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The Effect of Liability of Foreignness on Firm's Internationalization Process: A Study of Chinese Firms

by
Quentin Tigé

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Résumé

Jusqu'à présent, en ce qui concerne la littérature portant sur les affaires internationales, le centre de l'attention a toujours été porté sur l'expansion internationale des compagnies provenant de pays développés. Cependant, le 21e siècle a entrainé de sérieux changements en ce qui a trait à l'économie globale. Un nombre grandissant de compagnies provenant de marchés émergents rivalisent maintenant dans les marchés occidentaux. Dans ce contexte, il est intéressant d'étudier la réalité et les défis qu'ont à relever les multinationales provenant de marchés émergents.

De plus, avec l'émergence de la Chine comme superpuissance économique, une multitude de firmes chinoises rivalisent à présent sur le marché global. Ceci dit, dans la conjoncture actuelle caractérisée par la guerre commerciale entre les États-Unis et la Chine, ainsi que par les conflits entourant la course vers les réseaux 5G, les firmes chinoises subissent des défis additionnels lorsqu'elles opèrent en Occident. Cette recherche vise à répondre à la question suivante : Comment le processus d'internationalisation des firmes chinoises est-il affecté par leur nationalité? Le but est non seulement d'identifier les défis rencontrés par les firmes chinoises en Occident, mais également d'observer le niveau de succès des différentes stratégies employées par celles-ci, et d'identifier les facteurs qui ont un effet de réduction ou d'aggravation des effets des différents défis rencontrés.

La méthodologie employée dans ce mémoire est une combinaison d'entrevues et d'études de cas. Les entrevues sont de type semi-structurées et suivent deux questionnaires différents dépendamment du contexte des participants. L'idée est d'obtenir de l'information provenant à la fois d'individus travaillant pour des firmes chinoises qui ont par le passé pénétré un ou plusieurs marchés occidentaux, ainsi que de l'information provenant d'experts externes à la situation qui peuvent donc partager une vision plus macro du phénomène. Cette source de données est combinée avec des études de cas portant sur trois firmes du secteur des hautes technologies. Ces cas sont assemblés à partir d’une vaste sélection de données secondaires.

Les résultats de cette étude révèlent la présence d’un handicap subi par les firmes chinoises en Occident dû à leur nationalité. De plus, à partir des données récoltées, il a été établi que les facteurs qui permettent de surmonter ou au contraire d’aggraver ce handicap de nationalité seraient la transparence, la propriété de l’entreprise, ainsi que les liens avec des industries sensibles.

Mots-clés : Handicap à l’Étranger, Affaires Internationales, Stratégie d’Expansion, Modes d’entrée, Multinationale, Chine, Occident

Abstract

Past literature in international business has dominantly focused on the global expansion of companies originating from developed markets. This being said, the 21st century brought major changes in the global economy. A growing number of firms from emerging markets are now competing in western markets. In this context, it is interesting to study the reality and the challenges specific to multinational companies from emerging markets.

Additionally, with the rise of China as an economic superpower, a multitude of Chinese firms are now competing on a global scale. This being said, in the current conjuncture characterized by the trade dispute between the United-States and China and by the conflicts surrounding the race for 5G networks, Chinese firms are believed to experience additional challenges when operating in the West. This research aims to answer the following question: How are Chinese firms' internationalization process impacted by their nationality? The purpose is not only to identify the challenges firms of Chinese origin are facing in the West, but also to observe the level of success of different strategies employed by such firms, and to identify factors that can actively reduce or on the contrary aggravate such challenges.

The methodology used in this paper is a combination of interviews and case studies. The interviews are semi-structured and follow two distinct questionnaires depending on the background of the participant. The idea is to obtain information from both individuals within Chinese companies which expanded to the West, and information from experts that provide a more macro description of the phenomenon. This source of data is combined with case studies of three firms from the high-tech sector. These cases are assembled based on a wide range of secondary data.

The findings of this study reveal the presence of a special type of liability of foreignness in the West, in this case referring to the inherent disadvantage of being a Chinese firm. Moreover, from the data collected, it was established that factors allowing to overcome or aggravate this disadvantage are transparency, corporate ownership, and the link with sensitive industries.

Keywords: Liability of Foreignness, International Business, Expansion Strategy, Entry Mode, Multinational Company, China, West

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Abbreviations

EMNC – Emerging Multinational Company

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

JV – Joint-Venture

LoF – Liability of Foreignness

M&A – Merger & Acquisition

MNC – Multinational Company

MNE – Multinational Enterprise

OFDI – Outward Foreign Direct Investment

PR – Public Relations

R&D – Research & Development

SAR – Special Administrative Region

SOE – State-Owned Enterprise

WOS – Wholly-Owned Subsidiary

WFOE – Wholly Foreign-Owned Enterprise

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1. Introduction

Over the past few decades, China became an icon of emerging economies. Its size along its fast-paced growth helped it to attract large scale Foreign Direct Investments (FDIs). As the economic conjuncture evolved, the country became growingly interested in Outward Foreign Direct Investments (OFDIs). However, due to its governance type, the initial poor quality of goods manufactured, its environmental challenges, or even its censorship, China was –and still is– heavily criticized in the West. The firm structure of private and State-Owned Enterprises (SOE) can often lack transparency and it thus appears as unclear for foreign states whether the OFDI expansion of a given company genuinely follows a business purpose or if there is a non-commercial motivation behind it (Globerman & Shapiro 2009). All the factors for cause, China saw itself stigmatized by numerous news outlets across the world (Fang & Chimenson, 2017).

Nevertheless, recent years have shown an increasing frequency of Chinese firms investing and acquiring large Multinational Companies (MNC) from industrialized or "developed" nations (Knoerich, 2010). Good examples are, just to list a few, Motorola and IBM's ThinkPad laptop computers (USA) acquired by Lenovo in 2015 and 2005 respectively, Thomson's (France) merger with TCL in 2003, or even Volvo (Sweden) acquired by Geely in 2010. Although many of these Chinese OFDIs to western markets are successful, it is not always the case as Chinese firms seemingly have to deal with a greater liability of foreignness than their counterparts from other nationalities. Due to divergences in institutions, ideologies, political systems or even in diplomacy, FDIs coming from Chinese MNCs are often pictured as threats to a host country's economy and/or to its national security (Cui & Jiang, 2008). For this reason, the expansion of Chinese firms in the West is a rather arduous process.

Starting in March 2018, the United-States of America led by President Donald Trump officially initiated a trade dispute with China, although tariffs hurting the Chinese economy in industries such as solar panels, steel, and aluminum had been put in place since January 2018. From the beginning of the tensions, new tariffs were gradually imposed and current legislation are now more strictly applied, thus creating numerous issues for Chinese firms. For instance, China-based ZTE, a major phone part supplier got banned from operating in the United-States, and could no longer buy parts from American companies, thus risking bankruptcy in spring 2018 (Petroff, 2018). Such changes in the external environment can prove to be disastrous for firms and yet, it is often out of their control. Resulting from these new economic tensions, the future of Chinese companies in the West becomes increasingly uncertain, and it renders Chinese OFDIs even more difficult. The aim of this study is to further understand the concept of liability of foreignness specifically applied to the Chinese reality, notably in the context of the ongoing trade disputes.

The present paper seeks to answer the following question: **How are Chinese firms' internationalization process impacted by their nationality?** This question can be further broken down into three additional sub-questions. What are the challenges faced by Chinese companies in the West? What factors can mitigate or aggravate their situation? What strategy can they implement to be successful?

Following globalization and fragmentation of supply chains, opportunities arose in developing countries, which led to the rise of Emerging Multinational Companies (EMNCs). Generally speaking, it takes additional time and efforts for EMNCs to create a solid international reputation which leads to many firms opting for acquisition as a mode of entry (Aureli, Ciambotti, & Dragoni, 2017). Indeed, by acquiring a foreign brand, you can often bypass your inherent disadvantage of being foreign since customers trust brands, and since the labor force of the acquired firm is most likely local and thus familiar with the environment and institutional framework. If we take the case of China however, there are many situations where firms see their acquisition process blocked by foreign states for national security reasons (Fang & Chimenson, 2017). To illustrate this reality, we can think of the ambition of Huawei in early 2008 to acquire 3Com, an American digital electronics manufacturer. Although the acquisition would've taken the form of minority equity financing from Huawei with Bain Capital being the majority holder, the U.S. government opposed the takeover as it was said to pose risks to national security. More recently, we have the example of Lenovo who was blocked from acquiring Canada based Blackberry by Ottawa who prevented such a takeover from happening for similar reasons.

Chinese firms are therefore left in an ambiguous position where, due to their nationality, it can be hard to do either merger & acquisitions (M&As) or even greenfield investments following conventional strategies. Moreover, non-equity entry modes such as exports are increasingly risky in the context of the ongoing trade dispute. From the international business perspective, the trade dispute between the world's two largest economies renders this topic even more interesting. Furthermore, the in-depth coverage of the trade war by the mainstream media and the whole uncertainty surrounding the phenomenon forces Chinese firms to progress with a blindfold on. With still a lot of knowledge lacking in the literature of competitivity of EMNCs faced with strong liability of foreignness expanding to developed western markets, it is difficult for Chinese companies to decide what expansion strategy to follow in order to succeed.

The research question is relevant in the sense that it helps the understanding of globalization from the perspective of emerging economies. It also digs into the specific issues that companies coming from China might face when operating in developed markets. Moreover, China's rapid development makes older studies no longer representative of Chinese reality. Additionally, as explained in Usunier, Thorpe, & Easterby-Smith (2000), for a study to be significant, it needs to be carried out on a topic that is yet to be fully understood. In the case of this research, although the literature surrounding liability of foreignness is abundant, only a little research is available on how it may affect Chinese firms' choices of internationalization strategy. Overall Chinese OFDIs in the West represent a "significant but under-studied phenomenon" (Fu, Sun, & Ghauri, 2018). For this reason, there is a need in pursuing the present research.

In order to obtain relevant results and to address the research question aforementioned, multiple case studies will be assembled. As explained by Lincoln & Guba (1985), the key objective of any thesis, article, or any document is to help readers obtain a deeper understanding of a given topic. Case studies are presented by the authors as ideal knowledge vehicles in the sense that they are relatable and easy to understand. This contrasts with other research methodologies that offer what they consider “mere surface descriptions” (Lincoln & Guba, 1985). The findings will then be compared and contrasted, thus giving more compelling conclusions. At this stage, the opinion of various experts on the Chinese market will help to analyze the findings and help to deepen understanding of the results.

The companies selected for the case studies are Huawei, a major Chinese telecommunication company known for being the third biggest producer of mobile phones worldwide and for being a leader in telecommunications systems; OnePlus, a smaller Chinese smartphone manufacturer whose popularity skyrocketed in the West since its very first product; and Xiaomi, once a small startup in China, now a widely popular consumer electronics manufacturer. Although these companies are from the same country and lay within the same industry, their level of success in the West varies tremendously. The cases will be assembled essentially through secondary data, whereas experts’ opinion on the topic will be gathered through interviews.

2. Literature Review

As expressed by Mathews (2006), the topic of OFDI from emerging economies constitutes one of the "big questions" of international business in the 21st century. Indeed, literature abounds when it comes to OFDI of developed economies to emerging markets, whereas the opposite is still relatively atypical and represents a new phenomenon that needs to be further understood. Before diving into the topic, it is essential to define some concepts. Referring to past studies, this section will cover the notions of liability of foreignness (LoF) and expansion strategies. Literature concerning Chinese reality will then be used to explain how the aforementioned concepts relate to the situation faced by Chinese firms.

2.1 Liability of Foreignness

The notion of liability of foreignness is widely defined by scholars as the "inherent disadvantage of being foreign". Although the definition is accurate, reducing LoF to a five-word definition does not do justice to all the nuances and challenges it brings to firms operating internationally.

The very first definition of LoF (Hymer, 1976) refers to "unavoidable costs" that exist in foreign markets, but not in a company's home market. These costs could originate from the lack of knowledge of local cultures, the presence of nationalistic buyers who refuse to buy foreign brands, or to a lack of political influence. The work of Hymer, although incredibly broad, paved the foundation of the literature of LoF. These unavoidable costs for foreign companies were more formally categorized by multiple authors in the following years.

Ghemawat (2001) proposes perhaps the clearest explanation of the sources of liability of foreignness. Indeed, he presents four categories of "distances" that separate distinct markets from each other. These distances represent core elements of the CAGE framework, CAGE being an acronym for Cultural, Administrative, Geographic and

Economic. Cultural distances are pretty self-explanatory and cause difficulties when it comes to communication with foreign consumers or foreign partners. Administrative distances illustrate differences in institutions and regulations between countries. Geographic distances can be understood as physical remoteness causing additional costs for firms in the sense transportation of goods and human resources, flow of knowledge, as well as coordination of activities over multiple regions (and often over multiple time zones). At last, the economic distances refer to differences in purchasing powers and access to capital. By and large, the liability of foreignness refers to the additional expenditures due to these distances, that a firm would not have encountered if it was a local company.

The impact of LoF on a firm's activities is not to be taken lightly. In fact, LoF represents the core reason why the world's economy is still dominantly regionalized rather than globalized (Rugman & Verbeke, 2004; Rugman & Verbeke, 2007). However, there are multiple ways to negate or at least mitigate the pressures emanating from the LoF. The key element in successfully expanding is the ability of adaptation. When it comes to adaptation, Zaheer (1995) points out that if an MNC's competitive advantage comes from its organizational structure, it should keep the same structure with its local subsidiary. However, if the advantage comes from anything else such as the branding, technology, or other resources, it is more advantageous for the subsidiary to follow an isomorphic approach, to copy structures of other local firms. In other words, although it is important to implement best practices, the rest needs to be localized.

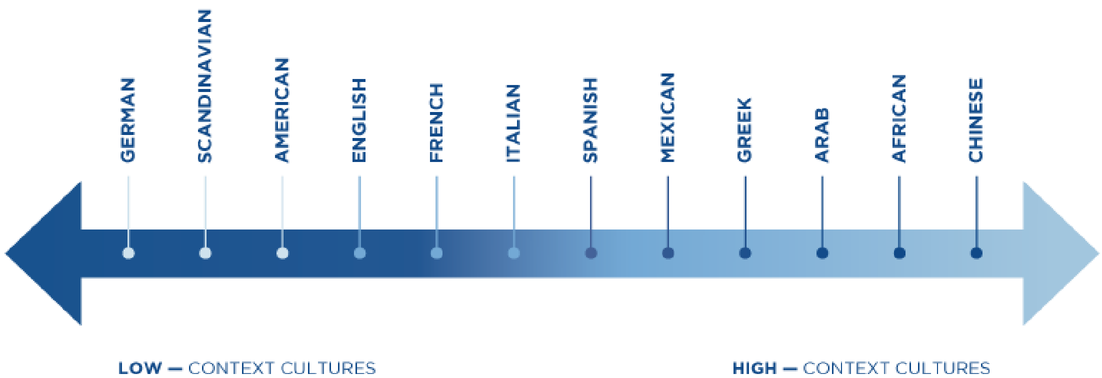
Firms presently, no matter their origin, consider to some degree the existence of differences between markets. At the very least, they recognize the existence of the geographic distances Ghemawat referred to, as well as the difference in purchasing power between countries, which relates to the economic distances. However, cultural and administrative distances are often underestimated. The following sub-sections will deepen the understanding of this topic.

2.1.1 Cultural Distances

Distance still matters. When Pankaj Ghemawat in 2001, at the time faculty member at Harvard Business School, wrote this article, it was groundbreaking. Referring to cultural distances, he wrote that: “some cultural attributes like language, are easily perceived and understood. Others are much more subtle.” (Ghemawat, 2001). In fact, these “other” attributes refer to complex social constructs that often take roots in decades or even centuries of local traditions. This idea of social constructs is best understood under the concept of “institutions” popularized by North (1991). North defines institutions as man-made constraints that shape the way humans behave and the way societies work. Institutions are of two kinds: formal and informal. Whereas formal institutions appear as written down documents such as laws and constitutions that are enforced by governmental players, informal institutions are, to put things simply, norms or codes of conducts that are agreed upon by the majority of a population. Many informal institutions were passed down from generation to generation, while others accompanied periods of major changes such as the industrial revolutions. A typical example of an informal institution is to let people exit a metro car first before entering it. Whereas in some societies, it is absolutely normal to comply with this informal rule, in others it is a free-for-all where people push each other to get on or off the train. As simple as this example may seem, it makes a difference in the amount of time train doors have to be kept open, and thus impacts, for example, the way public transport companies operate in different countries. Such informal institutions are countless and can vary tremendously from market A to market B. These cultural attributes are by nature part of tacit knowledge, making it hard for individuals who did not grow up in a specific group or society to know about them and to understand why they came up to be (North, 1991).

It is impossible to thoroughly cover the topic of cultural distances without looking at the theory proposed by Hall (1976). Hall was the first to place different cultures on a spectrum from low to high based on the level of context (see Figure 1).

Figure 1. High & Low Context Cultures



Source: Southeastern University, 2016

Hall (1976) considers every social structure to be unique and no culture or system to be better than another. As shown in Figure 1, the author expresses differences in the level of tacitness of the culture's formal and informal institutions. In order to grasp the differences between high and low context culture in a clear manner, we have to look at hypothetical extreme values (Hall, 1976).

The archetype of a low context society is described as coldly explicit. Written down information dictates reality to the point where each and every word holds significant importance. For this reason, when preparing contracts or when facing the law in court, attorneys have substantial responsibilities. Verbal communication would also be done by speaking one's mind in a clear and perfectly explicit fashion with limited space for misinterpretation, which would make intercultural communication in a perfectly low context society relatively easy (Hall, 1976).

On the other hand, the archetype of a high context culture puts the form above the word. The exactitude of the wording is often insignificant. Instead, it is more important to focus on the relationship between two interlocutors and the context in which things are said. Moreover, as high context cultures rely strongly on tacit knowledge that is expected to be known and shared by one’s interlocutor, language itself tends to be less explicit. When vaguely referencing something, the interlocutor is supposed to read in between the lines and understand what the other person means. Relying on tacit knowledge may work well between members of the same culture, but it renders intercultural communication difficult as foreigners will often lack the cultural baggage to understand what is truly meant. Furthermore, there is an important difference concerning the notion of responsibility between high and low context cultures. Whereas people in place of authority in the low context society will often find people lower in the hierarchy to take the blame, it is the higher-ups that take responsibility for the mistake of their subordinates in a high context culture. Although no society fits perfectly the archetype of low context nor the archetype of high context, some approach the extrema while others appear somewhere in the middle. Overall, in our current world, we observe an array of societies that form a wide spectrum of cultures (Hall, 1976).

Now that we’ve covered hypothetical extrema, let’s look back at Figure 1. European countries and the United States tend to be on the lower side whereas China reaches the highest level of the chart. Because of this difference, it can be extremely hard for even the most competitive Chinese firm to be prosperous in the West, and for a preeminent western firm to succeed in the Chinese market. This is because there are numerous differences between high and low context societies that create liabilities of foreignness. We covered above some theoretical examples of differences, let’s now take a look at an empirical difference between China and western countries. China being a high context society, relationships are core elements of business practices. In fact, the social and professional network of an individual or company, commonly referred to as “guanxi” (关系) often acts as a source of competitive advantage in the Chinese market. Within this system, members of the same network will support each other, exchange favors and help to navigate through a weaker institutional framework. Knowing key people in various sectors can help to penetrate regional markets more efficiently, or to gain access to profitable projects. A strong guanxi will without a doubt reduce uncertainty and transaction costs. Trust being key to keeping any relationship alive, it is omnipresent in a guanxi circle. It can, however, be broken at any point if a member of the network makes someone else lose “face” (面子), meaning that he or she would make someone else in the network look bad in the eyes of others. From a western low context perspective, it may be easy to look at this a system and to simply categorize it as collusion or even corruption when regarding the integration of public officials in a firm’s network. However, guanxi is said to not be “necessarily an origin or a source of corrupt behavior” even though it is indeed a “critical facilitator of corruption” (Luo, 2008). This is said to happen when the traditional exchange of favors becomes a more opaque exchange of power (Luo, 2008). With this in mind, when entering western markets such as the United States, Chinese firms will often lack the transparency required to earn the market’s trust. Moreover, any relationship with members of the Chinese government will be enough to raise red flags. The other way around is also true. When entering China, western firms’ lack of non-market strategies such as the leverage of a rich guanxi definitely acts as a strong liability of foreignness which reduces their competitiveness.

Overall, cultural distances are made from both divergences of formal and informal institutions, as well as differences of context between cultures (between those categorized as high context cultures and those considered low context cultures).

2.1.2 Administrative Distances

Culture is not the only observable difference between societies. Administrative and political distances also exist. Whereas some societies’ administrative systems rely on well-defined formal institutions that are enforced through a process commonly referred to as the rule of law, others have lacking institutions that leave room for lots of grey zones, a concept named “institutional void” by Khanna, Palepu, & Bullock (2010). The authors define the concept as an “absence of intermediaries” that renders difficult exchanges between buyers and sellers. Moreover, the authors explain that the difference between emerging and developed economies is embedded in these institutional voids that create various transaction costs. In emerging markets, transactions costs can be reduced through non-market strategies that rely on an active understanding and use of informal institutions. This difference in market structures has an important effect on the way businesses run, and it creates strong liability of foreignness for firms that are not used to operate in markets with institutional voids (Khanna et al., 2010).

Following differences in institutional frameworks among societies, strategies that might be competitive in a developed economy are not necessarily applicable in emerging markets, and vice versa. As stated in Khanna & Palepu (2014), whereas firms in developed markets adopt an industry-focused structure and focus on their core competencies, it is common to find conglomerates in emerging markets. As seen in Table 1, conglomerates, although lacking flexibility, offer great tools when dealing with institutional voids. Indeed, the authors indicate the easiness of raising money in countries with weak institutions, such as India, as an example of advantage conglomerates have over companies that focus on a single or few core activities. In the capital market, investors don't have much knowledge on smaller companies due to the absence or limited availability of data, whereas they tend to invest more in bigger groups who keep track of their records, which enables investors to manage risks. Moreover, conglomerates can compensate for weaker education systems in emerging countries by training employees internally due to their abundance of resources. At last, regarding product markets, conglomerates' brands act as a seal of quality in markets where the credibility hard to verify, and where safety regulations are either inexistent or not enforced. Therefore, the institutional context of a society prevails over strategy. In other words, qualifying strategies as good or bad would be an oversimplification of reality. The quality of a business strategy is heavily depending on the administrative context of a given market. Table 1 illustrates this by comparing the United States and Japan, two culturally different developed markets, with India, an emerging market. As a result, the more institutional voids there is, the more advantages conglomerates have (Khanna & Palepu, 2014).

Table 1. How Institutional Context Drives Strategy

Institutional Dimension	United States	Japan	India
Capital market	Equity-focused; monitoring by disclosure rules and the market for corporate control	Bank-focused; monitoring by interlocking investments and directors	**Underdeveloped**, **illiquid** equity markets and **nationalized** banks; **weak** monitoring by bureaucrats
Labor market	Many business schools and consulting firms offering talent; certified skills enhance mobility	Few business schools; training internal to companies; company-specific development of talent	**Few** business schools and **little** training; management talent scarce
Product market	**Reliable** enforcement of liability laws; **efficient** dissemination of information; **many** activist consumers	**Reliable** enforcement of liability laws; **efficient** dissemination of information; **many** activist consumers	**Limited** enforcement of liability laws; **little** dissemination of information; **few** activist consumers
Government regulation	**Low**; relatively free of corruption	**Moderate**; relatively free of corruption	**High**; corruption is **common**
Contract enforcement	**Predictable**	**Predictable**	**Unpredictable**
Result	Conglomerates have **many** disadvantages	Conglomerates have **some** advantages	Conglomerates have **many** advantages

Source: Khanna & Palepu, 2014

As aforementioned, institutional voids represent important challenges for firms operating in emerging markets. This being said, Gao, Zuzul, Jones, & Khanna (2017) share a way to overcome institutional voids that supports the theory expressed by Khanna & Palepu (2014) regarding the product market. In the case of having asymmetrical information and lacking enforcement on product quality, competition based solely on price can often become a double-edged sword as customers will often use price as a proxy for quality. Instead, the authors state that developing a strong brand reputation is the strategy of predilection to create and sustain a competitive advantage in such market structures. Reputation thus becomes a key asset allowing firms operating in emerging markets to survive in the long term (Gao et al., 2017).

2.2 Expansion Strategy: The Location Choice and Entry Mode Selection

When a firm wants to expand abroad it needs to answer two basic questions: *Where*? And *How*? The answer to these two questions is, in fact, crucial to a firm's success in foreign markets.

The location choice is indeed an important challenge that managers face when expanding their activities to new markets. According to Buckley et al. (2007), there are three motivations for entering a market. A firm can be market seeking, efficiency seeking, or resource seeking. The authors express that market seeking firms will choose their location based on a market's potential in term of current activity and future growth. Moreover, some firms offering products that are at the end of their life cycle in developed markets might be interested in entering emerging markets where they can give a second life to their products without requiring new expenses in Research and Development (R&D) (Kim & Aguilera, 2016). Efficiency-seeking companies look for markets offering lower operational costs typically in the sense of lower labor costs or in term of higher productivity for the same cost. At last, resource seeking companies seek to "acquire or secure the supply of raw materials and energy sources" or also look for "specific assets such as R&D capacity and output, design facilities and brand names" (Buckley et al, 2007). Overall, these motivations will enable the selection of one or a few locations offering the potential for foreign expansion. However, the second question remains, *how* to enter?

For many years, scholars have tried to create models to help businesses choose the right entry mode for their foreign expansions. It was first believed that firms should gain experience in their domestic market before moving to gradually more distant markets in terms of both physical and cultural distances. Moreover, the common belief in early literature was that firms should start by expanding through indirect operations such as exports or licensing deals and then gradually move to direct investments such as subsidiaries establishment and joint-ventures (JV) (Johanson & Vahlne, 1977). This idea was however contested by Dunning (1980), who came up with the concept of eclectic paradigm, also known under the name of OLI model, an anagram standing for Ownership, Location, and Internalization. According to Dunning (1980), the answers to the aforementioned questions "*where?*" and "*how?*" should not depend on the past experience a firm has. Instead, the answers should solely rely on its needs and capabilities at the given time of internationalization (Dunning, 1980). To go back to the model, Ownership refers to the possession of competitive advantage, the edge that a firm has over its competitors due to the presence of valuable, rare, inimitable and non-substitutable resources and capabilities (Barney, 1991). With this in mind, the ownership of competitive advantage is enough to justify operations on foreign markets under the form of contracts (licensing, franchising…). However, according to Dunning (1980), without an internalization advantage or a location advantage, there is no reason for a firm to effectuate any kind of direct investments or exports, since these types of activities require more efforts and higher implantation costs. Consequently, exports (direct or indirect) will only be considered if, in addition to ownership advantage, there is also an internalization advantage, which refers to the benefit of keeping an activity internal. For instance, one could think of intellectual property protection or quality assurance as reasons to control production. At last, FDIs being important commitments, they should only be considered if a firm has an advantage for each of the OLI determinants: Ownership, Internalization, and Location. In this case, Location advantage refers to the benefit of being physically present in the foreign market. This could result from a need of customer proximity or a particular legislation within a given country or region. FDIs include both JVs and Wholly Owned Subsidiaries (WOS). The choice of entering through either the mode of JV or WOS then depends on key resources, key capabilities, as well as local regulations (Dunning, 1980).

Table 2. Choice of Entry Mode

	Contracts	Exports	Joint-Ventures (JVs)	Wholly-Owned Subsidiary (WOS)
Ownership Advantage	x	x	x	x
Internalization Advantage		x	x	x
Location Advantage			x	x
comments	Licensing, franchising…	Exports can be direct or indirect (through distributors)	Firm lacks key resources, or regulation does not allow WOS	Firm owns all resources to operate on its own

Source: Adapted from Dunning (1980)

Although the eclectic paradigm remains a key concept of international business, a few additions in the literature are worth mentioning. Coviello & Munro (1997) add that, other than the OLI paradigm, network relationships impact both the selection of a market and the strategy used to enter it. A network relationship is qualified as the presence of professional contacts in another market. Knowing people or firms in a certain market reduces the perceived distance and increases the odds of choosing it (Dunning, 1980). This idea was further developed by Johanson & Vahlne (2009) with the notions of "insidership" and "outsidership". Markets being described by the authors as interconnected networks of relationships, an "insidership" facilitates internationalization's process, whereas a lack of influential contacts in a given market leads to a "liability of outsidership" (Johanson & Vahlne, 2009). Although these new concepts might not apply to developed markets with strong institutions, it is definitely something for firms to keep in mind when entering emerging markets with weaker institutions. Indeed, the presence of institutional voids deepens the needs for firms to rely on non-market strategies such as lobbying in order to stay competitive. In such markets, the ownership of a vast network is definitely a source of competitive advantage

(Coviello & Munro, 1997; Johanson & Vahlne, 2009). Cardoza & Fornes (2011) illustrates this idea through the example of Chinese managers. Indeed, managers are said to leverage their networks in order to minimize transaction costs and to find business opportunities (Cardoza & Fornes, 2011).

At last, Buckley et al. (2007) cover the theory of companies investing abroad. It is important to know where to enter and which entry mode to use. However, it is also crucial to establish limitations. The theory is that firms should keep on expanding to markets they are not already present in as long as benefits of doing so are superior to the costs it represents. Moreover, the location choice is made according to the activities the firm wants to establish there. If it is an activity that will in term reduce the costs of operation of the MNC, it is worth expanding to the identified market (Buckley et al., 2007).

2.2.1 Organizational Models of International Business

Entering a foreign market requires managers to make decisions regarding the location choice and the entry mode to use (Dunning, 1980). However, a decision on a macro level of strategy is also required and will impact a firm's success abroad. Bartlett & Ghoshal (1989) denote three objectives of worldwide companies: high efficiency on a global level, high responsiveness on a national or micro-level, as well as a knowledge transfer between branches of the firm. Traditionally, firms would focus on only one of the three at the expense of the others. As expressed by the authors, the first traditional type of worldwide company is the "multinational" (Bartlett & Ghoshal, 1989). This model will be decentralized to exploit opportunities in every market the firm operates in. As a result, it scores high on responsiveness, but its capacity to produce economies of scale is reduced which lowers its global efficiency. Moreover, the "multinational" (Bartlett & Ghoshal, 1989) risks seeing the knowledge it develops stuck within each business units due to lack of knowledge flow. Such companies are therefore said to promote a differentiation strategy as a source of competitive advantage. Secondly comes the “global” (Bartlett & Ghoshal, 1989) type. Through centralized production, companies following this type are able to develop a cost leadership advantage. This being said, when they internationalize, the “global” (Bartlett & Ghoshal, 1989) firms will push their strategy down to their oversea subsidiaries and retain the knowledge at the headquarters. The result is a lack of local adaptation and the absence of knowledge flow between a home company and its subsidiaries. The third type of worldwide firm presented by the authors is called the “international” (Bartlett & Ghoshal, 1989) type. This model bases its competitive advantage on its capability to innovate. Core competencies are centralized in the home market, whereas other less valuable operations are done in the subsidiaries. Knowledge is developed within the home market and spread to subsidiaries. However, another model is said to exist by the authors. Indeed, Bartlett & Ghoshal came up with the idea of the “transnational” (Bartlett & Ghoshal, 1989). This model is a complex hybrid made from the three previous ones incorporating as many advantages as possible while reducing their limitations. The “transnational” (Bartlett & Ghoshal, 1989) firm’s subsidiaries and the headquarters work in an interdependent and integrated fashion. Knowledge is generated with the contribution of every player and is shared globally. The production is also fragmented and specialized in a global value chain (Bartlett & Ghoshal, 1989). Overall, as seen in Table 3, such a model is more flexible and allows firms with worldwide operations to grow in a sustainable way.

Table 3. Models of Worldwide Firms

Objectives	Global	Multinational	International	Transnational
Efficiency	**High** due to economies of scales	**Low**	**Medium**	**High** due to global value chain optimization
Responsiveness	**Low**	**High** due to self-sufficient nature of local subsidiaries	**Low**	**High** due to contribution of national units
Knowledge flow	**Inexistent**	**Inexistent**	**Unilateral** from center to overseas	**Bilateral**

Source: Adapted from Bartlett & Ghoshal (1989)

The choice of model has deep repercussions on MNCs as it can increase or reduce the effects of liability of foreignness. Indeed, models that rank low on responsiveness are left in a difficult position to deal with markets showing, for example, patterns of nationalistic consumption. If the market does not perceive foreign goods as appealing, foreign firms will either need to adapt, or will risk failing their expansion. Moreover, as we've seen in Table 1, developed markets like the United States and Japan tend to have many activist consumers. MNCs and even more so EMNCs entering a market with such characteristic without being responsive to the market's reality can be a recipe for disaster if the firm's operation is not in line with the market's mentality. Overall, the choice of location, entry mode, and organizational structure will all impact a firm's success abroad and its exposure to the liability of foreignness.

2.2.2 OFDIs from Emerging Economies

A new type of MNCs made its apparition in the second half of the twentieth century. Indeed, as emerging markets developed, so did their companies who ended up internationalizing their activities. The resulting EMNCs are what Guillén & García-Canal (2009) call the "new MNEs". These companies show completely new internationalization processes that clash with classic western firms' procedures. Moreover, it does appear that these “new MNEs”, or EMNCs, make their apparition within a few key industries that vary depending on which home country they come from. What can be said for certain, is that some factors separate EMNCs from the MNCs originating from developed markets.

Whereas traditional MNCs from developed markets used to follow a gradual approach to internationalization with a focus on WOS, EMNCs seem to have an accelerated rate of expansion through the use of alliances and acquisitions (Guillén & García-Canal, 2009). In the past, these companies were believed by scholars to not own any source of competitive advantages due to their limited amount of physical assets (Guillén & García-Canal, 2009; Wang, Hong, Kafouros & Wright, 2012). For this reason, many where surprised to see the rise of EMNCs. Their competitive advantages are therefore found in intangible resources. The political know-how and networking skills developed thanks to the absence of strong institutions in their home markets, as well as the leverage of ethnic branding are good examples of sources for their competitive advantages (Guillén & García-Canal, 2009). Moreover, EMNCs internationalization success can also be linked to governmental involvement of different kinds depending on the ownership structure of the firm and its government affiliation level. In some cases, governments help firms by providing information, by helping them overcome their transaction costs and resource constraints, as well as by influencing the objectives and decisions of managers (Wang et al., 2012).

On another note, it does appear that each emerging market has one or a few niche industries in which new MNEs prosper. For instance, during South Korea’s emergence, new MNEs (Samsung, LG, Kia, Hyundai) were regrouped in consumer electronics and automotive industries. China’s well-known Haier, Lenovo, Huawei, Xiaomi or OnePlus remain largely in consumer electronics. The same pattern appeared for most economies as they emerged may it be regarding the Asian tigers or countries of the BRIC (Guillén & García-Canal, 2009).

At last, four reasons seem to enable the distinct process followed by EMNCs (Hillemann & Ramamamurti, 2018). First of all, whereas it is not rare to find a western MNC in a mature stage entering foreign markets, EMNCs tend to be at infant stages when they expand abroad. Moreover, the present global context is more favorable to internationalization than it was decades ago, making it easier to follow a fast-paced globalization approach. Furthermore, government-created-advantages can improve these firm's international competitiveness (Hillemann & Ramamamurti, 2018). For example, the OFDIs from China are often characterized by governmental support. This is said to allow Chinese firms to enhance their risk-taking capabilities, which, in terms, helps firms without much international experience to venture abroad (Lu, Liu, Wright & Filatotchev, 2014). The final reason behind EMNCs' OFDI uniqueness is linked to the "leapfrogging advantage". This relates to the presence of a late-mover advantage. Indeed, as there are already important sources of knowledge and advanced technology available out there, EMNCs can catch-up with their western competitors incredibly fast.

2.3 Gap in Literature

Past studies cover extensively the liability of foreignness and entry modes as general concepts. However, as we've seen in the sub-section on cultural and administrative distances, the socio-cultural and the institutional context strongly influence the way of doing business in a given market. International business being a relatively recent field of study, theories were mostly developed in a world where global trade and FDIs were dominantly achieved by low context societies and by corporations coming from markets with strong institutional frameworks in which the rule of law is enforced. As a result, the literature available on internationalization strategies does not always reflect the reality of EMNCs achieving OFDIs in developed markets.

Moreover, as presented by Hillemann & Ramamamurti (2018), although there are some general traits that apply across the board regarding OFDIs of EMNCs, home country factors can also be important determinants of the success of an EMNC abroad. For this reason, opting for a more granular approach through the selection of a country-specific analysis could help shed some light on the situation. For this reason, the following research will focus solely on China, the most important emerging economy in terms of its sheer size.

The current literature shows a major gap to fill, as it is no longer uncommon to find EMNCs from China making their appearance on the world scene, with a growing number of them doing OFDIs in western economies. Yet, it represents a phenomenon that remains widely misunderstood. In a way, although there are various studies that come out on this topic and that bring elements of the answer, the amount of research output seems to be lagging behind the pace of change. This often leaves us with the wrong sets of tools to study the cases of Chinese MNCs opting for OFDIs to developed markets.

3. Chinese OFDI: Location, Motivations and Entry Strategies

The following chapter will relate the theory covered within the literature review to the empirical reality of Chinese firms. In other words, the topics of entry modes and LoF will be addressed using studies on Chinese firms.

3.1 OFDI Phenomenon

In the past decade or so, we have seen a growth in the number of Chinese OFDIs in the West. De Cremer (2018) identifies three reasons behind the phenomenon: the market, a shift in the economy, and production costs. First, the author covers the competitive and fast-paced nature of the market as a reason to expand abroad. Moreover, the Chinese economy moved from being a manufacturer-centric economy to being one of services. Throughout the transformation, consumers have become more and more demanding in terms of quality and innovation, to the point where there are only a few differences left between Chinese consumption habits and western ones. With this in mind, Chinese companies are thought to be more capable than ever to deal with foreign markets. At last, as the economy grows, so is the cost of labor. In order to reduce unit cost, firms are now considering foreign markets as a way to scale up and boost their sales (De Cremer, 2018).

Although we observe a growing number of acquisitions made by Chinese companies in Europe and in North America, the reality is quite different from what mainstream media presents. In fact, as seen in Table 4, Chinese FDIs as a percentage of the country's Gross Domestic Product (GDP) pales in comparison with the rest of the world (Morck, Yeung, & Zhao, 2008).

Table 4. OFDI flows as % of GDP and absolute numbers, 2005 – 2017

Location	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
China	0.60	0.87	0.48	1.23	0.86	0.95	0.64	0.76	0.76	1.17	1.58	1.93	0.85
USA	0.21	1.68	2.80	2.18	2.14	1.98	2.68	2.09	1.93	1.99	1.54	1.64	1.63
OECD	1.90	2.88	4.35	3.05	2.06	2.26	2.53	1.92	2.03	1.70	2.81	2.41	2.05
World	1.76	2.65	3.71	2.67	1.82	2.09	2.10	1.69	1.76	1.69	2.31	2.07	1.74

% of GDP

Location	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
China	13.73	23.93	17.15	56.74	43.89	57.95	48.42	64.96	72.97	123.13	174.39	216.42	101.91
USA	26.90	232.66	404.99	320.94	209.25	296.33	415.27	338.36	321.94	347.66	279.47	304.56	316.47
OECD	699.05	1,128.90	1,857.47	1,390.21	860.13	983.37	1,194.70	869.84	956.85	829.20	1,252.56	1,142.64	970.56
World	823.29	1,355.98	2,137.18	1,702.11	1,079.06	1,345.32	1,515.80	1,202.66	1,319.05	1,314.17	1,647.55	1,559.22	1,329.56

Billion US dollars

Source: OECD[a], 2018

Standing at 0.85% of the GDP for 2017, the amount of Chinese FDIs rests far behind the world's average of 1.74% and OECD's 2.05% (OECD[a], 2018). Moreover, there is an important bias in the FDI data published by China that makes it difficult to evaluate the true numbers. Indeed, a notable part considered as OFDI by China resides in direct investments made towards the Hong Kong Special Administrative Region (SAR). However, considering that Hong Kong SAR is no longer acknowledged as a foreign territory, the real amount of FDI could potentially drop by a significant number. On another note, although there is an increasing trend in Chinese OFDI from 2011 to 2016, the growth stopped in 2017 (OECD[b], 2018). This being said, it is not only China but the whole world that experienced a decrease in the amount of FDI in 2017. Moreover, since the Belt and Road Initiative is shaping itself, data from 2017 might not be representative when it comes to the overall direction the country is heading to in the future (OECD[b], 2018).

Marukawa, Ito, & Zhang (2014) give more details on Chinese OFDIs. First, as seen in Table 5, the majority of OFDIs are made in Asia with only less than a third of the FDIs done in western countries. Moreover, the authors go further and explain that within the OFDIs toward Asian countries, there is a trend of local for local. In other words, not every Chinese province do FDIs to the same neighboring countries. Instead, "China's OFDI to adjacent nations and regions mostly come from the provinces adjacent to them" (Marukawa, Ito, & Zhang, 2014). The authors give examples such as China's OFDIs to Kazakhstan that are made at 49% by firms located in neighboring Xinjiang province, or OFDIs toward Russia that are accomplished at 40% by firms from the Heilongjiang province (Marukawa, Ito, & Zhang, 2014).

Table 5. Destination of Chinese OFDIs

Region	Asia	Africa	Europe	NA	LAC	Oceania	**Total**
% of OFDIs	**57.8%**	9.3%	12.8%	4.8%	12.5%	3.0%	**100.0%**

Source: Adapted from Marukawa, Ito, & Zhang, 2014

3.2 OFDIs in Asia and Africa

When looking at the big picture, although Chinese exports are abundant everywhere in the world, the reality is different when it comes to the location choice of FDIs. There is an important distinction to be made regarding Chinese OFDIs. It would indeed be incorrect to bundle the situation of both SOEs and private companies in the same category. In fact, until 2003, it was illegal for Chinese privately held firms to invest abroad (Buckley et al. 2007). For this reason, OFDIs of the early days were solely done by SOEs. This being said, post-2003, the literature started dividing the topic in two separate sections as academics quickly realized that SOEs and private firms follow completely different strategies and are attracted to different markets (Buckley et al. 2007).

To go back to the location choice of Chinese OFDIs, although, as aforementioned, we observe a growing number of Chinese JVs or acquisitions of successful firms in Europe and North America, it only represents a small percentage of total Chinese OFDIs. Indeed, the country's typical investment still consists of acquisitions in neighboring Asian countries as well as Africa, and are mostly done (but not limited to) by SOEs (Morck et al., 2008). As many of these markets are politically unstable, it would appear as intriguing location choices from a western perspective. However, it was proposed that Chinese SOEs are in fact attracted by political risk for multiple reasons. Indeed, as stated in Buckley et al. (2007), four reasons help to explain the phenomenon. First of all, the authors mention that Chinese SOEs could have access to capital lent under market rates giving them an edge when it comes to investing in riskier markets. Moreover, they refer to inefficient banking systems as potential ways for investors to obtain soft loans. Also, large Chinese conglomerates may be operating with internal inefficiencies when it comes to capital markets, thus resulting in an effect similar to an FDI subsidy. At last, the authors mention the presence of family-owned businesses who can access capital through their relatives for a cheaper price (Buckley et al., 2007). Morck et al. (2008) add that apart from the reasons expressed above, the experience of Chinese firms with dense bureaucratic systems and institutional voids could be a reason why they would target neighboring Asian countries and Africa instead of the West for their FDI destinations. It would indeed be a way to use a very specific national competitive advantage, and to leverage it in order to succeed in similar environments and outperform leading international brands who lack such non-market capabilities. Ramasamy, Yeung, & Laforet (2012) confirm that Chinese SOEs can leverage their national competitive advantage to enter riskier markets rich in natural resources, but contrasts the statement by stating that private companies tend to avoid such markets. They are instead market seekers, therefore more apt to enter western markets than their SOE counterparts (Ramasamy et al., 2012). This being said, Cui & Jiang (2008) disagree with Chinese firms' ability to leverage their home market advantage to create one in neighboring markets. The authors instead qualify the foreign investments of China as a way to "redress its competitive disadvantage" (Cui & Jiang, 2008). Such an idea goes in complete opposition with Dunning's eclectic paradigm expressed earlier. The reasoning behind it is that the competitive advantages enjoyed by Chinese firms are mainly network and home country based. Therefore, the authors are of the idea that Chinese firms cannot leverage their home market advantage abroad (Cui & Jiang, 2008).

Overall, the literature expresses conflicting opinions on the topic. Some authors believe that the home market advantages of Chinese firms are legitimate competitive advantage abroad if leveraged correctly. Others qualify China's position of competitive disadvantage. The disagreement goes further as some authors believe that China's need for easily accessible natural resources in order to support its growth is so urgent that SOEs are willing to enter high-risk environments with the sole intention to seize these assets, whereas others concluded that such a theory does not make economic sense (Ramasamy et al., 2012).

3.3 OFDIs in the West

Regarding Chinese expansion in the West, the motivations of the firms are clearer. Indeed, Chinese MNCs continuously seek valuable and rare assets such as complex processes, particular skills or foreign technology in order to constitute their own competitive advantage on the international market (Duysters, Jacob, Lemmens, & Jintian, 2009; Cui & Jiang, 2008). In such a case, FDI in the West acts as a shortcut to catch-up with well-established multinationals (Deng, 2009; Cui & Jiang, 2008; Fu et al., 2018). Knoerich (2010) further explains by giving three strategic reasons for Chinese FDIs to developed markets. First of all, as many Chinese companies experienced major growth in recent years, there is a will to reinvest profits. Moreover, there is a strong motivation to go global and to expand into markets with high purchasing power. At last, there is a need for technological upgrading in order to get up to par with global leaders (Knoerich, 2010).

Chinese FDIs in developed markets can also be seen by local firms as a blessing. Indeed, numerous western firms are in precarious situations due to difficult access to capital, or incapacity to enter China and other emerging markets. Partnerships or sale of business units to Chinese investors thus makes economic sense to them. Such a situation helps to explain the growing number of Chinese FDIs in the West (Knoerich, 2010). Deng (2009) follows the same idea but goes further in explaining why western firms would want to sell their businesses to Chinese acquirers. It is said by the author that, because of restructuring or financial needs, mature western firms are more and more open to selling technology, know-how, business units or brands to foreign investors. The idea is for them to focus on their core competencies and competitive advantage, while divesting from side activities. What the Chinese acquirer is looking for rather than performance is patents, branding, or established marketing and distribution channels (Deng, 2009).

3.4 Reaction to Chinese OFDIs in the West

Traditionally, when browsing through international business literature, there is the idea that a country receiving inward foreign direct investments will benefit greatly from a spillover effect. Of course, EMNCs doing FDIs in the West being a new phenomenon, these conclusions were made from the perspective of FDIs coming from developed economies and not the opposite. Yet, if we follow the conclusions of such articles, foreign-owned MNCs usually contribute to the increase of national productivity, and thanks to domestic brands ability to mimic best practices, it also allows local players to somewhat catch-up with international norms, thus benefitting to the national economy. The human resources and education sectors also benefit from FDIs as development brings further need for skilled labor and allows for more complex and lucrative jobs to be created. This being said, although the phenomenon is observed for both M&As and greenfield investments, research suggests that greenfield investments allow more benefits for the host country's development (Globerman & Shapiro, 2009). However, regarding Chinese acquisitions, no empirical evidence of significant spillover benefit was found (Globerman & Shapiro, 2009). Despite being a significant finding, it was to be expected. Whereas an MNC entering emerging markets definitely brings majors catching-up opportunities on a wide array of fields, EMNCs entering already mature and heavily industrialized developed markets rarely brings game-changing technologies, practices or processes with the potential of impacting multiple spheres of the society (Globerman & Shapiro, 2009).

Nowadays, EMNC's FDIs in the West tend to have a negative image. This is particularly true for China. The clash in institutions, ideologies, and political systems contributes to the distrust western governments and media foster in regard to China and its OFDIs (Cui & Jiang, 2008; Fang & Chimenson, 2017). Globerman & Shapiro (2009) present two key concerns specifically addressed to Chinese OFDIs in the United-States that contribute to this negative image. The first issue is related to the mode of entry chosen. As stated previously, Chinese firms often choose acquisition over greenfield investments. The problem highlighted by the authors is that receiving such FDIs constitutes little to no benefit for the United-States. Instead, greenfield investments would be much more beneficial and thus more welcomed. The second issue lies in the realm of SOEs and their activities. Not only are these firms predominantly opting for acquisitions, which are deemed of little value by Washington, but there is also a real opacity surrounding their structure and activities. Throughout the OECD, people, firms, and governments are largely in favor of transparency and compliance with strict codes of corporate governance. However, the stance of SOEs clashes with widespread beliefs and norms. Moreover, because there is a possibility of these entities being "motivated by non-commercial objectives", their sole presence in the market is often seen as a threat to national security (Globerman & Shapiro, 2009).

There is also a misunderstanding that causes further degradation of the image westerners have of Chinese firms. Considering the differences in external environments, it is not rare for Chinese private companies to adopt non-market strategies taking the form of alliances between private entrepreneurs and political powers in order to protect themselves from political risks (Fang & Chimenson, 2017). Such a reality being nonexistent in the West, it is commonly misinterpreted. Furthermore, there is a belief that somehow private companies from China do not keep any of their intellectual property for themselves. Instead, all the know-how it represents would be gathered and transferred back to the Chinese government to be shared evenly across domestic companies in order to make China more competitive internationally. However, Chinese firms these days compete ruthlessly with each other in a capitalistic market. This knowledge flow towards the government that would then be redistributed among all firms is said to be nothing but fiction (Fang & Chimenson, 2017).

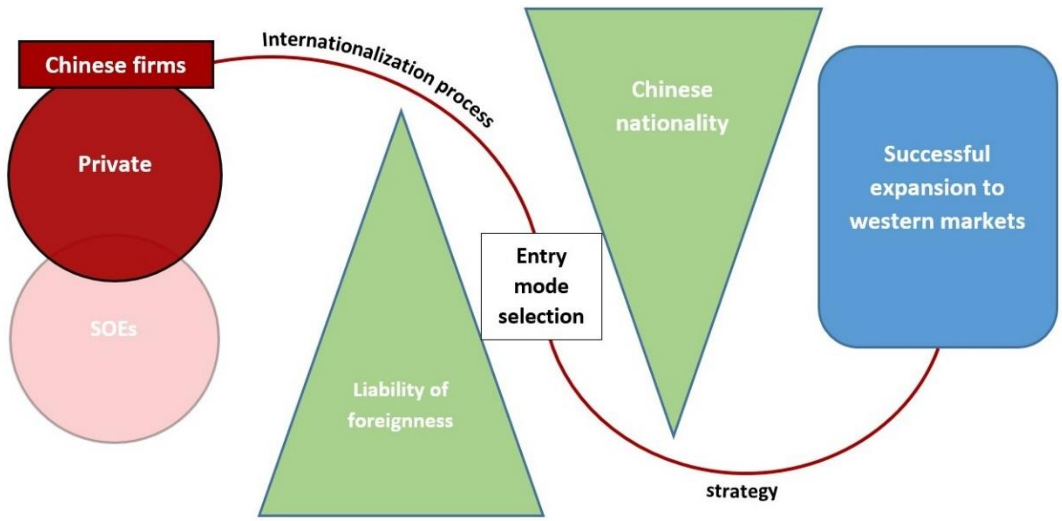
3.5 Conclusion

When reviewing the literature regarding Chinese foreign expansion, it is frequent to stumble upon articles covering both Chinese exports and the choice of acquisitions as the privileged entry mode strategy. Furthermore, the notion of Chinese firms trying to catch-up with international standards is recurrent. However, whereas those concepts are still somewhat prevalent to describe the current reality, the situation changed quite significantly over the years. In other words, some findings and conclusions of past articles written over a decade ago are no longer accurate representations of Chinese firms' expansion strategies.

Regarding the situation of exports, the ongoing trade dispute with the US and the rise of Chinese wages definitely had an impact. Moreover, when it comes to M&As, it is nowadays unsurprising for leading Chinese firms to be up to par with global leaders. These days, many of them are ready to enter foreign markets through other entry modes such as joint-ventures or greenfield WOS. But how do they do it? How can they overcome their liability of foreignness and more precisely the liability of being of Chinese nationality in the West? Such answers could not be found in the past literature and will be addressed throughout this paper.

4. Conceptual Framework

Figure 2: Conceptual Framework



In order to present information in a clear manner, Whetten (1989) recommends dividing a topic into three parts: "the *what?* the *how?* and the *why?"* (Whetten, 1989). In other words, we have to ponder on "*what is the topic that is being studied? how is it being studied?* and *why is it being studied?"* (Whetten, 1989).

Regarding the *what?* and as expressed in the conceptual framework above, this paper focuses on the expansion strategies of Chinese firms entering western markets. Such strategies can be both market and non-market oriented. It includes the selection of an appropriate entry mode, as well as the selection of strategies that reduce one's liability of foreignness. However, considering the presence of both SOEs and privately held firms having both widely different strategies and purposes, the study will focus exclusively on private companies. Indeed, as seen in the previous section, Chinese SOEs mainly focus on emerging markets and are said to be attracted by risk (Buckley et al., 2007). On the other hand, private firms will mostly be market seeking and compete in markets where they can reach a critical mass of potential consumers (Ramasamy et al., 2012). If a Chinese private company does not yet possess the competitiveness required to compete with global firms, it will often attempt to catch-up through strategic partnerships or acquisition in developed markets. All in all, the differences between the two types of company are too big to regroup them both under a single entity. For this reason, unless specified otherwise, the use of the term “Chinese firms” or “Chinese MNCs” will refer to privately held firms from this point on.

When it comes to answering the *How?,* this paper identifies the liability of foreignness and the Chinese nationality as having a potential impact on the strategies that firms should adopt in order to successfully enter western markets. Indeed, other than their exposure to liability of foreignness that exist due to the fundamental dissimilarity between the high and low context cultures and due to the CAGE distances referred to in the literature review, Chinese firms seem to have additional difficulties to overcome when entering the West. The weakness of China’s institutional structure pushed for the creation of conglomerates and for the use of non-market strategies such as “guanxi” to gap institutional voids, strategies that might not have their place in environments with strong institutions. Overall, firms with Chinese nationality that operate in the West are often seen as lacking transparency in their structure, and appear to be stigmatized as potentially dangerous, which leads to a propensity of western states sporadically blocking their acquisitions of local firms for national security reasons.

The remaining question is the Why*?* Why is it important to study this phenomenon? In order to answer this question, it is key to acknowledge that challenges faced or expected by a company will most likely impact the choice of strategy employed. In this case, it is relevant to look at MNCs coming from China since their perspective as active players in OFDIs are yet to be fully understood. Moreover, with China’s fast-paced economic development, there will soon be a large number of Chinese companies leading the global market landscape. The global expansion of Chinese firms is therefore not a marginal phenomenon, but rather a reality that will become very common in the near future. At last, conclusions made on Chinese firms entering western markets could potentially also be used to describe or, to some extent, to better understand the broader phenomenon of EMNCs’ expansion to developed markets.

5. Methodology and Data Collection

According to Yin (2011), the field of qualitative research allows to better study context and understand the effect of a broad and complex external environment on human decisions. For this reason, a qualitative approach was privileged over its quantitative counterpart for this study. More specifically, exploratory research was selected since the topic is yet to be fully understood by the literature. Also, because this research aims to explain strategic decisions using multiple variables, it falls within the field of variance theory (Langley, 1999). This chapter will cover the research's design, the way data was gathered and the way it was analyzed.

5.1 Research Design

In order to get a complete understanding of the situation faced by Chinese firms expanding to western markets, and to fully understand how their nationality impact the strategy selection, this research will combine both interviews and case studies, and rely on a positivistic approach to ensure the quality of the findings.

The reliance on interviews has the advantage of allowing the researcher to obtain primary data taking the form of opinions or explanations on a specific event or situation that is not necessarily well understood by the literature (Yin, 2011). Stake (2010) adds that interviews allow both to gather interpretation of interviewees, and also to find out elements that could not be observed by the interviewer himself. Moreover, interviews can be directed in ways to maximize the chances of obtaining valuable information. Indeed, theoretical sampling can be done in order to specifically target people with a certain degree of expertise in the studied phenomenon (Eisenhardt, 1989).

Interviews can be of three types: structured, unstructured, or semi-structured. This study follows a semi-structured approach as it is said to be "flexible, accessible and intelligible and, more important, capable of disclosing important and often hidden facets of human and organizational behavior" (Qu & Dumay, 2011). This interview type relies on an interview guide that ensures that a similar theme is followed with each interviewee and is thus deemed as “consistent and systematic” (Qu & Dumay, 2011).

Case studies also present advantages. According to Yin (2008), a strength of the case study approach is that it is particularly appropriate when it comes to answering the “*how?”* and the “*why?”* mentioned in the chapter four. Using a case study approach thus allows to remain coherent with the conceptual framework and with the research question chosen. Lincoln & Guba (1985) add that case studies allow the assessment of context. Phenomena are often intertwined with their environment, and therefore understanding external circumstances becomes capital. The authors explain that case studies being a holistic description, a “vicarious” or secondhand experience represents a more adequate research method than other more symbolic or abstract methods (Lincoln & Guba, 1985).

At last, in order to provide quality research, internal validity, external validity, reliability, and objectivity will be assured following a positivistic approach (Yin, 1994). The use of theoretical sampling will ensure that findings remain highly relevant to the question, and thus allows internal validity. Moreover, as the study focuses on multiple countries in North America and Europe, findings can most likely be generalized to the whole western region since these countries all have somewhat similar political contexts and relative cultural proximity. This generalization potential permits external validity. Furthermore, the use of a transparent methodology, the presence of the interview guide in the appendix (see annex 1), as well as the presentation of the Nvivo coding (see annex 2) allow other researchers to replicate this study and thus makes the process reliable. At last, the use of triangulation between the numerous secondary data sources and the firsthand interviews will give a more objective perspective to the research and its findings (Yin, 1994).

5.1.1 Participant Selection

Regarding interviews' participant selection, two groups were identified as relevant to the study. The first group (group 1) includes individuals ideally occupying management positions in Chinese firms that undertook global expansion to any western market. Such potential interviewees represent valuable sources of information as they can share firsthand knowledge and experience on the topic. The other group (group 2) is constituted of experts of the Chinese markets may it be researchers, consultants, or members of governmental branches promoting international trade with China.

In total, as seen in Table 6, out of the sixteen solicitations, eight were part of group 1 and eight were part of group 2. Various media were used to contact potential participants. The term "personal contact" refers to individuals with whom the researcher shares established relationships as part of his direct network. "Extended network" signifies that the individual was contacted upon referral of personal contact. Two people who had first agreed to participate in the study as participants later canceled their participation. In the end, five people were interviewed for this study. Regarding the "Organization Description" column, the high-end real-estate exhibition firm is found in group 2 rather than group 1 because, although it is established in China, it is not a multinational firm. The employees are however from a multicultural background and possess extensive experience regarding the topic of LoF of Chinese firms, which makes them eligible as part of the group 2. At last, the "Apparent Challenges Abroad" column of Table 6 illustrates the challenges of doing business in the West that were believed to be faced by each of the Chinese MNCs.

Table 6. Interview Data Sources

Group	Request Medium	Answer	Organization Description	Apparent Challenges Abroad
1	Email	n/a	Chinese Conglomerate	Transparency, Local Responsiveness, Credibility
1	Email	n/a	Chinese Technology Firm	Transparency
1	Linkedin	n/a	Chinese Technology Firm	Transparency
1	Linkedin	n/a	Chinese Technology Firm	Transparency
1	Linkedin	n/a	Chinese Technology Firm	Transparency
1	Email	Negative	Chinese Technology Firm	Local Responsiveness, Brand Image
1	Personal Contact	Positive	Chinese International Trade Firm	Local Responsiveness
1	Extended Network	CANCELLED	Chinese Conglomerate	Transparency, Local Responsiveness, Credibility
2	Personal Contact	Positive	China Entry Service Platform	n/a
2	Email	n/a	China - Canada Bilateral Services	n/a
2	Email	n/a	China - Canada Bilateral Services	n/a
2	Email	n/a	International Trade Governmental Branch	n/a
2	Personal Contact	CANCELLED	High-end Real-Estate Exhibition Firm	n/a
2	Extended Network	Positive	High-end Real-Estate Exhibition Firm	n/a
2	Personal Contact	Positive	Academia	n/a
2	Personal Contact	Positive	China - Canada Bilateral Services	n/a

In compliance with the consent form signed by the interviewees, the identity of the participants will remain confidential. Instead, participants and their associated company will be referred to by a given letter. For instance, the first participant will be called "Participant A" and will be associated to "Company A".

5.1.2 Case Selection

When it comes to the selection of multiple cases within a single research, "the cases need to be similar in some ways" (Stake, 2006). This being said, there is more to the case selection. Stake (2006) came up with three criteria to choose cases. Although the cases need to be similar to some extent, it is also important for them to provide a diversity of contexts. Secondly, they all need to be relevant to the research topic. At last, they all need to enable learning about "complexity and context" (Stake, 2006).

The cases selected for this study are that of Huawei, Xiaomi, and OnePlus. These companies are all from China and compete in the mobile phone industry. This being said, there are some differences in the products and services they offer. Whereas OnePlus is solely competing in the mobile phone industry, Xiaomi diversified to now offer a wide range of consumer electronics, and for its part, Huawei is also a world leader in the telecommunication industry. For this reason, the first criterion of Stake is respected. Since all the companies are Chinese firms that led foreign direct investments in western markets, it is also relevant to the research topic, and thus respects the second criterion. Lastly, the unique situation of each company allows to observe the market reaction and the treatment received by different Chinese firms in western markets, therefore respecting the third and last criterion of the author.

Overall, the choice of the mobile phone industry enabled the comparison of three companies that coexist in a single environment, that come from the same country and that all decided to expand to western markets. These similarities allowed to compare the firms' strategies on a same playing field, as the liabilities of foreignness experienced by the three companies are similar and yet, the rate of success of their expansions is drastically different.

It is important to note that the participants interviewed are not part of the three smartphone companies covered in the case studies. As the amount of secondary data available regarding the three companies is plentiful, combining it with first-hand observation would add redundancy to the study. Moreover, all the data would be centered around a single industry making it harder to draw conclusions on all Chinese firms. At last, the feasibility of such a study proves rather difficult without the presence of personal contacts in each of these three organizations.

5.2 Data Collection

Both the interviews and the case studies will require preparation before being conducted and assembled. The following part will shed some light on the various steps necessary for this study's data collection.

In order to prepare for the interviews, two separate interview guides (view annex 1) were created to make sure relevant information would be gathered from both groups identified earlier. The use of an interview guide is helpful in semi-structured interviews as it ensures that "the same thematic approach is applied during [each] interview" (Qu & Dumay, 2011). Moreover, the usage of two distinct questionnaires was necessary as one group is more experience oriented and therefore offers a more micro view of the situation, whereas the other group has typically observed the reality of multiple firms and thus developed a more macro view of the situation.

The interview guides used for this study were built in order to stay neutral, to minimize the interviewer's contribution, and to instead focus on open-ended questions that enable the interviewee to go on with lengthy answers. This is recommended in order to obtain richer content from the participants (Yin, 2011). This being said, some close-ended questions were also used and followed by probe questions depending on the participant's answer. This approach allowed for more flexibility within the interview process.

The goal of the interview guides was to obtain information from managers of multinational Chinese firms, as well as experts on the field. When it comes to firm representatives, a narrative inquiry interviewing approach was selected as the objective is to obtain information on past experiences of the interviewee. On the other hand, for the experts on the topic, a pragmatic interview approach would be more fitting as the goal is to find practical and useful insights from people that are not directly concerned by the phenomenon studied (Patton, 2015).

Additionally, ethic was taken into consideration throughout the process. The study passed the certification of HEC Montreal's Research Ethics Board, and appropriate consent forms were handed to and signed by participants.

When it comes to the case studies, in order to ensure the quality of the findings, triangulation of resources was used to develop case studies on various Chinese firms. These aforementioned resources represent a combination of secondary data such as governmental sources, news articles, company documentation, intranet and internet data, and archival data. The use of secondary data has some benefits such as allowing for faster and easier data collection (Martins, Da Cunha, & Ribeiro Serra, 2018).

5.3 Interview Documentation

In the consent form handed to participants, the interviewees had the option to allow or not the interview to be audio recorded. Out of the five interviews led for this study, three interviews were recorded, one participant preferred not to be recorded, and the remaining one did not have the possibility to have a face to face meeting and therefore wrote down his answers in a word document.

Following the interviews, the audio data from recorded interviews was transcribed verbatim. Following, the answers of all five interviews were analyzed through Nvivo coding (see annex 2). Indeed, as presented by Miles et al. (2014), "coding is analysis [as it is a] deep reflection about and, thus deep analysis and interpretation of the data's meaning. […] [Indeed, the] clustering and the display of condensed chunks then set the stage for further analysis and drawing conclusions" (Miles et al., 2014).

5.4 Presenting Interview Findings

The primary data gathered through interviews will be used in the next chapter to contrast cases and to give a more theoretical view of the phenomenon of Chinese firms expanding to western markets. Table 7 seen below offers a summary of the primary data gathered through the interviews. The Nvivo codings (see annex 2), were used to identify important themes in each interviews and taken in consideration when creating Table 7.

Table 7. Summary of Interview Data

Participant A	(Translated from French to English by the author, December 3, 2018) Participant A is the founder and CEO of Company A, a firm offering various services to help foreign companies entering the Chinese market. Before creating Company A, Participant A also worked for and with various governmental branches in Canada for multiple years always with a focus on the Chinese market. Regarding the presence of LoF of Chinese firms entering the Canadian market, Participant A pointed out the existence of platforms such as Investment Quebec. This platform offers an array of services to reduce potential distances with other markets that could be felt by foreign companies. These services include, but are not limited to, information on the external environment of Canada, presentation of the company to various key players to help it create a local network, a list of tax refunds and subsidies that could be given to that company, as well as

financial services such as loans insured by Investment Quebec. The presence of a player like Investment Quebec is said to drastically lower the LoF of Chinese firms entering Canada (at least when it comes to the province of Quebec). This being said, efforts are made by the Canadian government to push foreign firms to enter Canada through greenfield investments rather than through M&As. This creates a clash with Chinese firms as Participant A says they are more into acquisitions.

Participant A shared that the focus on acquisition is a dominant trend within Chinese MNCs. Participant A adds that more than a mere trend, it has strategic reasons behind it. Indeed, when looking at a typical Chinese firms' growth curve from its inception, it is almost always going up. The Chinese market is said to move much faster than the Canadian one. For this reason, firms expanding abroad cannot risk taking months or years to build from scratch as it would slow down their growth curve. It is more in their interest to save time by acquiring and potentially restructuring later on. The interviewee believes that the trend of Chinese firms opting for M&As is here to stay.

When questioned about the way western media portray China, Participant A answered that the media do not create an accurate vision of China and that it is overly negative. Topics such as new technologies, growth of the middle class, and improvement of education are largely overlooked creating a misinformed public opinion that is only aware of the Chinese reality through sensationalist news articles. This creates stigmatization of China and Chinese firms which, in the end, becomes a challenge for Chinese firms.

	As participant A expresses: “In Canada […] the consumer has the last word, whereas in China the government has the last word.” This difference in dynamic is said to be extremely important. Some companies’ actions that could create large scandals are often made public in the West whereas it is often kept silent by the government in China. In such cases, western firms are expected “to accept their responsibility, to be open to to the criticism and to listen to the client”. As a result, Participant A expresses that western firms are better equipped to deal with scandals than Chinese firms. With this in mind, Chinese firms are put in a difficult position when expanding abroad. Indeed, as soon as they enter a western country, they are associated with espionage or other negative stigmas that create scandals, and they are not equipped to deal with it. At last, when asked about western governments blocking Chinese acquisitions for national security reasons, Participant A was quite positive. The interviewee answered that Chinese firms will always find ways to access markets and that they will adapt with time.
Participant B	(February 22, 2018) Participant B is a manager at Company B, a Chinese high-end real-estate exhibition company. The international team at Company B has important experience with the LoF and the perception foreigners have of China. The main issue faced by Chinese firms is said to be linked to cultural misinterpretation. By this, Participant B means that although the

	country developed from being a manufacturing powerhouse to an innovation hub, the perception of China in the West is still that of China 10-15 years ago. Participant B adds that "Fear, rejection, official sanctions (take Huawei as an example) are the consequences of this cultural misinterpretation from the West." When questioned about the choice of entry-modes, Participant A expresses the effectiveness of JVs for Chinese (and non-Chinese firms) as an easier way to go around liabilities of foreignness. However, Participant B adds that there is no single strategy, it always depends on the context. The interviewee shared the example of DiDi who entered Mexico through greenfield, Brazil through acquisition and Japan through a JV. Regarding the way western media portrays China, Participant B qualifies it as inadequate. Articles are said to focus on the negative sides of the country while avoiding coverage on positive sides. The interviewee considers it to be strongly biased to support governmental actions.
Participant C	(March 2, 2019) Participant C has worked for a Company C, a WOS of a Chinese firm in the United-States. Company C's field of activity is centered on international trade. When asked about LoF, Participant C talked about differences in business culture. This englobes a variety of cultural differences such

as the way business meetings or negotiations are conducted. Participant C continued with the language barrier creating large disadvantages to Chinese firms in America. At last, the interviewee mentioned the presence of tariffs in the ongoing trade dispute as additional challenges faced by Chinese firms.

In order to deal with their LoF and the negative perspective of Chinese firms, Company C hired many locals, including a whole American legal team. Core competencies however still come from the mother company in China, although managers of such departments also speak some English. Efforts were also made to develop an international brand image.

When questioned about an opinion on the most common entry modes used by Chinese firms, Participant C mentioned that both acquisitions and JVs really help to deal with cultural differences. However, the interviewee mentioned that it really depends on the industry and the goal of the FDI.

Participant C also talked about the negative perspective of China in the West being notably due to the way media portray the country and its firms. The interviewee added that JVs and acquisitions allow bypassing the negative opinion as the FDI then seems more like a local player to the eyes of the public opinion.

Participant D	(April 1, 2019) Participant D is pursuing a career in academia and has developed considerable expertise in the Chinese market. When it comes to LoF, Participant D explained that it needs to be further separated into two parts. There is indeed a typical LoF similar to what other foreign (non-Chinese) companies would experience due to cultural, administrative, geographic or economic distances, but there is also a liability that exists only for firms with Chinese nationality; some sort of discrimination. Chinese products and companies experience a certain lack of trust from western consumers and governments. This can be both a lack of trust in the quality of Chinese goods and services, as well as a lack of trust in security. The reason for such discrimination is said not to be necessarily linked to a negative portrayal by the mainstream media, but more to a certain disconnect in perceptions. The way westerners view China is the same today as it was 10 years ago. In order to overcome both the LoF and the disadvantage of being Chinese, Participant D said that M&As are good strategies. Indeed, it allows using another brand that already has an established image in the market, thus allowing to hide the Chinese origin of the company. Other firms like Huawei will instead try to position themselves as global companies through the development of a global value chain. This being said, there is no absolute best strategy, it depends on the context of each firm.

	At last, regarding national security concerns, Participant D explained that it is not a straightforward issue. There are indeed many SOEs in China, but there are also some in the West as well. Moreover, it seems that even if they are state-owned, Chinese SOEs generally follow market rules. The interviewee also said that some cases of SOEs' acquisitions representing national security concerns in the West are in fact far-fetched and the issue would instead have been blown out of proportion.
Participant E	(Translated from French to English by the author, April 12, 2019) Participant E is the CEO of Company E, a firm offering various training programs to managers of companies entering the Chinese market. Regarding LoF, participant E mentioned both cultural and political differences that can create difficulties for Chinese firms. For instance, the management style is widely different in China and in the West, which can create issues between an acquiring Chinese firm and the acquired western company. Moreover, negotiation and business meetings are also very different. Regarding political distances, the interviewee gave the example of the National Intelligence Law passed in China in 2017 that constraints any Chinese citizen or company to cooperate with the government if asked to do so. Participant E also presented the differences in intellectual property protection enforcement between China and the West as examples of political differences.

	Moreover, when asked about what was the main mode of entry used by Chinese firms, participant E was not completely sure. The interviewee did say however that it seems like large firms tend to invest in firms that already exist, may it be through merger or acquisitions, whereas smaller firms could find benefits in greenfield investments. At last, when talking of the perception of Chinese firms in the West, Participant E said that it isn't ridiculous to be scared of firms like Huawei that offer very little transparency surrounding their ownership structure.

6. Data Analysis

The following chapter will cover the cases of OnePlus, Huawei and Xiaomi, the three companies being studied. Moreover, their situation will be compared and contrasted using data acquired from the interviews in order to come up with conclusions on strategy selection.

6.1 Cases Description:

The Chinese mobile phone industry is rapidly taking over the global market. This being said, we've seen over the years an interesting shift. Whereas Chinese brands used to create mid-range phones at best, it is no longer the case as it can be seen in Table 8. Today, OnePlus, Huawei and Xiaomi are all serious players in the premium smartphone market (premium stands for smartphones with a price superior to 400 US$). When looking at Europe and America, the two regions of interest, we observe that whereas the European Market (from East to West) is embracing the trend, the North American market seems to have been resisting Chinese brands. This being said, sources point out that OnePlus would have taken over Motorola and successfully secured a fifth position in the American market for the first quarter of 2019 (Hill, 2019).

Table 8. Premium Smartphone Segment Rankings by Regions in 2018

NAM	MEA	LATAM	WE	CEE	CHINA	APAC Excl China	India
Apple	Apple	Samsung	Apple	Samsung	Apple	Apple	Samsung
Samsung	Samsung	Apple	Samsung	Apple	Huawei	Samsung	OnePlus
Google	Huawei	Huawei	Huawei	Huawei	OPPO	Sony	Apple
LG	Sony	Motorola	OnePlus	OnePlus	vivo	OnePlus	Huawei
Motorola	Nokia HMD	LG	Google	LG	Xiaomi	Huawei	Vivo

	OnePlus
	Huawei
	Xiaomi

Source: Pathak, 2019

6.1.1 OnePlus

Back in 2013, at a time when Android phones were not strong on design nor user experience, and when the western smartphone industry as a whole was split in only two segments (expensive flagships or cheap yet featureless phones), a group of engineers from the smartphone industry decided it was time to combine the aesthetics and the user-friendliness of Apple's interface with the openness of Android while remaining a budget option. In December of that year, led by their mentality to never settle and to never compromise on quality and innovation, Carl Pei, a Chinese national who had been raised in the United-States and in Sweden, and Peter Lau, a former executive from Oppo, became co-founders of what would become a highly successful Chinese smartphone company. OnePlus, the "flagship killer", was born (OnePlus, 2017).

6.1.1.1 The Community

Back at its early beginnings, OnePlus stated its mission online and opened a forum to let people say what they wanted to see in an ideal smartphone. People appreciated the initiative and started supporting the startup and what it stood for. Rapidly a community assembled and feedback poured in. People asked for quality phones offered at reasonable prices. Therefore, the startup had its community before an actual product. After listening to the needs of the market, the startup came up with its first product, the OnePlus 1, in April 2014. It was a high-performance smartphone with razor-thin profit margins that made it an incredible alternative to Apple's or Samsung's flagship phones. With comparable specifications, the OnePlus 1 was sitting at a fraction of the competition's market price. In order to keep the price that low, OnePlus limited advertising budget for its first phone at roughly 300 USD (Spence, 2015). Not knowing if people would actually purchase its product, OnePlus had conservative sales estimates of roughly 30,000 units for the first edition of its smartphone. However, little did they know, over 1,300,000 units would end up being produced and sold (CNBC-TV18, 2018). With a small production capacity, and a growing interest for its phone, the firm came up with an innovative guerilla marketing tactic that would revolutionize the sale of smartphones and that would create a craze like the world had not yet seen: the invite system.

6.1.1.2 The Invite System

The invite system was a way to mobilize OnePlus's community and to use it as a marketing tool. The way it worked was simple. By participating in contests on social media, people earned chances of receiving an invite that would provide them with the right to purchase a OnePlus phone. Upon receiving the invite, an invitee had 24 hours to decide whether or not to purchase the phone after which the invite would become null. Such invites were so in demand that some invitees sold theirs on e-commerce platforms for a few hundreds of dollars. The contests aforementioned went from sharing pages on Facebook to having potential customers recording themselves destroying their old phone on camera to earn a chance to win an invite. This specific challenge was designed in the fashion of a religious sacrifice ritual, as OnePlus wanted its early adopters to be highly loyal brand enthusiasts. Needless to say, the exclusivity of owning a phone at the beginning was such that early adopters were all "hardcore fans" of the brand (OnePlus, 2017). More than mere customers, they were true ambassadors of the brand, and OnePlus ran with it, letting the word of mouth make its wonders. Soon, more people were participating in the contests and the company had secured its demand through its cheap yet highly effective viral marketing campaign. Although the invite system is now long gone, customers' engagement in the OnePlus community and the importance of words of mouth is still core to OnePlus's strategy (Mota, 2018).

6.1.1.3 The OnePlus 2 & X

The growth of OnePlus was fast, too fast. Blind by confidence from their previous success, decision makers decided to ignore the needs of their community and tried to develop a new product, the OnePlus 2, targeting the mainstream market. The choice of components and features of the phone got heavily criticized by the community.

Moreover, the startup launched another model called the OnePlus X, designed to offer an even cheaper alternative to their more premium OnePlus 2. Yet people were already turning to OnePlus to get the value of a premium flagship phone at an affordable price. They did not need a cheaper phone with fewer functionalities. Needless to say, both the OnePlus 2 and the OnePlus X were misfires (OnePlus, 2017). However, it allowed the firm to reconnect with its audience and forced upper management to be humbler regarding its last success. From that point on, OnePlus also adventured into a new marketing channel, YouTube influencers. Through giveaways and close relationships with highly respected technology reviewers such as YouTuber Marques K. Brownlee alias MKBHD, the firm received lots of brand awareness in North America (Faheem, 2017).

6.1.1.4 The OnePlus 3 and Forward

Lucky to have survived the failure of its last two models, OnePlus went back to its community and took notes of everything that went wrong. The firm realized that its proximity to the community was not only a useful marketing tool, it was also a competitive advantage when used at the R&D stage. Indeed, when developing new phones, OnePlus's competitors rarely asked the market what their needs were. Therefore, by doing so, the brand presented itself in a more human-like being, instead of a cold profit-driven corporation. The OnePlus 3 was a colossal hit. The firm made large sales, but more importantly, it regained the trust of its fan base. From that point on, OnePlus embraced its community and went back to its core idea to never settle. This strategy has since been consistently applied by the company forming a true recipe for success. All their products since, from the OnePlus 3 to the newly released OnePlus 6T have shown signs triumphant success (OnePlus, 2017).

6.1.1.5 The Year 2018

2018 was an incredible year for the 5-year-old company. On one hand, it became the premium smartphone industry's market leader in India with 37% of market shares, surpassing even Apple's iPhone (Ani, 2018). However, the success was not reserved to emerging markets. In the United-States, the OnePlus 6T recorded a record of sales, an astounding increase of 249% when compared to the previous model within its first month on the market (Maxham, 2018). This is because, whereas most Chinese companies were dealing with the repercussions of the ongoing trade dispute between the U.S and China, OnePlus finally made its way to the American mainstream market. Whereas until now OnePlus's phones had to be purchased online directly from the company's website, they are now available at T-Mobile and receive support on Verizon's network. This is a great deal as the average mobile customer do not shop online, but rather purchase its new phone directly at his local carrier's store (Sin, 2018).

The resilience of the company and its ability to grow unbothered by the U.S regulators in times of trade war can seem surprising at first. However, it all makes sense when studied in details. The firm is backed by Qualcomm and T-Mobile, two major American corporation who studied and vetted carefully OnePlus and its devices. It is to be added that OnePlus has a stainless reputation and stands for values that are close to western ideals than the average Chinese company. Furthermore, the Chinese firm has been clever enough to avoid making ties with the ruling communist party of China. U.S Senator Warner mentioned that as long as OnePlus acts as an independent actor and stays away from the communist party, it should be welcomed to compete in the American market (Jiang & Dang, 2018). Pete Lau, cofounder of OnePlus, also credits the exhaustive certification process his firm is following, one that he considers being among "the most stringent certification process" there is (Li, 2018). At last, the company was from its early beginning very international. One of the cofounders was raised in Sweden, and although the company is based in Shenzhen, 70% of the sales are made outside China (Li, 2018). By and large, OnePlus is an atypical Chinese company that embraces the world as its market.

6.1.2 Huawei

Now a multinational widely known for its smartphones, Huawei did not manufacture such devices until recently. Founded in 1987 by Ren Zhengfei, an ex-military engineer, Huawei set itself the mission to provide telecommunication services to rural China. It developed a certain expertise in the early 1990s and became the largest telecommunication vendor in the Chinese countryside with an astonishing 90% of market shares (Low, 2007; Guo, Zhang, Dodgson, Gann, & Cai, 2018). Toward the end of the 1990s, seeing the rise of mobile communications as a growth opportunity, the firm invested in mobile telecommunication technologies R&D. From that point on, Huawei quickly expanded internationally through JVs and subsidiaries in other emerging markets. By the turn of the millennium, it had operations in Russia, Latin America, and South East Asia. From 2001, the strategy shifted. The goal was now to enter developed markets. Subsidiaries and strategic partnerships were created at an incredible speed. After only 7 years, Huawei had a presence in Sweden, Germany, Spain, France, the U.S.A, Netherlands, the UK, Japan, and Canada. Over the years, Huawei developed such an expertise in mobile telecommunication services that it was a shock to no one when it realized the world's first 4G LTE network in collaboration with Ericsson (Guo et al., 2018; Huawei, 2011). The company's tremendous success in telecommunication technologies allowed for an activity diversification. Huawei would now begin to focus on the mobile phone industry.

6.1.2.1 The Mobile Phone Industry

Although officially entering the cellphone industry with the C300 back in 2004, 2010 is the year that marks a major turning point for Huawei's handset division. A new strategy would rapidly propel the firm to the rank of third mobile phone manufacturer worldwide after Samsung and Apple. Indeed, at that time Huawei noticed that the bottom of the pyramid market was mostly ignored by its international competitors, and that rival domestic brands were late in terms of technology, which provided an interesting opportunity. The Chinese brand shifted its focus and started manufacturing low-end smartphones destined to be sold in China. The success was outstanding. Huawei then quickly entered Africa and Latin America in order to replicate its domestic triumph. It turned out as successful as it previously did in China (Tan, 2013). However, other national players were starting to earn market shares back in China and the company soon had to deal with a growing number of competitors such as OPPO, VIVO, and Xiaomi just to name a few. To distinguish itself from the mass, Huawei took a step back from the low-end market and decided to widen its product line to also cover the middle-end market. In 2012, the Ascend line of smartphones (later replaced by the P series) was born, and the products were even sold in Europe and America as entry-level phones. Huawei later entered the premium smartphone industry in 2013 with its new line called the Huawei Mate series (Huawei, 2019). The Mate series became highly popular among millennials for its overall build quality and for the excellence of its camera. This is particularly true from the release of the Mate 20 Pro, Huawei's flagship of 2018 which won the Best Battery life award, and which was voted best smartphone camera in 2018 by a sample of over 7'000'000 people faced with a blind test comparison (Brownlee, 2018; Altraide, 2018). At a steep retail price of 1315 CAD$ for this flagship phone however, some people were displeased by the current state of the premium phone market. This being said, the group's strategy has worked wonders. Indeed, in 2018, Huawei phones finally outsold Apple's infamous iPhone, thus becoming the second largest smartphone manufacturer, gradually reducing the gap with Samsung who's been the uncontested market leader for years (Richter, 2018; Scarsella et al., 2018).

6.1.2.2 Huawei's Trust Issue and the Arrest of Meng Wangzhou

Huawei has been under the scrutiny of western governments for many years, but in 2018, the Chinese firm's situation took to a whole new dimension. As a matter of fact, the industry of telecommunications has always been categorized as sensitive since it is considered to be key to national security. This is even more the case post-9/11. Indeed, telecommunication powered connectivity allowed for an unprecedented flow of information in human history. Yet, since a lot of private and classified intelligence is shared on a daily basis through connected devices, having an unauthorized player intercepting data could lead to catastrophes. For this reason, Huawei, a firm whose founder is an ex-military with close ties to the Chinese Communist Party has raised suspicions in the West for a very long time (Wu, Hoon, & Yuzhu, 2011).

It all started in 2005 when the company first lost a bid to acquire firm 2Wire over national security reasons. Similar cases repeatedly occurred until 2012 when the governments of the United-States and Australia both officially categorized Huawei and ZTE as untrustworthy companies that are said to not be free from the Chinese Communist Party's sphere of influence. They were since consistently perceived as threats to national security, although only a little evidence was provided regarding these asserted security risks (Chung & Mascitelli, 2015). Another factor to consider is that, in order to clear its name, Huawei offered full transparency to governments. Indeed, the company "invited the US government to carry out a formal investigation on any concerns it may have about the company" (Wu et al., 2011). Sadly for Huawei however, it would take more than that to earn the American government's trust. Even worse for the firm, many countries have now banned Huawei from working on the new and highly lucrative 5G telecommunication network in their respective country (Smith, 2019).

This is definitely a bad beat for Huawei who had been carefully working on its brand image for many years. Through generous funding given across the globe in various fields and to various players such as universities to support research, to major league sports events, or even to classical music concert halls in Europe and New Zealand, Huawei's public relations (PR) seemed flawless. Indeed, their soft power taking the form of patronage was highly appreciated and people had a positive opinion of the brand until now (Chan & Gillies, 2019).

The case of Huawei in Australia is interesting to look at in more details. Potentially in an attempt to distance itself from the stigma associated with typical Chinese firms, Huawei's choice for the management of its Australian subsidiary was rather clever. Among the employees, we find John lord, an ex-Admiral of the Australian Navy who fought communism in the Vietnam War; John Brumby, former premier of Victoria; and Alexander Downer, former minister of foreign affairs. However, even with such impressive credentials, Huawei Australia was not spared from being declared untrustworthy by government officials (Chung & Mascitelli, 2015). This being said, it is not only Huawei Australia that employs local managers for the national units. In fact, Huawei employs this strategy for every market it enters. Representatives are local to give a local feel to the company. Huawei doesn't want to appear as a Chinese firm but instead wants to show itself as a global company (Participant D, Personal Communication, April 1, 2019).

Behind the failure of Huawei's considerable PR efforts, there are criticisms, allegations and more recently accusations that considerably stained the brand image over time. One criticism received by the firm is due to China's politic to support its multinational firms in the early 2000s. In fact, the firm has been subsidized through up to forty billion dollars in soft loans to support its global expansion. This was condemned by many in the US as it was considered to be unfair competition. Furthermore, back in 2010, Senator Jon Kyl alleged that the company had been an equipment manufacturer for the Taliban, Iran and to Saddam Hussein's regime (Wu et al., 2011). Also, on December 1st, 2018, Meng Wanzhou, daughter of Huawei's founder, and CFO of the company was arrested in Vancouver. This represents a major turning point for the corporation who quickly saw itself and key players such as its CFO accused of 23 crimes by various players in the United-States. Among these accusations, we find numerous claims of bank frauds and violations regarding the International Emergency Economic Powers Act. In brief, Huawei is accused to have carried illegal activities in link with Iran through its subsidiary Skycom within the context of ongoing sanctions (Lahiri, 2019). At last, Huawei got entangled in yet another scandal when Balding & Clarke (2019) released an article regarding the firm's opaque ownership. The authors concluded that until proof of the contrary, "Huawei may be deemed effectively state-owned" and that contrarily to what Huawei states, "it is clear that the employees do not [own or control the company]" (Balding & Clarke, 2019).

Huawei had however explanations for all the criticism it received over the years. The forty billion dollar loans aforementioned is said to be credit lines offered by China's

Development Bank, a common practice internationally that is and has always been fully legal. Regarding the potential association with the Communist Party or with the People's Liberation Army, Huawei answered that none of these players owned any shares in the company. In fact, almost all of Huawei's stocks are held by the worker's union, meaning that the company is for the most part owned by the employees. The corporation moreover replied that many American firms close to the Pentagon are currently operating all over China without experiencing any similar problems. Huawei added that all of its actions complied with the requirements of the United Nations, even when it comes to activities in Iran (Wu et al., 2011). Regarding the ownership scandal that surfaced in April 2019, Jiang Xisheng, chief secretary of Huawei's board of directors, strongly denied the claims and provided explanations without however providing any concrete evidence to back his statement (Zhong, 2019).

At this point, the larger challenge for Huawei is definitely one of trust. This being said, in 2018, already under suspicions and in the context of the ongoing trade dispute, any mistake from the part of Huawei would have found itself amplified. The firm was already walking on eggs for years, but the recent accusations and the arrest of Meng Wanzhou may now have caused too much damage for it to ever fully earn trust in the United-States, and significantly raises suspicions from other western countries.

6.1.2.3 Huawei Today

Over the years, Huawei went from being a focused telecommunication firm, to being a diversified conglomerate. In fact, the company did not only enter the mobile phone industry. As seen on the firm's official website, Huawei also offers a wide range of services. Indeed, it now provides cloud and big data services, operation and maintenance services, information and communications technology solution services in a wide range of industries, as well as training and certifications. On the product side, Huawei now sells laptop computers, tablets, wearables, and intelligent video surveillance systems in addition to its phone lines and routers (Huawei, 2019).

6.1.3 Xiaomi

Founded in Beijing in 2010, Xiaomi is now the fourth largest smartphone manufacturer in the world behind Samsung, Huawei, and Apple. Back in 2010, the market was still dominated by the two usual suspects, the South Korean group Samsung and Silicon Valley-based Apple. As a small player, Xiaomi had no choice but to develop innovative strategies if it wanted to grab market shares. After going through online smartphone forums one by one, the small Xiaomi team realized that the products available on the market did not necessarily comply with the market's needs. The phone's interface, commonly known as the operating system, could notably be improved. Xiaomi had a plan, but it would need a community to support it. Indeed, without access to large resources, user-based innovation was identified by the founders as the key to success (Li, Jia, & Du, 2019). Xiaomi now proudly presents itself as a company built by fans, for fans (Xiaomi, 2018).

6.1.3.1 The Rise of Xiaomi

After going through forums searching for engaged android users with coding abilities, the startup found and assembled a volunteer group of one hundred enthusiasts referred to as Xiaomi's "investors of our dream". These people firmly believed in the company's vision and would then help to develop the firm's first operating system, the MIUI. This operating system highly customized to the needs of technology enthusiasts would in fact turn out to be Xiaomi's first product. The software was indeed released before any physical device. In order to use it, people had to download it on their smartphone and replace their previous system in order to use it. This extra step, although inconvenient for the general audience, was embraced by the online community of Android enthusiasts. Needless to say, the popularity of the operating system exploded. Upon release, the number of MIUI users went from the one hundred volunteers to 500,000 people in just a year, making it, at the time, the most popular downloadable operating system on the market. Xiaomi also launched a forum to allow members of its new community to interact among themselves and with employees. In 2011, a year after the launch of the MIUI, came the Xiaomi Mi1, the first physical device. It was so popular that the first "100,000 smartphones sold out in only three hours" (Li et al., 2019). Led by its success, Xiaomi went through a first round of funding in July 2011. This allowed the startup to secure $41M from four investors including U.S based IDG Capital and Morningside Venture Partners (Crunchbase, 2019). Over the years, numerous western groups invested in Xiaomi, and Morningside Venture Partners is now the largest shareholder of Xiaomi with 16.3% of the total shares (MarketScreener, 2019). By 2017, the Xiaomi community worldwide had reached over 300,000 million users, with 12 million of them being active on the online forum (Li et al., 2019).

6.1.3.2 The Internationalization of the Firm

The internationalization of Xiaomi began on a regional level. South East Asia seemed like the ideal market to expand to. However, the firm would have to find a local partner, since logistics were not core competencies of the startup. Singapore Post Limited, the Singaporean public post company was selected as a partner as its distribution system could be leveraged in the region (Singapore Post, 2016). After years of growth in China and South East Asia, Xiaomi decided it was time to enter developed markets in 2017. The overall strategy remained the same. Xiaomi would base its products on four pillars: innovation, design, quality, and value for money (Xiaomi, 2018). More importantly, local communities would be assembled and leveraged to create products and services tailored to local needs. Furthermore, forums would still be used to promote interaction between users and the brand. This process ensured the customer's satisfaction and loyalty (Li et al., 2019). The real question in 2017 was which market to enter and how to enter it. Perhaps seeing fellow Chinese companies such as Huawei and ZTE already under scrutiny in the USA, or simply following the trend of Chinese firms launching operations in the old continent, Xiaomi decided to focus on Europe. After entering Spain first, Xiaomi saw the potential of the European market and rapidly expanded (Schulze, 2019). The European push was launched with the cooperation of the largest European carrier, Vodafone (Yang, 2018). Xiaomi's European strategy is to adopt a strong offline sale presence through partnerships with companies such as Carrefour and Mediamarkt, Europe's largest consumer electronic retailer (Dai, 2017). After doing so, it realized that physical locations were more adapted to the market than online sales. Xiaomi thus started opening its own stores in Europe. By the end of 2018, the group had already open about fifty locations. By the end of 2019 however, Xiaomi is expected to triple its presence and own more than one hundred and fifty stores in Europe (Schulze, 2019).

Although the efforts are currently on the penetration of the European market, Xiaomi did not fully give up on becoming an active player in the U.S. Indeed, the firm has maintained talks with American carriers and has already met with their higher management. Moreover, the CEO of the company, Lei Jun, has announced that Xiaomi could enter the U.S market in 2019 (Yang, 2018).

6.1.3.3 Xiaomi's Competitive Strategy

As stated by Xu (2015), the strategy of Xiaomi has heavily relied on 3 points. First of all, the quality-price-ratio offered by the firm sets it apart from the competition. Moreover, the company focuses not only on creating quality phones, but also puts efforts in software development. Xiaomi introduced many services and successful mobile games in addition to its cellphones. It allowed to diversify revenue streams and to promote the brand. This diversification extended even further as Xiaomi introduced other consumer electronic products over the years. This ranged from Xiaomi computers and televisions, all the way to drones and electric scooters. The hardware became a mere platform for the Xiaomi software to thrive. Thirdly, the firm not only recognized the importance of social media but made its involvement online a priority. This led the firm to develop a competitive advantage through a pool of highly loyal users forming a community that helps to promote the brand through the word of mouth, and that gives valuable feedback for R&D stages. Overall, although the profit margins on the devices are low, the company expects to earn revenues from the software and services it provides (Gupta & Dhillon, 2014).

6.2 Case Analysis

The following sub-section will relate the selected cases to the theories covered in the literature review. A focus on location choice, the liability of foreignness, entry mode selection and motivations will be applied.

6.2.1 OnePlus, A Born Global Firm

The story of OnePlus is unique and raises certain questions regarding the strategy followed by the firm. First, why did the cofounders decide on a born global approach? Moreover, why did OnePlus dominantly focus on online sales and exports until now?

6.2.1.1 OnePlus's Location Choice and the Liability of Foreignness

The startup launched its first product simultaneously in 17 countries and quickly made it available in an additional 16 markets within a year (Sawers, 2015). From its first year of operation, the company thus had to deal with clients in North America, Europe, and Asia all at once. This decision strongly contradicts traditional beliefs that firms should develop their domestic market first before entering foreign markets. Moreover, at a first glimpse, it seems like OnePlus is unaffected by LoF and by cultural, administrative, geographic and economic distances, as it seems to be able to easily and successfully sell its product in any given market.

There are a few reasons that can explain OnePlus's improbable success. First of all, the presence in the higher management of Carl Pei, who has extensively lived in America, Europe, and Asia, definitely had an impact of the portrayal of the company as an international startup. Carl Pei is one of the two cofounders of the company, and currently holds the position of OnePlus Global director. He has done over the years many interviews and appeared on stage repeatedly expressing himself in flawless English.

Throughout his public appearances, Pei presents a global mindset through his deep understanding of western cultures. This being said, what perhaps buffered the effects of LoF even more than the international nature of the OnePlus core team, is its choice of niche market. The OnePlus global team did not target citizens of a specific country in their born-global approach but rather approached netizens through various social media platforms. The segmentation went even deeper as the initial target consumers were technology enthusiasts rather than the mainstream consumers. This choice of niche had tremendous importance on the LoF that the firm would face. When it comes to the internet, and more specifically to internet subcultures, cultural differences are no longer imposed by national borders. Moreover, English is commonly used online which makes it more or less a universal language for corporate pages and forums on big platforms such as YouTube, Reddit, Twitter, and Facebook. At last, by relying on the virtual world, where administrative and economic distances play a relatively smaller role than in the physical world, OnePlus could operate in a freer institutional environment. Through an innovative approach, the firm was able to address all of the CAGE distances expressed in Ghemawat (2001). In a way, and from its very beginning, OnePlus did not suffer from distances with its global community but rather enjoyed unparalleled proximity.

6.2.1.2 OnePlus's Entry Mode Selection and Management Style

The community of OnePlus being at first distributed sporadically worldwide, the firm decided to follow a born global approach to reach its potential customers. However, considering the lack of resources of the startup, it could not do so through the opening of physical locations. This would have moreover been futile as all the members of the community in the early days were netizens comfortable using computers and purchasing on the internet. For its first device, OnePlus would export its products from its Chinese production line, and had the customers pay for the international shipping of the mobile phone. This being said, even after including the shipping price, the OnePlus One phone was still a bargain when compared to other notable flagship devices. As a result, the complicated buying process did not prevent people from buying the product. Overall, OnePlus' initial internationalization process followed Dunning's OLI paradigm covered in the literature review. Indeed, the firm owns a competitive advantage from its proximity to the consumers, its strong community, and from the quality of its products offered at an affordable price. The company needed and still need to keep its production internal to protect intellectual property and product quality. However, due to the characteristics of its aforementioned target consumers, it did not require to be physically present in all the markets it would sell its products in. For these reasons, it made sense for OnePlus to adopt exports rather than FDIs as an international expansion strategy.

This rapid international growth raises yet another question as to how such a small startup was able to produce its device at low cost without benefiting from established economies of scales. When interviewed, OnePlus said it "leases Oppo's manufacturing line and shares part of the supply chain resources with Oppo" (Byford, 2018). This is not fully surprising as OnePlus and Oppo have a deep relationship. Not only are both cofounders of OnePlus ex-employees of Oppo, but in addition, both firms appear to be owned by yet another Chinese company: BBK Electronics. BBK Electronics would in turn also own Vivo, another major mobile phone maker from China. BBK Electronics appears to be the world's third largest phone manufacturer although it remains largely under the radars (Triggs, 2017). All in all, it would explain how OnePlus was able to reach a low price without personally owning a large-scale manufacturing line.

The year 2018 marked a rupture with the use of the internet as a single sale channel for OnePlus. In fact, although OnePlus became the fourth biggest premium smartphone company in Europe in terms of market shares (see table 8), it did not appear to have the same level of success in North America until now. For the American market, the firm opted in 2018 to leave its netizen focused niche strategy in order to penetrate the mainstream market. This being said, although it is simple to connect with young technology enthusiasts through the internet, the majority of mobile phones in the U.S are sold through mobile carriers. OnePlus who, as we previously established, has competitive advantage ownership and an internalization advantage, never required physical presence abroad to sell its product. This remains true as OnePlus would still not benefit from opening physical stores in the U.S, as it was established that mobile carriers are the players that are able to reach a critical mass of customers. Nonetheless, this nuance drastically impacts the sale channel that has to be used by the company. The partnership with T-Mobile represented a necessary step for the company to reach the mainstream American market. Having said that, to achieve it, OnePlus had to drift away from its direct export model to adopt a hybrid model made of both direct through its website, and indirect exporting through its American partner. Overall, the opening of this new sale stream translated into tremendous success for the firm who's seen its sales skyrocket in America. When it comes to Canada and Europe however, the focus is still on the online channel.

Lastly, regarding the worldwide management strategy of OnePlus, the firm adopts the traits of a global management style. Indeed, although the company listens to its customer base and adapts strongly its product to meet their needs, this responsiveness is not based on geography. The global community is perceived as one wholesome entity, and there are therefore little to no local responsiveness. Moreover, the absence of sub-units or dedicated stores apart from the second headquarter recently opened in India gives the impression of absence of knowledge flow. However, this is not necessarily problematic as the community of the company has overall similar needs and can exchange with the company virtually.

6.2.2 Huawei's Way

In order to go from being a small local telecommunication firm in China to becoming a multinational conglomerate, Huawei followed internationalization theories extraordinary well. This is true for its motivations, location and entry mode choices as well as its worldwide strategy.

6.2.2.1 Huawei's Motivation, Location and Entry Mode Selection

Huawei's early internationalization can be separated into two distinct phases, both having different motivations. In the second half of the 1990s, Huawei was not yet a global leader and its telecommunication technology was definitely not up to par when compared to what western firms had developed. For this reason, if the company wanted growth through market-seeking opportunities, it had no choice but to enter emerging markets, which it did. Indeed, whereas Huawei's technology at the time was not enough to sustain a competitive advantage in western markets, its limited capabilities were competitive enough to qualify as ownership of competitive advantage in emerging markets. Moreover, the company had to keep its operations internalized and needed to be physically present in markets to install its telecommunication devices. This being said, Huawei at the time had no experience outside of the Chinese markets and thus would have faced strong liabilities of foreignness. Moreover, it would have potentially lacked key success factors if it entered by itself through wholly owned subsidiaries. All factors taken into consideration, Huawei opted at first for JVs in emerging markets such as Russia and Brazil (Guo et al., 2018). Having said that, to become a global leader, Huawei would need to catch up with European and American firms. Therefore, in 2001, the motivation changed from market seeking to resource seeking with Huawei focusing on R&D and acquisition of best practices through numerous strategic partnerships in Europe, North America, and Japan. This move allowed Huawei to develop expertise and to compete directly with global leaders within a short timeframe.

When the company entered the smartphone industry however, the situation was different. Indeed, smartphones representing, at the time, a new technology, Huawei did not require to go through such an important catching-up phase. It instead entered the blue ocean niche that was, at the time, the entry-level and medium-tier smartphone market in China, and developed its product internally from there. When it came to its mobile phone division, its motivation to go abroad was then always market-seeking. Regarding smartphones markets, Huawei decided to enter both North America and

Europe. Following the trend in the industry, it decided to sell its phones through carriers, rather than online or through dedicated stores. However, due to the American ban on its products, the firm now puts more focus on Europe where it sees its market share progress rapidly. In fact, when comparing the Q4 of 2018 with the Q4 of 2017, whereas the whole industry lost 2.3% in term of annual growth, Huawei grew by 55.7%, and now owns 23.6% of the market shares in Europe, slightly behind Samsung (28.7%) and Apple (26.0%) (Canalys, 2019).

6.2.2.1 Huawei's Management Style

Regarding the firm's worldwide management strategy, although the headquarters remain in China, national branches of Huawei exist around the globe. As stated by the company on its official website, there are currently 15 research institutes and centers as well as 36 joint innovation centers worldwide (Huawei, 2019). This global repartition of the value chain enables a knowledge flow between the headquarters and the national sub-units. Moreover, the managers of Huawei's national units being locals, Huawei was able to achieve high responsiveness to the market. Over time, the firm's worldwide strategy thus became that of a transnational firm. Since they offer better equilibrium between the reduction of LoF, focus on innovation and economies of scale, firms opting for a transnational management model is often deemed ideal by the literature and even "necessary for companies operating in today's international competitive environment" (Bartlett & Ghoshal, 1989).

6.2.3 Xiaomi, a Global Community

Xiaomi's activities in the West grew rapidly and consistently since its entrance in Spain, its first European market. Having said this, until now the company avoided entering North America and instead focused solely on the European market. This raises multiple questions. First of all, why did Xiaomi choose Europe instead of North America? Moreover, why the choice of Spain as a stepping stone to penetrate the European market? Furthermore, how did Xiaomi enter the European markets after Spain? Lastly, what worldwide management strategy does the firm use?

6.2.3.1 Xiaomi's Motivations and Location Choice

There seem to be three main reasons that pushed Xiaomi, at the time market-seeking, to choose the European market over the American one. First of all, when it finally opened its first European store in Spain, there was already a deterioration of the relations between China and the United-States, which led to uncertainty regarding a potential trade dispute between the two countries. From Xiaomi's perspective, it represented risks as the company did not know if its products would or wouldn't be affected by an eventual crisis or by eventual tariffs. This risk translated into costs hard to evaluate for the firm. Secondly, it is said to be very difficult for new players in the smartphone industry to obtain partnerships with American carriers such as Verizon, AT&T, Sprint and T-Mobile. In fact, in order to obtain such a partnership, phone manufacturers need to pass very strict and expensive tests, a difficulty that could be avoided by choosing the European market instead (Haselton, 2018). At last, Chinese technology firms were already under scrutiny at the time, and things got gradually worse to the point that a firm like Huawei became completely banned from being sold through American carriers for national security reasons. This situation is indicative of the sentiment against Chinese technology firms in the United-States at the time. A real skepticism was already in place, and Chinese firms were perceived as dangerous by numerous groups. Regarding this matter, Participant A explained that "Yes sometimes [Chinese firms' operations are] related to national security issues, but the majority of times, it [is not the case]" (Participant A, Personal Communication translated from French to English by the author, December 3, 2018). May it be unjustified prejudices or not, this trend ended up hurting Chinese firms public image in America (Participant B, Written Communication, February 22, 2018; Participant D, Personal Communication, April 1, 2019). This negative portrayal of Chinese firms was also a potential risk for Xiaomi who might have seen itself in a similar position as Huawei if it attempted to enter the

American market. These factors combined with the alternative that offered the European single market, the location choice of Xiaomi tilted towards Europe.

With this in mind, what motivated the company to enter Europe through Spain? The answer seems to reside in the mission of the firm to provide quality products made by fans for fans. Indeed, Mr. Wang Xiang, Senior Vice President of Xiaomi pointed towards the "years of unwavering support from our Mi Fans in the Spanish market" (Xiaomi Team, 2017). This resonates with the strategy of Xiaomi from its early beginning. The firm started with the creation of a community and brought products afterward. Therefore, the choice of Spain as the first market seems to be explained by a preexisting concentration of Xiaomi fans.

6.2.3.2 Xiaomi’s Entry Mode and Management Style

Regarding how Xiaomi entered, we observe an interesting use of omnichannel strategy. The firm definitely had an ownership advantage coming from its community, low cost, and innovation. Location wise, Xiaomi had reasons to be present in order to create awareness of its brand and to interact with local communities. However, internalization was not fully necessary as logistics could be ensured by others, and sales could be done by carriers or other points of sale like hypermarkets. For these reasons, Xiaomi delegated its distribution to AliExpress, the global branch of the Alibaba group, and to another firm called Ingram Micro. Moreover, points of sale were made available online and offline through partnerships with Amazon, Carrefour, MediaMarkt, Phone House, Xiaomi’s website, official stores launched by AliExpress, and physical Xiaomi Mi stores. The omnichannel strategy would in term be duplicated across Europe. Overall, the strategy turned out highly successful as the company grew by 62% in Europe from the year 2017 to 2018. The firm now owns 6% of the European smartphone market share (Canalys, 2019).

Regarding its worldwide management strategy, Xiaomi appears to be embracing the global management model. One of the company’s core mission is to provide value for money which is linked to its value chain optimization that allows for efficient production. Moreover, although the Xiaomi community is subdivided into national communities and services that are developed according to local needs, and even though there are sale points in Europe, there are no apparent research center, office or local headquarter anywhere in the West. Core operations would thus be regrouped in China following a global management model.

6.3 Cross-Case Comparison

Although OnePlus, Huawei and Xiaomi are all from Chinese origin and compete within the same industry, they all met a variable number of obstacles in their run for global expansion, and all achieved different levels of success in the West. The following sub-section will compare and contrast the strategy employed by each company and draw on the primary data gathered through interviews to help figure out how Chinese firms are impacted by their nationality, and what internationalization strategy they can employ to successfully develop in the West.

As explained by participant D, there are two types of liabilities that affect the expansion of Chinese firms in the West (Participant D, Personal Communication, April 1, 2019). First, there is the LoF, an obstacle that is not unique to Chinese firms. American firms entering foreign markets are also impacted by the differences in culture, administration, economy and by the geographical distance as expressed in Ghemawat (2001). In fact, it is a reality for any firm doing international business, regardless of its country of origin. Additionally, Chinese firms are also affected by what we could call a "liability of nationality", an inherent disadvantage due to the association to their country of origin. In other words, the simple fact that they come from China is enough for them to be discriminated. This liability of nationality felt by Chinese firms is covered, although not named, by Fang & Chimenson (2017). According to the data gathered from the interviews, multiple reasons are said to be causing this disadvantage. Biased media coverages in the West that "do not look for anything else [but negative events to cover]" (Participant A, Personal Communication translated from French to English by the author, December 3, 2018) is thought to play a big role in how China is perceived by the public opinion in the West. Moreover, it is believed that there is a disconnect between the way media, governments and individuals in the West portray China and its reality. The perception held by the majority of western people remained unchanged in the last ten to fifteen years, although China has evolved rapidly and changed drastically during this period of time (Participant B, Written Communication, February 22, 2018; Participant D, Personal Communication, April 1, 2019). Some legal factors are also partially causing the liability of nationality felt by Chinese firms. For instance, the National Intelligence Law adopted in 2017 by the Chinese Communist Party legally forces every Chinese firm to cooperate with the government if mandated to. Such legislation is perceived as a potential threat since the Chinese Communist Party could use it to request to Chinese MNCs vast amount of private data on foreign individuals. In such a case, firms would have no choice but to comply (Participant E, Personal Communication translated from French to English by the author, April 12, 2019). This liability of nationality is even more serious with firms that have opaque operations and/or opaque ownership as it becomes even harder to know if the company is supported or even partially owned by the government. This opacity is seen as suspicious as it could enable firms backed by the government to attain political goals rather than business goals. In this context, the strategies employed by OnePlus, Huawei and Xiaomi to overcome their LoF and their Liability of nationality are different and offer a range of effectiveness.

As established in the case study, OnePlus largely avoided LoF thanks to four determinants. First, there is the global mindset of both the top management and the global department which are filled with employees that are proficient in English and in the use of western social media. Secondly, the focus on a niche of consumers that share a similar sub-culture no matter their country of origin had a big repercussion on the LoF felt by the company. Thirdly, the creation of an online community that creates virtual proximity although the existence of an important geographic distance between its members was also beneficial. At last, OnePlus decided on a price point accessible for the middle class in every market it targeted. For these reasons, and at least for now, OnePlus did not require the adoption of a transnational management model, or the creation of partnerships to be successful in the West, with the exception of the American market.

The situation was, in some ways, similar for Xiaomi who also leveraged its close relationship with its community of Android enthusiasts to buffer its LoF. Moreover, Xiaomi also puts importance on the affordability of its products. Having said that, Xiaomi did not enjoy of the same market knowledge that comes from the global mindset of OnePlus' core team, and aimed to enter the mainstream market rather than focus on a niche strategy for Europe. Therefore, partnerships with local hypermarkets and other points of sale were privileged over direct online sales. These partnerships are said to be ideal to buffer one's LoF because products get associated to local brands that are already trusted by the consumers (Participant B, Written Communication, February 22, 2018; Participant C, Personal Communication, March 2, 2019). At last, Xiaomi is avoiding the North American market for the time being.

The reality was however different for Huawei who lacked market knowledge and who never built a strong community with consumers. Huawei's strategy was to hire influential locals to manage national branches of the firms and to develop strong market responsiveness through a transnational management approach. This is a good way for firms to quickly access knowledge on the market and avoid falling in traps of misunderstanding cultural and institutional differences (Participant C, Personal Communication, March 2, 2019). Moreover, online direct sales are avoided by Huawei and the focus is instead on the mainstream market through partnerships with major local carriers. The strategy of Huawei was to offer great products at an affordable price. As the company was the first to offer such an option, and since large segments of the mainstream market of mobile phones is relatively price driven rather than differentiation driven, the strategy turned out quite successful in the European market.

Although all three strategies seemingly worked to buffer the LoF, the situation is different when it comes to the liability of nationality encountered by the three Chinese firms. Whereas OnePlus' success in both the North American market and European market demonstrates the ability of the firm to overcome its liabilities, Huawei's precarious situation in the United-States and Xiaomi's avoidance of America is indicative of the challenges emanating from the liability of nationality of Chinese firms. Therefore, it raises the questions as to what are the factors allowing to attenuate the liability of nationality, and what are the factors that can make the situation worse for the companies.

First, since China is not a political ally of the West, and in fact is a strategic competitor to the United-States, some industries will undoubtedly be regarded as sensitive topics, and thus present barriers to entry for Chinese firms. Therefore, if a Chinese company stays focused on a single industry that is not under the scrutiny of the West, it plays in its advantage. OnePlus and Xiaomi both remained focused in the consumer electronics industry which undoubtedly helped them to grow more freely in Europe and America. On the other hand, Huawei is a conglomerate that touches multiple industries including telecommunications, an industry considered tightly linked to natural security questions. As seen in the literature review, conglomerates benefit from a lot of advantages in emerging markets (Khanna & Palepu, 2014). Their size allows them to navigate more efficiently through the friction costs created by institutional voids. Since Huawei in its early days solely focused on the Chinese market, and considering the institutional context of China in the late 20th century, the conglomerate structure had its set of advantages for Huawei, when it was only serving the Chinese market. This being said, it definitely does not play in the firm's favor when competing in developed economies.

Secondly comes the matter of ownership transparency. As previously mentioned, it remains unclear as to who really owns Huawei. The founder himself raises suspicion in the West due to his military background. Moreover, the opacity of the structure makes it unclear if the government does or does not have control over the firm. This is strongly denied by Huawei who instead claims it is owned at 99% by the employees and at 1% by the founder. The real issue here is that over the years Huawei has adopted an "absence of proof” narrative, denying its criticism without providing enough transparency to be undoubtedly cleared from all accusation. What western critics are instead asking from Huawei is a “proof of absence” (Participant E, Personal Communication translated from French to English by the author, April 12, 2019). Regarding Xiaomi’s situation, it is much more favorable since the company’s initial public offering at the Hong Kong stock exchange. Now that the company is public, there is a lot of transparency on the shareholder structure of the company, and the quarterly provided financial reports make it legitimate in the eyes of western governments. At last, OnePlus remains a true question-mark. Whereas some sources state that the company is owned by BBK Electronics, it was never directly acknowledged nor fully denied by OnePlus. When asked, the company’s representatives avoided the question and instead simply answered that the company works independently from Oppo. (Byford, 2018). Even though it did not impact negatively the firm until now, this opacity of ownership could eventually turn against the company.

Table 9. Summary of Employed Strategies

	OnePlus	Xiaomi	Huawei
Strategies employed to cope with the liability of foreignness	- Global mindset - Niche strategy - Online community - Affordability	- Online community - Affordability - Strategic partnerships	- Hiring of local employees - Transnational management model - Strategic partnerships
Result	Success	Success	Success
Strategies employed regarding the liability of nationality	- No link with sensitive industries - Focused firm **- Ownership opacity**	- No link with sensitive industries - Focused firm - Ownership transparency	**- Competes in multiple industries including a sensitive industry** **- Conglomerate** **- Ownership opacity** **- Presence of ex-military**
Result	Success	Success	Experiencing serious difficulties

Currently, each of the three companies studied is facing different challenges. OnePlus is currently penetrating the American mainstream market through its partnership with T-Mobile. Therefore, the company will have to find a balance between the interests of its core community that allowed it to grow to the point it is now, and the interest of mainstream customers. Moreover, OnePlus' ownership opacity could generate challenges in the future and hurt the brand image. Regarding Xiaomi, the current challenge resides in earning market shares on the European market. Although difficult in itself, Xiaomi should no longer be affected by a liability of nationality in Europe. This being said, Xiaomi's incoming challenge will be to eventually enter the American market. May it be through direct sales online to members of its global community or through partnerships with carriers is however yet to be determined. Lastly, Huawei's challenge is to restore trust, something that might require the firm to change strategy for the American market. This being said, whereas the firm experiences important resistance in the United-States, the public opinion is not as negative in the European market.

Overall, although Chinese firms are facing challenges due to their nationality, they have the capacity to adapt and to overcome their challenges (Participant A, Personal Communication translated from French to English by the author, December 3, 2018). This is already something observable with the cases studied. OnePlus and Xiaomi are much younger companies than Huawei and entered the western markets later than the conglomerate. This could be a reason why their strategy is better at coping with the liabilities specific to their origin.

7. Results, Limitations, Future Research and Contribution

The following section will present the results of the study, provide information regarding the limitation encountered throughout the research process, discuss what could be furthered researched in the future, and express what contribution this thesis brings to the literature.

7.1 Results

The current research illustrates the notion of "liability of nationality", the inherent disadvantage firms have due to their nationality. Throughout this research, this concept is said to impede the global expansion of Chinese firms in the West. This notion goes further than the concept of liability of foreignness as it presents, in the case of China, how prejudice, media portrayal of the country, and macro-geopolitical power games affect firms abroad.

Moreover, this study establishes that the liability related to the Chinese nationality hurts companies by associating with them a stigma of untrustworthiness, thus forcing them to take additional steps and/or to be extra cautious if they want to be perceived as credible in the West. Also, activities in sensitive industries, lack of transparency, presence of ex-military personal at the top of the organization, and choice of a conglomerate business structure are all factors that play against Chinese firms in the West. This finding goes hand in hand with Cuervo-Cazurra (2018). Indeed, the author found that FDIs made by emerging market SOEs are often perceived as suspicious by Western governments and tend to be blocked or at least subject to scrutiny. However, he added that "many of the economic claims that politicians make in the name of national security or protection of strategic assets seem instead to be driven by psychological conceptualizations, and by interest groups" (Cuervo-Cazurra, 2018). This finding supports the existence of a liability of nationality

On the other hand, when it comes to simple LoF of Chinese firms, this study demonstrates that the creation and development of a global community can be an alternative to the adoption of a transnational management model and ease expansion in the West, at least when it comes to the consumer electronics industry. Moreover, although transparency is an important asset for Chinese firms to lower their liability of nationality, it is not necessarily a requirement for success as we can see from the example of OnePlus. At last, through the success of OnePlus, we can see that physical presence is not necessarily required to achieve proximity with consumers in our day and age.

On another note, the western market appears to be heterogeneous from a Chinese firm perspective. There are important differences in the way Chinese firms are treated in America and Europe. In fact, whereas some firms like Huawei can find themselves in disastrous situations in the American market, they can be very successful in Europe. The liability of nationality is therefore not merely a representation of institutional distances or political alliances but also takes in consideration macro politico-economic factors such as the status of strategic competitor a certain country would have with China.

7.2 Limitations

Regarding the limitations faced throughout this study, two elements seem particularly important to mention. First, there are the ongoing socio-political tensions between China and Canada that may have influenced the capacity or will of Chinese firms and Chinese nationals to participate in the interviews. Secondly, the case studies being assembled from secondary data may have had an impact on the quality of the cases.

As mentioned above, the current political context between Canada and China is believed to have influenced the availability of participants. Indeed, following the arrest of Meng Wanzhou, CFO of Huawei, in Vancouver on December 1st 2018, tensions appeared between the two countries. This potentially reduced chances of finding Chinese firms willing to participate in the study. A pool of participant with more people part of the "group 1" mentioned in the methodology section would have allowed for a deeper understanding of the situation Chinese firms face when expanding to western markets.

Additionally, the use of secondary data to assemble case studies was not optimal. Cases would have been more complete if assembled through primary data using observation and interviews with the upper management of OnePlus, Huawei and Xiaomi. Indeed, relying on secondary data is not ideal as some information is not available outside of the companies, or may have been presented in a given way to fit a certain narrative in secondary sources.

7.3 Future research

Although this study fills a gap in the literature, it also creates various questions that would be interesting to further research. First, it would be interesting to see if the liability of nationality that impedes the development of Chinese firms can be generalized to all OFDIs of EMNCs coming from emerging markets other than China. Indeed, although all emerging markets share similitudes regarding their distinctive internationalization process, China offers enough differentiation to question such a generalization (Hillemann & Ramamamurti, 2018). Moreover, since this study covers only cases from high-technology industries, it would also be interesting to see if other industries are affected as well, and to what extent.

Another topic that would require additional research is that of worldwide management models. In spite of being presented in Bartlett & Ghoshal (1989) as the ideal model to cope with our internationalized economy, the transnational model seems to add unnecessary levels of complexity in some situations. Indeed, based on the cases studied, Huawei's transnational model, although significantly more complex, doesn't seem to provide additional benefits when compared to OnePlus' or Xiaomi's reliance on virtual communities to share information and respond to local needs.

Moreover, it would be interesting to see if the liability of nationality felt by Chinese firms is also perceived when they internationalize to emerging markets. This would allow to determine whether the concept is linked to the presence of strong institutions in developed markets, or if it relates to other factors.

At last, further research could be done on the environmental differences between the American market and the European market relative to the liability of nationality perceived by Chinese firms.

7.4 Contribution

Past literature on the topic of liability of foreignness establishes the presence of "additional" or "unavoidable" costs that are borne by foreign firms, but not by local companies. Such costs come from distances that exist between firms' home market and the foreign market they are expanding to (Hymer, 1976; Ghemawat, 2001; Zaheer, 1995). This being said, the current study establishes that, regarding Chinese firms, there are other costs that they have to face when entering developed markets. These costs are required to overcome Chinese firm's inherent untrustworthiness. This disadvantage was given the name of "liability of nationality". By looking into the issues faced by Chinese firms, the current research adopts the perspective of EMNCs expanding to developed markets, a view that is vastly underrepresented in the literature. Indeed, since the creation of the international business field, past literature had put emphasis on the study of western MNCs expanding to emerging markets as the opposite represented a highly uncommon phenomenon until now.

Additionally, the current research addresses a new strategy that can be used in some cases to bypass one's liability of foreignness. Following the example of OnePlus, it was established that in some industries, or at least in some niches, it is possible to avoid

CAGE distances. In a way, the story of OnePlus proves that the costs associated with LoF are not as “unavoidable” as they might have been described in the past literature. Indeed, the internet can be used to create a virtual community that involves customers, and that generates a feeling of belongingness among individuals living sporadically worldwide but who are sharing a same sub-culture. In the case of OnePlus, such strategy proved to be a highly successful way to bypass its LoF. This being said, the strategy has its limit in the sense that, at least when it comes to OnePlus, it was restricted to the niche of Android enthusiasts. For this reason, the entry in the American mainstream market had to follow a different strategy.

Overall, the general lesson that can be drawn for Chinese firms, and potentially for any EMNCs that would face a liability of nationality, is that links with sensitive industries will increase the risk of scrutiny. In addition, if a particular firm is active within multiple industries, and at least one of these industries is sensitive, scrutiny can be spread to all branches of the business. This being said, once it is under scrutiny, opacity of operations and ownership will most likely aggravate the pressures against it. In contrast, being publicly traded or at least offering some level of transparency on the firm’s ownership will benefit firms experiencing a liability of nationality.

8. Conclusion

Chinese firms' internationalization process is impacted by their nationality in many ways. Over the years, their origin became associated with untrustworthiness due to several factors. Primary data acquired through interviews suggests that the bias of media coverage in the West, the disconnect between the western perspective on China and Chinese reality, as well as the legal factors giving the Chinese Communist Party some power over companies are all reasons for the negative public opinion in the West.

Faced with this reality, firms from China have different ways to overcome the inherent disadvantage of being Chinese in the West. Enforcing transparency, avoiding the presence of individuals with ties to the army or to the government at the top management, and avoiding activities in sensitive industries are all strategies that will benefit to Chinese firms regarding their operations in western markets.

All in all, it is hard to tell whether or not a wind of change regarding the western perspective on China is to come, but the current trade dispute between the United-States and the conflicts surrounding the race to the 5G network are not providing signs of improvement for the short term. Only the future will tell if the liability of nationality of Chinese firms is meant to disappear. Until then, efforts in adaptation are required for Chinese firms to succeed in the West.

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10. Annexes

Annex 1: Interview Guide

<u>Questions for experts</u>

1) Please introduce yourself and your role within the organization.

2) Could you tell me more about the types of services your firm offers to support Chinese firms abroad?

3) Generally speaking, what are some liabilities of foreignness faced by Chinese firms? *

Probe question: From what you know, how do they usually overcome it?

4) Is there a dominant type of mode of entry used by Chinese firms? **

Probe question: What could explain it?

Probe question: Do you believe it is the optimal entry mode choice?

5) What is your view on the way western media portray China?

Probe question: Does it affect the way Chinese firms lead internationalization operations?

6) There are few examples of foreign governments blocking Chinese acquisition of local firms. In your opinion, does such governmental barriers impact the choice of strategy used in internationalization process of Chinese firms?

(In case the interviewee is not familiar with the terms)

***** Liability of foreignness refers to the inherent disadvantage of being foreign.

****** Entry mode refers to the business model used when entering a new market. It can consist of non-equity modes such as exports or licensing deals, or equity modes such as Mergers & Acquisitions or Joint-Ventures.

Questions for managers of Chinese firms with activities in the West

1) Please introduce yourself and your role within the organization.

2) Could you briefly tell me the story of your firm from its beginning to its current situation?

3) In which western market(s) does your firm currently lead activities?

Probe question: Which of these markets was the hardest to expand to? Why?

4) Were there barriers to entry that slowed down your internationalization process?

Probe question: Were these barriers expected before entering that market?

5) Could you tell me more about the mode of entry you chose for your foreign activities (JV, M&A, Licensing, exports...)?

6) Why did your company choose this mode of entry?

Probe question: Looking back at your choice, do you feel like it was the right decision? Why?

7) What is your view on the way western media portray China?

Probe question: Did it affect the way your company internationalized?

Annex 2: Nvivo coding

Node	Sources	References	Description
Discrimination	4	8	Relative to the liability of nationality. Disadvantage that Chinese firms have, but that other foreign companies coming from different countries can avoid.
Entry Mode	4	10	Selection of which entry model to use when opting for an FDI.
Liability of Foreignness	4	9	Inherent disadvantage of being foreign. Sources of such disadvantage are cultural, administrative, geographic or economic.
Media Portrayal	4	6	Positive or negative portrayal of China by mainstream media and its impact on public opinion.
Political Tensions	3	4	Tensions that exist between Western governments and the Chinese Communist Party.
Strategy	3	9	Strategies used to bypass both discrimination and liability of foreignness.
Transparency	2	2	Level of transparency of Chinese corporate structures.