

Chinese Outward Foreign Direct Investment Performance: The Role of Learning

Marjorie Lyles,^{1,2,3} Dan Li,¹ and Haifeng Yan⁴

¹Indiana University, USA, ²Lancaster University, UK, ³UIBE, China and ⁴East China University of Science and Technology, China

ABSTRACT We define the ‘Chinese way’ of internationalization as oriented toward experimental learning, in contrast to traditional internationalization models, such as the Uppsala model. Analyses of survey data of private Chinese firms that have made outward foreign direct investments (OFDI) show that only 50 percent follow the Uppsala model in which firms follow a staged approach. The other 50 percent follow more risky explorative OFDI approaches in which the firms learn on the ground experimentally from their OFDI. We further investigate how the founders’ congenital learning, firms’ inward international experience, potential absorptive capabilities, and motivations to learn, influence OFDI performance and how learning outcomes mediate these relationships. We show that the relationship between the firm’s potential absorptive capacity and its OFDI performance is fully mediated by what the firm learned from the OFDI project. Also the firm’s motivation to learn directly affects performance and is partially mediated by what the firm has learned.

KEYWORDS Chinese private firms, emerging economies, learning, outward foreign direct investment

中国企业对外直接投资: 学习的角色

摘要

相较于传统的国际化理论,如乌普萨拉模型,我们提出‘中国式’国际化的概念,并将其定义为试验性学习导向的国际化。调查数据分析显示,200家从事对外直接投资的中国民营企业中,50%的样本企业遵循了‘阶段式’的乌普萨拉模型,另外50%则采用试验性学习这样一种更加冒险的对外直接投资方式。我们进一步考察了创始人的先期学习、内向国际化经验、潜在吸收能力和学习动机对企业绩效的影响,以及学习结果在其中扮演的中介角色。研究表明,企业对外直接投资中的学习结果在潜在吸收能力和绩效之间,起到了完全中介的作用;学习动机直接影响了绩效且部分受到学习结果的中介。

关键词: 中国民营企业, 新兴经济体, 学习, 对外直接投资

INTRODUCTION

China is the most active of the emerging markets (EM) in outward foreign direct investment (OFDI) (MOFCOM, 2012). While substantial research has addressed reasons for making OFDI, few studies have addressed the international venturing of firms from EMs such as China's (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Yiu, Lau, & Burton, 2007). International business theorists have suggested that the most important asset for EM firms is *knowledge*, and the most important capabilities are *learning* (Johanson & Vahlne, 2009; Lyles & Salk, 1996). EM firms are interested in learning technologies, managerial and marketing skills, and skills for competing in the global market (e.g., Luo & Tung, 2007). They use internationalization as a 'springboard to acquire strategic resources' (e.g., Lu, Liu, & Wang, 2011: 223). For late-coming EM firms '[t]he global marketplace is information based and knowledge intensive. To survive in this environment, you must know how to learn: it is the central skill that allows a company to move up the value curve' (Bartlett & Ghoshal, 2000: 79).

Approximately 13,500 Chinese firms had invested in 177 countries abroad, generating a net flow of US\$74.65 billion in 2011 (MOFCOM, 2012). By the end of 2010, state-owned enterprises accounted for only 10.2 percent of all Chinese overseas entities; most of the 13,500 overseas entities were private firms, rather than state-owned enterprises. Yet, there is little evidence regarding the learning and performance of these Chinese private firms moving outward. Few have studied the 'Chinese way' of internationalization (Alon, Child, Li, & McIntyre, 2011). Most, if not all, government databases do not address firm-level data that would allow comparisons and evaluations of firm activities. Also, recent literature has focused on large state-owned rather than private enterprises (Buckley et al., 2007; Deng, 2013; Lu et al., 2011). One study of motives for internationalization of prominent market-seeking Chinese firms questioned whether the OFDI theories derived from developed countries are applicable to EMs such as China (Child & Rodrigues, 2005). They suggested that the traditional theories ignore that EM firms often pursue OFDI to overcome disadvantages rather than to exploit advantages (Boisot & Meyer, 2008).

Echoing the emphasis on knowledge and learning for EM firms' internationalization (e.g., Buckley et al., 2007; Lyles & Salk, 1996), our goal for this research is to investigate whether Chinese private enterprises follow a 'Chinese way' of internationalization and how organizational learning processes (as captured by founders' congenital learning and firms' inward international experience, absorptive capacity, and motivation to learn) affect their OFDI performance through the mediating effect of actual learning outcomes. We define the 'Chinese way' as experimental-learning-oriented internationalization, in contrast with traditional internationalization models, such as the Uppsala model. Chinese private firms lack direct experience of international expansion and yet, as latecomers, they must

catch up quickly. Traditional slow-paced step-wise models are inappropriate. Instead, Chinese private firms jump into foreign direct investment by adopting high-commitment modes for initial international entry and learn as they go. We do not refute the Uppsala model by suggesting that experience is not important; instead, our theoretical arguments consider the founders' congenital learning and firms' inward international experience before international expansion. That is, international knowledge comes from other sources besides experience. We consider the resemblance between internationalizing Chinese private firms and internationalizing new ventures and draw insights from the international entrepreneurship literature to develop our arguments on the importance of congenital learning by founders.

We further draw on the literature on international joint ventures in China and examine the importance of international knowledge that Chinese firms are able to obtain through interacting and collaborating with foreign firms and partners investing in China. Considering the critical role that learning plays in helping Chinese private firms achieve successful international expansion, we hypothesize that learning outcomes have mediating effects on the relationships between founders' congenital learning, firms' inward international experience, and OFDI performance. Furthermore, considering the emphasis on learning by latecomers to internationalization, we examine how potential absorptive capacity and motivation to learn can affect the learning outcomes of Chinese private firms' OFDI and in turn OFDI performance. We test our arguments on a sample of 200 Chinese private firms that have conducted at least one OFDI project.

Our research contributes to the literature in several areas. First, we enrich understandings of internationalizing behaviour by Chinese private firms. Chinese OFDI is a recent phenomenon with significant implications for the global economy, but it has not been thoroughly researched. Well-established theories of internationalization based on firms in developed countries may or may not apply to latecomers. The lack of research on Chinese private firms' internationalization is not surprising because the phenomenon *per se* is evolving rapidly. On the one hand, the overwhelmingly large number of Chinese private firms with OFDI has relatively low weight in the overall OFDI volume in comparison with large state-owned enterprises. On the other hand, data collection, even sample identification, on internationalizing private firms in China is particularly challenging. Our study fills this research gap by theoretically and empirically illustrating a 'Chinese way' of internationalization. Second, our research contributes to the organizational learning literature by empirically illustrating experimentation and improvisation. Experience-based learning does not seem to contribute to Chinese private firms' OFDI performance; on the contrary, their founders' personal experience may even impose liabilities to firms' OFDI. Rather, learning from external environments, learning capability, and motivation play a critical role in preparing Chinese private firms to move abroad. Third, we further illustrate the complexity of organizational

learning by examining the mediating role of learning outcomes from OFDI, emphasizing another important aspect of the 'Chinese way' of internationalization. Finally, our research has meaningful implications to practitioners in that the findings aid Chinese private firms in recognizing and evaluating various sources for international knowledge and preparing to operate successfully in overseas markets for their overall competitiveness.

THEORETICAL BACKGROUND AND HYPOTHESES

While traditional models offer insights in understanding internationalization, they have not fully embraced the uniqueness of firms from EM such as China. The Uppsala model addresses internationalization as a step-wise experiential approach that evolves from learning by doing. The model has two basic assumptions: (1) firms learn from their international experience; and (2) firms gradually change their international strategies by making further commitments to their original decision once they are comfortable overseas. Typically, their first entry would be low capital investment, such as a sales office. As they grow more familiar with the environment, they enlarge their stake in the country with projects that may require higher capital investment and deeper commitment (Johanson & Vahlne, 1977, 2009; Petersen, Pedersen, & Lyles, 2008). This learning and commitment building relationship develops over time.

However, neither of these assumptions applies to Chinese firms' international expansion. First, for Chinese private firms, the gradual accumulation of international business experience is rare because government regulation promoting OFDI did not occur until 2002. Such gradual accumulation is also costly for Chinese firms as latecomers to the international competitive landscape. The international entrepreneurship literature has raised similar questions for new ventures (i.e., Chetty & Campbell-Hunt, 2003; Cuervo-Cazurra & Genc, 2008). Empirical evidence is abundant regarding rapid internationalization processes (e.g., Oviatt & McDougall, 1994), frequent adoption of high-commitment modes for initial international entry (e.g., Madsen & Servais, 1997), and leapfrogging over stages of internationalization (e.g., Hedlund & Kverneland, 1985). Although leapfrogging has been typically used to describe the internationalization process of born-globals, international new ventures, and small- and medium-sized enterprises (e.g., Oladottir, 2009; Oviatt & McDougall, 1994), we argue that the logic also applies to latecomers to the global market. In fact, leapfrogging behaviour by EM firms has been recorded in the international business literature (e.g., Young, Huang, & McDermott, 1996). By leapfrogging traditional stages of internationalization, Chinese private firms may catch up with their international competitors in a relatively short period of time and potentially become influential global players.

Second, the component of ambiguity tolerance in Chinese culture makes the concept and behaviour of leapfrogging acceptable to Chinese private firms.

Chinese culture has great tolerance of uncertainty and ambiguity (Fang, 2003, 2012; Hofstede, 1980; Ralston, Gustafson, Cheung, & Terpstra, 1993), which enables Chinese private firms to be flexible and adaptable. Compared with other cultures, the Chinese culture of ambiguity tolerance prepares managers to function in unfamiliar, uncertain environments featuring unexpected changes (Ralston et al., 1993). International expansion *per se* is uncertain and risky, particularly for late-coming Chinese private firms that typically lack the backing of a financially and institutionally munificent home environment. Even Deng Xiaoping's famous slogan – 'crossing the river by touching stones' – on Chinese economic reform illustrates the cultural tolerance of ambiguity.

Third, the literature in multiple research disciplines, such as international business, strategic management, and international entrepreneurship, has recognized that experiential learning is not the only way to acquire knowledge. The Uppsala model ignores the role of individuals within a firm when identifying and evaluating the firm's possession of international knowledge (Forsgren, 2002). Firms can also benefit from the spillover effects of their alliance partners or neighbouring companies' international knowledge (e.g., Fernhaber & Li, 2012). Furthermore, Forsgren (2002) points out that rapidly changing environments can make market knowledge obsolete and increase risk. Increasingly rapid changes of the global market and growing collaboration among firms suggest that experiential knowledge has a diminishing role in internationalization decisions. China's inward foreign direct investment has offered valuable opportunities for Chinese firms to accumulate international knowledge even before they expand overseas. Therefore, the paramount role of experiential learning as suggested by the Uppsala model is challenged.

We argue that the traditional Uppsala model of step-by-step internationalization does not apply to Chinese private firms, due to the 'Chinese way' of experimental-learning-oriented internationalization. Chinese private firms, as latecomers to the global market, cannot afford to take the gradual route, have other channels to access international knowledge other than their own experience through actual foreign direct investment (FDI), and are culturally competent to tolerate the risks associated with experimentation. Thus, the 'Chinese way' is for firms to jump into foreign direct investment through high-commitment modes of entry such as joint ventures, and learn as they go.

Hypothesis 1: Chinese private firms' internationalization will follow the 'Chinese way' of experimentation and exploration by setting up high-commitment investment at their initial internationalization.

A critical aspect of the 'Chinese way' of internationalization is the significant role of learning. We argue that private firms can derive their knowledge of international business from two internal sources: founder's congenital learning and firms' inward international experience.

The entrepreneurship literature posits that knowledge useful to internationalization can be obtained even before firms are conceptualized and founded. Founders can draw on their previous international experiences to partially substitute for the lack of direct organizational experience with internationalization (Sapienza, Autio, George, & Zahra, 2006). Congenital learning plays a strong role as a source of knowledge; even new firms 'do not start with a clean slate' (Huber, 1991: 91). Firms, particularly new ventures, inherit the skills and experiences of their key founders (Bengtsson, 2004; Huber, 1991). This type of congenital learning not only refers to inherited institutionalized knowledge (Meyer & Rowan, 1977) and context-specific knowledge imparted by the organization's creators, but also additional knowledge that founders acquired before they established the firm (Huber, 1991). Founders are the initial architects of the firms' strategy of internationalization, and their international experiences have an imprinting effect on the firm's strategy (Boeker, 1989; Sapienza et al., 2006). Founders' market knowledge, personal networking, or international experience derived from former occupations, relations, and education are examples of international skills obtained prior to the firm's birth.

Internationalizing Chinese private firms somewhat resemble internationalizing new ventures. Founders in most Chinese private firms are at the centre of their organizations. Private equity has been allowed only since China's institutional transition. Strong leadership from the founders is prevalent, and organizational members typically look to their founders for cues. Organizational structure and governance are less relevant, which is similar to new ventures at early life stages when clear lines of authority and environmental understanding are only partially developed (Churchill & Lewis, 1983). Also, given the hierarchical nature of Chinese societies and organizations, the influence of the founders' status is salient in Chinese private firms. Founders are often CEOs of their companies and have the final say on all important decisions.

Therefore, we argue that the founders' international knowledge directly affects a Chinese private firm's performance of OFDI. Their congenital learning through personal overseas experiences or exposure influences the firm's collection and interpretation of global market information and methods for competing in foreign markets. This congenital learning contributes to a firm's internationalization through two mechanisms (Leonidou, Katsikeas, & Piercy, 1998). First, it makes the founders see more opportunity and less risk in international markets (Brush, 1995; Madsen & Servais, 1997). Factors like education, experience from living abroad, experience from other internationally oriented jobs, etc. mould the mind of the founder of Chinese private firms and decrease the psychic distances to specific product markets. The founders' experiences and familiarity with diverse international environments through their congenital learning help to improve their performance in internationalization. Second, congenital learning contributes to the founders' capability in manoeuvring in a hybrid governance structure (McDougall, Shane, & Oviatt, 1994) and specialized business network (Bell, 1995; Jolly,

Alahuhta, & Jeannot, 1992). Their ability to identify and utilize resources through external networks both in China and overseas is critical to the success of their OFDI.

Hypothesis 2: The congenital learning of the founders (through foreign experiences) of a Chinese private firm will positively affect the firm's performance of OFDI.

The international entrepreneurship literature has recognized the critical role of the external environment for new ventures in their efforts to glean international business knowledge (e.g., Fernhaber & Li, 2012). Similarly, a Chinese firm's knowledge of international business can be obtained through interaction with foreign firms in China. For an incumbent domestic company, it is no longer necessary to obtain knowledge about internationalization by actually going to a foreign country. In a globalized market, it is possible to gain knowledge before a firm invests by learning from its foreign partners and through managers' network ties in the home market (Batjargal & Liu, 2004; Buckley et al., 2007; Peng & Luo, 2000).

Although the influx of multinationals has brought severe competition, inward internationalization has benefited Chinese private firms because of the spillover effects of knowledge, managerial ties, and technology transfer (Aitken, Hanson, & Harrison, 1997). By engaging in international competition in their home markets, indigenous companies gain access to critical information about foreign markets, such as product distribution and consumer preferences (Aitken et al., 1997). Chinese local firms, in essence, learn secondhand from their foreign partner's international experiences while investors share experiences in implementing internationalization strategies (Gupta & Sapienza, 1992). Founders and managers of EM firms can accumulate experience competing 'against the players in foreign markets simply by adapting and responding to those players as they enter the home market' (Bartlett & Ghoshal, 2000: 81). In addition, being geographically proximate to foreign entrants may bridge channels to market and partner opportunities in foreign countries, further enhancing international expansion prospects (Gu & Lu, 2011).

Moreover, interaction and collaboration with foreign firms in China can help founders and managers of Chinese private firms obtain more and accurate information about the global marketplace and adjust their views regarding their overseas competitors. Thus, inward international experience can be effective for Chinese private firms' knowledge acquisition: '[I]n today's global market, you don't have to go abroad to experience international competition' (Bartlett & Ghoshal, 2000: 81).

Hypothesis 3: A Chinese private firm's inward international experience will positively affect its performance of OFDI.

Although new ventures can gain new knowledge and capabilities that enhance performance and revitalize operations with new markets and new revenue streams,

they do not all benefit, or benefit equally, from internationalization (e.g., Zahra & Hayton, 2008). We identify two conditions that may enable the firm to benefit from its international operation. The first is the firm's absorptive capacity and the second is the firm's motivation to learn.

Absorptive capacity (AC), critical to the ability to learn, represents the identification of new knowledge, assimilation into the existing knowledge base, and utilization of the new knowledge (Cohen & Levinthal, 1990). Zahra and George (2002) distinguish *potential* AC from *realized* AC. The former relates to the ability to acquire and assimilate new knowledge primarily from external sources (also see Jansen, van den Bosch, & Volberda, 2005; Petersen et al., 2008). The latter consists of two capabilities – (1) transformation capability or the capability to develop and refine the routines facilitating the combination of existing knowledge and the newly acquired and assimilated knowledge; and (2) exploitation capability or a firm's capability to apply the newly acquired knowledge in product or services for financial benefits. Our focus on potential AC is specific to Chinese firms' OFDI activities as one goal, sometimes a single goal, to learn.

A Chinese firm's potential AC affects its learning, and ultimately its OFDI performance, from at least two aspects. First, many Chinese private firms engage in explorative OFDI activities to develop new technological and/or managerial knowledge, rather than exploiting their existing advantages (e.g., Buckley et al., 2007; Child & Rodrigues, 2005). Their potential AC determines where the firms will look for the advanced knowledge they need, whether the value of such knowledge can be recognized, and more importantly whether the firms can actually acquire and assimilate the knowledge. Firms learn faster if the new knowledge is related to the existing knowledge and capitalizes on the past learning (Cohen & Levinthal, 1990; Lane, Salk, & Lyles, 2001). Thus, the assumption is that learning is accumulative and builds upon the current knowledge base and that wanting to learn is important for future performance. Learning is more difficult in new situations, and it is often difficult to adapt the past learning and routines to new situations. Therefore, for Chinese firms operating in unfamiliar environments, its potential AC is vital for their learning and performance.

Second, knowledge about how to do business overseas is often tacit and comes from experience. A firm that lacks direct experience can gain tacit knowledge through informal means, such as interacting with, and learning from, others who are external to their firm, for example, other subsidiaries, suppliers, or others. Those firms that use their connectedness to others within, or external to, their organization can acquire and exploit new external knowledge (Jansen et al., 2005; Zahra & George, 2002). Chinese private firms may learn international business knowledge from external players, particularly joint venture or supply chain partners. Thus, the potential AC of recognizing, acquiring, and assimilating knowledge from external sources can better prepare Chinese firms to go abroad and succeed. In sum, the ability to gather knowledge through external sources presents Chinese

firms with the potential to build on their current AC and this can lead to better performance in their OFDI.

Hypothesis 4: A Chinese private firm's potential absorptive capacity will positively affect its OFDI performance.

Research on international entrepreneurship posits that venture managers have limited attention and resources; their attention and motivation to certain strategic activities (Fernhaber & Li, 2012), including internationalization, are important to the implementation and success of those actions. Ventures that are motivated toward internationalizing and learning are more likely to pursue global opportunities and take more proactive approaches when encountering challenges and difficulties (Burpitt & Rondinelli, 2000). Some firms, driven by vision and strategic intent to become highly performing global companies, may strive to learn. *Managerial intentionality* highlights the importance of managerial discretion, knowledge accumulation, and high expectations regarding behaviours and outcomes (Hutzschenreuter, Pedersen, & Volberda, 2007). Firms, more precisely managers, strategically choose the opportunities to pursue (Child, 1997; Miles & Snow, 1994), hoping for certain outcomes such as learning from overseas markets. High aspirations can motivate learning and striving for better operations and higher performance.

Typically firms moving overseas have certain disadvantages, such as incomplete understandings about consumer buying behaviour, laws, language, and business practices (Hymer, 1976; Zaheer, 1995). It may take several years after an OFDI before firms realize how little they knew when they first made the OFDI decision (Petersen et al., 2008). Consequently, moving outward is an ambiguous and uncertain decision-making process. The strength of a firm's motivation to learn and to adapt to the new foreign market influences its ability to overcome successfully the disadvantages (Lyles & Salk, 1996; Petersen et al., 2008). Chinese firms most often seek assets that 'are intangible ones, such as brand reputation, technological knowledge and competence to manage a global corporation' (Child & Rodrigues, 2005: 403). Mathews (2006) argues that latecomers' international expansion is typically driven by resource linkage and learning. Moreover, Boisot (2004) states that Chinese firms regard moving outward as a step to compete internationally and to learn necessary competences, suggesting high motivation to learn and not just to increase sales in foreign markets.

Thus, Chinese firms target learning new skills on how to compete. Buckley et al. (2007) suggest that Chinese firms take high risks when internationalizing; implying Chinese firms' high aspirations and motivation to learn from their activities overseas. Hutzschenreuter et al. (2007) and Child (1997) recognize the importance of motivation in determining associated action outcomes. Motivation to learn is a determinant of whether learning occurs and how effective and efficient that

learning will be. A firm highly motivated to learn will show more positive performance effects than will firms less motivated to learn.

Hypothesis 5: The strength of a Chinese private firm's motivation to learn from its OFDI experience will positively relate to its OFDI performance.

Next, we argue that the proposed causal relationships between congenital learning, inward international experience, absorptive capacity, motivation to learn, and OFDI performance are mediated by whether the intended learning actually occurs.

One important component of learning for firms moving outward is the tacit knowledge that comes from understanding the local market and customer needs (Petersen et al., 2008; Zaheer, 1995). For Chinese firms, learning how to compete and manage in the global market is as important as learning about the local market. Tacit knowledge is primarily gained through learning-by-doing and often involves departing from old methods or routines. Explicit knowledge can be learned more quickly than implicit or tacit knowledge, but often the two are linked, and tacit knowledge is typically the basis for sustainable competitiveness. Firms must learn about both and their interactions (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004). Moving outward does not immediately diminish the knowledge gap about the foreign environment (Petersen et al., 2008). In fact, the gap may appear to be larger once the firm moves abroad and discovers all that it does not know.

To overcome their lack of knowledge and the liability of foreignness, firms must learn about local customs, institutions, and markets, and learn how to compete in the new environment and how to generate concrete learning outcomes. First, founders' congenital learning about international business may determine the learning agenda and its importance. In Chinese private firms, founders make almost all strategic decisions. Thus, they largely determine what and how to learn through international expansion. Their experiences can aid the learning process by minimizing the learning barriers associated with language and culture. That is, founders' congenital learning of general international business knowledge facilitates the learning process by teasing out causal ambiguity (Sapienza et al., 2006).

Second, inward international experience, particularly direct collaboration with foreign partners through joint ventures or supply chain partnerships, prepares Chinese private firms to recognize and learn about overseas operations, exposes them to organizational practices and routines of foreign firms, and identifies tacit knowledge typically embedded in operational routines (Reuer, Zollo, & Singh, 2002). Therefore, Chinese private firms' inward international experience positively impacts their learning.

Third, Chinese private firms' potential absorptive capacity directly affects whether learning occurs. Realized absorptive capacity is important, but potential

absorptive capacity specifically addresses learning from external sources (Zahra & George, 2002). Thus, potential AC is specific to Chinese firms' OFDI activities where learning is a main and sometimes single goal for OFDI.

New ventures can benefit from a wide range of outcomes, such as survival opportunities, market share growth, innovation, and financial performance (e.g., Jantunen, Nummerla, Puumalainen, & Saarenketo, 2008; Kropp, Lindsay, & Shoham, 2006). For Chinese private firms, learning outcomes from internationalization offer not only the foundation for adapting to host markets and identifying foreign customers and market segments, but also for competing in the global market. Both sets of knowledge are critical for direct investment projects to succeed in the host markets. Therefore, we propose the following hypothesis on the mediating role of learning outcomes on previously suggested arguments.

Hypothesis 6. The learning outcomes that a Chinese private firm achieves from its OFDI activities will mediate the relationship between its learning processes (i.e., (a) founder's congenital learning of international knowledge, (b) inward international experience, (c) potential absorptive capacity, (d) motivation to learn) and the performance of OFDI.

METHOD

Sample Selection and Data Collection

We collected data in China with the help of a national research firm in Beijing specializing in survey research in China for more than two decades. We used a snowball technique to identify the firms, assuming that a firm that has conducted OFDI may also know other firms that have done so. This technique was necessary because complete lists of Chinese private firms that have invested abroad are unavailable. The government list includes mostly state-owned enterprises but does not include the many private firms that have moved outward.

Our sample selection criteria first required that firms must have conducted foreign direct investment. Second, they had to be private Chinese firms or they may have minority state ownership but not be state-owned enterprises. We contacted 814 firms; 296 refused to participate; 260 did not meet the criteria; 22 had wrong contact information. Thus, we conducted 236 survey-based interviews but further discarded 36 because of data quality problems. Survey respondents were executives holding departmental manager positions or higher, with at least three years' tenure in the company, and were familiar with the firm's foreign direct investment activities. The interviewers informed the respondents that the data for this academic research would be held in confidence and presented only in an aggregated format in any public reports.

The final sample consisted of 200 Chinese private firms with OFDI from Guangdong (44), Beijing (41), Zhejiang (40), Shandong (32), Jiangsu (18), Shanghai (14), Liaoning (9) and Fujian (2). These eight provinces and cities were among the

top ten locations of Chinese OFDI stock by the end of 2008 (MOFCOM, 2008). The response rate was 24.6 percent. The sample included 145 manufacturing firms (including energy, electrics, machinery, telecommunication and network equipment, electronics, textile) and 55 service firms (including finance, banking, computer software, information services, R&D, consulting). In terms of firm size, 61 (30.5 percent) had total assets greater than 100 million RMB (approximately >\$14.6 million); 98 (49 percent) had total assets between 40 and 100 million RMB (approximately \$5.9~\$14.6 million); and 41 (20.5 percent) with total assets below 40 million RMB (approximately <\$5.9 million). Thirty firms (15.0 percent) hired more than 1000 full-time employees; 46 (23.0 percent) had 500~1000 employees; 71 (35.5 percent) had few than 500 but more than 100 full-time employees; and 53 (26.5 percent) had 100 or fewer employees. Among the 200 firms, 171 (85.5 percent) invested in one foreign country while 29 (14.5 percent) invested in two or three foreign countries. For the 29 firms that invested in more than one foreign country, we restricted our questions to the most important host country to avoid potential confounding effects from multiple countries. We excluded Hong Kong as an OFDI destination for sampling. The sample firms invested in a wide range of countries: 89 in Asia–Pacific, 51 in Europe, 48 in North America, and 12 in other regions. As our sample includes only internationalizing firms, our analysis may be subject to endogeneity issues. Therefore, we collected the data to compile a matching sample of 200 Chinese firms that had not internationalized in 2009 to conduct Heckman two-stage analysis. We retrieved information on matching firms from the CSMAR database, which restricts the matching process to publicly listed firms only because of data availability. Firm size was used to compile the matching sample of 200 Chinese firms that had not internationalized in 2009.

Measures

In the test for Hypothesis 1, the dependent variable is *high-commitment entry*, which takes the value of 0 if the entry is through a marketing/sales office and 1 if the entry is through modes requiring more capital, commitment, and risk-taking, such as wholly owned subsidiaries, R&D facilities, and joint ventures. We used two dependent variables in the tests for Hypotheses 2 to 6. The first is *performance*, which measures the degree to which the firm achieved its goals in seven aspects including reputation enhancement, technology access, and cost reduction. Cronbach alpha is 0.85. Items used to compile the factor are shown in Appendix I. The second dependent variable, our mediating variable, is *learning outcomes*. Four items (modified from Dhanaraj et al., 2004) were used to generate the factor; Cronbach alpha is 0.83. Items used to generate the standardized factors are shown in Appendix I.

We hypothesized two types of international experiences. The first, founder's congenital learning, is proxied by the *founder's international experience* as a count variable of the types of international experiences in the past, such as taking business

trips abroad, working overseas, and speaking foreign languages. The second is the Chinese firm's inward international experience, and we use two variables: (1) *number of foreign partners in China*; and (2) *foreign partners from the host country*, a dummy variable.

Potential absorptive capacity is a factor generated on the basis of four items (modified from Jansen et al., 2005); Cronbach alpha is 0.70. *Motivation to learn* factor (3 items) measures the reasons for the firm to learn about new technology, new managerial skills, and the foreign market (Dunning, 1988). Cronbach alpha is 0.81. Items for both standardized factors are also in Appendix I.

To partial out potential confounding effects, we controlled for firm age, size, and industry in the regression analyses. *Firm age* is measured as the number of years since first operation; *firm size* is measured by the number of employees in its logged format; *industry* is a dummy variable with the value of 1 for manufacturing firms and 0 for service firms. We also controlled for the sample firm's past international business experience by including (i) *export*, a dummy variable indicating whether the firm exports, and (ii) *prior OFDI experience*, a dummy variable indicating whether the firm has conducted foreign direct investment before. Last, we controlled the firm's entry mode (*high-commitment entry*) in the tests for Hypotheses 2–6 because the initial commitment might affect OFDI performance and learning.

RESULTS

Common Method Variance and Construct Validity

Since we obtained data using a single survey, common method variance was a possible concern. We took precautions to minimize bias due to common method in the data collection stage (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Confidentiality is assured to respondents to reduce potential social desirability and increase respondent candidness. We minimize respondents' evaluation apprehension by assuring them that there are no right/wrong answers to the survey questions. Also, we carefully construct the items to minimize item ambiguity and complexity to enhance the quality of scale items (Podsakoff et al., 2003).

After collecting the data, we took several steps to test and minimize the potential influence of common method variance. First, we performed Harman's one-factor test (Podsakoff et al., 2003; Podsakoff & Organ, 1986). The results suggested no single or general factor. Second, we used multiple items for each construct, which could help alleviate concerns for potential bias, because biases tend to be more problematic at the item level than the construct level (e.g., Harrison, McLaughlin, & Coalter, 1996). Third, following suggestions by Podsakoff et al. (2003), we conduct a statistical test that controls for the effects of a directly measured latent methods factor and a statistical test that controls for the effects of an unmeasured latent method factor. Results of both tests indicate that common method variance does not impose significant effects on our estimation. Finally, the complicated

specification of regression models involving mediation reduces the likelihood of common method variance (Chang, van Witteloostuijn, & Eden, 2010). Therefore, we conclude that common method bias is not a significant threat in our study.

Our measures are based on modifications of previously published scales. We carefully assess both convergent and discriminant validities. Appendix I shows the items used for each factor and corresponding standardized factor loadings. Cronbach alpha values for all factors are above 0.70 with standardized factor loadings significantly different from zero (0.55~0.83), indicating internal consistency and good reliability of the factors generated (Fornell & Larcker, 1981; Nunnally & Bernstein, 1994). We conducted a confirmatory factor analysis (CFA) adopting a measurement model, using Stata 12. The CFA results show good support for the factor specification of *performance*, *learning outcomes*, *potential absorptive capacity*, and *motivation to learn*. Further, these four factors are positively and significantly correlated, ranging from 0.21 to 0.43 with the mean of 0.34. These results support convergent validity.

To demonstrate discriminant validity (following Fornell & Larcker, 1981), the variance shared by each construct and any other construct should be less than the variance shared by the construct with its own measures; ideally the variance captured by any construct in a pair of comparison should be greater than 0.50 and larger than the squared correlation between the two constructs. Our analyses showed the average variance extracted (AVE) values for our constructs ranged from 0.64 to 0.87, exceeding the 0.50 benchmark (Fornell & Larcker, 1981). These values also exceeded the squared terms corrections between any pair of the constructs (0.15~0.46). We then ran chi-square difference tests for all the constructs in pairs to determine whether the restricted model with a fixed correlation at 1 performs significantly different (worse) than the model with a freely estimated correlation (Bagozzi, 1980). All the chi-square differences are statistically significant, indicating the distinctiveness of our constructs. These results demonstrate the discriminant validity of our factors.

Table 1 shows descriptive statistics. We carefully examined our data for potential multicollinearity problems. None of the absolute values of correlations is above 0.50. We checked the variance inflation factors (VIF) for all individual variables below 5 and the average VIFs for all regression models below 2. Both indices are below the acceptable thresholds of 10 and 2, respectively (Neter, Wasserman, & Kutner, 1990). Therefore, we are confident that our estimates are not threatened by multicollinearity problems.

Hypothesis 1 suggests that not all Chinese private firms follow the Uppsala model. Instead they choose high-commitment entry modes for their initial internationalization: the 'Chinese way'. The hypothesis would be empirically supported if we were to find a significant group of Chinese private firms that internationalized through high-commitment. We conducted a two-tailed *t* test on the variable *high-commitment entry* to test whether there is a significant portion of Chinese private

Table 1. Descriptive statistics

<i>Heckman 1st stage (N = 400)</i>		<i>Mean</i>	<i>S.D.</i>	<i>Min</i>	<i>Max</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>
1	FDI	0.50	0.50	0	1	1.00										
2	Firm Age	11.68	9.50	0	60	0.15	1.00									
3	Industry	0.26	0.44	0	1	0.03	-0.05	1.00								
<i>Heckman 2nd stage (N = 200)</i>		<i>Mean</i>	<i>S.D.</i>	<i>Min</i>	<i>Max</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>
1	Firm Age	13.05	10.22	1	60	1.00										
2	Firm Size	5.65	1.38	2.40	9.62	0.40	1.00									
3	Export	0.83	0.38	0	1	-0.05	0.05	1.00								
4	Prior OFDI Experience	0.07	0.26	0	1	0.17	0.18	-0.08	1.00							
5	High-commitment Entry	0.50	0.50	0	1	0.03	0.10	-0.09	0.00	1.00						
6	Founder's International Experience	3.28	1.68	0	7	-0.02	-0.02	-0.02	-0.03	-0.11	1.00					
7	# of Foreign Partners	1.478	2.20	0	15	0.03	-0.00	0.20	0.00	0.06	0.06	1.00				
8	Foreign Partners from OFDI Country	0.54	0.50	0	1	-0.09	-0.11	0.23	-0.14	-0.07	0.14	0.30	1.00			
9	Potential Absorptive Capacity	0.00	0.84	-2.49	1.87	-0.14	-0.23	-0.01	-0.04	-0.04	-0.06	0.14	0.03	1.00		
10	Motivation to Learn	0.00	0.89	-2.87	1.28	0.15	-0.06	-0.18	0.01	-0.03	-0.06	0.08	0.03	0.09	1.00	
11	Learning Outcomes	0.00	0.88	-3.20	1.68	0.08	-0.05	-0.07	0.10	0.02	-0.10	0.13	0.05	0.29	0.59	1.00
12	Performance	0.00	0.90	-3.71	1.98	0.13	-0.05	0.01	-0.06	0.00	-0.16	0.11	0.07	0.21	0.39	0.43

Notes: Correlations with absolute values greater than 0.14 are statistically significant at the level of $p < 0.05$.

firms follow the ‘Chinese way’ of internationalization. We found that 50 percent of the OFDI projects were sales offices and another 50 percent were projects such as manufacturing, distribution centers or R&D facilities that required more capital, commitment, and risk-taking. The *t*-test for *high-commitment entry* is statistically significant from zero ($p < 0.001$), indicating that a significant portion of Chinese private firms deviate from the Uppsala internationalization process and follow the ‘Chinese way’ of internationalization by leaping into high-commitment OFDI. Hypothesis 1 is supported.

We conducted the Heckman two-stage regression to test and control for potential endogeneity and test Hypotheses 2–6. In the selection stage (first stage), the dependent variable/selection variable is whether a Chinese firm made any foreign direct investment; in this stage we included *firm age* and *industry* as independent variables. Mill’s ratio is not statistically significant in all the regression models, indicating that our estimation does not suffer from endogeneity issues. Below, we report results from the two Heckman stages; we report the first-stage results only once in the table as they remained the same when new variables entered the second-stage analysis.

Table 2 reports the Heckman two-stage regression results. Hypotheses 2, 3, 4, and 5 predict that founders’ congenital learning and firms’ inward international experience, potential AC, and motivation to learn will positively affect OFDI performance. In Model 2, the coefficient on *founders’ international experience* (congenital learning) is marginally significant and negative rather than positive as predicted ($\beta = -0.06$, $p < 0.10$). The coefficients on the two variables measuring inward international experience – *number of foreign partners in China* and *foreign partners from OFDI country* – are not statistically significant. Therefore, Hypotheses 2 and 3 were not empirically supported. The coefficients on *potential absorptive capacity* ($\beta = 0.17$, $p < 0.05$) and *motivation to learn* ($\beta = 0.37$, $p < 0.001$) are positive and statistically significant, supporting Hypotheses 4 and 5, respectively.

Hypotheses 6a–6d specify the mediating effects of learning outcome on the above suggested relationships (Hypotheses 2–5). We utilized three models to test the mediating effects (following Baron & Kenny, 1986). Model 2 has *performance* as the dependent variable and excludes the mediator *learning outcome*; Model 4 has *learning outcome* as the dependent variable and includes control and independent variables; Model 5 has *performance* as the dependent variable and includes control, independent, and mediating variables.

As Table 2 shows, *potential absorptive capacity* is positive and statistically significant in Model 2 ($\beta = 0.17$, $p < 0.05$) and Model 4 ($\beta = 0.27$, $p < 0.001$), but not statistically significant in Model 5. That is, *potential absorptive capacity* affects *performance* only through the mediator *learning outcomes*; if learning does not occur, absorptive capacity has no impact on performance. Therefore, we found a full mediating effect of *learning outcomes* on the relationship between *potential absorptive capacity* and *performance*. In addition, *motivation to learn* is positive and statistically significant in Models 2

Table 2. Tests of main and mediating effects – Heckman two-step analysis

	1st stage					2nd stage				
	FDI as DV					Performance as DV				
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 1	Model 2	Model 3	Model 4	Model 5
Firm Age	0.02**	0.018	0.01	0.03	0.01	0.01	0.01	0.03	0.01	0.00
Industry	0.14	–	–	–	–	–	–	–	–	–
Firm Size	–	–0.07	–0.01	–0.08	0.01	–0.01	–0.01	–0.08	0.01	–0.01
Export	–	0.04	0.18	–0.16	0.02	0.17	0.16	0.02	0.02	0.17
Prior FDI Experience	–	–0.26	–0.25	0.38	0.41†	–0.38	0.41†	0.38	0.41†	–0.38
High-commitment Entry	–	0.04	0.03	0.04	0.05	0.01	0.04	0.04	0.05	0.01
Founder's International Experience (H2)	–	–	–0.06†	–	–0.03	–0.05	–	–	–0.03	–0.05
# of Foreign Partners (H3)	–	–	0.02	–	0.02	0.01	–	–	0.02	0.01
Foreign Partners from OFDI Country (H3)	–	–	0.03	–	0.07	0.01	–	–	0.01	0.01
Potential Absorptive Capacity (H4)	–	–	0.17*	–	0.27***	0.08	–	–	0.27***	0.08
Motivation to Learn (H5)	–	–	0.37***	–	0.48***	0.21**	–	–	0.48***	0.21**
Learning Outcomes (H6a ~ H6d)	–	–	–	–	–	0.33***	–	–	–	0.33***
Intercept	–0.27*	0.03	0.35	–1.11	–1.08	0.71	–	–1.11	–1.08	0.71
N	400	200	200	200	200	200	200	200	200	200
Mill's Ratio	–	0.18	–0.39	1.68	1.13	–0.76	–	1.68	1.13	–0.76
Wald χ^2	–	4.36	50.78***	4.61	101.58***	74.45***	–	4.61	101.58***	74.45***

Notes: † $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

($\beta = 0.37, p < 0.001$), 4 ($\beta = 0.48, p < 0.001$), and 5 ($\beta = 0.21, p < 0.01$), revealing a partial mediating effect of *learning outcomes* on the relationship between *motivation to learn* and *performance*. That is, *motivation to learn* not only directly affects the firm's performance in a host country, but indirectly affects the firm's performance through its *learning outcomes*. In both Models 4 and 5, the coefficients on *founders' international experience* and the two variables measuring firms' inward international experience are not statistically significant; we cannot test the mediating effects of *learning outcomes* on the relationship proposed in Hypotheses 6a and 6b. In sum, Hypotheses 6c and 6d received empirical support, but Hypotheses 6a and 6b did not.

DISCUSSION

Our objective in this study is to explore the effects of organizational learning on the performance of Chinese private firms' OFDI. Although prior research has assessed why EM firms might move outward, organization learning has been largely ignored even though much theorizing suggests that EM firms must learn how to overcome their disadvantages (Child & Rodrigues, 2005). Specifically, this study considers the phenomenon of Chinese private firms moving outward. Our empirical study assesses firms' international experience, potential absorptive capacity, learning outcomes, and motivation to learn as important antecedents of OFDI performance. The results suggest that the firms' international experience through interaction with foreign firms in their home market did not contribute to international learning nor to OFDI performance. The founder's own international experience had a small negative effect on international learning outcomes. The result further reveals that 50 percent of the firms in our sample entered the foreign markets with a large commitment while the other 50 percent followed the Uppsala model of step-by-step investment. This finding suggests the 'Chinese way' of 'making it up as you go' dominates at least half of the OFDI.

Theoretical Contributions

Our study contributes to the literature on EM firms' OFDI and on their learning in several ways. First, we contribute by theoretically proposing and empirically showing the 'Chinese way' of internationalization. We show that a gradual-stage approach to the experience-based learning model of OFDI is insufficient to explain how Chinese private firms move abroad. Latecomers' risk of high uncertainty does not seem to prevent private Chinese firms from leapfrogging in their international expansion. They learn from their external environments by jumping into OFDI, using strategies of experimentation, improvisation, flexibility, and adaptation as they expand into very ambiguous and complex international situations.

Second, we contribute to the organization learning literature. Although experimentation and improvisation are known to be important to organizational learning

(e.g., Moorman & Minder, 1998), organizational-level empirical studies of the topic are few. We show that although Chinese firms can accumulate prior international experiences through cooperation with multinational companies from developed countries, many Chinese private firms conduct OFDI experimentally, learning as they go. Their prior experience-based learning from developed country partners did not contribute to their OFDI learning outcomes. In fact, their personal international experience prior to OFDI may potentially be a liability to their OFDI performance.

Third, we deepen understanding of various learning aspects for EM firms. We show that private Chinese firms' potential absorptive capacity impacts OFDI performance, fully mediated by actual learning. Further, the effect of motivation to learn on performance is partially mediated by their learning achievements. The surprising finding is that neither prior top management international experience nor firms' experience with foreign partners within the home market influenced OFDI performance or learning outcomes.

Limitations and Implications for Future Research

Several limitations are important to acknowledge. First, our sample was developed through a snowball technique because no comprehensive lists are available on Chinese private firms that have moved outward. In the future, databases of firms that move outward may be more available with the rapidly increasing volume of Chinese OFDI. Second, our sample is of private Chinese firms that have already conducted OFDI. It would be extremely helpful to learn how they assessed foreign market opportunities and also how they executed their going-out strategy.

Third, because of China's environment and the transitional nature of the economy, OFDI is a relatively recent phenomenon in China, and our study by no means captures all the effects of learning. This might limit the generalizability of our findings. Other researchers might try to assess the impact of learning from external sources in other ways, such as assessing whether external sources are within or outside the home or the host country. Some organizational variables could have lagged effects on knowledge usage, and a lag could occur between accumulation of knowledge from past experience and its reflection in terms of performance improvements. Ultimately, a more complete understanding of learning processes by Chinese firms conducting OFDI will benefit from longitudinal research. Such research will also benefit from combining questionnaire methods with other measures of knowledge acquisition.

Fourth, a gap in our research is an in-depth understanding of decisions to move outward. Although improvisation is important to the growth process, it may have dangerous consequences (Bingham, 2009). Decisions to enter foreign markets differ from processes of executing OFDI, and improvisation may be more appropriate for the execution phase. For some firms, 'walking away' may be a good decision.

We could not capture many early decisions regarding how firms chose which country to enter, how to implement OFDI strategy, and the particulars of improvisation. A case study approach would be appropriate and could greatly enlighten our understanding of how private Chinese firms make their decisions, the pressures they face, and the methods of execution.

Fifth, we consider founders' and firms' general international knowledge. Such general knowledge may be inferior to knowledge about specific countries, resulting in a non-significant impact on learning or performance. We call for future research to examine the varying effects of different components of international knowledge on learning and OFDI performance (for example, from exporting and interaction with partners from specific countries).

Sixth, we utilize an absorptive capacity framework (in line with Cohen & Levinthal, 1990; Lane, Salk, & Lyles, 2001; Zahra & George, 2002) for assessing how Chinese private firms 'acquire, assimilate, transform and exploit' knowledge (Zahra & George, 2002: 186). The next challenge is to analyze how Chinese firms transform such learning into applicable knowledge to enhance overall firm performance; that is, how overseas learning can benefit domestic operations and comprehensive global strategy. Future research in this area is warranted.

Additional Future Research Avenues

In addition to the future research related to the limitations of our study, we identify several additional areas for future research. First, effect of international knowledge through experience accumulation (by both the founders and the firm) may vary when experience-based knowledge is applied to different host contexts. According to Cuervo-Cazurra and Genc (2008), competing in the least developed countries, developing-country multinationals may be at less of a disadvantage, and in some cases may even have an edge over their developed-country counterparts. Following that logic, the accumulated international experiences from Chinese firms' domestic collaboration with foreign partners might be more useful when firms compete in developing countries rather than in developed countries, warranting a promising research avenue.

Second, future research might consider executives' psychological bias, particularly founders, and the effects on decisions related to internationalization. Founders may be over-confident about their capabilities for accessing foreign environments. Without strong motivation to learn, founders and firms moving outward may suffer from over-confidence or hubris. When decisions are highly uncertain, and managers have high discretion, CEO hubris and risky decisions have a positive relationship in China (Li & Tang, 2010). Past experience and success in other similar markets may generate over-confidence (Petersen et al., 2008; Zollo, 2004) leading CEOs to assume that the firm already has enough knowledge to operate in the new environment. Future studies should assess

executives' perception of their international knowledge, especially if it deviates from their actual capabilities for understanding the international marketplace.

Third, considering the bounded rationality of executives and therefore limited attention to different sources of international knowledge, future research may study the relationships among various international business-related information and knowledge channels. Applying the attention-based view to international new ventures, Fernhaber, McDougall-Covin, and Shepherd (2009: 315) found that when ventures are 'able to access international knowledge externally, the reliance on international knowledge sourced via the venture's managerial team is lessened.' This may partially explain our results showing that top managements' international experience is insignificant in affecting OFDI performance. Even when they have some internal international experience, Chinese firms apparently rely more on external sources of international knowledge, which may actually be a better source and provide more accurate knowledge of the foreign market. Scholars should consider how Chinese managers allocate attention to information and knowledge from different sources when selecting host countries, international entry modes, sequence of multiple entries, and post-entry operations.

Fourth, while our analyses show that Chinese private firms show more transformative qualities than transactional qualities in moving outward, this feature may change over time as more Chinese private firms move abroad. Transformative firms encourage more risk taking and respond to uncertainty by encouraging bold approaches and sometimes radical change (Vera & Crossan, 2004). The risk of high uncertainty does not seem to bother Chinese private firms when choosing their initial entry location and mode. But future interpretation of initial OFDI steps may differ and will provide greater insight into how and whether the Chinese firms had outcomes such as adaptation, innovativeness, or future learning (Levitt & March, 1988; Xu & Meyer, 2013). At the same time, entering new uncertain and ambiguous situations will not necessarily clarify recommendations for future decisions or actions (March, 1991). Learning is a lagged-process, and future research can follow firms through a longer time span than was possible for our study.

Last, Chinese OFDI is evolving. Internationalization behaviour is likely to change as Chinese firms become increasingly present in the global market. Currently, they use improvisation in which 'convergence and execution converge in time' (Moorman & Miner, 1998: 698). Their initial decisions to move outward are 'high consequence events' in which Chinese firms use strategies of experimentation and improvisation in what they perceive as very ambiguous and complex situations. With more Chinese companies deepening their operations abroad, they offer exemplary trajectories and painful lessons to the firms that are late in moving abroad. Performance implications and choices of available international strategies are likely to change over time, so that later Chinese firms will have more solid information and knowledge to use in their decisions to go global. The central role

of learning in Chinese firms' internationalization will likely spur new perspectives for the field of strategic management and international business (Xu & Meyer, 2012). Future research along this line will generate more insights not only for advancing general theorization of internationalization but also for making more meaningful recommendations to Chinese companies and their competitors.

CONCLUSION

Compared with inward FDI, firms in China have undertaken relatively little OFDI, although that situation may rapidly evolve in keeping with China's rapid development. Private Chinese firms may change their future outward strategies as they gain experience, but most are disadvantaged because they lack past direct experience in entering foreign markets and facing competition abroad. Private Chinese firms' direct experience in forming alliances and partnerships in China, their experiences in acquiring other Chinese firms, or their experiences in operating local manufacturing facilities seem to have little influence on making OFDI successful. Instead, learning capabilities, overall motivations, and learning outcome are more important. Driven by strong ambitions and motivations, undoubtedly more Chinese firms will invest abroad as part of China's rising economic power. Instead of step-by-step experiential learning, making high commitment at entry, experimentation, quick assimilation, and utilization of new knowledge seem to be part of the 'Chinese way' of internationalization of Chinese private firms, and appear to be critical to their success abroad.

NOTES

We would like to acknowledge the financial support for this research project from the Center of International Business Education & Research, the Research Center for Chinese Politics & Business, and the Office of Vice President of International Affairs at Indiana University. Haifeng Yan acknowledges financial support from National Natural Science Foundation of China (NSFC, Grant No.71072071) and Shanghai Pujiang Program.

APPENDIX I

Faction items

<i>Factor</i>	<i>Items</i>	<i>Loading</i>	<i>Cronbach alpha</i>
Performance	<i>To what extent has your firm achieved the following goals regarding your OFDI in Country 1? (scale 1 to 7 where 1 = not at all and 7 = fully accomplished)</i>		
	a. Enhance our reputation in Chinese Market	0.68	0.85
	b. Obtain technologies for use in Chinese Market	0.78	
	c. Meet the export quota	0.64	
	d. Compliance with government goals	0.64	
	e. Innovation in product and services	0.60	
	f. Reduce our costs for doing business overseas	0.75	
	g. Increase our overseas sales	0.64	
Learning outcomes	<i>To what extent do you agree with the following statements regarding what you have learned from the firm's international business in Country 1? (scale 1 to 7 where 1 = not at all and 7 = fully accomplished)</i>		
	a. Adapting products for local markets	0.82	0.83
	b. Targeting multiple market segments in a foreign country	0.76	
	c. Tracking customer needs and trends	0.58	
	d. Identifying foreign buyers	0.74	
Potential absorptive capacity	<i>To what extent do you agree with the following statements? (scale 1 to 7 where 1 = strongly disagree to 7 = strongly agree)</i>		
	a. We collect industry information through informal means	0.73	0.70
	b. We collect a large amount of industry information	0.76	
	c. Our firm periodically organizes special meetings with customers or third parties to acquire new knowledge	0.57	
	d. Our firm quickly recognizes the usefulness of new external knowledge	0.55	
Motivation to learn	<i>Please evaluate the reasons for your firm to invest in the specified country (scale 1 = not important at all to 7 = very important)</i>		
	a. Learn new technology	0.72	0.81
	b. Learn new managerial skills	0.83	
	c. Learn about foreign market	0.66	

REFERENCES

- Aitken, B., Hanson, G., & Harrison, A. 1997. Spillovers, foreign investment, and export behavior. *Journal of International Economics*, 43(1–2): 103–132.
- Alon, I., Child, J., Li, S., & McIntyre, J. R. 2011. Globalization of Chinese firms: Theoretical universalism or particularism. *Management and Organization Review*, 7(2): 191–200.
- Bagozzi, R. P. 1980. *Causal models in marketing*. New York: Wiley.
- Baron, R. M., & Kenny, D. A. 1986. The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology*, 51(6): 1173–1182.
- Bartlett, C. A., & Ghoshal, S. 2000. Going global: Lessons from late movers. *Harvard Business Review*, March–April: 132–142.
- Batjargal, B., & Liu, M. 2004. Entrepreneurs' access to private equity in China: The role of social capital. *Organization Science*, 15(2): 159–172.

- Bell, J. 1995. The internationalization of small computer software firms: A further challenge to 'stage' theories. *European Journal of Marketing*, 29(8): 60–75.
- Bengtsson, L. 2004. Explaining born globals: An organizational learning perspective on the internationalization process. *International Journal of Globalisation and Small Business*, 1(1): 28–41.
- Bingham, C. B. 2009. Oscillating improvisation: How entrepreneurial firms create success in foreign market entries over time. *Strategic Entrepreneurship Journal*, 3(4): 321–345.
- Boeker, W. 1989. Strategic change: The effects of founding and history. *Academy of Management Journal*, 32(3): 489–515.
- Boisot, M. 2004. *Notes on the internationalization of Chinese firms*. Unpublished paper, Barcelona: Open University of Catalonia.
- Boisot, M., & Meyer, M. W. 2008. Which way through the open door? Reflections on the internationalization of Chinese firms. *Management and Organization Review*, 4(3): 349–365.
- Brush, C. G. 1995. International entrepreneurship: The effect of firm age on motives for internationalization. New York: Garland Publishing.
- Buckley, P. J., Clegg, L. J., Cross, A. R., Liu, X., Voss, H., & Zheng, P. 2007. The determinants of Chinese outward foreign direct investment. *Journal of International Business Studies*, 38(4): 499–518.
- Burpitt, W. J., & Rondinelli, D. A. 2000. Small firms' motivations for exporting: To earn and learn? *Journal of Small Business Management*, 38(4): 1–14.
- Chang, S.-J., van Witteloostuijn, A., & Eden, L. 2010. Common method variance in international business research. *Journal of International Business Studies*, 41: 178–184.
- Chetty, S., & Campbell-Hunt, C. 2003. Paths to internationalization among small- and medium-sized firms. A global versus regional approach. *European Journal of Marketing*, 37(5/6): 796–820.
- Child, J. 1997. Strategic choice in the analysis of action, structure, organisations and environment: Retrospect and prospect. *Organization Studies*, 18(1): 43–76.
- Child, J., & Rodrigues, S. B. 2005. The internationalization of Chinese firms: A case for theoretical extension. *Management and Organization Review*, 1(3): 381–410.
- Churchill, N. C., & Lewis, V. L. 1983. The five stages of small business growth. *Harvard Business Review*, 61(3): 30–50.
- Cohen, W. M., & Levinthal, D. A. 1990. Absorptive capacity: A new perspective on learning and innovation. *Administrative Science Quarterly*, 35(1): 128–152.
- Cuervo-Cazurra, A., & Genc, M. 2008. Transforming disadvantages into advantages: Developing country MNEs in the least developed countries. *Journal of International Business Studies*, 39(6): 957–979.
- Deng, P. 2013. Chinese outward direct investment research: Theoretical integration and recommendations. *Management and Organization Review*, 9(3): 513–539.
- Dhanaraj, C., Lyles, M. A., Steensma, H. K., & Tihanyi, L. 2004. Managing tacit and explicit knowledge transfer in IJVs: The role of relational embeddedness and the impact on performance. *Journal of International Business Studies*, 35(5): 428–442.
- Dunning, J. 1988. The eclectic paradigm of international production: A restatement and some possible extensions. *Journal of International Business Studies*, 19(1): 1–31.
- Fang, T. 2003. A critique of Hofstede's fifth national culture dimension. *International Journal of Cross Cultural Management*, 3(3): 347–368.
- Fang, T. 2012. Yin Yang: A new perspective on culture. *Management and Organization Review*, 8(1): 25–50.
- Fernhaber, S. A., & Li, D. 2012. International exposure through network relationships: Implications for new venture internationalization. *Journal of Business Venturing*, 28(2): 316–334.
- Fernhaber, S. A., McDougall-Covin, P. P., & Shepherd, D. A. 2009. International entrepreneurship: Leveraging internal and external knowledge sources. *Strategic Entrepreneurship Journal*, 3(4): 297–320.
- Fornell, C., & Larcker, D. F. 1981. Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1): 39–50.
- Forsgren, M. 2002. The concept of learning in the Uppsala internationalization process model: A critical review. *International Business review*, 11(3): 257–277.

- Gu, Q., & Lu, J. W. 2011. Effects of inward investment on outward investment: The venture capital industry worldwide 1985–2007. *Journal of International Business Studies*, 42: 263–284.
- Gupta, A. K., & Sapienza, H. J. 1992. Determinants of venture capital firms' preferences regarding the industry diversity and geographic scope of their investments. *Journal of Business Venturing*, 7(5): 347–362.
- Harrison, D., McLaughlin, M., & Coalter, M. T. 1996. Context, cognition, and common method variance: Psychometric and verbal protocol evidence. *Organizational Behavior & Human Decision Processes*, 68(3): 246–261.
- Hedlund, G., & Kverneland, A. 1985. Are strategies for foreign markets changing? The case of Swedish investment in Japan. *International Studies of Management & Organization*, 15(2): 41–59.
- Hofstede, G. 1980. *Culture's consequences: International differences in work-related values*. Beverly Hills, CA: Sage.
- Huber, G. P. 1991. Organizational learning: The contributing processes and the literatures. *Organization Science*, 2(1): 88–115.
- Hutzschenreuter, T. H., Pedersen, T., & Volberda, H. W. 2007. The role of path dependency and managerial intentionality: A perspective on international business research. *Journal of International Business Studies*, 38(7): 1055–1068.
- Hymer, S. H. 1976. *The international operations of national firms: A study of direct foreign investment*. Cambridge, MA: MIT Press.
- Jansen, J. P., Van den Bosch, F. A. J., & Volberda, H. W. 2005. Managing potential and realized absorptive capacity: How do organizational antecedents matter? *Academy of Management Journal*, 48(6): 999–1015.
- Jantunen, A., Nummerla, N., Puumalainen, K., & Saarenketo, S. 2008. Strategic orientations of born globals – do they really matter? *Journal of World Business*, 43(2): 158–170.
- Johanson, J., & Vahlne, J. 1977. The internationalization process of the firm – a model of knowledge development and increasing foreign market commitment. *Journal of International Business Studies*, 8(1): 23–32.
- Johanson, J., & Vahlne, J. 2009. The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies*, 40: 1411–1431.
- Jolly, V. K., Alahuhta, M., & Jeannot, J.-P. 1992. Challenging the incumbents: How high technology start-ups compete globally. *Journal of Strategic Change*, 1(2): 71–82.
- Kropp, F., Lindsay, F., & Shoham, A. 2006. Entrepreneurial, market, and learning orientations and international entrepreneurial business venture performance in South African firms. *International Marketing Review*, 23(5): 504–523.
- Lanc, P. J., Salk, J., & Lyles, M. A. 2001. Absorptive capacity, learning, and performance in international joint ventures. *Strategic Management Journal*, 22(12): 1139–1161.
- Leonidou, L. C., Katsikeas, C. S., & Piercy, N. F. 1998. Identifying managerial influences on exporting: Past research and future directions. *Journal of International Marketing*, 6(2): 74–102.
- Levitt, B., & March, J. G. 1988. Organizational learning. *Annual Review of Sociology*, 14: 319–340.
- Li, J., & Tang, Y. 2010. CEO hubris and firm risk taking in China: The moderating role of managerial discretion. *Academy of Management Journal*, 53(1): 45–68.
- Lu, J., Liu, X., & Wang, H. 2011. Motives for outward FDI of Chinese private firms: Firm resources, industry dynamics, and government policies. *Management and Organization Review*, 7(2): 223–248.
- Luo, Y., & Tung, R. L. 2007. International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies*, 38(4): 481–498.
- Lyles, M. A., & Salk, J. E. 1996. Learning from foreign parents in international joint ventures: An empirical examination in the Hungarian context. *Journal of International Business Studies*, 27(6): 1139–1162.
- Madsen, T. K., & Servais, P. 1997. The internationalization of born globals: An evolutionary process. *International Business Review*, 6(6): 561–583.
- March, J. G. 1991. Exploration and exploitation in organizational learning. *Organization Science*, 2(1): 71–87.

- Mathews, J. A. 2006. Dragon multinationals: New players in 21st century globalization. *Asia Pacific Journal of Management*, 23(1): 5–27.
- McDougall, P. P., Shane, S., & Oviatt, B. M. 1994. Explaining the formation of international new ventures: The limits of theories from international business research. *Journal of Business Venturing*, 9(6): 469–487.
- Meyer, J. W., & Rowan, B. 1977. Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, 83(2): 340–363.
- Miles, R. E., & Snow, C. 1994. *Fit, failure, and the hall of fame: How companies succeed or fail*. New York: Free Press.
- MOFCOM. 2008. *Statistical bulletin of China's outward foreign direct investment*. Ministry of Commerce of People's Republic of China, National Bureau of Statistics of People's Republic of China, State administration of Foreign Exchange.
- MOFCOM. 2012. *Statistical bulletin of China's outward foreign direct investment*. Ministry of Commerce of People's Republic of China, National Bureau of Statistics of People's Republic of China, State administration of Foreign Exchange.
- Moorman, C., & Miner, A. S. 1998. Organizational improvisation and organizational memory. *Academy of Management Review*, 23(4): 698–723.
- Neter, J., Wasserman, W., & Kutner, M. H. 1990. *Applied linear statistical models*. Homewood, IL: Irwin.
- Nunnally, J. C., & Bernstein, I. H. 1994. *Psychometric theory*. New York: McGraw-Hill.
- Oladottir, A. D. 2009. Internationalization from a small domestic base: An empirical analysis of foreign direct investments of Icelandic firms. *Management International Review*, 49(1): 61–80.
- Oviatt, B., & McDougall, P. P. 1994. Toward a theory of international new ventures. *Journal of International Business Studies*, 25(1): 45–64.
- Peng, M. W., & Luo, Y. 2000. Managerial ties and firm performance in a transition economy: The nature of a micro-macro link. *Academy of Management Journal*, 43(3): 486–501.
- Petersen, B., Pedersen, T., & Lyles, M. A. 2008. Closing knowledge gaps in foreign markets. *Journal of International Business Studies*, 39(7): 1097–1113.
- Podsakoff, P. M., & Organ, D. W. 1986. Self-reports in organizational research: Problems and prospects. *Journal of Management*, 12(4): 531–544.
- Podsakoff, P. M., MacKenzie, S. B., Lee, J.-Y., & Podsakoff, N. P. 2003. Common method biases in behavioral research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology*, 88(5): 879–903.
- Ralston, D. A., Gustafson, D. J., Cheung, F. M., & Terpstra, R. H. 1993. Differences in managerial values: A study of U.S., Hong Kong and PRC managers. *Journal of International Business Studies*, 24(2): 249–275.
- Reuer, J., Zollo, M., & Singh, H. 2002. Post-formation dynamics in strategic alliances. *Strategic Management Journal*, 23(2): 135–151.
- Sapienza, H. J., Autio, E., Geroge, G., & Zahra, S. A. 2006. A capabilities perspective on the effects of early internationalization on firm survival and growth. *Academy of Management Review*, 31(4): 914–933.
- Vera, D., & Crossan, M. 2004. Strategic leadership and organizational learning. *Academy of Management Review*, 29(2): 222–240.
- Xu, D., & Meyer, K. E. 2013. Linking theory and context: 'Strategy research in emerging economies' after Wright *et al.* (2005). *Journal of Management Studies*, 50(7): 1322–1346.
- Yiu, D. W., Lau, C. M., & Burton, G. D. 2007. International venturing by emerging economy firms: The effects of firm capabilities, home country networks, and corporate entrepreneurship. *Journal of International Business Studies*, 38(4): 519–540.
- Young, S., Huang, C.-H., & McDermott, M. 1996. Internationalization and competitive catch-up processes: Case study evidence on Chinese multinational enterprises. *Management International Review*, 36(4): 295–314.
- Zaheer, S. 1995. Overcoming the liability of foreignness. *Academy of Management Review*, 27(2): 341–363.
- Zahra, S., & Hayton, J. C. 2008. The effect of international venturing on firm performance: The moderating influence of absorptive capacity. *Journal of Business Venturing*, 23(2): 195–220.

- Zahra, S. A., & George, G. 2002. Absorptive capacity: A review, reconceptualization, and extension. *Academy of Management Review*, 27(2): 185–203.
- Zollo, M. 2004. *Superstitious learning revisited: Outcome ambiguity and confidence traps in corporate acquisitions*. Paper presented at the Nordic Workshop in International Business.

Marjorie Lyles (mlyles@iupui.edu) is the OneAmerica Chair and Professor of International Strategic Management at Indiana University Kelley School of Business. She is a Distinguished Visiting Scholar at Lancaster University (UK) and at UIBE (China). Her research addresses organizational learning and innovation, international strategies, and alliances, particularly in emerging economies. She has published in *SMJ*, *ASQ*, *JIBS*, *OSci*, *AMR*, *JMS* and *AMJ*. She is an SMS and AIB Fellow. She is the incoming president of the Strategic Management Society.

Dan Li (lid@indiana.edu) is an Associate Professor of International Business at the Kelley Business School, Indiana University. She received her Ph.D. from Texas A&M University in 2005. Her research interests include the management of multinational enterprises, particularly in the areas of international strategic alliances. Her recent publications appear in *AMJ*, *OSci*, *JIBS*, *JOM*, and *JBV*.

Haifeng Yan (hfyan@ecust.edu.cn) is Professor of Management at the School of Business, East China University of Science and Technology (ECUST). He received his Ph.D. from Fudan University. His research focuses on the internationalization process of Chinese enterprises, organizational learning, and multinational enterprises theory.

Manuscript received: April 12, 2013
Final version accepted: March 31, 2014
Accepted by: William Wan