ABSTRACT

The literature on Chinese firms suggests that a major objective of internationalization is to compensate for latecomer disadvantages. Thus, asset exploration rather than asset exploitation is the dominant motive for moving abroad. In doing so, companies need to engage constantly in innovation, or, more generally, value-creation trajectories to develop cutting-edge technology and enhance their product portfolio. In this article, I introduce a model with research propositions on how firms engage in internationalization-innovation trajectories. An ambidexterity perspective is suggested to balance these strategies. Insights from 30 companies’ annual reports over five years are presented. Results confirm that Chinese firms follow ambidextrous strategies and complement internal process-oriented with external product-focused innovation.

- **Purpose:** Identify Chinese firms’ internationalization-innovation trajectories
- **Design/methodology/approach:** Conceptual model, illustration with data from 30 firms’ annual reports
- **Findings:** Firms follow ambidextrous strategies and combine different types of innovation
- **Research limitation/implication:** Longitudinal studies recommended
- **Practical implications:** Managers should carefully consider balancing their internationalization strategies
- **Keywords:** Chinese firms’ internationalization, innovation, ambidexterity, annual reports

1. INTRODUCTION

In the last few years, we have seen a significant increase in Chinese firms’ international activities. This is expressed in firms’ increasing export volume but also outward foreign direct investment (OFDI) of around $278.9 billion in 2010 (UNCTAD, 2010). For instance, companies like Hisense or Weiqiao Textiles have managed to obtain around 30 percent of their revenues from outside China during the last five years. Other companies, like utility provider CNOOC or ZTE telecommunications, managed 40-50% of foreign assets as compared to their total assets (FATA) in 2011. Despite these increases in foreign market activities, Chinese firms are facing several challenges in their internationalization trajectories. From a
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Political angle, policymakers in Beijing, looking to strengthen China’s economy, are no longer satisfied with the country’s position as the world’s manufacturer and exporter of cheap products. They want to break China’s dependence on foreign technology, moving from a model of ‘made in China’ to one of ‘innovated in China.’ Consequently, the Chinese government has declared *zizhu chuangxin* (‘homegrown innovation’) as the watchword for the future and tries to reduce dependence on foreign technology by building China into an ‘innovation-driven’ economy. But obstacles to China’s ambition for innovation are not trivial. Many Chinese institutions, though improving, still fail to provide an environment conducive for innovation, including a competitive and open system for R&D funding. Until today, China depends on foreign technology and foreign firms. Since the beginning of the 21st century foreign-invested companies have been responsible for 85 percent of the overall tech-exports (Bichler & Schmidkonz, 2012) while the image of local Chinese companies has been preserved as one of low-cost actors. In an attempt to become key players in the international market, many Chinese firms are facing the question of how to jump from this low-cost position to one of a global provider of sophisticated technology and innovation. Due to the short history of industrialization, the Chinese government lacks experience in implementing science and technology strategies aiming at high-quality products, which results in the need for international benchmarks and learning from foreign companies to overcome this bottleneck (Bichler & Schmidkonz, 2012). Indeed, for Chinese companies, learning from international competitors and innovating, both at home and abroad, has become a priority.

Very little is known about how Chinese firms use their internationalization strategies to foster innovation and thereby augment competitiveness, both at home and abroad. Thus, this paper explores the following set of research questions. First, do Chinese firms follow different internationalization strategies? Second, do these internationalization strategies aim at developing different types of innovation? Third, can an ambidexterity perspective meaningfully contribute to or extend current theorizing on firms’ internationalization processes? In suggesting a link between internationalization and innovation, the paper uses existing theory and discusses potential extensions in light of the reality of Chinese firms’ activities. Empirical illustration is based on data collected over a period of five years (2007-2011). Results show the existence of ambidextrous internationalization strategies related to innovation.

**2. Trajectories of Internationalization**

A considerable amount of research has been conducted to explain the internationalization patterns of firms. However, most of the previous research focuses on explaining the internationalization behavior of Western MNCs. With the arrival of “new” multinationals from emerging market countries, several of these theories have been subject to revision (Gaur & Kumar, 2009; Li, 2007; Luo & Tung, 2007; Guillén & García-Canal, 2009).
2.1. Inside-Out, Outside-in, and Ambidextrous Internationalization

Recently, the extant theories, like Dunning’s OLI paradigm and the Uppsala incremental process theory, have been questioned regarding their relevance to explaining the behavior of MNC newcomers from emerging countries (e.g. Luo & Tung, 2007). For instance, Dunning’s (1981, 1988) eclectic paradigm states that firms enter foreign markets to exploit their existing competitive advantages. According to his OLI theory, firms accumulate experiences and extend their foreign operations to reduce their transaction costs and exchange risks and to exploit ex ante advantages via internalization. Based on ownership advantages, location-advantages, and internalization advantages, firms are presumed to sequentially expand into foreign markets. This sequential order of foreign expansion is what the OLI paradigm has in common with the Uppsala internationalization process theory (Johanson & Vahlne, 1977).

But reality paints a different picture of how EMFs internationalize (Gaur & Kumar, 2010). As Bartlett and Ghoshal (2000) argue, companies from developing countries internationalize in order to seize opportunities abroad even if they do not necessarily have unique ownership advantages based on superior technology or competitive products. Instead, their operating experiences in volatile environments give them advantages in coping with institutional voids (Luo & Tung, 2007) and accelerate rapidly in other less developed countries (Deng, 2004). Due to their contextual contingencies and their focus on low-cost competition in internationalization patterns, location advantages may also be more difficult to realize. In terms of investment, relational modes of collaboration rather than full contractual engagements provide more flexibility and seem more appropriate for EMFs’ learning objectives (Peng & Wang, 2000).

Other researchers have suggested the development of new theoretical approaches like the “linkage–leverage–learning model” (Mathews, 2006), which purports that firms achieve competitive advantages via engaging in external collaboration with foreign partners. In contrast to the previous group of theories, this model emphasizes that linking to foreign partners and building corporate capabilities by exploring external assets may greatly improve a firm’s market position at home. The LLL model is also close to the theories in the field of international entrepreneurship (Jones & Coviello, 2005), which study the internationalization process of born global firms, i.e. firms that seek superior international business performance by entering foreign markets at an accelerated speed, bypassing the domestic market (Knight & Cavusgil, 2004; Oviatt & McDougall, 1994). Here, internationalization success is predicated on the ability to treat global competition as an opportunity to move into more profitable industry segments and adopt strategies that turn EMFs’ latecomer status into a source of competitive advantage.

While the previous approaches implicitly incorporate a link between inside and outside internationalization (Welch & Luostarinen, 1992), this link is more explicitly researched in other studies. For instance, Luo and Tung (2007) suggest a dual pathway model when they argue that outside internationalization is used as a “springboard” to acquire the strategic assets needed to compete more effectively against global rivals and to avoid the institutional and market constraints that EMFs face at home. Overcoming latecomer disadvantages on the global stage via a series of
aggressive, risk-taking measures by proactively acquiring or buying critical assets from mature MNCs is intended to compensate for their competitive weakness. Further, a springboard perspective links firms’ international expansion with their home base in that firms simultaneously utilize their core competencies at home and explore new opportunities abroad in an integrated fashion. This often implies reorganization of the home supply or production bases to meet the international demand or engaging in the rebranding of homemade products, e.g. TCL sells its products today under the brand label of Panasonic. Thus, accelerated foreign expansion is driven by quick changes in product and technological development, institutional constraints, and a strong presence of global rivals in EMFs’ backyard. A springboard approach is also encouraged by local governments to counter-attack global rivals in their home countries and to facilitate asset and opportunity seeking abroad.

<table>
<thead>
<tr>
<th>Theoretical Perspective</th>
<th>Author(s)/Year</th>
<th>Outside-In, Inside-Out, Dual Focus</th>
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<tbody>
<tr>
<td>OLI Paradigm</td>
<td>Dunning (2006), Li (2007)</td>
<td>Inside-out oriented asset exploitation. Modified OLI paradigm with inward investment and more collaborative linkages</td>
</tr>
<tr>
<td>Incremental Process Theory</td>
<td>Johanson and Vahlne (1977)</td>
<td>Inside-out orientation built on substantial home advantage as an antecedent to internationalization, sequential market entry</td>
</tr>
<tr>
<td>Linkage, Leverage, Learning Model</td>
<td>Mathews (2006)</td>
<td>Outside-in orientation with latecomer firms using overseas investments and global linkages to leverage their existing cost advantages and learn about new sources of competitive advantage</td>
</tr>
<tr>
<td>International Entrepreneurship</td>
<td>Oviatt and McDougall (1994)</td>
<td>Outside-in orientation with the world as a target market and internationalization right after foundation</td>
</tr>
<tr>
<td>Springboard Perspective</td>
<td>Luo and Tung (2007)</td>
<td>Dual pathway orientation with expansion as a compensatory response to a late-mover position on the global scale and home-based reorganization</td>
</tr>
<tr>
<td>Ambidexterity Perspective</td>
<td>Guillén and Garcia-Canal (2009), Luo and Rui (2009), Keen &amp; Wu (2011)</td>
<td>Dual pathway of outside-in capability building and inside-out asset exploiting</td>
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Table 1. Theoretical Perspectives to Explain EMFs’ Internationalization Processes

More recent studies have adopted an ambidexterity perspective (Luo & Rui, 2009). Building on Duncan’s (1976) definition of ambidexterity as the necessity “to be aligned and efficient in the management of today’s business demands while simultaneously adaptive to changes in the environment,” several international business scholars use the concept to reconcile seemingly conflicting internationalization strategies, such as exploration and exploitation (Han & Celly, 2008; Hsu, Lien, & Chen, 2013). Most authors acknowledge two different views of
ambidexterity and agree that exploration and exploitation can be considered either as the two ends of a continuum, with both types of activity competing for scarce resources (March, 1991), or as independent activities that are orthogonal to each other (Gupta et al., 2006). The consequence of the latter conceptualization is that high levels are achievable for both activities.

So far, studies in management and international business have used both variants interchangeably (e.g., Boumgarden et al., 2012; Prange & Verdier, 2011). For instance, Barkema and Drogeendijk (2007) establish that firms can carry out both exploitation and exploration at the same time, i.e., entering culturally close and distant markets simultaneously. In the emerging market context, Luo and Rui (2009) argue that EMFs follow a multi-dimensional strategy of ambidexterity whereby they reconcile, among others, competencies acquired in their local markets with relational capabilities in maintaining and exploiting collaboration with foreign partners. These relationships may, in turn, reduce the transaction costs, thus enabling EMFs to generate new resources. In sum, the ambidexterity perspective can fruitfully complement both the OLI and the LLL paradigm as it explains how advantages can be generated, i.e., through combining internal and external perspectives in a balanced pathway. In the following, we adopt this balanced view and argue that ‘inside-out’ and ‘outside-in’ internationalization are two complementary activities that can and should be jointly pursued. Table 1 depicts the different approaches used to explain EMFs’ internationalization processes.

2.2. Internationalization Trajectories and Innovation

Several of the previously mentioned theories implicitly incorporate a notion of capability development, value creation, or innovation into their argument. For instance, the OLI paradigm regards technological innovation as an ownership advantage that drives internationalization (Dunning, 1988). Also, international process theorists implicitly refer to innovation, when they emphasize the acquisition of experiential knowledge leading to firm performance (Björkman, 1996; Huber, 1991). More prominently, innovation is considered a vital part of the LLL model (Mathews, 2002, 2006) and innovation-export models. In the LLL model, the peculiarities of firms striving for higher-value-adding activities are taken into account by the way EMFs use and leverage several kinds of linkages with incumbents to establish a presence in already very competitive foreign markets. This requires them to deploy their low-cost advantages rapidly while acquiring the missing technological, process, and marketing knowledge to develop more disruptive or high-end innovations that have to potential to change existing market segments (Bonaglia et al., 2007). Increasing innovation eventually enables them to make the transition to becoming serious competitors on a regional or even a global scale (Bonaglia et al., 2007). The focus on innovation is also part of the innovation-based export theories (Bilkey and Tesar, 1977; Cavusgil, 1980; Reid, 1981). At the firm level, Teece (1996) argues that innovating firms have incentives to expand into foreign markets; hence, they can earn higher returns from their investments. A number of other studies support a positive and significant impact of mainly product innovation on export performance. Essentially, they argue that innovation helps in overcoming the barriers to internationalization (Harris & Li, 2006), that innovation favors exports in the search for greater demand for these products of potentially superior quality (Hitt et al., 1997),
or that investments in innovation enable a firm to achieve a greater ability to meet the demands of its changing domestic and international markets, thus making exporting more profitable (Zahra & Covin, 1994).

While these studies acknowledge the link between internationalization and innovation, their interaction remains vague, i.e., it remains unclear whether innovation drives internationalization or internationalization drives innovation? A first group of authors argues that for some high-tech industries, for instance, innovative products have only a few domestic clients and thus require internationalization (Saarenketo, 2004). However, for Chinese firms, which suffer from latecomer advantages and a lack of sophisticated technological know-how, this is only rarely the case. But previous studies have also found support for process innovation to spur internationalization (Klepper, 1996). With respect to process innovation, Chinese firms have long used home-based process innovations and associated cost-advantages to drive their international export strategy (Bichler & Schmidkonz, 2012). However, with regards to current changes in the political and economic environment, such as, increasing labor costs and the government’s focus on technological innovation, this strategy may be reaching its limits.

An second group of authors argues that it is internationalization that drives the creation of knowledge and innovation, necessary to compete globally (Lehrer & Asakawa, 2002; Chen et al., 2012). Tapping into diverse sources of foreign knowledge, where a firm is exposed to highly innovative and changing environments is the best opportunity for learning. By monitoring technological opportunities and developments abroad, Chinese firms augment their overall technological competence as well as their management and marketing capabilities (Hitt et al., 1997; Chen et al., 2012). For instance, Kafouros, Buckley, and Sharp (2008) claim that a higher degree of internationalization promotes a firm’s ability to enhance its capacity to improve performance through innovation. The argument is related to the nature of technological and managerial knowledge that is often more tacit and sticky, thus difficult for a firm to transfer on the market. Instead, increasing knowledge-related transaction costs result in more hierarchical governance options, such as asset acquisition or subsidiary evolution with direct local commitment. While inside-out internationalization through exporting does not involve direct presence and thus the opportunity for accumulating tacit knowledge, this is often the case with outside-in internationalization

In this article, I take the view that internationalization drives innovation and that Chinese firms choose internationalization strategies for this purpose. I further propose that ‘inside-out’ and ‘outside-in’ internationalization support the development of different types of innovation, with the former focusing on process innovations and the latter on product innovation. In line with the ambidexterity argument, Chinese firms have to contend with both low-cost competition as well as with established global players in the market, and need to engage in a dual capability and innovation development process (Onkvisit & Shaw, 2001; Luo & Rui, 2009; Ray et al., 2007). With a focus on a single strategy, they may be able to internationalize but loose competitive ground when facing increasing price wars or sophisticated technological competition. I address this challenge by suggesting a conceptual framework and propositions in the next section.
3. Conceptual Model and Research Propositions

3.1. Model Development and Exploratory Research

In order to develop a model, I built on the previous review of the literature and conducted an exploratory study of Chinese firms’ internationalization strategies. The sample frame for this study consists of the 46 Chinese Fortune 500 firms in 2010, the list of the 50 most valuable brands in China in 2010, and the list of China’s top 100 companies according to the S&P rating of 2010. As the first list mainly contains construction, infrastructure building, and financial services firms and the second includes several non-listed firms, I also referred to the list of China’s top 100 companies of 2010 to increase our potential sample. I reduced the combined lists by checking for double entrants, non-listed firms, and non-available reports. I further excluded banks and state-owned companies with mere resource acquisition objectives, which do not compete in global markets or perform tasks to benefit corporate gains. Following these considerations, 67 reports were obtained from the Internet (I used 2010 as a base year) and I analyzed the degree of internationalization. Many authors have developed indices of internationalization and most distinguish between two conceptualizations. One is built on the dichotomy between foreign versus home activities, and the other one focuses on the extent to which those activities are geographically spread among many countries (Ietto-Gillies, 1998). In this article, I refer to the first conceptualization and assess the degree of internationalization by the amount of foreign sales to total sales (FSTS), foreign assets to total assets (FATA), independently of whether those foreign activities take place in one single country or in many of them.

According to this classification, 27 companies were ‘substantially home-based’ or had ‘no relevant international sales’ and I excluded them from further analysis. Further, ten companies did not report geographic information, or did so for only one or two years and were also deleted. In sum, I was able to obtain information for at least three years for 30 companies, though reports often only gave figures for FSTS, but not for FATA. I used quantitative figures as a first indicator to identify internationalization trajectories. In addition to quantitative data, I used qualitative indicators for further classification, i.e., the ‘direction of resource allocation’ (internal/external), geographic focus (home market penetration/external expansion), and capability leverage (own development and reinforcement/foreign acquisition). Table 2 presents the relevant cut-off criteria.

In terms of performance consequences, the linkage between internationalization and firm performance has been extensively studied in the international business literature, though with different results, i.e. positive linear relations (Delios & Beamish, 1999), U-shaped effects (Lu & Beamish, 2001), or inverted U-shaped effects (Gomes and Ramaswamy, 1999). Typically, researchers use indicators such as growth or survival to investigate international performance (Zahra et al., 2000). While it has been argued that growth and survival are closely interlinked (Steffens et al., 2009), from a resource allocation point of view, they are clearly distinct and paradoxical. Growth typically involves huge investments often focused on major product or technology innovations, whereas profit-oriented survival strategies imply that investments in new market creation will be selective or focus on incremental innovations (Cho & Pucik, 2005).
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<table>
<thead>
<tr>
<th>Qualitative Indicators</th>
<th>Quantitative Indicators</th>
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<tr>
<td><strong>Firms’ Investment</strong></td>
<td><strong>Geographic Focus of Activities</strong></td>
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<tr>
<td><strong>Inside-out</strong></td>
<td>Home</td>
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<tr>
<td><strong>Outside-in</strong></td>
<td>Abroad</td>
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<tr>
<td><strong>Ambidextrous</strong></td>
<td>Home and abroad</td>
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Table 2. Identification Criteria for Internationalization Trajectory

I content analyze annual reports and established the three internationalization trajectories (‘inside-out’, ‘outside-in’, ‘ambidextrous’) and the development process of innovations. I used the words and phrases identified in the literature (see literature review), which should capture the three internationalization trajectories. However, as to my knowledge, they have not been used in prior content analysis. Therefore, I performed an additional key word in context analysis (KWIC) (Krippendorf, 1980) to evaluate the difference of words and their usefulness in measuring internationalization in this study (Appendix I+II for examples of keywords). In the meantime, I recorded and analyzed emerging factors and issues, in particular any mention of innovation or capability development. I particularly distinguished between product (brand, marketing, customer innovation) and process innovations (efficiency, cost, procedures, operational innovation). The distinction between product and process innovation is also the best known and most widely used typology (Markides, 2006; Damanpour et al., 2009). Contrary to product innovations, process innovations have an internal firm focus and aim to increase efficiency and effectiveness of the internal organization to facilitate the production of goods and services. The drivers of these innovations are primarily reduction in delivery time, increase in operational flexibility, and lowering of production costs (Boer & During, 2001). Researchers have also argued that the combination of innovation types has positive effects on performance (Damanpour et al., 2009).

3.2. Overview of the Model
The conceptual model links Chinese firms’ internationalization strategies with
innovation and consists of three major components as well as contextual variables: (1) **Internationalization strategy**: In line with a company’s strategic positioning and long-term objectives, I identify a predominantly inside-out, outside-in, or ambidextrous orientation (see criteria above). (2) **Innovation type**: drawing from internationalization research and its treatment of innovation as well as innovation research, I distinguish between product and process innovations (see above). (3) **Internationalization outcomes**: performance implications of internationalization trajectories combined with innovation types are reported as changes in net profit (see above). In addition, and with respect to the importance of the context in which Chinese firms internationalize, the model highlights conditions that may affect their choice of expansion strategies (Figure 1).

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**Figure 1.** Overview of the Conceptual Model

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### 3.3. Descriptive Information

In the sample of 30 Chinese firms, ten firms\(^1\) followed an ‘inside-out orientation’. For firms like, for example, Digital China Holding and Li Ning, quantitative indicators were ambiguous and were thus matched against further qualitative information. For instance, Digital China Holding has been reporting foreign sales figures as below 10% for the last five years but has continuously indicated that it “undertakes strong efforts for further internationalization”, “prepares itself for internationalization”, and “builds the resources to compete internationally”. For similar cases, the procedure was repeated and I classified these firms as ‘inside-out’ internationalizer, when

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\(^1\) This number is biased, given that firms, which predominantly focus on the internal Chinese market may not report detailed numbers (e.g. LiNing, Baidu, or China Mobile).
consecutive annual information confirmed the trend.

With regard to innovation, the ten firms focused predominantly on being competitive in their local Chinese market, while acknowledging the competitive pressures to engage in capability development. For instance, Bawang’s products target the mid-low end segment in China and the company aims at increasing the market coverage of its products. It therefore focuses on channel replication processes and the expansion of core products while not engaging in new product development. However, in terms of future development, the group plans to expand overseas, though mainly to other emerging markets which are receptive to the current product and brand (Bawang, Annual Report, 2011).

An ‘outside-in orientation’ was identified for twelve firms. For example, SMI is an outside-in internationalizer, a company that concentrates on global expansion with a broad focus on acquiring design capabilities as well as constantly investing roughly 15% of sales revenues annually in R&D to increase its product innovativeness. SMI serves a global customer base, comprised of leading integrated device manufacturers. Similarly, TCL tries to connect to foreign companies abroad and learn through direct foreign operations. This is expressed in the group’s statement that it will implement its long-term development strategy focusing on ‘integration, innovation and internationalization’, continue to strengthen innovation capability, enhance and upgrade the transition of its industry chains, and adhere to the strategic development of the high-end industry and globalized operations (TCL, Annual Report, 2011).

Finally, a group of eight companies followed an ambidextrous internationalization strategy. For instance, oil producer CNOOC explicitly follows a combined internal and external approach as does the utilities provider Shenhua. Shenhua claims that it fully leverages on overseas development opportunities by proactively promoting existing projects in foreign countries such as Australia and Indonesia and by participating in overseas cooperation and competition. Thereby, it intends to gain resources at home and abroad so as to expand into both markets in China and overseas and boost the internationalization of the company (Shenhua, Annual Report, 2011). As opposed to the previous strategies, these companies explicitly announce their dual focus in their annual reports and place equal emphasis on both process and product-related innovation. This does not necessarily imply that the two strategies are totally balanced.

3.4. Research Propositions
Chinese companies have different internationalization objectives, vary in industry affiliation, size, or strategic posture. While some of them focus on increasing foreign sales based on existing cost advantages and gradually prepare themselves for asset-based internationalization, for others physical presence is vital for learning and knowledge accumulation. Internationalization strategies starting from an inside-out orientation reflect the transformation needs occurring at the current developmental stage China, i.e., to reduce the increasing dependence from exporting low-cost products and engage into innovation to strengthen internal competitiveness. Several companies that from inception have focused on the local market by adopting an inward orientation, are now considering foreign expansion. This has become evident from analyzing 30 companies’ reports over time. For instance, sportswear producer Li
Ning sees international expansion as a long-term goal following home market penetration based on sufficiently cheap products to be attractive for the local market. Along the process, the company realizes that it needs to compete with international players, such as, Adidas, Nike, and Puma, and elevate the quality of its products. This is a typical scenario for many Chinese firms that have capitalized on their low-cost advantage in the world market. For instance, several companies in the Chinese utilities sector fall into this category. Over time, eroding cost advantages lead to a more intensified focus on product and management innovation. In line with the LLL model (Mathews, 2006), companies build several linkages to enhance their foreign operations and develop cutting edge products jointly (Li Sun, 2009). In our sample, I found several firms that started to compete on process innovations and related cost advantages and are now trying to intensify their product innovations (e.g., Anta, Baidu) given the increasing competitiveness in their home market and their lack of product differentiation. Thus, I propose:

**P1:** Chinese inside-out internationalizers with an original focus on process innovations need to become ambidextrous to increase their competitiveness.

A different internationalization-innovation trajectory is presumed for outside-in innovators. Recent changes in FDI illustrate that strategic asset-seeking companies are inclined to improve their competitive advantages through obtaining new assets rather than by making use of their existing competitive advantages based on their home market. For example, technology manufacturer TPV’s take advantage of booming developing regions but has also tapped the world’s major growth regions in North and South America, Europe, and Asia. As the company can no longer compete on cost advantages alone and needs to advance the value curve to enter more profitable product segments (Bartlett & Ghoshal, 2000), it is required to invest heavily in brand building, customer relationship skills, and innovative marketing solutions. As Madhok (1997) argues, the present internationalization focus of Chinese firms represents a shift from the downstream to the upstream capabilities of firms and they need to illustrate their competitiveness by informing foreign customers and collaborators about their potential value. In doing so, linkages with incumbents are particularly useful not only for improving product quality but also for building an international brand image. For instance, Haier came up with an innovation remixing different features to suggest a rodent-proof fridge. The specially designed refrigerator features metal plates to cover the holes in the fridge and uses thicker “bite-proof” wiring. Though quantitative figures for Haier did not provide evidence for an outside-in internationalization strategies, evidence of qualitative criteria supported this strategy, i.e., high levels of foreign acquisition, external resource investments, and capability development jointly with foreign partners abroad. Finally, companies may not loose sight of continuously improving their process innovation though not the major objective of internationalizing. Consequently, I suggest:

**P2:** Chinese outside-in internationalizers with an original focus on product innovations need to become ambidextrous to increase their competitiveness

Finally, I identified an ambidextrous internationalization strategy, where companies balance ‘inside-out’ and ‘outside-in’ orientation by recognizing their equal importance.
This is not to say that all companies try to achieve equal levels of both strategies like the case example of ZTE above illustrates, even though larger companies like Huawei achieve almost similar levels of both sales and assets at home and abroad. In terms of innovation, results show that ambidextrous internationalizers realize the need for both process and product innovation that can only be achieved by crossing national boundaries and engaging with foreign multinationals in a process of learning. Several firms noted that they feel forced to directly learn from competitors. For instance, COSCO reports that it “will also expand its overseas business networks and to develop innovate services and complement their business development. In addition, it covers the whole shipping value chain for both international and domestic customers through its various subsidiaries“ (Annual Report, 2011).

Insight from ambidexterity research (He and Wong, 2004; Luo and Rui, 2009) further informs us that balancing both innovation and internationalization activities may yield higher performance. A closer look at internationalization processes and their related outputs suggests a need for balance as firms with an outside-in internationalization strategy and their focus on product development may yield lower profitability. Conversely, inside-out internationalization alone most likely leads to higher profitability as firms build on and exploit current opportunities in the market. However, many of them face risks when their activities are not enriched by innovations in products or brands. Results should also be treated with care. First, firms belong to different industries, which face different challenges. Second, changes may be due to internal or external contingency factors, such as, company size, governmental support or economic downturns, which affect firms differently. Third, the number of firms identified is yet too small to engage in generalization. However, findings give rise to further research potential, and I thus propose the following:

\[ \text{P3: Chinese ambidextrous internationalizers will outperform companies that follow either inside-out or outside-in strategies.} \]

4. Discussion and Implications

Chinese companies still have a very short history and are at an early stage of their internationalization process. Most of them have not yet fully entered the upstream chain of internationalization. An accelerated internationalization trajectory with real multinationals operating on a global scale is still the exception. While the literature emphasizes the increasingly rapid internationalization of Chinese firms with an ongoing quest to enter global markets (Guillén & García-Canal, 2009), the empirical data for the last few years would, at best, confirm medium levels of internationalization (Fortanier & van Tulder, 2009). Company reports show, that many Chinese firms still adopt an inside-out approach to internationalization with a focus on domestic capability development driving foreign sales and eventual internationalization with respect to the acquisition of foreign assets and operations.

In conjunction with the question of internationalization trajectories, I have argued that innovation is linked to firms’ internationalization. By combining a value-creation perspective with internationalization strategies, I provide an extension to the currently existing theoretical approaches in international business studies. Innovation-based
theories especially have argued that both product and process innovation positively relate to internationalization performance but one of their major shortcomings has been the lack of clear identification and analysis of the impact of specific innovation types. I suggest that a focus on innovation types is inextricably linked to a firm’s internationalization trajectory and each – whether inside-out or outside-in – yields specific and different innovation and performance outcomes.

Finally, I complement the existing literature on international ambidexterity (Guillén & García-Canal, 2009; Luo & Rui, 2009; Prange, 2012). While the major focus of this stream of the literature has been on capabilities, balance, and simultaneous alignment, the study suggests that the ambidexterity concept may be enriched by integrating an explicit international innovation dimension. While most theories discuss asset exploration and exploitation, they do not clarify the relation between internationalization and innovation. Innovation has been the major focus of this article, and it seems obvious that it plays a vital part in such a more comprehensive ambidexterity framework, as already indicated by early proponents of ambidexterity research (He & Wong, 2004). In addition, I have only tangentially referred to internationalization speed and ownership issues with the questions relevant to EMFs. These may be integrated into a more comprehensive or even multi-paradigmatic theory (Gioa & Pittre, 1990) of EMFs’ internationalization (see Figure 2).

![Figure 2. Ambidextrous Challenges for EMF Internationalizing Firms](image)

All of these extensions pose valuable challenges for future research, the most pertinent being access to reliable longitudinal data to identify internationalization-innovation trajectories over time. As with every piece of research, I also acknowledge limitations. One is evidently the largely conceptual and qualitative nature of this study, which needs to be validated by further empirical research. Given the low number of companies studied, the suggested relationships between
ambidextrous internationalization-innovation-performance needs to be further investigated, especially as they may be subject to industry specifics (requiring within- and across-industry comparisons) or economic contingency factors (requiring longitudinal investigation to account for these changes). Before engaging in further empirical research, returning to the 30 companies’ corporate reports, perhaps adding further primary data through interviews would help to substantiate the conceptual model with broader and deeper insights. This would also imply a closer investigation of innovation types as the labels and content may differ across cultures and an interpretation from a purely Western perspective may be limited.

This research also has some implications for managers assessing which internationalization path would be optimal under a given set of conditions. As I have shown, one-sided internationalization strategies that overemphasize inside-out or outside-in orientation are likely to result in limited innovation and potentially lower overall performance than a combined ambidextrous mode. Thus, managers should try to balance their internationalization strategies with a focus on the innovations they want to develop.

Finally, addressing a recent question in the literature regarding whether there is a need for new theories for EMFs (Li, 2007; Tsai & Eisingerich, 2010), it seems that the potential of traditional theories of internationalization, in particular the OLI paradigm and the Uppsala theory, has been underestimated. In combination with other approaches, e.g., the international entrepreneurship literature and the LLL model, they do offer explanations for a majority of firms that focus on home market penetration and their gradual and cautious foreign market expansion (Gaur & Kumar, 2010). However, a more succinct combination of different theoretical elements may yield high potential to capture changes in Chinese or more generally emerging market firms’ internationalization orientation, especially when they move from inside-out to outside-in strategies. This combination is supported by an ambidexterity lens, which aims at balancing complementary insights.

5. Conclusions

This article has sought to provide a tighter link between firms’ internationalization trajectories and their need to develop innovations. A conceptual model was developed that was illustrated with data from 30 companies. Results show that firms following a predominantly ‘inside-out’ or ‘outside-in’ internationalization strategy yield limited innovation that falls short in preparing firms for the global competitive arena. Instead, an ambidextrous approach is suggested that is likely to affect both internationalization and innovation performance. The conceptual model presented here is a first step towards synthesizing research on the internationalization-innovation link and invites further, preferably longitudinal research.
6. REFERENCES


Delios, A., and Beamish, P., (1999). Geographic scope, product diversification, and


Reid, S.D., (1981), “The decision-maker and export entry and expansion”, *Journal of


### APPENDIX I: Keyword Search for Data Interpretation
#### (Internationalization)

<table>
<thead>
<tr>
<th>Category</th>
<th>Subcategory</th>
<th>Selected Keywords/Phrases</th>
</tr>
</thead>
</table>
| Internationalization Strategy | Inside-Out    | • Promote internal strength  
• Grow from inside, home-grown strategy  
• Internal strategic refinement  
• International expansion as a long-term goal following incremental steps  
• Risk-avoidance strategy, home-focused  
• Intent to internationalize, market access  
• Internal management and enhanced competitiveness |
|                     | Outside-In      | • Seeking foreign strategic assets for the purpose of solidifying and strengthening capabilities  
• Seeking foreign resources to improve competitive advantages  
• Learn abroad from foreign competitors  
• Improve technological capabilities and brand building |
|                     | Ambidextrous    | • Expansion by including both internal and external aspects  
• Global cooperation, extending internal and external resources for globalization  
• Simultaneous internal and external growth  
• Investment into home and foreign operations  
• Integration and internationalization  
• Dual capability development |
### APPENDIX II: Keyword Search for Data Interpretation

#### (Innovation)

<table>
<thead>
<tr>
<th>Category</th>
<th>Keywords</th>
<th>Selected Examples</th>
</tr>
</thead>
</table>
| **Product Innovation** | • Product differentiation  
• Brand innovation  
• Customer orientation  
• Systemic marketing innovation  
• Customer-centric innovation  
• Design capabilities  
• Brand promotion | • “In 2008, Hisense began to see major breakthroughs in the globalization of its brand. By establishing a strategic alliance with the world’s largest white goods manufacture, Whirlpool Corporation, Hisense pushed its high-end refrigerators and washing machines into the international market.” (Hisense, Annual Report, 2009) |
| **Process Innovation** | • Efficiency and effectiveness  
• Operational improvement  
• Precision execution  
• Cost savings  
• Efficiency innovation  
• Management process innovation  
• Cost innovation | • “To achieve profitable growth, we will continue to focus on precision execution, cost savings, efficiency improvement” (Shenhua, Annual Report 2011)  
• “Weiqiao Textile will consolidate its market share in China and maintain the competitive advantage of its products … For the overseas market, the Group will continue to take advantage of its economy of scale and product mix to upgrade its products … through the improvement of internal management, … the stringent control of production cost and the optimization of product mix, we will be able to enhance the core competitiveness of the Group.” (Weiqiao, Annual Report, 2009) |
## Appendix III – List of Firms and Internationalization Trajectories

### Percentage of Foreign to Total Sales (FSTS) or Assets (FATA)

<table>
<thead>
<tr>
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<td>1. Air China</td>
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<td>15 653</td>
<td>48.6</td>
<td>57.3</td>
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<td>94.0</td>
<td>86.0</td>
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<td>2. Anta</td>
<td>Sportswear</td>
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<td>0.7</td>
<td>0.5</td>
<td>0.7</td>
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<td>0.2</td>
<td>0.1</td>
<td>-</td>
<td>-</td>
<td>Inside-out</td>
</tr>
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<td>35 454</td>
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<td>9.4</td>
<td>-</td>
<td>-</td>
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<td>4.2</td>
<td>4.5</td>
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<td>-</td>
<td>Inside-out</td>
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<td>6. BOE</td>
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<td>39.3</td>
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<td>38.2</td>
<td>46.5</td>
<td>50.2</td>
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<td>46.0</td>
<td>36.0</td>
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<td>31.8</td>
<td>26</td>
<td>-</td>
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<tr>
<td>9. China Mobile</td>
<td>Telecommunications</td>
<td>83 987</td>
<td>&lt; 5</td>
<td>9.6</td>
<td>1.9</td>
<td>&lt;10*</td>
<td>&lt;10*</td>
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<td>10. China Southern Airlines</td>
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<td>6 345</td>
<td>20.5</td>
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<td>15.0</td>
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<td>19.7</td>
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<td>23.4</td>
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<td>28.6</td>
<td>38.6</td>
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<td>12. CNOOC</td>
<td>Utilities</td>
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<td>70.6</td>
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<td>&lt;10</td>
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<td>15. Haier</td>
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<td>60.4</td>
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<td>18. Jardine Matheson</td>
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<td>58.9</td>
<td>48.5</td>
<td>46.4</td>
<td>~23.0</td>
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<td>0.3</td>
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<td>25. Skyworth</td>
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<td>FSTS</td>
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<td>1.3</td>
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<td>3.2</td>
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<td>26. TCL International Holding</td>
<td>Multimedia Technology</td>
<td>4 245</td>
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<td>47.0</td>
<td>54.3</td>
<td>51.2</td>
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<td></td>
<td>FATA</td>
<td>22.5</td>
<td>23.5</td>
<td>27.6</td>
<td>38.4</td>
<td>49.9</td>
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<td>27. TPV Technology</td>
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<td>3 683</td>
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<td>27.9</td>
<td>31.0</td>
</tr>
</tbody>
</table>

\( ^a \) All the data is based on annual reports, UNCTAD statistics, and corporate websites.

\( ^b \) < and ~ relate to qualitative information, and are used if the company did not indicate any precise quantitative information in their financial overview.

\( ^c \) Where a five-year period of figures is not available, profit is reported for the existing periods. Numbers in brackets represent losses.

\( ^* \) Firms’ qualitative information indicates that FSTS is too low to report details.