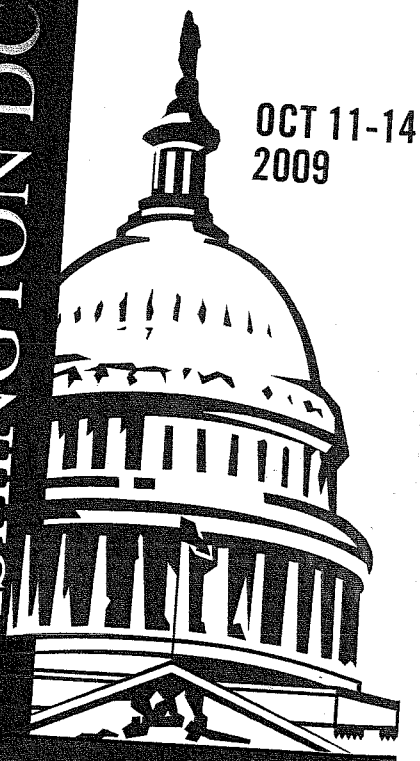
WASHINGTON DC

OCT 11-14
2009



SMS 29TH ANNUAL
INTERNATIONAL CONFERENCE

STRATEGIES IN AN UNCERTAIN WORLD

STRATEGIC MANAGEMENT SOCIETY
29TH ANNUAL INTERNATIONAL CONFERENCE

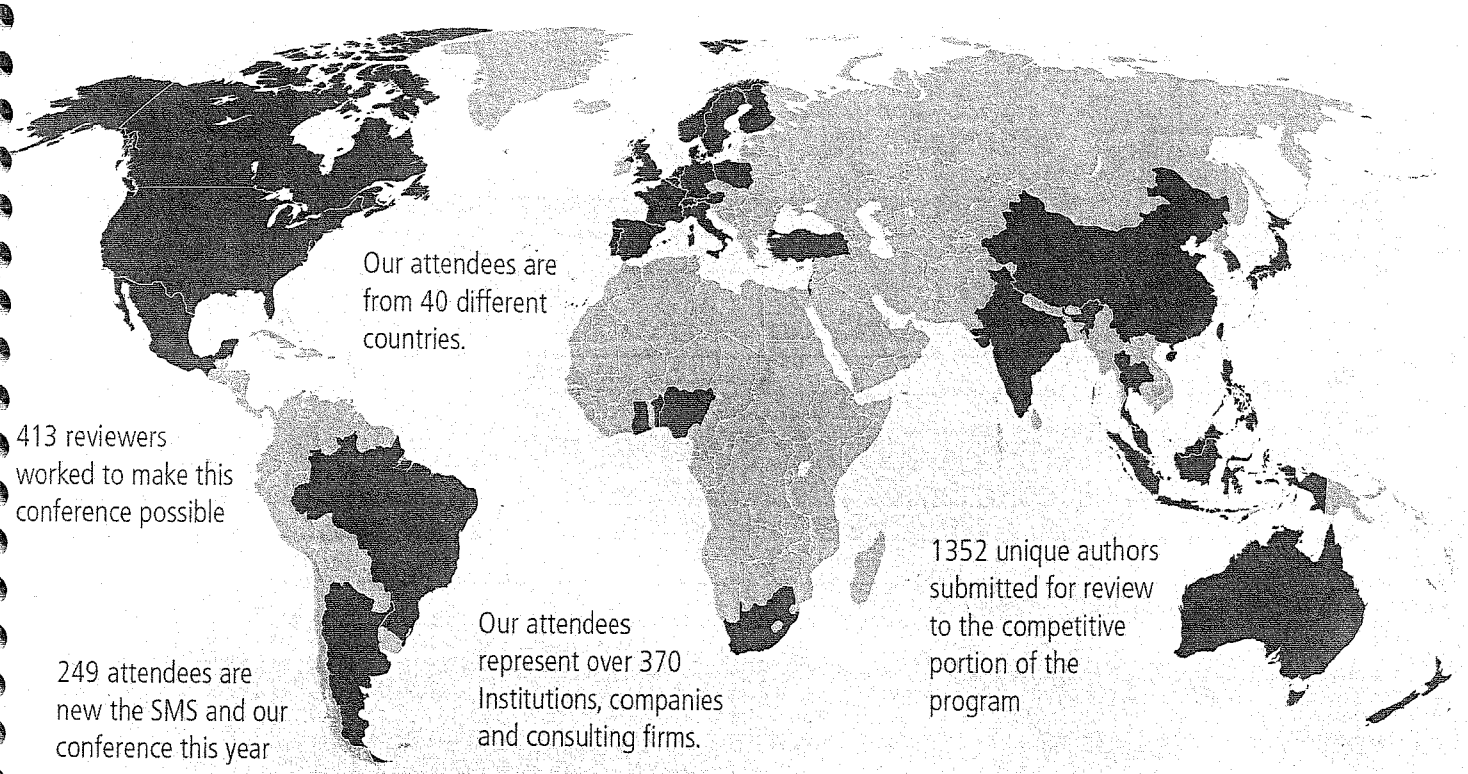
CONFERENCE PROGRAM

WASHINGTON, DC
OCTOBER 11–14, 2009

SMS Strategic Management Society

REGISTERED ATTENDEES DISTRIBUTION

The countries printed in blue indicate the geographical distribution of this year's conference attendees. All data as of September 23rd, 2009.



CONFERENCE STATISTICS

Total number of competitive sessions

Paper	81
Common Ground	32
Panel	5

Total number of non-competitive sessions

Interest Group	20
Teaching Track	6
Showcase Panels	4
Plenaries and Keynotes	5

SMS 2009 ATTENDEES BY REGION

	Conference Attendees By Region		Conference Presenters By Region	
North America	397	47%	276	45%
Europe	322	39%	268	44%
Asia	62	7%	41	7%
Australia/New Zealand	30	4%	16	3%
Africa	6	1%	1	>1%
Latin America	7	1%	5	>1%
Middle East	8	1%	4	>1%
	832		611	

SUNDAY, OCTOBER 11, 2009

08:00 – 20:00	Conference Registration Open
10:00 – 11:30	Parallel Interest Group Session I
11:30 – 13:00	Lunch
13:00 – 14:30	Parallel Interest Group Session II
14:30 – 15:00	Coffee Break
15:00 – 16:30	Parallel Interest Group Session III
16:00 – 18:30	Exhibits Setup
16:30 – 17:30	Interest Group Meetings
17:30 – 18:30	Interest Group Officers Meeting
18:45 – 19:30	SMS Business Meeting
19:00 – 21:00	Opening Reception

MONDAY, OCTOBER 12, 2009

07:30 – 18:00	Conference Registration Open
07:30 – 18:00	Exhibits Open
08:30 – 09:00	Program Chair Welcome
09:00 – 10:00	Keynote Speaker: Future of Globalization: Pankaj Ghemawhat (IESE)
10:00 – 10:30	Coffee Break
10:30 – 11:30	Keynote Plenary Panel: Future of Strategy: Yves Doz (INSEAD), C.K. Prahalad (University of Michigan) & Mark Spelman (Accenture)
11:45 – 12:45	Luncheon
12:45 – 14:00	Parallel Paper/Common Ground/ Panel Sessions
14:15 – 15:15	Plenary Panel: Operating Models for Competing in a Multi-Polar World
15:15 – 15:45	Coffee Break
15:45 – 17:00	Parallel Paper/Common Ground/ Panel Sessions
17:15 – 18:30	Parallel Paper/Common Ground/ Panel Sessions
19:30 – 22:30	SMS Monday Night Event at the National Air & Space Museum *Shuttles leave hotel beginning 19:00 (7pm)

TUESDAY, OCTOBER 13, 2009

07:30 – 18:00	Conference Registration Open
07:30 – 18:00	Exhibits Open
08:30 – 09:30	Plenary Panel: Innovation Agendas at General Electric
09:30 – 10:00	Coffee Break
10:00 - 11:15	Parallel Paper/Common Ground/ Panel Sessions
11:30 – 12:45	Parallel Paper/Common Ground/ Panel Sessions
12:45 – 14:30	Awards Luncheon
14:30 – 15:45	Parallel Paper/Common Ground/ Panel Sessions
15:45 - 16:15	Coffee Break
16:15 – 17:30	Plenary Panel: Showcase Panels
18:30 – 19:30	SMS Cocktail Reception: Sponsored by University of Maryland
19:30 –	Evening on Your Own

WEDNESDAY, OCTOBER 14, 2009

07:30 – 11:00	Conference Registration Open
07:30 – 11:00	Exhibits Open
08:00 – 09:30	Plenary Panel: Meltdown of the Financial System
09:30 – 10:00	Coffee Break
10:00 – 11:15	Parallel Paper/Common Ground/ Panel Sessions
11:30 – 12:45	Parallel Paper/Common Ground/ Panel Sessions

The Moderating Roles of Human and Social Capital in CEO Successions

Hao Chen, *University of Texas-Dallas*
Haibin Yang, *City University of Hong Kong*
Zhiang Lin, *University of Texas-Dallas*

While there is a general recognition on the importance of firm performance in CEO successions, much less is known about the social and human capital conditions that may moderate such a relationship. This study develops a comprehensive theoretical framework of CEO successions based on the resource based view (RBV) and the social network perspective. We show how successors' human and social capital, as complement and substitute for performance considerations, can alter how firms select their CEO successors (outsiders vs. insiders, as well as contenders vs. followers). Our initial analyses of the U.S. computer industry for 14 years have largely supported our framework.

SESSION 138

DOING BUSINESS IN CHINA

TRACK G | **Date** Monday, Oct 12 | **Time** 12:45 – 14:00 h | **Paper** | **Room** Meeting Room 15

Session Chair Anja Tuschke, *University of Munich*

Experiential Effects on Strategic Preferences: The Case of the Chinese Upper Echelons

Gerry Sanders, *Rice University*
Anja Tuschke, *University of Munich*

Firms facing similar institutional and competitive environments often pursue different strategies. Some of this strategic heterogeneity is a function of varying resource and capability endowments. However, firms' upper echelons (e.g., top management and board of directors) also possess varying experiences, which shape their views of the competitive landscape and affect their perceptions of attractive opportunities. Firms directed by upper echelons possessing more diverse experience sets should manifest different strategic preferences in the face of global complexity. In this study, we explore how the educational and professional experiences of the corporate upper echelons of large Chinese public firms influence these firms' strategic direction through resource allocations and other strategic commitments. Specifically, we focus on the (a) international education, (b) foreign assignment work experiences, and (c) political and professional embeddedness ties within the Chinese socio-political system as antecedents of the likelihood of strategic commitments.

How Executives' Evaluations of Foreign Direct Investment Opportunities in China Differ: Buyer's and Seller's Perspectives

Beverly Tyler, *North Carolina State University*
Jeffrey Reuer, *Purdue University*
Shujun Zhang, *Sun Yat-Sen University*

Despite the growing literature on FDI in China, little is known about what the Chinese executives selling the equity in their business are looking for in an IJV partner. Even less known regarding the differences between what the executives looking to invest (buyer) and executives accepting the investment (seller) focus on when evaluating Chinese investments and investor selection opportunities respectively. In this research, we apply multiple theoretical perspectives and use a policy capturing technique to investigate differences in information processing of U.S. top executives, as they evaluate FDI opportunities in China, and Chinese executives, as they evaluate potential U.S. investors in their company. Our research makes several theoretical and practical contributions to research on executive decision making and foreign direct investment.

Is There a Liability of Foreignness or Localness in China? Local Chinese Firms' Perspectives

Fuming Jiang, *Australian National University*
Bruce Stening, *Peking University*

This study provides an extension to the conventional model of liability of foreignness (LOF), positing that local Chinese firms could face a liability of localness (LOL) due to the presence of foreign firms. Based on survey data from 185 purely local Chinese firms, we tested several hypotheses. Local Chinese firms were found to enjoy significant location-based advantages over their foreign counterparts, contributing to LOF. However, the adverse effects of LOF on foreign firms appear to be offset by the foreign firms' superior firm-specific and multinationality advantages over local Chinese firms. Conversely, due to a lack of firm-specific and multinationality advantages, local Chinese firms may face significant LOL at home.

Managing Uncertainty in International Mergers and Acquisitions: Ownership Strategies of Chinese Firms

Jiatao Li, *Hong Kong University of Science & Technology*
Zhenzhen Xie, *Hong Kong University of Science & Technology*

The evidence on the relationship between uncertainty and ownership strategies in international mergers and acquisitions has been inconclusive in the strategy literature. We reexamine this relationship by decomposing uncertainties from two different resources. Relational uncertainty due to investors' unfamiliarity with the host environment is expected to increase the investor's ownership stake in acquisitions abroad; while external uncertainty due to exogenous instability in the host environment is expected to reduce the acquirer's ownership stake. The hypotheses are largely supported with data on 260 international mergers and acquisitions (M&A) made by Chinese firms during the 1987-2004 period.

From:	Strategic Management Society
To:	Jiang, Fuming;
Subject:	Your Submission 2009-AC-1186 for the 2009 SMS Conference in Washington, D.C
Date:	17 April 2009 16:24:16

Dear Fuming Jiang,

Thank you for submitting to this year's SMS Conference with the theme "Strategies in an Uncertain World". With some 833 submissions, the response to the Call for Proposals has been overwhelming, up 20% from last year. In our search for high quality research we were only able to accept a portion of the submitted proposals for the program. Over 400 scholars were involved in the double blind review process and spent significant time and effort helping us to make these difficult decisions. For the second year, we asked reviewers to undertake the extra effort and add review notes for authors. We are pleased to report that 90% of the submissions have been provided with notes. For their overall contribution to this SMS event, these reviewers deserve our deepest appreciation.

Congratulations, we are very happy to inform you that the following proposal you submitted has been recommended for inclusion into the conference program.

2009-AC-1186 Is there a Liability of Foreignness or Localness in China? Local Chinese Firms' Perspectives
Fuming Jiang
Bruce Stening

In order to confirm your commitment to present your proposal in Washington, D.C, you are invited to register as a presenter for the conference. A reduced Presenter Registration Fee is available to you until May 15, 2009. To take advantage of this reduced fee, your registration and payment has to be received by us before this date. If we have not heard from you by that date confirming your participation, we will not be able to hold the program slot for your proposal or the reduced registration fee.

Please visit http://dc.strategicmanagement.net for details on how to register, have access to reviewer notes on your submission, and for additional information about session planning, presenter guidelines, and hotel information.

We advise you to make your guestroom reservation early in order to receive the SMS conference room rate. Again, thank you for actively participating in the conference.

We are looking forward to see you in Washington, D.C!

Marjorie Lyles and Jeffrey Reuer
Program Co-Chairs
Bjoern Ambos, Program Chair Track G

IS THERE A LIABILITY OF FOREIGNNESS OR LOCALNESS IN CHINA? LOCAL CHINESE FIRMS' PERSPECTIVES

Fuming Jiang Australian National University
Bruce Stening Peking University

INTRODUCTION

Following the invention of the concept and discovery of the existence of liability of foreignness (LOF) by Hymer (1960/1976) dating back forty or more years ago, a number of studies have recently re-examined the issue and consistently confirmed that such competitive disadvantage still exists and affects foreign firms' performance in foreign markets (e.g. Mezias, 2002; Miller and Parkhe, 2002; Zaheer, 1995; Zaheer and Mosakowski, 1997). While Kronborg and Thomsen (2009) are unable to confirm the existence of a LOF, Nachum (2003) questioned the conventional wisdom of LOF, finding that foreign-owned firms do not suffer from a LOF in the financial industry in the City of London. A number of recent studies have specifically examined issues related to the LOF in China (e.g. Chen, Griffith, and Hu, 2006; Luo, Shenkar, and Nyaw, 2002). This present study is designed to investigate two parallel issues - the LOF that foreign firms may incur in China and the liability of localness (LOL) that local Chinese firms may face as a result of foreign firms' presence in their country.

Assumptions are often made about the presence of LOF in China, but no empirical data has been collected. Further, those assumptions are embedded in views about China that are, in many instances, outdated. LOF is not static, but changes as a firm's external environment and its internal capacities and resources change over time (Zaheer and Mosakowski, 1997). In the thirty years since the announcement of the open door policy and economic reform in 1978, China has undergone tremendous changes politically, economically, and socio-culturally. The economy has gradually been converted from one that was centrally planned to a market system (Walder, 1996). In recent years the regulatory treatment of foreign and local firms has progressively converged, and as a result, some industries that were previously closed to foreign investors, such as retailing, insurance, and banking, have now been opened (Luo, 2007). Such market liberalization can be expected to decrease the effect of LOF (Nachum, 2003; Zaheer and Mosakowski, 1997). We therefore argue that the dramatic overall improvement in the business environment in China over the past three decades may have significantly reduced the cost of doing business there. Our first research question is, then, formally stated: Is there (still) a liability of foreignness in China?

This study goes further than previous LOF studies in looking at the players on 'the other side of the fence' - locally-owned firms operating in their home country - suggesting that these firms may incur additional costs in doing business at home (that is, may suffer from a *liability of localness*). Such LOL may arise from the foreign direct investment and competition of foreign firms which have superior firm-specific and multinationality advantages developed by and embodied in their organizational practices and used to eliminate or reduce their LOF in competing against local Chinese firms. The entry of foreign firms into a host country intensifies competition and reduces the profits of local firms (Markusen and Venables, 1999). From an institutional perspective, LOL could come from changes in the regulatory environment of the host country, which could then further change the 'rules of the game' for domestic firms (Perez-Batres and Eden, 2008). Foreign firms in China have turned from foreign investors to strategic insiders, and have now been aggressively expanding the scale and scope of their investment in new or existing projects in numerous locations in China, continuing to improve competence building and value-chain localization using corporate capital, fortifying their dominant foothold in certain market segments, and replicating their success elsewhere in China (Luo, 2007). All of these factors suggest that the 'rules of the game' have been changed for local Chinese firms since the arrival of foreign firms, and local Chinese firms therefore face additional challenges. Our second research question is, then, formally stated: Is there a liability of localness that local Chinese firms face as a result of the presence of foreign firms in China?

Studies that explain the nature of international competition from the perspective of local firms are scarce. However, local firms are one of the major groups of players in international markets; how they view the nature of international competition - especially issues related to LOL and LOF - may be of strategic importance to all parties in the game, and to their competitive position in this 'playground'.

THEORY AND HYPOTHESES

As Nachum (2003) elucidated, studies of the advantages held by multinational corporations (MNCs) implicitly and/or explicitly identify and distinguish between several aspects of competitive advantage, including firm-specific advantages (FSAs) arising from the possession of certain intangible capabilities; multinationality advantages (MNAs) associated with multinational activity per se; and home- or local-based advantages (LBAs) arising from the exclusive access of firms to resources and conditions in their home countries. These advantages together form the competitiveness of MNCs in global markets, and the possession and strength of these advantages determine the competitive position of foreign MNCs and local firms (Nachum, 2003). Therefore, the existence, strength, and extent of LOF and LOL in China will be dependent on the relative strength of each of these advantages possessed by foreign and local Chinese firms, respectively. Our investigation and empirical testing was principally based on Nachum's (2003) three-dimensional model (that is, FSAs, MNAs, and LBAs), but with some necessary extensions. The conceptual framework is depicted in Figure 1.

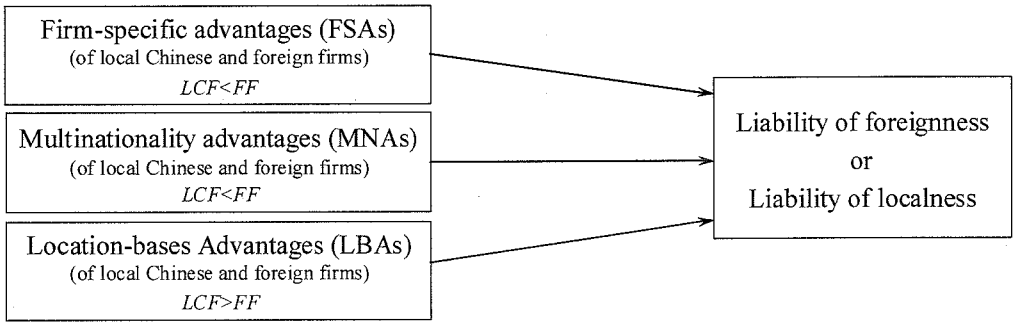


Figure 1. Advantages determining the competitive strength of local Chinese and foreign firms

LCF: Local Chinese firm; *FF*: Foreign firm

In Nachum's (2003) model, the three types of advantage of foreign firms were included for testing LOF. We believe that either the LOF , or the LOL is the aggregated outcomes of various competitive advantages that are possessed by both sides of players when competing in the same (China) market, consequently determining the strength of LOF and LOL. As we will see in the statistic analysis and results section of the paper, this view is given weight in the multiple regression analysis which indicates that the explanatory power of the main effect models are significantly improved by incorporating the various advantages of both the foreign and local Chinese firms. Therefore, six independent variable constructs were incorporated into the framework in order to capture the joint impact of the three types of advantage that both foreign and local Chinese firms may possess. They comprise foreign firms' firm-specific advantages (F_FSA), local Chinese firms' firm-specific advantages (L_FSA), foreign firms' multinationality advantages (F_MNA), local Chinese firms' multinationality advantages (L_MNA), foreign firms' location (China) based advantages (F_LBA), and local Chinese firms' location (China) based advantages (L_LBA).

Firm-Specific Advantages

FSAs are important factors in determining the performance of MNCs, as they affect not only a firm's upstream activity (Dunning, 1981), such as the level of FDI in the subsidiaries (Rugman, 2005), but also the downstream activities (Rugman and Sukpanich, 2006). A firm's unique resources and various capabilities can therefore generate competitive advantages, which can lead to sustainable superior returns (Barney, 1991; Rugman and Verbeke, 2002). In the China context, most foreign firms have clear competitive advantages over local firms in capabilities such as technology, know-how and innovation, branding, financing, IT, and value-chain creation (Williamson and Zeng, 2004). Local Chinese firms lag well behind foreign firms in the development of FSAs, especially in respect of technology (Nolan, 2004), experience in innovative activities, and top management talent (Rugman and Li, 2007). Chinese firms also tend to be protected, resource-based, labour-intensive, low-technology, and inefficient (Nolan, 2004). In contrast, the superior FSAs of foreign firms operating in China help them to compete successfully in the country. Correspondingly, this creates enormous pressures on local firms and increases their costs of doing business. We therefore propose the following hypotheses:

Hypothesis 1a: Foreign firms outperform local Chinese firms in firm-specific advantages, and these advantages eliminate LOF.

Hypothesis 1b: Foreign firms outperform local Chinese firms in firm-specific advantages, and these advantages create a LOL.

Multinationality Advantages

The MNAs arise directly from undertaking cross-border business activities under a common governance structure (Nachum, 2003). Hence, the greater the degree of multinationality possessed by a MNC, the better its appropriability regime (Teece, 1986), and consequently the firm performance (Morck and Yeung, 1992). By virtue of their activities in multiple markets they also have exposure to a wealth of empirical and anecdotal material on economic and political trends (Luo, 2003). An important strength of foreign MNCs over most local firms is therefore globally-coordinated competitive activities (Nachum, 2003). Such activities help increase the likelihood for foreign firms to achieve higher performance than their local counterparts when expanding globally (Morck and Yeung, 1991). Foreign firms making FDI in China are by definition part of international networks, whereas the vast majority of local Chinese firms only operate within Mainland China, and do not have the MNAs that most foreign firms enjoy. Even though some Chinese firms engaged in FDI abroad in recent years, they are mainly doing so to acquire complementary resources rather than aggressively exploiting existing ownership advantage (Buckley, et al. 2007). In addition, foreign firms also possess advantages that arise from their favourable access to the resources of their home countries (Nachum, 1999). Therefore, foreign firms in China possess considerably more of MNAs than their Chinese-owned counterparts. The MNAs have a positive effect on foreign firms' performance and help to eliminate LOF. In contrast, local Chinese firms are competitively disadvantaged. To compensate for and/or mitigate such competitive disadvantages requires local Chinese firms to commit significant additional firm resources and effort, in turn increasing their cost of doing business. We thus propose the following hypotheses:

Hypothesis 2a: Foreign firms outperform local Chinese firms in advantages of multinationality, and these advantages eliminate the LOF.

Hypothesis 2b: Foreign firms outperform local Chinese firms in advantages of multinationality, and these advantages create a LOL.

Location (China)-Based Advantages

Local firms enjoy favourable access to the resources of their home countries relative to foreign firms, arising from favourable treatment by the government, consumers, and suppliers (Hymer, 1960/1976).

They are often well versed in domestic customs and priorities and have the ability to utilise this local knowledge to their advantages (Vachani, 1990). These advantages are further emphasised in high-culture countries such as China, where 'guanxi' relationships pervade all levels of enterprise and government and outsiders can find it difficult to gain traction (Ping, 2003). China is a complex society, by virtue of its deeply embedded and multi-layered cultural heritage, its long history, its diverse social and political development, and its vast geographical scale which encompasses both national common characteristics and strong local identities, traditions and distinctive dialects, and so on (Li and Li, 1999). This complexity could be one of the critical challenges for most outsiders operating in China, but a competitive advantage to the local Chinese firms that are deeply rooted in the environment. Such advantageous locational assets provide local firms with a strong basis for competitive advantages that foreign firms do not have (Nachum, 2003). In contrast, foreign firms operating in China may face environments within China that may be dramatically different from each other, and from the home country itself. Given the considerable locational advantages of China vis-à-vis the majority of the home countries of the foreign firms investing in China, we can thus expect local Chinese firms to outperform foreign firms in China in location-based advantages. This implies that any foreign firm operating in China is likely to experience increased costs, and reduced operating efficiency and profitability relative to local Chinese firms. These arguments lead us to propose the following hypotheses:

Hypothesis 3a: Local Chinese firms outperform foreign firms in location-based advantages, and these advantages accentuate the LOF.

Hypothesis 3b: Local Chinese firms outperform foreign firms in location-based advantages, and these advantages eliminate the LOL.

The Relative Importance of the Various Advantages

In line with the logic of Nachum's (2003) study, the non-existence or insignificance of LOF and the emergence of the LOL in China may suggest that in this particular context the FSAs and the MNAs are more important for competitive success than those resulting from access to the LBAs. On the one hand, this means that the FSAs and MNAs that the foreign firms possess can help the foreign firms outweigh the competitive disadvantages (LOF) in China. On the other hand, the advantages provided to Chinese firms from their favourable access to LBAs cannot compensate for the competitive disadvantages they face as a result of the superior advantages of foreign firms in terms of the FSAs and MNAs. We therefore propose the following hypothesis:

Hypothesis 4: Firm-specific advantages and advantages of multinationality provide more explanatory power for the relative performance of foreign firms vis-`a-vis local Chinese firms than location-based advantages.

METHODS

Data Collection

We identified top 1000 (as measured by total assets) purely local firms (with no foreign ownership) from the ORBIS Database which was published by Bureau van Dijk Electronic Publishing in 2007. The large local Chinese firms are on the front line in competing with foreign entrants and are the major Chinese competitors targeted by foreign firms. The senior executives (e.g. CEO, marketing director) of those large Chinese firms are therefore the most knowledgeable informants to provide information on the nature of competition and impact between local Chinese and foreign firms in China. Of the identified firms, 851 firms were contactable by telephone and were defined as the sample frame for this survey. A structured questionnaire was used to obtain the perceptions of senior executives of local Chinese firms regarding the level of strength of the three types of advantages and the level of performance of both local Chinese firms

and their main foreign competitors. In total, 201 firms returned questionnaires. An initial scanning of the returned questionnaires found 185 questionnaires were usable, constituting a response rate of 22.74%.

Operational Measurement

In line with the method used by Nachum (2003) and Zaheer (1995), we used the ratio of the average performance of foreign firms relative to the performance of their local Chinese counterparts as the dependant variable to measure LOF. Adapting this logic, we used the ratio of performance of local Chinese firms over the average performance of their main foreign competitors, respectively, as the dependent variable to measure LOL. Following Nachum's (2003) approach, we created a single compound measure for the dependent and each of the independent variable constructs by summing the scores of the individual variable indicators for each construct, respectively. This is also consistent with the hypotheses that are developed at the level of overall advantages, referring specifically to the three types of advantage, rather than their individual variable indicators. The performance of both the local Chinese and foreign firms were measured, respectively, by five subjective managerial assessment questions on five-point Likert scales ('1' being poor and '5' being outstanding). The five firm performance indicators (α = 0.931, local Chinese firm; α = 0.892, foreign firm) include profitability, market share, sales growth, competitive position (Aulakh, Kotabe, and Teegen, 2000; Fey and Bjorkman, 2001), and quality of products/services (Fey and Bjorkman, 2001). The independent variable indicators were adopted from earlier research studies (e.g. Nachum, 2003). In comparison with most prior studies on LOF, we incorporate a relatively larger set of variables with the aim of capturing as comprehensively as possible the various advantages that a local Chinese or foreign firm may possess. All of the indicators for each independent variable construct were measured on a five-point Likert-type scale ('1' being very low, and '5' being very high). FSA was measured by nine items, including firm size, financial strength, management skills (Nachum, 2003), marketing ability, research & development intensity (Morck and Yeung, 1992), technology (Wernerfelt, 1984), knowledge acquisition and value creation (Rugman and Sukpanich, 2006), brand name, innovation ability and success (Delios and Beamish, 2001). MNA was measured by six items, including intensity of international activity (Nachum, 2003), knowledge of global market (Lemi, 2006), access to global financial resources (Collins, 1990), access to global human resources (Ger, 1999), and global synergy (Meyer, 2004). LBA was measured by six items, including access to local information, product/service preference of local customers, reliance on local resources (Nachum, 2003), connection to local market (Fiegenbaum, Lavie, and Shoham, 2004), ability to respond to the local market (Sally, 2007), and level of local government support (Derkinderen, 1982). A set of control variables that have commonly been used in prior studies (e.g. Luo and Park, 2001; Nachum, 2003) were included in the tests of the models. Industrial sector (IS) and cultural distance (CD) were included for testing both LOF and LOL. Length of operation (LO) and entry mode (EM) of foreign firms were included in the model testing LOF. Age (Age) of local Chinese firms and state ownership (SO) were included for the model testing LOL. Space limitation does not allow us to discuss these variables in detail.

Statistical Analysis and Results

Table 1 presents operational measures, scale reliability for independent variable constructs, descriptive statistics, and correlations between independent variables as well as control variables. It shows that none of the correlation coefficients is greater than 0.6. A correlation coefficient above 0.6 is considered to be rather high (Churchill, 1991). Table 2 shows that the variance inflation factor (VIF) for all variables are below the suggested cut-off point of 10 (Hair, et al., 1998), suggesting that there is not serious multicollinearity between independent variable constructs.

------Insert Table 1 about here------

------Insert Table 2 about here------

Liability of Foreignness

Models 1a, 2a, and 3a are all significant (see Table 2). Model 2a (main effect model) shows that four variables, including F_FSA, F_MNA, F_LBA, and L_LBA are statistically significant, while L_FSA and L_MNA appear to be insignificant in the model. The explanatory power (measured by the standardised beta coefficient - β) of F_FSA and F_MNA are significantly stronger than that of L_FSA and L_MNA, respectively, whereas F_LBA has a much smaller β than L_LBA. This suggests that local Chinese firms outperform their foreign counterparts in location-based advantages, and foreign firms outperform local Chinese firms in both the FSAs and MNAs. Hypotheses 1a, 2a, and 3a are, therefore, all supported. L_LBA is the most significant and may therefore possess the strongest (negative) impact on foreign firms in China, in turn contributing to LOF. However, the combined explanatory power of the three types of advantage of foreign firms is far greater than that of the LBAs of the local firms. All these may suggest that foreign firms in China still face LOF, but that this may be off-set by the joint power of the three types of advantage they have. Hypothesis 4 is, therefore, supported. Model 3a shows that all of the revealed impacts on LOF may be greater in the service sector.

Liability of Localness

Models 1b, 2b, and 3b mirror the findings presented in Models 1a, 2a, and 3a fairly well (see Table 2). Hypotheses 1b, 2b, and 2c are all supported. The L_LBA is the most significant and may therefore possess the strongest (positive) impact on the performance of local firms, in turn decreasing the LOL. However, the explanatory power of LBAs that the local firms possess is greatly less than the combined explanatory power of the three types of advantage of foreign firms, and this may indicate that local firms may face LOL arising from the superior competitive advantages of foreign competitors and lack such advantages themselves. In addition, it is evident that the foreign firms are gaining LBAs that help them to gradually balance the local firms' LBAs. Hypothesis 4 is, therefore, supported. Model 3b shows that all of the revealed impacts on LOL are stronger in the service sector.

CONCLUDING REMARKS

This research has sought to extend the theory of LOF by suggesting that while LOF may still exist in China, it has possibly become insignificant for foreign firms operating there. Rather, the purely locally-owned Chinese firms may confronted a LOL as a result of the presence of foreign firms in China and their superior FSAs and MNAs over the local Chinese firms, and the lack of these advantages among local Chinese firms. The extension of Nachum's (2003) three-dimensional model is this study may provide a considerably more comprehensive picture of the competitive situation and its consequences for both sets of players. The findings also suggest that not only do the superior advantages that a foreign firm may possess on entry to China, but the LBAs it may gain gradually in China, eliminate LOF. Concomitantly, these various advantages of foreign firms simultaneously create LOL for local firms. This study further advances our understanding of the causes of LOL by contextualizing the organizational factors and behaviours at the firm level, which is complementary to an institutional-level perspective which suggests that LOL arises when regulatory changes in the host country to allow foreign investment (Perez-Batres and Eden, 2008). The former seems to be the direct cause of LOL, while the latter appears to be a precondition or indirect cause of LOL.

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Table 1. Independent and control variable measures, descriptive statistics and correlations (n=185)

Constructs	Operational measures (Scale reliability)	Descriptive stat.		Correlation coefficients											
		Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1. L_FSA	Compound variable (α=0.800)	23.584	2.351	1.000											
2. L_MNA	Compound variable (α=0.708)	8.276	1.288	.422**	1.000										
3. L_LBA	Compound variable (α=0.800)	25.114	2.173	.596**	.574**	1.000									
4. F_FSA	Compound variable (α=0.816)	38.649	2.805	-.447**	-.486**	-.530**	1.000								
5. F_MNA	Compound variable (α=0.767)	21.676	1.643	-.530**	-.333**	-.408**	.455**	1.000							
6. F_LBA	Compound variable (α=0.860)	20.260	3.298	-.370**	-.357**	-.514**	.591**	.556**	1.000						
7. Industrial sector	Dummy (Manufacturing, service)	0.640	0.482	.244**	.304**	.519**	-.322**	-.416**	-.517**	1.000					
8. Culture distance	Index	2.422	1.114	-.067	-.296**	-.334**	.098	.184*	.036	-.142†	1.000				
9. State ownership (local firm)	Dummy(State, no-state ownership)	0.730	0.445	-.087	-.005	-.002	.036	.037	-.008	.048	.020	1.000			
10. Age (local firm)	Years since establishment	25.649	3.161	.021	.322**	.176*	-.189**	-.047	-.193**	-.009	-.119	.040	1.000		
11. Duration (foreign firm)	Years since FDI in China	14.314	3.607	-.093	-.110	-.079	.221**	-.111	-.003	.106	.040	.104	-.154*	1.000	
12. Entry mode (foreign firm)	Dummy (JV, WOS)	0.730	0.445	.071	-.054	-.056	.067	.017	.059	-.028	.071	-.096	-.059	.041	1.000

† $p<.01$; * $p<.05$; ** $p<.01$; *** $p<.001$; (2-tailed). Non-parametric Spearman Rank correlations are reported where nominal data are used.

Table 2. Regression analysis results

Variables	DV: Liability of Foreignness									DV: Liability of Localness								
	Model 1a			Model 2a			Model 3a			Model 1b			Model 2b			Model 3b		
	β (Stand)	t-value	VIF	β (Stand)	t-value	VIF	β (Stand)	t-value	VIF	β (Stand)	t-value	VIF	β (Stand)	t-value	VIF	β (Stand)	t-value	VIF
Independent variables																		
F_FSA	0.449	8.772***	1.593	0.307	6.644***	1.884	0.311	6.699***	2.054				−0.229	−6.427***	1.884	−0.312	−6.688***	1.919
F_MNA	0.316	6.361***	1.502	0.262	5.840***	1.780	0.241	5.199***	2.047				−0.210	−4.649***	1.780	−0.188	−3.986***	1.959
F_LBA	0.240	4.380***	1.829	0.149	3.149**	1.970	0.116	2.435*	2.177				−0.172	−3.608***	1.970	−0.147	−2.925**	2.236
L_FSA				−0.013	−0.274	1.883	−0.038	−0.804	2.157	0.180	3.090**	1.573	0.022	0.470	1.883	0.062	1.249	2.161
L_MNA				−0.067	−1.574	1.615	−0.054	−1.278	1.627	0.144	2.532*	1.513	0.035	0.817	1.615	0.008	0.181	1.816
L_LBA				−0.345	−6.899***	2.203	−0.269	−4.889***	2.882	0.567	8.818***	1.926	0.391	7.766***	2.203	0.334	5.830***	2.886
Control variables																		
Industrial sector							−0.158	−3.810***	1.639							0.088	2.011*	2.011
Culture distance							0.024	0.637	1.312							−0.032	−0.824	1.306
Duration							0.054	1.548	1.158									
Entry mode							−0.045	−1.381	1.033									
Age																0.042	1.141	1.210
State Ownership																0.033	0.979	1.020
Model fit																		
N	185			185			185						185			185		
Sig. *F*	.000			.000			.000						.000			.000		
R^2	.702			.798			.817						.795			.802		
Adj. R^2	.697			.791			.807						.788			.791		
Adj. R^2 change				.094 *(13.5% improvement)*			.006 *(0.76% improvement)*						.183 *(30.2% improvement)*			.003 *(0.38% improvement)*		

† $p<.01$; * $p<.05$; ** $p<.01$, *** $p<.001$; (2-tailed test).