# Two Tales of Internationalization –

# Chinese Internet Firms' Expansion into the European Market


## Abstract

This article focuses on Chinese Internet firms' overseas expansion, particularly in the European market. By relying on an exploratory approach and by conducting in-depth case studies of three high-profile firms – Alibaba (AliExpress), Tencent (WeChat) and ByteDance (TikTok), the research provides rich insights into such expansion, and more specifically, an understanding of their motives, strategies and challenges. The research contributes to the limited literature on the internationalization of Chinese service firms. While largely affirming the literature on internationalization, the multiple case study approach adopted provides rich granular insights into the distinctive motives, strategies and challenges that Chinese Internet firms can face in the European market. It identifies particular nuances that are easily missed in studies based on secondary data. In particular, two clearly distinct processes of internationalization in Europe emerge. While existing work on the internationalization of Chinese Internet firms has mostly regarded them as a cohesive and homogeneous set of companies, our findings suggest that we are dealing with two different sets of companies whose approaches toward internationalization seem to be radically different, revealing two tales of internationalization. From the findings it emerges that differently from the Internet firms that started to internationalize earlier as part of a "first wave" of internationalization, the firms that started to internationalize later as a part of a "second wave" have done so, with a significant speedier pace by also adopting a bolder internationalization strategy that shares some common features with the first movers but that also displays a remarkably higher level of sophistication. Significantly, this type of firm does not seem to suffer from any liability of any kind.



**Keywords**: Chinese internet firms, OFDI, Internationalization, Europe

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## 1. Introduction

Chinese Internet firms have not only established their own ecosystems and market power, but they are also leading the new global innovation revolution, developing comparative advantages in areas such as artificial intelligence, Internet of Things, cloud computing, big data, and blockchain (Verhoef et al., 2021). Chinese Internet firms tend to experience a lower level of internationalization when compared to their Western counterparts. Rather, Chinese firms concentrate overwhelmingly on their immense domestic market, among them the most famous are the "BATX" (i.e., Baidu, Alibaba, Tencent and Xiaomi), and the "TMD" (i.e., Toutiao – whose parent company is ByteDance, Meituan-Dianping, and Didi). These Internet giants have built their own ecosystems in the Chinese market, while overseas markets still contribute relatively little to their business (Candelon et al., 2019)[1]. However, Sauvant et al., (2015) have noted that China's Internet firms have gained such a degree of home market dominance that they potentially pose a threat to the established dominant firms in overseas markets.

Chinese internet firms have internationalized by means of two waves. The first wave involved the BATX firms, that were the first Chinese internet firms to target the European market. Notably after 2015, another group of tech companies was established, including the TMD firms, becoming some of the up-and-coming biggest tech giants in the industry. While their emergence gives consumers more choices, they also present a challenge to the older BATX.

[1] In 2018, only 8% of Alibaba's revenue came from outside China, while around 30% of Amazon's revenue came from outside the US. For Tencent and Baidu, this ratio is 3% and 1%, compared with the fact that Facebook and Google earned more than 50% of their revenue overseas

More firms are also looking towards Europe as a potential market for growth. Since Europe has no local Internet firms that can match the dominance of the US giants this provides opportunities for Chinese firms to establish a presence. Additionally, supported and promoted by the Chinese government's Going Out strategy, increasingly Chinese Internet firms are expanding their activities overseas, with Europe representing an attractive destination for them. Chinese Internet firms have gradually established themselves in the European market, and their products and technologies are increasingly found in the fields of fintech, e-commerce, telecoms structures and entertainment. For Europe, the loss of competitiveness in these fields is becoming a very pressing concern, so gaining a fuller understanding of Chinese Internet firms' expansion has become an imperative. Moreover, while studies on Chinese FDI in a wide variety of manufacturing sectors tend to abound, considerably less attention has been devoted to Chinese OFDI from service firms, and even less to Chinese Internet firms.

This paper focuses on Chinese Internet firms' overseas expansion, particularly in the European market. The purpose of this research is to provide in-depth insights into such expansion to understand their motives, strategies and challenges. Although several theoretical lenses have been established to explain the internationalization of Internet firms (e.g., Singh and Kundu, 2002; Luo, 2021) our understanding of their internationalization in Europe remains rather scant. Furthermore, while the great majority of extant studies has largely relied on secondary data, this paper adopts a multiple case study approach to provide rich and granular insights into the distinctive motives, strategies and challenges of Chinese Internet firms in their expansion in the European market. The following research questions will be addressed – 1) Why do Chinese Internet firms expand into the European Market? 2) How do they internationalize? To address the former, the paper will explore the common motives for Chinese Internet firms' expansion in Europe. To address the latter,

Chinese internet firms' expansion strategies along with the challenges that they face will be considered.

The paper comprises six sections. While the next section of the paper outlines the theoretical foundations of our work and positions the research questions, the third section describes the methods employed. The fourth section presents the main results. The fifth section provides a discussion of the findings by considering the implications of our research for whether Chinese Internet firms require new theories for explaining their expansion into Europe. The sixth section addresses the conclusions, the theoretical contribution of the paper, the managerial implications stemming from the findings, their limitations as well as directions for future research.

## 2. Theoretical Foundations

### 2.1 The Internationalization of Service and Internet Firms

Most of the existing internationalization studies deal with manufacturing firms and research on internationalization of service industry firms tends to be rather scarce (Buckley et al., 1999; Pla-Barber et al., 2010). Service industry firms have been particularly active in internationalizing their operations propelled by several trends taking place across many value chains, the increasing liberalization process occurring worldwide along with the significant development of new service firms that rely extensively on telecommunication and information technologies in an international context (Sanchez & Pla-Barber, 2006). Additionally, as a result of the process of servitization, services and manufacturing are becoming increasingly intertwined whereby the proportion of services even in manufactured goods is increasing and becoming more tangible. The service sector has its own unique characteristics, which are quite different from the manufacturing sector (Pla-Barber and Ghauri, 2012). Many scholars have discussed the question of whether services are

different from goods and have identified the distinctive features that distinguish services from goods such as intangibility, inseparability, heterogeneity, perishability, and ownership (Buckley et al., 1999). Because of intangibility and heterogeneity (Grönroos, 1999), it is relatively difficult for service firms to mass produce and export their services overseas. However, nowadays the distinction between goods and services is becoming blurred. It is also assumed that the greater intangible content requires a different internationalization process than manufactured goods. In particular, some authors claim that service firms tend to be more international, as in many cases the production and consumption of a service are not separable and demands an international presence and a certain entry mode (Pla'-Barber and Ghauri, 2012).

### 2.2 The Internationalization of Internet Firms from a Macro Perspective

Scholars have mostly focused their attention on the internationalization of US Internet firms (Kotha et al. 2001; Lynch and Beck, 2001; Oxley and Yeung, 2001; Monaghan et al., 2021).

This stream of work mostly endorses the Resource-Based View (Hymer, 1976; Barney, 1991; Penrose, 1959; Peteraf, 1993). The main assumption is that firms develop a competitive advantage by matching their competencies and resources to environmental opportunities. It thus neglects that resources and capabilities can also stem specifically from belonging to a digital network such as in the case of Internet firms.

Conversely, the NOLI framework (Singh and Kundu, 2002) has been developed to explain the expansion of Internet firms by specifically considering the specific advantages provided by the Internet and the network alliances that thrive on it. Although the core explanation of the eclectic paradigm (Dunning, 1988; 1998) remains the same (i.e., Ownership, Location, Internalization), an attempt is made to incorporate the advantages that arise specifically from the Internet. Even though

Dunning has incorporated network-related advantages in the OLI configuration, he does not treat them as a separate set of advantages derived specifically from web presence and networks of commercial collaborative alliances.

To better explain the growth and expansion of Internet-based firms and more specifically to those firms that internationalize through e-commerce, Singh and Kondu (2002) introduce the Network advantage (N) to account for advantages and conditions that are specific to the Internet, and the network alliances that thrive on it. There is thus an addition of a new dimension, Network-based advantages (N), which specifically stems from network structure, network relationships, and network alliances.

More recently, Luo (2021) further revised the original OLI framework by extending it a different way. He argues that both digitization and globalization have converged to create a Digital Globalization, which contributes to a strengthening of deeper, broader, and more complex connections between countries, companies and individuals. This connectivity has significantly reshaped who takes part in globalization and how international expansion unfolds. Luo contends that the OLI advantages in the classic eclectic paradigm are important but not as crucial as before in the wake of Digital Globalization. Moreover, he suggests that the new or additional OLI, namely, *open resources* (new O)*, linkages* (new L)*, and integration* (new I) advantages, are heightened. According to Luo, while this new set of advantages is complementary and couple with traditional OLI advantages, Digital Globalization undermines the importance of the conventional OLI benefits and brings the new ones to the fore.

In relation to *open resources challenges*, Digital Globalization fosters the emergence of many new global rivals, especially those building on digital open platforms. Despite being small or emerging,

these new global players prove fast and agile, often adopting a connectivity-enabled business model that allows them to appropriate new and appealing customer value propositions.

As for *linkages challenges*, digital linkages make MNEs more dependent on others, and thus makes them more exposed to risks. MNEs are also becoming highly dependent on the exchange of information across the internet. Accordingly, the concern for data security grows and this vulnerability heightens with international businesses.

Concerning *integration challenges*, integration requires intelligence and capabilities that many MNEs still lack. Such capabilities are instrumental to transform connectivity technologies and intelligence into sustained competitive advantages. Such capabilities may involve unique processes, experiential knowhow, and routines that enable the MNE to maximize global growth opportunities from internationalization.

Despite the assertion that all Internet firms are born global, Kotha et al. (2001) show that the pursuit of internationalization by Internet firms is related to the levels of their intangible assets and strategic activity. Their findings suggest that ideas from both RBV theory and research on competitive dynamics can contribute to understanding the internationalization of Internet firms.

The following Table 1 summarizes the main internationalization motives, strategies and challenges that have been identified in the literature mostly focused on the internationalization experiences of internet companies based in the US or in other developed countries.

[add Table 1 here]

### 2.3 The Internationalization of Chinese Internet Firms from a Micro Perspective

Compared to the internationalization of Chinese manufacturing firms, the international expansion of Chinese service firms has been limited (Xue et al., 2013). The internationalization of service firms is thereby different from that of manufacturing firms, especially for Chinese investors. The diversity of cultures and languages in Europe has often disarmed Chinese entrepreneurs (Le Corre, 2018). Notably Chinese OFDI in the service sector has been remarkably slower than any other sector as the traditional obstacles faced by the investors tends to be significantly amplified in the service sector where a finer grained grasp of European customers is pivotal. Within this context, powered by increasing competitiveness, Chinese Internet firms are no longer satisfied with a gradually saturated domestic market and have started to realize the importance of internationalization.

As Zhang (2017) pointed out, Chinese Internet firms are born with internationalization genes. During the founding stage, most of them had a deep relationship with foreign Internet firms in terms of capital, technology and business model, either accepting venture investment, introducing latest research, or localizing innovative ideas from overseas, mainly the US. From the financing perspective, for example, most of the biggest Chinese Internet firms were registered in offshore jurisdictions and tax havens, with the Cayman Islands being the most popular choice, and their stocks are mostly listed on NASDAQ and New York Stock Exchange (Jia, 2018). Pau and Maher (2015) believed this kind of access to global capital helps Chinese Internet firms obtain reputational benefits and prepares them well for subsequent overseas expansion. More recent work from Williams and Zhang (2020) assesses how international orientation of small and medium sized enterprises in China is influenced by foreign and indigenous social networking site use. The findings from this study provide support to the argument that indigenous rather than foreign social

networking helps Chinese small and medium sized enterprises to become more internationally-oriented.

### 2.3.1 Motives

On the one hand, strong cash flow provides Chinese giants sufficient financial wherewithal to enter the global market, and on the other hand, this large amount of financial capital needs to be reinvested in order to generate new profits (Shen, 2018). The new-to-the-world technologies possessed by them also make their internationalization strategy possible and provide competitiveness. For decades, China's technology strategy has focused on imitating and localizing products or services originating in other, predominantly Western countries (Dace, 2020). However, nowadays it is widely accepted that Chinese Internet firms are increasing their global competitiveness and leading the way on some technologies (Veugelers, 2017). Western Internet giants are now even learning from Chinese counterparts, illustrating their innovative potential[2]. Therefore, their increasingly mature technologies have given Chinese giants incentives, courage, and confidence to successfully challenge overseas markets. Yao et al. (2020) find that market entry order, has been proven to significantly influence firm performance. Besides, the gradually saturated domestic market is an important reason why an increasing number of Chinese internet firms are now eyeing foreign markets to keep growing (Negro, 2018; Geromel, 2020).

Chinese MNEs internationalization helps them benefit from knowledge and technology externalities in the host country, as well as augment their organization learning by collaborating with more advanced firms or institutions through a partnering approach (Luo, 2002; De Olivera and Rottig, 2018). This view is supported by some scholars who claimed that the final goal of the

[2] For instance, Apple and Facebook have both taken inspiration from Tencent's technologies (Zhong, 2018).

Chinese Internet firms is to understand or acquire newly developed technologies or content being developed abroad (Jia et al., 2018; Piperopoulos et al., 2018). Moreover, research shows that a company's internationalization has a positive effect on its innovation capabilities (Xu et al., 2017), which are also critical for Internet firms. Juneja (2020) proposed that Chinese Internet firms' overseas expansion can be related to product lifecycle theories.

The data advantage of the Internet giants and the pursuit of a wider range of data may be another motive of their global expansion (Shrestha et al., 2021). Given the size of the domestic market, Chinese digital platforms have enormous volumes of data, which has become another powerful and rapidly expanding asset for them (Jia et al., 2018). From this perspective, going global is extremely attractive for Chinese Internet firms, because they can obtain more data from various markets and then increase their data advantage.

In addition, Chinese Internet firms' overseas expansion is inseparable from the government's policy of encouragement and support with the Go Out Policy urging Chinese firms to take advantage of booming world trade to invest in the global market, the Belt and Road Initiative, involving infrastructure development and investments and in 2015, the Internet Plus strategy, emphasizing the importance of Internet enterprises' global development, encouraging them to go overseas jointly, via merger and acquisition, joint operation, the establishment of a branch (GOV.CN, 2015). Guided by national macro strategies and stimulated by various supportive policies, more and more Chinese Internet firms have now entered the global market.

### 2.3.2 Strategies

Emerging Asian markets that share similar demographics to China, such as Southeast Asia and India, are still the top foreign destinations for Chinese Internet firms (Davis et al., 2019)[3]. This means, in general, China's digital expansion to the world follows a "step-by-step" approach, roughly from developing countries to developed countries, and from similar markets to differentiated markets.

Jia et al. (2018) noted that Chinese Internet firms enter new markets by investing in domestic platforms, entering joint ventures, or even by acquiring domestic firms. Li, et al, (2018) and Chen et al. (2020) pointed out that Chinese Internet firms are more willing to use alliance strategy through strategic investment, to build an ecosystem with local players and adapt quickly to local market conditions. Gosh (2017) found that for example that digital giants tend to invest in similar products in near markets or, according to Shen (2018) they diversify their investment in non-core business.

The Chinese digital giants take a very peculiar localization strategy to enter new markets. Chinese Internet firms seize the opportunity to implement a more proactive localization strategy to quickly capture the market (Wang, 2019). They rely on use customer-centric business models to tailor their offerings according to local needs and even personal tastes. Birtwhistle (2016) believed this focus on localization and agile execution is highly effective for Chinese Internet firms when they enter new markets and expand overseas. Another key strategy that Chinese Internet firms, have employed to develop their global presence is hiring high-profile talent from Western countries (Pau and Maher, 2015; Cooke et al., 2018)[4].

[3] In Southeast Asia, the Internet economy has reached 100 billion dollars in 2019 and will triple to 300 billion dollars by 2025.

[4] For example, Hugo Barra left Google in 2013, where he was a key member of the Android division, to join Xiaomi and oversee the company's international business (Yeung, 2017). And Alibaba hired former Goldman Sachs partner Michael Evans to lead its global expansion (Song, 2014). In addition, these giants are also attracting technical talents

### 2.3.3 Challenges

As Cao and Allon (2021) have noted, Chinese MNEs tend to experience more liabilities of foreignness than mature MNEs, resulting from interactions between market and non-market factors of home and host countries. Santasombat (2018) takes a step forward and talks about "the liability of Chineseness" by acknowledging that it is not foreignness in itself that implies liabilities, but some biases that are specifically associated with China. Custer (2013) argued that the Chinese brand is like poison, and many foreign users do not want to use Chinese services simply because they are from China. This gives Chinese firms a bad name and is one of the most difficult challenges for them to overcome, especially in Western markets.

The internet is closely connected to privacy, which is the main concern of foreign users for Chinese Internet firms. In China, users are usually more inclined to give up part of their privacy on the Internet, so Chinese firms are benefiting substantially from it. In the West, however, users regard their data and privacy as an inviolable personal right (Laboure et al., 2018). If people are not comfortable about how their privacy details will be collected and used by platforms, they are hardly willing to continue to use related products or services. For various reasons, Western consumers have a stereotype that Chinese Internet firms are mostly state-controlled and their personal data is at risk (Prachi, 2020).

Chinese Internet giants have grown up in a protected market with negligible competitors from outside, and they have proved themselves without any competition (Zhang et al., 2021). However, in most markets outside of China, there are nearly always two major groups of incumbents, such

from their global competitors at high costs, to consolidate and improve their technological competitiveness. As reported, technical talents from well-known foreign Internet firms account for about 30% of the new employees recruited by Alibaba every year (Liu, 2017). Tencent even set up an AI research lab directly in Seattle, to attract AI talent from Microsoft who do not want to leave Seattle (Ning, 2017), and there have been similar moves to other Chinese Internet firms.

as local firms and US platform multinationals (Jia et al., 2018). Among these two groups, the US firms are often the more important market power with the advantage of network effects and lock-in, and they usually have better brand recognition, higher user counts, and more momentum (Custer, 2013). It is therefore very difficult for Chinese firms to find a foothold given such competition.

Chinese Internet firms are accustomed to the special regulatory environment in the domestic market, within which the government until very recently accepted horizontal expansions and acquisitions (Jia and Kenney, 2016). Now the regulatory pressure against tech-giants is growing also in China. In some developed countries, these activities tend to be strictly regulated or even prohibited by authorities. For example, Chinese Internet giants' ability to purchase firms is increasingly constrained in the US (Jia et al., 2018). The EU foreign investment screening regulation came into effect as of 11 October 2020, involving more thorough investigations of foreign investment in critical infrastructure and technologies (European Commission, 2020; Brennan and Vecchi, 2021). Countries like the UK, France and Germany also adopted respective national regulations to limit foreign investment and acquisition in the technology industry (E&Y, 2019). While for operating activities, Boskin (2019) believed there are at least four separate regulatory issues that need to be addressed by Internet firms: privacy, market power, content censorship, and national security. The regulatory constraints experienced by the US tech giants in the EU provide emblematic evidence[5]. These regulatory restrictions are also what Chinese Internet firms must face when seeking overseas expansion.

[5] Facebook was fined $122 million by the European Union's antitrust regulators for misleading regulators about planned data linkages between users of Facebook and WhatsApp (Scott, 2017). Google received record-setting sanctions for abusive dominance of shopping search and mobile operating systems (Kelion, 2018).

Because of China's communist regime, there is always some political hostility and tension between Western countries and China. Chinese Internet firms face more sundry restrictions than others in developed countries, and host countries tend to take various means to curtain their development, including by raising intellectual property disputes, limiting M&A transactions by subjecting them to national security review and imposing restrictions on technology transfer to Chinese firms (Wang, 2017). Besides, some Chinese Internet firms are easily involved in political disputes when they conduct business overseas[6].

Challenges encompass internal barriers and external barriers. MNEs have workforces that involve people from different cultures, defined by linguistic, religious, and political backgrounds (Vlad and Stan, 2018). Cross-cultural communication within a MNE may often encounter difficulties because of inadequate management, poor understanding between managers and workers, language differences, worker's expectations (Vecchi, 2016). As typical MNEs, Chinese Internet firms that are expanding business in different countries will inevitably face the cultural barriers to internal communication. When interacting externally, a full understanding of local culture is also necessary[7]. Many Chinese Internet firms failed in the Indian market, because they misunderstood India's linguistic environment and only developed products in English (Guo, 2018).

The following Table 2 highlights the main internationalization motives, strategies and challenges that have been identified by the literature mostly focusing on the internationalization experiences

[6] For example, according to China's law, Chinese Internet firms should use maps that claim all disputed territory as Chinese. In 2013, Tencent encountered a crisis in the Vietnamese market, because its product WeChat contains a disputed territory between China and Vietnam as Chinese (Do, 2013).

[7] For instance, when eBay entered China, it copied its formula from the U.S without localizing its services to better adapt to Chinese culture and user habits. Finally, eBay completely failed in competition with Taobao and forced to leave (Jiang, 2014).

of Chinese Internet companies – BATX and TMD firms, respectively undertaking first and second waves of internationalization.

[add Table 2 here]

### 2.4 The Internationalization of Chinese Internet Firms in Europe from a Meso Perspective

As for the differences in terms of the Internet landscape between Europe and China, four main differences tend to emerge. These can be clustered around four themes - the environment, the competition, the user and product and service (Table 3). Regarding the macro environment, Europe is composed of several segmented markets, has a longer history of Internet development with a higher Internet penetration rate (Internet World Stat, 2019), and its Internet regulation can be recognized as cyber-libertarianism (Krönke et al., 2018). While China, as a single market, has relatively low Internet penetration rate (CNNIC, 2020), and its internet regulation can be concluded as cyber-paternalism (Krönke et al., 2018). With respect to competition, the European Internet market is dominated by the US giants, and very few European firms can compete with them. This is mainly because of the "winner-take-all" advantage owned by the US firms (Frank et al., 1996), as well as the EU itself having a less developed capital market (Langfield and Pagano, 2016) and decentralized market scale. The Chinese Internet market is controlled by local giants, which were born and grew up in an environment lacking international competition, with nowadays some of them having the potential to challenge the US giants (Statista, 2020b). From the perspective of users, Chinese Internet users rely on social networks more than European users (Iobbi 2020), and they generally follow two different online shopping journeys (Martínez-López, et al., 2019) - European users are more search-driven (Wunderman Thompson, 2019), while Chinese users are more discovery-driven (Kay, 2018). Besides, the preference for minimalism and maximalism also reflects the aesthetic difference between European and Chinese users (Ho, 2019).

The comparison of products and services between these two markets indicate that Western Internet products usually focus on single-purpose app (Atkins, 2019) with relatively loose Online-to-Offline (O2O) linkage (Doctoroff, 2017), and their innovations tend to be driven by technology (Li et al., 2017). Chinese Internet products tend to be multi-functional (De Buchet, 2020; Ho, 2019), providing a closer linkage between online and offline (Doctoroff, 2017), and their innovations are commonly driven by application (Huang and Sun, 2018b).

[Add Table 3 here]

Overall, in the light of the literature reviewed so far, several considerations need to be made. As highlighted in section 2.1, the great majority of studies looking at Chinese OFDI do not make any distinction between manufacturing and services, however the evidence produced mostly tend to derive from the experience of OFDI in the manufacturing sector. Only a relatively minor stream of work considers services. Within this minor stream, surprisingly very little attention has been devoted to the internationalization of Chinese internet firms.

Everything we know about the internationalization of Chinese firms mostly come from two main sources. On the one hand, as highlighted in section 2.2 we have macro perspectives such the RBV, the OLI paradigm, the NOLI or the more recently developed Digital Globalization framework. On the other hand, as outlined in section 2.3 at micro-level we have a wide range of studies focusing on very specific and very narrowly defined key issues concerning their internationalization process.

At macro level, from a review of the literature it emerges the different perspectives tend to suffer from two main pitfalls. First, they have been developed by considering the experiences of Internet firms from developed countries, mostly endorsing a US-centric view. Second, in their attempt to

provide wider applicability, these macro perspectives tend to privilege some specific aspects of the internationalization process at the expenses of others.

For example, even though the RBV (Dunning, 1988, 1998) explains heterogeneity of resources at the firm level, its applicability to explain the internationalization of internet firms is rather limited due to the fact that resources are not only created within the firm, but also around the "network resources" (Singh and Kundu, 2002). Thus, the RBV seems to provide only a partial explanation for the internationalization of internet firms. A very similar criticism can be also outlined in relation to the OLI framework in its original formulation (Luo, 2021). The NOLI framework addresses this pitfall, but it has been devised to explain the growth of e-commerce firms, which is only a particular subset of Internet firms. The internationalization of firms such as social media platforms cannot be only partially explained by such a framework. In this regard the “new OLI” framework might seem to have a wider applicability. However, the model does not cater for any risk that is associated with digital connectivity (Luo, 2021). This shortfall is likely to be relevant when seeking to explain the internationalization of Chinese Internet firms whose reliability in terms of cyber security is under close scrutiny by the European market (Boskin, 2019).

As for micro-level studies, they tend to provide a very narrow view and only in relation to very specific issues of interest by considering the association between a remarkably small set of variables (e.g., the impact of internationalization on the innovation performance, the impact of market entry order on firms’ performance, or similar). While these studies are indeed useful to better contextualize specific aspects or the dynamics of the internationalization process, they provide a very stylized picture of the internationalization of Chinese internet firms.

As such by combining the evidence provided by the abovementioned macro and micro perspectives, in section 2.2 and 2.3 we have a very limited understanding of the internationalization

of Chinese internet firms. More precisely, in the light of the relevant literature reviewed so far two main questions remain unanswered. These are namely - 1) Why do Chinese Internet firms expand into the European Market? 2) How do they internationalize? Although almost all European countries have bilateral agreements with China, there is still a lack of knowledge with regard to what is driving Chinese internet firms to invest in Europe, and how do they internationalize. The paper endorses the view that a meso-perspective would not only be desirable, but it would be indeed necessary to gain a more exhaustive and nuanced view of the internationalization of Chinese Internet firms. As a means of integrating the strengths from both perspectives and minimizing the shortcomings, this paper introduces a meso perspective by introducing a process model.

## 3. Methods

To gain greater insights and investigate in more detail the internationalization process of Chinese Internet firms, we followed an explanatory case study research method (Eisenhardt, 1989; Yin, 2018). This method is deemed useful when there is no established theoretical base that describes and explains the phenomenon (Benbasat et al., 1987). Case methods can thus help in the development of new theories (Eisenhardt, 1989; Yin, 2018). The paper embraces an explorative approach since the theme of Chinese Internet firm's expansion in the European market is still in its infancy and calls for a more granular understanding involving qualitative research (Eisenhardt, 1989; Johnston et al., 1999). Through a multiple case study approach, we explored Chinese Internet firms' expansion in the European market in terms of their motives and strategies and challenges. The case studies were selected with a purposive sampling technique (Dul and Hak, 2008; Welch et al., 2011), namely a deliberate choice of cases that are information-rich, as well as being available and willing to participate (Piekkari and Welch, 2011; Etikan et al., 2016).

According to Yin (2018), a case study can be suitably used to address exploratory, explanatory and descriptive research questions. The present study aims to find out the motives (why), strategies (how), challenges (what) for Chinese Internet firm's overseas expansion in the European market, where the existing knowledge is still limited.

Since multiple case studies can be used to reach either contrasting results for expected reasons or similar results in the studies, it is important that the cases are chosen carefully so that the findings can be replicated across cases (Yin, 2018). The present study selects three Chinese Internet firms as cases, namely, Alibaba, Tencent (i.e., BATX) and ByteDance (i.e., TMD), with the focus on their overseas expansion in the European market. These three Internet firms are at the time of data collection those with the highest valuations in China (ByteDance has not yet been listed, but its market value is estimated to exceed Baidu, one of the traditional BATX firms), and all of them have been operating in Europe for several years. The core businesses of these three firms are quite different: Alibaba specializes in e-commerce (i.e., AliExpress) and tech-finance (i.e., Alipay), Tencent in social platform and games (i.e., WeChat), and ByteDance in short videos and news (i.e., TikTok). Table A1 in the Appendix provides some context to the three case studies highlighting some basic information about the companies, their internationalization strategies and their expansion in Europe. While the first two companies belong to the first wave of internationalization into Europe, ByteDance belongs to the second wave. While Alibaba and Tencent are "BATX" firms that have extensively capitalized on the first mover advantage and were part of first waves of Internet giants that started internationalizing back in 2007, ByteDance is one of the late comers. Interestingly, ByteDance, as a newly established startup, has achieved considerable internationalization more recently and in a significantly shorter timeframe and is known as the first Chinese Internet firm with a significant engaged following around the world. Considering both

their very different degree of maturity (i.e., timing) and pace (i.e., speed) in terms of internationalization, they are likely to provide some contrasting patterns that are worth exploring and comparing.

Case data were collected using triangulation techniques but came mostly through 9 semi-structured interviews with top managers in each Chinese Internet firm, from external sources such as press articles, and through the review of internal sources such as annual reports. For the interviews we specifically sought managers who are responsible for the international expansion of their business. The interview protocol has been illustrated in Table A2. Interviewees were the heads of international business development. Data collection started in July 2020 and lasted 6 months. During the analysis process additional questions came up, where we realized we needed more information on certain aspects. In those instances, we returned to the interviewees and conducted a second and a third interview. All interviews were recorded and later transcribed. In all instances managers were interviewed online. The average length of the initial interviews was 50–60 min. The transcripts from the interviews were sent back to the interviewees for validation purposes so that they were approved.

This rich primary data was then triangulated and complemented with secondary data, in the form of media reports and company documentation. The interviewees were also prompted to provide additional material, such as internal reports, memorandum, brochures and other documents. Other secondary data, such as newspaper articles, official press releases, company bulletins, company websites, and other online articles, were also used to both contextualize and corroborate the findings. The secondary data has been listed in Table A3 and was necessary to overcome any bias

or limitations that conducting three purposefully chosen case studies might entail (Yin, 2018), and also to increase the robustness of the findings by means of triangulation (Jick, 1979).

We followed an abductive approach by merging the theory with the data (Doz, 2011) allowing new findings to emerge (Strauss and Corbin, 1998). We then adopted a coding process whereby we developed first-order codes and second-order themes in a process of iteration between data and theory (Gioia et al., 2013). We independently coded the interview transcripts and the secondary data collected using *in vivo* codes to generate two sets of first-order codes that would broadly align with our research questions and the broader themes that were inferred from the literature (i.e., motives, strategies and challenges) and informed three second order themes. The resulting tables A4 and A5 highlighting the data structure for the first wave (BATX - Alibaba and Tencent) and second wave firms (TMD - ByteDance) respectively are included in the Appendix. Starting from this data we undertook a grounded theory strategy (Langley, 1999) to develop a process model as depicted in Figure 1 that was apt to describe the internationalizations of these two sets of Internet Chinese firms in Europe.

## 4. Main Results

### *4.1 Motives*

The three case studies provide an opportunity to analyze Chinese Internet firms' overseas expansion in Europe. Through the case studies, several differences regarding the motivation behind such expansion emerge.

First, while AliExpress and Tencent have increased their efforts in going global driven due to the *saturation* of the domestic market, ByteDance was motivated by *domestic market competition*. For Alibaba and Tencent, they are tech titans that dominate China's digital market, tapping into almost

every niche and competing against each other. Instead of investing all resources in the saturated domestic market to capture each other's existing market share, they need to actively expand overseas markets to seek new markets and new opportunities. As the Tencent informant declared, *"Tencent is nearing market saturation in the domestic market, so it has to look elsewhere to continue to grow rapidly"*. While for the newcomer ByteDance, overseas expansion is an inevitable choice due to *market competition*. The duopoly of Alibaba and Tencent has left little room for the independent growth of Internet startups, for most of whom the best outcome is to be acquired by the giants. *"Since it was extremely hard to find a foothold under the pressure of giants, as a newcomer, it is better to look for new opportunities overseas and in turn, support the domestic development,"* said the ByteDance informant. Hence, rather than competing for the saturated domestic market, for startups like ByteDance it is more beneficial to go global from the outset, which has also a positive impact on their financing activities.

All the companies not only showed the *global ambition* to expand in Europe but some *global vision*. Exemplary of the former, the Alibaba informant stated "*I would say Alibaba is a company with a global ambition since birth, and from the speeches of teacher Ma* (note: internal salutation of Jack Ma) *you can easily understand that we will not just be satisfied to be the No.1 in China*". The latter can be clearly evinced by what the informant said to motivate the company's European expansion "*since Alibaba's goal is to be a 102-year enterprise, if we only stay in China, this goal cannot be achieved in today's brutal competition*".

Moreover, for the BATX firms their *global ambition* and *global vision* were strengthened by their *experience in their domestic market* that gave them the confidence to internationalize coupled with *government support*. Differently for ByteDance was the *experience in the international market*

that gave the company the confidence to undertake European expansion. Our ByteDance informant claimed that "*the successful experience in the North American market proves that our app is likely to arouse user interest in Europe as well, giving us confidence in expanding further in the European market*".

Second, both BATX firms have political motivations in their expansion in Europe. On the one hand, going global is greatly encouraged by the Chinese government's policies and China's rising international status. For instance, the rapid rise of Alibaba's global trading business is inseparable from the improvement of China's economic position after joining WTO, and Tencent's massive overseas investments are also strongly supported by policies such as the Belt and Road and Internet Plus initiatives *"the economic and trade relationship between China and Europe have become closer and closer in recent years, and the Belt and Road Initiative has also brought us many new opportunities, so we are optimistic about the future of our business in Europe,"* said the Tencent informant. On the other hand, ByteDance did not rely on any government support, our informant was adamant that "*as a Chinese startup that has not gone public yet, ByteDance is one of the few promising companies that do not directly accept investment from BATX*". The great uncertainty in China-US relations has prompted Chinese Internet firms to increasingly shift their strategic focus within Western markets from the US to Europe. For example, in May 2020, Los Angeles-based TikTok opened its second-largest office worldwide in London, which is considered as a potential new headquarters location if the political risks in the US continue to increase (CNBC News, 2020).

### *4.2 Strategies*

In recent years, Chinese Internet firms have all gradually increased their investments in Europe through a *step-by-step approach*, but the investment strategy of each firm entails different characteristics. Alibaba's investments in Europe are mainly around its core businesses (i.e., e-commerce, finance, and cloud, by both acquisition and greenfield investment). The investment focus of Tencent in Europe was initially concentrated in acquiring game companies, with the purpose of improving its game development capabilities. Related acquisitions include Supercell for 8.6 billion dollars along with Fatshark for 56.3 million dollars. Since last year, Tencent adjusted its investment direction and broadened to diverse industries through strategic investments without gaining control. Its investment strategy in Europe has become more exploratory, expanding to various fields that are not so related to its core businesses, such as e-commerce, sports, smart hardware, corporate services, and even aircraft, reflecting a strong diversity. For ByteDance, there are relatively few acquisitions, but more greenfield investments made in Europe. So far, it has already established offices in several European cities including London, Dublin, Paris, Berlin, Munich, Milan, Warsaw and Stockholm, and formed numerous operation teams locally. Although there has been no acquisition of European companies[8], ByteDance has acquired some non-European companies that had already considerable influence in the European market such as Musical.ly. Such acquisition was mostly driven by the goal of gaining market share. For all the companies, *the step-by-step approach* has been coupled by some remarkable *pragmatism.* For example, our informant claimed that the logistics hub under construction at Liege Airport was aimed at enhancing the overall logistics efficiency of Alibaba's e-commerce business, the

[8] except for the Bordeaux-based News Republic purchased from its Chinese parent company.

acquisitions of WorldFirst for 700 million dollars and Data Artisans for 100 million dollars were aimed at respectively promoting its financial business and cloud business in Europe.

Second, while ByteDance seemed more assertive in its European expansion throughout a set of greenfield investments, the BATX firms notably followed a rather slower *"trial-and-error" approach* where both the companies showed great willingness to question the effectiveness of their existing strategy and to adjust it accordingly. Once WeChat entered the European market, they targeted initially the B2C segment but "*later, we adjusted the strategy and made WeChat Pay the focus of our European business. At the beginning, WeChat aimed to target at European users as an instant messaging app, but finally it seemed to not work. Today we still keep the wish to target at European users, but for now our strategic focus would be Chinese people in Europe*".

Third, while the BATX firms mostly leveraged the *Chinese diaspora* by targeting Chinese consumers to begin with, ByteDance was more direct from the outset by directly targeting the *European consumers*. Our informant at Tencent said "*in China, people are very familiar with mobile payment, and when traveling abroad they also want the same convenience. So, at this moment we hope to promote our business in Europe through massive Chinese tourists*". Differently, from the interview with ByteDance it emerged that they "*principally target the European users*".

While seeking to reach their target users, all the firms did so by implementing very different strategies. While the BATX firms mostly exploited their competitive advantage based on *superior technology*, a *flexible business model* and *localization*, ByteDance also relied on *superior technology*, introduced a radically different *core product* (i.e., a social media platform entirely based on short videos) and capitalized on *personalization* as well. In doing so Alibaba, Tencent

and ByteDance are expanding to Europe with the purpose of exploiting their respective *firm-specific advantages*, which essentially are advantages over their counterparts in the host countries. All firms in different forms enjoy a superior technology. This aspect emerged very clearly from all the informants. The Tencent informant emphasized how "*mobile Internet in Asia, especially in China are now developing to a certain extent faster than the West, which gives Chinese Internet firms a very good opportunity to go global*". This makes difficult for the counterparts "*to create products of pure mobile Internet culture*". The same point was reiterated by the ByteDance informant who said that *"in the past, China's Internet models were mostly copied from the US, and going global was unlikely. With the mobile Internet wave sweeping the world, many foreign Internet giants find themselves unprepared, or constrained by the traditional PC or Web habits. It is difficult for them to create products that can be suitable to mobile Internet culture"*. For Alibaba, its core advantage is the mature e-commerce solutions coupled by a *flexible business model* that have been proved successful in the Chinese market though not yet prevalent in Europe. As the Alibaba informant stated: *"Europe has a high level of consumption, but e-commerce here still has a lot of room for development. Alibaba itself has advantages in business model, technology and so on… our successful experiences in China could provide a Chinese solution to European e-commerce."* For Tencent, in addition to its remarkable investment capabilities, WeChat's advantages in combing communication, social media and life services have underpinned its initial overseas expansion. Despite the failure of its first attempt, WeChat still has inimitable advantages in online payment and connecting Chinese tourists, which can continue to support its second attempt to expand in Europe. For ByteDance, the superior technology relies on its accurate AI algorithm and an innovative *core product.* As the informant indicated, *"Short-form videos are more attractive, vivid, and easy to create and share compared to those traditional social media*

*platforms based on photos or long videos… While in the field of short-form videos… TikTok has great advantages in techniques and talents"*. Hence, ByteDance has to sufficiently exploit its absolute advantages as much as possible to enter more markets during the window period, thereby further consolidating its market position as a first mover.

Concerning the *localization strategy* for core products, the three firms have prioritized this strategy to different degrees. AliExpress pays attention to providing localized services to European users *"AliExpress tries to combine its technological advantages and localized operations to develop the market, for example, by providing accurate analysis of the latest local and overseas shopping trends based on big data analysis and personalized algorithm technology and helping users in different languages to seal the deal through an automatic translation system"* said the Alibaba informant. Compared to AliExpress, WeChat's effort in localizing itself to adapt to the European market has been criticized. Unlike other Internet firms that have launched dual versions of products respectively in the Chinese market and overseas markets, Tencent's strategy is to keep WeChat consistently global. As claimed by the informant *"the WeChat product team and the international business team are separate from each other. The product design and development are conducted by a Chinese team, while the international business is managed by another group"*. In such a dual organizational structure, there is almost no localization design for specific overseas markets except for the language translation of the interface, which rarely satisfies the user. In this sense, the poor localization shares some responsibility for the failure of WeChat's internationalization strategy.

By coupling *localization* with *personalization* TikTok is widely considered the best performing Chinese app in terms of localization in Europe. This has been achieved thanks to the underlying logic running behind the platform. On the demand side, TikTok uses AI algorithms to predict

individual preferences and distribute content based on users' specific behaviors. This technique is so accurate and effective that users from different backgrounds can receive the content that they want. Meanwhile, TikTok highly appreciates localized operations, encouraging localized content creation through regular fresh contests and challenges. This guarantees the quality and localization of content from the supply side. Hence, TikTok not only builds different localized communities in different markets, but even further, realizes personalization for individual users.

### *4.3 Challenges*

First of all, as latecomers, all Chinese Internet firms are confronted with fierce competition with first movers in the European market. They appeared relatively late in the European public's view, whereas their competitors such as Amazon and Facebook, have built mature ecosystems locally. As a result, they are generally rewarded with substantial profit margins and monopoly-like status in their respective fields. Chinese Internet firms suffer significant switching costs to attract users away from first-mover platforms, and the competition with the US giants is extremely hard but inevitable. However, latecomers may also be left with opportunities, benefited from existing infrastructure, educated users and more defined legal systems. From this perspective, Chinese Internet firms still have a chance to catch up and even overperform their competitors.

Like other tech firms, Chinese Internet firms have also to face *intensive regulatory pressure* in Europe. For investment activities, the ongoing gradual tightening policies may prevent Chinese firms from acquiring or investing in European firms with strategic importance. For operation activities, the EU is at the time of data collection stricter than other regions in protecting Internet user rights including privacy and data. Especially with GDPR, all firms operating in the EU market must comply with the rules, no matter where they are based and where their data processing

activities are taking place. The regulatory investigations that Alibaba and ByteDance encountered are not exceptions but are likely to happen again. Hence, Chinese Internet firms must be wary of potential violations.

With respect to business operations in the European market, despite the different target user groups, all the three firms attribute great importance to *collaboration* with local partners. By establishing its foothold firstly in less competitive markets, such as Spain and Poland, Alibaba has gradually expanded its local vendor networks, attracting more merchants to the platform. While for its financial and cloud business, benignly developing relationships with local partners, (e.g., BNP Paribas, Barclays, UniCredit, Vodafone) has paved the way for the launching of Alipay and Alibaba Cloud, contributing significantly to Alibaba's European expansion. In the first attempt to enter Europe, WeChat targeted young European users. Through partnerships with influential superstars like Leo Messi and Neymar Jr., WeChat initially established a public presence. After failing to capture European users, WeChat changed its target users to Chinese tourists who travel to Europe. In this phase, WeChat invested significantly to develop local partnerships, including partnerships with payment processors, local merchants, to take full advantage of their local resources. Besides, Tencent has made massive strategic investments without gaining controlling interests in Europe, which is also regarded as an effective way to expand its local networks. As a startup, in order to realize rapid expansion, TikTok needs to develop partnerships and leverage the power of networks even more. According to the informant of ByteDance, *"When goes into a new market, TikTok usually tries to collaborate with local influencers and asks them to use the platform to make videos. This kind of collaborations provides direct access to the influencer's local fans."* In Europe, it has partnered with popular influencers from music, movies, sports, fashion and comedy. The choice of partners is very targeted, with the purpose of gaining access to the youth

group influenced by them. This strategy has proved effective since the partners' followers have greatly driven the user growth of TikTok. TikTok also had to revisit its entry into the European market as stated by the informant "*although TikTok appeared in the European market around 2017, we really started to enter Europe after the merging with Musical.ly in 2018*". This acquisition was considered the key to ByteDance's subsequent success by the informant.

As for *cultural barriers*, all firms regard them as probably the most difficult challenge they have to overcome. This aspect was outlined by the Tencent informant who said "*Amazon or eBay have more successful experiences in the European market, possessing a solid market power, so it is difficult to change this status in a short time. Also, they are more familiar with European culture, value and tradition, and can attract more local talents, making themselves highly competitive*". A similar concern was also voiced by the ByteDance informant that outlined how the company had to make a step forward to proactively addressing this issue "*we invested a lot in building local content moderation team. In 2019, our content moderation team in Europe has expanded fourfold*". Dealing with local culture has been identified as a significant challenge by WeChat whose first failure in Europe was partially due to the misunderstanding of local culture and limited knowledge of local user habits. The informant stated that "*this system works well in China, because in our society people are used to maintain their existing social relationship, rather than actively knowing strangers. In Europe, however, users are not as dependent on acquaintance networks as Chinese users are. They are more open to strangers and more willing to communicate with strangers*". Similarly, in relation to TikTok, the informant claimed that "*managing a team composed of people from different countries and backgrounds is not an easy thing. This requires us to fully respect cultural differences and have effective communication*".

BATX firms seem to bear more liabilities of origin. Such costs stem from limited local knowledge, difficulties of managing subsidiaries separated by time and distance, and local stakeholders' discriminatory attitudes. The "*Made in China*" image is a double-edged sword. On the one hand, it can be used a sort of Trojan Horse to enter the European market. This was highlighted by the Alibaba informant who said that "*to some extent, we took the advantages of "made in China" to enter Europe, and we did not have a direct confrontation with Amazon or eBay*". On the other hand, they also seem to suffer from the *liability of Chineseness* as they were troubled by *negative brand image*. There are still some concerns about "apps Made in China" among European users, in terms of privacy, politics and ideology. Sometimes the specific business models or operations of the firms themselves leave room for negative image. Because of the low-pricing and low-end consumer targeting strategies, consumers tend to question the safety and quality of goods sold on AliExpress. The surveillance behaviors of WeChat regarding sensitive political topics make its users suspicious of the privacy protection mechanisms in place, thus amplifying their anxiety. In response to these pitfalls, BATX firms need to pay close attention to their operations and further improve their brand images. Conversely, as proved by the experience of ByteDance as Chinese firms attach more importance to the localization of the team and increase cooperation with local partners, both their liabilities of foreignness and Chineseness in Europe can progressively decrease.

## 5. Discussion

While at first glance Chinese Internet firms seem a relatively homogeneous set of actors, our case studies portray two relatively different tales of internationalization for first wave and second wave firms respectively, that tend to display significantly different features. These two tales of

internationalization have been depicted in Figure 1 where a process model that incorporates two different trajectories that respectively outline the internationalization paths for the first wave firms and second waves firms is shown. The process model comprises – 17 first order themes for first wave firms and 15 for second wave firms. The first order themes were clustered by 3 main second order themes. These are namely - assessing the multiple drivers to internationalization, identifying the relevant internationalization strategies and overcoming the key internationalization barriers.

### 5.1 Assessing the Multiple Drivers to Internationalization

In relation to the motives for Chinese Internet firms expansion in Europe, for the first wave firms both case studies tend to provide compelling evidence to support the idea that their internationalization as first movers is mainly driven by the gradual *saturation of the domestic market*, supported by their *experience in the domestic market* (Yao et al., 2020), accompanied by both a *global ambition* and a *global vision*, encouraged by the Chinese *government's policies*, and attracted by the specific location advantages of Europe. Having sufficient "cash on hand" (Shen, 2018) both studies confirm the important role of market saturation (Candelon et al., 2019; Geromel, 2020). Due to the gradual saturation of the domestic market, it is urgent for these firms to go overseas. Encouraged by the policies of the Chinese government and given the uncertainties characterizing the political climate between China and the US, they are more inclined to focus on Europe as a key high-end market destination. By contrast, the subsequent internationalization of ByteDance as part of the second wave firms is mainly driven by *market competition*, supported by its experience in the *international market*, accompanied by both a *global ambition* and a *global vision* that stem from its internationalization genes (Zhang, 2017) but without the provision of government support. In this sense, the internationalization of second wave firms further

corroborates the importance of taking advantage of *open resources* (Luo, 2021). As a matter of fact, vis-à-vis their counterparts, second wave firms found themselves in a more advantaged position as they were proficient in seizing and exploiting global open resources. They relied on a more agile and faster internationalization and the universal applicability of their core product offerings.

During both waves, all Chinese Internet firms have expanded in the European market by capitalizing on different firm-specific advantages. While the literature places considerable emphasis on the importance of firm-specific advantages, the RBV can only partially explain the motivations of Chinese Internet firms' overseas expansion in the European market. As the three Internet firms with the highest market value in China, they are important leaders in the Internet industry worldwide, having developed their respective firm-specific advantages. Such advantages (i.e., *superior technology*, *flexible business model*, *core product*), are large enough to outweigh the disadvantages caused by both *liabilities of foreignness* (Cao and Alon, 2020) and *the liability of Chineseness* (Santasombat, 2018), making expansion to Europe profitable and supporting them to carry out related activities. Within this context, the tradeoff between firm-specific advantages and liabilities seems to be in favour of the former.

In their European operations, all three firms are embedded into specific business networks, thus attaching great importance to relationships with local partners (Luo, 2002; De Oliveira and Rottig, 2018), from which they can obtain critical local knowledge and resources (Piperopoulos et al., 2018). This aspect further corroborates the importance of the network advantage that was envisaged by Singh and Kundu (2002). However, while first wave firms relied only on local

partnerships, second waves firms placed great emphasis to the localization of the team to further curb their liabilities of foreignness and Chineseness in Europe.

Similarly, location advantages (Dunning, 1988) are reflected as well in the motivations of Chinese Internet firms expanding into Europe. Although there are many differences from China's Internet landscape, Europe has a relatively developed infrastructure, higher Internet penetration rate, and other location advantages in terms of talent, industrialization and consumption levels. This makes Europe a market worth pursuing for Chinese Internet firms with international ambitions. In this sense, our findings do not support Luo's assumption (2021) that for these firms the location is gradually losing importance.

### 5.2 Identifying the Relevant Internationalization Strategies

As for the internationalization strategies, implemented by the Chinese Internet firms in Europe, during both waves all companies tend to endorse a *step-by-step approach* (Davis et al., 2019) characterized by substantial *pragmatism* in their investments, while embracing a radically different speed and timing (Monaghan et al., 2021).

While first wave firms such as Alibaba and Tencent as first movers have started sooner and tend to endorse a much more cautious slower approach by also relying on trial-and-errors, ByteDance as a late comer seems faster and more self-confident in its internationalization. While the first wave firms for example take advantage of the *Chinese diaspora and the Chinese tourists* first to gradually target the European consumers, second wave firms directly target the European consumers. Additionally, the first wave firms rely on *superior technology* (Veugelers, 2017), a *flexible business model* and *localization* (Wang, 2019), ByteDance takes a bolder step by also

introducing an innovative *core product* and catering for the European needs of personalization. In this sense the internationalization strategy of second wave firms shows a remarkable level of sophistication. The findings further corroborate the importance of successfully overcoming integrative challenges (Luo, 2021) by showing outstanding capabilities in terms of data intelligence as the successful experience of TikTok in Europe seem to prove.

As for the pace and the posture of the internationalization strategy implemented, we can infer that ByteDance as a late comer seem to have capitalized on the learning experienced by the first wave of Chinese Internet firms expanding in Europe. In particular, the case study indicates that second waves firms have expanded faster with a more aggressive posture than traditional MNEs, taking M&A, greenfield investments, and noncontrolling strategic investments as the primary routes to increase their presence, and generally attaching great importance to business cooperation with local partners (Chen at al., 2020) and the localization of talents (Pau and Maher, 2015; Cooke et al., 2018).

Additionally, from the case studies other interesting features tend to emerge. The localization strategy of AliExpress is also mainly around its automatic translation system that actually promotes cross-border communication. AliExpress first entered into Spanish and Polish markets because the consumption levels of these two countries are more similar to China. While for platforms with within-country network externalities like WeChat and TikTok, it is predicted that they tend to enter via acquisition or alliances, adopt multidomestic strategies, and are more likely to withdraw from foreign markets.

Their partnering approach involving massive cooperation with local influencers, but their different localization strategies have led to totally different results. TikTok is aware that its network

externalities are mainly within-country, so it concentrates on localizing and even providing personalization, developing a large number of local communities in different national, cultural and linguistic contexts. So far, this strategy has proven successful. In stark contrast, WeChat mistakenly pursued global consistency and ignored the localization of products, putting itself at a disadvantage in the competition with US firms such as WhatsApp and Facebook Messenger, that are more in line with European usage habits, and eventually had to give up European users and instead target Chinese tourists. The initial failure of WeChat and the initial success of TikTok in Europe vividly demonstrates the importance of a necessary alignment between the localization strategy and the adopted business model.

Overall, while internalization theory can explain Chinese Internet firms' activities, especially acquisition and greenfield investments in Europe, market-oriented strategies like licensing, agencies, contract partnerships expose the firms' overseas business to the risk caused by market imperfection. Considering that Internet firms' profitability depends greatly on economics of scale, firms internalize market activities through M&A and wholly-owned subsidiaries, rather than simply relying on partnerships. Similar to other EMNEs, Chinese Internet firms do not strictly follow the traditional Uppsala internationalization process. By contrast, they tend to expand internationally faster and more aggressively than traditional MNEs, entering both developing and developed countries, to narrow the gap with their competitors with first-mover advantages.

### 5.3 Overcoming the Key Internationalization Challenges

Additionally, as it has been highlighted for Chinese investment in Europe (Brennan, 2015; Vecchi and Brennan, 2014; Vecchi, 2016), there are also challenges for Chinese Internet firms. More precisely, from the findings it emerges that *intensive regulatory pressure* (Boskin, 2019; Jia,

Kenney and Zysman, 2018), *cultural barriers* (Le Corre, 2018; Vlad and Stan, 2018; Vecchi, 2016), *collaboration* (Chen at al., 2020) to overcome a negative brand image (Custer, 2013), the *liabilities of foreignness* (Cao and Alon, 2021) or the *liability of Chineseness* (Santasombat, 2018) are the main challenges that Chinese Internet firms are facing in Europe. However, quite interestingly the findings highlight how first wave firms in their gradual and more subtle approach toward European expansion strategically have used the widespread user perception of "*Made in China*" as a Trojan horse to their own advantage, to avoid the competition with the US giants and by gradually moving toward the relatively higher end of the market.

In relation to the *regulatory pressures*, it is noteworthy that China has in recent months started to tighten scrutiny of its tech giants, reversing a once laissez-faire approach. In particular, two regulations are likely to change the competitive international landscape for Chinese internet firms. The first one concerns new anti-monopoly rules targeting the Chinese tech giants. The rules, issued by the State Administration for Market Regulation (SAMR), bar companies from a range of behavior, including forcing merchants to choose between the country's top internet players, a long-time practice in the market. The notice also said it will stop companies from price fixing, restricting technologies and using data and algorithms to manipulate the market.

The second regulation concerns the use of algorithms for business intelligence. As the result of the recent legislation such advantages as the capability to offer superior technology, or a core product based on personalization might be hindered by the recent Chinese regulation that came into effect on March 1st. China has finalized rules that govern the way companies operate algorithms The rules include allowing users to select and delete keywords that are used to target them and opt out of using algorithmic recommendation services. The regulation on algorithms is

part of a campaign by the government to boost its oversight of the domestic technology sector and reign in the power of China's giants, which have grown largely unencumbered for years. Both regulations are likely to severely hinder the international competitiveness of Chinese internet firms. However, while these rules are extensive and far-reaching, they are not an absolute 'death sentence' for companies as it very much depends on the extent to which they will be enforced.

### 5.4 The Internationalization of Chinese Internet Firms in the light of existing IB Theories

By drawing on the discussion of the findings, Table 4 below highlight the extent to which the NOLI framework is suitable to explain the internationalization of Chinese Internet firms in Europe.

[Add Table 4 here]

According to the NOLI framework, only the second wave firms seem to be able to fully capitalize on the Network advantages. First wave firms seem to follow a much more traditional internationalization path by internalizing international activities by mostly relying on acquisitions and greenfield investments. Second wave firms also make noncontrolling strategic investments as the primary routes to increase their presence in Europe thus preserving some agility. They attribute great importance to business cooperation with local partners and the localization of talents, to further curb their liabilities of foreignness and Chineseness in Europe.

Similarly, Table 5 below highlight the extent to which the Digital Globalization framework (Luo, 2021) is suitable to explain the internationalization of Chinese Internet firms in Europe.

[Add Table 5 here]

According to the Digital Globalization framework (Luo, 2021), the application of the framework at the time of data collection highlights some vulnerability to which second wave firms could be exposed. As the international success of these firms heavily rely on their intelligence capabilities directly targeting the European consumers, their competitiveness on the international arena could be severely undermined by the current domestic regulations over the use of AI. This issue is rather crucial and might have broader and seemingly more profound implications for Chinese domestic firms at large. In particular, given the compelling argument that the use of these indigenous social networking sites (vis-à-vis foreign social networking sites) such as WeChat (provided by Tencent) and TikTok (provided by ByteDance) is central to forging the international orientation of domestic small and medium enterprises (Williams and Zhang, 2020), hindering their international competitiveness might also have profound implications in the domestic market. The use of indigenous social networking sites allows domestic small and medium enterprises to gain strategic information about foreign markets. Research has shown how these firms can even change their policies and practices as a result of intelligence gained through their use. Accordingly, limiting their international competitiveness in Europe might ultimately have the effect of severely undermining the international business competence of Chinese small and medium enterprises.

## 6. Conclusion

The study contributes to the literature in many ways.

First, this research contributes to the limited literature on the internationalization of Chinese services. While there is extensive research on Chinese OFDI, very limited attention has been devoted to the distinction between manufacturing and service and to a lesser extent to Chinese

OFDI in the service sector. Furthermore, within this context, despite the growing importance of the internationalization of Chinese Internet firms there is considerably less research on the topic.

Second, this work clearly shows the limited applicability of existing IB theories and that have previously informed the US-centric studies of the internationalization of Internet firms. The evidence presented supports the idea that nether the Resource-Based View alone, the pioneering work of Singh and Kundu (2002) with their NOLI framework that has subsequently informed many contributions or the recent work on digital globalization proposed by Luo (2021) can adequately explain the internationalization of Chinese Internet firms. While abstract models trying to explain internationalization are indeed useful to identify the key variables, the main underlaying mechanisms and some relevant dynamics, they tend to fall short in fully capturing portraying the complexities that inevitably internationalization entails.

Third, while most extant studies focusing on Chinese investments have largely relied on secondary data, this paper adopts a multiple case study approach whose explorative qualitative ethos and its cross-case analysis provides rich granular insights over the distinctive motives, strategies and challenges that Chinese Internet firms may face in the European market. The main output of the paper is a process model that is apt to describe the internationalization strategy of Chinese internet firms and thus legitimize the meso-perspective offered by the paper. While largely corroborating the importance of some variables that were already broadly identified by the literature on internationalization, the process model also provides texture and richness to the context by identifying nuances that are easily missed in studies based on secondary data. Within Chinese Internet firms it identifies two clearly distinct processes of internationalization in Europe that rely on different motives, strategies and challenges. While the existing, albeit limited, work on the

internationalization of Chinese Internet firms has mostly regarded them as a cohesive and homogeneous set of companies our findings suggest that we are dealing with two different sets of companies whose approaches toward internationalization seem to be radically different, to the extent that we have described two tales of internationalization.

On the one hand we have the more traditional first wave firms that by capitalizing on their experience and success in their domestic market, driven by their ambition that has been channeled into their vision, to overcome market saturation and by receiving support by the government decide to embark on the internationalization path. These firms started to internationalize first, in 2015 as a part of a first wave of Chinese Internet firms' internationalization. They did so, gradually adopting a step-by-step approach, relatively slowly, in a pragmatic way by relying on a trial-and-error approach thus adjusting their strategies as these proved to be unsuccessful in the more complex and fragmented European market. The competitive advantage of these firms mostly relies on their superior technology, a well-established flexible business model and by adopting a localization strategy that the US counterparts are unable to cater for. When these firms initially approached the European market they did so in a rather subtle way, by leveraging the widespread perception of "Made in China" to avoid any direct competition with the US tech giants and by initially taking advantage of the Chinese diaspora of Chinese consumers in Europe and the significant presence of Chinese tourists. By virtue of their pragmatic approach, this target was deliberately set by these firms with the ultimate aim of gradually and more ambitiously shifting their attention to the European consumers as they started gaining their trust by successfully overcoming several challenges viz. regulations, cultural barriers, collaboration with local partners along with the liability of Chineseness. First wave firms have devoted considerable effort in trying to overcome these barriers. Quite interestingly the liability of Chineseness appears as a double-

edge sword whereby the “Made in China” connotation is initially leveraged when approaching the European market and becomes a liability only later whenever these firms do not manage overcome the relevant challenges and thus do not gain the trust of the consumers.

On the other hand, we have the second wave firms that by capitalizing on their experience and success in the international market, driven by their ambition that has been channeled into their vision and without any support by the government embark on the internationalization path. These firms started to internationalize later, in 2015 as a part of a second wave of Chinese Internet firms internationalization. They did so, at a significant speedier pace by also adopting a step-by-step approach, in a pragmatic way but without relying on a trial-and-error approach and thus not needing to adjust their strategies. The competitive advantage of these firms as it was for their counterparts mostly relies on their superior technology, and by introducing an innovative core product that lends itself to some localization. Such localization strategy is also coupled by some personalization. When these firms initially approached the European market, they did so with a much more assertive posture, directly targeting the European consumers and thus showing a remarkably higher level of sophistication. From the findings it also emerges that they seem bolder in their approach in successfully overcoming the challenges. These were namely regulations, cultural barriers and collaboration with local partners. Quite interestingly this type of firms does not seem to suffer from any liability of any kind.

The managerial implications stemming from the findings are significant. To achieve greater success, Chinese Internet firms who are expanding or planning to expand their business in Europe are suggested to cultivate firm-specific advantages, develop strategic local networks, balance between localization and global consistency, gain a full understanding of the local culture and fully comply with local regulations. Particularly striking is that as first wave firms (vis-à-vis US giants)

as latecomers were initially left with opportunities, benefited from existing infrastructure, educated users and more defined legal systems, now the second wave of firms seem to be in an even more privileged position in comparison with the incumbent Chinese firms.

Although the research provides richer and granular insights that could not have been achieved by employing a different methodology, our process model merits further testing. In particular, the applicability of the model describing the internationalization of second wave firms should be more extensively tested in relation to a broader set of firms, namely Meituan-Dianping, and Didi.

There are opportunities for more research on the topic of Chinese Internet firms in Europe. A survey of the population of such firms addressing the findings from this study would make a further contribution to our understanding of the motives, strategies and challenges associated with their entry into Europe. In particular, two issues that have emerged from the findings deserve further attention. These are namely the dynamic tradeoff between firm-specific advantages and the liabilities suffered by the Chinese internet firms in relation to the degree of maturity of the firms' internationalization strategy and the alignment between the localization strategy and the adopted business model. In addition, studies that focused on the contrasting environments of Europe and China particularly in relation to their regulatory regimes could offer insight into the responses of Chinese Internet firms facing the radically different environment of Europe.

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