

UPGRADING TO OBM AS HIGHER COMMITMENT MODE BY A BRITISH OEM IN CHINA: INSIGHTS FROM A CASE STUDY

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ABSTRACT: *It is still unclear why some developed economy (DE) global startups decide to internationalize into emerging economies (EEs) where the legal enforcement and intellectual rights protection are weak, rather than into well-established mature economies. To address this gap, this paper explores what strategies a small British original equipment manufacturer (OEM) employed to venture into China at beginning and to increase its commitments later on. Using a single-case study analyzing its 10-year growth trajectory, we found that this British OEM exploited innovative keyword marketing to achieve fast growth, and then used upgrading to own brand manufacturing (OBM) as a higher commitment mode in China at a more mature stage of development. However, building own brand coupled with strategic alliance with a Chinese state-owned giant brought high risks and uncertainties to the conduct of the OBM strategy. Cross-cultural misunderstanding in communication between two firms became a critical obstacle. Overall, this paper highlights the key role of entrepreneurs in shaping firms' international entrepreneurial behavior, revealing evidence about a novel development pattern of a DE global startup OEM competing in the world's largest emerging economy, China. Thus, it provides new insights into an under-explored area of research at the intersection of the perspectives of international entrepreneurship and strategic management.*

KEYWORDS; Global Startup, International Entrepreneurship, Global Value Chain, OEM, OBM

INTRODUCTION

Global startup firms that exploit the opportunities of globalization to achieve superior performance in international markets from their inception, or shortly thereafter have generated significant research in the field of entrepreneurship (Kiss, Danis, & Tamer Cavusgil, 2012; Jones, Coviello, & Tang, 2011; Fan & Phan, 2007; Oviatt & McDougall, 2005). Due to poor intellectual rights protection and weak legal enforcement coupled with the well-recognized bureaucratic complexities in most emerging markets (Zhu & Xu, 2012; Bruton, Ahlstrom, & Obloj, 2008), entrepreneurial startups from developed economies (DEs) venturing to emerging economies (EEs) may face a different set of internationalization challenges than those deciding to internationalize into other DEs. However, despite more and more small and medium-sized firms (SMEs) from developed countries venturing into EE at early age (Kiss et al., 2012; Bruton et al., 2008), dominant literature still tends to deal with the strategies used by relatively large, well-established and publically visible enterprises from DE to enter or compete in EE (Yamakawa, Khavul, Peng, & Deeds, 2013; Lyles & Park, 2013). The *intersection* of the literature of international entrepreneurship and strategic management about why some developed country SMEs decide to

internationalize into EEs facing high uncertainty and low familiarity rather than into other DEs has drawn limited attention. For instance, while a large body of research addresses the internalization strategies conducted by world-class manufacturers and labor-intensive original equipment manufacturers (OEMs) from DE to deepen and enhance their commitments in China (Herrigel, Wittke, & Voskamp, 2013; Chin, 2013a; 2014a, 2014b, Chin & Liu, 2014), the small foreign-invested OEMs, especially those global startups venturing into China have been largely ignored.

To fill the above-mentioned research gap, this current paper employs a case study approach to investigate how a British SME accelerated its the internationalization process by engaging in original equipment manufacturing in China, and to analyze what strategy this OEM conducted to upgrade from a low to a higher commitment mode at a more mature stage of its development in the Chinese market. Given a specific form of international new ventures, *global startup OEM*, is used to explore relevant issues here, this study builds the theoretical foundation in the global value chain (GVC) theory, taking it as the departure to point out the important role of global startup OEMs from DE in enhancing China's economic development for the past three decades (Gereffi, 2009; Ivarsson & Alvstam, 2011). Further the entrepreneurial actors are regarded as a critical mediating force to enable early internationalization by SMEs, playing a key role in deciding whether to increase their foreign market commitments (Oviatt & McDougall, 2005). Following this, we also base on the international entrepreneurship perspective to delineate the unique internationalization experience and corresponding entrepreneurial behavior of the case, whereby we illustrate how a British entrepreneur observed, evaluated and exploited the cross-border opportunities in the Chinese context.

The outline of our study is as follows. First, we integrate international entrepreneurship and GVC perspectives identifying the key external factors that may result in the emergence and prevalence of global startup OEMs from DE internationalizing into EE, in order to explain what triggers a British global startup OEM's interest in entering a psychically distant country, China. Thereafter follows a case description. Finally, an in-depth discussion about how the empirical findings contribute to the literature is provided.

THEORETICAL FOUNDATION

From the views of international entrepreneurship & GVC to DE global startups in EE

Based on the timing of internationalization, the label of "born global firms" or "global start-ups" refers to early internationalizing firms that span international borders almost at birth (Kuivalainen, Saarenketo, & Puumalainen, 2012; Jones et al., 2011; Filatotchev, Liu, Buck, & Wright, 2009; Oviatt & McDougall's, 2005). Although the traditional Uppsala model of internationalization (Johanson & Vahlne, 1977) argues that firms internationalize gradually since they need time to amass sufficient experience and considerable knowledge for avoiding risks and reducing the *liability of foreignness* (Filatotchev et al., 2009; Zahra, 2005), Oviatt and McDougall's (1994) theory of international new ventures (INVs) draws attention to the fact that some small and young ventures may not actually *own* such resources but use their remarkable resourcefulness gaining access to various resources and compete internationally from the inception. This rapid internationalization framework highlights the importance of the growing role of young SMEs in

the global marketplace and thus has attracted a worldwide audience. The major difference between the early internationalization model and the Uppsala model resides in the choices of entry and operation modes firms make while undertaking internationalization. Oviatt and McDougall (1994) suggest that global startups with inherent “learning advantages of newness” (Autio, George, & Alexy, 2011) transmit and assimilate information very quickly, and thus are able to use higher modes of foreign market entry such as building wholly-owned subsidiaries whereas Johanson and Vahlne (1977) emphasizes “bounded rationality” that assumes firms to learn experientially and measure risks cautiously in internationalization, thus stepwise accumulating and integrating knowledge to increase their commitments in foreign markets.

This distinctive difference of learning trajectories in internationalization between global startups and established firms indicates the pivotal role of international entrepreneurship (IE) in determining the timing, scope and scale of internationalizing firms, raising lots of issues on global startup phenomena at the micro level for worldwide researchers to explore, e.g., how to link global startups’ learning with their entrepreneurial activities occurring in foreign markets that can help to reveal the critical source of competitive advantages global startups possess? Will the learning form and content of global startups change as the firms reach the mature stage of development in host countries? How do the entrepreneurial qualities influence the business operation modes of global startups in terms of increasing resource commitments in foreign markets? Evidence shows that the background, experience, and personal characteristics of entrepreneurs and other key decision-makers play a central role in influencing firms’ international entrepreneurial behavior (Kiss et al., 2012; Prashantham & Floyd, 2012). However, due to the multidisciplinary nature of the IE domain regarding global startups (Oviatt & McDougall, 2005), it is still unclear how global startups that stand in contrast to large multinational enterprises (MNEs) with relatively well-developed operating routines, specialized technology and sophisticated marketing development units, manage limited resource base to discover, enact, evaluate, and exploit cross-border opportunities and develop foreign markets in an accelerated manner (Yamakawa et al., 2013; Prashantham & Floyd, 2012; Autio et al., 2011).

Given most research questions based on the IE perspective understanding global startup phenomena remain unanswered, Bruton, Ahlstrom and Obloj (2008) suggest that it is vital to better understand international entrepreneurial firms from a broader point of view. It is because global startups, particularly those from DE internationalizing to EE at the very beginning, need to confront an environment (i.e., EE) that is more volatile, more uncertain, more complex and structurally different than their original countries (i.e., DE). More specifically, when moving into an EE, a more difficult and complicated institutional environment to compete with indigenous companies and other large MNEs, DE global startups may have to possess some complementary resources for offsetting their *liability of foreignness*, especially about the set of local norms and rules that may constrain firms’ behavior such as culture, language as well as legal and socio-economical systems. Viewed from this angle, Bruton et al. (2008) underscore the imperative of employing the IE perspective to examine the unique country-firm interactive effects of different types of global startups on opportunity development and market commitment in different contexts.

Global startups have been classified as one of the four typical types of INVs by Oviatt and McDougall (1994) (i.e., export/import startup, multinational trader, geographically focused startups & global startups, according to the differences in the possessions of unique knowledge). However, due to the increasing global complexities, it is highly possible that the internationalizing patterns of global startups may vary under different combinations of industry, market, corporation and entrepreneur-related conditions (Kuivalainen et al., 2012). Moreover, the novelty, complexity and sophistication of knowledge used by global startups as a critical sustainable advantage (Oviatt & McDougall, 2005) influences not only the way these firms exploit entrepreneurial opportunities to enter foreign markets in the beginning but the growth paths they perceive, interpret and choose to prosper overseas shortly or largely after. As a result, the distinctive start-up trajectories may in turn make new subcategories of the global startups. The foregoing under-explored aspects require further research to probe more deeply into the internationalizing paths of global startups under different contexts, in order to gain a better understanding of which types of global startups are created under which environment and what processes these firms go through to upgrade from a low to a higher commitment mode at more mature phase of their development (Kuivalainen et al., 2012; Filatotchev et al., 2009; Fan & Phan, 2007; Zahra, 2005).

For instance, one predominant but previously ignored type of global startups internationalizing into EEs are OEMs that focus on low cost production and assembly functions within the GVCs (Gereffi, 2009; Ivarsson & Alvstam, 2011; Chin & Liu, 2014). Taking China, the world's biggest emerging economy, as the contextual setting for example, to reduce manufacturing and operational costs for better financial performance, quite a few DE MNEs positioning their core business primarily in brand management have outsourced many parts of their value chains to OEM suppliers with plants in China since this nation initiated its economic reform program at the last decade of 20th century (Herrigel et al., 2013; Yamakawa et al., 2013). Such cross-border outsourcing by large MNEs has encouraged numerous world-class as well as small and medium-sized OEMs from DEs to follow their key buyers' strategic steps venturing into China. Reflective of this trend, more than 50 percent of annual foreign direct investment (FDI) into China were found to flow into manufacturing sectors until 2010, and China has been attracting the world's largest number of foreign SMEs investing into its OEM industry (Zhou & Xu, 2012, Chin, 2013a, 2013b). Often, such global startup OEMs from developed countries, in contrast to the main models of DE global startups engaging in knowledge-intensive business (Kuivalainen et al., 2012; Luostarinen & Gabriellsson, 2006), tend to be labor-intensive because these firms generally build their competitive advantages on price competition rather than innovative technology or product differentiation. However, compared with the domestic OEMs in China, most DE global startup OEMs are armed with higher levels of knowledge and technological capabilities developed in their home countries and thus able to manufacture more value-added and sophisticated products that better meet the stringent international standards of quality (Chin & Liu, 2014).

In view of the above, it is notable that the internationalization by DE global startup OEMs in China used to be resource-seeking, positioning China as a manufacturing hub or sourcing platform for them to achieve the competitive advantages of low-cost labor, raw material and operation. Yet today, in the face of heavy inflation pressure, the continuous appreciation of RMB and rising costs have been squeezing OEM's profit margins in China, gradually diminishing the original low-cost

advantages. Whereas most developed economies are still in the midway of recovery from the worldwide recession, China, on the contrary, has grown up to be the largest consumer market for automobiles, television sets, cell phones, and luxury goods (Chin, 2013a, 2014a, 2014b). Taken together, these facts make China a very promising market as well as a powerful growth engine instead of labor-intensive production base for the world economy in the future. China's fast-growing local demand symbolizes one silver cloud on the horizon, motivating DE OEMs, especially those with many year experiences in China to take different forms or do more diversified business activities in addition to manufacturing, for obtaining higher economic returns in this context. Nevertheless, as mentioned earlier, it still remains unknown in terms of how these firms explore and exploit further growth opportunities, and through what processes increase their business involvement and resource commitment in the Chinese market.

In response to the foregoing arguments, this paper integrates the IE and GVC perspectives to demonstrate the 10-year internationalization trajectory of a small British OEM venturing into China, articulating how contextual variables of EE shape DE global startups' entrepreneurial goals and behaviors of actions in the process of adapting to the changing competitive context of emerging markets.

METHODOLOGY

The case study method is believed to be particularly appropriate when the research covers a real-time environment in which some corresponding actions are taking place or when there is little empirical substantiation on the research issues (Eisenhardt & Graebner, 2007). Hence, considering the exploratory, dynamic and real-time nature of our topic, we conducted a eighteen-month longitudinal field study (from August 2012 to January 2014) using a single-case research approach to investigate the early internationalization trajectory and subsequent development strategies of a British OEM called TECHSAVVY ¹in China. To enhance the explanatory power, following the example of Hacklin and Wallnofer (2012), we utilized participatory action research as a supplementary process for collecting case material given such a process facilitates continuous mutual learning and understanding between involved researchers and the focal firm.

Data collection

The main form of data collection of this longitudinal study was in-depth interviews during 15 months as well as internal reports and archival documents for the last past 10 years (from 2003 to 2013). Therefore, data could be triangulated between real-time observations and retrospective data, enabling the establishment of a chain of evidence (Eisenhardt & Graebner, 2007). We conducted semi-structured and open-ended interviews at least once every three month with the chief executive officer (CEO), the deputy managing director and the engineering director. Each of these interviews lasted about two hour each time. To ensure the robustness of data, all interviews were tape-recorded and undertaken with a three-person team where one researcher handled the interview questions and two researchers were responsible for noting down all the responses. To verify the

¹ Name of company was changed for reasons of anonymity.

reliability and validity of data collection, the recorded data were transcribed within 24 hours of the interviews

As for the participatory action research, the authors of this study were permitted to participate in some of the decision-making meetings about the enactment and implementation of their new internationalization strategies in China, such as developing own-branded products and building strategic alliance with a state-owned company, over a period of 16 months (September 2012 to December 2013). Although the top management of TECHSAVVY welcomed the authors of this study to provide suggestions, the authors were purely in observing roles as far as any critical decision was done.

In the following section, the case study of TECHSAVVY illustrates the ten-year internationalization journey of a British entrepreneurial firm upgrading from a low commitment mode to a higher commitment mode in China.

RESULTS OF CASE STUDY: TECHSAVVY

From 2003 to 2004: Early Success

TECHSAVVY, funded in 2003 by a British entrepreneur named Chris Morris², was originally a UK OEM that in the same year established a wholly foreign-owned subsidiary in Guangzhou, China. TECHSAVVY producing metal and plastic components for the automobile and plumbing industries had focused on providing OEM services for global leading multinational enterprises (MNEs) that outsourced production of part or finished goods to China for the first seven years. Until 2013, this corporation had another four shareholders. Andrew Morrison was an old friend of Chris, dealing with orders related to engineering stationed in U.S.A; Philip Anderson with expertise in plastic and metal engineering assisted Chris to cope with orders requiring professional and technical knowledge, residing in Australia; Lili Green was in charges of all no-technological orders, living in UK; Jane Wang was promoted the deputy managing director and a business partner in China in 2010, after 7 years working with Chris.

Having about 40-year working experience in OEM industry in Latin America and China, Chris established a trusting relationship with his major clients from developed markets and gained a deep understanding of his local competitors in China. While most major rivals in China used cost a leadership strategy, Chris who exploited his particular competitive advantages in engineering technologies decided upon the competitive position of TECHSAVVY as “Western quality, China prices.” Chris’ impressive market positioning enabled TECHSAVVY to successfully obtain the purchase orders from two important developed country buyers. The two firms continued to buy products from TECHSAVVY for more than nine years. Owing to the increasing orders placed by the two key clients, TECHSAVVY’s annual sales exceeded USD 1 million for the first time at the end of 2004 (refer to Figure 1).

² The real names of people were disguised for reasons of anonymity.

From 2005 to 2007: Fast growth via innovative keyword marketing

Given corporate websites were becoming one of the main sales channels around the world, Chris decided to re-design the corporate website in 2005. He re-organized TECHSAVVY's web content and hired a professional engineer updating keywords daily, optimizing the website to cater to what would get the web pages displayed at a higher rank in the search engine result pages. After three-month hard work, the number of keywords in TECHSAVVY's website had been added up to about 180 on the first page of the Google results without advertising. As a result, more and more effective enquiries had been received via the website since then. In 2007, TECHSAVVY tripled its revenue to 4 USD million (see Figure 1).

From 2008 to 2011: Global financial crisis hit

All of a sudden, the 2008 financial crisis and the subsequent global economic recession swept the world, leading to sharp declines in demand in mature markets, which severely impacted China's OEM industry (Chin & Liu, 2014). TECHSAVVY that used to depend on export to advanced countries was therefore suffering a sales drop up to 30 percent, and its annual revenue fell to about 2.8 million for the next two years. To offset lost high-volume orders from large MNEs, Chris decided to make better use of keyword marketing, striving for getting more low-volume orders from small to medium-sized buyers via the company website. Gradually, TECHSAVVY's sales returned to growth, reaching USD 3.2 million in 2010 and USD 4 million in 2011 (refer to Figure 1).

From 2012 to 2013: Upgrading to OBM via strategic alliance with a Chinese state-owned mining company

Though Chris started to see sales coming back, the severe pressures on the continuous RMB appreciation and the rising operation costs were shrinking the profit margin of China's OEM industry. It seemed to become more and more difficult for TECHSAVVY to manufacture low price with superior quality OEM products in this context. Considering TECHSAVVY's technological and engineering capabilities developed over the past years had equipped the firm with essential technical know-how to create its own-brand products in related industries, Chris determined to make a bold, brave move, upgrading TECHSAVVY from OEM to OBM status to produce and sell own-brand products for higher profits (Chin and Liu, 2014; Chin, 2013a; Fernandez- Stark *et al.*, 2012; Gereffi, 2009).

In early 2011, through a British old friend's introduction, Chris encountered an opportunity to collaborate with CMM, a large Chinese state-owned mining company who had been urgently searching for a strategic partner with sophisticated engineering technologies in plastic and metal molding, casting and the like to technically refurbish its currently existing, but obsolete and unreliable mining safety products and most importantly, personal protection equipments (PPEs).

To achieve the abovementioned strategic goal of building own brand, TECHSAVVY persuaded CMM to form a five-year strategic alliance in which CMM allowed TECHSAVVY to refer to CMM's existing, but out-of-date and somewhat invalid products to develop new PPEs under TECHSAVVY's brand name while TECHSAVVY agreed to use one patented chemical material for generating oxygen supplied by CMM's coal mines into products. In short, TECHSAVVY

would be in charge of the entire design, manufacture and be given an exclusive right to sell the cooperative products in overseas market (outside China) while CMM would have a monopoly right to sell these products in China. The two companies planned to launch two new products ever year during the contract period and, CMM could get a 7% commission on the sales made by TECHSAVVY in overseas markets. However, the decisions of selecting, developing, launching and pricing collaborative products needed to be made through discussions of and be approved by both sides.

After intensive communication back and forth, TECHSAVVY and CMM finally agreed to overhaul two PPEs of CMM as their strategic objectives for 2012, those were, Self-rescuer (SCSR) and Methane Gas Detector (MGD). With CMM's support, the refurbishment process of two products had gone smoothly. During the development period, in addition to regularly meeting with CMM, TECHSAVVY's engineering team had been working very hard on product innovations, ranging from changing the previous design to adding new features such as waterproof and quakeproof functions. The samples of the two renewed products had been successively completed in late 2012 and soon after that were sent to be thoroughly tested by national and international standards.

The new cooperative products looked gorgeous, perfectly refurbished in appearance and technologies. It indicated that drawing on strategic alliance with CMM as a stepping stone, TECHSAVVY had successfully transformed itself from an OEM to an OBM firm. Chris felt excited and expected that by selling the two new products, TECHSAVVY would increase its annual revenue to USD 9 million at the end of 2013 and be able to target a year-on-year growth of 100% for the next five years.

Insert Figure 1 about here

Unexpected difficulties and challenges ahead

According to the original plan, the renewed two products SCSR and MGD under the brand name TECHSAVVY would have been released, respectively and successively, in early 2013. However, though TECHSAVVY was all set to globally launch these products at about that time, the release date of the first product SCSR had been delayed five times until March 2014 due to some critical disagreements between TECHSAVVY and CMM. This delay incurred unexpected risks and posed a danger to TECHSAVVY's financial stability given Chris had pumped more than five hundred thousand dollars into the R & D process and the certificates application for selling PPEs for mining in different countries.

For a better understanding, the key problems between TECHSAVVY and CMM are demonstrated below:

Cultural differences in British and Chinese decision making

Reviewing the laborious process of negotiation with CMM, Chris who participated in most of bilateral meetings with CMM personally pointed out that some difficulties and problems might be

attributed to cultural differences in Western and Chinese decision-making processes. Since Chris was the main decision maker, the decision-making process on TECHSAVVY's side was quick, smooth and efficient. On the contrary, making decision seemed to be very time-consuming and complex for CMM. Worse than all, the conclusion agreed by both sides at a meeting could be overthrown later if a higher-level boss of CMM disliked it.

Different perspectives on product safety and quality requirements

In terms of product specifications, TECHSAVVY inclined to be in full conformity with the strict international safety regulations since the quality of mining PPEs are significantly related to miners' life and the thresholds for selling these products are, in general, incredibly high in developed markets. In contrast, CMM felt that following international standards to design products may include redundant functions and put the products on too high prices in terms of the Chinese market.

Disputes on pricing strategies

The different points of view on product spec, as mentioned above, raised further disputes on formulating pricing strategies of the cooperative products between CMM and TECHSAVVY. CMM favoring low-price strategies attempted to be a cost leader while TECHSAVVY was eager to maintain their defensible competitive advantage of "Western design and quality at a relatively lower price", intending to differentiate the products in many ways, such as adding high-tech features and improving display function.

Take MGD for instance. In 2012, TECHSAVVY had followed international standards designing a MGD model with built-in WiFi, back-up battery, and a sensor able to measure the respective densities of methane and carbon dioxide gas in mines. However, CMM that used to benefit from the implementation of cost leadership strategy insisted that as far as a "Methane Gas" Detector, built-in WiFi, back-up battery, and carbon dioxide gas detector appeared to be dispensable. Hence, CMM suggested TECHSAVVY to remove those needless functions in order to reduce the manufacturing cost as well as the selling price. Given these functions played a critical role in meeting the international safety standards on PPE in mining, Chris had been trying his best to convince CMM that whereas the specifications of PPE determine the life or death of miners in mining accidents, it is vital to comply with the rigorous international safety and health standards. A similar situation also happened to SCSR. Nevertheless, despite of hard negotiation over relevant topics, no consensus had been made for the past 15 months.

As a result, the launches of the two collaborative products had been put off five times. At the end of 2013, TECHSAVVY failed to achieve their initial anticipated revenue of \$ 9 million, but only produced annual income of \$ 4.8 million through OEM business (please refer to Table 1).

DISCUSSION

Based on the case study of TECHSAVVY, we could gain a better understanding of how a British OEM led by an experienced entrepreneur overcame the liabilities of foreignness venturing into China at its inception, exploited innovative *keyword marketing* to attenuate the liabilities of smallness achieving fast growth within four years, and then collaborated with a state-owned giant

for carrying out the OBM strategy to enhance economic returns in China after the 2008 global financial crisis.

Overall, this study contributes to the existing body of knowledge pertinent to the *intersection* of the literature of international entrepreneurship and strategic management by providing first-hand data demonstrating the 10-year internationalization journey of TECHSAVVY in China. It has revealed a number of evidence that holds important theoretical and managerial implications for DE global startups venturing into an EE context.

With respect to the theoretical contributions, first, our findings resonate with the international entrepreneurship literature (Kiss *et al.*, 2012; Prashantham and Floyd, 2012 Oviatt and McDougall 2005) that knowledge in entrepreneurial firms tend to be individualized to the founder or the top management team, and a SME inclines to exhibit speedier entry or higher commitment to internationalization when its entrepreneur has personal international knowledge or prior living/working experience in foreign markets. Second, consistent with Yamakawa *et al.*'s (2013) study on the internationalization choice of EE new ventures, we discover that DE global startups may decide to take the plunge to internationalize into EEs rather than well-established DEs since it's more advantageous for these firms to exploit their advanced knowledge and technology as competitive advantages in expanding immature EE markets instead of technologically sophisticated DE markets. Third, we conducted a comprehensive in-depth survey of the case firm, ranging from literature retrieval, archival research, a variety of personal interviews to field investigation, thus responding to a recent call for collecting first-hand timely data to discuss relevant issues (Lau & Bruton, 2008).

As far as the managerial implications, from a GVC perspective, our findings show that although upgrading to OBM is recognized a feasible strategy by foreign OEMs to benefit from China's huge internal market (Chin, 2013a), the strategic approach or tool employed by individual OEMs is actually the key to determine the success or failure of such strategy. For instance, it is very likely that TECHSAVVY will encounter more difficulties in applying the OBM strategy in China because using an alliance with a state-owned company as a strategic path usually bears tremendous risks and uncertainties of collaboration for foreign firms in an EE context like China where the institution environment continues changing. As a result, augmenting its resource commitment to the Chinese market has not brought corresponding return to the case firm yet. This stalemate situation is actually an important lesson for other DE global startups in China.

Considering the foregoing, we conclude that, despite spectacular growth potential, TECHSAVVY will be facing critical challenges in the future, as illustrated below:

First, a plethora of studies have discussed the impact of cultural elements such as values, beliefs and behavior on the decision-making process (Hofstede, Hofstede, & Minkov, 2010). The decision-making process issues between CMM and TECHSAVVY were actually triggered by the cultural differences between them. As per our findings, it seems to be obvious that both sides have their own set of core values and basic assumptions on the strategic alliance. If Chris is not able to understand CMM's perception and anticipated goal of their strategic alliance and contractual

partnership, TECHSAVVY will need to entail more strenuous effort to avoid cross-cultural misunderstanding in negotiation and communication with CCM in the future. More importantly, their disputes on product specification and pricing strategies will not be resolved.

Second, previous research indicates that international strategic alliances can be an effective development strategy for SMEs to overcome resource deficiencies, especially when venturing into unfamiliar foreign markets (Ozmel, Reuer, & Gulati, 2013; Drauz, 2013; Chin & Liu, 2014). Given the administrative and marketing systems in China are very different UK, TECHSAVVY was supposed to use strategic alliance with CMM as a steppingstone to learn how to gain legitimacy and do business including building contacts and networks within the Chinese market where legal enforcement is weak and property rights protection is poor. However, despite forming strategic alliance with a state-owned local partner CMM, TECHSAVVY appeared to have failed to linked itself into an appropriate network that enabled it become an approved PPE supplier to this company. Viewed from this angle, due to China's unique institutional environment, a contractual non-equity governance mode for international strategic alliance in China may only provide a limited role in providing control of partners.

Third, evidence shows that GVC upgrading from OEM to OBM may not always be a panacea for higher profits (Fernandez- Stark et al., 2012; Gereffi, 2009). It is because upgrading to OBM requires a big investment in R & D as well as brand marketing, thus facing higher risks of failure (Chin, 2013a) and is likely to kindle the animosity of GVC leaders in the target domain, which may in turn intensify competition. Hence, TECHSAVVY may not be able to solely rely on OBM business to achieve greater success in the dynamic global environment. If so, TECHSAVVY will need to align its current configurations of production, marketing and R & D arrangements to the new operational mode combined of OEM and OBM activities and make these functions effectively support and meet the customer requirements of OEM and OBM, respectively.

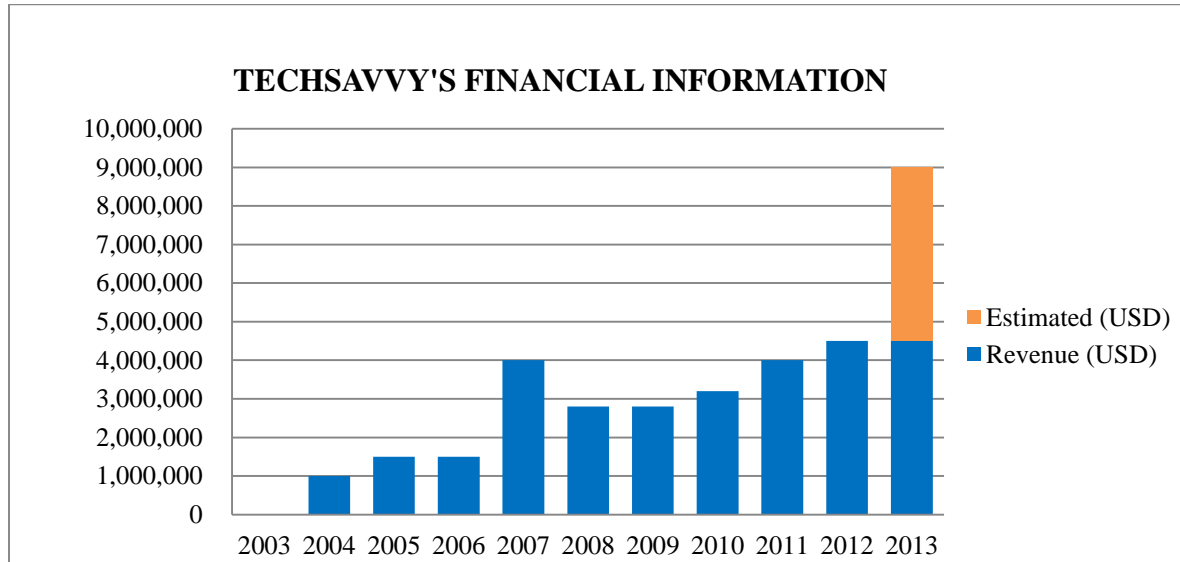
LIMITATIONS AND FUTURE RESEARCH

This exploratory longitudinal study offers fruitful avenues for future research; however, it has limitations. As a initial step toward a better understanding of how DE global startups venturing into EE markets at inception deepen their commitments at a more mature phase of development in the EE context, we have barely scratched the surface of this intriguing entrepreneurial phenomenon and can't dismiss the possibility that some observations may have been different had we chosen a different industry rather than OEM or a different home country rather than UK. Also, while the use of face-to-face administered investigation is a merit of our qualitative research design, self-report data could also pose some potential problems, such as recall bias by respondents. Considering the single case element of this study, the empirical findings are simply a reflection of relevant phenomena, further scholarly contributions are required to bring new and deeper insights into the international expansions behaviors of DE global startups in EE markets.

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FIGURE 1: TECHSAVVY'S FINANCIAL INFORMATION