

**The Role of Networking and Commitment in Foreign Market Entry Process:
Multinational Corporations in the Chinese Automobile Industry**

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Abstract

This study examines how business networking and commitment to local market affect MNCs' speed of business entry in an emerging market. We look at relationship between networking, commitment and performance of entry process into Chinese automotive industry by multinationals from three different countries; USA, Europe and Korea. Data is collected through in-depth interviews and through secondary sources related to the entry process of these cases. The experiences of three MNCs illustrate that entry strategy and speed of entry are influenced by business networking between MNCs and the key business and socio-political actors. Our cases also show that networking tend to generate multi-dimensional effects on MNCs' speed of market entry.

Keywords: Speed of internationalization; Networks; Entry strategy; Automobile industry; China

Introduction

In the international business (IB) literature, much research has focused on networking in the developed economies during the process of foreign market entry (Elg, Ghauri, and Tarnovskaya 2008; Kontinen and Ojala 2010; Giroud and Scott-Kennel, 2009). In recent years, there have been growing interests among researchers on the impact of networking in emerging markets (Luo and Tung, 2007; Santos and Ruffin, 2010). Emerging markets are believed to possess environmental characteristics different from those in advanced economies. For example, the market institutions are not well developed and business-government relationship is excessively inter-twined (Khanna, Bigley, D.Aunno, Ring, 2005; Palepu and Khanna, 1997). It is also considered that multinationals from emerging markets are better equipped to handle networking and entry process in other emerging markets (Palepu and Khanna, 1997).

Business networking is defined as formation of inter-firm relationship with the key business actors (Anderson, Håkansson, and Johanson, 1994). Since internationalization process model (Johanson and Vahlne, 1977), there has been a large body of literature in the foreign market entry and business networking of multinational corporations (MNCs); most studies have demonstrated that resource commitment, learning, and trust in the foreign markets is facilitated by developing relationships with the local business actors, helping MNCs settle down in the host markets (Zaheer, 1995; Lopez-Duarte and Vidal-Suarez, 2010). Nevertheless, it still remains unclear that whether networking with the local actors influences the speed of entry and the internationalization process as a whole or not.

Previous studies (Hadjikhani, Lee, and Ghauri, 2008; Ghauri, Elg and Tarnovskaya, 2008) argue that the socio-political context may be one of the answers that explains speed variations in entry process for MNCs in foreign markets. While the entry success of MNCs is reasonably dependent upon the business itself and other contexts (Lee and Hadjikhani, 2005), the existing studies in business networks and relationships have rarely paid attention to MNCs' speed of foreign market entry under specific socio-political environments such as the Chinese automobile industry where the local partners are often the host government. Therefore, this paper addresses a fundamental question in the area of IB research, why there are variations in the speed of MNCs' market entry into emerging markets and whether it is influenced by networking capabilities/activities of multinationals or not?

Relationships have both static and dynamic nature; characteristics of relationship between MNCs and their partners, suppliers, and socio-political organizations tend to determine MNCs' market position (Ghauri and Holstius, 1996; Welch and Wilkinson, 2004). At the same time, these relations evolve over time. In this process, successful relational management

of MNCs in international market eventually hinges upon the elements such as learning and resource commitments (Hadjikhani et al, 2008; Isobe, Makino, Montgomery, 2000). In our study, we examine whether networking influences the process of MNCs, when they enter the Chinese automobile market or not?

Early entry provides MNCs with an opportunity of "first-mover advantage" (Lieberman and Montgomery, 1998) at the same time, firms that entered earlier tend to show low survival likelihood due to more damages from cultural conflicts and misunderstanding of partner organization (Isobe et al, 2000).

In this paper, the purpose of study is to investigate how MNCs with different structures and strategies, network with the key local actors while entering a foreign market. This research contributes to the understanding of the link between the speed of internationalization process and networking in two significant ways; first, the research presented here serves as a fair answer to the question that why some MNCs are able to enter foreign markets quickly and without problems; second, whether MNCs coming from similar environmental and institutional settings (emerging market firms entering other emerging markets) are in a better position to achieve this speed or not?

The Theoretical Framework and the Previous Research

Internationalization, Learning and Commitment

Among several perspectives which approach internationalization process, the paper by Johanson and Vahlne (1977) perhaps was the first to mention mechanism of networking behavior of MNCs in the process of internationalization. The essence of this model is that firms tend to go global gradually over time and the increasing experiences in international markets drive MNCs to augment investments by committing more resources in the hosting markets and in the subsequent entries.

The model assumes gradual learning in internationalization as well as a unilateral process from a MNCs' entry in the host market. However, the recent findings suggest that the internationalization may be based on rapid and two-way (interactive) learning (Hedlund and Kverneland, 1984; Hadjikhani et al, 2008). In addition, turbulence in the market environment where the internationalizing firms are based, or technological advancement have emerged to

determine the decision and the performance of MNCs. internationalization (Turnbull, 1987; Makhija, 1993).

Internationalization may be viewed as a process in which MNCs expand their organizational network into another country. Foreign market entry is an initial step of expanding business networks (Coviello and Munro, 1997; McDougall, Shane, and Oviatt, 1994). During the process of foreign market entry, firms tend to act within their existing business network, so that characteristics of the existing network affect the new entries to the foreign market (Blomstermo and Sharma, 2001; Chen and Chen, 1998). Learning and commitment shown by the MNCs affect interaction between new entrants and the local business actors and produce different networking patterns layering on the existing network (Hadjikhani et al, 2008).

Learning and commitment do not only consist of a firm's relational idiosyncrasy but also determine the nature of MNCs' business networking after foreign market entry. Because of less developed market institutions, relationship with socio-political actors, particularly with government, frequently handles the level so that MNCs can cope with institutional uncertainties (Lee and Hadjikhani, 2005). The networking with socio-political actors shape perception and attitude of a government in an emerging market towards the new MNC.

Networking significantly reduces agency costs that may incur during foreign market entry because it shows the goal and attitude of an entrant to a partner firm as well as to the host government (Aulakh, Kotabe, and Sahay, 1996). When firms aim to penetrate into a new market, they need to invest a large amount of resources into a variety of relationships. Learning, on the other hand, takes place in multiple areas; for example, locational learning helps entrants better understand importance of establishing a business base in the particular foreign market and reaping locational benefits offered by the country market. Thus, the existence of geographic learning leads to sequential entries in the same geographic area.

As commitment and learning by a firm increase, its inter-firm relationships become quality-oriented rather than cost-oriented (Sobrero and Roberts, 1996), long-term oriented (resource-building) rather than short-term oriented (resource-exchange), or exploration-oriented rather than exploitation-oriented. Learning enables an entrant to be aware of foreignness and become adapt to new business environments in order to fill in the gap between an entrant and the host country/partner.

Networking and the speed of Foreign Market Entry

The fundamental logic in our study is that networking affects the levels of learning and commitment to the foreign market, which then differentiates speed of market entry into the market. In terms of business networking, foreign market entry is viewed as the process by which firms establish themselves in foreign markets over long time periods and not just the characteristics of the entry decision and modes of entry (Johanson and Vahlne, 2010; Axelsson and Johanson, 1992). Recent studies have found that firms enter foreign markets as a network at a certain point of time, which is labeled as "pre-clusterization." (Hatani, 2009; Buckley and Horn, 2009). Pre-clusterization is defined as an advanced form of network-based foreign entry, where firms in a business group enter an emerging market and begin to cluster in the location that the core firm targets (Hatani, 2009).

MNCs who adopt pre-clusterization strategy connect the suppliers and affiliates together in order to fulfill specific roles within the boundary of firm, and to facilitate achievement of their common goals (Gomes-Casseres, 1994). The pre-clustered MNCs may create a competitive advantage by applying the tacit knowledge they have developed (Kogut and Zander, 1995). Specifically for early entrants, pre-clusterization is the best entry mode and is often imitated by late entrants (Guillen, 2003).

Yet it is also argued that this model is valid only when a firm is at early stage of internationalization, lacking sufficient knowledge about the foreign market (Forsgren, 2008; Forsgren, 1989). Recent studies have found that pre-clusterization strategy helps MNCs tailor their entry strategies for host countries with foresight to ensure the best outcome (Delios and Henisz, 2000). An early mover, by definition, has a quasi-monopoly advantage before competition begins and is in a position to capture higher economic rents than would be possible in a competitive market place (Lieberman and Montgomery, 1988). To apply this view to the context of business networking, the early entrant may gain or maintain advantages in establishing network relationships with local actors by having more opportunities of acquiring scarce assets locally available and of developing unique local buyer and production network (Isobe et al, 2000).

There are several reasons why networking affects the speed of entry by MNCs in a foreign market, particularly in emerging markets. First, early entrant MNCs can have more time for local adaptation (Vahlne, Ivarsson, and Johanson 2010). As the level of MNCs' localization increases and MNCs are likely to overcome liability of foreignness (Zaheer, 1995), firms start the process of building commitments and trust with local actors. Accordingly, it appears that late entrants find themselves situated in an environment where they cannot concentrate on building relationships and trust with local actors (Boersma, Buckley and Ghauri, 2003).

From the stance of the local business actors in a host market, they may build some preference that favors the early entrant as they have more time to get familiar with and understand the early entrant. Once business networking between an early entrant MNC and local business actors is formed, the local business actors may develop switching costs in the business relationship, just like customers find it hard to change to other brands introduced later to the market.

The previous studies on MNCs' entries in China have implied that advantages of early entry for performance may be very strong and consistent, although no study has empirically examined the causal link. Local governments in China often treat early foreign investors more nicely (Isobe et al, 2000; Choi, Beamish, and Sharp, 2000). Early entrant MNCs thus may develop business networking more easily and thus settle in the new market faster than the late entrants.

Based on these earlier studies, we present a conceptual model (Figure 1). Our model deals with three distinct parts; networking, learning and commitment and performance. We use network variables; actors, activities and resources, presenting the establishment of relationships with different actors in the market, the activities performed and resources spent to establish these relationships as suggested by several scholars (Hadjikhani et al. 2008, Elg et al. 2008, Håkansson and Johanson 2002). Secondly , our model suggests that networking will allow the firm to learn more about the particular market as regard to locational users , such as suppliers, customers and competitors, as well as it will allow the firm to learn and handle the institutional environment of the market. This will encourage the firm to be more committed and in the same way will encourage local actors to be more committed to the firm (Isobe et al., 2000; Lieberman and Montgomery, 1988; Weleh and Wilkinsopn, 2004; Vahlne et al, 2010).

Finally, our model suggests that the networking and the resulting learning and commitment will lead to a speedy and successful market entry in the new market (Schwen and Kabst, 2009; Lee and Hadjikhani, 2005).

[Insert Figure 1 here]

Method

Research setting

Considering our research question, our research design is exploratory and qualitative as we are trying to answer “how” and “why” questions and are looking for “thick” in-depth insights (Yin 2003, Ghauri and Gronhang 2010). Our research setting is the automobile industry in China. This setting offers several advantages when examining the relationship between internationalization process and speed of market entry. In the recent decade when the global automobile industry suffered from profit decline, the Chinese automobile market has shown a remarkable growth. It is one of the industries in China that opened the door to foreign investors in the early 1980s and have actively attracted foreign direct investment. As the Chinese economy still rapidly grew, the demand for transportation vehicles increased enormously, which gave sufficient incentives to foreign automakers for the Chinese market entry.

The unique research setting also made the varying speed of networking and market entry more observable. From the beginning of market opening in the automobile industry formation of international joint venture was actively promoted by the Chinese government for the purpose of acquiring advanced automobile technologies. All foreign automakers were allowed to operate in China only in a form of joint venture with the Chinese domestic firms. The maximum share of ownership for a foreign automaker in the joint venture was 50 percent. Therefore, there were two groups of players in the Chinese automobile market in general; the Chinese automakers and the international joint ventures (IJV). A majority of the Chinese automakers have been state-owned and been operating in affiliation with local governments. Top three Chinese automakers by production volume are First Auto Works (FAW), Shanghai Automotive Industrial Corporation (SAIC), and Dongfeng Automotive Group (Dongfeng). The businesses of these three firms are administered in separate regions (locations) where the local characteristics in business practice itself and business-government relations are substantially different (Kwak, Min, Lee, 2010).

Data collection

In order to understand the dynamics of networking and its impact on the internationalization process in the Chinese automobile market, we chose PSA-Citroen-Peugeot (Citroen), Hyundai Motors (HM), and General Motors (GM). In the following section, the empirical facts that we obtained consists of both the primary and secondary data. Citroen, a renowned

French automobile manufacturer, entered the Chinese market in the early 1980s, forming a joint venture with Dongfeng Group (DF). HM entered China in alliance with Beijing Automotive Industry Corporation (BAIC). GM entered through collaboration with Shanghai Automotive Industry Corporation (SAIC)-GM. Entry mode of Citroen, HM, and GM was joint venture, with ownership of 50%, 50%, and 49%, respectively.

The case study method is chosen as it will enable us to understand the dynamic process of networking and internationalization in a complex setting (Ghauri and Gronhaug, 2010; Eisenhardt, 1989). The cases reported here cover the period from 1983 to 2009, and we focus on the most dynamic developments that occurred from market entry and subsequent internationalization process for several years. It is important to study the processes over a long period of time, in order to analyze and understand networking, internationalization process and speed of internationalization (Ghauri and Firth 2009).

Our data collection took place between March, 2008 to April 2010 through four rounds of field trips to Beijing and Shanghai where the headquarters of our sample cases are located. During our interviews, we identified and interviewed general managers responsible for strategic planning and the R&D managers. Interviews were administered in a semi-structured format, conditional upon data confidentiality and no disclosure of respondent identity. All respondents have been working for the case firms since 1983, and have been engaged in preparing and establishing relationships for the company before as well as after the time covered by this study. They have extensive personal experience of business networking at the firm level.

When collecting information, we often encountered a critical problem related to the topic of the research. Firms tended to be reluctant to provide specific information about their businesses or to have ball-park figures. Therefore, it was necessary for us to continue communication through e-mails and phone calls after field research. In addition, brochures and information released by these firms in the home countries and in host country (China), as well as industry statistical yearbooks provided the secondary sources of data. This supplemented the open-ended discussion in which the interviewers explored a set of pre-determined topics in which ever order appeared natural (Ghauri and Firth, 2009). It was hard to find some way of discreetly checking that all the topics were covered both by the key local business actors and the interviewees at MNCs. The interviews took 120-180 minutes and were tape-recorded, transcribed, and verified with the relevant respondents. The information collected was coded and categorized for the purpose of data reduction and analysis as suggested by Miles and Huberman (1994) and Ghauri (2004).

Table 1 presents basic information of our case firms. The sample firms do not reflect population characteristics but provide sufficient representation of the industry and the market. The data is analyzed through pattern matching and through systematic case comparison (Ghauri, 2004). The origins of case companies are France, United States, and Korea. They differ in terms of sales growth rate, year of initial contact with the Chinese automobile market, year of IJV establishment, efforts to make IJV an independent brand (thus MNCs' local strategic orientation), and the degree of IJV R&D for model development. This means that we have enough similarities (automotive IJVs in China) and variations (see table 1) to do a trust worthy comparison to draw conclusions (Sinkovics, Penz&Ghauri 2008).

[Insert Table 1 here]

Findings

A general view is that the central government in China is a main actor and heavily controls the industry. It issues business licenses, allocates newly entering MNCs to the matching regions, designs industrial policies, and conducts national merger projects among the Chinese automakers. The automakers in China are based in specific locations, representing a single province or city and they work closely with the local business actors. On the other hand, industrial policies required by the central government apply, particularly to MNCs, therefore, the internationalization process reflects results of the locational learning about the local context where MNCs are to operate.

A province or municipality (collectively called as a "local government" vis-à-vis central government) acts as a business agent. It sometimes conflicts with the central government over issues related to self-interest, since an entry of MNC automakers increases employment, investments, and tax revenue for a local government. As a result, a Chinese firm forms several IJVs with different MNC partners, while MNCs have less than three Chinese IJV partners. The local joint ventures of an MNC sometimes compete against each other over market share; for example, FAW-VW produces Audi series and SAIC-VW produces Volkswagen series, and both IJVs compete in a high-end automobile market.

The local context, interplaying with regionalism, has shaped unique business environments. For example, Shanghai (the location of GM China) is characterized as local development state, while Beijing (the location of HM China) is portrayed as a laissez-faire government (Thun, 2006). Because the way of doing business essentially reflects the local culture, MNCs.

internationalization process has differed by the geographic location and the factors related to networking have determined the speed of entry.

The first step in market entry to China for an MNC automaker was to submit an application for joint venture to the central government. The central government then matched up with a local government willing to establish IJV and in search of a partner. The MNCs in our study, in order to enter the Chinese automobile market, acquired pre-entry learning about the Chinese market. Before establishment of IJV with DF in Hubei Province, Citroen China in China produced small trucks jointly with Guangzhou Automotive Industrial Corporation (GAIC) in 1985. After years of disappointing sales performance, the IJV was sold off to Honda, a Japanese automaker. Hyundai Motors (HM) also experienced trials-and-errors. In 1994, it established an IJV with Dongfeng in Hubei Province for production of commercial vehicle but ended up with failure. In 2000, it promoted another IJV with Yueda in Jiangsu Province but the pre-entry project was broken up again. General Motors (GM) also had similar experiences. GM in 1992 formed an IJV with Jinbei in Liaoning Province to produce mini-buses. In 1998, GM established the second IJV with Jinbei to promote Chevrolet Blazer sport-utility vehicles and S10 pickup trucks. The IJV, however, suffered from continuous losses because the products were not adapted to local consumers and ownership structure was too complicated to make decisions efficiently.

After several pre-entry projects, Citroen, HM, and GM established the official IJVs with Dongfeng Group (DF) in Hubei province, Beijing Automotive Industry Corporation (BAIC) in Beijing, and Shanghai Automotive Industry Corporation (SAIC) in Shanghai, respectively – the Chinese partners different from the pre-entry partners (see Table 2). As GM in the U.S. has suffered from low profitability, GM China exerted efforts to make good relationship with SAIC, its Chinese partner. GM China thus had a very strong commitment to get localized and was eager to manage skillfully the local actors. As a consequence, GM China actively executed subsequent IJV formation with assistance of SAIC, its official partner. Unlike other IJVs, SAIC-GM rarely experienced significant conflicts between partners, which seems to be due to intensive networking by GM. By establishment of PATEC at the beginning of entry, the jointly funded R&D center, SAIC-GM was able to participate in the global R&D projects and to produce own brands. Although aware that the Chinese partner ultimately intends to make own brands, GM China has been assured that two firms will compete over different market segments. SAIC-GM has thus shown a high level of commitment in building relationship with local business actors. GM China even established IJVs with other local governments, for example, IJVs with Liuzhou Municipal government or with First Auto Works (FAW) in Changchun Municipal government as Table 2 illustrates. However, the sequential entries of GM China did not encounter political tensions with the existing partners, thanks to its stronger network relations.

[Insert Table 2 here]

Like GM, the sales of HM China have rapidly increased. Yet the pattern of the dynamic networking for HM China looks different from that of GM China. As Table 2 shows, HM China did not widen the networking boundary once it formed an IJV with BAIC, except the one with Yueya in 2006. In 2005, HM China initiated the second IJV with GAIC for production of compact cars, however, upon expiry of contract term in 2008, GAIC terminated the IJV, turning to Honda. At our interview, we noted that HM China was strongly controlled by the headquarters in Korea. As the frequent visits from the headquarters in Korea demonstrate, HM's China entry was executed as a part of the global operation strategy planned by the headquarters in Korea. Therefore, business networking of HM China was also deliberately implemented by the headquarters.

Unlike GM China or HM China, Citroen China worked exclusively with DF. Since the IJV establishment in 1992, it once had a change in ownership structure: PSA group, the parent of Citroen China, began to directly participate in the China business, adding Peugeot China to DF-Citroen IJV. Like HM, the businesses of Citroen China was closely monitored and administered by its headquarters in France (PSA group). Management of DF-Citroen was thus affected by the management orientation of PSA group. When the financial problem of DF-Citroen arose in 2003 due to the disappointing sales performance, PSA group in France, rather than Citroen China, notified the headquarters of DF that DF-Citroen should promptly change production system into customized production. For another example, DF-Citroen had a loss of 2.7 billion RMB in 2004 but PSA group still maintained its basic stance that DF-Citroen continue to purchase production equipment and complete-knock-down (CKD) supplies from PSA group. As a result, until the price war completely turned on in the Chinese automobile market, the localization ratio of DF-Citroen was as low as 56%. Although the localization ratio gradually increased, DF-Citroen still preferred imported production equipment and components from PSA group in France to local procurement. As a solution to the growing losses, Citroen China formed an alliance in 2007 with Hafei Automotive to produce commercial vehicle but the decision was made without discussion with DF. Also, pushed by the pressure of technology transfer, Citroen China established CTC(R&D center) in Shanghai while DF-Citroen is located in Wuhan. The two events infuriated DF.

Learning and Commitment

In general, the speed at which MNCs expand their business through sequential entries seems to differ depending on entry timing and the network relationships. The Chinese managers at the selected IJVs told that both the central government and the local governments better treated early entrants— those IJVs that were formed in the 1980s – than later entrants. During

the period, the Chinese automobile industry lacked technology, managerial skills and, more importantly, foreign capital. Even the Chinese consumers were not yet ready to purchase automobile. The MNCs which entered in the 1980s, accordingly, were perceived by the Chinese governments as more beneficial to China. On the other hand, later entrants had to show stronger commitment, otherwise, they could not be given favorable consideration from the partner firm given the increasingly competitive market.

From the early period on, the Chinese government clearly announced that technology transfer was a goal for attracting MNCs into the Chinese automobile market. MNCs' efforts to transfer technology have been regarded by the partner firm and by the government as a commitment to local contribution in foreign market entry. The attitude of MNCs in relation to technology transfer has to a large extent affected the pattern and the speed of market entry in the Chinese automobile market.

Over time, the focus of technology transfer (and, accordingly, the governmental criteria to evaluate MNCs' local contribution) shifted from production technique to research and development (R&D). MNCs were explicitly requested for establishment of local R&D centers and for active product development with local resources. The initiative to promote local R&D programs was primarily top-down approach; however, on the other hand, the MNCs themselves crowded into competitive construction of R&D centers, driven by the rivaling MNCs' attempts to leverage technology transfer for gaining more favors from the Chinese government (or the partners).

The first business that GM China launched in partnership with SAIC was to establish an R&D lab specialized in engineering automobile engines. Partially because of the declining businesses in the United States as well as of GM's independent global governance structure, SAIC-GM behaved relatively independent of GM's interests. For example, SAIC-GM and SAIC jointly established an automobile design firm ("Pan-Asia Technical Automotive Center: PATAC") and the intellectual property rights for designs developed by PATAC are owned by SAIC-GM, as an independent legal entity (see Table 3). As GM China collaborated more closely with SAIC, it concentrated more on co-branding for products developed jointly by SAIC-GM, and began to build the second R&D center, CAERC.

[Insert Table 3 here]

Regarding HM, even though the time to market has been very short for BAIC-HM due to efficient decision-making at headquarters in Korea, BAIC-HM introduced an almost full set

of product series during the first five years. Nonetheless, HM China was often requested by the Chinese press that it construct an R&D center and reduce the role of Hyundai Mobis China. The product designs for the automobile models in the Chinese market were fundamentally the same as the products in the Korean market. In the earlier stage, the common R&D activities of BAIC-HM were imports of high-end sedans from Korea or minor design changes. Over time, BAIC-HM reduced imports and became aware of the importance to respond to calls from BAIC for codevelopment.

In the earlier time, the product R&D by Citroen China focused on assistance of DF in technology licensing from Citroen. Until the Chinese automobile market became very competitive with incoming MNC entrants, technology licensing continued to be the core task for technology transfer at Citroen China. In 2006, there were 200 employees working at DF-Citroen R&D lab. The R&D force increased to be 500 personnel in 2010 after CTC was established. At our interview, managers at DF appreciated the earlier efforts of Citroen China in the process of technology transfer, as DF-Citroen introduced the Elysee series in 2002, which DF designed at its own capacity.

At its debut in the Chinese automobile market in 1993, DF-Citroen introduced a model currently on sales in the European market. However, due to insufficient knowledge about Chinese consumers, the first product ended up with disappointing sales performance, although it was the earliest technology transfer from a Western firm to the Chinese automobile industry. After the first model, the product models of DF-Citroen were based on design changes to the local taste (one-way approach), rather than based on exploration of local knowledge (two-way approach). As Table 4 suggests, for a decade DF-Citroen produced Fukang series only. In 2002, it finally launched Elysee and from 2006 began product diversification. Among the automobile models, Fukang series are no longer produced. We have also found at our interview that profitability of C series and Pegaso is low.

[Insert Table 4 here]

After entry in 2002, HM China also introduced a few lines, Sonata, Elantra, Tuscan, and Accent series (see Table 5). BAIC-HM has focused only on selected lines and increased their production capacity. Unlike DF-Citroen, the products of BAIC-HM do not have a discontinued line, which implies that BAIC-HM has been good at product learning, an understanding of local- onsumer needs. Perhaps HM China.s less diversified product portfolio is attributed to by relatively fewer efforts for local R&D at the HM subsidiary in

China, as suggested by Table 3. The R&D activities of HM China even now are not much different from what they were in 2002.

[Insert Table 5 here]

Like HM China entered with Sonata series, GM China from the market entry focused exclusively on Buick series until 2005 (see Table 6). Working on Buick, SAIC-GM obtained some know-how about the products that the Chinese consumers wanted and, from 2005, SAICGM introduced more diversified product models including Chevrolet, LaCrosse, Cadillac, and some hybrid cars. SAIC-GM changed models frequently with technical updates. Buick, for example, went through 13 times of model changes. In this regard, SAIC-GM has promptly responded to the changing needs of consumers.

[Insert Table 6 here]

In addition to product-design R&D, localization of supply technology has been the key issue in determining MNCs. business networking with the key business actors. Table 6 illustrates the changes of policy in the automobile industry required by the Chinese government. Despite different contents and approaches, the goal has been very clearly manifested, which is replacement of imported technology with indigenous technology. Thus, the MNCs with a higher level of localization have been regarded as more beneficial to China. As the automaker MNCs settled down in the Chinese market, their understanding of the local market enhanced. The MNCs expanded local procurement and, as a result, the degree of local content substantially increased over time.

Nonetheless, even among the MNCs, the levels of reliance on the foreign suppliers or on the Chinese suppliers have been different. A characteristic entry of HM was transplantation of the Korean automobile manufacturing system in China. With several long-term suppliers brought from HM in Korea plus the non-Chinese suppliers already in China, HM China constructed a supplier cluster. Table 7 illustrates the changes of HM China.s business networking in terms of suppliers.

All MNCs selected suppliers through the bidding system, as has been mandated by the Chinese law. In the HM case, despite the more localized supplies, the Chinese suppliers were not systematically controlled or managed due to the large monitoring costs. As a result, the roles of Hyundai Mobis China, a wholly-owned subsidiary, never atrophied. The

clusterization with Hyundai Mobis China enabled HM China to speed up the foreign entry and to maintain product quality. Table 7 shows the changing picture of business networking in terms of supplier relationship. In 2003, HM China had 47 foreign (mainly Korean) and 13 Chinese suppliers; in 2010, the foreign and the Chinese suppliers increased to 86 and 70 firms, respectively.

[Insert Table 7 here]

Localization of HM China focused on the minor changes of product design originally developed in Korea plus the marketing-based search targeting the local consumers and the local regulations. Accordingly, the core component supplies were manufactured by Hyundai Mobis China while other supplies were produced by the Chinese suppliers in a mode of highly detailed control. The successful internationalization of HM in the Chinese market largely relied on the quick replication of the Korean production system in the setting of China, supported by the group structure. Because of the entry strategy and underdevelopment of the general supplier network in China, co-development between BAIC-HM and the Chinese suppliers rarely occurred.

Unlike BAIC-HM, DF-Citroen did not accompany the rank of suppliers when entering China. It was because Citroen entered very early and it was too costly to bring the core component suppliers from France. The firm established a base of suppliers in China, which produced mainly completely-knock down (CKD) and semi-knock down (SKD) parts to Citroen China. In so doing, DF-Citroen also raised production localization up to 80 percent in 2010 from 56% in 2004. During the early stage of production, the firm relied on the partner.s suppliers. Yet Citroen China began to acquire the local suppliers and gradually substituted the supplier base (which consisted of partner suppliers) with the Citroen affiliates. DF-Citroen thereby increased localization ratio required by the Chinese government. At our interview, DF was concerned that Citroen, infavor of the affiliates (and thus Citroen China itself), maintained transfer price too high and insisted on procurement from the Citroen China affiliates.

Because Citroen China was not pre-clustered at the entry and was an early entrant, its business networking with suppliers was different from HM China. Most notably, it had enough time to build business networking with the Chinese suppliers. As Table 7 shows, DF-Citroen had a larger supplier base than BAIC-HM or SAIC-GM; nonetheless, it remained less localized (in terms of localization ratio) than others.

Compared to Citroen, the official entry of GM was delayed for five years. In contrast to HM, GM entered without a supplier network and therefore heavily relied on SAIC for supplier selection. In fact, building a supplier base in a host country itself was not a concern for GM China. Because GM also operated the subsidiary in Korea, it was not worried about unavailability of core suppliers in China. Rather, the issue was how to show a commitment to the partner with localization. GM China thus left supplier selection to SAIC. Instead of direct controls, the firm exercised indirect controls in a way that it replaced suppliers if they failed to meet required quality and prices.

Accordingly, GM and SAIC maintain a close relationship through SAIC-GM, perhaps closer than GM-Daewoo, a Korean subsidiary of GM. The close relationship enabled GM China to operate the extensive sales network after its entry. GM China also admits that such a fast increase in dealership has been contributed to active assistance from SAIC and has augmented its sales performance. As Table 8 suggests, SAIC-GM is active in expanding sales and distribution networking with dealers. The dealership of SAIC-GM doubled over seven years. BAIC-HM, despite the smaller number, increased more rapidly than SAIC-GM. The network expansion of DF-Citroen was the slowest among our three cases.

[Insert Table 8 here]

Discussion and Conclusions

Scholars in international business have been concerned with a question that how network relationships and local knowledge affect the performances of MNCs. international operations (Vahlne et al. 2010; Elg et al. 2008). Networking is considered as a determinant of the performance for international market entry. In this study, we have treated networking as an antecedent to internationalization process, and have examined how MNCs. speed of internationalization is related to networking specifically in the context of emerging markets. While MNCs. relational management has attracted attentions, speed of entry in emerging markets has been almost ignored. We have selected the automobile market in China as our research setting because, in order to enter the Chinese automobile market, having good relationship with both central government and local governments, in addition to business actors is very important (Ghauri and Holstius, 1996). In addition, the rapid growth of the automobile industry in China sufficiently presents motivations for MNCs to maintain business networking with the key local actors, to be successful.

The previous studies have identified entry timing and pre-clusterization entry strategy as important variables related to internationalization process, while we explore the impact of networking on internationalization process (Gomes-Lasseres, 1994; Guillen, 2003). Regarding entry timing, early entry may offer "first-mover advantage" in relations with important local business actors but can also lower survival likelihood if mutual understanding between MNCs and local business actors is not sufficient. Pre-clusterization entry minimizes trial-and-error costs in entry process and institutes core competence in home country in the foreign market setting, enabling MNCs to expand the boundary of business networking within a short time.

Our findings show that entry process was significantly influenced by networking with the key local actors and that early entry provides a good opportunity to develop relationships with key business actors. Our study also reveals that the Chinese automobile market, preclusterization strategy facilitated the networking and the speed of entry. Both pre-clusterization strategy and network relationship with local actors affected the level of MNCs. Resource commitments and local learning. This confirms earlier studies such as Buckley and Ghauri(2004) and Johanson and Vahlne(1977 and 2009).

Our study makes considerable contribution towards existing knowledge on networking and how it influences internationalization process, as it reveals that networking facilitates initial market entry as well as subsequent internationalization process. For example, HM established more rapidly due to efficient networking and strong commitment to the local market, while GM entry was delayed for 5 years due to inefficient networking and Citroen took the longest time to enter the market and showed lowest profit due to the same reasons.

For managerial implication, our study provides some guidelines to foreign firms entering emerging markets, particularly China. It shows that networking with local and central government is crucial in the entry process and how it can speed up the entry process. Moreover, it shows that local government in emerging markets value long-term commitment and technology transfer beyond product or production technology and that long-term commitment are valued more. For example, Hyundai seems to achieve the fastest market entry as it showed stronger commitment to the local market. It increased the local suppliers from 13 firms in 2003 to 70 firms in 2010 and transferred production technology from Korea to China right from the start. HM transferred Korean manufacturing system in China and created a supplier cluster/network. Citroen on the other hand did not bring in any technology to be transferred to the supplier at the time of entry. HM has also been very good in understanding consumers in China and adapting its products accordingly as compared to the other two MNCs.

Finally, our study has its limitations as we study only automobile industry and the findings cannot be generalized to other industries.

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