The article introduces a conceptual framework of internationalization processes and provides case study–based empirical insights. The aim is to analyze combinations of internationalization strategies and modes that automotive suppliers expanding into China have chosen and their evolution paths over time. In addition, the authors identify parameters that may explain why foreign entrants change their internationalization strategies and modes over time.

In recent years, China has developed into a promising business location as both a local consumer market and a potential global, low-cost production and supply base. As a result, China has become the focus of empirical research on the internationalization processes of companies expanding into foreign markets (e.g., Luo 2005). In deciding to internationalize into the China market, foreign entrants must consider an appropriate internationalization process.

In this research, we examine the automotive supplier industry in the context of such internationalization. We consider this industry especially relevant from both theoretical and managerial perspectives. The high complexity and dynamism of the Chinese automotive market, accompanied by the temporary slowdown of the demand for automobiles, makes this pillar industry of the Chinese government particularly interesting. Our research shows that the automotive companies tend not to dictate specific internationalization processes, thus allowing suppliers autonomy in their decision making.

Because China offers both top- and bottom-line improvement potential simultaneously, it seems to be especially attractive for the automotive supplier industry, which is under continuous price pressure from car manufacturers in their stagnant home markets. Most leading global suppliers have already relocated some of their operations to China, producing parts and components for their customers locally. However, many automotive suppliers are not successful in this complex marketplace. In 2004, car manufacturers and suppliers were already suffering from a substantial drop in demand, primarily caused by credit restrictions for consumers. Since then,
this economic slowdown has greatly increased competition and uncovered multiple weaknesses of many early movers. Therefore, suppliers are now forced to rethink and potentially adjust their selected internationalization processes.

After a brief review of the literature to date, we derive research questions, propose a research framework, and offer research propositions. We then analyze two dimensions of internationalization processes: internationalization strategies and internationalization modes. Our empirical findings reveal specific parameters that influence automotive suppliers’ internationalization decisions and their development paths in China over time. We conclude with a discussion of implications and avenues for further research.

The two related dimensions of internationalization that we analyze, namely, strategies and modes, have received a lot of attention and have been examined from various perspectives over the past decades.

- Internationalization strategies lead to geographic distributions of value-creation activities; this is also referred to as “configuration” (Porter 1990). In this dimension, the question is what to internationalize.

- Internationalization modes represent varying degrees of resource commitment, risk exposure, and control; this is also referred to as “coordination” (Pan and Tse 2000, p. 535). In this dimension, the question is how to internationalize.

Many publications cover both dimensions, that is, strategy/configuration and mode/coordination. This mainly holds true for the classical works on internationalization, which focus on the internationalizing company as a whole, primarily from a headquarters perspective (Bartlett and Ghoshal 1987a, b, 1988; Perlmutter 1969; Stopford and Wells 1972).

Publications on market entry and market development, or market expansion, typically focus on a single foreign subsidiary (Agarwal and Ramaswami 1992; Anderson and Gatignon 1986; Malhotra, Agarwal, and Ulgado 2003; Mayrhofer 2004; Pedersen and Petersen 2004). In this realm, transaction cost theory dominates as the foundation of contributions (e.g., Brouthers 2002; Brouthers and Brouthers 2000; Brouthers, Brouthers, and Werner 2003; Delios and Beamish 1999). In a recent meta-analysis of transaction cost determinants and ownership-based entry mode choices, Zhao, Luo and Suh (2004) find that the combined overall effects of transaction cost–based determinants are consistent with the predictions of transaction cost economics.
Malhotra, Agarwal, and Ulgado (2003) argue that though several aspects of the internationalization process have been addressed in the literature, there is no unified theoretical framework that explains the internationalization process in terms of both entry modes and timing strategies. In this article, we aim to synthesize several foundational theories on modes of global entry and to offer a conceptual framework for internationalization.

In various journal articles, scholars discuss international expansion modes and their determinants and outcomes, with particular regard to China (Child, Chung, and Li 2003; Li, Lam, and Qian 2001). In general, on a macro level, market entry modes into China are differentiated into equity-based versus non-equity-based modes. On a micro level, they are subdivided further into equity joint ventures (EJVs) and wholly owned foreign enterprise (WOFE) operations (under equity-based modes) and into export activities and contractual agreements (CAs; under non-equity-based modes; Pan and Tse 2000).

A particular focus of analyses is the characteristics of foreign entrants’ EJVs with Chinese partners, one of the most popular market entry mode (Child and Yan 1999; Li, Lam, and Qian 2001; Luo 2005; Tse, Pan, and Au 1997). These partnerships are often created as a result of government influence and with government partners; however, this seems to cause problems, such as dissatisfaction with EJV performance (Beamish 1993).

Although the existing body of literature offers multiple insights and has unique strengths, it also has certain limitations that should be addressed by further research. In summary, we note the following limitations of existing publications regarding scope and unit of analysis (Brouthers 2002; Ghoshal and Bartlett 1990; Makino and Neupert 2000):

- Most studies focus only on market entry mode decisions; there is a considerable lack of literature addressing evolution paths over a period of time.

- Research addresses mostly large multinational corporations (MNCs) and does not cover small and medium-sized enterprises (SMEs; i.e., companies with sales that do not exceed 500 million; see HypoVereinsbank 2004).

- Publications are often limited to entrants from one developed country only and do not provide a cross-country perspective.
Because many automotive suppliers are among the early entrants, are of various sizes, and come from various home countries, this article addresses the described research gaps by developing and using a theoretical framework for analyzing how automotive suppliers entered and expanded in the Chinese market. Thus, our main focus is on the first research gap, in particular, the analysis of the evolution paths of internationalization processes over time. To increase variance in the sample (i.e., to address the second research gap), we included case study firms that consisted of both larger MNCs, as is often found in the existing literature, and SMEs. However, we do not aim to compare internationalization processes specifically with respect to different firm sizes. To address the third research gap, we selected companies from different home countries. Again, however, our intention is not to compare internationalization processes specifically with respect to different countries of origin.

The following four research questions guide this study:

1. Which internationalization strategies for China do automotive suppliers choose?

2. Through which internationalization modes do automotive suppliers realize these strategies?

3. Which evolution paths of strategy–mode combinations can be observed?

4. Which parameters influence automotive suppliers’ choice of internationalization strategies and modes?

Kaufmann and colleagues (2005) state that established typologies of internationalization strategies and modes either fail to include all relevant strategies or do not allow for a research-efficient analysis of expansion strategies. Research efficiency refers to the notion that an analysis builds on readily available micro- or macrolevel data rather than an independent survey. Therefore, Kaufmann and colleagues develop a framework that (1) is exhaustive and (2) can be conceptualized by routinely gathered statistical data. Sethi (2003) advocates the use of macroeconomic indicators, which represent an aggregation of routinely collected business-level figures. In addition to building on routinely gathered statistical company data, the dimensions of the framework represent the main decision variables pertaining to the architecture of value-creation systems. According to Root (1988), three decisions define such value-creation systems: where to locate value creation (“offshoring”), what resource interdependencies to establish among different locations (“integration”), and how to structure the ownership of these locations (“outsourcing”).
1. The offshoring dimension describes whether a certain value-chain step is located in the company’s home country or abroad. Foreign direct investment theories cover a major aspect of offshoring.

2. The integration dimension describes whether there are resource interdependencies among locations. On a simplified scale, there are the alternatives of no integration (i.e., the location operates as a stand-alone company) or full integration (i.e., there are intensive upstream and/or downstream interdependencies with other corporate group members). Export theories cover a major aspect of integration.

3. The outsourcing dimension describes the ownership structure of these entities. In reality, ownership may range from WOFEs, EJVs, minority investments, and portfolio investments to complete outsourcing. On a binary scale, there are the options of majority-owned affiliates with an equity share of at least 50% and outsourced operations with minority or no equity share. The theory of the firm and the transaction cost approach are related to major aspects of outsourcing.

These three dimensions correspond to the three internationalization forms put forth in Dunning’s (1977, 1980) eclectic paradigm, namely, exporting, foreign direct investment, and contractual resource transfers. Yet whereas Dunning considered these forms alternative, Kaufmann and colleagues (2005) view them as orthogonal and freely combine them. This systematization reflects the two major research streams of international business literature:

1. Offshoring and integration refer to the research stream that pertains to forms, or strategies/configurations of international expansion (e.g., Bartlett and Ghoshal 1988; Birkinshaw and Morrison 1995; Hamel and Prahalad 1985; Kogut 1985).

2. Outsourcing reflects the research stream that pertains to the boundaries of the firm, or modes/coordination of internationalization (e.g., Brown, Dev, and Zhou 2003; Buckley and Casson 1976; Mol et al. 2004; Teece 1981).

*Internationalization Strategies.* There are six generic positions that describe distinct strategies for entry into foreign countries. Export orientation (EO), business transfer (BT), and global integration (GI) represent expansion strategies within the boundaries of the firm, whereas export partnering, licensing and franchising, and foreign subcontracting represent contractual expansion strategies.
Export orientation is characterized by foreign resource interdependencies without having proper foreign operations and without outsourcing to other companies. In this case, most value creation is performed domestically, whereas sales are international. As a strategy, EO is mainly favorable for high-fixed-cost industries that must distribute their volume-independent costs across a large production output (“economies of scale”; see Buckley and Casson 1976; Caves 1971). Therefore, this position is primarily a market-seeking strategy.

The intention of BT is to replicate the national business system in a foreign country (stand-alone foreign operations) to leverage company-specific core competencies against competitors. Classified also as a market-seeking strategy, BT can be used to expand the market (e.g., in case trade barriers obstruct exports). Because the different regions share common, company-specific competencies and managerial learning can be fostered across countries (Tallman and Fladmore-Lindquist 2002), “economies of scope” can be realized.

Global integration is characterized by foreign operations with many resource interdependencies among headquarters and subsidiaries abroad (Malnight 1996). The company's foreign value creation and the level of exports are high, and there are also intracompany exports. This strategy builds on the idea of deconstructing the value chain and placing each process step at the ideal location (Bartlett and Ghoshal 1988; White and Poynter 1989). As such, this is mostly a resource- or efficiency-seeking strategy, and it offers “economies of location” (Rugman and Verbeke 2003, 2004).

In addition to the described benefits, there are some barriers that make the realization of internationalization strategies complex. On the one hand, trade barriers (Corden 1967), such as tariffs, quotas, national regulations (for China, mainly local content requirements), logistics costs (transportation and communication costs), exchange-rate effects, heterogeneous preferences, and managerial difficulties, constrain cross-border integration. On the other hand, transfer barriers, such as managerial difficulties (coordination complexities, control, and governance issues), different business environments, and discrimination against foreign entrants, hinder the internationalization of value creation (Kim, Park, and Prescott 2003).

*Internationalization Modes.* The internationalization strategies we introduced can be implemented through different internationalization modes. These modes refer to the ownership dimension of the internationalization cube and represent varying degrees of resource commitment, risk exposure, and control (Pan and Tse 2000, p. 535). Because the firm that
has control has the ability to influence systems, methods, and directions, control has a critical impact on the future of a foreign subsidiary and thus plays a preeminent role in market entry mode decisions (Anderson and Gatignon 1986, p. 3). Internationalization modes can be differentiated according to the sources of control rights in (1) ownership-based control (WOFEs), (2) mixed-ownership/contract-based control (EJVs), and (3) contract-based control (nonequity modes/CAs).

**Taxonomy for Evolution Paths of Strategy–Mode Combinations.** The combination of described strategies and modes enables the identification of internationalizing firms’ chosen positions and the mapping of the evolution paths of strategy–mode combinations over time. To this end, we developed the taxonomy that appears in Figure 1.

We now formulate propositions about which evolution paths of strategy–mode combinations might be found in the automotive supplier industry in China. While remaining open to any possible outcomes of our empirical research, we developed propositions on which we focused this article (Eisenhardt 1989). These propositions summarize only theory-guided expectations in terms of likely paths. They should not be understood as mathematical propositions that can be proved (Stuart et al. 2002).

The BT internationalization strategy offers localization benefits compared with a pure EO strategy (Kaufmann et al. 2005). This is especially relevant in low-cost countries. Transfer barriers have been restraining foreign entrants from transferring value creation to China. However, empirical studies (see, e.g., Organisation for Economic Co-operation and Development 2005) show that in recent years, transfer barriers in the form of differing industry standards, foreign language illiteracy, and currency issues have decreased. Thus:

\[ P_1 \text{ (Reinternationalization strategies): Because internationalization through offshoring (BT) offers additional benefits compared with a sole international integration (EO), foreign companies prefer to enter China by transferring value creation abroad (offshoring).} \]

Currently, the pure form of the strategic position of GI is still relatively uncommon (Kaufmann et al. 2005). However, it offers additional benefits compared with the BT strategy. Trade barriers have been restraining companies from moving toward this strategic position. Since China’s World Trade Organization (WTO) accession, however, trade barriers, such
as freight rates, tariffs, and quotas, continue to fall (WTO 2005). Thus:

\[ P_2 \text{ (Reinternationalization strategies): Because further expansion into the Chinese market (following market entry) enables a global leverage of economies of location, foreign companies tend to promote the GI of the value created in China (integration/offshoring).} \]

According to transaction cost theory, transaction characteristics, such as complexity and/or dynamism, determine the
choice of market entry modes (Duncan 1972). In the highly complex and dynamic Chinese market, foreign entrants with a low level of international experience can benefit from local EJV partners in terms of government relations, host-country business networks, fast pooling of critical resources, and risk diversification, all of which can significantly reduce their transaction costs (Kumar and Subramaniam 1997; Luo 2001). Several large-scale empirical studies also show that EJVs have been a popular mode of market entry into China (Child and Yan 1999; Li, Lam, and Qian 2001). Thus:

\[ P_3 \text{ (Reinternationalization modes): Because foreign companies are not familiar with the Chinese market at the time of entry, automotive suppliers tend to implement their BT market entry strategy through an EJV internationalization mode.} \]

The transaction cost approach also suggests that high levels of specificity tend to make modes that offer higher degrees of control more efficient. For example, for companies offering highly proprietary or customized products, modes with higher degrees of control are more appropriate (Brouthers 2002). In the rapidly developing Chinese automotive market, supplier products become increasingly specific. At the same time, the risk of losing intellectual capital to potential EJV partners, which could then emerge as competitors on the world market, increases (Baughn et al. 1997). Combined with the increasing relative importance of the Chinese market to suppliers, these factors show that a trend toward more control and ownership can be expected on the basis of the consulted theories (Beamish 1993). Thus:

\[ P_4 \text{ (Reinternationalization modes): Because foreign entrants find that EJV benefits are outweighed by costs that arise from unintended leaks in knowledge-based assets to the alliance partner and/or because the relative importance of commitments in China increases over time, automotive suppliers are likely to seek a conversion of their EJVs into WOFEs.} \]

The evolution of the selected strategy–mode combinations is likely to follow a distinct sequence. Having decided to change the internationalization strategy from a BT position to a GI position, companies will probably first adjust their internationalization mode from an EJV mode to a WOFE mode. This sequence is favored because foreign entrants prefer not to coordinate global decisions and not to share benefits from integration with their Chinese EJV partners (Deng 2001). Thus:

\[ P_5 \text{ (Reinternationalization strategies and modes): Because foreign companies intend to separate from} \]
their EJV partners before globally leveraging economies of location, automotive suppliers aim to move first toward more ownership and then toward higher degrees of GI.

Because the internationalization of companies into China has yet to be sufficiently explored empirically, we conducted multiple case studies. Unlike the case of mature markets, the high dynamism of the Chinese market causes relatively short evolution paths of internationalization processes. As a result, the interviewed experts have experienced evolution paths within recent years. Our sampling consists of managers who, in most cases, have accompanied the changes in the same company. This adds richness to our case study–based research design.

Qualitative research methodologies can be particularly appropriate in the early stages of an investigation and can be used for the purposes of description (Yin 2003b) and theory generation (Eisenhardt 1989). In addition, qualitative approaches help develop rich insights into a topic that may be initially difficult to gain through the use of other research methods, such as mail questionnaires and archival data (Bonoma 1985).

To determine the sometimes-elusive and nonobvious influences of environmental factors on internationalization decisions, we opted to conduct in-depth interviews to investigate attitudes, opinions, and perceptions of leading industry executives (Riley et al. 2000). Furthermore, the set of influential factors in our study covers a fairly wide range because, in general, people perceive environmental impact differently. Thus, to comprehend interviewees’ specific understanding and conceptions of market expansion steps and influential factors, it is necessary to guarantee adequate spontaneity in answering questions (Miles and Hubermann 2000; Yin 2003b). Although quantitative techniques allow for attitude measurement, qualitative techniques tend to take diverse backgrounds of the interviewees more appropriately into account (Bonoma 1985; McGrath 1982). Furthermore, Miles and Huberman (2000) and Yin (2003b) contend that a multiple case study approach allows researchers to reach a deeper understanding of a phenomenon and to test to a greater extent the boundaries of their initial findings, thus improving validity (Yin 2003a) and allowing for the creation of a richer theoretical framework (Ellram 1996).

Prior research has revealed that six to ten sampling units are often necessary for a homogeneous sample (Eisenhardt 1989; Ellram 1996). Therefore, unlike a survey methodology, in which researchers target a specific sample size a priori, we continued to interview informants until we reached a point
of redundancy, or saturation (Yin 2003b). We conducted 15 interviews and, in hindsight, found that only 12 case studies were necessary to reach this level of confidence. As rules for selecting the appropriate field sites and ensuring validity of our results, we considered only first-tier automotive suppliers of direct material that had comprehensive experience with different combinations of strategies and modes in recent years.

When a company agreed to participate, we e-mailed an introductory package, which included a brief overview of the research objectives and the standardized interview protocol, to the interviewees several days before so that the managers could prepare. In addition, we ensured consistent interviewing procedures (Miles and Hubermann 2000). We used a semistructured protocol to focus the interviews and ensure comparability, while allowing for flexibility in our pursuit of greater insight into unique practices (Strauss and Corbin 1990; Yin 2003b). We pretested the interview protocol with four companies and conducted pilot tests with two additional companies that were not included in the sample. We structured the protocol along the developed taxonomy that appears in Figure 1. It contained both open-ended and closed-ended questions about dynamic positioning and considered parameters related to internationalization strategies and modes, including the time of market entry, the present position, and the expected position in five years. Because we composed the protocol in English and conducted the interviews in English, no translation issues occurred. All interviews lasted two to three hours and were conducted in person in China and Europe from October 2004 to December 2004. Scholars such as Beamish (1993), Chetty and Campbell-Hunt (2004), Eisenhardt (1988), and Kaufmann and Roessing (2005) have used a similar procedure. To ensure confidentiality, we present the interviewed companies under the pseudonyms listed in Table 1.

Having empirically researched internationalization processes of automotive suppliers expanding into China, we can analyze the formulated propositions. Addressing P1–P4, this section presents internationalization strategies and modes that automotive suppliers have actually chosen, as well as their evolution paths over time. Our research-efficient framework for internationalization processes enables us to position the analyzed automotive suppliers exactly in terms of their chosen strategy–mode combinations. To calculate strategy positions, we use the global distribution of value creation and both up- and downstream resource dependencies between headquarters and affiliates in terms of imports and exports of value-creation steps. We map mode positions within mode subcategories (e.g., wholly owned through
<table>
<thead>
<tr>
<th>Number</th>
<th>Company Pseudonym</th>
<th>SME/Larger MNC</th>
<th>Product Examples</th>
<th>Technological Dynamism</th>
<th>Staff in China/Worldwide</th>
<th>Relative Importance of China</th>
<th>Business in China Since</th>
<th>Country of Origin</th>
<th>Interviewed Expert</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AirComp MNC</td>
<td></td>
<td>Air conditioning, engine cooling</td>
<td>Medium</td>
<td>2500/17,000</td>
<td>Medium</td>
<td>2001</td>
<td>Germany</td>
<td>Group vice president</td>
</tr>
<tr>
<td>2</td>
<td>MegaSup MNC</td>
<td></td>
<td>Engine management</td>
<td>High</td>
<td>8300/240,000</td>
<td>High</td>
<td>1980</td>
<td>Germany</td>
<td>Senior director</td>
</tr>
<tr>
<td>3</td>
<td>CarBrake MNC</td>
<td></td>
<td>Brake systems</td>
<td>Medium</td>
<td>520/22,000</td>
<td>Medium</td>
<td>1994</td>
<td>Germany</td>
<td>General manager</td>
</tr>
<tr>
<td>4</td>
<td>InteriorMake MNC</td>
<td></td>
<td>Seat systems, door panels</td>
<td>High</td>
<td>1000/60,000</td>
<td>Medium</td>
<td>1994</td>
<td>France</td>
<td>Head of industrial engineering</td>
</tr>
<tr>
<td>5</td>
<td>SealComp MNC</td>
<td></td>
<td>Engine seals</td>
<td>Medium</td>
<td>1000/32,000</td>
<td>Medium</td>
<td>1993</td>
<td>Japan, Germany (international EJV)</td>
<td>Head of business development China</td>
</tr>
<tr>
<td>6</td>
<td>LightSup MNC</td>
<td></td>
<td>Electronic systems</td>
<td>High</td>
<td>580/24,000</td>
<td>Medium</td>
<td>1994</td>
<td>United States, Germany (international EJV)</td>
<td>Assistant general manager</td>
</tr>
<tr>
<td>7</td>
<td>PlasticsMake SME</td>
<td></td>
<td>Plain bearings, swing bearings</td>
<td>Low</td>
<td>30/1300</td>
<td>Medium</td>
<td>1995</td>
<td>Germany</td>
<td>General manager</td>
</tr>
<tr>
<td>8</td>
<td>TruckSafety MNC</td>
<td></td>
<td>Brake systems</td>
<td>High</td>
<td>100/11,100</td>
<td>Low</td>
<td>1998</td>
<td>Germany</td>
<td>Member of the executive board</td>
</tr>
<tr>
<td>9</td>
<td>CastingCorp MNC</td>
<td></td>
<td>Nonferrous castings</td>
<td>Medium</td>
<td>80/11,400</td>
<td>Medium</td>
<td>2000</td>
<td>Germany</td>
<td>General manager</td>
</tr>
<tr>
<td>Num.</td>
<td>SME/Larger MNC</td>
<td>Pseudonym</td>
<td>Product Examples</td>
<td>Technological Dynamism</td>
<td>Staff in China/Worldwide</td>
<td>Relative Importance of China</td>
<td>Business in China Since</td>
<td>Country of Origin</td>
<td>Interviewed Expert</td>
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</tr>
<tr>
<td>10</td>
<td>AcousticComp MNC</td>
<td>Acoustic insulation</td>
<td>Low</td>
<td>80/1,350</td>
<td>Medium</td>
<td>2003</td>
<td>Japan, Switzerland (international JV)</td>
<td>Japan</td>
<td>Manager project China</td>
</tr>
<tr>
<td>11</td>
<td>AcousticComp SME</td>
<td>Acoustic insulation</td>
<td>Low</td>
<td>80/1,350</td>
<td>Medium</td>
<td>2003</td>
<td>Japan, Switzerland (international JV)</td>
<td>Japan</td>
<td>Manager project China</td>
</tr>
<tr>
<td>12</td>
<td>AxleSup SME</td>
<td>Truck axles</td>
<td>Medium</td>
<td>100/680</td>
<td>High</td>
<td>1994</td>
<td>Germany</td>
<td>Germany</td>
<td>General manager</td>
</tr>
<tr>
<td>13</td>
<td>MoldingCorp SME</td>
<td>Aluminium moldings</td>
<td>Low</td>
<td>750/2200</td>
<td>High</td>
<td>1994</td>
<td>Germany</td>
<td>Germany</td>
<td>General manager</td>
</tr>
<tr>
<td>14</td>
<td>CarSafety SME</td>
<td>Restraint systems</td>
<td>High</td>
<td>1000/60,000</td>
<td>Medium</td>
<td>1996</td>
<td>United States</td>
<td>Germany</td>
<td>Operations director</td>
</tr>
<tr>
<td>15</td>
<td>HeatingSup MNC</td>
<td>Heating systems</td>
<td>High</td>
<td>Not available/620</td>
<td>Medium</td>
<td>1996</td>
<td>Germany</td>
<td>Germany</td>
<td>Supervisor sales and marketing</td>
</tr>
</tbody>
</table>

Table 1. Continued
greenfield or through acquisition) and also consider precise EJV share percentages within minority and majority EJVs.

Figure 2 visualizes the exact positioning of the researched companies in terms of today’s strategies. It shows different mixes of the three base strategies of EO, BT, and GI. We consider a company to be pursuing a certain strategy if the share of this strategy dominates the mix of the three base strategies. The bottom-left-hand corner represents the strategic position of national focus (i.e., domestic production and domestic consumption) and thus is not in the scope of internationalization processes. We now combine the strategic positions of automotive suppliers with the selected internationalization modes (y-axis of our taxonomy) and map them within the internationalization framework.

The identified strategy–mode combinations have changed significantly since the suppliers entered the market. In reference to internationalization strategies, higher levels of foreign value creation can be found in the present. In terms of internationalization modes, the source of control rights has shifted from contracts to ownership.

These strategy–mode combinations will be adjusted again within the next five years. In terms of internationalization strategies, most automotive suppliers intend to leverage economies of location, thus moving toward GI. In reference
Evolution Paths of Strategy–Mode Combination

to internationalization modes, further increased levels of ownership can be found with WOFE modes becoming as popular as 50% share or majority EJVs. Figure 3 presents the exact positioning of strategy–mode combinations of the 15 research suppliers at the time of their market entry, in the present, and in five years. In the first period under review (from market entry to the present), a majority of suppliers move into the BT EJV square. In the second period under review (from the present to five years from now), suppliers move further toward a GI strategy. However, not all companies aim to buy out their partners and convert their EJVs into WOFEs. An apparent separation can be detected between suppliers that integrate globally with their partners and suppliers that increase their ownership to as much as 100% before advancing to a GI strategy.

Having outlined the chosen internationalization strategies and modes, we now address P5 by presenting the dynamic evolution paths of strategy–mode combinations. In general, there is a trend toward higher integration and more ownership. However, not all suppliers intend to move into the top-right-hand GI square.

On the one hand, there is apparently more than one target square, and on the other hand, there are different supplier-specific paths that move toward the intended square. These different evolution paths of strategy–mode combinations can be clustered into four main supplier categories: (1) risk-averse early entrants, (2) EJVs with non-Chinese partners or Chinese original equipment manufacturers (OEMs), (3) EJVs with Chinese suppliers, and (4) late-following WOFEs.

These four supplier categories move along different evolution paths, and the paths can be taken in succession. For example, a risk-averse supplier that began conducting business in China through CAs could have moved first toward EJVs and then converted the EJV into a WOFE (Path 1 + Path 3).

All the identified evolution paths move toward higher integration and more ownership. In terms of internationalization modes, all the researched suppliers invested equity in the Chinese market by operating either EJVs or WOFEs. In terms of internationalization strategies, most foreign entrants pursue BT EJVs or BT strategies. These strategies will move further toward GI within the next five years. Figure 4 provides an overview of the four presented evolution paths. The overview illustrates that only four strategy–mode combinations (3Aa, 3Ab, 3Ba, and 3Bb) serve as target positions to be realized within the next five years. Next, we explain the identified evolution paths in more detail. The starting points of these paths—namely, the initial market entries—can be
Figure 3. Strategy–Mode Combinations at Market Entry, in the Present, and in Five Years

Case study number/year of market entry; multiple appearances of case study numbers indicate multiple affiliates with different strategy–mode combinations.

Case study number/year in which present strategy–mode combination was established; multiple appearances of case study numbers indicate multiple affiliates with different strategy–mode combinations.

Case study number/year until intended strategy–mode combination will be realized; multiple appearances of case study numbers indicate multiple affiliates with different strategy–mode combinations.
viewed as Path 0. The individual reasons for choosing Paths 0–4 are represented by parameters that we introduce subsequently.

Path 1: Risk-Averse Early Entrants. Path 1 represents early entrants into China that aimed to benefit from first-mover advantages. These early entrants’ evolution paths of strategy-mode combinations have their origins in export partnering or licensing and franchising.

On the basis of our interviews, we concluded that foreign entrants who chose CAs as their market entry mode initially intended to leverage the growing Chinese market without investing equity abroad. Because of changing parameters, the suppliers subsequently modified this low-risk position. In reference to the internationalization strategy, all companies transferred value creation and, consequently, capital to China. This BT has been implemented through the interna-
Path 2: EJVs with Non-Chinese Partners or Chinese OEMs. Suppliers that run EJVs either with non-Chinese partners (e.g., Western or Japanese automotive suppliers) or with Chinese OEMs selected Path 2. According to our interview partners, these suppliers primarily have good experiences with their partners and have mutually benefited as a result. The aspect of risk sharing with non-Chinese partners and the aspect of a de facto market-share guarantee with Chinese OEMs have presented considerable arguments for this market entry combination (Path 0). These benefits seem to outweigh the higher level of complexity, including time-consuming agreement processes and potential goal conflicts.

Suppliers intend to increase their ownership levels further within the EJVs rather than completely buy out their partners and run WOFEs. Simultaneously promoting a higher GI of their majority commitments, these suppliers move from the BT EJV to a GI EJV.

Path 3: EJVs with Chinese Suppliers. Path 3 describes suppliers that run EJVs with Chinese suppliers. Some foreign suppliers struggle with their partners’ weaknesses, such as poor technological knowledge, a lack of competitive attitude, and insufficient business relationships. Thus, foreign automotive suppliers that do not benefit exceptionally from their partners’ customer base aim to convert their EJVs into WOFEs by buying out their Chinese partners.

In such cases, the change of internationalization mode is performed before an adaptation of the internationalization strategy rather than simultaneously, as in Path 2. The foreign entrants intend to gain full control of their foreign affiliate before they integrate and leverage economies of location globally. Taking Path 3, these automotive suppliers begin with a move from BT EJVs to BT and, from there, to GI.

Another possibility is the transition from Path 3 to Path 2. Some suppliers conducted this transition by switching from their Chinese supplier EJV partner to a non-Chinese partner or a Chinese OEM partner.

Path 4: Late-Following WOFEs. Suppliers that only recently followed the risk-averse early entrants or suppliers that established additional WOFEs as a result of gaining experience with EJVs in the Chinese market selected Path 4. These suppliers try to leverage their individual strengths (e.g., in the form of products with unique selling propositions [USPs]) without relying on access to the distribution channels of potential Chinese EJV partners. By maintaining the
WOFE internationalization mode, these foreign entrants plan to increase their level of GI. Often, suppliers intend to integrate domestic competitors. If these mostly state-owned enterprises are not directly acquirable because of political reasons, some suppliers might decide to set up EJVs with the acquisition target temporarily with the objective of buying out the Chinese partner in the near future. These suppliers take the described detour on their way from EO or BT to GI.

To understand why foreign entrants select distinct strategies and modes, we now introduce parameters that influence this choice.

In synthesizing the reasons for the selection of the individual strategies addressed in P1 and P2, we can identify parameters that attempt to explain in more detail how the selection of internationalization strategies is influenced. We sort the parameters in descending order according to how frequently the interviewed experts mentioned them.

Parameters Influencing Strategy Selection

Parameters that favor the EO internationalization strategy are (1) low sales volume and (2) lack of second- to n-tier supplier industry capabilities. In case the expected midterm sales volume is too low to use critical mass-production facilities, exporting products to China can be the preferred strategy. Export orientation is also indicated if the local second- to n-tier supplier industry is not capable of delivering necessary raw materials and components. In this case, local production of foreign first-tier suppliers in China would require importing supply parts associated with high tariffs and low flexibility.

Parameters that favor the BT internationalization strategy are (1) import barriers (quotas and tariffs), (2) local content requirements, (3) customer requests, (4) local integration, (5) low factor costs (also of supplier industry), (6) volume flexibility, (7) exchange-rate effects, and (8) customization demands. Quotas limit the amount of foreign products that are allowed to be imported into China. To sell more than the specified amount of products, suppliers must produce them locally in China. The transfer of value creation to China also eliminates import tariffs on vehicle components. Local content requirements for automotive OEMs are installed by the government to bring value creation to China. To be attractive to OEMs, suppliers transfer their manufacturing facilities to China to be able to deliver locally produced components. Many OEM customers request that suppliers have their production facilities located close to the OEM plants. Sophisticated logistic processes often require just-in-time or just-in-sequence deliveries, which require short distances between suppliers and customers. The local integration in terms of government relations, public image, and local business contacts is much higher for companies that produce in China.
Automotive Suppliers in China

and can be key for a foreign automotive supplier to be successful in the Chinese market. China is an attractive production location because parts sourced from the local second-tier supplier industry also benefit from relatively low factor costs. Thus, first-tier suppliers can reduce their material costs considerably in addition to their own lower production costs in China. A local production facility in China enables a supplier to react more flexibly to volume fluctuations of OEM customers. Exported parts to China are often in the shipping process for several weeks or months and thus are inflexible to customer demand fluctuations. When the euro is strong, China, as a U.S. dollar area, can also be an attractive production location as a global supply base. Suppliers that create value in different currency areas are able to benefit from exchange-rate effects beyond trading on financial markets. Some products need to be customized for the specifics of the Chinese market. A local production site can support suppliers in gathering market knowledge in terms of technical specifications and design variations to match Chinese preferences.

In addition to these parameters that favor the internationalization of value creation, there are additional parameters that make a GI strategy preferable to a pure BT strategy. These are (1) overcapacities and (2) leverage of Chinese factor costs. Production overcapacities, which result from large manufacturing facilities combined with reduced growth rates of domestic demand, are sold within the Asian region and, in some cases, globally. Global overcapacities can lead to “forced” GI by preference for the most competitive production location worldwide. Some suppliers not only aim to satisfy Chinese domestic demand but also intend to leverage globally the relatively low factor costs by turning China into a global supply base. However, as a result of high logistic expenses, not all finished products are appropriate for global export from China. Product categories that are predestined for export are material, labor-intensive, and compact components with high absolute values and a high level of value added in China.

In linking the identified internationalization strategies and their parameters to internationalization theories, we find theoretical elements in the empirical research. Kaufmann and colleagues’ (2005) holistic framework has already theoretically outlined a trend toward GI. According to these authors, the four advantages (market expansion, economies of scale, economies of scope, economies of location) argue in favor of internationalization of both sales and value creation, thus favoring the strategic position of GI over EO or BT. With respect to the advantage of market expansion, emerging countries have become attractive because they have overcome economic thresholds for increased spending in terms
of disposable income per household. In China, however, these market opportunities have declined because capacity that has been built up has created overcapacities, which has led to fierce price competition. In contrast, economies of scale are promoted through a development toward knowledge-based firms. In terms of economies of scope, risk diversification (real options) is more important in a world of increasing uncertainty. Finally, the increased relevance of factor cost advantages, the proximity to natural resources, and spillover effects in industry clusters have supported economies of location.

In addition to the increasing advantages of strategies, the barriers to these strategies are decreasing. In terms of trade barriers that restrict the internationalization of sales, freight rates and tariffs are declining. In terms of transfer barriers that restrict the internationalization of value creation, standards are converging, foreign language illiteracy is decreasing, and currency issues are diminishing. Because the GI strategy offers the most advantages and because trade and transfer barriers are decreasing, the framework we use predicts a trend toward this strategic position in the near future.

By synthesizing the reasons for the selection of the individual modes that P₃ and P₄ address, we can identify parameters that explain in more detail how the selection of internationalization modes is influenced.

Parameters that favor the CA internationalization mode are (1) no equity investment and (2) low risk. The internationalization modes of contract manufacturing and licensing as well as alliances enable a foreign entrant to conduct business in China without investing equity abroad. This can be especially attractive for small and medium-sized suppliers that intend to benefit from the growth of their automotive OEMs in China. In addition, CAs can help minimize the risk in terms of loss of financial and intellectual capital associated with an investment in the highly uncertain Chinese market.

Parameters that favor the EJV internationalization mode are (1) EJV obligation in the past, (2) market-share guarantee, (3) access to distribution channels, (4) integration of competitors, (5) lower capital requirements than a WOFE, (6) risk diversification, and (7) time to market. Before the cancellation of the EJV obligation for automotive suppliers in China, the establishment of WOFEs was not permitted. At that time, many suppliers established EJVs to gain access to the attractive Chinese market. Western suppliers that have established EJVs with Chinese automotive OEM partners enjoy a de facto market-share guarantee because their EJV partner is also one of their main customers in China. A similar parameter is the need for access to distribution channels. This sales support
is particularly important for foreign entrants that do not primarily follow a main customer from their home market but rather internationalize to China to serve domestic customers. To minimize competition in the Chinese market, foreign entrants are interested in integrating selected competitors. Sometimes, however, integration cannot be conducted through an acquisition, because many acquisition targets are state-owned enterprises and may not be buyable. In such cases, the only possibility to eliminate a competitor is to establish partnerships. Because capital requirements are lower in EJV modes than in WOFE modes, EJV modes may be attractive to suppliers that are not able or are not willing to invest the necessary capital to set up a WOFE. Equity joint ventures may be attractive as one component within a risk diversification strategy. Some suppliers tend to share risk with a partner instead of founding a WOFE. However, if the venture is successful and its business in China grows profitably, the premium paid for the risk diversification by the foreign entrant may be high. Finally, an argument for the selection of EJVs may be a shorter time to market. Most automotive suppliers that set up EJVs in China step into the domestic partner’s already existing operations.

Parameters that favor the WOFE internationalization mode are (1) no availability of EJV partners, (2) intellectual property rights, (3) decision-making processes, (4) marketing power, (5) products with USPs, (6) human resources, (7) GI, and (8) customer base. Sometimes, no appropriate EJV partners can be found in China because of either missing capabilities or a lack of government approval. In these cases, a foreign automotive supplier might choose to set up WOFEs to serve the Chinese market. One of the most important issues in China is the protection of intellectual property rights (Tackaberry 1998). Many automotive suppliers fear that a loss of their know-how could lead to plagiarism and counterfeit production (see also Yang 2003). Especially suppliers with high asset specificity try to minimize technology transfer to Chinese competitors by setting up WOFEs. Although losses of know-how through Chinese employees cannot be eliminated completely, WOFEs appear to be less vulnerable to unintentional technology transfer than EJVs. The common problem of complicated, time-consuming decision-making processes in EJVs can also be minimized through a WOFE. The ability to respond quickly to the fast-growing and changing Chinese market can be a significant competitive advantage. Furthermore, WOFEs can be especially attractive to foreign suppliers with high marketing power. The ability to market products and to leverage a strong brand name globally can enable successful internationalization without the networks of local partners. A similar situation can be found for suppliers that manufacture mainly products with USPs. Such suppliers lack strong competition and attract domestic
demand by their products’ USPs rather than through business relationships with potential Chinese EJV partners. In addition, suppliers with few (if any) competitors must focus strongly on the protection of their intellectual capital. Another parameter is the advantage of being able to recruit new employees from the labor market after the foundation of an enterprise. Many suppliers in EJVs struggle with poorly qualified personnel who they must take from their EJV partners. The ability to select the number and qualifications of local human resources can be a substantial competitive advantage for WOFEs. Suppliers that follow a GI strategy are predestined for WOFE modes. Deconstructing the value chain and performing the individual value-creation steps globally require intensive coordination processes. These processes would be further complicated by additional parties, such as EJV partners. Most foreign companies that intend to export products manufactured in China and thus establish China as a global supply base do not want to discuss global decisions, such as transfer prices, with Chinese EJV partners and do not want to share the financial benefits they achieve outside of China. In general, a WOFE’s risk of suffering from poor local relations is lower if the supplier sells products to various customers it already knows from its home market than if it conducts business with just one large, key account. A sizable, diversified customer base can also be an important parameter in setting up a WOFE.

In linking the identified internationalization modes and their parameters to the transaction cost theory, we find that transaction costs can serve as an efficiency criterion to find the appropriate governance structure between the two poles of market and hierarchical coordination. The parameters identified in practice can be interpreted as factors that influence the level of transaction costs and thus recommend a distinct internationalization mode. If transaction costs of hierarchy coordination decrease, WOFEs become more attractive than CAs or EJVs. This is the case for the empirically identified parameters that favor WOFEs. Following a similar logic, the identified parameters that favor CAs or EJV modes lead to higher transaction costs for hierarchy coordination than for market coordination.

P₅ addresses dynamic developments of strategy–mode combinations. This development is caused by changing parameters over time. The three different changes of parameters that can occur are (1) existing parameters disappear (e.g., dropping the EJV obligation) or new parameters appear (e.g., overcapacities), (2) parameters become weaker (e.g., tariff reductions in line with WTO stipulations) or stronger (importance of market-share guarantee of Chinese OEM partners due to increased competition), and (3) parameters become less important (e.g., business relationships with Chi-
Chinese EJV partners) or more important (e.g., protection of intellectual capital) for an individual foreign entrant. Figure 5 illustrates the parameter changes for strategies and modes that the interview partners expected.

To tie the identified parameters not only to internationalization strategies and modes in general but also to the introduced evolution paths of strategy–mode combinations over time, Figure 6 links the parameters with the four paths. Parameters that are not listed in Figure 6 (i.e., M1 and M2) have exclusively driven the initial market entry in the form of CAs (Path 0).

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**Figure 5. Parameter Changes of Internationalization Strategies and Modes**

<table>
<thead>
<tr>
<th>Strategies and Modes</th>
<th>Number</th>
<th>Parameters</th>
<th>Change of relevance</th>
<th>Main Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>EO</td>
<td>S1</td>
<td>Low sales volume</td>
<td>👇</td>
<td>EO is less attractive</td>
</tr>
<tr>
<td></td>
<td>S2</td>
<td>Lack of second- to n-tier supplier industry capabilities</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td>BT</td>
<td>S3</td>
<td>Import barriers (quotas and tariffs)</td>
<td>👇</td>
<td>BT is attractive</td>
</tr>
<tr>
<td></td>
<td>S4</td>
<td>Local content requirements</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>S5</td>
<td>Customer requests</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>S6</td>
<td>Local integration</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>S7</td>
<td>Low factor costs (also of supplier industry)</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>S8</td>
<td>Volume flexibility</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>S9</td>
<td>Exchange-rate effects</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>S10</td>
<td>Customization demands</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td>GI</td>
<td>S11</td>
<td>Overcapacities</td>
<td>👇</td>
<td>GI is very attractive</td>
</tr>
<tr>
<td></td>
<td>S12</td>
<td>Leverage of Chinese factor costs</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td>CAs</td>
<td>M1</td>
<td>No equity investment</td>
<td>👇</td>
<td>CAs are relatively less attractive</td>
</tr>
<tr>
<td></td>
<td>M2</td>
<td>Low risk</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td>EJVs</td>
<td>M3</td>
<td>EJV obligation in the past</td>
<td>👇</td>
<td>EJVs with Chinese OEMs are attractive</td>
</tr>
<tr>
<td></td>
<td>M4</td>
<td>Market-share guaranty</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M5</td>
<td>Access to distribution channels</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M6</td>
<td>Integration of competitors</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M7</td>
<td>Lower capital requirements than in WOFE</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M8</td>
<td>Risk diversification</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M9</td>
<td>Time to market</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td>WOFEs</td>
<td>M10</td>
<td>No availability of EJV partners</td>
<td>👇</td>
<td>WOFEs are very attractive</td>
</tr>
<tr>
<td></td>
<td>M11</td>
<td>Intellectual property rights</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M12</td>
<td>Decision-making processes</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M13</td>
<td>Marketing power</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M14</td>
<td>Products with USPs</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M15</td>
<td>Human resources</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M16</td>
<td>GI</td>
<td>👇</td>
<td></td>
</tr>
<tr>
<td></td>
<td>M17</td>
<td>Customer base</td>
<td>👇</td>
<td></td>
</tr>
</tbody>
</table>
By linking our research results with the theory-based propositions, we can identify different levels of support. Although qualitative empirical research using case studies aims to explore rather than confirm and does not provide representative research results, the propositions can be reviewed for their plausibility in light of the empirical evidence.

P1, which expects that automotive suppliers internationalize into China by transferring value creation, has been widely observed in practice and thus can be considered largely supported. This BT position is currently the dominant strategy of researched suppliers.

P2, which assumes that automotive suppliers move further toward the GI internationalization strategy, was also noticeable in practice. However, because many suppliers have just begun to take first steps toward GI (e.g., by increasing global sourcing) and are still far away from major integration steps (e.g., exporting finished products from China), most of the researched firms intend to complete their GI efforts between 2006 and 2009.

P3, which argues that automotive suppliers implement their strategies by initially choosing the EJV internationalization mode, is partly supported by our research. As we described previously, there are supplier-specific evolution paths. Many suppliers chose EJVs for their foreign commitments. However, because governmental regulations have decreased in
recent years, some foreign entrants decided to establish WOFEs.

$P_4$, which assumes that automotive suppliers convert their EJVs into WOFEs in the future, was partly supported by empirical evidence. On the one hand, there is a group of foreign suppliers that intend to buy out their Chinese supplier partners and transform their EJVs into WOFEs in the next three to five years. On the other hand, there are suppliers that run EJVs with non-Chinese partners or Chinese OEMs. These foreign companies seem to prefer to continue the partnership and increase only their share of ownership to a majority level.

$P_5$, which expects that suppliers move first toward more ownership (e.g., to the top of the framework) and then further toward higher GI (e.g., to the right of the framework), can be formulated as more differentiated as well. According to the four observed evolution paths, most suppliers in EJVs with non-Chinese partners or Chinese OEMs move toward higher GI and more ownership simultaneously. Some suppliers even promote a GI position without further increasing the achieved majority share of the EJVs. In contrast, suppliers in EJVs with Chinese supplier partners intend to convert their ventures into WOFE modes before moving toward a GI position, as $P_5$ assumes. All these movements along the introduced evolution paths are expected to take place in the next three to five years.

Beyond the provided explanations, which are mainly attributed to the external environment, the strategic mentality of a company also plays a role in internationalization processes. Some of our researched firms had a clear China strategy; that is, they actively planned strategy-mode combinations and their intended evolution paths before they initiated market entry. These companies were determined to capture the Chinese market, acted aggressively, and were not afraid of considerable investments. In addition, many of these proactive entrants promoted intensive technology transfer and, today, produce high-technology products in China. Others followed a more opportunistic approach (e.g., by expanding production facilities they had taken over by chance when they acquired a target company in their home country). Similarly, some firms invested in new equipment in their developed home countries and decided to transfer their outdated machinery to China instead of scrapping it. If their production of low technology proved to be successful, they began extending their China operations.

As Table 1 shows, the companies in our sample also differ in terms of their organizational demographics. Beyond their various sizes, they have different levels of experience operat-
ing in Asian countries, attach different importance to their China operations, and manufacture products with different levels of technological dynamism. Although we did not explicitly analyze these demographics in our research framework, on the basis of our interviews, we conclude that despite their different sizes, firms experience similar internationalization processes. With regard to experience in Asia, relative importance of operations in China, and technological dynamism, we found evidence that the higher the factors, the more likely are foreign entrants to favor high degrees of ownership, which is in line with the transaction cost approach. Companies with experience operating in Asian economies seem less dependent on a local EJV partner; a relatively high importance of operations in China may be accompanied by a high level of intended GI, favoring WOFEs; and high technology (with associated intellectual property rights) can be best protected in WOFE modes. In our sample, firms with these characteristics—namely, Case Studies 2, 4, 6, 13, 14, and 15 (Table 1)—aimed to move toward the top-right-hand corner of the framework (see Figure 3).

The automotive supplier industry is probably not so unique that the identified evolution paths apply only to it and not to other industries. We propose that our findings are not exclusively limited to automotive suppliers but may also apply to industries with similar characteristics. These characteristics include (1) industry specifics (a need for minimum-scale production to decrease high fixed costs and the necessity for intellectual property protection of high technology), (2) business-to-business segments (firms that supply large customers but a relatively low number of customers and have a large share of existing customers from home countries), and (3) Chinese market specifics (pillar industries with former EJV obligation also in the supplier area). Thus, we believe that our findings are also applicable to industries such as industrial goods, chemicals, and pharmaceutical suppliers.

The research results of this study contribute to the progress of business administration theory. Our conclusions for automotive suppliers internationalizing into China can be used as an orientation by foreign entrants in other industries that are expanding into other regions. A generalization of these research results could provide insights into the broad theory of internationalization to emerging markets.

The proposed framework is applicable to an organizational problem (i.e., affiliate management) and a strategic issue (i.e., international expansion). Its value consists of structuring internationalization processes to help managers understand largely unknown dynamic evolution paths and their associated parameters. At first glance, the changes of different strategy–mode combinations over time appear confusing, but
we present them such that distinct evolution paths can be easily differentiated. Potential users of our framework can explore the two crucial questions of what to internationalize into China (strategies) and how to internationalize into China (modes), and they can consider clearly defined evolution paths. We suggest that management use the discussed parameters as a checklist to evaluate the particular situation of their company and, if appropriate, to initiate the next step of their evolution path.

These evolution paths and their associated parameters can serve as a road map for a variety of companies. These include (1) automotive suppliers still considering a potential commitment to the Chinese market, (2) companies currently relocating operations to China, (3) suppliers operating in China and suffering from poor performance within the Chinese market, (4) enterprises that have been successful in China in the past but do not want to share potential future upsides with EJV partners, (5) companies beyond the automotive industry, and (6) companies internationalizing into countries other than China.

Although qualitative research promotes knowledge creation in international business, there are also limits of this method that need to be acknowledged. Given the typically large volume of data, case study research can result in theory, which is rich in detail but lacks the simplicity of overall perspective. In addition, it might be difficult to identify the most important relationships because of the lack of quantitative measures, such as regression results (Eisenhardt 1989, p. 547). Similarly, theory-based propositions cannot be proved mathematically (Stuart et al. 2002).

Because this article is based on a qualitative study, it is explorative and mainly descriptive. Future confirmative research projects could help establish the normative merits of the theoretical framework and thus increase the potential managerial usefulness.

Although we forced variance in our sample by considering companies of different sizes and different home countries, the focus is on larger MNCs with European countries of origin. Future studies may want to put more emphasis on SMEs and U.S. and Japanese suppliers. Furthermore, it would be interesting to compare internationalization processes specifically with respect to different firm sizes and countries of origin to analyze potential variances more closely.

This study assumes that the analyzed firms, having internationalized into China, can be viewed as successful in the Chinese market. However, we could not measure actual market performance. It would be worth examining the consequences
of selection of strategy–mode combinations in terms of parent–company satisfaction and/or subsidiary performance. Furthermore, market success is dependent not only on strategy–mode combinations but also on other factors, such as marketing-mix variables.

In addition to exploring dynamic evolution paths, this study also tried to analyze anticipated changes of strategy–mode combinations. However, the experts’ forecasts for the upcoming five years should be considered only expert opinion. Furthermore, additional factors related to transitional costs should be considered. Longitudinal studies are necessary to verify the expected developments and illuminate the fundamental changes caused by China’s WTO accession.

Because the choice of strategy–mode combinations is also contingent on country-specific factors, some aspects found in China may not hold true for other emerging markets. Further research could validate whether the findings of this study can be generalized to countries other than China. Similar limitations may also exist in terms of industry-specific factors of the automotive industry.


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