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**Competitive Dynamics between MNE and Local Internet Platform Companies (IPCs) in  
the Virtual Market in China**

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## Biography

**Jing Zeng** is currently working as a lecture at the University of Gloucestershire at the school of business and management. Her main research interests include emerging strategies in the digital economy, business ecosystem, dynamic capabilities and innovation specifically focused on internet platform companies.

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## **Abstract**

We adopt the dynamic capability perspective and the institutional view as the guiding theoretical lenses to explain the relative performance of foreign internet platform companies (IPCs) operating in China. Based on data obtained from 51 interviews a multiple-case study approach is adopted, with representative matched cases between foreign IPCs, including Google, eBay, Amazon and Groupon, and local IPCs. The findings highlight the unique characteristics of the IPCs and the Chinese context that challenge assumptions prevailing in the literature of the applicability of firm specific advantages in determining a sustainable competitive advantage. We highlight the dynamic capabilities of the firm, such as flexibility and experimentation, in contributing to sustainable competitive advantage. Further, rather than focusing on firm-specific resources, we find that the active agency of the firm can approach institutions as resources through external links with diversified institutional players, which is crucial for MNE IPCs to develop sustainable competitive advantage. Drawing on the findings we present a number of propositions and implications for theory and practice.

## Introduction

This study provides an explanation for the performance of foreign internet platform companies (IPCs) operating in China. The economic term *platform* refers to an intermediary connecting markets from different groups of users and relying on technology/information to facilitate value-creation interactions (Armstrong, 2006; Rochet and Tirole, 2003). We define IPCs as those that are established with the primary focus to provide infrastructure, information and technology that enable direct transaction or value creation over the web-based virtual platform by linking markets from different groups of users, and that extract a significant proportion of their revenue from the transaction. Prominent examples of IPCs include eBay for buyers and sellers, Google for searchers and advertisers, etc. An increasing number of IPCs have internationalised and are now multi-national enterprises (MNEs).

IPCs differ from traditional companies in fundamental ways. In the traditional manufacturing and professional service company, a firm's ability to generate supernormal economic return is largely determined by firm internal resources and its supply-side efficiency. In contrast, the IPC's value is largely driven by network externality where the value to users largely depends on the number of users using the same goods or services (Katz and Shapiro, 1994).

Consequently, an IPC can only generate economic return if it can enable direct transaction/interaction by serving different interdependent customer groups. In other words, the value has to be created among different groups of users in order to be captured by the firm (Katz and Shapiro, 1994; Shapiro and Varian, 1999). This represents a unique challenge to the traditional strategic thinking postulating that possession of 'superior' resources determines the firm's competitive advantage. In addition, whereas traditional manufacturing and professional service firms generally have higher costs, both fixed costs (e.g., capital expenditure) and variable costs (e.g., cost of dealing with each individual interaction) as they are more predicated on physical assets, land and natural resources, IPCs deliver information

and services that are instantly available to a vast number of customers with significantly reduced search and transactions costs (Malone, Yates and Benjamin, 1987). Further, IPCs are more vulnerable to sustaining their competitive advantage due to low entry barriers (Porter, 2001), easily imitable information-based capabilities and resources (Shapiro and Varian, 1999), much more empowered customers owing to low switching costs, more substitute services (Porter, 2001) and reduced market information asymmetry (Singh and Kundu, 2002). The unique characteristics of IPCs and the virtual market in which IPCs operate, represents a fundamental challenge to the conventional explanation of the MNE's competitive advantage that mainly focuses on firm-level efficiency.

China is the world's largest digital market, having surpassed the US, reaching US\$296.57 billion online shopping transactions in 2013. However, China has proved a challenging market for several MNE IPCs. eBay and Google entered China in 2002 and 2006, respectively, but despite early successes, their market shares declined rapidly to 6.2% and 19.2% by the time they exited China in 2006 and 2010. Others, such as Amazon and Groupon, continue to struggle, with their market shares in China reaching only single digits. With superior resources available to MNE IPCs, this performance was unexpected. A widespread speculation holds that government censorship accounts for the performance of MNE IPCs in China (*New York Times*, 2010). However, similar government censorship was also experienced in other countries, such as, Indonesia, Thailand and Saudi Arabia, where MNE IPCs, for example, Google, are still able to dominate with more than 95% of the market share in these countries. One explanation from the international business (IB) literature is the liability of foreignness (LoF) (Hymer, 1960; Zaheer, 1995). LoF suggests that MNEs face unavoidable costs arising from unfamiliarity with the host environment due to cultural, political and economic differences, and from the need for coordination across geographic distances. However, the LoF tends to decrease over time, as subunits become more embedded

in the host country environment (Zaheer and Mosakowski, 1997). If LoF decreases over time and the advantages of an MNE in terms of scale and superior knowledge transfer still hold (e.g., Dunning, 1973), then logically Amazon and Groupon should have become more competitive compared to local IPCs. One way to overcome the LoF is to acquire capabilities applicable to the host country by involving a local firm as an equity partner in the foreign subsidiary (Inkpen and Beamish, 1997). Although eBay, Amazon and Groupon acquired local partners when they first entered China, they still underperformed compared to their local competitors.

These examples indicate that extant theory of the MNE faces a significant challenge in explaining how MNEs develop and sustain competitive advantage (Cantwell, 2014; Pitelis and Teece, 2007; 2014). The IB literature has suggested two lines of reasoning to explain sustainable competitive advantage of the MNE. The first advocates a capabilities-based theory of the MNE (e.g., Cantwell, Dunning and Lundan, 2010; Cantwell, 2014; Dunning and Lundan, 2010; Teece, 2007; 2014). Essential to sustaining the firm's competitive advantage are dynamic capabilities, which refer to the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece, Pisano, and Shuen, 1997; Zander and Kogut, 1995; Zahra, Sapienza and Davidsson, 2006; Teece, 2007, 2009, 2014). A second line of reasoning stems from institutional theory. The institutional view encompasses formal rules (e.g., laws and regulations) and informal constraints (e.g., culture and norms), that affect the MNE's performance in the host country (North, 1990). Some institutional theorists have highlighted dynamic and nonlinear institutional change, and called for a more dynamic approach focusing on the active agency of the firm in responding to and shaping the institutional environment (e.g., Cantwell, Dunning and Lundan, 2010; Kostova, Roth and Dacin, 2008; Pitelis and Teece, 2010; Teece, 2007; 2014).



Both the dynamic capabilities and institutional views hold important pieces of the puzzle to explain how the MNE sustains competitive advantage. Encouraged by recent calls for ‘contextualization’ (Tsui, 2007; Bamberger, 2008; Whetten, 2009), we use both dynamic capabilities and the institutional view as the guiding theoretical frameworks to explain the performance of MNE IPCs in China.

The rest of this paper is structured as follows: The next section provides the relevant theoretical background in relation to the competitive dynamics between MNEs and local firms. The following section sets out the research methods including sample selection, data collection and data analysis. The next section discusses the main findings of the study. The theoretical implications of the study are then presented. Conclusions are in the final section.

## **Theoretical overview**

### *Dynamic capability*

There is a growing awareness that theories of firm specific advantages (FSAs) need to pay more attention to a capabilities-based theory of the MNE to explain sustainable competitive advantage of the firm (Cantwell, Dunning and Lundan, 2010; Cantwell, 2014; Dunning and Lundan, 2010; Teece, 2007, 2014). Underpinned by the resource-based view, FSAs suggest that the MNE’s resources that are valuable, rare, inimitable, and non-substitutable drive value creation via the development of competitive advantage (Boisot, 1998; Peng, 2001). FSAs include tangible and intangible assets, such as technology, patents (Eden, Levitas and Martinez, 1997), resources, such as knowledge, skilled employees and efficient procedures (Hunt, 2000; Wernerfelt, 1984), brand image, reputation and marketing competence (Knight and Kim, 2009; Kotha, Rindova and Rothaermel, 2001). The creation of a portfolio of subsidiaries also represents a distinctive cluster of capabilities (Eden, 1991; Yamin and Forsgren, 2006; Papanastassiou and Pearce, 2009) that enable MNEs to achieve a competitive

advantage that is difficult to develop, cannot be easily imitated and is imperfectly mobile (Teece, 1982, Dierickx and Cool, 1989; Barney, 1991; Cantwell, 2009).

Capabilities, although highlighted as being central to the MNE (Teece, Pisano and Shuen, 1997) and that enable the MNE to create and capture additional value by scaling them globally, has received rather limited attention in the IB literature (Teece, 2007, 2014; Cantwell, 2014). However, with non-linear and unpredictable institutional change (Cantwell, Dunning and Lundan, 2010; North, 2005), a number of scholars have gradually shifted their attention to dynamic capabilities in an attempt to untangle the complex problem of sustainable competitive advantage (Cantwell, 2014; Eisenhardt and Martin, 2000; Teece, Pisano and Shuen, 1997; Teece, 2014). The claim was made that dynamic capability, i.e., the capacity of an organization purposefully to create, extend or modify its resource base, could enable the firm to proactively adapt in order to create new technology, to respond to competition, gain critical mass and serve evolving customer needs in a rapidly changing environment (Ambrosini and Bowman, 2009; Augier and Teece, 2007; Helfat, et al., 2007; Schilke, 2014; Teece, 2007; Teece, Pisano and Shuen, 1997).

Dynamic capability is perceived as a combination of the firm's current asset position, history (path dependence), routines (Nelson and Winter, 1982; Winter, 2003, Zollo and Winter, 2002), and organizational learning (Teece, Pisano and Shuen, 1997), whose nature varies with the degree of market dynamism, (Eisenhardt and Martin, 2000). In fast moving, highly volatile and knowledge-based economies, the MNE's capability to respond to the changing kaleidoscope of challenges domestically and internationally is critical to long term success (Cantwell, 2014; Teece, 2007, 2014). Departing from knowledge and technological elements (Cantwell, 1989), the modern capabilities-based theory of the MNE puts more emphasis on entrepreneurial organizational capabilities as determinants of the firm's competitive

advantage (Cantwell, Dunning and Lundan, 2010; Dunning and Lundan, 2010; Teece, 2007, 2014).

Despite the growing interest in an entrepreneurial/capabilities approach, there has been little research focused on dynamic capability as the driver of the MNE's sustainable competitive advantage. The dynamic capability framework adopts an entrepreneurial approach that focuses more on opportunities than on opportunism, both inside the firm and also linking the firm to external partners (Teece, 2014). This is particularly relevant in the context of IPCs, where the value of a platform is largely driven by the platform utilization, i.e., by the number of customers (Amit and Zott, 2002; Kor, Mahoney and Michael, 2007; Singh and Kundu, 2002; Shapiro and Varian, 1999) rather than the efficiency of the firm-level transaction. Therefore, the MNE IPC's capability to build a large number of customers based on its accumulated resources is crucial in contributing to the firm's sustainable competitive advantage.

### *Institutional View*

The institutional view (DiMaggio and Powell, 1983; Scott, 1995) leads to a different perspective of the MNE's competitive advantage in host country settings given that the distinctive nature of the MNE is that it is embedded in a global network of foreign subsidiaries. Emphasizing the role that factors surrounding organizations have in shaping social and organizational behaviour, the institutional view is defined as the 'rules of the game' (North, 1990), or more broadly as regulative, normative, or cognitive parameters (Scott, 1995). IB scholars have approached institutions in terms of how the diverse institutional environment impacts on transaction costs for MNEs (Brouthers, 2002) in exposing firms to culturally, politically and economically related endemic market conditions (Delios and Henisz, 2000; Hofstede, 1991), creating uncertainty and risk owing to institutional 'distance'

(Kostova, 1986) between home and host country institutions (Meyer and Rowan, 1977; Peng and Luo, 2000) or between cultures (Hofstede, 1980). IB scholars have thus emphasized the importance to MNEs in gaining legitimacy in the host countries in which they operate (Kostova and Zaheer, 1999) and link MNEs' success with the adaptation of their strategy or structure to the institutional environments in diverse host countries (e.g., Wan, 2005).

These studies have largely been concerned with the static aspects of the institutional conditions, however, some scholars have begun to re-examine the assumptions underpinning earlier work (Kostova, Roth, and Dacin, 2008) by emphasizing the dynamic and evolutionary nature of different institutional environments. The comparative capitalism literature addressed such concerns by explaining how and why institutions differ and examining how institutions across different economic domains interact to form distinct national configurations or 'varieties' of capitalism (Amable, 2003; Hall and Soskice, 2001; Whitley, 1999). Instead of viewing institutions as merely exogenous constraints that MNEs have to consider, the comparative capitalisms approach is to perceive institutions as resources for solving key problems of economic coordination that shape the supply of inputs (e.g., skills, capital) collectively available to firms (Aoki, 2001; Jackson and Deeg, 2008). Rather than emphasizing gaining local legitimacy in the host country setting, scholars started accentuating the capabilities of the firm, such as firm-level creativity and experimentation, in the context of the profound uncertainty surrounding institutional change (e.g., Cantwell, Dunning and Lundan, 2010; Pitelis and Teece, 2010; Teece, 2007; 2014).

In the context of MNE IPCs, the subunit's capability to build a large customer base is subject to many institutional constraints. First, although customers may be located within the same national boundary, subnational differences representing cultural, geographical, religious and ethnic heterogeneity diversify customer demands (Beugelsdijk and Mudambi, 2013; Ma, Tong and Fitza, 2013; Park, Li and Tse, 2006). This situation is often exacerbated by the lack

of supporting infrastructures, such as regulations and systems to enforce the fulfilment of contracts, and lack of a credit system and logistics service in developing countries, such as China (Sanchez et al., 2007). Second, low barriers to entry and easily imitable information-based capabilities and resources in the IPC sector has resulted in the proliferation of players and intensified rivalries (Porter, 2001; Shapiro and Varian, 1999), which tends to differ from traditional industries. The imperfect endemic market conditions in emerging economies, nonlinear institutional change, coupled with intense local industry-based competition as a result of low entry barriers in the e-commerce sector (Porter, 2001), exert significant challenges to the competitive advantage of MNE IPCs in the host country.

This discussion indicates that dynamic capability and institutional views make relevant assumptions about the behaviour of MNE IPCs. Both theoretical frameworks have begun to draw attention to a blended view suggesting that the MNE's sustainable competitive advantage is highly determined by its dynamic capability to actively engage with the subunit's institutional environment. Such a blended approach appears to be promising, although it remains a loosely affiliated body of research that has yet to systemically tackle issues of how the MNE creates and sustains competitive advantage in the host country. This study builds on recent calls, for instance, by Cantwell (2014) and Teece (2014), encouraging scholars to revisit IB theory through a capabilities-based theory of the MNE. We have sought to address this concern by adopting a dynamic capability and institutional view in order to provide a contextualized explanation of MNE IPCs' performance in China.

## **Research setting and design**

### *Research approach*

For this study, multiple case studies were adopted as contextualized explanation in order to discover the importance of a hitherto neglected phenomenon or the relevance of a particular

theoretical perspective to that phenomenon (Doz, 2011). Multiple case studies provide an opportunity to triangulate information collected and to augment external validity, help guard against observer bias and allow for replication logic (Eisenhardt, 1989; Miles and Huberman, 1994; Yin, 1994; 2003). This approach also enables us to extend existing theory and develop new theoretical explanations for the observed phenomena (Lee, 1999).

### *Sample selection*

The case selection relies on theoretical sampling (Eisenhardt and Graebner, 2007). In order to capture the circumstances and conditions of the competitive dynamics between MNE IPCs and local IPCs, a so-called representative case, encompassing a holistic, multiple-case study approach was adopted (Yin, 2003). We considered several factors in selecting the cases. First, we limited our study to MNE IPCs that had successfully established their business in their home country and in foreign countries, and had set-up subsidiaries in China. Amazon, eBay, Google and Groupon were selected as our sample cases. Second, to facilitate a comparison, we identified four local Chinese IPCs that were deemed to be the counterparts of these four MNE IPCs and currently the market leaders in their own sectors. These Chinese firms were Baidu (China's equivalent to Google), JD.com (Amazon), TaoBao Marketplace (eBay) and 55 Tuan (Groupon). In this sampling approach, our case selection enhances the potential to assess the emerging theoretical relationship with cases to either support or offer divergent explanations (Miles and Huberman, 1994; Yin, 2003). We wish to note that Amazon started as an online retailer that did not provide direct interaction between its suppliers and customers. However, it progressively evolved towards a hybrid model where it acts as a combination of online retailer and online platform by enabling third party complementors to directly interact with customers, therefore, Amazon is included as an IPC in this study.

Table 1 summarizes the major characteristics of the case study firms.

[Insert Table 1 here]

### *Data collection*

In total 51 interviews were conducted in Chinese, then transcribed and translated into English by a professional translator. All 51 participants interviewed were Directors and Senior Managers, usually one level subordinate to the CEO, and had played, or were still actively playing, important senior roles in their company and are therefore considered knowledgeable about their respective firm's business. As Google and eBay no longer have subsidiaries in China, former senior managers of these firms in China were contacted. This process enabled collection of both real-time and retrospective data, which can enable efficient collection of more observations (thus enabling better grounding) and mitigating retrospective bias (Leonard-Barton, 1990).

A semi-structured interview protocol began with assurances of confidentiality and a brief explanation concerning the purposes and nature of the research. The interview began by asking general questions about the company's background and business strategy. Questions were then asked about the key strategy the company adopted in order to generate a competitive advantage. This was followed by questions focusing on what actions the companies took in order to execute their strategy. Additional questions were also added in order to probe emergent themes or to take advantage of special opportunities during the interview (Eisenhardt, 1989). All interviews were conducted between April 2012 and September, 2013. Each interview lasted between 90 and 150 minutes and was conducted face-to-face, voice recorded (unless disallowed by the interviewees) and transcribed within 24 hours. During data collection, we encouraged informants to provide concrete examples to support their commentary about the strategy and action taken in the development of competitive advantage for the purpose of bolstering the credibility of the data. We then

discussed that development with another source in the firm in order to provide confidence in the veracity of the informant's assertions. Within a week of each interview a detailed transcript was sent to each participant for review and approval (Yin, 2003). This exercise enriched our understanding of the themes and dimensions and helped us to refine the data and findings.

To safeguard against interviewee hindsight bias and limitations of memory recall associated with a retrospective account (Golden, 1972), we triangulated the interview data with secondary sources in the form of published news and articles from sources such as the *Financial Times* and *Wall Street Journal*, books and video documentaries detailing the strategy dynamics between MNE IPCs and local IPCs. We also had access from some of the companies to background papers that were not publicly available. These data allowed us to validate and confirm the chronology of events, giving detail to issues emerging from the interviews and providing textual accounts of debates and discussions.

### *Data analysis*

While collecting interview data, we began to analyse them as soon as the first interview finished (Miles and Huberman, 1994; Lincoln and Guba, 1985; Strauss and Corbin, 1990). Such techniques provide an excellent fit with continuous and simultaneous data collection and processing (Lincoln and Guba, 1985), which enables researchers to systematically check data obtained during the course of the study, but also helps to guide the focus of further data collection via theoretical sampling (Glaser and Strauss, 1967).

We first conducted within-case analysis based on interview and archival data (Eisenhardt, 1989; Yin, 1994), where the case studies were built based on data and key constructs were derived. Within case evidence was acquired by taking notes and writing narratives. For this purpose, we focus on the answers enumerated in the interview, integrating and triangulating



facts from various data sources mentioned above. Through our analysis we examined each construct. This was followed up with e-mails and calls to fill in missing details. Then, cross-case analysis was conducted in order to look for similar constructs and themes in the cases (Eisenhardt and Graebner, 2007). Data collection stopped when additional data would not provide new information to our understanding of the research question, this marked the theoretical saturation point (Eisenhardt, 1989; Glaser and Strauss, 1967). This analytical process not only enabled us to compare and contrast the similarities and differences within and across interviews, but also helped us to make sense of the complex emerging practice and often pointed to areas where further analysis of the complete sample was needed (Strauss and Gorbun, 1990).

In order to enhance construct validity, we relied on the triangulation of our primary and secondary data emphasizing themes that were supported by different data collection methods and confirmed by several informants (Jick, 1979). We also cycled between data analysis and consultation with relevant literature as guides to their development and subsequent data collection. Adopting open coding and constant comparisons enabled us to break through subjectivity and bias. During data analysis, the linkage and process between different constructs began to emerge. We analysed how such themes related to one another, and accordingly established different conceptual frameworks that captured these links. Once we had identified a possible framework, we re-examined the data's degree of fit with our emergent theoretical understanding (Miles and Huberman, 1994). To further bolster the validity of our analysis and theory-building, we organized a workshop where we displayed and discussed our analysis with our peers with the aim of inducing alternative explanations. In an iterative fashion, we analysed the data by continuously revisiting the consistency between the data and an emergent structure of theoretical arguments (Miles and Huberman, 1994).

Table 2 provides the data structure, including examples of first-order concepts (those meaningful to the informants) and second-order themes (generated by the researchers), that led to the generation of the aggregated dimensions.

[Insert Table 2 here]

## **Findings**

Data analysis revealed three key elements that vary with respect to the difference in competitive performance between MNE IPCs and local IPCs: the differences of applicability of resources, the differences of responses to the market, and the differences of interacting with institutional players. The key factors influencing these variations were three distinctive institutional domains in China, namely, institutional “rules of the game”, institutional uncertainty and institutional voids, as shown in Table 3.

[Insert Table 3 here]

### ***Differences of applicability of resources***

Findings reveal that although MNE IPCs have superior resources, experience and technology, they did not out-compete the local IPCs. It was highlighted by all MNE IPC interviewees that the applicability of firm path-dependent knowledge and technology is subject to different contextual conditions in China. Our data shows that formal rules, such as government censorship—often highlighted as the main mechanism responsible for MNE IPCs’ activities in China—only played a limited role in affecting the MNE IPCs’ performance. As one participant highlighted:

*“It (censorship) definitely puts constraints on our operations. .... It was a clever get-out clause. I am not suggesting that censorship doesn’t matter—of course, it does—but people shouldn’t be distracted from the much more important reasons. We assumed that customers are homogeneous everywhere; that culture and norms didn’t matter. Well, how wrong were we?” (Google, 07)*

Much of the evidence showed that although the intangible nature of a virtual market is often highlighted, informal constraints, such as culture, norms and the deficiencies of local market conditions, normally held as being ‘invisible’ in developed economies (McMillan, 2007), emerged as one of the significant barriers to MNE IPCs in China. For example, our data reveal that more advanced technology does not always out-compete ‘good enough’ technology on the basis of getting the job done. Unlike Google, who assumed homogenous customer demands, Baidu invested significant time and effort to understand the market, what exactly the users were searching for, and how to satisfy their needs. While Google had more sophisticated technology in terms of speed and quantity of results, it overlooked a key element: the Chinese customer’s search habits. For example, a manager in Baidu stated:

*“If you search ‘rain’ on Google China, the weather forecast information would come up. When the Chinese search ‘rain’, they want to see the results about a very popular South Korean singer called ‘Rain’. They (Google) focus too much on the technology itself, and neglected who is actually using the technology.” (Baidu, 05)*

Platform value is heavily dependent on whether it is able to deliver a value that meets customer requirements. However, customer perceptions of a value are not only varied based on their skills, preferences and sophistication, but also influenced by the local contextual conditions. This is manifested from the following observations.

*“Back then, nobody felt comfortable buying stuff online. People like face-to-face transactions. The same thing you can see from the search companies, people don’t search, instead, they spent a majority of their time listening to music online, chatting to their online friends and connecting with others at online forum.” (Taobao, 02).*

This distinct context shares a resemblance with Hofstede’s framework (1991) where customers in China tend to have low uncertainty avoidance and high collectivism such that they prefer relationship-based connections. Similar examples can be found across all MNE IPCs. A senior manager from 55 Tuan commented:

*“Chinese customers are very bargain savvy. They like to shop around, compare the prices, and seek opinions from their friends. Yes, they (Groupon) create a sense of urgency, but when customers have that many choices nobody really cares about it.” (55 Tuan, 05)*

Although local IPCs possessed less advanced technology, financial resources and experience, they were able to make optimal use of their accumulated resources that are context-specific to deliver better value than their MNE rivals. While MNE IPCs were focusing on capitalizing their existing resources and assets for short term financial return, the priorities of Chinese IPCs were focused on building a large customer base. They did so by understanding how the platform was used, the context in which it is used and the problems customers experienced when interacting with the platform. The recurring theme from local IPCs highlighted that the customer is the essential part of the company’s offering and they are also heavily involved in the value creation process. Customer feedback was closely monitored and problems were identified and solved swiftly. Rather than managing customers’ expectations, they engaged in an active, supportive, explicit and on-going dialogue with customers with the purpose of co-creating a personalized experience.

*“Everybody talks to customers, including our CEO. He spends at least 30%-40% of his time daily checking customers’ feedback, etc. We were joking that we were like a blind horse that needed to be guided by them (customers). We understand their problems and concerns. You need to understand what actually cause these concerns and then we tried to solve it quickly. They (customers) need to see the actions; how its changed and improved otherwise they will lose their trust and won’t be bothered to talk to you again.” (Taobao, 04)*

It was evident that the local IPCs emphasised co-value creation with their customers in order to make the best of their accumulated resources. Rather than exploiting their existing resources, local IPCs paid particular attention to the customers, orientated around their resources to create a better customer experience.

*“Our relationship with customers is like fish and water. We are the fish, customers are the water. No matter how big we are, we can’t survive without water. Without customers, our website is worth not even a penny. You can never take customers for granted, (because) they have loads of information, they have many choices. The key priority for us back then was to know what does the customer value and make the best out of our resources to deliver such value accordingly.”(Baidu, 01)*

Data analysis indicated that the competitive advantages derived from FSAs eroded when MNE IPCs failed to recognize the contextual conditions in China. Evidence revealed that institutional uncertainties derived from formal rules such as government censorship and informal rules such as norms, culture and value that influence local consumers’ behaviour created significant challenges for MNE IPCs’ value-creation activities. This is consistent with the arguments of Dunning (1998) and Cantwell (2009), both of whom highlight the importance of location as a key variable affecting the global competitiveness of firms. This leads to our first proposition:

Proposition 1: *The MNE IPC's competitive advantages derived from FSAs will erode when the MNE IPC fails to recognize or appropriately respond to the institutional conditions of the host country.*

### ***Differences of responses to the market***

We found clear patterns of variation in how MNE and local IPCs responded to the market. It is notable that all of the MNE IPCs in effect adopted a 'global strategy' whereby they directly transferred their business model and strategy to China. A major finding from our data is that MNE IPCs should be cautious about adopting a global strategy when the host country is China, due to the less developed infrastructure system and lack of necessary market institutions.

*"We did a copy and paste, apart from changing the English to Chinese characters on our website in China. We were pretty confident at the beginning—it worked well everywhere else, right?—but things were falling apart—and it was fast. The playing field in China was much more intense than we had in other countries and this created many uncertainties and challenges to our performance."* (eBay, 02).

Our analysis indicated that emerging economies present dynamic and challenging environmental conditions for MNE IPCs, so that the propensity for organizations to refocus and restructure in this setting is crucial. For example, eBay transferred the same auction model to China and heavily relied on transaction fees as the key revenue stream. However, this business model did not suit the local institutional conditions. It is apparent from the interviews that it was necessary for the subsidiaries of MNE IPCs to reconfigure and reshape existing business models in order to create different value propositions that appropriately responded to the heterogeneous customer demands in China.

*“We simply cannot assume one size fits all. They (Chinese users) were not comfortable with completing transactions online during that time and nobody likes to buy second-hand stuff. There were too many ‘what if?’ uncertainties: What if the seller is a scam? What if product quality is poor? And they (Headquarters) completely ignored these issues that have fundamental impacts on our customer experience. It was like trying to land a jumbo jet on paddy fields.”(eBay, 03).*

More importantly, China is a fragmented and diverse market as different cities have subcultures with their own unique practices and habits. Consequently, overlooking the subnational differences within China exerts significant challenges for MNE IPCs in securing a large customer base.

*“Even customers from first tier cities such as Beijing and Shanghai have different desires for different products, let alone the customers from the rest of the provinces. The customer segments in China are extremely divergent. We often overlooked the differences among provinces in China. We tend to project that the tastes of the low end customers are tacky, but they constitute the majority of our market share.” (Groupon, 02)*

There is a recurring theme that lack of autonomy and slow response to market demand also curbed MNE IPC growth. It was repeated throughout the interviews with MNE IPC participants that the subsidiary was constrained by established organizational procedures and routines and that they were simply too slow to compete.

*“It took us nearly six months to respond to the threats posed by Taobao, and, to be honest, the solution they (Headquarters) came up with didn’t really solve the problem. By the time we responded, the customers had already gone. Six months in e-commerce time is like three years in cyber time.” (eBay, 01)*

One interviewee particular highlighted:

*“They (senior management) presented us with a five-year strategic plan, but it was a waste of time as the majority of the planning did not fit in with the Chinese conditions. The pace of change is a lot more rapid and more dynamic. Five years? We didn’t even know what was going to happen in five months’ time!”(Groupon, 03).*

The lack of autonomy in MNE IPCs stifled their ability to adapt to local conditions. Such bureaucratic chains of command and the need for permission before acting caused them to fall behind their Chinese competitors.

*“It was too damn slow. We knew what we needed to do, but we needed to get permission from the people on top, whom by the way had no idea what was happening on the battle ground. It was like our arm was separated from our head. We couldn’t move unless the head told us to do so. It was very frustrating. This would never work in China and I am counting the time we have left here.”(Amazon, 07)*

Conversely, when an action was initiated in a Chinese IPC it was typically implemented within two weeks. In contrast to MNE IPCs, local firms were nimble in changing and innovating different parts of their business (e.g. product and service innovation) in response to the changing market.

*“I remember seven of us tried to look for something at home that we can sell on Taobao but we couldn’t find anything. Our friends and relatives also told us nobody is going to buy the second hand stuff. So we knew at the beginning, this model wouldn’t work in China. We had to change quickly.”(Taobao, 01)*

In order to build trust between buyer and seller, Taobao also set up Wangwang, an instant messaging tool where buyers and sellers could exchange information to facilitate an offline



transaction by cash or card upon delivery. A similar example can be found in Baidu. After identifying the average age of Chinese customers and their preferences, Baidu introduced free online mp3s and quickly built up its online traffic. Google responded by introducing a free online music service in China in 2009, with permission of the relevant music labels, but it was too late to claim back the online traffic. Baidu constantly introduced/updated innovative features on its platform. For example, Baidu created Baidu Tieba, the largest Chinese communication platform, which works by having users search or create a “Tie-Bar” (a Forum) by typing a keyword and if the bar has not already been created it is then created upon the search. This feature has attracted millions of users in China.

Compared to MNE IPCs’ inability to respond quickly to the market, local IPCs re-structured their internal mechanisms and coordination to support complementarity and substitutability of business offerings without being constrained by any structural inertia. By doing so, local IPCs were able constantly to collect real-time customer feedback which allowed them to innovate much more rapidly. Therefore by experimenting quickly, local IPCs were able to gain a better understanding of the target market and such knowledge acted as a guiding logic for them to adjust their strategy to evolve with the unpredictable environment.

*“We were taking baby steps. It was like a spiral process; you take a step to see what happens, then change it, then try it again, then change it again and try it again. But you have to do it fast, in quick succession” (JD, 03)*

Lack of flexibility and autonomy to change different elements of its business was repetitively emphasized as the main reason for Amazon’s performance in China. As one participant from Amazon highlighted *“They (headquarters) were very patient with the Chinese market, but its been nearly nine years. JD, Tmall are attracting a significant amount of customers so we have to do something. But it is not up to us (subunit) to decide.” (Amazon, 02)*

Another participant indicated “*we desperately need to take advantage of what we have. They (competitor) didn’t have our technology, but we are not using it in the right way to generate value to attract our customers and we are way too cautious worrying about making mistakes all the time.*” (Amazon, 04)

Analysis revealed that firm-level flexibility, creativity and timing are crucial to contribute to sustainable competitive advantage. This has resonance with the view that emphasises the firm’s capability to manipulate resources into new productive assets in the context of a fast moving global environment (Cantwell, 2014; Dunning and Lundan, 2010; Teece, 2007; 2014). Indeed, scholars have emphasized that continuous experimentation is the main mechanism to address a profound institutional uncertainty (Cantwell, Dunning and Lundan, 2010).

This discussion leads to the following propositions:

*Proposition 2: MNE IPCs will be more likely to create value when they have the capability to re-focus and re-structure their business model in order to satisfy heterogeneity of customer demand in the host country.*

*Proposition 3: MNE IPCs will be more likely to create value when they have the capability to build a decentralized organizational structure that enables experimentation and agile response to the evolving market in the host country.*

### ***Differences of interacting with institutional players***

Our data shows that relational assets cultivated through strategic alliances, mergers and acquisitions have had limited impact on MNE IPCs’ activities in China. Our data indicates that a closed network with only direct business partners isolate MNE IPCs from their local environment, thus creating a significant barrier for asset augmentation and innovation.

*“It is very difficult to maximise our advantages when you have a closed network. We were focusing purely on what we can do with a limited number of alliances and forgot about the importance of other networks that can add value to our company and customers.” (Groupon, 02)*

The ‘*taken for granted*’ market-supporting mechanisms, such as logistics, dependable regulations, credible payment channels, which are held as being ‘*invisible*’ in developed economies, emerged as significant barriers constraining MNE IPCs’ value creation activities. Local IPCs were much more pro-active in collaborating with institution partners including customers, supporting companies, universities and local communities that directly or indirectly facilitate and increase the efficiency of IPCs’ value creation activities. For example, Taobao formed partnerships with leading Chinese banks and signed a long term agreement with *China Post*, which enabled Taobao users to fund their Alipay accounts at any of its 66,000 offices. Different from Paypal, this escrow service holds the buyer’s payment until delivery is confirmed. Taobao also collaborated with local logistics companies to ensure the delivery service was reliable and efficient. Many participants highlighted that such informal networks play an important role in promulgating the firm’s innovative offerings and also extend the influence of the firm in terms of the development and adoption of the platform.

*“I think they (MNE IPCs) need to understand that interaction doesn’t just end on the website. In the United State, everything is simple because everything is straightforward, (because) all the supporting mechanism is in the right place. In China, the infrastructure is so bad that you simply cannot be self-efficient. What you do is heavily dependent on others. You need that personal touch, everything is relational.” (Taobao, 04)*

Such diverse collaborative input from formal and informal institution partners enable local IPCs to be better informed than their MNE rivals in understanding the social context. The relational and institutional assets that local IPCs built with their partners allowed them to initiate a more participatory approach in which all partners could be involved in co-designing, co-creating and co-delivering appropriate value for customers.

*“It’s not all about the technology, it’s about how many people you can connect, it’s about how much information you know about your customers. We are very much connected to every aspect of our customers’ lives through different networks, local communities, universities, corner shops, logistic companies, etc. Being part of this wider and broader network definitely helped us to gain more understanding in terms of how to improve our business, how to improve the customer experience.”(Taobao, 06)*

In 2010, after securing a leadership position in the B2C market, JD opened up its platform and encouraged third parties to use its platform to sell products and services. It also provided comprehensive support to vendors with data analysis, business intelligence, flexible payment options, speedy settlement services, and a fair and transparent vendor regulatory system.

Such activity demonstrates that the close connections MNE IPCs build with local institutional players not only help fill institutional voids, but also stimulate the innovative capability of the firm. Such “open” innovation (Chesbrough, 2003) further captures the co-specialized assets (Pitelis and Teece, 2010), which are crucial to contributing to value creation of the firm (Chesbrough, 2003; Chesbrough and Appleyard, 2007).

This discussion leads to the following proposition:

*Proposition 4: MNE IPCs will be more likely to create value when they have the capability to co-create value with local institutional partners, such as customers, suppliers and neighboring companies in the host country.*

## **Theoretical and practical implications**

We used multiple case studies to gain a contextualized understanding of the competitive dynamics between MNE IPCs and local IPCs in the virtual market in China. Utilising the theoretical lenses of dynamic capability and the institutional view, our study advances extant literature in three main directions.

First, the findings of our study highlight the unique characteristics of the IPCs and the Chinese context that challenge assumptions prevailing in the literature of the applicability of FSAs in determining a sustainable competitive advantage of MNEs in a host country. Our analyses indicated that there are three institutional contextual fields that affect the operations of MNE IPCs in China: institutional “rules of the game”, including government censorship and culture/norms; institutional uncertainty, such as, subnational differences, the highly competitive IPC industry and non-linear institutional change; and institutional voids, such as, lack of intermediate firms, deficient infrastructure and lack of dependable regulations.

Consequently, we identified a FSA ‘lockout’ in which MNE IPCs were unable to deliver their services competitively in the host country due to the incompatibility between FSAs and the conditions of the local institutional context. This is further manifested as MNE IPCs’ value is largely dependent on the local network externality rather than firm-level efficiency. Therefore, merely possessing ‘superior’ resources does not necessarily guarantee the development of the MNE’s competitive advantage in the host country. We argue that the applicability of the MNE IPC’s FSAs in the host country largely depends on its ability to understand the institutional context within which resource selection decisions are embedded, and how this context might impact heterogeneous firm performance. Many scholars have underlined location as an important variable affecting the MNE’s strategic performance (e.g, Dunning, 2009; Peng, 2001) and contextualization offers an opportunity for the further development of IB theory (Tsui, 2007; Bamberger, 2008; Whetten, 2008). Given China’s size and the extent

of its engagement with the international economy in general (Child and Tse, 2001), and particularly in the field of the digital market, our context-specific research of China's IPC industry marks a contribution to IB theory.

Our second contribution highlights the dynamic capability of the firm in underpinning a firm's sustainable competitive advantage. Our findings show the MNE IPCs that adopted a 'global strategy', which assumes the organizational field is unified in the global context, failed to address the fragmented, often conflicting market conditions, as well as the heterogeneity of customer demand shaped by formal and informal institutional contexts. The findings reveal that the uniqueness of the Chinese institutional field requires IPCs to develop new business models and new routines in order to be able to respond to and serve new customer needs. Such non-imitable 'orchestration' capacity, known as the firm's dynamic capability, is crucial to contributing to the firm's sustainable competitive advantage (Augier and Teece, 2007, 2009; Teece, 2007).

Our findings further indicate that MNE IPCs' centralized decision-making processes are negatively associated with the subsidiaries' response to the local institutional environment. While MNE IPCs' centralized decision-making processes often take months for authorization, local IPCs were able to respond quickly to the evolving customer demands through continuous experimentation. This resonates well with research that highlights the capabilities of the firm, such as firm-level creativity and experimentation in the context of profound institutional uncertainty (e.g., Cantwell, Dunning and Lundan, 2010; Pitelis and Teece, 2010; Teece, 2007). By fashioning a value co-creation process, local IPCs were able to collect real-time customer feedback which allowed them to innovate much more rapidly. This is consistent with Eisenhardt and Martin's (2000) claim that dynamic capability should be a simple, highly experiential and fragile process with unpredictable outcomes in high velocity markets.

Our third contribution emphasises that the foundation of competitive advantage for MNE IPCs should look beyond the resources and market characteristics of the firm to the institutional context. The findings indicate that building a closed network with limited business partners focusing on protecting FSAs serves to isolate MNE IPCs from their institutional environment, thus impeding asset augmentation and innovation. Compared to the MNE IPCs' comparatively isolated approach in the host institutional environment, local IPCs proactively built relational assets with direct and indirect business partners, in order to discover new opportunities to innovate and create co-specialized assets. Such 'alliance capitalism' was championed by Dunning (1995, 2000), however, we argue that alliance capitalism needs to be broadened in order to facilitate more open, flexible and direct/indirect relationships with customers, partners and their cluster of supporting companies. Broad and frequent interactions between MNE IPCs and local institutional actors should stimulate knowledge spillovers, which could contribute greatly to the MNE IPC's sustainable competitive advantage. This is consistent with scholars indicating that building relational assets with local partners can lead to localized learning, including better understanding of local demand heterogeneity, local market conditions and competition, and non-business specificity that enables the firm to capitalize on its specific capabilities and thus differentiate its performance against competitors (Collis, 1991; Fan, Cui, Li and Zhu, 2015). Such network ties can perform an important role in countering external threats and compensating for resource deficiencies (Luo, 2001). This argument is in similar vein to the comparative capitalism view that local institutions act as resources for solving the economic problems that shape the supply of inputs collectively available to the firm (Aoki, 2001; Jackson and Deeg, 2008).

This study has implications for practicing managers. The analysis emphasized that the unique characteristics of the IPCs and the Chinese contextual conditions requires MNE IPCs to have

a different mindset regarding the best way to compete, which involves a change in emphasis and focus. For instance, rather than focusing primarily on the firm's level of resources managers should also focus equally on the compatibility of the firm's resources and the conditions pertaining in the local context; from focusing primarily on organization routines to focusing equally on agility in the market; from focusing primarily on building a closed network with traditional partners to focusing more on collaborating with institutional partners to address institutional voids and improve localized learning.

## **Conclusions**

The IPC industry presents a challenging and rather unique scenario for both the theory and practice of IB. In the Chinese context we have sought to explain the relative performance of MNE IPCs compared to local IPCs. Notwithstanding the contribution of our study, as with most studies it has certain limitations. The site of our empirical study in the IPC industry raises the question of how generalizable our findings are to other industry settings. The restrictive nature of our sample, focusing on only four MNE IPCs and four Chinese IPCs, may introduce unknown selection biases that also restrict the generalizability of the findings. We were limited, however, by the number of MNE IPCs undertaking internationalization in China, which restricted our ability to increase the sample size. Acknowledging that the research setting is in China, it may be noted that country specific factors can be a foundation for MNE competitive advantage (Dunning, 2009). Consequently, focusing on explaining a novel phenomenon in a specific context would appear to be a fair trade-off for 'generalization'.

The rapid diffusion of IPCs in an international context provides a fertile research field for the development of new theoretical frameworks and the testing of extant theories of internationalisation. Our study raises some interesting questions for IB theory that can form



the basis of future studies, for example, what are the specific dynamic capabilities enabling MNE IPCs to co-evolve with their institutional environment? Is the demand-side strategy applicable to other industries? It would also be useful for future studies to draw more attention to the entrepreneurship/capabilities approach of the firm, as well as the conditions of the host country context that might impact on the sustainable competitive advantage of MNEs.

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**Table 1 Summary of the major characteristics of the sample firms**

The characteristics of MNE IPCs					
Company	Year of entry to China	Mode of entry	Status	\$ Total Sales/revenue (2013)	Number of interviewees
Amazon	2004	Acquisition (Joyo)	Amazon held 2.2% market share in 2013	74.45 billion	7
eBay	2003	Acquisition (Eachnet.com)	eBay's market share dropped to under 10% in 2006. It was bought by Tom online in 2007.	16.05 billion	6
Google	2006	Wholly owned subsidiaries	Google's market share dropped to 19.2% and it exited the Chinese market in 2006	59.73 billion	5
Groupon	2011	Joint venture (Tencent)	Groupon had market share of 2.5%. in 2013	2.57 billion	8
The characteristics of Chinese IPCs					
Company	Year of establishment	Ownership	Status	\$ Sales/revenue in China (2013)	Number of interviewees
JD.com	2004	Chinese ownership	JD held more than 50% of the B2C market share in China.	11.29 billion	6
Taobao (Alibaba group)	2003	Chinese ownership	Taobao held more than 90% of the C2C market share in China.	129.4 billion	7
Baidu	2000	Chinese ownership	Baidu had more than 70% of the search engine market share in China	5.2 billion	7
55tuan	2010	Chinese ownership	55tuan held more than 60% of the group buying market share in China	0.7 billion	5

**Table 2 Representative quotes underlying second-order themes**

First-order categories	Second-order themes (illustrated quotes)	Aggregate dimensions
<p>Customers have very different demands in China</p> <p>Local market conditions are deficient in China</p> <p>The role of government in China</p> <p>Co-value creation with customer</p>	<p style="text-align: center;"><b>Resource significance - constraints</b></p> <p><i>“We have the best algorithmic search technology in terms of the quantity and speed. This is dangerous because automatically in our head we think that this is no brainer, we definitely will win this battle. But it is about whether what we have can match what customers want” (Google, 02).</i></p> <p><i>“They (MNE IPCs) all start from a technology background; they believe that their business is scalable. It worked in the production age where the business is scalable but not in this business.”(Google, 01)</i></p> <p><i>“They (MNE IPCs) need to think about the context. Take online gaming, different games require different internet speed, the better the game, the quicker the speed required. The internet speed in China has a long way to go to catch up with the speed in the US, for example, and the consumer’s behavior is shaped and constrained by these infrastructure conditions. So it is not about how better your game is, it is about how the product can be consumed in what context, under what conditions, and used by what kind of customers.” (Baidu, 05)</i></p> <p><i>“We take the conditions in China for granted and never thought the credit and logistic system would have an impact on our business.” (eBay, 04)</i></p> <p><i>“We need to be mindful in terms of how to engage with the government. If they say ‘no’ then we are out. The relationship is really delicate.” (Google, 05)</i></p> <p><i>“No matter where you go, there are places that have their own rules and regulations. That is part of being an MNE and we always respect that.” (Amazon, 03)</i></p> <p style="text-align: center;"><b>Resource significance - maximization</b></p> <p><i>“We had to play smart. Yes, they have better technology, expert experience in how to run a website, and lots of money. But we know the customer the best, and this is the first time that knowing customers can actually give us some advantages and we want to make the most out of what we have.” (Baidu, 03)</i></p> <p><i>“We talk to customers every day and try to understand their concerns, and use what we have to alleviate their concerns.”(Taobao, 06)</i></p>	<p style="text-align: center;"><b>Resource applicability</b></p>
<p>We have the same business model everywhere</p> <p>We changed our business model to make it work in China</p>	<p style="text-align: center;"><b>Business model</b></p> <p><i>“The world is a not a universal market, and the privilege derived from what you have can only hold you up for so long. You can’t just simply rely on what you have and expect to use it as a money tree to keep pumping money out of it.” (eBay, 05)</i></p> <p><i>“The old routine clearly didn’t work in China. They (MNE IPCs) need to figure out a new business model that works in China and they have to do it fast, you need the flexibility and agility to survive.” (55 Tuan, 03)</i></p> <p><i>“eBay didn’t want to change their business model back to 2003, why should they? It proved very successful that time and it would be too much risk for them to change it radically. The mistake they made is that they thought the market and customer are universal. They focused on what they had and what they can deliver rather than thinking about what does the customer want, will the customer buy into their ideas. When we started Taobao, each of us had to find 7 items to list on our website, we barely found anything that can sell on our website and nobody was going to buy it. We knew at the beginning that was not something our customers would be comfortable with. So we changed immediately.” ( Taobao, 02)</i></p>	<p style="text-align: center;"><b>Capability of Change</b></p>

<p>They spent a lot of time in strategic planning</p>	<p style="text-align: center;"><b>Decision making process</b></p> <p><i>“They (senior management) presented us with a five-year strategic plan, but it was a waste of time as the majority of the planning did not fit in with the Chinese conditions. The pace of change is a lot more rapid and more dynamic. Five years? We didn’t even know what was going to happen in five months’ time!” (Groupon 04)</i></p> <p><i>“They planned, planned, and planned, with very good presentation, you know, the numbers and graphics. We joked about this all the time, people who have this much detailed planning skills shouldn’t work in our industry, because it will never work, things change so quickly.” (eBay, 02)</i></p>	
<p>We don’t have autonomy</p>	<p><i>“It took us nearly six months to respond to the threats posed by Taobao, and, to be honest, the solution they (Headquarters) came up with didn’t really solve the problem. By the time we responded, the customers had already gone. Six months in e-commerce time is like three years in cyber time.” (eBay, 05)</i></p> <p><i>“Everything has to come from the top, layer by layer; do you think we can change anything? They always think they are right, getting approval for something from the top (Headquarters) is like a ten month pregnancy.” (Amazon, 02)</i></p>	
<p>We are able to quickly respond to the market</p>	<p><i>“Thinking about the Vietnam war 1960, where American equipment with the best weapons in the world, they still couldn’t compete with guerrillas. Their strategy is different than the American’s, it’s quite flexible and agile and the Americans most of the time couldn’t keep it up. It took them years to finally understand how the rebels from Afghanistan work.” (Baidu, 06)</i></p> <p><i>“You have to do it quickly, customers are spoiled for choice, if you don’t have something they want, they will go somewhere else. You cannot count on loyalty and brand to protect your business. What you can protect is the ability to quickly respond to the customers.” (Taobao, 07)</i></p>	
<p>We use a trial and error approach</p>	<p style="text-align: center;"><b>Quick experimentation</b></p> <p><i>“We want to know what the customer wants, then we develop it, afterwards we immediately push it to the market and test it with our customers. We constantly gather feedback from customers, and keep updating it regularly depending on what the customer wants. In my opinion, this is the best way to move forward.” (55tuan 01).</i></p> <p><i>“Nobody for sure understands what works and what doesn’t work. There is no so called-consultant or experts. Everybody is learning while they are growing. You test the water, see what works, what doesn’t work, then you change, and test it again.” (Taobao, 05)</i></p>	
<p>We only build relationships with strategic partners</p>	<p style="text-align: center;"><b>Isolated network</b></p> <p><i>“We need to be more connected with local customers and partners. I think they (MNE IPCs) need to understand that interaction doesn’t just end on the website. We need to be more open to get ideas and inspiration from the untraditional partners, such as local communities and the supporting industries, such as logistics companies—even our customers.” (eBay, 01)</i></p>	
<p>We build relationships with different partners</p>	<p style="text-align: center;"><b>Diversified network</b></p> <p><i>“It’s not all about the technology, it’s about how many people you can connect, it’s about how much information you have about your customers. We are very pretty connected to every aspect of our customer’s life through different networks, local communities, universities, corner shops, logistic companies, etc. Being part of this wider and broader network definitely helped us to gain more understanding in terms of how to improve our business, how to improve the customer experience.” (Taobao, 02)</i></p>	<p style="text-align: center;"><b>Network scope</b></p>

**Table 3 Institutional Conditions and Strategy Comparison**

Institutional conditions in China	Strategy Comparison	
	MNE IPCs	Local IPCs
<p>Institutional “rules of the game”</p> <ul style="list-style-type: none"> <li>• Government censorship</li> <li>• Low uncertainty avoidance</li> <li>• Relationship-based connections</li> </ul>	<p>Resource applicability</p> <ul style="list-style-type: none"> <li>• Technology/resource driven</li> <li>• Mainly focus on profit maximization</li> <li>• Tended to rely on existing FSAs for market exploitation</li> </ul>	<p>Resource applicability</p> <ul style="list-style-type: none"> <li>• Customer driven</li> <li>• Mainly focus on attracting and retaining customer attention</li> <li>• Recognized the strategic importance of customer and co-created value with customer for market exploration</li> </ul>
<p>Institutional uncertainty</p> <ul style="list-style-type: none"> <li>• Subnational differences</li> <li>• Competition proliferation</li> <li>• Non-linear institutional change</li> </ul>	<p>Response to market</p> <ul style="list-style-type: none"> <li>• Tended to adopt global strategy that assumes unified market conditions</li> <li>• Centralized decision making and execution process resulted in slow response to market</li> <li>• Less flexibility in terms of changing or improving product/service offering</li> </ul>	<p>Response to market</p> <ul style="list-style-type: none"> <li>• Tended to acknowledge the heterogeneity customer demand from different provinces.</li> <li>• Organizations were structured to support flexible and speedy response to market</li> <li>• More flexibility that allows product/service modification and innovation through co-value creation with customers</li> </ul>
<p>Institutional voids</p> <ul style="list-style-type: none"> <li>• Lack of intermediary system</li> <li>• Deficient infrastructure</li> <li>• Lack of dependable regulations</li> </ul>	<p>Collaborating with institutional partners</p> <ul style="list-style-type: none"> <li>• Heavy reliance on expertise of local subsidiary</li> <li>• Focus mainly on local partners through merger and acquisition or strategic alliance</li> <li>• Tended to rely on familiar or existing partners for information about new markets and the local context</li> </ul>	<p>Collaborating with institutional partners</p> <ul style="list-style-type: none"> <li>• Proactively collaborate with business partner and non-business partners</li> <li>• Tended to build collaborative relationships with institutional partners to address the deficiencies of local infrastructure</li> <li>• Build an open network to gain information about customer and generate ideas for customer experience innovation</li> </ul>