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**Effects of Past Experience, Learning Capabilities and Overall  
Motivation on the Performance of Chinese Outward FDI and the  
Mediating Role of Learning**

经验、学习能力和动机对中国对外直接投资企业绩效的影响  
以及学习的中介作用

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## Abstract

Existing theoretical models of internationalization do not fully explain the international venturing of emerging economy private ventures (Yiu, Lau & Burton, 2007; Lu, Liu, & Wang, 2010; Zahra, 2003). Using survey data of midsized private Chinese firms that have already made outward foreign direct investments (OFDI), this paper introduces how past international experiences, learning capabilities and overall motivations of a firm influence the performance of its OFDI. We hypothesize that each of these variables will have a positive effect on the performance of the current OFDI project and that the firm's learning mediates these relationships. Our results 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 we find that the firm's overall motivation has a direct effect on performance and is partially mediated by what the firm has learned. What the firm has learned from the firm's international business in the host country has a direct and positive effect on the performance of the OFI. However, diverging from prior research, our analysis indicates that neither the founder's international experience nor the firm's prior international experience has a direct impact on the OFDI performance.

## 摘要

目前的国际化理论不能完全解释新兴市场私营企业的国际化行为，因此，本研究基于有对外直接投资的中国中小私营企业的调查数据，考察了先前的国际化经验、学习能力，以及企业的国际化动机如何影响其对外投资绩效。我们假设每一个因素都对企业的对外直接投资绩效具有正向的影响，并且，企业的学习在此关系中扮演了中介角色。结果显示，学习在企业潜在吸收能力与其投资绩效关系之间起到了完全中介作用；我们还发现，企业国际化动机对绩效产生了直接的影响，学习在此间扮演了部分中介角色。企业在国际商务活动中的学习对其投资绩效有直接的正向影响。然而，与此前研究结论不同，我们的分析结果显示，不论企业创始人的国际化经验，还是企业先前的国际化经验，对海外投资绩效均没有直接的影响。

## **Introduction**

Substantial research has addressed why firms may make outward foreign direct investment (OFDI) decisions but few studies have addressed the international venturing of emerging economy firms (Yiu, Lau, and Burton, 2007). Whether the firms from emerging economies will be able to become globally competitive is of great interest to scholars from many disciplines (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Yiu et al., 2007). International business theorists have suggested that the most important asset for the emerging market firms is knowledge, and the most important capabilities are how to learn and utilize that knowledge (Hutzschenreuter, Pedersen, & Volberda, 2007; Johanson & Vahine, 2006; Lyles and Salk, 1996). In fact the Chinese government encourages firms to go out and to learn how to operate internationally (Buckley et al. 2007). Chinese firms operated within a closed economic environment until the “opening up” of the late 1970s. But it is mainly in the last decade that Chinese firms have attempted to be competitive with foreign firms and have begun to move their operations outside of China.

China is the most active of the emerging markets in OFDI, and Chinese OFDI has increased significantly over the last five years (MOFCOM, 2009). There are increasing pressures on Chinese firms to conduct outward FDI by the government (Buckley et al., 2007; Mathews, 2006). China’s outward FDI net flows reached US\$245.75 billion in 2009 (MOFCOM, 2009), and about 8500 Chinese firms had invested in 177 countries abroad. Even as global OFDI decreased in 2008, Chinese OFDI increased (Salidjanova, 2011). Centrally controlled government enterprises (CGEs) which are about 11% of all enterprises made up close to 82% of all OFDI in 2006. Most of the published documentation addresses these asset seeking activities of large state-owned enterprises; however, there is little documentation about the OFDI

of private Chinese firms. One estimate is that 40% of Chinese private firms were planning to invest overseas including setting up distribution channels and representative offices abroad (*China Perspective*, Jan. 27, 2010).

Yet, there is little evidence regarding the performance of these Chinese companies moving outward and what impacts their success. Most, if not all, of the government databases do not address firm level data that would allow comparisons and evaluation of the firm activities. Also, recent literature has focused on large state-owned enterprises, rather than private ones that are economically motivated for international expansion (Buckley et al., 2007; Lu et al., 2010). In their study of motives for internationalization of prominent market-seeking Chinese firms, Child and Rodriques (2005) question whether the theories of OFDI derived from developed country experience are applicable to emerging markets such as China. They suggest that the traditional theories ignore that firms from emerging markets often pursue OFDI to overcome disadvantages rather than to exploit advantages. Furthermore, emerging market firms are often embedded in home country relationships such as with the government. Child and Rodriques (2005) develop a “Latecomer” perspective and note that in China, the larger firms are often identified as national champions and receive financial support and protection from failure by the government. Child and Rodriques also note that more recently, the government has lessened its direct involvement of OFDI and has allowed firms more discretion in their decision-making. Other scholars further suggest that the Chinese management style approaches risk and learning differently than Western firms. In fact Buckley et al. (2007) note that Chinese firms do not seem to be deterred by political risk and may be attracted by high risk environments particularly when the cost of capital is low.

There continues to be a gap in the literature that concerns the impact of organizational learning and the performance of the firms as they move outward. Echoing the emphasis on knowledge and learning for emerging market firms' internationalization (e.g., Buckley et al. 2007; Hutzschenreuter et al. 2007; Johanson & Vahine, 2006; Lyles and Salk, 1996), our goal for this research is to fill this gap by the investigation of organizational learning processes (past experience, absorptive capacity, and motivation) in Chinese enterprises as they move outward from China. It aims to determine what factors affect the OFDI performance of private Chinese firms as they compete outside of China. Specifically, we argue that Chinese private firms, because of a lack of experience in global business, will follow new models for moving outward. In other words, these firms will not take the slow, incremental process described by the Uppsala model but will follow a model of "making it up as you go." We hypothesize that the past experience, motivation, and learning experiences of the Chinese enterprises with foreign firms both inside and outside China will impact their current OFDI performance. We further hypothesize that learning outcomes from the Chinese firms' international operation will mediate such relationships.. Our empirical analysis based on a sample of medium-sized Chinese private firms revealed interesting results.

### **Hypotheses Development**

While traditional models of internationalization may have not fully embraced the uniqueness of emerging market firms (Child & Rodriques, 2005), we argue that these models still offer valuable insights in understanding emerging market firms' international expansion. The Uppsala Model that address the process of internationalization as a step-wise process that evolves from learning by doing may or may not be appropriate. Johanson and Vahlne (2009, p.

1412) state that the original Uppsala model was based on the observation that “Swedish firms frequently began internationalizing with *ad hoc* exporting”. They view experiential learning as having a central role in internationalization and that risk taking may occur after there is increased knowledge. After the initial exporting, the firms would gradually enter other markets as they gain experience, closed the knowledge gap, and overcame the liability of foreignness (Petersen, Pedersen, and Lyles, 2008; Zaheer, 1995). In the Uppsala model, there are two basic assumptions: firms learn from their experience (Cyert and March, 1963) and firms will gradually change their international strategies by making further commitments to their original decision once they are comfortable in the overseas country. This learning and commitment building relationship develops over time. Thus, we argue that learning from experience is critical in successful internationalization.

Firms from emerging markets are often latecomers. The Chinese firms come from a unique historical perspective which means that few managers and firms had international experience prior to 1980. Often they have to rely upon the international exposure and experiences that they have within their own home market. Yiu et al. (2007) suggest that management capabilities are critical to internationalization. This includes the CEO’s international exposure and also the firm’s past international experience such as its past experience with partnerships within their home market. Reuber and Fischer (1997) found that firms with internationally experienced management execute strategies that include foreign partners and that lead to a greater degree of internationalization. Also Johanson and Vahlne (2007) in an updated discussion of the Uppsala model, consider that some firms may learn from interacting with other firms in their networks and they don’t necessarily have to have direct experience.

Hypothesis 1a: *The CEO's international experience will have a positive effect on the performance of outward FDI.*

Hypothesis 1b: *The firm's past international experience will have a positive effect on the performance of outward FDI.*

Absorptive capacity is critical to a firm's ability to learn and represents the identification of new knowledge, assimilation into the existing knowledge base, and utilization of the new knowledge (Cohen and Levinthal, 1990). Firms learn faster if the new knowledge is related to the existing knowledge and capitalizes on the past learning. Thus, the assumption is that learning is accumulative and builds upon the current knowledge base and that wanting to keep learning is important for future performance.

Potential absorptive capacity refers to the ability to acquire and assimilate new knowledge primarily from external sources (Zahra and George, 2002; Jansen, van den Bosch, and Volberda, 2005; Petersen et al. 2008). Often the knowledge about how to do business overseas is tacit knowledge that comes from experience or if a firm does not have the direct experience itself, it can gain tacit knowledge through informal means such as interacting with and learning from others who are external to their firm, such as other subsidiaries, suppliers, customers, 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). Consequently learning is more difficult in new situations and it is often difficult to adapt the past learnings and routines to new situations. But if the Chinese private firms have the ability to gather knowledge through informal means, they have the potential to build upon their current absorptive capacity and this should lead to better performance in their OFDI.

Hypothesis 2: *Potential absorptive capacity will have a positive effect on the performance of the outward FDI.*

Typically firms moving to a foreign country have certain disadvantages such as an incomplete understanding of the consumer buying behavior, laws, language, and business practices (Oviatt and McDougall, 1994). The strength of the firm's motivation to learn and to adapt to the new foreign market will influence its ability to succeed (Pedersen et al. 2008; Salk and Lyles, 1996) and to overcome these disadvantages.

Chinese firms are late comers to most developed markets and often to less developed markets as well. Consequently, they often do not have relevant experiences for competing with foreign firms in new markets. Sometimes but not always they have competed against foreign firms in their own Chinese market. This lack of experience of competing against foreign firms means they are attempting to overcome their disadvantages rather than to exploit their comparative advantages as they move outward. Child and Rodrigues (2005, p. 403) state the most important sought after assets for Chinese firms "are intangible ones, such as brand reputation, technological knowledge and competence to manage a global corporation." Moreover Boisot (2004) states that the Chinese firms moving outward regard this as a step to better compete internationally and to learn competences necessary to do this, not just increased sales in foreign markets. The Chinese firms are targeting learning new skills and how to compete.

Some firms that are driven by a vision and strategic intent, such as to become a global company with high aspirations for the levels of performance, may be driven to learn and to perform better. Hutzschenreuter et al. (2007) identify what they call *managerial intentionality* which suggest is a neglected area in management research and which highlights the importance

of managerial discretion, knowledge accumulation, and high expectations. High aspirations can lead to high motivations to learn and based on past performance, to strive for better operations and higher performance. Buckley et al. (2008) suggest that Chinese firms may take high risks-- maybe this also means higher aspirations and more motivation to learn.

Without strong motivation to continue to learn and to achieve at new levels, the firms moving outward may suffer from over-confidence or hubris in entering the new market. Pedersen et al. 2008 and Zollo (2004) suggest that this over-confidence can result from past experience and similar successful experiences in other similar markets. This over confidence, however, may result in an assumption that the firm already has enough knowledge to operate in the new environment. In these cases, the motivation to learn about the new business environment is diminished because the managers make erroneous assumptions about their own capabilities. It is viewed that a firm with a high motivation for finding new markets linked to a high motivation to learn will have a more positive effect on firm performance than a firm with less motivation to learn.

Hypothesis 3: The strength of the firm's motivation to move outward and to learn will be positively related to the performance of the outward FDI

Chinese firms who moving outward can benefit from learning in several ways. Research suggests that the most importance learning for firms moving outward is the tacit knowledge that comes from understanding the local market and customer needs (Forsgren and Johanson, 1992; Petersen et al. 2008; Zaheer 1995). The tacit knowledge is primarily gained by learning by doing and often involves moving away from old methods or routines. There may be explicit knowledge that can be learned more quickly than the implicit or tacit knowledge (Johanson and Vahne, 1977) but often the explicit and tacit knowledge are 'chunked' together. The firms need

to learn both and the interaction between them (Dhanaraj, Lyles, Steensma, and Tihanyi, 2004). Pedersen, Petersen, and Lyles (2008) find that moving outward does not immediately result in a diminishing knowledge gap. In fact, the gap may appear to be larger once the firm moves abroad and discovers all that it does not know. We propose that overcoming this lack of knowledge and the liability of foreignness means it is necessary to learn about the local customs, institutions, and markets. This is learning how to compete against foreign firms in the new environment and may result because of concrete learning outcomes which should improve the performance of the OFDI.

Hypothesis 4a. The learning outcomes that the firm achieves from its international activities in a particular country will mediate the relationship between its past international experience and the performance of outward FDI.

Hypothesis 4b. The learning outcomes that the firm achieves from its international activities in a particular country will mediate the relationship between its motivation to move outward and the performance of outward FDI.

## **Methodology**

### *Data Collection*

To test our hypotheses, we collected data in China in 2009 with the help of a national research firm in Beijing that has regularly conducted survey research in China since 1992. We have used a snowball technique for identifying the firms by assuming that a firm that has done outward FDI may also know other firms that have done so. This technique was necessary because of the lack of complete lists of Chinese firms that have invested abroad. The government

regularly publishes a list of the largest (and mostly SOE) firms that have moved outward but not a listing of the many medium-sized private firms that have moved outward.

Our criteria for sample selection are the following: first, the firms must have conducted a foreign direct investment, rather than merely setting up an office overseas. Second, the firms cannot be state-owned enterprises but are private Chinese firms. Yet, minority state ownership is allowed. Eight hundred fourteen firms were contacted, among which 296 refused to participate, 260 do not meet the criteria, and 22 had wrong contact information. Thus, 236 survey-based interviews were conducted, among which 36 were disregarded due to quality problems. The interviewers informed the respondents that this was academic research and that the data would only be presented in aggregate form.

Our final sample consists of 200 Chinese firms. The response rate is about 24.6%. These 200 firms are from Guangdong (44), Beijing (41), Zhejiang (40), Shandong (32), Jiangsu (18), Shanghai (14), Liaoning (9) and Fujian (2). We did not restrict industries when selecting sample firms; there are 145 manufacturing firms (including energy, electrics, machinery, telecommunication and network equipment, electronics, textile etc.) and 55 service firms (including finance, banking, computer software, information services, R&D, consulting).

Of the 200 firms, 61 (30.5%) are large ones with total assets greater than 100 million RMB (approximately > \$14.5 million), 98 (49%) are medium-sized ones with total assets between 40 and 100 million RMB (approximately \$5.8~\$14.5 million), and 41 (20.5%) are small ones with total assets below 40 million RMB (approximately <\$5.8 million).

Survey respondents are executives who are familiar with the firm's foreign direct investment businesses, hold department manager position or higher and have at least three years' tenure in the company.

Because we obtained data from a single survey, common method variance might be a concern. Following Podsakoff and Organ (1986), we performed the Harman's one-factor test. The results suggested that no single or general factor emerged. In addition, we sought to use 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). Therefore, common method bias is not a significant threat in our study.

### *Measures*

All of the measures are based on previously published variables and Appendix 1 shows all the items for the variables. In addition we performed exploratory factor analysis to confirm the constructs. We also standardized the responses.

*Dependent variables.* We have two dependent variables in the analyses, one of which is the mediator. *Performance* measures the degree to which the firm has achieved its goals in seven aspects including reputation enhancement, technology access, cost reduction etc. The Cronbach Alpha is 0.853. The second dependent variable, our mediating variable, is *learning outcomes*. Four items modified from Dhanaraj *et al.* (2004) are used to generate the factor; the Cronbach Alpha generated is 0.828.

*Independent variables.* We include five variables to measure a firm's past international experience – *Founder's International Experience* is a count variable of the types of international experiences that the founder or CEO had in the past such as taking business trips abroad, working overseas, speaking foreign languages, etc.; *Firm Export* is a dummy variable indicating whether the firm exports; *Number of Foreign Partners*; *Number of Foreign Partners from Host Country* is a dummy variable indicating whether the firm has any partners from the host country;

and Prior *OFDI experience* indicates whether the firm has conducted foreign direct investment before.

*Absorptive Capacity Potential* is a factor generated on the basis of five items, modified from Jansen, Van den Bosch and Volberda (2005); the Cronbach Alpha is 0.716. *Overall Motivation* factor evaluates the reasons for the firm to invest in the host country, more specifically market seeking, new technology seeking, managerial skill seeking, learning about market, and following customer (Dunning, 1988). The Cronbach alpha generated is 0.793.

Finally, to partial out potential confounding effects, we control for firm size and industry in the regression analyses.

## **Results**

Descriptive statistics are reported in Tables 1. 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 which are below 5 and the average VIFs for all regression models below 2. Both indices are below the accepted thresholds of 10 and 2, respectively (Neter et al., 1990). Therefore, we are confident that our estimates are not threatened by multicollinearity problems.

Table 2 reports the OLS regression results. Hypotheses 1 and 3 predict that a firm's past international experience, current absorptive capacity, and overall motivation to move outward will have positive effects on the performance of the firm's FDI performance. In Model 2, both coefficients on *Potential Absorptive Capacity* and *Overall Motivation* are positive and statistically significant, supporting Hypotheses 2 and 3. However, only one of the five coefficients on the firm past international experience, *Founder's International Experience*, is

marginally significant at the level of  $p < 0.10$ , and negative rather than positive as predicted. Therefore, Hypothesis 1 does not receive any empirical support.

Hypothesis 4 argues for the mediating effects of learning outcome on the above suggested relationships (Hypotheses 1, 2 and 3). Following Baron and Kenny (1986), we utilized three models to test the mediating effects of *Learning Outcomes*. 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 all control and independent variables; Model 5 has *Performance* as the dependent variable and include all control, independent and mediating variables.

As shown in Table 2, *Potential Absorptive Capacity* is positive and statistically significant in Model 2 and Model 4, 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, there is no impact of a firm's absorptive capacity on performance. Therefore, we found a full mediating effect of *Learning Outcomes* on the relationship between *Absorptive Capacity* and *Performance*. In addition, *Overall Motivation* is positive and statistically significant in Models 2, 4, and 5, revealing a partial mediating effect of *Learning Outcomes* on the relationship between *Overall Motivation* and *Performance*. That is, *Overall Motivation* not only directly affects the firm's performance in a host country, but indirectly affects the firm's performance through its *Learning Outcomes*. Because the past international experience variables are not statistically significant, we cannot test the mediating effects of *Learning Outcomes* on the relationship between a firm's past international experience and its performance in a host country.

## **Discussion**

The objective of this study was to explore the effects of organizational learning models on the performance of Chinese private firms' outward foreign direct investments. While prior research has assessed why emerging economy firms might move outward, organization learning models have been largely ignored. In addition, research into Chinese private firms moving outward has only just begun to be explored. This empirical study assesses the international experience of the top management, the firm's potential absorptive capacity, learning outcomes and its motivations as important indicators of the firm's performance.

Our study contributes to the literature on emerging market firms OFDI and on its conjuncture with learning models in several ways. We find that the firm's potential absorptive capacity has an impact on the OFDI performance but only through the mediating effect of learning outcomes. This supports the absorptive capacity literature which suggests that the Chinese firms have potential to learn and in our study, they demonstrate that in fact they do learn as is evidenced by their learning outcomes. Thus, the firms participating in the study were able to learn and collect information from social interactions with internal and external sources; they did not need to have direct experience to learn about the new market. Most importantly, our study reveals that neither prior top management international experience nor the firms' experience with foreign partners within the home market strongly influence the OFDI performance or the learning outcomes.

Instead the Chinese firms' motivations to learn about the foreign market, their potential absorptive capacity, and their learning outcomes are critical to their success. In their study of Chinese private firms that have moved out, Lu, Liu, & Wang (2010) suggest that the firms use "outward FDI as a springboard to aggressively acquire or buy strategic assets..." (p. 230) and

this may support the notion of aggressive goal setting including learning outcomes. Also our results are supported by such studies as Autio, Sapienza, and Almeida (2000) who found that the prior international entry experience of Finnish firms did not contribute significantly to performance. The results of our study and of Autio et al. (2000) provide contradictions to models that suggest firms need to be building upon past experiences prior to moving outward.

While our results demonstrate that although the Chinese firms do not rely on their internal international experience as a source of knowledge, the firms do rely on external sources of knowledge that serve to enhance the potential of their absorptive capacity. Our results build on the results of Fernhaber, McDougall-Covin and Shepherd (2009, p.315) who 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 which show that the international experience of the top management was not significant in affecting the performance of the OFDI. It appears that even when some international internal experiences exist, the Chinese firms rely on external sources of international knowledge. In reality, these external sources of international knowledge may be better sources and more accurate knowledge of the foreign market.

Our results reveal that a step-by-step, experience-based learning model to OFDI that builds on direct past experiences is not sufficient to explain how some firms in emerging markets—like the Chinese private firms—will choose to move abroad. For them, moving outward means addressing new contexts and uncertainty. They do not have the base for learning curve effects, routines for moving outward, or the patience for waiting for elapsed time to occur. The risk of high uncertainty does not seem to bother them. Our results indicate that these firms are learning from their external environment, are jumping into OFDI and “making it up as they go.” Thus,

they are learning from lessons from external others and then experimenting, improvising, and learning from their own experiences (Bingham, 2009). Critical to this process is the mediating effect of their overall motivation to learn and to move forward. We find that overall motivation mediates the learning outcomes and performance relationship as well as affecting performance directly.

A gap in our research is an indepth understanding the decision to move outward. Bingham (2009) identifies some of the dangers of improvisation and suggests that although improvisation is important to the growth process, there can be some dangerous consequences to improvisation. He suggests that the foreign market entry decision is different from the process of executing the OFDI and that improvisation may be more appropriate for executing the OFDI. He also suggests that “walking away” may be a good decision for some firms. Our study was not able to capture many of these early decision points regarding how the firm made decisions about which country to enter, how to implement the OFDI strategy, and the particulars of improvisation. A case study approach would work better for doing this and could greatly enlighten our understanding of how these private Chinese firms make these decisions, the pressures on them, and the methods of execution.

### **Limitations**

Several limitations are important to recognize. Our sample was developed through a snowball technique because there were no comprehensive lists of Chinese private firms that had moved outward. In the future, data bases of firms that move outward may be more available. Our sample is also of private Chinese firms that have already done outward foreign direct investment. It would be extremely helpful to dive deeper into how these firms assessed foreign

market opportunities and also how they executed their going out strategy. Other researchers might try to assess the impact of learning from external sources in other ways than ours, such as assessing whether these external sources are within or outside the home or the host country. Given the environment of China and the transitional nature of the economy, outward foreign investment is a relatively recent phenomenon, and we may not be capturing all the effects of learning. This might limit the generalizability of our findings. There could be lagged effects of some organizational variables on knowledge usage, as well as a lag between accumulation of knowledge acquisition from past experience and its reflection in terms of performance improvements. Ultimately, a more complete understanding of knowledge processes by Chinese firms doing outward FDI will necessitate the examination of the process over time. Thus, future research should combine the use of questionnaire methods with other measures of knowledge acquisition.

## **Summary**

Compared with its inward FDI, China's outward FDI is relatively small but may swiftly increase. Gaining direct experience may have a direct effect on the future outward strategies of private Chinese firms but most of the Chinese firms are disadvantaged because they lack past direct experience in entering foreign markets and facing foreign competition on their own turf. It seems the direct experience within China in forming alliances and partnerships, experience in acquiring other Chinese firms, or experience in operating Chinese manufacturing facilities have little influence on the firms' successes at moving outward. More important to their success is their learning capabilities and their overall motivations. There is little doubt that driven by strong ambitions and motivations, more Chinese firms will invest abroad as part of China's

dramatically rising economic power. This may lead to quicker assimilation and utilization of new knowledge.

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**Table 1. Descriptive Statistics (N=200)**

	<b>Mean</b>	<b>S.D.</b>	<b>Min</b>	<b>Max</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
1 Firm Performance	0.000	0.897	-3.710	1.982	1.000									
2 Firm Size	5.650	1.377	2.398	9.616	-0.054	1.000								
3 Industry	0.275	0.448	0	1	-0.046	-0.094	1.000							
4 Founder's International Experience	3.280	1.675	0	7	-0.155	-0.018	0.091	1.000						
5 Export	0.825	0.381	0	1	0.006	0.051	-0.158	-0.017	1.000					
6 # of Foreign Partners	1.475	2.199	0	15	0.111	-0.002	-0.042	0.006	0.202	1.000				
7 Foreign Partners from OFDI Country	0.535	0.500	0	1	0.069	-0.114	0.058	0.144	0.230	0.330	1.000			
8 Prior OFDI Experience	0.070	0.256	0	1	-0.063	0.177	0.051	-0.034	-0.080	0.003	-0.137	1.000		
9 Absorptive Capacity (Potential)	0.000	0.841	-2.487	1.873	0.214	-0.229	-0.062	-0.062	-0.010	0.139	0.030	-0.040	1.000	
10 Overall Motivation	0.000	0.893	-2.842	1.481	0.424	-0.099	-0.005	-0.067	-0.157	0.102	0.011	0.003	0.158	1.000
11 Learning Outcomes	0.000	0.886	-3.203	1.677	0.429	-0.051	-0.070	-0.103	-0.073	0.134	0.047	0.102	0.288	0.586

**Notes:** Correlations with absolute values greater than 0.140 are statistically significant at the level of  $p < 0.05$ .

**Table 2. Tests of Mediating Effects**

	Performance as DV		Learned as DV		Performance as DV
	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Firm Size	-0.038	0.019	-0.037	0.019	0.014
Industry	-0.103	-0.027	-0.149	-0.110	0.000
Founder's International Experience		-0.068 <sup>†</sup>		-0.028	-0.061 <sup>†</sup>
Export		0.098		-0.014	0.101
# of Foreign Partners		0.010		0.013	0.007
Foreign Partners from OFDI Country		0.103		0.099	0.078
FDI Experience		-0.198		0.386 <sup>†</sup>	-0.293
Absorptive Capacity (Potential)		0.150 <sup>*</sup>		0.209 <sup>**</sup>	0.098
Overall Motivation		0.401 <sup>***</sup>		0.544 <sup>***</sup>	0.267 <sup>**</sup>
Learning Outcomes					0.246 <sup>**</sup>
<i>Intercept</i>	0.246	-0.012	0.252	-0.074	0.006
N	200	200	200	200	200
R <sup>2</sup>	0.006	0.218	0.008	0.418	0.258
Adjusted R <sup>2</sup>	0.003	0.181	0.002	0.390	0.218
F-value	0.55	5.90 <sup>***</sup>	0.81	15.14 <sup>***</sup>	6.56 <sup>***</sup>

Notes: <sup>†</sup>  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

## Appendix I

### Variable Definitions

1. **Performance:** 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); alpha = .853
  - a. Enhance our reputation in Chinese Market
  - b. Obtain technologies for use in Chinese Market
  - c. Meet the export quota
  - d. Compliance with government goals
  - e. Innovation in product and services
  - f. Reduce our costs for doing business overseas
  - g. Increase our overseas sales
2. **Learning Outcomes:** 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); alpha = .828
  - a. Adapting products for local markets
  - b. Targeting multiple market segments in a foreign country
  - c. Tracking customer needs and trends
  - d. Identifying foreign buyers
3. **Export:** Do you export ? Yes or No
4. **Founder International Experience:** Does the founder of your firm have any international experience? Scale= 0 to 10;
  - a. Business Trips abroad in last 3 years
  - b. Studies abroad at some point
  - c. Lived abroad
  - d. Worked in a foreign firm in China
  - e. Worked in a foreign firm outside of China

- f. Had foreign commercial activities
  - g. Speaks a foreign language
  - h. Attended international trade fairs in last 3 years
5. **Overall Motivation:** Please evaluate the reasons for your firm to invest in Country 1 (scale 1= not important at all to 7 very important); alpha = .793
- a. Search for new markets/sales
  - b. Learn new technology
  - c. Learn new managerial skills
  - d. Learn about foreign market
  - e. Customer/supplier wanted us to
6. **Total number of foreign partners in China**
7. **A foreign partner from the same country as Country 1 of OFDI**
8. **Prior OFDI Experience:** Yes or No
9. **Absorptive Capacity Potential:** To what extent do you agree with the following statements where scale 1= strongly disagree to 7 strongly agree; alpha = .702 (Source: Jansen & Volberda, AMJ, 2005)
- a. We collect industry information through informal means
  - b. We collect a large amount of industry information
  - c. Our firm periodically organizes special meetings with customers or third parties to acquire new knowledge
  - d. Our firm quickly recognizes the usefulness of new external knowledge
10. **Size:** Log (Number of Employees)
11. **Industry:** Manufacturing or Service