Developing non-traditional firm-specific advantages in domestic strategic factor markets: Evidence from China

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Abstract

Purpose - Chinese firms are winning market share from foreign multinational enterprises in domestic markets. The International Business literature suggests that this is happening because these firms are developing *non-traditional* firm-specific advantages (FSAs). Strategic factor market (SFM) theory provides a good basis for explaining how this is happening. However, it is underdeveloped in terms of analysing unique resources and unique access to those resources by Chinese firms in their domestic markets. The paper aims to develop a framework to understand how Chinese firms have developed non-traditional FSAs.

Design/methodology/approach – The case study method is adopted to explore how Chinese firms develop non-traditional FSAs. Specifically, the authors compare paired case studies of a Chinese firm and a foreign multinational in each of two industries.

Findings – The authors find that Chinese firms have developed non-traditional FSAs due to *more relevant experience*, *better adapted strategies*, and *privileged relationships*. This has enabled Chinese firms to develop non-traditional FSAs.

Originality/value – The authors propose a framework that conceptualises Chinese firm non-traditional FSA development as a product of *superior access* to unique and valuable resources in their domestic SFMs.

Keywords Strategic factor markets, Firm-specific advantages, Chinese firms

Paper type Research paper

Introduction

When explaining the competitive advantage of multinational enterprises (MNEs), International Business (IB) scholars have highlighted traditional firm-specific advantages (FSAs) such as such as proprietary technology or brand equity (Rugman and Verbeke, 2001) that underpin higher-priced, differentiated products. According to strategic factor market (SFM) theory, these FSAs are based on access to unique and valuable factors of production or resources (Barney, 1986). SFM theory is now well developed with a large literature that explains SFM variation in terms of varying institutional, social, economic, and factor conditions. Applying these theories to emerging markets, more literature highlights *non-traditional* FSAs such as cost innovation capability and optimizing products for local customers that domestic firms in emerging economies are developing (Adarkwah and Malonaes, 2022). Building on this literature, our research principally addresses the question of how domestic firms in an emerging market develop their FSAs.

By comparing paired case studies of a Chinese firm and a foreign MNE competing in the Chinese market in each of two industries, this paper aims to *augment* SFM theory to provide a better understanding of non-traditional FSA development by Chinese firms. We propose a framework that conceptualizes the development of non-traditional FSAs by Chinese firms as a product of *superior access* to unique and valuable resources in their domestic SFMs. We find that this is due to *more relevant experience, better adapted strategies,* and *privileged relationships*. This has enabled Chinese firms to develop non-traditional FSAs such as cost innovation capability and optimization of products for local customers.

Our study makes two theoretical contributions. First, we *extend* SFM theory to incorporate differential access to SFMs by Chinese firms versus foreign MNEs. While extant

SFM literature provides important *general* insights into the resources underlying firms' competitive advantages, we extend the model to postulate how differential firm capabilities in accessing strategic resources lead to different competitive outcomes. Second, while the existing literature has recognized that firms from emerging markets have developed non-traditional FSAs, how they have managed to do so has not been fully explained. We take a first step toward filling this gap by proposing a Superior Access Framework to elucidate *how* local firms develop non-traditional FSAs that are different from those enjoyed by established MNEs (such as proprietary technologies and brand.) This Superior Access Framework allows us to better understand the improved competitiveness of Chinese firms at home and increasingly abroad too.

The paper is structured as follows. The next section outlines SFM theory and this provides a broad basis for our subsequent nuanced analysis of non-traditional FSAs and their antecedents. Next, paired case studies of Chinese firms and foreign MNEs are analyzed to build our augmented SFM framework with three propositions at its core. We conclude by outlining the implications of our analysis for received theory and practice and suggest avenues for further research.

Theoretical background

We begin by reviewing the literature on SFM theory. We then argue that SFMs in emerging countries such as China have different characteristics compared to those in developed countries. These differences can be grouped under institutional environment, economic environment, social environment, and factor conditions. We then argue that Chinese firms leverage these differences to gain superior access to SFM resources in home countries through more relevant experience, better adapted strategies, and privileged relationships. This superior access enables Chinese firms to develop non-traditional FSAs which disrupt and

challenge foreign MNEs. Foreign MNEs find it difficult to respond to non-traditional FSAs because of their inferior ability to access local SFMs and their focus on the needs of existing customers in developed countries which can result in organizational inertia, and friction caused by strategic pre-commitments (Christensen and Raynor, 2003; Ghemawat, 1991; Wan et al., 2020).

SFM theory

The SFM concept was developed by Lippman and Rumelt (1982) who suggest that factor markets are imperfect due to factor uniqueness, ambiguity, and enforceable property rights. Barney (1986) produced the now conventional definition of an SFM as "a market where the resources necessary to implement a strategy are acquired" (p. 1231). These resources include market share for scale-based strategies (Laverty, 2001), brands for high margin sales strategies (Klein, Crawford, and Alchian, 1978), research and development skills (Thompson and Strickland, 1980) and research scientists (Hirshleifer, 1980) for product innovation strategies, and management skill (Porter, 1980) for strategies generally.

Barney (1986) suggests that a firm can achieve above-normal economic returns from acquiring strategic resources only if the cost of obtaining a resource is less than the economic value of that resource when employed in a product-market strategy. He argues that there are two ways this can happen: Either the firm consistently produces more accurate predictions about the future value of resources, or it is lucky. Since pure luck cannot be a systematic source of success, the implication is that the key to creating above-normal returns is the acquisition of superior information that leads to more accurate predictions about the future value of resources. Makadok and Barney (2001) subsequently developed a model to show that information strategies are dependent on the level of uncertainty about the value of a new

resources; the rarity, imitability, and non-substitutability of new resources; the level of inscrutability of a firm's existing stock of resources; and the firm's information gathering and processing capacities.

While Barney and his colleagues maintain that firms achieve above-normal economic performance from the acquisition of strategic resources only if they have superior expectations about their future value or pure luck, Adegbesan (2009) subsequently argued that this only holds when heterogeneous resource complementarity is absent. Firms are characterized by heterogeneous resources, and different bundles of resources vary in their degree of complementarity to one another (Teece, 1986). Adegbesan suggests that a firm complements a resource when the combination leads to the creation of a surplus greater than the sum of the amounts of value they could create independently. Employing coalitional analysis, he shows that firms can profit when they enjoy resource bundles that have superior complementarity with target resources. This result distinguishes the role of information from the role of complementarities when creating value by acquiring critical resources in SFMs.

Leiblein et al. (2017) further suggest that competitive advantage may stem not only from luck, or superior expectations, or complementary assets, but also because firms differ in a specific type of learning ability which integrates new information to exercise a contingent claim on an asset in a factor market. Firms can vary in terms of information processing, data analyzing, and belief updating. Building on this premise, Leiblein et al. (2017) develop a realistic real option theory of resource allocation decisions in SFMs, arguing that such differences can lead to different resource allocation decisions which in turn can lead to competitive advantage.

The SFM literature provides important *general* insights into how firms achieve competitive advantage. It acknowledges that SFMs vary and that access to factors also varies.

However, it has not focused on how these variations differentially impact the competitiveness of foreign MNEs versus local firms. Our study's contribution to the SFM literature lies addressing this question.

Emerging country SFMs

The differential characteristics of country environments have been widely studied in the literature. Porter's (1990) 'Diamond Model' identified differences in factor conditions, demand conditions, firm strategy and rivalry, and related industries as determinants of national competitive advantage. With a different focus, Ghemawat's (2001) 'CAGE' framework suggests that cultural, administrative or political, geographic, and economic are four types of *distance* between countries. Similarly, Cuervo-Cazurra (2012) suggests that developing countries are different from developed countries in four broad ways: Social, politico-regulatory, geographic, and economic. Applying this thinking to global value chains, Kano et al. (2020) and Laplume et al. (2016) argue that differing country characteristics provide opportunities for firms to conduct different activities in different countries to exploit unique local resources.

Drawing on this literature, we examine four dimensions along which SFMs may vary between countries and consider how these variations might influence the development of FSAs by local firms versus MNEs: The institutional environment, social environment, economic environment, and factor conditions.

Institutional environment. Broadly, there are two types of institutional deficiencies common in emerging countries: Institutional voids and informal institutional hazards (Luo and Wang, 2012). In emerging countries, the quality of governance is often low because it is underpinned by a patrimonial governance system compared to a legal rational public system

in developed countries (Jia et al., 2019; Weber, 1968). Resulting institutional voids include little or no legal protection for intellectual property rights, little enforcement of commercial laws, and opaque judicial systems. Citizens are less able to influence the political process (Cuervo-Cazurra and Genc, 2008) and policies can change frequently, negatively impacting economic activity (Henisz and Williamson, 1999). Moreover, government provided public goods are often basic and inefficient due to bureaucracy that is politically dependent (Ghemawat and Khanna, 1998). Informal institutional hazards include public-sector corruption and tax evasion. Public-sector corruption is more likely in emerging countries because of low levels of public sector pay as well as high levels of "red tape" (Cuervo-Cazurra, 2006). In some emerging countries, tax evasion is also more likely because of missing tax collection mechanisms and the widespread failure to perceive the full benefits of taxation (McGee, 1999; Witt and Lewin, 2007).

As a result of these institutional deficiencies, political and institutional risks in emerging countries are high compared to developed countries (Holburn and Zelner, 2010; Lessard and Lucea, 2009; Nuruzzaman et al., 2020; Stevens et al., 2016) and so emerging country institutional environments are more difficult for foreign MNEs to navigate compared to local firms that will have developed capabilities to deal with the challenges associated with these local institutional characteristics.

Economic environment. Economic environments in emerging countries are characterized by lower income consumers, more inefficient markets, and different innovation systems (Cuervo-Cazurra and Genc, 2011; Furman et al., 2002; Ghemawat, 2001; Stiglitz, 1989; Wan et al., 2019). The median wealth and income of consumers are the most important economic variables that differentiate emerging and developed countries (Bang et al., 2015; Ghemawat, 2001). Low per capita GDP affects the cost and quality of financial, human, and

other strategic resources in emerging countries as well as consumer behaviour (Ghemawat, 2001). There are three main sources of market failure that contribute to higher market inefficiency in emerging countries: Information problems, misguided regulations, and inefficient judicial systems (Khanna and Palepu, 1997). While in developed countries, a variety of institutions minimize these sources of market failure, in emerging countries, firms must often fill institutional voids in product, capital, and labour markets themselves (Khanna and Palepu, 1997). Although R&D activity takes place in both developed and emerging countries, innovation systems are different. The lower level of income in emerging countries encourages firms to develop innovations that are appropriate for lower-income consumers (Prahalad, 2006). In recent years, for example, cost innovation has become prominent in many emerging countries to enable firms to offer customers dramatically more for less (Wan et al., 2019). This innovation capability benefits local firms at home, and also in enabling them to effectively serve low-income consumer segments in developed countries (Zeng and Williamson, 2007).

Social environment. Aspects of the social environment such as culture and demographics affect consumption, savings, and attitude towards economic circumstances (Harrison and Huntington, 2000). Guiso et al. (2006) define culture as those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation. People with different beliefs and values make different purchasing decisions (Mooij, 2019). For example, practising Hindus do not eat beef because it is forbidden by their religion, and rice carries an enormous amount of cultural significance in China. In terms of demographic factors, the population in emerging countries is young compared to the developed world. Bloom et al. (2001) show that changes in a country's age structure can have significant effects on its economic performance because people's

economic behaviour varies at different stages of life. Most notably, younger adults consume more and save less of their incomes than older adults. Because of their embeddedness in emerging country social environments, local firms are likely to be better positioned to meet their peculiar demands. For example, local firms are likely to be better positioned than foreign MNEs to serve the fast-changing needs of young customers by developing FSAs such as speed to market.

Factor conditions. Basic factors include labour, land, natural resources, climate, and location, and are central to the theory of comparative advantage (Grant, 1991; Kim et al., 2015; Ricardo, 1817). A country will produce and export products that employ basic factors at lower opportunity cost compared to other countries.

Beyond basic factors, there are advanced factors which include modern infrastructure, sophisticated skills, and state of the art research facilities (Porter, 1990). Porter uses many examples to show the link between advanced factors and national competitive advantage: Firms in Denmark have a leading position in exporting insulin because the country has two world-leading hospitals in studying and treating diabetes, and firms in Holland are leaders in exporting flowers because the country has premier infrastructure, skills, and facilities in the cultivation, packaging, auctioning, and shipping of flowers.

Such advanced factors are usually absent or embryonic in emerging countries. For example, infrastructure including electricity, telecommunications, roads, railways, and ports all tend to be rudimentary. Researchers have long documented the correlation between infrastructure and productivity (Fernald, 1999). Infrastructure is the foundation on which factors of production interact in order to produce output. In emerging countries, infrastructure is in serious short supply and of poor quality. While infrastructure is typically weaker in rural areas where most poor people live in emerging countries, urban supply is also weak because

of rapid rural-to-urban migration which creates demands that are only slowly met (Briceno et al., 2004). Being embedded in this context can help local firms in emerging markets to innovate in ways that enable efficient production in the context of underdeveloped infrastructure (Prahalad and Mashelkar, 2010).

Using China as our context, we now turn to our paired case study data to explore how variations in the environment, and hence the characteristics of the local SFMs, combine with local firms' superior capabilities to access the resources in these idiosyncratic SFMs to enable them to develop non-traditional FSAs.

Methods and data

We adopt the case study method (Yin, 2003) to explore how Chinese firms develop non-traditional FSAs because this method is appropriate for addressing longitudinal "how" and "why" questions, and allowed us to investigate "a contemporary phenomenon within some real-life context" (Yin, 2003, p. 13). We employ paired cases in two different industries to yield more generalizable, robust, and parsimonious theory than single case study (Eisenhardt, 1989).

Our first industry covers enterprise resource planning software, where we compare the local firm Yonyou with the German MNE, SAP. The second industry covers electronic commerce (e-commerce) and related cloud-computing services, where we compare Alibaba with Amazon. To understand how each firm approached their respective SFMs in China and the impact of these strategies on the firm's portfolio of FSAs, we began by collecting secondary data from internal and external sources to develop an initial chronology of actions and events during the time period of interest. External secondary data were in the form of journal articles, web pages, books, government reports, newspaper reports and investor

reviews. Internal secondary data took the form of annual reports, meeting minutes, company records, and employee newsletters and these were triangulated to improve the validity of the emerging explanation.

This initial phase was followed by primary data collection consisting of three rounds of semi-structured interviews across all four companies (see Table 1). The first round of interviews was conducted between June 2019 and May 2020, a second round between December 2020 and March 2021, and a third round between October 2023 and November 2023. As themes emerged and conceptual relationships became established, discussions via telephone and email were used to fill in remaining gaps in the data and to explore contradictory or disconfirming evidence. The second and third round complemented the first by asking follow-up and clarification questions. In some instances, we were able to secure interviews with multiple individuals. Here, we tried to gain perspectives from employees drawn from different levels in the corporate hierarchy or multiple business units, making a total of 18 semi-structured interviews. We started the interviews by asking background questions such as the name of the interviewee, their role in their firm, and length of employment with their firm. We encouraged interviewees to provide more detail when their descriptions were brief or when novel strands of narrative emerged (Corbin and Strauss, 2008). Interviews lasted between 30 minutes to two hours. Interview notes (often more than 20 pages) were written after each interview, normally within 24 hours. Based on the primary data, the first draft of the study was produced in 2021. This was then presented to independent industry experts in late 2021 and honed on the basis of feedback received. Case study databases were created and maintained throughout the date collection process. Data analysis involved deconstructing and coding the data and then reconstructing the coded data to produce a conceptually referenced and ordered case stories. As shown in Table 2, we

followed a 'Straussian' grounded theory approach to code data and develop themes, relationships and propositions (Corbin and Strauss, 2008). Case stories were tested against the existing SFM literature and developed using the pattern-matching mode of analysis to identify differences and similarities. This is in line with Eisenhardt (1989: 545):

> Overall, tying the emergent theory to existing literature enhances the internal validity, generalizability, and theoretical level of the theory building from case study research ... because the findings often rest on a very limited number of cases.

Findings

Our paired case analysis suggests that three core factors drive the superior access enjoyed by Chinese firms in their domestic SFMs: 1) more relevant experience, 2) better adapted strategies, and 3) privileged relationships. By leveraging their superior access to strategic resources in domestic SFMs, Chinese firms have developed two main types of non-traditional FSAs: cost innovation capability and the ability to optimize products for local customers (See Figure 1).

More relevant experience

When firms access resources in SFMs in order to develop new FSAs, whether this involves designing, innovating, manufacturing, or marketing a product or service, the correlation between experience and economic performance is positive (Luo and Peng, 1999). We find that experience and path-dependency are comprised of two components: technological artifacts and the knowledge-base of the firm, in line with the work of Coombs and Hull (1998).

Technological artifacts such as hardware, software, machinery, and equipment carry the features of previous choices which shape future possible development paths. Consider Yonyou, which has captured a dominant share the Chinese ERP software market, with SAP being the second (despite SAP being number one in the global market). Yonyou was established in 1988 to offer accounting software in the Chinese market. Attracted by the huge Chinese market, SAP founded a wholly-owned subsidiary in Beijing in 1995 to provide integrated management software including software for accounting and finance management, human resource management, distribution management, manufacturing management, customer services management, and procurement management. In the early years of its emergence in China, SAP dominated the integrated management software industry as existing Chinese firms were unable to provide integrated management software. However, following increased demand for integrated management software in the late 1990s, Chinese firms such as Yonyou started to develop integrated solutions. In early 2000s, Yonyou surpassed SAP to become the leading brand in the integrated management software industry in the Chinese market.

A key reason explaining why Yonyou subsequently surpassed SAP to become the leading company in the Chinese management software industry is that their technological artefacts in terms of accounting software features better matched Chinese regulations compared with SAP. Yonyou was able to achieve this competitive advantage as a result of their local experience, enabling them, to better capture in the SFM relevant information on the peculiar needs of potential Chinese customers (Wan et al., 2020). China has unique finance and human resource management systems. Whilst Western accounting standards are focused on measuring profit and loss, Chinese accounting standards are focused on the inventory of assets available to a company (reflecting their origins in record keeping during

the socialist period). So, for example, a Chinese balance sheet does not include debts owed, and is designed to generate information to enable management control rather that producing inputs to facilitate tax computations. Payroll and social insurance practices in China also differ greatly from those in the West.

In 1988, Yonyou released their first accounting software which was certified as compliant with local regulations by the Chinese government. Because of their experience and subsequent path-dependency, Yonyou further improved accounting software features meeting the requirements of the Chinese government and released their integrated system U860 in 2004, which has been the bestselling system for Small and Medium Enterprises (SMEs) in the Chinese market since. In contrast, the accounting software provided by SAP embody technological artefacts from their home country and therefore limit their future choices. As a result, although SAP's subsequent technological path met the needs of customers in advanced economies it fell short of meeting needs in China. In this case, the FSA developed by Yonyou can be labelled *optimizing products for local customers* as their accounting software products are suited to the special needs of local customers in China, as an R&D manager at Yonyou described:

> A management software is an integrated system. A small change in one feature will lead to changes in many related features. SAP developed their management software first in Western countries and it's very difficult for them to adapt the features suited to Chinese customers, unless they are willing to develop a new software from scratch. Instead, Yonyou have been developing management software meeting the needs of Chinese customers in the very beginning which is our advantage.

The knowledge base of the firm also shapes its actions and enables it to *leverage* its more relevant experience to allow superior access in domestic SFMs. In China, such

knowledge is largely local and necessary to access valuable resources in SFMs (Williamson and Wan, 2018). In our data, this included familiarity with local culture, business customs, consumer tastes and preferences, worker expectations, and the conduct of local distributors, suppliers and related industries. Most of this knowledge is experiential and context-dependent (Doz, Santos, and Williamson, 2001). Accordingly, it can only be acquired via social interactions in the local context, often over a significant period of time (Yanow, 2004), and so is both location- and firm-specific (Rugman and Verbeke, 1992). Because Chinese firms have evolved their knowledge in their home country environment (generally since inception), we find that they have more of this relevant local knowledge than foreign competitors (even those with substantial experience in the host country) providing superior access to valuable domestic resources.

A second example is provided by the way Alibaba develop non-traditional FSAs that have enabled it to out-compete Amazon in China. Alibaba was established by 18 people led by Jack Ma in 1999 in Hangzhou, China. Initially they aimed to help Chinese SMEs to sell products internationally. Today Alibaba has grown into a digital ecosystem with businesses comprising international commerce, local customer services, cloud computing, digital media, innovation initiatives and others. Amazon entered the Chinese market in 2004 by acquiring a local e-commerce brand Joyo with US$ 75 million. By the end of 2004, Amazon's revenue in China reached US$ 700 million and dominated the Chinese market. At that time, Alibaba had just started its e-commerce platforms Tmall and Taobao. However, with rise of Chinese e-commerce firms such as Alibaba, the market share of Amazon in China dropped from 15.4% in 2008 to 2.1 % in 2015, and then fell even further to 0.6 % in 2018 (Ni & Fu, 2021). In contrast, Alibaba dominated the Chinese e-commerce industry with Tmall's 38% and Taobao's 32% market share in 2017. Amazon reported huge losses in China from 2014, and

had no choice but to close its e-commerce business in China in 2019 (other businesses such as cloud computing are still operating in China).

There are a number of reasons why Alibaba could surpass Amazon to become a leading e-commerce company in China. First, understanding that Chinese consumers have a low level of trust in sellers and are very cognizant of the risk of receiving counterfeit goods, Alibaba introduced Alipay in 2003 to overcome these issues of consumer confidence and trust. Unlike the traditional payment systems, such as credit cards or PayPal used by Amazon that pay merchants as soon as an order is placed, Alipay allowed customers to pay for orders only after they have actually received and approved the goods. Moreover, while Amazon had grown accustomed to low margins from product sales, Alibaba derived no margin at all from its product sales, instead generating profits from advertising and premium services. This enabled Alibaba to offer more competitive prices on products than Amazon. Alibaba chose this alternative revenue model because it better understood just how extremely sensitive Chinese customers are to price. As a manager at Amazon related:

> We do not compete on price as we believe the price war in China will harm the shopping experience on the Internet and also the e-commerce ecosystem. But it seems this strategy did not work out in the Chinese market…

This advantage of using resources and information drawn from local SFMs to deliver more value for lower cost has been dubbed *cost innovation capability* by Zeng and Williamson (2007) defined as "the strategy of using Chinese cost advantage in radically new ways to offer customers around the world dramatically more for less" (p. 1). We find that the ability of our Chinese cases to successfully implement cost innovation strategies is fuelled by their superior ability to access to resources (such as capabilities in local innovation system

and skilled engineers) in domestic SFMs (Wan et al., 2019).

To sum up, because of more relevant experience, our Chinese cases Yonyou an Alibaba have developed non-traditional FSAs such as cost innovation capability and optimizing products for local customers and. This analysis leads us to the following proposition:

> **Proposition 1**. *Chinese firms have superior access to domestic strategic resources because of more relevant experience including technological artifacts and the knowledge base of the firm, which can lead to the creation of non-traditional FSAs.*

Better adapted strategies

A large body of literature indicates the trade-off between global integration and local responsiveness as a quandary for MNE strategy (Bartlett and Ghoshal, 2002). Their resulting strategic choices alter the extent to which they seek resources in host SFMs. At one extreme, for MNEs adopting the global strategy organizational model (Bartlett and Ghoshal, 2002), foreign subsidiaries will largely replicate their headquarters and compete in host markets based on existing FSAs. They will generally not wish to incur the costs of developing new FSAs, with the result that these foreign subsidiaries are unlikely to access strategic resources in host economies. At the other extreme, for MNEs adopting the multi-domestic strategy organizational model (Ghoshal and Bartlett, 1990), foreign subsidiaries will try to access resources in host economies. These initiatives, however, will still be based mainly on adapting and exploiting existing FSAs rather than creating entirely new ones.

Strategic choices by Chinese firms in their home markets are largely free of such trade-offs and will prioritize access to resources in their domestic market, especially those which can potentially provide advantages over foreign MNEs.

Returning to the case of the Chinese ERP software industry we note that SAP initially tried to exploit its FSAs in China by adopting the global strategy organizational model. SAP's differentiation strategy involved technologically sophisticated and complex ERP systems offered at premium prices. These products were not very different to those sold in advanced economies and so often failed to meet the specific needs of Chinese customers. Fearing dilution of its competitive advantages and taking into account the costs of adapting its software, customization by SAP was minimal and new ideas and developments all came from the parent. This strategy was not necessarily bad: It was arguably the best way for SAP to exploit its global competitive advantage. But it did undermine their access to distinctive resources available in the Chinese SFM.

In contrast, although Yonyou began to internationalize, mainly in Asia in countries such as Japan, Thailand, and Hong Kong in the mid-2000s, China remained its most important market and its business and organizational models were centred on China. The company offered a broad range of ERP systems to meet the large scope of local customer needs, including low-cost ERP solutions for SMEs as well as large ERP systems aimed at large customers in the high-end segment of the market. It also developed custom finance and human-resources programs in its ERP systems to meet the specific needs of Chinese customers. It was better able to access and exploit valuable resources in domestic SFMs associated with the large, growing and specific demand conditions in the Chinese market leading to *optimizing products/services for local customers*. As a senior engineer at Yonyou explained:

In the digital intelligence era, deep customization of our products and services become even more important than before because a much higher percentage of organizational processes in a company

are digitalized. By 2021 80% of the Chinese firms listed in Global Fortune 500 are our customers, including Huawei, China Mobile, SAIC Motor, Midea and China National Nuclear Corporation. The reason is that we establish dedicated teams for large clients to provide customized and dedicated services. This is very difficult for foreign companies such as SAP because their products were developed for western MNEs and also the number of engineers in China is limited.

This pattern is also evident in the other, related market where both Alibaba and Amazon compete in China, that of cloud computing services. While Amazon leads the global cloud computing industry Alibaba is number one in China.

Alibaba started to develop its cloud platform "Aliyun" in 2009, first for internal use. The company spent over a year to improve its robustness and reliability by designing, testing and implementing core functions for internal businesses. Alibaba then gradually commercialized Aliyun to become the leading company in the Chinese cloud computing industry. There are two main reasons why Aliyun achieved the largest share of the Chinese market. First, Alibaba developed an interface branded Border Gateway Protocol (BGP) to help local clients to easily access and integrate its cloud services. The large number of Internet service providers in China leads to compatibility and broadband connectivity issues for cloud-service providers. The BGP network can support most network operators in China and also improves access speed for clients. Second, OceanBase, a database developed by Alibaba, is deployed in Aliyun and holds the world record for handling 61 million transactions per second. Since 2009, Alibaba has hosted the 11.11 Global Shopping Festival which is an annual event promoting online shopping for brands and consumers. At its peak, several hundred million customers try to purchase goods online at the same time. This super large scale of customer needs led to Alibaba developing its own cloud database to handle this unique demand in China. As a marketing manager at Alibaba states:

Our OceanBase is a unique selling point in China because of the large population and over 70% of them are internet users. For example, in the Chinese New Year holiday, most of us will go home to get together with family members and we try to purchase railway tickets online at the same time, which lead to hundreds of million requests per second. Only OceanBase is able to handle so many requests at the same time, and this is why China Railway purchased and deployed Aliyun.

While Amazon may have the technology to develop a cloud database to handle several hundred million requests at the same time it lacks a strong incentive to do so because China is not its main market. Alibaba had no choice but to meet this demand in the Chinese market because their strategic choice is to first serve the Chinese market and then abroad. In terms of cost, in 2020 the P/P (price/performance) of OceanBase was only 3 RMB compared to 6 RMB of traditional Database. This is because OceanBase is compatible with widely available hardware while the specific hardware needed to run a traditional Database is more expensive. Alibaba provides another case of a Chinese firm developing a FSA - *cost innovation capability* - to offer high quality cloud computing and Database at low cost.

To summarize, these case findings show how better locally-adapted strategies have enabled Yonyou and Alibaba to develop non-traditional FSAs such as optimizing products for local customers and cost innovation capability, leading to the following proposition:

Proposition 2: *Chinese firms have superior access to domestic strategic resources because of better adapted strategies to access the scale and scope of specific local customer demands, which can lead to the creation of non-traditional FSAs.*

Privileged relationships

Chinese firms have privileged access to certain resources in domestic SFMs because foreign competitors suffer discrimination in the host country, which may stem from foreign firms' lower legitimacy and economic nationalism in the host country (Zaheer, 1995). Discrimination can take one of two forms. Formal discrimination can take the form of different rules and regulations for foreign firms (Kostova and Zaheer, 1999), while informal discrimination can manifest via a preference for local suppliers, customers, local government, and employees to deal only with local firms (Zaheer and Mosakowski, 1997). As a result, foreign MNEs are disadvantaged when attempting to build close relationships with other local market participants.

In the case of the Chinese management software industry, SAP was unable to build 'guanxi' (the informal system of social networks and influential relationships that underpins Chinese society) in China because of their 'outsidership'. Guanxi often substitutes formal institutional support (Xin and Pearce, 1996) in countries without a stable legal and regulatory environment (Redding, 1990). It is difficult for outsiders to become insiders due to the exclusiveness of guanxi networks (Gao et al., 2010). By contrast, co-production with others within the Chinese manufacturing industry guanxi network allowed Chinese firm Yonyou to develop a unique Manufacturing Management component in their ERP system that precisely met the needs of Chinese customers, and this leads to the FSA – *optimizing products for local customers*. As a director at Yonyou noted:

> Our founder, Mr. Wenjing Wang, has built a guanxi network with our major clients. He often visits our clients and observes the manufacturing processes in our clients' factories. After visiting, Mr. Wang often holds executive meetings to discuss his findings and add new features to our management software if necessary.

Turning to our paired comparison in the e-commerce and cloud computing industry, we find that Alibaba is able to attract the best engineers/managers in China and establish close relationships with them. The founding CEO, Jack Ma, had a very close relationship with the 18 people that helped him to found Alibaba back in 1999 and they have a nickname of "18 Arhat", employees who were fiercely loyal to Jack Ma and always supported him even during the most difficult times. In 2008, Jack Ma's superior ability to access talent in the Chinese SFM enabled him to recruit Dr. Jian Wang, the vice dean of Microsoft Research Asia in Beijing, to join Alibaba as chief architect to develop Aliyun. Jack Ma and Dr. Wang soon became close friends and they supported each other to successfully commercialize Aliyun, which became one of the best cloud computing platforms in the world. Amazon, by contrast, was less able to recruit top Chinese talent, in no small part because of an effective career ceiling for Chinese employees created by its policy of filling top positions with expatriates from its US headquarters. These expatriate senior executives tended to place less emphasis on understanding and responding to the needs of Chinese customers. Some even believed that the Chinese market would rapidly become similar to the US market, enabling them to replicate Amazon's existing US business model. As one manager at Amazon explained:

Many talented Chinese employees left Amazon after working for several years because the top managers at Amazon China are Americans who only lived in China for a short time and often do not understand the Chinese culture and are not able to establish close relationship with Chinese employees. Some of them even do not trust Chinese employees.

To summarize, because of privileged relationships, both Yonyou and Alibaba have

been able to access superior resources from with the Chinese SFMs compared with SAP and Amazon. Access to these resources, in turn, has enabled them to develop non-traditional FSAs such as cost innovation capability and optimizing products for local customers. These findings lead us to the following proposition:

> **Proposition 3**: *Chinese firms have superior access to domestic strategic resources because of privileged relationships including close relationship with local employees and "Guanxi", which can lead to the creation of non-traditional FSAs.*

Discussion and conclusion

A central question in IB is how domestic firms in emerging economies develop non-traditional FSAs that are different from the traditional FSAs developed by MNEs based in advanced economies (Adarkwah and Malonaes, 2022). Based on SFM theory, in this study we propose a Superior Access Framework to address this question. Our Framework suggests that: 1) The characteristics of SFMs in emerging economies and the potential advantages that they offer are different from advanced economy environments; 2) Domestic firms will have superior access to resources in domestic SFMs because of more relevant experience, better adapted strategies, and privileged relationships; and 3) On these bases, domestic firms are able to develop non-traditional FSAs such as cost innovation capability and optimizing products for local customers.

Some FSAs generated domestically will be non-location bound (Cuervo-Cazurra and Genc, 2008) and it is these that enable growing domestic companies to become MNEs themselves. These FSAs can be further improved and developed by emerging economy MNEs (EMNEs) by going global because their priority in internationalization is usually strategic asset seeking as explained by the springboard perspective (Deng, 2009; Luo and

Tung, 2018; Rui and Yip, 2008). This enables 'learning from the world' and enhances non-traditional FSAs, which can lead to further exploitation at home and abroad (Williamson, 2014).

The FSAs that we have identified are more relevant in certain markets (especially in other emerging economies) and market segments (especially the value-for-money segment). These markets and market segments are expanding fast for two reasons. First, emerging economies are becoming increasingly important as sources of demand. The ability to succeed in emerging economies will therefore be important in the next round of global competition (Pedersen and Tallman, 2022). A second important shift in the world economy that will favour the exploitation of EMNE FSAs stems from the fact that a large part of China's potentially active labour force of 800 million has still to move from low to higher productivity employment, and there is another one billion people that might make this transition in India and other emerging economies in the future (Wan, Williamson and Yin, 2015). While these shifts continue, at the global level and assuming current levels of international trade, downward pressure on global wages will continue. These forces have led the real income levels of a significant segment of the working population in the developed world to stall or even to decline (especially among lower-skilled workers in North America and Western Europe). As a result, a substantial and growing market segment of consumers in the developed world have become acutely focused on seeking out the lowest prices and value for money. At the same time, they want to maintain interest and excitement by being able to buy products that keep up with new trends and are enjoy variety and choice (Wan, Williamson and Yin, 2015). EMNEs that have developed non-traditional FSAs via superior access to domestic SFMs will be better equipped to prosper from this growing segment that demands 'everyday low prices' and increased value for money for innovative products and

commodities than established MNEs with more traditional FSAs that underpin higher-priced, differentiated offerings.

Our study's main contribution is to augment SFM theory to provide a better understanding of non-traditional FSA development by Chinese firms. The SFM literature suggests that firms achieve above-normal economic performance from the acquisition of strategic resources if they have superior expectations about their future value or pure luck (Barney, 1986), or a firm complements a resource when the combination leads to the creation of a surplus greater than the sum of the amounts of value they could create independently (Adegbesan, 2009), or firms differ in a specific type of learning ability which integrates new information to exercise a contingent claim on an asset in a factor market (Leiblein et al., 2017). The extant SFM literature thus provides important *general* insights into how firms achieve competitive advantage, but it has not focused on how differential capabilities in accessing strategic resources specifically associated with emerging economies lead to different competitive outcomes. Our study suggests that domestic firms in emerging economies can develop non-traditional FSAs because of their superior access to unique resources in domestic SFMs.

Our study also has a number of implications for practitioners. Firstly, it suggests that to remain competitive in an emerging market such as China, advanced economy MNEs need to pay more attention to the opportunities and mechanisms for understanding and accessing resources in SFMs in host economies. Such MNEs face a classic trade-off between protecting and exploiting proprietary technologies versus cooperating with local domestic firms in order to access local resources (Bartlett and Ghoshall, 2002). Achieving the right balance is often hampered by serious difficulties in accessing local resources such as talent, and understanding specific customer demands in a host economy. Close cooperation with

domestic firms is required but is often prevented by the replication of global strategies and application of standardized corporate policies. Confronting these challenges is essential if MNEs are to successfully compete with in increasingly capable local rivals (Ozkan et al., 2022).

A second implication is that in some circumstances, the ability of advanced economy MNEs to access resources (such as "guanxi" networks and skilled labour) in host SFMs may be *even more* difficult than the ability of EMNEs to access global markets for technological knowledge. Accessing valuable local resources in a host economy often presents a serious challenge and the inability of foreign MNEs to do so has often hampered their entry and jeopardized their survival (Hennart, 2009). Furthermore, the practice of preferential purchasing, which locks foreign MNEs out of government contracts, may not be easily overcome (Zaheer and Mosakowski, 1997). At the same time, it is now easier for EMNEs to access technologies and know-how through new gateways opening up in the form of: Outsourcing, modularization, codification of knowledge, and the creation of more open markets for international talent and corporate control (Adarkwah and Malonaes, 2022, Santos and Williamson, 2015). Together, this suggests that advanced economy MNEs need to recognize, and deal with, the likelihood of ongoing erosion of their historic competitive advantage versus EMNEs.

A third implication is that leading competitive positions do not always stem from traditional FSAs such as proprietary technology or brand (Rugman and Verbeke, 2001). Non-traditional FSAs such as cost innovation capability, accelerated innovation capability, and optimizing products for local customers can also result in leading positions in the global market. The number of Chinese EMNEs in the Fortune 500 was 135 in 2021, and this was the second time that the number of Chinese firms in the Fortune 500 exceeded the number of

USA firms. Advanced economy MNEs could respond by attempting to develop non-traditional FSAs, especially when they operate in emerging economies where their traditional FSAs are less effective.

Although we are confident of the contribution of this study, it does have limitations which suggest avenues for further research. The first would be to test and refine our proposed framework with more data. How robust are our findings more generally beyond China in other country and regional contexts? Second is a need for more detailed forensic work on what kind of (sustainable) FSAs can be developed by accessing distinctive SFMs in different country environments. Which country environments and access characteristics map onto particular FSAs? Relatedly, our three FSAs could be more nuanced and leveraged further to advance our understanding. Third, we have only focussed on Chinese firms that have successfully developed FSAs and relied mainly on primary data. These cases could be enriched with additional secondary data that could corroborate, generalize, or extend what we have found. Furthermore, the validity of the explanations that we offer could be improved by analyzing additional cases of unsuccessful attempts by Chinese firms to develop FSAs. We hope that our paper provides a basis for these research streams.

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Table 1: Overview of Focal Firms (Source: Created by author**)**

Company	Key Facts	Interviewees by Type	Interviews
Alibaba	Founded 1999 Now the world's leading e-commerce company	Executives (1) Managers (2) Business unit informants (1)	4
Yonyou	Established in 1988 to develop accounting software Now the largest ERP software supplier in Chinese market, surpassing SAP China	Executives (1) Managers (2) Business unit informants (2)	5
Amazon China	Entered China in 2004 by acquisition of local brand Joyo A leading e-commerce company in early year in China but closed its Chinese e-commerce business in 2019 (although other businesses remain in China such as cloud computing services).	Executives (1) Managers (1) Business unit informants (2)	4
SAP China	Founded a wholly-owned subsidiary in Beijing in 1995 Dominated the Chinese market in early years. Now the number two ERP software supplier in China.	Executives (1) Managers (2) Business unit informants (2)	5

Table 2: FSA Development Coding Scheme (Source: Created by author**)**

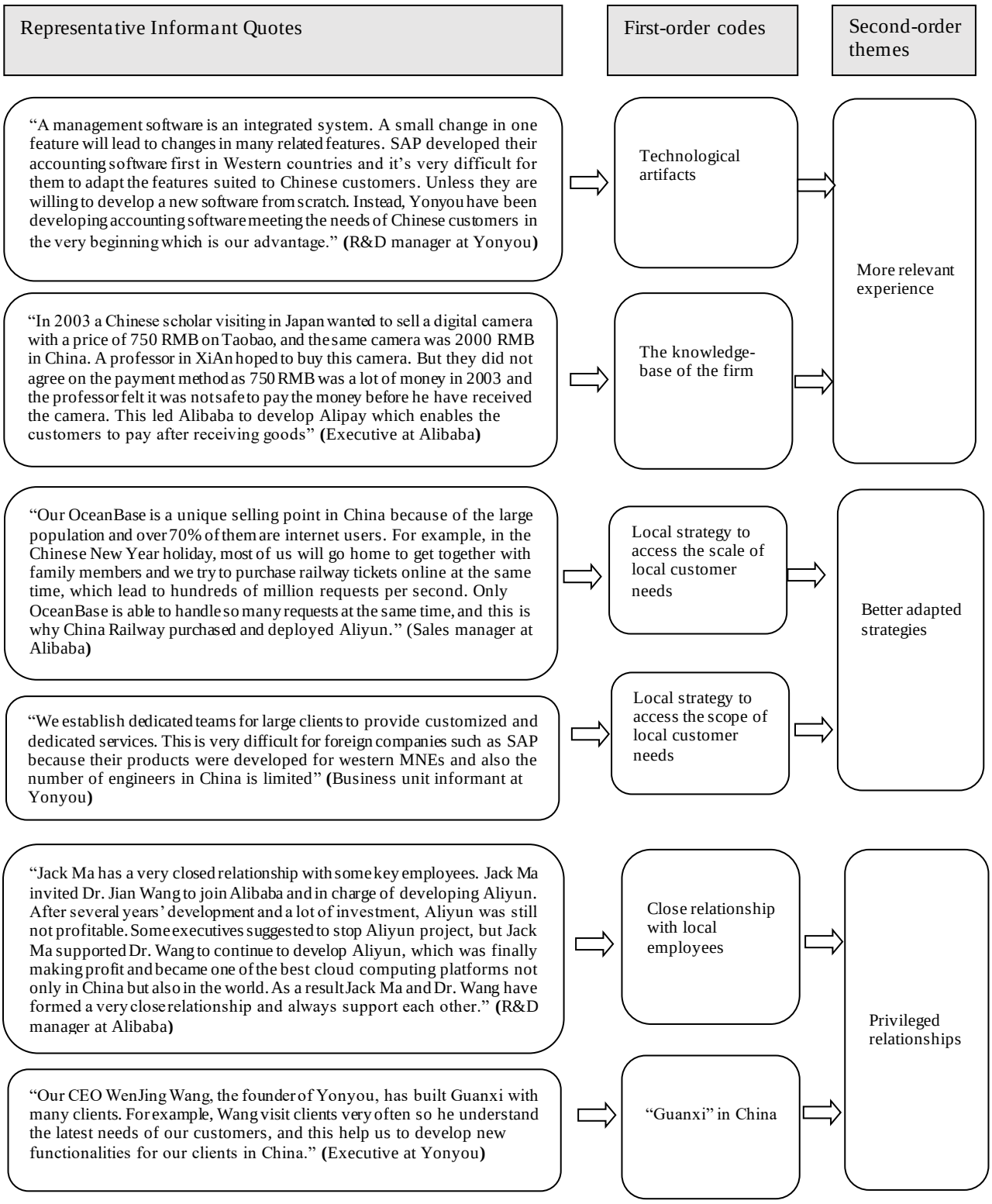

Figure 1: Superior Access Framework (Source: Created by author**)**