Research on the Influencing Factors, Paths and Effects of Chinese Enterprises' Internationalization Strategy

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Abstract. With the contraction of the global economy and the multiple impacts of the epidemic on the world economy, Chinese enterprises are facing a changing international environment and adapting to a different kind of globalization. China insists on the strategy of both "Bringing in" and "Going abroad", and seeks the road of Internationalization through high-level two-way investment and efficient use of global resources and market space. On the topic of Internationalization of Chinese enterprises, many scholars have conducted many fruitful researches and accumulated many research results. This paper searches and collates relevant literature at national and abroad, and constructs a theoretical model of Chinese enterprises' internationalization , that includes three dimensions: influencing factors, entry modes and influencing effects. By reading the relevant literature in these three areas, we find some results, firstly the process of internationalization of firms is influenced by both internal and external factors; internal factors include the diversity of the executive team and the need for firms to innovate, and external factors include government subsidies, the active promotion of global production networks, the passive promotion of industry-specific needs and the need to expand markets. The second internationalization path includes the export access model, the contract access model, and the investment access model. Thirdly the impact effects of firm internationalization include the level of business growth, the level of research and development innovation and the level of dynamic capacity building.

Keywords: Internationalization Strategy; Influencing Factors; Paths; Effects; Chinese Enterprises.

1. Introduction

According to the Executive Summary of the World Economic Situation and Prospects 2023 issued by the United Nations, in the face of uncertainties and challenges in global markets and the impact of epidemics on global supply chains, there has been a new slowdown in globalization worldwide, with most international trade and outward investment affected. According to the World Investment Report 2021, the value of world trade exports in 2020 fell by 7% year-on-year, while world outward foreign direct investment (FDI) flows fell by as much as 39.4% year-on-year. But even so, Chinese companies are steadily moving forward with their Internationalization under the “One Belt and One Road” and “Dual Circulation Strategy”. According to the statistical bulletin of China's outward direct investment in 2020, Chinese enterprises' outward investment in 2020 reached $153.71 billion, a year-on-year increase of 12.3%, accounting for 20.2% of the global share, and the flow of outward investment reached the first in the world. In 2021, China's outward foreign direct investment (OFDI) flow was $178.82 billion, an increase of 16.3% over the previous year, achieving double-digit growth for the second consecutive year, and accounting for 10.5% of the global share. In 2022, China's outward investment and cooperation will be steady and progressive, with outward industry-wide direct investment of $146.5 billion, a year-on-year increase of 0.9%. The structure of Chinese enterprises' outward investment is being optimized and their international competitiveness is being gradually strengthened.

However, enterprise Internationalization is a gradual process and it will face various challenges in the process of development. Enterprise Internationalization has always been a topic of great concern and research in the academic world, Existing literature on internationalization has studied internationalization in many ways and produced many results, but it lacks a complete model. At the same time, very few articles can systematically list the research results of China's internationalization. Therefore, this paper constructs a systematic system about China's internationalization. In this system
the results of Chinese and foreign scholars on the causes, paths and impacts of enterprise internationalization are sorted out, and a three-dimensional model of Chinese enterprises' internationalization strategy is constructed. It is hoped that it will help Chinese enterprises to steadily promote their Internationalization strategies and facilitate the development of economic globalization.

2. Influencing Factors of Internationalization Strategy

2.1 The Internal factors

2.1.1 Senior manager and top management team

Senior managers are the main agents of decision-making in the company and play an important role in the company's strategy. Leadership traits affect the Internationalization direction of a firm to a certain extent. The leadership's judgement of Internationalization risk will affect the Internationalization process of a firm. When the CEO of a firm has enough risk awareness and at the same time has the courage to face challenges, i.e., risk appetite, then the Internationalization of the firm will advance rapidly under his or her facilitation. At the same time, the stronger the leadership's knowledge of overseas markets, the greater the degree of Internationalization of the enterprise will be. For example, if the leadership has a deeper study of international trade and other speciality, it will have a deeper understanding of the differences between domestic and overseas markets, how to operate smoothly overseas and how to establish a social network system.

The construction of the top management team is one of the most important factors influencing the strategic decision-making of the company. Diversification of professions within the team avoids stereotyping to a certain extent, which will lead to more active decision-making within the company and generate more decision-making possibilities in the collision of ideas (Machado et al., 2023). At the same time, members of the psychological cognition and values and other elements also affect the individual judgement of things, which in turn affects the decision-making. Thus, the heterogeneity of the executive team has a significant effect on the reception and processing of information, thus promoting the Internationalization strategy of the company.

At the same time, the overseas experience of the senior management team can also contribute to the Internationalization of the company. In the process of internationalization, Chinese enterprises have been facing problems such as lack of understanding of investment and lack of foreign management experience. These problems have improved with the introduction of talents with overseas experience (Rabbiosi et al., 2019). Returnee talents help Chinese enterprises to introduce technology and resources, and to a certain extent, lower the threshold for Chinese enterprises to enter the international market. In turn, this has greatly facilitated the Internationalization of Chinese companies (Wei et al., 2022). The overseas experience of the senior management team of an enterprise has a clear advantage in promoting the Internationalization of the enterprise, which comes from the human capital accumulation channel. In addition, this advantage is also reflected in the fact that it can help enterprises adopt OFDI to achieve their Internationalization goals, and is conducive to the expansion of their Internationalization scope.

2.1.2 Demand for innovation and development.

According to Burciu et al. (2022) pointed out that Since the 21st century, the intensity and activity of global scientific and technological innovation have changed dramatically, and the world economy is facing the challenges of the scientific and technological revolution, and the global innovation map is being reconstructed.

In today's pattern of globalization, there is also a gap in the level of innovation among economies around the world due to the limitations of the level of scientific and technological development. Different countries have distinctive products and unique technologies, which creates a dispersion of skilled manpower. This regional distribution of technology has led to the development of companies in the direction of internationalization. If Chinese enterprises want to understand and master the real cutting-edge core technologies, they must make efforts to go out, maximize contact with and attract
innovative talents and innovative technologies from different regions, and fully draw on global resources to help them upgrade and develop.

2.2 The External Factors

The external business environment of an enterprise refers to domestic and international political, social, technological, economic and commercial conditions. There are both proactive and reactive factors that contribute to internationalization.

2.2.1 Active factors

When exploring the internationalization of firms, existing research examines the institutional environment at the national level (González & González-Galindo, 2022). Firstly, the support of the political system is the most important external support for enterprise internationalization (Zhang et al., 2021). The domestic government has continued to increase policy support for enterprises to "Going abroad", continuously strengthen the policy leadership of outbound investment, support enterprises to innovate outbound investment modes, accelerate the construction of a new open economic system, and promote enterprises to actively participate in the construction of the "One Belt, One Road", which has greatly facilitated the development of trade and investment liberalization and facilitation in China. This has greatly promoted the development of trade and investment liberalization and facilitation in China. The policy has played a great role in advocating the Internationalization of enterprises.

Government subsidies are also another important measure implemented by the state to promote internationalization. Government subsidies can directly alleviate the pressure on firms' R&D funding (Meuleman & De Maeseneire, 2012), and pave the way for them to expand their product markets. It also demonstrates the state's support for the firm, which leads the market and attracts external investors to invest in the firm, thus greatly alleviating the pressure on the firm's external financing (Narayanan et al., 2000).

The globally competitive environment has prompted small and medium-sized enterprises (SMEs) to pursue international strategies (Hilmersson, 2013). However, Internationalization is costly and risky, and without sufficient knowledge and experience most firms cannot gain a foothold. Therefore, it is important for Chinese firms to acquire and integrate global resources and utilize foreign knowledge to help their own firms develop new business models. This requires companies to have a good understanding of the foreign business environment, including the market, technology, institutions and other factors. In this way, they can respond to the challenges of Internationalization and grasp the opportunities that may arise.

As a result of the rapidly changing global economic situation, the internationalization of Chinese companies is also facing many difficulties, and multinational companies have begun to establish a networked growth system. Global Production Networks (GPNs) have become one of the driving factors influencing the growth of enterprises (Adomako, 2023). The establishment of GPNs creates more possibilities for enterprises to deeply participate in the international division of labour. At the same time, once entering the GPNs constructed by industry-leading enterprises, through the learning and resources within the network, technology sharing mechanism, enterprises can improve the ability of technological upgrading. And it is helpful for enterprises to obtain global resources, some high-tech enterprises can take this opportunity to achieve the globalization of the allocation of materials, and the acquisition of resources is one of the main driving factors in the middle and late stages of the enterprise's international development (Crespo et al., 2021). To a certain extent, these advantages influence the strategic decision-making direction of enterprise development and promote the process of enterprise internationalization.

2.2.2 Passive factors

The passive factors are no more than two, the demand for industry specificity and the hard demand for market expansion (Adomako, 2023). Some high-tech enterprises, unable to achieve self-sufficiency in all materials, then it is inevitable to internationalize. Taking high-end manufacturing
industry as an example, its development is constrained by the import of key spare parts and equipment from overseas. Electronic information, automotive, aviation, equipment manufacturing and other industries is the focus of China's high-quality development of the manufacturing sector. But the relevant import and export data show that part of the key core components, materials, equipment and processes required for the development of the industry, Europe, the United States, Japan and South Korea are in a monopoly or even exclusive monopoly position, once the relevant product imports are interrupted, it will inevitably bring a huge impact on the development of China's industry.

The increasingly serious domestic homogeneous competition will also push enterprises to consider the direction of international development. The fierce competition in the domestic market, making the market cake becomes smaller, more and more intense homogeneous competition. Market expansion has become the top priority for enterprises to alleviate this pressure. The above two factors, will form an invisible inhibition on the development of enterprises, but also forced enterprises to internationalization.

<table>
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<th>Influencing Factors</th>
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| The internal factors | ①Leadership preference  
②Diversity of the executive team and their overseas experience  
③Demand for innovative development |
| The External factors | ①Political system  
②Government subsidies  
③Global production network  
④Global access to resources |
| Active | ①The need for industry specificity  
②The need for market expansion |

3. **Entry mode of internationalization strategy**

Internationalization is defined as "the process of growth across national boundaries", then China's most active internationalized economies are currently in developing countries. External economic expansion occurs at many different levels of participation.

3.1 **Entry Mode of “Export”**

The first tier of the export entry model refers to the fact that firms' products are produced domestically and then sold to international markets through appropriate channels. It is the mode commonly adopted by enterprises to enter international markets. By far the most important aspect of the economic value of China's international business does not involve any organizational presence of overseas direct investment (Child & Rodrigues, 2005). The mode of exporting is subdivided into direct and indirect exporting. The export mode of entry requires less capital investment than other modes of entry, gives firms greater operational flexibility, and allows firms to take advantage of location advantages and economies of scale. However, the export entry mode is vulnerable to trade barriers and faces high transport costs. Therefore, the export entry mode is generally suitable for firms with small Internationalization investments, which allows them to internationalize without affecting the local production chain.

3.2 **Entry Mode of “Contractual”**

The second tier, the contract entry mode, enters target markets through long-term, non-investment contracts with firms in target market countries. These include licensing, franchising, contract manufacturing, and engineering contracts (Gernsheimer et al., 2021). Unlike the production entry
mode, under the contract entry mode, enterprises export not only products, but also technologies, processes, and other intangible assets. This mode can alleviate the obstacles of commodity trade barriers to a certain extent, and overcome the problem of low market competitiveness due to factors such as high transport costs, and can make greater use of foreign resources and give full play to the effectiveness of technology. However, unlike the investment entry model, the contract entry model is a transfer of intangible assets. This also reflects the shortcomings of this model, in that the enterprise lacks the necessary control over its overseas operations under the contractual entry model, which makes it extremely easy for the enterprise to establish competitors and lose control of the market.

3.3 Entry Mode of “Investment”

At the third level, the investment entry mode refers to the market entry mode in which an enterprise invests in the establishment or expansion of a permanent enterprise in an international target market and has a certain degree of control over its operation and management. It includes both direct and indirect investment. The investment entry mode enables firms to penetrate deeper into the target market and to have greater control over newly established subsidiaries abroad (Ren et al., 2022). Such a mode of entry increases the chances of transferring information such as knowledge and technology, saves on transport and customs tariffs, reduces product costs, and better adapts products to the preferences of the target market. However, at the same time, the investment entry mode requires higher capital investment, longer return on investment, and greater risk, and the enterprise is less flexible in facing the risk.

In recent years, the Internationalization approach of Chinese firms has shifted from an 'inward' approach of establishing business partnerships with OEMs and joint ventures, to an 'outward' approach of Internationalization through acquisitions and organic overseas expansion (Child & Rodrigues, 2005). Cross-border mergers and acquisitions (M&As) and international strategic alliances (ISAs) are the preferred modes of Internationalization for a growing number of firms today (Ren et al., 2022). Cross-border M&A refers to the buying of a certain share of equity or even the entire assets of a target country's firm through certain channels and means of payment. This way not only can avoid high transport costs and tariff barriers in other countries, but also consumes less capital and time than investing in greenfield projects (He et al., 2020). It is able to make full use of the financing convenience brought by OFDI and reduces the difficulty for enterprises to enter the target country's market. ISAs is a co-operative community of interest established by two or more countries in order to achieve a certain same strategic goal. This approach enables the signatories to share risks and achieve long-term mutually beneficial development among enterprises (Gernsheimer et al., 2021).
4. Effectiveness of Internationalization Strategy

4.1 Improvement in Business Performance

4.1.1 Tangible Performance

Improvements in corporate performance can be broadly categorized into tangible improvements, i.e. improved cash flow levels, improved return on investment, etc. The intangible improvement is the improvement of corporate social responsibility and the enhancement of corporate value. Including the improvement of brand awareness, brand influence, customer satisfaction, and so on.

According to the research results of Chen and Huang (2018), as a whole, the level of Internationalization has a U-shaped relationship with firm performance, and there is a significant negative relationship between the level of Internationalization of listed companies and firm performance in the short term, and there is a significant positive relationship between the two in the long term. This is closely related to the Internationalization level of listed companies. When the Internationalization level is low, the international business has not yet started, and the costs are much larger than the benefits created for the company; as the Internationalization level increases, the costs are reduced, and the benefits are created for the company, and the return on investment of the enterprise starts to increase. It has also been shown that fixed asset-specific advantages and human resource-specific advantages among the tangible asset-specific advantages have a positive moderating effect in the relationship between the degree of Internationalization and innovation performance (Wenke et al., 2022). Chen et al. (2014) argued that firms rely on tangible resources to improve their firm performance in the process of internationalization.

However, Chen et al. (2014) shows that the relationship between the degree of Internationalization and performance of Chinese firms is an inverted u-shaped curve. The relationship between the two depends on the choice of enterprise diversification strategy as well as the resource base. However, tangible resources are easy to be imitated and replaced in the international competition of enterprises, so it is difficult to form core competitiveness and bring stable performance improvement for enterprises.

4.1.2 Intangible Performance

According to Attig et al. (2014), Internationalization of a firm can be seen as a process of growing opportunities and thus increasing the firm's competitive advantage by expanding economies of scale and scope. But the Internationalization of a firm is not only faced with external responsibilities and changes in the market environment, but also with the responsibility for the expanded consumer base of the firm (Zaheer, 1995). The pressures of diverse cultural, political, institutional and economic environments can inadvertently lead internationalized firms to increase their CSR activities, while at the same time adequately demonstrating externally the firm's ability to respond to a wide range of stakeholders and to pursue a security strategy. By expanding media and analyst coverage greatly enhances the visibility of the firm and protects the firm's reputation while urging it to be more socially responsible (Kang, 2013).

4.2 Increased Level of Enterprise Innovation

With the increasing Internationalization of enterprises, their ability to acquire and integrate global resources is also increasing. Along with the introduction of new technologies and talents, the ability of enterprises in product iteration and upgrading and technological innovation breakthroughs is also improving (Pastelakos et al., 2022). In terms of product innovation, the improvement of the global ecological network has led to the flow of resources around the world, and markets in different regions will inevitably have unique demands for products. In order to adapt to the new consumer preferences of the local market, enterprises are forced to improve their technologies and processes in a targeted manner, in order to provide more competitive new products for the local market, thus promoting the improvement of the enterprise's innovation ability (Zeng & Deng, 2012).

In terms of technological innovation, the Internationalization of enterprises has led to an increase in the mastery of industry-leading technologies by investing in R&D in overseas markets (Do et al.,
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2023). At the same time, the fierce competition in overseas markets tends to further strengthen the external pressure of learning and R&D, forcing enterprises to increase their R&D investment and continuously improve their innovation capability (Aghion et al., 2005).

4.3 Leveling Up of Dynamic Enterprise Capability Building

Dynamic capabilities refer to the ability of multinational enterprises (MNEs) to generate and modify their operating routines to adapt to the changing business environment (Teece, 2014). In addition to this, Danneels (2010) found that firms' dynamic capabilities are capable of reallocating existing resources and capabilities to gain long-term competitive advantage. Henisz (2016) concluded that the dynamic capabilities framework is applicable in economies undergoing rapid globalization. Internationalization enables firms to obtain labour, material, technological resources and corporate visibility at lower costs, while integrating and utilizing global resources, which is ultimately reflected in improved corporate performance (Sahakian & Sihem BenMahmoud-Jouini, 2023). The integration and utilisation of global resources can rapidly improve the dynamic capabilities of enterprises. Enterprises in the process of Internationalization face the challenges of social systems and cultural concepts in different markets, and after fully integrating resources and capabilities to break through the dilemmas, the dynamic capabilities of enterprises will also make a breakthrough (Carlgren & BenMahmoud-Jouini, 2021). And then have the ability to quickly and effectively respond to changes in the environment and the ability to reconfigure resources (Riviere et al., 2020).

4.4 Backside Effect

In the process of internationalization, and in the face of increased business complexity, there is also the potential danger that firms will face a decline in Internationalization performance after the "newcomer learning effect" has worn off (Chen et al., 2014). Firms must either extend the time to the performance inflection point by integrating into the local R&D and supply chain as quickly as possible, and understanding local consumer behavioral preferences, or reduce the strength of the inverted u-shaped relationship, so that Internationalization and performance improvement can be maintained as much as possible in an upward spiral. Otherwise, this phenomenon will inevitably affect the entire enterprise's financial chain. It even drags down the development of the enterprise's main products in the country.

Meanwhile, development in foreign markets also faces policy differences, and some overseas markets may suppress Chinese enterprises by raising tariffs and other methods. These adverse effects brought about by unclear self-positioning of the enterprise and insufficient ability to transform resources may also have a negative impact on the performance of the enterprise. At the same time, in the process of overseas market expansion, excessive product diversification or lack of sufficient financial resources to continue to invest in product innovation may also lead to a decline in the innovation capacity of the enterprise instead of progress.

5. Conclusion, Limitation and Future Research

5.1 Conclusion

This paper constructs a three-factor theoretical model including influencing factors, paths and effects. The Internationalization of enterprises is influenced by the internal demand for diversification of the executive team and innovation and R&D, and driven by the external demand from the government and the construction of the global production network, while the market's inhibition of the enterprise also passively pushes the enterprise towards the Internationalization path. In the process of internationalization, the whole path shows a progressive pattern from the export entry mode, contract entry mode to the investment entry mode with strategic alliances and cross-border mergers and acquisitions. The effect of Internationalization is also two-way. The effect of Internationalization on the performance of an enterprise depends on whether the enterprise has sufficient control over its own capital chain and whether it can adapt to the market environment quickly after re-entering the
market. Internationalization has a more pronounced effect on a firm's ability to innovate and build dynamically, but this is also influenced by the strategy of the firm, such as whether the financial resources invested in innovation are matched by the length of the R&D front.

![Figure 2: Factors, Paths and Effects of Chinese Enterprises' Internationalization](image)

This model is instructive for both theoretical research and reality. It can help researchers to provide a template for studying internationalization. If Chinese enterprises want to internationalize and achieve good results, they must think and research in the following aspects. First of all, enterprises should fully consider their own capital chain situation, and then make a choice of Internationalization entry mode. For example, if the capital is abundant, it can choose to invest and enter, and directly carry out cross-border mergers and acquisitions; if the capital is insufficient, it can first choose to export and enter, and look for agents. Second, embedded in the R & D system, the formation of their own technical barriers. Grasp the advantages in technology to create conditions for integration into the international market. At the same time, after internationalization, it is necessary to quickly adapt to the speed of resource integration, even if it is absorbed and transformed into energy that can be used by the enterprise itself.

5.2 Limitation

Firstly, this paper applies only secondary sources in the integration of information without the support of primary research data. This will make the research results lack credibility. The absence of primary research data will, to a certain extent, make the article far away from life, and it is easy to idealize the data and theories in the research process, which will lead to biased conclusions and lack of data support. Secondly, this article explores less empirical evidence of cases and only theoretical support. This can lead to a lack of a comprehensive type of research and the models or theories developed by the study cannot be validated more widely. Thirdly, the scope and conclusions of this study are only applicable to Chinese companies. Internationalization is a major strategic choice that global firms are facing, and Chinese firms cannot be left alone, so the research band that only focuses on Chinese firms is limited in its perspective.

5.3 Future Research

In terms of research methodology, future scholars can increase the amount of literature in the follow-up research process to achieve comprehensive theoretical coverage and increase the application of empirical evidence from cases. In terms of research data, first-hand research data can be added to prove the conclusions and make them more convincing. In terms of research theories, more attention can be paid to improving the success factors of Chinese enterprises' internationalization in the study of Chinese enterprises' internationalization, so as to create a favourable environment for enterprises on this path.
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