

The Impact of Digital Platforms on New Zealand Firms' Entry Strategies: The Case of Alibaba

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MBus

2017

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A dissertation submitted to
Auckland University of Technology
In partial fulfilment of the requirements for the degree of
Master of Business (MBus)

2017

School of Business
Auckland University of Technology

Abstract

The advent of digital platforms has changed the way in which firms conduct international transactions, condensing time and geographic distance (Manyika, Lund, & Bughin, 2016). However, the impact of digital platforms on firms' internationalisation strategy, and in particular entry strategy, is under-researched in current International Business literature. This study aims to explore how digital platforms in China, and specifically the digital platforms of Alibaba Group, impact New Zealand small and medium-sized (SMEs) companies' entry strategies in the Chinese market.

This study adopted a post-positivism research paradigm (Creswell, 2013), and a multiple case study methodology (Yin, 2009), to investigate the phenomenon. Empirical data were collected from four participants in four New Zealand companies through semi-structured in-depth interviews. This study adopted a thematic content analysis method to present the findings.

The results of this study suggest that digital platforms impact these firms' entry strategies through easing entry barriers to some extent, particularly in helping overcome resource constraints and obtain access to networks. Digital platforms provide opportunities for these firms to enter China with lower costs than traditional entry modes. In addition, the business networks developed between the studied firms and digital platforms enables the firms to obtain market knowledge that can help decrease psychic distance and liability of foreignness. Moreover, the formal and informal connection with "Daigou"-freelance exporters also influences these firms. On one hand, "Daigou" can help these firms access the Chinese market, build brand image and reach more potential customers; on the other hand, it is difficult for firms to attain control in the Chinese market and keep consistent marketing message.

Entering the Chinese market through digital platforms allows firms to exploit China-specific locational advantages while minimising costs, as suggested by Tan, Chong, Lin, and Eze (2009). However, the participating firms still required local staff as a key part of both acquiring market knowledge and overcoming psychic distance and liability of foreignness. Therefore, it is concluded that while digital platforms can help alleviate a number of entry barriers traditionally faced by New Zealand SMEs, limitations in human resources still impose challenges on firms in seeking internationalisation in China.

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Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

Huijun Jin

A handwritten signature in black ink, consisting of three Chinese characters: 金慧君 (Jin Huijun).

Acknowledgements

This dissertation would have not been accomplished if not for the people who guided, supported and encouraged me. To these people, I offer my sincere gratitude.

Most importantly, I am grateful to my supervisor Dr. Fiona Hurd who constantly offered support, guidance and encouragement through the whole process of my dissertation. She provided me with invaluable and detailed feedback on each chapter and encouraged me from the very beginning of this journey. I would also like to thank Professor Peter Enderwick for his help and support during this journey.

I also would like to thank the Auckland University of Technology Ethics Committee for approving my ethic application No.16/273 on 19 August, 2016. Moreover, I am grateful to all the participants and organisations for their invaluable time to share their knowledge and experience to this study.

I sincerely thank Dr. Pat Strauss and Elizabeth Ardley for proofreading and editing my dissertation.

I also would like to thank my parents and sister who have supported me for years. Without their support, I could not have been the person I am now. I dedicate this dissertation to my parents and sister.

Chapter 1: Introduction

Information and communication technologies (ICTs), particularly the wide application of the Internet, has changed many traditional business models and practices. From a business perspective, the Internet can ease information exchange, improve performance throughout the entire value chain for most companies and industries (Porter, 2001). Moreover, ICT is considered the most cost-efficient tool to help companies acquire bigger markets and obtain competitiveness against large companies in this globalised world (Tan et al., 2009). A number of studies illustrate the importance of ICTs in international business. For instance, ICT can positively help firms accumulate new market knowledge (Moen, Madsen, & Aspelund, 2008; Tan et al., 2009). The speed, low cost and wide accessibility characteristics of the Internet have increased the diffusion of e-commerce globally. Online digital platforms, such as Alibaba and Amazon provide different formats of e-commerce, including Business-to-Business (B2B), Business-to-Consumer (B2C) and Consumer-to-Consumer (C2C). These digital platforms allow companies to sell their products and services to a large number of customers at lower cost than conventional retail selling channel (Tan et al., 2009). Moreover, the emergence of cross-border e-commerce enables firms to expand their businesses internationally through digital platforms, which creates new opportunities for companies in the Internet era, especially for small and medium-sized enterprises (SMEs) (Manyika et al., 2016; Ryan, 2014).

SMEs play a key role in the economic growth for many countries, including New Zealand. SMEs are regarded as the backbone of New Zealand's economy. Therefore, it is important for New Zealand SMEs to expand their business both within the domestic market and beyond their borders. Compared to large organisations, SMEs typically suffer from resource constraints in both domestic and foreign markets. In terms of international expansion, SMEs are prone to experience barriers to internationalisation, particularly in financial and cost related factors, followed by lack of market knowledge and experience (Scott-Kennel, 2013; Shaw & Darroch, 2004). Given the challenges facing New Zealand SMEs, the opportunities presented by digital platforms are an intriguing proposition.

There are a number of researchers that have focused on China as a host country for firms' international expansion (Han, Yoo, & Jeon, 2015; Lynch, 2012; Niu, Dong, & Chen, 2012). China is the largest e-commerce market in the world and the growth rate of cross-border consumer e-commerce is estimated at 50% annually (Xia, 2016). New Zealand

firms are increasingly looking to China to expand their businesses, not only because China is an important trade partner for New Zealand, accounting for approximately 20% of New Zealand's overall goods trade, but also because China is a large consumer market for New Zealand business (MFAT, n.d.-a). There are a number of New Zealand SMEs use Alibaba digital platforms to enter the Chinese market. Such experience and strategies can provide valuable insights for other New Zealand firms' international expansion in China. However, the impact of digital platforms on New Zealand firms' internationalisation in China is under-researched. Therefore, the aim of this study is to explore the use of digital platforms by New Zealand SMEs entering the Chinese market, focusing on the Alibaba digital platforms. The overarching research question for this study is:

- How are Alibaba digital platforms impacting New Zealand firms' entry strategies in China?

The research is further focused through two sub-questions. They are:

- How do Alibaba digital platforms allow New Zealand firms to overcome resource constraints?
- How do Alibaba digital platforms enable New Zealand firms to access networks in China?

Being exploratory in nature, a multiple case study methodology was adopted in this research. Alibaba's Tmall Global and Tmall.com digital platforms were chosen to help identify potential participants, because these two platforms are based on the B2C business model (Han et al., 2015). Four New Zealand companies that sell their products on Tmall Global and/or Tmall.com agreed to participate in this study. One individual in each firm who is responsible for his/ her firm's international operations in China selected by the firm represents the primary participants for this research. In-depth semi-structured interviews were conducted with participants. Thematic content analysis was used to answer the research questions in this study. In addition, the data analysis process adopted the data analysis spiral from Creswell (2013).

This study contains seven chapters. Chapter One discusses the role of technology in business and illustrates the significance of the researched topic. This chapter also introduces the research question and outlines the structure of this study.

Chapter Two reviews previous literature on entry barriers and entry strategies. Three traditional internationalisation theories are discussed in this chapter: the Uppsala Model, the OLI paradigm and the LLL Model. Moreover, this chapter also discusses the born-global firms as emergent model of internationalisation literature and development of ICTs and internationalisation. These theories provide a theoretical framework for understanding firms' entry strategies.

Chapter Three provides the background of the studied case, including brief introduction of New Zealand SMEs, drivers, barriers and common entry modes for New Zealand SMEs' internationalisation, the relationship between New Zealand and China and Chinese market background and consumer behavior in China.

In Chapter Four, the philosophical position of this study is presented. The post-positivism research paradigm, case study methodology and semi-structured interview method adopted in this research are also discussed in this chapter. The data analysis process and ethical considerations in this dissertation are then presented.

Chapter Five presents the findings of this study. The main characteristics of interviewed firms are illustrated in the beginning of this chapter. The impact of digital platforms on studied firms' entry strategies in China is analysed.

In Chapter Six, main entry barriers faced by the studied firms are presented first. Then the role of digital platforms in dealing with barriers to entry is discussed. Moreover, the application of proposed theories to the research findings is discussed.

Chapter Seven concludes the research by presenting an overview of this study and research conclusions. Research contribution of this study in terms of theory and business practice is presented later. The limitations of this research and recommendations for future research are presented at the end of this chapter.

Chapter 2: Literature Review

2.1 Introduction

The previous chapter introduced the importance of exploring the use of digital platforms on New Zealand small and medium-sized enterprises (SMEs) entering the Chinese market. In order to theoretically inform the research, previous work in the area of barriers to entry faced by firms' internationalisation are presented at first, followed by entry strategies proposed by extant International Business literature. The widely accepted frameworks of firms' internationalisation are then discussed, including the Uppsala Model, the OLI paradigm, the LLL Model and the born-global Model.

2.2 Entry Barriers to SMEs

In the era of globalisation, both small and large firms face entry barriers in attempt to grow their business internationally. Entry barriers refer to obstacles that new entrants will encounter when they enter a market or industry, such as resource constraints, psychic distance and liability of foreignness, which will affect firms' entry strategies (Morrison, 2011). According to Katsikeas and Morgan (1994), the perception of entry barriers may vary depending on the size of individual firm, that is smaller firms perceive more barriers to entry compared to larger firms. For instance, resource constraints, especially limitation in financial capital are regarded as one of most common entry barriers to SMEs (Lu & Beamish, 2001), whereas large corporations normally do not share that entry barrier at the same degree. In addition to shortage in financial capital, SMEs also experience limitations in human resources that play a key role in obtaining information and market knowledge to successfully enter the new markets.

2.2.1 Resource Constraints

Due to the increasing pressure of competition both domestically and internationally, it is necessary for firms to expand and participate in international business. Resources play a key role in the success of firms' international expansion. However, compared to large corporations who possess more financial and managerial resources, SMEs typically suffer from constraints in such resources when they enter new markets. According to Welsh and White (1981) and Thong (2001), there are three types of resource constraints: time constraint, financial constraint, and expertise constraint, such as market knowledge,

human and managerial resources. This study will focus only on two types of resource constraints that New Zealand SMEs normally face, which are financial and expertise constraints. Financial constraint includes cost of operating overseas, limited access to capital and credit, limited cash flow and so forth (Shaw & Darroch, 2004). In general, operating in foreign markets requires a large amount of financial investment and it takes time for firms to obtain return on investment, whereas scarcity in financial and managerial resources will impede SMEs' implementation of foreign market entry. Furthermore, expertise constraint stated above may lead to insufficient understanding of the target markets which will cost SMEs financially. Expertise constraint usually involves lack of market knowledge and experience, thus other entry barriers that SMEs encounter include psychic distance and liability of foreignness.

2.2.2 Psychic Distance

Psychic distance refers to "factors preventing or disturbing the flows of information between firm and market" (Johanson & Wiedersheim-Paul, 1975, p. 308), for instance, the differences in culture, infrastructure, and political systems between countries. Evans, Mavonda, and Bridson (2008) define psychic distance as individual's understanding and perception of differences in culture and business, which is adopted in this research. Psychic distance is considered important for firms' international operations, especially during the early stages of firms' internationalisation (Johanson & Wiedersheim-Paul, 1975). According to Sousa and Bradley (2008), firms obtain less knowledge of markets with a greater cultural difference, hence increasing the psychic distance. Moreover, cultural differences are often related to differences in business practices (Zaheer, 1995). Therefore, it is important for managers to understand national cultural differences and organisational differences in order to reduce psychic distance and to improve the performance of international operations (Hofstede, 1994). Furthermore, psychic distance is often correlated with geographic distance positively (Johanson & Wiedersheim-Paul, 1975). New Zealand firms, being geographically isolated to most major consumer markets, are often thought to have a disadvantage due to geographic distance. As a result, psychic distance composes one of New Zealand firms' entry barriers to their internationalisation.

2.2.3 Liability of Foreignness

Another barrier to entry is liability of foreignness, which causes additional costs for firms in foreign markets (Chen, Griffith, & Hu, 2006). Liability of foreignness includes lack of knowledge about the foreign market, consumers' unfamiliarity with the companies, and other costs with regard to foreign operations (Lou & Mezias, 2002). Liability of foreignness typically arises from geographic and psychic distance between home and host countries, including different social norms and business practices (Zaheer, 1995). In relation to this study, the additional costs raised by liability of foreignness impose barriers for SMEs. Chen et al. (2006) assert that liability of foreignness has a significant impact on firms' entry strategies. For instance, companies are likely to adopt resource-seeking strategies when they experience low level of liability of foreignness, whereas those that experience high level of liability of foreignness tend to adopt market-seeking and control-oriented strategies (Chen et al., 2006). Therefore, it is critical for firms to evaluate their capabilities, address barriers to entry and assess the business environment of foreign markets to make an appropriate choice of entry strategies.

2.3 Entry Mode

Foreign entry mode refers to the strategies that a firm adopts when entering a certain foreign market. According to Morrison (2011), there are a wide range of entry modes that are commonly utilised by firms, such as exporting, licensing and franchising, and modes of Foreign Direct Investment (FDI). Exporting refers to shipping goods and services out of the firm's home country. Licensing is usually defined as a business agreement in which "the owner of a piece of intellectual property grants another party the right to use such intellectual property, in exchange for some form of consideration or payment" (Battersby & Simon, 2012, p. 1). International franchising refers to an entry mode that involves the franchisor transferring its right for the use of goods or services to an entity under contract (Oviatt & McDougall, 1994). FDI refers to investment in one country that is controlled by a business enterprise in another country. There are several forms of FDI, such as greenfield investment, joint venture and acquisitions. These entry modes have their own distinct characteristics, and the choice of entry mode depends on both internal and external factors, for example, firm characteristics and host market business environment (Niu et al., 2012; Shukla, Dow, & Misra, 2012). The choice of foreign entry mode has a significant impact on firms' success in international operations (Hill, Hwang, & Kim, 1990; Nagar & Enderwick, 2009). In this regard, internationalisation theories, including

traditional models and emergent theories, can help firms develop their entry strategies. There have been a number of theoretical models developed to help explain entry mode choice and firms' expansion into new markets.

2.4 Uppsala Model

Most theories of internationalisation regard the process as a gradual one that follows certain patterns. One preeminent internationalisation theory is the Uppsala Model, which is also called the stage model (Johanson & Vahlen, 1997; Johanson & Wiedersheim-Paul, 1975). According to Johanson and Wiedersheim-Paul (1975), the Uppsala Model suggests that firms' internationalisation usually follows four different stages, known as the establishment chain, which involve various levels of commitment, knowledge and experience in foreign markets. Johanson and Wiedersheim-Paul (1975) assert that lack of market knowledge and resources are the most significant barriers for firms to operate successfully in foreign markets, and therefore firms tend to internationalise gradually, and follow the four stages to cope with uncertainties and to minimise risks.

The four stages of the Uppsala Model are: no regular export activities; exporting through local agents; opening a sales subsidiary; and manufacturing in a foreign market (Johanson & Wiedersheim-Paul, 1975). At the beginning of foreign expansion in a overseas market, firms often start export activities in an irregular manner. In this stage, firms usually know little about the overseas market and tend to commit few resources, because there is a considerably high level of uncertainties and risks (Johanson & Wiedersheim-Paul, 1975). After exporting to that particular overseas market for a period of time, firms usually move on to the next stage by exporting through local agents. This is normally because they have gained a little market knowledge and developed local networks. With the growth in turnover and market knowledge, firms usually internationalise further by establishing their own sales subsidiaries. At this stage of internationalisation, firms typically have more control in that overseas market, and therefore decrease uncertainty, and so undertake more commitment than in the previous stage (Johanson & Vahlen, 1997). The last stage is to manufacture products in the foreign markets by committing more resources to ease uncertainties further, such as fluctuations in foreign exchange rates, tariffs and so forth. However, firms' internationalisation is not expected to follow the exact establishment chain and some firms may leapfrog certain stages (Johanson & Wiedersheim-Paul, 1975). Throughout the Uppsala Model, the role of market knowledge is acknowledged and

emphasised as a critical element in firms' internationalisation. According to the Uppsala Model, there are two types of knowledge: objective knowledge, which is relatively easy to access; and experiential knowledge, which can be acquired mostly from international operations (Johanson & Vahlen, 1997). Slater, Olson, and Sorensen (2012) emphasise that knowledge is the source of competitive advantage, the result of their research showing that market knowledge makes a considerable contribution to the success of new product development programs. Therefore, understanding the target foreign market is important for the success of international operations. Establishing business network with local organisations is a key way for firms to obtain market knowledge (Johanson & Vahlen, 2009).

2.4.1 Network Approach of Uppsala Model

The original Uppsala Model has been critiqued for being deterministic and lacking in consideration of exogenous variables, especially regarding the assumption of the establishment chain. Examples of critiques are that firms may not sequentially follow stages in the establishment chain (Hedlund & Kverneland, 1985; Scott-Kennel, 2013); that the velocity of the internationalisation process is often much faster than when the Uppsala Model was first developed (Oviatt & McDougall, 1994); that it ignores acquisitions (Wei, Clegg, & Ma, 2015); and that it does not consider the impact of external factors (Chetty & Campbell-Hunt, 2004). Therefore, Johanson and Vahlen (2009) revised the original Uppsala Model, adopting the assumption that market knowledge is of great importance for firms' successful operation in foreign markets. Johanson and Vahlen (2009) argue that establishing business network relationships allows a firm to become an "insider" in the foreign market, and such "insidership" offers more opportunities for the firm to overcome entry barriers in terms of shortage of resources. In their revised model, they utilise a business network approach to emphasise that building business partnerships in foreign markets can provide firms with resources that cannot be accessed easily if firms are considered as an "outsider" in these markets. In the network approach, firms rely on external resources that are possessed by other firms, and firms utilise their "insidership" in the network to acquire access to such resources (Gerschewski, Rose, & Lindsay, 2015). As a result, opportunities can be developed and uncertainties can be reduced by being part of a business network (Johanson & Vahlen, 2009). For instance, Wei et al. (2015) investigated the different internationalisation patterns of Chinese state-owned enterprises (SOEs) and privately owned enterprises (POEs). The authors found that Chinese SOEs'

internationalisation tends to leapfrog in the establishment chain with the external assistance of the Chinese government, whereas Chinese POEs tend to follow the four stages. Wei et al's (2015) study indicates that a business network can help firms gain resources that are critical for their internationalisation.

In the original Uppsala Model, Johanson and Wiedersheim-Paul (1975) found that those firms that started later in their internationalisation took less time to move through the process. Although the original Uppsala Model indicated a different velocity of the internationalisation process among four Swedish firms, it failed to explain the reason for these differences. In the revised Uppsala Model, Johanson and Vahlen (2009) argue that external factors such as changes in the international business environment might impact firms' internationalisation patterns, including the velocity of internationalisation. Due to the changes in the international business environment, despite the revised Uppsala Model, some have argued that the Uppsala Model was not adequate for the new business environment. As such, a number of new frameworks were proposed to explain international business activities, including the eclectic theory.

2.5 OLI Paradigm and Resource-Based View

The eclectic paradigm, also known as the OLI paradigm was proposed by Dunning (1980,1988,1995) and includes a proposal that firms' entry decisions can be explained by differences in ownership, location and internalisation advantages. There are three elements or conditions in the OLI paradigm for firms to consider in order to achieve success in international operations: Ownership Advantages "O", Locational Advantages "L", and Internalisation Advantages "I". According to Malhotra, Agarwal, and Ulgado (2003), the strength of the OLI paradigm is that it takes a multi-theoretical approach which incorporates a resource-based view for ownership advantages, international trade theory for location advantages and transaction cost theory for internalisation advantages.

Ownership advantages refer to assets or resources that some firms possess which their competitors do not have, including both tangible resources, such as financial capital, and intangible resources, such as reputation, market knowledge and managerial capabilities, which generates competitive advantages over market rivals (Dunning, 1980). The concept of ownership advantages is built on the resource-based view of firm from (Wernerfelt, 1984), which introduces the concepts of resource position barrier and resource-product

matrices to highlight the new strategic options from a resource perspective instead of the product perspective. Moreover, the “O” element also derives from Barney’s (1991) resources based view. According to Barney (1991), in order to create sustainable competitive advantages, firm-specific assets should have economic value, be unique in the industry, be difficult for rivals to imitate and there should be no substitutes available in the markets. For example, human resources are an essential firm-specific asset for competitive advantage that can be exploited to implement firms’ strategies and enhance firms’ performance (Barney & Wright, 1998). This is because knowledge is possessed by people and knowledge is a source of competitive advantage (Slater et al., 2012). Indeed, human resources play an important role in firms’ performance, and are considered as one of firms’ most important asset (Barney & Wright, 1998). Moreover, intangible resources such as reputation can also be an important ownership advantage for firms to remain competitive. For instance, New Zealand firms have a reputation for high quality natural products, whereas companies in China usually do not have such reputation. Therefore, reputation can be considered as an ownership advantage for New Zealand firms to compete with local companies in China. However, firms from other foreign countries might also possess such firm-specific assets. Therefore, it is important in the eclectic paradigm to expand the ownership advantages beyond firms’ boundaries to connect with firms in host countries to combine resources to sustain competitive (Mathews, 2006a). Indeed, building business partnerships is vital to firms’ success in the long term, because these relationships and the resources they provide to business can make it more difficult for rivals to “understand, copy or replace” (Day, 2000, p. 24). Therefore, employing strategies that involve building networks or forming strategic alliances with organisations in foreign markets, while other firms do not can become a source of competitive advantages. Furthermore, ownership advantage can also derive from strategic alliances and networks (Dunning, 1995), and the relationships between New Zealand firms and Alibaba digital platforms can be considered as exploiting such advantage in this study. Dunning (1980) asserts that there are two types of inputs that can generate economic value for firms. The first type is in relation to firms-specific advantages, including technology and other capabilities. Another type of input concerns country-specific advantages, especially for their use in certain locations.

Locational advantages are related to the foreign market choice and are based on the country-specific advantages, such as labour costs, social norms, governmental regulations, market structure and business practices (Dunning, 2000). As a result, the influence of

psychic distance in cultural and business differences should be addressed when firms enter new markets. For example, many firms have entered the Chinese market for its cheaper labour and large market size to exploit these locational advantages; however, a lack of knowledge in doing business with the Chinese and a lack of understanding of relationships have led to unsatisfactory performance (Newell, Wu, Leingpibul, & Jiang, 2016). Since locational advantages are based at country level, compared to ownership advantages, locational advantages are less flexible and difficult to mobilise. Therefore, the choice of foreign market is important for firms' internationalisation, because it involves resource commitment which is difficult to transfer to another location. Hence, it is important for firms to evaluate country-specific resources and their own firm-specific advantages in their entry strategies. Accordingly, ownership advantages and locational advantages are interdependent as firms usually exploit their ownership advantages with locational advantages jointly in order to pursue competitive advantages in a certain market (Dunning, 2000).

Locational advantages are resources that can be deployed outside firms, whereas ownership advantages refer to resources that are within firms, so the importance of internalisation advantages is linked to ownership advantages. Internalisation advantages underpin the decision of firms to retain their ownership advantages within firms instead of licensing them to foreign enterprises (Dunning, 2000). According to Dunning (1980), internalisation advantages arise when it is in firms' best interests to retain control of their ownership advantages rather than selling them. In addition, the concept of internalisation can be widened to encompass external alliances and networks, which can help firms to more effectively achieve the same goals or share risks (Dunning, 1995). The connection among these three elements indicates the importance of evaluating the three elements all at once rather than only focusing on one element, because collectively they can explain firms' internationalisation in terms of market choice and entry strategies.

Although the eclectic paradigm is widely used as a framework of internationalisation, it is critiqued by some scholars. For example, some argue that the paradigm focuses on first mover advantages, and as such there are limited explanations of latecomer Multinational Enterprises' (MNEs) internationalisation process (Buckley et al., 2007). In response, Mathews (2006b) proposed the LLL Model as a complementary to the eclectic paradigm to help address these criticisms.

2.6 LLL Model

The LLL Model, developed by Mathews (2002, 2006) aims to provide an explanation of the internationalisation of latecomer firms that are in shortage of initial resources, knowledge, and social capital, and are distant from major markets. The reason for utilising LLL Model in this study is because New Zealand SMEs generally lack sufficient resources, skills and market knowledge and are not proximate to the Chinese market. Additionally, the LLL Model is useful to explain the internationalisation of SMEs. Moreover, the LLL Model provides solutions to SMEs' internationalisation. There are three elements in the LLL Model: Linkage, Leverage and Learning. The LLL Model is regarded as complementary to Dunning's OLI paradigm as latecomer firms can expand effectively to overseas markets through the combination of linkages (network), leveraging and learning without ownership, locational and internalising advantages (Mathews, 2006b).

According to Mathews (2006b), linkages represent an outward orientation that focuses on acquiring resources that are outside the firms. Latecomers that are lacking in key resources, focus on advantages that can be acquired externally rather than their own advantages (Mathews, 2006b). It is more likely that these latecomer firms find advantages and/ or opportunities through international expansion than through domestic development (Mathews, 2006b). Therefore, internationalisation is important for latecomer firms. However, these latecomer firms will face higher risks and uncertainties in their international expansion than in domestic markets, particularly for SMEs (Mathews, 2006b). As a result, linkages between latecomers and firms in the host countries plays an important role for SMEs to alleviate the risks and uncertainties arisen from their lack of resources and market knowledge. The element of linkage is echoed with the network approach of the Uppsala Model that emphasises the importance of business networks in internationalisation. In addition, the ability to leverage firms' position in business networks is key to the success of internationalisation.

Leverage is described as a method by which a firm can obtain more from a business partnership than its input (Mathews, 2002). As discussed previously, latecomers and SMEs typically lack resources to operate successfully in international markets. Since resources are in shortage, it is important for latecomers and SMEs to leverage from external resources (Mathews, 2006a). Contrary to the concept of asset-exploiting in the

OLI paradigm, the LLL Model emphasises asset-acquisition, which is to acquire assets from business networks. The capability of leveraging the linkages with local firms in host countries plays a critical role in firms' internationalisation (Mathews, 2006b). As a consequence, firms are able to obtain market knowledge, skills and access to foreign markets from external resources.

Learning is critical for latecomers and SMEs to adapt and improve over time. Through repeated application of the linkage and leverage processes, it is likely that latecomer firms and SMEs will learn to achieve effective operations in international settings (Mathews, 2006b). The experiences of several firms' international operations on digital platforms in China are examples of the learning element. For instance, some foreign firms enter China through the Alibaba digital platforms, and then they expand to operate on other digital platforms in China after their success on the Alibaba digital platforms. As discussed earlier in this chapter, the Uppsala Model suggests a gradual accumulation of knowledge in internationalisation. Knowledge can be acquired through linkage, leverage and learning. Therefore, the three "L" elements can help explain the use of digital platforms by New Zealand firms entering the Chinese market. Due to advances in technology and social and economic changes, it has been argued that widely used internationalisation theories such as the Uppsala Model, the eclectic paradigm and the LLL Model fail to explain the accelerated and rapid internationalisation (Oviatt & McDougall, 1997; Skudiene, Auruskeviciene, & Sukeviciute, 2015). As a result, the born-global Model emerged to reflect advancing international activities.

2.7 Born-Global Firms

In contrast to the traditional modes of staged internationalisation, born-global firms take a different path in their internationalisation. According to Oviatt and McDougall (1994, p. 49), a born-global firm is defined as "a business organisation that from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries." Knight and Cavusgil (2004, p. 124) assert that born global firms "seek to derive a substantial proportion of their revenue from the sale of products in international markets" rather than operating in domestic markets before venturing overseas. Therefore, born-global firms advance to various markets shortly after their inception, leapfrogging the traditional sequential stages of internationalisation. The pace of internationalisation of born-global firms tends to be relatively faster than that of

traditional firms. Although born-global firms are different from traditional firms, they share several characteristics. For instance, business network partnerships also play an important role in born-global firms' internationalisation because they enable firms to access market and experiential knowledge from others rather than accumulating the knowledge themselves (Chetty & Campbell-Hunt, 2004). The knowledge obtained from firms' business network is an essential resource that helps facilitate firms' internationalisation strategies. As discussed previously, exogenous variables will affect firms' internationalisation strategies. As a result, changes in the international business environment and their impacts, especially in technological advances need to be addressed.

2.8 Development of ICTs and Internationalisation

The development of ICTs has changed traditional business practices and social norms, including internationalisation strategies. For example, owing to globalisation and development in the field of ICTs, it is easier for firms to obtain access to international markets, customers, suppliers, retailers, distributors, logistics and network partners (McDougall & Oviatt, 2000). Skudiene, Auruskeviciene, and Sukeviciute (2015) also posit that the Internet, ICTs and e-marketing offer new opportunities for conducting business across borders. One of the most significant characteristics of e-commerce is that it enables business connections with a large amount of people rapidly at relatively low costs (Yamin & Sinkovics, 2006). Moreover, the advance in ICTs increases interactivity with consumers via connection on the Internet (Varadarajan & Yadav, 2002), which helps firms obtain market knowledge and experience.

According to Yamin and Sinkovics (2006), the experience that firms acquire from online interactivity allows firms to understand consumer behaviour and preferences and gain insights into the environmental differences of foreign markets, and thus reduce psychic distance. Moreover, advance in e-commerce can also help alleviate the effect of psychic distance (Arnott & Matthyssens, 2001). Without advances in ICTs, time and costs of communication would have been considerably higher, and might have been impossible for firms to conduct internationalisation through digital platforms. In addition, Arenius, Sasi, and Gabrielsson (2006) use the case of a knowledge intensive company to assert that the Internet can provide a worldwide sales channel that mitigates the effects of liability of foreignness, overcomes resource scarcity, and hence helps to speed up firms' internationalisation process. Indeed, the Internet can help enhance knowledge acquisition

by improving information availability and usage and interactive communication (Mathew, Healy, & Wickramasekera, 2012). McCreary (2009) points out that the advance in the Internet and ICTs impact business execution and innovation, and highlight the fact that digital platforms such as Amazon have changed the landscape of supply chain management. Another example, Alibaba, a digital platform in China has been linked to new business practices, particularly in relation to SMEs that can utilise the scale of Alibaba to overcome some of the barriers faced in internationalisation (Barczyk, Falk, Feldman, & Rarick, 2011). With the use of digital platforms, SMEs are able to connect directly with consumers and suppliers all over the world and start internationalisation quickly despite their company size and resource scarcities (Manyika et al., 2016). Han et al. (2015) use a case study of a Korean fashion retailer to argue that its success depends considerably on strategic alliances with the digital platform of Alibaba. However, despite the many benefits derived from the ICTs, ICTs also has a negative influence on firms' internationalisation. For instance, Arnott and Matthyssens (2001) point out that markets turn into saturation faster than before due to the prevalent use of the Internet in business and the presence of more internationalised firms.

Previous studies listed above have illustrated how ICTs impact business practises from various point of views in different contexts. There are also studies that explore New Zealand SMEs' internationalisation, including models of internationalisation (Scott-Kennel, 2013), barriers to internationalisation (Shaw & Darroch, 2004), internationalisation strategies (Kingshott & Pickering, 2005) and etc. In addition, research has been conducted to investigate the role of digital platforms, such as Alibaba and Amazon from business perspective. However, there are gaps around the impact of ICTs on SMEs' internationalisation, especially in the context of New Zealand and the role of Alibaba digital platforms. Therefore, the aim of this study is to explore the use of digital platforms by New Zealand SMEs entering the Chinese market, focusing on the Alibaba digital platforms.

2.9 Summary

This chapter provided a discussion on previous literature that underpins the theoretical background of this study. The theories suggest that the resource constraints and liabilities of foreignness are common entry barriers for companies' international expansion. In

addition, knowledge is a critical element for firms' international expansion, even if they are born-global companies. In order to succeed in international markets, it is important for firms to exploit their ownership advantage with host country locational advantage. Moreover, it is critical for SMEs to establish business networks to seek resources externally and leverage such relationship to achieve better international performance. ICTs play a key role in international business. Therefore, it is important to explore the impact of digital platforms on firms' internationalisation. Despite the important role of ICTs in internationalisation, there is limited literature that provides insights of the use of digital platforms on entry strategies of SMEs, particularly in the context of New Zealand and China. Therefore, the focus of this study lies in the use of Alibaba digital platforms by New Zealand firms entering the Chinese market. The methods used to explore this topic will be covered in the next chapter.

Chapter 3: Background of the Case

3.1 Introduction

The previous chapter presented the literature in the barriers to entry for internationalising firms, and the prevalent models used to understand firms' entry decisions. The previous chapter also discussed the important role of ICTs on firms' international operation, including entry decisions. However, this is a topic which is under researched. This research focuses on the use of digital platforms by New Zealand SMEs in entering the Chinese market. In this chapter, a brief background about the topic will be covered. Firstly, a brief overview of the New Zealand business context is presented. Secondly, the experience of New Zealand SMEs' internationalisation is discussed in terms of entry barriers, drivers for internationalisation and entry modes. The relationship between New Zealand and China and the NZ-China Free Trade Agreement (FTA) are introduced, followed by a discussion on the business context of China and a brief introduction about the importance of the Alibaba platforms to the Chinese business environment.

3.2 New Zealand Context

New Zealand is a small open economy that relies heavily on other countries for its economic development (Simmons, 2002). According to the New Zealand Minister of Foreign Affairs and Trade (2013), Australia, China, ASEAN countries, Europe and the United States are important trade partners for New Zealand. In 2015, the total goods and services exports of New Zealand were worth NZ\$69.3 billion, with goods exports worth NZ\$49 billion and services exports worth NZ\$20.3 billion, which accounts for approximately 30% of its GDP (Statistics New Zealand, n.d.) . FDI also plays a substantial role in a country's economic growth (Alfaro, Chanda, & Kalemli-Ozcan, 2004). New Zealand's stock of FDI stands at 38% of GDP and its stock of outward FDI stands at 9% of GDP (MBIE, 2015). Companies with FDI contribute around 20% of employment in New Zealand (MBIE, 2015). Traditionally, New Zealand firms tend to choose Australia as their major foreign market due to geographic proximity and approximately half of New Zealand's outward FDI (55%) flows into Australia (MBIE, 2015). Nowadays, more and more firms in New Zealand, especially SMEs are looking to China to expand their business.

3.2.1 New Zealand SMEs

SMEs comprise approximately 97% of all New Zealand enterprises and they are regarded as the backbone of New Zealand's economy (MBIE, 2012). According to the Ministry of Business, Innovation and Employment in 2014, a significant contribution to the New Zealand labour market has been made by SMEs, constituting approximately 30% of the workforce. More, SMEs not only contribute 30% of New Zealand's GDP, but also provide innovation and invention to the market (MBIE, 2014). However, over 75% of all New Zealand firms have focused solely on the domestic market, because they face a lot of difficulties in expanding overseas (MBIE, 2014).

3.2.2 Barriers for New Zealand SMEs' Internationalisation

The barriers for New Zealand SMEs' international expansion are due to both firm-specific factors and country-specific factors (Scott-Kennel, 2013). On one hand, New Zealand SMEs tend to have limited financial resource; on the other hand, many major foreign markets are relatively distant for SMEs due to New Zealand's distinct geographic location (Simmons, 2002). One of the most common barriers for SMEs' internationalisation are limited experience in expanding their business overseas and shortage of specific market knowledge (MBIE, 2014). As well as the above barriers, difficulties in getting access to financial capital and distribution networks, distance from overseas markets and risks of foreign exchange rate volatility also constitute key challenges faced by New Zealand SMEs (MBIE, 2014). Since these barriers are closely linked to psychic distance and liability of foreignness, it is important for firms to seek resources externally by forming business networks and acquire market knowledge through such partnerships to help develop their business internationally. Despite the existence of significant barriers, a proportion of New Zealand SMEs still seek opportunities in overseas markets.

3.2.3 Drivers for New Zealand SMEs' Internationalisation

One of the key drivers of New Zealand SMEs' internationalisation is to expand beyond New Zealand's small domestic market to pursue further growth and expansion (Akoorie & Enderwick, 1992; Scott-Kennel, 2013). Indeed, New Zealand's international competitiveness ranked 72 among 140 countries in terms of market size in 2015 (WEF, 2015), which implies New Zealand's small domestic demand and the need for its firms to internationalise. Moreover, New Zealand implemented economic reform in 1984, since

which, New Zealand has become one of the least regulated markets in the developed world and hence the level of competition in New Zealand's domestic market has increased (Evans, Grimes, & Teece, 1996). Since the liberalising of the New Zealand economy and the removal of tariffs after reform, it has become easy for firms from other countries to enter this market and compete with local firms. Due to the rising competitive pressures, it is necessary for New Zealand firms to seek various ways to survive and grow in the face of global competition. In addition to expanding beyond the small domestic market, seeking innovation and technology, networks and knowledge and skills constitute main drivers for internationalisation (Scott-Kennel, 2013). In association with international expansion, common entry modes adopted by New Zealand SMEs are discussed in the next section.

3.2.4 Common Modes of Entry for New Zealand SMEs

New Zealand firms' internationalisation tends towards an incremental process through exporting to geographically proximate countries and then expanding to relatively remote markets (Simmons, 2002). However, SMEs tend to take a different approach by internationalising rapidly from their inception and jumping in stages (Scott-Kennel, 2013). Moreover, Scott-Kennel (2013) found that a large proportion of New Zealand firms heavily rely on exporting as their entry modes. Acquisition, as a form of FDI, is a common entry mode for large firms in New Zealand; however, SMEs tend to continue exporting for a longer period of time (Scott-Kennel, 2013). In addition, exporting directly or through agents represents the major or only foreign entry mode for a large number of New Zealand firms (Bayfield, Dana, & Stewart, 2009). To mitigate the effect of entry barriers, New Zealand firms tend to start internationalisation in geographically proximate markets. For instance, Australis is usually the first choice of foreign expansion for many New Zealand companies. With a large consumer base and economic growth, China is becoming another destination for New Zealand business.

3.3 New Zealand's Relationship with China and the FTA

China has a population of approximately 1.4 billion (NBS, 2009-2015), and has experienced rapid economic growth since the beginning of the 21st century, illustrating its rising impact on the world economy. New Zealand started formal diplomatic relations with China in 1972 and since then the relationship has developed rapidly (ACRI, 2015).

New Zealand's exports to China were nearly NZ\$6 million in 1972, and then increased to NZ\$177 million after 10 years (Statistics New Zealand, n.d.). By 2003, New Zealand's exports to China were NZ\$1,376 million, accounting for 4.8% of the total GDP (Statistics New Zealand, n.d.). In 2008, New Zealand became the first developed country to sign the Free Trade Agreement (FTA) with China and exports to China have reached 20% of New Zealand's total exports (MFAT, n.d.-b).

Within four years of signing the FTA, China was positioned as the second largest trading partner and the largest importer to New Zealand (Lynch, 2012). Goods trade between New Zealand and China doubled between 2009 and 2014, reaching NZ\$20 billion (MFAT, n.d.-b). China overtook Australia to become New Zealand's largest trading partner in 2013 (MFAT, 2013). A large proportion of New Zealand's exports to China are milk powder, meat, wool, logs and other products from the primary sector, and the majority of imports from China are computers, telecommunications equipment, apparel and toys (Treasury, 2015). According to the National Interest Analysis Report (MFAT, n.d.-a), entering the FTA with China will help New Zealand trade and investment obtain access to the Chinese market to achieve growth and expansion; raise New Zealand firms' commercial profile among Chinese companies; facilitate customs procedures and cooperation; and reduce barriers of doing business between these two countries. Moreover, the NZ-China FTA is considered as a unique competitive advantage for New Zealand firms, due to the reduced cost of tariffs in exporting (MFAT, n.d.-a). In addition, NZ-China FTA also enable New Zealand firms to utilize such governmental alliance to obtain ownership advantage.

3.4 China Market Background

In order to understand the barriers faced by New Zealand firms considering entry into the Chinese market, it is important to briefly consider the unique China context, including its political system, economic reform and growth and consumer behaviour.

3.4.1 Reform and Economic Growth

The Communist Party became the governing party after the establishment of the People's Republic of China in 1949, and its principles have led to a legal, political system that manages domestic and foreign trade under a pervasive government regulated economic

system (Liao & Yu, 2015). Previously, China's seclusion from the outside world has resulted in a lag in economic development; however, the Chinese government recognised that an isolated economy associated with highly regulated governmental control was inhibiting China's ability to compete internationally (Blanchard, 2013). As a result, in 1978, China implemented reforms aimed at opening up and invigorating the domestic economy in order to integrate into the global economy and leverage the economies of scales to better utilise resources and manage the distribution of goods. China's exports increased from US\$ 300 billion to more than US\$ 1.5 trillion between 2001 and 2010 and it became the largest trading country worldwide (Blanchard, 2013). Moreover, after the implementation of economic reform and partnership in the WTO, China grew rapidly with an annual average GDP growth rate of 10.5% between 2001 and 2010 (IMF, n.d.). Although China is more open than before, protectionism of certain industries can still be found in China despite of its economic reform and liberalisation, which imposes challenges on the international operation of foreign firms.

3.4.2 Market and Institutional Environment in China

China's market and institutional environment is considered different from its west counterparts, including commercial customs (Ahlstrom, Young, Nair, & Law, 2003). However, government protection for domestic industries and companies is similar to many western countries. According to Enderwick (2011), international trade leads to increasing dependency on other countries, because countries tend to focus on their core competences to produce certain products and provide certain services in exchange for products and services that are provided by other countries. Such exchanges usually result in a lag in certain industries of one country, compared with other countries. Therefore, safeguards such as trade tariffs and restriction on FDI are typically utilised as a means of protecting home industries, such as telecommunication, financial services, or energy (Enderwick, 2011). Chinese's government has launched regulations in several sectors that deter foreign investment to protect certain industries from foreign competition. Moreover, policies may change rapidly in China. In relation to this study, health food-related products through cross-border e-commerce platforms also need to be registered in China, something that did not occur before July 2016 (MOF, 2016). This new policy has a significant impact on New Zealand firms, especially for SMEs. This is because the old policy allows firms in such industry to bypass registration process if they enter China through digital platforms, which could save considerably in financial resources. It is

necessary for New Zealand firms in such industry to invest financial capital and time to obtain registration so that they can sell their products online in China after the implementation of the new policy.

In recent years, there have been serious food safety issues in China, which are considered resulted mainly from market and institution failure (Zhang, 2015). There are growing number of Chinese consumers concerning over food made in China and the domestic market experiences difficulties in providing trust to local consumers. Such market and institution imperfection creates opportunities for foreign food companies to sell their products in China, including New Zealand firms. Since market and institutional environment will affect firm decisions and behaviours (Huang & Sternquist, 2007), it is important for New Zealand firms to take China's economic, market and institutional environment into consideration in their entry strategies. Furthermore, understanding consumer behaviour in China is also critical for firms to enhance business performance.

3.4.3 Consumer Behaviour in China

According to Atsmon, Magni, Li, and Liao (2012), with the increase in disposable income in households in China, there are two major trends in terms of spending patterns among Chinese consumers: increasing discretionary spending and preference for premium products. The spending of Chinese consumers has changed from products to services and moved into premium segments, and consumers who seek the best and highest priced products have increased considerably over the last few years (Zipser, Chen, & Gong, 2016). Such trends attract many companies entering China, including New Zealand firms. Moreover, Atsmon et al. (2012) point out that there are increasing demands for convenience among consumers regarding shopping. Online shops, along with online payment systems, shopping applications on mobile devices and logistic services provide a solution to meet consumers' need for convenience. By the end of 2015, the Internet penetration rate in China has reached 50.3% and there were approximately 688 million Internet users in China (CNNIC, 2016). The e-commerce market in China was valued at approximately RMB 4 trillion in 2015 (Zipser et al., 2016). Such business environment has created a lot of opportunities for foreign firms, including New Zealand firms. A large number of foreign brands have opened flagship stores on Alibaba digital platforms. As such, Chinese consumers' preference to buy products online encourages firms to open online shops on digital platforms.

3.5 Alibaba Digital Platforms

Alibaba Group has four major digital platforms, Alibaba.com; Taobao.com; Tmall.com and Tmall Global site. Alibaba Group also holds various other businesses, for instance, Alipay, the third-party online payment platform, playing an important part of its business by supporting the financial needs of consumers and companies (Jung, A., & Liow, 2015). Alibaba.com is Alibaba Group's original business-to-business (B2B) platform, which aims to connect buyers and sellers worldwide. Taobao.com, is a consumer-to-consumer (C2C) based website, similar to eBay.com. However, the focus of this study is Tmall.com and its global site Tmall Global that are based on business-to-consumer (B2C) model.

Tmall.com was established in 2008 and the foundation of this website is to create a direct digital platform for brand owners to gain access to a large Chinese customer base, and to meet Chinese customers' rising needs for guaranteed authentic products (TmallGlobal, n.d.). There are a lot of well-known international brands on this website, and all the brands listed on Tmall need to be verified (TmallGlobal, n.d.). Tmall.com makes profits by charging yearly membership fees from the companies as well as commissions on transactions. Tmall expanded into cross-border e-commerce site-Tmall Global in 2014 to attract China's middle- and upper-middle class customers to authentic foreign merchants (Xia, 2016).

Tmall Global works with New Zealand Post which has opened its flagship store on this platform with an aim of promoting New Zealand firms' presence in China. Moreover, Tmall Global is viewed as a digital platform that has hundreds of millions of users each day by which can be exploited by New Zealand firms to grow their business and build brand image in China (Ryan, 2014). The differences between Tmall and Tmall Global can vary a great deal. For instance, products must be registered with China Inspection and Quarantine Bureau (CIQ) on the Tmall website, whereas Tmall Global does not need to comply with CIQ requirements (TmallGlobal, n.d.). However, all the stores listed in these two platforms need to be verified and are charged a deposit, annual fees and commissions (TmallGlobal, n.d.). Stores opened on Tmall need to pay RMB 50,000 or RMB 150,000 as a deposit, an annual fee of RMB 30,000 or RMB 60,000 and commission between 2-5% according to their categories; Tmall Global charges a deposit of USD 25,000, an annual fee of USD 5,000 or USD 10,000 and commission between 3-6% according to the categories (TmallGlobal, n.d.). Since these two platforms are both based on the B2C

model, with Tmall Global focusing on cross-border e-commerce, these two platforms will be used as a guide for identifying New Zealand firms that are using online channels to expand their business in China.

3.6 Alibaba and New Zealand Business

There are at least 307 million annual active buyers on Alibaba's digital platforms, and the total online spending in Alibaba's digital platforms in 2013 was over US\$297 billion (TmallGlobal, n.d.). With such large scale of e-commerce presence and customer base in the Chinese market, New Zealand Trade Enterprise (NZTE) signed a Memorandum of Understanding on 18 April, 2016 and formed a strategic alliance with Alibaba Group to pursue trading partnership and e-commerce with China (Alibaba, 2016). This strategic partnership with Alibaba Group plays a pivotal role in expanding New Zealand businesses in China, because this agreement will enable New Zealand exporters to get access to the potential 2 billion consumers around the world more easily (O'Sullivan, 2016). In addition, former New Zealand Prime Minister John Key said: "NZTE and Alibaba have agreed to work together to provide services aimed at helping New Zealand businesses maximise the opportunities on Alibaba's online platform. This is good news for New Zealand exporters looking to grow their business through direct sales to Chinese citizens." (Beehive, 2016). Similarly, the Chief Executive of NZTE, Peter Chrisp believes that this agreement will provide more opportunities for New Zealand businesses to promote New Zealand's reputation and obtain more consumers (Alibaba, 2016). There are approximately 500 to 600 brands, retailers and merchants from New Zealand gaining access to China through Alibaba's Tmall and Tmall Global digital platforms, and the high performance of these platforms indicates the potential opportunities for New Zealand firms (O'Sullivan, 2016). Alibaba is now focusing on small businesses in New Zealand because of the important role of SMEs in the world economies. Alibaba Group has plans to collaborate with New Zealand SMEs together to reduce costs so that both consumers and exporters can benefit from (O'Sullivan, 2016). Furthermore, the logistic services provided by Alibaba Group has shortened the delivery time to rural regions in China, which supplies more opportunities for New Zealand products, such as fresh fruits and meat, because such shopping experience will stimulate consumers' online purchasing (Arand, 2016). The business networks between NZTE and Alibaba Group also encourages New Zealand SMEs to enter the Chinese market through Alibaba digital platforms. With such relationships between Alibaba digital platforms and New Zealand

business, there are limited studies that provide insights in the use of Alibaba digital platforms on New Zealand firms' entry strategies in China. Therefore, the aim of this study is to explore the use of digital platforms by New Zealand SMEs entering the Chinese market, focusing on the Alibaba digital platforms.

3.7 Research Questions

In the era of technology, digital platforms, such as Alibaba have infiltrated in people's daily life, which provides a great many opportunities for businesses to grow. As the largest e-commerce market and one of the most important trade partner with New Zealand, China has attracted many New Zealand firms to expand their businesses there through Alibaba digital platforms. The strong relationship between China and New Zealand also encourages New Zealand businesses to choose China as their destination of internationalisation. Moreover, using Alibaba digital platforms to enter China offers opportunities to enter China at relatively low cost. Although there are increasing attention to the role of Alibaba to New Zealand businesses international expansion in China, there are limited studies about this issue. Therefore, this piece of research is designed to explore the overarching research question:

- How are Alibaba digital platforms impacting New Zealand firms' entry strategies in China?

with two sub-questions:

- How do Alibaba digital platforms allow New Zealand firms to overcome resource constraints?
- How do Alibaba digital platforms enable New Zealand firms to access networks in China?

3.8 Summary

This chapter provided the background of this study to contextualise the research context. As the backbone of New Zealand economy, New Zealand SMEs suffer from resource constraints, distant from major foreign markets and lack of knowledge and experience in their internationalisation. However, despite such entry barriers, New Zealand SMEs strive to expand internationally to develop beyond the small domestic market and obtain skills,

knowledge, innovation and technology. China is one of the most important trade partners to New Zealand, and China's economic reform and growth has led to its prominent influence in the world. With the growing household income and advance in digital platforms, Chinese consumers increasingly prefer to buy premium products, particularly through online shops. Moreover, Alibaba's strategic alliance with NZTE encourages New Zealand business, particularly SMEs to utilise these platforms as one of the entry strategies in China. Research questions of this study were presented in the last section of this chapter. In the next chapter, the methodology and research design will be outlined.

Chapter 4: Methodology

4.1 Introduction

The previous chapters have introduced the significance of this research topic, the literature underpinning this study and the research context. In this chapter, the methodology and method used in this research will be introduced. Firstly, the ontological and epistemological position underpinning this research will be described. The second section will illustrate the post-positivist theoretical perspectives. The third section will discuss the case study methodology adopted in this study. This chapter then discusses the semi-structured interview method that has been used to collect empirical data, criteria of participant selection, the process of data analysis and considerations of ethical issues.

4.2 Philosophical Position

Philosophical position refers to “the nature of the world and how knowledge about the world could be obtained” (Myers, 2013, p. 24), which underpins the methodological choices and the presentation of findings of the study. According to Grant and Giddings (2002), ontology is defined as an individual’s basic beliefs about the world and the essence of reality. This is the basis for developing an epistemology, because the epistemological position the researcher holds depends on his/her particular ontological position. Epistemology refers to the nature of relationship between the researcher and knowledge, what the researcher thinks knowledge is, and the basis of how researchers build their knowledge (Grant & Giddings, 2002). However, a particular epistemology constrains the research paradigm and also the methodology. Therefore, it is important that the researcher ascertains his/her ontological position before developing the methodology.

“Becoming” ontology emphasises that reality is changing and focuses on the meanings of it, which includes human interactions and contexts of that reality (Gray, 2014). According to Crotty (1998), a constructionist epistemology holds the view that meaning is not discovered, but constructed by individuals or groups from their engagement with realities. Therefore, people may construct meaning that are different from others even when based on the same phenomenon, and the researcher and participants are co-creators of meaning (Crotty, 1998). The intention of this research is to investigate the impacts of the digital platform on New Zealand firms’ internationalisation. These impacts are

embedded in the social environment and meaning is generated through the researcher's interaction with participants' experience and views. Therefore, the "becoming" ontology and constructionist epistemology are adopted in this study.

4.3 Research Paradigm

According to Gray (2014), a research paradigm is defined as a set of beliefs that guide the implementation of a research and how the findings are interpreted. In addition, a research paradigm refers to basic belief systems that are based on ontological, epistemological assumptions (Guba & Lincoln, 2000). Positivism and interpretivism are considered as the two most influential theoretical perspectives in social science (Gray, 2014). Positivists believe that reality is objective and their main purpose is generalisations (Gray, 2014); interpretivists, on the other hand, typically seek for "culturally derived and historically situated interpretations of the social life-world" (Crotty, 1998, p. 67). The research paradigm used in this study is post-positivist, meaning that it contains characteristics from both positivist and interpretivist research paradigms. Post-positivism asserts that experience and context should be taken into consideration; there are multiple views of science and it is impossible to detect the perfect truth due to the flawed ways of observations (Gray, 2014). Post-positivism is similar to the interpretivist paradigm in that it also asserts that the researcher plays a role in determining the studied phenomenon (Clark, 1998). In a post-positivism research paradigm, participants make sense of their experiences and the researcher seeks to understand participants and their experiences (Guba & Lincoln, 1994). Clark (1998) argues that a post-positivist paradigm is generally contextual-bounded and not generalisable to all situations. The aim of this study is to explore how Alibaba digital platforms can impact New Zealand firms' internationalisation strategies in China, without any intention of generalisation. The findings of this study will be contextually related. Therefore, post-positivism is adopted in this study. A post-positivist paradigm usually involves the use of multiple methods and sources to collect data (Creswell, 2013). Furthermore, a post-positivist research is likely to adopt a qualitative research approach (Guba & Lincoln, 1994).

4.4 Methodology: Case Study

Carter and Little (2007) argue that the methodology justifies the methods used in a study whereas methods are concerned with how and what kind of data the researcher wants to

collect. This study adopts a case-study methodology as it complies with the constructive epistemology and post-positivist research paradigm. Case study methodology refers to a qualitative approach in which the researcher investigates a contemporary phenomenon within its context (Yin, 2009). Moreover, the case study approach is considerably useful when the researcher aims to answer a 'how' or 'why' question (Gray, 2014; Yin, 2009). This is because a case study allows the researcher to explore the phenomenon in depth with the help of perspectives from participants (Guba & Lincoln, 2000). In addition, case study methodology tends to place more emphasises on specific people, organisations or settings (Gray, 2014). Moreover, Gray (2014) points out that a case study methodology is especially effective when the researcher aims at revealing the relationship between a phenomenon and its real-life setting, which complies with the research objective. In addition, the description of the context in which the case occurs plays a significant role in helping carry out a good quality case study (Creswell, 2013). In order to answer the research question in depth, it is necessary to provide a detailed description of the New Zealand SMEs, Chinese market context and Alibaba digital platforms. In order to achieve in-depth analysis of the studied phenomenon, a case study methodology typically requires collecting data from multiple sources (Yin, 2009). In this study, existing theories, such as the Uppsala Model, the OLI paradigm and the LLL Model are used to navigate the data analysis process. Primary data from participants and secondary data from literature, government and media reports help the researcher to obtain a deep comprehension of the use of Alibaba digital platforms in New Zealand business.

There are three types case study: a single instrumental case study, collective case studies and an intrinsic case study (Creswell, 2013; Yin, 2009). This research adopts a collective case study approach. A collective case study approach typically contains a group of multiple case studies, which enables the researcher to investigate the phenomenon of enquiry in several settings (Yin, 2009). Moreover, multiple cases enable the researcher to analyse cross cases, which can produce better analysis of the phenomenon than a single case (Yin, 2009). In addition, multiple cases allow for replication, which can increase the validity of the study (Yin, 2009). As stated previously, data collection in case study research usually focus on various sources of information, such as observations, interviews, documents and so forth (Creswell, 2013). In this study, empirical data was collected through semi-structured interviews. Secondary sources include literatures, government reports, newspaper articles and websites.

4.5 Semi-Structured Interviews

An interview is a data collection technique consistent with exploratory research (Gray, 2014). Interviews can be categorised into three types: structured, semi-structured and unstructured; each type has its own distinct characteristics (Myers, 2013). A structured interview is similar to questionnaires with closed questions and in exact order, which makes the data easy to analyse; an unstructured interview on the other hand, generally has no questions prepared ahead and the interviewer improvises guided by the research objectives (Gray, 2014). A semi-structured interview, by its name, is a mixture of a structured and unstructured interview and contains both open and closed questions, while interviewer is able to improvise and ask probing questions to increase the depth of the interview (Arksey & Knight, 1999). In addition, the order of questions can change during a semi-structured interview, and additional questions may occur depending on the response of the participants, which allows the participants to expand their answers (Arksey & Knight, 1999). This study adopted the semi-structured interview method to collect primary data by asking open-end questions about participants' views and experience of the topic of New Zealand businesses using digital platforms as part of their entry strategy in China. Due the exploratory nature of this study, the semi-structured interview allowed the researcher to interact with the participants and ask them to explain their views, thereby providing more detailed information than a structured interview (Gray, 2014). Indeed, Myers (2013) asserts that a semi-structured interview enables the researcher to obtain the contextualised and comprehensive insight into participants' experience, because there is less limitation on participants' answers than that in a structured interview.

The semi-structured interview used in this study lasted for approximately 1 hour, and started with the same basic questions to ensure the consistency of the research (See Appendix I). Three out of four interviews were conducted face-to-face with one exception. One interview was conducted through QQ (video calling) because the participant is based outside Auckland and the researcher did not have enough time to conduct a face-to-face interview due to time constraint. Interview questions were developed from the literature and internationalisation theories. For instance, the question "Why did your company choose China in particular to expand your business?" aims to investigate the reasons for foreign market choice, which could be connected to the locational advantages of the OLI

paradigm. Additional follow-up, probing questions were asked and the responses from each participant help to build a more comprehensive understanding of the topic.

4.5.1 Selection of Participants

The research is designed to investigate the impact of the Alibaba digital platform on New Zealand SMEs' internationalisation strategy in China; therefore, the criteria of participants' selection contained two parts to restrict the number of firms involved. First of all, participating firms needed to be based in New Zealand. Secondly, participating companies needed to sell products in one of Alibaba's B2C digital platforms, either Tmall Global or Tmall.com. After identification of companies fulfilling these criteria, an invitation email was sent to each company to ask for participation in this research, and asking for a representative volunteer from the company to participate in the interview. In this study, the participants needed to be involved in their companies' strategies in China, as well as being involved in the decision-making process. This is because key persons could provide the researcher with insightful information concerning his/her experiences and knowledge about the studied topic (Myers, 2013).

The invitation email was sent to each company's public general enquiry email address and it was asked that the invitation be forwarded to the relevant persons. It was felt that the invited company would know better than the researcher who the best participant would be, thus preventing the researcher from choosing a less appropriate participant. In addition, when the participant contacted the researcher, it could be assured that he/she had agreed to take part in this research and had the required knowledge concerning the topic. The venue of interview was the choice of the participant, either in his/her office or in a public place where the participant felt comfortable. The four interviews comprised the main sources of data, whereas media articles, company's websites and government reports are used to gain a more detailed and comprehensive understanding of the study. The list of selected participants is shown in Table 2.

4.6 Data Analysis

The data analysis technique used in this study is thematic analysis. Thematic content analysis focuses on identifying pattern or themes that continue to occur in the whole dataset, and is widely used to analyse qualitative data (Braun & Clarke, 2006; Oliveira,

Bitencourt, Zanardo dos Santos, & Teixeira, 2016). Thematic analysis is considered flexible and useful and has the potential to interpret data in a rich, detailed and complex way (Braun & Clarke, 2006). Braun and Clarke (2006) categorise thematic analysis into two types: inductive and theoretical thematic analysis. Themes are driven by data in an inductive thematic approach. In contrast, themes emerge from the theoretical interest of the researcher in a theoretical thematic analysis, and the analysis tends to be less rich in describing the overall data, although providing more details in some aspects (Braun & Clarke, 2006). A theoretical thematic analysis is adopted in this research. The data analysis focuses on the themes that are related to the Uppsala Model, the OLI paradigm and the LLL Model and follows a spiral model developed by Creswell (2013).

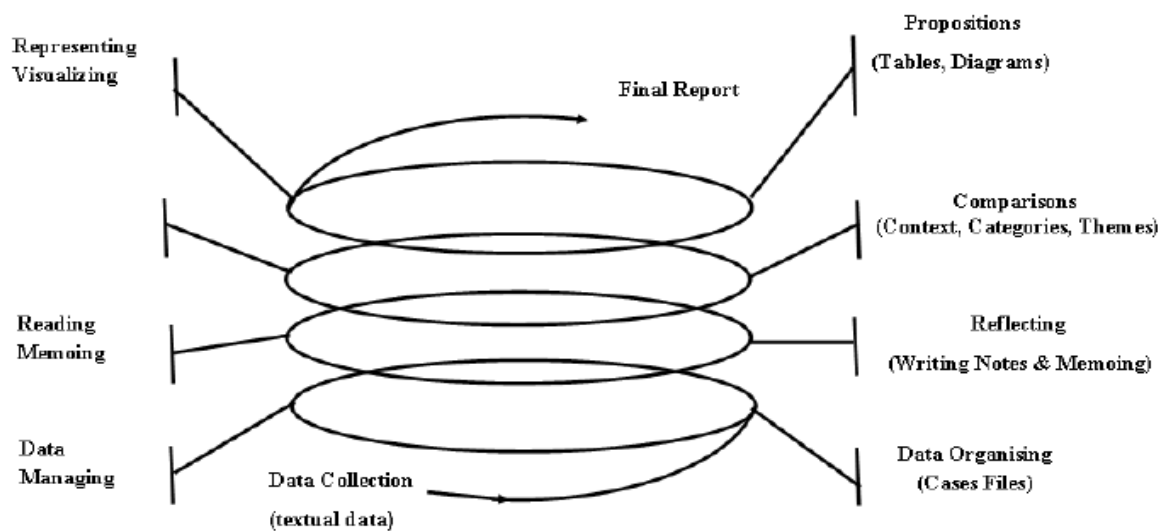


Figure 1: Data analysis spiral adopted from Creswell (2013, p.183)

The first step of analysis was to transcribe the data verbatim from the semi-structured interviews. The researcher personally transcribed the data from recorded tape in order to be familiar with the data (Gray, 2014). Before analysing data, it is necessary to choose an efficient method of managing the data. According to Oliveira et al. (2016), using NVivo, a software package for qualitative data analysis, enables the researcher to manage primary data in one single location, with the ability to modify, connect and cross reference data. Therefore, NVivo software was used to help the researcher organise and analyse data in a systematic way. The coding process is illustrated below in Figure 2.

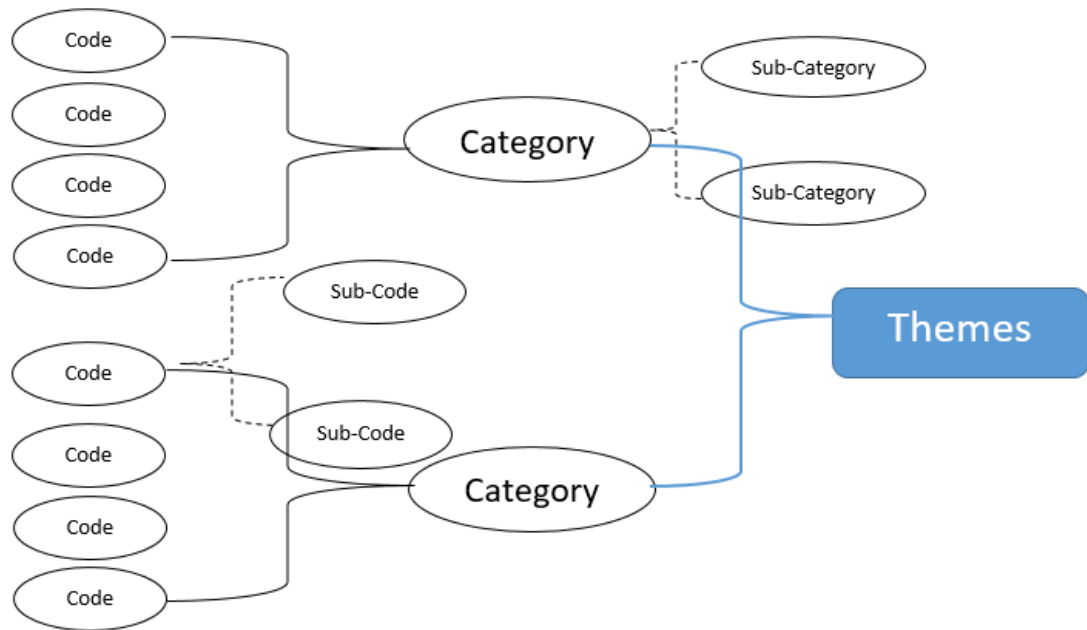


Figure 2: Coding process adopted from Saldana (2013)

The next stage of data coding began with a line-by-line analysis from one data set (one interview transcript) to another, followed by labelling all the texts into various open code to help formulate categories for the next stage. This process was undertaken both within, and across each case. Open coding is the process of breaking down the data into units (Gray, 2014). It is the first process of data classification, including disaggregating, analysing and categorising data (Eriksson & Kovalainen, 2016). After forming an adequate number of open codes, data analysis moved on to review these open codes in order to expand them into more elaborated and richer codes, also called focused coding (Gray, 2014). Some codes were modified to better fit their meanings, and some were merged to avoid overlapping, some were removed as they were considered irrelevant to answer the research question. This process also helped to form the lower level of categories for further coding.

The next step was to read through those codes again, and to identify the connections between them and aggregate them together to form common concepts (See Table 1 below). This process was based on the researcher's interpretations of data, which was able to achieve a higher level of abstraction in analysing data by linking codes together (Eriksson & Kovalainen, 2016). In addition, participants' statements and strong opinions about Alibaba digital platforms were identified and grouped into meaning units. These meaning units were then reviewed and amended in order to develop themes.

Table 1: Common themes across all cases

Core themes	Examples of Codes
China-specific e-commerce business environment	Online penetration in China A way of dealing with trust issues in China Comparison between China and Korea strategies Consumer behaviour in China
Marketing ability of digital platforms	Tmall as bench mark for products Better brand presentation Large scale of selling Build brand awareness
Collective internationalisation	Alibaba and NZTE strategic alliance NZ Post as brand distributors China-NZ FTA-lower duty fee
Cost saving	Bypass registration-save money and time Low cost entry mode Replacement of sales force
“Daigou”-network between New Zealand and China	“Daigou” help develop the Chinese market “Daigou” help build brand awareness

4.7 Ethical Considerations

Since this research involves human participants and their representative companies, there is a chance that the information they disclosed could have caused risks for the participants or their company’s reputation. Before the interview started, the researcher recognised the potential for ethical issues and submitted an ethics application to the Auckland University of Technology Ethics Committee so that approval for conducting this study could be obtained (See Appendix II). After obtaining ethics approval, the researcher started to contact identified companies. The participation information sheet (See Appendix III) stating the aim of the research, potential risks that may arise from the study and the procedure to protect the participants was then sent to each participant along with a consent form (See Appendix IV). In addition, the participants had the right to end the interview at any time and could refuse to answer any question. Moreover, since during the process of the interview, it was possible that the participants could reveal sensitive information

which might put them or their companies at risk (Taylor & Bogdan, 2003), the researcher also provided all participants with opportunities to review their own interview transcript and withdraw any sensitive information. Before the interview started, a written consent form was obtained from each participant, and the researcher again stated the participant's rights to ensure their understanding of the situation. Furthermore, participants were offered a summary of findings to express gratefulness from the researcher to acknowledge their substantial role in this study by agreeing to share their valuable time and insightful perspectives on the research topic.

4.8 Summary

This chapter first introduced the philosophical position underpinned in this study and then discussed the post-positivist research paradigm adopted by the researcher. A multiple case study methodology is utilised to investigate the topic. Four individuals from New Zealand firms participated in this study, constituting the primary participants. Semi-structured interview method was used to gather primary data. Thematic content analysis was used to analyse empirical data. In the following chapter, the findings of this study will be presented.

Chapter 5: Findings

5.1 Introduction

The previous chapter introduced case study methodology adopted in this study. In this chapter, the findings from in-depth semi-structured interviews are presented. This chapter is organised in two main sections. In the first section, an overview of participants' profiles is presented. The second section discusses and compares the responses of the participants within, and across the four cases. Findings are presented in the impact of digital platforms on New Zealand firms' internationalisation strategies in China in terms of five main themes – China- specific e-commerce business environment, marketing ability of digital platforms, collective internationalisation, cost saving, and the “Daigou”-network between New Zealand and China. Barriers to enter the Chinese market faced by studied firms will be presented in Chapter Six – Discussion to further analyse the impact of Alibaba digital platforms on the entry barriers.

5.2 Case Profile

In this section, a table of participating firms will be presented in the next page. The table contains key characteristics of the studied firms, including established year, company size, strategies undertaken in China and so forth. The table is at the next page.

Table 2: Case profile of four studied firms

	Firm A	Firm B	Firm C	Firm D
Year established	1923	2004	1992	1992
Industry	Natural & Health products			
Size (staff number)	60	170	8	120
Company status	Acquired by a large company in 2015	Merged with another big company in 2016	Privately held	Acquired by another company in 2010
Export in business	30%	Global Approach	60%	80%
Internationalisation pattern	Incremental	Born-global	Incremental	Incremental
Internationalisation stage	Exporting through local agents	Exporting through local agents	Exporting through local agents	Sales subsidiary
Major foreign markets	South Korea, China	Europe, America, Middle East, Japan, China	Hong Kong, Taiwan, South Korea, Thailand, China	UK, German, China
Year entering China	2013	2010	2010	2012
Strategies in China	Focus on digital platforms, limited physical presence	Focus on traditional retail channels, also cover digital platforms	Focus on digital platforms, small scale of physical presence	Only sell on digital platforms
Major digital platforms	Flagship store on Tmall Global	Flagship store on Tmall Global	Sell on NZ Post flagship store on Tmall Global	Flagship store on Tmall.com
Participants' ethnicity and background	Chinese	Chinese	Chinese	Non-Chinese but experienced in Asia business

5.3 The Impact of China-Specific E-commerce Business Environment on Participating Firms' Strategy

The use of digital platforms by New Zealand firms entering China is related to China's specific e-commerce business environment. China has the largest e-commerce market in the world, including C2C, B2B and B2C business models, which generates various opportunities for foreign businesses. According to Dunning (2000), locational advantages are less flexible and difficult to mobilise, which requires firms to combine their ownership advantages with host country-specific resources to achieve competitive advantages. The Firm C participant claimed that Chinese consumers prefer buying foreign products online. In support and demonstrating difference across the Asia region, Firm A focuses its strategies on physical stores in South Korea, whereas emphasises digital platforms in the Chinese market. Therefore, the e-commerce business environment in China encourages New Zealand firms to adopt strategies that include online channels when they enter China.

Nowadays, Chinese consumers can buy most international brands through those digital platforms. Both local companies and foreign firms have online presence to meet consumers' needs under China's particular e-commerce business environment. Indeed, all four cases pointed out that the prevalent e-commerce business environment in China exerts an important impact on their international strategies in China because it enables studied firms to obtain access to large consumer base. For example, the participant from Firm A stated that,

If you look at like offline, the percentage of foreign goods in offline stores is probably about 5%, and the percentage of foreign foods on online stores is probably about 40%. So as a percentage, foreign products occupy a much larger percentage of the online stores...Oh, we cannot use Tmall Global. They have 60% of the market, if you exclude yourself from 60% of the market, you lose 60% more of yourselves. And in the food place, they probably have more than 60% of the market...if they weren't there, we probably would lose over half of our sales. (Firm A)

With only 8 employees, Firm C is the smallest New Zealand company among all the participating firms investigated and it sells products through NZ Post's flagship stores on Tmall Global. The participant from Firm C emphasised the importance of focusing its strategies on online digital platforms, rather than traditional offline retail channels, and stated that,

Online platform is much more convenient, comparing to the offline ones which require complicated documents before putting the products on

shelf – online platforms don't need such. It also targets a wider market and easy for us to control the price and promotions and monitor its performance in NZ...For the online platforms, we are trying to penetrate into various platforms so customers can easily find our products. (Firm C)

Furthermore, Firm D is the only company that solely sells its products on online digital platforms rather than retail stores, because it found it difficult to sell the products in a physical store when it first entered the Chinese market. The participant from Firm D also pointed out that the means of doing business in China is quite different to anywhere else, and this country-specific context is one of the reasons that Firm D only sells its products online in China.

Well, it's different in a, for us, you know the e-commerce environment is bigger I mean. It's actually surprising it's not that much big in America in sense of, you know America is about 8% of purchase made online, and China is 11, there are a lot more people in China, and the speed of everything is much greater. The use of technology is much greater, and that's great for us...That's where China is so far ahead today of anywhere else. So far behind in other ways, but so far ahead in those digital e-commerce area, so far ahead...I think e-commerce in China is fabulous, it's exciting and power of Alibaba is unbelievable, its ability to expand...I think the e-commerce platform is just, they are showing the rest of the world how to transact online. (Firm D)

Firm B expanded its business to overseas markets from its inception with a relatively high unit price for products compared with other firms. According to the participant from Firm B, traditional retail selling is more important than online channels and the participant considers online digital platforms as a complementary selling channel for its business in China. However, with approximately 10% of its sales from online platforms, he also pointed out that the selling volume is still more substantial than other companies listed on Tmall Global. In addition, there is a need for this firm to cover online platforms because of China's specific e-commerce business environment.

You know because this product is very expensive and for brand promotion, for any products, for brand promotion, brand awareness, online is important, but online market, it doesn't mean the most important, especially if you want to promote your brand, and if you want your brand awareness is growing strong in some markets, retail is the most important thing...Maybe online selling is only 10% I think, maybe, online selling is not too much, but keep going up. Maybe I think is not too much, but for other brand, that is really big selling. (Firm B)

Owing to the penetration of e-commerce in the Chinese market, three out of four New Zealand companies (Firm A, C, D) have been impacted by placing a significant proportion

of their resources and commitments on digital platforms. Even for born-global firm (Firm B), online channels could still generate a significant volume of sales.

5.3.1 The Rising Digital Platform: WeChat Used by Participant Firms

WeChat was originally designed as an application to allow people to communicate with each other. The number of active users has been rising since its launch and it has become a strong social media platform for firms to develop official accounts as a means of communicating with consumers. Its new functionality allows both individuals and companies to open virtual shops on the platform. Although the scale of WeChat's online shops cannot compete with Alibaba's digital platforms, its importance in the Chinese market is growing. In addition, WeChat has the ability to connect market message and purchase, which can enhance sales and marketing performance. According to the participant from Firm D,

We've got 7 or 8 WeChat groups, and we've got 15,000 WeChat followers, and we got 230,000 followers in Weibo, but WeChat for us is much better because it's one to one rather than one to many. And the real key is the ability to drive between the marketing message and the purchase. (Firm D)

The participant from Firm A expressed that if WeChat continues to grow, his company will also consider open shops on WeChat; however, currently, WeChat is more a marketing tool to build brand awareness for Firm A than a selling channel. Furthermore, the participants from Firm B and C consider that WeChat is a useful tool for communication with their distributors in China.

5.4 Marketing Ability of Alibaba Digital Platforms

There are a wide range of digital platforms in the Chinese market, some focus on a specific range of products, some are more general. Out of all these platforms, Alibaba's digital platforms have the largest market share and rank the highest among others in terms of business performance (Xia, 2016). As a result, many New Zealand firms have built business partnerships with Alibaba digital platforms to sell their products in China. As stated previously, online channels can target a wider market for firms. Networking with digital platforms, utilising China's e-commerce environment, and the potential of leveraging the marketing ability of those digital platforms also leads to studied firms using digital platforms to enter China. According to Day (1994), marketing capability refers to

a series of processes that aim to utilise firms' knowledge, assets and resources to adapt to market conditions, add value to the companies, and make use of market opportunities. In this study, one reason why the participating firms chose to enter China through digital platforms is because of the marketing capabilities that Alibaba digital platforms can provide. With a large population enjoying shopping online, through forming networks with digital platforms in China, New Zealand firms can benefit from these networks by creating more brand awareness and better understanding Chinese consumers. The marketing ability of these digital platforms comprises intangible resources that studied firms can make use of through networks with them. Such partnerships also help studied firms offset their inefficiency in marketing activities.

A lot of consumers would like to shopping from overseas website... So I think those platforms like Tmall, overseas flagship stores can actually attract a lot of attention....So for some customers who try to do some research, for example, they are quite interested in certain products. But they don't know how good they are, they don't know much about the product. They normally go to the Taobao or Tmall to do some research on it. If you can, if they can see wow there got a little views, a little sales, these must be something good. So I think if we have here, and the Chinese customers can see us there. If you are not there, even though we are quite popular here, they cannot find any information about us. So I think to us, it's more like, I think to build brand awareness. (Firm C)

Considering the number of active online shoppers in China and the marketing abilities of digital platforms, three out of four firms under investigation confirmed that their successes depend highly on those digital platforms. Indeed, having products listed on one of the most popular digital platforms in China can help New Zealand firms build up their brand awareness as they will receive a significant amount of attention from Chinese consumers. Moreover, digital platforms also provide advice to participating firms on how to develop relationships (Firm A).

So when the consumers, even if they don't buy specifically from Tmall Global, the flagship stores are used as a bench mark and as a platform, so people understand and learn more about the brand. (Firm A)

In addition, the participant from Firm D also agreed that the main benefits of using digital platforms to enter China include increasing brand recognition among consumers and business growth. He stated that,

Well, the main benefits I think are the developing a business that are growing 100% last year, and we would probably grow I don't know, maybe 50% again this year....And we start to achieve some brand recognition. (Firm D)

Although Firm B's internationalisation strategies in China focus on traditional retail channels, the firm also realises that more and more Chinese consumers are willing to buy products online, so it is also important for Firm B to develop online selling channels as complement to its traditional retail channel to meet such needs.

5.5 Collective Internationalisation

According to Dunning (1988), the ownership advantages of a firm result from firm-specific tangible and intangible assets. The reputation of a firm can be considered as an intangible resource that creates ownership advantages, which could result in competitive advantages. All participants in this study shared the same perspective. Moreover, they all considered that their New Zealand heritage had led to competitive advantages in China. Typically, foreign firms will face discriminatory attitudes of customers in host countries due to liability of foreignness (Chen et al., 2006). However, in China's specific setting, local consumers prefer foreign products as they consider that the quality of goods is higher than that of local products. The reason behind that is because China's market and institutional imperfection fails to provide trust to its domestic consumers, which enables New Zealand firms to leverage their reputation in China. There are trust issues of products made in China among Chinese consumers, especially after the milk scandal in 2008. Product safety issues has led to Chinese consumers' preference in purchasing foreign goods. In addition, the New Zealand Trade Enterprise (NZTE) has worked cooperatively with Alibaba's digital platforms to help New Zealand SMEs enter China. NZ Post also opened flagship stores in Tmall Global to help New Zealand SMEs build their brand awareness in China through Alibaba digital platforms. Moreover, Alibaba Group also has plans to collaborate with New Zealand SMEs together to reduce costs so that both consumers and exporters can benefit from (O'Sullivan, 2016). These collective forms of internationalisation can provide New Zealand SMEs with economies of scale and scope to help mitigate the resource constraints and increase competitiveness. In this study, participants from firms A, C, D considered that digital platforms are a solution to alleviate consumers' doubt of products' authenticity. As a consequence, the collaboration between Alibaba and NZTE and Chinese consumers' trust in digital platforms positively encouraged studied firms to choose digital platforms to enter China. Furthermore, the combination of both New Zealand's reputation and China-specific consumers' preference for foreign goods resulted in the interviewed firms' focus on digital platforms rather than

traditional retail channels (Firm A, C, D). The linkage with digital platforms and NZTE offers enabled studied firms to acquire access to millions of Chinese consumers.

There is a massive concern about Chinese made products, and the consumers in China are willing to pay the premium for having that confidence and having products made overseas...People look to that those flagship stores for credibility and the potential that they get a genuine product. (Firm A)

The participant from Firm C considered that New Zealand projects an image of a clean and pure country to Chinese consumers, which attracts them to buy New Zealand made products. Similarly, the participant from Firm A asserted that the reputation of the company in New Zealand offers them competitive advantages against other firms. Moreover, the respondent from Firm D also agreed that the image of New Zealand is an advantage for New Zealand firms in China and provides a useful approach to address the trust issues among Chinese consumers in terms of products' safety and quality.

New Zealand is not everything that our brand is about, but in certain market, it's an advantage... So in China, that would be a good example where New Zealand has a strength. You know, because obviously, food safety is still in paramount importance and generally research says that Chinese consumers don't tend to trust a lot of process that are made in China. New Zealand is seen as a good source of approach. (Firm D)

So in most of the cases if they buy through cross-border e-commerce, chances are that they get the authentic ones. (Firm C)

The agreement between NZTE and Alibaba will encourage New Zealand firms to choose digital platforms to enter China. Such collective ways of internationalisation can help alleviate uncertainties and manage risks as they can learn from each other. However, it is critical for New Zealand firms to develop differentiation when collective internationalisation develops to a certain scale, because the advantages of made in New Zealand might disappear when they compete with similar products that are also made in New Zealand (Firm D). Although Chinese consumers show preference for products made overseas, products made in foreign countries other than New Zealand can also attract them in the same way as New Zealand products do. Therefore, the advantage of made in New Zealand might only exist when the competitors are local firms. It is helpful to enter China collectively with other New Zealand firms, but it is important for firms to develop other competitive advantages that differentiates them from others.

5.6 Cost Saving

International operations are often associated with a significant commitment of capital and resources. Transaction cost theory argues that firms' entry strategies are effected by the costs of finding, negotiating, and evaluating the performance of potential business partners (Brouthers, 2002; Williamson, 1979). In addition, Brouthers (2002) points out that firms tend to use joint venture modes of entry when host countries have a lot of legal restrictions. In this case, the Chinese market is characterised by a relatively high number of regulations, which led to the investigated firms' choosing to form business relationships with local organisations. In this study, these local organisations are digital platforms that can help New Zealand firms bypass the product registration process in China, which typically involves a great deal of cost and time. Therefore, considering the cost and time saved from registration, if firms choose to sell through traditional retail channels, entering through digital channels can be viewed as a way of obtaining competitive price against other competition. Furthermore, New Zealand has signed FTA with China, which also helped New Zealand firms save a large amount of duty fees. However, foreign firms usually encounter additional costs compared with local companies, which typically results from the nature of their foreignness (Chen et al., 2006; Lou & Mezas, 2002). Although additional costs resulting from liability of foreignness will still exist, using digital platforms can at least counteract some costs, including both registration costs and costs saved from retail channels. Therefore, entering China through digital platforms help investigated firms overcome resource constraints in terms of financial capital and time.

Often I'd say (digital platforms) low cost entry method into the market...So it's replacement for bring more infrastructure...we would have to have thousands sales people in China telling our story, now because it's all online, people can do it themselves, it's great. It takes out a bunch of middle steps, and takes out a whole bunch of costs. (Firm A)

Even though Firm B has a focus on traditional retail channels, its participant also considered that using digital platforms is helpful for firms that have difficulties in getting registration in China. This perspective aligns with the participants from Firm A, C, and D.

Some skin care product, you have to register them first in China, and then you can formally do the general trading exercise, and export them to China...and if you don't want to register them first, if you want to save time, that's, uh you know we have Tmall Global. (Firm B)

Firm C has relatively limited resources, so its strategy in China is to sell products with the help of NZ Post. It is difficult for Firm C to afford the costs of opening a direct flagship store in Tmall Global, and the registration process in China is time-consuming and expensive. Therefore, the participant from Firm C considered that using digital platforms is the only way for the company to enter China legitimately.

The thing is that it's actually quite hard and expensive to have a store directly in Tmall...it's really expensive to pay for the deposit...It's actually quite, gonna spend quite a lot of money to have the products registered... So it's, I think one of the most important hard thing for us is the product registration...because as I mentioned some of the products cannot be registered, so we cannot sell in the legitimate platform, so we have to go through this cross-border e-commerce to, I mean distribute to Chinese customers, so for now I think pretty much the only way we can do. (Firm C)

5.6.1 Policies in China

Participants from Firms B, C, D also mentioned that policies in China often change quickly, which can impact foreign firms' business practices. For instance, in July 2016, the Chinese Government launched a new policy that health food needs to be registered in China even it is sold on cross border e-commerce platforms. Prior to that, health food did not need to be registered if it was sold on these platforms. According to the statements of these three participants, after the announcement of this new policy, the sales of related products dropped significantly, which impacted firms' strategies in China. To avoid the influence of policy changes, firm D in particular chose the Tmall.com platform to open its flagship store, which required setting up infrastructure and obtaining registration.

Things changed this year...because China has uh released a new regulation, like healthy product, you have to register, even though it's selling through TMall Global, or cross-border e-commerce, so now the regulation totally changed, so some company also need to think about that, and another way to do in the China market, that the barriers I mean. (Firm B)

Well, even a few weeks ago, they even changed it again (regulation on registration of products sold on cross-border e-commerce). They say no, stopping all the stuff, and all the supplements business they can't get registered stopped overnight. And that's why you shouldn't build your whole business around that, because you know that's the way in China, when it changes, it just changes. (Firm D)

Although digital platforms can help some firms save costs by skipping registration, it is important to notice that policy may change and such benefits may disappear for certain

industries. However, using digital platforms can still help New Zealand firms save transaction costs compared to traditional retail channels.

5.7 “Daigou”: Network between New Zealand and China

“Daigou” refers to freelance exporters that purchase foreign products in overseas markets and sell to consumers in China. Their role is similar to that of a distributor, and occupy a spectrum from formal operators to informal (‘grey channel’ individuals who purchase products in New Zealand and re-sell in China). Major “Daigou” also have expanded their business networks that attract a large number of sub-distributors who have access to an even wider consumer base, which has a spill over effect. Typically, “Daigou” use WeChat as a communication tool to share products information, and consumers can buy these products by messaging the “Daigou” and transferring money to them. When the “Daigou” expand further, they usually open online shops on Taobao or Tmall. As stated earlier, online shops can be opened on the WeChat platform and “Daigou” have taken advantage of this, obtaining payment directly through WeChat. Therefore, WeChat plays an important role in the establishment of “Daigou” business network in terms of information sharing. The concept of “Daigou” appeared unintentionally in the first interview with participant from Firm A. He claimed that his company first entered the Chinese market through “Daigou” due to capability challenges in terms of financial resources. Moreover, Firm A developed close relationships with some major “Daigou” to help it build up its content materials on several digital platforms in China. Similarly, Firm C also relies on “Daigou” to share its brand messages with consumers. It appears that both Firms A and C have learned to operate effectively by the linkage and leverage process with “Daigou”.

Daigou, cause we traditionally developed that market through ‘Daigou, and Daigou using WeChat to, use their distribution systems to communicate with their sub-distributors, but it’s been very organic, very applicable. (Firm A)

So last time we did an exhibition together with Skykiwi, so all the personal shoppers (Daigou) come here, come to us and try the products, so that’s pretty much Chinese customer-focused. (Firm C”)

“Daigou” develop their business through digital channels, including ‘WeChat’ and Alibaba digital platforms. “Daigou” use ‘WeChat’ to communicate with consumers and answering their inquiries directly, which enables “Daigou” to understand consumers’ need. As stated previously, some major “Daigou” also develop several sub-distributors in their business. Such business networks of “Daigou” can be exploited by New Zealand

firms through alliance with “Daigou”. Such partnerships with “Daigou” can help New Zealand firms build brand awareness in China. However, “Daigou” might also create problems for firms. For example, although firm D does not use “Daigou” officially, “Daigou” still sell its products without firm D’s authorisation.

We, ok in that whole area, we don’t encourage it, we know it’s going on, we don’t encourage it. It works both ways actually, it’s a quite interesting phenomenon...It has certain benefits for us because it creates more awareness and it’s a problem for us in other ways. (Firm D)

Indeed, all four firms use multiple digital platforms in China with business partners managing those accounts, and sometimes “Daigou” compete with each other on price, which has negative influence on firms’ long-term development. Therefore, it is important for New Zealand firms to have certain control in their international strategies in China.

5.7.1 The Role of Control in Internationalisation

Despite the virtual nature of digital retail, all four participants considered that having people ‘on the ground’ is significant for their firms’ long-term success in China, not only because these people can provide market and experiential knowledge, but also because they can exert more control in China. For example, firm D has a branch with local staff in Shanghai to help deal with digital platforms and customer services in China. Firm A’s next step is to build infrastructure in China to carry out marketing activities. Firm B considers that its business partnerships with Chinese distributors are critical for its high sales volume in this market, because the distributors have various resources that can add value to its business. Similarly, although Firm C highly values its relationship with NZ Post that acts as one of its major distributors in China due to its limitation in financial resources, its future plan is to open online shops by itself instead of working with third parties.

So one of the biggest ‘Daigou’ we used to use in the past, he is the authorised distributor for the next two years. But, my belief is going forwards, so after two years of his contract gone expired. We probably we need to have our own infrastructure in place. (Firm A)

We keep in touch (with business partners in China) very often to make sure there is no problem, there is no conflict between these two channels, because sometimes the online channels’ price is very low, but your retail price is very high, so that’s maybe a problem, but I think we control very well. (Firm B)

They put it online and then they compete with each other on price. And before you know we have a price war in a market of one. Now we completely take all that part, exports the products to ourselves. We have a third party warehouse in China, we registered with CIQ, we do all that process ourselves, so we have control. (Firm D)

In the late stage of internationalisation, the role of control become more important for studied firms. Indeed, internalising their activities in China enables these firms to have more control over different business partners, achieve consistent marketing messages and also obtain market knowledge.

5.8 Summary

This chapter presented the main findings of this study. Firstly, the background of each participant was presented. Five major themes that emerged from data analysis were presented in the second section, including China's e-commerce business environment, the marketing ability of digital platforms, collective internationalisation, cost saving and the "Daigou"-network between New Zealand and China. The aim of the second section was to illustrate repeated ideas that can be found in all four cases that can explain the impact of digital platforms on New Zealand firms' entry strategies in China. Ideas that are not repeated across cases were also presented in related themes. In the next chapter, entry barriers faced by participating firms and the impact of Alibaba digital platforms on such barriers will be presented. In addition, implications of findings for previous literature will be discussed.

Chapter 6: Discussion

6.1 Introduction

The previous chapter presented the key themes emerged from this study. The firms interviewed for this study all experienced barriers when attempting to enter the Chinese market, such as resource constraints, liabilities of foreignness and lack of experience, especially in their early stage of internationalisation. Digital platforms offer an opportunity for firms seeking solutions to overcome entry barriers. This chapter aims to discuss the impact of digital platforms on the four New Zealand firms in light of the traditional theories discussed in Chapter Two. The first section will discuss entry barriers for the interviewed companies and the influences of digital platforms on these barriers. The second section will discuss the connection between findings and traditional internationalisation theories.

6.2 Barriers to Entry

In this study, all investigated companies encountered barriers when they started internationalisation in China. The most significant barrier that these four New Zealand firms experienced was resource constraints. In addition, they were also affected by psychic distance between New Zealand and China, liability of foreignness arises from psychic distance, which impeded the studied firms to acquire market knowledge efficiently.

6.2.1 Resource Constraints

Resources, financial and human resources in particular, are needed for firms to expand business beyond their borders. It is critical to invest financial capital in international activities, such as marketing activities to develop brand image and brand awareness in foreign market. Moreover, firms need people who possess market knowledge to help them grow and enhance performance in overseas markets. In this study, the participating firms all experienced limitations in financial and human resources. All participants admitted that they lacked right people to help them understand the Chinese market in terms of how business is conducted in China and other social norms, particularly when they first started expansion in China. For example, Firm D considered that dealing with people who did not have marketing expertise was one of the biggest barriers it encountered when it

initially entered China. Moreover, these distributors that Firm D collaborated with competed with each other at price, which led to another challenge for its development in China. Therefore, all participating firms hired people who have knowledge and experience about the Chinese market to help address a shortage in local human resources. In addition, limited financial resource was also one of the entry barriers that participating firms encountered in their internationalisation process. Firm C was unable to open its own flagship store in Tmall Global owing to its limited financial capital. The findings of this study are supported by previous studies that assert New Zealand SMEs face barriers of internationalisation due to limited financial resources (MBIE, 2014; Scott-Kennel, 2013). However, previous literature has not considered the impact of digital platforms on New Zealand firms' entry barriers. For example, in this study, all participants claimed that utilising digital platforms is a cost-effective way to enter the Chinese market compared with traditional entry mode. Firm A claimed that digital platforms offered an opportunity for reducing financial investment by taking out a wide range of middle steps and costs in the internationalisation process. Furthermore, digital platforms also help bypass the time and cost consuming registration process in China. Therefore, the studied firms faced similar entry barriers to most SMEs in New Zealand; however, Alibaba digital platforms helped them alleviate barriers in terms of easing financial and time constraints, despite limited help in easing shortage in human resources though. As well as resource constraints, psychic distance and liabilities of foreignness also imposed barriers on the interviewed firms in terms of lack of market knowledge and consumers' unfamiliarity with the companies.

6.2.2 Psychic Distance and Market Knowledge

Since the business practices and social norms in China are different from those in New Zealand, it is important for firms to understand the Chinese market and Chinese consumers in order to succeed in their international expansion. Another barrier to entry is caused by psychic distance, making it more difficult for firms to obtain market knowledge (Sousa & Bradley, 2008). Knowing how to deal with psychic distance was critical for the studied firms in their internationalisation. Digital platforms have helped the studied firms with financial resource constraints by building up brand awareness at relatively low cost. Moreover, business relationships with digital platforms also enables firms to obtain access to a wider network that provides millions of potential consumers and market knowledge. Although the differences among countries have been smoothed

to some extent by the ease of information access via the Internet, which may suggest that this has alleviated the barriers of internationalisation in terms of acquiring market knowledge (Varadarajan & Yadav, 2002). Psychic distance still imposes a barrier for participants on their internationalisation process. However, human resources can be utilised as a means of acquiring market knowledge. The fact that three out of four participants had Chinese background (Firms A, B, C) and the other participant (Firm D) had many years of experience in doing business in an Asian context suggests the ongoing importance of human resources to acquire market knowledge, even when operating in a digital context. In fact, the participant from Firm B directly mentioned that he played an important role in helping his firm understand the Chinese market. Moreover, Firms A and D also considered that having local people to deal with marketing in China has helped improve their performance in the market. The people recruited by these firms play an important role in dealing with cultural and business differences through their knowledge of the Chinese market. Therefore, it is important for firms to hire either local people or people with experiential knowledge about the target market. Moreover, the purpose of such strategies is not only to gain market knowledge, but also to acquire more control in the foreign market.

6.2.3 Liability of Foreignness and Market Knowledge

Liabilities of foreignness arise from the geographic and psychic distance between firms' domestic market and foreign market in terms of cultural differences, business practices and social norms. The participating New Zealand firms are relatively remote from the Chinese market and thus psychic distance between these two countries can increase barriers to entry. Considering China's specific environment, foreignness however, associated with perceived high quality creates some benefits for studied firms. For example, Chinese consumers prefer to purchase foreign goods through digital platforms. However, liability of foreignness still imposed challenges for interviewed firms. Firm B experienced a relatively low level of resource constraints, but still faced liabilities of foreignness in its early stage of internationalisation in China. Owing to local customers' lack of familiarity with the company and its products, it took Firm B significant time and effort to prove the quality of its products and the trustworthiness of its brand, including third party inspection of its products and constant communication with potential clients. Other difficulties also caused by liabilities of foreignness involve different business practices in the Chinese market. For instance, the scale of e-commerce in China and the

consumer expectation is significantly different to the New Zealand market, and participants felt they did not have sufficient knowledge and experience of conducting business through digital channels in China. As a result, in the early stage of Firm D's international expansion in China, it suffered from knowledge shortage in conducting business through Alibaba digital platforms. Therefore, lack of market knowledge imposes a barrier for these firms' internationalisation in China, despite the information-enabling characteristics of digital platforms. However, networks with Alibaba digital platforms helped studied firms understand the Chinese market and how to conduct business through digital platforms. Moreover, the advocacy from NZTE also helped studied firms understand Alibaba digital platforms better.

6.3 Implications for Traditional International Theories

The findings of this study have several implications for the application of traditional international theories in a digital context. This section will discuss how digital platforms might contribute additional insights to the theories discussed in Chapter Two.

6.3.1 OLI Paradigm

In relation to the OLI paradigm, despite the different assets that the participating companies possess, they all regard their reputation of “made in New Zealand” as one of their ownership advantages in the Chinese market. Although foreignness remains a liability for firms in terms of acquiring market knowledge and consumers' unfamiliarity, the findings of this study illustrate that foreignness can also be a competitive advantage that New Zealand firms can deploy in terms of competing with Chinese firms due to Chinese consumers' concerns about products made in China. The imperfection of China's market and institutional environment enables New Zealand firms to exploit their brand and reputation in China. Three participants (Firms A, C, D) felt that selling their products on digital platforms is a way of easing Chinese consumers' doubt about their products. Therefore, one reason for these four firms to utilise digital platforms is to deploy China's large consumer base characteristics of e-commerce business environment and collaborated logistics and financial services. With the combination of firm-specific ownership advantage and the host country's locational advantage, the interviewed firms have developed their business in China at relatively low cost and have reached a large number of consumers. The participants chose to utilise digital platforms as part of their

internationalisation strategies in China, because this decision enables them to exploit their ownership advantage jointly with China's locational advantage. Therefore, findings of study align with the OLI paradigm.

In the OLI paradigm, internalisation-advantage occurs when it is in the best interest of firms to retain their firm-specific assets rather than licensing them out (Dunning, 2000). . Moreover, the motivation for internalisation of external alliances and networks can also arise when firms intend to gain new resources or access to new capabilities, markets. In this study, the role of internalisation is widened from transaction cost perspective and encompass network approach. The four firms started their internationalisation in China through networks with digital platforms and authorised distributors. Such partnerships offered them resources that they lacked in their early stage of internationalisation. However, when they move on to further internationalisation, they (Firms A, B, D) considered that having control (internalisation) can help them develop sustainably. As discussed earlier, policy changes in China can impact firms' operations in China considerably, which is why Firm D established subsidiary in China to ease the effect of policy changes and retain control rather than operating through agent. Furthermore, having control over distributors is necessary for firms to ensure consistent marketing message and brand image, which is why Firm A planned to build its own infrastructure in China after the expiry of its contract with distributor in the future. Therefore, the reason for internalisation in this study is not only for pursuing transaction cost economies, but also for the balance of power and long-term growth, especially in the late stage of internationalisation. Moreover, having local people is important for firms to ease entry barriers, such as liability of foreignness and psychic distance through the market knowledge and experience they possess, even though they entered via digital platforms (Firms A, D).

6.3.2 The Importance of Linkages & Networks

The importance of linkages and networks in this study aligned with the knowledge accumulation concept in the Uppsala Model. Through networks with Alibaba digital platforms, distributors and other organisations, the participating firms were able to acquire resources that were beyond their original assets. Moreover, such linkages and networks also enabled studied firms to better understand the Chinese market, which helped decrease psychic distance. The LLL Model also suggests that seeking resources

externally plays an important role for SMEs to alleviate the risks and uncertainties arisen from their lack of resources and market knowledge. Firms examined in this study have all faced resource constraints to some extent. As discussed earlier, with limited resources, Firm A initially entered China through “Daigou”; however, it developed more resources with which to expand its business in China after being acquired by a multi-national company. The linkage between Firm A and its parent company offered it the potential to move on to the next stage of internationalisation. Similarly, Firm D is also part of a parent corporate, which has enabled it to set up a branch in Shanghai. The linkages with their parent companies has helped these two firms internationalise further in China. Firm B also merged with another company recently that allows it to possess more resources.

Since the interviewed companies lack the resources to perform effectively in the Chinese market on their own, it has also been important for them to seek resources externally to pursue development in China. Business networks with Alibaba digital platforms, distributors and other organisations have provided these firms with opportunities to enter the Chinese market at relatively low cost and acquiring market knowledge. For instance, Firm C is the only company that does not have its own online flagship store in Tmall Global because of its financial and human resource limitations. To make up for this, Firm C established a partnership with NZ Post. With the help of NZ Post, acting like Firm C’s authorised distributor, Firm C is now able to sell its products on multiple digital platforms in China and regards the partnership as instrumental in the increases in its sales volume. These business networks have had a spill out effect that has enabled Firm C to build up its brand awareness at low cost in China. Moreover, such networks enable these firms to obtain market knowledge that is key to their development. For instance, Firm D considered that its business partnership with digital platforms contributed considerably to its 100% growth rate in 2015. In addition, networks with distributors helped studied firms establish product content on both online and offline channels. Furthermore, local distributors are also familiar with the policies in China that can improve business process. In addition, the business network between NZTE and Alibaba has also helped the firms improve their relationship with Alibaba digital platforms. Moreover, networking with platforms allows the studied firms to reach more potential consumers. In addition, formal or informal connection with “Daigou”- freelance exporters also helps these firms build brand awareness among Chinese consumers.

6.3.3 Use of Informal Channels

As presented in the previous chapter, as well as digital platforms such as Tmall Global, Wechat is also rising as an emergent platform for firms to utilise, not only as a selling channel but also as a way of communication. “Daigou”- freelance exporters use Wechat to sell products for all four interviewed companies. In fact, the participant from Firm A confirmed that it was “Daigou” that helped the firm grow in the Chinese market in the first place despite its limited resources. Some “Daigou” have become authorised distributors for these firms (Firms A, B, C); however, most “Daigou” remain small in size and capital. Although Firm D does not use “Daigou” officially, it is inevitable that those freelance exporters will sell its products to Chinese consumers. Firm D thus is involved in this informal method of sale. In addition, as well as authorised “Daigou”, there are still a large number of unauthorised “Daigou” selling products for these firms. This informal channel has increased selling volume of the four firms and despite their limited resources, this channel has offered the firms a way to explore the Chinese market and build up their brand image. This informal channel can help firms save on the cost of marketing and establishing product content into Chinese language. However, it is difficult for firms to retain consistency in terms of price and their marketing messages. Therefore, it is useful for firms to exploit the informal channel to overcome resource constraints in the early stages of internationalisation; however, it is important to monitor this channel and take control over it for the long-term growth.

These business partnerships between New Zealand firms and various individuals and/or firms explains the linkage element of Mathews’ LLL Model and the network approach of the revised Uppsala Model. The essence of the LLL Model aligns with the Uppsala Model’s knowledge accumulation theory that knowledge is of significance in firms’ internationalisation process. Therefore, business networking (linkage) is a useful tool for firms to obtain knowledge that is critical for their growth. Furthermore, digital platforms also offer an opportunity for firms to accumulate market and experiential knowledge. The revised Uppsala Model places focus on the role of networks in firms’ internationalisation strategies and argues that network enable firms to obtain advantage through knowledge accumulation (Johanson & Vahlen, 2009). The findings of this study suggest that it is important for firms to develop networks during their international expansion, because this allows companies to acquire market knowledge that goes beyond their original resources. However, it is critical for firms to deal with such interdependent relationships in which leverage plays a key role.

6.3.4 Leveraging via Linkage

The studied firms leveraged from their linkage with digital platforms and learned about the Chinese consumers and business practices through their accumulated knowledge. The findings show that the studied firms were able to obtain more than what they were required to put in. For instance, one of the biggest reasons New Zealand firms chose to enter the Chinese market is that they can leverage the marketing abilities of their business network with Alibaba digital platforms. The aspect of leverage in the LLL Model suggests that leveraging from business networks can help firms acquire market knowledge, skills and access to foreign market (Mathews, 2006a). The financial investments required to open flagship shops on digital platforms are considerably low for firms (Firm A, B, D). In addition, marketing activities launched by Alibaba digital platforms were considered effective to build firms' brand awareness and attract consumers. In addition, selling products on Tmall Global also enables New Zealand firms to bypass the registration process in China that demands both time and cost. The prevalence of online digital platforms in Chinese consumers' lives also provides New Zealand firms with the ability to leverage such networks to reach more potential consumers in China.

6.3.5 Collective Learning

As discussed earlier, market knowledge was critical for the studied firms to succeed in their internationalisation in China. Learning from their application of the linkage and leverage process allows the firms to operate effectively in the Chinese market. Sandberg and Jansson (2014) studied SMEs from China and found that the collective internationalisation of Chinese SMEs could help compensate for their constraints in resources and lower uncertainties. The New Zealand firms under investigation share similar characteristics with Chinese SMEs. There is a potential for joint learning and risk alleviation for firms when they enter geographic distant markets in the early stage of internationalisation if firms take a collective path (Sandberg & Jansson, 2014). NZTE is advocating linkage with Alibaba for New Zealand firms that intend to expand their business to China. Moreover, Alibaba Group also has plans for New Zealand SMEs to collectively provide goods and services to Chinese consumers. This study suggests that Alibaba digital platforms offer the potential for New Zealand firms to collectively enter the Chinese market, especially with the help of the strategic alliance between NZTE and Alibaba. New Zealand firms could learn from the experience of their peers that have already entered China through digital platforms and shared information with NZTE. With

such help, it is likely that firms could operate more effectively in China with the same entry strategies of utilising digital platforms.

6.4 Summary

This chapter presented a discussion of the barriers that four New Zealand firms encountered when they entered the Chinese market, and the findings match traditional internationalisation theories. Discussion with the participants provided insights into the influence of digital platforms on the studied firms' internationalisation strategies in China. It was found that digital platforms helped alleviate resource constraints by lowering entry cost and offering firms an opportunity to acquire market knowledge through networks. It was beneficial for the interviewed firms to exploit their ownership advantage and utilise digital platforms to sell their products so that they could leverage China's e-commerce environment and the marketing abilities of digital platforms. However, it is still necessary for the firms to have local people to help deal with psychic distance and liability of foreignness. The following chapter will present an overview of this study, overall conclusion, contributions, limitation and recommendation for future research.

Chapter 7: Conclusion

7.1 Introduction

The previous chapter provided a discussion of the findings of this study in light of the previous literature. This chapter provides an overview of this study and concluding comments on the findings. Firstly, it presents a summary of the dissertation. The second section aims to present the main findings of this study and overall conclusion. The third section discusses the contributions of this study. The last section illustrates the limitation of this research and provides recommendations for future research.

7.2 Overview of the Study

As a small open economy, New Zealand depends highly on engagements with other countries to develop and grow (Simmons, 2002). SMEs are the backbone of New Zealand's economy, and their development both in the domestic market and international markets can contribute significantly to New Zealand's future growth. Most SMEs in New Zealand share similar drives and barriers to internationalisation; their internationalisation is driven by expanding beyond New Zealand's small domestic market, whereas resource constraints, and shortage in knowledge caused by psychic distance and liability of foreignness compose major barriers to entry (Akoorie & Enderwick, 1992; MBIE, 2014; Scott-Kennel, 2013; Simmons, 2002). There are a number of international business studies that have investigated the internationalisation of New Zealand firms. However, few of these studies have investigated the role of digital platforms on New Zealand firms' entry strategies in China. China is one of New Zealand's most important international trade partners, and it is also the largest e-commerce market in the world. Alibaba's digital platforms have the largest market share in China and New Zealand firms utilise these platforms to sell their products to Chinese consumers. Therefore, the primary aim of this study has been to explore the impact of these digital platforms on New Zealand firms entering China. Furthermore, this study aimed to understand how digital platforms help New Zealand firms overcome entry barriers in terms of overcoming resource constraints and obtaining access to networks.

A multiple case study methodology was utilised in this study to answer the research question. Four participants from four New Zealand firms were interviewed for this

research. This study adopted the data analysis spiral from Creswell (2013) (see Figure 1) to analyse the primary data and coding process from Saldana (2013) (see Figure 2). Secondary data sourced from government reports, newspaper articles and other literature were used to help present the findings. Five main themes emerged from the data: the China-specific e-commerce business environment, the marketing ability of digital platforms, collective internationalisation, cost saving, and the “Daigou”-network between New Zealand and China. This study contains seven chapters. The first chapter introduced the background of this dissertation, the aim of this study, research questions and the outline of this dissertation. Chapter Two reviewed previous literature corresponding with a focus on the Uppsala Model, the OLI paradigm and the LLL Model. Chapter Three presented the background of the case, including New Zealand SMEs’ background and the Chinese market background. Chapter Four explained the case study methodology and semi-structured interview method that were adopted to conduct this study. Chapter Five presented the findings of the study and Chapter Six discussed the findings in light of the theories discussed in Chapter Two. This final chapter as outlined in section 7.1 presents the conclusion, contribution and limitations of this study and recommendations for future research.

7.3 Research Conclusions

This study found that the four studied New Zealand firms view China-specific e-commerce environment as one of the biggest factors that influenced their internationalisation strategies in China. Millions of Chinese consumers prefer to purchase products, especially authentic foreign products, through online digital platforms. Moreover, digital platforms are considered as a means of easing trust issues in China. The studied firms all agree that their reputation in New Zealand represents one of their ownership advantages in competing with local companies. Foreignness is not regarded as a liability by the studied firms in terms of brand reputation. However, unfamiliarity with e-commerce operation in China and the differences between New Zealand and China still created barriers for the participating firms’ entry into China. In addition, the firms also faced entry barriers in resource constraints and shortage in market knowledge caused by psychic distance and liability of foreignness. As a consequence, networking with digital platforms offer these firms opportunities to enter the Chinese market at relatively low cost, provided a channel to access the Chinese market and gave the firms the chance to leverage from such a partnership. This study found that the interviewed firms were able

to bypass the time and cost consuming registration process in China by selling their products on Tmall Global. They have been able to learn from the experience of their peers who also operate on online channels and leverage their networks with Alibaba digital platforms to enhance their marketing performance. Therefore, digital platforms have helped these firms overcome resource constraints in financial capitals. Moreover, digital platforms also enable studied firms to obtain market knowledge through business networks. Findings of this study suggest that firms' ownership advantages, China-specific locational advantages, marketing abilities of Alibaba digital platforms, cost saving entry mode and networking are the main factors that influenced firms' entry strategies in China. This perspective complies with the OLI paradigm that argues firms need to combine their ownership advantage with the host country's locational advantage to succeed in internationalisation (Dunning, 1995). Moreover, the LLL Model, as a complement to the OLI paradigm, and the network approach of the revised Uppsala Model also align with this study. Network (Linkage) enables firms to acquire resources beyond their limitation, leverage their ownership advantages to obtain more from such relationships and learn to operate more effectively through repetition of previous processes (Johanson & Vahlen, 2009; Mathews, 2006a). "Daigou", the concept discussed previously is an emerging phenomenon that largely connects with the China-specific business environment. A formal and informal network with "Daigou" has helped interviewed firms build their brand awareness among Chinese consumers. "Daigou" use Wechat to develop their business networks and then open online shops on Alibaba digital platforms to expand further. The pattern of these freelance exporters' growth also illustrates the prevalence of e-commerce in China and the business value of these digital platforms.

Although digital platforms can help firms overcome some entry barriers in terms of easing resource constraints and obtaining access to networks, there are still several issues that remain obstacles that require traditional methods to tackle. For instance, digital platforms offer limited help to cope with human resource constraints. All participants who are key to their firms' international operations in China possess knowledge of the Chinese market, which illustrated the important role of human resources in firms' internationalisation. Moreover, findings of this study indicated that having local people is necessary for further internationalisation. Therefore, Firm D set up its sales subsidiary in Shanghai and hired local people to obtain human resources, despite it focuses its strategies on digital platforms. Entering China through digital platforms enables firms to accumulate profits and market knowledge at low costs. In doing so, firms can utilise the resources they

accumulated to internationalise further. As a result, selling products on digital platforms can be considered as the first stage of internationalisation into the Chinese market for New Zealand firms that are in the similar industries with the studied firms. In addition, it is important for firms to develop local human resources in the late stage of internationalisation, as it is difficult for firms to obtain such resources merely through digital platforms.

7.4 Research Contribution

This study has significance to both international business practice and scholarship. First of all, the findings of this study contribute to the wider international business literature on SMEs internationalisation through the analysis of the influence of digital platforms on New Zealand firms' entry strategies into China. This study contributes to the wider literature by including digital platforms in SMEs' internationalisation in the context of New Zealand health and natural products industry. The discussion linked the findings with previous literature by exploring the entry barriers faced by New Zealand SMEs. This study suggests that the traditional internationalisation theories can still be applied to the New Zealand health and natural products firms that enter China through Alibaba digital platforms. However, these platforms provide a way for New Zealand health and natural product firms to overcome several entry barriers, especially financial resource constraints. Moreover, human resources play a key role in acquiring market knowledge, despite the information-enabling characteristics of digital platforms. Therefore, this study contributes to internationalisation scholarship as previous literature provides limited insights on the role of digital platforms in the internationalisation of New Zealand health and natural product firms. Moreover, the interviewed firms' intention of taking control in their business networks illustrates the importance of gaining market power in pursuit of internationalisation advantage in the OLI paradigm. Moreover, as an exploratory study, this research demonstrates the importance of further research on the impact of digital business models to international business theories.

Secondly, this study also contributes to international business practice. The findings present the experiences of four firms, illustrating the significance of Alibaba digital platforms in terms of helping alleviate entry barriers, obtaining market knowledge and access to business networks and reaching more potential consumers. The internationalisation strategies of these firms suggest that succeeding in the international

market requires combining firm-specific ownership advantages with host country-specific locational advantage. The ability to utilise locational advantage can be one of the biggest factors contributing to a successful international operation. Furthermore, this study also illustrates the importance of networking as a means of obtaining market knowledge in international expansion. The advocacy of Alibaba digital platforms by NZTE implies that exploring the Chinese market through Alibaba digital platforms can be New Zealand based health and natural product firms first step to internationalisation in China. In addition, despite advocating for all New Zealand SMEs to consider Alibaba as their entry strategies in China, it is still important for them to possess specific capabilities and resources to internationalise successfully via digital platforms.

7.5 Limitations and Future Research

This research analysed the main impacts of digital platforms on New Zealand SMEs' internationalisation strategies in China. This study used a multiple case study design to answer the research questions. Only four firms were investigated in this research, and the results cannot be generalised due to the limited sample size. In addition, the chosen firms are all in related industries, broadly the health and natural product industries. Therefore, the application to other industries is unknown. Moreover, the scope of study was limited in the context of New Zealand and China due to the six months' time frame of the research.

As previously outlined, this research is exploratory in nature, and opens a number of avenues for future research. Future research could investigate the impact of digital platforms on internationalisation strategies in other contexts, both developing, emerging, and developed markets. Moreover, the impact of digital platforms on the strategies of MNEs would also be an interesting contrast to the study of SMEs. Finally, as this is exploratory study, and has highlighted a number of interesting implications for the traditional internationalisation models, this study signals the importance of IB researchers to consider including digital platforms in future research in the IB discipline.

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Appendix I: Indicative Interview Questions

1. Can you tell me about the background of your company, size, products range, market position and key customers?
2. How many foreign markets have your company entered?
3. Why did your company choose China in particular to expand your business?
4. When did your company first enter China?
5. What challenges have your company encountered when you enter China?
6. Do digital platforms help alleviate those challenges? If so, how?
7. Why did your company choose digital platforms like Tmall Global to enter the Chinese market?
8. Does your company have any physical presence in China?
9. What have been the main benefits that have resulted from using digital platforms such as Tmall Global as a means of entering China?
10. Do digital platforms help your company get access to Chinese market? If so, please give examples

Appendix II: Ethical Approval



AUTEC Secretariat

Auckland University of Technology
D-88, WU406 Level 4 WU Building City Campus
T: +64 9 921 9999 ext. 8316
E: ethics@aut.ac.nz
www.aut.ac.nz/researchethics

19 August 2016

Fiona Hurd
Faculty of Business Economics and Law

Dear Fiona

Re Ethics Application: **16/273 The impact of digital platforms on New Zealand firms' entry strategies: The case of Alibaba**

Thank you for providing evidence as requested, which satisfies the points raised by the Auckland University of Technology Ethics Committee (AUTEC).

Your ethics application has been approved for three years until 18 August 2019.

As part of the ethics approval process, you are required to submit the following to AUTEC:

- A brief annual progress report using form EA2, which is available online through <http://www.aut.ac.nz/researchethics>. When necessary this form may also be used to request an extension of the approval at least one month prior to its expiry on 18 August 2019;
- A brief report on the status of the project using form EA3, which is available online through <http://www.aut.ac.nz/researchethics>. This report is to be submitted either when the approval expires on 18 August 2019 or on completion of the project.

It is a condition of approval that AUTEC is notified of any adverse events or if the research does not commence. AUTEC approval needs to be sought for any alteration to the research, including any alteration of or addition to any documents that are provided to participants. You are responsible for ensuring that research undertaken under this approval occurs within the parameters outlined in the approved application.

AUTEC grants ethical approval only. If you require management approval from an institution or organisation for your research, then you will need to obtain this. If your research is undertaken within a jurisdiction outside New Zealand, you will need to make the arrangements necessary to meet the legal and ethical requirements that apply there.

To enable us to provide you with efficient service, please use the application number and study title in all correspondence with us. If you have any enquiries about this application, or anything else, please do contact us at ethics@aut.ac.nz.

All the very best with your research,

A handwritten signature in black ink, appearing to read 'K O'Connor', is written over a light blue horizontal line.

Kate O'Connor
Executive Secretary
Auckland University of Technology Ethics Committee

Cc: Huijun Jin

Appendix III: Participant Information Sheet

AUT

TE WĀNANGA ARONUI
O TĀMAKI MAKĀU RAU

Date Information Sheet Produced:

16 August 2016

Project Title

The impact of digital platforms on New Zealand firms' entry strategies: The case of Alibaba

An Invitation

My name is Huijun Jin and I am studying Master of Business specialising in International Business at AUT. I am currently undertaking a piece of research for my Master's dissertation, focusing on how New Zealand firms are utilising digital platforms, such as Alibaba, to enter new markets. According to my initial research, it appears that your company has utilised the Alibaba digital platform, along with other internationalisation strategies. The insights gained from your experience with Alibaba will provide invaluable information to my research, and as such, I would like to invite you to participate in my research. Your participation is voluntary and you can withdraw at any time prior to the completion of data collection (15 September, 2016). You may refuse to answer any questions during the interview. Moreover, you will be offered chances to review the transcript of your interview and withdraw any sensitive information prior to analysis. Your identification will be protected and not shown in the final report.

What is the purpose of this research?

The emergence of cross border e-commerce and its rapid growth in the international business domain offer a wide range of opportunities for firms' internationalisation strategies. As a relatively small economy with limited local demand, New Zealand firms are inherently outward looking for their approach to growth. Therefore, the emergence of digital platforms presents a significant opportunity for New Zealand firms. In this project, I aim to conduct an exploratory investigation into the impact of digital platforms on New Zealand firms, focusing on the case of Alibaba, a major digital platform in China. This research will result in my Masters qualification at AUT. The result of this research may be presented at AUT and it may be published in the future in academic publications.

How was I identified and why am I being invited to participate in this research?

First of all, your company was identified through TMALL (one of Alibaba's digital platforms), which indicated that your company has operated in China through that digital platform. Secondly, I searched your company's public website for communication channels in order to make initial contact with your organisation and ask for participants to participate in my research. The criteria are that your job responsibilities should be directly related to internationalisation strategies. The person I initially contacted with passed this to you because you meet with the criteria. Your contact details are obtained after you made the initial contact with me.

What will happen in this research?

This project involves one face-to-face interview, lasting approximately one hour, and the interview will be audio-taped for transcription purposes. In the interview, I will ask questions about your perspective of the impact of digital platforms for doing business in China and whether or how your internationalisation strategies in China were impacted by Alibaba. You do not have to answer any questions. The transcript will be provided for your review and you can withdraw any commercially sensitive information from it. After your confirmation of the transcript, the data will be analysed. I will provide a summary of the research findings to all participants upon request.

What are the discomforts and risks?

There will be minimal discomforts and risks happen in this research. Commercially sensitive information may arise during the interview, however, you do not have to answer any questions and you will have the option to withdraw any information from the transcript to alleviate your discomforts of disclosing the information. Although there will be a limitation in confidentiality because of small pools of participants, your identity will not be disclosed, and all digital recordings will be kept secure, and only be accessible by me and my supervisors.

How will these discomforts and risks be alleviated?

These discomforts and risks can be alleviated by offering you the opportunity to refuse to answer questions and review the transcript and you can withdraw up to the end of data collection without any adverse effects. With the use of a pseudonym, your identification will be protected throughout and once I finish data analysis, your identification will be removed from the original data.

What are the benefits?

You have the chance to reflect on decisions you made, which may provide insights for your future decision-making. Moreover, you can receive a summary of the research findings upon request, which enables you to learn. This research will assist me in obtaining a Master degree qualification.

How will my privacy be protected?

Your privacy will be protected by using pseudonyms in any publications that result from this research. The data will only be accessed by myself and my supervisors and kept secure. You can withdraw up to the end of data collection without any adverse effects. You do not have to answer any questions.

What are the costs of participating in this research?

It will take approximately one hour for each interview.

What opportunity do I have to consider this invitation?

Due to time constraints, you have one week to consider this invitation; but if you can show me your interest within a shorter timeframe, I would be grateful.

How do I agree to participate in this research?

If you are happy to participate in this research, please contact me directly by email to organise a time for an interview. At the interview, I will provide a consent form for you to complete, which will constitute your formal agreement to participate.

Will I receive feedback on the results of this research?

Yes, you can receive a summary of the research findings through email if you wish. Just indicate this on the consent form.

What do I do if I have concerns about this research?

Any concerns regarding the nature of this project should be notified in the first instance to the Project Supervisor, Concerns regarding the conduct of the research should be notified to the Executive Secretary of AUTECH, Kate O'Connor, ethics@aut.ac.nz, 921 9999 ext 6038.

Whom do I contact for further information about this research?

Please keep this Information Sheet and a copy of the Consent Form for your future reference. You are also able to contact the research team as follows: Huijun Jin, emails address: ynq1140@autuni.ac.nz

Researcher Contact Details:

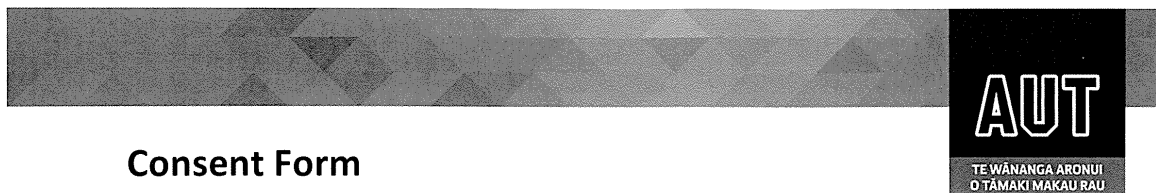
Huijun Jin, email address: ynq1140@autuni.ac.nz

Project Supervisor Contact Details:

Dr Fiona Hurd, email address: Fiona.hurd@aut.ac.nz

Approved by the Auckland University of Technology Ethics Committee on 19th August, 2016 AUTECH Reference number 16/273.

Appendix IV: Consent Form



Consent Form

For use when interviews are involved.

Project title: *The impact of digital platforms on New Zealand firms' entry strategies: The case of Alibaba*

Project Supervisor: *Dr. Fiona Hurd*

Researcher: *Huijun Jin*

- ☐ I have read and understood the information provided about this research project in the Information Sheet dated 16 August 2016.
- ☐ I have had an opportunity to ask questions and to have them answered.
- ☐ I understand that notes will be taken during the interviews and that they will also be audio-taped and transcribed.
- ☐ I understand that taking part in this study is voluntary (my choice) and that I may withdraw from the study at any time without being disadvantaged in any way.
- ☐ I understand that if I withdraw from the study then I will be offered the choice between having any data that is identifiable as belonging to me removed or allowing it to continue to be used. However, once the findings have been produced, removal of my data may not be possible.
- ☐ I agree to take part in this research.
- ☐ I wish to receive a summary of the research findings (please tick one): Yes ☐ No ☐

Participant's signature:

Participant's name:

Participant's Contact Details (if appropriate):

.....
.....
.....
.....

Date:

Approved by the Auckland University of Technology Ethics Committee on 19th August, 2016 AUTEK Reference number 16/273

Note: The Participant should retain a copy of this form.