knight (1999) suggested: 'the better we know or understand an area, whether through sensitive reading or from our own experience, the better we can connect with the interviewee'. The result of the survey provided deep information and knowledge of the companies. Additionally, the company's websites and brochures were examined, as well as case studies of the successful Chinese MNCs. These all assisted better communication with interviewees. Interviews were face-to-face and business-like in form. Interviews at HQs in China were in July, August and November 2010. Interviews in subsidiaries in England were in October and December 2010. Follow-up interviews were undertaken to gain deeper and more in-depth data in a second round of interviews with eight managers in the subsidiaries in August and September 2011.

Qualitative research interview is usually audio-recorded and transcribed afterwards. Recording helped interviewers to fully review the process and content of the interview afterwards, allowing her to focus on conducting the interview whilst it was taking place. In this case, 23 out of 40 interviewees refused to be recorded. Bryman's (2004) advice was followed, conducting the interview as usual, striking a balance between note taking and conducting the interview. The pace of the interviews was inevitably slowed, and immediately after their conclusion, recollections were further dictated. Although recording made the process of interview easier, subsequent transcription was time consuming and problematic. Typically a one-hour interview recording took six hours of work to transcribe. Transcription errors can also happen; Bryman (2004) argues that even experienced transcriptionists make mistakes. Since only one interview was done in English, translation was another challenge. The richest 15 interview transcripts were

translated into English, and for the other 25 transcripts only those parts cited in the thesis i.e. significant stories or quotations were translated.

Data Coding and Presentation

This section presents stage X: data coding. Data coding involved content analysis of interview notes, the themes were represented in the tables shown in chapter six. Guided by the literature and the conceptual framework (figure 3.2) the transcripts were continually revisited until few new insights occur (Yin, 2009). The interview data presentation was again based upon the flow in the conceptual framework (figure 3.2). It begins by identifying knowledge gaps in the subsidiary, followed by exploring learning from internal and external sources. Then motivations and mechanisms for learning in the organisation were discussed. The next was knowledge transformation and exploitation (realised absorptive capacity) at the subsidiary level, leading to organisational capabilities development. The process and mechanisms of knowledge transfer was also presented in the chapter, and eventually the capabilities development in the HQs.

Data Analysis

This section presents stage XI (data analysis and reduction) and XIII (overall analysis and re-evaluation). From both qualitative and quantitative data this study generated conceptual categories that were outlined in chapters five and six. These concepts looked back to the information from which they were generated and looked forward to re-integration with general theory (Dretske, 1981:214).

In line with the 'inductive' strategy, this exploratory research identified themes and patterns from the data. Following Easterby-Smith *et al.*'s (1991) seven main steps for such analysis, after completing the transcripts and translation the documents were re-read in order to obtain 'familiarisation'; a process of evaluation and critique was

then implemented for 'reflection'; at conceptualisation stage, a set of concepts or variables were generated from the data; 'cataloguing concepts' was a crucial follow-up step; as all the references to particular concepts were known, it was time to refining and 'recoding' the concepts; when the analytical framework and explanations became clearer, it began linking the empirical data with the general theories and the first draft was also produced; based on the comments of the supervisors, some re-evaluation was implemented in some areas.

As Miles and Huberman (1994: 11) indicated: 'Data reduction is not something separate from analysis... (It) is a form of analysis that sharpens, sorts, focuses, discards, and organizes data in such a way that "final" conclusions can be drawn and verified'. The whole process is of familiarisation, reflection, re-conceptualising, cataloguing, re-coding and re-evaluation in the light of the exploratory nature of this research (Easterby-Smith *et al.*, 1991).

4.5 Ethical Issues

Neuman (2003) argues that social researchers should follow 'the ethical principle of voluntary consent: never force anyone to participate in research, and do not lie unless it is required for legitimate research reasons'. As Bryman (2004) suggests, in this study all participants were given full information on the use and dissemination of the data and publications either in paper or verbally. Data collection was conducted in accordance to the ethical guidelines adopted by the Association of Social Anthropologists of the UK and Commonwealth (ASA 1999). The confidentiality of the participants and their companies were protected, and the collected data were only used for research purpose. According to Bryman (2004), the issues about ensuring anonymity and confidentiality in relation to the recording of information and the maintenance of records relates to all methods of social research, interviewees' wish were complied with relation to the use of recording equipment.

4.6 Conclusion

This chapter presented a methodological procedure starting with two objectives and four research questions, guided by the conceptual framework derived from the comprehensive analysis of literature review. In line with the nature of the research questions, the inductive philosophical approach was selected. The evolution of research design experienced difficulty when the original plan (case studies) was unable to be implemented, an alternative large number of interviews approach was adopted. The process of data collection was not smooth, second-round interviews were undertaken to gather greater depth on learning processes. Cultural and language issues were often confronted in international business research; the fact that the majority of the interviewees were Chinese reduced the barriers. The author's ability with Chinese language contributed to the interviews however increased the workload of translation. Cultural and ethical issues were also raised. Research data presentation will be presented in the following two chapters: survey data in Chapter Five, and interview data in Chapter Six.

Chapter Five: Survey and Analysis to Address Research

Question One

5.1 Introduction

This chapter is to address research question one. It forms a context of Chinese OFDI into the UK (size, sector, patterns) and in particular the motivations of the firm and the degree to which learning is an important motive. Analysis and discussion of the data that is reintegrated with the literature are presented to answer research question one.

Chapter two investigates that earlier generation of OFDI from high-income economies had strong ownership advantages (i.e. strategic assets) and exported superior technologies to other advanced economies. Being latecomers Chinese OFDI do not have strong ownership advantages, and often the Chinese technologies are inferior. This chapter asks why Chinese firms are establishing subsidiaries in the UK. This study gathers the largest dataset from UK-based Chinese subsidiaries and also tests the applicability of these dominant theories on internationalisation to the Chinese case. Its central finding is that whilst the subsidiaries are market-seeking, a major motivation and result of China's OFDI into the UK is knowledge-seeking.

As section 4.4.2 above explained, the original research design was to interview UK subsidiaries and then cross reference their perspective on knowledge flows with that of their HQs. Since the response rate was poor, the study was altered to obtain rich qualitative data through interviews with UK subsidiaries and Chinese-based HQs.

5.2 Initial Survey of Chinese OFDI Companies in the UK

5.2.1 Introduction

This Chapter presents the results of the survey of Chinese OFDI subsidiaries in the UK. As mentioned in Chapter Four, the main objective of this research is to analyse the learning and capabilities development of Chinese MNCs in the UK. In order to identify the processes of learning and capabilities development, it is crucial to ensure the existence of learning and developing capabilities within the China's OFDI in the UK, otherwise the whole research becomes a *pavilion in the air*. The four research questions, reflecting the conceptual framework (figure 3.2) is developed based on the two research objectives, and build on one another: the first research question (i.e. what is the pattern and main motivations of Chinese OFDI in the UK?) is the fundamental one for the whole research since pattern and motivation of Chinese OFDI into the UK shapes the learning and knowledge transfer that the other research questions address. It is important to understand the nature of the Chinese OFDI in the UK and the reasons for their investment. The entire research design is explained in chapter four; here in short the self-administered questionnaire is used to collect data to answer research question one.

Developed on the literature review, the questionnaire (see appendix II for details) is designed in four parts: emphasis on the details of the OFDI into the UK and some information about background information of the respondents, the parent company in China and the relationship between the subsidiary and the parent company.

The questions are designed around two themes. First, according to chapter two, questions were asked that were relevant to Chinese OFDI patterns: these include the characteristics of the subsidiary, its size, entry year and entry mode, ownership and target markets. This follows the work of Wu and Chen (2001) and Liu and Tian

(2008) to give the results comparability with theirs. Given this study's focus (chapter 3) on learning and capabilities development, the second set of themes from the survey took inspiration from the work of Liu and Tian (2008), Schipani and Liu (2002) and Witt and Lewin (2007) exploring company motivations for OFDI and future prospects. Questions are also added relating to the overall benefits to HQs of OFDI (seeking data on learning) and staff recruitment an indivisible factor to learning.

This section is organised into two parts. The first part addresses Chinese OFDI in the UK including section 5.2.2 to 5.2.8 present the survey findings on patterns of the OFDI into the UK (i.e. size, established year, entry mode, sector, ownership geographic markets, expected development in future and recruitment methods); followed by section 5.2.9 and 5.2.10, which present findings on the motives and overall benefits of Chinese OFDI in the UK.

5.2.2 Size

As discussed in Chapter Two, the original OFDI from China is small in size worldwide, and the majority of OFDI in the UK is also small-sized organisations (Liu and Tian, 2008).

Table 5.1: Number of Employees in Survey Responses

No. of employees	No. of companies	Percentage	Cumulative percentage
0- 9	13	43.3	43.3
10- 49	10	33.3	76.7
50- 99	2	6.7	83.3
100- 249	3	10.0	93.3
250+	2	6.7	100.0
Total	30	100.0	

Table 5.1 shows the 30 respondent companies by numbers of employees, noting that 83% of UK subsidiaries have got less than 100 employees, with 77% less than 50 and 43% less than 10.

Murphy *et al.* (2004) suggest that a company can be termed ‘large’ with above 250 employees: tables 5.1 and 5.2 show that 93% of Chinese subsidiaries in the UK are SMEs and not large companies, with an average of 49 staff. This is similar to the findings of the survey conducted by Wu and Chen (2001), revealing that Chinese outward investment was dominated by SMEs and the scale of Chinese overseas investment was relatively small.

Table 5.2: Average of Employees’ Number, Chinese Employees’ Percentage, Sites and Turnover

	Minimum	Maximum	Average
No. of employees in UK subsidiary	2	500	49
% of Chinese employees in UK subsidiary	0	100	50.3
Sites in UK subsidiary	1	5	1.3
UK subsidiary’s turnover in £ million	0	1220.0	94.0

Chinese enterprises in the UK have high percentage of Chinese employees (represent those who are originally from China and able to speak Chinese language) averaging 50%. This might show that Chinese employees who have language and cultural advantages could better link back to the HQs than Non-Chinese. Average turnover is nearly £2million per capita.

5.2.3 Entry Year and Entry Mode

Chapter two has discussed that subsequent to the ‘Go Out policy’ in 1999, Chinese OFDI began second wave of internationalisation growth, the entry mode is comprised of wholly-owned, JV and M&A, however recently the dominant form is M&A. Figure 5.1 shows the number of Chinese investments in the UK. Prior to 1980 such investment did not exist. Before 2005, there was one subsidiary established per annum in the most years, except year 1986, 1995, 2002 and 2003 with two subsidiary establishments in each year.

Chinese OFDI activity became more significant between 2005 and 2010 with a peak of five subsidiary establishments in 2007. Forty-three per cent subsidiaries were established between 1980 and 2000, 57% company establishments occur after year 2000 and the general trend is increasing dramatically after 2000, although there was a little drawback at 2004. In 2009 and 2010, the number of China’s OFDI establishment dropped back to one per annum might be the result of global financial crisis of 2007-2008. Another reason could be that the survey data was collected between October 2009 and June 2010, some newly established subsidiaries were not yet published on the resources (i.e. the websites of Chinese Embassy in London, UK Trade and Investment (UKTI), ‘Think London’ (the predecessor of London and Partners), the documents from China Enterprises Association in Britain) that this study accessed.

Table 2.3 (in chapter two) shows a continuously rapid growth in stock of China’s OFDI into the UK between 2003 and 2010 though it was a little drawback in 2008, and figure 2.1 (in chapter two) indicates the dramatic increase of China’s OFDI flows worldwide from 2003 to 2010.

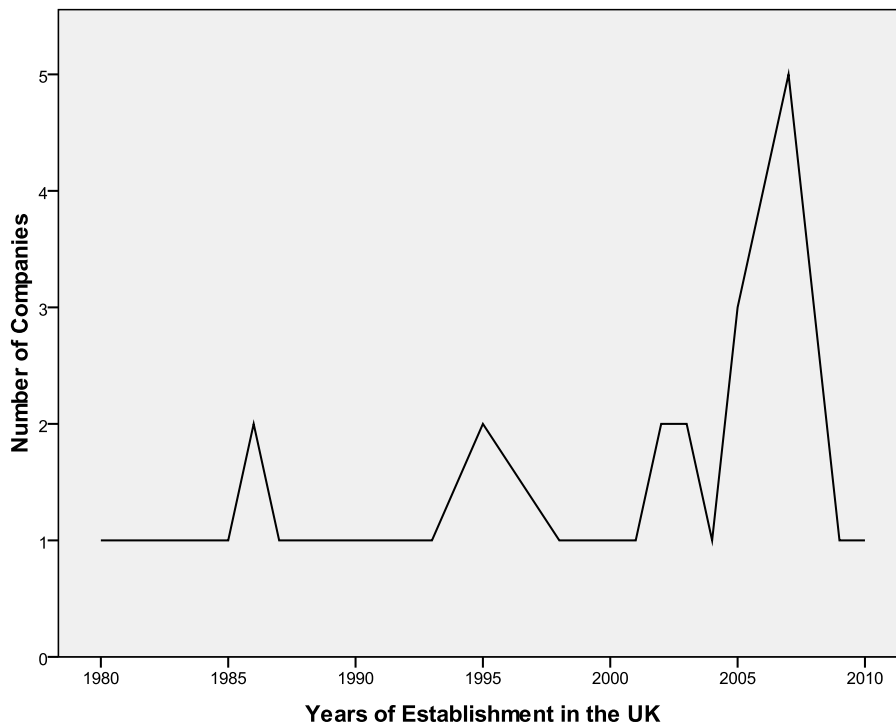


Figure 5.1: Chinese Enterprises in the UK: Dates of Establishment of Survey Finding 1980- 2010

These imply the global financial crisis had little impact on the growth of Chinese OFDI into the UK by 2010. This result is supported by the latest Knoerich’s (2012) finding that the number of China’s OFDI into the EU has not been substantially influenced by EU recession.

As Deng (2004:14) argues, (the) ‘Chinese government has, to a great extent, played a crucial role in shaping the structure of China’s approved outward investment’. This pattern is strongly influenced by China’s rapidly changing institutional arrangement, just one year after the ‘Open Door Policy’ being launched in December 1978, Chinese enterprises started to invest in the UK. The continuous increase in number of establishments after 2000 could be the result of the ‘Go Out Policy’. Furthermore, China’s entry into World Trade Organisation (WTO) in 2001 also plays a significant role in China’s economic international expansion. Chinese government’s statistics reveals that the globally average growth rate in stock of Chinese OFDI is 60% each

year (Ministry of Commerce of China, 2007). Additionally, this pattern may prove some recent findings showing UK is one of the largest recipients of Chinese OFDI in Europe and China is the seventh largest investor in the UK (UKTI, 2012). This pattern also corresponds to the table 2.3 (see chapter two) showing the stock of Chinese OFDI into the UK grows 17 times between 2003 and 2010.

Seventy per cent of Chinese enterprises have entered into UK market through setting up their new wholly owned companies (see table 5.3), which corresponds to Luo *et al.*'s (1993) result of 78% wholly owned subsidiaries. Wholly-owned subsidiaries comprise 70% of the sample, with 17% JVs and 13% M&As respectively. This is similar to the findings of the survey conducted by Liu and Tian (2008), showing that in the UK nearly 60% Chinese subsidiaries are wholly Chinese owned. However, Liu and Tian (2008) identify 40% JVs with local partners, which are much more than 17% JVs in the current survey. This phenomena may be explained by Child and Rodrigues's (2005) statement that M&A as a replacement of JV becomes a preferred entry mode for China's OFDI; some recent successful examples of M&A are also shown in table 2.2 (see chapter two).

Table 5.3: Entry Mode of Survey Findings

	No. of companies	Percentage
New wholly-owned	21	70.0
Joint Venture (JV)	5	16.7
Merger and Acquisition (M&A)	4	13.3
Total	30	100.0

Zhao's (1998) finding uncovered a different pattern: with two third of Chinese enterprises choosing JV to reduce risks and market dominance, which may indicate pattern of Chinese OFDI entry mode has changed in last decade. Seventy-five per

cent of M&As happened after 2000, which may reflect the 2001-present increasing trend of Chinese MNC's international M&A (Yang *et al.*, 2009).

5.2.4 Sector

The Chinese subsidiaries are spread across 14 industrial sectors (banking, construction, consumer goods, food and drink, insurance, IT, motor industry, oil and gas, petrochemicals, pharmaceuticals, publications, telecoms, transport and trade) (see table 5.4).

Table 5.4: Sectors of Subsidiaries of Survey Findings

Sectors	Number of companies	Percentage
Banking/Finance	1	3.3
Construction/Engineering	1	3.3
Consumer Goods	1	3.3
Food & Drink	2	6.7
Insurance	3	10.0
IT/Computers/Software	2	6.7
Motor Industry	2	6.7
Oil & Gas	2	6.7
Petrochemicals	1	3.3
Pharmaceuticals/Medical	2	6.7
Printing/Paper/Publications	2	6.7
Telecoms/Communications	4	13.3
Transport	5	16.7
Trade	2	6.7
Total	30	100.0

Overall, 50% of responding firms come from manufacturing sectors in the home market and 50% are from service sectors. Again this is similar to Liu and Tian's (2008) findings of 55% responding companies are from manufacturing industry and 45% of which in service sectors. However, according to this sole information, it is insufficient to conclude half of the Chinese subsidiaries are manufacturers.

Table 5.5 indicates the activities pursued by these Chinese subsidiaries: note some companies perform more than one activity. Seventy per cent of these subsidiaries are sale organisations, 43% are active in marketing, 37% undertake purchasing, 33%

perform logistics, 27% have service, and 20% undertake R&D activity and 3% have legal and manufacturing activities. Those six companies committed with R&D are scattered in five varied sectors (i.e. banking, printing, telecoms, consuming goods and motor industry). There is only one company that is a manufacturer, an acquisition.

One explanation could be that comparably high operational cost has made Chinese enterprises to choose to export manufacturing goods into UK rather than construct new manufactories in the host country. It can also be concluded that the majority of these Chinese subsidiaries are sale organisations; this corresponds to high average turnover per capita of £ 2 million (see table 5.2).

Table 5.5: Activities Performed in the UK

Activities	No. of the companies	Percentage of the companies
Sales	21	70.0
Marketing	13	43.3
Purchasing	11	36.7
Logistics	10	33.3
Services	8	26.7
R&D	6	20.0
Legal	1	3.3
Manufacturing	1	3.3

(Note: might be more than 1 activity per company)

5.2.5 Ownership

It has been discussed in Chapter Two, though there is OFDI by state-owned, private and collective firms, the majority members of OFDI are from SOEs; this phenomenon is significantly related to the guidelines of China's SOEs reform. Table 5.7 shows that 73% parent companies are state owned, followed by 23% private

companies and 3% collective enterprises, defined as ‘owned by a group of individuals, who sometimes (but not always) work in a common work unit or live in the same neighbourhood’ (Chao and Yang, 1985).

This result supports the findings of earlier researchers, named that Chinese state-owned enterprises dominate the international economic expansion (e.g., Child and Rodrigues, 2005; Wu and Chen, 2001; Young *et al.*, 1998). The fact of that private companies are the second largest group of Chinese MNC’s internationalisation, supports Hou’s (1998) argument, following the state-owned enterprises, Chinese private companies became active in global economic expansion in the 1990s.

Table 5.6: Ownership of Parent Company of Survey Findings

Ownership of companies	No. of companies	Percentage
State-owned	22	73.3
Private	7	23.3
Collective	1	3.3
Total	30	100.0

Chapter Two discusses the ownership advantages in Dunning’s (e.g. 1980, 1988, and 2001) term. Numerous scholars (for example, Barnard, 2010; Gao, Liu and Zou, 2012; Peng, 2012) have found the ownership advantages of Chinese firms are mainly based on financial capability i.e. Chinese firms have sufficient finance to invest overseas, which is also considered as a push factor of OFDI motives. Therefore it is important to know the financial methods of these OFDI into the UK. Table 5.7 shows 87% of the UK subsidiaries have raised the capital from their parent company; this corresponds to the high percentage of state-owned parent companies having got sufficient capital to support their subsidiaries. Kuijus’ (2006) finding shows that Chinese SOEs are dividend-averse and have saved 20% of net profit. To support this assertion, Deng (2004) argued ‘with its sustainable high economic growth, China not

only has substantial foreign capital inflows but also a big current account surplus, huge foreign reserves, and a high level of domestic savings’.

Table 5.7: Main Financial Structure

Financial methods	No. of companies	Percentage
Capital from parent company	26	86.7
Overseas enterprise loans	1	3.3
International financial rental	1	3.3
Secured loans	1	3.3
Secured loans & capital from parent company	1	3.3
Total	30	100.0

5.2.6 Geographical Markets

Chapter two has shown that geographical distribution of Chinese OFDI is mainly driven by their investment motives; although the most of Chinese firms begin the OFDI at nearer psychic distance locations such as other Asian countries, there are still number of OFDI leapfrog directly to the developed countries such as US and the UK.

Table 5.8 indicates that 30% of these Chinese companies consider the UK as their sole target market with 70% of Chinese subsidiaries mainly targeting UK or EU markets. Given that the EU is the largest trading partner of China in 2010 (DG Trade, 2011; Knoerich, 2012), this may imply that operation within EU tariff barriers are important to these companies. 43% mainly target beyond the sole UK and China and 20% also consider Africa as their main target market, which indicates UK is considered as an ideal springboard for international expansion (UKIT, 2009 and 2012). Only 17% Chinese subsidiaries mainly target Chinese markets, might indicate these firms have just recently started to invest overseas, or may also imply the leapfrogging investment, though this needs further research to examine.

Table 5.8: Geographical Markets

Geographical markets	No. of companies	Percentage
UK	9	30.0
UK & Ireland	3	10.0
Europe	3	10.0
Europe & Africa	2	6.7
Europe, Africa & Middle East (EMEA)	2	6.7
China	2	6.7
China & UK	1	3.3
China & Europe	1	3.3
Asia & Africa	1	3.3
Worldwide	1	3.3
No answers	5	16.7
Total	30	100.0

Table 5.9 is the summary of table 5.8, indicating two third parent companies consider the worldwide as their main target market, and only 23% mainly target the Chinese market. This shows the majority of the firms are involved in international trade and even investment, which could be the influence of internationalisation of Chinese economy and Chinese government policies.

Table 5.9: Parent Company's Geographical Markets of Survey Findings

Geographical markets	No. of companies	Percentage
China	7	23.3
Asia	3	10.0
Worldwide	20	66.7
Total	30	100.0

5.2.7 Expected Development in Future

Table 5.10 shows the function of Chinese-owned UK companies (i.e. the organisation functions as a subsidiary or a regional headquarter). There is little change in the company's function since they were established. The percentage of HQs located in the UK has increased 3.3%, i.e. one affiliated organisation has been

promoted from a subsidiary to a regional headquarter, indicating little expansion in terms of functions in the UK companies since 1980.

Table 5.10: Chinese-Owned UK Company’s Function of Survey Findings

Company’s function	Percentage		
	When established	Now	Change
Subsidiary	93.3	90.0	3.3
Regional Headquarter	6.7	10.0	3.3
Total	100.0	100.0	

Interestingly, with an average company annual turnover of £92 million (table 5.2), only one third of these companies (table 5.11) plan to extend their range of activities: in short the other two thirds, will in most cases, remain sale organisations. One explanation could be the high operational cost in the UK restricts the further investment, the parent firms continue to manufacture products in low cost countries and sell them to the high-income economies like Britain.

Table 5.11: Plans to Extend Range of Activities of Survey Findings

	No. of companies	Percentage
Yes	10	33.3
No	15	50.0
No answers	5	16.7
Total	30	100.0

As table 5.12 illustrates, these companies do anticipate significant expansion of their sales activities and numbers of staff; the table shows the maximum, minimum and average expected increases. Rates of expansion range from a factor of 25% times to 100, with the average of 12 times. The Chinese enterprises expect to increase in number of employees in 5 years from 0 times to 12 times, with the average 3 times.

Table 5.12: Expected Increase in Sales & Employee Numbers of Survey Findings

	Minimum increase	Maximum increase	Average increase
Expected increase in sales in 5 years	x 25%	x 100	x 12
Expected increase in No. of employees in 5 years	0	x 12	x 3

Fifty per cent of subsidiaries have no plan to extend their range of activities (see table 5.12), however majority of them expect to increase their sales in 5 years. They expect that average increase in sales is four times the average increase in employees' number. This indicates the majority of Chinese enterprises expect to increase sales through maintaining sale organisations in future. The fact that little change in the functions of Chinese companies (table 5.10) in the UK in the past three decades has strengthened this argument.

5.2.8 Recruitment Methods

Table 5.13 shows five types of recruitment methods (i.e. expatriates, recruitment agency, public advertisement, family connection/recommendation and word-of-mouth).

The recruitment method of word-of mouth (SM mean = 1.71, MM mean = 2.20, NM mean = 2.14) is rarely used for all staff recruitment. Expatriation (SM mean = 4.82) is a method mostly used for senior managers, only sometimes via a recruitment agency (SM mean = 2.79). This indicates the subsidiaries are heavily controlled by parent companies. Public advertisement (SM mean = 2.47) and family connection/recommendation (SM mean = 2.40) are rarely used for choosing senior managers. Expatriation (MM mean = 3.82) is highly used for recruiting middle managers;

public advertisement (MM mean = 2.95) and recruitment agency (MM mean = 3.00) are sometimes used.

Table 5.13: Recruitment Methods of Survey Findings

	Recruitment methods	Mean	Std. deviation
SM	Expatriates	4.82	.53
	Recruitment agency	2.79	1.32
	Public advertisement	2.26	1.24
	Family connection/recommendation	2.40	1.14
	Word-of-mouth	1.71	.77
MM	Expatriates	3.82	1.54
	Recruitment agency	3.00	1.12
	Public advertisement	2.95	1.40
	Family connection/recommendation	2.60	1.10
	Word-of-mouth	2.20	.86
NM	Recruitment agency	3.15	1.39
	Public advertisement	2.95	1.50
	Expatriates	2.86	1.86
	Family connection/recommendation	2.77	1.07
	Word-of-mouth	2.14	1.03

(Note: SM: Senior Managers; MM: Middle Managers; NM: Non-managerial Staff.)
(Scored on a scale of 1-5 where 1= 'Not used' and 5= 'Always used')

There are no recruitment methods that are always used for recruiting non-managerial staff; recruitment agency (NM mean = 3.15), public advertisement (NM mean = 2.95) and expatriates (NM mean = 2.86) are used sometimes. According to table 5.14, expatriation is the most often used method for all types of recruitment; simultaneously agency and advertisement are sometimes adopted. Therefore it is clear that Chinese MNCs are in favour of sending expatriates overseas as well adopting UK methods of recruiting and not continuing to apply the methods (family and inform connections) typical of China.

Table 5.14: Recruitment Methods Summary of Survey Findings

Recruitment methods	Average mean	Std. deviation
Expatriates	3.83	1.31
Recruitment agency	2.98	1.28
Public advertisement	2.72	1.38
Family connection/recommendation	2.59	1.10
Word-of-mouth	1.84	.89

5.2.9 Motivations

Chapter two discusses the push and pull explanations of China's OFDI motivations. These push factors emphasise that the Chinese firms have sufficient finance to invest overseas and that the changing institutional policies encourage and support China's OFDI. The pull factors focus on Dunning's (1993) four motivations of OFDI i.e. market-seeking, efficiency-seeking, natural resources-seeking and strategic asset-seeking. Based on the push and pull factors of motivation, 16 variables in table 5.15 are adopted to investigate the motives of China's OFDI in the UK. Table 5.15 shows the investment motivations that can attract Chinese enterprises to invest in the UK.

More expansion opportunities in the UK and access to EU markets are the most important motivations, with average scores of 3.55 and 3.69 respectively. To seek or advance managerial skills is the third important motivation, with a mean of 3.00, followed by lower political risks in the UK (mean = 2.89), to seek local talent (mean = 2.75) and Chinese government's policy support (mean = 2.74).

The least important motivation is increasing production cost in the home country (mean = .92). Chinese investors do not tend to seek raw materials (mean = .96), they do not consider operation cost in the UK lower than in China (mean = 1.15) and they also do not find British investment incentives attractive (mean = 1.42). Although

both competitive pressure and production cost have been increasing recently at home, Chinese enterprises do not consider them as a big challenge. Britain is well known for its strong R&D capabilities (Liu and Tian, 2008); however, the companies do not consider it as an important motivation of investment (mean = 1.96).

Table 5.15: Investment Motivations of Survey Findings
(Categories adapted from Liu and Tian, 2008)

Motivations	Mean	Std. deviation
Access to EU markets	3.69	1.26
More expansion opportunities in the UK	3.55	1.24
To seek or advance managerial skills	3.00	1.07
Lower political risks in the UK	2.89	1.45
To seek local talent	2.75	1.27
Chinese government's policy support	2.70	1.35
Easier access to financial markets in the UK	2.55	1.55
Sufficient capital to be invested	2.19	1.44
Cultural and languages proximity	2.18	1.68
To seek R&D capabilities	1.96	1.51
Competitive pressure at home	1.92	1.35
To seek renowned brands	1.70	1.56
Investment incentives in the UK	1.42	1.14
Lower operation cost in the UK	1.15	1.03
To seek raw materials	.96	1.34
Increasing production cost in the home country	.92	.93

(Scored on a scale of 1-5 where 1= 'Not important' and 5= 'Very important')

Table 5.16 summarises table 5.15, 16 variables (in table 5.15) are classified into 7 categories (see table 5.16). As table 5.16 indicates, Chinese investors' main motivation is market-seeking (i.e. more expansion opportunities in the UK and access to EU markets), followed by the government's policy support. This is supported by some earlier findings that political and diplomatic factors form crucial motives for Chinese overseas investors (Qiao, 1996 and Qi, 1999). Some later findings also show that market-seeking is the most important motivation (Wu and Chen, 2001; Liu and Tian, 2008). Deng (2004) argues that in some industries, 'Chinese markets have reached the limits of effective demand and even significant

excess production capacity in such industries as textiles and clothing...’ therefore, Chinese companies need to seek overseas markets.

Table 5.16: Investment Motivation Categories

Motivation categories	Mean	Std. deviation
Market-seeking	3.62	1.25
Chinese government’s policy support	2.70	1.35
British location advantages	2.54	1.56
Strategic asset-seeking	2.35	1.35
Sufficient capital to be invested	2.19	1.44
Efficiency-seeking	1.04	.98
Resources-seeking	.96	1.34

British location advantages (i.e. lower political risks in the UK, easier access to financial markets in the UK and Cultural and languages proximity) are the third important motivation. Liu and Tian’s (2008) result also indicates the great importance of location advantages in the UK.

Strategic asset-seeking (i.e. to seek technology/R&D capabilities, to seek or advance managerial skills, to seek local talent and to seek renowned brands) is ranked in fourth place. Dunning (1998) commented on the change of FDI in general is that the most significant change in the motives for FDI over the last two decades has been the rapid growth of strategic asset-seeking FDI. Deng (2004) also argues that Chinese overseas investment was interested in obtaining advanced technology in developed countries. Firms having sufficient capital to be invested are slightly less important.

Efficiency-seeking (i.e. lower operation cost in the UK and increasing production cost in the home country) Resources seeking (i.e. to seek raw materials) is considered as the two least important motivations. This result corresponds to the findings of Liu and Tian (2008). Deng (2004) and Buckley *et al.* (2008) have also found the efficiency-seeking was not an important motive for Chinese overseas investment.

5.2.10 Overall Benefits

Based on Wu and Chen's (2001) work and Liu and Tian's (2008) variables of motives, 10 overall benefits perceived by Chinese firms are identified and are shown in table 5.17.

Table 5.17: Investment Overall Benefits of Survey Findings

Overall benefits	Mean	Std. Deviation
New market	4.07	1.11
Contributing to stronger economic ties with the UK	3.22	1.40
Managerial skills	3.04	1.46
Export market	2.68	1.91
Advanced technology	1.88	1.64
Overseas funding	1.73	1.40
Securing foreign exchange	1.54	1.48
Advanced equipment	1.52	1.45
Lower operational cost in the UK	1.20	1.22
Natural resources	1.11	1.28

(Scored on a scale of 1-5 where 1= 'Not important' and 5= 'Very important')

Overall benefits correspond to investing motivations. New market (mean = 4.07) is the most important overall benefit. Chinese investors believe that contributing to stronger economic ties with the UK (mean = 3.22) is as important as acquiring managerial skills (mean = 3.04), and export market (mean = 2.68) is also an important overall benefit. Corresponding to investing motivations, Chinese companies have not received many overall benefits from natural resources (mean = 1.11), operational cost (mean = 1.20) and R&D capabilities (mean = 1.88).

Table 5.18 is a summary of table 5.17. Perhaps, given the similarity of mean scores for contributing to stronger economic ties (mean = 3.22) with the UK and market-seeking (mean = 3.34) (see table 5.18), it is fair to conclude that market access is the main overall benefits for Chinese OFDI into the UK, at the level of the firm, though

at a wider Chinese economic development level, stronger ties are also important to Chinese firms in general.

Table 5.18: Investment Overall Benefits Categories

Overall benefits categories	Mean	Std. deviation
Market access	3.34	1.52
Contributing to stronger economic ties with the UK	3.22	1.40
Strategic asset access	2.15	1.51
British location advantages	1.49	1.37
Efficiency access	1.20	1.22
Resources access	1.11	1.28

Supporting this assertion, Deng (2007) noted that Chinese state-owned enterprises focus not entirely on economic objectives, but also on policy support for the government, particularly in terms of its long-range development plans. Strategic asset access (mean = 2.15) appears as the second significant benefits – a category requiring further qualitative and interpretative research. Location advantages (mean = 1.49) and resources access (mean = 1.11) are lower order overall benefits for OFDI from China into the UK. Wu and Chen (2001) reveal that market access and strategic asset access are crucial benefits that Chinese overseas investors obtained.

5.3 Discussion and Conclusion

5.3.1 The General Pattern of Chinese OFDI in the UK

China's earliest OFDI in the UK began in the 1920s; however, large-scale development started from 1980 after launching of 'Open Door Policy' and the significant growth has occurred after 2000 - after the announcement of 'Go Out Policy'. In addition, Chinese government policy's support is widely considered as one of the major drivers of investment. Contributing to stronger economic ties with the local is also the significant overall benefit for the subsidiaries in the UK. This pattern illustrates that the development of China's OFDI in Britain is heavily

influenced by Chinese government policies and changing institutional arrangement. The majority of parent companies are state-owned; they have sufficient capital to invest in the UK tending not to borrow money.

In China, the state-owned firms often play a pioneering role in policy implementation processes; therefore this fact also stresses the institutional issue. Chinese outward investment into the UK has largely taken the form of creating SMEs and sale subsidiaries – most of which are wholly-owned. Though establishing wholly-owned subsidiaries is still the dominant entry mode in Britain, the data shows the number of international M&A is increasing currently, which might imply the strategic asset-seeking (through M&A) motivation of China's OFDI is strengthened.

Although recently operational costs in China have increased, Chinese investors still choose to manufacture in China, seeking to sell in the UK markets, rather than establishing manufacturing plants in the UK. Additionally, the majority of Chinese enterprises do not plan to construct plants; they expect to increase sales through continuing importing goods into UK and also consider Britain as a springboard of global expansion. This phenomenon cannot illustrate that Chinese MNCs do not tend to establish manufactures in developed countries, in fact there are examples (e.g. Haier setting up a manufacture in US) that show the Chinese firms have manufacturing in America, Australia, Germany, etc. In contrast, this might indicate the UK's limitations (e.g. lack of natural resources, high cost of labour) for manufacturing establishment.

The overall benefits that Chinese investors are achieving correspond to their entry motivations. Chinese enterprises invest in the UK mainly to expand their markets, to seek strategic asset and to support China's government (internationalisation) policies. Chinese parent companies tend to tightly control the subsidiaries by sending

expatriates staff in particular the senior management staff; however, they adopt the UK recruitment methods mainly for hiring middle managerial staff and non-managerial ones. In summary, compared with previous generations of (more technologically sophisticated) US and Japanese overseas investment, Chinese OFDI is still in its early stages in terms of size and sophistication. As a latecomer in global economy, Chinese MNCs' investment in the UK is expected to gradually develop through increasing their sales and strengthen the international competitive advantages through absorbing local intelligence and learning new knowledge and skills, especially managerial skills and marketing practices.

The data supports part of Dunning's stages argument (Dunning, 1981a, 1981b, 1986; Dunning and Narula, 1996a, Buckley and Castro, 1998); having become a major recipient of IFDI, China is now beginning to grow its OFDI. The findings indicate that the majority of the Chinese MNCs are large firms with sufficient capital to invest overseas, whilst most of their OFDI into the UK are small sale organisations, thus the evidence from the UK suggests that China's internationalisation remains in stage-two of Dunning's investment development path i.e. early excursions into OFDI.

The data also illustrates that Chinese subsidiaries do not seek for international loans because their parent companies have sufficient capital to invest overseas; rather they seek for knowledge and resources. This may imply Gao *et al.*'s (2012) research finding that 'the ownership advantages of Chinese are based more on financial capacity than knowledge assets'. These Chinese MNCs are expanding into the UK because they have the capacity (mainly their financial strength and also the government support) to do so and intend to acquire knowledge and market share in long-term. Given market-seeking and strategic asset-seeking are their main motives, pragmatic Chinese firms are unlikely to internationalise simply because they have

the financial ability to do so, which supports Gao, Liu and Zou's (2012) argument that a country's OFDI process cannot be addressed by its economic development alone.

5.3.2 The Main Motivations for Chinese OFDI into the UK

With the data showing 57% of the Chinese subsidiaries being established after the Chinese Government announced the 'Go Out Policy', this push factor appears to be of great importance as a motivation for investment into the UK, a fact acknowledged by the Asia Pacific Foundation of Canada (2005). The survey result shows 73% of Chinese OFDI is state-owned companies. Calling attention to internationalisation by state-owned enterprises, Deng (2007) notes a 'focus not entirely on economic objectives, but also on policy support for the government, particularly in terms of its long-range development plans'. Therefore, Dunning's (e.g. 1993 and 2000) four category motives (i.e. natural resource-seeking, strategic asset-seeking, market-seeking and efficiency-seeking) are insufficient to explain the motivations of Chinese OFDI, since the push factor of the government policy support that is neglected by Dunning plays a significant role in driving these OFDI into the UK.

Market-seeking, British location advantages and strategic asset-seeking are the most important pull motive factors, with efficiency-seeking and natural resources-seeking as the least important pull factors; these results support the findings of Liu and Tian (2008). Given the current domestic market situations, Deng (2004) and Buckley *et al.* (2008) establish that efficiency-seeking is the least important pull factor, with strategic asset-seeking i.e. seeking advanced managerial skills and local talent being much more important. For British location advantages, lower political risks in the UK and cultural and languages proximity are considered important, though the UK market is relatively smaller than some other EU markets such as Germany, the UK is still one of the most attractive markets in EU. The fact that natural resource-seeking

is considered the least important motives, supports Wu and Chen's (2001) finding that the natural resource-seeking OFDI is drawn to resource-rich countries like Russia, Australia and Africa. Efficiency-seeking including lower operation cost in the UK and increasing production cost in the home country is also unimportant to the Chinese investors, might also explain the low percentage (only 3%) of manufacturing OFDI.

The findings in investment overall benefits align with Wu and Chen (2001)'s result that market access and strategic assets access are the two major benefits gained by Chinese OFDI. The fact that the overall benefits correspond to the major motives indicates that the expectation of the firms have been met in certain level and also implies some ways of learning such as absorbing advanced managerial skills, recruiting local talent occurs in the subsidiaries.

The fact that the ownership advantages of Chinese firms are primarily based on financial capacity rather than strategic asset-seeking drives the OFDI to augment their ownership advantages through seeking resources (or strategic assets) in the host country. The data shows strategic asset-seeking is one of the main motives of Chinese OFDI into the UK. The currently increasing trend of M&A in Britain also strengthens the finding of strategic asset-seeking being one of main motives. This strategic asset-seeking is principally to seek advanced managerial skills and local talent. Given the argument by Simon (1991) that organisations learn through the learning of its existing staff and through recruiting new employees who have the knowledge unknown to the organisation, it can be concluded that the Chinese OFDI intends to learn in these two ways.

The next chapter explains the qualitative empirical findings on how the subsidiaries undertake learning and develop capabilities.

Chapter Six: Findings of Interviews to Address Research Question Two, Three and Four

6.1 Introduction

This chapter is the second empirical chapter follows and builds on the survey chapter. Taking inspiration from the Andersson *et al.*'s (2001) three-level processes of capabilities development in a MNC (i.e. the business relationship level, the subsidiary level, and the corporate level), the conceptual (figure 3.2) framework is developed through synthesising the concepts of knowledge gaps, learning from internal and external networks, absorptive capacity indicating a subsidiary absorbs and exploits knowledge and commercialises it to develop new capabilities, knowledge transfer and capabilities development in the HQs to explore the learning and capabilities development in Chinese MNCs. This chapter is in three sections, which address the research question two, three and four respectively.

6.2 Chinese Subsidiaries Learn from the UK: to Address Research Question Two

This section addresses research question two (e.g. how does the learning occur in Chinese MNC subsidiaries in the UK), starting with identifying knowledge gaps in the subsidiary (in section 6.2.1), as Peterson *et al.* (2008) suggest, knowledge gaps show the current knowledge is not sufficient to achieve the expected performance and motivate actions to remove and diminish the gaps. Sections 6.2.2 and 6.2.3 then focus upon how Chinese subsidiaries acquire and assimilate knowledge from the internal and external network actors in the UK.

Research (in Chapter Three) emphasises the importance of both internal and external networks as knowledge sources for subsidiary's learning. Section 6.2.2 articulates how Chinese subsidiaries in the UK undertake learning through interactions with

their internal network mainly their HQs. As mentioned in the literature review of chapter three, expatriates staff play an essential role in organisational learning in the subsidiaries, are emphasised in this chapter.

Following Simon's (1991) argument: an organisation learns either through the learning of its employees or through recruiting new staff who have the knowledge that the firm does not have, section 6.2.3 describes how the subsidiaries learn through recruiting local talents and the employee's learning from their external network that consists of local customers, local competitors, local consultants, local policy makers, local business and industrial communities in the UK. As discussed in the literature review, motivations to acquire and share knowledge have a positive influence on organisational learning in a subsidiary, and knowledge transfer within the MNC, therefore section 6.2.4 introduces motivations.

6.2.1 Identifying Knowledge Gaps

During the interviews, the interviewees were required to identify knowledge gaps in their organisations. In data presentation stage, guided by Simon's (1999) identified types of knowledge in international strategic alliances, the knowledge is classified into four categories. Table 6.1 lists the four types of knowledge (including operations management knowledge, market knowledge, HRM knowledge, and R&D knowledge) in descending order. According to Hendry (2011), the interviewees were asked what knowledge gaps (between their companies and the local companies) that they have seen and how they can identify these knowledge gaps; only people (in particular the expatriates) from the UK subsidiaries were required to answer this question because the expatriates in the UK subsidiaries have worked both at home and in the UK then they are able to tell the differences based on their experiences.

Table I: A Summary of the Companies and Their Operations

No.	Company name	UK subsidiary sector	UK subsidiary operations	Interviews
1	B1	Banking	R&D, sales, purchasing, marketing and service	Subsidiary
2	B2	Banking	R&D, sales, purchasing and marketing	Subsidiary & HQs
3	B3	Banking	R&D, sales, purchasing and marketing	Subsidiary & HQs
4	C	Construction	Sales and construction	Subsidiary & HQs
5	CO	Consuming goods	Sales, purchasing and marketing	Subsidiary
6	E	Electronic	Sales and service	Subsidiary
7	IC1	Information and communications technology (ICT)	Sales, purchasing and marketing	Subsidiary
8	IC2	Information and communications technology (ICT)	R&D, sales, purchasing, marketing and service	Subsidiary
9	IC3	Information and communications technology (ICT)	Sales and marketing	Subsidiary
10	P1	Publishing	Sales and purchasing	Subsidiary & HQs
11	P2	Publishing	Sales and marketing	Subsidiary
12	TD1	Trading	Sales	Subsidiary
13	TD2	Trading	Sales and marketing,	Subsidiary
14	T1	Transport	Logistics	Subsidiary
15	T2	Transport	Logistics	Subsidiary
16	O1	Oil & Gas	Sales and purchasing	HQs
17	O2	Oil & Gas	Sales and purchasing	HQs
18	IC4	Information and communications technology (ICT)	Sales, marketing and service	HQs

For each subsidiary, the knowledge categories that were directly mentioned by its interviewees are marked as ‘Y’ in the corresponding cells in table 1, and this study sums all the ‘Y’s for each category and then calculate the percentage.

Eighty per cent of Chinese affiliates directly mentioned that they have witnessed the knowledge gaps in operations management (see table 1), and they think that western (including UK leading companies’) operations management practices tend to be more meticulous and systematic. The Managing Director from E subsidiary describes an anecdote. When he worked in the US subsidiary, E’s HQs were an OEM (original equipment manufacturer) and ODM (original design manufacturer) for GE (General Electric). Once GE required E to produce a batch of microwaves, E initially wanted to use its own developed PCB (printed circuit board), however E was unable to pass GE’s PCB testing, at last E had to purchase PCB from Samsung. The Managing Director explains:

GE had about 200 pages testing only for the PCB of a microwave; it was like the requirement of manufacturing an aircraft engine, so I can tell that’s why GE’s products have good quality. GE has rigorous and complete quality assurance systems that we did not have and still need to catch up with. At that time, it was even a big project to translate the 200 pages test.

Four expatriate staff from four sectors point out that unlike British companies, Chinese enterprises emphasise the consequences rather than the processes. This means they do not pay much attention to the process so long as they achieve the result. For example, a senior manager from IC2 subsidiary mentions that British people might not reach solutions after a few hours long meeting, in contrast Chinese people need to reach a conclusion at the end of each meeting otherwise the meeting might be considered meaningless. In addition, company B3 subsidiary’s Managing Director says:

... our management focus on results, in contrast our local peers emphasise on the processes in terms of how to achieve the consequences. Through working in the subsidiary we have been gradually aware that a refined process can

prevent us from many risks such as that the cost for reaching a result significantly exceeds the payback.

Five Managing Directors in the subsidiaries point out that their local counterparts manage the organisations using more sophisticated and effective systems, solidifying individual capacities in the systems through long-term finely preserving the individuals' written documents and files: therefore these companies may be able to avoid HR issues when replacing staff which otherwise might mean changes in processes or could effect on the business development and even cause chaos. Chinese companies tend to be more dependent on people than systems. Similarly a senior manager IC2 subsidiary explains:

Chinese tend to record things in our brains, in contrast western tend to record things in files that is good for heritage.

Five managers in the subsidiaries from banking, publication and ICT sectors illustrate another problem that their firms lack technology support and systems compatibility. An IC1 subsidiary's senior manager says:

our HQs have some operational and management systems, but we are lack effectively integration of these systems. For example, our customer data, billing and financial systems cannot be effectively integrated. Some other Chinese enterprises also face the similar problems.

The Managing Director of P1 subsidiary encountered difficulty when he was asked about the budget of the Bookshop Open Ceremony by the consultants, because he normally did not have the budget until he considered the individual item's price and then aggregated them into an overall budget when he worked in the HQs.

Additionally, the managers from the subsidiaries of three banks think that unlike the UK leading banks, their HQs do not consider the legal and compliance department as a core department; many Chinese banks even do not have their legal and compliance department.

Table 6.1: Knowledge Gaps in UK Subsidiaries

Company names	B1	B2	B3	C	CO	E	IC1	IC2	IC3	P1	P2	TD1	TD2	T1	T2	Sum	Percentage
Sector	B	B	B	C	Cos	E	ICT	ICT	ICT	Pb	Pb	Td	Td	Tp	Tp	N/A	N/A
Types of companies	S	S	S	P	P	P	S	P	P	S	S	S	S	S	S	N/A	N/A
Knowledge gap in operations management	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	Y	N	12Y	80%
Knowledge gap in marketing	Y	Y	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	11Y	73%
Knowledge gap in HRM	Y	N	Y	Y	N	Y	N	Y	N	Y	N	Y	N	N	N	7Y	46%
Knowledge gap in R&D	Y	Y	Y	Y	N	Y	Y	N	N	N	N	N	N	N	N	6Y	40%

Note. For sector, B=Banking, C = Construction, Cos = Consuming goods, E = Electronic, ICT = Information and Communications Technology, Pb = Publishing, Td = Trading, Tp = Transport. For types of companies, S = State-owned, P = Private. HRM = Human Resource Management, R&D = Research and Development.

As shown in table 6.1, 73% of subsidiaries have pointed out that they have identified the knowledge gaps in marketing between in the UK and in China. It appears mainly in marketing strategy, tendering, signing contracts and customers. Six Chinese expatriates believe that their local peers have more mature marketing strategies because they understand their products and services and their main competitors, and have a clear marketing positioning allowing them to adopt appropriate strategies to compete, and simultaneously they pay relatively more attention to market research than Chinese enterprises.

The Managing Director of IC1 mentioned that his company paid little attention to market research, once they bid for a big telecommunication project and they lost to the biggest competitor who they underestimated due to their lack of systematic market research. Signing contracts with British partners has become another significant challenge, company TD1 subsidiary's Managing Director explained:

... sometimes we operate in a Chinese way to deal with issues, this means we only talk about general issues initially and discuss the details during implementation. This does not work in Europe. In the UK, contracts are legal documents, cannot be changed easily unless the two parties both agree to do so. However, in China even if we have signed a contract, we can discuss new solutions if the contract cannot be completed. Therefore, here we must take all the potential and possible problems into account to avoid losses before we sign contracts.

The majority of interviewees in the subsidiaries think that UK companies treat the contract strictly and carefully, with literal scrutiny, having a dedicated legal team to discuss contractual matters. The Managing Director from P1 subsidiary says:

Tender management and procedures in China are far less standard and disciplined, and the bidding results are often influenced by other factors for instance Guanxi..... When we lost the bidding in the UK, we identified our weakness only on the product quality and prices, and we would not consider other factors.

Four expatriates have pointed out that there are many things such as the tender regulations, rules and procedures, which Chinese subsidiaries need to learn. Another marketing issue is that the majority of customers of some subsidiaries (in particular the three banks) are Chinese companies and local Chinese. The three banks believe that following their domestic corporate clients and providing them financial services overseas is one of their main objectives to establish subsidiaries in the UK. Therefore these banks already had these Chinese companies as their customers when they invested in the UK. However, in order to survive and develop, they need to compete to win local clients. In addition, most of the interviewees from subsidiaries have mentioned that compared to the Chinese market, the UK market is more standardised and disciplined. For example, company T2 subsidiary's Managing Director says that gas and electricity are monopolies in China, but in the UK there are many utilities companies that compete with one another, which lead to a good market environment that is conducive to technology innovation and consumers' interests.

According to table 6.1, 46 per cent of subsidiaries directly point out their knowledge gap in HRM. The UK subsidiaries' managers encounter significantly different HRM rules and procedures including recruitment, distribution, training and development. A senior manager in C subsidiary mentions, his subsidiary previously did not have a clear division of labour (i.e. one employee may be responsible for several different jobs), for example, he used to take responsible of procurements, tenders and daily communication with HQs, working seven days a week and his work efficiency was very low. This situation still occurs in the majority of small sized subsidiaries, because of having a limited budget and limited manpower. In addition, he was prosecuted for dismissing staff several times because he was unfamiliar with British employment law. Company E subsidiary's Managing Director and two senior managers from B1 and IC2's subsidiaries point out a significant Chinese

‘management orientated’ style, i.e. it is technical staff in China who tend to move from the technical positions into management after working for a period: managerial positions are considered more advanced than technical posts. These two senior managers from B1 and IC2 believe this phenomenon is a cultural issue, not limited to certain sectors and companies. In these circumstances, technical employees in Chinese companies and even in many leading high-tech companies are relatively young and less experienced. The senior manager from company IC2’s subsidiary also provides a descriptive episode.

Western companies normally have specialised technical writers who are experienced technical staff. In Chinese companies experienced technical staffs prefer to take management positions rather than writing technical documents..., writing technical documents is considered a futureless job..... In the beginning, we asked HQs’ staffs to translate technical documents; it results in translations so bad that our clients cannot understand them.

Company E has different pay structures between technical staff and sales and managerial staff. Technical staff has relatively stable salaries and benefits including housing and car allowance. In contrast, sales and managerial staff do not have this kind of benefits; their income depends on their sales. Over last decade, company E’s sales have grown rapidly, therefore, the sales and managerial staff’ income are much higher than the engineers. This has led to many technical staff moving to sales and managerial positions. In addition, the most of executives are promoted from sales and managerial staff; some engineers switch to sales and managerial positions with hope of more opportunities for promotion.

According to table I, the minority of subsidiaries that have ever involved R&D, however, there are still 40 per cent of the organisations that have directly pointed out their knowledge gaps in R&D (refer to table 6.1). This R&D complementary mainly appears lack of product diversification. The three banks’ subsidiaries have found that their local counterparts are more advanced and diversified with their products

either in traditional deposit and loan products or latest derivative products, which is based on the advanced and long-term R&D capability. A senior manager from B1 subsidiary said:

We have found that local peers are more flexible and diversified with their products including individual deposit and loan products as well as personal finance products. In contrast we only sell basic products. Local banks have advanced R&D capability, regularly offering new independent R&D products. Our bank sells the products that are copied mature products from the HQs in the domestic market.

Additionally the three banks also encounter many unfamiliar products in the UK and have a very clear objective to learn about these new products and relevant knowledge. C subsidiary has also witnessed the knowledge gap in R&D and one of its senior managers said:

in order to compete in the local market, we may develop only one or two new products, but we do not focus on the sustainability of new products development. Our western peers normally have a sustainable plan, for example, the first generation to achieve thermal insulation, second generation to achieve energy conservation, the third generation to achieve humanity.

Many HQs (e.g. manufacturers and publishing companies) had involved in exporting their products to western countries for many years before they established their subsidiaries, and simultaneously the majority subsidiaries have been evolved from the representative offices to the subsidiaries. In the circumstances, it is reasonable to hear that the majority of expatriates perceived the knowledge gaps even before they started to work in the UK, in addition some knowledge gaps have become more obvious and severe during their working in the UK.

6.2.2 Subsidiaries Learn from Their Internal Networks

In chapter two, both the Uppsala model and the Mathews' LLL framework emphasise the importance of networks for a subsidiary's learning. Chapter three has discussed that internal and external networks play significant roles as the learning

sources to a subsidiary. This section presents the interview findings on how the subsidiaries in the UK learn from their internal network (here mean their HQs). Derived from Easterby-Smith *et al.*'s (2008) mechanisms of knowledge transfer from one organisation to another organisation such as training programs, social events, and transferring experienced personnel, the key codes in table 6.2 (i.e. recruitment of expatriates in the subsidiary; existence of regular interactions between UK subsidiary and its HQs; existence of regular interactions between UK subsidiary and its company's other subsidiaries; arrangement of training, seminars, conferences within the HQs; UK subsidiary sending staff to attend the HQs' training, seminars, conferences; arrangement of training, seminars, conferences within the subsidiary) are generated.

Derived from Simon's (1991) statement, the work looks at the subsidiaries learn through both recruitment of the expatriates and employees' interactions with the HQs and the companies' other subsidiaries. Besides transferring information via the regular (even daily) interactions with the subsidiaries, all the HQs also organise activities (here means training programs, seminars and conferences), which provide the subsidiaries good opportunities to learn.

Expatriates

Table 6.2 indicates that all Chinese enterprises send expatriates to work in their UK subsidiaries. They tend to send experienced staff and also believe that expatriate staffs play positive and important roles in the UK subsidiaries, expatriates bridge communication between the HQs and subsidiaries. If there are no expatriates, it is difficult to implement the HQs policies, culture and requirements in the subsidiary; it is also difficult for HQs to understand the subsidiary's demands and difficulties. As the Managing Director from T2 subsidiary says:

As expatriates from HQs, we know our company's culture and vision, so we can better understand and implement HQs' instructions. Sometimes we need to explain HQs' instructions to local staff if they cannot understand them. For example, once I received a new inland containers transport procedure document written in Chinese from the EU HQs, I read through it and found a few sentences written unclear, and I called the EU HQs for explanation, and then explained the procedure in English to the general manager and supervisors face to face. I believe that oral communication is more direct and flexible than written communication. The local employees did not understand Chinese, thus they would not complete the task without my help.

When subsidiaries are first established, expatriates play an essential role in adopting the HQs' model for establishing the UK organisation and business start-up: as a senior manager from B1 points out:

As an overseas subsidiary, we first replicated HQs' mechanisms and then adjusted ourselves through comparing with the local peers.

Expatriates are also assigned in various departments, and tend to take vital positions. Simultaneously, most of expatriate managers are responsible for mentoring new employees and/or providing training courses for their fellow employees. All the 15 subsidiaries' Managing Directors are Chinese expatriates who at least had five year work experiences before taking the post. Each HQ has a mechanism for expatriate's selection and rotation of expatriates every three to five years, many expatriates often stay in the subsidiaries longer than this rotation.

As the subsidiaries expand and develop, expatriates continue to play an important role in implementing HQs' policies, demands and targets and also assisting local employees. In addition to selling products, the majority of interviewed subsidiaries aim to promote their brands and expand their market in Britain. Therefore the expatriates' professional techniques and an understanding of brands and companies bring a positive impact. Simultaneously, several interviewees in the subsidiaries believe that expatriates are more flexible and diligent.

Table 6.2: UK Subsidiaries' Internal Network and Learning

Company names	B1	B2	B3	C	CO	E	IC1	IC2	IC3	P1	P2	TD1	TD2	T1	T2	Sum	Percentage
Sector	B	B	B	C	Cos	E	ICT	ICT	ICT	Pb	Pb	Td	Td	Tp	Tp	N/A	N/A
Types of companies	S	S	S	P	P	P	S	P	P	S	S	S	S	S	S	N/A	N/A
Recruitment of expatriates in the subsidiary	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
Existence of regular interactions between UK subsidiary and its HQs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
Existence of regular interactions between UK subsidiary and its company's other subsidiaries	Y	Y	Y	N	N	N	Y	Y	N	Y	N	N	N	Y	Y	8Y	53%
Arrangement of training, seminars, conferences within the HQs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
UK subsidiary sending staff to attend the HQs' training, seminars, conferences	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
Arrangement of training, seminars, conferences within the subsidiary	Y	Y	Y	Y	N	N	Y	Y	N	N	N	N	N	Y	Y	8Y	53%

Note. For sector, B=Banking, C = Construction, Cos = Consuming goods, E = Electronic, ICT = Information and communications technology, Pb = Publishing, Td = Trading, Tp = Transport. For types of companies, S = State-owned, P = Private.

As a Chinese leading ICT company, IC2 responds clients' demand faster than local EU companies. When a client proposes a modification to an EU company, it normally takes one year and even longer to complete amendment. In contrast, IC2 only takes one or two months. A senior manager from IC2 subsidiary explains the reason as follows.

When I first started to work in IC2 HQs, I saw my mentors and supervisors' dedication to work; all department managers do not take marriage leave, working very hard and diligently. Dedication and diligence make IC2 a unique culture. Thirty per cent of our employees are Chinese in the subsidiary. Staff from China occupy many key positions, especially management positions, because many cases have proved that Chinese employees play key roles in the important moment. Local employees do not want to work overtime and during vacations.

Several expatriate managers directly claim that as foreign companies it is difficult to fully rely on local employees. A senior manager from C subsidiary says:

we have local staff in many positions such as Health and Safety officers and commercial managers, simultaneously each of these positions have Chinese assistants, both conducive to learning and to ensure the relative stability of these positions (i.e. each position has a reserve staff). Though the cost is relatively high, it is worth it.

Expatriates take the responsibility of daily communication between subsidiary and HQs, especially when the reports from the HQs are written in Chinese. The majority of reports from the HQs are written in Chinese. As mentioned, the three banks have numerous Chinese clients locally for whom the expatriates have an advantage over the local employees in dealing with the Chinese. In B1's banking department, only one out of fifty employees is not from Chinese ethnic group, who cannot speak Chinese.

Learning from the HQs

As shown in table 6.2, all the 15 subsidiaries have regular interactions with their HQs that all arrange training programs, seminars and conferences, and the subsidiaries

also send the staff to attend these activities online or/and in the HQs. The HQs from the three banks and also company IC1 and IC2 have a relative well-developed training centre (some are called ‘University’) regularly providing training programs and seminars. For example, a senior manager from IC1 subsidiary says:

HQs have an IC1 University, mainly providing internal training courses and seminars. The UK subsidiary’s main objective is selling ICT products and services, so it sends staff to attend the training courses mainly about products and services both online and in the HQs

The Managing Director of B3 subsidiary has also mentioned that the HQs regularly organise training programs and particularly arrange some specific courses (e.g. anti-money laundering, insider trading, etc.) for the UK subsidiary; the HQs review all the training programs every year. In addition, three subsidiaries’ Managing Directors have also pointed out, their HQs have designed specialised training programs for overseas’ employees. A deputy manager from B2 subsidiary says:

From 2009, the HQs have started to organize training courses and seminars for all overseas subsidiaries. Every year, HQs invite overseas local staff to participate in a one-week training program in China. At the moment, the program is quite general, mainly introducing the company’s overall business situations, visiting the various branches to enhance perceptual knowledge. But I believe HQs will gradually arrange more business-related training courses.

According to table 6.2, 53 per cent of the UK subsidiaries have regular interactions with other subsidiaries in the companies.

6.2.3 Subsidiaries Learn from Their External Network

Chapter two and three have discussed that the external network is seen as linkage in Mathews’ LLL framework, some other researchers (for example Andersson and Forsgren, 1996; Andersson and Pahlverg, 1996) have also stressed the significance of external network partners for developing a subsidiary’s capabilities. This section presents the qualitative research findings on how the UK subsidiaries learn from the external networks. Like section 6.2, subsidiaries learn from their internal network,

some factors (i.e. recruitment of local talent in UK subsidiary; recruitment of merely local Chinese talent in the UK subsidiary; existence of local talent in management positions in the UK subsidiary; UK subsidiary uses local consultants to help with solving problems; UK subsidiary sending staff to attend training, seminars, conferences at local) in table 6.3 are also developed based on Easterby-Smith's (2008) mechanisms of knowledge transfer.

Other factors (i.e. UK subsidiary learns from its local competitors; UK subsidiary learns from its local customers; UK subsidiary is the member of China Enterprises Association in Britain; and UK subsidiary joins other local industrial or/and business associations.) fall in line with Nohria and Ghoshal's (1997) external network (e.g. competitors, customers). Guided by Simon's (1991) argument, the subsidiaries learn through both recruitment of the local talent (here including both local Chinese and local non-Chinese) and their members' interactions with their local consultants, local customers, local competitors, local policy makers, local business and industrial communities. Next, the four types of external sources of learning are considered in turn, these being local talent, local consultants, local competitors/customers and local policy makers/local business communities/local industrial communities.

Local Talent

As show in table 6.3, 93 per cent of UK subsidiaries recruit employees at local (only company IC3 has no local staff at all). Local staff have the advantages in UK languages and culture over the expatriates, thus they are normally assigned in the departments (such as legal department, commercial department and customer marketing department) that are required for frequent contacts with the local stakeholders.

Table 6.3: UK Subsidiaries' External Network and Learning

Company names	B1	B2	B3	C	CO	E	IC1	IC2	IC3	P1	P2	TD1	TD2	T1	T2	Sum	Percentage
Sector	B	B	B	C	Cos	E	ICT	ICT	ICT	Pb	Pb	Td	Td	Tp	Tp	N/A	N/A
Types of companies	S	S	S	P	P	P	S	P	P	S	S	S	S	S	S	N/A	N/A
Recruitment of local talent in UK subsidiary	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	14Y	93%
Recruitment of merely local Chinese talent in UK subsidiary	N	N	N	N	N	N	Y	N	Y	Y	Y	N	N	N	N	4Y	27%
Existence of local talent in management positions in UK subsidiary	Y	Y	Y	Y	Y	N	N	Y	N	N	N	N	N	Y	Y	8Y	53%
UK subsidiary uses Local consultants to help with solving problems	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
UK subsidiary merely uses the consultants of lawyers and accountants	N	N	N	N	N	Y	N	N	N	N	Y	N	Y	N	Y	4Y	26%
UK subsidiary learns from its local competitors	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
UK subsidiary learns from its local customers	N	N	N	N	Y	Y	Y	Y	Y	N	Y	Y	N	N	Y	8Y	53%
UK subsidiary sending staff to attend training, seminars, conferences at local	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y	Y	N	12Y	80%
UK subsidiary is the member of China Enterprises Association in Britain	Y	Y	Y	N	Y	N	Y	Y	N	Y	Y	Y	Y	Y	Y	12Y	80%
UK subsidiary joins other local industrial or/and business associations	Y	Y	Y	Y	N	N	Y	Y	N	N	N	N	N	Y	Y	8Y	53%

Note. For sector, B=Banking, C = Construction, Cos = Consuming goods, E = Electronic, ICT = Information and communications technology, Pb = Publishing, Td = Trading, Tp = Transport. For types of companies, S = State-owned, P = Private.

For example, E subsidiary employed an experienced English marketing manager who helped to improve its induction cookers' design to increase sales. E subsidiary is a sales organisation; the HQs take the responsibility of products R&D, design and manufacturing. When the marketing manager saw the original design that was typical Asian style with floral patterns and cool touch buttons, the manager noticed that it would not meet the UK customers' demand and recommended changing to black colour with knobs. Based on his experience, the Managing Director agreed with the suggestion and reported this suggestion to the product manager in the HQs via phone. Finally the HQs accepted this suggestion and changed the design. The Managing Director explains:

The whole process was quite straightforward. I told the product manager that if we did not change the design the local customers would not buy our products. The induction cookers are relatively high profit products and the cost of designing a new model is not very high, therefore the HQs accepted our suggestion quickly. If the cost of design were very high, the HQs would not easily decide to change the model.

When T2 subsidiary's Managing Director (who was a senior manager in Italy subsidiary of T2 MNC) took over the subsidiary, its operational capability was limited to inland transport Full Container Load (FCL) and no one within the organisation was capable of expanding its scope of business. When the Managing Director studied the company's business scope, he found many gaps. After the previous General Manager retired, the Managing Director looked for someone who can be helpful with filling up these gaps and expanding the scope of business. Through words of mouth recruitment, also screening resumes and interviewing the candidates eventually recruited the new General Manager who is a local expert (local talent) in inland container transport and forwarding business. The reasons why the company recruits a local talent instead of sending an expatriate is explained by the Managing Director,

If the company sent an expatriate, the cost would be higher than recruiting one at local. We have already had two expatriate managers (Managing Director

and Financial Manager), so there is no need to have the third one. In addition, the expatriates cannot know everything and things in great detail. In the beginning I spent two months working together with the operators (the frontline workers who are all British), however after two months I found I cannot do the job as good as they do. We must have local staff who are very familiar with the local business and local situation (English language, culture and geography). Even if the western MNCs invest in China, they also must have local employees.

He also mentions that the HQs only focus on shipping business and has no experts on Non Vessel Operating Common Carrier (NVOCC), so it is unlikely to find someone who has the same expertise as the new General Manager has. After the company recruited the new General Manager, the Managing Director began to discuss the possibility of developing new business opportunities with him who proposed a few recommendations (e.g. forwarding business especially Less than one Container Load (LCL), construction of warehouse) and they discussed about the proposal, considering construction of warehouse would be a high-risk and long-term investment and it will take a long time to get approval from the HQs (based on the government policy, the stated-owned companies have a quite strict control of fixed assets investment in order to prevent the loss of state assets), therefore they decided to start with forwarding business that requires very little investment. Afterwards, the Managing Director called the CEO of the EU HQs to discuss about the need of developing new business and the idea of forwarding business, and immediately obtained the approval of the CEO. The Managing Director explains how he persuaded the CEO:

After I took over the subsidiary, I began to read the organization's archived documents (including company constitution, registration documents, historical business data, financial statements, etc.), through calculation and analysis I found that the subsidiary's market share declined year-over-year. If the market share continues to decline, our profit might drop to zero in future. Therefore, in order to maintain the sustainable development, we need start to expand our scope of business now.

The General Manager spent one month drafting a document called LCL Working Procedure (including the whole LCL procedure from accepting clients' orders to the final delivery) and discussed it with the Managing Director, after several discussions and modifications they reached a detailed procedure and started to test out. First, the General Manager chose two operators who have the relevant background knowledge and experiences about import and export business and distributed the procedure document to them and let them to read it on their own. Second, both the Managing Director and General Manager worked together with the operators and explained and demonstrated them the procedure. During this period, they encountered the interoperability problem between the business system and accounting system.

After investigation they diagnosed the problem that they did not input the clients' data into the accounting system before inputting the data into business system. This resulted as the clients data cannot be directly transmitted from the business system to accounting system. They immediately modified the procedure. Simultaneously they encountered the difficulty of the computing system (i.e. part of the computing system did not support the procedure) and then asked a computer technology development company to modify and upgrade its computer system. After they solved all these problems and successfully completed 10 orders, the subsidiary finalised the LCL Working Procedure. The Managing Director points out:

This finalised operational procedure has shown the employees the detailed steps of completing the task and has also ensured the task run smoothly. Following the procedure, someone who is unfamiliar with the task can still understand how to complete the task.

Now the two relevant staff have learned how to complete the tasks based on the procedure, and this business has already brought the subsidiary profit though the profit only counts three per cent of the total profit. This business has been gradually

developing; therefore the company expects it to make increased profits in the following years. As a forwarder, it takes a long time to build customer relationships.

The Managing Director mentions the company will share the experience with the HQs and other subsidiaries within the company when this business becomes fully sophisticated (i.e. having a large number of stable clients and making a good profit), and its long-term objective is to become Non Vessel Operating Common Carrier (NVOCC). LCL and NVOCC are unfamiliar to the HQs, thus UK subsidiary's knowledge and experience about LCL can help the whole company to develop this business when they are transferred back to the HQs.

Local hired site supervisors have helped C subsidiary solve the difficulty that some frontline workers did not work effectively and efficiently. In the beginning, the projects cannot be completed on time and the company received rectification notice and even had to pay compensation to the clients. After a few projects, the company began to investigate the causes: it sent the project manager to the building sites to meet the frontline workers and collect some feedback (e.g. some workers complained about the heavy workload). Simultaneously the company required the experienced site supervisors to analyse and calculate the exact time for completing a project, and then a meeting was arranged to discuss and analyse the causes and the conclusion was that 'daily pay mechanism' cannot motivate the frontline staff to work effectively and efficiently.

Later, the managing director organised the senior expatriate managers and local site supervisors to meet and discuss solutions, they proposed a few recommendations and eventually decided to adopt the site supervisors' solution (i.e. to allocate tasks to a group of construction workers, if they complete the tasks earlier, they can freely dispose the remaining hours.) It has been proved this solution is very effective: the

projects are always completed on time, and even before the deadline. The whole process of change including investigation of the causes and implement of the solution took two weeks in 2004.

Other subsidiaries have also experienced the positive impacts of the local talent: a risk officer who had worked in a large local bank brought knowledge and experience about financial risk management which are found helpful in B1 subsidiary. A local Chinese staff member who had worked in the local publication sector for many years helped the P1 subsidiary to effectively operate claim notices.

The majority of the affiliated organisations consider their local talent to be an important channel to understanding the local market, local peers' products, management and even R&D and they tend to exploit their knowledge through assigning them in appropriate positions. In addition, 53 per cent of subsidiaries have local staff in managerial positions. Twenty seven per cent of subsidiaries that are all small size organisations and have only recruited local Chinese. The managers explain that it is difficult for non-Chinese (in particular those who cannot speak Chinese) to adjust to their organisation's environment. A senior manager from IC1 subsidiary mentions that its subsidiary once recruited a British employee; however he left soon due to the cultural and language issues. Five senior managers in B1, B2, B3, T1 and T2 subsidiaries mention that the organisations purposely assign one or two local high skilled management staff under each senior expatriate manager and expect them to assist in the senior managers' daily work (providing valuable information and suggestions).

Local Consultants

In China, enterprises traditionally do not use external consultants, for example each company has its own internal legal and accounting departments that can manage all

relevant issues. In contrast, all Chinese subsidiaries in the UK tend to adopt British business model and use local consultants, especially when the company employs only expatriates, they depend on local consultants to learn about the local business environment. Two-thirds of interviewed subsidiaries are small in size, are mainly sales organisations, are not autonomous free-standing business units and depend on HQs' financial and accounting departments to help with daily business. However, the HQs' accountants are unfamiliar with British accounting and tax policies and norms because there are significant differences between the two norms, the UK affiliates need to use local accountants mainly for taxation, accounting statements, annual audit reports. The other one-third of subsidiaries employ local accounting firms even where they have accounting staff. Like British enterprises, all subsidiaries tend to invite legal advisers to deal with the legislative issues and prepare some legal documents. The majority interviewees believe that China and UK are different legal and cultural environments and as foreign firms, it is important to operate in compliance with the applicable legal requirements. For example, E subsidiary uses a local law firm to deal with intellectual property rights issues in order to avoid infringement.

As seen in table 6.3, only 27 per cent of subsidiaries that are all small size organisations use only lawyers and accountants, the rest also use other types of consultants to help with their business and they hire various consultants to help with solving varied problems such as human resource management, technical and computing aspects, marketing and promotion issues. Several managers encountered difficulties in hiring and firing local employees, due to their lack of knowledge in UK labour law; they manage the similar issues more sophisticatedly after seeking for advice. For example, a senior manager in C subsidiary says:

I was taken to court several times because of firing employees, and was sentenced to pay lots of compensation to the dismissed employees, a waste of money and time. Now we have consultants who can help us to dismiss staff in

accordance with the employment law. We have a systematic process: first we must send the information of dismissal to all employees and collect feedback, and then we have to face-to-face talk to the related employees and also need to prove the company has made great efforts but have to dismiss them; we also need have a rating criterion and provide a complaint channel to them.

Four managers from the subsidiaries point out that though consulting fees are a relatively large expense especially for those small organisations, they believe that the consultants have helped them smoothly and securely run the business in a foreign country, so it is worth it.

Besides hiring the basic accounting and legal consultants, the rest 73 per cent of affiliates are prone to invite their industries related consulting firms to solve some specialised professional issues. For example, B2 subsidiary once hired the consultants to conduct liquidity evaluation in order to meet UK FIC's requirement of self-evaluation. An ICT consulting company successfully guided IC2 subsidiary to prepare the bidding documents and design the projects to win the tender and also left the work documents that can be very important learning materials.

All interviewees claim that they and their organisations have learned useful knowledge and experience from the consultants. Examples include local tax policy, UK labour law, some business related provisions and norms, how to reasonably avoid tax, how to use the convenience of local policy and regulation to expand the business. Accounting firms are found helpful, because they not only deal with taxation, statements and audit, also can solve other problems for example implementation of Basel II.

There are some episodes that show what the subsidiaries have learned from their consultants and how they learn. When a publication company prepared for its new bookstore's opening ceremony, it used public relations (PR) consultants who gave

them numerous good advice (including advertising in the important newspapers that cover publishing sector concerns, inviting relevant officials from the local community, issuing a charitable activity statement for example, giving free books to local schools, in a local community newspaper, etc.) and helped with the whole preparation and ceremony processes and also left a complete report. Through cooperation with the PR consultants and reviewing the report, the participants not only have learned useful marketing and promotion techniques also have been able to put into practice: they adopted some practices to successfully organise a ‘Spring Festival Event’ (cooperating with a London centre located Chinese library to hold a book fair near Trafalgar square) and promoted the brand.

The top contractor was responsible for reinforced concrete; C subsidiary was responsible for attaching the glass wall to the structure. Because the building is very high, security is very important, the top contractor required C to write an assessment report; they had no experience so they hired a consultant. The company sent a technical staff and a site supervisor to assist in the consultant’s work, and they also collected all the technical data (material strength, size, performance indicators, etc.) for the consultant, based on this data combined with local wind pressure, air pressure etc. the consultant form a complete assessment, in an approximately one hundred-page report and submitted this report to the building control department of the council. Eight weeks later the report was approved, and then the company can begin its work. As the company grew and projects amount increased, the company began to recruit some experienced qualified professionals (e.g. H&S officers, site managers), they read and analysed the archived assessment reports and then can write the similar assessment reports as the consultant did. Therefore, the company can complete some small and middle size projects on their own.

The affiliated organisations tend to assign specific personnel to liaison and even cooperate with the consultants and carefully archive the documents for future use. Although the subsidiaries have learned useful knowledge from their accountants and legal advisors and other types of consultants, they still rely on those consultants in particular in accounting and legal issues. The reason is explained by a bank's Managing Director and he said:

we have learned many useful things from our consultants whilst we deal with and cooperate with them. However, even if the consultants have helped solving the existing problems, as our business develops we might encounter any new issues and difficulties that we cannot overcome; therefore we will need the consultants again.

Local Competitors/ Customers

As seen in table 6.3, 80 per cent of subsidiaries actively participate in local seminars, conferences, events and fairs, etc., in particularly organised by their industrial societies or counterparts. They consider these activities as not only learning sources also a social platform for meeting competitors and potential clients. T2 subsidiary's Managing Director says:

our management staff participates in some business events and shows locally. The main aim is to meet local peers and to closely understand local market and market trends. These events are organized by our clients and peers, e.g. terminals, railway companies, etc. It is very good, because we can meet and exchange information and ideas with many peers in a relaxed environment.

People from the publishing sector regularly visit local book fairs such as London Book Fair in April and the Online Information Fair in December and get to know both local stakeholders and domestic peers. The interviewees from banking, ICT and other industries also believe this sort of events provide them opportunities to meet and communicate with and even learn from the local counterparts.

According to table 6.3, all the subsidiaries have learned from their local competitors, and 53 per cent of which directly point out they have also learned a lot through

dealing with customers and they have become more confident and better understanding their customers' demands and expectations. TD1 subsidiary supplies the metal equipment for oil industry, the Managing Director explains:

... the oil industry has high risks so oil companies carefully select suppliers: carefully reviewing suppliers' information and visiting suppliers' manufacturing. Communicating with customers is a major way of learning for us. The more we understand our customers and their needs, the better we can help them to solve their problems. The UK subsidiary's primary responsibility is to communicate with customers, building bridges between the HQs and the customers. If the UK subsidiary has found a potential customer, we initially introduce ourselves and get to know their needs, and then transfer this information back to HQs.

Those ICT sector' managers find that they have noticed the knowledge gaps and have learned from their operators (clients) through meetings, cooperation and observations. One senior manager from IC2 subsidiary said:

... there is a big gap between us. Now we want to learn x company's VSI system to improve our own evaluation mechanism. We cannot put the system directly into practice, we need to translate, analyse and understand it before we use it.

As he mentioned, the interviewed subsidiaries are prone to change their counterparts' advanced practices to adjust to their own situations rather than directly copy and paste. Through closely dealing with customers some managers even can distinguish the sophisticated organisations from the bad ones and both types of companies inevitably influence them. The Managing Director from E subsidiary explains:

not all local companies that we deal with have good corporate governance, operation and management. We can tell the differences between the 'good' companies and 'bad' companies. The 'good' companies always provide us an appropriate forecast, and then we could prepare for the potential orders in advance, therefore we always manage to deliver them products on time.

In addition to directly meeting and exchange ideas with local peers, competitors and customers, many subsidiaries have indirectly learned from the local peers, such as the local staff bring information about the peers because those staff have contact with

their peers' employees or they were former employees of the local peers. All the senior managers of the subsidiaries have certain level of personal connects with employees in local peer firms; through this personal informal networking they gain subtle understandings of conduct and mores.

The Chinese affiliated organisations also tend to study the local counterparts (their products, services, operation and management practices and all aspects) and then could adopt some helpful practices or record the advanced practices and transfer them to the HQs. Previously B1 did not have mortgage business, when it observed and studied its local competitor's mortgage product; it started the mortgage business with lower interest rate, which has attracted many customers. A senior manager from IC2 subsidiary said once he adapted its industry peers' templates to develop his own customer report template and found it good and useful. Furthermore, the Managing Director from TD1 subsidiary mentions that he reads local daily news and professional industry journals and this reading has helped him to get to know the latest industry news, new pricing mechanism, competitors, business and product categories, products R&D and marketing trends, etc.

Local Policy Makers/ Local Business Communities/ Local Industrial Communities

As shown in table 6.3, 80 per cent of the organisations are the members of China Enterprises Association (CEA) in Britain. CEA regularly organises seminars and events not only to introduce the latest business related issues such as the updated immigration policies, local tax policies and recent market trends, also to provide a social platform for its members. Though its events and seminars are not systemic and coherent, all participative enterprises have found them helpful.

Fifty three per cent of the subsidiaries have joined the local industrial and/or business associations and actively attend their training and events. Industry associations tend

to offer more professional and specialised training, seminars and conferences. For example, CITB provides such as CICS, NVQ2, 3, 4 training programs for constructive companies, a C subsidiary's senior manager says:

.. as a CITB member, we submit a list of training program to CITB in April each year; soon we receive a check for fee waivers.

As world financial centre, London provides advanced banking knowledge and sophisticated learning environment for Chinese banks that aim to seek advanced knowledge and experiences. They join in various banking associations and actively participate in both free and chargeable training courses and events. Sometimes their local counterparts also arrange some seminars (such as the financial situation in emerging market, the UK financial market, etc.) and invite them to attend. In addition, the three banks' HQs regularly send delegations to London for research purpose. For example, B1 HQs recently sent a delegation (five people including the Head of Strategic Planning Department and other HQs' middle level managers) to overseas to conduct research about Carbon Finance. The delegation first visited the HQs of European Union in Brussels, and then spent four days in London. UK subsidiary arranged some meetings with European Climate Exchange, The Department of energy and climate change, and a few local leading banks. The delegation prepared a series of questions and discussed them with counterparts. With the permission, all the meetings were recorded. The delegation also visited Washington, DC, New York and San Francisco after they left London, when they completed the tour they wrote a research report and submitted it to the HQs' President Office. A senior manager from B1 subsidiary says:

China has not formed an effective carbon market yet, in contrast, UK carbon market is very mature, and that is why the HQs sent the delegation to London to learn. UK government controls carbon emissions in two ways: increasing taxes and licensing. Our HQs want to know which way is more effective in the UK and want to learn UK's experience.... This carbon finance research report will also be submitted to The General Office of the State Council and China Banking Regulatory Commission, and these government institutions expect to

receive this sort of advanced research reports that might be beneficial to their work.

Due to the budget limit, some small size organisations can only attend free events, some of which is organised by local consultant companies, local peers and other organizations tend to introduce outlines of issues (e.g. local tax policy, immigration policy and local marketing, etc.) and aim to promote their brands and sell the products and services. These sort of events are still found helpful, because, as a senior manager from IC1 subsidiary says that the subsidiary,

has maintained the relationship with the exist clients, have got to know our potential clients, built up our local networks and even have extended the number of clients through attending these seminars and events.

In summary, 80 per cent of the subsidiaries participate in local training, seminars and conferences (See table 6.3); they send relevant staff to attend the training courses and seminars and then require them to disseminate what they have learned through meetings and some informal methods.

6.2.4 Motivations and Mechanisms for Learning in the Organisation

As Minbaeva (2008) argue, extrinsic motivation can stimulate employees to satisfy their needs indirectly through financial rewards and incentives for past performance. This section articulates whether the Chinese MNCs motivate individual and organisational learning extrinsically and what extrinsic motivation mechanisms. In another word, financial rewards and incentives related motivation mechanisms (including provision of incentives, a suggestion scheme for staff, learning as an objective of the subsidiary and HQs setting learning goals for its subsidiary) are adopted to motivate UK subsidiaries to learn and to transfer knowledge back to the HQs (see table 6.4). In addition, some companies also encourage learning and knowledge dissemination via online forum and global executive meetings.

Table 6.4: Motivation and Mechanisms for Learning in the Organisation

Company names	B1	B2	B3	C	CO	E	IC1	IC2	IC3	P1	P2	TD1	TD2	T1	T2	Sum	Percentage
Sector	B	B	B	C	Cos	E	ICT	ICT	ICT	Pb	Pb	Td	Td	Tp	Tp	N/A	N/A
Types of companies	S	S	S	P	P	P	S	P	P	S	S	S	S	S	S	N/A	N/A
Active encouragement of learning	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
Provision of incentives for innovation & learning	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	N	N	N	10Y	66%
Existence of a suggestion scheme for staff	Y	Y	Y	Y	N	N	N	Y	Y	Y	Y	Y	N	N	N	9Y	60%
Learning is an objective for its subsidiary	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y	N	Y	Y	12Y	80%
HQs setting learning goals for its subsidiary	Y	Y	Y	N	N	Y	N	N	N	Y	N	N	N	N	N	5Y	33%
HQs provide online forum for staff to share knowledge	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	Y	N	Y	Y	12Y	80%
HQs organise annually global executive meetings	Y	Y	Y	Y	N	Y	Y	Y	N	N	N	Y	Y	Y	Y	11Y	73%

Note. For sector, B=Banking, C = Construction, Cos = Consuming goods, E = Electronic, ICT = Information and communications technology, Pb = Publishing, Td = Trading, Tp = Transport. For types of companies, S = State-owned, P = Private.

All the interviewees believe that their entire companies encourage individual and organisational learning, however only 66 per cent companies have provision of incentives for learning and innovation (refer to table 6.4). This innovation is embodied in new products, new systems, new ideas and even new slogans. Some companies (e.g. B1, B2, B3, etc.) establish innovation targets or awards for individuals, teams, departments and affiliated organisations.

For example, a middle manager from B2 HQs has mentioned that the HQs assign innovation targets (such as innovate and introduce several new products) to individual departments and overseas subsidiaries every year, and offer incentives to the organisations that contribute excellent innovations by increasing compensation and research funding.

The larger subsidiaries (i.e. having more than 50 employees) including three banks (B1, B2 and B3), one construction company (C) and one ICT company (IC2) tend to have more systemic and specific motivation mechanisms and their HQs also have a suggestion scheme to collect information and feedbacks from staff. In the three banks' subsidiaries, employees are encouraged to discuss their learning and training plans with managers, if it is beneficial to both the staff and the company, the company will arrange funding and time. Annually the Managing Directors arrange an individual appraisal meeting with each staff member, discussing their previous year's performance, next year's tasks and objectives, suggestions to the company, also their personal development and training plans, etc. A deputy manager from B2 subsidiary says:

Once a staff member wanted to enrol in the Chartered Financial Analyst course, we considered that it was work-related training and would enhance his capacity of financial analysis, it was also beneficial to our company; therefore we offered him funding and paid vacation to prepare his exams.

Company IC2 considers that it is essential to regularly upgrade individuals and teams' skills. Every month it uses an evaluative statistics chart to assess each employee and team's knowledge and skills level, according to the result the company provide appropriate training programs for the teams. In addition, all engineers need to pass work-relate certifications and every quarter engineers need take internal exams; those who do not pass the exam need to analyse the reason and improve. Also, the exam results affect the engineers' levels. Each department uses a two-dimensional skill-match chart to evaluate staff competences (product dimension and skills dimension), and those who do not meet the requirements will be sent on training courses. Both certification system and skill-match evaluation have been found very helpful with encouraging individual and organisational learning. There is also an online forum project management tool to monitor the progress of the projects and all employees are encouraged to post cases and events on the forum.

C subsidiary does not enforce its employees to attend any training courses; however its incentives link to the skills level. For example, a senior manager points out:

... staff who are qualified in NVQ (national vocational qualification) level 4 earn more salary than those are qualified in NVQ level 3, our reward system is very straightforward. Payment rises every year, the staffs that do not have any capacity increased; they can only receive up to 3% salary increase to cover the inflation rate. We believe that this mechanism is very effective.

It also has other incentives such as recognition of verbal encouragement in staff meetings and job promotion to encourage staff to learn and to enhance their capacity. Sixty per cent of HQs have a suggestion scheme for their staff and often gather suggestions, proposals and ideas from employees through reports (mainly via emails) and meetings. The common way is that before HQs implement any new operational and management systems or practices and new business plans, they tend to make a draft and send it to relevant staff and gather their recommendations through meetings or emails. Sometimes, HQs even send people to the subsidiary to discuss specific

issues with UK subsidiary's employees. For example, C subsidiary needed a full-time on-site materials management staff to replace the part-time one. In the beginning, the HQs did not understand the subsidiary's requirement; later the HQs sent a manager to discuss the issue with the on-site employees (workers and supervisors) who argued that part-time employees cannot be all-day supervision of materials, materials chaos. Eventually the HQs adopted the staff recommendations and hired a full-time materials management staff. Five interviewees have mentioned that the employees are required to directly report any issues to their line managers, and only if the line managers cannot solve the problems, they can approach to higher managerial staff.

According to the quantitative empirical study, expanding UK and EU market share and making profits are the main objectives of the majority of subsidiaries (along with supporting the Chinese government's international strategy of state-owned companies). Eighty per cent of subsidiaries consider learning as one of their overseas investment objectives; however only one-third of organisations have clear learning goals set by their HQs. These one-third subsidiaries include three banks (B1, B2 and B3), one electronics company (E) and one publishing organisation (P1), and only the electronics company is none state-owned.

As a world financial centre, the UK has many of the world's leading banks that are equipped with many advanced practices, experiences and systems. Compared to international leading banks, some domestic banking business is still at an early stage. For example, six interviewees from the banks mention that the domestic banks' intermediate business (not a deposit and loan) income counts much less than the world leading banks'. They also think that Chinese banks tend to be behind the products and process of leading international banks. This might be the main reason why the banks' HQs set clear learning objectives for the UK subsidiaries to collect

local industry information and write several research reports (e.g. local banking industry policies, decisions and successful experiences etc.) every year to HQs. B1, B2 and B3 subsidiaries all have dedicated R&D officers who take responsibility of conducting research for the HQs. Every year the HQs raise questions and require the R&D officers to conduct research for the questions. For example, B2 HQs wanted to enter the precious metals business; they asked the UK subsidiary to conduct research about the London precious metal business procedures and market. As a result, the HQs precious metal business did not simply adopt the report (because business environments are different), but has referred to the report.

Another episode shows how B2 HQs has adopted the advanced organisational structure from a British leading bank. This UK bank's organisational structure is divided into 6 organisational departments (i.e. investment banking, cash settlement, etc.) based on business segments. All affiliated organisations report directly to the relevant departments in HQs, less hierarchic. All employees sign the contracts with its HQs, so the HQs have convenience to deploy employees and receive feedbacks directly. All of these show a very efficient organisational structure. In contrast, B2 HQs' organisational structure is very hierarchical: HQs directly manage provincial branches, provincial branches manage municipal branches. Therefore, the HQs encounter many management difficulties such as cumbersome procedures, the level of a filter, and deployment of employees. B2 not only faces challenge of the world leading banks in the domestic market, also encounters difficulties when it invests in overseas markets, under these circumstances, B2 decides to change through learning from the other leading banks. B2 HQs starts to study the world leading banks and simultaneously requires its overseas subsidiaries to collect the related information and conduct research. When B2 HQs noticed the advantages of the British leading bank's operation and management practices, it required the UK subsidiary to conduct a detailed research about it. The HQs also sent a group of managers to visit the HQs

of the British bank to learn about its experiences, after meeting the delegates submitted a study report to the HQs. The UK subsidiary helped with arranging the meeting.

After analysed all the materials and evaluated the possibilities, due to the difference of business environment and regulations, the HQs did not adopt its entire successful experience; however the organisational structure of private banking has drawn on its experience. In addition, B1 subsidiary is the European training centre, responsible for delivering some professional courses like financial market derivatives to the staff in the whole company.

More than a decade ago, IC2 HQs was planning to become a global firm. In order to increase its competition in global market, IC2 hired a number of world leading consultant companies to evaluate and improve its performance. IC2 signed five year contract with IBM for management consulting and underwent significant transformation of the management and product development structure, adopting IBM's Integrated Product Development (IPD) and Integrated Supply Chain (ISC) management tools. Since then IC2 continues to restructure its supply chain regularly. Currently as a world leading ICT firm, about three quarter of sales revenue for its terminal products come from overseas market.

P1 subsidiary has evolved from the UK representative office that was responsible for collect local business and market information for the HQs. As the Internet develops, it becomes more convenient to gather international information, therefore the current subsidiary now focus on regularly collecting more specific information and conducting in-depth study. For example, after attending the seminar, it transferred the local consultants' explanation about the latest immigration policy and then the HQs can manage UK employees according to the policy. It also transfers the local

publication's market information, new ideas, new resources and potential cooperative projects back to HQs. Recently the subsidiary has conducted a survey on the public's view of Chinese books during their 'Spring Festival Book Fair' and has passed the survey report to HQs.

E HQs provided OEM (original equipment manufacturer) and ODM (original design manufacturer) services for some world leading electronics firms, therefore its overseas subsidiaries are responsible for conveying their clients' demands and feedbacks to the HQs. For example, in the UK customers receive a one-year warranty for purchasing dishwashers, as a supplier the subsidiary has to bear the maintenance costs. In the beginning, it took one hour to dismantle and one hour to repair, meaning that servicing was costly to the UK subsidiary. When its subsidiary's Managing Director reflected this problem back to the HQs, the product manager sent two engineers who participated in this dishwasher's R&D to the UK for investigation. The engineers brought the broken dishwasher to the client's lab to conduct an investigation, and eventually they found defects in the product's technique and design and also discovered that the only solution was to change the platform. The HQs assigned a project team to make improvements (simplified structure, integrated structure, reduce the screws and integrated components). The whole process lasted one year. The repair rate of the new dishwashers has dropped and the maintenance can be done within one hour, significantly saving on costs and enhancing our profits.

Another example, in trying to understand why local clients did not buy its air conditioners, the HQs sent out technical staff to the UK to attend an installation-training program and began analysing their installation experience in local markets. They detected defects in low temperature operation, due to the product being designed for the warmer southern-Chinese area. Based on the engineers'

investigation, the HQs made improvements – installing a heating module to the external machine – thereby increasing sales.

The two third HQs do not set clear learning objectives (see table 4). However there are other objectives such as the completion of sales targets and projects. In order to achieve these objectives, learning plays an important role. Just as the TD1 subsidiary's Managing Director says:

... research and information collection are essential in the marketing process, because we need to understand the local market and all aspects of competitors.

Therefore even a sales organisation cannot avoid learning from local firms. The Managing Director from T2 points out:

One of the main reasons why HQs set up two different companies is to increase the number of British expatriates, to provide more expatriates opportunity to learn new experiences and knowledge overseas. For example, before I became the Managing Director, I was the marketing manager in Italy subsidiary, thus I was not familiar with the Managing Director's responsibility and duty. After I took over UK subsidiary I read some books about management and also discussed my responsibility and duty with the CEO of the EU HQs; while I worked and encountered problems and difficulties I often discussed with the CEO. Now I am very aware of my responsibility and duty. I have often discussed issues with the financial manager and have learned lots of financial and accounting knowledge. After attending the first board meeting, I got to know the procedure of the board meeting and what issues should be decided in the board meetings.

He further explains that though UK container throughput is quite small, 90 per cent of world marine insurance, arbitration, consulting is in London. The UK is the world shipping rules maker; its shipping management is extremely advanced. Therefore every year HQs send a delegation with the delegation from China's Ministry of Transport to participate in the Marine rules related meetings in the UK. The construction subsidiary's episode has proved its *learning is to strive for greater profits*. One of its senior managers says:

... we did not have very clear learning objectives. Our work is mainly based on projects, if a project needs us to absorb new knowledge, then we learn to

complete the project. We also need to learn (have learned) local laws and regulations.

In addition, a senior manager from C subsidiary points out:

... sometimes, although a project cannot provide us with lots of commercial interests, we will still do it if it can promote our brand or advance our competitive capabilities (on design, construction, management, etc.), because generally speaking, the EU market does not have confidence in Chinese enterprises and products.

As shown in table 4, 80 of the HQs provide online forums for employees to exchange knowledge and experiences. Seventy three per cent of the HQs organise annually global executive meetings that overseas Managing Directors and sometimes with other senior managers participate and they are encouraged to share their knowledge, practices, experiences and even lessons in the meetings. In addition, capabilities of learning and innovations can also affect individual's position promotion.

6.2.5 Overview of Subsidiary Learning

Chapter two and three reveal that the majority of Chinese MNCs have ownership disadvantages and augment ownership advantages through investing in the developed countries. What are the 'discrepancies' between the ownership disadvantages and advantages? In order to augment ownership advantages, it is important for Chinese OFDI to identify the 'knowledge gaps in foreign markets as discrepancies between the knowledge possessed and the knowledge needed for successful business ventures abroad' (Peterson *et al.*, 2008). Here the knowledge gaps do not always equate to disadvantages; sometimes it simply refers to different ways of doing business between in the UK and in China. Just as five interviewees pointed out: 'When in Rome, do as the Romans do'. Chinese subsidiaries recognise their current knowledge is insufficient to achieve the expected performance in the UK market. In order to compete at local market, they are required to absorb this knowledge.

Whilst each subsidiary is expected to increase market share and profitability, as figure 3.1 suggests, network building requires OFDI firms to overcome the disadvantages of foreignness and to close psychic distance before they can effectively learn from host country networks. The data in section 6.2.2 illustrates that Chinese firms learn most not from UK networks or even JV partners, rather the local sources of learning are the result of recruitment and hiring local consultants. A significant amount of the subsidiary learning continues to be vertical i.e. from HQ as they introduce new products and systems. This is reminiscent of Deng Xiaoping's slow evolutionary approach to economic change metaphorized as 'crossing the river by carefully stepping on stones', as opposed to risk-laden large steps forward. HQs are not investing heavily in UK networking; instead they are edging their subsidiaries forward within the Chinese MNC culture and product portfolio (noting the importance of expatriate managers) towards a point in the future when the subsidiaries will have learned sufficiently to clash in head-to-head competition with UK firms.

The evidence suggests (section 6.2.2) that at the current stage of Chinese OFDI into the UK, relational networking and learning is less important than transactional networking and learning, the latter taking the form of hiring local staff and consultants. Some of the Chinese firms (section 6.2.3) benefit from local networking and interactions with suppliers and customers. However, the results suggest this is most pronounced when local staff are in positions of authority (a minority of cases) and where expatriate managers are more fully enculturated into the UK context (again a minority, since these staff turnover on average each two-years).

Chinese firms are building the capability to learn from networks by improving their absorptive capacity explains the seeming contradiction highlighted in sections 6.2.3

and 6.2.4. Chinese MNCs state that learning is a major motivation for OFDI into the UK, they then constrain such learning by denying long-term investments in networking, appearing to ignore recommendations from subsidiaries and insisting that practices emanating from HQs are adhered to. However, this is not completely the case and section 6.2.3 records several examples of HQs embedding learning by subsidiaries into company practices. It is interesting to note (section 6.2.2.2) that despite the short-termism of HQs in early adaptation of learning from subsidiaries, they also have a long-term perspective of building up the capabilities of their subsidiaries to learn, by focusing upon capabilities in the ‘softer’ function elements of their businesses rather than the capture of ‘harder’ codified knowledge. These subsidiaries are ‘learning how to learn’ (Argyris and Schön, 1978), rather than primarily learning how to imitate UK products and operational systems.

6.3 Knowledge Exploitation and Capabilities Development in UK Subsidiaries: to Address Research Question Three

Chapter three discussed firm’s absorptive capacity explaining how firms assimilate and exploit knowledge and commercialises it to develop capabilities. The previous section has revealed the results on how Chinese subsidiaries assimilate knowledge from internal and external networks. This section addresses the research question three (e.g. how do UK subsidiaries exploit learning and develop capabilities) through presenting the qualitative data about the second stage of capabilities development in a MNC (shown in figure 3.2): how the capabilities are developed through the subsidiaries’ exploitation of knowledge and what are these improved capabilities (i.e. marketing, management, human resource management, product diversification, research and development and finance) (see table 6.5).

6.3.1 Knowledge Exploitation in UK Subsidiaries

All the subsidiaries are required to regularly write reports about their performance, change, difficulties, etc. and send them to the HQs. Several subsidiaries' managers mention that their companies try to record and codify individuals' knowledge, skills and experiences mainly through reports and hope this codified knowledge can contribute to the operational and management systems. A deputy manager from B2 subsidiary says:

We are required to record and summarize every project and case that we complete and to upload the files to our company intranet. There are also internal rules and regulations, industrial and market information, etc. on the intranet. All staff has access to the intranet and look for useful knowledge and experience from it.

B1 subsidiary created a technical support knowledge base and encouraged staff to share typical technical cases, common problems and solutions encountered in daily work. However, due to the staff's low enthusiasm for learning and sharing knowledge, the result was unsatisfying. Later the subsidiary decided to recruit a quality assurance officer for the knowledge base, and also required individual department heads to support and monitor their staff to post cases on the knowledge base. Now the knowledge base is running smoothly. A senior manager from B1 subsidiary says:

Initially we discovered the level of the technical staff was uneven, so this made job rotation very difficult. This technical support knowledge base has turned individual knowledge into organisational knowledge, and has also helped the staff to learn and share knowledge. This is beneficial not only to job rotation and also to new staff training program.

When T2 Managing Director began to work in the UK subsidiary, there were no any written operating procedures in the organisation; it was difficult for him to understand the operations. In order to grasp the subsidiary's business operations, he first required each employee to write a report on their daily working and requested General Manager and supervisor to explain the organisational operations to him face

to face. He also spent two month working together with the front line workers (operators), observed their working and let them explain the operation processes (from receiving clients' orders, inputting the orders into the computer system, looking for appropriate suppliers, to finally delivering the goods) and also completed tasks together with them. At the end of these two months, the Managing Director drafted a five-page Inland Transport Procedure (which covers its major business, 'Inland Transport FCL' at that time), discussed about it with the General Manager and the supervisors and modified it and distributed it to all staff. The Managing Director says:

There is not a systematic training mechanism for expatriate staff in our entire company, so all the expatriates need to learn and accumulate through working. The HQs have a slogan: 'learning at work, learn to work.'If I did not know about the business operations and procedures, I would not be able to do the management work. Only if we understand the whole business procedures, we can find out what problems might come out, how to solve the problems and use written rules, regulations and working procedures to preclude these issues happening in future.....these procedures are also beneficial to staff training, just like the LCL Working Procedure case that I mentioned.

As new issues continue to emerge, the new terms will be added to the file. For example, the company often used both rail transport and road transport for long distance delivery, because it was considered cheaper than using only road transport. However, once the Managing Director found the cost of the combined transport (from Felixstowe to Leeds) was higher than the road transport. He called the General Manager and the supervisors to meet and discuss the solutions, and then they decided to add a Cost Accounting term (i.e. calculating all the different modes of transport costs and choosing the most economical way) to the Inland Transport Procedure, and then distributed the new version to all the employees. This new procedure has helped with cost savings.

Another example, once the Managing Director looked at the financial statement and found a client had owed £2000 for a few months. He mentioned this many times in

the monthly meetings, however this problem was still not solved after six months. He investigated the problem and found out the consequence of poor communication between the Financial Manager and the General Manager, therefore he added Credit Control term (i.e. Financial Manager is required to submit a monthly financial report to the Managing Director and the General Manager) to Inland Transport Procedure. The Managing Director explains the benefit of this term:

Before we made this provision, the Financial Manager only submitted the monthly reports when I asked for it, but I sometimes forgot it. Now the GM and I can receive the monthly reports on time, so we can timely grasp and monitor the financial situation and prevent the similar issues happening.

Fifty three per cent of the subsidiaries are small enterprises with less than 10 employees. The majority of these small organisations have only one office where all employees including the Managing Director share the same office, and they do not arrange any formal training programs within the organisations, instead they tend to learn, diffuse and exploit knowledge informally. An episode from company P1 gives the explanation: an editor encountered an unfamiliar Chinese character while she was editing a book list, and she immediately showed the character to all the colleagues in the office and asked for help, unfortunately nobody knew it, and then they looked for and found the answer on the internet and shared the answer straight away.

In contrast, the larger size subsidiaries with more than 10 employees often organise internal training courses and seminars. According to table 6.2, 53 per cent subsidiaries organise any in-house training courses. The people who give training courses could be within the whole company and from the local, depending on the situations. In those subsidiaries that provide internal training, experienced managers (including expatriates and local talents) are usually required to giving training courses and share their knowledge and experiences. For example, a senior manager from IC1 subsidiary says:

As a Director I am responsible for mentoring novice employees. I teach them the organisation structure, business operation processes, products knowledge, business knowledge and even British etiquette, through training courses, daily communication and taking them to participate in business negotiations.

The companies from transport and construction sectors have relatively high mobility of employees; therefore regularly providing training programs especially for new staff is crucial. The data does not indicate that high-tech sectors (e.g. ICT) offer more internal training than other sectors (e.g. construction).

There are also examples such as T1 subsidiary's general manager starting a new project and E subsidiary's marketing manager changing the design of inductions showing how the firms exploit the knowledge of local talent (in section 6.2.3 Local Talent). Similarly some episodes from like E subsidiary and C subsidiary indicate how the exploitation of knowledge occurs (in section 6.2.31 Local consultants).

6.3.2 Capabilities Development in UK Subsidiaries

As mentioned in chapter three, a synthesised definition of capabilities from Winter's (2000) and Prahalad and Hamel (1990) is used and looks at a certain level (could be high or low) of routine that generalised from learning, confers upon an organisation's management a set of decision options for better performance. This also echoes Grant's (1996b) hierarchical levels of integrated capabilities. All the interviewees from subsidiaries have witnessed certain level of capabilities development in their subsidiaries and they believe this improvement should be related to learning.

Generally speaking, the majority of subsidiaries claim that their sales and profits have been increased as their organisations develop. Some subsidiaries have also witnessed their organisational structures have become more mature i.e. from one sales organisation to a more sophisticated organisation with various departments.

For example, a senior manager from C subsidiary has points out, in the beginning there were only three departments (i.e. marketing, purchasing and project management departments) with three expatriate staff in the subsidiary, and now the company has eight departments (e.g. administrative department, accounting department, etc.) with over 50 employees. A senior manager from T1 subsidiary mentions that the working conditions have been dramatically improved since they moved into the new building (the subsidiary invested to construct), which has improved staff motivation. The interviewed managers from B2 and B3 subsidiaries have pointed out that the Chinese expatriates and the local employees have become closer and closer and better understand each other. The Managing Director from B3 subsidiary says:

... our subsidiary started from scratch and has experienced many changes and improvement and so far has achieved a good result. There were lots of conflicts and argument not only in between the expatriates and the local staff and also among the expatriate employees who came from different departments and organizations that formed their own working methods and practices. It took us a period of time to go through the continuing controversy and conflicts to achieve mutual understanding and it was also a mutual learning process for all employees. Now we can see many capabilities improvement in every area (e.g. the process management, board operation, project management, new product approval and the main business of the regulatory processes, risk and compliance and so on). The whole improving process is also a learning process.

The factors in table 6.5 are corresponding to the classification of knowledge gaps in table 6.1. Since the majority of UK subsidiaries have witnessed their sales and profits increase, it is reasonable to believe that 87 per cent has developed its marketing capability (e.g. better understand the local market and customers' needs, having improved tender skills through practices.). All the subsidiaries ever encountered doubts in their products, services and even overall capabilities from UK market and have proved their abilities in varying degrees. This can be explained by the following several episodes. Company P1 has opened its new book store in London. Company B2 has established a new retail branch at local. B1 subsidiary

has successfully expanded its customer composition, and now its 50% customer equity is local firms. C subsidiary's projects amount has increased five times. Company TD1 has passed certification of some global big oil companies and now is able to directly supply their global subsidiaries and even compete with the world's big companies in the industry.

Seventy-three per cent of the affiliated organisations have experienced operations management capability improvement (see table 6.5). For example, the Managing Director from B3 subsidiary who previously points out the issue that Chinese enterprises are prone to emphasise the results in contrast British companies tend to pay attention to the processes, has used an evidence to prove his subsidiary's capability development in this area. He says:

we have developed an operational procedure including pre-trade, trade execution and post-trade three stages. If we are required to deliver a new product that we have never done before, we can use this complete procedure to analyse the whole process from the customer's demand to the product outcome. This procedure has helped us to avoid the situation that the pains are likely to outweigh the gains. We have asked the local auditors to checked the procedure and then have introduced it to the HQs. Emphasis on processes is the most important thing that we have learned from the local.

A financial manager from T1 has pointed out that initially lots of information was recorded manually (e.g. he needed to prepare about 10,000 invoices by hand each year) and currently the subsidiary has computing system to electronically record data. After the Managing Director took over T2 subsidiary, he has experienced many business capabilities development such as a new operating manual system and improved land transport processes. A deputy manager from B2 subsidiary mentions *the expatriates and local employees have become closer and closer; learning more and more from each other.* He explains that its subsidiary has one-third expatriates, one-third local Chinese and one-third local non-Chinese, there were many conflicts between the expatriates and the local employees, both thinking their own business

approach to be the best way. Through a long period cooperation, communication and negotiation, currently both sides have agreed that each side has both advantages and disadvantages and they should not be fully in accordance with either Chinese practice or British one. Therefore they have integrated the two approaches to reach the *middle ground*. He further mentions,

.. learning is a process of continuously transforming knowledge structure. The UK subsidiary has become more mature and successful, partly because we have learned many good business practices and new ideas from the local context.

As shown in table 6.5, 53 per cent of affiliates have experienced capability development in HRM in particular in recruitment, distribution, training and development. Four interviewed managers point out that previously due to the limit number of personnel, the division of employees was not clear which led to one employee had to do several different jobs; currently the organisation structure has been improved and everyone has their clear individual duties and responsibilities. A senior manager from C subsidiary mentions that they can now manage a dozen projects at the same time compared to previously only working on one project at once. A senior manager from IC2 subsidiary says that they have employed more local staff and have also appointed some local staff on managerial positions, the local staff has the advantage in culture and language, thus some work (such as presenting for bids and marketing products) needs to be done by local staff. Currently the middle-level client managers are all local staff, who are responsible to lead their teams to complete sales objectives (in the processes of completing products proposals, cargo delivery, R&D support, etc.). The Managing Director from P1 says:

previously expatriates were all over 40 years old, whereas recently HQs send younger staff. HQs believe that young people are more motivated to learn and to change. The fact has proved this to be true. Previously the UK subsidiary dealt only with HQs purchasing order, now the bookstore is responsible for local sales. Although HQs made the decision to open the bookstore, the decision was influenced by UK subsidiary's learning and research report.

Table 6.5: Capabilities Development in UK Subsidiaries

Company names	B1	B2	B3	C	CO	E	IC1	IC2	IC3	P1	P2	TD1	TD2	T1	T2	Sum	Percentage
Sector	B	B	B	C	Cos	E	ICT	ICT	ICT	Pb	Pb	Td	Td	Tp	Tp	N/A	N/A
Types of companies	S	S	S	P	P	P	S	P	P	S	S	S	S	S	S	N/A	N/A
Existence of overall organisational capabilities development	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
Organisational capabilities development relating to learning	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
Capabilities development in marketing	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	13Y	87%
Capabilities development in operations management	Y	Y	Y	Y	N	N	N	Y	Y	Y	N	Y	Y	Y	Y	11Y	73%
Capabilities development in HRM	Y	Y	Y	Y	Y	N	Y	Y	N	Y	N	N	N	N	N	8Y	53%
Capabilities development in product diversification	Y	Y	Y	N	Y	N	N	N	N	Y	N	N	Y	N	Y	7Y	46%
Capabilities development in R&D	N	Y	N	Y	N	N	N	Y	N	N	N	N	N	N	N	3Y	20%

Note. For sector, B=Banking, C = Construction, Cos = Consuming goods, E = Electronic, ICT = Information and Communications Technology, Pb = Publishing, Td = Trading, Tp = Transport. For types of companies, S = State-owned, P = Private. HRM = Human Resource Management, R&D = Research and Development.

As seen in table 6.5, 46 per cent of subsidiaries have experienced product diversification, however only 20 per cent of them have witnessed R&D development. This might be explained by the fact that some subsidiaries tend to purchase new technology and even products instead of developing them.

6.4 Knowledge Transfer and Capabilities Development in the HQs: to Address Research Question Four

This section addresses the last research question (i.e. how do UK subsidiaries transfer the knowledge and developed capabilities to the HQs). Based on Andersson *et al.*' (2001) three level of capabilities development in an MNC, the third stage is corporate level, therefore sections 6.4.1 and 6.4.2 explains knowledge transfer from the UK subsidiaries to the HQs and capabilities development in the HQs.

6.4.1 Knowledge Transfer from UK Subsidiaries to HQs

Chapter three discussed how reverse knowledge transfer (from subsidiary to HQs) plays a significant role in capabilities development in a MNC, this knowledge transfer is not measured by the quantity of information flows, rather the qualitative impact of knowledge transfer on capabilities development in HQs. In order to explore the process of knowledge transfer it is important to ensure the existence of knowledge transfer. Derived from Easterby-Smith *et al.*'s (2008) mechanisms of knowledge transfer (e.g. training, personnel movement and social interactions), the key codes (i.e. HQs organise annually global executive meetings; UK subsidiary regularly sending reports to HQs; UK subsidiary regularly sending emails and making phone calls to HQs; HQs sending staff to visit UK subsidiary; and existence of managing directors' visit HQs) are identified (see table 6.6). This section presents interview findings about whether the UK subsidiaries transfer learned knowledge and developed capabilities to their HQs and how they transfer that knowledge.

According to table 6.6, all subsidiaries take the responsibility of collecting useful information and practices from the UK market and transferring back to the HQs through reports, visitors, emails and phone calls. For example, the three banking subsidiaries have dedicated research staff to collect information and conduct research (in Chinese) for the HQs. Emails and phone calls are considered the most frequent and convenient communication methods between the subsidiaries and the HQs. The Managing Director from P1 noticed wide gaps (e.g. technology, coverage of publishers and clients) between the domestic online-information market and the UK market after he visited the local online-information exhibitions, and then immediately reflected this phenomenon to the HQs via phone calls and sent the relevant documents (e.g. online-information index brochures) through emails; currently its HQs has started to pay more attention on online-information.

As seen in table 6.6, 73 per cent of the HQs annually organise global executive meetings, which provide a formal platform for overseas affiliates' Managing Directors to share knowledge, practices, experiences and even lessons in the meetings. All the Managing Directors need to return to the HQs to report either to the CEO or the executive teams at least once per year. They are frequently approached by colleagues (in the HQs) who are interested in the UK subsidiary's performance and expect to hear some news, experiences, and even to clarify some information heard before; these normally happen personally and informally. Other expatriates (including managerial and non-managerial staff) meet their HQs' superiors and colleagues, and share their experiences and stories with them, when the expatriates take vacation in China. These communications are often informal and occur within small groups. Simultaneously all the HQs send managerial staff to visit the subsidiaries and exchange ideas with the relevant employees and then they might bring back some advanced techniques and practices.

Table 6.6: Knowledge Transfer from UK Subsidiaries to HQs

Company names	B1	B2	B3	C	CO	E	IC1	IC2	IC3	P1	P2	TD1	TD2	T1	T2	Sum	Percentage
Sector	B	B	B	C	Cos	E	ICT	ICT	ICT	Pb	Pb	Td	Td	Tp	Tp	N/A	N/A
Types of companies	S	S	S	P	P	P	S	P	P	S	S	S	S	S	S	N/A	N/A
UK subsidiary is responsible for collecting information at local	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
Existence of knowledge transfer from UK subsidiary to HQs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
HQs organize annually global executive meetings	Y	Y	Y	Y	N	Y	Y	Y	N	N	N	Y	Y	Y	Y	11Y	73%
UK subsidiary regularly sending reports to HQs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
UK subsidiary regularly sending emails and making phone calls to HQs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
HQs sending staff to visit UK subsidiary	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%
Existence of Managing Directors' regular visit HQs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	15Y	100%

Note. For sector, B=Banking, C = Construction, Cos = Consuming goods, E = Electronic, ICT = Information and Communications Technology, Pb = Publishing, Td = Trading, Tp = Transport. For types of companies, S = State-owned, P = Private. HRM = Human Resource Management, R&D = Research and Development.

All subsidiaries regularly send reports to their HQs (see table 6.6) and are also required to submit a detailed annual report on performance, development, new ideas, problems and lessons to their HQs, and also need to write specific reports on certain issues irregularly. The Managing Director must approve all the annual reports before sending to the HQs and all the reports are written in Chinese. Apart from the previously mentioned five subsidiaries that submitted study reports, the other organisations rarely send specific learning reports, but mentioned change and improvement in the reports, and can also share learning via other channels (e.g. meetings, emails and phone). For example, the Managing Director from T2 subsidiary says:

Every year, I meet the European Lines Division's directors two or three times, reporting our performance and talking about learning e.g. what we learned, how we learned.

In addition, the majority of the UK subsidiaries have relatively low autonomy and are prone to share and discuss issues with the HQs frequently. For instance a senior manager from IC2 subsidiary points out:

... the UK subsidiary shares and discusses many things with HQs e.g. change management system, customer issues management system. When we deal with clients, we observe and listen to them, and then we transfer what we have learned back to HQs.

6.4.2 Capabilities Development in HQs

As discussed in Chapter three, the outcome of knowledge transfer is measured by the impact of capabilities development in HQs rather the quantity of knowledge flows. In other words, the willingness and ability of HQs assimilate and exploit transferred knowledge is as important as the willingness and ability of subsidiary send knowledge. In order to examine to what degree knowledge is successfully transferred from subsidiary to HQs, it is crucial to explore how the HQs process and exploit the knowledge transferred from the UK subsidiaries (i.e. is there a formal review of the UK subsidiaries' reports in the HQs? do the HQs disseminate UK

subsidiaries' experiences to their other subsidiaries? and do the HQs give feedbacks about the reports to the UK subsidiaries?), whether the UK subsidiaries have helped the HQs with the capabilities development, and what these improved capabilities are.

As shown in table 6.7, 87 per cent of the HQs have a formal review of the reports and tend to disseminate the particularly successful and failure cases within the entire companies and expect employees and organisations to analyse and learn from the cases. However, only 53 per cent of the HQs give feedbacks about the reports to the subsidiaries. A senior manager from B3 HQs says:

we share individual subsidiary's good practices within the entire bank. After our International Business Department has categorised overseas reports into such as business operation, risk management, products innovation, etc., HQs will share the reports within the entire bank. HQs ask their each department to comment and give feedback on the contents and quality of the reports and then according to this feedback HQs will make requests to subsidiaries (e.g. asking certain subsidiary to conduct further in-depth research on certain topic)

Though the HQs do not easily adopt the UK subsidiaries' advanced practices and experiences, they often diffuse these to other overseas affiliated organisations for learning purpose. Sixty per cent of the UK subsidiaries have helped with enhancing the HQs' capabilities. A senior manager from B3 HQs points out:

The entire company definitely benefits from the subsidiaries' reports, but it is difficult to tell how much exactly they contribute to the company's development. Probably the overseas subsidiaries' reports have made totally 10—20% contribution to the entire company' capabilities improvement. The influence from overseas subsidiaries to HQs tends to be subtle (tacit), not only in the formal content of reports.

In addition, an R&D officer in B1 subsidiary also says:

When we received the research topics from the HQs, we did our best to complete the research reports..... The best result was that the HQs' CEO gave an instruction and required the related departments to implement our research results; however, very few reports can receive an instruction from the CEO.....often the CEO might find some reports useful and put them into practice, but we do not know it.

Table 6.7: Capabilities Development in the HQs

Company names	B1	B2	B3	C	CO	E	IC1	IC2	IC3	P1	P2	TD1	TD2	T1	T2	Sum	Percentage
Sector	B	B	B	C	Cos	E	ICT	ICT	ICT	Pb	Pb	Td	Td	Tp	Tp	N/A	N/A
Types of companies	S	S	S	P	P	P	S	P	P	S	S	S	S	S	S	N/A	N/A
HQs have a formal review of the UK subsidiary's reports	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	15Y	87%
HQs disseminate UK subsidiary's experiences to other subsidiaries	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	15Y	87%
HQs give feedbacks about the reports to the UK subsidiary	Y	Y	Y	Y	N	Y	N	Y	N	N	N	Y	N	Y		8Y	53%
UK subsidiary has helped the HQs with the capabilities development	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	N	N	N	N	9Y	60%
UK subsidiary is significant to the HQs	N	N	N	N	N	N	N	Y	N	N	N	N	N	N	N	1Y	7%

Note. For sector, B=Banking, C = Construction, Cos = Consuming goods, E = Electronic, ICT = Information and Communications Technology, Pb = Publishing, Td = Trading, Tp = Transport. For types of companies, S = State-owned, P = Private. HRM = Human Resource Management, R&D = Research and Development.

Some cases show that the subsidiaries transfer knowledge to the HQs that have helped the HQs to develop their capabilities. Other examples indicate that the subsidiaries' and UK even international market's demands have encouraged the HQs to improve their capabilities in order to compete in global market. All three banks' HQs have ever purchased some banking software from western companies, some software can be used directly and others need to be adjusted before application.

All the interviewees from B1, B2 and B3 subsidiaries think that compared to UK banking regulatory, the domestic banking regulatory is less mature and still developing, so normally the domestic regulatory requirements follow the international banking regulatory standards. They also mention the UK subsidiaries sometimes encounter the new banking regulatory requirements earlier than the HQs; therefore overseas subsidiaries' experiences can be helpful to the HQs. For example, B1 subsidiary has optimised some processes and rules through preparing and passing the SAS70 audit (a disaster recovery testing system), and then reported it to the HQs. Although the HQs did not directly adopt SAS70, they referred to the UK subsidiary's report in designing their own disaster recovery program and they also introduced SAS70 to other subsidiaries. In addition, the three banks also have helped their HQs to improve products diversities and management practices. For instance, B1 subsidiary once developed a new product and introduced the product with the relevant knowledge and system to the HQs; now Asia-Pacific overseas subsidiaries are selling this product and more subsidiaries will soon start to sell it. A senior manager from B3 HQs mentioned that their risk management policy, implementation of the Basel-2 and the overseas subsidiaries' risk management department standards are all based on the overseas subsidiaries' and the UK subsidiary's learning. The three banks also believe that the UK (and overseas) subsidiaries have trained the expatriates an international perspective and business capabilities and these expatriate

staff have been proved extremely helpful with setting up more overseas subsidiaries, in addition these contributions are more concrete than the reports.

In order to meet the client's needs, IC2 subsidiary initially developed 'Problem solving management system' and then transferred the system to the HQs and now the entire company uses it. E subsidiary has helped its HQs to improve the products design and technique. This can be explained by three examples. First, the subsidiary recommended changing the induction cookers design from varied patterns with buttons to black with knob. Second, the subsidiary found the defects in the dishwashers and suggested to simplify the structure, reduce the screws and integrate components, which made significant saving on maintenance. Third, the subsidiary detected the air conditioners' defects in low temperature and recommended installing a hearing module to the external machine.

Six banking managers mention that the world leading banks tend to develop and produce their own unified operating systems. In contrast, previously Chinese overseas banks used outsourcing systems that were different from the HQs' systems. According to UK and also other overseas subsidiaries' demands, the three banks' HQs have spent time developing their own unified systems and have also introduced them to the global affiliated organisations, which is extremely beneficial to their international business development and management. The Managing Director of TD1 subsidiary says:

Sometimes, the solutions (such as new products or services demands) help with enhancing the capabilities of the entire company. For example, once we supplied pipelines for a refinery company, which required many specific details in production process and advanced logistic service. Since such a large project contains many sub-projects, affecting products, amount and deliver time. HQs production line was designed for mass production. In order to meet this client's needs, HQs made some improvement on production line and logistic service. The client was satisfied with our products and services. This is the learning process.

A senior manager from C subsidiary mentioned that UK is very strict with wood packaging; therefore in order to meet the need of using steel packaging instead, the HQs upgraded the manufacturing equipment. Another example, the UK subsidiary helped the HQs to find an appropriate equipment and used it to complete one project. A middle manager from B2 HQs tells a story that shows that a subsidiary's demand can help with enhancing the capabilities of the entire company. Once Japan subsidiary encountered a ship finance project that the entire company never did this sort of project; the HQs used the consultants and also consulted with international experienced peers, eventually complete the project. Afterwards, HQs summarised the whole process to a report and archived it for future use.

Generally speaking, 93 per cent of the UK subsidiaries are insignificant (in size and turnover) to their HQs. The data also show that the HQs tend not to consider changing or upgrading the entire companies' operational systems and management practices, unless the majority overseas subsidiaries encounter the similar issues or difficulties. As several managers mentioned, their HQs consider the new knowledge and experiences from the overseas subsidiaries because they expect to learn to improve capabilities, but it is difficult to implement it. However, UK is a relatively important market particularly in banking; therefore the banks' HQs pay relatively more attention to the UK subsidiaries.

6.5 Conclusion

This chapter has presented the results of interviews with 28 people in fifteen Chinese UK subsidiaries (table 6.1) and 12 interviews with seven Chinese-based HQs. Guided by the conceptual framework (represented in figure 3.2), these forty interviews have built upon the conclusion from Chapter Five: that Chinese

subsidiaries intentionally and purposively privilege learning as an important goal of OFDI into the UK.

Referring again to the contradictions between the policy of Chinese MNCs wanting subsidiaries to learn as opposed to the practice of inhibiting learning or not acting at HQs-level upon learning; section 6.6 shows systematic two-way knowledge flows between HQs and subsidiaries. Whereas Dunning and Narula (1996) predicted that OFDI would grow as location advantages strengthen, the evidence suggests that Chinese OFDI is growing to enable the learning of new competences: new ways of learning how to learn and that this better explains the pattern of Chinese OFDI than Dunning's stages model. Since learning can only occur by cognisant thinking individuals (in Chapter 3), it is unsurprising (section 6.4.2) that OFDI into the UK provides Chinese managers with learning opportunities that inspire and intrigue them as they make sense and (re)-interpret situations and practices in the light of their previous Chinese experience.

Section 6.2 presents the interview findings of how learning occurs in Chinese subsidiaries, which addresses research question two. Generally speaking, the subsidiaries know that their systems and products are often technological and systematically inferior to host country firms. However, their focus is not upon capturing codified (product) knowledge, rather they are engaged in a process of understanding and emulating the systems used in British firms to interact with one another and their networks. In short the Chinese companies are building up the absorptive capacity systems and knowledge base that will enable them at some future point to compete in products and service standards with the UK firms.

Section 6.3 addresses research question three: how Chinese subsidiaries exploit the learning and develop capabilities. In summary, the subsidiaries intend to exploit new

knowledge, however only few of them have systematic mechanisms that enable them to exploit new learning efficiently. All the subsidiaries have developed their capabilities in certain level such as in product or service quality, marketing strategies.

Section 6.4 presents the empirical evidence of how the subsidiaries transfer the knowledge and developed capabilities to the HQs, which addresses research question four. In summary, all the UK-based subsidiaries are responsible to collect information and knowledge and transfer these back to the HQs. New knowledge and capabilities are transferred both via technological tools (e.g. emails, phone calls) and in person (e.g. visitor of HQs, expatriates).

Chapter Seven: Analysis and Discussion

7.1 Introduction

This chapter analyses the qualitative interview data, discussing the findings in relation to the general literature and the theoretical framework (figure 3.2). It also addresses the second research objective of this thesis: namely, to explore and examine the learning and capabilities development in Chinese MNCs in the UK. The research questions two, three and four will be addressed through analysis and discussion comprised of major categories of themes and the conceptual framework.

The structure follows the sequence of research questions. Section 7.2 addresses the research question two: How does the learning occur in Chinese MNC' subsidiary in the UK? Section 7.3 illustrates the research question three: How do UK subsidiary exploit learning and develop capabilities? Section 7.4 examines the research question four: How do UK subsidiary transfers the knowledge and developed capabilities to the HQs? Finally section 7.5 summarises the conclusions of the analysis.

7.2 How Learning Occurs in Chinese MNC' Subsidiaries in the UK

7.2.1 Knowledge Gaps in UK Subsidiaries

Numerous researchers, such as March (1999) pay attention to the importance of MNC subsidiaries filling corporate knowledge gaps, which Peterson *et al.* (2008) define as follows: 'knowledge gaps in foreign markets as discrepancies between the knowledge possessed and the knowledge needed for successful business ventures abroad'. Peterson *et al.* (2008) go on to argue that filling knowledge gaps is a major motivation in learning by subsidiaries. This study explores to what degree

subsidiaries identify knowledge gaps (sources of knowledge or capabilities) to fill perceived gaps and strengthen competitive advantage. The research reveals the main knowledge gaps that Chinese subsidiaries perceive are fourfold: operational management, HRM, marketing and R&D.

The survey results echo Child and Rodrigues' (2005) finding, that most Chinese MNCs continually consider internationalisation as the means to absorb knowledge and gain competitive advantage. The survey shows (table 5.15 and 5.16) that market-seeking is the paramount motivation of investment in Britain, followed by strategic asset-seeking (including seeking managerial skills, local talent and technology). These MNCs often identify their knowledge gaps during their internationalisation processes, even before they started to invest overseas. Scholars such as Henderson and Cockburn, 1994; Almeida, 1996; Pearce, 1996; Cantwell and Piscitello, 1997; Blanc and Sierra, 1999; Kuemmerle, 1999; Niosi, 1999; and Lee *et al.*, 2001 focus on subsidiaries enhancing technological resources, whereas this study reveals firms identifying knowledge gaps in other functional areas such as marketing, operation management, and HRM. In this the results are close to the findings of Pahlberg (2001) and Schlegelmilch and Chini (2003), learning occurs not only in technological areas, it is also important in other business functions such as marketing.

Eighty per cent of the subsidiaries in this study identified knowledge gaps in operations management between themselves and their indigenous counterparts; 73% of subsidiaries notice gaps in their marketing knowledge, and 46%, and 40% respectively of subsidiaries find knowledge gaps in HRM, and R&D. Whilst sometimes these knowledge gaps are disadvantageous; at other times the knowledge gaps simply reflect different ways of doing business in the UK compared to China, indicating that cultural differences lead to different business practices. Peterson *et*

al. (2008) point out that knowledge gaps indicate the current knowledge is insufficient to achieve the expected objectives in the current situation, just as some interviewees pointed out: ‘When in Rome, do as the Romans do’. If reduced psychic distance enhances the ability of subsidiaries to learn from host country firms, then this too becomes a strategic asset for them. However, this study concludes that these Chinese subsidiaries continue to suffer wide psychic distance from host country and the local firms: the Chinese firms are failing to invest in host country networks or to replace expatriate managers with local managers.

Knowledge gaps between Chinese subsidiaries and UK companies in the sphere of operations management are profound. Some cases show that the Chinese companies rely on human memory to retain information whereas UK companies will systematically record contacts. For example, the managing director of P2 subsidiary pointed out that the absence of an operational procedure caused him difficulty to understand the operations of the organisation when he took over the position. The Chinese companies are much more informal and dependant on people, whereas in the opinion of the Chinese subsidiary managers (see section 6.1) the UK companies rely more upon systems and their approach of knowledge capture is more systematically. This may overstate the case and will require further research to validate the opinion of these Chinese managers. What is clear is that these Chinese subsidiaries are less endowed with systems and systematically codifying information. Chinese companies often discard learning that is not of immediate use, whereas their UK compatriot companies are more likely to store knowledge for potential future use: a result of learning being in the heads of managers, rather than systematically stored for future use. In short, the Chinese subsidiaries pay less attention to the procedures and processes they are shorter-term rather than long-term; their operational and management systems are immature, lack of effective integration and are less meticulous.

Additionally, some cases (for example the new recruited General Manager of P2 subsidiaries suggested a new project of warehouse construction, which was immediately rejected by the Managing Director who believed the HQs will not prove this project since it would be large amounts of investment, eventually an alternative project with small amounts of investment was implemented.) also show that the HQs are concerned about financial investment. They prefer small amounts of investment offering short-term returns, often rejecting larger and longer-term investments, demonstrating short-term rather than strategic thinking in some large Chinese companies and contrasting with the longer-term strategies pursued by (especially) Japanese companies. Some researchers (for example Chow, 2007) comment upon the short-term nature of Chinese business. Whilst this study has not compared the time horizons of Japanese and US firms to Chinese firms, the data supports Gilboy's (2004) finding that Chinese firms tend to favour short-term gains over long-term investments. In the Chinese financial firms this is clearly seen in terms of data for regulatory compliance: they point out that this is a core centralised function in British banks, whereas the Chinese firms have no such function.

Knowledge gaps in marketing mainly show in three areas: dealing with contracts, tendering and marketing strategy, indicating that Chinese firms lack institutional market knowledge in Johanson and Vahlne's (2009) term i.e. knowledge about language, laws and rules. Johanson and Vahlne (2009) further argue that a lack of institutional market knowledge results from psychic distance and constitutes the liability of 'outsidership' from the local networks. Contracts in China tend to be less legal bundled, as the contracts are renegotiable at any stage of the implementation. However, for UK firm's contracts are treated strictly legally with literal scrutiny, less negotiable once the contracts are signed. This phenomenon could be explained by Luo's (1997) observation that in the Chinese context, even if the government has

enacted numerous laws, rules, and regulations, almost none are completely enforced since personal interpretations are often used in lieu of legal interpretations. This also indicates the cultural and institutional differences between the two countries.

Whilst filling this gap is essential to success in UK markets, due to the cultural and institutional difference, even when subsidiaries become aware of the gaps, they receive little resonance from their HQs. For example, tendering procedures too are often influenced in Chinese firms by cultural issues such as Guanxi (Chinese networking): it is a harsh lesson for many Chinese subsidiaries that UK tendering relies on competitiveness of capabilities rather than personal connections. In section 6.1 some Chinese managers mention this difference and it is one of the reasons that they rely upon detailed guidance from local consultants. It is worth noting that this reliance upon consultants is a break with Chinese business tradition, since the use of external consultants is relatively new.

It is further noted that until recently western consulting firms operating in China face some of the same wide psychic distance issues as the Chinese subsidiaries face in the UK, mainly disconnection from business networks and an inability to deeply engage with host country business. Again, as Chinese subsidiaries learn to adopt the British approach of tendering procedures, these lessons fail to transfer to their home market. This phenomenon can be explained by Luo's (1997) finding that personal connections are often more important than legal standard, in addition unlike many western countries where commercial law is ingrained, traditionally commercial law barely existed in China. Marketing strategy is a further area of knowledge gaps: this research illustrates that the Chinese subsidiaries often lack market research, market analysis, understanding of customers and competitors. For example, each of the three banks located a subsidiary in the UK to follow their Chinese customers; none

have systematically surveyed the market potential of non-Chinese customers, including UK firms that trade in China.

The data indicates that knowledge gaps in HRM appear principally in two areas: a lack of a clear division of labour (for example, a senior manager of C subsidiary used to be responsible of some jobs that needs more than one person to do) and retaining Chinese HRM styles (for instance, expatriation is the most often adopted method for staff recruitment): the evidence for which is reported in section 6.2.3 above. Due to the limit of operation and budget, small subsidiaries tend not to have a clear division of labour i.e. one person has to take responsibility of several jobs; clear lines of responsibility are only created as the subsidiaries grow. In the early period, it is often unclear who has what responsibility.

Chinese HRM styles are rooted in a culture of personalised decision-making, in which senior managers often disrespect technical expertise: it is often a hire-and-fire culture. Retention is therefore a major issue: the culture in Chinese firms is one of offering bonuses to 'steal' staff from competitors, rather than long-term investing in training and personal development. Additionally, some functions (such as sales) are privileged above others (especially technical functions). These findings could be addressed by Shen and Edwards' (2004) argument that Chinese MNCs have large freedom on making decision on recruitment and selection, so they encounter difficulty abroad since they lack international HRM experiences. This research finds that Chinese firms abroad work with the same HRM ethos as they would back in China, which results in problems recruiting and retaining British staff. For example several subsidiaries point out they do not fully trust and rely on the local employees, because they are unlike the expatriates who are willing to work longer hours.

Though few of the Chinese subsidiaries have an explicit R&D function, 40% perceived the knowledge gap of R&D. This is especially amongst the financial firms, who perceive British competitors as more sophisticated and have an explicit remit from HQs to report on innovative ideas. From the examples of the Managing Directors of E and P2 subsidiaries who pointing out the HQs only would agree with small amount of investment either in product development or service development, additionally these subsidiaries appear insignificant to their HQs. This implies a frustration for subsidiary managers who are not resourced to create long-term product development based on their learning from UK competitors, nor do they see evidence of their HQs acting upon their innovation suggestions. In short, subsidiary managers are asked to investigate knowledge gaps but unable to act upon what they learn.

In order to survive and compete at local market, the Chinese subsidiaries need to fill up these gaps and to learn the UK way of doing business. All the interviewed subsidiaries have been established for at least five years and some have even grown in the UK for a few decades. They find themselves continually noticing knowledge gaps and absorbing new knowledge to fill up the gaps in order to survive and compete in the changing environment. This echoes Penrose's (1959: xii) resource-based view of the firm: growth 'is essentially an evolutionary process and based on the cumulative growth of collective knowledge, in the context of a purposive firm'. However, constraints upon innovation by subsidiaries set by HQs means that little innovation occurs as a result of the subsidiary's learning.

7.2.2 Subsidiaries Learn from Their Internal and External Networks

McEvily and Zaheer (1999) argue that each subsidiary has a unique and idiosyncratic network, exposing it to different new knowledge and opportunities. Chinese subsidiaries have a looser relationship with their HQs that often act as a command

and supply centre, they also actively interact with the local stakeholders and communities. Phene and Almeida (2008) suggest that subsidiaries can learn from various sources within and outside MNC. The subsidiaries undertake learning through the interactions with the sources within and outside MNCs. The UK-based Chinese subsidiaries absorb knowledge through the learning from such as the HQs, local consultants, local communities and stakeholders (for instance, the B1 subsidiary has developed a new product through learning from its local peers) and by absorbing ideas from the local talent who have knowledge the subsidiaries did not have (for example, P2 subsidiary has expanded its business scope through recruiting a local general manager who has the expertise that the subsidiary did not have). This supports Simon's (1991:125) argument that organisations learn both through the exist employees and recruiting new talent. Based on Phene and Almeida's (2008) six exhaustive and mutually exclusive learning sources, these partners are divided into two groups: internal network source and external network source.

Knowledge Transfer within Internal Networks

The interviews show regular interactions between all the subsidiaries and their HQs with subsidiaries actively sending employees to attend training programs, seminars and conferences arranged by the HQs. In contrast, only 53% of the UK subsidiaries regularly interact with the other subsidiaries (within the companies). This result supports Phene and Almeida's (2008) argument: the vertical ties (between the subsidiary and the HQs) are more direct and stronger than the horizontal ones (between the subsidiary and other subsidiaries). The banking and ICT companies tend to have a relatively mature training centre regularly providing training programs and seminars. Only three HQs recently have started to design specialised training programs for the local employees in the UK subsidiaries and aim to provide those staff with a general overview about the parent company. These training programs are expected to develop more specific and business-related. In short, from the

viewpoint of HQs, vertical knowledge flows remain much more important than the horizontal flows – section 6.2.2 illustrates that these vertical flows are better funded and seen as much more important by HQs and subsidiaries than are horizontal flows of knowledge (some of which are discounted by HQs and into which they resist investment).

T2 subsidiary's Managing Director uses a simple episode (see section 6.2.2) to explain expatriates bridging daily communication between the HQs and the local employees, in particular when the HQs' documents are written in Chinese. Phene and Almeida (2008) emphasise the positive impact of inter-organisational networks on learning by suggesting that 'the presence of a unified organizational context provides a set of processes and routines within the firm that enable the smooth flow of knowledge from different parts of the firm and its utilization'. Not only at the early stage of the subsidiaries' establishment, have expatriates always played a crucial role in facilitating the implementation of HQs policies, culture, requirements etc. Both survey data and interview results show that the senior and middle managers in the subsidiaries are primarily composed of expatriates. As Bjorkman *et al.* (2004) suggest, an expatriate-dominated managerial team might draw attention of the subsidiary's activities more on inter-firm processes than on developing relationships with the local firms, and then the subsidiary could eventually fail to take advantage of the resources in the host country to develop capabilities.

Additionally the majority of expatriate managers are involved in mentoring new staff and/or providing training courses, therefore expatriates' learning (e.g. motivation, capacity and willingness) are pivotal. Scholars (Penrose, 1959; Rubin, 1973; Wernerfelt, 1977 and 1984) have found that both developing new resources and exploiting the existing resources are equally important to sustain a firm's competitive advantage. Firms and individuals act in the ways to which they are habituated,

therefore unsurprisingly Chinese subsidiaries and expatriates bring the ways-of-working from the HQs to the subsidiaries. The example of ICs indicates this (as the interviewee mentions: ‘Dedication and diligence make IC2 a unique culture’.); for example expatriate staff are prepared to work longer hours and during vacations, take more responsibility and tend not to leave the firms in difficult situations. It can be concluded that Chinese MNCs tend to highly use expatriates; it is due to the issues of control, communication, unwillingness to employ local employees in key positions (including trust issue), management development, training local staff and culture diffusion (Shen and Edwards, 2004).

Each of the fifteen Chinese HQs companies interviewed send expatriates to UK subsidiaries; these tend to be experienced staff and all the subsidiaries’ Managing Directors had minimum five year work experiences in the HQs before appointment to the subsidiary. Expatriate staff have a positive influence on their UK subsidiaries and also bridge communication between the HQs and subsidiaries; if there are no expatriates, it is difficult to implement the HQs policies, culture and requirements in the subsidiary and difficult for HQs to understand the subsidiary’s demands and difficulties. This study therefore confirms the findings of Hocking *et al.* (2004) and Harzing (2001) who argue that the most important reason for MNCs to send expatriates is to transfer knowledge among the internal units: ‘forward’ (from headquarter to subsidiary) and ‘reverse’ (from subsidiary to headquarter). Only half of the subsidiaries share knowledge with the other subsidiaries within the firm, the practices and experiences of the subsidiaries is often transferred back to the HQs and then disseminated by the HQs to other subsidiaries.

Knowledge Transfer within External Networks

The survey shows that absorbing external advanced skills and practices is a major motivation for Chinese MNCs establishing subsidiaries in the UK. Andersson, Holm

and Holmstrom (2001) for example argue that '80 per cent of the most important relationships have been identified as being external to the MNC'. The majority of the subsidiaries are wholly-owned organisations. The others are JV subsidiaries that report disappointment at the failure of their partner firm's contribution to long-term knowledge transfer; in most cases deep cooperation ended after the partners helped the subsidiaries establish. Instead, the subsidiaries learn through recruiting local talent and interacting with local consultants, local customers, local competitors, local policy makers, local business and industrial communities: these external network partners become increasingly significant resources for developing subsidiary's core competences. These results support the findings of Andersson and Forsgren (1996) and Andersson and Pahlverg (1996), the latter's survey of 98 companies suggests that subsidiary's gains from JVs correlates with the resources they invest: in the Chinese case as it has been shown, these resources as limited by HQs.

It is significant that the data shows 93% of the subsidiaries recruit local talent and use this as a way of gaining indigenous learning. Also, interaction between the expatriates and the HQs tend to be informal, many important issues are discussed via phone calls and many decisions are made also through phone calls reflecting informal systems: the Chinese subsidiaries are not systematically codifying and accumulating learning, making sense of it for their business and building upon earlier learning. Much of the learning by the subsidiaries is informal and initiated without the agreement of HQs, though if significant costs are involved (such as attending conferences or hiring consultants), given the tight budgets of the subsidiaries (for example as the Managing Director of P1 mentioned in chapter six), they then have to seek permission. The ability of UK subsidiaries to participate in longer-term or risky initiatives from which they may learn, is further constrained by a short-term mentality and (especially in SOEs) risk-aversion for fear of losing state assets, for

example, given his previous experience, the Managing Director of T1 subsidiary prevented the General Manager's plan to invest in long-term warehouse building.

A further factor inhibiting learning by Chinese subsidiaries is the fact that they are mainly wholly-owned subsidiaries. In contrast in jointly-owned subsidiaries, as Andersson and Forsgren (1996) found, there was more incentives for both parties to learn from the other and to adopt a long-term perspective.

Given the absence of systematic codification of learning, short-term perspective, absence of R&D resources and wholly-owned nature of the subsidiaries; it is unsurprising that recruitment of local talent is seen as one of the important ways in which Chinese subsidiaries can learn about local markets and technologies and reduce psychic distance, when other avenues seem closed.

One model for recruiting and learning from local talent is the use of consultants. For Chinese businesses this is innovative: there is no tradition in China of hiring consultants either to help with projects or improve business operations. All of the Chinese subsidiaries interviewed use local consultants reflecting a perception that consulting firms, taken advice from which is superior to internal knowledge sources especially about 'softer' functions. Advice on local ways-of-working is necessarily superior to internal knowledge sources, since the consultants are locally based and immersed in local ways-of-working. As the evidences shown in C and E, the subsidiaries use consultants for specialist matters, such as guidance on labour or patent law; however, they also make use of consultants for everyday issues such as advice on computing systems and marketing campaigns. Many of the subsidiaries (such as B1, P1 and C) commented upon high levels of learning from consultants, seems treating them as partners.

To conclude, in the absence of long-term learning relationships with local companies, the Chinese companies instead rely upon the intermitted (and costly) hiring of consultants sometimes for specialist advice but also over everyday matters. Much of this learning would otherwise be gained simply from creating open learning relationships with UK companies. The example of C subsidiary is instructive; the company was using its consultants to educate staff on record keep and archiving. Had the company created close working relationships with local companies, it might have identified and transferred these practices at nil cost. Instead, relying upon consultants means the subsidiary is paying for learning and will pay again in future when other learning gaps become identified. The cost of short-term savings as participants in knowledge networks and closely partnering local firms is the long term of learning about basic practices from expensive consultants.

In other areas of specialist or technical knowledge the subsidiaries use consultants to better effect, for example accounting and legal issues (when the subsidiary is too small to recruit an in-house lawyer or accountant). Other examples from the interviews include banking liquidity evaluation, building security assessment and public relations. In these instances, the subsidiaries are careful to try and codify learning, archiving documents. The regulatory environment and professionals judgements made such issues today may result in quite different advice tomorrow, meaning that the value of learning has limited time validity, since the regulatory environment may be fast-changing such as in areas of tax. It is not possible to codify professional judgement. The subsidiaries fail to capture knowledge relating to everyday business issues and repeatedly pay for it, but try to capture knowledge (professional judgements) that is less prone to being codifiable. The episodes from the publication firm and the construction company show they learned little from the consultants that is reusable.

The research illustrates that whilst Chinese subsidiaries may benefit from JVs on long-term projects such as new products and processes. As Makino and Inkpen's (2003) and the earlier work of von Hippel 1988 predicted, internalising lessons for how to do business in the UK, the everyday business processes involving tacit learning, is a greater challenge, requiring investment of time and an openness to adopting business practices of the host country. This is learning tacit new-ways-of-working (i.e. altering attitudes) will always be more difficult than importing codified learning, especially if it is embodied in technology.

Eighty per cent of the subsidiaries are members of the CEA in Britain and actively participate in the events (such as training courses and seminars) regularly organised by the Association, membership of which is encouraged by the Chinese Embassy. Through these events, the subsidiaries receive updated information about immigration policies, local tax policies and even market trends. They socialise with the other members (mainly Chinese companies and consultant firms). Eighty per cent of subsidiaries actively participate in local events (i.e. seminars, conferences, fairs etc.) often organised by the industrial societies or local peers (including customers and competitors). In the events they have opportunities to meet local competitors, potential customers to receive and exchange business market information and they also believe they have learned from their local competitors. These information are codified knowledge, can be easily transferred.

Fifty-three per cent of affiliates (from banking, ICT, construction and transport sectors) are also members of local industrial associations that provide more professional and specialised training, seminars and conferences within certain industry; including local Chambers of Commerce. Mainly these are the larger Chinese subsidiaries, which are not simply sale organisations, which may have expanded their range of operations and investments. Such firms like the banking

subsidiaries and construction subsidiary provide the Chinese subsidiaries with both formal and informal learning. In particular, the three bank HQs often send delegations to London to meet local policy makers and communities in order to conduct research; these research reports are not only useful for the parent companies and also draw Chinese government's attention.

In summary, as Chinese subsidiaries grow in size, they grow in confidence to interact in on wider (non-Chinese) stages, absorbing learning from local companies. Fifty-three per cent of subsidiaries claim they benefit knowledge and confidence through dealing with customers; simultaneously the clients' demands and expectations have motivated the subsidiaries to learn and to develop capabilities. As Grant (1996) pointed out, the most significant learning for OFDI companies is learning-by-doing: exchanging contacts, discussing business processes, phoning contacts who have faced similar challenges. Gradually, it appears, subsidiary staff have develop personal relationship with the local peer firm's employees, these informal, social ties, as Easterby-Smith *et al.* (2008) mentioned, have become superior channels for knowledge transfer and also helped to alleviate corporate and national cultural differences.

7.2.3 Motivations and Mechanisms for Learning in the Organisation

Both examples of C and IC2 subsidiaries (in section 6.2.4) indicate that employees' learning can be stimulated by extrinsic motivations that satisfy their needs indirectly through financial rewards and incentives for their past performance as Minbaeva (2008) suggests. Though all interviewees agree that their firms encourage learning, only one third of the companies have provision of incentives for learning and innovation (e.g. new products, new systems, and new ideas). In the larger subsidiaries (i.e. B1, B2, B3, C and IC2), employees are encouraged to learn (for example attending training courses, discussing training plans) using more systematic

motivation mechanisms, such as recording on file notes and in reports points they learn from interacting with host country firms and regulators. The subsidiaries of B1, B2 and IC2 mention the use of online database for knowledge dissemination. The example of initial failure and later success of adopting database in B1 subsidiary indicates the significant impacts of the quality assurance manager and further implies the importance of systematic motivations and monitor mechanisms.

Sixty per cent of HQs have a suggestion schemes for their staff and eighty per cent of subsidiaries consider learning as one of their overseas investment objectives, however only one-third of organisations have clear learning goals set by their HQs.

Thus, at a formal level both subsidiaries and HQ have adopted some of the techniques used in western firms to capture the ideas and other learning by staff; however, these appear to be formal systems not intended to disrupt hierarchic decision-taking.

7.2.4 Summary of Discussion Regarding Research Question Two

The survey results show the motivations of Chinese OFDI in the UK are market-seeking, followed by strategic asset-seeking (managerial skills and local talent). These subsidiaries have also identified knowledge gaps in marketing, operation management, HRM, and technology. Although there are also other reasons (such as Chinese government policy) that motivate these firms to invest overseas, learning is one of the main objectives and Chinese MNCs expect to lessen and even fill up these knowledge gaps through investment in Britain. The minority of the subsidiaries (three banks and one ICT company) have R&D functions, however, only the ICT Company has established a formal R&D facility. Learning occurs everywhere in the subsidiaries, however the majority of firms are involved in sales and marketing, the

categories of knowledge are mainly restricted to market knowledge and managerial skills.

These conclusions support Simon's (1991) findings that all the firms learn both through the learning of their employees, recruiting new talent and in internal and external networks. The subsidiaries are all tightly associated to these internal network actors with their particular HQs, with expatriates management teams and regularly interactions (training programs, documents exchange, etc.). Expatriates play a significant role in knowledge transfer from the HQs into the subsidiaries. Compared to the internal network, the external network is looser, the firms do not have close long-term partnerships with local peer-firms, and even JV subsidiaries do not collaborate closely with the JV partners. Learning mainly takes place in the events organised by associations (e.g. CEA, local industrial associations) and learning-by-doing whilst dealing with customers. Subsidiaries have absorbed enormous resources through hiring local consultants and recruiting local talent. Subsidiaries are constrained in their learning by the lack of importance attached to this activity by HQs in the sense of limiting budgets and adopting short-term perspectives on the value of learning relationships.

7.3 How UK Subsidiaries Exploit Learning and Develop Capabilities

7.3.1 Knowledge Exploitation within and by UK Subsidiaries

Exploiting knowledge requires, as Nonaka and Takeuchi (1995) argue, an organisation to successfully internalise and socialise the learning. As Spender (1996) and Zahra and George (2002) note, the manner in which these processes occur will vary across sectors and between business cultures. Each subsidiary required the staff to write annual reports about their performance, change, difficulties, plans, etc. Some subsidiaries exploit individual and group's knowledge through developing

operating procedures and/or knowledge database, which are shared and used within the companies in staff training and/or to support job rotation.

Another mechanism of exploiting individual knowledge is to require the experienced managers and staff to share their specialised knowledge (often explicit knowledge) through training courses or seminars. Managers often act as mentors, training junior staff and even taking them to participate in business negotiations, where the managers are able to disseminate some tacit knowledge. Junior staff are mainly recruited at local, and as mentioned the majority of managers are expatriates, thus the results support Shen and Edwards' (2004) finding that training host country nationals is one of the reasons for Chinese MNCs to use expatriates. Therefore, absorptive capacity of these expatriate managers becomes of great importance for the subsidiary's learning and capabilities development. Vance and Paik (2005) found that disseminating learning among non-expatriates might make a significant contribution to increased absorptive capacity. In summary, the subsidiaries intend to exploit their learning: the question is how successfully they achieve this intention.

All interviewed subsidiaries have recruited local talent and tend to exploit their professional capacities and advantages in UK languages and culture, often allocating them into legal, commercial or customer relations work. T2 subsidiary's Managing Director draws from his own experience to suggest that local talent have advantages (e.g. language, culture) over expatriates; local talent also play important roles in business development, particularly when the subsidiary wants to develop new business beyond the current range supported by the HQs.

Some episodes (for example T2 recruiting the new General Manager, and E recruiting the marketing manager) indicate the subsidiaries have a clear objective to source local talent and tend to exploit the expertise of the new recruits in new

projects (e.g. T2 subsidiary's General Manager started LCL project) or solving the existing problems (e.g. E subsidiary's marketing manager changed the induction design). The locally-recruited marketing manager of E subsidiary used his knowledge to solve the product design problem, using tacit knowledge unavailable to expatriate staff. These examples support Grant's (1996b) finding that specialist knowledge embodied in individuals is critical to successful subsidiary operations. It also, suggests that if new learning is framed as a make-our-own or buy-in decision, that in the short-term at least Chinese subsidiaries have little choice but to buy-in local expertise, especially relating to complex regulatory systems or tacit knowledge relating to products or customer relations.

Five subsidiaries deliberately assign one or two local staff as assistants to the senior (Chinese) managers and expect them to provide useful knowledge and suggestions. Fifty-three per cent of subsidiaries have local talent in managerial positions (such as supervisors, department managers and less often general managers). These people helped the subsidiaries to improve the product design, to expand the business scope, to solve the long-lasting problems and so on. These all indicate that Chinese subsidiaries hope to efficiently exploit the knowledge of local talent on a frequent basis as part of normal working, since the Chinese companies are aware of the need for subsidiary-level decisions to be informed by a knowledge of local culture and ways-of-working in the same way that the every western business operating successfully in China with have local partners guiding the way the business conducts its affairs.

The data shows all the subsidiaries exploit the skills of the local consultants in problem-solving: this is continuous since as one set of problems is solved a new of appears. The subsidiaries rely continually on consultants, attempting on each occasion to attach their own staff to learn from the consultant. However, in key areas

such as HR regulations, tax law such is the fast-changing nature of the regulatory environment or nature of professional judgement, the subsidiaries are unable to internalise the competences of the consultants. Some episodes from such as C subsidiary and P1 subsidiary (in section 6.2.3), illustrate this learning from consultants have been successfully integrated into task-specific capabilities; supporting the findings of Grant (1996b). The work illustrates that the Chinese subsidiaries continue to rely on western consultants for specialist knowledge and in areas of professional judgement, emphasising the wide psychic distance between the Chinese and UK business cultures. A similar gap may be found between UK firms in China, however the difference is that in China consulting firms tend to be western in origin and to recruit and train local people specifically to act on behalf of western OFDI into China. Comparing these different scenarios may prove a useful area of future research.

Fifty-three per cent of subsidiaries are small organisations, the majority of which have only one office, they tend to learn and to exploit knowledge informally, being co-located and as Easterby-Smith *et al.* (2008) found, informal social ties between members of same organisation can be superior channel for knowledge transfer. However, Zahra and George (2002) suggest that even though informal mechanisms are useful in exchanging ideas, formal mechanisms are more systematic. The example that P1 successfully organising a spring festival book fair emphasises the small organisation's capacity of absorbing and exploiting learning from consultants.

Using knowledge databases can be a useful and effective approach to integrate individual knowledge into organisational capabilities. However, only the minority of the subsidiaries have knowledge database that records project procedures, technical cases, common problems and solutions – a knowledge available to socialise learning. One reason for this absence of formal knowledge management sites could be that

over half of the subsidiaries are small organisations with less than employees working in one office; informal means of knowledge sharing such as informal communities of practice is preferred. Informal approaches to knowledge sharing are flexible; however, this approach relies on people taking knowledge sharing seriously and can have disadvantages compared to formal knowledge captured. For example, when the Managing Director of T2 subsidiary took over the position, there were no any written operational procedures left from the previous Managing Director; this causes difficulties for the current managing director in terms of understanding the operations and being familiar with the new organisation. In the Chinese cultural tradition, businesses do not formally capture, codify and socialise learning: they prefer inter-relational and informal transmission of learning in un-codified formats. This can have advantages for agility and flexibility, however, it has the disadvantage of embodying knowledge in people, who may leave or become unavailable.

Whilst the majority of the subsidiaries have recruited local employees, 27% of which have local Chinese staff (some of whom may be UK resident, however all are of Chinese origin). It seems that this is not simply a question of cost, rather as the example of IC1 subsidiary indicates, recruiting people of Chinese origin can be preferable since it is more difficult for a single westerner to fit in to an organisation where the dominant culture (e.g. working language and working practices) remain entirely Chinese. Given the evidence that only half of the subsidiaries allocate local employees in management positions, the results may support Shen and Edwards' (2004) finding that the most frequently reported reason that Chinese MNCs experience difficulty in attracting and retaining local talent is the lack of career advancement opportunities: Chinese companies privilege Chinese staff.

Subsidiaries take responsibility to scan the local marketing environment, collect the relevant information and knowledge and send it back to the HQs. Sometimes the

subsidiaries are asked to collect the information and knowledge about specific issues (e.g. B2 subsidiary was required by the HQs to conduct the research about the operational system of a local leading bank). At other times the firms transfer the information that the HQs may be interested in. There may be a tension between the knowledge capture initiated by HQs and that which local subsidiary managers feel is important. For example, amongst the three banks: HQs are interested in issues such as firm-level liquidity ratios, whereas the local managers are more concerned to learn about western customer relations management systems. This leads to some information and knowledge acquired by the subsidiaries but not exploited in the subsidiaries. Such tensions are expected and over time may change, if subsidiaries gain greater autonomy.

7.3.2 Capabilities Development in UK Subsidiaries

In each of the subsidiaries have developed new capabilities; all (to a degree) are better able to operate in the host environment. The majority have increased sales, and some have altered from being a single small sale organisation into a larger firm with a clear division of labour. It is difficult to say these achievements are attributable only to learning; however, it is also clear that learning has played some role in these changes. Additionally, presuming learning is important it is not completely clear where the subsidiaries are learning. Zaheer (1995:360) argued that overcoming a liability of foreignness is a result of HQs sharing capabilities that were previously denied to the subsidiary, rather than subsidiaries learning from peer-companies in the host country. Miller and Parkhe's (2002) research similarly confirms the existence of a liability of foreignness, however, they suggest that learning to overcome this liability may come from interaction with host country companies: this critically depends upon how open the subsidiaries are to new ideas.

The majority of UK subsidiaries have increased their sales and profits since the initial establishment, and 87% of the affiliates have developed marketing capability measured by market share, sales, better understanding the local market and customers' needs, having improved tendering skills. This study shows Chinese subsidiaries learning little about innovative products and processes from their HQs. Some learn little from UK firms; instead, their source of learning is local recruits and consultants. If this assumption is accepted, then this is a new model of learning: relatively 'closed' Chinese subsidiaries learning little from HQs or from UK firms, rather they learn mainly from ingesting relevant knowledge from recruiting staff or consultants. Testing this assumption suggests the need for further research.

These subsidiaries faced market uncertainty over their products and services at the point when they were established; they also face UK market perceptions that Chinese products are low cost and inferior quality, evidenced by the low number of successful Chinese companies in global markets; Huawei and Lenovo being counter-examples. Such perceptions are invisible entry barriers to Chinese firms seeking to internationalise. Overcoming such perceptions is a major achievement of these Chinese subsidiaries. For example, after several years' investment into the UK, TD1 HQs have successfully passed the industrial certificate and become a competitive supplier for the world leading oil firms. Such examples support the view of Zaheer (1995) and Miller and Parkhe (2002) above, and generally the Uppsala and LLL schools of thought, which overseas subsidiaries learn and can overcome the liability of foreignness.

Seventy-three per cent of subsidiaries report improved capabilities in operations management. Many mention shifting from short-term and informal processes to a longer-term emphasis upon formal systems and processes. For example B3 subsidiary identified the gaps, absorbed the knowledge and developed a detailed

operation procedure consisting of pre-trade, trade execution and post-trade three stages, implemented the procedure leading to smoother operation and also avoiding potential problems. Such learning is from UK sources, in the case of B3 consultants and recruited local staff, not the result of changes in outlook and practices from its HQs.

Fifty-three per cent of affiliated organisations have experienced HRM improvement, (often recruitment of local talent is emphasised), as the subsidiaries grow, more local employees are recruited including some into managerial posts. Again, this suggests strategies overcoming the liability of foreignness based upon knowledge flows from UK rather than Chinese sources. B2's case is interesting, demonstrating an ability to integrate local and expatriate talent over a long period to create formal processes and systematic training for all staff. However, the survey results show that expatriation is still the most often-used recruitment method especially for senior and middle level managers. This supports Shen and Edwards' (2004) finding that though recruitment and selection in Chinese MNCs is more progressive than domestic Chinese HRM in adopting contemporary HRM concepts, Chinese MNCs still lack formal and systematic recruitment and selection methods.

Forty-six per cent of subsidiaries diversified their products, for example, the B1 subsidiary observed the local peer's product and modified it and sold it in lower price: further example of local learning rather than transfer of capabilities from China. Only 20% of the firms have undertaken formal R&D, which corresponds to the survey result that compared to managerial skills and local talent, technology seeking is a less important motive of OFDI. This result might be explained by the fact that only a minority of subsidiaries are involved in R&D activity: more of them purchase rather than develop new technologies. Although a weaker form of learning from UK firms, purchasing local technologies is also a way of learning from local.

In summary, whilst further research is required to trace causal linkages, it seems that Chinese subsidiaries are overcoming the liability of foreignness and doing so more by learning from local sources, than from capabilities transferred from China.

7.3.3 Summary of Discussion Regarding Research Question Three

All the interviewed companies exploit managerial staff knowledge through mentoring and training. The firms tend to exploit knowledge of local talent through allocating them in positions where they have advantages. However, compared to expatriates who tend to take senior positions, only 53% of subsidiaries have local talent in their management team. This restricts the knowledge sharing since managerial staff have more opportunities (training, mentoring) to disseminating their knowledge and skills.

The minority of firms have R&D functions; these have adopted knowledge databases to exploit individual and organisational knowledge and skill, which all employees can access to seek solutions from. These knowledge databases are found to be effective for knowledge sharing amongst staff and particularly helpful in problem solving. Researchers such as Takeuchi and Nonaka (1995); Dixon (2000); Nonaka and Takeuchi (2004) argue that in order to gain competitive advantages, firms need to widely distribute knowledge to their all internal units and employees rather than only to relevant managers and experts. Distributing knowledge is not sufficient for capabilities development; motivation and absorptive capacity are also pivotal. Apart from introducing databases, these firms adapt varied performance assessment mechanisms to encourage employees to learn and to solve problems. In contrast, the majority of subsidiaries (mainly SMEs) do not have knowledge database and tend to exploit knowledge informally.

7.4 How UK Subsidiaries Transfer the Knowledge and Developed Capabilities to the HQs

7.4.1 Knowledge Transfer from UK Subsidiaries to HQs

Each of the subsidiaries send regular reports to their HQs covering performance, change, difficulties and they gather local industrial information and business practices, transferring them to the HQs through reports, visitors, emails and phone calls. This is similar to Easterby-Smith's (2008) findings on mechanisms for knowledge transfer that also include training programmes, social events, transferring experienced staff and providing documents. The majority of subsidiary's reports, including all the annual reports are written in Chinese; the annual reports must be approved by the Managing Directors and other reports are reviewed and sent by the relative expatriate managers. Thus it is expatriates who are responsible for knowledge transfer; codification in Chinese language indicates that the subsidiary's main concern is information sharing with HQs. As Minbaeva and Michailova (2004) emphasise 'sharing depends on the ability of the source to communicate his/her knowledge in a way the receiver can understand'. However, if local staff were more closely involved in the process, this might enrich the content of the reports and provide opportunities to reflect upon how the subsidiary's practices and systems differ from UK businesses.

Expatriate managers share their practices and stories with superiors and colleagues during their annual visits to the HQs, further confirming that information and knowledge dissemination are channelled through expatriate managers as Downes and Thomas (1999) suggest from their earlier study of Japanese firms. Later research (such as Downes and Thomas 2000; Dunning, 2003; Riusala and Suutari, 2004) has similar findings. Expatriate managers therefore play a critical role in both 'forward' knowledge transfer and 'reverse' knowledge flows from learning by the foreign subsidiary. Further research may reveal how prepared these expatriate managers for

this important role and to what extent they have been prepared (e.g. in competences, training) for the role.

Whilst learning from host country sources is an explicitly acknowledged aim of Chinese inward investors, of the subsidiaries which are charged with collecting and transferring knowledge and information for the HQs, only one-third regularly submit learning reports to HQs (including three banks who conduct R&D). Informal methods such as emails and phone calls are the most frequently used communication channels between the subsidiaries and HQs. Knowledge transfer features during personnel visits, in particular when expatriate managers share their knowledge and experiences with their colleagues. As it has been mentioned above in Chinese companies these processes are unsystematic, short-term and informally communicated, thus there is no systematic codification of lessons from the host country of benefit to the HQs.

Chinese MNCs tend to assign expatriate managers overseas long-term (three to five years); the majority of the interviewed expatriate managers have worked abroad more than five years and all expatriates have worked in the subsidiaries more than one year. Bjorkman *et al.* (2004) found that extensive use of expatriate managers over time may negatively impact on knowledge transfer from the subsidiary to the HQs. Some episodes indicate that the expatriate managers began initially to frequently gather information and knowledge and send it back to the HQs. This supports Minbaeva and Michailova's (2004) finding that early in their career abroad (one year or less) expatriate managers are willing and eager to transfer knowledge back to HQ. However, the longer the expatriate manager remains abroad, the less time and effort they spend on knowledge transfer. In part this may be as Minbaeva and Michailova (2004) suggest because after a time the managers experience greater autonomy and responsibility for employees' performance and exhibit greater

commitment and willingness to perform better. This study reveals that once a pattern of inattention and inaction by HQs becomes established, expatriate managers begin to feel the effort is wasted, especially when there is no feedback received from the HQs. Where subsidiary managers are given little autonomy to act upon their learning, they may over time be less and less likely to keep HQs informed of what they learn.

The most difficult knowledge to transfer is 'sticky' tacit learning: ways of doing things that are not easily codifiable (Nonaka and Takeuchi 1995). Such learning is particularly important for Chinese companies given the wide psychic distance between ways of working in China compared to western markets. The main way in which sticky knowledge is transferred between Chinese subsidiary and HQs is by staff transfers. Clearly the problem with this is that dissemination is limited to those with whom the transferees come into contact. Since transfers occur at the most twice a year, the cycle of sticky knowledge transfer within Chinese companies become haphazard and unreliable. It can be concluded that in this most important area of knowledge transfer, Chinese companies perform poorly and fail to gain advantages that a more systematic approach would offer.

7.4.2 Capabilities Development in HQs

Eighty-seven per cent of the HQs formally review the subsidiary reports and tend to disseminate learning (relating either to success or failure) within the entire company, however, only 53% of HQs give feedback to the subsidiaries. HQs expect to receive new knowledge, innovation, practices and experiences, but they do not easily adopt the UK subsidiaries' advanced practices and experiences. This might be attributed to the difference of business environment in China (and other subsidiary locations) and the fact that 93% of UK subsidiaries are insignificant in both size and turnover to the parent company. This does not mean that the HQs do not benefit from the

knowledge transfer, rather than it is difficult to measure its impact. As a senior manager from B3 HQs said:

The entire company definitely benefits from the subsidiaries' reports, but it is difficult to tell how much exactly they contribute to the company's development. Probably the overseas subsidiaries' reports have made a total 10–20% contribution to the entire company's capabilities improvement. The influence from overseas subsidiaries to HQs tends to be subtle (tacit), not only in the formal content of reports.

HQs tend to disseminate those practices and experiences offering advantage to other subsidiaries. The data shows that sixty per cent of UK subsidiaries have helped with enhancing the HQs' capabilities. Some cases show that the subsidiaries transfer knowledge to the HQs that have helped the HQs to develop their capabilities or understand trends in UK and international markets, encouraging the HQs to improve their capabilities in order to compete in the global market.

As the leading state-owned banks in the domestic market, each of the three banks that were interviewed are motivated by the government and also the domestic market to grow to world-class status. This is a major motive to learn from the leading banks in London as a world financial centre. Each of these subsidiaries was established in the expectation of significant learning from the subsidiaries. The findings indicate the banking HQs tend to show significant interests in the UK subsidiary's new learning and development; B1's SAS70 disaster recovery testing system being an example. It may be that further research will reveal that knowledge transfers are greater in those sectors in which HQs expect/plan to occupy globally competitive positions as opposed to those in which their trading position is expected to remain weak.

Supply-linkages too are a source of learning. For example, if subsidiaries learn about a superior supply source than that currently used by HQs, Zahra and George (2002) suggest this may become an ‘activation trigger’ for MNC restructuring of supply linkages exploiting the new connection. As Walsh and Ungson (1991), Winter (2000) and Zahra and George (2002) point out, such beneficial results only occur where the HQ responds to the stimuli from the subsidiary and has the agility (double-loop learning) to put the suggestion into practice.

7.4.3 Summary of Discussion Regarding Research Question Four

Chinese subsidiaries adopt both formal and informal mechanisms of knowledge transfer (mentioned by Easterby-Smith, 2008); in particular regularly providing documents (for example annual reports, research reports, etc.) and informal approach of sending emails and phone calls. These are all effective tools of transferring explicit knowledge, codifying the knowledge into words and share it. However, only a minority of them (for instance B1 subsidiary is the training centre of EU area) provide training programs for the parent company. Sammarra and Biggiero (2008) argue that this reduces the degree of knowledge transfer. Addersson *et al.* (2002) point out the difficulty of transferring tacit (non-codified) knowledge and identify the three problems as separating the knowledge from the entities, receiver’s ability and willingness to absorb new knowledge. Chinese firms tend to transfer knowledge through transferring personnel, mainly by sending expatriates and visitors. The rotation of expatriates is often 3-5 years (sometimes longer), and the frequency of visitors is about two times per year, therefore tacit knowledge transfer seems limited and less effective.

In contrast, the HQs are more interested in information such as local industrial trends, new policies, new products, etc.) and frequently require this information. The majority of the UK-based subsidiaries are insignificant in terms of market share and

turnover, and their HQs highly rely on the domestic market. Unlike technology, both managerial and market knowledge are context-specific, thus many knowledge is found not be applicable to the home market. According to Easterby-Smith *et al.* (2008), the absorptive capacity of the HQs can restrict the importance of inflow knowledge transfer. Therefore, high capabilities development in the subsidiaries and effective explicit knowledge transfer do not lead to manifest enhanced capabilities in the HQs. The findings support, the degree of knowledge transfer depends on not only the senders' willingness to share the knowledge also the receiver's willingness and ability to learn (Szulanski, 1996).

Chapter Eight: Conclusion

As China's economy develops, researchers have studied both inward and outward FDI with numerous studies over the last two decades focusing on the internationalisation of Chinese firms especially their strategy, motivations and determinants of OFDI and IFDI. One of the significant findings is that Chinese OFDI into the industrial economies is driven mainly by the desire for strategic asset-seeking in terms of such as advanced technologies, advanced managerial skills and local expertise. However, there has been no study of how Chinese OFDI subsidiaries absorb these strategic assets, exploit them to create new capabilities affecting performance. Aiming to fill this gap, the main research objective is to explore and analyse the learning and capabilities development by UK-based Chinese subsidiaries and their HQs. In order to explore the learning in the subsidiaries, it is crucial to ensure that learning actually occurs in the subsidiaries.

Another research objective is to identify and investigate the characteristics and motivations of Chinese OFDI entry into the UK, building a platform from which to investigate the main objective. This research objective is translated into the research question: what is the pattern and main motivations of Chinese OFDI in the UK? A quantitative survey method is adopted to answer this first research question. Having identified 100 Chinese OFDI in the UK (see the company list in Appendix I), from a self-administered questionnaire 30 completed questionnaires were returned and analysed using SPSS. The findings show that seeking strategic assets in particular seeking the advanced managerial skills and local talent is one of the main motives of Chinese OFDI into the UK and also one of the main overall benefits. In summary, learning is occurring in the Chinese subsidiaries.

Turning to the main research objective, this study addresses three research questions: first, how does the learning occur in the UK-based Chinese subsidiaries; second, how do the subsidiaries exploit the learning and develop capabilities and third, how do the subsidiaries transfer the knowledge and developed capabilities to their HQs? To answer these three questions, a qualitative case study method was initially adopted. Based on the responses of the questionnaire, a number of subsidiaries and their HQs were selected for in-depth case studies. However, given the difficulty of access, the author failed to do so, and an alternative in-depth interview approach was used. In total 40 interviews were conducted including 28 interviewees from 15 subsidiaries and 12 interviewees from seven HQs. The interview data was presented in chapter six and an exploratory approach was adopted for data analysis. The thorough analysis has enabled to address the answers of the four research questions.

8.1 Evaluation of the Study

Validity and Reliability of the Findings

Whilst access issues constrained the research design, the data gathered is honest, repeatable and all the interview data is coded based on the same criteria, therefore the risk of inconsistency in the coding of these data has been reduced. Since this study had both elements of quantitative and qualitative data collection and analysis, as well as different sources of data; thus the author is comfortable with the validity of this research as it conforms to triangulation methodology. The analysis is also reliable in terms of replicability (Bryman, 2008), since the coding and procedures have been thoroughly recorded.

Limitations

When evaluating the significance of the contributions of this study, it is important to comprehend its limitations. As with much research into Chinese companies, the

main limitation of this study arises from limited access and depth of access from companies. The original research design, exploring knowledge flows between subsidiaries and their HQs would have revealed much richer data than it was eventually gathered, lending further weight to the results, particularly the author had been able to use observation method in addition to the interview method the author was allowed to employ. However, the quantitative dataset assembled is the largest survey the author knows of and the author obtained to interview 15 subsidiaries and seven HQs.

This research is carried out on a relatively new context (i.e. learning and capabilities development occur in UK-based Chinese subsidiaries and their HQs) with little previous research to build from and therefore few guiding studies against which this study can be benchmarked. There is little tradition of access to academics in Chinese companies. The original research design was case studies using data from interviews at HQs and subsidiary in the same MNC. This proved impossible because of access difficulties. Further research, by the author self and/or others, may in some small ways be easier once companies, such as those being interviewed, become sanguine about allowing access.

Understanding Guanxi (networking) plays a significant role in building trust, this study started with survey aiming to building a foundation stone for the main research objective and also contacts for further study. It was succeed, since 15 subsidiaries were interviewed later. Nonetheless, given the insignificant position of the majority subsidiaries to their HQs and entrenched hierarchical culture in Chinese firms in particular the state-owned ones, it was unable to interview sufficient HQs through the introduction of the subsidiaries, even through the personal contacts.

This study does not take an industry specific angle as it explores firms from varied sector backgrounds, the main criteria being that the subsidiaries undertake learning and transfer knowledge to the HQs, irrespective of their industrial backgrounds. The initial survey results indicate that the 30 responses spread across 14 industrial sectors, as there are not sufficient cases for individual sectors, carrying out an industry specific study is proved difficult. Given the difficulty of access to the Chinese MNCs, the approach of this study had to alter from a limited number of case studies to a large number of in-depth interviews, adopting this sector specific study becomes even more difficult. The sample size, with 40 interviewees from 15 subsidiaries and 7 HQs, whilst larger than previous studies, is open to bias and is of limited generalisation.

8.2 Summary of Findings

This research finds (table 5.15 and 5.16) that Chinese OFDI targets filling knowledge and competence gaps once they located abroad. However, some researchers such as Peterson *et al.* (2008) emphasise the technical and scientific content of these gaps, whereas this study supports Pahlberg (2001) and Schlegelmilch and Chini (2003) who emphasise softer areas of knowledge seeking such as marketing, HR practices and operation management. Section 7.2.1 shows that in filling these gaps Chinese subsidiaries act quite differently from earlier generations of Japanese firms, whose practices are interpreted in Nonaka and Takeuchi's (1995) knowledge cycle. Unlike this approach, the Chinese firms are less systematic, more informal. It highlights a particular difficulty for the Chinese subsidiaries; they rely on learning from local talent, yet find it difficult to attract and retain this talent, since they maintain a Chinese HR culture and provide the local staff with limited career advancement opportunities.

Unlike the earlier generation of OFDI by Japanese and US companies where often manufacturers with significant technological superiority, the Chinese subsidiaries are often technological inferior and are service providers (see section 7.2.2). Few of these firms located in the UK learned significantly from their HQs and few learned from (JV, supply) network partners. Learning tends to take place in transactional relationships with locally recruited talent and consultants. As Phene and Almeida (2008) suggest, Chinese subsidiaries have strong vertical relationships, however, where there is knowledge flow it is upwards rather than downwards and the main content of the relationship is downward control: Chinese subsidiaries act with little autonomy. As section 7.2.2 notes, exchange of expatriate staff between HQs and subsidiary is an important knowledge conduit and control mechanism, few of the subsidiaries have placed local talent in important management positions. This study supports Hocking *et al.*'s (2004) and Harzing's (2001) findings, the most important reason for MNCs to send expatriates is to transfer knowledge downwards from HQs, this knowledge is found about systems and processes, not new productivities.

Since most Chinese subsidiaries are wholly owned, there is little learning from JV partners, instead, the dominant source of knowledge about local practices, regulations, markets and products are from consultants and locally recruited talent. Hiring consultants is an expensive way of absorbing tacit knowledge about UK business practices. Grant's (1996) argument that significant learning for OFDI companies occurs in learning-by-doing, the daily interactions with host-country companies and customers appear insignificant in the case of Chinese OFDIs, either their customer base is often other Chinese MNCs or their network link with local firms sparse.

The interpretation of findings (section 7.3) is to view Chinese subsidiaries as not wholly open to learning opportunities in the UK. Learning is constrained by the

ability to retain locally recruited staff within a Chinese HR environment, by the insistence of HQs on using their systems and processes and by lack of long-term investment by HQs in systematic knowledge capture and knowledge transfer. In part, this is the Confucian tradition: learning should be of immediate practical use and verbally transmitted. Perhaps many of these subsidiaries have been in the UK less than five years; this is not a long time to overcome (Miller and Parkhe, 2002) the liability of foreignness. Longitudinal research over time may reveal different patterns. At present, the Chinese subsidiaries learn little from competitors and partner firms.

Section 7.4 indicates that the Chinese firms do learn and improve local capabilities, these are often transferred to the HQs, though as the research suggests, expatriate managers decline in the depth of their knowledge sharing with HQs after a year or so, becoming disenchanted that their suggestions are rarely acted upon. Both subsidiaries and HQs face challenges in the absorptive capacity to systematically learn from their foreign locations.

8.3 Answers to the Research Questions

Answering Research Question One

This question asked what the pattern and main motivations of Chinese OFDI is in the UK. The study found that the pattern of Chinese OFDI in the UK cannot be addressed by any single theoretical framework of the three mainstream theories i.e. Dunning's eclectics/OLI paradigm, Uppsala model and Mathews' leverage-linkage-learning (LLL) framework, though they are often used to explain a country's internationalisation. As argued in section 5.3.1 of chapter five, Dunning's (e.g. 1981a, 1981b, 1986) eclectic theory and his accompanying 'investment development path' presumes OFDI from advanced economies by firms with technological and

systems superiority. Whereas the Chinese subsidiaries broadly have technological and operation systems inferiority, and are motivated by ‘Go Global Policy’ from their government and a desire to build networks from which they can learn. This justifies the view that to explain patterns of OFDI from the Chinese emerging market, a theoretical framework acknowledging the characteristics of these firms, not found in Dunning’s work, is necessary.

A similar position was argued in relation to the Uppsala school also in section 5.3.1. In this case, the argument was that the nature of the learning networks the Chinese OFDIs are building are not with JVs or other local companies, rather they are with consultants, disputes the Uppsala model (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975), which predicts that overcoming psychic distance and forming business networks for learning purpose explains patterns of OFDI.

Third, section 5.3.1 argued for the limited applicability to the case of Chinese OFDI motions of Mathew’s (2002a) work, summarised as the LLL model. Not only are the learning networks predicted by Mathews absent in the Chinese case, the exploitation of the transferred knowledge by HQs, is also absent. For these reasons, section 5.3.1 concludes that to explain patterns of Chinese OFDI a new synthetic model is necessary, building from the insights of the three models mentioned whilst acknowledging the different position of OFDI which is in its operational systems and its technologies inferior to competitive companies in their host countries.

The major motives of Chinese OFDI are explained by both push factors i.e. the influence of Chinese government policies, and pull factors consisting of market-seeking and strategic asset-seeking. Dunning’s four classification of motivations, which are only comprised of pull factors of motives, are claimed insufficient to explain the OFDI from China.

Answering Research Question Two

This question asked how learning occurs in the UK-based Chinese subsidiaries. The study found that subsidiary's perception of the knowledge gaps between themselves and the local market mainly relates to functional activities in the subsidiaries such as operations, HRM, marketing and R&D. To address these gaps, the subsidiaries learn through the existing employees who absorb new knowledge and practices, learning from local employees and from consultants. As the triangulation between data, previous research and the interpretation in section 7.2 demonstrates, Child and Rodrigues' (2005) findings can be supported: Chinese companies are seeking to learn more advanced ways-of-working and functional skills. The survey, for example shows 80% and 73% of subsidiaries hoping to learn how to improve their operations and marketing capabilities respectively.

However, for various reasons new learning by the Chinese subsidiaries is limited. Important reasons for this are the absence of formal and systematic learning and knowledge creation mechanisms, expatriate managers characterised by foreignness who find knowledge networking with JVs or local firms difficult, become disheartened that over time transferred knowledge is not acted upon by HQs. In addition, the limited investment in local knowledge networks as a result of low priority by HQs. Much of the learning undertaken by the Chinese subsidiaries is expensively gained from commissioning consultants and hiring-in local staff, as the example presented in section 7.2 of tendering processes and HR regulations demonstrates.

It has been argued from closely analysing these experiences that one explanation is the short-termness of Chinese managers' ideology. Unless learning gives immediate bottom-line impact, they tend to avoid investing in the learning and default from external knowledge flows in the host country, towards internal knowledge flows

from the HQs in China. The interviews in China at seven HQs confirmed this view. Hence, whilst Andersson, Holm and Holmstrom (2001) suggest that some 80% of the most important relationships of MNCs are external; this seems not to be the case for Chinese MNCs. Expatriates are crucial for the forward (from the HQs to the subsidiary) knowledge transfer. Compared to the limited learning from the local firms (such as competitors, customers, even JV partners), the majority amount of learning is undertaken through hiring local consultants and recruiting local talent.

In concluding that Chinese MNCs learn in quite different ways from other MNCs (short-termism; reliance on local recruitment and consultants and internal knowledge flows), however Nobel and Birkinshaw's (1998) argue that everyday business practices and functions are much more difficult to capture, because they involve tacit learning not formalised knowledge transfers. The extent to which this situation persists over time requires further research. It may be that if subsidiaries appoint more local managers and if HQs pays more attention to learning from foreign subsidiaries, then they will better achieve their stated goal of learning via OFDI. However, such changes are unlikely in the short-term to alter the Confucian approach to knowledge, which emphasises its immediate pragmatic utility. Taking a longer view of the benefits of investing in knowledge networking will require Chinese MNC HQs to alter some deep-rooted cultural predispositions.

Answering Research Question Three

This research question asked how the subsidiaries exploit the learning and develop capabilities. The study has found that the majority of the subsidiaries do not have a systematic approach to exploit specialised knowledge; only the minority of Chinese subsidiaries use knowledge databases to formally disseminate knowledge among the employees. As the evidence in section 7.3 shows these Chinese subsidiaries unsystematically gather, evaluate, disseminate and exploit learning.

One reason may be that over half of the subsidiaries are small organisations, which prefer informal ways of knowledge capture, evaluation and exploitation. Whilst the subsidiaries tend to exploit individuals' specialised knowledge through reports and problem-solving in daily work. They also tend to exploit the expertise of local employees through allocating them in the positions where they leverage their knowledge advantages.

All of the subsidiaries have an expatriate in the management team; only half of them have the local employees in the managerial positions. Since (Chinese) management staff have opportunities (such as training and mentoring) to disseminate their specialised knowledge, the knowledge exploitation of local talent is less powerful and deemed less important than knowledge disseminated from the HQs. All subsidiaries exploit to some extent the practices of the local consultants in problem-solving, and tend to integrate their knowledge for future use. The capabilities development mainly shows in operation, marketing, HRM and product diversification.

In contradistinction to the work of Takeuchi and Nonaka (2004); Dixon (2000); Nonaka and Takeuchi (1995) relating to formalised knowledge cycles operating in (more technologically advanced) Japanese and US OFDI companies; the conclusion suggests that because of cultural traditions (pedagogy, rigid hierarchy) Chinese companies exploit knowledge in a less systematic manner. When they do exploit learning from local host-country practices, it is because of the individual managers and locally-recruited staff, not their learning and knowledge management systems.

Answering Research Question Four

This question asked how the subsidiaries transfer the knowledge and developed capabilities to their HQs. The study has found that all subsidiaries transfer knowledge back to their HQs, and both formal and informal methods are used including annual reports, research reports, re-expatriate, sending visitors, emails, phone calls and expatriates visiting HQs. However, Chinese MNCs emphasises 'forward' knowledge transfer over 'reverse' knowledge transfer. The majority HQs adopt all possible methods (in particular providing training programs for the subsidiary's staff and using expatriates as a great knowledge transfer conduit) to ensure knowledge is flow into the subsidiaries.

In contrast, only the minority of subsidiaries are authorised to provide training programs for their subsidiary company, and expatriates are considered as a channel of knowledge transfer only from HQs to subsidiaries. As Gupa and Govindarajan (2000) mention, the richness of transmission channels to share knowledge is positively related to the degree of knowledge transfer, thus the level of knowledge transfer from subsidiary to HQs is reduced.

All reports to HQs are written in Chinese and must be approved by (Chinese) Managing Directors before sending to the HQs; this is more restrictive than if a more open method was used (for example local employees are involved in knowledge transfer). Informal transmission of knowledge means emails and phone calls are more frequently used than the formal methods. Only one-third subsidiaries are required to send learning reports to the HQs. The longer the expatriate are assigned in the positions and the more often the HQs do not response to the transferred knowledge, the less motivated the expatriate managers are to transfer knowledge. In short, the processes of knowledge transfer between the subsidiaries and the HQs tend to be unsystematic, short-term and informal. Given the fact of insignificant size of

the subsidiaries to their HQs and also the psychic distance between the domestic and the UK market, the new knowledge and practices of the subsidiaries are rarely adopted by the HQs. The capabilities development in the HQs reflects the slow long-term response and influence of the transferred knowledge and capabilities rather than immediate exploitation of the new learning.

These conclusions support the earlier research by Minbaeva and Michailova (2004) stressing the importance of absorptive capacity by HQs to these exchange processes. Subsidiary managers of Chinese MNCs in the UK have little confidence that HQs will act upon their suggestions. Instead, subsidiaries are expected to pay attention to expatriate managers from China conveying new ideas to the subsidiary, the 'reverse' knowledge flow highlighted by Downes and Thomas (1999; 2000) and Riusala and Suutari (2004). Is this then a story of hierarchy suppressing innovation, especially in state owned enterprises? Going global is much more than the location of a subsidiary: rather, it is a mindset. Beyond formal reporting, over time, Chinese MNCs may see greater return in terms of knowledge flows from their overseas investments, however, currently this return is limited by the strength of hierarchic management and lack of absorptive capacity at HQs to appreciate the value of systematic knowledge flows.

8.4 A Revised Conceptual Framework

Towards the end of the literature review, in figure 3.2, a conceptual framework is presented to capture the processes by which firms such as these Chinese companies from an emerging market might learn, develop capabilities and create knowledge flows with their HQs. Having argued in Chapter three that the three dominant models of internationalisation (Dunning, Uppsala and Mathews) inadequately capture the position of companies from emerging markets in developed economies

and their knowledge flows, figure 3.2 suggested a framework that illustrated the position of Chinese subsidiaries. Taking guidance from this conceptual framework to interrogate the data and make sense of it in relation to previous research, now a revised conceptual framework is presented in figure 8.1. Like figure 3.2 and unlike Dunning and Uppsala the 8.1 framework is designed to apply to companies from emerging markets i.e. with inferior technologies and systems. Unlike Mathews (2002b) the figure does not presume learning results from overcoming the liability of foreignness, instead as the middle box on the top line indicates, it incorporates the finding that learning in Chinese subsidiaries is often the result of continued liability of foreignness resulting in learning mainly from recruited staff and consultants

The revised conceptual framework (figure 8.1), like the initial framework (figure 3.2) flowchart starts from the top-left with knowledge gaps: the subsidiaries identify or form informal benchmarking against local firms become aware of disadvantageous knowledge gaps between the host country and the domestic market.

Similarly, as Peterson *et al.* (2008) suggest, knowledge gaps in foreign markets are discrepancies that firms need to bridge to conduct successful business abroad. Each of the subsidiaries was established using expatriate staff who bring the business practices from the HQs to the subsidiaries. Thus, the knowledge gaps are also the discrepancies of knowledge between the HQs and the local firms. The knowledge gaps that the subsidiaries perceive relate mainly to their current functional activities such as their operation systems (less systematic and sophisticated), or different approaches of tendering procedures and signing contracts. Based on Grant's (1996b) hierarchical classification of capabilities, these knowledge gaps are classified into four functional capabilities categories: operation, marketing, HRM and R&D.

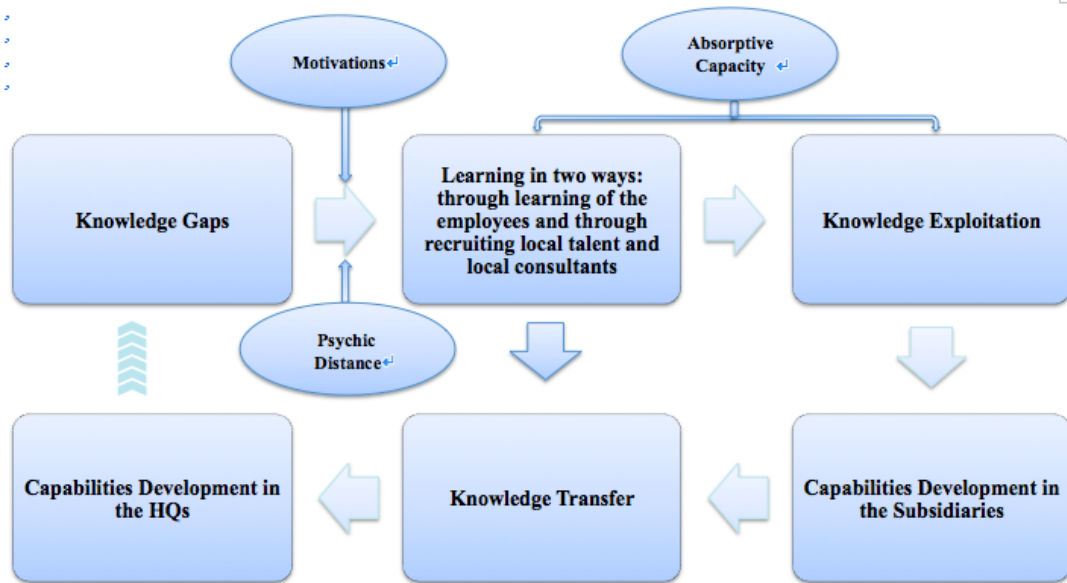


Figure 8.1 The Revised Conceptual Framework

Building from figure 3.2, the empirical results show that the relationship between the subsidiary and their local external network tends to be weak and that learning from the external network (local customers, competitors, etc.) is very limited. This finding disputes those of Bartlett and Ghoshal's (1989) and Nohria and Ghoshal's (1997) findings that a MNC is considered as a 'differentiated network', where emphasises the ability of subsidiaries actively learning from internal and external networks and creating new knowledge and transferring it to other inter-related units. Instead the majority of learning is undertaken through recruiting local employees and using local consultants. The empirical results show that the subsidiaries send staff to attend training courses and activities both at the local and in HQs. They allocate staff to assist consultants for learning purposes, encouraging employees to learn new knowledge. They provide funds for their training, staff also learn by interacting with local customers and other local firms. Recruiting local talent is another way of

learning undertaken by subsidiaries, ninety-three per cent of which have recruited local employees and consider them to be an important means of local learning.

Therefore in this revised conceptual framework, the second stage 'learning from internal and external networks' has been altered to 'learning in two ways: through learning of the employees and through recruiting local talent and consultants'. This result supports Peterson *et al.*'s (2008) finding that knowledge gaps motivate the subsidiaries to take actions to fill up the gaps. The subsidiaries absorb new knowledge not only because they are willing to perform well, also because the HQs expect them to collect useful information and practices for their own use. Therefore, the motivations of the HQs are crucial in terms of stimulating the subsidiaries to learn new knowledge and overcome psychic distance.

Another significant revision in the conceptual framework is an arrow is added between phase two (learning) and phase five (knowledge transfer) showing that without exploitation some information and knowledge is directly transferred to the HQs. This indicates some learning by the subsidiaries ends at absorbing specialised knowledge: this occurs when the new information and knowledge is acquired to collect for the HQs and irrelevant to the subsidiary's operations. Expatriate managers especially become less motivated to initially transfer new learning and capabilities over time. In summary, at the stage of OFDI there is a dissonance between the stated intention of HQs to seek learning from OFDI and its actions in not investing in such learning or paying attention to it when it is transferred.

Although other learning does not end up as (redundant) absorbed specialised knowledge; the subsidiaries tend not to have systematic integration mechanisms to exploit knowledge. Knowledge exploitation is prone to be informal and unsystematic, in particular communication among the members who share only one

office in some small subsidiaries. Formal approaches of knowledge exploitation such as using knowledge database are only adopted in very minority of the subsidiaries. As Van den Bosch *et al.* (1999); Peterson *et al.* (2008); Zahra and George, 2002; and Zahra and George (2002) suggest, integration mechanisms facilitate knowledge dissemination and the eventual exploitation of knowledge.

Though much new learning maintains in individual level within the subsidiaries, this study endorses Grant's (1996b) finding that specialised knowledge can be embodied in new capabilities. The new knowledge is either integrated into task-specific capabilities (such as P1 subsidiary exploiting the learning from the local consultant then organizing a spring festival book fair independently), or even broader functional capabilities (such as B3 subsidiary developing a detailed operation procedure leading to increased operation capability). These functional capabilities include operation capability, marketing and sales capability, HRM capability and R&D design capability.

The capabilities development at Chinese corporate level is more complex than Andersson, Forsgren and Holm (2001) suggest, since Chinese HQs are not only interested in the newly developed capabilities, they also want to receive information and knowledge collected from the UK market and integrate it into new capabilities in the HQs. Hence the UK-based Chinese subsidiaries transfer the developed capabilities as well as the unexploited raw information and practices. Information and practices collected for the HQs may not be used in subsidiaries and, HQs may not use capabilities developed by the subsidiaries. Most of the subsidiaries are insignificant (in size) to their HQs; also given the psychic distance between the UK and China the developed capabilities of the subsidiaries tend not fit into the HQs' operations and often require adaptation. Thus it may be more beneficial for the HQs to develop their own capabilities. The findings show that the majority MNCs don't

have formal and systematic processes for learning and capabilities development, which has deduced many useful knowledge/learning. Capabilities development in the HQs affects the perception of knowledge gaps, given the limited data collected from the HQs, given limited interview data generated from the HQs, a dashed arrow is inserted in figure 8.1 indicating this result need further research to verify.

In summary, figure 8.1 captures these findings in a revised framework (revising figure 3.2 in the light of the research findings). A new arrow is inserted between learning from internal and external networks and knowledge transfer, indicating that subsidiaries often transfer raw information back to the HQs, which remains unexploited knowledge, even when specifically asked for by HQs. The dashed arrow between capabilities development in the HQs and knowledge gaps, demonstrates that the new developed capabilities in the parent company impact on the perceptions of what constitute knowledge gaps, though this influence is minor. The reason for using a dashed arrow is that given the limited data collected from the HQs, further research is necessary to establish the HQs make use of transferred knowledge. Compared to the original framework, in this version, an arrow and a dash arrow are added: the meanings behind the arrows are of great importance.

Generally the new framework (figure 8.1) shows two learning circles, whilst the original framework (figure 3.2) was more linear. The two learning cycles indicate two different approaches of capabilities development in Chinese MNCs. The complete longer circle (knowledge gaps – learning – knowledge exploitation – capabilities development in the subsidiaries – knowledge transfer – capabilities development in the HQs) broadly supports Andersson, Forsgren and Holm's (2001) processes, apart from the Chinese subsidiaries showing little learning from their external network at business relationship level.

The shorter circle (knowledge gaps – learning – knowledge transfer – capabilities development in the HQs) illustrates a different process of capabilities development in a MNC, which treats a subsidiary as an information collector and neglects its ability to exploit new learning to commercial ends, over time this may weaken a subsidiary's absorptive capacity. The difference between figures 3.2 and 8.1 indicates a major finding from this research: although one of the main motives of Chinese OFDI is to learn from the host country and the local companies, the actions of these Chinese MNCs debilitate this goal. They do this by privileging internal knowledge flows above external knowledge flows (i.e. low investment in building long-term host country knowledge networks and relationships and in overcoming psychic distance) and by discounting (not exploiting) knowledge flows from subsidiaries to HQs.

8.5 Theoretical Contributions

This work has criticised the applicability of Dunning's (1986) eclectic/OLI framework in particular his five-stage 'investment development path' to the case of Chinese OFDI. The majority of the Chinese MNCs have ownership disadvantages and are unlikely to gain superior knowledge and technology in the short-term since Chinese MNCs intend to learn to overcome ownership advantages. However, their learning actions appear unsystematic and they also lack absorptive capacity. This latter point is evidenced in the work of Easterby-Smith, *et al.*, (2008); Jones, (2006) and Zahra and George (2002) and is a clear theme in Chapter six, resulting from under-investment in long-term knowledge networking. Without ownership advantages and even the ability of developing this advantages in short-term, therefore this study indicates though the Chinese OFDIs in the UK is currently located in the second stage of Dunning's IDP they are unlikely to follow the further stages that Dunning predicts.

Dunning's ideas on FDI motivations has many merits; the model of strategic asset-seeking, natural resource-seeking, market-seeking and efficiency-seeking usefully explains developed economy OFDI. However, these four categories of motives neglect the importance of the government policy support to Chinese OFDI in particular those SOEs, especially when the majority of Chinese OFDI are SOEs. Dunning's development path is applicable only to technologically superior OFDI and not the technologically inferior firms from China investing into developed economies such as the UK. Since some firms from some emergent economies can be technologically superior, (examples being Tata Steel in the UK and Huawei in telecommunications infrastructure worldwide), illustrating that only a minority of firms from emerging markets are successfully exploiting technological superiority. The criticism of Dunning's development path relates only to technologically inferior firms investing in more developed markets. The aim in creating a new framework that recognises the centrality of knowledge flows from subsidiaries to HQs, resulting from learning in host countries is to understand the OFDI patterns of Chinese MNCs and the benefits gained from knowledge flows between subsidiaries and HQs for this category of firms.

Similarly this research criticised the Uppsala model (e.g. Johanson and Vahlne, 1977) as a western-centric approach. Their idea of network building to overcome psychic distance is profound and helps explain patterns of OFDI and internationalisation mainly via trade and JVs. However, the Uppsala model is less applicable to the Chinese case, since as the evidence illustrates few of the Chinese OFDI into the UK are benefiting from knowledge flows in local networks or even from JV partners. Instead, much of the relationality from which these Chinese subsidiaries learned was transactional such as hiring local staff and commissioning consultants. Therefore, it concludes that there is a need for a framework that captures such phenomenon for Chinese OFDIs, whilst accepting that for other

nationality OFDIs the Uppsala model may suitably explain knowledge flows. It may be that in future as the capabilities of Chinese OFDIs increases, that the networking model sheds further light on their activities of Chinese firms as their capability of building networks grows, for example by investing in long-term learning purposive relationships with local companies.

The research has also criticised the applicability of Mathews' (e.g. 2002a) linkage-leverage-learning (LLL) model to Chinese subsidiaries and their HQs, since the findings show that Chinese OFDI tend to undertake learning without network linkage and resource leverage in the UK, whereas a central point of Mathew's framework is that learning occurs through trading network linkages (for example OEM, JVs). Unlike Dunning's eclectic/OLI model, Mathews identifies the ownership disadvantages in the latecomer firms from the emerging countries, adopting the resource-based view to explore the ownership augmentation of these MNCs. This perspective is particularly useful since the resource-based view stresses a firm's ability to absorb new resources to enhance competitive advantages. If it had been found Chinese subsidiaries actively embedded in relationships with local UK companies, the conclusion would have been to support Mathews' theory, especially since Chinese OFDI invest in the UK mainly for seeking strategic assets. Nonetheless, Mathews is found less useful in explaining the case of knowledge flows between the Chinese subsidiaries and their HQs, since the data shows the Chinese MNCs pay more attention to the internal relationships (between the HQs and the subsidiary) than the external relations (between the subsidiary and its local stakeholders) leading to the limited network linkage and recourse leverage in the host country. As chapter six reveals, Chinese HQs continue to privilege expatriates managers as conduits of knowledge and to discount the innovative suggestions that subsidiaries make based on their learning in the UK.

Additionally, as the data shows subsidiary learning is largely from recruited local talent and commissioning local consultants and over time the expatriate managers cease taking seriously knowledge transfer to the HQs. In short, although the results supports Mathews' emphasises of the resource-based view and the learning out of his LLL framework, there are little evidence showing the Chinese subsidiaries undertaken learning via linkage and leverage. Therefore, Mathews' framework might explain Chinese OFDI in other countries, or it might be as Narula (2006:149) point out, the 'dragon MNEs is the exception rather than the rule'. Nonetheless Mathews' (2002a and 2002b) LLL framework is not evidenced in this study.

Whist Dunning, Uppsala and Mathews, inadequately theorise the nature and motivations of China OFDI into developed countries, figure 8.1 better illustrates the learning processes of Chinese subsidiaries in the UK, this is a revised version (a full explanation is shown in section 8.4). The revised conceptual framework begins by acknowledging the probability of inferior technologies and business systems and the existence of knowledge gaps between the Chinese OFDI firms and the other companies in host markets. This revised framework emphasises the HQs favour the raw information and knowledge and discount the created new knowledge and developed capabilities by the subsidiaries. This version also reveals lack of a systematic approach of learning and knowledge exploitation and absorptive capacity in the subsidiaries and their HQs

In addition, the research suggested a framework (version one, figure 3.2) that explains the processes of learning and capabilities development in Chinese MNCs, which in the light of evidence revised and improved into a new framework (version two, figure 8.1) and is the contribution to international business theory.

8.6 Empirical Contributions

Peng (2012) finds that emerging MNCs going abroad to learn remains an area of learning by organisations not yet extensively studied. The important empirical contribution of this research is the largest quantitative dataset of Chinese subsidiaries invested in the UK (with 30 out of 100 survey responses) from which to interpret an overall pattern of Chinese OFDI into the UK, by for example the year of establishment, size, entry modes, industrial distribution, functional activities, motivations, overall benefits and the recruitment methods. This data is presented in a new, original database in Appendix I.

Additionally, the research gathered qualitative data from 40 in-depth interviews with 15 subsidiaries and seven HQs, uniquely these interviews explore the processes of learning and capabilities development in the Chinese subsidiaries and their HQs.

The findings of the initial survey supports Liu and Tian's (2008) findings on the main motives of Chinese OFDI into the UK are Chinese government policy support, strategic asset-seeking and market-seeking, as well as the characteristics and motives of Chinese OFDI found in Taylor (2002) and Liu, Buck and Shu's (2005) studies. Deng (2004) and Buckley *et al.* (2008) find that strategic asset-seeking is an important motive with efficiency-seeking being the least important factors, which is also evidenced in this study. Wu and Chen (2001) suggest that the geographical distribution of Chinese OFDI is determined by the motives, to seek advanced knowledge and resources drives the OFDI to the industrialised countries, and these are also supported in this study.

The results show that the most of the Chinese MNCs admit their ownership disadvantages and intend to seek useful resources to overcome their knowledge

inferior through their investment in the UK, which supports Child and Rodrigues' (2005) finding that the majority of Chinese MNCs consider internationalisation as the means to learn and strengthen competitive advantage. However, actions by HQs not supporting long-term business relationships obtaining knowledge leverage, or acting upon learning by subsidiaries, suggests that this intention is not being supported in its implementation. Further, whilst numerous scholars (e.g. Henderson and Cockburn, 1994; Almeida, 1996; Pearce, 1996; Cantwell and Piscitello, 1997; Blanc and Sierra, 1999; Kuemmerle, 1999; Niosi, 1999; and Lee *et al.*, 2001) emphasise only subsidiary's learning of technological knowledge, this study finds that learning in the subsidiaries not only takes place in R&D, it also occurs in other softer functional areas. This study supports the findings of Pahlberg (2001) and Schlegelmilch and Chini (2003); learning can happen throughout firms, including areas such as in operations, HRM and marketing. This is especially the case where Chinese subsidiaries are less involved in technological development i.e. they are service or trading concerns.

Miller and Parkhe's (2002) findings indicate that learning to overcome the liability of foreignness may result from interaction with host country companies: this critically depends upon how open the subsidiaries are to new ideas and how competent their managers (often expatriates) are at networking with local firms. Some Chinese subsidiaries overcome the liability of foreignness through learning from local resources rather than their HQs. However, this study also finds that subsidiaries continue to perceive unfilled knowledge gaps they need to address in order to survive in the local market. This supports Penrose's (1959: xii) resource-based view of the firm: growth 'is essentially an evolutionary process and based on the cumulative growth of collective knowledge, in the context of a purposive firm' since learning and the development of capabilities are seen as crucial building blocks in improving competitiveness. Nonetheless, Chinese MNCs are found to pay less attention to the

procedures and processes, because they appear short-term and often discard learning that cannot be use immediately, which supports Gilboy's (2004) finding that Chinese firms favour short-term gains over long-term investment.

This study indicates that expatriates play a significant role in knowledge and practices transfer between the HQs and subsidiaries, which support the findings of Harzing (2001) and Hocking *et al.* (2004). They argue that the most important reason for using expatriates is to implement knowledge transfer between the HQs and the subsidiaries. Though the predominant knowledge transfer between the subsidiaries and the HQs is downward and vertical, the majority of downward transferred knowledge is routines and processes, the new productivity and created knowledge are more likely to arise from upward knowledge flows.

Easterby-Smith *et al.*'s (2008) finds that the informal social ties between the employees in the same firm can be a superior conduit for transferring knowledge than formal conduits is evidenced in this study. Although this research is not cross-country comparative and further research is necessary, this conclusion is sharply different from that of Nonaka and Takeuchi's (1995) comments on US and Japanese subsidiaries, both of which emphasise knowledge codification cycles. Further research could show Chinese companies to be short-term and pragmatic in their learning, reflecting the nature of relevant knowledge in the Confucian tradition, since there is little evidence of long-term investment in joining local networks for learning purpose and since HQs regularly underplay suggestions from subsidiaries.

Expatriates managers share their knowledge and narratives with their superiors and colleagues when they visit the HQs annually, which supports the findings from (such as Downes and Thomas 2000; Dunning, 2003; Riusala and Suutari, 2004), who argue that expatriates managers are a more important channel for knowledge dissemination

than local managers. Expatriate managers play a significant role in both ‘forward’ knowledge transfer and ‘reverse’ knowledge flows, emphasising flows of knowledge from HQs rather than from the subsidiaries. The findings suggest, as Szulanski (1996) stresses, that the degree of knowledge transfer depends on not only the senders’ willingness to share the knowledge, it also depends upon the receiver’s willingness and ability to learn and their absorptive capacity.

8.7 Future Research

This work suggests limitations on the applicability of Dunning’s eclectic paradigm, the Uppsala model and Mathew’s LLL framework to the case of OFDI by Chinese companies. Further research, especially looking at other BRIC country OFDI into advanced economies, will shed light on whether my conclusions are specific to China (its Go Global Policy, the Confucian tradition, the particular sectoral spread of its OFDI) or whether the criticism also apply to OFDI from other emerging economies. If this is the case, then there are wide implications for international business theory, as it is currently understood.

A further future questions raised by this study centres upon causally connecting learning, capabilities and performance. Is the case that learning that expands and strengthens the capabilities of Chinese subsidiaries results in better performance? Can performance simply be evaluated in terms of sales and profit or (additionally) can a return on investment be computed for knowledge flows that affect whole-MNC competences? These are wicked issues, since as Neely (2002) shows connecting performance with strategy is itself highly problematic.

The most important question for future research, arising from this research is the nature and significance of learning in Chinese companies. It has been assumed that

unlike the learning cycles found by Nonaka and Takeuchi (1995), Chinese companies are more short-term and pragmatic in their learning. The negative side of this Confucian tradition is unsystematic learning devoid of strategic linkages, whilst the positive side may be in agility and market-orientation. Research in Chinese MNC HQs would reveal more about the practice of Chinese companies learning and their ability to absorb and exploit new knowledge.

Once aspect of learning arising from this study is intriguing is the role of consultants. The narrative tells of Chinese firms transactionally buying-in soft learning from consultants. Anecdotal evidence reveals a similar story of western consultant firms 'buying' business in their early days in China, until they built up sufficient local knowledge (from employing local staff) to add value to (in this case) local Chinese firms. What then is the role of consultants in supporting internationalisation processes?

8.8 Implications for Management Practice and Policy

The author's concern has been to identify practices and understandings that help decision-makers in China choose OFDI routes and the practices likely to successfully improve their competitiveness. Whilst earlier generations of researchers investigated US or Japanese company practices, identifying behaviour, structures, systems, processes, which might be diffused internationally. The focus is upon those practices and policies that Chinese subsidiaries identify as better practices in the host country (the UK in this instance) and how these might be transferred back to the Chinese HQs and later disseminated and diffused as good practices in Chinese MNCs. One of the key findings is that although Chinese MNCs state they are knowledge seeking, as shown in Chapter six, their practices inhibit knowledge gathering and its transfer to the HQs. In short there is dissonance between their intents and actions for

learning and capabilities development. Chinese MNCs therefore, need to develop formal and systematic mechanism to incentivise, gather, evaluate and disseminate learning from their subsidiaries.

The central recommendation to Chinese MNCs is that in acknowledging their lack of systematic knowledge absorption and exploitation (in short, lack of absorptive capacity) they take remedial actions. This may include developing a formally systematic approach of knowledge acquisition, assimilation, transmission, exploitation and dissemination. For example by appointing a Knowledge Manager in each subsidiary, whose task is to create systematic mechanisms of knowledge flow based upon actively seeking learning from interactions with local companies.

Subsidiaries are controlled in the degree of knowledge networking they do by financial and strategic constraints from HQs, who in any case privilege learning downwards i.e. knowledge flows from HQs, using expatriate managers as conduits for knowledge transmission. This occurs within a pragmatic and short-term (Confucian) tradition in which learning is valued by the immediacy of its impact. A key conclusion from this study is that if the stated intention of Chinese companies in undertaking OFDI (bridging gaps in knowledge that will improve competitive advantage) are to be realised, then Chinese MNCs need to invest in longer-term business networks (as Mathews' (2002a and 2002b) network linkages and resource leverage) in the host countries. They should also encourage the gather and transfer of tacit learning by employing more local staff in senior positions and more seriously look at exploiting learning from subsidiaries across the firm, thereby incentivising subsidiaries to enrich their upward knowledge flows.

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APPENDICES

Appendix I: Company List

A Plus International Express Parcels (UK) Ltd.
Accord Global Environment Technology (AGET)
Agricultural Bank of China (London)
Airchina
Alibaba.com Limited
APEX
Apollo Europe
Bank of China
Bank of Communications (London) Representative Office
BEIJING TONG REN TANG CHINESE MEDICINE (UK)
Bestex Jiangsu Co Ltd
Better Generation
Bonny International UK Ltd
CATIC (UK) LTD
CCIC LONDON CO., LTD.
CNOOC Africa (UK) Ltd.
CTC Electric (London) Ltd
Chengdu Hi-tech Zone
China Central Television (CCTV)
China Construction Bank
China Eastern Airlines
China Export & Credit Insurance
China Insurance Company (UK) Ltd
China Merchants Holdings (UK) Limited
China mobile Limited
China National Tourist Office, London
China Netcom (Europe) Operations Limited
China Reinsurance Corporation (London)
China Shipping (UK) Agency Co. Ltd.
China Telecom (Europe) Limited
China Travel Service Group (CTSG)
China Youth Publishing Group (CYPG)
CNOOC Africa (UK) Ltd
CNPIEC London Office (UK)
Coscon (UK) Ltd
Ctc Electric (London) Ltd
CULTURAL TOURS UK
Cypress Book Co.
Crystal Digital
CYP International Ltd
D-Link
Elin Marketing (UK) Ltd
Genertec UK
Golden Bridge (UK) Ltd
Golden View
Greatwall UK Ltd
Green Valley Group
Greenland International (UK) Limited

Hebei Jingniu Group Co. Ltd
Hisense UK Office
Homex Europe Limited
Honav UK Ltd
Houlder Insurance Services Ltd (Lloyd's Brokers)
Huawei Technologies
HYT Science & Technology Co., Ltd
ICBC
Icicle
Isunte (UK) Co. Ltd
Kai Turn Enterprises
Lenovo
LITTLE LAMB
London Representative Office
Marent
MG Motor UK Limited
Midea Household Appliance (Europe) Ltd.
Minmetals (U.K.) Ltd.
Mindray (UK) Ltd
New Classic Press Ltd
Nomona UK Limited
Nutrintl UK
PetroChina International (London) Co. Ltd.
PICC (Europe)
S&W Handbags
SAIC Motor UK Holding Co., Ltd
SOFTOC
Shanghai Haobo Chair
Shanghai Herbs Group Ltd
Shanghai Touchroad International Trading UK Ltd
Sinochem International Oil (London) Co., Ltd.
Sinolingua London limited
SINOTRANS U.K. REPRESENTATIVE OFFICE
Sleek International
Star Business Travel Co. Ltd
Sunry UK
Susino (UK) Ltd
T-Storm Limited UK
TEXMAX(UK)
Tian Shi UK Plc
Tianjin Pipe Corporation (TPCO)
TIENS UK
Top Glory (London) Ltd
TPCO UK LIMITED
Tricor Aldbridge
UNIPEC UK
Wenzhou HEC Fashion
Xinhua News Agency London Office
Yuanda UK
ZLWD Solicitors
ZTE UK Ltd
Zhongguancun Science Park

Appendix II: Questionnaire

CHINESE INVESTMENT IN THE UK

Introduction

This questionnaire contains a number of questions concerning the characteristics of your company, the difficulties that your company faces, your goals and your achievements, and the relationship between the operation in the UK and your parent company. Most questions simply require you to either circle the appropriate response code or give short answers, so the questionnaire should only take about 10-15 minutes to complete.

The questionnaire focuses on the questions about your UK operation, and there is one small section of questions about your parent company in China.

This questionnaire has been sent to approximately 100 Chinese investment enterprises in the UK. All those who complete and return a questionnaire will receive a copy of the report of the findings free of charge. All information given in the questionnaire will be treated as strictly confidential, and no individual company will be named in any write-up of the findings.

If you have any queries about the questionnaire, please do not hesitate to contact Yan Zhuang by telephone on Edinburgh (0131) 6504606, by mobile phone on 07837483643 by email on yan.zhuang@ed.ac.uk, or by mail on University of Edinburgh Business School, 16 Buccleuch Place, EDINBURGH EH8 9LN. A reply by the end of December 2009 would be appreciated.

Thank you in participation.

Questionnaire Guidelines

Please try to answer all questions. If you do not know the precise answer, please give your best estimate.

If a particular question is not applicable to your company or if you are unable to answer, please feel free to leave it blank. Your contribution is still valuable even if you cannot answer all the questions.

Your anonymity is assured; all questionnaires will be treated strictly confidential. Only the aggregate results from the survey will be reported.

Returning the Questionnaire

Please put the completed survey into the prepaid return envelope.

If you lost the prepaid return envelope, please send the completed questionnaire back to Yan Zhuang, University of Edinburgh Business School, 16 Buccleuch Place, EDINBURGH EH8 9LN.

QUESTIONNAIRE

Part I: Background Information

1. Company name in the UK: _____ 1
2. Name of person completing questionnaire (only if you want to): _____
3. Position in company (only if you want to): _____ 2
4. Telephone number (only if you want to): _____
5. Email address (only if you want to): _____

Part II: Your UK company

Section A: Past

(a) In which year was your company first established in the UK? _____ 3

(b) What was the function of your company at that time?

- A. Representative office
- B. Subsidiary
- C. Branch
- D. HQ of certain region (please specify _____ which region): _____
- E. Others (please specify): _____ [4, 5, 6]

(a) What was your mode of entry into the UK?

- Greenfield
- Joint Venture (JV)
- Merger
- Acquisition
- Others (please specify): _____ 7

(b) If your company entered in the UK via a JV, who was your partner company?
_____ 8

(c) If a JV, please describe the main assets/resources that your company brought to the venture [e.g. Cash, Raw materials, Technology, etc.]
(Please list these in descending order of importance, up to three in total).

1.	9
2.	10
3.	11

3 Please indicate the importance of the following reasons for your company investing in the UK by circling the appropriate response.

Motivations	Not Important	Less Important	Somewhat Important	Important	Very Important	N/A
Access to EU markets	1	2	3	4	5	n/a 12
More expansion opportunities in the UK	1	2	3	4	5	n/a 13
Cultural and language proximity	1	2	3	4	5	n/a 14
To seek or advance managerial skills	1	2	3	4	5	n/a 15
To seek local talents	1	2	3	4	5	n/a 16
Lower political risks in the UK	1	2	3	4	5	n/a 17
Chinese government's policy support	1	2	3	4	5	n/a 18
Easier access to financial markets in the UK	1	2	3	4	5	n/a 19
To seek R&D capabilities	1	2	3	4	5	n/a 20
Competitive pressure at home	1	2	3	4	5	n/a 21
To seek renowned brands	1	2	3	4	5	n/a 22
Sufficient capital to be invested	1	2	3	4	5	n/a 23
Investment incentives in the UK	1	2	3	4	5	n/a 24
To seek raw materials	1	2	3	4	5	n/a 25
Lower operation cost in the UK	1	2	3	4	5	n/a 26
Increasing production cost in the home country	1	2	3	4	5	n/a 27

Other (please specify)	1	2	3	4	5	n/a 28
Other (please specify)	1	2	3	4	5	n/a 29
Other (please specify)	1	2	3	4	5	n/a 30

Section B: Present

What is the turnover of your UK company? (in £) _____ 31
 Or (in US \$) _____ 32

What are the main products or services of your UK company? _____
 _____ [33, 34, 35]

What geographical markets does your UK company mainly target? (e.g. UK) ____
 _____ [36, 37, 38]

4 (a) How many employees does your UK company have? _____ 39

(b) What percentage of your employees are Chinese? _____ 40

5 (a) How many sites does your company have in the UK? _____ 41

(b) Please name their locations (e.g. London): _____
 _____ [42, 43, 44]

6 How would you describe the current function of your UK company?

- A. Representative office
- B. Subsidiary
- C. Branch
- D. HQ of certain region (please specify _____ which region): _____
- E. Others (please specify): _____ [45, 46]

7 Which of the following activities are performed in the UK?

- A. R&D 47
- B. Sales 48
- C. Manufacturing 49
- D. Purchasing 50
- E. Legal 51
- F. Marketing 52
- G. Logistics 53
- H. Service 54
- I. Others (please specify): _____ [55, 56, 57, 58]

8 Which of the following best characterizes the operation of your UK company?

- A. Trade
- B. Manufacturing
- C. Business-to-Business service provider
- D. Business-to-Customer service provider
- E. Other (please specify): _____ 59

9 What is the main financing method of your UK company?

- A. Overseas enterprise loans
- B. International financing rental
- C. Secured loans
- D. Capital from parent company
- E. Other (please specify): _____ 60

10 Please name your UK company's main customers worldwide (Please list these in descending order of importance, up to three in total).

1.	61
2.	62
3.	63

11 Please name your UK company's main business partners (excluding JV partner) worldwide (Please list these in descending order of importance, up to three in total).

1.	64
2.	65
3.	66

12 Please circle the importance of the following overall benefits relating to your company's investment in the UK.

Overall Benefits	Not at all Important	Not very Important	Somewhat Important	Important	Very Important	N/A
Natural resources	1	2	3	4	5 67	n/a
Advanced technology	1	2	3	4	5 68	n/a
Advanced equipment	1	2	3	4	5 69	n/a
Management skills	1	2	3	4	5 70	n/a
Export market	1	2	3	4	5 71	n/a

New market	1	2	3	4	5 72	n/a
Contributing to stronger economic ties with the UK	1	2	3	4	5 73	n/a
Securing foreign exchange	1	2	3	4	5 74	n/a
Lower operation cost in the UK	1	2	3	4	5 75	n/a
Overseas funding	1	2	3	4	5 76	n/a
Other (please specify)	1	2	3	4	5 77	n/a
Other (please specify)	1	2	3	4	5 78	n/a

13 Please indicate the relative importance of the use of the following recruitment methods in your UK company.

Recruitment Methods	Not used	Rarely used	Sometimes used	Frequently used	Always used
Senior Managers					
Recruitment Agency	1	2	3	4	5 79
Word-of-mouth	1	2	3	4	5 80
Public advertisement (e.g. Newspaper)	1	2	3	4	5 81
Family connection / recommendation	1	2	3	4	5 82
Expatriates	1	2	3	4	5 83
Middle Managers					
Recruitment Agency	1	2	3	4	5 84
Word-of-mouth	1	2	3	4	5 85

Public advertisement (e.g. Newspaper)	1	2	3	4	5 86
Family connection / recommendation	1	2	3	4	5 87
Expatriates	1	2	3	4	5 88
Non-managerial staff					
Recruitment Agency	1	2	3	4	5 89
Word-of-mouth	1	2	3	4	5 90
Public advertisement (e.g. Newspaper)	1	2	3	4	5 91
Family connection / recommendation	1	2	3	4	5 92
Expatriates	1	2	3	4	5 93

14 What are the major problems that your company faces in the UK? [e.g. personnel, language, business culture, competition policy, political and economic environment, etc.] (Please list these in descending order of importance, up to five in total).

1.	94
2.	95
3.	96
4.	97
5.	98

15 (a) Have differences in Chinese and British approaches to business caused issues in your UK firm? YES/NO 99

(b) If so, please specify the differences: _____

_____ [100, 101, 102]

Section C: Future

1. In 5 years, how many employees does your UK company expect to have? ____ 103

2. (a) In 5 years, does your parent company expect to add any more activities (e.g. R&D, Sales, Manufacturing, Purchasing, etc.) into UK operation? YES/NO 104

(b) If yes, please name the new activities: _____

_____ [105, 106, 107]

3. In 5 years, what percentage increase in sales does your UK company expect to achieve? _____ 108

Part III: Your Parent Company in China

What is your parent company's name? _____ 109

What is your parent company's turnover worldwide? (in ¥) _____ 110
Or (in US\$) _____ 111

What are your parent company's main products or services? _____

_____ [112, 113, 114]

What geographical markets does your parent company mainly target? _____

_____ [115, 116, 117, 118]

What is the ownership of your parent company?

A. State-owned

B. Private

C. Collective

D. Other (please specify): _____ 119

6 Please list the other countries in which your parent company has invested (Please list these in descending order of importance, up to three in total).

1.	120
2.	121
3.	122

Part IV: Relationship between parent company and UK company

1. Please indicate the degree of decision-making autonomy or influence enjoyed by the UK operation with respect to each of the following activities.

Operation activities	Very Weak	Weak	Moderate	Strong	Very Strong	N/A
Pricing of products or services	1	2	3	4	5 123	n/a
Choice of markets	1	2	3	4	5 124	n/a
Permission about recruitment of staff	1	2	3	4	5 125	n/a
Choice of hiring new staff	1	2	3	4	5 126	n/a
Control of products or services quality	1	2	3	4	5 127	n/a
Establishment of new departments	1	2	3	4	5 128	n/a
Introduction of new products or services	1	2	3	4	5 129	n/a
Choice of investment projects	1	2	3	4	5 130	n/a
Replacement of senior management	1	2	3	4	5 131	n/a
Choice of sales channels	1	2	3	4	5 132	n/a
Financial Management						
Monthly expenditure	1	2	3	4	5 133	n/a
Annual budget	1	2	3	4	5 134	n/a
Long term [e.g. three year investment]	1	2	3	4	5 135	n/a

Thank you very much for your kind help.

Please put the completed questionnaire into the prepaid return envelope and mail it back.

Appendix III: Interview Schedule

Part I: Background Information

1. Company name in the UK and China: _____
2. Name of interviewee: _____
3. Position in company: _____
4. Years in position: _____
5. Telephone number: _____
6. Email address: _____

Part II: Semi-structured Interview Questions

A: People in UK Subsidiaries

Section I: Organisational Learning

1. What knowledge gaps (between your own company and local companies) have you seen? And how do you identify these knowledge gaps which need to be filled, for example in finance, marketing, HRM, R&D, operations, MIS, etc.?
2. Do you send subsidiary staff on any training courses (or seminars, conferences etc.) to learn from local business environment (general business environment, stakeholders)?
3. Do you use any consultants? If yes, can you give an example of UK practices (in finance, marketing, HRM, R&D, operations, MIS, etc.) that you've learned from them?
4. Do you think that expatriates bring new knowledge (learning) into subsidiary?
5. Do you recruit local people to bring new expertise into the company that you can learn from to help improve products, processes or your business model (in finance, marketing, HRM, R&D, operations, MIS, etc.)?
6. Does your subsidiary adopt any other organisational learning methods (for example learning from customers, suppliers, partners etc.)?
7. Does the whole company (HQs, subsidiary or both) encourage staff to learn? If yes, how? (For example do you have a suggestion scheme for staff or actively gathering ideas from staff)
8. Is learning one of your subsidiary's main objectives? If yes, have the HQs set any goals for your subsidiary for learning and knowledge transfer to HQs?

9. Do you see any organisational change or improvement (in people's thinking, processes, products, policy, etc.) through exploitation of new learning since you started to work in the subsidiary?

10. How do you transfer knowledge and capabilities back to the HQs? (Reports? HQs' visitors? Or others?)

11. Do the HQs manage and supervise the learning, improvement and the process of change undertaken in the subsidiary? If yes, what do the HQs do?

12. Does the subsidiary make demands or ask for help from the HQs? If yes, what do the HQs do? Will the solutions help with enhancing the capabilities of the entire company?

Section II: Individual Learning

1. Do you see any change or improvement yourself through learning since you started to work in the subsidiary?

2. Can you give me an example (a story) of your learning to improve your work? (Training courses, conferences, learning by doing business with stakeholders, observing what your stakeholders do, etc.)

3. Now can you go over the story again pointing out:

- What did you learn?
- What learning methods did you use?
- What motivated your learning?
- Did related prior knowledge and skills help with this learning? If yes, can you give an example?
- Was your learning limited within particular boundaries?
- Did working in English as a second language help or hinder your learning? How?
- Did you come across any cultural issues (difficulties) through this learning? If yes, how did you overcome these difficulties?
- Did you apply this learning into your work?
- Did you diffuse this learning to your colleagues? If yes, how?

B: People in the HQs

1. How has your company benefited from investing in the UK?

2. Is learning one of your UK subsidiary's main objectives?

If yes, have the HQs set any goals for knowledge transfer from your UK subsidiary?

3. Does the UK subsidiary acquire any knowledge (learning assistance) from the HQs?

If yes, how (give an example)? Do you send expatriates to the UK subsidiary with the intention of learning at local or passing knowledge to the local?

4. Do the HQs monitor the learning (improvement, change) processes in the subsidiary? If yes, how (give an example)?

5. How does your UK subsidiary transfer knowledge and capabilities back to the HQs? (Reports? HQs' visitors? Or others?)
6. How do the HQs encourage the UK subsidiary to learn and to transfer knowledge and capabilities back to the HQs?
7. Do you exploit and diffuse these knowledge and capabilities in the whole company (HQs, other subsidiaries), if yes, how?
8. Does your UK subsidiary ask for favours from the HQs? If yes, how do the HQs help? Will the solutions help with enhancing the capabilities of the entire company?